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PUBLIC SERVICE
COMMISSION

**COMMONWEALTH OF KENTUCKY BEFORE
THE PUBLIC SERVICE COMMISSION**

CASE NO. 2005-00450

**RESPONSE TO SECOND DATA REQUEST OF
COMMISSION STAFF**

**SOUTH KENTUCKY RURAL ELECTRIC
COOPERATIVE CORPORATION
SOMERSET KENTUCKY**

MAY 22, 2006

**ORIGINAL
PUBLIC SERVICE COMMISSION**



Allen Anderson, President & CEO

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May 22, 2006

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PUBLIC SERVICE
COMMISSION

Ms. Beth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Post Office Box 615
Frankfort, Kentucky 40602-0615

Dear Ms. O'Donnell:

RE: Case No. 2005-00450 – Response to Second Data request of Commission Staff

Attached you will find an original and five (5) copies of South Kentucky Rural Electric Cooperative, Inc. response to the Second Data Request of Commission Staff dated May 8, 2006.

A copy of this letter and response is being sent to the Office of Rate Intervention of the office of the Attorney General.

If additional information is needed, please advise.

Sincerely,

SOUTH KENTUCKY RECC

A handwritten signature in cursive script that reads 'Allen Anderson'.

Allen Anderson
President and CEO

AA:JG:cgw

C: Elizabeth Blackford

k:\CaseNo.2005-00450-SecondResponse.jg

COMMONWEALTH OF KENTUCKY

SOUTH KENTUCKY RECC
CASE NO. 2005-00450

Item No. 1
Page 1 of 2 pages
Witness: Jim Adkins

RESPONSE TO PSC STAFF SECOND DATA REQUEST
ETS RATES

- Q. Refer to the Application, Exhibit C, page 1 of 3. South Kentucky proposes an ETS energy charge of \$.3877, or 60 percent of its Schedule A Residential, Farm and Non-Farm energy charge.
- a. South Kentucky proposes that the ETS rate continue to be set at 60 percent of the Schedule A rate. What is South Kentucky's position on whether the ETS rate should be set based on the cost of serving the class?
 - b. If the ETS rate was to be solely cost based, provide the level of the ETS rate. Include all calculations performed to derive the rate.
- R.
- a. South Kentucky proposed an ETS rate equal to 60 percent of the Schedule A energy rate because this method has been the one used since the beginning of the ETS program in the late 1980s. It is South Kentucky's position that this rate should remain the same as South Kentucky has signed 10 year contracts with ETS consumers. It would not be fair to many customers to change the basis of their rate prior to the end of the initial 10 year contract period.
 - b. A cost based ETS rate would be \$0.04627 for Schedule A. The calculations used to develop this rate are provide on page 2 of this response.

COMMONWEALTH OF KENTUCKY

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RESPONSE TO PSC STAFF SECOND DATA REQUEST

Total Revenue Requirements Requested for Schedule A		\$ 51,344,094
Less Cost of Purchased Power assigned to Schedule A		<u>33,251,405</u>
Distribution Revenue Requirements		18,092,689
Less Revenue from Proposed Consumer Charge		<u>5,268,312</u>
Distribution Revenue Requirements for Energy Charge		\$ 12,824,377
Divided by Energy Sales in Schedule A		<u>717,567,919</u>
Distribution Revenue Requirements per kWh		\$ 0.01787
Plus Wholesale Power Costs		
E-2 Off-peak Energy Rate	\$ 0.02712	
Distribution Line Losses	<u>4.50%</u>	
E-2 Off-peak Energy Rate adjusted for line losses		<u>\$ 0.02840</u>
ETS Rate based on a fully allocated cost concept		<u><u>\$ 0.04627</u></u>

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Item No. 2
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Witness: Jim Adkins

RESPONSE TO PSC STAFF'S SECOND REQUEST FOR INFORMATION

CUSTOMER CHARGE CHANGES

- Q. Refer to the Application, Exhibit G, page 2 of 2. South Kentucky proposes increases of up to 168 percent in the customer charges of some rate classes. Explain whether South Kentucky believes that customer charge increases of this magnitude are consistent with the rate-making principle of gradualism.
- R. Please see the response to Item 31 of the AG's initial request. It is believed that more significant rate-making principle in this situation is the one of the cost to serve and not the one on gradualism.

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August 31, 2005

3. Explain why South Kentucky has not proposed to adjust its miscellaneous charges or its cable television attachment charges in this case.

Response:

South Kentucky reviewed its non-recurring charges and its cable television attachments and determined that they were adequate. No adjustment was determined to be made.

**RESPONSE TO COMMISSION STAFF'S SECOND REQUEST FOR
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NARRATIVE ON THE COST OF SERVICE STUDY

A description of the Cost of Service Study ("COSS") presented in Exhibit R of the original application is contained in the following discussion. This COSS is comprised of 8 schedules. Schedules 1 and 2 are schedules that present the results of the COSS in a summary manner. Schedules 3 and 4 are the primary schedules within the COSS. Schedules 5, 6, 7, and 8 are supporting schedules which provides many of the allocations bases for Schedules 3 and 4.

The COSS is a functionally unbundled because it provides the revenue requirements by function for each classification within all rate classes. By this is meant that a breakdown of the of the costs, the margins, and revenue credits for a function such as lines can be determined for all three classifications of demand-related, energy-related and consumer-related.

The COSS does follow the standard three step process of functionalization, classification, and allocation. The functions utilized in this COSS include these:

- a. purchased power
- b. Lines
- c. Transformers
- d. Services
- e. Meters
- f. Consumer and accounting services

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The classifications used in the COSS include demand-related costs, energy-related costs, and consumer-related costs. One can readily see how specific costs may impact a specific segment of each rate class. Schedule 4 provides the functionalization and classification of costs. Schedule 3 provides the allocation of the costs to the appropriate rate classes. The relationships between functionalization and classification is better understood through the chart presented below:

	Demand <u>Related</u>	Energy <u>Related</u>	Consumer <u>Related</u>
Purchased Power	X	X	
Lines	X		X
Transformers	X		X
Services			X
Meters			X
Consumer & Acctg Services			X

Purchased power demand cost and substation costs are demand related while purchased power energy costs are considered to be energy related costs. Most distribution are considered to be consumer related with the exceptions being lines and transformers. Lines and transformers are considered to have a demand component and a consumer component. The determination of what portion of line expenses and transformer expenses may be demand related or consumer related is based on their proportional demand investment and consumer investment.

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The determination of the demand related amount and the consumer related amount in lines and transformers is based the e development of regression line. The "y intercept" becomes the basis for determining the consumer investment for each pole, each conductor and each transformer. The minimum investment per unit multiplied by the total number of poles, conductor and transformers gives the consumer related investment for that plant item. The remaining investment is considered to be demand related. Schedule 7 provides the details on the determination the demand related investment and consumer related investment for lines and transformers.

Many expenses are directly assigned to a function or allocated on the basis of O&M Other expenses such as depreciation, interest, margins, revenue credits and other similar expenses are allocated on the basis of information from Schedule 5. Schedule 5 is the schedule that provides the development of the Net Investment Rate Base ("rate base"). Te end result from Schedule 4 is a revenue requirement for each functional classification which includes all costs, revenue credits and a margin requirement.

The next step in the process is the allocation of the revenue requirements to each rate class. Purchased power demand related costs are allocated on the basis of each rate class of South Kentucky contribution of East Kentucky Power Cooperative ("EKPC") coincident peak or the basis by which South Kentucky is billed from EKPC. Purchased power energy charges are allocated to each rate class on the basis of each rate class's proportional share of retail energy sales.

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Distribution demand related costs are allocated to each rate class's peak demand to the sum of the peak demand for all rate classes. These rate class peak demands and the EKPC coincident peak demands are the sum of the monthly demands for each of the twelve months of the test year. The basis for the demand related cost allocation and the energy related allocation is contained in Schedule 6.

Schedule 8 contains the information that has been utilized to allocate the consumer related costs to the various rate classes. These allocations are based on number of consumers and weights based on the minimum size plant investments for each rate class.

The end result of this COSS is the determination of the revenue requirements for each rate class of South Kentucky RECC. When the revenue requirements are matched with the revenue from current rates, it is readily apparent what rate classes are meeting their revenue requirements from the COSS and what rate classes are not meeting their revenue requirements. The end results of the COSS for South Kentucky indicates that several rate classes are recovering costs and some are not. Schedule 2 of the COSS provides those rate classes that are providing margins and those that are not recovering costs.

Schedule 1 of the COSS provides the full revenue requirement for each rate class along with the amount of revenue increase or revenue decreases for these rate classes to provide revenue at the level identified in the COSS.

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Schedule 1 also shows the amount of rate increase for each rate class that was determined to be sought for each class or used in the rate design for each class. The amount of increase used for rate design is different than the COSS results. It is different for several reasons. Those rate classes recovering amounts in excess of COSS revenue requirements are not being proposed in a reduction in rates. Some classes that could receive significantly large rate increases have had their requested increases tempered somewhat. The amount of increase sought has been tempered for Schedule B (Small Commercial), Schedule OL (Outdoor Lighting), and Schedule STL (Street Lighting). Large rate increases have been proposed for these rate classes in this rate application.

An increase for Schedule LP (Large Power Rate) is being proposed even though its current revenue provides for full revenue requirements. A change in the customer charge is being sought and this additional revenue helps to temper the rate increase possibilities for other rate classes. An increase for Schedule A (Residential, Farm & Home) is being sought which would provide for this rate class to have revenues in excess of its revenue requirements. The results of South Kentucky's COSS have not followed the normal pattern and have significant variability between its rate classes.

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5. Refer to the Application, Exhibit K, page 6 of 7.

a. Explain the factors that contributed to the general decline in Margins, excluding generating and transmission capital credits ("G&TCC"), for the years beginning with 2001 through the test year.

Response:

The primary cause for the decrease in margins from 2001 is a direct result of the difference between the revenue sales and cost of purchase power steadily decreasing.

Interest on long term debt has increased over \$1 million and depreciation has increased by \$873 thousand.

b. Explain the factors that contributed to the increase in Margins, excluding G&TCCs, between 2003 and 2004.

Response:

During 2004, South Kentucky attempted to better match its revenues with purchase power, as a result there were \$1,143,068 of additional revenues recognized, but unbilled as of December 31, 2004. South Kentucky has continued to adjust this difference each month to reflect the proper amount of unbilled revenues.

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6. Refer to the Application, Exhibit N, pages 10 and 12 of 15.
- a. Describe the purpose of the Rural economic Development Loan program.

Response:

South Kentucky files an application with the United States Government for interest free loans pursuant to Section 313 of the Rural Electrification Act of 1936, as amended and 7 CFR Part 1703, Subpart B - Rural Economic Development Loan and Grant Program.

Applications are filed for the purpose of obtaining proceeds to, in turn, be lent to be used solely to promote rural economic development.

- b. Explain how this program functions and South Kentucky's involvement in the program. Include with the explanation a discussion of why South Kentucky decided to become involved in the program during the test year.

Response

South Kentucky obtains interest free loans from RUS through the Rural Economic Development Loan program. These funds are then lent to industries in rural areas to promote economic development. South Kentucky charges an annual 1% service fee on the outstanding balance at the end of each year.

South Kentucky receives monthly payments on the Loans and, in turn, repays the Loans to RUS on a monthly basis.

South Kentucky has previously been involved in the Rural Economic Development Loan program. There were two other loans that were made and repaid over 10 years ago.

During 2004 -2005, South Kentucky decided to go in the direction of promoting economic development in and around its service territory. These loans are a part of the process of economic development.

c. On page 12 of 15 is a statement that a portion of the assets of one of South Kentucky's customers is secured as collateral for the Rural Economic Development Loan.

(1) Provide all the terms, conditions, and other requirements of this loan. Include a copy of the loan agreement and any related documentation.

Response

South Kentucky advanced \$250,000. Zero interest rate, with equal monthly installments of \$2,314.82 over a 9 year period. A copy of the loan and related documents is attached.

(2) Identify the customer providing the collateral for the loan and describe the customer's rights and obligations under the loan.

Response

P.J. Murphy Forest Products Corporation. Obtains an interest free loan and is required to repay over a 9 year period.

d. Describe the status of the Rural Economic Development Loan program at South Kentucky as of the test-year end and as of April 30, 2006.

Response

South Kentucky has several Loan applications sent to RUS that have not been approved, or declined, at April 30, 2006. Since the end of the test-year, South Kentucky has not had any additional loans.

LOAN AGREEMENT

THIS AGREEMENT, made and entered into this 10th day of April, 2005, by and between SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION, a Kentucky Corporation, with its principal office located at 925-929 North Main Street, P.O. Box 910, Somerset, Kentucky 42502 ("SKRECC") and P.J. MURPHY FOREST PRODUCTS CORP., with its principal office located at P.O. Box 300, Montville, New Jersey 07045 ("P.J. Murphy");

WHEREAS:

1. South Kentucky Rural Electric Cooperative Corporation ("SKRECC") filed an application and supporting material (collectively, the "Application Materials") with the United States of America (the "Government") for a \$250,000.00 interest free loan pursuant to Section 313 of the Rural Electrification Act of 1936, as amended (the "Act") and 7 CFR Part 1703, Subpart B-Rural Economic Development Loan and Grant Program (the "Regulations");

2. The application was filed for the purpose of obtaining proceeds to, in turn, be lent (the "Loan") to P.J. Murphy Forest Products Corp. ("P.J. Murphy") to be used solely to promote rural economic development as more particularly described in the Application Materials (the "Project"); and

3. The parties hereto desire to set forth in writing their understanding and agreement concerning the terms and conditions of the loan to be made by SKRECC to P.J. Murphy with the aforementioned proceeds,

NOW, THEREFORE, for an in consideration of the mutual agreements herein contained, SKRECC and P.J. Murphy agree as follows:

1. LOAN TERMS:

a. SKRECC shall lend \$250,000.00 to P.J. Murphy to be used solely to promote rural economic development as more particularly described in the Application Materials, as those materials may have been modified by the Letter of Agreement between SKRECC and Government dated October 25, 2004.

b. P.J. Murphy shall repay the Loan in accordance with the note to be executed by P.J. Murphy and made payable to SKRECC. P.J. Murphy shall begin to repay the Loan on the date set forth in the note and shall continue paying without interruption until all indebtedness associated with the Loan has been repaid in full on or before the final maturity date of the note.

c. The Loan will not bear interest although indebtedness not paid when due will be subjected to late charges, and other costs as provided in CFR Part 1703, and in the note described below.

2. SECURITY:

a. Payment of the loan shall be secured by a first lien upon and against P.J. Murphy's equipment together with the proceeds therefrom.

b. Payment of the Loan shall further be secured by personal guarantees from P.J. Murphy's owners, Roger Faehner, Jeanette Faehner, Fred A. Faehner, and Shirlee B. Faehner.

