Big Sandy Rural Electric
Cooperative Corporation

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PUBLIC SERVICE
COMMISSION

February 20, 2009

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602

Re: Application of Big Sandy Rural Electric for an Adjustment of Rates
Case No. 2008-00401

Dear Mr. Derouen:

Please find enclosed the original and seven (7) copies of the responses to the Commission's Order "Second Data Request of the Commission Staff to Big Sandy Rural Electric Cooperative Corporation" dated February 9, 2009.

Please contact me at (606) 874-9701 or David Estepp at (606) 789-4095 with any questions regarding this filing.

Respectfully submitted,

Albert A. Burchett
Counsel for Big Sandy Rural Electric Cooperative

Enclosure

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of adjustment of Rates
Of Big Sandy Rural Electric Cooperative
Corporation **Case No. 2008-00401**

APPLICANT'S RESPONSES TO SECOND DATA REQUEST OF COMMISSION STAFF

The applicant, Big Sandy Rural Electric Cooperative Corporation, makes the following responses to the "Second Data Request of Commission Staff", as follows:

1. The witnesses who are prepared to answer questions concerning each request are David Estepp, Alan Zumstein, and Jim Adkins.
2. David Estepp, Manager of Finance and Administration of Big Sandy Rural Electric Cooperative Corporation is the person supervising the preparation of the responses on behalf of the applicant.
3. The responses and Exhibits are attached hereto and incorporated by reference herein.

Albert A. Burchett
Attorney-At-Law
P.O. Box 346
Prestonsburg, Kentucky 41653
Attorney for Big Sandy Rural Electric Cooperative
Telephone: 606-874-9701

The undersigned, David Estepp, as Manager of Finance and Administration of Big Sandy Rural Electric Cooperative Corporation, being duly sworn, states that the responses herein are true and accurate to the best of my knowledge and belief formed after reasonable inquiry.

Dated: February 20, 2009

BIG SANDY RURAL ELECTRIC COOPERATIVE

By: _____
DAVID ESTEPP, MANAGER FINANCE & ADMIN

Subscribed, sworn to, and acknowledged before me by David Estepp, as Manager of Finance and Administration for Big Sandy Rural Electric Cooperative Corporation on behalf of said Corporation the 20th day of February, 2009.

_____
Notary Public, Kentucky State At Large

My Commission Expires: 4-12-12

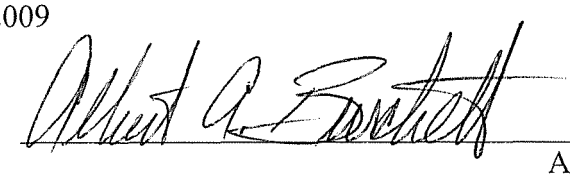
CERTIFICATE OF SERVICE

The undersigned counsel certifies that the foregoing responses have been served upon the following:

Original and ~~Ten~~ Seven Copies
Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

Copy
Hon. Lawrence W. Cook
Assistant Attorney General
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601

This 20th day of February, 2009



ATTORNEY FOR
BIG SANDY RURAL ELECTRIC COOPERATIVE

Big Sandy Rural Electric Cooperative
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1. Refer to Exhibit S at 4, which shows the amount of the proposed increase based on attaining a Times Interest Earned Ratio ("TIER") of 2.0X.

a. Describe the methodology employed by Big Sandy in determining that 2.0X was the appropriate TIER on which to base its requested rate increase.

b. Is Big Sandy aware of any studies performed by Rural Utilities Service ("RUS") or the National Rural Utilities Cooperative Finance Corporation on the subject of appropriate TIER level for an electric distribution cooperative? If yes, identify the studies and when they were performed.

c. Big Sandy's request in this case for a 2.0X TIER would produce net margins of roughly $1.1 million. For each of the calendar years immediately preceding the test year, provide the approximate net margins that would have been realized if Big Sandy had achieved a TIER of 2.0X.

Response

1.a. A TIER of 2.0x will allow Big Sandy to increase its margins, which will result in an increase in equity. This will allow Big Sandy to meet its mortgage requirement for TIER and DSC, and hopefully, allow it to continue to return capital credits to its members.

1.b. Big Sandy is not aware of any studies performed by either RUS or CFC that addresses an appropriate TIER level. Both have minimum requirements in their mortgage agreements. CFC will periodically address equity levels, but does not give a specific or target level that is appropriate, but does give ranges. This is generally about 35%.

1.c.

Year	Net Margins
2007	987,686
2006	1,024,565
2005	756,180
2004	528,275
2003	516,903

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2. Refer to Exhibit Y. Depreciation expense for General Plant in Exhibit Y, Trial Balance, is $64,165; however, in Exhibit 3, depreciation expense for the test year for General Plant is $237,146. Provide a detailed explanation for the discrepancy between the two reported depreciation expenses.

Response

Test year accrual	237,146
Charged to clearing accounts	172,982
Expense	64,164

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3. Refer to Exhibit 1, Employee Earnings and Hours.

a. For each employee listed on Table 1 below, explain in detail why they worked less than 2,080 hours in the test period.

Table 1		
	Employee No.	Regular Hours
(1)	5	2,076.0
(2)	15	2,076.0
(3)	17	2,012.0
(4)	23	2,076.0
(5)	31	2,002.0
(6)	38	2,076.0
(7)	41	2,076.0

b. For each employee listed on Table 2 below, explain in detail why they worked more than 2,080 hours in the test period.

Table 2		
	Employee No.	Regular Hours
(1)	14	2,086.0
(2)	40	2,086.0
(3)	43	2,086.0
(4)	45	2,086.0

c. If an employee worked less than 2,080 annual hours, explain if they would have been paid for vacation or sick time used during the test period.

Response

3.a. Employees 5, 15, 23, 38, and 41are on the same crew that had labor transferred from one work order to another, that went from one pay period to another after the test year. The time for pay for the period did not change, but the labor for reporting purposes did change.

Employees 17 and 31 each missed time for minor injuries and have returned to work full time.

3.b. These are employees from another crew that had the same issue as 3.a. above, except the opposite direction for their labor.

3.c. Employees are eligible for paid vacation and paid sick time after they have worked for at least 6 months. An employee must take vacation or sick pay if they miss work and have any time accumulated, or they do not get paid. So an employee may be paid for vacation or sick time if they worked less than 2,080 hours.

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4. Refer to Exhibit 1, Employee Information. The schedule shows that employee 165 was hired to replace employee 156.

a. Provide the date that employee 156 terminated his employment with Big Sandy.

b. Provide the date Big Sandy hired employee 165.

c. Explain why the actual test-period wages do not include any compensation that Big Sandy paid to employee 156 during the test period.

Response

4.a. Terminated 02/08.

4.b. Started work 09/01/08.

4.c. Employee No. 156 agreed to employment prior to 08/08, however, they did not actually start working until 09/01/08.

Big Sandy Rural Electric Cooperative
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5. Refer to Exhibit 1, Compensation of Executive Officers.

a. Explain why the President and General Manager has not received a wage increase in the 3 years shown on this schedule.

Response

The President & General Manager has not received any wage increases at his request. Theses funds have instead been allocated to other employees.

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5 b. Provide a detailed explanation as to why the Office Manager only received a 1.6 percent wage increase in the test period.

Response

Wage increases were established by the General Manager and approved by the Board of Directors. During the test period, the vast majority of employees only received a $.50 per hour raise.

Big Sandy Rural Electric Cooperative
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5 c. The Manager, Finance and Administration, received a 7.7 percent wage increase in the test period. Provide a detailed explanation for the level of wage increase given to this employee.

Response

This employee was awarded additional wages because the position assumed additional duties and responsibilities.

Big Sandy Rural Electric Cooperative
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5 d The Plant Superintendent received a 6.3 percent wage increase in the test period. Provide a detailed explanation for the level of wage increase given to this employee.

Response

This employee was awarded additional wages because the position assumed additional duties and responsibilities.

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6. Refer to Exhibits 1 and 2.

a. Big Sandy is capitalizing 18.7 percent[1] of its payroll taxes but is only capitalizing 18 percent[2] of it payroll. Explain the discrepancy between the two capitalization rates.

b. Explain why 5.5 percent of payroll is allocated to Account No. 108.8 – Retirement Work In Progress, but none of the payroll taxes are allocated to this account.

Response

6.a. Big Sandy is capitalizing 23.5% of its payroll to construction and retirement (18.0% plus 5.5%) in accounts 107.20 and 108.80. There was a formula error in calculating payroll taxes for the percentage allocation. The corrected allocation of payroll taxes is as follows:

107-108	Capitalized	25.1%
163-416	Clearing and others	4.8%
580	Operations	19.3%
590	Maintenance	13.0%
901	Consumer accounts	10.4%
908	Customer service	1.9%
912	Sales	0.0%
920	Administrative and general	25.5%
		100.0%

6.b. Capitalized payroll taxes includes construction and retirement accounts number 107.20 and 108.80. See 6.a. above.

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7. Refer to Exhibit 3.

a. Big Sandy states that "[T]he ending plant balance is multiplied by rates that are within RUS approved guidelines." Given this statement, explain why, in the comparison[3] of the proposed rates to RUS's recommended maximum and minimum rates, the proposed rates exceed the RUS maximum for 9 of the 11 categories shown.

b. The following statement is in Big Sandy's depreciation study: "The bulletin further provides for rates higher or lower than those in the range when supported by a depreciation study." Explain in detail if RUS has to give prior approval for those depreciation rates that are outside the established RUS range of depreciation rates.

c. The depreciation study references RUS Bulletin 183-1, Depreciation Rates and Procedures. Provide a copy of the referenced RUS Bulletin.

d. Provide the date Big Sandy completed its depreciation study.

e. Provide the date Big Sandy submitted its request to RUS for the approval of the depreciation study that was performed as of December 31, 2007.

f. Has Big Sandy contacted RUS to determine when the approval of the depreciation study will be issued?

(1) If yes, state when Big Sandy expects to receive RUS's approval.

(2) If no, explain in detail why Big Sandy has not contacted RUS regarding the pending approval of its depreciation rates.

g. Explain in detail why the Commission should reflect depreciation rates that are outside the range RUS recommends before Big Sandy has received RUS approval to use those depreciation rates.

Response

7.a. RUS allows for rates above or below these when the rates are supported by a depreciation study.

7.b. RUS will allow the use of higher or lower rates if Commission approval is obtained prior to RUS approval.

7.c. Attached.

7.d. October 2008.

7.e. November 10, 2008.

7.f.(1) Big Sandy has not received any correspondence from RUS yet.

7.f.(2) Conversations with RUS personnel have indicated that RUS reviews the depreciation studies, but usually not on a very timely basis. It generally takes a while to get through the studies, and sometimes RUS does not even respond to the filings. It is not uncommon for RUS to not have responded on the depreciation study as filed with them.

7.g. RUS allows electric cooperatives to select rates that are within the RUS Bulletin 183-1, Depreciation Rates and Procedures without a study. The bulletin further provides for rates higher or lower than those in the range when supported by a depreciation study. Grayson has provided a study to support rates that are outside of the Low and High rates included in the bulletin.

PSC-2-7.C.

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration

October 28, 1977

REVISION OF REA BULLETIN 183-1

Attached is revised REA Bulletin 183-1, Depreciation Rates and Procedures.

Depreciation rates and procedures prescribed in this bulletin are effective January 1, 1978. However, borrowers wishing to make the changes retroactive to January 1, 1977, may do so. Borrowers may continue to use those rates which REA has approved on the basis of special studies.

