



**South Kentucky Rural Electric**  
**Case No. 2005-00450**  
Second Data Request of Commission Staff  
August 31, 2005

21. Refer to the Application, Exhibit 9, pages 6 through 11.

a. Refer to page 6. Explain the purpose of the expenses shown on lines 12 through 19 and why these should be included for rate-making purposes.

**Response**

NRECA and KAEC have seminars specifically related to legal issues that effect electric cooperatives. South Kentucky feels it is very important for its attorney to be abreast of the issues that effect South Kentucky and specifically, the electric industry. Attending these meetings, and receiving industry specific magazines assists South Kentucky in maintaining compliance with local and national legal issues that affect the electric industry.

Since South Kentucky's attorney attends meetings specifically related to legal issues effecting the electric industry, South Kentucky is of the opinion that these expenses should be included for rate-making purposes.

b. Refer to pages 8 and 9. Explain why the expenses shown on lines 111, 127 137, and 152 should be included for rate-making purposes.

**Response**

Line 111, NRECA Legal Seminar, same as this Item 21 (a) response.

Line 127, NRECA annual meeting. There are breakout sessions specifically designed for legal representatives of electric cooperatives. Darrell attended these legal seminars at the NRECA annual meeting. Same as this Item 21(a) response.

Line 137, the RUS Rural Development Grant funds were used for the Russell Springs Development Corporation where the Russell Senior Citizens building was part of that grant. These economic development projects are all part of the overall program that is allowable for rate making purposes.

Line 152, NRECA seminar, same as this Item 21 (a) response.

c. Was South Kentucky aware that in previous electric distribution cooperative rate cases the Commission has not included the types of attorney expenses identified in parts (a) and (b) above for rate-making purposes.

**Response**

South Kentucky was aware, however, it is South Kentucky's opinion that these expenses ultimately benefit the members of the cooperative in the fact that South Kentucky operates within the laws and guidelines established for distribution electric cooperatives. This reduces the overall expenses and contributes to maintaining the rates as low as possible.

d. Refer to pages 8 and 9. Provide a detailed explanation of the services provided by Darrell Saunders, PSC that have been described as "Economic Development Loan." Indicate whether this type of expense represents an on-going activity for South Kentucky.

**Response**

There are legal documents to prepare and file in order to provide Economic Development Loans. As the cooperative attorney, this service was provided for these loans. South Kentucky expects to continue this program and that services for these loans will be an on-going activity.

e. Refer to pages 10 and 11. Provide a detailed explanation of the services provided by Garland and Associates, Inc. in conjunction with economic development. This explanation should specifically discuss contract services, monthly expenses, and grant writing services. For each expense not classified as contract services, monthly expenses, or grant writing services, explain the purpose of the expense and why it should be included for rate-making purposes.

**Response**

Garland and Associates, Inc. (Garland) will provide knowledge and expertise in the area of economic development in all areas that South Kentucky serves. Garland will visit local agencies and officials, particularly those affiliated with community and economic development. Garland will make applications for Community Economic Development and Public Safety purposes; work to generate USDA Loan Funds and Grants; create industrial master plans that do not have such plans; conduct or assist in community meetings with emphasis on Economic Development, assist in recruiting new industries; work with new and existing businesses and industries in funding sources for job creation and retention in the service area.

Garland will be paid \$6,857.50 bi-monthly, will be reimbursed up to \$16,000 for travel and \$17,500 for special contractual services. Garland will also be provided up to \$34,200 for grant writing purposes.

The term of the contract is from January 15, 2005 to January 15, 2008.



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22. Concerning the expenses incurred in conjunction with economic development are these expenses paid for by South Kentucky or reimbursed from the RUS Economic Development Loan funds? Explain the response.

**Response**

The expenses for economic development included in the Application, Exhibit 9, pages 10 and 11 are all paid for by South Kentucky and are not reimbursed from the RUS Economic Development Loan funds. South Kentucky did get reimbursed from the Special Development Foundation for work performed, but this is very infrequent.

South Kentucky is involved in economic development activities from several directions.

The RUS Economic Development Loan are more fully discussed in Item 6. of this, the Second Data Request of Commission Staff.

South Kentucky is also involved in a Rural Business Opportunity Grant (RBOC) program. This is a \$70,000 grant, with a requirement that matching funds of \$20,000 be obtained. The \$20,000 of South Kentucky funds must be expended prior to receiving the \$50,000 grant from RUS. The purpose of this grant is to perform industrial match marketing survey to ascertain manufacturing facilities capabilities for Homeland Security and other self-sustaining activities.

These activities also include writing grant applications for local businesses, industrial foundations and any other source that would encourage economic development in South Kentucky's service territory.



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23. Refer to the Application, Exhibit 10.

a. Refer to page 1 of 13. Indicate who are the alternative delegates to the National Rural Electric Cooperative Association ("NRECA") and the Kentucky Association of Electric Cooperatives ("KAEC").

**Response**

The CEO is the Alternate Delegate to each of these organizations.

b. Pages 2 and 3 of 13 have a copy of Board Policy D that addresses directors' fees and expenses. Explain the rationale for having a fixed monthly fee for attending meetings rather than a fee per each meeting attended.

**Response**

South Kentucky's Board is a very active board that gives a lot of valuable time in preparation for Board meetings. Seldom ever does a Board member miss a meeting. The Board has an unwritten policy that a director cannot miss more than two (2) meetings a year without being penalized the loss of fees for that month missed.

c. Assume the following hypothetical situation. One director attends the monthly board meeting and the three non-board meetings on the cooperative's behalf and another director attends just the monthly board meeting. Under Board Policy D, both directors are paid the same fixed fee for attending meetings. Explain why this is a reasonable compensation practice.

**Response**

All meeting information is e-mailed at least a week in advance of the Board meeting to each director. Directors have a week to review, e-mail questions they may have and make comments. Most of the directors' time is spent prior to the actual meeting. The director that misses a meeting is given or updated with any information or action the board has taken that has taken place at the meeting missed.



d. Explain how South Kentucky determined that the fixed monthly fee for the directors should be \$1,000. Include any studies or analysis performed that supported this level of compensation.

**Response**

South Kentucky reviews statewide information closely and attempts to stay with a compensation package that is both fair and reasonable for the directors time and the cost to members. It is South Kentucky's belief this is a more prudent form of compensation. This keeps some directors from attending all meetings, whether there is genuine interest or not, to those that are relevant. Directors and management communicate on almost a daily basis by e-mail to keep everyone aware of what is going on and there are numerous board and committee meetings. Based on the number of meetings, and time spent e-mailing instead of special meetings it is our opinion that a per meeting fee would be more costly.

e. On page 2 of 13, Section II, part B(1) states that all directors will be paid the same fixed monthly fee. However, the analysis of the directors' fees and expenses on page 5 of 13 shows the President of the Board received \$3,000 more in meeting fees. Explain the reason(s) for this apparent conflict with Board Policy D. Also, explain the purpose of the additional monthly fee and why it should be included for rate-making purposes.

**Response**

In accumulating information for this response, there was an oversight in the narrative for monthly board fees in that the Chairman of the Board would receive an additional \$250 per month.

Since this Application was prepared after August 2005, there was some confusion in that the Board Policy on director compensation was changed effective for September 2005 for a policy that was approved on July 14, 2005. In making the narrative, it was misunderstood that the change actually occurred July 2005, but not placed into effect until September 2005. A copy of that policy is attached with this response.

The Chairman of the Board would receive additional compensation, in the amount of \$250 before July 2005, and \$275 after, per month for the extra time expended of approving the board agenda with the CEO prior to any meeting, additional responsibilities being the Chairman, and communicating with all the other directors to coordinate meetings.

g. Refer to pages 6 through 12 of 13.

(1) Explain why South Kentucky provided Internet and telephone service to several, but not all, of its directors.

**Response**

Directors that already had internet service at their place of employment are not reimbursed for internet or, telephone services.

(2) Explain why South Kentucky believes this expense should be included for rate-making purposes.

**Response**

There are several reasons this should be included for rate-making purposes. It is much more economical, timely and possible to include more information in the monthly board meeting information. Also, it is a toll call for directors to call each other. This allows for sharing of information and ideas without long distance telephone charges applying. Internet also lets communication channels be used without calling and waiting for return calls and attempting conference calls.

(3) Explain why several of the directors' e-mail address shown on South Kentucky's Web site were not South Kentucky accounts.