3. AFFIRMATIVE COVENANTS:

a. P.J. Murphy shall execute and deliver its promissory note (the "Note") to SKRECC in the form attached hereto in order to evidence its obligation to repay the Loan by the terms of this Agreement and the Note. P.J. Murphy shall pay all indebtedness evidenced by the Note in the manner and at the times described therein.

b. P.J. Murphy shall execute and deliver a Security Agreement and Financing Statement to SKRECC in the form attached hereto in order to secure its obligation to repay the Loan by the terms of this Agreement and the note; and shall cause the personal guarantees of its owners, Roger Faehner, Jeanette Faehner, Fred A. Faehner and Shirlee B. Faehner to the form attached hereto in order to secure its obligation to repay the Loan.

c. P.J. Murphy shall promptly use the proceeds of the Loan only in the manner and exclusively for the purposes set forth in the Application Materials as previously approved by the Government and in accordance with this Agreement, and the Regulations (as they may be amended from time to time). No changes may be made in the foregoing without the prior written approval of SKRECC and the Government.

d. P.J. Murphy shall make all payments pursuant to the Note by wire transfer to a special account at the bank specified by SKRECC or, if notified by SKRECC in writing to do so, any other reasonable method of payment specified by SKRECC.

e. P.J. Murphy shall (i) provide an itemized list with attached invoices, receipts, bills of sale, and other evidence to SKRECC that shows the expenditures made on the Project for the Approved Purpose using the proceeds of the Loan and include a signed certification from an authorized official of P.J. Murphy on this list to the effect "I certify that the proceeds of the rural economic development loan from South Kentucky Rural Electric Cooperation Corporation were expended on the approved purposes as shown on this list and the attached invoices, receipts, bills of sale, and other evidence represent the items shown on this list" and (ii) attach the invoices, receipts, bills of sale, and other evidence representing the items shown on the list to the certification. The invoices, receipts, bills of sale, and other evidence must at least total the amount of funds that have been provided to P.J. Murphy using the proceeds of the Loan; the

certified list must be provided upon completion of the Project or by the first anniversary of the date of the advance of funds to P.J. Murphy, whichever occurs first; if all funds have not been expended by the first anniversary, P.J. Murphy must provide to SKRECC a certified list of current expenditures and a statement of its intended expenditure schedule; and, upon completion of the Project, P.J. Murphy must provide to SKRECC a final certified list of the expenditures including the attachments.

f. Upon completion of the Project, P.J. Murphy shall provide to SKRECC and Government a management representation letter certifying to the statements in Exhibit B of the Letter of Agreement dated October 25, 2004, between SKRECC and Government.

g. P.J. Murphy shall expend loan funds by the second anniversary of the date of the advance of funds, or by such later date as SKRECC and Government may approve in writing in furtherance of the purposes of the Rural Electrification Act of 1936 as amended. P.J. Murphy shall return to SKRECC all loan funds that have not been expended by the second anniversary of the date of the advance of funds to P.J. Murphy, or by such later date as SKRECC and the Government have approved.

h. P.J. Murphy shall provide to SKRECC and the Government, upon completion of the Project, a management representation letter certifying to the statements in Exhibit B of the Letter Agreement dated October 25, 2004 between SKRECC and the Government.

i. P.J. Murphy shall permit SKRECC and Government officials to inspect and copy its records about the Project during regular business hours.

j. SKRECC may monitor performance of P.J. Murphy to ensure that the objectives as proposed in the Application Materials are being achieved. Beginning one year from the date of advance of loan proceeds to P.J. Murphy and concluding three (3) years from the date of advance

or upon completion of the Project as proposed in the Application Materials, whichever date occurs later, P.J. Murphy shall submit a project performance report to SKRECC on an annual basis. The project performance report shall describe (1) the actual accomplishments of the Project, setting forth the number and types of jobs created and retained; (2) the impact of the Project on the economy and quality of life of the rural community; (3) reasons why any projections or objectives as proposed in the Application Materials were not met, and (4) any problems, delays, or adverse conditions which have occurred, or are anticipated, which may affect the attainment of overall objectives of the Project. This disclosure shall be accompanied by a statement of the action taken or planned to resolve the delays, problems or adverse conditions. Upon completion of the Project or three (3) years from the date of advance, whichever occurs later, P.J. Murphy shall provide a final written performance report, accompanied by color photographs, including negatives or slides, documenting the overall accomplishments of the Project.

k. P.J. Murphy shall immediately notify SKRECC in writing of any occurrence which results in the discontinuance of payment by P.J. Murphy on its note to SKRECC, the closure of operations of P.J. Murphy, the transfer of operations by P.J. Murphy from the original project site described in the Application Materials, or the institution of bankruptcy proceeds involving P.J. Murphy.

l. P.J. Murphy shall comply with the Regulations, as they may be amended from time to time, including without limitation, any federal regulations or federal statutes which the Regulations identify as being applicable to activities contemplated by the Application Materials or this Agreement.

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m. P.J. Murphy shall comply with 7 CFR Part 3017, Subpart C as a condition of participating in this transaction. P.J. Murphy will notify SKRECC if it or its principals are presently excluded or disqualified pursuant to such regulation. P.J. Murphy shall also communicate the requirement to comply with 7 CFR Part 3017, Subpart C to each person with whom P.J. Murphy enters into a covered transaction.

n. Annually P.J. Murphy shall pay SKRECC a service fee not to exceed one (1%) percent of the outstanding principal or actual cost incurred by SKRECC, whichever is less. On or about each anniversary date of the note SKRECC shall invoice P.J. Murphy for the service fee, which shall be due and payable within thirty (30) days of the invoice.

4. REPRESENTATIONS AND WARRANTIES:

P.J. Murphy represents and warrants that on and as of the date first set forth above:

a. P.J. Murphy has been duly organized and is validly existing as a New Jersey corporation authorized to transact business in Kentucky and that it is in good standing under the laws of the State of Kentucky with the power and authority to perform its obligations under this Agreement, the Note and the Regulations.

b. This Agreement and the Note have been duly authorized, executed and delivered by P.J. Murphy and such documents constitute the legal and binding agreements of P.J. Murphy enforceable against P.J. Murphy in accordance with their respective terms, subject to (i) applicable bankruptcy, reorganization, insolvency, moratorium and other laws of general application relating to or affecting creditors' rights generally and (ii) the application of general principles of equity regardless of whether such enforceability is considered in a proceeding in equity or at law.

c. The execution or delivery by P.J. Murphy of this Agreement and the Note; the consummation of the transactions contemplated herein or therein; and the fulfillment by P.J. Murphy of the terms hereof or thereof, do not conflict with or violate, result in a breach of or constitute a default under any term or provision of the articles of organization or operating agreement of P.J. Murphy or any law or regulation or any order now applicable to P.J. Murphy of any Court, regulatory body having jurisdiction over P.J. Murphy, or the terms of any indenture, deed of trust, mortgage, note, note agreement or instrument to which P.J. Murphy or any of its properties is bound. P.J. Murphy has not received any notice from any other party to any of the foregoing that a default has occurred or that any event or condition exists that with the giving of notice or lapse of time or both would constitute such a default.

d. There is no pending or threatened action, suit or proceeding before any Court or governmental agency, authority or body or any arbitrator concerning P.J. Murphy, this Agreement or the Note which, if adversely determined, would have a material adverse effect of P.J. Murphy's ability to perform its obligations under this Agreement or Note.

e. All information, reports and other papers and data furnished to SKRECC by P.J. Murphy concerning the application of P.J. Murphy for the Loan were, at the time the same were so furnished, complete and correct in all material respects to the extent necessary to give SKRECC a true and accurate knowledge of the subject matter and no document furnished or other written statement made to SKRECC in connection with the Loan contains any untrue statement of a fact material to the financial condition of P.J. Murphy or the Project or omits to state such material fact necessary in order to make the statement contained therein not misleading.

f. P.J. Murphy has reviewed the Regulations and understands and accepts the requirements which the Regulations impose upon it.

g. P.J. Murphy does not expect or intend the Project to result primarily in the transfer of any existing employment or business activity from one area to another.

5. DEFAULT:

a. Upon the occurrence of an event of default as defined in this Agreement, the holder of the Note may declare all or any portion of the indebtedness arising under this Agreement, including indebtedness evidenced by the Note, to be immediately due and payable and may proceed to enforce its rights under this Agreement and the Note.

b. As used in this Agreement the term "event of default" shall mean the occurrence of any of the following:

1. any principal installment is not paid within thirty (30) days of the date in which it is required to be made, whether by acceleration or not;
2. failure, inability or unwillingness of P.J. Murphy to carry out or comply with, or cause to be carried out or complied with the specific undertakings described in the Application Materials as approved by SKRECC and the Government in their Letter of Agreement;
3. any representation or warranty made by P.J. Murphy herein, in the Application Materials, or in any certificate or report furnished by or on behalf of P.J. Murphy about any of the foregoing shall prove to be false, incomplete or incorrect in any material respect;
4. default shall be made in the due observance or performance of any of the covenants, conditions or agreements of P.J. Murphy, and such default shall continue for thirty (30) days after written notice specifying such default and requiring the same to be remedied shall have been given to P.J. Murphy by the holder of the Note;
5. commencement of a case in bankruptcy by or against P.J. Murphy; application for appointment of a receiver for, making a general assignment for the benefit of creditors by, or insolvency of P.J. Murphy; or
6. violation of the Regulations in any material respect, by officers, directors,

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employees or agents of P.J. Murphy, and such violation shall continue for a period of thirty (30) days without being rectified to the satisfaction of SKRECC after written notice specifying such default and requiring the same to be rectified has been given by SKRECC to P.J. Murphy.

6. MISCELLANEOUS:

a. Every right or remedy herein conferred upon or reserved to the holder of the Note shall be cumulative and shall be in addition to every other right and remedy now or hereinafter existing at law or equity, or by statute or regulation.

b. The invalidity of any one or more phrases, clauses, sentences, paragraphs or provisions of the Agreement shall not affect the remaining portions hereof.

c. In the event that SKRECC shall sell the Note to an insured purchaser as provided in the Act, SKRECC, and not the insured purchaser, shall be considered to be, and shall have the rights of, the holder of the Note for purposes of this Agreement.

IN WITNESS WHEREOF, SKRECC and P.J. Murphy have caused this Loan Agreement to be duly executed on their behalf, all as of the date and year first above written.

SOUTH KENTUCKY RURAL ELECTRIC
COOPERATIVE CORPORATION

BY: Allen Anderson
ALLEN ANDERSON, CEO

P.J. MURPHY FOREST PRODUCTS
CORPORATION

BY: Roger Fahnner

NAME: ROGER FAHNER

TITLE: Secy

\$250,000.00

DATE: April 10, 2005

PROMISSORY NOTE

For value received, P.J. MURPHY FOREST PRODUCTS CORP., a New Jersey Corporation, duly authorized to transact business in the Commonwealth of Kentucky, the "Maker", with a principal place of business in Wayne County, Kentucky, promises to pay to the order of South Kentucky Rural Electric Cooperative Corporation, at the times and manner hereinafter provided, the sum of TWO HUNDRED FIFTY THOUSAND DOLLARS and 00/100 (\$250,000.00), without interest, in equal and successive monthly installments of Two Thousand Three Hundred Fourteen Dollars and Eighty Two Cents (\$2,314.82) on the first day of the month beginning April 1, 2006 and continuing on the first day of each month of each year thereafter until the principal sum stated above has been paid in full on or before the final maturity of this note which shall be on the tenth anniversary of the date first written above. Maker shall have the right to prepay the obligation set forth in this note in whole or in part at any time without penalty; provided, however, that in the event of a partial prepayment, the Maker shall be obligated to continue making regular and uninterrupted monthly payments for the amount and on the monthly payment date specified in this note so long as any portion of the loan remains unpaid.

The Maker also promises to pay an annual service fee to South Kentucky Rural Electric Cooperative Cooperation, which fee shall not exceed one (1%) percent of the then outstanding principal or actual cost incurred by South Kentucky Rural Electric Cooperative Corporation, whichever is less. The first such annual payment shall be due on or about the anniversary date of this note in the year 2005. South Kentucky Rural Electric Cooperative Cooperation shall invoice

the Maker for the service fee, which shall be due and payable within thirty (30) days of the invoice.

Demand, presentment, protest, notice of protest, and notice of dishonor are hereby waived.

In the event of (1) nonpayment when due of any payment due under this note or (2) a default occurs under the P.J. Murphy Forest Products Corp. Loan Agreement described below, other than nonpayment and such default other than nonpayment continues for a period of thirty (30) days, then at the option of the holder of this note, all of the amount then owing under this note shall immediately become due and payable. The failure to assert this right shall not be deemed a waiver of any future default.

So long as this note shall be held by South Kentucky Rural Electric Cooperative Cooperation, the Maker shall pay a late charge on any payment not made within ten (10) days of the date it becomes due as originally scheduled or otherwise. The late charges shall be computed on the payment from the due date at a rate equal to the rate of the current value of funds to the United States Treasury as prescribed and published by the Secretary of the Treasury in the Federal Register and the Treasury Fiscal Requirements Manual Bulletins annually or quarterly, as the case may be, in accordance with 31 U.S.C. Section 3713. In addition, Maker shall pay administrative costs and penalty charges as South Kentucky Rural Electric Cooperative Cooperation may now or hereafter prescribe pursuant to 4 CFR Section 102.13 (d) and (e), respectively. If this note is transferred by South Kentucky Rural Electric Cooperative Cooperation, whether for collection or otherwise, any payment not paid within ten (10) days of the date it becomes due, as originally scheduled or otherwise, shall thereafter be subject to a late charge computed from the due date at a rate equal to the judgment rate prescribed by the state in

which the borrower has its principal place of business. In such event the Maker shall also pay the transferee for all reasonable costs and expenses of collection, including attorney fees.

Amounts received on account of indebtedness evidenced by this note shall be applied as follows: first to expenses, costs and penalties; second to late charges; third to principal payments which are past due; and fourth to principal installments not yet due.

This note is given in accordance with, and is required by, the terms and conditions of a certain Rural Development Loan Agreement between the parties dated as of 10-25-04, and evidences indebtedness created by a loan made by the United States of America pursuant to Section 313 of the Rural Electrification Act of 1936, as amended, for the purpose of promoting rural economic development and job creation projects. Accordingly, so long as this note is held by South Kentucky Rural Electric Cooperative Cooperation, it shall be governed by and construed in accordance with the laws of the United States and the regulations that govern Section 313 of the Rural Electrification Act of 1936, as amended.

IN WITNESS WHEREOF, the Maker has caused this note to be executed in its corporate name and attested by its duly authorized officers, all as of the day and year first above written.

P.J. MURPHY FOREST PRODUCTS
CORP.

BY: Roger Faehner

NAME: ROGER FAEHWER

TITLE: Secy.

GUARANTY AGREEMENT

WHEREAS, **P.J. MURPHY FOREST PRODUCTS CORP.** ("Borrower") has been granted a loan by **SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION**, ("SKRECC") or may otherwise become indebted to or incur liabilities to SKRECC,

NOW THEREFORE, in consideration of and as inducement to SKRECC to extend a loan in the amount of **TWO HUNDRED FIFTY THOUSAND DOLLARS AND 00/100 (\$250,000.00)** to Borrower, the undersigned Guarantors (the term "Guarantors" herein shall mean each, some or all of the undersigned), jointly and severally for themselves, their heirs, personal representatives, successors and assigns, hereby unconditionally guarantee to SKRECC, its successors and assigns, the prompt payment when due, including interest thereon if in default, attorney fees and costs and expenses of collection incurred by SKRECC (hereinafter referred to as the "Indebtedness") created and existing by reason of that certain promissory note from Borrower to SKRECC in the amount of **TWO HUNDRED FIFTY THOUSAND DOLLARS** dated of even date herewith.

This guaranty shall terminate on April 10, 2030, same being fifteen (15) years after the maturity date of the Indebtedness, provided that such termination shall not affect the liability of the Guarantors with respect to: (1) obligations created or incurred prior to such date, or (2) extensions or renewals of, interest accruing on, or fees, costs or expenses incurred with respect to, such obligations on or after such date.

SKRECC shall have the right of immediate recourse against Guarantors for full and immediate payment of the Indebtedness at any time after the Indebtedness, or any part thereof, has not been paid in full under the terms of the instrument governing such Indebtedness whether on demand, at fixed maturity or maturity accelerated by reason of a default.

This is a guaranty of payment, not of collection, and Guarantors therefore agree that SKRECC shall not be obligated prior to seeking recourse against or receiving payment from Guarantors to do any of the following (although SKRECC may do so, in whole or in part, at its sole option), all of which are hereby unconditionally waived by Guarantors:

- (i) take any steps whatsoever to collect from Borrower or to file any claim of any kind against Borrower;
- (ii) take any steps whatsoever to accept, perfect SKRECC's interest in, foreclose or realize on collateral security, if any, for the payment of the Indebtedness, or on any other guaranty of the Indebtedness; or
- (iii) in any other respect exercise any diligence whatever in collecting or attempting to collect any of the Indebtedness by any means.

The liability of Guarantors for payment of the Indebtedness shall be absolute and unconditional, and nothing whatever except actual full payment to SKRECC of all the Indebtedness shall operate to discharge Guarantors' liability hereunder. Accordingly, Guarantors

unconditionally and irrevocably waive each and every defense which, under principles of guaranty or suretyship law, would otherwise operate to impair or diminish the liability of Guarantors. Without limiting the generality of the foregoing, Guarantors agree that none of the following shall diminish or impair the liability of Guarantors in any respect (all of which may be done without notice to Guarantors of any kind):

- (i) any extension, modification, indulgence, compromise, settlement or variation of the terms of any of the Indebtedness;
- (ii) the voluntary or involuntary discharge or release of any of the Indebtedness, or of any other person liable therefor, by reason of bankruptcy or insolvency laws or otherwise;
- (iii) the acceptance or release, with or without substitution, by SKRECC of any collateral security or other guaranty, or any settlement, compromise or extension with respect to any collateral security or other guaranty;
- (iv) the application or allocation by SKRECC of payments, collections or credits on any portion of the Indebtedness, regardless of what portion of the Indebtedness remains unpaid;
- (v) the creation of any new Indebtedness covered by this guaranty; or
- (vi) the making of a demand, or absence of demand, for payment of the Indebtedness or giving, or failing to give, any notice of dishonor or protest or any other notice.

Guarantors unconditionally waive:

- (i) any subrogation to the rights of SKRECC against Borrower, until all of the Indebtedness has been satisfied in full;
- (ii) any acceptance of this guaranty; and
- (iii) any set-offs or counterclaims against SKRECC which would otherwise impair SKRECC's rights against the Guarantors hereunder.

This guaranty shall inure to the benefit of SKRECC, its successors and assigns, including each and every holder or owner of any of the Indebtedness guaranteed hereby and this guaranty shall be deemed a separate contract with each such holder and owner.

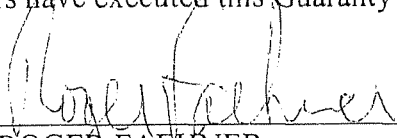
It is expressly understood and agreed that SKRECC may, at its sole option, release one or more Guarantors without impairing its rights against any other Guarantors, and may proceed against any one or more Guarantors hereunder without impairing the liability, which shall be absolute, of the remaining Guarantors. Guarantors consent to personal jurisdiction in any court in which enforcement of this guaranty may be sought.

