

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF SOUTH KENTUCKY)
RURAL ELECTRIC COOPERATIVE CORPORATION FOR A) Case No. 2021-00407
GENERAL ADJUSTMENT OF RATES, APPROVAL OF)
DEPRECIATION STUDY, AND OTHER GENERAL RELIEF)

**ATTORNEY GENERAL’S FIRST REQUEST FOR INFORMATION TO
SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION**

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, through his Office of Rate Intervention (“Attorney General”), and submits his First Request for Information to South Kentucky Rural Electric Cooperative Corporation (hereinafter “South Kentucky RECC” or the “Company”) to be answered by February 2, 2022, and in accord with the following:

- (1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate requested item will be deemed a satisfactory response.
- (2) Identify the witness who will be prepared to answer questions concerning each request.
- (3) Repeat the question to which each response is intended to refer.
- (4) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.
- (5) Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association, be accompanied by a signed certification of the

preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

(6) If you believe any request appears confusing, please request clarification directly from undersigned Counsel for the Office of Attorney General.

(7) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(8) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout, which would not be self-evident to a person not familiar with the printout.

(9) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, notify the Office of the Attorney General as soon as possible, and in accordance with Commission direction.

(10) As used herein, the words "document" or "documents" are to be construed broadly and shall mean the original of the same (and all non-identical copies or drafts thereof) and if the original is not available, the best copy available. These terms shall include all information recorded in any written, graphic or other tangible form and shall include, without limiting the generality of the foregoing, all reports; memoranda; books or notebooks; written or recorded statements, interviews, affidavits and depositions; all letters or correspondence; telegrams, cables and telex messages; contracts, leases, insurance policies or other agreements; warnings and caution/hazard notices or labels; mechanical and electronic recordings and all information so stored, or transcripts of such recordings;

calendars, appointment books, schedules, agendas and diary entries; notes or memoranda of conversations (telephonic or otherwise), meetings or conferences; legal pleadings and transcripts of legal proceedings; maps, models, charts, diagrams, graphs and other demonstrative materials; financial statements, annual reports, balance sheets and other accounting records; quotations or offers; bulletins, newsletters, pamphlets, brochures and all other similar publications; summaries or compilations of data; deeds, titles, or other instruments of ownership; blueprints and specifications; manuals, guidelines, regulations, procedures, policies and instructional materials of any type; photographs or pictures, film, microfilm and microfiche; videotapes; articles; announcements and notices of any type; surveys, studies, evaluations, tests and all research and development (R&D) materials; newspaper clippings and press releases; time cards, employee schedules or rosters, and other payroll records; cancelled checks, invoices, bills and receipts; and writings of any kind and all other tangible things upon which any handwriting, typing, printing, drawings, representations, graphic matter, magnetic or electrical impulses, or other forms of communication are recorded or produced, including audio and video recordings, computer stored information (whether or not in printout form), computer-readable media or other electronically maintained or transmitted information regardless of the media or format in which they are stored, and all other rough drafts, revised drafts (including all handwritten notes or other marks on the same) and copies of documents as hereinbefore defined by whatever means made.

(11) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(12) In the event any document called for has been destroyed or transferred beyond the control of the company, please state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

(13) Provide written responses, together with any and all exhibits pertaining thereto, in one or more bound volumes, separately indexed and tabbed by each response, in compliance with Kentucky Public Service Commission Regulations.

(14) “And” and “or” should be considered to be both conjunctive and disjunctive, unless specifically stated otherwise.

(15) “Each” and “any” should be considered to be both singular and plural, unless specifically stated otherwise.

Respectfully submitted,

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Certificate of Service and Filing

Pursuant to the Commission's Orders and in accord with all other applicable law, Counsel certifies that the foregoing electronic filing was transmitted to the Commission on January 20, 2022, and there are currently no parties that the Commission has excused from participation by electronic means in this proceeding.

This 20th day of January, 2022.

Angela M. Aoad

Assistant Attorney General

1. Refer to the Application, page 1, in which South Kentucky RECC states that it provides electric power to approximately 68,000 members in the Kentucky counties of Adair, Casey, Clinton, Cumberland, Laurel, Lincoln, McCreary, Pulaski, Rockcastle, Russell, and Wayne.

- a. Provide a detailed account of the economic issues that the above-referenced counties were suffering from before the Covid-19 pandemic.
- b. Provide a detailed account of the economic situation that the above-referenced counties are battling during the Covid-19 pandemic.
- c. Based upon the most recent United States Census information, the poverty rates for South Kentucky RECC's service area are as follows:

McCreary County – 36.2%

Adair County – 22.1%

Casey County – 22.7%

Clinton County – 21.5%

Cumberland County – 21.0%,

Laurel County – 17.9%

Lincoln County – 18.4%

Pulaski County – 19.1%

Rockcastle County – 22.4%

Russell County – 18.1%

Wayne County – 23.6%.¹

¹ <https://www.census.gov/quickfacts/fact/table/KY,US/PST045221>

Confirm that South Kentucky RECC is aware of the extreme poverty that exists in its service territory.

