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OCT 19 2007

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SOUTH KENTUCKY RURAL)	
ELECTRIC COOPERATIVE CORPORATION FOR)	CASE NO.
THE APPROVAL TO PURCHASE THE FIXED)	2007-00374
ASSETS OF THE MONTICELLO ELECTRIC)	
PLANT BOARD)	

RESPONSE TO COMMISSION STAFF'S
SECOND DATA REQUEST

Comes South Kentucky Rural Electric Cooperative Corporation ("South Kentucky" or "SKRECC") and files with the Commission an original and six (6) copies of the attached response to the Commission Staff's First Data Request to South Kentucky Rural Electric Cooperative Corporation dated and served on October 18, 2007. Each copy has been placed in a bound volume with each item separately tabbed.

CERTIFICATION

The undersigned, Allen Anderson, states that he is the President and Chief Executive Officer of South Kentucky Rural Electric Cooperative Corporation; that he supervised the preparation of the within response; and certifies that the within response is true and accurate to the best of his knowledge, information and belief formed after reasonable inquiry.




ALLEN ANDERSON
PRESIDENT & CEO
SOUTH KENTUCKY RURAL ELECTRIC
COOPERATIVE CORPORATION
SOMERSET, KENTUCKY 42501
(606) 451-4123



DARRELL L. SAUNDERS
ATTORNEY FOR SOUTH KENTUCKY
RURAL ELECTRIC COOPERATIVE
CORPORATION
700 MASTER STREET
P.O. BOX 1324
CORBIN, KENTUCKY 40702
(606) 523-1370 TELEPHONE
(606) 523-1372 FACSIMILE

CERTIFICATE OF SERVICE

I hereby certify that the original and six (6) true and correct copies of the above and foregoing were on this 18th day of October, 2007 personally delivered to the Public Service Commission, 211 Sower Blvd., P.O. Box 615, Frankfort, KY 40602-0615. I further certify that I have received no notice from the Public Service Commission that any other party is involved in this action.



ATTORNEY FOR SOUTH KENTUCKY RURAL
ELECTRIC COOPERATIVE CORPORATION

COMPARISON OF RATES

- Q. Refer to the response to the Commission Staff's First Data Request dated September 14, 2007 ("Staff's First Request"), Item 4. In most comparisons, the rates charge by Monticello Electric Plant Board ("Monticello") are less than the corresponding rates charged by South Kentucky.
- a. Have Monticello's' customers been made aware of the increase in rates that will occur when they are charged South Kentucky's rates. If yes, state when and how this increase was made known to them.
- R. a. The Monticello Electric Plant Board is aware that some difference does exist in the current rate structures of Monticello and the comparable rates for SKRECC. SKRECC has not provided this type of information to the customers of Monticello. However, it should be noted that over the years that at times the rates for comparable rate structures have been higher for one utility and then higher for the other utility. TVA has just recently implemented a fuel adjustment clause which will cause Monticello's rates to be higher plus some information does exist that TVA may be increasing its rates in the near future. Finally, if Monticello were to continue to purchase its power from TVA after November 20, 2008, it would be charged a premium of one (1) cent per kWh over the normal wholesale power rates in effect at that time.
- Q. b. For each Monticello customer class listed in the response to Item 4, calculate average monthly bills using the Monticello and comparable South Kentucky rates. Base the calculated bills on the most currently available average class usage. Show all components used to determine the total bill. Include all riders, surcharges, fees and applicable taxes. This would certainly change the comparison provided below and would most probably make SKRECC has the lower cost utility for all three rate classes compared.
- R. b. Provided below is the data used to calculate the average monthly bill for those rate classes where such a computation is feasible. Such a comparison is being made on base rates only because all riders, surcharges and fees applicable to the TVA distributors is not readily available.

The average monthly usage for each rate schedule for which average monthly bills are calculated is presented below.

**SOUTH KENTUCKY RECC
CASE NO. 2007-00374**

Item No. 1
Page 2 of 2

Witness: Allen Anderson

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST Jim Adkins

<u>Rate Class</u>	kWh Sales	Number of Customers	Average Monthly Usage
Residential	39,229,355	2,767	1,181
General Power - 50 kW & Under	10,203,226	567	1,500
General Power - Over 50 kW	47,732,119	93	42,771

<u>Average Monthly Bill</u>	<u>MEPB Rates</u>	<u>SKRECC's Rates</u>
Residential	\$ 86.01	\$ 93.96
General Power - 50 kW & Under	\$ 122.82	\$ 140.06
General Power - Over 50 kW Assume 100 kW Demand	\$ 3,351.53	\$ 2,746.65

**SOUTH KENTUCKY RECC
CASE NO. 2007-00374**

Item No. 2

Page 1 of 1

Witnesses: Allen Anderson

Jim Adkins

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

WHOLESALE POWER SUPPLIER RATES

- Q. East Kentucky Power Cooperative, Inc. ("EKPC") has pending before the Commission an application to increase its wholesale power rates, which will result in an increase in the rates of South Kentucky. Has any of the information presented to Monticello's customers acknowledge this pending rate case? Explain the response.
- A. None of the written material presented to Monticello representatives nor its consumers specifically address this potential rate increase or its impact. One reason is the fact that a final outcome of this EKPC application could not be reasonably estimated. Another reason is that it is expected that EKPC's wholesale rates would be cheaper than TVA's wholesale rates at the time of the change of wholesale power suppliers in November, 2008. Please see the response to Item No 1 in regards to the potential wholesale power increases if the MEPB remained on the TVA systems.

**SOUTH KENTUCKY RECC
CASE NO. 2007-00374**

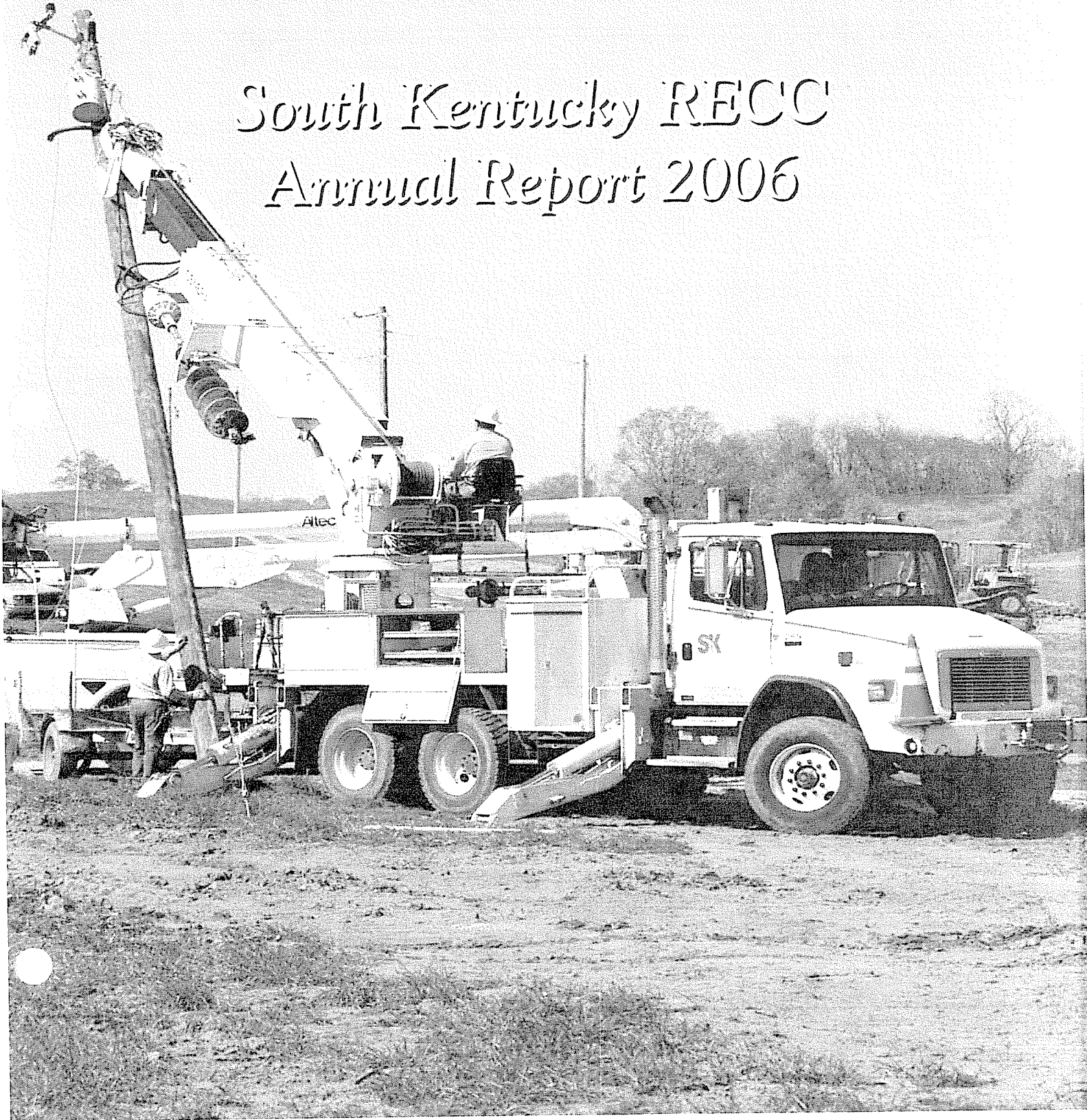
Item 3 a
Page 1 of 57
Witness: Allen Anderson

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

SOUTH KENTUCKY ANNUAL MEETING ATTENDANCE

- Q. Refer to the response to the Staff's First Request, Item 6.
- a. Refer to page 4 of 21
- (1) Provide copies of any sections of South Kentucky's Annual Meeting Report that discuss the acquisition of Monticello.
- R. (1) Copies are provided on pages 2 thru 9.
- Q. (2) Provide the minutes of the 2007 South Kentucky Annual Meeting and copies of remarks made by Allen Anderson.
- R. (2) Copies are provided on pages 10 thru 20.
- Q. (3) State the total number in attendance at the 2007 South Kentucky Annual Meeting and indicate how many attendees were customers of Monticello.
- R. (3) Total attendance for the 2007 South Kentucky Annual Meeting was 4,057 including 77 customers from Monticello Electric Plant Board.
- Q. (4) Provide samples of special presentations referenced for the month of July.
- R. (4) Copies are provided on pages 21 thru 57.

South Kentucky RECC Annual Report 2006



Annual Report 2006.

South Kentucky RECC Covers “New Ground” With Office Construction Projects and a Possible Expansion

Rural electric cooperatives like South Kentucky RECC were created during the 1930s for one specific and important purpose: to provide electric power to rural Americans, who were not being served by the electric companies of the day because it wasn't profitable to build power lines into the countryside for the comparatively few customers who lived there. Consequently, many rural Americans were still living very much as they had lived in the 1800s, and the American dream was passing them by.

Cooperatively-owned utilities proved to be the answer, because they removed the profit motive. Rural electric co-ops are free to concentrate on providing reliable electric service, at rates members can afford to pay.

Times have changed since 1938, when South Kentucky RECC was founded. Yet one thing hasn't changed: financially, it is still easier to operate an electric utility when the costs of building, repairing, maintaining and improving power lines and the rights-of-way surrounding them are shared among a greater number of residents.

That's one reason for excitement, as we present this 2006 Annual Report to the members of South Kentucky RECC. The co-op has been in very productive and amicable negotiations with the Monticello Electric Plant Board (MEPB) and the city of Monticello, which could allow South Kentucky RECC an opportunity to purchase the assets of the Monticello utility and taking in its 3,500 customers as new co-op members before the end of 2007.

The parties involved in the negotiations thus far have concluded that this transaction would have long-term benefits for everyone. Here's how:

- **South Kentucky RECC** would add to its predominantly rural service territory the city of Monticello, thus gaining greater average density (calculated as the number of electric consumers per mile of line). It would also acquire several commercial loads, which typically purchase more electricity than residences (system-wide, SKRECC is about 92 percent residential); the revenue from those accounts would help the co-op stabilize its costs for everyone.

- **SKRECC's present members**, no matter where they live, stand to benefit because of these advantages to their electric cooperative. Remember, in a member-owned non-profit cooperative, decisions are not made or driven by profit. The goals are made to enhance the co-op's financial stability, improve services, and spread costs, which also allows for overall better service to the members. Coming off a year (2006) when South Kentucky RECC had to raise its electric rates for the first time since 1989, members can appreciate a move that could help forestall the need for future increases.

- **The City of Monticello** would receive a total of \$4.686 million from the sale of its municipally-owned utility. The city would receive this money from annual payments with interest spread over a 30-year period (assets include the electric distribution system, territorial rights, a substation, real estate, transportation equipment, office equipment, and furniture). This capital presumably would benefit all taxpayers by delaying the need for possible tax increases for the citizens of Monticello and allow the city to accomplish the things that would have a positive impact on their community. They also could benefit from the co-op's economic development office, which has successfully attracted industry and jobs to other communities in South Kentucky's service area.