**Response**

This was either the only internet service provider at the time, and the director did not wish to change their address, or the director had an existing account for their business address.

(4) A review of these pages shows that more than two directors attended the NRECA and KAEC annual meetings. Explain why the expenses associated with these annual meetings for attendees other than the delegate and alternate delegate should be included for rate-making purposes.

**Response**

In previous years' the NRECA Annual Meeting was strictly for recognition, administrative and entertainment purposes. In recent years the NRECA Annual Meeting has been director training and seminars. This has become more of an educational meeting than in past years.

South Kentucky agrees that the non-delegates should not be included for the KAEC annual meeting.

(5) Was South Kentucky aware that in previous electric distribution cooperative rate cases the Commission has only included the expenses for the delegate and alternate delegate to attend the NRECA and KAEC annual meetings?

**Response**

Yes, however, in light of the fact that the NRECA annual meeting has become a director training meeting, it is South Kentucky's position that those directors attending the NRECA annual meeting expenses be included for rate-making purposes.

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f. Provide a schedule showing for each month of the test year the number of regular board meetings, special board meetings, and non-board meetings attended by the South Kentucky directors. Each director's attendance should be shown separately.

	September			October			November			December			January			February			March			April			May			June			July			August		
	Reg	Spec	Non	Reg	Spec	Non	Reg	Spec	Non	Reg	Spec	Non	Reg	Spec	Non	Reg	Spec	Non	Reg	Spec	Non	Reg	Spec	Non	Reg	Spec	Non	Reg	Spec	Non	Reg	Spec	Non			
Richard Stephens	1	1		1	3	3	1			1	3	1	3		1		1	4	1		3	1			1	1		1	3		1	3				
Charles Gore	1	1		1	3	1	1		1	1		3	1	3	3	1		1	5	1		1			1			1	3	1	1	4				
Tom Estes	1	1		1	3		1		1			1	3	2	1		1	4	1		3	1		1	1	3	1	3		1	3					
Glen Massengale	1	1	2	1	3	1	1		2	1		4	1	3	2	1		4	1		1			1	1	2	1	2		1	3					
John Pruitt	1	1		1	3		1		2	1		1	3		1		1		1		1			1	1		1	2		1						
Jerry Purcell	1	1		1	3		1		1		2	1	3	2		1					1			1	1		1	2		1						
William Shearer	1	1	2	1	3		1					1	3		1		1	4	1		3	1			1	1	3	1	2		1	3				

SOUTH KENTUCKY RURAL ELECTRIC  
COOPERATIVE CORPORATION  
Somerset, Kentucky

SUBJECT: BOARD OF DIRECTORS – FEES AND EXPENSES

In accordance with South Kentucky Rural Electric Cooperative Corporation Board of Directors Policy D, effective as of the date set forth below, Director fees and expenses, as approved by the Board of Directors, shall be as follows:

A. Per Diem is set at \$275.00 per day

1. Each Director shall be paid the equivalent of four (4) days per diem per month, equaling \$1,100.00 per month. Said payment shall be for attendance at regular and special board of directors meetings, committee meetings, membership meetings, directors update and/or training, other NRECA, KAEC, and East Kentucky Power meetings, and/or for all other time the Director spends for the Cooperative unless otherwise specially approved or authorized. For extra services, the President shall be paid for one additional day per month of \$275.00.

2. Additional per diems to directors may be authorized at any time by unanimous vote of the board of directors for extraordinary time spent by a director or directors on behalf of the Cooperative.

B. Travel and Training Expenses

1. Directors shall be allowed travel and training expenses up to a maximum of \$7,000.00 per year. Such travel and training expenses include normal coach air fare, normal bus and/or rail fares, mileage reimbursement as set forth in Paragraph 2 hereafter, with the exception that such mileage reimbursement shall not exceed the cost of a normal coach air fare to the destination. Such expenses shall also include hotel and/or like accommodation charges.

Such expenses shall also include all normal and necessary registration and like fees for attendance of meetings as set forth in (A)(1) above.

In addition to the \$7,000.00 travel and training expense maximum, the Directors shall be paid mileage for attendance at regular Board of Directors meetings. Any travel and training expense in excess of \$7,000.00 per year shall be paid by the Director unless said expense should otherwise be approved for payment by the Cooperative upon unanimous vote of the Board of Directors.

2. Mileage reimbursement for use of personal automobiles shall be at the rate allowed by the Internal Revenue Service. In those instances where a director travels with others, only the Director whose automobile is being used shall receive mileage reimbursement. However, this reimbursement shall be pro-rated among any Directors traveling with another, for the purposes of calculation of that Director's travel expenses.

C. Meals and Miscellaneous Expenses

1. Directors in attendance at meetings which require the Director to incur expenses for meals and/or other miscellaneous expenses, shall be reimbursed at a maximum of \$25.00 per meal or \$75.00 per day or, at the option of any Director, actual expenses shall be reimbursed upon presentation of receipts.

D. Insurance Benefits

1. Directors shall be provided health, dental, and such other life and/or accident insurance coverages as provided pursuant to the Cooperative Policies.

①

E. Miscellaneous Benefits

1. Directors may receive holiday bonus to be determined annually, which is in addition to compensation outlined hereinabove.

Attested: Tom Estis  
SECRETARY

Date Approved: July 14, 2005





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24. Refer to the Application, Exhibit 11, pages 2 through 5 of 11. Explain the expenditure identified as "Logo for employees shirts."

**Response**

South Kentucky pays one-half of the cost of employee work shirts. The amount associated with the Touchstone Energy logo that is on the shirts is recorded in this account.



**South Kentucky Rural Electric**  
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25. Refer to the Application, Exhibit 11, pages 3 through 11. For each of the transactions listed below, provide the text of the radio spot or a copy of the printed advertisement.

- a. Check No. 112627, page 3 of 11.
- b. Check No. 112887, page 3 of 11.
- c. Check No. 113539, page 4 of 11.
- d. Check No. 115083, page 5 of 11.
- e. Check No. 115617, page 6 of 11.

South Kentucky

**RECC**  
A Touchstone Energy Cooperative

Somerset, KY 42502-0910

**Cumberland**  
SECURITY BANK  
SOMERSET, KENTUCKY 42501

112627 73-485  
421

Item 25  
GENERAL FUND  
Page 2 of 17

VENDOR	CHECK NO.	DATE	AMOUNT OF CHECK
33302790	112627	02/17/05	\$1,428.00

PAY ONE THOUSAND, FOUR HUNDRED TWENTY-EIGHT DOLLARS AND 00/100 CENTS

TO THE  
ORDER OF

JOURNAL COMMUNICATIONS INC  
361 MALLORY STATION ROAD  
SUITE 102  
FRANKLIN TN 37067

NON-NEGOTIABLE

⑈ 112627 ⑈ ⑆042104854⑆

⑈ 13 064 8 ⑈

WE HEREWITH HAND YOU OUR CHECK IN  
SETTLEMENT OF ITEMS LISTED BELOW

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION  
SOMERSET, KENTUCKY 42502

PLEASE DETACH AND RETAIN STATEMENT

INVOICE NO.	DESCRIPTION	INV. DATE	REF. NO.	AMOUNT
012804		01/31/04		1380.00
021005		02/16/05		1428.00
021204		02/12/04		1380.00

112627



For Advertising of:  
SOUTH KY RURAL ELECTRIC (SKR612)

361 Mallory Station Road · Suite 102  
Franklin, Tennessee 37067  
(615) 771-0080 · FAX (615) 771-0079

JOY BULLOCK  
SOUTH KY RURAL ELECTRIC  
CO-OP CORP  
925-929 N MAIN ST  
SOMERSET, KY 42503

THIS IS AN ACKNOWLEDGEMENT/INVOICE OF YOUR ORDER.  
\*\*PLEASE REFERENCE YOUR CUSTOMER NUMBER (top left) WHEN MAKING PAYMENTS\*\*

IMAGES OF SOMERSET-PULASKI CO.  
P.O.#:

Date: 02/10/05

Issue Closing: 04/01/05  
Salesperson: SARAH WILLIAMSON

COLOR, 1/3 PAGE HORIZONTAL [022728]  
25 FREIGHT CHARGE @ 0.72

1,410.00  
18.00

Total:

1,428.00

33302790 - MPRL 06-1901-930.10

Handwritten signature and initials: TSE and a signature.

REMARKS:

50% DUE UPON RECEIPT, BALANCE DUE 20 DAYS AFTER PUBLISHING DATE.