2. Refer to the Application, page 1, in which South Kentucky RECC asserts that it serves a small number of customers in Pickett and Scott counties in Tennessee.
 - a. Provide the number of customers that South Kentucky RECC serves in Pickett County, Tennessee, and identify whether the customers are residential, commercial, or industrial customers.
 - b. Identify the number of customers that South Kentucky RECC serves in Scott County, Tennessee, and identify whether the customers are residential, commercial, or industrial customers.
 - c. Explain in detail why South Kentucky RECC provides electricity to customers in Tennessee.
 - d. Discuss whether there are any benefits that flow to the Company's Kentucky customers by providing electricity to the Tennessee customers.
 - e. Discuss whether there are any negative ramifications from providing electricity to the Tennessee customers.
 - f. Provide the total annual revenue received from the Tennessee customers.
 - g. Provide the tariffs for the Tennessee customers, and explain in detail if the Tennessee customers pay more or less customer charge or volumetric rate than the Kentucky customers.
3. Refer to the Application, page 2. South Kentucky RECC asserts that its existing rates went into effect on March 30, 2012, and with aggressive cost control measures, diligent management practices, board oversight, and favorable federal

policies including the Rural Utilities Service's ("RUS") Cushion of Credit program, retail base rates have increased by less than \$4,000,000 over the past ten years, not including the pass-through rate increases from East Kentucky Power Cooperative's ("EKPC") wholesale rate and surcharge adjustments. The Company further asserts that it needs a rate increase because South Kentucky's retail energy sales have decreased substantially while purchased power and other costs of conducting business have increased in almost every portion of its operations.

- a. Explain in detail why energy sales have decreased.
- b. Provide the number of customers that South Kentucky RECC had for the years 2012 – present.
- c. Discuss in detail the costs of conducting business that have increased.
- d. If energy sales are decreasing, and costs are increasing, explain in detail whether South Kentucky RECC ever discussed merger with another similarly situated RECC in order to streamline operations and obtain economies of scale.
- e. Explain in detail and provide all examples of the "aggressive cost control measures."
- f. Provide all examples of "diligent management practices and board oversight."
- g. Identify all favorable federal policies that South Kentucky RECC is referring to, and how these policies have benefitted the ratepayers.
- h. Explain in detail the RUS Cushion of Credit program, and ensure to include how it is beneficial to the ratepayers.

- i. Provide all pass-through rate increases to South Kentucky RECC customers via EKPC wholesale rate and surcharge adjustments from 2012 – present.
4. Refer to the Application, pages 2 – 3. South Kentucky RECC asserts that it needs an \$8,685,396 rate increase to account for cumulative inflationary pressures, build equity, improve its overall financial condition, to satisfy current and future loan covenants, and to achieve a Times Interest Earned Ratio (“TIER”) of 2.00X.
 - a. Elaborate on how South Kentucky RECC plans to build equity.
 - b. Provide the TIER and Operating Times Interest Earned Ratio (“OTIER”) that are required by all loan contract terms.
 - c. Confirm or deny that normally loans that an RECC enters into only requires a TIER of 1.25X. If denied, explain in full detail what TIER is generally required.
 - d. If (c) is confirmed, other than Commission precedent, provide the justification and reason a higher TIER than what is required by the loan contract terms is necessary.
 - e. If South Kentucky RECC is requesting a TIER and OTIER that is higher than the loan contract requirements, explain why it is making such requests.
 - f. Explain how South Kentucky RECC utilizes the additional funds that the Commission awards that are above and beyond the required TIER and OTIER amounts per the loan contract terms, and how South Kentucky RECC accounts for these funds.

- programs (\$100,906); increased interest expenses resulting from two additional loans totaling approximately \$17 million (\$285,099); and reduction of interest on cushion credit (\$1,401,979).
- a. Identify the amount of bad-debt recapture that South Kentucky RECC included in the test-year, and how that number was arrived at if the actual bad-debt recapture of \$1,427,442 was removed.
 - b. Explain why EKPC discontinued certain energy assistance programs.
 - c. Explain whether EKPC has any energy assistance programs in place, and if so, identify the same.
 - d. Explain what the two additional loans for \$17 million were taken out for, and provide all terms for each loan.
 - e. Explain in detail why there was a \$1,401,979 reduction of interest on cushion credit.
7. Refer to the Application generally. Provide a succinct list that identifies all proposed pro forma adjustments, the amount of each pro forma adjustment, along with a brief description of each adjustment.
 8. Refer to the Application generally. Provide a list that identifies all miscellaneous costs for the test year, including but not limited to Christmas dinners, gifts, donations, membership dues, annual meeting costs, etc. For each cost indicate whether it was removed from or included in the requested revenue requirement.
 9. Refer to the Application generally. Provide a list of all direct charges, allocated costs, surcharges, pass-through charges, etc., from EKPC, and any other entity, to South Kentucky RECC.