A recent review of current industry depreciation rates and practices indicates REA's prescribed rates for generation and transmission and the ranges of rates for distribution plant are generally in agreement with current industry data. The review did indicate an upward trend in certain prescribed rates which have been reflected in the new rates as follows:

1. The prescribed rate for steam production plant is changed from 2.82 percent to 3.10 percent.

2. The prescribed rate for transmission lines is changed from 2.60 percent to 2.75 percent. If communication equipment is not "significant" (see page 14) borrowers may now use a composite rate of 2.75 percent for all transmission plant.

3. The prescribed range of rates for Account 364, Poles, Towers and Fixtures is changed from a range of 3.0 to 3.5 percent to a range of 3.0 to 4.0 percent.

The revised bulletin requires that the accumulated provision for depreciation of distribution plant be analyzed on at least an annual basis. The only other major change in the bulletin is the clarification (page 14, B) of the handling of depreciation rates for nuclear production plant.

To eliminate some apparent confusion, the following points concerning this bulletin are emphasized.

1. REA will not object to the use of the "unit method" of depreciation for "General Plant," where the board of directors approve of this procedure as being necessary to meet their management needs.

2. The use of REA approved rates for general plant has not been necessary since the 1969 revision of Bulletin 183-1. We recommend that borrowers use the range of rates for general plant provided in the bulletin. However, a rate based upon the experience of the cooperative, representing the estimated service life and salvage is satisfactory.

Attachment

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration

October 28, 1977
Supersedes 11/3/69

REA BULLETIN 183-1

SUBJECT: Depreciation Rates and Procedures

I. General: This bulletin is issued to aid borrowers in their accounting for depreciation. Specific rates are prescribed for production and transmission plant. Ranges of rates are prescribed for distribution plant and recommended for general plant. A method is furnished for borrowers to appraise their reserve ratio for distribution plant. Borrowers may continue to use rates which have received specific REA approval since January 1, 1967. Otherwise, no deviations are to be made from these depreciation procedures and prescribed rates without specific approval of REA except where other rates or procedures are required by a regulatory agency having jurisdiction over the borrower. Borrowers under commission jurisdiction should inform REA of depreciation rates prescribed by the Commission.

II. Depreciation Defined: Depreciation is defined in the REA Uniform System of Accounts as "the loss in service value of depreciable plant not restored by current maintenance resulting from causes against which no insurance is carried, such as wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand, and requirements of public authorities."

III. Objectives of Depreciation Accounting:

A. The objective of depreciation accounting is to charge to expense the capital investment in certain fixed assets, less salvage at time of retirement, over their useful lives. Thus it may be said that the cost of capital investments in plant is recovered by means of proper depreciation accounting. The useful life of such assets is dependent upon such factors as use, misuse, maintenance and obsolescence. The charge to expense is accomplished by establishing depreciation rates as a percentage. This percentage is applied to the asset cost to yield a monthly or annual amount of depreciation expense.

B. Depreciation accounting provides for the systematic, periodic writedown or allocation of the cost of a limited-life asset or asset group. The established rate of depreciation should recognize useful life and recovery values. Depreciation is not intended to provide funds for replacement, nor is it to be legitimately considered as a means to make a desirable showing on the revenue and expense statement.

IV. Methods of Depreciation:

A. REA recommends the straight-line method of computing depreciation for use by its borrowers to provide uniform accounting and reporting practices. The REA Uniform System of Accounts defines straight-line depreciation as "a method for periodically computing the expense represented by loss in service value of depreciable plant, under which the objective is to prorate such loss in equal installments over the estimated or remaining estimated service life."

B. The REA Uniform System of Accounts, in conformity with the practice of electric and other utility industries, provides for the use of composite rates for each class of property including general plant. This is commonly referred to as "group method depreciation." Although the use of the unit method of computing depreciation is not consistent with general utility practices nor recognized in the Uniform System of Accounts Prescribed for Electric Borrowers of the Rural Electrification Administration (REA Bulletin 181-1), REA will not object to this method of computing depreciation for general plant where boards of directors approve this procedure as being necessary to meet their management needs.

C. The group method differs from the unit depreciation method in that a number of units of property are grouped for depreciation accounting purposes; depreciation is computed for the whole group. The units may be grouped by primary accounts or by functions, the essential requirement being that the property included in each group have some homogeneity. Under the group method, when retirement of a depreciable unit of plant occurs, the cost of the unit less net salvage is charged to the appropriate accumulated provision for depreciation account. No

recognition is given to so-called gain or loss until all the units included in the particular group are abandoned.

V. Depreciation Guideline Curves - Distribution Plant: The ratio of the accumulated provision for depreciation to gross plant in service (reserve ratio), has been widely recognized as an important measure of the propriety of depreciation rates and practices. Guideline curves are supplied in Section V.C. for use as a screening tool to determine whether a borrower's reserve ratio is consistent with normal experience. Using the procedure outlined in V.C. below, the cooperative should, on an annual basis, prepare an analysis of the adequacy of its accumulated provision for depreciation of distribution plant. This analysis should be maintained in the cooperative files and be made available for review by REA field personnel.

A. Underlying Theory:

1. Electric distribution plant is an example of a "continuous class" of property, consisting of many individual units of property, each of which is replaced when it reaches the end of its useful life. For such a "continuous class" of property, and with proper depreciation accounting, the reserve ratio for a particular company will be determined by the following factors:

   a. Its history of growth.

   b. Its age.

   c. Its experience with respect to retirements and replacements. This involves not only the average useful life of the plant, but also the dispersion in the average useful life of the individual plant items.

   d. Its experience with net salvage.

   e. Its rate of depreciation.

2. The depreciation guideline curves are a simplified application of this underlying theory. The factor of growth is taken into account by the horizontal scale at the bottom of the chart which is a ratio comparing the present plant with plant ten years ago. The factor of age is taken into account by the fact that the curve is recommended for use only by borrowers with an elapsed age since energization of at least 20 years. The factors of experience with replacements and salvage are taken into account by the provision of a range between maximum and minimum

which encompasses the range in average life and in patterns of replacement dispersion which is most commonly experienced by REA borrowers. These ranges were determined by reference to industry experience, both public and private, and through simulated plant-record analyses made of a number of REA borrowers. The applicability of the basic factors of growth, age, and history of retirements to REA distribution borrowers' reserve ratios has been confirmed by statistical analysis, and it has been determined that the experience of most distribution borrowers which have followed good depreciation accounting practices will place their reserve ratio within the "normal" area between the maximum curve and the minimum curve.

3. It will be noted that there is a considerable spread between the maximum and the minimum guideline curves. It is significant that conditions which may result in fairly high reserve ratios for certain borrowers at the present time should lead to lower reserve ratios as these borrowers become older. It is more likely, therefore, that in later years the maximum curve may be lowered.

B. Application of Depreciation Guideline Curves:

1. Depreciation guideline curves can be used very easily by the borrower. Following the detailed procedure for use of the guideline curves (Section V C), the reserve ratio and rate of growth of distribution plant in service are determined for the latest ten year period. Reference to the depreciation guideline curves will immediately indicate whether the borrower's reserve ratio lies between the maximum and minimum curves for plant growing at such a rate.

2. If a borrower is above the maximum, or below the minimum, this is an indication of an unusual condition which warrants a more detailed study. Such a study may indicate need for correction in accounting procedures or a change in depreciation rates or both. In some instances, detailed study may reveal exceptional conditions which justify the unusually high or low reserve ratio.

3. It is also important to consider the change in the reserve ratio during the last several years, and the future reserve ratio as predicted in a long range financial projection. If the reserve ratio is below the minimum curve, but increasing, and if the financial projection indicates that it will soon reach the minimum curve, no corrective action may be required, though subsequent progress should be watched to see that it corresponds to the estimates.

4. Similarly, if the reserve ratio falls between the maximum and minimum guide curves, but the financial projection indicates that the reserve ratio is expected to increase within a few years to a point well above the maximum curve, a special study of the depreciation practices should be made to determine whether there is a need for corrective action.

C. Procedure for Use of the Depreciation Guideline Curves:

1. The chart which follows, shows depreciation guideline curves with suggested levels of depreciation reserve ratios at various growth rates. The solid curves indicate the upper and lower limits of normal reserve ratios for distribution plant. The curve shown by dashes indicates the optimum level of reserve ratios which might be expected in the case of a typical distribution borrower.

2. To check the accumulated provision for depreciation of distribution plant against the depreciation guideline curves, four steps are necessary:

   a. Determine whether the elapsed age since energization is at least 20 years. If it is less than 20 years, the guideline curves are not applicable.

   b. Determine the current reserve ratio by dividing the accumulated provision for depreciation on distribution plant by the distribution plant in service. Typical figures might be $855,220 divided by $2,861,150, which gives a reserve ratio of 29.9%.

   c. Determine the ratio of current distribution plant in service to distribution plant in service ten

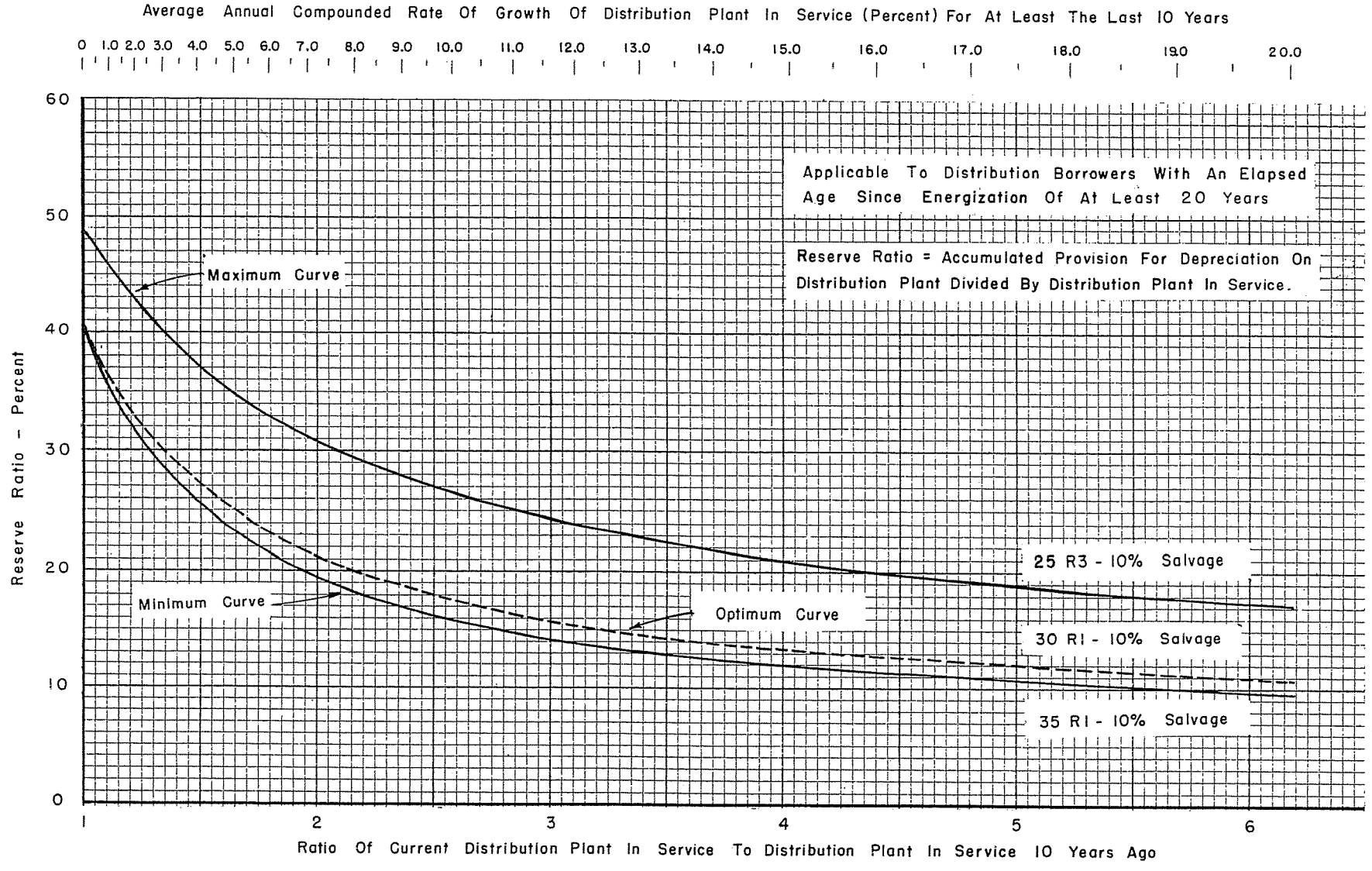
years before. To do this, divide the current distribution plant in service by the distribution plant in service ten years earlier. Typical figures might be $2,861,150 divided by $1,540,350, which gives a ratio of 1.86.

d. Refer to the depreciation guideline curves. For a ratio of current distribution plant in service to distribution plant 10 years ago of 1.86, the maximum curve is about 32% and the minimum curve is about 21%. The example of 29.9%, in paragraph 2 above, lies within this range.