CONDITIONS

Notice of cancellation must be received in writing by the Publisher no later than the Publisher's stated closing date. Failure to notify the Publisher in writing by such date shall be construed as an action to insert advertising in the issue under contract. In the event the Advertiser or Agency fails to provide materials by the Publisher's stated closing date, Publisher may run a similar advertisement or run the advertiser's name and address in the space committed for. Publisher reserves the right to hold the Agency and/or Advertiser jointly and severally responsible for monies due and payable to Publisher. It is further agreed that the Agency and/or Advertiser will pay a reasonable attorney's fee in the event that it is necessary to place this account in the hands of an attorney for collection for any reason. Venue for any disputes arising hereunder shall be at Williamson County, Tennessee. Tennessee Law shall govern all provisions of this contract. The Agency agrees that it is acting for its disclosed principal, the Client, and as such binds itself and the Client to the terms and conditions of this contract. Agency shall be liable for payment of sums due hereunder. Publisher may look to either Agency or Advertiser for payment. Payment by Advertiser to Agency does not alleviate obligation of Advertiser to Publisher for payment in full. The Publisher is not responsible for any errors in type set by the Publisher for advertisements which have been proofed and approved by the Advertiser or its Agency.

**“At our electric co-op, we know the owners. Because we are the owners.”**



**Innovation • Integrity • Accountability  
Commitment to Community**

*Locally owned for more than 60 years by you, our members, South Kentucky RECC is dedicated to providing quality electric service. Our employees, who are your friends and neighbors, work hard for you and our community.*



Visit us on the web at [www.skrecc.com](http://www.skrecc.com).  
925 North Main Street • Somerset • (606) 678-4121



**Cumberland**  
SECURITY BANK  
SOMERSET, KENTUCKY 42501

Item 25  
112887 17 73-485  
421  
GENERAL FUND

O. Box 910 · Somerset, KY 42502-0910

VENDOR	CHECK NO.	DATE	AMOUNT OF CHECK
33302652	112887	03/04/05	\$759.00

PAY SEVEN HUNDRED FIFTY-NINE DOLLARS AND 00/100 CENTS

TO THE  
ORDER OF

CLEAR CHANNEL BROADCASTING  
P O BOX 406504  
ATLANTA GA 30384-6504

NON-NEGOTIABLE

⑈ 112887 ⑈ ⑆ 042104854 ⑆

⑈ 13 064 8 ⑈

*JL by JB*

HEREWITH HAND YOU OUR CHECK IN  
SATISFACTION OF ITEMS LISTED BELOW

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION  
SOMERSET, KENTUCKY 42502

PLEASE DETACH AND RETAIN STATEMENT

INVOICE NO.	DESCRIPTION	INV. DATE	REF. NO.	AMOUNT
6809		02/28/05		180.00
6810		02/28/05		200.00
6818		02/28/05		119.00
6833		02/28/05		40.00
6906		02/28/05		100.00
7000		02/28/05		120.00

112887

Statement



Item 25

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Date: 03/01/2005

Time: 10:52 AM

Excludes Trade

Clear Channel Somerset  
P.O. Box 406504  
Atlanta, GA 30384-6504

Phone 606-678-5151 Fax 606-678-2026

Account Number 252

South Kentucky RECC  
P.O. Box 910  
Somerset, KY 42502

33202652

Trans. Date	Trans. Type	Inv# or Ref #	Station	Total	Current	31-60 days	61-90 days	91-120 days	120 days+
<b>252 South Kentucky RECC</b>									
02/28/2005	Invoice	6809-1	WSEK-FM	180.00	180.00				
02/28/2005	Invoice	6810-1	WHMJ-FM	200.00	200.00				
02/28/2005	Invoice	6818-1	WSFC-AM	119.00	119.00				
02/28/2005	Invoice	6833-1	WLLK-FM	40.00	40.00				
02/28/2005	Invoice	6906-1	WSEK-FM	100.00	100.00				
02/28/2005	Invoice	7000-1	WHMJ-FM	120.00	120.00				
<b>Total:</b>				<b>759.00</b>	<b>759.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Account Total: South Kentucky RECC</b>				<b>759.00</b>	<b>759.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

TSE  
JB



Thinking of building a home? Why not build a Touchstone Energy Home and save 30% annually on your heating and cooling costs? With a Touchstone Energy Home, homeowners are assured of energy-efficient construction, increased comfort, and lower operating costs. They're not just a good investment, they are a comfortable one, too. For more information on the Touchstone Energy Home, call one of South Kentucky RECC's energy advisors today at 800-264-5112. South Kentucky RECC... doing more for our friends and neighbors. A Touchstone Energy Cooperative.



Cumberland SECURITY BANK  
SOMERSET, KENTUCKY 42501

113539 253-485  
Page 8 of 17 421  
GENERAL FUND

7. Box 910 · Somerset, KY 42502-0910

VENDOR CHECK NO. DATE AMOUNT OF CHECK  
33302614 113539 04/14/05 \$505.00

PAY FIVE HUNDRED FIVE DOLLARS AND 00/100 CENTS

TO THE ORDER OF MCCREARY COUNTY VOICE  
P O BOX 190  
WHITLEY CITY KY 42653

NON-NEGOTIABLE

⑈ 113539 ⑈ ⑆042104854⑆

⑈ 13 064 8 ⑈

WE HEREWITH HAND YOU OUR CHECK IN SETTLEMENT OF ITEMS LISTED BELOW

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION  
SOMERSET, KENTUCKY 42502

PLEASE DETACH AND RETAIN STATEMENT

INVOICE NO.	DESCRIPTION	INV. DATE	REF. NO.	AMOUNT
033105		03/31/05		505.00

113539

McCreary County Voice

57 Oaks Lane, Suite 15  
 P O Box 190  
 Whitley City, KY 42653

# Statement

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Date

3/31/2005

To:

SOUTH KY RECC  
 Joy Bullock  
 P O Box 910  
 Somerset, KY 42502

Amount Due	Amount Enc.
\$505.00	

Date	Transaction	Amount	Balance
03/03/2005	INV #373818. Due 03/03/2005. Orig. Amount \$75.00. --- 1/4 PAGE, 31.5 @ \$2.38095 = 75.00	TSE 75.00	75.00
03/10/2005	INV #373845. Due 03/10/2005. Orig. Amount \$75.00. --- 1/4 PAGE, 31.5 @ \$2.38095 = 75.00	TSE 75.00	150.00
03/17/2005	INV #373904. Due 03/17/2005. Orig. Amount \$75.00. --- 1/4 PAGE, 31.5 @ \$2.38095 = 75.00	TSE 75.00	225.00
03/24/2005	INV #373927. Due 03/24/2005. Orig. Amount \$165.00. --- SPECIAL SECTION, 15.75 @ \$5.71429 = 90.00 --- 1/4 PAGE, 31.5 @ \$2.38095 = 75.00	TSE 165.00	390.00
03/31/2005	INV #373970. Due 03/31/2005. Orig. Amount \$75.00. --- 1/4 PAGE, 31.5 @ \$2.38095 = 75.00	TSE 75.00	465.00
03/31/2005	INV #373992. Due 03/31/2005. Orig. Amount \$40.00. --- STUDENT SUBSCRIPTIONS, 10 @ \$4.00 = 40.00	40.00	505.00



*JB*

33302614 - MPRLOU - 1901 - 930.10

Current	1-30 Days Past Due	31-60 Days Past Due	61-90 Days Past Due	Over 90 Days Past Due	Amount Due
115.00	390.00	0.00	0.00	0.00	\$505.00

## Countdown to Home Ownership

Purchasing a home involves a roller coaster of emotions, a pile of paperwork and nerves of steel. Beginning the process without a cursory course in home buying is not a wise venture. Here are steps along the way to expect on the way to your final destination -- home ownership.

**Step 1:** Affordability: Before you visit a real estate agent, decide on a price range. The best way to do so is to sit down with a financial consultant or mortgage broker who will weigh your current debt against your income and savings.

**Step 2:** Finding a home: Finding your prospective home can be a time-consuming process. Consult with a real estate broker, who will have current listings and up-to-date information, or set out on your own search by visiting open houses.

**Step 3:** Making an offer: In most states, you'll be required to make a formal offer on the house in the form of a written contract. It will state your intended offer price as well as information on a down payment and proposed closing date.

**Step 4:** Securing a mortgage: Now that you know your purchase price, find a lender who will agree to lend you the money. Shop around for the best offer from several financial institutions, keeping in mind the current interest rate.