10. Refer to the Application generally. Explain in detail whether South Kentucky RECC provides any assistance program(s) for customers experiencing difficulty paying their electric bills.
11. Refer to the Application generally.
 - a. Provide a detailed explanation of how South Kentucky RECC operates its capital credit program, and ensure to discuss how the Company accounts for capital credits that cannot be provided back to the member due to the member passing away, moving, etc.
 - b. Provide the monetary amount of capital credits that South Kentucky RECC currently has on the books, separated by year.
12. Refer to the Application, page 9.
 - a. South Kentucky RECC avers that its goal is to keep rates as low as possible for its members. Provide a list of all electric utilities in Kentucky, with the corresponding monthly residential customer charge, residential volumetric charge, average bill, and rank the utilities from lowest to highest average bill. Ensure to provide all of the requested information in the response.
 - b. South Kentucky RECC asserts that it is requesting the rate case expense to be allowed recovery in the rates, and amortized over a three-year period.
 - i. Provide the total rate case expense that has been accrued thus far. Consider this a continuing request.
 - ii. Provide a breakdown of the total rate case expense that has been accrued thus far by category.

- iii. Provide copies of invoices supporting the level of incurred rate case costs to date and supply such new invoices as they become available.
- iv. Provide the estimated total rate case expense.
- v. Provide a breakdown of the estimated total rate case expense.
- vi. If South Kentucky RECC has not filed a rate case in ten years, explain why the rate case expense should be amortized in only three years.

13. Refer to the Application, Exhibit 4.

- a. South Kentucky RECC is proposing new language to the Prepay Electric Service tariff to limit the term of each agreement to one year. Explain why the Company is proposing the one year term.
- b. South Kentucky is also proposing new language to the Prepay Electric Service tariff in that if there is no electric service for 90 days or more, the electric service may be disconnected, and the member will have to reapply for electric service in order to have service restored. Explain in detail why the Company is proposing this new tariff language, and how it is helpful and/or harmful to the ratepayers.
- c. Identify how many customers are under the Residential, Farm, and Non-Farm Service (ETS), and why this special rate with no monthly customer charge is provided.
- d. Identify how many customers are under the Small Commercial Rate (ETS), and why this special rate with no monthly customer charge is provided.

- e. Explain why the Company is not requesting any of the proposed revenue increase to be applied to the Small Commercial Rate (ETS) customers.

14. Refer to the Application generally.

- a. Explain in detail whether South Kentucky RECC still has a Tariff Sheet for The People Fund.
- b. If the answer to (a) is in the affirmative, explain how the Company is complying, or intends to comply, with the affiliate transaction statutes, KRS 278.2201 to 278.2213, as required by the Commission's January 10, 2022 final Order.
- c. Explain whether South Kentucky RECC plans to file for a deviation of the affiliate transaction statutes pursuant to KRS 278.2219.

15. Refer to the Application generally, and provide the following information for all South Kentucky RECC employees:

- a. Provide the position title and salary for each salaried employee for the years 2012 – 2022.
- b. Provide the average raise that South Kentucky RECC provided to its salaried employees for the years 2012 – 2022.
- c. Provide the average bonus that South Kentucky RECC provided to its salaried employees for the years 2012 - 2022.
- d. Provide all awards given to the salaried employees for the years 2012 – 2022.
- e. Provide all vehicle allowances given to the salaried employees for the years 2012 – 2022.

- f. Provide all incentive compensation given to the salaried employees for the years 2012 – 2022.
- g. Provide the position title and wages for each non-salaried employee for the years 2012 – 2022.
- h. Provide the average raise that South Kentucky RECC provided to its non-salaried employees for the years 2012 – 2022.
- i. Provide the average bonus that South Kentucky RECC provided to its non-salaried employees for the years 2012 – 2022.
- j. Provide all awards given to the non-salaried employees for the years 2012 – 2022.
- k. Provide all vehicle allowances given to the non-salaried employees for the years 2012 – 2022.
- l. Provide all incentive compensation given to the non-salaried employees for the years 2012 – 2022.
- m. Explain in detail whether South Kentucky RECC has decided what average raise, if any, will be given to salaried and non-salaried employees for 2022, and provide the average raise.
- n. Provide a copy of all formal studies conducted that compares South Kentucky RECC's wage and benefit information to the local wage and benefit information for the geographic area in which South Kentucky RECC operates.
- o. Explain the current process of awarding wage/salary increases to union and non-union employees and/or salary and non-salaried employees.

- p. Provide a detailed explanation of the insurance benefits provided to the South Kentucky RECC employees, including but not limited to health, dental, vision, life insurance, etc. Ensure to include all premiums paid by South Kentucky RECC's employees, premiums paid by South Kentucky RECC on the employees' behalf, as well as all copays, deductibles, and maximum out of pocket amounts.