3. It may be desirable to use the depreciation guideline curve with a growth period of more than 10 years. In that case, it will be necessary to use compound interest tables to obtain the average annual compounded rate of growth of distribution plant in service for the particular number of years involved. Then the horizontal scale at the top of the chart will be used.

4. References: For general information on depreciation of a "continuous class" of property, see Report of the Committee on Depreciation, 1960, National Association of Railroad and Utilities Commissioners. For information on the "Iowa Curves" of plant mortality dispersion, which were used in the development of the REA depreciation guideline curve, see Statistical Analysis of Industrial Property Retirements by Robley Winfrey, Iowa Engineering Experiment Station, Bulletin No. 125, 1935, and Depreciation of Group Properties by Robley Winfrey, Iowa Engineering Station, Bulletin No. 155, 1942. For information on the simulated plant-record and other methods of life analysis, see Methods of Estimating Utility Plant Life, Publication 51-23, Published 1952, Edison Electric Institute. A more extensive bibliography can be obtained from REA on request.

DEPRECIATION GUIDELINE CURVES



VI. Prescribed Depreciation Rates for Distribution Plant: The table below (paragraph C) sets forth the range of depreciation rates for distribution plant. Within this range each borrower should select the rate, or rates, which in its judgment would be most suitable in measuring expiration of the service life of its depreciable plant on a straight-line basis. Such judgment is essential since depreciation rates cannot be determined precisely through application of exact formulas.

A. Calculation of Composite Depreciation Rates for Groups: The primary plant accounts required by the REA Uniform System of Accounts represent groupings of plant units which are suitable for depreciation accounting purposes. Although not all units in a given account have identical characteristics or similar service lives, it is possible to calculate a composite rate for each primary account and, in turn, by utilizing the rates for each primary account, to arrive at a composite rate for a functional group, such as distribution property. The rate for a primary account is computed by first determining a rate for each group of similar materials within an account; secondly, the cost of each group of similar materials is multiplied by the rate selected for that group; and finally, the products of these multiplications are totaled and divided by the balance in the primary account. This same procedure is followed in determining the composite rate for the functional group; that is, the balances in the respective primary accounts are multiplied by the individual rates selected for the various accounts and the products added to arrive at a total which, divided by the aggregate cost of the depreciable plant accounts involved, produces a composite rate for the functional group.

B. Selection of Appropriate Rates Within Range:

1. Review Composition of Each Account: Rates for individual accounts, within the ranges set forth in Section VI.C. below, are to be used in calculating composite rates for functional plant groups. In selecting the rates for individual accounts, plant accounts should be reviewed to determine the composition of each. (For example, in Account 364, Poles, Towers and Fixtures, the types and relative proportions of poles, crossarms, and anchor-guys should be ascertained.) Estimates should be made as to the expected life, removal costs and material

to be salvaged for the various types of material comprising the property in each account. These data will form a basis for judgment as to the rate of depreciation within the recommended range to be applied to each account in computing the composite rate for the functional group.

2. Consider External Factors: Differences in geographical location, climate, operating practices, maintenance policy, load conditions and similar factors may justify differences in depreciation rates since any of these variables may affect or limit the service life of distribution plant.

   a. Factors and conditions contributing to the use of the upper range of the rate for poles would be (1) growing conditions favorable for decay, fungi (and vegetation in general) such as in southeastern states with high average humidity and rainfall, or where irrigation and crop fertilization are widely practiced and (2) large numbers of substandard poles such as were produced in 1946 through 1948.

   b. Factors and conditions contributing to the use of the lower range of the rate for poles are growing conditions that are slow or poor; for example, in dry and unirrigated areas, in northern states and at higher altitudes.

3. Select Rate for Each Account Within the Range: It is recommended that borrowers whose systems are operated under normal conditions select a rate for each account which is near the middle of the range. For systems operating under extreme conditions, such as prevail in coastal or sleet areas, or in extremely arid localities, the rate should be selected from near the top or bottom of the range as appropriate. However, in no case should the low end nor the high end of the range be selected unless extraordinary conditions exist which lead to long or to exceptionally short service life.

   Illustrations of rate computations and accounting procedures to be followed by borrowers are included in the Appendix.

4. Review Prior Practices:

Consideration should be given to adjusting rates to compensate for the under or over accumulation of the provisions for depreciation resulting from inadequate accounting practices, procedures or improper rates. The guideline curves discussed in Section V above provide a basis for evaluating the need for changes in depreciation rates for distribution plant.

For instance, when it is determined that the accumulated provision for depreciation is excessive because high depreciation rates have been used, or incorrect accounting has been followed, corrective action should be taken. Accounting procedures should be checked and, if necessary, corrected. It may be necessary to reduce the depreciation rate. The reduction should be sufficient to bring the reserve ratio into line with the depreciation guideline curves on a gradual basis over a number of years.

C. Range of Rates - Distribution Plant:

Acct. No.	Account	Annual Depreciation Rate
361	Structures and Improvements	See Account 390
362	Station Equipment	2.7 - 3.2%*
364	Poles, Towers, and Fixtures	3.0 - 4.0%
365	Overhead Conductor and Devices	2.3 - 2.8%
366	Underground Conduit	1.8 - 2.3%
367	Underground Conductor and Devices	2.4 - 2.9%
368	Line Transformers	2.6 - 3.1%
369	Services	3.1 - 3.6%
370	Meters	2.9 - 3.4%
371	Installation on Consumers' Premises	3.9 - 4.4%
372	Leased Property on Consumers' Premises	3.6 - 4.1%
373	Street Lighting and Signal Systems	3.8 - 4.3%

* Power type borrowers should use 2.88% for distribution station equipment.

Requests for REA approval to use rates below or above the composite rate computed by using the ranges recommended must be supported by a clear statement of the factors and conditions which justify such rates.

VII. Recommended Depreciation Rates for General Plant: The table below sets forth the range of recommended depreciation rates for general plant.

General plant is subdivided into six functional groups for depreciation purposes. Separate decimal subaccounts of the accumulated provision for depreciation of general plant should be maintained for each group. The six groups and the ranges of rates are:

Functional Group	Annual Depreciation Rates
Structures and Improvements	2.0 - 3.0%
Office Furniture and Equipment	5.0 - 7.0%*
Transportation Equipment	14.0 - 17.0%
Power Operated Equipment	11.0 - 16.0%
Communications Equipment	5.0 - 8.0%
Other General Plant	3.6 - 6.0%

A. Account 390, Structures and Improvements:

A composite rate should be computed for this account by selecting a rate appropriate for each structure recorded in it. A new composite rate should be computed when a structure is added or deleted. A rate at or near the lower side of the range should generally be used when structures are new or of masonry construction or in areas normally having favorable climatic conditions. A rate at or near the upper side of the range should normally be used when structures are frame type construction, or remodeled or in areas subject to severe climatic conditions.

B. Account 391, Office Furniture and Equipment:

In the computation of a composite rate, office furniture and equipment may be divided into three groups: (a) furniture and miscellaneous office fixtures and equipment,

*Upper limit of range increased to 12.5% when data processing and automatic accounting machines are included.

(b) office machines such as addressographs, typewriters, calculators and adding machines, and (c) data processing equipment and automatic accounting machines. If data processing equipment and automatic accounting machines are included, the annual composite rate may be greater than 7.0% but it should not exceed 12.5%.

To the amount of each group mentioned above a rate within the following ranges should be applied:

	Estimated Service Life-Years	Range Depreciation Rate
Furniture and Miscellaneous Office Fixtures and Equipment	15 to 25	4.0 to 6.0%
Adding Machines, Typewriters, Addressographs and Calculators	9 to 15	6.0 to 10.0%
Data Processing Equipment and Automatic Accounting Machines	6 to 10	10.0 to 16.0%

C. Account 392, Transportation Equipment:

The computation of annual depreciation on a composite basis may be in accordance with the following schedule:

Type	Estimated Service Life-Years	Estimated Percent Salvage Value	Range Depreciation Rates
Automobiles	3 to 5	20 to 40	16.0 to 20.0%
Pickups, Light Trucks, including Auxiliary Equipment	4 to 6	10 to 30	15.0 to 17.5%
Heavy Trucks, including Auxiliary Equipment	5 to 10	Zero to 20	10.0 to 16.0%
Trailers	8 to 14	Zero	7.0 to 12.5%

D. Account 396, Power Operated Equipment:

Ordinarily, depreciation should be computed on this account using an appropriate composite rate. However, units of exceptionally high cost which are used only occasionally, should be depreciated on a time basis, subject to a minimum monthly charge. Estimated life and salvage should be used in arriving at the time rate.

E. Account 397, Communications Equipment:

A composite depreciation rate on the low side of the range should be selected if towers and base stations for two-way radio systems and miscellaneous equipment represent a larger portion of the account balance. If, on the other hand, mobile radio units represent a larger portion of the balance, a rate on the high side should be used. When the account contains a considerable investment in such items as telephone, carrier, or supervisory and load control equipment properly included in general plant, a rate on the low side of the range should be used.

F. Other General Plant:

This group includes Accounts 393, Stores Equipment; 394, Tools, Shop and Garage Equipment; 395, Laboratory Equipment and 398, Miscellaneous Equipment.

VIII. Prescribed Depreciation Rates for Production and Transmission Plant: The tables below set forth the depreciation rates for various types of production and transmission plant. These rates are to be used by borrowers and REA except where regulatory commissions prescribe other rates or unusual conditions justify special rates. A detailed depreciation study should be made for the special cases and submitted to REA for approval of appropriate rates. The rates shown below should be used unless the special rates as determined by the study are more than 0.1 percentage point greater or less than the recommended rates.

B. Rates for Production Plant:

Functional Group or Type of Facility	Annual Depreciation Rate
Steam Production	3.10%
Diesel Production:	
720 RPM and below	3.00%
Above 720 RPM	7.00%
Hydro Production	2.00%
Gas **Turbine** Production	3.00%

Nuclear Production

A proposed composite rate for nuclear production plant shall be submitted to REA for approval. For joint participation projects in which the borrower is a minor participant, the rate being used by the other participant(s), shall be used. Justification, including supporting studies and regulatory commission's order, for the proposed rate, shall be submitted to REA.

C. Rates for Transmission Plant:

Functional Group or Type of Facility	Annual Depreciation Rate
Transmission Lines	2.75%
Transmission Station Equipment	2.75%

When the amount of communication equipment recorded in Account 353, Station Equipment, is significant (7.5 percent or more of the account total), the depreciation on the communication equipment is computed using the same rate used for Account 397, Communication Equipment.

