

MATHIS, RIGGS & PRATHER, P.S.C.  
ATTORNEYS AT LAW  
500 MAIN STREET, SUITE 5  
SHELBYVILLE, KENTUCKY 40065

C. LEWIS MATHIS, JR.  
T. SHERMAN RIGGS  
DONALD. T. PRATHER  
NATHAN T. RIGGS

TELEPHONE: (502) 633-5220  
FAX: (502) 633-0667

E-MAIL: mrp@iglou.com

May 19, 2010

RECEIVED

MAY 21 2010

PUBLIC SERVICE  
COMMISSION

Stephanie Stumbo, Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
P. O. Box 615  
Frankfort, KY 40602

Re: Application of Shelby Energy Cooperative, Inc.  
for an Adjustment of Rates  
Case No. 2009-0410

Dear Ms. Stumbo:

Please find enclosed the original and ten (10) copies of the Response to Motion to Intervene Filed by Sara Jane Rankin. Please return the extra file-stamped copy to me in the enclosed self-addressed, stamped envelope.

Yours truly,

MATHIS, RIGGS & PRATHER, P.S.C.

BY: Donald T. Prather  
Donald T. Prather

By: Paul McLean

DTP/pm  
Enclosures  
Cc: Debra Martin  
Don/sec/PSC filing



Shelby Energy has made good faith attempts to answer all questions from Ms. Rankin, withholding only those matters protected by attorney-client privilege, those deemed protected by personal privacy, and information "fishing expeditions" to obtain broad categories of detailed internal management information. Attached hereto is a copy of the Information Request given by four individuals, including Ms. Rankin, to the Shelby Energy Board of Directors at its March 18, 2010 meeting. Also attached hereto is the written response by Shelby Energy to those questions, which was mailed to the four individuals on May 4, 2010. Although some of the broad category requests were denied, Shelby Energy offered to discuss any specific issues of concern. All specific issues raised have been answered. The Shelby Energy Management Audit is posted upon the PSC website. Copies of the Action Plan dated October 23, 2009 and the Progress Report dated February 2010 were distributed to the four individuals, either at the March 18, 2010 meeting or by mail.

All four individuals attended the March 18, 2010 Board meeting at which all verbal questions by those individuals were answered. Member Pippin and Guest Curtsinger also attended the April 15, 2010 Board meeting, at which all of their specific questions were likewise answered. Ms. Rankin

had the opportunity to attend the April 15, 2010 Board meeting but chose not to.

The Motion to Intervene should be denied. PSC representatives can request at the hearing answers to any of the questions posed by Rankin in her Motion which are deemed relevant. Rankin also has the right, as do all customers, to make her public comments at the hearing.

Respectfully submitted,

Mathis, Riggs & Prather, P.S.C.

By:  \_\_\_\_\_

Donald T. Prather  
500 Main Street, Suite 5  
Shelbyville, Kentucky 40065  
Phone: (502) 633-5220  
Fax: (502) 633-0667  
Attorney for Shelby Energy  
Cooperative, Inc.

CERTIFICATE OF SERVICE

It is hereby certified that a true and accurate copy of the foregoing was this 19 day of May, 2010 mailed to the following:

Sara Jane Rankin  
6778 Waddy Road  
Waddy, Kentucky 40076

Jack Conway  
Kentucky Attorney General  
700 Capitol Avenue, Suite 118  
Frankfort, Kentucky 40601

 \_\_\_\_\_  
Donald T. Prather

**Official Notice**

Shelby Energy Cooperative, Inc., with its principal office at Shelbyville, Kentucky, and with its address as 620 Old Finchville Road, Shelbyville, Kentucky 40065, intends to file with the Kentucky Public Service Commission in Case No. 2009-00410 an application to adjust its retail rates and charges. This Adjustment will result in a general rate increase to the member-consumers of Shelby Energy Cooperative, Inc.

The rates proposed in this application are the rates proposed by Shelby Energy Cooperative, Inc. However, the Kentucky Public Service Commission may order rates to be charged that differ from these proposed rates. Such action may result in rates for consumers other than the rates in this application.