16. Refer to the Application generally.

- a. Provide a detailed explanation of all salary and benefits provided to the members of the Board of Directors during the years 2012 – 2022. Ensure to provide the salary amounts, and specific details regarding all benefit packages including but not limited to health, dental, vision, accidental death and disability, life insurance, bonuses, awards, vehicle allowances, and the like.
- b. Provide the total amount of the Board of Directors' fees for the test year.
- c. Provide a breakdown of the total amount of the Board of Directors' fees for the test year.
- d. Discuss if there will be any changes to the Board of Directors' salaries and/or benefit packages for 2022.
- e. When setting the Board of Directors' fees and benefits did South Kentucky RECC review other Kentucky rural electric cooperative Board of Directors' fees and benefits? If so, explain in detail the findings. If not, explain in detail why not.

17. Refer to the Application generally. Has South Kentucky RECC obtained and/or is the Company seeking any funds/grants from federal, state, or local sources which have been or will be made available? If so, identify the source and amount of those funds/grants. If not, and funds/grants are available for which the Company is eligible, explain why the Company is foregoing those opportunities.
18. Refer to the Direct Testimony of Kenneth Simmons (“Simmons Testimony”), page 6.
- a. Mr. Simmons states that even though there are more residential customers at the end of the test year versus in 2011, there has been a 5.8% reduction of residential kWh sales. Explain in detail if there is any reason for the reduction of kWh sales outside of energy efficient appliances and the like.
 - b. Mr. Simmons also states that right-of-way (“ROW”) management has become a significant source of increased costs, with the expense increasing 11.84% per mile between 2016 and 2020. Explain in detail why the costs have increased.
 - c. Explain what is meant by circuit-mile.
19. Refer to the Simmons Testimony, page 7.
- a. Explain in detail the process of EKPC providing revenue reimbursements to South Kentucky RECC through the energy efficiency programs.
 - b. Explain why the energy efficiency revenue from EKPC has been reduced from \$1,120,936 to \$143,354, or 87%, in 2021.
 - c. Expound on the “new technology” and “enhanced traditional technologies” that are increasing the monthly software vendor bills.

20. Refer to the Simmons Testimony, pages 8 – 9.

- a. Explain in detail how the RUS Cushion of Credit program operates, and how it provides relief to South Kentucky RECC and is beneficial to the ratepayers.
- b. Explain why RUS is phasing down the cushion of credit program, and why this will cause South Kentucky RECC to see lower interest income.
- c. Provide a breakdown of the estimated annual savings of \$727,332 associated with the Advanced Metering Infrastructure (“AMI”) technology.
- d. Provide the job title, duties, and associated salary/benefits for each of the 6 positions that were vacated and not filled in order to control costs.
- e. Mr. Simmons states that in the last year South Kentucky RECC eliminated most of the temporary staffing assistance at the office district locations, saving approximately \$180,000 a year.
 - i. Explain how many office district locations there are, and the geographical location of each.
 - ii. Provide the job title, duties, and associated salary/benefits for each of the temporary staffing assistance jobs that were eliminated.

21. Refer to the Direct Testimony of Michelle D. Herrman (“Herrman Testimony”), page 7. Ms. Herrman states that the residential kWh sales in 2011 were 824,681,500, while at the end of the test year the sales were 776,790,917. Provide the total residential kWh sales for the years 2020, 2021, and all projections for 2022.

22. Refer to the Herrman Testimony, page 8. Ms. Herrman states that Exhibit MDH-2 shows the “stripped” OTIER and MDSC for the years 2018, 2019, and 2020 without the impact of unusual items occurring during those years.

- a. Identify all items that were “stripped” from the OTIER and MDSC in Exhibit MDH-2, including the amounts of each item, and explain why they were removed.
- b. Explain in detail whether the loan covenants are dependent on actual or “stripped” OTIER and TIER.
- c. Explain how the patronage payout program works with EKPC, and ensure to discuss whether EKPC provides patronage payouts to South Kentucky RECC annually.
- d. Explain in detail how the patronage payout program works with the Cooperative Finance Corporation (“CFC”), and whether a patronage amount is provided to South Kentucky RECC each year.
- e. Explain the recapture of member bad debt process, and how it impacted the operating margins for 2020 positively.
- f. Provide the recapture of member bad debt amounts for 2015, 2016, 2017, 2018, 2019, 2020, and 2021.

23. Refer to the Herrman Testimony, page 9.

- a. Explain in detail why payment processing fees have risen.
- b. Identify the type of payments South Kentucky RECC accepts without assessing a fee.

- c. Identify the type of payments South Kentucky RECC accepts only with a fee assessment.

24. Refer to the Herrman Testimony, page 10.

- a. Ms. Herrman states that there are 5 vacant positions due to retirement and resignations, while the Company is seeking to fill one vacant position, but as aforementioned, Mr. Simmons asserted there were 6 vacant positions that were not filled and providing cost containment savings to the members. Reconcile the conflicting information.
- b. Provide the job title, duties, and salary/benefits for the one vacant position that South Kentucky RECC is seeking to fill, and explain why it is necessary to fill this position.