- **Monticello's electric consumers** would become members of South Kentucky RECC with the \$25 membership fee being paid for each Monticello Electric Plant Board customer by the city of Monticello. Members of MEPB would have access to many more resources than are available through their present power provider. SKRECC being a much larger company can bring economies of scale to the provision of electricity, especially important during power failures. South Kentucky RECC has emergency aid agreements with all of the Kentucky cooperatives, as well as all other Touchstone Energy® cooperatives across the country. SKRECC has better access to a continuous flow of electrical supplies through its association with United Utility Supply and the Kentucky Association of Electric Cooperatives. Plus, SKRECC offers a number of services for its members, such as providing electrical inspections and advice through its five-member inspection department, home energy audits to help people use electricity more efficiently, and provide guidance for new construction projects in terms of efficient heating systems and insulation levels, and more. The city's residents would become full members of the co-op, entitled to have a vote and have a voice in any membership business meeting and to earn patronage capital each year that SKRECC earns margins (profits) over its costs.

• **Monticello's electric employees**—12 in number—would not have anything to lose in this acquisition and much to gain. The skills of these employees would be welcome, as the co-op faces the impending retirement of a number of senior employees in coming years. This is one of the things that make the timing of this opportunity so crucial. The Monticello Electric Plant Board employees are actually needed and will become part of a much larger, growing company that will offer many more opportunities for their future growth and development.

Origins of the proposal

Like co-ops, municipal utilities are a form of public power. In this region, most municipals, in the past, have purchased their power exclusively from the Tennessee Valley Authority (TVA). However, as of November 2003, MEPB's TVA contract allowed an option for utilities being presently served by the power supplier, upon a 5-year notice, to discontinue service with them.

The Monticello Electric Plant Board took the TVA up on the offer to explore their options for power by giving the 5-year notice to TVA. In November 2003, MEPB sent out Requests for Proposals (RFPs) to other potential power providers. This attracted the interest of South Kentucky RECC. The co-op serves about 62,000 members including the rural areas surrounding Monticello, and because of growth, the need for more substations, a plan for a new district office, employee needs, and co-op interest in the Monticello community, SKRECC CEO Allen Anderson began sharing the co-op needs and interests with MEPB Superintendent Gary Dishman. Both parties began seeing the many synergies with the possibility of the two companies coming together.

The parties undertook negotiations, and in January 2007 the MEPB Board of Directors voted unanimously in favor of presenting the city of Monticello with a resolution outlining the sale of MEPB to South Kentucky RECC for \$4.686 million to be paid to the city with interest over a 30 year period. In February 2007, the Monticello City Council unanimously agreed to the proposal, which included the amount and stipulated conditions.

That leaves it up to the citizens of Monticello, and how they will vote on the issue on the November 6, 2007 ballot. The Kentucky Public Service Commission (PSC) must also approve the transaction. Primarily, the PSC will focus on the question of whether the co-op would be subsidizing the Monticello purchase with its membership's money. To be approved, South Kentucky RECC's investment must be economically viable and pay for itself, and co-op officials believe that is the case.

By this time next year we hope to report that South Kentucky RECC is serving its second small town located in the county where South Kentucky RECC was founded in 1938 (the co-op already serves Albany). That will mark a new and promising era for the 69-year-old cooperative.

Homecoming

It was there and then in Monticello, Wayne County, that a visionary group of farmers, rural merchants, and business folks, in places like Slat, Susie, Mill Springs, and Touristville, recruited sometimes-doubtful local residents to participate in this seemingly risky scheme—cooperative ownership of a

company that would put power poles on their property and electric lights in their homes. People had to put up a line and earned minimum of \$2.50 a month to join.

It was a difficult sell. But the incorporators—Lloyd Dunnington, Walter Dalton, Ray Oats, G.P. Rice, John D. McKechnie, A.V. Stearns, Herschel Henninger, and Foxie Dunagan—were successful, and the papers were signed above the Monticello Bank on October 8, 1938. Article III of the incorporation papers made it official: "The principal office of the Corporation [was to be located at] Monticello, in the County of Wayne, Commonwealth of Kentucky."

During the 1940s the co-op migrated to Somerset, although SKRECC has remained the power provider for Susie and Slat and the rest of rural Wayne County. So somehow it seems right that South Kentucky RECC may have the opportunity to serve the good citizens of Monticello, and their families, schools, and businesses located within Wayne County.

New central and district buildings

Another major development to give an updated report on is the progress on the planned construction of new office/warehouse facilities throughout SKRECC's territory. These new facilities will replace the current facilities in Somerset, Russell Springs, Albany, and Whitley City.

The Whitley City office was completed in August 2006 and is now operational. A new facility to serve Wayne County members has been put on hold, pending the outcome of the Monticello Electric Plant Board proposal. If that is successful, the co-op will utilize the current MEPB office avoiding the need for construction in Monticello—another potential benefit of that transaction.

The Russell Springs and Albany facilities are both under construction with an expected completion date of August and November 2007 respectively. The Somerset facility is well into the design stage with an expected completion date of 2009.

The current facilities date from the 1950s and '60s, and have become inadequate for today's growing needs. Despite modifications, none are fully handicap-accessible, which is required under the Americans with Disabilities Act. The drive-through windows are heavily utilized, and are intended



The new Whitley City office was completed in August 2006. All the new South Kentucky RECC district offices will be the same floor plan and size.

for the convenience of our members. Through growth and poor design of the drive-through windows, we are experiencing longer lines causing the service to be less than desirable by the co-op. In most cases, the offices are not as inviting or designed to be as "customer-friendly" as the co-op insists they be.

Above all, though, the co-op has outgrown these spaces. When they were constructed South Kentucky RECC served about 10,000 members total throughout its 13-county service area. Its membership now exceeds 62,000. Creating adequate working space to accommodate the employees, parking, equipment, new technology, and resources needed to serve a growing membership that size will make for a more well-organized company, that is much more convenient and accessible to the member.

All the new sites will combine office and warehouse space, improving inter-departmental communication and efficiencies. They will provide indoor shelter for higher cost vehicles and equipment, protecting them and prolonging their lifespan. District facilities will be fully stocked with materials and equipment to serve local demand, enabling prompt response and reducing transportation costs and "windshield time."

The co-op recognized the need for this project quickly approaching several years ago, and hired a consulting firm to do a needs assessment, objectively evaluate the current facilities, project future co-op growth, and provide a second opinion as to where facilities should be located and even if new facilities were the best decision. The decision was that the district offices should remain in their host communities, where each equitably serves about 10,000-12,000 members (the Somerset office serves 20,000-25,000). These locations, better equipped, will advance the co-op's goal of providing members everywhere with the same quality of service. The decision also was that building all new facilities and selling the existing ones would be the most economic approach.

The Kentucky Public Service Commission has already approved the individual construction projects that have come before it, including the Whitley City, Russell Springs, and Albany facilities construction projects, ensuring that expenditures were fully justified and that the co-op's needs to serve the membership for the next 30 years were acceptable. All district office facilities will be the same floor plan and the same size.

The status of the projects is as follows:

McCreary County. The office that serves the southeast part of our territory remains in Whitley City, very close to the former SKRECC facilities. Construction is complete, and the facility became operational August 2006.

Russell County. The district office in the northwest will be moved from Russell Springs to a new location on Highway 127 between Russell Springs and Jamestown, just north of Russell County High School. Construction began in March 2007 with plans to be completed by August 2007.

Clinton County. The new southwestern office site excavation started in April 2007 with a

planned completion date of November 2007. The office/warehouse will be north of downtown Albany at the intersection of Highway 127 and Snow Road.

Pulaski County. Relocating South Kentucky RECC's main office in Somerset to a new site on the outskirts of town—the new and as-yet uncompleted Highway 27—will be the biggest part of the project. Plans are to make application to the PSC for approval for the need to construct a new Somerset facility with hopes of having that final approval and ground broken before the end of 2007. Construction could take up to two years. The Somerset office design, as well as all of the new district offices, includes a large, modern community room, which like the present room can be used not only for co-op training and conference purposes but by members and the general public as well.

Eventually, South Kentucky RECC will have valuable assets to sell—its present properties, including the former farmland used for the annual membership meeting. (The new headquarters will have sufficient property to hold the event on-site.) They are considered quite marketable, which will allow the co-op to recoup some of its investment in the buildings that should house South Kentucky RECC for 30-plus years into the future.

Call Center a major benefit to member services

Here's a much-needed improvement your co-op made in 2006 without waiting for the completion of new buildings. It launched its "call center," an improved telephone and computer system that provides quick, comprehensive services to South Kentucky RECC members, with a corresponding savings in time and efficiencies for employees whose primary job responsibilities are to meet the needs of all our walk-in members and also those that prefer to do business by phone.

The days of calling the co-op with questions about anything—your bill, a service problem, requests for home energy audits, new service connections, energy-related products, etc.—and waiting to be transferred to the right department, are over. Now, the "right department" is the call



South Kentucky RECC's new call center was put into place August 2006. It provides quick, comprehensive service to co-op members who telephone with questions or want to make a payment by phone or anything else they may call for.

center itself. Trained call center employees operate a computer data system that enables them to respond to most inquiries for the convenience of our members.

SKRECC has always limited its use of automated phone systems, but this call center utilizes our professional employees and takes that effort to the next level. Callers do receive an initial automated answer that enables them to go directly to the dispatch center to report an outage, or dial their party's extension. Otherwise, though, they stay on the line and are quickly connected to a professional South Kentucky RECC call center employee who helps them from beginning to end without the need to transfer the call in most situations.

The call center was one of SKRECC's signal accomplishments in 2006, improving information and communication with its members, to reduce the number of busy signals, and to ensure our members get the service they deserve. It has also yielded other benefits. Calls are easily transferred among all five South Kentucky RECC offices, so if an office is experiencing a high volume of incoming calls attendants at another office can relieve the burden, usually without the caller even being aware. (If a caller wants to speak to someone at his or her district SKRECC office, that connection, of course, can be made.)

Launched last June in Somerset, the call center was gradually expanded to the other district offices as more employees were trained and the installation completed. It was fully up and running by August, when it became operative at Whitley City.

Funding for daily work

And, finally, South Kentucky RECC has commenced operations under its new three-year work plan.

America's rural electric co-ops sustain their systems through operations loans provided by the federal Rural Utilities Service (RUS). Each three-year plan requires extensive research and careful drafting by the operations staff to ensure that the RUS will approve the work proposals and

money request. South Kentucky launched its \$29 million, 2007-2009 plan in January.

There are no new special projects in the work plan—the “special” things on SKRECC's plate, such as moving into new offices and relocating power lines to accommodate highway construction, lie outside the work plan's scope. But a glance at the plan provides insight into what “normal” operations are like for this growing, 63,000-member, 13-county co-op.

Forty-two percent of the \$29 million will go to new service extensions, as people build homes and businesses in co-op territory. SKRECC will upgrade 153 miles of power line—replacing old copper wire in some places, switching to larger conductor (wire) elsewhere to carry additional load, and going from single-phase to three-phase power (look for three wires on the poles instead of one) where that higher level of service is needed. Line upgrades will cost about \$6.6 million.

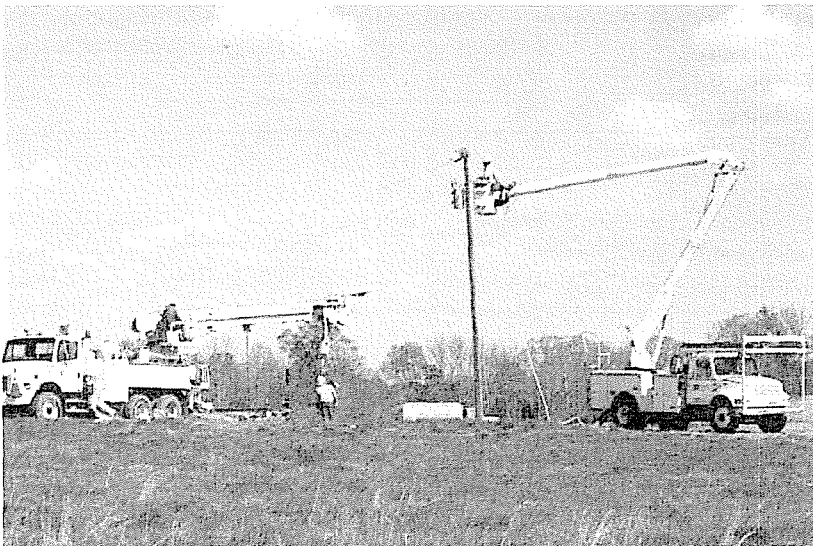
The plan also covers testing, replacing, and improving line equipment—the transformers, voltage regulators, capacitors, and fuses that maintain power quality and sectionalize the system to confine outages to smaller areas. The work plan foresees replacing some 2,400 poles over the course of three years, at a cost of \$3 million.

It takes diligence, dedication, and expertise to run an electric system as large as SKRECC's. Unfortunately, it is costly to meet the growing needs of our members, and we must continue to make upgrades to the system for better reliability. Our costs have drastically risen over the past 17 years, and with our commitment to continue to improve service, these are some of the reasons why the co-op finally had to resort to the 8.4-percent rate increase the Public Service Commission approved in 2006 and which SKRECC instituted in September.