Any corporation, association, body politic, or person may by motion within thirty (30) days after publication or mailing of notice of the proposed rate changes request leave to intervene. The motion shall be submitted to the Public Service Commission, 211 Sower Boulevard, P.O. Box 615, Frankfort, Kentucky 40602, and shall set forth the grounds for the request including the status and interest of the party. Any person who has been granted intervention by the Commission may obtain copies of the rate application and any other filings made by the utility by contacting Debbie Martin, Shelby Energy Cooperative, Inc., 620 Old Finchville Road, Shelbyville, Kentucky 40065, phone 502-633-4420.

Any person may examine the rate application and any other filings made by the utility at the office of Shelby Energy Cooperative, Inc. or at the Commission's office.

Shelby Energy Cooperative, Inc. 620 Old Finchville Road Shelbyville, Kentucky 40065 502-633-4420	Kentucky Public Service Commission 211 Sower Boulevard Frankfort, Kentucky 40602 502-564-3940
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The amount and percent of increase are listed below:

Rate Class	Increase	
	Dollar	Percent
Residential - Rate 12 (formerly Rate 1 & 10)	\$2,332,219	12%
General Service - Rate 11 (formerly Rate 1 & 10)	\$219,462	10%
Large Power Service - Rate 2	\$221	0%
Outdoor and Street Lighting - Rate 3	\$77,662	18%

The effect of the proposed rates on the average monthly bill by rate class are listed below:

Rate Class	Increase	
	Dollar	Percent
Residential - Rate 12 (formerly Rate 1 & 10)	\$16	12%
General Service - Rate 11 (formerly Rate 1 & 10)	\$6	10%

The present and proposed rate structures are listed below:

Rate Class	Rates	
	Present	Proposed
<b>Residential - Rate 12 (formerly Rate 1 &amp; 10)</b>		
Consumer facility charge (Rate 1)	\$7.92	\$9.75
Consumer facility charge (Rate 10)	\$12.52	\$9.75
Energy charge per kwh	\$0.079340	\$0.093080
Energy charge per kwh (Rate 1)		
First 600 kwh	\$0.091930	-
Next 1,400 kwh	\$0.089990	-
All over 2,000 kwh	\$0.088540	-
Energy charge per ETS	\$0.053120	\$0.065190
<b>General Power - Rate 11 (formerly Rate 1 &amp; 10)</b>		
Consumer facility charge (Rate 1)	\$7.92	\$12.52
Consumer facility charge (Rate 10)	\$12.52	\$12.52
Consumer facility charge - Three phase	\$32.56	\$32.56
Energy charge per kwh	\$0.079340	\$0.093080
Energy charge per kwh (Rate 1)		
First 600 kwh	\$0.091930	-
Next 1,400 kwh	\$0.089990	-
All over 2,000 kwh	\$0.088540	-
<b>Large Power Service - Rate 2</b>		
Consumer facility charge	-	\$50.15
Demand charge per kw	\$4.97	\$4.97
Energy charge per kwh	-	\$0.068230
Energy charge per kwh		
First 100 kwh per kw	\$0.076760	-
Next 100 kwh per kw	\$0.070610	-
All over 200 kwh per kw	\$0.064480	-
<b>Outdoor and Street Lighting - Rate 3</b>		
100 Watt HPS Security Light	\$7.86	\$9.31
100 Watt Decorative Colonial Light	\$10.50	\$12.44
400 Watt Directional Flood Light	\$16.43	\$19.46
250 Watt Directional Flood Light	\$11.73	\$13.90
150 Watt Decorative Acorn	\$12.61	\$14.94
<b>Cable Television Attachments</b>		
2 party Pole Attachments	\$1.95	\$5.42
2 party Anchor Attachments	\$1.59	\$7.02
2 party Ground Attachments	\$0.44	\$0.24
3 party Pole Attachments	\$1.68	\$4.60
3 party Anchor Attachments	\$1.06	\$4.63
3 party Ground Attachments	\$0.27	\$0.15
<b>Nonrecurring charges</b>		
Return check	\$10.00	\$25.00
Collection	\$25.00	\$30.00
Reconnect for disconnect	\$25.00	\$35.00
Meter Test	\$25.00	\$32.50
Overtime	\$75.00	\$75.00