25. Refer to the Direct Testimony of Mr. William Seelye (“Seelye Testimony”), page 12.

- a. Provide the amount of increased labor expenses associated with wage increases that were included as a pro forma adjustment to the test year.
- b. Provide the salary increase of the South Kentucky RECC’s CEO for the test year.
- c. Provide the salary, and the salary increase, of South Kentucky’s CEO from 2012 – the present.
- d. Explain why the Board of Director election costs are \$60,000 per election, and be sure to discuss whether the Company has attempted any cost saving measures for the elections.

26. Refer to the Seelye Testimony, page 13. Explain what the non-recurring back-tax payment of \$181,484 is, and why it was removed from the test year expenses.
27. Refer to the Seelye Testimony, pages 16 – 36. Explain whether the class cost of service study was performed in line with recent Commission precedent.²
28. Refer to the Herrman Testimony, page 8, wherein she discusses the 2018 changes made to the Federal Farm Bill and the RUS Cushion of Credit Interest program. Refer also to the June 7, 2019 RUS announcement regarding changes to the RUS Cushion of Credit Program that included details about the changes in interest rates noted by Ms. Herrman as well as the ability to utilize Cushion of Credit deposit amounts to prepay RUS/FFB loans without penalty from the period of December 20, 2018, until September 30, 2020.
- a. Indicate whether South Kentucky RECC sought and/or obtained prepayment without penalty authorization for any of its RUS/FFB loans. If so, describe in detail and provide copies of all applicable correspondence between South Kentucky RECC and the RUS. If not, explain why it did not do so.
 - b. Indicate whether South Kentucky RECC considered prepayment without penalty of any RUS/FFB loans since the Cushion of Credit interest income

² See Case No. 2021-00066, *Electronic Application of Kenergy Corp. for a General Adjustment of Rates Pursuant to Streamlined Procedure Pilot Program Established in Case No. 2018-00407* (Ky. PSC June 24, 2021), Order at 11 – 12; See Case No. 2020-00131, *Electronic Application of Meade County Rural Electric Cooperative Corporation for an Adjustment in Rates* (Ky. PSC Sept 16, 2020), Order at 12 – 13; See Case No. 2020-00264, *Electronic Application of Cumberland Valley Electric, Inc. for a General Adjustment of Rates Pursuant to Streamlined Procedure Pilot Program Established in Case No. 2018-00407* (Ky. PSC Dec. 30, 2020), Order at 10 – 11; See Case No. 2020-00338, *Electronic Application of Licking Valley Rural Electric Cooperative Corporation for a General Adjustment of Rates Pursuant to Streamlined Procedure Pilot Program Established in Case No. 2018-00407* (Ky. PSC Apr. 8, 2021), Order at 10 – 12.

rate was going to be reduced to the “1-year variable treasury rate” on October 1, 2021. If so, describe in detail those considerations. If not, explain why it did not make those considerations.

- c. Provide a schedule as of March 31, 2020, December 31, 2020, and December 31, 2021, showing the RUS Cushion of Credit amounts by deposit date and in total.
- d. Confirm that there no longer remains the ability to prepay without penalty RUS/FFB loans with Cushion of Credit deposit amounts. If not confirmed, explain the response in detail.
- e. Describe in detail South Kentucky RECC’s plans regarding the utilization of the remaining RUS Cushion of Credit deposit amounts.
- f. Describe in detail if there has been some utilization of South Kentucky RECC’s RUS Cushion of Credit deposit amounts since the enactment of the 2018 Farm Bill.
- g. Describe the prepayment penalties applicable on each of the currently outstanding RUS/FFB debt issuances.

29. Refer to the Herrman Testimony, Exhibit MDH-2.

- a. Provide in electronic format, with all formulas in place, and provide all workpapers relied upon to populate the data in the exhibit.
- b. Provide the definitions of TIER, OTIER, and MDSC as used in the calculations represented.

30. Refer to the Seelye Testimony, pages 10 – 11, wherein he discusses the definition and computation of TIER utilizing the following formula:

$$\text{TIER} = \text{Interest on Debt} + \text{Net Operating Margins} / \text{Interest on Debt}$$

Refer also to the definition of TIER found in South Kentucky RECC's loan documents with the RUS. Refer also to Exhibit WSS-2, and to the proforma adjustment reducing Cushion of Credit Interest Income by \$1.402 million as calculated on Schedule 2.07. Refer finally to the statement of operations for the test year depicted in the same format as RUS reporting requirements provided in response to PSC Staff Request 1-54, page 2 of 3.

- a. Provide the actual definition of TIER as stated in South Kentucky RECC's loan documents with the RUS.
- b. Explain why Mr. Seelye relied upon "Net Operating Margins" in the numerator of the formula to determine TIER as opposed to the RUS definition of Patronage Capital or Margins in the numerator.
- c. Confirm that Mr. Seelye agrees "Net Operating Margins" is different than the RUS definition of Patronage Capital or Margins applicable to the numerator in the formula to determine TIER.
- d. Confirm that Mr. Seelye's definition depicted in testimony and in his quantifications of the deficiency is actually consistent with the RUS definition of OTIER.
- e. Confirm that the Company's test year actual RUS Cushion of Credit interest income was reported on line 22 "Non-Operating Margins – Interest" in its statement of operations for the test year.