That increase ended the co-op's 17-year run of maintaining steady retail electric prices, but anyone would be hard pressed to find another cost that stayed the same over that period. SKRECC is very proud of those 17 years without an increase and now we are dedicated in building another good run. We know how critically important it is to our members to keep rates as low as possible.

South Kentucky RECC will now continue its quest to be a good steward of our members' money and assets while remaining very committed to making the necessary investments in facilities, equipment, growth expansion, and employees. These investments will help the co-op give members the best electric service at the most stable prices possible.

South Kentucky RECC's mission remains being “for people, not profit” and to provide reliable service to its members at an affordable cost and be committed to the growth of local communities.



A large portion of South Kentucky RECC's new work plan is for new service extensions. Here, an SKRECC construction crew begins setting poles and establishing service in a new Wayne County subdivision.

Board of Directors

CEO AND BOARD OF DIRECTORS

MEMBERS BY COUNTY

Adair	575
Casey	1,626
Clinton	6,788
Cumberland	20
Laurel	8
Lincoln	1,179
McCreary	6,332
Pulaski	26,982
Rockcastle	68
Russell	9,540
Wayne	8,846
Pickett, TN	169
Scott, TN	26

ACCOUNTS BILLED

1996	51,021
2006	62,159

22 percent increase

AVERAGE RESIDENTIAL KWH USAGE

1996	1,013
2006	1,080

7 percent increase

MILES OF LINE

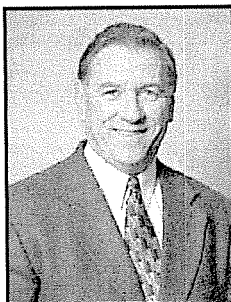
1996	5,719
2006	6,540

14 percent increase

MEMBERS PER MILE

1996	8.92
2006	9.50

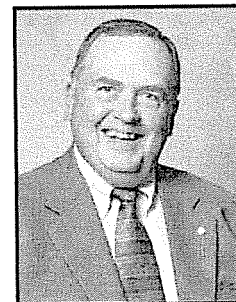
7 percent increase



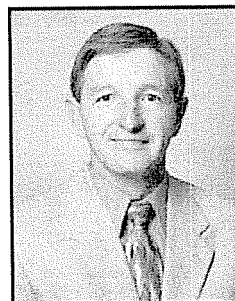
Allen Anderson
Head Coach/C.E.O.



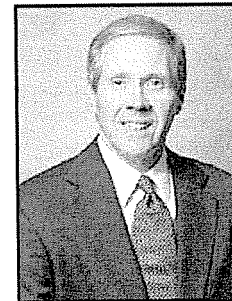
Richard G. Stephens
President
EKP Representative
District #6



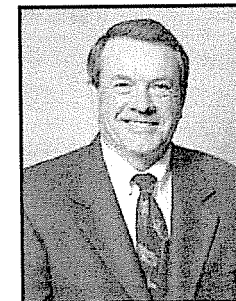
Charles L. Gore
Vice President
KAEC Representative
District #2



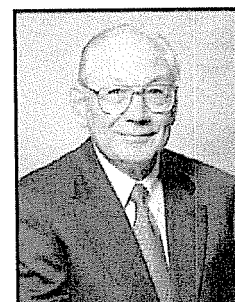
Tom Estes
Secretary/Treasurer
District #7



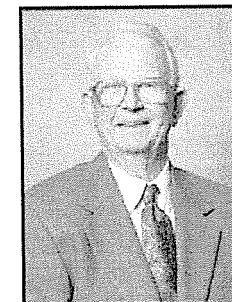
John T. Pruitt Jr.
District #1



Jerry Purcell
District #3



Glen Massengale
District #4



William J. Shearer
District #5



Darrell Saunders
Attorney

Witness: Allen Anderson

2006 Statement of Earnings

Operating Revenue	\$88,779,427
Cost of Electric Service	
Cost of Electricity Purchased From East Kentucky Power	\$65,324,265
Cost of Operating the Distribution System	\$15,594,828
Depreciation Expense	\$ 4,322,468
Interest Expense on Loans	\$ 4,779,904
Public Service Commission Assessment	\$ 84,378
Other Expenses	\$ 103,191
Total Cost of Electric Service	\$90,209,034
Gross Margins from Electric Service	\$(1,429,607)
Non-Operating Income	\$284,241
Net Margins (Deficit)	\$(1,145,366)

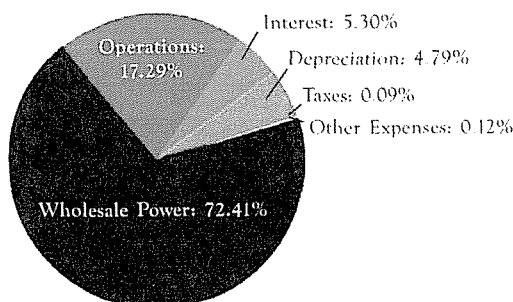
Balance Sheet As of December 31, 2006

Assets:	
Total Poles, Wires, and Other Equipment	\$158,636,617
Less Accumulated Depreciation	(\$32,448,834)
Net Value of Poles, Wires, and Other Equipment	\$126,187,783
Investments in Associated Organizations	\$25,892,637
Cash	\$1,210,905
Accounts and Notes Receivable from Members	\$10,080,458
Material in Inventory	\$2,071,618
Prepaid Expenses	\$308,486
Other Assets	\$704,355
Total Assets	\$166,456,242
Liabilities and Members' Equity:	
Consumer Deposits	\$690,335
Members and Other Equities	\$47,438,842
Long-Term Notes Payable	\$99,133,968
Notes and Accounts Payable Owed to Vendors	\$10,484,312
Other Liabilities	\$8,708,785
Total Liabilities and Members' Equity	\$166,456,242

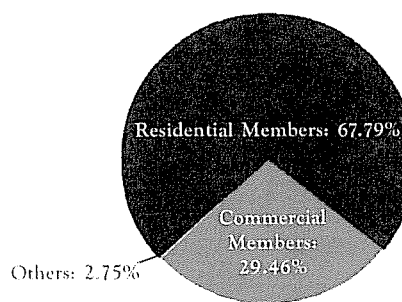
Our Mission:
South Kentucky
RECC was formed
for people, not
profit. Its mission is
to reliably provide
electricity and
related services to its
members at a
competitive price,
and improve the
quality of life in its
communities.

2006 FINANCIAL INFORMATION

MAJOR COSTS



REVENUE SOURCES



69th Annual Membership Meeting Agenda

June 7, 2007

5:00 p.m. Member Registration

6:00 p.m. Entertainment — Gospel Group: Southern Harmony

7:00 p.m. Welcome Members and Guests — CEO Allen Anderson

Presentation of Colors — American Legion/Veterans of Foreign Wars
(Please stand for the National Anthem)

National Anthem

Invocation — John Pruitt, Director-District 1

Introduction of SKRECC's Board of Directors — CEO Allen Anderson

Introduction of the Moderator (Co-op Attorney Darrell Saunders)

of the Business Meeting — CEO Allen Anderson

Business Meeting begins — Darrell Saunders, Co-op Attorney

- Moderator declares a quorum present.
- Reads official notice and proof of mailing.
- Reads minutes of 2006 Annual Meeting, or hears motion to dispense with reading of the minutes.
- Presents financial report.
- Reads Nominating Committee Report on the election of Board Members:
 - District 2 - Charles Gore
 - District 3 - Jerry Purcell
 - District 6 - Richard G. Stephens

New Business:

CEO's Report—Allen Anderson

Adjourn Business Meeting

Introduction of Special Guests — CEO Allen Anderson

Ron Sheets, President, Kentucky Association of Electric
Cooperatives

Bob Marshall, President, East Kentucky Power Cooperative

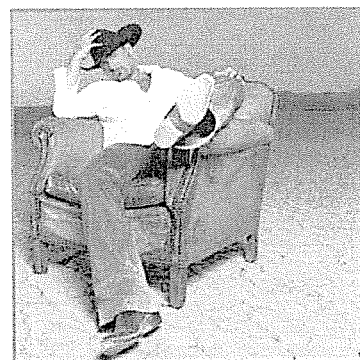
2007 Senior Scholarship Recipients Presentation

2007 Washington Youth Tour Winner Recognition

Prize Drawings* — Dennis Cannon **You must be present to win.*

Featured Entertainment — Chris Cagle

Children's Entertainment — children's rides and face painting
(this will be taking place on the meeting grounds throughout the
evening)



Chris Cagle

"Chicks Dig It"
"Miss Me Baby"
"What a Beautiful Day"
"Wal-Mart Parking Lot"

ANNUAL MEETING OF THE MEMBERS OF
SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION

The 69th Annual Meeting of the Members of South Kentucky Rural Electric Cooperative Corporation was held pursuant to notice at the Cooperative Farm located on West Highway 80, Somerset, Kentucky, on Thursday, June 7, 2007, with registration beginning at 5:00 p.m. and the business meeting of the cooperative following at 7:00 p.m.

Dennis Cannon, Program Emcee from KAEC, welcomed all of the members and discussed what it means to be a member of an electric co-op. Mr. Cannon then introduced Allen Anderson, CEO of South Kentucky Rural Electric Cooperative Corporation.

Mr. Anderson welcomed the members and guests to the 2007 Annual Meeting. Mr. Anderson indicated that this was one of the largest co-op annual meetings in the nation. Mr. Anderson thanks the 62,000 members for allowing the co-op to serve them this past year and for their continued support over the past 69 years.

Mr. Anderson then asked everyone to remember our troops and their families and asked for a moment of silence to honor those individuals.

Mr. Anderson then requested that all Veterans, active members of the military and anyone having family serving in the military to raise their hands and asked for an applaud of appreciation for these individuals.

Mr. Anderson then introduced the special guests.

Presentation of Colors was presented by the American Legion/Veterans of Foreign Wars.

Tyler Duncan, Monticello High School Student, sang the National Anthem.

Mr. Anderson called upon John Pruitt, Director, representing District 1 in Pulaski County to give the Invocation.

Mr. Anderson introduced the 2007 South Kentucky Board of Directors and their spouses: Board Chairman Richard Stephens and wife Patty of District 6, Vice Chairman Charles Gore and wife Louella of District 2, Secretary/Treasurer Tom Estes and wife Teresa of District 7, William Shearer and wife Barbara of District 5, Glen Massengale and wife June of District 4, Jerry Purcell and wife Sue of District 3 and John T. Pruitt, Jr. and wife Carol of District 1. Mr. Anderson also introduced the Co-op Attorney, Darrell Saunders and his wife Sue and Mr. Anderson's wife Patti.

Mr. Anderson then turned the meeting over to the Co-op Attorney, Darrell Saunders, to conduct the business session of the Annual Meeting.

The first order of business was to declare a quorum present at the 2007 Annual Meeting.

The second order of business was the reading of the notice and affidavit of mailing that was published in the April, 2007 issue of the Kentucky Living Magazine.

Minutes – A Motion was made and seconded by the membership to dispense with the reading of the Minutes of the 2006 Annual Meeting and to approve the Minutes as written. Motion carried.

Co-op Attorney, Darrell Saunders, reported that a full financial report had been published in the Annual Report, which was an insert in the May, 2007 Kentucky Living Magazine.

Co-op Attorney, Darrell Saunders, read the 2007 Nominating Committee's Report and reported that the Committee had nominated incumbent Directors, Charles Gore representing District 2; Jerry Purcell representing District 3; and Richard G. Stephens representing District 6 to each serve another term.

A Motion was made and seconded by the membership that the Nominating Committee's recommendations are accepted and the above nominees be re-elected by acclamation. Motion carried.

Co-op Attorney, Darrell Saunders, then asked the members if there was any unfinished old business to be discussed. There being none, Attorney Saunders then turned the meeting back over to Allen Anderson for the President's Report.

Mr. Anderson indicated that it was a great honor for him to serve the membership and thanked the membership for their continued support of the co-op. Mr. Anderson thanked the Board of Directors, Attorney and Employees for all their dedication and hard work at the co-op.

Mr. Anderson indicated that South Kentucky's mission continues to be that the co-op was formed for people not profit, to reliably provide electricity and related services to its members at a competitive price and to improve the quality of life in its communities. Mr. Anderson indicated that everything the co-op does is to work at achieving this mission.

Mr. Anderson reported on the highlights of the co-op over the past year to the membership.

Mr. Anderson indicated that the co-op had been working toward the acquisition of the Monticello Electric Plant Board. Mr. Anderson indicated that the MEPB has 3,500-customer system in the City of Monticello. Mr. Anderson indicated that in January, 2007 the MEPB unanimously voted in favor of a resolution to sell to South Kentucky and in February, 2007 the Monticello City Council unanimously voted in agreement of the resolution and now it will be in the hands of the citizens of Monticello to decide on November 6, 2007. Mr. Anderson indicated that the MEPB System would create immediate revenue to South Kentucky, that the City of Monticello, its citizens and Wayne County would benefit from the revenue from the sell over a 30-year period, that they have more commercial industrial customers per mile of line, that they have a higher load factor, that they have recently built a new facility and South Kentucky needs a new office in Monticello, that the two systems would have stronger buying power and would gain efficiency, and that the two systems would have improved reliability and service restoration in time of emergencies.