No invalidity, irregularity or unenforceability of all or any part of the Indebtedness hereby guaranteed or of any security therefor shall affect, impair or be a defense to this guaranty, and this guaranty is a primary obligation of Guarantors.

No amendment, modification or waiver shall be deemed to be made by SKRECC unless in a writing signed by an officer of SKRECC. No waiver by SKRECC shall be construed or deemed to be a waiver of any other provision or condition of this guaranty or a waiver of a subsequent breach of the same provision or condition.

This guaranty, and all rights and obligations hereunder, including matters of construction, validity and performance, shall be governed by the laws of the Commonwealth of Kentucky.


IN WITNESS WHEREOF, Guarantors have executed this Guaranty Agreement, as of this 10th day of April, 2005.



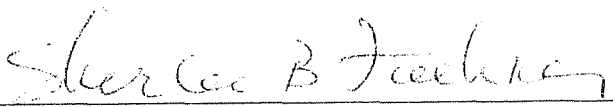
ROGER FAEHNER



JEANETTE FAEHNER



FRED A. FAEHNER



SHIRLEE B. FAEHNER

Security Agreement

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Debtor(s): P.J. Murphy Forest Products Corp.	County and State Wayne County, Kentucky
Debtor's Address: Box 300 Montville, New Jersey 07045	Secured Party: South Kentucky Rural Electric Cooperative Corporation P.O. Box 910 Somerset, KY 42502-0910

In this Security Agreement, the words, YOU, YOUR and YOURS mean each Debtor who has signed below If this box is checked, you are signing this Security Agreement on behalf of **P.J. Murphy Forest Products Corp.** ("Borrower") and the words YOU, YOUR and YOURS also mean the Borrower. The words, WE, OUR and OURS mean **South Kentucky Rural Electric Cooperative Corporation** ("Lender")

Security Interest: You grant to us a security interest in the property described below (also called the "Collateral") together with all proceeds replacements, and accessions:

All equipment whether now owned or acquired later, including, but not limited to, all machinery, vehicles, furniture, fixtures, manufacturing equipment, farm machinery and equipment, shop equipment, office and record keeping equipment and parts and tools and including, but not limited to, all items listed on Exhibit A attached hereto and made a part hereof by reference; as well as all accessions, additions, replacements and substitutions relating to any of the foregoing, all records of any kind relating to any of the foregoing, and all proceeds relating to any of the foregoing including, but not limited to, insurance, general intangibles and accounts and proceeds.

Debts Secured: The security interest will secure the payment of a promissory note dated 4-10-05 in the amount of **\$250,000.00** and unless this security interest in your home, all other present and future debts to us. Each of the debts described in this paragraph is also called a "Debt".

Ownership of Collateral: You promise that you own the collateral and that no one else has any interest in it or claim against it. You agree that you will not sell, lease or gave it as collateral to anyone else without our written permission

Use of Collateral: The collateral will be kept at your address or at **Wayne County, Kentucky**. You promise to keep the Collateral in good repair and to replace all worn or broken parts. You will not give possession of the Collateral to anyone else without our written permission. You will not use the collateral in violation of any local, state or federal law, and you will promptly pay all taxes due on it. If you change your address or the location where the collateral is kept, you must notify us in writing at least ten (10) days beforehand, You will not remove the property from the continental United States without our prior written permission.

Insurance: You must keep the Collateral fully insured against loss or damage on terms which are acceptable to us, written by an insurer which is acceptable to us. If we require you to carry additional coverage, you will do so. If you fail to carry acceptable insurance, we may get it for you and charge you for the premium together with interest on the amount at the highest rate allowed by law. You will name us as a loss payee and beneficiary of the proceeds and assign to us any unearned premiums from any insurance policies on the Collateral. We may apply such proceeds, including any return of unearned premiums and payments for claims under the policy, to any Debt. You appoint us your attorney-in-fact to submit insurance claims for you and sign your name to any drafts obtained from insurance companies.

Default: You will be in default if: You do not make a payment when due or you do not fully repay any debt; or you break any promises you have made to us in this agreement or in connection with any Debt; or you die, file bankruptcy, or become insolvent, or the Collateral is lost, damaged, stolen, or destroyed; or you fail to maintain required insurance, or we feel your ability to repay is impaired. If any of these happens, we may ask for addition collateral or required you to pay the unpaid balance of this loan at one without giving you advance notice.

Repossession: If there is a default, you will deliver the Collateral to us upon request, or we can take the Collateral without permission. We may enter any premises where the Collateral may be, so long as we do it peacefully. Any accessories or equipment will remain with the Collateral. Any other personal belongings in the Collateral will be taken and we will hold then for you for ten (10) days. If you have not claimed such belongings at the end of ten (10) days, we may sell them or store then and charge you for the costs. Upon repossession, we may cancel any insurance on the Collateral and receive all refunds of all unearned premiums. We may sell the Collateral at a public or private sale and apply the proceeds, after first deducting the costs of repossession and sale, court costs, and reasonable attorney's fees, to any Debt. We will have all the rights of a Secured Party under the Kentucky Uniform Commercial Code.

No Waiver of Rights: We may delay enforcing any of our rights under this agreement any number of times without losing them. We can enforce this agreement against you heirs and legal representatives. If we agree to change the terms of any Debts, you agree that this security interest will continue to protect us.

Law that applies: This agreement will be governed by Kentucky law. If any provisions of this agreement violates the law and is unenforceable, the rest of the agreement will be valid.

Signed by the Secured Parties and Debtor(s) on the 10th day of April, in the year 2005.

By: Allen Anderson
(Secured Party) SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION

P. J. MURPHY FOREST PRODUCTS CORP.
[Signature]
[Signature]
(Debtors)

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JCC FINANCING STATEMENT

FOLLOW INSTRUCTIONS (front and back) CAREFULLY

A NAME & PHONE OF CONTACT AT FILER [optional]
Jeff Greer

B SEND ACKNOWLEDGMENT TO: (Name and Address)

**South Kentucky Rural Electric Cooperative Corporation
P.O. Box 910
Somerset, KY 42502
Attention: Jeff Greer**

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

1 DEBTOR'S EXACT FULL LEGAL NAME - insert only one debtor name (1a or 1b) - do not abbreviate or combine names

1a ORGANIZATION'S NAME
P.J. Murphy Forest Products Corp.

OR 1b INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

1c MAILING ADDRESS CITY STATE POSTAL CODE COUNTRY
P.O. Box 300 Montville NJ 07045

1d SEE INSTRUCTIONS ADD'L INFO RE ORGANIZATION DEBTOR 1e TYPE OF ORGANIZATION 1f JURISDICTION OF ORGANIZATION 1g ORGANIZATIONAL ID #, if any NONE
Corporation New Jersey

2 ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - insert only one debtor name (2a or 2b) - do not abbreviate or combine names

2a ORGANIZATION'S NAME

OR 2b INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

c MAILING ADDRESS CITY STATE POSTAL CODE COUNTRY

2d SEE INSTRUCTIONS ADD'L INFO RE ORGANIZATION DEBTOR 2e TYPE OF ORGANIZATION 2f JURISDICTION OF ORGANIZATION 2g ORGANIZATIONAL ID #, if any NONE

3 SECURED PARTY'S NAME (or NAME of TOTAL ASSIGNEE of ASSIGNOR S/P) - insert only one secured party name (3a or 3b)

3a ORGANIZATION'S NAME
South Kentucky Rural Electric Cooperative Corporation

OR 3b INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

3c MAILING ADDRESS CITY STATE POSTAL CODE COUNTRY
P.O. Box 910 Somerset KY 42502

4 This FINANCING STATEMENT covers the following collateral:

All equipment whether now owned or acquired later, including, but not limited to, all machinery, vehicles, furniture, fixtures, manufacturing equipment, farm machinery and equipment, shop equipment, office and record keeping equipment and parts and tools and including, but not limited to, all items listed on Exhibit A attached hereto and made a part hereof by reference; as well as all accessions, additions, replacements and substitutions relating to any of the foregoing, all records of any kind relating to any of the foregoing; and all proceeds relating to any of the foregoing; including, but not limited to, insurance, general intangibles and accounts and proceeds.

P.J. MURPHY FOREST PRODUCTS CORP.

BY: *[Signature]*
TITLE: *[Signature]*

5. ALTERNATIVE DESIGNATION [if applicable] LESSEE/LESSOR CONSIGNEE/CONSIGNOR BAILEE/BAILOR SELLER/BUYER AG LIEN NON-UCC FILING

This FINANCING STATEMENT is to be filed [for record] (or recorded) in the REAL ESTATE RECORDS Attach Addendum [if applicable] 7 Check to REQUEST SEARCH REPORT(S) on Debtor(s) [optional] All Debtors Debtor 1 Debtor 2

8 OPTIONAL FILER REFERENCE DATA

PROMISSORY NOTE

\$250,000.00

_____, 20__

For value received, South Kentucky Rural Electric Cooperative Corporation, a corporation duly organized and existing under the laws of the State of Kentucky, with a principal place of business in Pulaski County in the State of Kentucky, promises to pay to the order of the United States of America (the "Government"), at the times and in the manner hereinafter provided, the sum of Two Hundred Fifty Thousand Dollars and No Cents (\$250,000.00), without interest, in monthly installments of Two Thousand Three Hundred Fourteen Dollars and Eighty-Two Cents (\$2,314.82) on the last day of the month beginning **one (1)** after the date first written above and continuing on the last day of each month of each year thereafter until the principal sum stated above has been paid in full on or before the final maturity date of this note which shall be on the tenth anniversary of the date first written above. Maker shall have the right to prepay the obligation set forth in this note in whole or in part at any time without penalty; provided, however, that in the event of a partial prepayment, the maker shall be obligated to continue making regular and uninterrupted monthly payments for the amount and on the monthly payment date specified in this note so long as any portion of the loan remains unpaid.

Demand, presentment, protest, notice of protest, and notice of dishonor are hereby waived.

In the event of nonpayment when due of any payment due under this note or if an event of default occurs under the Rural Development Loan Agreement described below, and such nonpayment or event of default continues for a period of thirty (30) days, then at the option of the holder of this note, all of the amount then owing under this note shall immediately become due and payable. The failure to assert this right shall not be deemed a waiver.

So long as this note shall be held by the Government, the maker shall pay a late charge on any payment not made within ten (10) days of the date it becomes due as originally scheduled or otherwise. The late charge shall be computed on the payment from the due date at a rate equal to the rate of the current value of funds to the United States Treasury as prescribed and published by the Secretary of the Treasury in the Federal Register and the Treasury Fiscal Requirements Manual Bulletins annually or quarterly, as the case may be, in accordance with 31 U.S.C. Section 3713. In addition, maker shall pay administrative costs and penalty charges as the Government may now or hereafter prescribe pursuant to 4 CFR Section 102.13 (d) and (e), respectively. If this note is transferred by the Government, whether for collection or otherwise, any payment not paid within ten (10) days of the date it becomes due, as originally scheduled or otherwise, shall thereafter be subject to a late charge computed from the due date at a rate equal to the judgement rate prescribed by the state in which the borrower has its principal place of business. In such event the maker shall also pay the transferee for all reasonable costs and expenses of collection.

Amounts received on account of indebtedness evidenced by this note shall be applied as follows: first to expenses, costs and penalties; second to late charges; third to principal payments which are past due; and fourth to principal installments not yet due.

This note is given in accordance with, and is required by, the terms and conditions of a certain Rural Development Loan Agreement between the parties dated as of **October 25, 2004**, and evidences indebtedness created by a loan made by the Government pursuant to Section 313 of the Rural Electrification Act of 1936, as amended, for the purpose of promoting rural economic development and job creation projects. Accordingly, so long as this note is held by the Government, it shall be governed by and construed in accordance with the laws of the United States and the regulations that govern Section 313 of the Rural Electrification Act of 1936, as amended.

IN WITNESS WHEREOF the maker has caused this Note to be executed in its corporate name and its corporate seal to be hereunto affixed and attested by its duly authorized officers, all as of the day and year first above written.

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION

by: Allen Anderson
Allen Anderson, CEO

(SEAL)
Attest: Tom Estes
Secretary

Date: October 25, 2004

Amount: \$250,000.00

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RURAL DEVELOPMENT LOAN AGREEMENT

This Agreement dated as of the date first written above between South Kentucky Rural Electric Cooperative Corporation, a corporation duly organized and existing under the laws of the State of Kentucky (the "Borrower"), and the United States of America (the "Government") sets forth the terms and understandings between the Borrower and the Government regarding a loan (the "Loan") the Government is making to the Borrower pursuant to Section 313 of the Rural Electrification Act of 1936, as amended (the "Act") and 7 CFR Part 1703, Subpart B -- Rural Economic Development Loan and Grant Program (the "Regulations").

The Borrower has filed an application and supporting material (collectively, the "Application Materials") with the Government pursuant to 7 CFR Section 1703.34 requesting the Loan for promoting rural economic development.

The Government wishes to make the Loan to the Borrower from the Rural Economic Development Subaccount within the Rural Electrification and Telephone Revolving Fund pursuant to Section 313 of the Act to finance Approved Purposes for the rural development project (the "Project") more particularly described in the Letter of Agreement (the "Letter of Agreement") between the Government and the Borrower dated October 25, 2004.

NOW, THEREFORE, in consideration of the mutual agreements herein contained, the Government and the Borrower agree as follows:

1. Loan Terms

a. The Government shall lend Two Hundred Fifty Thousand Dollars and No Cents (\$250,000.00) to the Borrower and the Borrower shall lend the proceeds of the Loan to P.J. Murphy Forest Products Corporation (the "Ultimate Recipient") to be used solely to promote rural economic development as more particularly described in the Application Materials as those materials may have been modified by the Letter of Agreement.

b. The Government shall advance the proceeds of the Loan to the Borrower in one disbursement at the time and in the manner specified in the Letter of Agreement.

c. The Borrower shall repay the Loan in accordance with the note to be executed by the Borrower and made payable to the United States of America. The Borrower shall begin to repay the Loan on the date set forth in the note and shall continue paying without interruption until all indebtedness associated with the Loan has been repaid in full on or before the final maturity date of the note.

d. The Loan will not bear interest although indebtedness not paid when due will be subjected to late charges, costs, and other charges as provided in the note described below.

e. If the Borrower fails to satisfy all conditions, requirements, and terms prerequisite to the advance of the proceeds of the Loan from the Government to the Borrower as set forth in the Letter of Agreement and this Agreement within 120 days of the Borrower's acceptance of the terms and conditions of the Letter of Agreement, or such later date as the Government may approve in writing in furtherance of the purposes of the Act, the Loan commitment shall be considered rescinded.

2. Affirmative Covenants

a. The Borrower shall execute and deliver its promissory note (the "Note") to the Government in the form attached hereto in order to evidence its obligation to repay the Loan by the terms of this Agreement, the Letter of Agreement, and the Note. The Borrower shall pay all indebtedness evidenced by the Note in the manner and at the times described therein.

b. The Borrower shall promptly use the proceeds of the Loan only in the manner and exclusively for the purposes set forth in the Application Materials as previously approved by the Government and in accordance with the Letter of Agreement, this Agreement, and the Regulations (as they may be amended from time to time). No changes may be made in the foregoing without the prior written approval of the Government. Until disbursed by the Borrower for authorized Loan purposes, the Borrower shall deposit the Loan proceeds in a separate bank account which is fully insured by the Federal Deposit Insurance Corporation.

c. The Borrower shall return to the Government as a prepayment on the Note all proceeds of the Loan which have not been re-lent or disbursed by the Borrower for authorized Loan purposes during the six months following the advance of the proceeds of the Loan from the Government to the Borrower, or such later date as the Government may approve in writing in furtherance of the purposes of the Act. The Borrower shall also return to the Government all interest earned on the undisbursed Loan proceeds.

If the Project is under the control of the Borrower, the Borrower shall return to the Government as a prepayment on the Note all proceeds of the Loan which have not been expended by the Borrower for authorized Loan purposes before the first anniversary of the date of the advance of the proceeds of the Loan from the Government to the Borrower, or such later date as the Government may approve in writing in furtherance of the purposes of the Act. The Borrower shall also return to the Government all interest earned on the undisbursed Loan proceeds.

d. The Borrower shall make all payments on the Note by using an automated clearing house (ACH) system or, if notified by the Government in writing to do so, any other reasonable method of payment specified by the Government. Specific instructions for using ACH will be provided by the Government prior to the first scheduled payment.

e. If the Application Materials described a Project that will be funded, developed, owned, leased, managed or operated by other participants, the Borrower shall use its best efforts to cause such participants to abide by their commitments to the Project and to the completion of the transactions contemplated in the Application Materials, this Agreement, and the Letter of Agreement.

f. The Borrower shall maintain a certified list of expenditures and attachments as described in this section at its premises for review by Government representatives, auditors or others conducting a review or audit of the Borrower and the expenditure of the proceeds of the Loan. The Borrower shall also submit a duplicate certified list of expenditures and attachments as described in this section to the Government for its files.

