

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 RESPONSE TO THE COMMISSION STAFF'S
FIRST REQUEST FOR INFORMATION**

The intervenor, the Attorney General of the Commonwealth of Kentucky, through his Office of Rate Intervention, submits the following response to the Commission Staff's First Request for Information in the above-styled matter.

Respectfully submitted,

DANIEL J. CAMERON
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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 April 1, 2022, and there are currently no parties that the Commission has excused from participation by electronic means in this proceeding.

This 1st day of April, 2022.



Assistant Attorney General

Electronic Application Of South Kentucky Rural Electric Cooperative Corporation
For a General Adjustment of Rates, Approval of Depreciation Study, and Other General Relief
Case No. 2021-00407
Attorney General's Response to the Commission Staff's First Request for Information

WITNESS RESPONSIBLE:
LANE KOLLEN

QUESTION No. 1
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Refer to the Direct Testimony of Lane Kollen (Kollen Testimony), pages 11-12, 14-16, and 18. Explain why generation and transmission capital credits income should be credited to customers through the Fuel Adjustment Clause, but capital credits and dividends from other organizations should be included in base rates.

RESPONSE:

Mr. Kollen's recommendation is to refund the capital credits that are retired and paid by East Kentucky Power Cooperative ("EKPC") to the Company's customers through the Fuel Adjustment Clause ("FAC"). The primary reason is that the Generation and Transmission ("G&T") capital credits that are retired and paid by EKPC are more sporadic and potentially greater than the capital credits and dividends from other organizations, such as the Cooperative Finance Corporation ("CFC"). In addition, the Company recovers the costs charged by EKPC through the FAC, but recovers the costs of other organizations through base rates. Finally, the capital credits income from EKPC is maintained in a separate account by the distribution cooperative both for income statement and balance sheet purposes, but there is no present directive to flow-through the credits that are retired and paid by EKPC to the Company's customers who paid the FAC rates that generated the capital credits income and the capital credits that are retired and paid by EKPC.

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WITNESS RESPONSIBLE:
LANE KOLLEN

QUESTION No. 2
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Refer to the Kollen Testimony, page 30. Provide the basis for the assumption that prepayment penalties will be equal to one year of interest expense on the loans.

RESPONSE:

Mr. Kollen relied on 7 CFR § 1786.207 Prepayment Premium. Refer to attachment for marked up copy of this provision.

Displaying title 7, up to date as of 2/28/2022. Title 7 was last amended 2/28/2022.

Title 7 - Agriculture

Subtitle B - Regulations of the Department of Agriculture

Chapter XVII - Rural Utilities Service, Department of Agriculture

Part 1786 - Prepayment of RUS Guaranteed and Insured Loans to Electric and Telephone Borrowers

Subpart G - Refinancing and Prepayment of RUS Guaranteed FFB Loans Pursuant to Section 306(C) of the RE Act

§ 1786.207 Prepayment premium.

- (a) A premium shall be assessed against a borrower that refinances or prepays a loan or loan advance, or any portion of a loan or advance, under this section. RUS will collect the prepayment premium as calculated by FFB. FFB will calculate this premium as described in this section. Except as provided in paragraph (b) of this section, the premium shall be equal to the lesser of:
- (1) The difference between the outstanding principal balance of the loan being refinanced and the present value of the loan discounted at a rate equal to the then current cost of funds to the Department of the Treasury for obligations of comparable maturity to the loan being refinanced or prepaid;
 - (2) 100 percent of the amount of interest for 1 year on the outstanding principal balance of the loan or loan advance, or any portion of the loan or advance, being refinanced, multiplied by the ratio that:
 - (i) The number of quarterly payment dates between the date of the refinancing or prepayment and the maturity date for the loan advance; bears to
 - (ii) The number of quarterly payment dates between the first quarterly payment date that occurs 12 years after the end of the year in which the amount being refinanced was advanced and the maturity date of the loan advance; and
 - (3)
 - (i) The present value of 100 percent of the amount of interest for 1 year on the outstanding principal balance of the loan or loan advance, or any portion of the loan or advance, being refinanced or prepaid; plus
 - (ii) For the interval between the date of the refinancing or prepayment and the first quarterly payment date that occurs 12 years after the end of the year in which the amount being refinanced or prepaid was advanced, the present value of the difference between:
 - (A) Each payment scheduled for the interval on the loan amount being refinanced or prepaid; and
 - (B) The payment amounts that would be required during the interval on the amounts being refinanced or prepaid if the interest rate on the loan were equal to the then current cost of funds to the Department of the Treasury for obligations of comparable maturity to the loan being refinanced or prepaid.
- (b)
- (1) Except as provided in paragraph (b)(2) of this section, the premium provided by paragraph (a)(1) of this section shall be required for refinancing or prepayment under this section.
 - (2) In the case of a loan advanced under an agreement that permits the refinancing or prepayment of the loan advance based on the payment of 1 year of interest on the outstanding principal balance of the loan advance, a borrower may, in lieu of the premium required by paragraph (a)(1) of this section, pay a premium as provided by:
 - (i) Paragraph (a)(2) of this section, if the loan advance has reached the 12-year maturity required under the loan agreement for the refinancing or prepayment; or
 - (ii) Paragraph (a)(3) of this section, if the loan advance has not reached the 12-year maturity required under the loan agreement for the refinancing or prepayment.

AFFIDAVIT

STATE OF GEORGIA)


COUNTY OF FULTON)

LANE KOLLEN, being duly sworn, deposes and states: that the attached are his sworn responses and that the statements contained are true and correct to the best of his knowledge, information and belief.



Lane Kollen

Sworn to and subscribed before me on this
1st day of April 2022.



Notary Public