**Step 5:** Contact an attorney: You'll likely want to contact an attorney

will guide you through the legalities that will ensue. (The seller probably has an attorney working for him.) A lawyer can review the contract and advocate for items in your favor -- like improvements that need to be made, or appliances you'd like to keep. Your attorney will also facilitate contact between the seller, so you won't need to be involved so thoroughly in the process.

**Step 6:** Home inspection: A licensed professional can best assess if the home is structurally sound and built according to code. Should anything be illegal, or just not up to par, the inspector will include it in his report.

**Step 7:** Walk-through: In most cases, you'll be able to walk through the prospective home right before the closing to make sure the house is in the agreed upon condition.

**Step 8:** The closing: You'll be required to sign paperwork and present fees, called closing costs. Examples of closing costs include: down payment, property taxes, attorney's fee, points, title insurance, clerical/processing costs, proof of homeowner's insurance

After you've signed what seems like a million documents, and initialed a million more, you will receive the keys to your new home. Congratulations on being a

### Thinking about building a home?

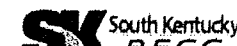


### ...and save 30% in your annual heating and cooling costs!

To find out more about the Touchstone Energy Home and the rebates offered by South Kentucky RECC, call one of our energy advisors at 800-264-5112.

See our list of qualified builders, and get on the road to a 30% reduction in your heating and cooling costs!

Touchstone Energy Qualified Builders	
<u>McCreary County</u> McCreary County Community Housing Development Corporation	<u>Russell County</u> Lonnie and Danny Helm
<u>Fulaski County</u> Randy Calhoun Lee Coffee Carlos New	<u>Wayne County</u> Darrell Kinnett Junior Upchurch
<u>Marshall Todd</u> Randy Watson	





P.O. BOX 910 SOMERSET, KENTUCKY 42502

Cumberland SECURITY BANK SOMERSET, KENTUCKY 42501  
Item 25 73-485/421  
Page 11 of 17 GENERAL FUND

No. 0115083

VENDOR NO.	CHECK NO.	DATE	AMOUNT OF CHECK
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33301469	115083	07/14/05	429.50
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PAY FOUR HUNDRED TWENTY-NINE DOLLARS AND FIFTY CENTS

TO THE ORDER OF

MONTICELLO-WAYNE MEDIA INC  
 183 OLD HWY 90  
 MONTICELLO KY

42

VOID

"NON-NEGOTIABLE CHECK COPY"

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION  
SOMERSET, KENTUCKY 42502

PLEASE DETACH AND RETAIN STATEMENT

CHECK NUMBER: 0115083

INVOICE NO.	DESCRIPTION	INVOICE DATE	REFERENCE NO.	AMOUNT
063005		06/30/05	0	429.50

# WMKZ STATEMENT

FROM: WMKZ  
MONTICELLO-WAYNE CO. MEDIA INC  
183 OLD HWY 90  
MONTICELLO, KY 42633

ACCOUNT # 0046

TO: SOUTH KY RECC  
P.O. BOX 910  
SOMERSET, KY 42502

ACCOUNT REP: DEBBIE/SOMERSET

SPONSOR: SOUTH KY RECC

Listing of Activity on this Account Through 07/01/2005 Page 1

DATE	REFERENCE	CUSTOMER P.O. #	TRANSACTION	AMOUNT BILLED	CURRENT BALANCE
05/31/05	05-05-217		WMKZ MAY05 Advrtsng Invoice COMMUNITY CALEN	300.00	
06/28/05	05-06-064		-Payment Ck114547	-300.00	0.00
05/31/05	05-05-218		WMKZ MAY05 Advrtsng Invoice ANNUAL MEETING	70.00	
6/28/05	05-06-064		-Payment Ck114547	-70.00	0.00
06/30/05	05-06-224		WMKZ JUN05 Advrtsng Invoice ANNUAL MEETING	129.50	129.50
06/30/05	05-06-225		WMKZ JUN05 Advrtsng Invoice COMMUNITY CALEN <i>TSZ</i>	300.00	300.00
				<i>JPB</i>	
				APR 06 - 1901 - 930.10 - 300.00	
				APR 06 - 1901 - 930.23 - 129.50	
PLEASE PAY THIS AMOUNT					429.50

### ACCOUNT AGING SUMMARY

121+ DAYS	91-120 DAYS	61-90 DAYS	31-60 DAYS	CURRENT
0.00	0.00	0.00	0.00	429.50



(Music Playing... "Some Beach. Somewhere..." music gets quieter but the chorus continues playing)

It won't be Some Beach, but it will be the South Kentucky RECC annual meeting, Thursday June 9, at the co-op farm on West Highway 80 in Pulaski County. Registration begins at 5 p.m. and there'll be free buckets of lightbulbs for registering members, prizes for all ages, and best of all, Blake Shelton will be taking center stage. (Music comes back up at "I picture myself, right there...") You won't want to miss this year's South Kentucky RECC annual meeting, June 9, at the co-op farm.

Thinking of building a home? Why not build a Touchstone Energy Home and save 30% annually on your heating and cooling costs? With a Touchstone Energy Home, homeowners are assured of energy-efficient construction, increased comfort, and lower operating costs. They're not just a good investment, they are a comfortable one, too. For more information on the Touchstone Energy Home, call one of South Kentucky RECC's energy advisors today at 800-264-5112. South Kentucky RECC... doing more for our friends and neighbors. A Touchstone Energy Cooperative.





P.O. BOX 910 SOMERSET, KENTUCKY 42502

No. 0115617

VENDOR NO.	CHECK NO.	DATE	AMOUNT OF CHECK
33302523	115617	08/11/05	200.00

PAY TWO HUNDRED DOLLARS AND ZERO CENTS

TO THE ORDER OF CHARTER MEDIA SERVICES  
P O BOX 1379  
MURFREESBORO TN

37

VOID

"NON-NEGOTIABLE CHECK COPY"

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION  
SOMERSET, KENTUCKY 42502

PLEASE DETACH AND RETAIN STATEMENT

CHECK NUMBER: 0115617

INVOICE NO.	DESCRIPTION	INVOICE DATE	REFERENCE NO.	AMOUNT
295771		07/31/05	0	200.00

Charter Media  
PO Box 1379  
Murfreesboro, TN 37133-1379  
(615) 217-6204

**Invoice**

SOUTH KENTUCKY RECC  
925 N. MAIN STREET  
SOMERSET, KY 42501

SOUTH KENTUCKY RECC  
925 N. MAIN STREET  
SOMERSET, KY 42501  
Acct. Exec: STEPHENS, KIP

Bill Cycle: 07/05

Invoice ID: 295771	Invoice Date: 08-02-2005	Contract ID: 119324	Client ID: 14086
Campaign ID:	Estimate ID:	P.O Number:	Tax ID:

Description	Amount
Gross Advertising Fee	\$200.00
Net Advertising Fee	\$200.00
Sub Total	\$200.00
Total This Invoice	\$200.00
<u>33302523 · MPRL 05 · 1901 · 930.10</u>	

SOMERSET, L.O. SPORTS SPON.PKG.

TSE  
PB

Terms: Net 30  
Checks Payable to: Charter Media  
Mail to: CHARTER MEDIA  
PO Box 1379  
Murfreesboro, TN 37133-1379  
Accounts Receivable



Thinking of building a home? Why not build a Touchstone Energy Home and save 30% annually on your heating and cooling costs? With a Touchstone Energy Home, homeowners are assured of energy-efficient construction, increased comfort, and lower operating costs. They're not just a good investment, they are a comfortable one, too. For more information on the Touchstone Energy Home, call one of South Kentucky RECC's energy advisors today at 800-264-5112. South Kentucky RECC... doing more for our friends and neighbors. A Touchstone Energy Cooperative.



**South Kentucky Rural Electric**  
**Case No. 2005-00450**  
Second Data Request of Commission Staff  
August 31, 2005

26. Refer to the Application, Exhibit 11, page 6 of 11. Explain why this schedule shows transactions dated in September 2005 when the test-year end was August 31, 2005.

**Response**

South Kentucky is on the accrual basis of accounting, i.e., receivables and payable are recognized and recorded in the books and records. Therefore, there are some checks dated September that are for August expense month.