D. Depreciation Rates for Production and Certain Transmission Facilities to be Included in Loan Agreements:

1. To assure consistency in the use of depreciation rates by REA in its review and analyses of loan applications and by the borrower in its computation of depreciation expense, loan agreements, where production or certain

transmission facilities are involved, will include a provision that the borrower (a) shall adopt as its depreciation rates only those which have previously been approved for the borrower by the Administrator unless other depreciation rates are required by regulatory bodies having jurisdiction in the premises, and (b) shall not file with or submit for approval of regulatory bodies any proposed depreciation rates which have not previously been approved for the borrower by the Administrator.

2. Loan agreements will contain the above provisions for transmission facilities when:

   a. The borrower will own both generation and transmission facilities; or

   b. When more than 50 percent of the borrower's plant investment is in transmission facilities; or

   c. When REA determines in other cases that the depreciation rates should be specified in the loan agreement.

IX. Periodic Review:

Depreciation guideline curves should be used to evaluate the adequacy of current depreciation practices and rates for distribution plant. Under the group method of depreciation, it is especially necessary to re-examine depreciation accounting practices periodically. (Every year is recommended for general plant.) Incorrect accounting procedures found should be corrected immediately. Rates should be altered where necessary to give effect to justifiable changes in estimates of service life or net salvage. When frequent reviews are made only modest changes in depreciation rates are necessary to keep the reserve ratio in line with the guideline curves.

Joseph Vellom

Acting
Administrator

Attachment:
Appendix - Illustrations of Rate Computations and Accounting Procedures to be Followed by Borrowers

Index:
DEPRECIATION:
Rates and Procedures

APPENDIX

ILLUSTRATIONS OF RATE COMPUTATIONS AND ACCOUNTING PROCEDURES TO BE FOLLOWED BY BORROWERS

1. Calculating a composite rate for distribution plant:

a. Showing effect of change in rate for each primary account:

Account	Balance	Rate A	Depreciation Amount A	Rate B	Depreciation Amount B
362	$ 30,000	2.7%	$ 810	3.2%	$ 960
364	340,000	3.0	10,200	4.0	13,600
365	290,000	2.3	6,670	2.8	8,120
368	210,000	2.6	5,460	3.1	6,510
369	50,000	3.1	1,550	3.6	1,800
370	40,000	2.9	1,160	3.4	1,360
	$960,000		$25,850		$32,350

$25,850 ÷ $960,000 = 2.7%, composite rate A
$32,350 ÷ $960,000 = 3.3%, composite rate B

b. Showing effect of change in composition of functional plant group with reference to respective proportions of cost in the various primary accounts:

Account	Rate	Balance A	Depreciation Amount A	Balance B	Depreciation Amount B
362	2.7%	$ 30,000	$ 810	$ 20,000	$ 540
364	3.5	340,000	11,900	375,000	13,125
365	2.3	290,000	6,670	280,000	6,440
368	2.6	210,000	5,460	125,000	3,250
369	3.6	50,000	1,800	100,000	3,600
370	3.4	40,000	1,360	60,000	2,040
		$960,000	$28,000	$960,000	$28,995

$28,000 ÷ $960,000 = 2.9%, composite rate A
$28,995 ÷ $960,000 = 3.0%, composite rate B

2. Calculating a composite rate for transportation equipment:

Equipment	Estimated Life	Quantity	Total Cost	Estimated Salvage	Depreciable Cost	Annual Depreciation
A	10 yrs.	1	$18,000	$ - 0 -	$18,000	$ 1,800
B	5 yrs.	6	54,000	7,200	46,800	9,360
C	4 yrs.	2	8,000	2,000	6,000	1,500
			$80,000	$9,200	$70,800	$12,660

$12,660 ÷ $80,000 = 15.8% composite rate

3. Accounting procedure for trade-in of truck: (Note that under the group depreciation procedure the net book cost of any particular item of general plant is not ascertainable, as depreciation charges are not allocated to the individual items as is done under the unit depreciation method.)

   a. Given a situation in which a truck with original cost of $2,000 is traded for a $2,600 new truck, with $600 being allowed on the old truck:

   b. Accounting procedure:

Account 392
Transportation Equipment

17,000	2,000 (a)
(b) 2,600	

Account 108.7
Accumulated Provision for Depreciation of General Plant

(a) 2,000	9,000
	600 (b)

Account 131
Cash-General

	17,000
	2,000 (b)

Big Sandy Rural Electric Cooperative
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Second Data Request of Commission Staff

8. Refer to Exhibit S. Big Sandy is proposing to increase depreciat expense by $499,642, but has not proposed an adjustment to its accumulat depreciation. Given the matching principal explain why Big Sandy is not proposing adjust accumulated depreciation by the expense adjustment of $499,642.

Response
This is an oversight on Big Sandy's part, this should have increased the accumulat depreciation.

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9. Refer to Exhibit 5 at 2. Provide an explanation for the significant variance between the annualized interest expense and the test-year interest costs for RUS loan #1B283, with an outstanding balance of $2,869,436.

Response
Big Sandy advanced $1,550,000 of loan 1B283 during February 2008 and $1,380,000 during August 2008.

Big Sandy Rural Electric Cooperative
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10. Refer to Exhibit 5, page 3. For each loan listed, provide the actual interest expense for the 12-month period ending December 31, 2007.

Response

Attached.

Big Sandy Rural Electric Cooperative
Case No. 2008-00401
Schedule of Outstanding Long-Term Debt
December 31, 2007

Exhibit 5
page 3 of 4
Format 8a
Schedule 1

Type of Debt Issued (a)	Date of Issue (b)	Date of Maturity (c)	Outstanding Amount (d)	Cost Rate to Maturity (g)	Annualized Cost Col (d)x(g) (j)	Interest December 31 2007
RUS loans						
1B270	Jan-96	Jan-31	330,921	4.500%	14,891	14,717
1B271	Jan-96	Jan-31	555,568	3.875%	21,528	21,276
1B273	Jan-96	Jan-31	191,251	3.750%	7,172	7,088
1B275	Jan-96	Jan-31	406,977	2.875%	11,701	11,563
1B276	Jan-96	Jan-31	696,136	4.250%	29,586	29,239
1B280	Nov-04	Oct-39	1,472,588	3.830%	56,400	55,739
1B281	Nov-04	Oct-39	1,968,255	4.630%	91,130	90,062
1B282	Nov-04	Oct-39	1,483,953	4.930%	73,159	72,301
1B283	Nov-04	Oct-39	0		0	0
			7,105,649		305,567	301,985
FFB loans						
H0010	Jan-99	Dec-33	6,596,398	4.472%	294,991	305,500
CFC loans						
9003	Sep-73	Aug-08	5,880	7.00%	412	415
9005	Apr-75	Mar-10	27,002	6.25%	1,688	1,700
9007	Apr-77	Mar-12	113,017	6.35%	7,177	7,228
9011	Jul-79	Jun-14	175,076	6.30%	11,030	11,108
9014	Mar-82	Feb-17	227,582	6.30%	14,338	14,440
9015	Sep-84	Aug-19	184,235	6.30%	11,607	11,689
9016	Sep-89	Aug-24	519,759	6.35%	33,005	33,239
9017	Mar-93	Feb-28	645,295	6.35%	40,976	41,267
9018	Dec-95	Nov-30	991,510	6.46%	64,052	64,507
9021005	Jun-03	May-08	344,755	3.85%	13,273	13,367
9021006	Jun-03	May-09	344,755	4.30%	14,824	14,930
9021007	Jun-03	May-10	344,755	4.60%	15,859	15,971
9021008	Jun-03	May-11	344,755	4.85%	16,721	16,839
9021009	Jun-03	May-12	344,755	5.10%	17,583	17,707
9021010	Jun-03	May-13	344,755	5.30%	18,272	18,402
9021011	Jun-03	May-14	344,755	5.50%	18,962	19,096
9021012	Jun-03	May-15	344,755	5.55%	19,134	19,270
9021013	Jun-03	May-16	344,755	5.65%	19,479	19,617
9021014	Jun-03	May-17	344,755	5.65%	19,479	19,617
9021015	Jun-03	May-18	344,761	5.70%	19,651	19,791
			6,681,667		377,518	380,200
Total long term debt and annualized			20,383,714		978,076	987,685

Annualized cost rate [Total Col. (j) / Total Col. (d)] 4.80%

Actual test year cost rate [Total Col (k) / Total Reported in Col (d)] 4.85%

Big Sandy Rural Electric Cooperative
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Second Data Request of Commission Staff

11. Refer to Exhibit 5 at 2.

a. This is a schedule of Big Sandy's outstanding long-term debt. Identify each of the long-term debt issuances that have short-term fixed interest rates, and state how often the interest rates can be repriced.

b. For those long-term debt issuances identified in 11(a), provide a schedule showing the effective interest rates for the 2-year period from January 1, 2007 through December 31, 2008.

c. Provide an update of the schedule on page 2 that reflects the current interest rates for long-term debt applied to the long-term debt balances as of the end of the proposed test period.

Response

Attached. There were no changes in rates from Jan 2007 thru Dec 2008.

Item 11
2 of 2

Big Sandy Rural Electric Cooperative
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Schedule of Outstanding Long-Term Debt
August 31, 2008

Type of Debt Issued (a)	Date of Issue (b)	Date of Maturity (c)	Outstanding Amount (d)	f = fixed v = variable	Interest Rate Term	New Repricing Date	Cost Rate to Maturity	Annualized Cost
RUS loans								
1B270	Jan-96	Jan-31	325,043	f	maturity		4.500%	14,627
1B271	Jan-96	Jan-31	545,032	f	maturity		3.875%	21,120
1B273	Jan-96	Jan-31	187,559	f	maturity		3.750%	7,033
1B275	Jan-96	Jan-31	398,128	f	maturity		2.875%	11,446
1B276	Jan-96	Jan-31	683,617	f	maturity		4.250%	29,054
1B280	Nov-04	Oct-39	1,454,527	f	maturity		3.830%	55,708
1B281	Nov-04	Oct-39	1,950,465	f	maturity		4.630%	90,307
1B282	Nov-04	Oct-39	1,471,543	f	maturity		4.930%	72,547
1B283	Nov-04	Oct-39	2,869,436	f	maturity		4.580%	131,420
			9,885,350					
FFB loans								
H0010	Jan-99	Dec-33	6,527,499	f	maturity		4.472%	291,910
CFC loans								
9003	Sep-73	Aug-08	0	f	maturity		7.00%	0
9005	Apr-75	Mar-10	18,417	f	5 yr	12/1/2010	6.25%	1,151
9007	Apr-77	Mar-12	95,206	f	5 yr	12/1/2010	6.35%	6,046
9011	Jul-79	Jun-14	158,312	f	5 yr	12/1/2010	6.30%	9,974
9014	Mar-82	Feb-17	213,628	f	6 yr	12/1/2011	6.30%	13,459
9015	Sep-84	Aug-19	176,081	f	6 yr	12/1/2011	6.30%	11,093
9016	Sep-89	Aug-24	506,330	f	7 yr	12/1/2012	6.35%	32,152
9017	Mar-93	Feb-28	633,235	f	7 yr	12/1/2012	6.35%	40,210
9018	Dec-95	Nov-30	976,940	f	maturity		6.46%	63,110
9021005	Jun-03	May-08	0	f	maturity		3.85%	0
9021006	Jun-03	May-09	344,755	f	maturity		4.30%	14,824
9021007	Jun-03	May-10	344,755	f	maturity		4.60%	15,859
9021008	Jun-03	May-11	344,755	f	maturity		4.85%	16,721
9021009	Jun-03	May-12	344,755	f	maturity		5.10%	17,583
9021010	Jun-03	May-13	344,755	f	maturity		5.30%	18,272
9021011	Jun-03	May-14	344,755	f	maturity		5.50%	18,962
9021012	Jun-03	May-15	344,755	f	maturity		5.55%	19,134
9021013	Jun-03	May-16	344,755	f	maturity		5.65%	19,479
9021014	Jun-03	May-17	344,755	f	maturity		5.65%	19,479
9021015	Jun-03	May-18	344,761	f	maturity		5.70%	19,651
			6,225,705					357,157
Total long term debt and annualized			22,638,554					

Big Sandy Rural Electric Cooperative
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Second Data Request of Commission Staff

12. Refer to Exhibit 5 at 2 and 4.

a. As of December 31, 2007, Big Sandy reports that there is no outstanding balance for RUS loan #1B283 that was issued in November 2004. However, Big Sandy reports an outstanding balance of approximately $2.9 million for this loan on August 31, 2008. Provide a detailed explanation of why a loan issued in October 2004 does not have an outstanding balance until May 31, 2008.

b. Provide a detailed description of the use of the borrowed funds of $2.9 million.