The Borrower shall (i) require the Ultimate Recipient to provide an itemized list to the Borrower that shows the expenditures made on the Project for Approved Purposes using the proceeds of the Loan and include a certification on this list to the effect "I certify that the proceeds of the rural economic development loan from South Kentucky Rural Electric Cooperative Corporation were expended on approved purposes as shown on this list and the attached invoices, receipts, bills of sale, and other evidence represent items shown on this list" and (ii) require the Ultimate Recipient to attach the invoices, receipts, bills of sale, and other evidence representing the items shown on the list to the certification. The Borrower shall require in its agreement with the Ultimate Recipient that the invoices, receipts, bills of sale, and other evidence must at least total the amount of funds that have been provided to the Ultimate Recipient using the proceeds of the Loan; the certified list must be provided upon completion of the Project or by the first anniversary of the date of the advance of funds to the Ultimate Recipient, whichever occurs first; if all funds have not been expended by the first anniversary, the Ultimate Recipient must provide to the Borrower a certified list of current expenditures and a statement of its intended expenditure schedule; and, upon completion of the Project, the Ultimate Recipient must provide to the Borrower a final certified list of the expenditures including the attachments.

The Borrower shall require the Ultimate Recipient to expend the Borrower's loan funds which were provided from the proceeds of the Loan by the second anniversary of the date of the advance of funds to the Ultimate Recipient, or by such later date as the Government may approve in writing in furtherance of the purposes of the Act. The Borrower shall require the Ultimate Recipient to return to the Borrower all funds it provided to the Ultimate Recipient from the proceeds of the Loan that have not been expended by the second anniversary of the date of the advance of funds to the Ultimate Recipient, or by such later date as the Government has approved. The Borrower shall return as a prepayment on the Note all unexpended funds that the Ultimate Recipient returns to the Borrower under the terms of the Borrower's agreement.

g. The Borrower shall permit Government officials to inspect and copy its records about the Project during regular business hours. If the Project is under the control of the Borrower, representatives of the Government may inspect the Project itself during regular business hours. If the Project is developed, owned, leased, managed or operated by others, the Borrower shall use its best efforts to obtain from third parties such permission as may be necessary to permit Government representatives to inspect the Project and related records from time to time during regular business hours.

h. Unless otherwise approved in writing by the Government, the Borrower shall promptly remit to the Government any principal payments made by the Ultimate Recipient on its note to the Borrower in excess of the Ultimate Recipient's regularly scheduled payment, including any lump sum amount the Borrower receives as partial or full prepayment of principal.

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i. The Borrower shall diligently monitor performance of the Ultimate Recipient to ensure that objectives as proposed in the Application Materials are being achieved. Beginning one year from the date of advance of loan proceeds to the Ultimate Recipient and concluding three years from the date of advance or upon completion of the Project as proposed in the Application Materials, whichever date occurs later, the Borrower shall submit a project performance report to the Government on an annual basis. The project performance report shall describe (1) the actual accomplishments of the Project, setting forth the number and types of jobs created and retained; (2) the impact of the Project on the economy and quality of life of the rural community; (3) reasons why any projections or objectives as proposed in the Application Materials were not met, and (4) any problems, delays, or adverse conditions which have occurred, or are anticipated, which may affect the attainment of overall objectives of the Project. This disclosure shall be accompanied by a statement of the action taken or planned to resolve the delays, problems or adverse conditions. Upon completion of the Project or three years from the date of advance, whichever occurs later, the Borrower shall provide a final written performance report, accompanied by color photographs, including negatives or slides, documenting the overall accomplishments of the Project.

j. The Borrower shall immediately notify the Government in writing of any occurrence by the Ultimate Recipient which results in the discontinuance of payment by the Ultimate Recipient on its note to the Borrower, the closure of operations of the Ultimate Recipient, the transfer of operations by the Ultimate Recipient from the original project site described in the Application Materials, or the institution of bankruptcy proceedings involving the Ultimate Recipient.

k. The Borrower shall comply with the Regulations, as they may be amended from time to time, including, without limitation, any federal regulations or federal statutes which the Regulations identify as being applicable to activities contemplated by the Application Materials or this Agreement.

l. So long as the Borrower remains obligated to the Government under the terms of any financial assistance previously or subsequently extended under the Act, the Borrower shall fully perform all obligations to the Government which the Borrower has undertaken concerning such assistance.

m. Before the Borrower repays all of the Borrower's indebtedness to the Rural Utilities Service (RUS) and all of the Borrower's indebtedness, if any, to the Rural Telephone Bank (RTB), or their respective successors, covering electric or telephone/telecommunications program financing under the Act, whether such total repayment occurs from a prepayment of loan payments or scheduled loan payments, or if the Borrower repaid all of the Borrower's indebtedness to RUS and all of the Borrower's indebtedness, if any, to RTB, or their respective successors, covering electric or telephone/telecommunications program financing under the Act, whether such total repayment occurs from a prepayment of loan payments or scheduled loan payments, prior to the

Borrower's execution of this Agreement then prior to the advance of any proceeds of the Loan from the Government to the Borrower, the Borrower must (i) inform the Rural Business-Cooperative Service (RBS), or its successor, in writing of the anticipated repayment, (ii) obtain RBS approval of the type and form of adequate security for the Loan and any other rural development loan made in accordance with Section 313 of the Act, and (iii) provide legally executed and binding security to RBS for the Loan and any other rural development loan made in accordance with Section 313 of the Act before the security instruments or documents that secured the Borrower's RUS and/or RTB indebtedness are cancelled or modified in connection with the full repayment of the Borrower's RUS and/or RTB indebtedness. RBS will determine the type and nature of the security that is necessary in accordance with this subsection, such as an irrevocable letter of credit or other form of guarantee made payable to RBS. In addition to requiring adequate security from the Borrower, RBS may require additional reporting, servicing, and monitoring requirements in connection with the full repayment of the Borrower's RUS and/or RTB indebtedness.

n. The Borrower will not condition the receipt of a loan made from the proceeds of the Loan with the requirement that the Ultimate Recipient take electric or telecommunications service from the Borrower or any other specific utility.

3. Negative Covenant

The Borrower shall not enter into or request the Government to approve any agreements which would permit third parties to fund, develop, manage, own, lease or operate the Project in a manner that would violate the Regulations, this Agreement, or the Letter of Agreement if the Borrower were to undertake such activity in its own name.

Representations and Warranties

The Borrower represents and warrants that on and as of the date first set forth above:

a. The Borrower has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Kentucky with the corporate power and authority to perform its obligations under this Agreement, the Letter of Agreement, the Note, and the Regulations.

b. This Agreement, the Letter of Agreement and the Note have been duly authorized, executed and delivered by the Borrower and such documents constitute the legal and binding agreements of the Borrower, enforceable against the Borrower in accordance with their respective terms, subject to (i) applicable bankruptcy, reorganization, insolvency, moratorium and other laws of general application relating to or affecting creditors' rights generally and (ii) the application of general principles of equity regardless of whether such enforceability is considered in a proceeding in equity or at law.

c. The execution or the delivery by the Borrower of this Agreement, the Letter of Agreement, and the Note; the consummation of the transactions contemplated herein or therein; and the fulfillment by the Borrower of the terms hereof or thereof, do not conflict with or violate, result in a breach of or constitute a default under any term or provision of the articles of incorporation or by-laws of the Borrower or any law or regulation or any order now applicable to the Borrower of any court, regulatory body having jurisdiction over the Borrower, or the terms of any indenture, deed of trust, mortgage, note, note agreement or instrument to which the Borrower or any of its properties is bound. The Borrower has not received any notice from any other party to any of the foregoing that a default has occurred or that any event or condition exists that with the giving of notice or lapse of time or both would constitute such a default.

d. No approval, authorization, consent, order, registration, filing, qualification, license or permit of or with any state or Federal court or governmental agency or body having jurisdiction over the Borrower is required by the Borrower for the consummation by the Borrower of the transactions contemplated by this Agreement, the Letter of Agreement, and the Note except such as have been obtained.

e. There is no pending or threatened action, suit or proceeding before any court or governmental agency, authority or body or any arbitrator concerning the Borrower, this Agreement, the Letter of Agreement, or the Note which, if adversely determined, would have a material adverse effect on the Borrower's ability to perform its obligations under this Agreement, the Letter of Agreement, or the Note.

f. All information, reports and other papers and data furnished to the Government by the Borrower concerning the application of the Borrower for the Loan were, at the time the same were so furnished, complete and correct in all material respects to the extent necessary to give the Government a true and accurate knowledge of the subject matter and no document furnished or other written statement made to the Government in connection with the Loan contains any untrue statement of a fact material to the financial condition of the Borrower or the Project or omits to state such a material fact necessary in order to make the statements contained therein not misleading.

g. The Borrower has reviewed the Regulations and understands and accepts the requirements which the Regulations impose upon it.

h. The Borrower does not expect or intend the Project to result primarily in the transfer of any existing employment or business activity from one area to another.

5. Default

a. Upon the occurrence of an event of default as defined in this Agreement, the holder of the Note may declare all or any portion of the indebtedness arising under this Agreement, including indebtedness evidenced by the Note, to be immediately due and payable and may proceed to enforce its rights under this Agreement, the Letter of Agreement, and the Note.

b. As used in this Agreement, the term "event of default" shall mean the occurrence of any of the following:

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- 1) any principal installment is not paid within thirty (30) days of the date which it is required to be made, whether by acceleration or not;
- 2) failure, inability or unwillingness of the Borrower to carry out or comply with, or cause to be carried out or complied with, the specific undertakings described in the Application Materials as approved by the Government in the Letter of Agreement;
- 3) any representation or warranty made by the Borrower herein, in the Application Materials, in the Letter of Agreement or in any certificate or report furnished by or on behalf of the Borrower about any of the foregoing shall prove to be false, incomplete or incorrect in any material respect;
- 4) default shall be made in the due observance or performance of any of the covenants, conditions or agreements of the Borrower, and such default shall continue for thirty (30) days after written notice specifying such default and requiring the same to be remedied shall have been given to the Borrower by the holder of the Note;
- 5) an event of default shall have occurred and be continuing under any mortgage of the Borrower which secures any form of financial assistance heretofore or hereafter furnished to the Borrower by the Government;
- 6) commencement of a case in bankruptcy by or against the Borrower;
- 7) application for appointment of a receiver for, making a general assignment for the benefit of creditors by, or insolvency of the Borrower; or
- 8) violation of the Regulations in any material respect, by officers, directors, employees or agents of the Borrower, and such violation shall continue for a period of thirty (30) days without being rectified to the satisfaction of the Government after written notice specifying such default and requiring the same to be rectified has been given by the Government to the Borrower.

6. Miscellaneous

a. Every right or remedy herein conferred upon or reserved to the holder of the Note shall be cumulative and shall be in addition to every other right and remedy now or hereafter existing at law or in equity, or by statute or regulation.

b. The invalidity of any one or more phrases, clauses, sentences, paragraphs or provisions of this Agreement shall not affect the remaining portions hereof.

c. In the event that the Government shall sell the Note to an insured purchaser as provided in the Act, the Government, and not the insured purchaser, shall be considered to be, and shall have the rights of, the holder of the Note for purposes of this Agreement.

d. This Loan Agreement is entered into between the parties concerning a zero interest loan which the Government is making to the Borrower pursuant to Section 313 of the Rural Electrification Act of 1936, as amended, to promote rural economic development and job creation projects. Accordingly, so long as the Government shall, under the terms of this Agreement, be the holder of the Note, this Agreement, the Letter of Agreement and the Note shall each be governed by and construed in accordance with the laws of the United States and the regulations that govern Section 313 of the Rural Electrification Act of 1936, as amended.

IN WITNESS WHEREOF, South Kentucky Rural Electric Cooperative Corporation, as Borrower, has caused this Loan Agreement to be signed in its name and its corporate seal to be hereunto affixed and attested by its duly authorized officers thereunto, and the United States of America has caused this Loan Agreement to be duly executed in its behalf, all as of the day and year first written above.

SOUTH KENTUCKY RURAL ELECTRIC
COOPERATIVE CORPORATION

by: Allen Anderson
Allen Anderson, CEO

(SEAL)

Attest:

Tom Eto
Secretary

United States of America

by: Kenneth Slone
KENNETH SLONE
State Director
Rural Development

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

7. Refer to the Application, Exhibit N, page 11 of 15. Item 4 states that in 2001 South Kentucky discontinued the purchase of installment sales contracts. However, the "Member Financing" section of South Kentucky's Web site appears to indicate this program is still active.

a. Explain the apparent disagreement between the auditor's report and the Web site.

Response

South Kentucky discontinued to purchase and service the installment sales contracts in 2001. Since that time the existing loans have been serviced.

The local retailers and two local banks now finance the installment purchases that South Kentucky discontinued.

b. Explain the operation of the financing partnership shown in the Member Financing section of South Kentucky's Web site. Include all terms, conditions, and other details of the program.

Response

The local banks provide the terms, conditions, and other details of the program. South Kentucky is only using the Web page as a referral for members to be able to obtain financing for purchases of appliances.

South Kentucky does not get involved in the purchase or financing of appliances or equipment.

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

8. Refer to the Application, Exhibit N, page 12 of 15. Provide the status of a \$26,628,000 pending loan with the Rural Utilities Service ("RUS") as of April 30, 2006

Response

The loan with RUS has been approved. As of April 30, 2006 the following advances have been made against this loan:

<u>Date</u>	<u>Amount</u>
11/30-05	\$6,000,000
04/30-06	\$4,000,000

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

9. Refer to the Application, Exhibit N, page 14 of 15. Why are postretirement benefits not funded?

Response

South Kentucky has provided health insurance coverage for retirees for many years, even prior to the Financial Accounting Standards Board requiring companies to record the liability. It has been South Kentucky's policy to pay for the health insurance premiums from general funds as the premiums came due. Recording the liability in 1996 did not change the policy for paying the premiums from general funds as they come due.

South Kentucky has no plans to start funding this liability.

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

10. Refer to the Application, Exhibit N, page 15 of 15.

a. The auditor's report discloses that during the test year South Kentucky purchased \$76,482 in products from businesses owned by members of its Board of Directors. Provide a schedule detailing all the transactions that make up the \$76,482 expenditure. For each transaction show the date of the transaction, invoice or other reference number, check number, the vendor name, the name of the board member associated with the transaction, the amount of the transaction, and a description of the transaction.

Response

Attached as pages 3 and 4 of this response.

b. Explain in detail why South Kentucky decided to make these purchases from businesses owned by members of its Board of Directors.

Response

South Kentucky has never felt obligated to purchase goods or services from Directors or employees. South Kentucky looks for the best deal including price and service. Likewise, it has never felt it was wrong to purchase goods or services from a Director if it was an advantage either in price, service or value to members. In fact, not buying from the source having the best value would be more incorrect than being concerned only with relationships.

c. During the test year, did South Kentucky purchase goods or services from businesses owned (in total or in partnership) or operated by members of its Board of Directors or their immediate families, beyond the transactions disclosed in the auditor's report? If yes, provide the same information for these purchases as requested in part (a) above. For purposes of the question, immediate family means the parents, sibling, or children of a member of the Board of Directors.

Response

Yes. South Kentucky purchased 1.85 acres of land from Kent Shearer, son of William J. Shearer.

	<u>Date</u>	<u>Check Number</u>	<u>Amount</u>
1.85 acres of land	12/03-04	111416	\$35,000.00

d. State whether comparable goods or services were available from other vendors at similar prices.

Response

Whitley City Carquest was the low bid for auto parts.

South Kentucky tried various cellular providers in all of its service territory. Cellular One was by far the best coverage. South Kentucky elected to use them, and Richard Stephens was the agent in the area.

The candy and jewelry could have been purchased at other places, however, it was more convenient to purchase from these vendors.

The clock sets made ideal gifts, these were readily available from Clinton Jewelers.

The state of Kentucky took part of the Albany land South Kentucky owned to straighten Hwy 127, as a result there was not enough land to construct the Albany District office. Kent Shearer owned all the land surrounding that property, as a result South Kentucky was required to purchase the land from William Shearer's son. The Albany lot was land locked with not enough area to construct the Albany District Office after the state claimed additional road frontage to straighten Highway 127.

e. For each transaction listed in the response to parts (a) and (c) above, provide documentation showing that South Kentucky paid no more for these goods and services than it would have been charged by another vendor.

Response

Attached is the bid for auto parts and the appraisal for the land in Albany.

f. During the test year, did South Kentucky incur any property taxes, insurance expenses, maintenance expenses, real estate fees, or other expenses associated with assets that had been acquired by South Kentucky from businesses owned by (in total or in partnership) or operated by members of its Board of Directors or their immediate families? For purposes of this question, immediate family means the same individuals as stated in part (c) above, and assets mean land, buildings, furniture, fixtures, office equipment, vehicles, or other construction equipment. If yes, provide the following regarding the asset that generated the associated expenses:

Response

No

Witness: Allen Anderson

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

a. The auditor's report discloses that during the test year South Kentucky purchased \$76,482 in products from businesses owned by members of its Board of Directors. Provide a schedule detailing all the transactions that make up the \$76,482 expenditure. For each transaction show the date of the transaction, invoice or other reference number, check number, the vendor name, the name of the board member associated with the transaction, the amount of the transaction, and a description of the transaction.

