

First, KRS 278.020(1) has two exceptions when a CPCN is not required for facility construction. The first is for "retail electric suppliers for service connections to electric-consuming facilities located within its certified territory". The second is for "ordinary extensions of existing systems in the usual course of business".

Shelby Energy is a retail electric supplier. Its AMI system and AMI meters have been and are being installed as an integral part of the service connections to its members (who own and/or operate electric-consuming facilities) within its certified territory. Therefore, Shelby Energy is exempt from obtaining a facility construction CPCN pursuant to the first exception provided in KRS 278.020(1).

Assuming arguendo that the first exception is not applicable, Shelby Energy is also exempt from obtaining a facility construction CPCN because the AMI facilities are ordinary course of business construction.

807 KAR 5:001 Section 9(3) reads as follows:

(3) Extensions in the ordinary course of business. No certificate of public convenience and necessity will be required for extensions that do not create wasteful duplication of plant, equipment, property or facilities, or conflict with the existing certificates or service of other utilities operating in the same area and under the jurisdiction of the commission that are in the general area in which the utility renders service or contiguous thereto, and that do not involve sufficient capital out lay to materially affect the existing financial condition of the utility involved, or will not result in increased charges to its customers.

The AMI system is not a wasteful duplication because it replaces the existing meters. The AMI system does not conflict with an existing certificate or service of any other utilities operating in the same area or contiguous thereto. Since the AMI system was and is being funded entirely with internally-generated net operating revenue, it does not involve sufficient capital to materially affect the existing financial condition of Shelby Energy, nor will it result in increased charges to Shelby Energy's customers. The net operating income being used to pay for the AMI system was generated over the years prior to the recent Shelby Energy general rate increase, which rate increase was necessary to cover future operating expenses, not pay for the AMI system.

According to the Honorable Jerry Weutcher, there has been a long-standing unwritten "rule of thumb" utilized by the Public Service Commission to determine whether facility construction is an extension in the ordinary course of business. It has been referred to as the "10% rule". Construction totaling less than 10% of the utility's plant is generally considered an ordinary course extension. Mr. Weutcher advised the undersigned at a recent water district commissioner training session that the "10% rule" was no longer safe to rely upon, it having been replaced by a similar "5% rule", which was safe to rely upon.

Shelby Energy's total plant value as of December 31, 2009 was \$70,956,033. It's distribution plant at that time was valued

at \$64,635.274, not counting an additional \$3,008,343 work in process. (See AMI Testimony of Debra Martin.) The approximate \$3 million cost of Shelby Energy's AMI system is well less than 5% of either figure and therefore falls within the "5% rule".

Shelby Energy is not required to obtain PSC approval to incur indebtedness to pay for the AMI installation because it is not borrowing money for that purpose. As shown in the testimony of Debra Martin being filed contemporaneously with this Memorandum, the AMI system installation has and will be funded by Shelby Energy completely from internally-generated net operating revenue.

In conclusion, Shelby Energy is not incurring debt to install the AMI system. Since the installation of the AMI facilities falls within one or the other of the construction exceptions in KRS 278.020(1), Shelby Energy was and is not obligated to obtain a CPCN from the Public Service Commission for installation of its AMI system.

Respectfully submitted,

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SHELBY ENERGY)	
COOPERATIVE, INC. FOR A CERTIFICATE OF)	CASE NO.
PUBLIC CONVENIENCE AND NECESSITY FOR)	2010-00244
ITS 2010 ~ 2014 CONSTRUCTION WORK PLAN)	

RESPONSE OF
SHELBY ENERGY COOPERATIVE, INC.. ("SEC") TO THE
INFORMATION REQUEST OF COMMISSION STAFF TO SEC
AT THE INFORMAL CONFERENCE
ON MAY 5, 2011

FILED: MAY 12, 2011

Witnesses for All Response Contained Hereinafter:

Debra Martin, SEC

As requested by the Kentucky Public Service Commission staff during an informal conference with Shelby Energy Cooperative Inc. ("Shelby Energy") on May 5, 2011, attached as Exhibit A is the worksheet showing Rural Utilities Service ("RUS") loan fund transactions related to the previous 2005-2009 Construction Work Plan ("CWP") and Loan. The header labels at the top of the worksheet provide the following information;

1. Cooperative Identification: KY 30 SHELBY
2. RUS Loan Identification: "AT 44"
3. Loan Amount: \$16,808,000.00
4. Unadvanced: Unadvanced Loan Funds of \$.00
5. 2005-2009 CWP Loan: Applicable CWP

The first of two lines of the chart dated February 24, 2006 and labeled 'Brought Forward from Loan "AS 8"' are a notation for work order construction projects for which internal general cash funds were spent and approved by RUS to carry forward for funding from RUS loan "AT 44" and corresponding Construction Work Plan for 2005-2009.

The following is a description of notations and information provided in the worksheet for each column as labeled below;

1. Date Per 605: shows the date of each event as identified on the RUS Form 605.
2. Transaction Date: reflects the month and year for the work order construction amounts listed and the special equipment used in the construction.