Mr. Anderson indicated to the members that progress was being made on the new office facilities. Mr. Anderson indicated that when the facilities were completed they should meet the members' needs for the next 30 years. Mr. Anderson indicated that the Whitley City Office had been completed August, 2006, the Russell Springs and Albany Office would be completed in 2007 and the Somerset Office was in the planning stages with a targeted completion date of late 2009. Mr. Anderson indicated that the new grounds would also accommodate a new outdoor meeting site for the annual meeting.

Mr. Anderson also indicated that South Kentucky had been involved along with other various organizations in a High Growth Training Center. Mr. Anderson indicated that the facility will be located behind the technology park off of Highway 461 and that it will provide career opportunities for individuals interested in the utility business. Mr. Anderson indicated that this facility is projected to be in operation in late 2008.

Mr. Anderson indicated that the co-op places a lot of resources into improving reliability and due to these efforts South Kentucky's reliability in 2006 was 99.9%. Mr. Anderson indicated that the co-op visually inspects 3,000 plus miles of line each year, which allows the co-op to correct problems before they occur.

Mr. Anderson further indicated that South Kentucky had its first rate increase in 17 years in October, 2006. Mr. Anderson indicated it was an 8.2% average increase. Mr. Anderson indicated that this increase along with expected future growth would allow the co-op to meet its obligations. Mr. Anderson indicated that Kentucky has the lowest rates in the nation.

Witness: Allen Anderson

Mr. Anderson stated that in conclusion, he promised as CEO of SKRECC, to manage your cooperative as cost efficiently as possible while still continuing to provide a strong level of service and that the doors to the co-op are always open to the members.

Mr. Anderson thanks everyone for attending the Annual Meeting and returned the meeting back to the Co-op Attorney, Darrell Saunders.

At this time, there being no further business to be discussed, a Motion was made and seconded to adjourn the business portion of the meeting. Motion carried.

Mr. Anderson then introduced two special guests, Bill Corum, VP of Operations of KAEC, and Bob Marshall, President and CEO of East Kentucky Power.

Mr. Corum briefly spoke about what KAEC was and how South Kentucky was a great co-op with great members. Mr. Corum indicated that this was his first time to the annual meeting and that he was very excited about same. Mr. Corum indicated that our state was the lowest state in the nation for electric and had the largest annual meetings. Mr. Corum thanked the members for coming and allowing him to speak.

Mr. Marshall briefly spoke to the members about being the wholesale power provider, which was owned by the member co-ops. Mr. Marshall indicated that he was new to this position and had started in January and how he was refocusing on containing costs and working to settle the lawsuits with the EPA. He further spoke about Cooper Power Plant, the Corps of Engineers and Lake Cumberland. Mr. Marshall spoke about how East Kentucky was focusing on building to meet the growth challenge, providing cleaner, more efficient and environmentally friendly power to the co-ops. Mr. Marshall closed by thanking the members for attending the Annual Meeting and allowing him to speak.

Dennis Cannon then introduced the 2007 SKRECC High School Senior Scholarship winners and the 2007 Frankfort Youth Tour winners. CEO, Allen Anderson, presented each student with a scholarship letter and a college dictionary.

The 2007 SKRECC High School Senior Scholarship winners are as follows:

Brittany Raines	-	Adair High School
Jenny Patterson	-	Casey High School
Jessica Beard	-	Clinton High School
Danielle Bullock	-	Lincoln High School
Heather Vanover	-	McCreary High School

Keri Cox	-	Monticello High School
Shelly Kuyat	-	Pulaski High School
Katie Brinton	-	Russell High School
Rebecca Minton	-	Somerset High School
Amanda Coomer	-	Southwestern High School
Megan Kindrick	-	Wayne High School
Kendal Sams	-	Somerset Christian High School

The 2007 SKRECC Washington Youth Tour winners are as follows:

Brittany Luttrell	-	Casey High School
Danielle Albertson	-	Clinton High School
Rebekah Gevedon	-	Lincoln High School
Cynthia Kidd	-	McCreary Central High School
Chelsea VanOver	-	McCreary Central High School
Tyler Duncan	-	Monticello Ind. High School
Aissia Tarter	-	Monticello Ind. High School
Elizabeth Goode	-	Pulaski High School
Anthony Pence	-	Pulaski High School
Elizabeth Ann Withers	-	Russell High School
Caroline Clay	-	Somerset High School
Nate Pilcher	-	Southwestern High School

After conclusion of recognition of the students, the program was then turned back over to Dennis Cannon for the completion of the Annual Meeting Program.

DATE

TOM ESTES, SECRETARY

DATE

RICHARD STEPHENS, CHAIRMAN

CEO REPORT 2007

APPRECIATION

- I will begin my report by expressing my appreciation to the members and board for allowing me the honor to serve as leader of this great organization.
- I would like to recognize the 156 professional employees, all wearing blue shirts, that have been committed all year to providing service and meeting every need of our 62,000 members. Over a 13 county area, with over 6,540 miles of line.
- South Kentucky's Mission Continues to be:

South Kentucky RECC was formed for people not profit. Its mission is to reliably provide electricity and related services to its members at a competitive price and improve the quality of life in its communities.

- Everything we do at South Kentucky is working to achieve this mission.

HIGHLIGHTS OF 2006 TO PRESENT

MONTICELLO ELECTRIC PLANT BOARD

- An opportunity developed for us to discuss future opportunities with the Monticello Electric Plant board in Monticello, KY.

- MEPB is a 3,500 customer system serving business, industry, and residences in the City of Monticello
- January 2007 – MEPB Board Voted Unanimously in favor of a resolution to sell MEPB to South Kentucky RECC and to present this resolution to the City of Monticello.
- February 2007 – The Monticello City Council unanimously voted in agreement of the resolution to sell the MEPB to South Kentucky RECC
- Now – The decision is in the hands of the citizens of Monticello to decide.
- November 6, 2007 – The General Election – The question of whether to sell – Yes or No – will be on the ballot for them to decide.
- There are lots of details to be worked out and other approvals – such as RUS, PSC, and Power Supply Contracts have to be arranged before it is all final.

**ADVANTAGES TO THE SELL BOTH FOR THE
MEPB CUSTOMERS AND FOR SKRECC:**

- The MEPB System would create an immediate revenue stream to South Kentucky RECC at a cost per member that is nearly ½ the cost for us to build to a new member
- The City of Monticello, its Citizens, and Wayne County would benefit from the revenue received from the sell over a 30 year period.

- MEPB System is in the city having more customers per mile of line (higher density than SKRECC)
- MEPB has more commercial industrial customers per mile of line
- MEPB has a higher load factor
- MEPB has a new office facility& SKRECC needs a new office in Monticello
- The two systems jointly would have stronger buying power
- The two systems would gain efficiency from eliminating duplication of services
- The two systems would have improved reliability and service restoration in time of emergencies

Many more benefits than even mentioned but all will be decided in the November 6th election by the Citizens of Monticello.

NEW OFFICE BUILDINGS – UPDATE

- I reported to you at the meeting last year our need and justification for new office facilities. Here is an update on our progress.
- We are expecting these new facilities when completed to meet our members needs for the next 30 years.
- We began the new building project in 2006.

- Completed the Whitley City Office August 2006.
- The Russell Springs and Albany Office will be completed 2007.
- The Somerset Office is in the planning stages with a targeted completed date of late 2009.
- These facilities will include offices, warehousing, garages, and a community room for public use. The grounds would also accommodate a new outdoor meeting site.

HIGH GROWTH TRAINING CENTER

- South Kentucky RECC has proudly been involved along with Somerset Community College, Somerset/Pulaski County Development Foundation, Pulaski County Fiscal Court, Lake Cumberland Area Development District, All Kentucky Electric Cooperatives, Utility Contractors, and all other Utilities.
- South Kentucky RECC's contribution to this effort has only been in providing labor assistance in helping to pull all the resources together, but we feel very proud to be part of this group effort.
- This facility will be located behind the technology park off hwy 461 in Pulaski County. The facility will cost approximately 3.5 Million Dollars – which has been funded primarily through Federal, State, and Local Grants, and 0% Interest Loans.

- This facility will provide career opportunities for our young people in Kentucky that have interest in a career in the utility business.
- Another purpose of this facility is to support the needs of all utilities across the nation are faced with an aging work force with no experienced replacement.
- South Kentucky RECC alone could loose 40% of our skilled employees in the next 5 years.
- This facility is projected to be operation in late 2008.

RELIABILITY

- I have mentioned a few of our work areas that are new, but I remind you that we well know that the most important thing in this business to both of us and to you is reliability of serve at an affordable cost
- We visually inspect 3,000 plus miles of line each year which allows us to cover the entire system every 2 years. This allows us to correct problems before they occur.
- We continue placing a lot of resources into improving reliability. Due to these efforts, in 2006 reliability was 99.9%.
- This is extremely good for a system of this size managing 6,540 miles of line.

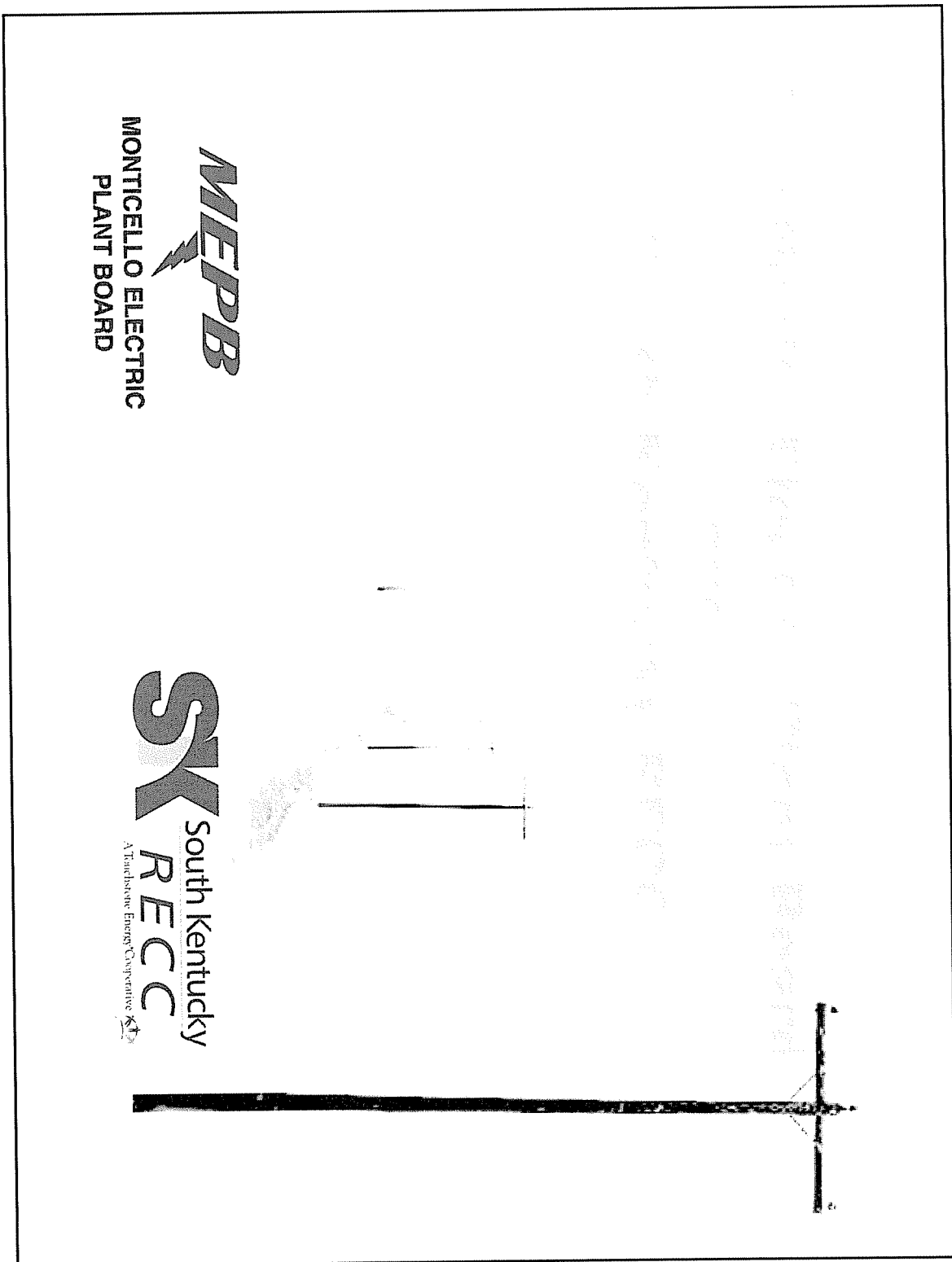
COST

- South Kentucky RECC had its first rate increase in 17 years in October 2006.
- It was an 8.2% average increase.
- This Increase along with expected growth in the future should make the necessary improvements to our margins and allow us to meet all our obligations. Our Financial Statement that was sent to all members in May was through 2006 and would not reflect the improvement made to our financials as a result of the increase.
- Kentucky has the LOWEST rates in the nation combining all categories.
- Kentucky still has the 4th lowest residential rates in the Nation. This is something we can be proud of and need to keep.
- We continue to closely monitor all of our costs, while not, sacrificing quality of service and/or reliability to do so.