<u>Date</u>	<u>Check Number</u>	<u>Amount</u>	<u>Description</u>
Whitley City Carquest			
Richard Stephens, 22% owner			
09/16-04	110001	5,983.62	Various auto parts
10/15-04	110494	11,660.61	Various auto parts
11/11-04	111067	4,134.55	Various auto parts
12/09-04	111567	3,975.85	Various auto parts
01/13-05	112111	7,331.23	Various auto parts
02/10-05	112535	4,212.03	Various auto parts
03/10-05	113015	2,492.56	Various auto parts
04/14-05	113561	3,763.51	Various auto parts
05/12-05	114024	1,173.69	Various auto parts
06/16-05	114616	6,666.17	Various auto parts
07/14-05	115145	5,998.07	Various auto parts
08/11-05	115648	2,744.01	Various auto parts
09/08-05	116119	3,113.39	Various auto parts
		63,249.29	

Stephens Properties, Inc.
Richard Stephens, 20% owner

09/02-04	109694	25.00	Nokia antenna
09/16-04	109987	275.60	2 phones and accessories
11/11-04	111037	2.10	2 CB mike clips
12/09-04	111540	159.00	10 cell phone batteries
02/10-05	112515	5.30	Antenna attachment
		467.00	

Hometown Cellular
Richard Stephens, 20% owner

06/02-05	114300	449.44	Blackberry phone
07/14-05	115182	1,335.60	16 phones and accessories
07/14-05	115182	3,605.05	94 phones and chargers
07/14-05	115182	1,335.60	90 phone cases
07/14-05	115182	80.56	2 clips, chargers and antenna
08/11-05	115643	76.32	6 phone chargers
08/11-05	115643	62.54	Bluetooth headset
09/08-05	116112	59.36	2 phones and chargers

7,004.47

70,720.76

Dollar Discount
Jerry Purcell

09/02-04	109709	797.65	Ten (10) cases Dum Dum Pops
10/07-04	110305	113.97	Two (2) cases Tootsie Rolls
10/21-04	110633	1,250.12	One (1) pallet candy
02/03-05	112383	1,196.48	Fifteen (15) cases Dum Dum Pops
06/16-05	114615	1,431.00	Eighteen (18) cases Dum Dum Pops

4,789.22

Clinton Jewelers
Charles Gore

12/02-04	111357	85.00	Clock
12/09-04	111582	172.65	Clock and tie tacs
06/23-05	114768	715.00	Clock sets

972.65

Total 76,482.63



Allen Anderson, Head Coach & CEO

925-929 North Main Street
Post Office Box 910
Somerset, KY 42502-0910
Telephone 606-678-4121
Toll Free 800-264-5112
Fax 606-679-8279
www.skrc.com

March 18, 2005

Ms. Ginny Smith
Kentucky Public Service Commission
Post Office Box 615
Frankfort, Kentucky 40602-0615

Ginny:

The following are companies that were sent letters inviting them to bid on automotive parts and related services for South Kentucky RECC:

Gerald's Auto Parts
5615 N HWY 27
Science Hill, KY 42553

Somerset Automotive, Inc.
516 Ogden ST
Somerset, KY 42501

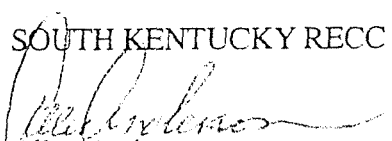
South 27 Auto Parts
1651 S HWY 27
Somerset, KY 42501

Whitley City Car Quest
The Oaks / Suite 12
Whitley City, KY 42653

Also, enclosed for your information, is the letter that was sent to each of these companies.

If you need additional information, please let me know.

Sincerely,

SOUTH KENTUCKY RECC

Allen Anderson
CEO

To place a bid you need to provide the following services to South Kentucky RECC.

1. You will not have any core charges on the invoices (you can show the core charge, but it needs to be zero cost on it).
2. We would need a road salesman to call on us each day whether we need parts or not and this person needs to have knowledge in light and heavy duty truck parts.
3. We will need after hours phone numbers so we can have someone to get us parts after hours (i.e. nights, weekends and holidays).
4. There will be no freight charges unless we specify to get a part next day UPS or next day air.
5. Need to stock the parts that we use all the time so that we do not have to keep a large inventory (i.e. filters, belts, batteries, lights, wiper blades, brake disc pads, and etc).
6. There shall not be any restocking charges on anything that is returned for credit even if it was a special order.
7. We will sometimes need parts delivered several times in one day and then other days we will not need any.
8. You will need to put in a complete parts book system and rack just like the one that is in the parts stores so that we can look up part numbers.
9. Need to provide battery racks, hose racks, windshield wiper racks and other racks as needed at no cost.
10. Need to provide customer with quick reference parts listing books per coop unit number which includes belts, hoses, and filters by the part number.
11. Need to be hooked to the store via link net so that we can look up parts, do price checks, check availability, and order parts from our computer. If the part is not in stock at the local store then it will show where it is available at and order from there and ship direct to the local store.
12. All parts needs to be bid in the premium line only, because we need the best parts available not the cheapest ones.
13. To bid on the hydraulic hose and fitting you will have to be able to supply Gates hose and fittings we will not consider the bid for any other brand. This is the best brand that we have used and do not want to change to anything else and we have the crimping machines for the brand also.
14. Must be able to provide heavy duty truck parts, because 80% of our parts are heavy duty truck parts. Example is FL 80 Freightliners and 4300-4400 Internationals.
15. **Need to give a complete price list on Gates 2-wire hydraulic hose all sizes and all sizes of the crimp-on ends.**



Allen Anderson, Head Coach & CEO

925-929 North Main Street
Post Office Box 910
Somerset, KY 42502-0910
Telephone 606-678-4121
Toll Free 800-264-5112
Fax 606-679-8279
www.skrecc.com

March 18, 2005

Gerald's Auto Parts
5615 North Highway 27
Science Hill, Kentucky 42553

Gentlemen:

SUBJECT: Automotive Parts and Related Services

South Kentucky RECC invites you to share price quotes on our more commonly purchased auto parts and share any value added services or equipment you are willing to provide to us if you were our primary parts provider.

Attached hereto is a list of parts most commonly used by South Kentucky RECC. If you are interested in providing parts or services to South Kentucky RECC, we ask that you please indicate your best price for each of those items. Additionally, at the end of the attachment is an area for added value services or equipment that you can provide to South Kentucky RECC. It is our expectation to always get prompt delivery. We leave it to your discretion to advise what these value added services or equipment may be.

Please return this letter with prices and services by April 15, 2005, if you have any interest in serving our account.

We are committed in getting the best value available in all our purchased items, which helps us in providing a reliable source of electricity at competitive rates. Your assistance will further these purposes.

If I may answer any questions regarding the above or any of the parts as listed on the exhibit attached hereto, please contact me.

Sincerely,

SOUTH KENTUCKY RECC

Eddie Dye
Eddie Dye
Transportation Team Leader

k:Automotive PartsLetter.ed

PARTS BID LIST

Part Number	Description	Brand	Price Excluding Tax
26013495	Actuator Motor	GM	
26060073	Actuator Motor	GM	
286617X	Air Compressor	Bendix	
5004613X	Air Compressor	Bendix	
71-8079	Alternator	CQ	
71-81167-X	Alternator		
13-3108	Alternator		
2474-72	Battery	CQ	
AG58-60	Battery	CQ	
65-70	Battery	CQ	
75-70	Battery	CQ	
31HDS30	Battery	CQ	
MTP-78DT	Battery	Interstate	
31PMHD	Battery	Interstate	
75/35 Optima	Gel-Battery	CQ	
D31A Optima	Gel-Battery	CQ	
D34 Optima	Gel-Battery	CQ	
BX83	Belt	Gates	
K080560	Belt	Gates	
K050420	Belt	Gates	
K050435	Belt	Gates	
K060470	Belt	Gates	
K060495	Belt	Gates	
K060507	Belt	Gates	
K060685	Belt	Gates	
K060710	Belt	Gates	
K060870	Belt	Gates	
K060895	Belt	Gates	
K060910	Belt	Gates	
K060935	Belt	Gates	
K060945	Belt	Gates	
K060947	Belt	Gates	
K060956	Belt	Gates	
K060960	Belt	Gates	
K060975	Belt	Gates	
K060980	Belt	Gates	
K060988	Belt	Gates	
K061000	Belt	Gates	
K061010	Belt	Gates	
K061020	Belt	Gates	
K061105	Belt	Gates	
K061115	Belt	Gates	
K061120	Belt	Gates	
K070975	Belt	Gates	
K071150	Belt	Gates	

K081189	Belt	Gates
7320	Belt	Gates
7350	Belt	Gates
7395	Belt	Gates
7417	Belt	Gates
7450	Belt	Gates
7500	Belt	Gates
7555	Belt	Gates
7612	Belt	Gates
9412	Belt	Gates
9580	Belt	Gates
9600	Belt	Gates
9630	Belt	Gates
9650	Belt	Gates
9670	Belt	Gates
9690	Belt	Gates
9700	Belt	Gates
9755	Belt	Gates
18-8046	Brake Caliper	CQ
18-8047	Brake Caliper	CQ
GCD477	Brake Disc Pad	CQ
GCD697	Brake Disc Pad	CQ
GCD785	Brake Disc Pad	CQ
GMD842	Brake Disc Pad	CQ
GMD777F	Brake Disc Pad	CQ
GCD632	Brake Disc Pad	CQ
GCD711	Brake Disc Pad	CQ
GCD757	Brake Disc Pad	CQ
GCD792	Brake Disc Pad	CQ
GMD833	Brake Disc Pad	CQ
GMD784F	Brake Disc Pad	CQ
GMD792F	Brake Disc Pad	CQ
54077	Brake Rotor	CQ
54064	Brake Rotor	CQ
54094	Brake Rotor	CQ
F8122C026AA	Brake Rotor	Ford
87098	Filter	CQ
87253	Filter	CQ
87276	Filter	CQ
87321	Filter	CQ
87484	Filter	CQ
87487	Filter	CQ
87522	Filter	CQ
87648	Filter	CQ
87725	Filter	CQ
87731	Filter	CQ
88059	Filter	CQ
88077	Filter	CQ
88147	Filter	CQ
88406	Filter	CQ

88417	Filter	CQ
88418	Filter	CQ
88433	Filter	CQ
88440	Filter	CQ
88484	Filter	CQ
88678	Filter	CQ
88744	Filter	CQ
88870	Filter	CQ
89073	Filter	CQ
86231	Filter	CQ
86357	Filter	CQ
86358	Filter	CQ
86377	Filter	CQ
86403	Filter	CQ
86422	Filter	CQ
86518	Filter	CQ
86599	Filter	CQ
86626	Filter	CQ
86630	Filter	CQ
86810	Filter	CQ
85036	Filter	CQ
85202	Filter	CQ
85085	Filter	CQ
85372	Filter	CQ
85394	Filter	CQ
85516	Filter	CQ
85522	Filter	CQ
85602	Filter	CQ
85734	Filter	CQ
85748	Filter	CQ
85791	Filter	CQ
85799	Filter	CQ
85807	Filter	CQ
H6054	Headlight	
9004	Headlight	
H9405	Headlight	
9005	Headlight	CQ
9007	Headlight	
9006	Headlight	
BP9007BL	Headlight	CQ
TL10202R	Marker Light	CQ
TL10202Y	Marker Light	CQ
TL15200R	Marker Light	CQ
TL30200R	Marker Light	CQ
TL30200Y	Marker Light	CQ
2049	Remote Go-Light	Go-Light
375	Roof Spotlight	
BB2000	Spotlight Bulb	Blue Dot
53242	Tail Light- Diode	CQ
52770	Tail Light	CQ

TL40002R	Tail Light	CQ
1157	Mirror	CQ
96005	Mud Flap 24x24	CQ
98000	Mud Flap 24x30	CQ
98005	Mud Flap 24x36	CQ
5960	Shocks	Monroe
34732	Shocks	Monroe
34733	Shocks	Monroe
34771	Shocks	Monroe
34791	Shocks	Monroe
34853	Shocks	Monroe
34927	Shocks	Monroe
34930	Shocks	Monroe
34964	Shocks	Monroe
76684	Shocks	Monroe
94007	Shocks	Monroe
14-51	Wiper Blade	CQ
14-52	Wiper Blade	CQ
16-51	Wiper Blade	CQ
16-52	Wiper Blade	CQ
18-51	Wiper Blade	CQ
18-52	Wiper Blade	CQ
19-51	Wiper Blade	CQ
19-52	Wiper Blade	CQ
20-51	Wiper Blade	CQ
20-52	Wiper Blade	CQ
21-51	Wiper Blade	CQ
21-52	Wiper Blade	CQ
22-51	Wiper Blade	CQ
22-52	Wiper Blade	CQ
22-54	Wiper Blade	CQ
24-51	Wiper Blade	CQ
24-54	Wiper Blade	CQ

***(1) All Other Parts Can Be Purchased For _____ % Above Part's House Actual Cost.**

***(2) Share Policy on Special Orders, Returned Parts.**

NOTE: ALL PARTS PRICED OUT MUST BE OF THE PREMIUM QUALITY LINE.

ADDITIONAL VALUE ADDED SERVICES OR EQUIPMENT YOU ARE WILLING TO PROVIDE

(1) _____

(2) _____

(3) _____

(4) _____

(5) _____

(6) _____

(7) _____

(8) _____

(9) _____

(10) _____

(11) _____

(12) _____

(13) _____

(14) _____

(15) _____

(16) _____

PARTS BID LIST

Part Number	Description	Brand	Whitley City CQ Price	Gerald's Auto Price	South 27 Auto Price	Low Price
26013495	Actuator Motor	GM	129.92	119.18	60.22	South 27
26060073	Actuator Motor	GM	106.58	99.57		Gerald's
286617X	Air Compressor	Bendix		237.96	245.80	Gerald's
5004613X	Air Compressor	Bendix		247.96	372.81	Gerald's
71-8079	Alternator	CQ	145.72	118.03		Gerald's
71-81167-X	Alternator		78.84	85.70	108.69	Whitley City
13-3108	Alternator			119.70	174.94	Gerald's
2474-72	Battery	CQ	58.68	65.13		Whitley City
AG58-60	Battery	CQ	39.68	42.88		Whitley City
65-70	Battery	CQ	58.41	62.47	58.95	Whitley City
75-70	Battery	CQ	45.32	48.47	50.95	Whitley City
31HDS30	Battery	CQ	68.76	73.54		Whitley City
MTP-78DT	Battery	Interstate		47.78	85.95	Gerald's *****
31PMHD	Battery	Interstate		75.00		Gerald's
75/35 Optima	Gel-Battery	CQ	105.33	89.18		Gerald's
D31A Optima	Gel-Battery	CQ	195.23	178.45		Gerald's
D34 Optima	Gel-Battery	CQ	154.93	125.23		Gerald's
BX83	Belt	Gates	13.77	15.30	15.30	Whitley City
K080560	Belt	Gates	19.38	21.53	21.53	Whitley City
K050420	Belt	Gates	10.95	12.17	12.17	Whitley City
K050435	Belt	Gates	10.83	12.03	12.03	Whitley City
K060470	Belt	Gates	12.36	13.73	13.73	Whitley City
K060495	Belt	Gates	11.70	13.00	13.00	Whitley City

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K060507	Belt	Gates	12.65	14.06	14.06	Whitley City
K060685	Belt	Gates	13.15	14.61	14.61	Whitley City
K060710	Belt	Gates	15.17	16.86	16.86	Whitley City
K060870	Belt	Gates	20.18	22.42	22.42	Whitley City
K060895	Belt	Gates	21.62	24.02	24.02	Whitley City
K060910	Belt	Gates	21.24	23.60	23.60	Whitley City
K060935	Belt	Gates	20.82	23.13	23.13	Whitley City
K060945	Belt	Gates	18.31	20.34	20.34	Whitley City
K060947	Belt	Gates	16.21	18.01	18.01	Whitley City
K060956	Belt	Gates	16.31	18.12	18.12	Whitley City
K060960	Belt	Gates	19.54	21.71	21.71	Whitley City
K060975	Belt	Gates	15.52	17.24	17.24	Whitley City
K060980	Belt	Gates	20.24	22.49	22.49	Whitley City
K060988	Belt	Gates	16.39	18.21	18.21	Whitley City
K061000	Belt	Gates	14.72	16.36	16.36	Whitley City
K061010	Belt	Gates	15.30	17.00	17.00	Whitley City
K061020	Belt	Gates	21.19	23.54	23.54	Whitley City
K061105	Belt	Gates	27.81	30.90	30.90	Whitley City
K061115	Belt	Gates	15.76	17.51	17.51	Whitley City
K061120	Belt	Gates	26.10	29.00	29.00	Whitley City
K070975	Belt	Gates	25.60	28.44	28.44	Whitley City
K071150	Belt	Gates	32.13	35.90	35.70	Whitley City
K081189	Belt	Gates	27.80	30.89	30.89	Whitley City
7320	Belt	Gates	5.77	6.41	8.32	Whitley City
7350	Belt	Gates	6.00	6.67	6.67	Whitley City
7395	Belt	Gates	6.39	7.10	7.10	Whitley City
7417	Belt	Gates	6.53	7.25	7.25	Whitley City
7450	Belt	Gates	6.88	7.64	7.64	Whitley City
7500	Belt	Gates	7.30	8.11	8.11	Whitley City
7555	Belt	Gates	8.26	9.18	9.18	Whitley City
7612	Belt	Gates	8.87	9.86	9.86	Whitley City
9412	Belt	Gates	8.55	9.62	9.62	Whitley City
9580	Belt	Gates	10.87	12.08	12.08	Whitley City
9600	Belt	Gates	10.94	12.16	12.16	Whitley City
9630	Belt	Gates	11.60	12.89	12.89	Whitley City
9650	Belt	Gates	11.84	13.16	13.16	Whitley City
9670	Belt	Gates	12.15	13.50	13.50	Whitley City