TO: Chairman of the Shelby Energy Cooperative Board

FROM: Concerned Members

DATE: March 18, 2010


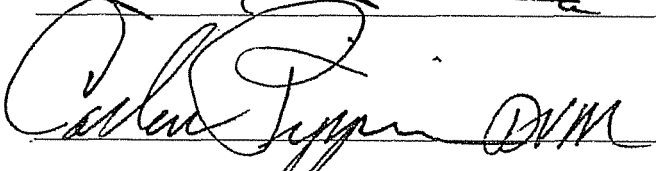
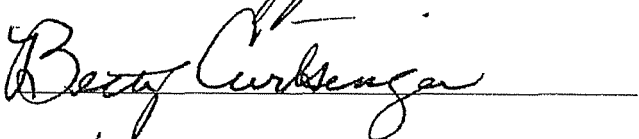
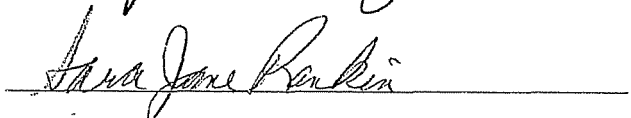
RE: Information Request

We, as Shelby County leaders and Shelby Energy members, have concerns about the operation of Shelby Energy. In the last five years, our concerns have grown as particular instances of malfeasance and mismanagement have come to light. The construction of a barn on the private property of a senior Vice President which used the Cooperative's resources and manpower as well as the recent request to raise rates in a very difficult economy are but two of many examples. We as members are required to purchase power from Shelby Energy; as OWNERS, we have a legal right to understand the operations and basis for the daily decisions made by OUR cooperative. Being charged with these responsibilities, we ask you to respond to the following in a timely and complete fashion.

1. It appears numerous accounting errors have been made requesting SEC rate increase (case 2009-00410.) Please explain the numerous errors made in filing for a rate increase in rate case 2009-00410. How can the members be assured that these errors are not made in the day-to-day operations as well?
2. Why did not all full time employees receive the "Performance Bonus & Christmas" amount of \$1709.00 referred to on page 46 of Shelby Energy reply
3. Was the change in the position of CEO at Shelby Energy a basis for the recent formation of a union within the Cooperative? Please provide a detailed accounting of the legal fees, including a copy of the bills from any and all legal representatives, paid in response to the formation of the union.
4. What legal actions are pending against Shelby Energy? What is the current cost, including attorney fees in these cases? Please include a copy of any and all bills and accountings from all legal representatives.
5. An audit, completed in August of 2009, recommended changes to be made. One recommendation was lowering the number of full-time staff (see page 4-14 of the Audit). Yet in November 2009, a number of promotions were announced in the business section of the Sentinel-News. Please provide list of changes that have been made that was recommended in the audit.
6. Please provide a current organization chart with employee's title in their area of responsibility.
7. Please provide the current wages of each employee using job title, and employee number. Please include the same information 2004-2009 as well.
8. Please provide a list of all vehicles, the use of each, purchase date, price paid.
9. Please provide a list of employees with take-home vehicles.
10. Explain how the need to drive vehicles home is assessed and documented. Provide copies of the past five year's documentation.
11. Please provide a detailed list of all building renovations from 2005 to the present including; exact location of work, costs and name of each contractor.

12. Please provide a list of office furniture, where placed, cost and vendors name.
13. Please provide a list of all contractors, contractor's employees, and work performed since 2005.
14. The residential rate for Shelby Energy is well above other utilities and is above the Cooperative's average. Yet, the Board is asking for an approximate increase of 15% on this rate class. Please explain in detail the need for this increase.
15. Many other "Board Members" of organizations are not paid and perform as a matter of civic duty; Shelby Energy "Board Members" receive meals, monetary compensation and health insurance (total cost \$89,234.00). Please explain in detail the why health insurance is being provided for five members at a cost of approximately \$42,000.00.
16. Other than attending monthly meetings, what duties are assigned to each Board Member?
17. Why does Director Stevens receive approximately \$1,300.00 each month? How long has he received monetary compensation from the Cooperative?
18. In the rate case 2009-00410 it is stated that a new set of by-laws has been adopted (exhibit U) yet old copies are being handed out as late as this month. Please provide a full and exact copy of the new by-laws.

SO REQUESTED BY THE UNDERSIGNED MEMBERS AND REPRESENTATIVES:

	<u>03-18-2010</u>
	<u>03-18-2010</u>
	<u>03-18-2010</u>
	<u>3-18-2010</u>

**Member's Information Request**  
**Dated: March 18, 2010**

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**Question 1:**

It appears numerous accounting errors have been made requesting SEC rate increase (case 2009-00410.)