- f. Explain why the \$1.402 million proforma adjustment (Schedule 2.07) was removed from the level of “Net Operating Margins” on Exhibit WSS-2 instead of “Non-Operating Margins – Interest,” which Mr. Seelye has excluded in his calculation of TIER.
- g. Referring to the statement of operations for the test year, explain all reasons why the amounts on Line 22 “Non-Operating Margins – Interest” should not be included as part of the numerator in the calculation of TIER and the resulting revenue deficiency. Cite to and provide a copy of all authorities relied on for your response.
- h. Referring to the statement of operations for the test year, explain all reasons why the amounts on Line 25 “Non-Operating Margins – Other” should not be included as part of the numerator in the calculation of TIER and the resulting revenue deficiency. Cite to and provide a copy of all authorities relied on for your response.
- i. Referring to the statement of operations for the test year, explain all reasons why the amounts on Line 26 “Generation & Transmission Capital Credits” should not be included as part of the numerator in the calculation of TIER and the resulting revenue deficiency. Cite to and provide a copy of all authorities relied on for your response.
- j. Referring to the statement of operations for the test year, explain all reasons why the amounts on Line 27 “Other Capital Credits & Patronage Divid.” should not be included as part of the numerator in the calculation of TIER

and the resulting revenue deficiency. Cite to and provide a copy of all authorities relied on for your response.

- k. Does Mr. Seelye believe that his definition of TIER and the calculated revenue deficiency was in error? If not, explain why not. If so, provide revised quantifications of the deficiency based on the correct calculation of TIER.
31. Refer to the statement of operations for the test year depicted in the same format as RUS reporting requirements provided in response to PSC Staff Request 1-54, page 2 of 3. Refer further to the amounts depicted on Line 26 “Generation & Transmission Capital Credits.” Refer also to the Herrman Testimony, page 8, wherein she discusses cash patronage payouts from EKPC for the years 2019 and 2020.
- a. Describe the source(s) of the “Generation & Transmission Capital Credits,” how they are determined, how often they are determined, and how they are assigned to South Kentucky RECC. Cite to and provide a copy of all authorities and source documents relied on for your response.
 - b. Does the RUS remove “Generation & Transmission Capital Credits” from the calculation of TIER to evaluate the financial condition of the cooperative? Explain in detail. Cite to and provide a copy of all authorities and source documents relied on for your response.
 - c. Provide the amounts and dates of the recorded cash patronage payouts from EKPC for the years 2019 and 2020.

- d. Provide the typical accounting entries performed to record the “Generation & Transmission Capital Credits” and the cash patronage payouts.
 - e. Provide a copy of the investment agreement between South Kentucky RECC and EKPC.
 - f. Indicate which line the cash patronage payouts are recorded upon in the statement of operations.
 - g. Do the “Generation & Transmission Capital Credits” recorded on the statement of operations typically involve cash payments in the year recorded? If not, explain how and when South Kentucky RECC expects to receive the benefits of the “Generation & Transmission Capital Credits” for each of its applicable investments.
 - h. Why did South Kentucky RECC receive the cash patronage payouts from EKPC for the years 2019 and 2020?
 - i. Describe how often South Kentucky RECC typically receives cash patronage payouts from EKPC.
32. Refer to the South Kentucky RECC balance sheet reflected in Exhibit 17 and further to the \$78.2 million “Investment in East Kentucky Power Cooperative.” Provide a breakdown of this balance between South Kentucky RECC cash investment and assigned capital credits from EKPC for each year since inception.
33. Refer to the statement of operations for the test year depicted in the same format as RUS reporting requirements provided in response to PSC Staff Request 1-54, page 2 of 3. Refer also to the Herrman Testimony, page 8, wherein she discusses payouts from the CFC for the years 2018, 2019, and 2020.

- a. Describe the source(s) of the CFC payouts received, how they are determined, and how often they are determined.
 - b. Provide the amounts and dates of the recorded payouts from the CFC for the years 2018, 2019, and 2020.
 - c. Provide an illustration of the typical accounting journal entries performed to record the payouts from the CFC by RUS account and the calculation(s), if any, that enter into the journal entries as and when recorded.
 - d. Indicate which line the CFC payouts are recorded upon in the statement of operations.
 - e. Explain in detail whether the CFC payouts typically involve cash payments.
 - f. Why did South Kentucky RECC receive the payouts from the CFC for the years 2018, 2019, and 2020?
 - g. Describe how often South Kentucky RECC typically receives similar payouts from the CFC.
34. Refer to Exhibit 17, page 18 of 23, which contains the Notes to the Financial Statements Note N - Subsequent Event in regards to the \$44 million long-term debt funding agreement entered into with the RUS in February 2021. Provide a list of all draws from this new funding agreement through December 2021, and all that the Company has budgeted or expects in the first six months of 2022.
35. Provide a trial balance with all balance sheet and income statement accounts and subaccounts for each month from January 2019 through December 2021 and each month thereafter for which actual information is available, and as actual information for each subsequent month is available throughout the pendency of this