**South Kentucky Rural Electric**  
**Case No. 2005-00450**  
Second Data Request of Commission Staff  
August 31, 2005

27. Refer to the Application, Exhibit 11, pages 7 and 8 of 11. Explain the purpose of the following transactions and why the expense should be included for rate-making purposes:

- a. Check No. 110430, page 7 of 11.  
South Kentucky encourages business development and expansion in its service territory, and surrounding areas. This is part of that process.
- b. Check No. 112546, page 7 of 11.  
Meal for retired employee, should have been removed for rate-making purposes. This was an oversight only.
- c. Check No. 113947, page 8 of 11.  
This is part of the planning process for designing new district offices and headquarters facility.





**South Kentucky Rural Electric**  
**Case No. 2005-00450**  
Second Data Request of Commission Staff  
August 31, 2005

28. Refer to the Application, Exhibit 13, page 3 of 3. At the bottom of this page is the following statement, "The fuel purchased and environmental surcharge from East Kentucky Power Cooperative is passed on to the consumers using the Fuel Adjustment Procedures established by this Commission." Given the fact that the Commission established a specific environmental surcharge pass through mechanism for the cooperatives, explain why this statement states the fuel adjustment clause procedures are followed.

**Response**

This was an oversight only. The statement should have been stated as:

The fuel and environmental surcharge purchased from East Kentucky Power Cooperative are passed on to consumers using the Fuel Adjustment Procedures and Environmental Surcharge Pass Through Mechanism established by this Commission.



**South Kentucky Rural Electric**  
**Case No. 2005-00450**  
Second Data Request of Commission Staff  
August 31, 2005

29. Refer to the Application, Exhibit 15.

a. Explain why South Kentucky did not calculate a 13-month end-of-test-year customer adjustment for all rate classes. If South Kentucky believes that such an adjustment is inappropriate for a given rate class, explain why the adjustment would be inappropriate.

**Response**

South Kentucky has revised that schedule as (b) to this response.

b. Provide a revised 13-month end-of-test-year customer adjustment that includes all of South Kentucky's rate classes.

**Response**

Included as page 2 of this response.

c. Provide a revised Schedule J - Revenue Analysis and Billing Analysis, using the billing determinates calculated in the previous response. Provide all spreadsheets in an electronic format such as CD-ROM, or diskette.

**Response**

Included as page 3. As noted, there were no changes in revenue requirement as the rate schedules that were not included in the Application reflected no additional revenues.

One (1) copy of a diskette is included with this response, including a copy to the Attorney General.



South Kentucky Rural Electric

Case No. 2005-00450

Revenue Analysis

August 31, 2005

Exhibit G

page 1 of 2

Witness: Jim Adkins

	Rate <u>Schedule</u>	Kwh <u>Useage</u>	Test Year <u>Revenue</u>	Percent of <u>Total</u>	Normalized Case No. 2004-00482 <u>Revenue</u>	Percent of <u>Total</u>	Proposed <u>Revenue</u>	Percent of <u>Total</u>	<u>Increase</u> <u>Amount</u> <u>Percent</u>	
10	A, Residential, Farm and Non-Farm Service	706,078,436	\$43,978,882	68%	\$46,846,925	67%	\$50,898,693	67%	\$4,051,768	8.6%
11	A, ETS	11,489,483	387,078	1%	421,319	1%	445,401	1%	24,082	5.7%
12	B, Small Commerical Rate	59,473,163	4,015,825	6%	4,249,966	6%	5,100,349	7%	850,383	20.0%
13	B, ETS	13,330	493	0%	533	0%	599	0%	67	12.5%
14	LP, Large Power Rate	142,895,983	8,097,863	12%	8,665,601	12%	8,718,467	12%	52,866	0.6%
15	LP-1, Large Power Rate (500 to 4,999kw)	38,541,750	1,695,575	3%	1,850,764	3%	1,850,764	2%	0	0.0%
16	LP-2, Large Power Rate (5,000 to 9,999kw)	43,520,610	1,887,837	3%	2,060,035	3%	2,060,035	3%	0	0.0%
17	LP-3, Large Power Rate (500 to 4,999kw)	46,317,855	1,772,023	3%	1,962,168	3%	2,067,310	3%	105,142	5.4%
18	Special Contract	287,800	42,907	0%	44,320	0%	44,414	0%	94	0.2%
19	OPS, Optional Power Service	16,741,932	1,182,897	2%	1,250,199	2%	1,348,459	2%	98,261	7.9%
20	AES, All Electric Schools	8,365,440	444,386	1%	480,361	1%	480,361	1%	0	0.0%
21	OL, Outdoor Lighting Service	18,275,214	1,543,608	2%	1,643,394	2%	2,301,297	3%	657,903	40.0%
22	STL, Street Lighting	696,922	36,019	0%	38,839	0%	58,265	0%	19,426	50.0%
23	DTSL, Decorative Street Lighting	207,230	33,061	0%	33,061	0%	36,366	0%	3,305	10.0%
24	Rounding differences						(243)		(243)	
26	Total from base rates	<u>1,092,905,148</u>	65,118,454	100%	<u>\$69,547,485</u>	100%	<u>\$75,410,537</u>	100%	<u>\$5,863,053</u>	8.4%
28	Fuel		8,259,099							
29	Environmental surcharge		<u>277,033</u>							
31	Total revenue from billings		73,654,586							
33	Increase				<u>\$4,429,031</u>		<u>\$5,863,053</u>			
35	Recognize billing lag		269,376							
36	Fuel charge adjustment lag		<u>585,427</u>							
38	Total revenue per general ledger		<u>\$74,509,389</u>							



**South Kentucky Rural Electric**  
**Case No. 2005-00450**  
Second Data Request of Commission Staff  
August 31, 2005

30. Refer to the response to the Commission Staff's First Data Request dated November 29, 2005 ("Staff's First Request"), Item 13.

a. For each property listed in the response, provide the following revenue and expense information for the test year:

- (1) Rental income.
- (2) Depreciation expense.
- (3) Insurance expense.
- (4) Utility expenses.
- (5) Maintenance and/or upkeep expenses.

**Response**

Response is attached.

b. Explain in detail how South Kentucky accounts for revenues and expenses associated with its non-utility property. Identify the account numbers used to record the revenues and expenses. Include a description of any cost allocation methodologies utilized.

**Response**

Income

South Kentucky rents each property on a monthly basis.

Expenses

Depreciation is calculated at 4.66% annual rate on buildings and 14.30% for meter base rentals.

Property taxes are allocated based on net plant to total net plant on property tax return.

Insurance is allocated based on values assigned from the property listing on the insurance premiums.

Utilities are recorded based on invoices.

Other costs and maintenance are recorded based on actual costs.

Labor, benefits and transportation costs are allocated from payroll.

Cost allocation from payroll.

Cost allocation based on square footage.

c. During the test year, did South Kentucky increase or decrease its investment in non-utility property? If yes, provide a complete description of the transaction and include the date of the transaction, the cost of or proceeds from the transaction, and the name of the seller or purchaser.

**Response**

Account 121.20, Non Utility Prop - Barn. A fence and gate were installed as follows:

<u>Date</u>	<u>Check No.</u>		<u>Amount</u>
03/23-05	113201	Nancy Supply Co	1,254.49
03/23-05	113223	Dorman Wilson & Son	993.20
08/31-05	115921	Cumberland Fence, LLC	4,606.00
08/31-05	116051	Nancy Supply Co	644.48
			<hr/>
			7,498.17
			<hr/>

Account 121.25, Non Utility Prop - Rental Meter Bases. Meter bases increase and decrease each month based on the number of meter bases on site. These are assembled from parts and scrap in the warehouse.

d. The response indicates that South Kentucky has invested \$273,441 in non-utility property since 1990. Explain why South Kentucky has made these investments in non-utility property.

**Response**

Industrial site and barn

This land is used for the annual meeting. There is a barn on that property that is being rented.

House and lot 933 N Main Street

House and lot that adjoins the headquarters. Use the lot for additional parking and previously used the house for billing and remittance processing.

House and lot 1522 Steve Warriner Drive

This land and property adjoin with the Russell Springs District Office. The land was purchased for additional parking and future district office.

Rental house Sunflower Drive

This is a house that was on the property purchased for the new headquarters building. Will be demolished when new headquarters is constructed.