IN CLOSING

This is your co-op, we all work for you. Please know our door is always open for you and I look forward to serving you in the future.

ENJOY THE EVENING!!!



MEPB
MONTICELLO ELECTRIC
PLANT BOARD

SK South Kentucky
RECC
A Tardisone Energy Cooperative

MEPB'S MISSION STATEMENT

MEPB's Mission is to maintain an efficient and reliable electric system that promotes our community and provides excellent services at competitive rates.



"Growing Stronger
Together"



MEPB/SKRECC Proposal

- First opportunity to choose
 - Long-Term Contract with TVA
- Board and Management Team Committed to Customers
 - Began investigating all options



MEPB History of Events

- Rate Analysis & Service Considerations
- Letter of Notice to TVA
- Letter of Interest
- Request for Proposal
- Selection Process
- Contract
- Resolution
- Referendum



MEPB History of Events

Rate Analysis

Instructed MEPB's Consulting
Engineer to Compare Rates of KU
and SKRECC to TVA



MEPB History of Events

- Letter of Notice to TVA

MEPB Voted to Send Letter of Notice to TVA November 20TH 2003.

The Board had Five (5) Years to Rescind Notice.



MEPB History of Events

Request for Proposals

A. TVA Continue Wholesale Power

B. KU Proposal for Wholesale Power

C. South Kentucky RECC Proposal to Purchase



MEPB History of Events

- Selection Process for the Three (3) Options

-OPTION 1

- ❖ TVA set deadline of JAN 10th to rescind our letter or be penalized
- ❖ TVA is no longer the only option or best all-around option for power supplier



MEPB History of Events

• Selection Process

– OPTION 2

- ✧ KU appeared to be the lowest wholesale power supplier
- ✧ Submitted Proposals TWICE with NO GUARANTEE FOR RATE



MEPB History of Events

• Selection Process

- OPTION 3

❖ SKRECC Proposed to purchase
Electric Plant Board

❖ Board Concerns: Rate
Structure, Employees,
Community Partnership, Money



MEPB SKRECC Proposal

MEPB will be a member of the electric utility industry electric service company planning all community and provides economic services of competitive rates.

SKRECC's Mission:

South Kentucky RECC was formed to people and profit. Its mission is to reliably provide electricity and related services to its members and competitive prices, and to improve the quality of life in their communities.

SKRECC's Vision:

South Kentucky RECC's goal is to become a cornerstone of all our communities; to be recognized as an industry leader in service, professionalism, and competitiveness; and to be the energy provider of choice within our service boundaries.



MEPB History of Events

Contract

Board Attorney Van Phillips prepared a contract between MEPB and SKRECC January 9, 2007

1. Guarantee of Power at same rate after NOVEMBER 6, 2007 if

MEPB customers vote no to acquisition – until November 2010

2. Shall be a LONG-TERM

PAYMENT PLAN to cover a THIRTY (30) YEAR SPAN



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MEPB History of Events

Resolution

MEPB approved resolution
January 12, 2007 to present to
the City of Monticello on
January 23, 2007



MEPB History of Events

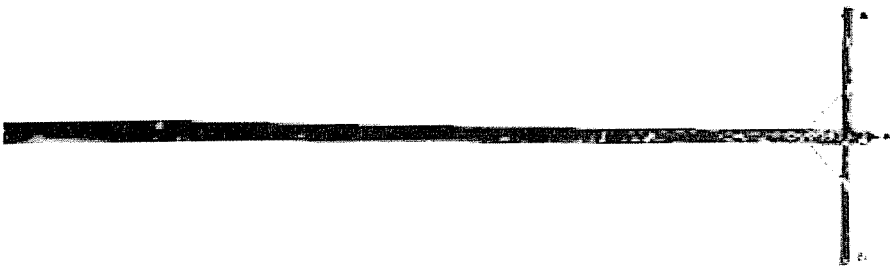
• Referendum

Upon City Council approval, the 8,400+ MEPB Customers will have an opportunity to vote on the sale of the Electric Plant Board to South Kentucky RECC November 6, 2007



Positives of Proposed MEPB/SKRECC Merger

- 30-Year continuous stream of revenue to make any desired improvements in Monticello
- Improved efficiency in buying power

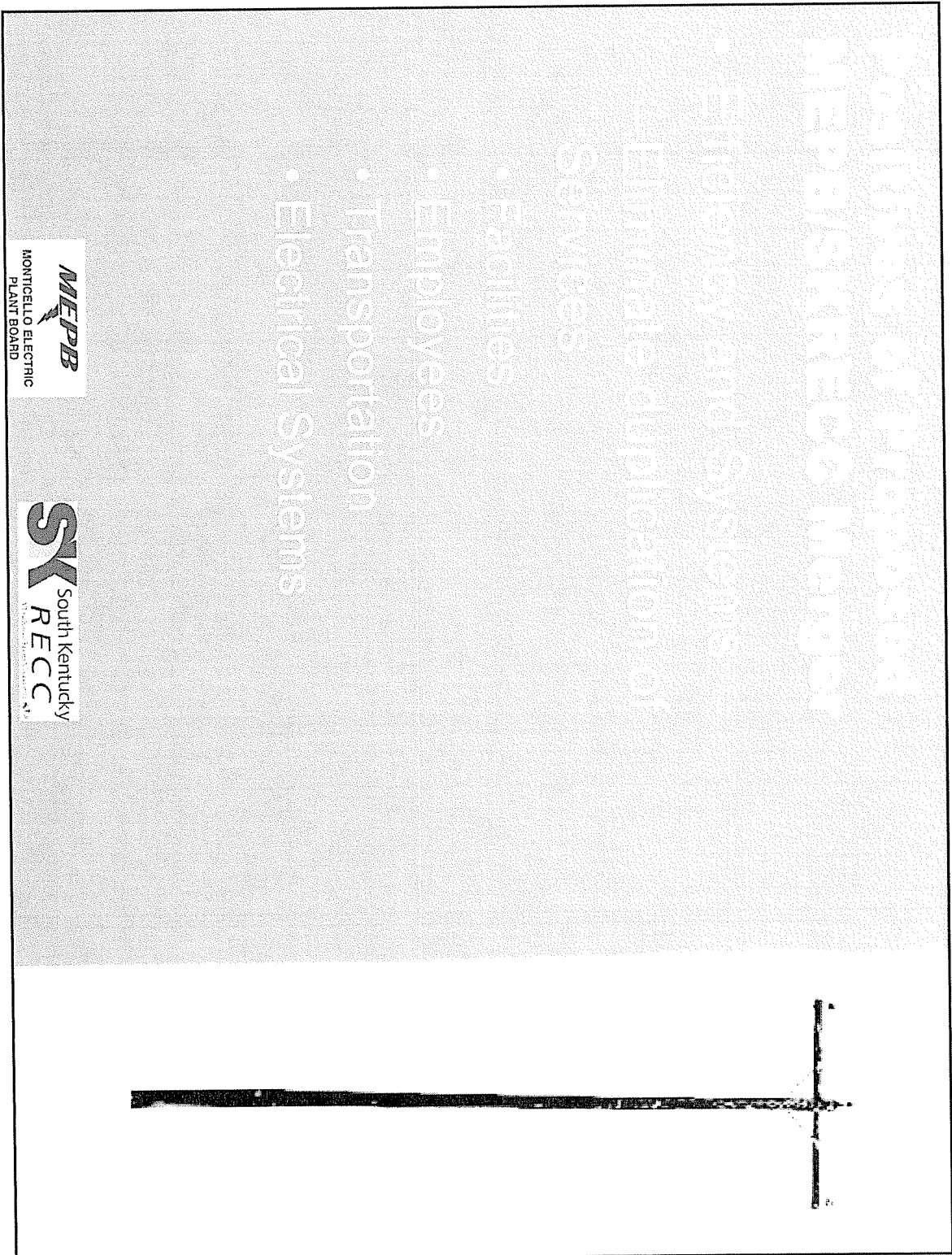


Positives of Proposed MEPB/SKRECC Merger

- Expanded Community Support
 - More Positive Impact on Monticello/Wayne County Area with combined services and resources
 - Commitment to "growing" Monticello/Wayne County area
- Downtown Revitalization
- P J Murphy
- Otter Creek Girls Club
- Other



1



Positives of Proposed MEPB/SKRECC Merger

- Efficiency and Systems Control
 - Combining two systems with
 - Improve Load Factor
 - Increase Density/Mile of Line
- Bring Reliability
 - Alliances Statewide and Nationally
 - Contractors
- Allow More Purchasing Power
 - Materials
 - Power Supply
 - Employee Benefits

MEPB
MONTICELLO ELECTRIC
PLANT BOARD

SK South Kentucky
RECC



Advantages of Proposed MEPB/SKRECC Merger

- Efficiency and Systems: can't
 - Combining two systems will
- Allow MEPB Customers to enjoy Benefits of being SKRECC Member-Owners
 - Patronage Capital
 - Voting Privileges
 - Annual Meeting
 - Services



Potentials of Proposed MEPB/SKRECC Merger

- Rates
 - Comparable
 - Flexibility
- Employees
 - Opportunity to join SKRECC Team
 - Growth Opportunities
 - Resources Available
- Win-Win Situation



A large, bold, handwritten signature in black ink, appearing to read "Allen Anderson", is written across the bottom right of the page.

South Kentucky RECC

Energy Efficiency – Getting
ready for winter.

Wayne County



Mission Statement:

"South Kentucky RECC was *formed for people, not profit.* Its mission is to reliably provide electricity and related services to its members at a competitive price, and to improve the quality of life in their communities."



"Growing Stronger
Together"



South Kentucky RECC

South Kentucky RECC began in Wayne County on October 8, 1938 when a group of farmers met to bring electric to south-central Kentucky.

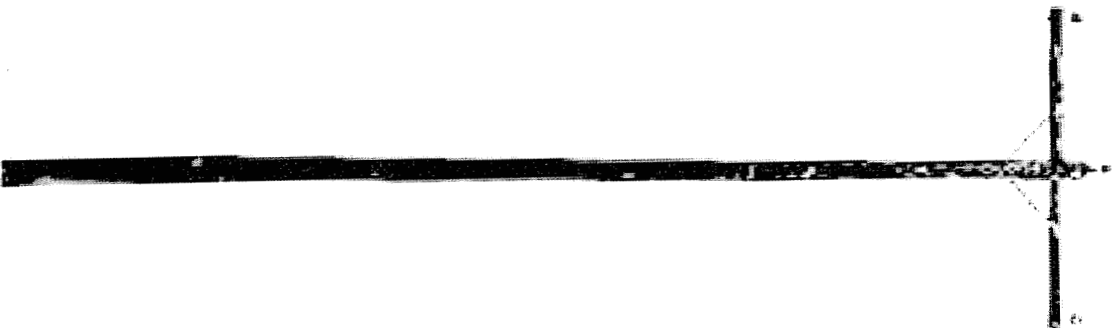
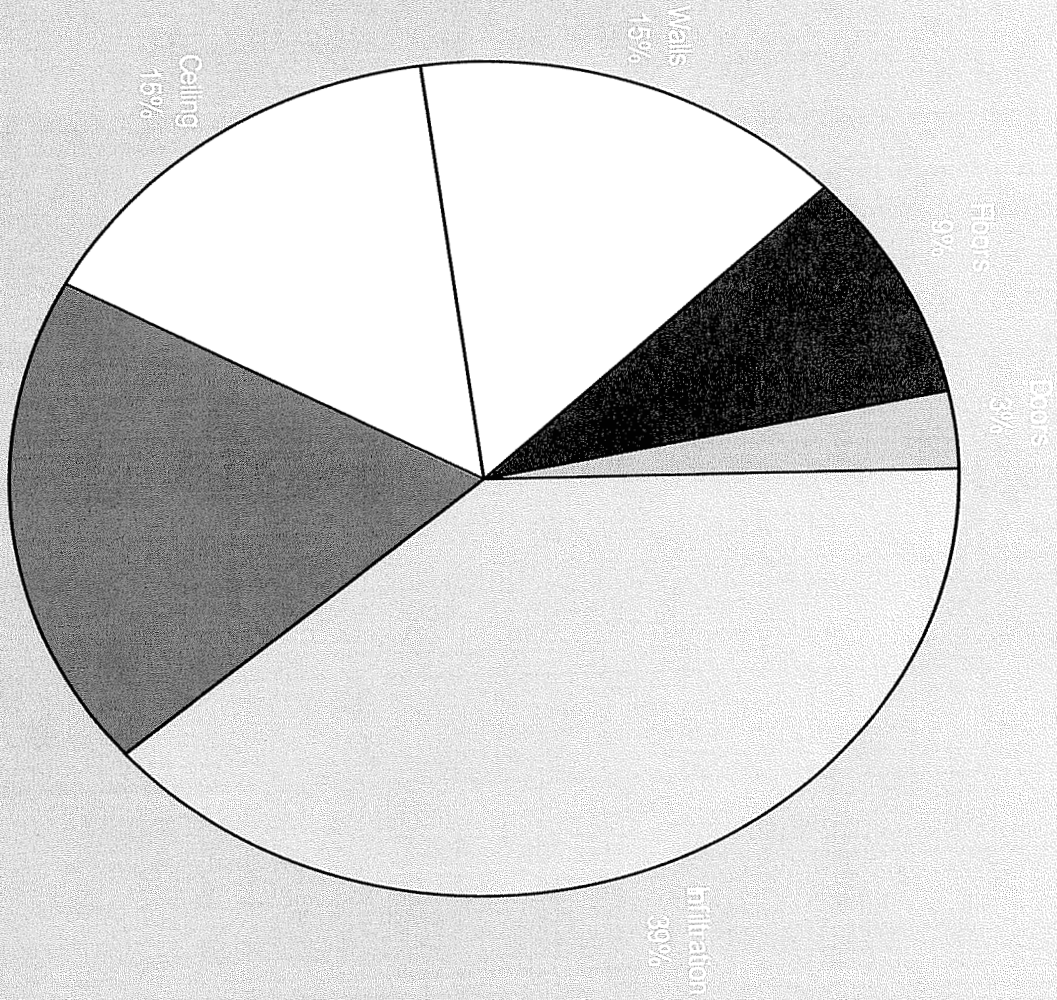
- The first office was in Monticello, and as the co-op's demographics changed and grew, the office moved to Somerset.
- SKRECC serves about 62,000 members. In Wayne County, SKRECC serves about 8,627 members.
- The Director for Wayne County is Glen Massengale
 - in office since May, 1986.