Response

12.a. Loan 1B280 was approved in November 2004. As advances are made against the loan, they are given suffixes to 1B280, to include the final advances included in 1B283.

12.b. Reimburse general funds for construction projects, use for operations and maintenance, insurance, taxes, and other costs.

Big Sandy Rural Electric Cooperative
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13. Refer to Exhibit 7.

a. Big Sandy requires its union employees to contribute 3 percent to their retirement plan, but does not require an employee contribution for the non-bargaining employees. Provide a detailed explanation as to why Big Sandy does not require the non-bargaining employees to contribute to their retirement plan.

Response

Big Sandy established a non-contributory pension plan years ago for the non-union employees. At that same time, the Union chose not to participate in this plan, but instead, chose a 401k plan. In return, the Union employees received higher hourly wages than the non-union workers.

Big Sandy Rural Electric Cooperative
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13 b. Provide a detailed explanation as to why Big Sandy converted its union pension plan from a 401(k) plan to a defined benefit plan.

Response

This change occurred because Big Sandy's Union requested to change its retirement plan. This change did not affect the overall compensation package for the union employees.

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13 c. State when Big Sandy converted the union pension plan from a 401(k) plan to a defined benefit plan.

Response

Big Sandy converted to the pension plan in August 2008.

Big Sandy Rural Electric Cooperative
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13 d. Explain if the union employees were required to make a contribution to the 401(k) plan.

Response

The employees were never required to make contribution to the 401k plan, but to get the new pension plan, that they desired, an employee contribution was needed.

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13 e. The employer contribution rates for the non-bargaining and the union employee groups are 20.78 percent and 6.4 percent, respectively. Given the disparity between the two contribution rates, explain why Big Sandy does not require all of its employees to participate in the defined benefit plan.

Response

Both plans are defined benefit plans. All full time employees participate, but only the Union employees are required to make a contribution. Please refer to answer 13a, above.

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13 f. Provide an explanation for the increase in the benefit level from 1.5 to 1.7 in 1993.

Response

The increase occurred during a time when there was a national moratorium on pension funding, due to IRS laws. The increased benefit level didn't impact the funding during this moratorium.

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14. Refer to Exhibits 9 and 23. During the test period, Big Sandy paid its attorneys approximately $37,784[4] for the negotiation of the union contract. The union contract is effective from February 6, 2008 through February 5, 2011. Explain why the attorney fees incurred in negotiating the contract should be expensed for rate-making purposes rather than over the contract term of 3 years.

Response
Big Sandy agrees that the legal fees for the union negotiating contract should be amortized over 3 years.

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15. Refer to Exhibit 14 of the application.

a. Big Sandy states that 100 miles will be cut by circuit, but the contract dated October 29, 2008 estimates that 75 miles of right-of-way will be cleared at a rate of $4,500 per mile. Provide a detailed explanation for the discrepancy between the miles that will be cleared on an annual basis at a cost of $4,500 per mile.

Response

The 100 miles is based on a full years funding of additional ROW money. Big Sandy estimates that we will only have enough cash to cut 75 miles during 2009.

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15 b. Provide a schedule that shows how the $4,500 per-mile cost was derived.

Response

The $4,500 per-mile was the bid price from our contractor, W.W. Kendall & Co. Please refer to contract dated October 29, 2008, that was referenced in question 15 a.

Big Sandy Rural Electric Cooperative
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15 c. Explain why 46 miles of right-of-way will be cut on a per-hour basis rather than "cut by circuit."

Response

The per-hour basis ROW crews cut trouble spots or heavy growth areas throughout all of our system, not simply an individual, continuous circuit. This is necessary to improve reliability. Based on historical data, two hourly crews can cut approximately 46 miles of ROW per year.

Big Sandy Rural Electric Cooperative
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Second Data Request of the Public Service Commission

15 d. Explain why the side trimming will cost $6,576 per mile ($302,508 ÷ 46 miles).

Response

Side trimming is much more difficult to gauge in "per-mile" terms because this trimming is much more dispersed in location. Trouble areas or "Hot spots" generally require more work than circuit by circuit cutting, due to heavier growth.

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15 e. Provide a schedule showing how the $84.03 per-hour cost for the side trimming was derived.

Response

The $84.03 per-hour is derived from the bid prices for hourly ROW work. It consists of the following:

Foreman	**$22.03 per hour**
"A" Trimmer	**$19.25 per hour**
"B" Trimmer	**$17.50 per hour**
Bucket Truck	**$15.00 per hour**
Chipper	**$ 6.50 per hour**
(3) Chain Saw	**$ 3.75 per hour**
TOTAL	**$84.03 per hour**

For the complete contract agreement, please refer to response "15 (i)"

Big Sandy Rural Electric Cooperative
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Second Data Request of the Public Service Commission

15 f. Big Sandy estimates that the contractor will be able to work 1,800 hours per year, per crew. Explain if the 3,600 hours includes both the line sections per mile and the side trimming.

Response

The 1,800 per hours per crew is Big Sandy's estimate of working hours per year for the side trimming crew – due to inclement weather, etc. Big Sandy is utilizing two side trimming crews. The circuit clearing requires the contractor to provide whatever manpower necessary to clear the specified mileage.

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15 g. Provide an itemized estimate of the total cost for the initial 7-year cycle of right-of-way clearing. Include all workpapers, calculations, and assumptions used in the response.

Response

Please refer to "Exhibit 14" of the original application. The total cost per year is estimated at $752,508. Therefore, the 7-year cycle would be 7 times the $752,508, which totals $5,267.556. This number does not reflect any inflationary costs.

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15 h. Describe the process Big Sandy used in awarding the right-of-way clearing contract to W. W. Kendall & Co., Inc. ("Kendall"). Include copies of the bids Big Sandy received for its right-of-way clearing.

Response

Big Sandy sent out bid specifications to prospective contractors and reviewed all returned bids. Big Sandy then chose the best bid and the best company for our needs. All bids are kept sealed until the bid opening, which is supervised by Jeff Prater, Manager of Operations. Board appointed director, Danny Wallen, was also present at the bid opening. Copies of all bids received are attached and labeled "Item 15h".

AGREEMENT

THIS AGREEMENT made and entered into this 29th day of October, 2008 by and between Big Sandy Rural Electric Cooperative Corporation hereinafter referred to as "Co-Op" and W.W. Kendall & Co., Inc., ~~Lawrenceville, GA~~ hereinafter referred to as "Kendall".

WITNESSETH: That for and in consideration of the mutual covenants and agreements herein contained, the parties of the Co-Op and Kendall agree as follows:

1. That Kendall will continue clearing at the price listed below, until they get into areas where this price is not profitable. At that time we will discuss a price that would be profitable for that work area. If we are unable to agree on a price, at that time either party will be able to sign a thirty-day and out agreement.

11-6-08

2. The terms of this agreement shall be renewable at one-year intervals.

3. That the Co-Op shall pay to Kendall, $4,500.00 per mile under this agreement for Cutting of a 35-foot Three phase and 30-foot single phase right-of-way for an estimated 75 miles.

Time and Material Rates

Personnel Cost Per Hour		Equipment Rates Per Crew Hour	
Foreman	22.03	Bucket Truck	15.00
B- Trimmer	17.50	Line Truck	10.50
A-Trimmer	19.25	Large Chipper	6.50 (250 Brush BAndit)
Laborer	16.63	Chipper	5.50 (200 Brush Bandit)
		Pickup 4X4	11.00
		Pickup 2X4	9.50
		Power Saw	1.25 X 3

57.91

25.25

83.16

Safety and Training

Kendall shall insure that all employees working on owner's property are fully trained in HEAP, Hazardous Communications, First Aid and CPR, and Defensive Driving and all other applicable safety standards required by the Commonwealth of Kentucky.

4. That Kendall shall furnish all equipment, labor, tools, material, Including chemicals and necessary insurance to comply with all State, Federal and Local regulations, and shall furnish Co-Op proof of insurance herein. Kendall agrees to defend, indemnify, and hold harmless Big Sandy Rural Electric Cooperative Corporation and its directors, officers, agents, and employees from all claims of whatsoever nature or kind, including those brought by employees of Kendall or subcontractors arising

out of or as a result of any act or failure to act whether or not negligent, in connection with the performance of the work to be performed pursuant to this contract by its employees, agents, and subcontractors. Kendall will defend and pay all damages and costs in defending these claims, including attorney fees.

Further, Kendall agrees to maintain public liability and property damage insurance (including automobile, public liability and property damage insurance) to cover the obligations set forth above. The minimum insurance limits of liability shall be $1,000,000 bodily injury and property damage. Big Sandy Rural Electric Cooperative Corporation shall receive a minimum 30-day notice in the event of cancellation of insurance required by this agreement. Kendall shall furnish a certificate of insurance to Big Sandy Rural Electric Cooperative Corporation showing that the above obligations and requirements are provided for by qualified insurance carrier, and showing Big Sandy Rural Electric Cooperative Corporation as an additional insured on such insurance.

5. Co-Op hereby reserves the right to inspect the work of Kendall and give final approval of said work. I remedial work is required, Kendall shall perform the remedial work before receiving any compensation.

6. The parties hereby recognize that Kendall is an independent contractor and that the Co-Op, by entering into the contract with Kendall, reserves the right to designate the areas to be cleared and to verify that the work is of a satisfactory nature. Nothing in this contract shall be construed such that Kendall is not considered to be an employee of the Co-Op nor shall any of the employees of Kendall be considered to be employees of the Co-Op.

7. Kendall shall comply with terms of this contract by cutting the right-of-way according to the Co-Op's Right-of-way procedures and practices as shown in Attachment A.

8. Co-Op hereby reserves the right to terminate this contract upon giving 10 days written notice to Townsend.

9. This contract will begin January 1, 2009.

10. All notices shall be sent to the following address:
Big Sandy RECC
504 11th Street
Paintsville, KY 41240

_____

_____

IN WITNESS WHEREOF, the parties hereto have entered into this agreement on the day and date first above written.

BIG SANDY RURAL ELECTRIC
COOPERATIVE CORPORATION

Bobby D. Sexton
President & General Manager

STATE OF KENTUCKY
COUNTY OF JOHNSON

Subscribed and sworn to before me on this the 4th day of December, 2009,

My Commission Expires: 4-12-12

Janet L Salyer
Notary Public, State at Large

STATE OF Georgia
COUNTY OF Gwinnett

W. A. Kendall & Co. Inc.
Robert Williams, VP

Subscribed and sworn to before me on this the 29 day of October, 2009. My Commission Expires: 7/8/2009

Vicki Stephens
Notary Public, State at Large

THIS INSTRUMENT PREPARED BY :

Albert A. Burchett, Attorney At Law
P. O. Box 0346
Prestonsburg, KY 41653

Attachment "A"

Big Sandy RECC
Right-of-Way Plan and Procedures

Big Sandy RECC has approximately 1000 miles of distribution line with a goal of cutting and spraying 145 miles per year and targets a 7-year cycle of right of way maintenance with a combination of ROW cutting and herbicide spraying.