**South Kentucky Rural Electric**  
**Case No. 2005-00450**  
Second Data Request of Commission Staff  
August 31, 2005

Description of property	<u>Plant Account</u>	<u>Income Account</u>	<u>Expense Account</u>	<u>Rental Income</u>	<u>Depreciation Expense</u>	<u>Insurance Expense</u>	<u>Utility Expense</u>	<u>Maintenance Expense</u>	Labor and Benefits <u>Other Expense</u>	<u>Property Taxes</u>	<u>Total Expenses</u>
Industrial site, 7.6 acres	121.00										0
Farm building on above land	121.20	421.01	421.02	2,800	890	53		1,367		96	2,406
Lot at 933 N Main Street	121.02										0
House on above lot	121.22	418.01	418.06	2,700	1,307	285	24	262		247	2,125
5.6 acre lot at 1522 Steve Warriner	121.03										0
House on above lot	121.25	418.02	418.07	4,800	3,120	311		61		421	3,913
Rental house on Sunflower Drive	121.27		418.08		2,500	231				310	3,041
Meter pole services	121.25	417.06	417.14	52,123	4,886				20,914	803	26,603



**South Kentucky Rural Electric**  
**Case No. 2005-00450**  
Second Data Request of Commission Staff  
August 31, 2005

31. Refer to the response to the Staff's First Request, Item 48.

a. Provide a detailed description of the goods and services offered by or through South Kentucky Services Corporation ("Services Corp.").

**Response**

Services Corp. provides digital mapping services. Services Corp. will take non-digitized maps and install to a digital mapping program. Services Corp. outsources all the digitized services.

b. The response to Item 48(b) states that there have been no investments in stock or debt to Services Corp. Explain how Services Corp. raised operating funds if South Kentucky has not purchased stock or made loans.

**Response**

Services Corp. provides services for the mapping. There have been no investments in plant or property to perform these services. South Kentucky employees assist in outsourcing and monitoring the activities of the mapping for Services Corp., the labor, benefits and transportation costs are recorded to Services Corp. through the payroll, benefit and transportation systems used by South Kentucky. In addition, if direct costs are paid by South Kentucky for the Services Corp., these costs are charged back to Services Corp. In addition, costs are allocated based on labor and allocated based on square footage used.

Services Corp. reimburses South Kentucky for these costs and expenses.

c. Did South Kentucky provide or arrange for any loan guarantees for Services Corp.? If yes, provide a detailed explanation of the terms, conditions, and obligations of the loan guarantee.

**Response**

No.

d. Describe all facilities, personnel, or other resources shared by Services Corp. and South Kentucky.

**Response**

The Dispatch/Technical Services Team Leader coordinates the mapping services with the outsourcing firm and records labor directly for these services. Others, preparing financial statements, paying bills and other administrative activities are recorded directly to Services Corp.

South Kentucky does not use its equipment or facilities to perform the mapping services for clients. This all outsourced.

e. The response to Item 48(e) shows the amount of officer compensation charged to Services Corp. Explain the method or basis used to determine the allocation of these expenses.

**Response**

The amount allocated from the President, or CFO with South Kentucky allocates labor based on time spent for Services Corp. activities.

The VP and Sec/Treas of Services Corp., or Directors with South Kentucky have a portion of their monthly board fees and expenses allocated to Services Corp. through the cost allocation based on labor each month.

f. Provide a schedule showing all costs and expenses that were allocated from South Kentucky to Services Corp. during the test year. This schedule should show the account number and title, the amount allocated to Service Corp., a description of the cost or expense allocated, and a description of the method or basis used to determine the allocation.

**Response**

All amounts allocated are recorded in Account No.143.01, Other AR - South Kentucky Services Corp. Services Corp. reimbursements, or payments on the amount due are recorded in this account. The activity is as follows:

Balance, September 1, 2004	9,474.05
Labor and benefits	51,078.73
Transportation	3,343.75
Education and training	9,490.34
Public relations, meetings	5,894.42
Advertising	1,763.03
Office supplies	1,338.21
Postage	1,921.13
Other fees	97.50
Cost allocation based on labor	3,502.40
Cost allocation based on square footage	1,028.00
Payments from Services Corp.	<u>87,806.52</u>
Balance, August 31, 2005	<u>1,125.04</u>

Labor, benefits and transportation costs are allocated through South Kentucky payroll and transportation system based on daily time sheets. The cost allocation for labor and square footage are prepared monthly. All other costs are directly assigned through the accounts payable system.

g. Describe the process utilized by South Kentucky to account for the allocation of costs and expenses to Services Corp. Include a discussion of how payments or reimbursements from Services Corp. are recorded in South Kentucky's accounts.

**Response**

See Item 31(f) of this response.



**South Kentucky Rural Electric**  
**Case No. 2005-00450**  
Second Data Request of Commission Staff  
August 31, 2005

32. Is south Kentucky involved in any non-utility businesses or activities that are not part of the activities of Services Corp.? If yes, provide a detailed description of the non-utility business or activity. Include a discussion of how costs and expenses are allocated to the non-utility business or activity and how these transactions are recorded on South Kentucky's books. For purposes of this question, non-utility businesses and activities include, but are not limited to, the sale and/or installation of appliances, the sale and /or installation of heating and air conditioning systems, and the provision of billing or other services under contract.

**Response**

Yes. Other non-utility activities not a part of Services Corp. are:

	<u>Accounts</u>	
	<u>Revenue</u>	<u>Expense</u>
ETS Heaters	415.01	416.02
Water heaters	415.04	416.04
Meter pole services	417.01	417.11
Purchase installment loans, appliances	417.00	417.10
Purchase installment loans, ETS	417.02	417.12

Laobr, benefits and transportation costs are allocated through South Kentucky payroll and transportation system based on daily time sheets. The cost allocation for labor and square footage are prepared monthly. All other costs are dierctly assigned through the accounts payable system.





**South Kentucky Rural Electric**  
**Case No. 2005-00450**  
Second Data Request of Commission Staff  
August 31, 2005

33. Concerning South Kentucky's Web site:

a. Provide the test-year expense for the operation and maintenance of the Web site.

**Response**

Test year expense of \$5, 160.

b. Were any of the expenses associated with the Web site allocated to the non-utility businesses or activities or to Services Corp?

**Response**

Yes.

(1) If yes, describe the method or basis used for the allocation and provide the amounts allocated to non-utility business or activity and Services Corp.

**Response**

Amounts are allocated to non-utility businesses and to Services Corp. based on the percent of labor to total labor in relation to the amount of general expenses on a monthly basis.

	<u>Amount Charged</u>
Services Corp.	14.15
Non- utility businesses	39.01

(2) If no, explain in detail why an allocation of these expenses was not performed.

**Response**

n/a



**South Kentucky Rural Electric**  
**Case No. 2005-00450**  
Second Data Request of Commission Staff  
August 31, 2005

34. Has South Kentucky prepared and adopted a formal, written cost allocation manual ("CAM")?

**Response**

Yes.

a. If yes, provide copies of the CAM and indicate when the CAM was last updated.

**Response**

A copy is provided as page 2 through 21 of this response. The CAM was submitted to the Commission on July 2, 2001. There have no updates to the CAM since it was filed with the Commission.

b. If no, explain why South Kentucky has not prepared and adopted a CAM.

**Response**

n/a



# SOUTH KENTUCKY RURAL ELECTRIC

Gary Cavitt  
General Manager & C. E. O.  
Phone (606) 678-4121

COOPERATIVE CORPORATION

925-929 North Main Street  
P. O. Box 910  
Somerset, Kentucky 42502-0910

July 2, 2001

**RECEIVED**

JUL 02 2001

PUBLIC SERVICE  
COMMISSION

Thomas Dorman, Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, Kentucky 40602-0615

Dear Mr. Dorman:

RE: Case Number 2001-112

In response to the Commission order dated May 21, 2001, we enclose an original and one copy of South Kentucky Rural Electric Cooperative Corporation Cost Allocation Manual required by KRS 278.2205.

If further information or additional copies are needed, please advise.

Sincerely,

SOUTH KENTUCKY RECC

Jeff Greer  
Interim CFO

JG:cgw

k:KRS278.2205

**RECEIVED**

JUL 02 2001

PUBLIC SERVICE  
COMMISSION

**SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE, INC.**

**COST ALLOCATION MANUAL**

**2001**

## TABLE OF CONTENTS

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## Introduction

The Commonwealth of Kentucky General Assembly enacted KRS 278.2205 during the 2000 regular session. The Kentucky Public Service Commission requires that all utilities providing nonregulated activities, either directly or through an affiliate to keep separate accounts and allocate costs to ensure that regulated ratepayers do not subsidize the nonregulated activities. This law requires utilities that meet certain revenue levels to file a cost allocation manual to identify the method for segregating costs between regulated and nonregulated activities. This manual is an indexed compilation and explanation of South Kentucky Rural Electric Cooperative, Inc.'s cost allocation policies and procedures.