3. Work Orders Approved for Advance: shows the work order and special equipment value as a cumulative total as approved by RUS for advance of loan funds.
4. Loan Advance: this column lists the loan advances drawn by Shelby Energy. Loan Funds Approved and Disbursed: this column repeats the loan advances drawn by Shelby Energy.
5. Approved RUS Construction for Loan Funds Not Disbursed: shows the total construction projects completed and paid for by Shelby Energy from general cash funds as of that date, but for which RUS has yet to reimburse Shelby Energy.

The Brought Forward from Loan "AS 8" notation on the first line of Exhibit A dated February 22, 2006 in the amount of \$4,338,219.49 shows the cumulative value of construction completed and paid for prior to that date for which Shelby Energy had not been reimbursed by RUS. The first loan advance shown on Exhibit A on March 21, 2006 of \$5,000,000.00 represents reimbursement from RUS for projects constructed and paid for prior to March 21, 2006. This loan advance replenished Shelby Energy's internal general cash funds. These internal general cash funds were then used by Shelby Energy to pay for construction projects after March 21, 2006.

As shown in the Loan Advance column, additional loan funds were drawn on March 15, 2008, December 8, 2008, August 11, 2009 and August 3, 2010. Each loan draw represented partial reimbursement to Shelby Energy for the value of projects constructed and paid for by Shelby Energy prior to the date of each draw using internally-generated revenue from general cash funds.

The final loan advance drawn on October 27, 2010 in the amount of \$5,308,000.00 represents the final reimbursement from RUS to Shelby Energy for projects constructed under the previous 2005-2009 work plan and paid for by Shelby Energy using internally-generated general cash funds. It is from this \$5,308,000.00 the AMI project is being funded.

The record of this case contains conflicting information, some of which indicates the AMI system is being funded by loan funds and other, including this document, which confirms the AMI system is being funded by internally-generated net operating revenue from general cash funds. The confusion arises because of the peculiar nature of RUS funded projects, and Shelby Energy's prudent business decision to postpone loan draws as long as possible to minimize interest expense.

As previously indicated, RUS does not advance loan money to pay for construction as it occurs. Instead, RUS requires a utility to pay for that construction, obtain certified inspections from an electrical engineer on a sampling of completed construction projects, submit construction work orders to RUS for review and approval and then request a draw of loan funds for completed and RUS approved projects to replenish its general cash funds.

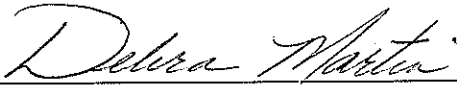
The \$5,308,000.00 which is the source of the AMI system funding, is replenishment of internally-generated net operating revenue of general cash funds, not borrowed money. Shelby Energy chose to use most of this money to pay for construction as it occurred, and then make a single \$5,308,000 draw at the end, rather than making earlier and more frequent smaller loan draws. This prudent and ordinary course of business decision saved Shelby Energy's members the additional

interest which would have accrued on such earlier loan draws. Before the November 1, 2010 expiration date of the prior 2005-2009 work plan loan, Shelby Energy therefore made its final draw on that loan in the amount of \$5,308,000.00, which represented reimbursement to Shelby Energy for Shelby Energy's previously expended general cash funds.

The existence of this \$5,308,000.00 in internally-generated net operating revenue that results in general cash funds is independently confirmed by the loan amount being sought in this PSC case. Shelby Energy originally planned to seek PSC approval to borrow \$16,685,739.00. However, because of the existence of this remaining \$5,308,000.00 the loan request amount from RUS for the 2010-2014 Construction Work Plan Loan was reduced to the \$10,345,158.00 amount actually being requested in this case.

VERIFICATION

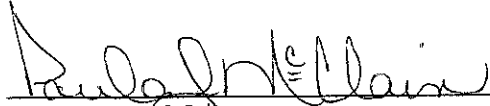
The undersigned, Debra Martin, CEO of Shelby Energy Cooperative, Inc. certifies that the responses contained in this document are true and accurate to the best of her knowledge, information and belief formed after a reasonable inquiry.



Debra Martin

COMMONWEALTH OF KENTUCKY
COUNTY OF SHELBY

Subscribed and sworn to before me by Debra Martin, CEO of Shelby Energy Cooperative, Inc., to be her free act and deed this 12th day of May, 2011.



