

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

JUL 22 2009

APPLICATION OF SOUTH KENTUCKY RURAL)
ELECTRIC COOPERATIVE CORPORATION)
FOR A CERTIFICATE OF CONVENIENCE AND)
NECESSITY TO CONSTRUCT A NEW)
HEADQUARTERS FACILITY IN SOMERSET,)
KENTUCKY)

**PUBLIC SERVICE
COMMISSION**

) CASE NO. 2008-00371

APPLICANT'S POST- HEARING MEMORANDUM

MAY IT PLEASE THE COMMISSION:

The Applicant, South Kentucky Rural Electric Cooperative Corporation (hereinafter "South Kentucky") submits this memorandum at the request of the Commission at the conclusion of the July 7, 2009 hearing to provide a summary of South Kentucky's arguments.

BACKGROUND

South Kentucky filed its application on September 5, 2008 to construct new headquarters facilities which will consist of a 46,060 square foot office building, 9,794 square feet of pre-engineered office space outside the main office building, a 27,895 square foot warehouse, a 9,920 square foot garage and a 15,053 square foot covered transformer dock¹. The total estimated cost to construct the proposed facilities will be \$18,114,750². This is the most recent of three (3) different cost estimates since this matter has been pending. The headquarters facilities will be constructed upon an 85 acre, more or less, tract in Pulaski County located approximately three (3) miles from the present headquarters facility. South Kentucky already

¹ Response to Data Request from May 26, 2009 Informal Conference submitted June 5, 2009, Attachment 1.

² Attachment to D.W. Wilburn, Inc. Contract, Exhibit 8 of Post-Hearing Response to Data Request submitted July 17, 2009.

owns this tract which is situated off relocated U.S. Highway 27 at the interchange with proposed Interstate 66. The project will be funded by RUS which has granted preliminary approval of the loan.

South Kentucky's building project involves more than just an office building. Also included are:

1. A warehouse, including shops, vehicle maintenance, office and covered area.
2. A community/training room.
3. Cold storage parking.

Of the total cost, \$6,256,320.00 is allocated for the office building itself with \$6,821,930.00 for the three items above and \$4,177,500.00 for site preparation and professional fees (architect and engineer).

ARGUMENT

I

THE NEW FACILITIES ARE NECESSARY

South Kentucky's existing headquarters facility is woefully inadequate and it has been determined by the Board of Directors to construct new facilities because the existing office and ancillary structures are not amenable to remodeling and renovation. Total office space is presently 34,914 square feet and the new facilities will increase to 55,854 square feet.

Warehouse/storage space is now 39,681 square feet and will increase to 52,868 square feet.

Parking will expand from 203 to 410 spaces.

Among deficiencies in the existing facilities are the following:

1. The total space of the current facilities is inadequate for South Kentucky.
2. The current facilities are a fire trap with no means of installing a sprinkler system.

3. Fire evacuation routes cannot be improved without a significant investment.
4. The current facilities are not capable of meeting some of the Americans with Disability Act (ADA) standards such as not being able to be made handicapped accessible.
5. The current facilities are in a flood plane and subject them to being flooded at times of peak rainfall conditions.
6. The current facilities are on a highly traveled thoroughfare where entering and exiting the South Kentucky property can be cumbersome and dangerous.
7. The use of the current drive through facilities by members at peak times cause problems that are hazardous and could be dangerous to members due to traffic congestion and backup.
8. The location of computers, printers and other similar equipment is very disparate and not optimum due to the layout of current facilities.
9. The current facilities are not amenable to South Kentucky's Red Flags program mandated by section 114 of the Fair and Accurate Credit Transaction Act of 2003 (FACTA) embodied in 15 USC 1681, et seq.
10. There is inadequate space for maintenance of recent technological improvements, namely: (a) comprehensive call center, (b) outage management department, (c) twenty-four (24) hour dispatch and (d) automated meter reading (AMR) and (e) advanced metering infrastructure (AMI).

South Kentucky's current Somerset facilities were initially built in 1952. Subsequent additions were made in the following years:

1957 – Kitchen and auditorium built.

1960 – Garage and billing room added.

- 1964 – Directors and manager rooms added.
- 1969 – Room for Bookkeeping department added.
- 1971 – Converted garage area to member services offices.
- 1976 – Engineering offices added.
- 1986 – PCB building added.
- 1987 – Dock space added to garage.
- 1989 – Warehouse addition made along with office space addition for cashiers.
- 1991 – Warehouse addition made.
- 1992 – Large addition for office space.
- 1998 – Garage bays added with some office space renovations.

These facilities can take no more renovation or additions.

By reason of the deficiencies set forth above, South Kentucky cannot adequately serve its customers. It has “patched together” its current location over the last 57 years but it is now necessary to update its facilities. The current facility’s design and construction preclude redesign and the parcel of land is not adequate for expansion. The construction of new headquarters facilities is therefore necessary to ensure adequate space is available in the future for the reasonable expansion of South Kentucky’s staff and equipment as growth within its system occurs and will provide customers with adequate access to the office, including the accommodations for customers with disabilities.