Big Sandy RECC procedures for the maintenance of ROW under its authority shall be performed on all energized, de-energized primary, secondary, and service drops as follows:

1. Provide no less that thirty-five (35) of cleared right of way depending upon permission obtained, including all side trim and overhang on all energized or de-energized distribution 3 phase, B phase lines, and thirty-feet (30) on all single phase distribution lines. All rural right of ways shall be cleared from ground to sky, dead and dangerous trees removed and all year trees laterally trimmed. A minimum of three years average growth to be trimmed from all distribution lines.

2. Provide minimum of 5 feet clearance around open secondary conductor and poles (If property owner will grant permission).

3. Only limbs applying direct pressure to insulated service drops will be trimmed at the direction of Maintenance Superintendent.

4. Do such additional trimming according to RUS specifications as well as give the tree a satisfactory shape and appearance where necessary.

5. Trim all trees on highways and other public places in accordance with the requirement of the authorities having jurisdiction.

6. In those instances when Big Sandy RECC has the legal right to do so, remove all overhanging hazards in so far as conditions will permit, including cutting dead or leaning trees in or out of right of way, which will strike Big Sandy RECC lines.

7. All brush and wood will be left to the side and in the right of way with the following exceptions:
   Brush and tree removal in yards, gardens, mown fields, etc.

8. Cut and Slash method can be used under the direction of Maintenance Superintendent.

9. No trees, brush, etc. shall be left on fences or in creeks, etc.

10. Trees shall be trimmed only when permission to cut and/or remove cannot be obtained.

11. When conditions permit all stump cuts shall be at a height of 2 inches or lower.

12. Chemical treatment of stumps with a growth retardant, at the direction of Superintendent, shall be done immediately after cutting the tree.

13. Priority work locations will be designated by Big Sandy RECC, striving to promote the efficiency of operations by enhancing progress in an orderly fashion wherever practicable.

14. Big Sandy RECC may suspend work wholly or in part for such periods, as the Maintenance Superintendent may deem necessary due to unsuitable weather or such other conditions as are considered unfavorable.

15. Big Sandy RECC shall perform work in such a manner as to maximize preservation of beauty, conservation of natural resources, and minimize marring and scarring of the landscape and silting of streams. Workers shall not deposit trash in or on streams, waterways, or on consumer's property. All workers shall follow the criteria related to EPA as specified by the Maintenance Superintendent.

16. Any and all excess debris, underbrush, and other useless material shall be removed from the work site as rapidly as practicable as the work progresses unless agreed by property owner.

_____

Superintendent

THE TOWNSEND CORPORATION

The Townsend Corporation P.O. Box 128 Parker City, IN 47368-0128 765 468 3007 FAX 765 468 3131

10/25/08

Mr. Bobby D. Sexton
Big Sandy RECC
504 11th Street
Paintsville, KY 41240

Dear Mr. Sexton:

Listed below are labor and equipment rates for line clearance tree trimming for the 2009 year. To help reduce employee turnover Townsend Tree Service will be giving the employees a 7% pay increase.

LABOR/HR	
Lead Foreman	$23.50
Foreman	21.35
Trimmer A	18.30
Trimmer B	17.30
Trimmer C	16.45
	56.10

EQUIPMENT/CREW HR	
Bucket Truck	$ 14.25
ATAB (skidder bucket)	22.00
Chipper	3.70
Chipper (self-feeder)	4.70
Saw	.85 x3
Pick Up	7.90
Chipper Truck	8.25
Cell Phone	40.00/month 21.50

77.60 hour

Fuel cost of $20.00 per day for each crew will be charged for fuel averaging over 4.00 per gallon for diesel & gas.

Emergency work, as approved by Big Sandy RECC will be invoiced at time and one half, Sunday and holidays will be double time.

Townsend's charge for Cutting of a 35-Foot Three Phase and 30-Foot Single Phase right-of-way for an estimated 75 miles will be **$5,400.00** per mile. ✓

If these rates met your approval please sign and return a copy to our corporate office.

If you have any questions in regards to this pricing please call, we thank you for the business and look forward to working with Big Sandy RECC in 2009.

Sincerely,
Mick Saulman
Area Vice-President

Approval:_____

Date:_____

11-6-08

PennLine

www.pennline.com 300 Scottdale Avenue, Scottdale, PA 15683 phone 724·887·9110 fax 724·887·0545

November 4, 2008

Big Sandy Rural Electric Cooperative Corporation
Attn: Jeff Prater
504 11th Street
Paintsville, KY 41240-1422

Re: 2009 ROW bid for 75 miles of line

Dear Mr. Prater:

We are pleased to provide a quote for the above referenced work.

Based on our understanding of your specification and our field inspection of the work and the terrain, our mileage rate for the ROW trimming is $11,100.00 per mile for a total estimated price of $832,500.00. Due to the challenges associated with the terrain, we are limited with the amount and type of equipment that we could use to reduce the cost on this circuit.

I have also enclosed hourly rates for your consideration. We would be happy to perform this work for you on an hourly basis so that you have the flexibility to do as much or as little work as you see fit. Please feel free to call should you have any questions.

Very truly yours,

PENN LINE SERVICE, INC.

Michael Mongell
Treasurer

11-6-08

Enclosure

Big Sandy Rural Electric Cooperative Corporation
Hourly Labor and Equipment Rates
Effective Through 12/31/09

	Straight Time
Lead Foreman or General Foreman	$ 33.00
Foreman	$ 31.50
Trimmer	$ 29.50
A-Trimmer	$ 30.50
Laborer	$ 26.00
Bucket Truck - 50' Versalift	$ 19.95
Large Chipper - Bandit 250	$ 7.00
Chipper - Bandit 150	$ 5.00
Pickup 4x4	$ 12.00
Pickup 4x2	$ 7.00
Power saw	$ 1.25

LEWIS
Employee Owned
TREE SERVICE, INC.

October 30, 2008

Mr. Jeff Prater
Manager of Operations
Big Sandy RECC
Paintsville, KY 41240

Dear Mr. Prater,

Thank you for inviting Lewis Tree Service, Inc. to bid on the Right-of-way contract for Big Sandy Rural Electric. Due to the lack of sufficient data and the complexity of the work, we were unable to adequately assess potential cost and therefore will not submit a proposal on a per mile basis.

Lewis Tree Service, Inc. is prepared to provide the necessary man power and equipment to safely perform your work on an hourly basis. Our Time and Material rates are included for your consideration and we look forward to the opportunity of working with your company.

Please do not hesitate to call if you have questions.

Sincerely,

Ray DeJarnette
Division Manager
919-906-0337

AGREEMENT

THIS AGREEMENT made and entered into this 3rd day of November, 2008 by and between Big Sandy Rural Electric Cooperative Corporation hereinafter referred to as "Co-Op" and Lewis Tree Service, Inc., _____ hereinafter referred to as "LTS".

WITNESSETH: That for and in consideration of the mutual covenants and agreements herein contained, the parties of the Co-Op and LTS agree as follows:

1. That _____ will continue clearing at the price listed below, until they get into areas where this price is not profitable. At that time we will discuss a price that would be profitable for that work area. If we are unable to agree on a price, at that time either party will be able to sign a thirty-day and out agreement.

2. The terms of this agreement shall be renewable at one-year intervals.

3. That the Co-Op shall pay to LTS, $ No-bid per mile under this agreement for Cutting of a 35-foot Three phase and 30-foot single phase right-of-way for an estimated 75 miles.

Time and Material Rates

Personnel Cost Per Hour		Equipment Rates Per Crew Hour	
Foreman $25.30		50 Bucket Truck	$15.50
Trimmer $21.51	crew-cab chip	Line Truck	$8.95
A-Trimmer $23.55		Large Chipper	$5.65
Laborer $19.48		Chipper	$4.95
		Pickup 4X4	$11.00
		Pickup 2X4	$10.25
		Power Saw	$ 1.25
		4X4 Bucket	$ 17.50

11-6-08

Safety and Training

LTS shall insure that all employees working on owner's property are fully trained in HEAP, Hazardous Communications, First Aid and CPR, and Defensive Driving and all other applicable safety standards required by the Commonwealth of Kentucky.

4. That LTS shall furnish all equipment, labor, tools, material, Including chemicals and necessary insurance to comply with all State, Federal and Local regulations, and shall furnish Co-Op proof of insurance herein. LTS agrees to defend, indemnify, and hold harmless Big Sandy Rural Electric Cooperative Corporation and its directors, officers, agents, and employees from all claims of whatsoever nature or kind, including those brought by employees of LTS or subcontractors arising

out of or as a result of any act or failure to act whether or not negligent, in connection with the performance of the work to be performed pursuant to this contract by its employees, agents, and subcontractors. LTS will defend and pay all damages and costs in defending these claims, including attorney fees.

Further, LTS agrees to maintain public liability and property damage insurance (including automobile, public liability and property damage insurance) to cover the obligations set forth above. The minimum insurance limits of liability shall be $1,000,000 bodily injury and property damage. Big Sandy Rural Electric Cooperative Corporation shall receive a minimum 30-day notice in the event of cancellation of insurance required by this agreement. LTS shall furnish a certificate of insurance to Big Sandy Rural Electric Cooperative Corporation showing that the above obligations and requirements are provided for by qualified insurance carrier, and showing Big Sandy Rural Electric Cooperative Corporation as an additional insured on such insurance.

5. Co-Op hereby reserves the right to inspect the work of LTS and give final approval of said work. I remedial work is required, LTS shall perform the remedial work before receiving any compensation.

6. The parties hereby recognize that LTS is an independent contractor and that the Co-Op, by entering into the contract with LTS, reserves the right to designate the areas to be cleared and to verify that the work is of a satisfactory nature. Nothing in this contract shall be construed such that LTS is not considered to be an employee of the Co-Op nor shall any of the employees of LTS be considered to be employees of the Co-Op.

7. LTS shall comply with terms of this contract by cutting the right-of-way according to the Co-Op's Right-of-way procedures and practices as shown in Attachment A.

8. Co-Op hereby reserves the right to terminate this contract upon giving 10 days written notice to Townsend.

9. This contract will begin January 1, 2009.

10. All notices shall be sent to the following address:
Big Sandy RECC
504 11th Street
Paintsville, KY 41240

_____

_____

IN WITNESS WHEREOF, the parties hereto have entered into this agreement on the day and date first above written.

Thomas R. Rogers
Senior VP, Operations
Lewis Tree Service, Inc.

BIG SANDY RURAL ELECTRIC
COOPERATIVE CORPORATION

Bobby D. Sexton
President & General Manager

STATE OF KENTUCKY
COUNTY OF JOHNSON

Subscribed and sworn to before me on this the _____ day of _____, 2009,

My Commission Expires:_____

Notary Public, State at Large

STATE OF New York
COUNTY OF Monroe

Subscribed and sworn to before me on this the 3rd day of November, 2009. My Commission Expires: 7-18-09

JENNY S. HALL
Notary Public, State of New York
Livingston County, 01HA6130726
Commission Expires 7-18-09

Notary Public, State at Large

THIS INSTRUMENT PREPARED BY :

Albert A. Burchett, Attorney At Law
P. O. Box 0346
Prestonsburg, KY 41653

Big Sandy Rural Electric Cooperative
Case No. 2008-00401
Second Data Request of the Public Service Commission

15 i. Big Sandy provided a copy of its agreement with Kendall. Confirm that this is the complete agreement. If this is not the complete agreement, provide a complete copy of the agreement.

Response

Please refer to item 15(h) for a copy of the full agreement.