9690	Belt	Gates	12.43	13.81	13.81	Whitley City
9700	Belt	Gates	12.02	13.35	13.35	Whitley City
9755	Belt	Gates	13.35	14.83	14.83	Whitley City
18-8046	Brake Caliper	CQ	66.93	75.95	79.75	Whitley City
18-8047	Brake Caliper	CQ	66.93	75.95	79.75	Whitley City
GCD477	Brake Disc Pad	CQ	49.36	56.63	65.75	Whitley City
GCD697	Brake Disc Pad	CQ	35.46	40.79	45.75	Whitley City
GCD785	Brake Disc Pad	CQ	61.41	70.65	78.75	Whitley City
GMD842	Brake Disc Pad	CQ	44.08	48.79	49.75	Whitley City
GMD777F	Brake Disc Pad	CQ	46.74	48.93	52.50	Whitley City
GCD632	Brake Disc Pad	CQ	51.89	59.91	68.75	Whitley City
GCD711	Brake Disc Pad	CQ	50.02	57.59	63.75	Whitley City
GCD757	Brake Disc Pad	CQ	44.16	50.87	55.75	Whitley City
GCD792	Brake Disc Pad	CQ	46.24	52.79	59.75	Whitley City
GMD833	Brake Disc Pad	CQ	49.60	44.53	53.25	Gerald's
GMD784F	Brake Disc Pad	CQ	47.57	50.08	57.75	Whitley City
GMD792F	Brake Disc Pad	CQ	32.56	34.07	32.75	Whitley City
54077	Brake Rotor	CQ	77.25	87.59	101.33	Whitley City
54064	Brake Rotor	CQ	72.21	81.79	91.07	Whitley City
54094	Brake Rotor	CQ	55.37	62.79	72.10	Whitley City
F8122C026AA	Brake Rotor	Ford	64.21	157.00	143.50	Whitley City
87098	Filter	CQ	3.90	4.55	4.23	Whitley City
87253	Filter	CQ	26.78	31.25	29.02	Whitley City
87276	Filter	CQ	9.92	11.58	10.75	Whitley City
87321	Filter	CQ	18.74	21.87	20.31	Whitley City
87484	Filter	CQ	7.39	8.62	8.00	Whitley City
87487	Filter	CQ	8.28	9.66	8.97	Whitley City
87522	Filter	CQ	21.56	25.16	23.36	Whitley City
87648	Filter	CQ	13.48	15.73	14.61	Whitley City

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87725	Filter	CQ	11.40	13.30	12.35	Whitley City
87731	Filter	CQ	35.39	41.29	38.34	Whitley City
88059	Filter	CQ	4.66	5.44	5.05	Whitley City
88077	Filter	CQ	4.39	5.12	5.66	Whitley City
88147	Filter	CQ	8.07	9.42	8.74	Whitley City
88406	Filter	CQ	8.50	9.91	9.20	Whitley City
88417	Filter	CQ	12.41	14.48	13.45	Whitley City
88418	Filter	CQ	9.36	10.92	10.14	Whitley City
88433	Filter	CQ	20.71	24.16	22.43	Whitley City
88440	Filter	CQ	10.09	11.77	10.93	Whitley City
88484	Filter	CQ	8.52	9.94	9.23	Whitley City
88678	Filter	CQ	11.94	13.93	12.94	Whitley City
88744	Filter	CQ	24.07	28.08	26.07	Whitley City
88870	Filter	CQ	32.99	38.49	35.74	Whitley City
89073	Filter	CQ	10.46	12.20	11.33	Whitley City
86231	Filter	CQ	17.35	20.24	18.79	Whitley City
86357	Filter	CQ	6.46	5.66	5.25	South 27
86358	Filter	CQ	6.06	5.30	4.92	South 27
86377	Filter	CQ	6.61	7.71	7.16	Whitley City
86403	Filter	CQ	6.17	7.20	6.69	Whitley City
86422	Filter	CQ	13.87	16.18	15.03	Whitley City
86518	Filter	CQ	22.56	19.74	18.33	South 27
86599	Filter	CQ	36.00	42.00	39.00	Whitley City
86626	Filter	CQ	6.31	7.36	6.83	Whitley City
86630	Filter	CQ	16.82	19.62	18.22	Whitley City
86810	Filter	CQ	15.92	24.88	23.10	Whitley City
85036	Filter	CQ	3.04	3.55	3.30	Whitley City
85202	Filter	CQ	8.03	9.37	8.70	Whitley City
85085	Filter	CQ	3.12	3.64	3.38	Whitley City
85372	Filter	CQ	3.23	3.77	3.50	Whitley City
85394	Filter	CQ	3.39	3.96	3.67	Whitley City
85516	Filter	CQ	3.04	3.55	3.30	Whitley City
85522	Filter	CQ	3.60	4.20	3.90	Whitley City
85602	Filter	CQ	4.30	3.77	3.50	Whitley City
85734	Filter	CQ	10.96	9.59	8.91	South 27
85748	Filter	CQ	27.96	24.47	22.72	South 27
85791	Filter	CQ	6.91	6.05	5.62	South 27

85799	Filter	CQ	19.39	16.97	15.76	South 27
85807	Filter	CQ	4.75	5.54	5.14	Whitley City
H6054	Headlight		6.98	7.58	8.05	Whitley City
9004	Headlight		3.76	4.94	4.46	Whitley City
H9405	Headlight		14.76	16.81	18.52	Whitley City
9005	Headlight	CQ	5.20	6.45	5.96	Whitley City
9007	Headlight		5.91	6.45	5.97	Whitley City
9006	Headlight		5.20	6.45	5.97	Whitley City
BP9007BL	Headlight	CQ	8.12	8.32	9.18	Whitley City
TL10202R	Marker Light	CQ		1.97	2.59	Gerald's
TL10202Y	Marker Light	CQ		1.98	2.59	Gerald's
TL15200R	Marker Light	CQ		1.97	3.14	Gerald's
TL30200R	Marker Light	CQ		1.98	2.68	Gerald's
TL30200Y	Marker Light	CQ		1.98	2.68	Gerald's
2049	Remote Go-Light	Go-Light		180.00		Gerald's
375	Roof Spotlight			145.54	118.73	South 27
BB2000	Spotlight Bulb	Blue Dot			277.75	South 27 *****
53242	Tail Light- Diode	CQ		27.00		Gerald's
52770	Tail Light	CQ		9.17	9.12	South 27
TL40002R	Tail Light	CQ			11.40	South 27
1157	Mirror	CQ				
96005	Mud Flap 24x24	CQ	8.43	7.96	5.54	South 27
98000	Mud Flap 24x30	CQ	8.54	8.59	7.30	South 27
98005	Mud Flap 24x36	CQ	10.97	10.49	7.78	South 27
5960	Shocks	Monroe	20.59	23.75	32.00	Whitley City
34732	Shocks	Monroe	23.92	23.75	36.89	Gerald's
34733	Shocks	Monroe	23.92	23.75	35.01	Gerald's
34771	Shocks	Monroe		23.75		Gerald's
34791	Shocks	Monroe		23.75		Gerald's
34853	Shocks	Monroe	23.89	23.75	32.95	Gerald's
34927	Shocks	Monroe	23.89	23.75	32.95	Gerald's
34930	Shocks	Monroe	23.89	23.75	35.89	Gerald's

34964	Shocks	Monroe	23.89	23.75	36.37	Gerald's
76684	Shocks	Monroe		23.75	35.13	Gerald's
94007	Shocks	Monroe		23.75	19.96	Gerald's
14-51	Wiper Blade	CQ	5.14	4.48	5.93	Gerald's
14-52	Wiper Blade	CQ	5.14	4.48	5.93	Gerald's
16-51	Wiper Blade	CQ	5.14	4.48	5.93	Gerald's
16-52	Wiper Blade	CQ	5.14	4.48	6.39	Gerald's
18-51	Wiper Blade	CQ	5.14	4.48	6.24	Gerald's
18-52	Wiper Blade	CQ	5.14	4.48	6.44	Gerald's
19-51	Wiper Blade	CQ	5.14	5.41	6.22	Whitley City
19-52	Wiper Blade	CQ	5.14	5.41	6.22	Whitley City
20-51	Wiper Blade	CQ	5.47	5.41	7.33	Gerald's
20-52	Wiper Blade	CQ	5.39	5.41	7.33	Whitley City
21-51	Wiper Blade	CQ	7.59	8.12	8.07	Whitley City
21-52	Wiper Blade	CQ		8.12		Gerald's
22-51	Wiper Blade	CQ	6.62	6.94	8.07	Whitley City
22-52	Wiper Blade	CQ		8.12		Gerald's
22-54	Wiper Blade	CQ	6.76	6.94	8.07	Whitley City
24-51	Wiper Blade	CQ	8.45	8.93	9.16	Whitley City
24-54	Wiper Blade	CQ	8.55	8.93	9.16	Whitley City

	Items
Whitley City	125
Gerald's	37
South 27	15
Total	177

Actuator Motor	South 27 50% & Gerald's 50%
Air Compressor	Gerald's
Alternator	Gerald's 50% & Whitley City 50%
Battery Regular	Whitley City
Battery Gel	Gerald's
Belts	Whitley City
Brake Calipers	Whitley City

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Brake Disc Pads
Brake Rotors
Filters
Headlights
Marker Lights
Mud Flaps
Shocks
Wiper Blades

Whitley City
Whitley City
Whitley City
Whitley City
Gerald's
South 27
Gerald's
Whitley City 50% Gerald's 50%

20

Childers' Financial Services, Inc.

205 Parkers Mill Road
Somerset, Kentucky 42501

Telephone 606/678-4956
Fax 606/679-8742
E-Mail mark_Vaught@charter.net

10 August 2004

Mr. Allen Anderson
Chief Executive Officer
South Kentucky Rural Electric Co-Op Corporation
925-929 N Main Street
PO Box 910
Somerset, KY 42502

RE: Shearer Property
Hwy 127 & Hwy 3156
Albany, Kentucky 42602

Dear Allen;

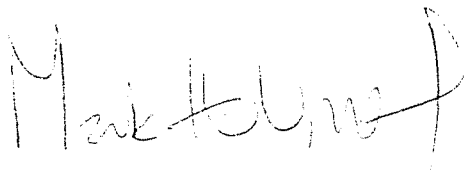
In accordance with your request, I have personally visited the above referenced property on the 10th of August 2004. The purpose of the visit was to appraise the property in order to estimate the fair market value of the subject property as of the date of the site visit, the 10th of August 2004.

Based upon the examination and study made, I have formed the opinion that the fair market value of the subject property as of the 10th of August 2004, is:

Thirty Five Thousand Dollars
(\$35,000)

The following report represents, in detail, the appraisal and analysis of the data along with other materials upon which the estimate of value is predicated.

Respectfully submitted,



Mark H. Vaught
General Real Property
Appraiser # 2271

Appraisal Summary

Subject Address:..... Hwy 127 & Hwy 3156
City:..... Albany
County:..... Clinton
State:..... Kentucky
Zip Code:..... 42602

Cost Approach Value:..... Not Applicable
Income Approach Value:..... Not Utilized
Sales Comparison Approach Value:.....\$ 35,000

Client:..... South Kentucky RECC
Contact:..... Allen Anderson

Appraiser:..... Mark H. Vaught
Date of Appraised Value:... 10 August 2004
Final Estimate of Value:..\$ 35,000

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

11. Refer to the Application, Exhibit P, pages 5 and 6 of 17.

a. Explain if South Kentucky has experienced any change in the level of right-of-way ("ROW") expenses or activity since the test-year end.

Response

South Kentucky has not incurred any significant changes in the level or ROW, or in the number of crews used to clear ROW.

b. Describe how South Kentucky's ROW was cleared during the test year and its current approach. If cleared by both South Kentucky employees and contractor's, provide the percentage cleared by each for the test year and currently.

Response

South Kentucky utilizes contractors almost exclusively for ROW. South Kentucky does not maintain a ROW crew. There are employees in each District that oversee the contractors efforts. Contractors use spraying techniques, bushhogging and clearing with chainsaws and other cutting devices.

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

12. Refer to the Application, Exhibit P, pages 13 and 14 of 17.

a. From page 13, provide an explanation of the People Fund and the South Kentucky Rural Electric Trust. Also, provide the test-year expense for each fund.

Response

The South Kentucky Rural Electric Trust administers the People Fund activities. Consumers and employees who are members round their electric bill up to the next whole dollar number, with the rounded up money being transferred to the Trust bank account.

The Trust administers all funds and writes checks to recipients.

The test year expense was \$889.32, which is included in Account 930, and has been removed for rate-making purposes as part of Exhibit 11 of the Application.

b. From page 14, provide the test-year expense for energy audits and other Demand Side Management (DSM) programs. Include the number of participants for all DSM programs for the test year.

Response

	<u>Number</u>
Energy audits	515
Other DSM programs	369

South Kentucky does not separately account for energy audits and other DSM programs in its expense accounts. The cost for these types of activities are included in the expenses for Account 908, Customer Assistance Expense.

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

13. Refer to the Application, Exhibit S, page 1 of 4. Explain the test-year adjustment to "Net Changes in Assets" and include any workpapers supporting that adjustment.

Response

The amount recorded in Net Changes in Assets is the balancing amount for the Asset portion of the balance sheet. All items that could be identified have been recorded to that specific account title on the balance sheet. The balance sheet must balance, i.e., balance sheet, therefore, the item listing Net Change in Assets has been used to balance all assets with the liabilities and equity sections of the balance sheet.

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

14. Refer to the Application, Exhibit S, page 3 of 4.

a. Explain why South Kentucky did not propose an adjustment to normalize its PSC Assessment.

Response

This was an oversight only.

b. Would South Kentucky agree that such an adjustment should be included and that the adjustment should be based on the most current assessment rate? Explain the response.

Response

Yes, South Kentucky agrees.

c. Explain why South Kentucky did not propose an adjustment to remove any revenues or expenses associated with its non-utility property.

Response

This was an oversight only.

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

15. Refer to the Application, Exhibit U.

a. Explain in detail why South Kentucky has not developed and implemented a formal equity management plan.

Response

South Kentucky reviews its financial ratios on at least an annual basis. Long term ratios are reviewed during budeting, loan forecasting, long range financial forecasting and on other occassions. South Kentucky performs these reviews on an informal basis.

b. Was South Kentucky aware that the Commission for many years has been encouraging the distribution cooperatives to develop and implement formal equity management plans? Explain the response.

Response

South Kentucky has not applied for a rate application since 1989. Although South Kentucky is aware that the Commission encourages equity management plans, it was not aware that formal plans were encouraged to that extent.

c. South kentucky has proposed to eliminate the requirement from the settlement agreement in its last general rate case that it refund to its members the capital credits earned in excess of a 2.00x Times Interest Earned Ratio. Explain why the Commission should grant South Kentucky's request when it has not developed and implemented a formal equity management plan.

Response

As noted in b. above, South Kentucky was not aware of the encouragement by the Commission to implement formal equity management plans. We are presently developing an equity management plan and will file it with the Commission as soon as it is developed.

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

16. Refer to the Application, Exhibit W. For each of the accounts listed below, explain the reason(s) for the change in August balances for the test year and the prior year.