- proceeding. The income statement revenue and expense amounts provided should be amounts by month and not year to date. Consider this a continuing request.
36. Refer to Schedule B-1, page 1, which shows the debt issues outstanding as of December 31, 2020. Provide a schedule in similar format of all debt issues outstanding at the end of each month from March 2020 through December 31, 2021, and each month thereafter as actual information for each subsequent month is available throughout the pendency of this proceeding. Consider this a continuing request.
37. Provide a list of all loan agreements that the Company had outstanding with each of its lenders in 2019, 2020, and 2021, and provide a copy of each agreement. For each agreement and lender, identify and provide the formula/calculation for each required financial metric, e.g., TIER, DSC, OTIER, equity ratio, etc. necessary for the Company to remain in compliance with the terms of the agreement.
38. Refer to the immediately preceding question and the financial metrics required by each agreement and lender. Provide a schedule providing the calculation and showing each of the financial metrics actually achieved for each calendar year from 2017 through 2021.
39. Provide a copy of the Company's 2019, 2020, and 2021 budgets/forecasts and the Company's actual results in a side-by-side comparison for each income statement and balance sheet account by trial balance account on a monthly basis and year to date basis. Provide an explanation for significant variances.
40. Provide a copy of the depreciation study that was filed by the Company in Case No. 2011-00096, and provide a copy of any other analysis generated as a result of

the Commission's Order in Case No. 2011-00096 to the extent there are any differences and/or additional pages when compared to the depreciation study itself.

41. Confirm that the depreciation rates presently used and reflected in the Company's per book and adjusted depreciation expense in the filing are those depreciation rates approved by the Commission in Case No. 2011-00096.

42. Refer to Exhibit WSS-5, pdf page 217, which provides a table entitled "Analysis of Depreciation Rates" and shows a 30 year proposed service life and a depreciation rate of 3.367% for account 370 meters. Refer also to Exhibit WSS-5, pdf page 219, which provides a table entitled "Analysis of Change in Depreciation Rates" and shows depreciation expense of \$404,083.01 calculated using a depreciation rate of 3.367% for account 370 meters. Refer also to Exhibit WSS-5, pdf page 210, for account 370 meters (incorrectly referred to as account 379) that recommends a 20 year life. Finally, refer to Exhibit WSS-5, pdf page 211, which provides a table entitled "Summary of Depreciation Rates" and shows a proposed depreciation rate of 5.050% for account 370 meters.

- a. Provide all evidence relied on for the 30 year life.
- b. Provide all evidence relied on for the 20 year life.
- c. Provide all reasons for relying on the 20 year life in the proposed depreciation rates, while utilizing a 30 year life in the actual depreciation study. To the extent there was a catalyst for this change in service life, such as a discussion between Ms. Herrman and Mr. Seelye and/or any other person(s) at the Company and Mr. Seelye, then provide a description of that

discussion and all documentation prepared contemporaneously or otherwise.

43. Refer to Exhibit WSS-4, Schedule 2.03.
- a. Provide a schedule showing the beginning balance of the uncollectible accounts reserve, bad debt expense, bad debt recoveries (recapture), and ending balance uncollectible accounts reserve for each calendar year 2011 through 2021 and each month during calendar years 2020 and 2021.
 - b. Describe the reasons for and sources of the \$1.491 million recapture in the test year. In addition, provide the accounting journal entries and a copy of all authorizations from the RUS and/or all other government agencies and all documentation seeking such authorizations and/or the Company's decision to make the accounting journal entries.
44. Refer to Exhibit WSS-4, Schedule 2.05. If the three programs shown on this schedule were terminated and the Company no longer receives reimbursement from EKPC, then explain why the Company does not have a reduction to the expense of the programs of an equivalent amount, all else equal.
45. Refer to Exhibit WSS-4, Schedule 2.01. Provide copies of all workpapers utilized to populate the amount of test year annual wages and salaries in line 1 and for the various adjustments listed in lines 2-4. Provide in electronic format with all formulas in place.
46. Refer to Exhibit WSS-4, Schedule 2.08, which details the LTD interest expense proforma adjustment. Refer also to Exhibit 3, Schedule B-1, page 2, which

provides the actual test year LTD interest expense and annualized interest expense by debt issue.