"Growing Stronger
Together"



Typical Winter Heat Loss



Air Infiltration

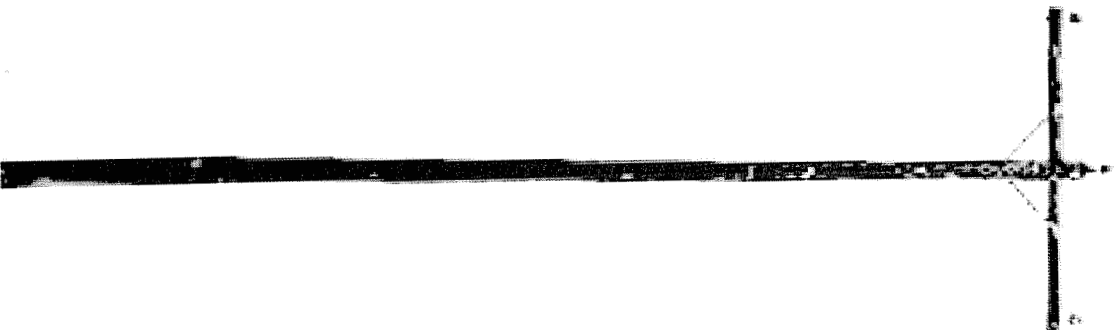


- How can you find it?
- We offer a blower door test to find air infiltration.

MEPB
MONTICELLO ELECTRIC
PLANT BOARD

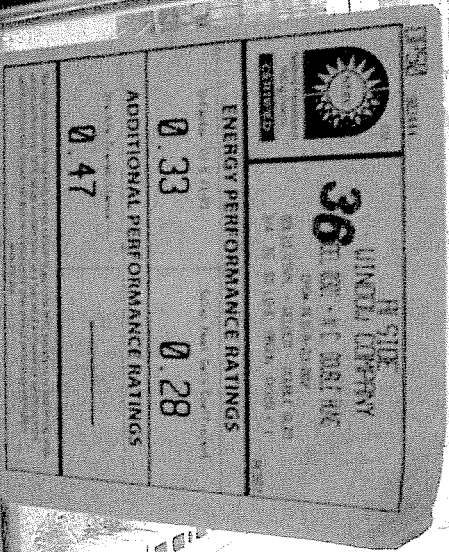
"Growing Stronger
Together"

SK South Kentucky
RECC
A Division of South Kentucky RECC, LLC



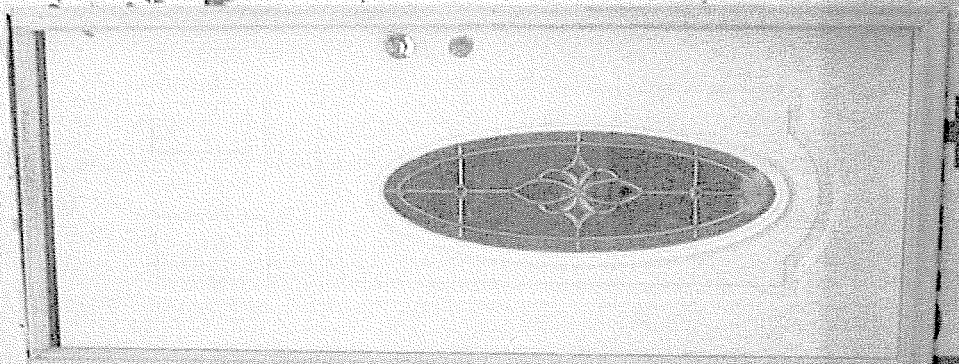
Button-up

Insulation



Doors

Windows

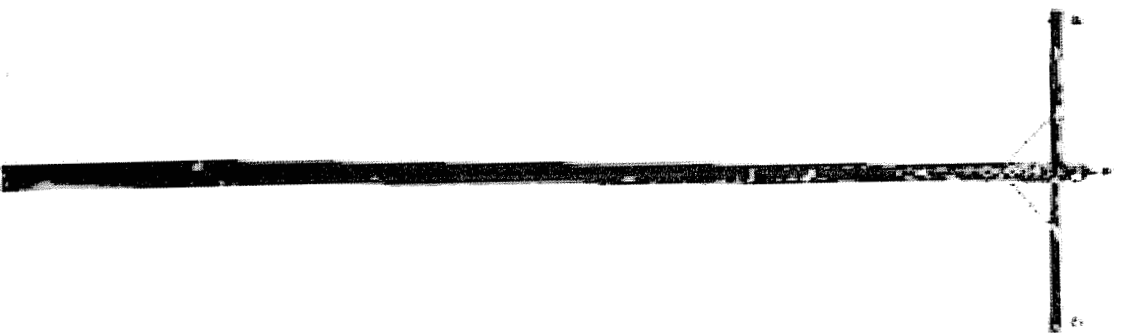


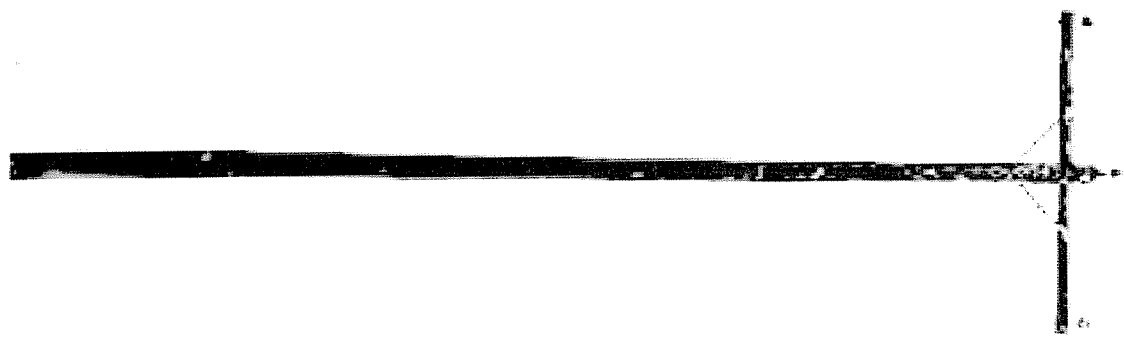
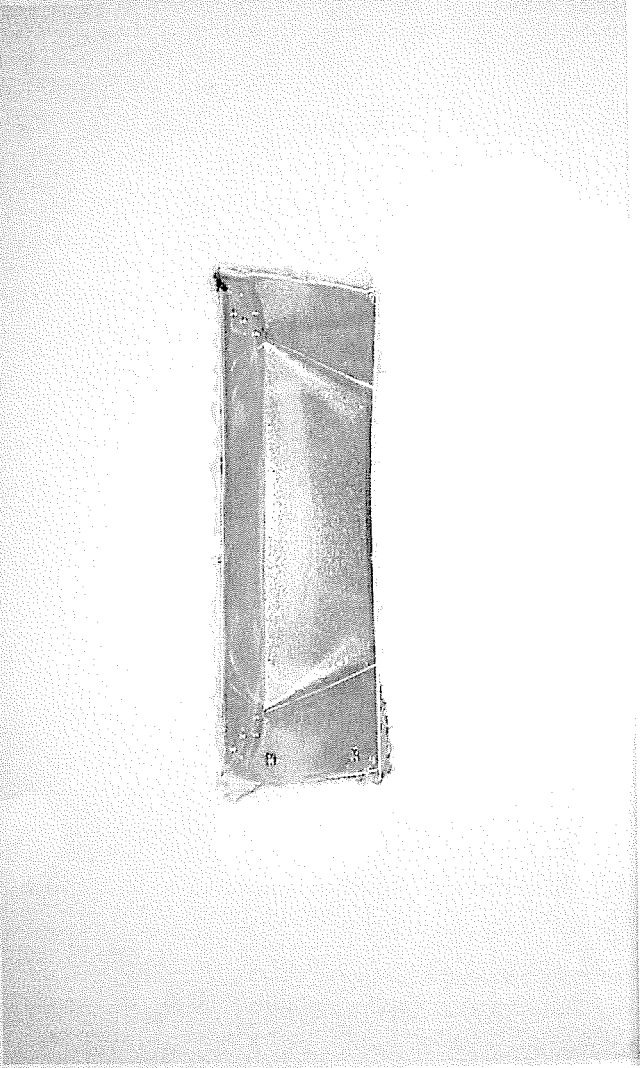
Reducing Air Infiltration

- CAULK
 - Caulk all window rough opening
 - Caulk all doors rough opening
 - Caulk all plumbing penetrations
 - Caulk all electrical penetrations
 - Caulk the sole plate
 - Caulk between double top plate
 - Caulk all joints between double and triple wall studs
 - Caulk all HVAC penetrations

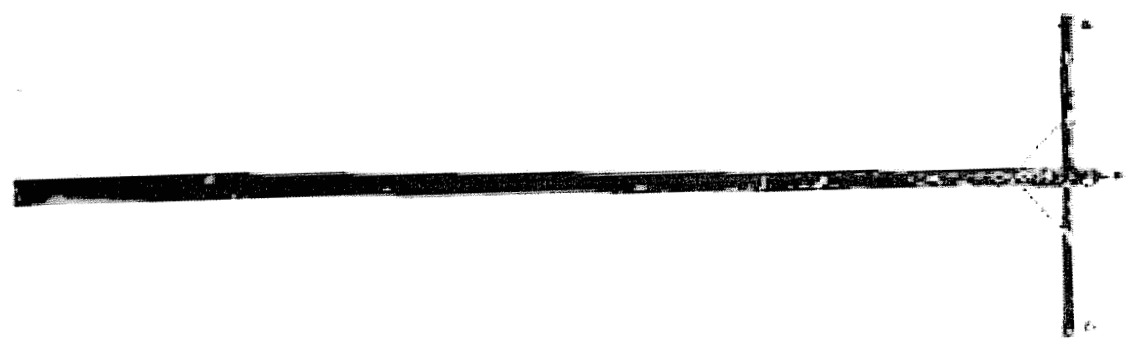
Reducing Air Infiltration cont.

- Weather stripping around doors
- Weather stripping around attic entrance
- Foam insulation seals around electric outlets & switch covers





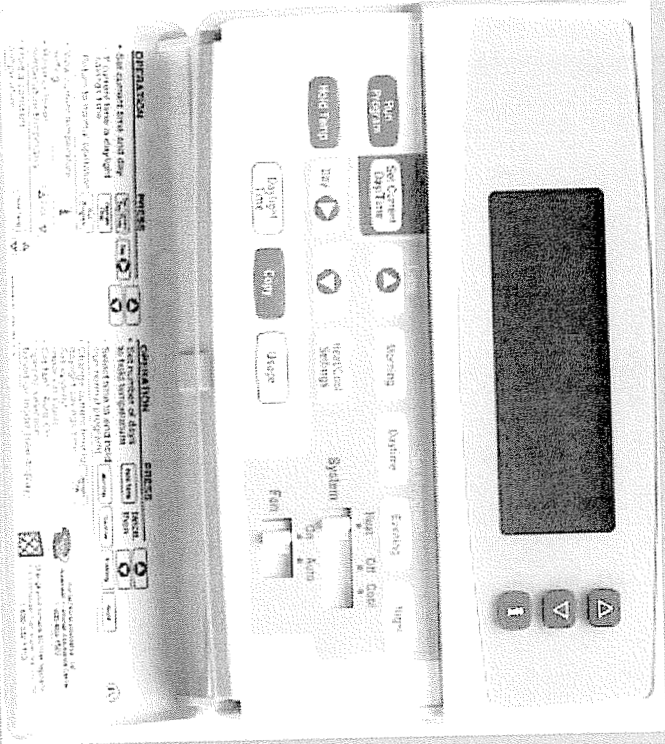
infiltration
around bath
tub and
plumbing
penetrations



Witness: Allen Anderson

Heating & cooling

- Clean & change your filters
- Leave your thermostat set at your desired temperature and don't change it



MEPB
MONTICELLO ELECTRIC
PLANT BOARD

"Growing Stronger
Together"

SK South Kentucky
RECC
All Southern Electric Companies

Insulation & Weatherization Tips

Free caulking is available to any SKRECC member who is working on improving the air-infiltration characteristics of their home. Stop by your local co-op office or e-mail us for details.