Big Sandy Rural Electric Cooperative
Case No. 2008-00401
Second Data Request of the Public Service Commission

16 a. Refer to Exhibit 15. Big Sandy states that it is sharing a safety director with Fleming-Mason, Grayson Rural Electric Cooperative, and Licking Valley Rural Electric Cooperative.

a. Provide the date the safety director position will be or was posted and the projected date the position will be filled.

Response

The position was posted until January 31, 2009. The position will hopefully be filled by March 15, 2009.

Big Sandy Rural Electric Cooperative
Case No. 2008-00401
Second Data Request of the Public Service Commission

16 b. Provide the current status of Big Sandy's efforts to fill the position and the anticipated hire date.

Response

Applications have been accepted and the interview process is underway. The anticipated hire date is March 15, 2009.

Big Sandy Rural Electric Cooperative
Case No. 2008-00401
Second Data Request of Commission Staff

17. Explain whether Big Sandy considered adjusting any of its nonrecurring charges in its current application.

Response
Big Sandy reviewed its existing nonrecurring charges and determined they were adequate.

Big Sandy Rural Electric Cooperative
Case No. 2008-00401
Second Data Request of Commission Staff

18. Refer to Exhibit B. Explain why the proposed tariff does not include the cable television attachment rates.

Response
This was an oversight only, the proposed tariff's are attached to this Item response.

FORM FOR FILING RATE SCHEDULES | **FOR ALL TERRITORIES SERVED**

PSC NO. 2008-00401

ORIGINAL SHEET NO. 1

BIG SANDY RURAL ELECTRIC

COOPERATIVE CORPORATION | **CANCELLING PSC NO. 95-383**

CLASSIFICATION OF SERVICE

SCHEDULE **CATV TELEVISION ATTACHMENT TARIFF RATE PER UNIT**

APPLICABLE:

In all territory served by the company on poles owned and used by the Company for their electric plant.

AVAILABILITY:

To all qualified CATV operators having the right to receive service.

RENTAL CHARGE:

The yearly rental charge shall be as follows:

Two-party pole attachment	6.64	I
Three-party pole attachment	4.87	I

BILLING:

Rental charges shall be billed yearly in advance based on the number of pole attachments. The rental charges are net, the gross being ten percent (10%) higher. In the event the current annual bill is not paid within thirty (30) days from the date of the bill, the gross rate shall apply.

DATE OF ISSUE: OCTOBER 31, 2008. **DATE EFFECTIVE: DECEMBER 1, 2008**

ISSUED BY:_____ TITLE: PRESIDENT/ GENERAL MANAGER

Big Sandy Rural Electric Cooperative
Case No. 2008-00401
Second Data Request of Commission Staff

19. Refer to Exhibit C at 33.

a. Explain why the proposed charges for anchor attachments and ground attachments are not shown on the tariff sheet when charges for those attachments are calculated in Exhibit 13. If Big Sandy proposes to delete the charges for anchors and grounds, explain why it proposes to do so.

b. Explain why the Two-Party charge of $6.64 and Three-Party charge of $4.87 are different from those charges shown in Big Sandy's CATV pole attachment calculations in Exhibit 13, page 2 of 3.

Response

19.a. At the bottom of Exhibit 13, page 1 of 3, Big Sandy is proposing to consolidate the anchors and grounds into the two and three party pole attachments. Rolling these into the two charges is shown in the reconciliation at the bottom of the page. This makes it easier to set charges for cable companies where there does not have to be a separate count for attachments that include anchors and grounds.

19.b. The adding of anchors and grounds into the two and three party charges are shown at the bottom of page 1.

BIG SANDY RECC
CASE NO. 2008-00401

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

Question:

Refer to Exhibit H, Direct Testimony of James R. Adkins, at 6. Are the demand-related and consumer-related percentages shown in the table for Poles reversed?

Response:

It is correct that the demand-related and consumer-related percentages for Poles are reversed. The correct percentages are listed below for poles:

Demand-related:	79.78%
Consumer-related:	20.22%

Big Sandy Rural Electric Cooperative
Case No. 2008-00401
Second Data Request of Commission Staff

21. Refer to Exhibit I. Explain why the percentage increase was calculated by dividing the "Increase Amount" by the "Proposed Rate" rather than dividing it by the "Existing Rate".

Response
This was an oversight only, the percent increase should have been divided by the existing rate instead of the proposed rate.

BIG SANDY RECC
CASE NO. 2008-00401

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

Question:

Provide a copy of Exhibits J and R electronically on CD-ROM in Microsoft Excel format with all formulas intact and unprotected.

Response:

Attached is a CD-ROM with copies of Exhibits J and R in electronic format.

BIG SANDY RECC
CASE NO. 2008-00401

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

Question:

Refer to Exhibit J at 1. Explain why the revenue analysis does not include revenue for rate schedules Ind 1 and Ind 2.

Response:

The revenue analysis does not include revenue for rates Ind 1 and Ind 2 because these rate schedules did not have any consumers on them during the test period.

BIG SANDY RECC
CASE NO. 2008-00401

RESPONSE TO COMMISSIONS STAFF'S SECOND DATA REQUEST

Question:

Refer to Exhibit H, Direct Testimony of James R. Adkins, Exhibit R. Provide an explanation of any differences in methodology for the cost-of-service study relative to recent cost-of-service studies provided by Mr. Adkins for East Kentucky Power Cooperative distribution Cooperatives.

Response:

The general methodology followed in the cost-of-service study ("COSS") presented in this application is consistent with similar studies provided for East Kentucky Power Cooperative ("EKPC") distribution cooperatives. However, some changes has been made in an attempt to simplify the completion of the study and to enhance the ability to read, comprehend and understand the COSS in hard copy as well as in electronic form. The changes mentioned above consist primarily of the following ones.

One, the order of the COSS has been changed with the current one presented in chronological order. The previous version the COSS had the end results in the front of the document and followed a reverse pattern.

Two, the previous COSS version combined the functionalization and classifications steps into one schedule and attempted to provide functionally, unbundled information. As an example, the distribution demand related line revenue requirement for any rate class could be broken down into the following categories:

1. operations and maintenance expenses
2. administrative and general expenses
3. depreciation and miscellaneous expenses
4. interest expenses
5. margins
6. revenue credits

The current version does not provide information to that level although the same information could be provided if desired.

Third, the COSS version provided in this application provides the supporting schedules, allocation bases and documentation as an integral part of the schedules. The previous COSS version provided the supporting schedules and documentation at the end of the study.

Fourth, the rate of return on rate base for each class is not readily calculated or available in the new COSS. This information may be nice to know but it is not utilized in the determination of revenue requirements. The times interest earned ratio ("TIER") is the basis for margin requirements for distribution cooperatives that this consultant works with.

Fifth, the allocation of non-electric rate revenue in this COSS version is a little different that the allocations bases in the previous COSS version. This allocation is this COSS is proportional to the rate classes based on revenue from rates. Non-electric rate revenue includes revenues from non-recurring charges, revenue for CATV attachments, penalties, interest income, capital credits assigned and others. This allocation provides for the most favorable treatment for the residential consumers.

Some other small differences may exist between the current COSS version and the previous version but they are most probably very minor in fact. The rationale for developing this change in the COSS model is the expected need for a simpler COSS model to utilize for and by members systems when the Kentucky Public Service Commission ("Commission") issues a final order in EKPC's application in Case No. 2008-00409. The need increases and is even more critical if the Commission approves the rate design and approach behind the Phase II wholesale rates requested by EKPC in this same rate application.

BIG SANDY RECC
CASE NO. 2008-00401

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

Question:

Refer to Exhibit R, Schedule 1 at 4.

a. Provide explanations of how and where calculations and data in each box entitled "Used in the Allocation of the Test Year Adjusted Expenses" and "Used in the General Plant Allocation in Rate Base" are used.

b. Explain the purpose of the "Oper. Adjust." And "Maint. Adjust." Columns on this schedule.

c. All of the amounts in the "Oper. Adjust." And "Maint. Adjust." Columns reconcile with the amount of the adjustments shown on page e of Schedule 1, with the exception of the $24,315 maintenance adjustment for Account 593, Maintenance of Overhead Lines. Explain why the $24,315. Explain why the $24, 315 does not reconcile to the $442,102 adjustment shown on page 2.

Response:

The box labeled as "Used in the Allocation of the Test Year Adjusted Expenses" is a supporting schedule for pages 2 and 3 of 31 in Exhibit R. It has the purpose of allocating the distribution operations adjustment amount and the distribution maintenance adjustment amount from page 2 of Exhibit S to the various distribution O&M accounts proportionally based on actual payroll amounts for the test year in the distribution O&M accounts. It should be noted that the adjustment for right of way maintenance in the amount of $417,817 has been directly assigned to Account 593. Provided below is the information in each column:

- The amounts listed in first column are the payroll amount assigned to the listed expenses accounts for the test year.
- The second column is the proportional payroll percent for each account to the total payroll expensed during the test year.

- The third column provides the proportional payroll percent for the distribution operating accounts and proportional payroll percent for the distribution maintenance accounts. These percentages in the third column are then multiplied by the appropriate test year adjustment amounts from Exhibit S, page 2 for distribution operations and distribution maintenance to allocate these expenses to the distribution operations and maintenance accounts in pages 2 and 3 of Exhibit R.
- The amounts in the fourth column for are the amount of the distribution operations and maintenance adjustments assigned to the distribution O&M accounts.

The box labeled as "Used in the General Plant Allocation in Rate Base" is used in the determination of the amount of general plant that is allocated to each function in page 8 of Exhibit R for the Rate Base Allocation. Each column represents the following:

- The first column provides a summary of payroll by major cost category based on the actual payroll for the test year.
- The second column represents the percentage that payroll for major cost category is to the total cost category.
- The third column provides the payroll amount for each major cost category excluding administrative and general ("A&G").
- The fourth column represents the payroll proportional amounts by major category excluding A&G expenses.

The general plant investment will then be allocated based on percentages developed in this schedule. The distribution operations and distribution maintenance percentages will be combined and then spread to the distribution plant functions proportional on distribution plant investments. Consumer accounting and consumer service amounts will be combined to form the percentage of general allocated to that function.

Provided below is schedule that shows how general plant is allocated in the schedule containing the rate base allocation.

Functions	Payroll %	Distribution Plant %	General Plant %
Lines	72.40%	60.33%	43.68%
Transformers	72.40%	15.15%	10.97%
Services	72.40%	10.57%	7.65%
Meters	72.40%	8.75%	6.34%
Consumer and accounting services	27.60%		27.60%
Lighting	72.40%	5.20%	3.77%
Total			100.00%

On a final note, the difference between the $24,315 for Account 593 on page 4 and the $442,102 on page 2 is the amount of the right way adjustment of $417,787 which is a direct assignment to this account.

BIG SANDY RECC
CASE NO. 2008-00401

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

Question:

Refer to Exhibit R at 5-8.

a. For the line 13, provide an explanation of and the calculations for the allocation factors for Account 583, Overhead Line Expenses.

b. For line 16, explain why "Consumer Installations" is allocated 100% to Lighting.

c. For line 23, provide an explanation of and the calculation for the allocation factors for Account No. 593, Maintenance Overhead Lines.

d. For line 56 on page 6 of 31, explain whether Account 403, Depreciation Distribution Plant is directly assigned or is allocated using the General Plant allocator.

e. Refer to footnote 3 on page 7. Explain how it was determined that $1,100,165 of Maintenance of Overhead Lines expense should be allocated to lines and the remaining $119,567 should be allocated to services.

Response:

a. Account 583 contains the operating expenses for all overhead lines containing poles and conductor which includes both the lines function and the services function. These expenses have been allocated between these functions based on plant investment in these functions from the schedule "Rate Base Allocation." Listed below is the data from this schedule plus a derivation of these allocated expenses.

