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May 12, 2011

PARTIES OF RECORD

RE: Shelby Energy Cooperative, Inc.
Case No. 2010-00244 Informal Conference

Attached is a copy of the memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the informal conference memorandum, please do so within five days of receipt of this letter. If you have any questions, please contact Rick Bertelson, Staff Attorney, at 502-564-3940, Extension 260.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Derouen".

Jeff Derouen
Executive Director

RB/kar
Attachments

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: File: Case No. 2010-00244

FROM: Rick Bertelson, Staff Attorney

DATE: May 10, 2011

RE: Application of Shelby Energy Cooperative, Inc. for a Certificate of Public Convenience and Necessity for its 2010-2014 Construction Work Plan

Pursuant to the May 2, 2011 Commission Staff notice in this matter, Shelby Energy Cooperative, Inc. ("Shelby Energy") attended an informal conference ("IC") at the Commission's offices on May 5, 2011. A list of the attendees is attached hereto. The purpose of the IC was to discuss Shelby Energy's application for a Certificate of Public Convenience and Necessity for its 2010-2014 Construction Work Plan.

Shelby Energy stated that it is still working on the installation of 3-phase meters on its system as a part of its advanced metering infrastructure ("AMI") upgrade program. It is still waiting for delivery of some parts and materials. The installation has gone well so far. However, Shelby Energy has had a few billing issues during the meter change out, which it discussed prior to the IC with the Commission's Consumer Services Division and is in the process of resolving.

Shelby Energy has discovered a number of uses for the AMI meters, in addition to remote meter reading. For example, it can "ping" the meters during outage situations to determine which meters are on and which are off. This helps Shelby Energy conserve resources, because it doesn't have to send workers out into the field to determine which residences and businesses have power.

Commission Staff asked about Shelby Energy's rejection of the \$264,000 Department of Energy Development and Independence ("DEDI") grant. Shelby Energy's CEO, Debbie Martin, stated that the grant program required them to both install the AMI equipment listed in the grant application and operate it for a period of 12 months, while gathering data and analyzing the results. Due to high demand for AMI meters throughout the country, the meter manufacturer was unable to deliver the metering equipment on schedule. Shelby Energy stated that, as a result, it could not begin installation of the AMI meters until October 2010, three months after it had originally planned to begin installation in July 2010. In addition, Shelby Energy stated that it was informed by DEDI that it could not receive reimbursement under the grant for items purchased before July 1, 2010 and therefore its order time was delayed.

When the metering equipment had not been delivered by the end of July 2010, Shelby Energy determined that it could not maintain its original installation schedule and get the system installed and ready to run by April 2011 if it didn't use a great deal of contract labor and overtime. Shelby Energy stated that the extra work, combined with the cost of the materials, and additional costs that would have arisen given the accelerated installation schedule, would have exceeded the \$264,000 value of the grant. Therefore, Shelby Energy decided to reject the DEDI grant. Ms. Martin said that the main concern was getting the AMI system installed in order to enhance the reliability of the system and that it did not make sense from Shelby Energy's standpoint to continue to pursue the grant project.

Commission Staff asked whether Shelby Energy will go forward with the AMI system projects listed in its grant application. Shelby Energy said that it does plan on going through with most of those projects over the next year or two. For instance, Shelby Energy is considering going forward with installing in-home displays for some customers, but it is also looking at other options, like cell phone applications that can perform the same or similar functions. It is also considering filing an application for a pre-paid meter program sometime in the future.

With regard to Shelby Energy's response to Item 6 of Commission Staff's Third Data Request, Shelby Energy stated that it hasn't begun work on any projects other than the Batts Lane project, and very little work has been done on that project since the original response.

Shelby Energy's counsel stated that Shelby Energy is not borrowing any money to do the work on the AMI program or the Batts Lane project. He stated that Shelby Energy had the funds to do the work from a \$5 million surplus left over from its prior work plan. Shelby Energy spent money from its own funds on the AMI program and then drew down the \$5 million to repay itself for the AMI expenditures. Shelby Energy will file accounting records and a narrative description to explain that process within 7 days of the IC.

There being no further questions, the informal conference was adjourned.

Attachment

cc: Parties of Record