## Definitions

**Affiliate** – A person that controls or is controlled by, or is under common control with, a utility.

**Arm's length** – the standard of conduct under which unrelated parties, each party acting in its own best interest, would negotiate and carry out a particular transaction.

**Control** - the power to direct the management or policies of a person through ownership, by contract, or otherwise

**Cost allocation manual (CAM)** – indexed compilation and documentation of a company's cost allocation policies and related procedures.

**Cost Allocations** - the methods or ratios used to apportion costs. A cost allocator can be based on the origin of costs, as in the case of cost drivers; cost-causative linkage of an indirect nature; or one or more overall factors (also known as general allocators).

**Common Costs** - costs associated with services or products that are of joint benefit between regulated and non-regulated business units.

**Cost Driver** - a measurable event or quantity which influences the level of costs incurred and which can be directly traced to the origin of the costs themselves.

**Direct Costs** – costs that can be specifically identified with a particular service or product.

**Distribution Cooperative** - a utility formed under KRS Chapter 279 that provides retail electric service.

**Electric-consuming facilities** – everything that utilizes electric energy from a central station source.

**Facility** – includes all property, means, and instrumentalities owned, operated, leased, licensed, used, furnished, or supplied for, by, or in connection with the business of any utility.

**Fully Distributed Costs** - the sum of the direct costs plus an appropriate share of indirect costs.

**Generation & Transmission Cooperative (G&T)** – a utility formed under KRS 279 that provides electric generation and transmission service



**Global Costs** – costs that do not have a specific identifiable causal relationship with a particular activity but apply to all activities.

**Incidental Treatment** – a utility may report an incidental nonregulated activity if (a) the revenue from the aggregate of the total of the utility's nonregulated incidental activities does not exceed the lesser of two percent (2%) of the utility's total revenue or one million dollars (\$1,000,000) annually; and (b) the nonregulated activity is reasonably related to the utility's regulated activity.

**Indirect Costs** – costs that cannot be identified with a particular service or product. This includes but not limited to overhead costs, administrative and general, and taxes.

**Net Book Value** – the book cost, as defined by the uniform system of accounts, reduced by related provisions for accumulated depreciation, depletion, or amortization and adjusted for any unamortized plant acquisition adjustment related to the asset.

**Nonregulated activity** - the provision of competitive retail gas or electric services or other products or services over which the commission exerts no regulatory authority.

**Person** – includes natural persons, partnerships, corporations, and two (2) or more persons having a joint or common interest.

**Prevailing Market Pricing** - a generally accepted market value that can be substantiated by clearly comparable transactions, auction or appraisal.

**Rate** – means any individual or joint fare, toll, charge, rental, or other compensation for service rendered by any utility, and any rule, regulation, practice, act, requirement, or privilege in any way relating to such fare, toll, charge, rental, or other compensation, and any schedule or tariff or part of a schedule or tariff thereof.

**Regulated activity** - a service provided by a utility, the rates and charges of which are regulated by the commission.

**Retail Electric Service** – electric service furnished to a consumer for ultimate consumption.

**Service** - any practice or requirement in any way relating to the service of any utility, including the voltage of electricity, the heat units and pressure of gas, the purity, pressure, and quantity of water, and in general the quality, quantity, and pressure of any commodity or product used for or in connection with the business of any utility.

**Shared Services** – those centrally-managed services that benefit both the utility and its affiliates/divisions.

**Solicit** - to engage in or offer for sale a good or service, either directly or indirectly and irrespective of place or audience.

**Subsidize** - the recovery of costs or the transfer of value from one class of customer, activity, or business unit that is attributable to another.

**USoA - uniform system of accounts** - a system of accounts for public utilities established by the Rural Utilities Service (RUS) of the United States Department of Agriculture and adopted by the Commission.

**Utility** - a natural person, partnership, or corporation (except a city) who owns controls, operates or manages a facility in connection with the generation, production, transmission, or distribution of electricity to or for the public, for compensation, for lights, heat, power, or other uses.

**Utility Revenue** - Operating electric revenue as reported on Line 1, Form 7.

**Wholesale Electric Service** – electric service generated or purchased and furnished to a retail electric company or another wholesale electric company for further distribution.

## **Regulated and Nonregulated Divisions and Affiliates And Related Services and Products**

### **South Kentucky Rural Electric Cooperative, Inc.**

South Kentucky Rural Electric Cooperative, Inc. is a regulated distribution utility whose primary function is the delivery of retail electric service.

### **South Kentucky Services, Inc**

South Kentucky Services is a for-profit wholly owned subsidiary of South Kentucky Rural Electric Cooperative, Inc. Services provides a variety of energy related services and benefits to the parent company.

### **Spirit Electric, Inc.**

Spirit Electric is a for-profit wholly owned subsidiary of South Kentucky Services, Inc. Spirit Electric is a newly formed corporation set up to provide electrical distribution and other related services. To date no transactions have occurred.

### **JMS Construction, Inc.**

JMS Construction is a for-profit subsidiary of South Kentucky Services, Inc. which is the major shareholder. JMS Construction provides electrical construction of distribution plant and other related services.

### **Energy Business Solutions, Inc.**

Energy Business Solutions is a for-profit subsidiary of South Kentucky Services, Inc. which is the major shareholder. Energy Business Solutions is a newly formed corporation set up to provide consulting and other related services. To date no transactions have occurred.

### **Products and Services**

Appliance Sales  
Billing - Other Co-ops  
Consulting  
Consumer Loans  
Electrical Construction  
Electrical Inspections  
ETS Sales  
Temporary Service Pole Leasing  
Water Heaters

## **Nature of Transactions**

### **From the Utility to the Affiliate/Division**

Goods, services and use of assets provided by the regulated utility to the nonregulated affiliate/division shall be at the tariffed rate. Non-tariffed items shall be priced at the fully distributed cost or prevailing market price, if available, whichever is greater.

The transfer or sale of assets by the utility to the nonregulated affiliate shall be priced at the greater of the utility's net book value or prevailing market price, if available.

Goods or services provided by a regulated utility to an affiliated regulated utility shall be priced at fully distributed cost.

### **From the Affiliate/Division to the Utility**

Goods, services, and use of assets provided to the regulated utility by the nonregulated affiliate/division shall be priced at the lower of the affiliate's fully distributed cost or prevailing market price, if available.

The transfer or sale of assets by the nonregulated affiliate to the regulated utility shall be priced at the lower of the affiliate's net book value or prevailing market price, if available.

The transfer or sale of assets between regulated affiliates shall be at net book value.

## **Shared Services and Other Cost Allocation Methodologies**

The cost allocation guidelines provided in this document are designed to allocate costs between the nonregulated activities and the regulated activities of a cooperative. After they are placed into effect, these allocation procedures will help to eliminate any potential subsidization of the nonregulated activities by the regulated activity of the cooperative.

It is the intent of this manual to minimize the amount of costs to be allocated and to provide reasonable and simple allocation procedures when certain costs are to be allocated. Therefore, costs will be directly assigned to the nonregulated or to regulated activities at all times possible. Labor will be the primary means for determining whether an expense is either regulated or nonregulated and time reporting procedures will be maintained in one-half-hour increments. Common costs or costs which cannot be directly assigned will be allocated to the regulated and nonregulated activities on the basis of a rational methodology consistent with commonly used measures of cost causation. These allocation methods to be applied to common costs are the following ones:

### **Number of Accounts**

Costs allocated under this method will be allocated proportional to the number of accounts that are served.

### **Direct Labor Dollars**

Costs will be allocated proportionally to the number of direct labor dollars recorded for each activity.

### **Direct Labor hours**

Costs will be allocated proportionally to the number of hours worked on each activity.

### **Net Plant**

Costs will be allocated proportionally on the basis of net plant.

### **Global Allocator on Direct Expenses**

Costs are allocated proportionally based on directly assigned expenses.

### **Work Space Size**

Costs will be allocated proportionally based on the size of the workspace devoted to a particular activity.

**Number of Miles Driven**

Costs will be allocated based proportionally on miles driven.

**Number of Hours Used**

Costs will be allocated proportionally on hours logged for each piece of machinery.

**Number of Equipment Units**

Costs will be allocated based on number of equipment units devoted to a particular activity.