- a. Account No. 367, Underground conduit and devices
Replacing all underground service and transformers at one subdivisions that have had underground service for many years.
- b. Account 369, Services
The amount added to Services each year is approximatley the amount of change during the test year to the prior year.
- c. Account 107.14, CWIP - Radio system
Installation of a new radio system that will also have GPS capabilities.
- d. Account No. 107.80, CWIP - Buildings
Construction of new Whitley City District office.
- e. Account No. 108.71, Reserve - Transportation
During prior year, retired transprtation equipment that had \$820,480 of prior depreciation recorded. Only retired transportation equipment that had \$21,746 of prior depreciation recorded for the test year.
- f. Account No. 136.22, Casey Co. Bank
Funds invested in Casey Co Bank were required for operations, these funds were transferred to General Funds as needed.
- g. Account No. 136.24, Citizens - Albany
Funds invested in Citizens Banking Albany were required for operations, these funds were transferred to General Funds as needed.
- h. Account No. 136.26, Monticello Banking
Funds invested in Monticello Bank were required for operations, these funds were transferred to General Funds as needed.
- i. Account No. 136.27, Bank of McCreary County
Funds invested in Bank of McCreary Co were required for operations, these funds were transferred to General Funds as needed.
- j. Account No. 142.10, Accounts Receivable
Fuel rolled into the base rates, fuel adjustment increase and environmental surcharge all contributed to the increase.
Increase in kwh sales and purchases over prior year.

- k. Account 143.00, Other receivables
Amount due from FEMA - \$381,337; Hurricane Katrina coops \$92,191; Kentucky Department of Revenue (line relocation) for \$228,524.
- l. Account 154.10, Material and supplies
Purchased additional material for Highway 27 relocation and underground conversion at subdivision.
- m. Account No. 184.21, General plant purchased
General plant items are purchased through this account, then are recorded to the respective general plant account and into the fixed asset system. Amounts are purchased in one month and recorded in the fixed asset system in future months.
- n. Account No. 201.20, Patronage capital assignable
South Kentucky allocated margins, but failed to make the necessary entry to transfer to patrons capital credits.
- o. Account No. 232.00, Purchased power
Fuel rolled into the base rates, fuel adjustment increase and environmental surcharge all contributed to the increase. Increase in kwh sales and purchases over prior year.

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

17. Refer to the Application, Exhibit X. For each of the accounts listed below, explain the reason(s) for the change in August balances for the test year and the prior year.

- a. Account No. 440.10, Residential
During 2004, South Kentucky attempted to better match its revenues with purchase power, as a result there were additional revenues recognized, but unbilled. Fuel rolled into the base rates, fuel adjustment increase and environmental surcharge all contributed to the increase. Increase in kwh sales and purchases over prior year.
- b. Account No. 442.10, Small commercial
same as 440.10 above
- c. Account No., 442.20, Large commercial
same as 440.10 above
- d. Account No. 555.00, Purchase power
Fuel rolled into the base rates, fuel adjustment increase and environmental surcharge all contributed to the increase. Increase in kwh sales and purchases over prior year.
- e. Account No. 593.00, Maintenance of overhead lines
South Kentucky scaled back on its right of way, since the margins and cash flows were deteriorating.
- f. Account No. 593.50, Right of way maintenance
During 2004, right of way was behind the pace that was hoped for, during December 2004, had contractor perform additional right of way clearing.
- g. Account No. 908.00, Consumer assistance
South Kentucky participates in the East Kentucky Power Coop Partner Plus Program. This program allows South Kentucky to be reimbursed for ETS, marketing, button up, insulation and other energy saving programs, and be reimbursed for a portion of the cost. This program runs from 2004 through 2006, with possible continuation. It is estimated that South Kentucky will receive the same reimbursements for 2005 and 2006 as they received in 2004.

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

18. Refer to the Application, Exhibit 1, pages 3 through 15 of 19.1.

a. On page 3, provide an explanation for increasing the Supervisor On-Call wages to \$2,500.

Response

The on-call is strictly voluntary for supervisors. In order to get supervisors to participate, the weekly fee had to be adequate compensation. Hourly employees that are on-call receive 2 hours overtime pay per day, or 10 hours per week. The on-call pay is to compensate for making supervisors available for on-call. The rate was increased from \$150 per week to \$250 per week to both encourage supervisors to participate and compensate the supervisors for their time.

b. On page 5, explain why employee number 258 was the only hourly employee that received the supervisor On-Call wages.

Response

This is a voluntary activity, and employee number 258, who is hourly, elected to participate.

c. On page 7, provide the calculation for the normalization of the wages for employee numbers 589, 279, and 282. In addition, explain why it appears the normalization calculation was different compared to the other Summer and Part-Time employees.

Response

Employees numbers 589 and 279 should have had the normalized wage rate as the Sept 1, 2005 wage rate times the actual number of hours worked during the test year. However, the formula to calculate was entered for a full year instead of the actual test year hours. The correct calculation is as follows:

		<u>Hours</u>		<u>Normalized wages</u>		
	<u>Rate</u>	<u>Regular</u>	<u>OT</u>	<u>Regular</u>	<u>OT</u>	<u>Total</u>
589	\$7.00	483.00	1.00	3,381	11	3,392
279	\$11.25	1,428.50	0.00	16,071	0	16,071

Employee number 282 wages were calculated as follows:

282	\$11.25	847.00	0.00	9,529	0	9,529
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d. On pages 8 and 9, explain why the test-year overtime hours shown on these pages do not agree. Indicate the correct level of test-year overtime hours.

Response

The test year overtime hours reflected on page 8 are correct. The amount listed on page 9 are an incorrect input entry only. The overtime hours for the test year are 23,194.

e. On pages 10 through 13, provide an explanation for each July 1, 2005 wage and salary increase that is greater than the 3.00 percent stated on page 1 of 19.1.

Response

All increases greater than 3.0% are a result of the following:

- (1) Employees receive a 2.0% increase on their anniversary date, provided that does not set the wage rate above the midpoint for that position.
- (2) Increases were determined based on a Job Performance Evaluation for each employee.

f. On page 15, explain in detail the reason(s) for the amount of increase in the salaries for the Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer over the three-year period shown on this page.

Response

The CEO was selected by the Board of Directors effective September 1, 2001. The CEO selected the COO and CFO after being selected to that position. The Board evaluates the CEO and sets the compensation. The CEO evaluates the COO and CFO and determines their compensation.

The salaries were determined based on these evaluations.

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

19. Refer to the Application, Exhibit 2.

a. Explain why the FICA adjustment was based on the year 2005 wage limit of \$90,000.00 instead of using the FICA adjustment for 2006 of \$94,200.00.

Response

This was an oversight. The 2006 limit of \$94,200 should have been used.

b. Recalculate the FICA adjustment to reflect the 2006 wage limit.

Response

The revised adjustment is attached. The normalized wages were adjusted for employees 589 and 279, as reflected in Item 18(c) of this response.

c. Explain the reason(s) why the State Unemployment Tax rate increased for the years after 2001.

Response

The State of Kentucky calculates this rate on an annual basis and notifies South Kentucky of the rate for the next year. It is a combination of South Kentucky's experience rate and the level of funding in the unemployment insurance fund.

These are the rates determined by the State of Kentucky.

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South Kentucky Rural Electric Cooperative
Case No. 2005-00450
Payroll Taxes
August 31, 2005

The employer's portion of FICA and medicare rates remain the same for 2005 as they were for 2004. The FICA rate is 6.2% and medicare is 1.45%. The wage limit increases from \$87,900 in 2004 to \$94,200 in 2006 for FICA; all wages are subject to medicare.

Federal unemployment rates are 0.80% for the first \$7,000 of wages and state unemployment rate is 0.60% for the first \$8,000 of wages.

Proposed FICA amounts

FICA	466,604	
Medicare	110,052	
	576,655	
Proposed FUTA	9,044	
Proposed SUTA	7,737	593,437

Test year amount

FICA and Medicare	538,520	
Test year FUTA	9,398	
Test year SUTA	7,895	555,813

Increase	37,624
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Adjustment:

	Percent	Amount
107 Capitalized	31.46%	11,836
163 - 416 Clearing and others	8.71%	3,277
580 Operations	14.01%	5,271
590 Maintenance	16.31%	6,136
901 Consumer accounts	15.22%	5,726
908 Customer service	4.66%	1,753
912 Sales	0.14%	53
920 Administrative and general	9.49%	3,570
	100.00%	\$37,624

State unemployment (SUTA) wage rates are as follows:

2005	0.60%
2004	0.60%
2003	0.50%
2002	0.08%
2001	0.08%
2000	0.36%

South Kentucky Rural Electric
Case No. 2005-00450
Employee Earnings and Hours
August 31, 2005

Employee Number	Adjusted Total	Social Security Wages		Medicare Wages		Federal Unemployment		State Unemployment	
		Up To	@	All Wages	1.45%	Up to	0.80%	Up to	0.600%
		\$94,200	6.20%			\$7,000		\$8,000	

Salaried Employees:

280	150,010	94,200	5,840	150,010	2,175	7,000	56	8,000	48
225	48,090	48,090	2,982	48,090	697	7,000	56	8,000	48
227	52,811	52,811	3,274	52,811	766	7,000	56	8,000	48
563	53,643	53,643	3,326	53,643	778	7,000	56	8,000	48
491	40,186	40,186	2,492	40,186	583	7,000	56	8,000	48
340	37,731	37,731	2,339	37,731	547	7,000	56	8,000	48
119	62,670	62,670	3,886	62,670	909	7,000	56	8,000	48
130	51,126	51,126	3,170	51,126	741	7,000	56	8,000	48
134	48,672	48,672	3,018	48,672	706	7,000	56	8,000	48
394	91,832	91,832	5,694	91,832	1,332	7,000	56	8,000	48
323	51,709	51,709	3,206	51,709	750	7,000	56	8,000	48
150	60,403	60,403	3,745	60,403	876	7,000	56	8,000	48
297	49,920	49,920	3,095	49,920	724	7,000	56	8,000	48
275	63,236	63,236	3,921	63,236	917	7,000	56	8,000	48
480	54,978	54,978	3,409	54,978	797	7,000	56	8,000	48
126	47,507	47,507	2,945	47,507	689	7,000	56	8,000	48
320	53,435	53,435	3,313	53,435	775	7,000	56	8,000	48
337	53,934	53,934	3,344	53,934	782	7,000	56	8,000	48
387	57,724	57,724	3,579	57,724	837	7,000	56	8,000	48
291	72,010	72,010	4,465	72,010	1,044	7,000	56	8,000	48
271	52,624	52,624	3,263	52,624	763	7,000	56	8,000	48
218	56,601	56,601	3,509	56,601	821	7,000	56	8,000	48
277	37,066	37,066	2,298	37,066	537	7,000	56	8,000	48
547	102,294	94,200	5,840	102,294	1,483	7,000	56	8,000	48
Subtotal Salaried	1,450,213	1,386,309	85,951	1,450,213	21,028	168,000	1,344	192,000	1,152

Hourly Employees:

376	54,794	54,794	3,397	54,794	795	7,000	56	8,000	48
594	32,005	32,005	1,984	32,005	464	7,000	56	8,000	48
200	39,725	39,725	2,463	39,725	576	7,000	56	8,000	48
581	26,473	26,473	1,641	26,473	384	7,000	56	8,000	48
455	41,296	41,296	2,560	41,296	599	7,000	56	8,000	48
526	58,785	58,785	3,645	58,785	852	7,000	56	8,000	48
172	41,665	41,665	2,583	41,665	604	7,000	56	8,000	48
582	26,648	26,648	1,652	26,648	386	7,000	56	8,000	48
108	74,807	74,807	4,638	74,807	1,085	7,000	56	8,000	48
235	61,349	61,349	3,804	61,349	890	7,000	56	8,000	48
298	37,506	37,506	2,325	37,506	544	7,000	56	8,000	48
380	33,859	33,859	2,099	33,859	491	7,000	56	8,000	48
267	61,266	61,266	3,798	61,266	888	7,000	56	8,000	48
451	44,957	44,957	2,787	44,957	652	7,000	56	8,000	48
110	37,561	37,561	2,329	37,561	545	7,000	56	8,000	48
559	29,640	29,640	1,838	29,640	430	7,000	56	8,000	48
324	52,417	52,417	3,250	52,417	760	7,000	56	8,000	48
252	44,636	44,636	2,767	44,636	647	7,000	56	8,000	48
377	42,909	42,909	2,660	42,909	622	7,000	56	8,000	48
232	72,370	72,370	4,487	72,370	1,049	7,000	56	8,000	48
287	34,950	34,950	2,167	34,950	507	7,000	56	8,000	48
447	56,655	56,655	3,513	56,655	821	7,000	56	8,000	48
397	37,178	37,178	2,305	37,178	539	7,000	56	8,000	48
569	33,319	33,319	2,066	33,319	483	7,000	56	8,000	48

South Kentucky Rural Electric
Case No. 2005-00450
Employee Earnings and Hours
August 31, 2005

Employee Number	Adjusted Total	Social Security Wages		Medicare Wages		Federal Unemployment		State Unemployment	
		Up To \$94,200	@ 6.20%	All Wages	1.45%	Up to \$7,000	0.80%	Up to \$8,000	0.600%
416	31,776	31,776	1,970	31,776	461	7,000	56	8,000	48
274	42,260	42,260	2,620	42,260	613	7,000	56	8,000	48
421	41,237	41,237	2,557	41,237	598	7,000	56	8,000	48
289	42,825	42,825	2,655	42,825	621	7,000	56	8,000	48
564	40,649	40,649	2,520	40,649	589	7,000	56	8,000	48
477	30,559	30,559	1,895	30,559	443	7,000	56	8,000	48
508	38,935	38,935	2,414	38,935	565	7,000	56	8,000	48
525	32,087	32,087	1,989	32,087	465	7,000	56	8,000	48
459	41,883	41,883	2,597	41,883	607	7,000	56	8,000	48
395	44,109	44,109	2,735	44,109	640	7,000	56	8,000	48
431	34,365	34,365	2,131	34,365	498	7,000	56	8,000	48
391	45,526	45,526	2,823	45,526	660	7,000	56	8,000	48
489	41,514	41,514	2,574	41,514	602	7,000	56	8,000	48
458	34,043	34,043	2,111	34,043	494	7,000	56	8,000	48
584	55,956	55,956	3,469	55,956	811	7,000	56	8,000	48
419	44,325	44,325	2,748	44,325	643	7,000	56	8,000	48
304	64,145	64,145	3,977	64,145	930	7,000	56	8,000	48
290	61,366	61,366	3,805	61,366	890	7,000	56	8,000	48
520	32,993	32,993	2,046	32,993	478	7,000	56	8,000	48
545	62,040	62,040	3,846	62,040	900	7,000	56	8,000	48
140	42,399	42,399	2,629	42,399	615	7,000	56	8,000	48
598	39,521	39,521	2,450	39,521	573	7,000	56	8,000	48
590	44,214	44,214	2,741	44,214	641	7,000	56	8,000	48
142	39,211	39,211	2,431	39,211	569	7,000	56	8,000	48
350	51,155	51,155	3,172	51,155	742	7,000	56	8,000	48
566	46,118	46,118	2,859	46,118	669	7,000	56	8,000	48
437	35,774	35,774	2,218	35,774	519	7,000	56	8,000	48
147	55,182	55,182	3,421	55,182	800	7,000	56	8,000	48
592	25,543	25,543	1,584	25,543	370	7,000	56	8,000	48
360	35,760	35,760	2,217	35,760	519	7,000	56	8,000	48
301	55,432	55,432	3,437	55,432	804	7,000	56	8,000	48
463	35,547	35,547	2,204	35,547	515	7,000	56	8,000	48
565	63,797	63,797	3,955	63,797	925	7,000	56	8,000	48
504	41,673	41,673	2,584	41,673	604	7,000	56	8,000	48
358	68,611	68,611	4,254	68,611	995	7,000	56	8,000	48
322	33,091	33,091	2,052	33,091	480	7,000	56	8,000	48
506	37,426	37,426	2,320	37,426	543	7,000	56	8,000	48
599	39,763	39,763	2,465	39,763	577	7,000	56	8,000	48
114	32,906	32,906	2,040	32,906	477	7,000	56	8,000	48
265	63,400	63,400	3,931	63,400	919	7,000	56	8,000	48
374	33,334	33,334	2,067	33,334	483	7,000	56	8,000	48
253	50,148	50,148	3,109	50,148	727	7,000	56	8,000	48
432	56,403	56,403	3,497	56,403	818	7,000	56	8,000	48
363	73,283	73,283	4,544	73,283	1,063	7,000	56	8,000	48
303	58,061	58,061	3,600	58,061	842	7,000	56	8,000	48
472	39,870	39,870	2,472	39,870	578	7,000	56	8,000	48
503	42,829	42,829	2,655	42,829	621	7,000	56	8,000	48
464	40,139	40,139	2,489	40,139	582	7,000	56	8,000	48
457	34,043	34,043	2,111	34,043	494	7,000	56	8,000	48
164	37,474	37,474	2,323	37,474	543	7,000	56	8,000	48
258	51,312	51,312	3,181	51,312	744	7,000	56	8,000	48
586	52,870	52,870	3,278	52,870	767	7,000	56	8,000	48
257	39,098	39,098	2,424	39,098	567	7,000	56	8,000	48

South Kentucky Rural Electric
Case No. 2005-00450
Employee Earnings and Hours
August 31, 2005