II

FACILITIES ANALYSES

South Kentucky has relied upon the opinions of three (3) experts to determine its facilities needs, namely (1) Roy Cowan, (2) CDS Associates, Inc and (3) Tate Hill Jacobs

Architects, Inc. In fact, Mr. Cowan performed two studies, one in 2002 and the other in 2008. The plans for South Kentucky's new facilities are based upon this expert advice.

Roy Cowan performed a "Facilities Analysis" in October, 2002 and updated the analysis in 2008. He worked for 24 years with NRECA and his expertise includes performing facilities planning studies. Among his findings are the following:

1. The current facilities and property have served well beyond their effective life.
2. Access and egress are an issue of member and employee safety.
3. Lack of compliance has potential liability with the Americans with Disabilities Act ("ADA") as such long and narrow hallways, multiple levels with treacherous steps.
4. Fire regulations may preclude any renovation or expansion.
5. Facilities in flood plane.
6. Space is fragmented spreading many functions to different floors and or separated areas of the building and facility. This all reduces efficiency with a loss of productivity.
7. Unable to retrofit most technological application such as the smart grid.
8. Environmental issues and indoor air quality issues.
9. Minimal space for employee meetings and business meetings.
10. Storage needs have outgrown storage space capacity causing the need for several portable buildings and the use of old houses on the property.
11. During peak times members create traffic jams on public roadways in front of building when trying to enter and/or exit our facilities.
12. The use of the drive-thru payment facility is hazardous for members, employees and general public.
13. Communications with fellow employees are difficult.

Mr. Cowan also provided his opinion as to the size of the facilities required by South Kentucky as did CDS Associates, Inc and Tate Hill Jacobs Architects, Inc.

The space analysis comparisons with total recommended square footages are as follows:

Existing Facility	74,595 square feet
Cowan (2002)	106,750 square feet
Cowan (2008)	121,900 square feet
Tate Hill Jacobs	134,112 square feet
CDS Associates	170,045 square feet

The average of the four studies is 133,202 square feet which is 22.5% more than the 108,722 square feet for which South Kentucky seeks approval to build. By securing the opinions of three experts and seeking less than the average square footage, South Kentucky is seeking no more space than it needs.

III

THE COST IS NOT EXCESSIVE

At \$18,114,750, the cost of the 108,722 square foot facilities equals \$166.62 per square foot³ which is not excessive when compared to two recent projects in Somerset, Kentucky. The Administrative Office of the Courts is currently building an 83,000 square foot facility which will become the Pulaski County Judicial Center. The cost is budgeted to be \$200 per square foot. Additionally, the Pulaski County Public Library project of 45,750 square feet will cost \$180 per square foot.

³ Without the “cold storage” square footage, the cost is \$154.28 and with application of the proceeds of the sale of the existing facility and the property known as the “Coop Farm”, the cost reduces to \$137.97 per square foot. See page 13 of pre-filed testimony of Allen Anderson.

IV

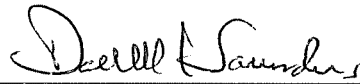
IMPACT UPON CUSTOMERS IS MINIMAL

It is anticipated that South Kentucky's customers will be only minimally impacted by the cost of the new facilities. Considering 67,000 customers and an annual operating cost of \$1,250,000, the project will cost the members \$18.66 annually or \$1.56 per month. A regular size soda at Wendy's costs \$1.62.

Nor will the new facilities cause a rate increase sooner. South Kentucky is projected to require a rate increase in the year 2012 as per the pre-filed testimony of James R. Adkins. See Statement of Operations of his Ten Year Forecast Exhibit E, Schedule A (revised May, 2009). Mr. Adkins projects that South Kentucky will need additional revenues of \$8,618,097 in 2012 and thus the additional \$1,250,000 or even a higher amount of \$1,500,000 will not cause a rate increase any sooner. It will be necessary to seek a rate increase in 2012 either with or without the new facilities. Certainly not building the new facilities will not result in a \$8,618,097 savings. Therefore the need for a rate increase in 2012 is inevitable whether or not the new facilities are constructed and the new facilities will not singularly cause rates to increase sooner.

CONCLUSION

South Kentucky desperately needs to update its 1952 facility. The size of the project is justified. The cost is not excessive. And impact upon its customers will be minimal. Accordingly, the Commission is requested to grant the application for a certificate of public convenience and necessity.



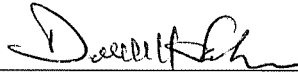
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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the above and foregoing was this 21st day of July, 2009, deposited in the regular United States mail, all postage prepaid and addressed for delivery to Mr. Quang D. Nguyen, Staff Attorney, Public Service Commission, 211 Sower Blvd., P.O. Box 615, Frankfort, KY 40602-0615.

Original to: Public Service Commission, 211 Sower Blvd., P.O. Box 615, Frankfort, KY 40602-0615.



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