Caulk and weather strip all doors, windows, and any opening that may let air leak into your house. Air infiltration will affect your energy bill more than anything except lack of proper insulation. And don't worry about your home not being able to "breathe." As many air leaks as you find, there will always be a few that you don't find or can't fix.

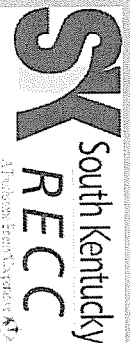
Make sure to check the threshold and sweep on your exterior doors. If you can see light or can feel air coming in around them, it's time for new ones

Insulation & Weatherization Tips

- Check for air leaks around light fixtures and vents. Bathroom vents, dryer vents, and other exhaust vents are notorious for having dampers that don't completely close.
- You should be sure to seal around plumbing entrances under sinks and vanities, and around bathtubs and showers.
- Place foam gaskets under the electrical outlet covers that are on outside and inside walls to cut down on air infiltration. You'll be surprised at the amount of outside air that gets in through the inside walls of your home.
- Use storm windows or place plastic over windows to prevent heat loss.



"Growing Stronger
Together"



Insulation & Weatherization Tips

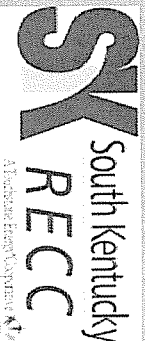
- Check the insulation levels in your home. Recommended insulation levels for this part of the U.S. are: R-38 in the ceiling, R-18 in exterior walls, and R-19 in the floor.
- When checking your attic insulation, especially notice if the insulation levels are adequate above the kitchen cabinet soffits and around shower and tub walls.
- Be sure your attic is adequately and properly ventilated.
- If the attic access door is in a heated area, check to make sure that it is well insulated and weatherstripped.
- If you're not using your fireplace regularly as a heat source, seal it up by stuffing some fiberglass insulation into the flue or by installing a tight fitting glass door and damper. Make a note to remember to remove the insulation before using the fireplace again.

Vision Statement:

"South Kentucky RECC's goal is to *become a cornerstone in ALL our communities*; to be recognized as an industry leader in service, professionalism, and competitiveness; and to be the energy provider of choice within our service boundaries.

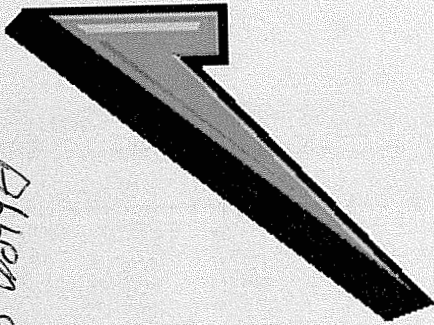


"Growing Stronger
Together"



MEPB Update

Vote YES



on Nov. 6

Allen gave an update on the progress of this potential acquisition of the MEPB, sharing the benefits to MEPB customers + employees and SPECC customers and employees. Allen opened up for questions. Only 3-4 questions and all added positive.



"Growing Stronger Together"



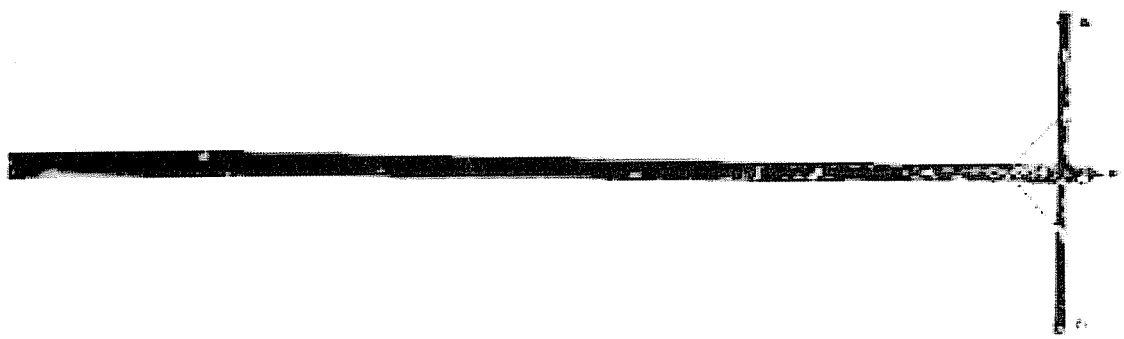
Questions???



MEPB
MONTICELLO ELECTRIC
PLANT BOARD

"Growing Stronger
Together"

SK South Kentucky
RECC
All other firms are invited to



**SOUTH KENTUCKY RECC
CASE NO. 2007-00374**

Item No. 3 b
Page 1 of 1
Witness: Allen Anderson

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

DATE OF CHANGE TO SOUTH KENTUCKY'S RATE SCHEDULES

- Q. Refer to the response to the Staff's First Request, Item 6.
- b. Page 19 of 21 appears to be a flyer that was distributed to Monticello's customers and states that, "Rates for MEPB customers will be unaffected by the change up to January 2009." However, South Kentucky's responses to Item 13 states that it will place the Monticello customers into South Kentucky's rate classes in November 2008. Clarify when South Kentucky proposes to change the rates charged to Monticello customers.
- R. b. Ideally, the proper time to change to South Kentucky rate schedules would be at the time of the change in wholesale power suppliers. Since South Kentucky has promised the Monticello customers that it would be January 2009, then that is the date that South Kentucky will honor.

**SOUTH KENTUCKY RECC
CASE NO. 2007-00374**

Item No. 3 c
Page 1 of 7
Witness: Allen Anderson

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

PUBLIC FORUM MEETING ATTENDANCE

- Q. c. Page 21 of 21 is an announcement of a public forum concerning the sale of Monticello to South Kentucky that was to be held on September 27, 2007.
- (1) Provide the number of attendees at this meeting and summaries of any comments made at the meeting.
- R. c. (1) Approximately 200 people attend the meeting. The following pages 2 thru 7 is a copy of the meeting notes.
- Q. c. (2) Are any further public meetings, discussion groups or forums planned to be held prior to the November 6, 2007 election? If yes, provide the date of the meeting(s) and the same information as requested in subpart (1) above.
- R. c. (2) No further public forums have been planned.

MEETING NOTES SKRECC/MEPB COMMUNITY FORUM SEPTEMBER 27, 2007

Welcome - Van Phillips, MEPB Attorney and Moderator

Van Phillips thanked the caterers: Branscum's Market, Jimmy Ballou, and Southern Belle.

The Lake Cumberland Youth Development Center was thanked for their help in setting up and taking down chairs for the forum.

A thank you to the National Guard for use of the Armory especially on short notice.

Van Phillips recognized each member of the City Council and the mayor, each member of the MEPB Board and Gary Dishman, and each member of the SKRECC Board and Allen Anderson.

Van Phillips informed/reminded the group ultimately the decision to approve the sell of the electric plant board will be made by the voters

Ground Rules

All questions at the end of the presentation
Each person asking a question must identify themselves and/or affiliation
Prize drawing at the end – must be present to win

Invocation - Robert Spradlin, Missionary

MEPB - Mike Anderson, President, MEPB

Mike Anderson gave an overview informing the group why MEPB chose to depart from their TVA contract.

Mike Anderson gave an overview informing the group why MEPB would consider selling to SKRECC.

Mike Anderson provided a brief history of the formation of the SKRECC/MEPB collaboration.

City of Monticello - Kenneth Catron, Mayor

Mayor Catron informed the group that as of right now, there is only \$30,000 in the budget for blacktopping the roads. The city is facing some major financial issues.

City of Monticello and City Council thoughts about sale of MEPB

If MEPB does not sell the city will be faced with a major tax increase.

MEPB is land locked and cannot grow.

Something has to be done to raise revenue for the City of Monticello.

How money from sale will be utilized to benefit the community

Mayor Catron informed everyone Nancy Allen has suggested 20% of the money received from the sell be set aside each year for Industrial Recruitment.

The interest on the money will be invested to purchase a CD at a local bank.

At the End of 30 Year Period this interest will turn the original 4.6 million dollars into 7.839 Million Dollars with 1.568 Million designated to Economic Development.

We will spend your money wisely..... \$200,000 will go into the general fund immediately upon the sell and most of this money will be used for blacktopping, fire protection and police protection.

Mayor Catron assured the group “we” will guard your money and watch it closely.

SKRECC - Allen Anderson, CEO

Allen Anderson gave an overview of the win-win situation for the members and employees with the purchase of MEPB.

South Kentucky RECC offers MEPB customers and the community the following:

Benefit to MEPB Customers and Community

- Free \$25 membership paid by city
- Member owned/capital credit return member controlled with members earning patronage capital every year there is a margin over and above financial requirements and obligations
- Voice in matters pertaining to co-op
- Being a part of a larger organization
With more services, stronger buying
Power and reliability in times of
Emergency
- Expanded community support/economic
Development
- Opportunity to grow, bigger territory
- 30 year revenue stream for city with interest delaying future tax increase

- Becomes an owner member of EKPC
- SKRECC is 1/10 of EKPC and MEPB is 1/1000 of TVA
- Employees will have growth opportunities
- MEPB has no power supplier come November 20, 2008
- Guaranteed source of power with option to shop for other available power supplier

Benefit to SKRECC

- Improved load factor
- Improved member/miles of line
- More commercial
- Improved efficiency in operation
- Addition of great employees who are trained and presently needed at SKRECC
- Our concern for the community and desire to improve and grow the community
- Utilize new office and substation and sell off unused or unneeded properties
- SKRECC the only **local provider** of choice

SKRECC's Economic Development program has been very successful creating jobs and impacting industry in Wayne County.

MEPB - Gary Dishman, Superintendent

Gary expressed his support for Mike Anderson, Mayor Catron, and Allen Anderson. He also expressed his ties as a 3rd generation employee of the MEPB,

He urged the group to look to the future to put them in the best possible position for electrical service.

Gary expressed his concern that it would be disastrous if the MEPB was left to be a small electric utility on the open market.

SKRECC - Glen Massengale, Director

Glen Massengale discussed SKRECC's Mission and Vision statements with the group.

Witness: Allen Anderson

Glen expressed his feelings regarding the SKRECC's purchase of the MEPB. He urged the group to make the right decision for the future of the city of Monticello and Wayne County.

Glen commended the MEPB Board and the City of Monticello Council Members for their vision and planning in regards to this issue.

MEPB Employee - Garry Neal

Garry Neal gave the group some examples of what SKRECC has "already" done to help the customers and employees of Wayne County/Monticello and MEPB.

MEPB Employees are looking forward to serving customers as SKRECC Employees.

SKRECC Employee - Dennis Holt

South Kentucky RECC employees are very excited about the acquisition of the MEPB. Dennis informed the group that we are thrilled about the 12 employees who would become SKRECC employees.

Dennis gave an overview of some of the programs and services offered to our members as part of SKRECC's commitment to reliability and service.

Question & Answer

Van Phillips, MEPB Attorney

Harold Davis

I live in the County on SKRECC residential lines and have a business in City of Monticello on MEPB and I would like to know -- Who is able to vote?

Per Van -- The qualified voters of the city of Monticello.

Charlie Cooper

I am a MEPB Customer -- SKRECC does not generate power so you purchase from EKPC -- I saw in the paper 2 weeks ago that a federal judge in some district court had fined ekpc 11.2 million for releasing pollutants into the air and this could be increased as their financial situation becomes stronger -- where will that money come from?

Per Allen -- That law suite had been going on for some time and they were a lot of the cost of that lawsuit that was set aside for doing things that had to be done. You will see a lot of company that have coal fired coal plants have lawsuits like this one. EKPC does a good job of running the plants they have and are a company that really cares about the environment but knowing the particulars of some of those law suites - on one occasion one plant was producing a small amount more than what the rating said it could for a short period of time and that calls for part of the reason for one of those fines. EKPC had set aside 50 million for this lawsuit and through discussions and everything lowered it to 11.5 million you saw in the newspaper and that money was going to be

Witness: Allen Anderson

spent on the plants for upgrades such as scrubbers etc. EKPC is environmentally friendly and we are concerned about the environment and others like this are in the works and not settled, and you will not see anything from this that would cause rates to go up, it was already in the budget. EKPC does generate the power, but SKRECC (we) do have a voice on that board. We are one of 16 board members. Myself and Rick Stephens represent SKRECC on that board and are concerned about rates staying low and about the environment and we speak up about what is right for the people. The lawsuit has been settled and was settled for much less than what it started out to be which should demonstrate that this was not a situation where EKPC was blatantly wrong under all circumstances.

Charlie Cooper

What was stated in the local paper that KU would not guarantee a set rate on electricity – as I read further in the article TVA and SKRECC did not guarantee rates either.....