- a. Please explain the numerous errors made in filing for a rate increase in rate case 2009-00410.
- b. How can the members be assured that these errors are not made in the day-to-day operations as well?

**Responses:**

**a.**

There weren't numerous errors, and those that occurred were insignificant. The cooperative contracted with one of the top rate consultants in Kentucky who is well known for the quality and value of his work. It is not uncommon to have similar occurrences in rate applications due to the volume of data and complexity of using a sample test year starting and ending in mid-year months (or other than at the end of a calendar year). The quality and reasonableness of the application is proven by the fact that for the first time in recent memory, the Kentucky Attorney General did not intervene in an electric utility rate case (i.e., our rate case).

**b.**

Members may be very assured day-to-day operations are handled in an accurate manner. Our employees are conscientious, honest and trustworthy stewards for the membership.

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**Question 2:**

Why did not all full time employees receive the "Performance Bonus & Christmas" amount of \$1,709 referred to on page 46 of Shelby Energy's reply?

**Response:**

All employees classified as full-time did receive the performance bonus and Christmas amount of \$1,709. Three employees didn't participate because they did not qualify as full-time



**Member's Information Request**  
**Dated: March 18, 2010**

when the performance bonus and Christmas amount were paid due to being hired shortly before or immediately following the applicable time period.

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**Question 3:**

- a. Was the change in the position of CEO at Shelby Energy a basis for the recent formation of a union within the Cooperative?
- b. Please provide a detailed accounting of the legal fees, including a copy of the bills from any and all legal representatives, paid in response to the formation of the union.

**Responses:**

a. This question can only be answered with certainty by those who organized and voted for the union.

However, Management and board members were given several "rumored" reasons why the union was initiated. These reasons included absurd allegations management showed favoritism to specific employees within the department, ridiculous allegations of management asking employees to perform unsafe work practices and retaliating against employees when such actions were questioned, unfounded fears employees would be fired by the CEO without justification, disgruntlement regarding the employee selected to fill the safety coordinator position, and discontent because employees are now chosen to fill positions based on qualifications, skills, abilities and not just seniority.

After the death of a contractor in November of 2007, the Board and CEO reaffirmed the commitment of the Cooperative to never have a serious injury or death on our distribution system again. The Board and CEO are committed to re-establishing that a culture of safety is the top priority for Shelby Energy. This involved a number of changes to strengthen safety policies and procedures not only for outside contractors but also for Shelby Energy employees. This meant that some past attitudes by management and employees from operations to engineering were no longer acceptable. Every employee was directed to strictly and without question follow and enforce safety practices which often exceed national standards. We made it clear we would no longer accept "that's the way it's always been" and overlook or ignore those practices or habits that might endanger people's lives; be it our employee, a contractor

**Member's Information Request**  
**Dated: March 18, 2010**

employee or the public. This includes all of our friends and family at the Cooperative, because we could no longer turn a blind eye for that very reason—they are our friends and family!

Other changes involved re-emphasizing long-standing expectations of high integrity, ethical behavior and accountability by all employees. We've had examples of behavior in the past that were unacceptable. Those employees are no longer with us and we are proud to have taken steps for it not to occur again. Each and every day our members deserve eight hours of work for eight hours of pay. We must never take advantage of our members or abuse their faith and trust in us. Each time someone has contacted the CEO with questions such as why employees are permitted to take excessive breaks, hunt deer, scout for turkey, farm on Cooperative time, or perform other private activities seemingly on Cooperative work time, the CEO has investigated each situation. Corrective action has and will be promptly taken when there is evidence of improper conduct.

Change of any kind is difficult. When a person is of the philosophy "that's the way it's always been", that person has more difficulty in looking with an open mind for ways to improve, grow and make Shelby Energy safer for our workers, more efficient for our members and more prepared for the future.

**b.**

Shelby Energy is willing to discuss any specific issues of concern, but is unable to provide the requested information. We have been advised by counsel this information cannot be released due to attorney-client privilege, which protects the Cooperative from disclosing information which could be used by those that may wish to do harm to the Cooperative, our employees, and ultimately our members.

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**Question 4:**

- a. What legal actions are pending against Shelby Energy?
- b. What is the current cost, including attorney fees in these cases?
- c. Please include a copy of any and all bills and accountings from all legal representatives.