Function	Plant Investment	Percent	Allocated Acct 583
Distribution Lines	$ 22,028,790	85.09%	$ 165,742
Services	$ 3,859,904	14.91%	$ 29,042
Total	$ 25,888,694	100.00%	$ 194,784

b. Consumer Installations expenses are allocated 100% to the Lighting function because this account contains expenses associated primarily with Plant Account 371, Installations on Customer's Premises. For Big Sandy, Account # 371 is comprised of outdoor lighting plant.

c. The allocation for Account No. 593, maintenance of overhead lines, follows the same rationale presented in the response to part a above in this item. However, the right of way maintenance adjustment is subtracted from the total expense amount for the allocation and then added back to the allocated amount for lines. Right of way maintenance is normally just for the plant investment in the lines function.

d. The Depreciation for Distribution Plant is the same amount as in the Rate Base Allocation Schedule and is based on Continuous Property Records ("CPRs") of Big Sandy. It is not based on the General Plant allocator.

d. This follows the rationale provide in the response to c above in this item. Provided below is short schedule that contains the basis for this allocation.

Function	Plant Investment	Percent	Allocated Acct 593
Distribution Lines	$ 22,028,790	85.09%	$ 682,377
Services	$ 3,859,904	14.91%	$ 119,567
Total	$ 25,888,694	100.00%	$ 801,944

The allocation to lines is then increased by the right of way adjustment amount to determine this amount (682,377 plus 417787 equals $1,100,165.

BIG SANDY RECC
CASE NO. 2008-00401

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

Question:

Refer to Exhibit R, Schedule 2 of 8.

a. On line 17, explain why Account 371, Installation on Consumer Premises, is allocated 100% to Outdoor Lighting.

b. Explain the basis for the "Total General Plant" allocations on line 23.

Responses:

a. Account 371, Installation on Consumer Premises is assigned completely to Outdoor Lighting because this plant account contains the investment items and amounts in outdoor lights that Big Sandy has made.

b. General plant is allocated on the basis of wages and salaries. See schedule on Page 4, Exhibit R of the payroll summary. Consumer and accounting services function will be allocated 27.6% of the General Plant while the remaining 73.4 will be prorated to the distribution functions on their distribution plant investment.
The response to Item 25 above contains more detail.

BIG SANDY RECC
CASE NO. 2008-00401

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

Question:

Refer to Exhibit R at 10. Explain the basis for the allocation of purchased power between energy-related and demand-related.

Response:

The energy-related purchased power costs are allocated on the basis for the retail sales of energy and come from page 22 of Exhibit R. The demand-related purchased power costs are allocated on the basis of each retail rate classes' contribution to EKPC's coincident peak demand during its on-peak billing hours. EKPC's CP is the basis for billing the wholesale demand charges to its distribution members. See page 23 of Exhibit R.

BIG SANDY RECC
CASE NO. 2008-00401

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

Question:

Refer to Exhibit R, Schedule 5 at 29.

a. Explain the basis for the allocation of "Other Revenue" to the customer classes.

b. Explain why the total "Other revenue" of $779,111 does not reconcile to Exhibit S, page 2 of 4.

Response:

a. It is allocated on the basis of total rate revenue which is the line above on this same schedule and seems to give a larger allocation to the residential customers than other allocations.

b. The Other Revenue in this schedule of the COSS includes all revenue except the revenue from electric rates. Listed below is reconciliation with Exhibit S, Page 2. The difference is due to rounding as the information used in the COSS comes from the Trial Balance.

OTHER REVENUE		
Other Electric Revenue	$	630,161
Nonoperating margins interest		48,706
Nonoperating margins other		21,071
Patronage capital credits		79,170
Total	$	779,108

Big Sandy Rural Electric Cooperative
Case No. 2008-00401
Second Data Request of Commission Staff

30. Refer to Exhibit S at 2. Provide the basis for and calculation of the $1,465,107 normalized adjustment to base rates under "Cost of Power".

Response

Big Sandy updated the Cost of Power adjustment for East Kentucky's proposed rates in Case No. 2008-00409. This was inadvertently omitted from the application. The schedule that was included was prior to the adjustment for East Kentucky. The correct schedule is attached.

Big Sandy Rural Electric
Case No. 2008-00401
Purchased Power
August 31, 2008

EKPC Case No. 2006-00510		Case No.
Billing Rates	1-Aug-07	2008-00409
KW-Sch C	$6.22	$6.86
KW-Sch E2	$5.22	$5.76
KWH-Sch B/C	$0.033455	$0.036901
KWH-Sch E2 On-Peak	$0.042470	$0.046844
KWH-Sch E2 Off-Peak	$0.034904	$0.038499
KVA 3000-7499	$2,373	$2,617
KVA 7500-14999	$2,855	$3,149
Metering Point	$125	$138
Green Power	$0.023750	$0.023750

	Billing Demand	Total KWH Billing Schedule E		Energy	Green	Metering	Substation Charge			Total from	Fuel	Environmental	
	Schedule E	On-Peak	Off-Peak	Charges	Power	Point	3000	7500	Total	Base Rates	Adjustment	Surcharge	Total
September	232,332	496,534	260,599	757,133	57	1,000	2,373	19,985	22,358	1,012,880	167,438	124,399	1,304,717
October	195,562	349,000	347,497	696,497	57	1,000	2,373	19,985	22,358	915,474	61,062	93,546	1,070,082
November	300,223	445,661	447,359	893,020	57	1,000	2,373	19,985	22,358	1,216,658	29,604	106,426	1,352,688
December	323,332	529,462	533,349	1,062,812	57	1,000	2,373	19,985	22,358	1,409,559	26,082	110,971	1,546,612
January	395,159	618,440	636,443	1,254,883	57	1,000	2,373	19,985	22,358	1,673,457	196,449	140,799	2,010,705
February	340,991	523,776	543,739	1,067,515	57	1,000	2,373	19,985	22,358	1,431,921	190,911	102,071	1,724,903
March	312,631	459,058	487,397	946,456	57	1,000	2,373	19,985	22,358	1,282,502	136,002	90,213	1,508,717
April	245,288	348,841	354,747	703,588	57	1,000	2,373	19,985	22,358	972,291	167,786	68,173	1,208,250
May	197,436	404,749	274,354	679,103	57	1,000	2,373	19,985	22,358	899,954	139,473	58,205	1,097,632
June	260,233	546,880	277,668	824,548	57	1,000	2,373	19,985	22,358	1,108,196	104,785	74,110	1,287,091
July	249,412	592,436	295,120	887,556	57	1,000	2,373	19,985	22,358	1,160,382	269,977	90,109	1,520,468
August	244,813	572,205	287,652	859,858	57	1,000	2,373	19,985	22,358	1,128,085	127,464	82,236	1,337,785
Total	3,297,411	5,887,042	4,745,926	10,632,968	684	12,000	28,476	239,820	268,296	14,211,359	1,617,033	1,141,258	16,969,650
Normalized using rates effective August 1, 2007													
	3,297,411	5,887,042	4,745,926	10,632,968	684	12,000	28,476	239,820	268,296	14,211,359			
							Normalized Adjustment			0			
Normalized in EKPC Case No. 2008-00409													
	3,638,523	6,493,351	5,234,741	11,728,092	684	13,248	31,404	264,516	295,920	15,676,467			
							Normalized Adjustment			1,465,107			

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Big Sandy Rural Electric Cooperative
Case No. 2008-00401
Second Data Request of Commission Staff

31. Refer to Exhibit X at 1. Explain why Account 454, Rent from Electric Property, decreased by $91,692 from August 2007 to August 2008.

Response
Big Sandy counted joint use attachments and discovered that attachments were not properly counted. Big Sandy and the utility agreed to a settlement to pay additional amounts during 2007 for prior years. The test year is representative of the current level of attachments.

Big Sandy Rural Electric Cooperative
Case No. 2008-00401
Second Data Request of Commission Staff

32. Refer to Exhibit 13 at 2. Explain whether the weighted average cost of the Two-Party and Three-Party Poles are gross costs or if the costs reflect depreciation.

Response
The weighted average cost is gross costs.

Big Sandy Rural Electric Cooperative
Case No. 2008-00401
Second Data Request of Commission Staff

33. Refer to Exhibit 16 at 3.

a. Under "Fuel Adjustment", information for the month of January is omitted. Provide the omitted amount.

b. Instead of the months of January through December shown on this schedule, should the months shown be September through August? If no, explain why the amount shown for each month, as labeled, does not reconcile with the fuel adjustment clause filings filed by Big Sandy with the Commission.

Response

33.a. Updated schedule is attached.

33.b. Yes, this should be September through August.

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Exhibit 16
page of
Witness: AlaN Zumstein

Big Sandy Rural Electric
Case No. 2008-00401
Analysis of Fuel Adjustment and Environmental Surcharge
August 31, 2008

An analysis of fuel adjustment and environmental surcharge as purchased and passed on to consumers as follows:

	Sales		Purchased	
Month	Fuel Adjustment	Environmental Surcharge	Fuel Adjustment	Environmental Surcharge
January	(4,455)	121,692	167,438	124,399
February	147,053	107,364	61,062	93,546
March	77,349	110,776	29,604	106,426
April	43,053	113,831	26,082	110,971
May	11,117	125,676	196,449	140,799
June	173,498	106,825	190,911	102,071
July	187,627	92,163	136,002	90,213
August	121,119	66,014	167,786	68,173
September	172,417	54,864	139,473	58,205
Ocotber	210,965	77,248	104,785	74,110
November	62,688	72,245	269,977	90,109
December	258,635	79,250	127,464	82,236
Total	1,461,066	1,127,947	1,617,033	1,141,258

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

Big Sandy Rural Electric Cooperative
Case No. 2008-00401
Second Data Request of Commission Staff

34. Refer to Exhibit 18 at 1. Update this schedule with the lighting rate schedule included.

Response

Updated schedule is attached.

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Exhibit 18
page 1 of 1
Witness: Alan Zumstein

Big Sandy Rural Electric
Case No. 2008-00401
End of Test Year Customer Adjustment

	Sch A-1 Farm & Home	Sch A-2 Small Commercial	LP Large Power	LPR Large Power	Security Lights	Enviro Watts
August, 2007	12,011	970	141	15	7,511	4,700
September	12,014	971	141	15	7,523	4,700
October	12,066	973	145	14	7,501	4,700
November	12,055	969	142	14	7,482	4,700
December	12,096	970	143	14	7,496	4,700
January, 2008	12,109	984	144	14	7,506	4,700
February	12,067	969	145	14	7,506	4,700
March	12,046	961	144	14	7,487	4,700
April	12,059	963	144	13	7,525	4,700
May	12,058	972	144	15	7,544	4,700
June	12,060	964	147	13	7,509	4,700
July	12,092	968	146	14	7,533	4,700
August	12,083	969	146	14	7,543	4,700
Average	12,063	969	144	14	7,513	4,700
Increase	20	0	2	0	30	0
Test year base revenue	13,619,913	1,258,677	2,216,821	1,997,333	713,922	1,661
kwh useage	180,351,531	13,310,272	31,079,924	30,573,620	7,504,455	58,800
Average per kwh	0.07552	0.09456	0.07133	0.06533	0.09513	0.02825
Total billings	144,805	11,633	1,731	168	90,155	56,400
Average monthly kwh use	1,245	1,144	17,955	181,986	83	1
Increase in consumers, times average use, times average rate, times 12 months, equals additional revenues						
Increase in revenues	22,574	0	30,736	0	2,851	0
Increase in consumers, times average use, times average cost per kwh purchased, times 12 months, equals additional power cost						
Increase in power cost	15,470	0	22,302	0	1,551	0
Net increase	7,103	0	8,434	0	1,300	0
Adjustment	16,837					
Base power cost			14,211,359			
Kwh purchased			274,587,316			
Cost per kwh purchased			0.05176			