- a. Provide the calculation of the interest amounts for the two 2020 first half issuances in electronic format with all formulas in place.
- b. Explain the notation concerning the addition of Section 9 interest on Schedule 2.08. In addition, explain whether this is an addition to LTD interest expense in addition to the coupon rate of interest.
- c. Exhibit 3, Schedule B-1, lists the interest rate associated with the February 2020 issuance of \$5,000,000 as 1.938%, or \$96,900 on an annualized basis. The interest expense added as a proforma adjustment for this issuance on Schedule 2.08 is \$116,116. Explain all reasons for the difference.
- d. Exhibit 3, Schedule B-1 lists the interest rate associated with the March 2020 issuance of \$12,000,000 as 1.118%, or \$134,160 on an annualized basis. The interest expense added as a proforma adjustment for this issuance on Schedule 2.08 is \$168,983. Explain all reasons for the difference.
- e. Indicate whether the amount outstanding for each loan on Exhibit 3, Schedule B-1, page 2, is the balance as of March 31, 2020. If not, explain the response in detail.
- f. Explain all reasons why the proforma adjustment for LTD interest expense was not based on the annualization of the interest calculated upon March 31, 2020 loan balances as opposed to the annualization of only the two new issuances near the end of the test year and with no regard for loans paid down or paid off during the test year.

- g. Exhibit 3, Schedule B-1, lists interest expense recorded in the test year of \$14,937.02 associated with the February 2020 issuance of \$5,000,000. Explain why this amount was not removed from the proforma adjustment to reflect an increase in interest expense for this debt issuance.
47. Refer to the Simmons Testimony, pages 6 – 7, concerning the Company’s ROW management clearing costs.
- a. Provide the actual circuit miles trimmed and the amounts incurred by FERC account/subaccount for each of the referenced years 2016 through 2020, and for each month in 2021 with available information.
 - b. Provide copies of the recent contracts entered with price structures between \$3,356 to \$9,969 per mile of line.
 - c. Explain all reasons for the wide disparity in costs per mile between the \$3,356 per mile and the \$9,969 per mile in the recent contracts for ROW line clearing.
 - d. Starting in 2022, what percentage of the Company’s ROW line clearing costs is expected to be under the umbrella of the new style of contracts?
 - e. Describe the Company’s circuit trimming plan in effect for each year 2016 through 2021 and in future years. In other words, has there been a stated multi-year cycle goal maintained by the Company in the recent past and will that continue into the near future?
 - f. Provide the names of the current ROW contractors applicable to the new style of contracts and the ones under the older style of contracts.

48. Refer to the Simmons Testimony, page 8, lines 17 – 18, concerning the reduction in meter reading expenses due to the implementation of the AMI technology, saving an estimated \$727,332 annually. Provide the amount of meter reading expenses for each year 2016 through 2021. In addition, provide the amounts of costs considered each year for the estimated savings amount cited.
49. Refer to the Simmons Testimony, page 8, lines 22 – 23, concerning the elimination of most of the Company's temporary staffing assistance for the district offices, saving \$180,000 per year. Provide the amount of temporary staffing assistance costs for each year 2016 through 2021. In addition, provide the amounts of costs considered each year for the estimated savings amount cited.
50. Refer to Exhibit MDH-2 and the 1.25 TIER benchmark displayed. Provide the source for the 1.25 benchmark, including a copy of all authorities relied on for this benchmark.
51. Refer to Exhibit MDH-2 and the 1.10 OTIER benchmark displayed. Provide the source for the 1.10 benchmark, including a copy of all authorities relied on for this benchmark.
52. Refer to Exhibit MDH-2 and the 1.25/1.35 MDSC benchmark displayed. Provide the source for the 1.25/1.35 benchmark, including a copy of all authorities relied on for this benchmark.
53. Refer to the Application, Exhibit 23. Provide the monthly management reports for each month starting with December 2020 and going through each month during 2021.

54. Provide a copy of page one of the December CFC Form 7 filings for each of the years 2016 through 2021. If 2021 is not yet available, indicate when it will be available.
55. Provide a copy of the 2019 and 2020 CFC Form 7 filings made by the Company.
56. Refer to Schedule 2.10, annualization of year end customers.
- a. Provide the average cost of purchased power expense per kWh for the test year for each tariff. Provide the calculations in live Excel format with all formulas intact. Source the data used in the calculations.
 - b. Explain why the Company did not offset the incremental revenues with the incremental purchased power expense instead of calculating the offset using an operating ratio approach.
 - c. Confirm that the margins per kWh from each tariff differ based on the average revenue per kWh less the average purchased power expense per kWh for each tariff.
57. Refer to Schedule 2.15.
- a. Confirm that the Company records the negative of the difference between the FAC revenues and expense in its receivables rather than through a deferred expense journal entry offset by a regulatory asset or regulatory liability.
 - b. Provide the accounting journal entries to record the negative of the difference each month during the test year and provide the month end balance reflected in the receivables.

- c. Explain conceptually why the removal of the FAC revenues and expense from the test year should net to \$0 under accrual accounting.

58. Refer to Schedule 2.15.

- a. Confirm that the Company records the negative of the difference between the ES revenues and expense in its receivables rather than through a deferred expense journal entry offset by a regulatory asset or regulatory liability.
- b. Provide the accounting journal entries to record the negative of the difference each month during the test year and provide the month end balance reflected in the receivables.
- c. Explain conceptually why the removal of the ES revenues and expense from the test year should net to \$0 under accrual accounting.