Employee Number	Adjusted Total	Social Security Wages		Medicare Wages		Federal Unemployment		State Unemployment	
		Up To \$94,200	@ 6.20%	All Wages	1.45%	Up to \$7,000	0.80%	Up to \$8,000	0.600%
560	51,101	51,101	3,168	51,101	741	7,000	56	8,000	48
241	66,214	66,214	4,105	66,214	960	7,000	56	8,000	48
185	34,112	34,112	2,115	34,112	495	7,000	56	8,000	48
528	46,885	46,885	2,907	46,885	680	7,000	56	8,000	48
328	34,796	34,796	2,157	34,796	505	7,000	56	8,000	48
302	63,448	63,448	3,934	63,448	920	7,000	56	8,000	48
436	32,421	32,421	2,010	32,421	470	7,000	56	8,000	48
269	33,072	33,072	2,050	33,072	480	7,000	56	8,000	48
532	48,240	48,240	2,991	48,240	699	7,000	56	8,000	48
524	46,574	46,574	2,888	46,574	675	7,000	56	8,000	48
356	36,670	36,670	2,274	36,670	532	7,000	56	8,000	48
250	64,042	64,042	3,971	64,042	929	7,000	56	8,000	48
296	36,149	36,149	2,241	36,149	524	7,000	56	8,000	48
460	40,417	40,417	2,506	40,417	586	7,000	56	8,000	48
378	43,448	43,448	2,694	43,448	630	7,000	56	8,000	48
420	37,768	37,768	2,342	37,768	548	7,000	56	8,000	48
146	43,139	43,139	2,675	43,139	626	7,000	56	8,000	48
418	53,383	53,383	3,310	53,383	774	7,000	56	8,000	48
453	42,334	42,334	2,625	42,334	614	7,000	56	8,000	48
329	53,445	53,445	3,314	53,445	775	7,000	56	8,000	48
527	37,769	37,769	2,342	37,769	548	7,000	56	8,000	48
381	31,967	31,967	1,982	31,967	464	7,000	56	8,000	48
240	40,872	40,872	2,534	40,872	593	7,000	56	8,000	48
192	71,310	71,310	4,421	71,310	1,034	7,000	56	8,000	48
478	53,802	53,802	3,336	53,802	780	7,000	56	8,000	48
439	45,259	45,259	2,806	45,259	656	7,000	56	8,000	48
490	44,246	44,246	2,743	44,246	642	7,000	56	8,000	48
242	63,105	63,105	3,913	63,105	915	7,000	56	8,000	48
313	41,447	41,447	2,570	41,447	601	7,000	56	8,000	48
546	38,071	38,071	2,360	38,071	552	7,000	56	8,000	48
570	35,724	35,724	2,215	35,724	518	7,000	56	8,000	48
529	28,812	28,812	1,786	28,812	418	7,000	56	8,000	48
507	48,967	48,967	3,036	48,967	710	7,000	56	8,000	48
198	61,220	61,220	3,796	61,220	888	7,000	56	8,000	48
488	51,822	51,822	3,213	51,822	751	7,000	56	8,000	48
523	43,508	43,508	2,698	43,508	631	7,000	56	8,000	48
531	45,673	45,673	2,832	45,673	662	7,000	56	8,000	48
384	66,076	66,076	4,097	66,076	958	7,000	56	8,000	48
591	27,530	27,530	1,707	27,530	399	7,000	56	8,000	48
209	54,473	54,473	3,377	54,473	790	7,000	56	8,000	48
440	45,625	45,625	2,829	45,625	662	7,000	56	8,000	48
597	47,295	47,295	2,932	47,295	686	7,000	56	8,000	48
571	29,853	29,853	1,851	29,853	433	7,000	56	8,000	48
284	62,269	62,269	3,861	62,269	903	7,000	56	8,000	48
522	66,354	66,354	4,114	66,354	962	7,000	56	8,000	48
353	56,854	56,854	3,525	56,854	824	7,000	56	8,000	48
433	55,616	55,616	3,448	55,616	806	7,000	56	8,000	48
373	58,374	58,374	3,619	58,374	846	7,000	56	8,000	48
452	53,163	53,163	3,296	53,163	771	7,000	56	8,000	48
362	53,067	53,067	3,290	53,067	769	7,000	56	8,000	48
343	59,304	59,304	3,677	59,304	860	7,000	56	8,000	48
277	39,464	39,464	2,447	39,464	572	7,000	56	8,000	48
461	56,631	56,631	3,511	56,631	821	7,000	56	8,000	48

South Kentucky Rural Electric
Case No. 2005-00450
Employee Earnings and Hours
August 31, 2005

Employee Number	Adjusted Total	Social Security Wages		Medicare Wages		Federal Unemployment		State Unemployment	
		Up To \$94,200	@ 6.20%	All Wages	1.45%	Up to \$7,000	0.80%	Up to \$8,000	0.600%
309	41,308	41,308	2,561	41,308	599	7,000	56	8,000	48
364	57,481	57,481	3,564	57,481	833	7,000	56	8,000	48
562	39,729	39,729	2,463	39,729	576	7,000	56	8,000	48
Subtotal hour	6,096,444	6,096,444	377,980	6,096,444	88,398	931,000	7,448	1,064,000	6,384
Summer and Part Time Employees:									
593	3,075	3,075	191	3,075	45	3,075	25	3,075	18
589	3,392	3,392	210	3,392	49	3,392	27	3,392	20
165	970	970	60	970	14	970	8	970	6
578	4,470	4,470	277	4,470	65	4,470	36	4,470	27
279	16,071	16,071	996	16,071	233	7,000	56	8,000	48
596	3,374	3,374	209	3,374	49	3,374	27	3,374	20
595	2,236	2,236	139	2,236	32	2,236	18	2,236	13
282	9,529	9,529	591	9,529	138	7,000	56	8,000	48
Subtotal sum	43,115	43,115	2,673	43,115	625	31,516	252	33,516	201
Retirees:									
107	0	0	0	0	0	0	0	0	0
299	0	0	0	0	0	0	0	0	0
259	0	0	0	0	0	0	0	0	0
396	0	0	0	0	0	0	0	0	0
135	0	0	0	0	0	0	0	0	0
236	0	0	0	0	0	0	0	0	0
479	0	0	0	0	0	0	0	0	0
161	0	0	0	0	0	0	0	0	0
170	0	0	0	0	0	0	0	0	0
392	0	0	0	0	0	0	0	0	0
310	0	0	0	0	0	0	0	0	0
561	0	0	0	0	0	0	0	0	0
326	0	0	0	0	0	0	0	0	0
585	0	0	0	0	0	0	0	0	0
191	0	0	0	0	0	0	0	0	0
216	0	0	0	0	0	0	0	0	0
217	0	0	0	0	0	0	0	0	0
Subtotal retir	0	0	0	0	0	0	0	0	0
Total	7,589,772	7,525,868	466,604	7,589,772	110,052	1,130,516	9,044	1,289,516	7,737

South Kentucky Rural Electric Cooperative
Case No. 2005-00450
August 31, 2005

Payroll Adjustment

To reflect the increase granted by the Board of Directors, the step increases granted and promotions during the year. To give recognition to employees terminated and employees hired during the test year. Salaried employees that have overtime wages during the test year were hourly until February 2005, at which time they were determined to be salary. Overtime pay is calculated at 1-1/2 times regular pay rate for hours worked in excess of 8 hours per day.

Employees were granted wage rate increases on July 21, 2005, based on Performance Evaluations. Additional increases of 2% were given to employees who were below the midpoint for their pay rates and job classifications.

South Kentucky has always hired summer and part time employees, and anticipates this to continue into future years. These employees were normalized at the same rate and hours during the test year.

Full time employees, and those on long term disability, receive a \$1,000 each Christmas bonus. In addition, employees receive service awards for years of service. The Christmas bonus and service awards have been removed for rate-making purposes.

There are no union employees.

Wage and salary increases are as follows:

Increase

2005	3.0%
2004	3.0%
2003	4.0%
2002	4.0%
2001	3.0%

The amount of increase was allocated based on the actual test year.

Projected wages	\$7,589,772
Actual wages for test year	<u>7,456,855</u>
Adjustment	<u><u>\$132,917</u></u>

The allocation is on the following page:

South Kentucky Rural Electric Cooperative
Case No. 2005-00450

Allocation of increase in payroll:

		Labor <u>Distribution</u>	<u>Percent</u>	<u>Allocation</u>
107.20	Construction work in progress	1,836,427	24.6%	32,734
108.80	Retirement work in progress	389,590	5.2%	6,944
143.00	Accounts receivable, other	213,199	2.9%	3,800
163.00	Stores	160,510	2.2%	2,861
184.00	Transportation	163,711	2.2%	2,918
186.00	Employee bonuses	182,400	2.4%	3,251
242.30	Employee sick leave	190,282	2.6%	3,392
416.00	Non operating accounts	60,445	0.8%	1,077
580.00	Operations	55,029		
582.00	Station	1,954		
583.00	Overhead line	238,936		
584.00	Underground	1,962		
586.00	Meter	311,441		
587.00	Consumer installation	213,022		
588.00	Miscellaneous distribution	166,041	13.3%	17,618
590.00	Maintenance	58,491		
592.00	Station	5,532		
593.00	Overhead line	782,840		
593.10	Right of way	197,509		
594.00	Underground	4,552		
595.00	Transformers	6,724		
596.00	Street lights	4,721		
597.00	Meters	9		
598.00	Miscellaneous maintenance	99,834	15.6%	20,681
901.00	Supervision, customer accounts	13,708		
902.00	Meter reading	7,953		
903.00	Consumer records	1,049,521	14.4%	19,094
907.00	Supv, consumer information	13,726		
908.00	Consumer assistance	278,688		
909.00	Consumer information	36,913	4.4%	5,870
912.00	Demonstration and selling	9,116	0.1%	162
920.00	Administrative	377,330		
925.00	Injuries and damages	90,922		
926.00	Employee benefits	22,082		
930.00	Miscellaneous	63,230		
935.00	Maintenance general plant	148,505	9.4%	12,514
	Total	<u>7,456,855</u>	<u>100.0%</u>	<u>132,916</u>

South Kentucky Rural Electric
Case No. 2005-00450
Employee Earnings and Hours
August 31, 2005

Employee Number	Hours Worked Test Year			Actual Test Year Wages					Wage Rate Sept 1, 2005	Normalized Wages @ 2,080 Hours			Supervisor On-Call	Adjusted Total
	Regular	Overtime	Total	Regular	Overtime	Svc Award & Bonus	Supervisor On-Call	Adjusted Total		Regular	Overtime	Total		
Subtotal h	265,156.75	22,189.25	287,346.00	5,020,651	674,010	135,060	900	5,830,621		5,394,501	699,443	6,093,944	2,500	6,096,444
Summer and Part Time Employees:														
593	464.00	6.00	470.00	3,016	59			3,075	6.50	3,016	59	3,075		3,075
589	483.00	1.00	484.00	3,381	11			3,392	7.00	3,381	11	3,392		3,392
165	48.50		48.50	970				970	20.00	970	0	970		970
578	596.00		596.00	4,470				4,470	7.50	4,470	0	4,470		4,470
279	1,428.50		1,428.50	15,779		1,000		16,779	11.25	16,071	0	16,071		16,071
596	519.00		519.00	3,374				3,374	6.50	3,374	0	3,374		3,374
595	338.00	4.00	342.00	2,197	39			2,236	6.50	2,197	39	2,236		2,236
282	847.00		847.00	9,356		1,000		10,356	11.25	9,529	0	9,529		9,529
Subtotal sp	4,724.00	11.00	4,735.00	42,543	109	2,000	0	44,652		43,007	108	43,115	0	43,115
Retirees:														
107	1,114.00	106.00	1,220.00	20,553	2,934	1,600		25,087		0	0	0		0
299	0.00		0.00	0		1,000		1,000		0	0	0		0
259	0.00		0.00	0		1,000		1,000		0	0	0		0
396	0.00		0.00	400		1,000		1,400		0	0	0		0
135	0.00		0.00	0				0		0	0	0		0
236	0.00		0.00	0		1,000		1,000		0	0	0		0
479	2,088.00	421.00	2,509.00	29,444	11,486	1,000		41,930		0	0	0		0
161	808.00	13.50	821.50	20,462	510	1,600		22,572		0	0	0		0
170	1,368.00		1,368.00	24,849		1,480		26,329		0	0	0		0
392	0.00		0.00	0		1,000		1,000		0	0	0		0
310	0.00		0.00	0		1,000		1,000		0	0	0		0
561	1,529.00	17.50	1,546.50	26,132	457	1,000		27,589		0	0	0		0
326	0.00		0.00	0		1,000		1,000		0	0	0		0
585	288.00	9.50	297.50	5,618	279			5,897		0	0	0		0
191	0.00		0.00	0		1,600		1,600		0	0	0		0
216	0.00		0.00	0		2,080		2,080		0	0	0		0
217	0.00		0.00	0		1,600		1,600		0	0	0		0
Subtotal re	7,195.00	567.50	7,762.50	127,458	15,666	18,960	0	162,084		0	0	0	0	0
Total	327,187.75	23,194.00	350,381.75	6,563,486	703,299	180,920	9,150	7,456,855		6,877,720	699,551	7,577,272	12,500	7,589,772

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

20. Refer to the Application, Exhibit 3.

a. On page 1 of 6, South Kentucky states that it has never had a depreciation study performed. In preparing for this case, did South Kentucky consider performing a depreciation study? Explain the response.

Response

South Kentucky did consider having a depreciation study performed in conjunction with this Application. In reviewing the Reserve Ratio, the Ratio of Distribution Plant to Distribution Plant 10 Years Prior, and the growth in distribution plant, it was determined that there were no significant changes in any of these areas to indicate that an adjustment in depreciation rates would not be necessary.

b. Refer to page 2 of 6. Explain why Land is included in the depreciation expense normalization for distribution plant.

Response

This was an oversight. Land should not be included in the normalization expense.

c. Refer to page 3 of 6. Explain the differences in the test-year depreciation expenses shown on page 3 with the total depreciation expense balance shown on Exhibit X, page 6 of 9.

Response

The test year depreciation should be as follows:

Total	4,811,775
less amount to transportation clearing	834,741
less amount to nonoperating activities	<u>1,668</u>
Depreciation expense	<u><u>3,975,366</u></u>

South Kentucky allocates a portion of depreciation for general plant to non-operating activities based on square footage used. This was inadvertently omitted from the calculation for test year depreciation expense. It is estimated that the same amount will be allocated to nonoperating activities for future years.

d. Refer to pages 3 and 4 of 6. The schedule on page 3 shows that the reserve ratio for the five most recent calendar years are lower than the corresponding reserve ratios for 10 years ago. The reserve ratios are approximately 15 percent lower for the five most recent calendar years compared to the corresponding periods 10 years ago. The graph on page 4 shows that South Kentucky's ratio of current distribution plant in service to the distribution plant in service 10 years ago is just below the "minimum curve."

(1) Indicate when RUS Bulletin 183-1 was issued and when was the last update to the bulletin.

Response

Bulletin 183-1 was issued in 1963, the last update was in 1974.

(2) Based on the information provided on pages 3 and 4 of 6, does South Kentucky believe its depreciation rates are reasonable? Explain the response.

Response

The "Minimum Curve" and the "Optimum Curve" as reflected on the RUS Bulletin 183-1 Depreciation Guideline Curves are very close. In fact, the Optimum Curve is much closer to the Minimum than the Maximum Curve. Given that South Kentucky is very near the Minimum, thus, the Optimum also, and the Reserve Ratio for the past 5 years has changed very little, South Kentucky is of the opinion that its depreciation rates are adequate at this time. South Kentucky does review the reserve ratio during its annual audit, and if the trend of the reserve ratio or the point on the Guideline Curve changes in the future, South Kentucky will consider a depreciation study as one of its options.

(3) Given the age of RUS Bulletin 183-1 and the information provided on pages 3 and 4 of 6, would South Kentucky agree that a depreciation study based on its own asset history should be considered? Explain the response.

Response

South Kentucky agrees that a depreciation study based on its own history would provide a more accurate assessment of the proper depreciation rates to use, however, based on the fact that there are no significant differences, or fluctuations in the previous five years, there is no need for a study to be performed at this time. South Kentucky will continue to monitor the reserve ratios and ratio to 10 years ago.

e. Refer to page 5 of 6. Explain the test-year amounts listed as "Additions" and "Retirements" for each account.

- (1) Account No. 389, Land
 - Land excavation for Whitley City office \$54,197
 - Land purchase Albany office \$35,540
 - Land site survey Monticello office \$4,805.
 - Land site survey Russell Springs office \$4,805.
- (2) Account No. 390, Structures and Improvements
 - Reclassify \$445,148 of costs for the Somerset Headquarters building to Account No. 107.80, CWIP Buildings.
- (3) Account No. 391.01, Computer Equipment
 - Purchased an imaging system.
- (4) Account No. 391.11, Computer AVL Equipment
 - GPS (Global Positioning System) purchase
- (5) Account No. 391.2, Transportation Equipment
 - Purchase line truck and vehicle for crew added at Albany District office. Other normal vehicle replacements.