**Member's Information Request**  
**Dated: March 18, 2010**

**Responses:**

**a.**

Shelby Energy has cases concerning two former employees and one case concerning work performed by a contractor. All public filings are available at the Shelby County Circuit Clerk's office.

**b. and c.**

We have been advised by counsel this information cannot be released due to attorney-client privilege, which protects the Cooperative from disclosing information which could be used by those that may wish to do harm to the Cooperative, our employees, or ultimately our members.

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**Question 5:**

- a. An audit completed in August of 2009 recommended changes to be made. One recommendation was lowering the number of full-time staff (see page 4-14 of the audit). Yet in November, 2009 a number of promotions were announced in the business section of the Sentinel-News.
- b. Please provide a list of changes that have been made that was recommended in the audit.

**Response:**

**a.**

The auditors did not recommend fewer employees; to the contrary they recommended more employees. Page 4-14 of the audit did recommend that employees reporting directly to the CEO be reduced from six to four, which would not involve dismissing any employees.

Please refer to page 10-1 and page 10-3 where the auditors make the following comments and recommendations:

"The current staffing level at Shelby Energy is low compared to the recent past (29 employees, versus 32). In 1989, there were 45 employees. Shelby Energy plans to hire four or five additional staff in 2009, focusing first on increasing the field crew strength."

**"Recommendations Based on Finding 10-1"**

1. "Hiring for open positions should be a high priority."

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- 2. "Review Engineering staffing levels in light of the Succession Plan (see following recommendation) and consider increasing the balance of engineering work from outsourcing to internal assignment."
- 3. "Review field crew staffing levels in conjunction with a review of work scheduling practices"

Attached is a copy of the Progress Report # 1 dated February 1, 2010 that was submitted by Shelby Energy to the PSC in response to the Action Plan (copy attached ) issued by Auriga Corporation on behalf of the PSC. Progress reports will following every six months over the next two years.

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**Question 6:**

Please provide a current organizational chart with the employee's title in their area of responsibility.

**Response:**

Attached is a copy of the current organizational chart for Shelby Energy Cooperative, Inc.

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**Question 7:**

- a. Please provide the current wages of each employee using job title and employee number.
- b. Please include the same information for 2004-2009 as well.

**Responses:**

a. Wages are determined based upon an independent survey of wages paid by other area employers for employees with similar duties. Shelby Energy is willing to discuss any specific issues of concern but is unable to provide the requested information due to employee confidentiality issues. Additionally, a properly functioning corporation is based upon well-established principals of corporate structure. The Board of Directors adopts policies and monitors management compliance with these policies. Management implements those policies by making day-to-day decisions, including setting wages, free of outside disruption. The Board

**Member's Information Request**

**Dated: March 18, 2010**

of Directors holds management accountable for the results of the day-to-day decisions. The members exercise their control over the Cooperative by electing the directors. It is inappropriate for members to become involved in management matters. Disclosure of the requested information would be disruptive to the operation of the Cooperative and will not be provided based upon advice of counsel.

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**Question 8:**

Please provide a list of all vehicles, the use of each, purchase date, price paid.

**Response:**

All vehicles owned by Shelby Energy are used by employees performing a significant amount of their work in the field and are in the operations, safety, and engineering areas. Shelby Energy is willing to discuss any specific issues of concern. As with Question 7 above, release of such detailed internal management information is inappropriate and will not be provided upon advice of counsel.

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**Question 9:**

Please provide a list of employees with take-home vehicles.

**Response:**

The manager of the operations department and the safety coordinator are provided a take-home vehicle. Operations employees that are on-duty are provided a take-home vehicle only when on call.

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**Question 10:**

- a. Explain how the need to drive vehicles home is assessed and documented.
- b. Provide copies of the past five year's documentation.

**Member's Information Request**  
**Dated: March 18, 2010**

**Responses:**

**a.**

The manager of operations and the safety coordinator are required to be available and on-call twenty-four hours a day, seven days a week. These employees must immediately report from wherever they are directly to various outage situations, investigate unintended outages created by cooperative or contractor personnel and investigate accident situations. They are also required to inspect work construction sites, monitor right-of-way clearance, and inspect contractor and cooperative construction crews. The locations are often remote and sometimes in rough terrain. Their duties always require their vehicle to be marked as a Shelby Energy vehicle and often require the use of specialized features of the Cooperative vehicles.