**Revenue Dollars**

Costs will be allocated based on the Revenue Dollars produced by each activity.

**Income Dollars**

Costs will be allocated based on income recorded for each activity.

**Amount of Investment**

Costs will be allocated based on dollars invested in a particular activity.

# SOUTH KENTUCKY RECC COST ALLOCATION MANUAL

## ADOPTION STATEMENT

South Kentucky Rural Electric Corporation Cooperative, Inc. certifies that a Cost Allocation Manual ("CAM") has been developed, pursuant to KRS 278.2201 as required in House Bill 897. This "CAM" was approved by Management on June 29, 2001 and will be placed in effect on January 1, 2002.

A handwritten signature in black ink, appearing to read "Gary Cavitt", is written over a horizontal line.

Gary Cavitt  
General Manager and CEO

**SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE, INC**

**Chart of Accounts**

*All expenses and revenues recorded will be directly assigned when feasible.*

Allocation Methods for Shared Regulated / non-Regulated

Acct #	Account Description	Allocation Methods for Shared Regulated / non-Regulated											Comments				
		Regulated	Non-Regulated	Shared Reg & NonReg	Number of Accounts	Direct Labor Dollars	Direct Labor Hours	Net Plant	Global Allocator / Dir Expense	Work Space Size	Number of Miles Driven	Number of Hours Used		Number of Equip Units	Revenue Dollars	Income Dollars	Amount of Investment
40360	Depr Exp Distribution Plant	x															
40370	Depr Exp General Plant		x						x								
40811	Taxes - PSC Assessment	x															
40820	Taxes - U S Soc Sec - Unemployment		x			x											
40830	Taxes - U S Soc Sec - FICA		x			x											
40840	KY State Unemployment		x			x											
41500	Rev From Mdsg. Jobbing & Cont Work		x														
41501	Rev From Mdsg - ETS Heaters	x															
41503	Rev From Mdsg - Misc - Promotions		x														
41504	Rev From Mdsg - Water Heaters	x															
41600	Cost & Exp Mdsg - Job & Cont Work		x														
41602	Cost of Mdsg - ETS Heaters	x															
41603	Cost of Mdsg - Misc - Promotions		x														
41604	Cost of Mdsg - Water Heaters	x															
41700	Rev from Non-Ut Oper (Int S-5)		x														
41701	Rev NU Oper (Meter Pole Service)		x														
41702	Rev From Non-UT Oper (Int S-12)		x														



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41703	Rev From Non Utility Oper (KU)		X														
41704	Rev From N U Oper (All Other S12)	X															
41705	Rev From N U Oper (All Other S-5)	X															
41706	Rev NU Oper (Temp Service Rental)	X															
41710	Exp of Non-Ut Oper (S-5 Loans)		X														
41711	Exp NU Oper-(Meter Pole Service)		X														
41712	Exp Non-Util Oper (S-12 Loans)		X														
41714	Exp NU Oper (Temporary Ser Rental) 11.00	X															
41721	Rev NU Oper (Grayson RECC)	X															
41722	Rev NU Oper (Taylor Co RECC)	X															
41731	Exp NU Oper (Grayson RECC)	X															
41732	Exp NU Oper (Taylor Co RECC)	X															
41801	Nonop Rental Income (933 N Main)		X														
41802	Nonop Rental Income (1533 W Steve)		X														
41806	Nonop Rental Expense (933 N Main)		X														
41807	Nonop Rental Exp (1522 Steve War)		X														
41810	Equity in Earnings of Subsidiary Co		X														

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					Number of Accounts	Direct Labor Dollars	Direct Labor Hours	Net Plant	Global Allocator / Dir Expense	Work Space Size	Number of Miles Driven	Number of Hours Used	Number of Equip Units	Revenue Dollars		Income Dollars	Amount of Investment	
41812	Equity in Earnings - SO KY Sevice		X															
41900	Interest and Dividend Income	X																
42101	Misc Nonoper Income - Farm Income		X															
42102	Misc Nonoper Income - Farm Expense		X															
42110	Gain/Loss Disposal of Property	X																
42200	Nonoperating Taxes		X															
42300	G & T Coop Capital Credits	X																
42400	Other Cap Cr Patron Cap Alloc	X																
42610	Donations (Char, Social or Comm)		X															
42630	Penalties	X																
42640	Exp for Cer Civic, Pol & Rel Act	X																
42650	Other Deductions	X																
42710	Interest on REA Const Loan	X																
42721	Interest on Other LTD - CFC	X																
43100	Other Intr Exp - Intr on Cons Dep	X																
43110	Intr Exp - CTC Short Term	X																
43111	Intr Exp - Other Short Term Loans	X																

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43112	Interest Expense - Other	x															
44010	Residential Sales - Rural	x															
44210	Commercial & Industrial Sales - Small	x															
44211	TV Boost & Civil Def Sirens	x															
44220	Comm & Industrial Sale - Large	x															
44221	LG Comm or Ind W'Out Demand Chgs	x															
44400	Public Street & Highway Lighting	x															
44500	Other Sales to Pub Bldgs & Other Pub Auth	x															
45010	Forfeited Disc (Late Payment Chg)	x															
45100	Misc Service Revenues	x															
45400	Rent from Electric Property	x															
45600	Other Electric Revenue	x															
55500	Purchased Power	x															
58000	Oper Supervision & Engineering	x															
58200	Station Expenses	x															
58210	Station Expense - SCADA	x															
58300	Overhead Line Expenses	x															

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58320	Oper Overhead Lines-PBC Costs	x															
58330	O/H Line Exp - DCI Sentry System	x															
58400	Underground Line Expense	x															
58500	Street Lighting & Signal Sys Exp	x															
58600	Meter Expenses	x															
58700	Customer Installations Expense	x															
58710	Customer Inspections (Credits)		x														
58720	Customer Inspection Expense		x														
58730	Customer Inst Exp - Stray Voltage	x															
58800	Misc Distribution Expense	x															
58810	Misc Distribution Exp - Mapping	x															
59000	Maint Supervision & Engr	x															
59210	Maintenance - SCADA Equipment	x															
59300	Maint of Overhead Lines	x															
59320	Maint of Overhead Lines - PCS Cost	x															
59350	Maint of Overhead Lines - R/W	x															
59400	Maint of Underground Lines	x															

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59500	Maint of Line Transformers	X															
59600	Maint of ST Light & SGL System	X															
59611	Maint of Street Light (Sodium)	X															
59612	Maint of Street light (M Vapor)	X															
59700	Maint of Meters	X															
59800	Maint of Misc Distribution Plant	X															
59810	Environmental Maint PCB, Etc	X															
59811	Maint of Security Light (Sodium)	X															
59812	Maint of Security Light (M Vapor)	X															
59813	Maint Security Light (Sodium Dir)	X															
59814	Maint Security Light (M Vapor Dir)	X															
90100	Supervision (Customer Accounts)	X															
90200	Meter Reading Expenses	X															
90210	Meter Reading Expense - Contract	X															
90300	Customer Records & Collection Exp	X															
90310	Cash - Shortages & Overages	X															
90320	Cust Rec & Col Exp - KU			X													

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90400	Uncollectible Accounts	x															
90700	Supv (Cust Serv & Information Exp)	x															
90800	Customer Assistance Expense	x															
90810	Cust Asst Exp - Contract, Tuneup Program	x															
90811	Cust Asst Exp - Button Up Reimburs	x															
90900	Informational & Instr Advt Exp	x															
91000	Misc Cust Serv & Informational Exp	x															
91200	Demonstrating & Selling Expense	x															
92000	Administrative & General Salaries			x		x											
92100	Office Supplies & Expenses			x		x											
92300	Outside Services Employed			x		x											
92500	Injuries and Damages	x															
92600	Employee Pensions & Benefits			x		x											
92800	Regulatory Commission Expenses	x															
92900	Duplicate Charges - Credit	x															
93010	General Advertising Expense		x														
93011	Gen Advertising (Fairs & Parade)		x														

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93020	Miscellaneous General Expenses	x															
93021	Directors Fees & Exp			x		x											
93022	Dues & Expense - Assoc Companies	x															
93023	Annual Meeting Expenses	x															
93024	Misc Gen Exp - Cap CR & Other Fin Not	x															
93025	Misc Gen Exp - Research & Develop	x															
93026	M Gen Exp - R& D (Fuel Cell -'00)	x															
93500	Maintenance of General Plant			x						x							