Per Allen Anderson

The big issue is with once the plant board leaves TVA or loses the contract then they will be out in the open market looking for power and they can do the same thing they have just gone through and see who is interested in serving that load, with SKRECC, EKPC has to serve us, we have that guaranteed source of power, but we do not have to buy that power from EKPC, and we can issue a request for proposal and make sure we are getting the most economical deal available. That used to not be in place, in our contract with EKPC, but we now have that option on a small percentage of our power needs. We do have a guaranteed source if we want to use it, but we can go outside of EKPC if we choose to. The big thing right now TVA serves the MEPB area coming across EKPC's power lines and there is a 1.9 mile transmission line owned by TVA. SKRECC plans to buy the transmission line from TVA, so there will be no other power providers involved in getting power to the substation except for us and EKPC.

Per Mike Anderson

At the original RFP SKRECC did not give a proposal to only sell wholesale power, but a proposal to purchase MEPB. TVA did not say anything other than we will penalize you if you rescind your letter of withdrawal, but KU on their proposal said they could not guarantee power into the long term nor could they guarantee their rates. By 2010 or whatever who knows what the rate structure will be. I just know that each of these folks are competitive and at this point, KU actually wrote that they would not guarantee the rates.

Per Allen Anderson

What SKRECC did do is if you were to vote no in November we know it took the plant board 2 years to get to this point, if the vote were to be no in November we have made sure MEPB will have a flow of power for 2 years even if we are not the owner. As part

Witness: Allen Anderson

of our guarantee, we promised to serve and provide service to MEPB so they have enough time to come up with another power provider in the meantime.

Per Van

The TVA Contract ends November 20, 2008, so SKRECC would provide power, regardless of the outcome of the election, for 2 years beyond November 20, 2008.

Door Prize Drawing - Van Phillips

Meeting Closed

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

FINANCING THE FIXED ASSETS ACQUISITION

Q. Refer to the response to the Staff's First Request, Item 11.

- a. The response states that South Kentucky has not yet sought Commission approval for the financing of the Monticello purchase because the arrangements are not final. When does South Kentucky anticipate filing with the Commission an application for approval of financing for this acquisition?

R. a. South Kentucky has deemed that the financing option sponsored by the city of Monticello to be the most advantageous to South Kentucky. This option is acceptable to both the Rural Development Utilities Program ("RDUP") and to the National Rural Utilities Cooperative Finance Corporation ("CFC"). RDUP has agreed to a "shared first mortgage lien accommodation" with the city of Monticello on the financing of this project.

South Kentucky has selected the city of Monticello financing option. Since South Kentucky has provided the required information for the approval of financing in the original application, South Kentucky feels that the original application can be the basis for the approval of financing by the Commission.

Q. b. The letter presented as Exhibit T to the application implies that there were financing alternatives available to South Kentucky for this acquisition. Describe the financing alternatives that were available to South Kentucky and explain why South Kentucky selected the alternative of promissory note with the city.

R. b. South Kentucky has the possibility of financing this project through the RDUP or through CFC. However, the financing of this project through the city of Monticello is beneficial to both South Kentucky and Monticello. It is beneficial to South Kentucky because of the attractive interest rate offered by the city. It is beneficial to the city because of the constant income stream that it will receive over the life of the promissory note. This financing was a part of the negotiated transaction.

**SOUTH KENTUCKY RECC
CASE NO. 2007-00374**

Item No. 4
Page 2 of 2
Witness: Jim Adkins

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

- Q. c. Concerning the letter in Exhibit T, explain in detail how South Kentucky reached the conclusion that this letter from the U. S. Department of Agriculture - Rural Development constitutes an approval of the transaction among South Kentucky, EKPC, and Monticello.
- R. c. This letter did not explicitly state the approval of this transaction among South Kentucky, EKPC, and Monticello but it did provide some type of concurrence with the transaction. RDUP stated the following:

Prior approval may not be required for the acquisition if you select an alternative to Utilities Programs (RP) financing. ...Based on the information exchanged during our teleconference, this acquisition may be financed with the RP loan funds.

This statement by RDUP that it would finance this project indicates that RDUP looks favorably on this transaction.

Additionally, RDUP states the following in regards to the EKPC portion of the transaction.

We will consider this power requirement incidental to EKPC's total requirement and see no problem with EKPC providing power to Monticello through South Kentucky RECC.

South Kentucky feels that this statement indicates that RDUP has no problems and does not disapprove of the transaction.

**SOUTH KENTUCKY RECC
CASE NO. 2007-00374**

Item No. 5
Page 1 of 1
Witness: Jim Adkins

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

RECLASSIFYING CUSTOMERS TO SOUTH KENTUCKY'S RATES

- Q. Refer to the response to the Staff's First Request, Item 13.
- a. Concerning the response to Item 13(a), is South Kentucky indicating that the transaction will not close prior to December 31, 2007? If no, explain how a transaction will not close prior to year-end can be omitted from South Kentucky's financial statements.
- R. a. The determination of the closing date cannot be determined until after the voting in November. When approval is granted by the voters, then a more precise date for completing all necessary actions and closing can be estimated. January 1 has been used as an estimate to facilitate the year end closing of South Kentucky's accounting records for financial statement purposes. The inclusion of Monticello in the 2007 accounting records would complicate the year end closing plus it may put an undue burden on some the necessary actions required for South Kentucky to integrate the MEPB into its system. If the closing date is after December 31, 2007 for the acquisition of the MEPB, then a footnote on this purchase will be contained in South Kentucky's financial statements for 2007.
- Q. b. Concerning the response to Item 13(c).
- (1) In order to continue charging the Monticello customers the existing rates from the date South Kentucky acquires the system until the end of the Tennessee Valley Authority power contract, would South Kentucky adopt the Monticello rates and amend its existing tariffs to include those rates for customers? Explain the response.
- R. b. (1) It is South Kentucky's intent to adopt the Monticello rates through December 31, 2008 contract and submit them to the Commission as an addendum to South Kentucky's current rates with an expiration date of December 31, 2008.
- Q. b. (2) In order to bill the former Monticello customers South Kentucky's existing rates in November 2008, would South Kentucky file a rate proceeding to move from one tariff to another. Explain the response.
- R. b. (2) It is South Kentucky's intent to develop a plan to reclassify the Montcello customers into South Kentucky's then current rates for their concurrence. After the reclassification is completed, South Kentucky would then file the results of its reclassification.

**SOUTH KENTUCKY RECC
CASE NO. 2007-00374**

Item No. 6
Page 1 of 2
Witness: Jim Adkins

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

JOURNAL ENTRIES FOR ACQUISITION

Q. Refer to the responses to the Staff's First Request, Items 15(b), page 4 of 4, 19(a-b), and 22.

- a. The responses in Items 15 and 22 state that South Kentucky intends to record the Monticello acquisition at the purchase price. Is South Kentucky aware that the Uniform System of Accounts for Rural Utilities ("RUS USoA") requires that, when electric plant constituting an operating unit or system is purchased, the acquired plant is to be recorded at its original cost as well as any accumulated depreciation applicable to the original cost.

R. a. We are aware of it now.

Q. b. Using the information provided in Item 19, resubmit the accounting entries that reflect the purchase of the Monticello fixed assets. The entries are to be consistent with the provisions of RUS USoA.

R. b. Listed below is the journal entries consistent with RUS USoA

The initial entry is provided below:

		Debit	Credit
102	Electric Plant Purchased or Sold	4,686,000	
224.14	Mortgage Note Payable		4,400,000
131.1	Cash		286,000

**SOUTH KENTUCKY RECC
CASE NO. 2007-00374**

Item No. 6
Page 2 of 2
Witness: Jim Adkins

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

The subsequent entry is provided below:

360	Land and land rights	15,024	
361	Structurres and improvements	17,824	
362	Station equipment	1,154,181	
364	Poles, towers, and fixtures	1,118,664	
365	Overhead conductor and devices	491,598	
366	Underground conduit	3,950	
367	Underground conductor and devices	17,860	
368	Line Transformers	1,385,180	
369	Services	356,972	
370	Meters	242,810	
371	Installations on customers premises	304,403	
373	Street lighting and signal systems	193,569	
389	Land and land rights	112,948	
390	Structures and improvements	682,723	
391	Office furniture and equipment	129,313	
392	Transportation equipment	425,948	
393	Stores equipment	328	
394	Tools. Shop, and garage equipment	12,567	
395	Laboratory equipment	9,161	
396	Power operated equipment	14,580	
397	Communication equipment	28,529	
398	Miscellaeous equipment	3,047	
114	Electric Plant Acquisition Adjustment	961,127	
102	Electric Plant Purchased or Sold		4,686,000
108.6	Accumulated Depreciation of Distribution Plant		2,325,628
109.6	Accumulated Depreciation of General Plant		670,677

- Q. c. Describe how South Kentucky would propose to amortize any acquisition adjustment that may result from the Monticello acquisition.
- R. c. South Kentucky would amortize any acquisition adjustment over a fifteen (15) year period using the straight line method.

**SOUTH KENTUCKY RECC
CASE NO. 2005-00374**

Item No. 7
Page 1 of 1
Witness: Jim Adkins

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

DISTRIBUTION SUBSTATION TRANSACTION

Q Refer to the response to the Staff's First Request, Item 16.

a. The response to Item 16(a) states, "How the substation transaction will be financed as {sic} not been determined yet." Explain this statement, given that the substation transaction refers to the purchase of a substation from South Kentucky EKPC.

R a A more appropriate response would have been that South Kentucky is not sure how EKPC plans to pay for the transaction; cash or have SKRECC finance it. The presumption is that EKPC will pay cash.

Q. b. Explain why South Kentucky does not plan to use the net proceeds from the sale of the substation to EKPC to pay down the \$4,400,000 debt incurred to acquire the Monticello assets.

R. b. The purchase of the Monticello assets is a completely separate transaction from the sale of the substation to EKPC. The asset purchase was completed before an agreement was reached to sell the distribution substation to EKPC. Additionally, The asset purchase was a negotiated transaction and the financing by the city was one of their major considerations in consummating the deal. The city wanted to receive a constant stream of money over long period of time.

**SOUTH KENTUCKY RECC
CASE NO. 2007-00374**

Item No. 8
Page 1 of 1
Witness: Jim Adkins

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

CONSUMER DEPOSITS TRANSACTION

- Q Refer to the response to the Staff's First Request, Items 18 and 22. Given that South Kentucky is assuming a customer deposit liability and accrued interest liability of \$152,897 and \$9,174, respectively, why did South Kentucky not reflect these liabilities in the proposed journal entry to record the Monticello acquisition?
- R It was an oversight in the preparation of the responses to the Staff's First Request. The journal entry to cover this part of the acquisition would be as provided below:

131.1 Cash		162,071	
235	Customer Deposits		152,897
237	Interest Accrued		9,174

**SOUTH KENTUCKY RECC
CASE NO. 2007-00374**

Item No. 9
Page 1 of 2
Witness: Allen Anderson

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

LENDER APPROVALS

- Q Refer to the response to the Staff's First Request, Item 18(b). What is the status of the RUS lien accommodation and the supplemental lender's approval of the proposed acquisition?
- A. A lien accommodation is to be provided by RUS and is in the process of being prepared and CFC has rendered its approval of this transaction. Attached is a copy of the letter from CFC.



**National Rural Utilities
Cooperative Finance Corporation**

Item 9
Page 2 of 2
2201 Cooperative Way
Herndon, Virginia 20171
703-709-6700 | www.nrucfc.coop
Witness: Allen Anderson
A Touchstone Energy Cooperative 

October 17, 2007

Mr. Jeffrey C. Greer
CFO
South Kentucky RECC
P.O. Box 910
Somerset, KY 42502

Re: Monticello Electric Plant Board Acquisition

Dear Mr. Greer:

It is National Rural Utilities Cooperative Finance Corporation's ("CFC") understanding that South Kentucky Rural Electric Cooperative Corporation ("South Kentucky") plans to complete the acquisition of the Monticello Electric Plant Board. We have reviewed the loan documentation currently in existence between CFC and South Kentucky and determined that CFC written approval of the acquisition is not required.

If you have any questions, or need any further detail, please don't hesitate to give me a call at 800-424-2954, extension 6801. We at CFC look forward to working with you toward a successful completion of this transaction.

Sincerely,



Elaine M. MacDonald
Associate Vice President

**SOUTH KENTUCKY RECC
CASE NO. 2007-00374**

Item No. 10

Page 1 of 1

Witness: Allen Anderson

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

TERRITORIAL MAPS

- Q Refer to the response to the Staff's First Request, Item 23. Would South Kentucky agree that upon its acquisition of the Monticello customers, South Kentucky will be required to submit new service territory maps to the Commission reflecting the addition of this area to its service territory? Explain the response.
- R South Kentucky is willing to submit maps of the MEPB area upon acquisition. South Kentucky does not believe that new service territory maps are required in this situation because KRS 278.018(2) is interpreted by South Kentucky to mean that they can automatically provide service without redrawing. This interpretation is based on the idea that the Monticello area will now be a new electric consuming facility under the jurisdiction of the Commission.

**SOUTH KENTUCKY RECC
CASE NO. 2007-00374**

Item No. 11

Page 1 of 1

Witness: Allen Anderson

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

ELECTION RESULTS

- Q Provide the results of the November 6, 2007 election concerning the acquisition of Monticello by South Kentucky no later than November 15, 2007.
- A. We will provide the results as soon as they become available.