Other operations employees are required to drive Cooperative vehicles home when assigned to on-call duty for service work. The team normally consists of two employees and both employees are required to take a vehicle home and be available on a 24-hour basis when dispatched.

**b.**

Calendars are developed annually that assign on-call duty for operation's employees. Shelby Energy is willing to discuss any specific issues of concern. As with Question 7 above, release of such detailed internal management information is inappropriate and will not be provided upon advice of counsel.

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**Question 11:**

Please provide a detailed list of all building renovations from 2005 to the present including; exact location of work, costs and name of each contractor.

**Response:**

Shelby Energy is willing to discuss any specific issues of concern. As with Question 7 above, release of such detailed internal management information is inappropriate and will not be provided upon advice of counsel.

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**Member's Information Request**  
**Dated: March 18, 2010**

**Question 12:**

Please provide a list of office furniture, where placed, cost and vendors name.

**Response:**

Shelby Energy is willing to discuss any specific issues of concern. As with Question 7 above, release of such detailed internal management information is inappropriate and will not be provided upon advice of counsel.

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**Question 13:**

Please provide a list of all contractors, contractor's employees, and work performed since 2005.

**Response:**

Shelby Energy is willing to discuss any specific issues of concern. As with Question 7 above, release of such detailed internal management information is inappropriate and will not be provided upon advice of counsel.

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**Question 14:**

The residential rate for Shelby Energy is well above other utilities and is above the Cooperative's average. Yet, the Board is asking for an approximate increase of 15% on this rate class. Please explain in detail the need for this increase.

**Response:**

As discussed at the previous Board meeting, all residential rates are not increasing 15%. Only Residential rate (10) which has been served at below cost for approximately 12-13 years will be increasing by this percentage. Rate (1) residential members will receive a rate increase of approximately 4-5%. Shelby Energy has not had a rate increase since 1983. It has for 27 years offset increased costs of doing business by decreasing internal operating expenses, thereby avoiding a rate increase to our members. We can no longer continue to reduce costs in this manner without endangering safe and reliable electric service to our members.

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This reality was recently confirmed by the PSC management audit which directed the Cooperative to make the rate application a high priority and to complete the process as soon as possible.

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**Question 15:**

Many other "Board Members" of organizations are not paid and perform as a matter of civic duty; Shelby Energy "Board Members" receive meals, monetary compensation and health insurance (total cost \$89,234.00). Please explain in detail why health insurance is being provided for five members at a cost of approximately \$42,000.00.

**Response:**

Serving as a board member of an electric cooperative carries with it a duty and responsibility of a magnitude that is well beyond that of a civic duty. Board decisions directing a business of \$71 million require that dedicated board members spend significant time inside and outside board meetings to obtain and analyze large quantities of information required to make potentially far-reaching and expensive decisions. They are required to spend many days in training sessions to become familiar with the complex issues with which they must deal. The Board serves an integral role in the Cooperative and in the communities served by the Cooperative. Benefits are provided that will attract and retain the most competent, diverse and well-qualified individuals available for this role.

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**Question 16:**

Other than attending monthly meetings, what duties are assigned to each Board Member?

**Response:**

Board of directors serve the members of the cooperative by conducting oversight of the cooperative's strategic functions and represent the cooperative through various associated organizations along with remaining informed of issues and events that impact the electric industry. A variety of administrative, financial and overall business information is provided for each board member to review prior to attending monthly board meetings. This information on



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average may take anywhere from 3-6 hours, or more, depending on the items scheduled for discussion at the meeting. Occasionally, special meetings are scheduled to review and discuss topics necessary for decision making purposes to meet required deadlines or responses.

The answer to Question 15 above is also applicable here.

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**Question 17:**

- a. Why does Director Stevens receive approximately \$1,300.00 each month?
- b. How long has he received monetary compensation from the Cooperative?

**Responses:**

Director Stevens receives a monthly stipend along with the regular board meeting fee instead of receiving major medical insurance. He has received compensation since he became a director.

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**Question 18:**

In the rate case 2009-00410 it is stated that a new set of by-laws has been adopted (exhibit U) yet old copies are being handed out as late as this month. Please provide a full and exact copy of the new by-laws.

**Response:**

"New" bylaws have not been adopted. Exhibit U stated a new set of bylaws had been adopted since the 1982 rate case, not recently.