Notary Public
My Commission Expires: 04-26-2015
ID: 440805

"AT 44" LOAN \$16,808,000.00 UNADVANCED: \$0.00
 2005-2009 CWP Loan

DATE PER 605	TRANSACTION DATE	WORK ORDERS APPROVED FOR ADVANCE	LOAN ADVANCE	LOAN FUNDS APPROVED & DISBURSED	APPROVED RUS CONSTRUCTION FOR LOAN FUNDS NOT DISBURSED
02/24/2006	Brought Forward	\$0.00		\$0.00	\$0.00
02/24/2006	from Loan AS 8	4,338,219.49		\$0.00	4,338,219.49
03/09/2006	09/05	165,292.21		\$0.00	4,503,511.70
03/09/2006	10/05	185,692.38		\$0.00	4,689,204.08
03/09/2006	11/05	628,380.11		\$0.00	5,317,584.19
03/21/2006			5,000,000.00	\$5,000,000.00	317,584.19
07/05/2006	12/05	372,239.02		\$0.00	689,823.21
07/05/2006	01/06	208,918.20		\$0.00	898,741.41
07/05/2006	02/06	399,399.61		\$0.00	1,298,141.02
07/05/2006	03/06	623,866.41		\$0.00	1,922,007.43
12/11/2006	04/06	226,605.77		\$0.00	2,148,613.20
12/11/2006	05/06	280,420.54		\$0.00	2,429,033.74
12/11/2006	06/06	281,345.27		\$0.00	2,710,379.01
01/18/2007	07/06	253,920.48		\$0.00	2,964,299.49
01/18/2007	08/06	212,558.06		\$0.00	3,176,857.55
01/18/2007	09/06	188,877.76		\$0.00	3,365,735.31
07/03/2007	10/06	357,106.39		\$0.00	3,722,841.70
07/03/2007	11/06	480,048.90		\$0.00	4,202,890.60
07/03/2007	12/06	151,122.79		\$0.00	4,354,013.39
07/03/2007	01/07	493,111.61		\$0.00	4,847,125.00
07/10/2007	02/07	174,084.48		\$0.00	5,021,209.48
07/10/2007	03/07	188,915.70		\$0.00	5,210,125.18
07/10/2007	04/07	169,826.87		\$0.00	5,379,952.05
11/28/2007	05/07	263,014.70		\$0.00	5,642,966.75
11/28/2007	06/07	323,661.93		\$0.00	5,966,628.68
11/28/2007	07/07	585,033.96		\$0.00	6,551,662.64
03/15/2008			1,000,000.00	\$1,000,000.00	5,551,662.64
03/31/2008	08/07	227,930.42		\$0.00	5,779,593.06
03/31/2008	09/07	428,711.39		\$0.00	6,208,304.45
03/31/2008	10/07	238,869.18		\$0.00	6,447,173.63
06/27/2008	11/07	262,053.08		\$0.00	6,709,226.71
06/27/2008	12/07	206,654.89		\$0.00	6,915,881.60
06/27/2008	01/08	191,247.32		\$0.00	7,107,128.92
06/27/2008	02/08	548,107.51		\$0.00	7,655,236.43
12/08/2008		0.00	1,000,000.00	\$1,000,000.00	6,655,236.43
01/05/2009	03/08	209,545.65		\$0.00	6,864,782.08

"AT 44" LOAN \$16,808,000.00 UNADVANCED: \$0.00
 2005-2009 CWP Loan

DATE PER 605	TRANSACTION DATE	WORK ORDERS APPROVED FOR ADVANCE	LOAN ADVANCE	LOAN FUNDS APPROVED & DISBURSED	APPROVED RUS CONSTRUCTION FOR LOAN FUNDS NOT DISBURSED
01/05/2009	04/08	271,966.04		\$0.00	7,136,748.12
01/05/2009	05/08	237,157.98		\$0.00	7,373,906.10
01/05/2009	06/08	309,564.09		\$0.00	7,683,470.19
01/05/2009	07/08	192,471.20		\$0.00	7,875,941.39
04/19/2009	CLOSED BUDGET	0.00		\$0.00	7,875,941.39
04/23/2009	08/08	159,827.51		\$0.00	8,035,768.90
04/23/2009	09/08	112,557.73		\$0.00	8,148,326.63
04/23/2009	10/08	173,383.07		\$0.00	8,321,709.70
04/23/2009	11/08	147,422.38		\$0.00	8,469,132.08
08/04/2009	12/08	285,673.28		\$0.00	8,754,805.36
08/04/2009	01/09	96,067.93		\$0.00	8,850,873.29
08/04/2009	02/09	218,084.86		\$0.00	9,068,958.15
08/04/2009	03/09	153,211.79		\$0.00	9,222,169.94
08/11/2009	11/09	0.00	1,000,000.00	\$1,000,000.00	8,222,169.94
11/09/2009	04/09	183,655.34		\$0.00	8,405,825.28
11/09/2009	04/09	19,806.00		\$0.00	8,425,631.28
11/09/2009	05/09	152,161.50		\$0.00	8,577,792.78
11/09/2009	05/09	11,175.44		\$0.00	8,588,968.22
11/09/2009	06/09	323,841.45		\$0.00	8,808,000.00
11/09/0009	06/09	40,271.64		\$0.00	8,808,000.00
03/09/2010	07/09	146,458.10		\$0.00	8,808,000.00
03/09/2010	08/09	207,300.42		\$0.00	8,808,000.00
03/09/2010	09/09	246,640.90		\$0.00	8,808,000.00
06/03/2010		0.00	3,500,000.00	\$3,500,000.00	5,308,000.00
10/13/2010	10/09	149,148.25		\$0.00	5,308,000.00
10/13/2010	11/09	188,695.86		\$0.00	5,308,000.00
10/13/2010	12/09	210,839.17		\$0.00	5,308,000.00
10/27/2010		0.00	5,308,000.00	\$5,308,000.00	0.00
		\$18,102,164.01	\$16,808,000.00	\$16,808,000.00	\$0.00