

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

REBUTTAL TESTIMONY OF MICHELLE D. HERRMAN,
VICE PRESIDENT OF FINANCE AND MEMBER SERVICES, ON BEHALF OF
SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION

Filed: April 13, 2022

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2021-00407

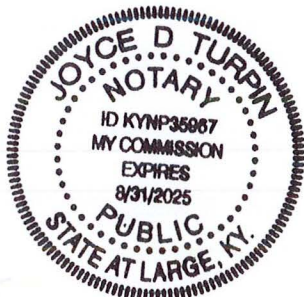
VERIFICATION OF MICHELLE D. HERRMAN

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF PULASKI)

Michelle D. Herrman, Vice-President of Finance and Member Services of South Kentucky Rural Electric Cooperative Corporation, being duly sworn, states that she has supervised the preparation of her Rebuttal Testimony in the above-referenced case and that the matters and things set forth therein are true and accurate to the best of her knowledge, information and belief, formed after reasonable inquiry.

Michelle D. Herrman
Michelle D. Herrman

The foregoing Verification was signed, acknowledged and sworn to before me this 12th day of April, 2022, by Michelle D. Herrman.



Joyce D. Turpin
Commission expiration: Aug 31, 2025

1 **Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.**

2 A. My name is Michelle D. Herrman and I serve as Vice President of Finance and Member
3 Services for South Kentucky Rural Electric Cooperative Corporation (“South Kentucky”
4 or the “Cooperative”). My business address is 200 Electric Avenue, Somerset, Kentucky
5 42501.

6 **Q. DID YOU SUBMIT DIRECT TESTIMONY IN THIS PROCEEDING?**

7 A. Yes.

8 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY.**

9 A. The purpose of my testimony is to rebut the direct testimony of Lane Kollen who is
10 testifying on behalf of the Office of the Attorney General of the Commonwealth of
11 Kentucky. Specifically, I will rebut several of Mr. Kollen’s proposed adjustments in this
12 proceeding, including: (1) his adjustment in operating expenses for temporary staffing
13 assistance, (2) his adjustment to remove a capitalized portion on South Kentucky’s salaries
14 and wages adjustment, (3) his adjustment to reflect annual of long-term debt interest
15 expenses, (4) his adjustment in which he proposes to use the cushion of credit to repay
16 RUS/FFB debt. Additionally, I will provide information that refutes his claims regarding
17 the Cooperative’s treatment of the EKPC cash capital credit payouts from 2019 and 2020.

18

19 **ASSERTION II. B- ELIMINATE TEMPORARY STAFFING ADJUSTMENT**

20 **(KOLLEN TESTIMONY PAGES 8-9)**

21 **Q. MR. KOLLEN PROPOSES TO REDUCE OPERATING EXPENSES BY \$107,000**
22 **TO REFLECT THE ELIMINATION OF TEMPORARY STAFFING**
23 **ASSISTANCE. DO YOU AGREE WITH THIS ADJUSTMENT?**

1 A. No. Mr. Kollen is proposing to reduce South Kentucky’s operating expenses to reflect an
2 extraordinary reduction in temporary staffing by South Kentucky during the COVID-19
3 pandemic. As explained in Mr. Seelye’s rebuttal testimony, the purpose of establishing a
4 test year for the determination of revenue requirements in a rate case is to develop costs
5 that are reasonable on a going-forward basis. Mr. Kollen’s proposal to reduce operating
6 expenses to reflect a short-term and extraordinary reduction in the use of temporary
7 employees violates this fundamental principle.

8 **Q. DOES MR. KOLLEN INCORRECTLY ASSUME THAT SOUTH KENTUCKY**
9 **HAS NO FUTURE OR ON-GOING NEED FOR THE TEMPORARY STAFFING**
10 **EXPENSES INCLUDED IN TEST YEAR OPERATING EXPENSES?**

11 A. Yes. In support of his position, Mr. Kollen refers to a statement made in Mr. Simmons’
12 direct testimony indicating that the use of temporary staffing resulted in savings to South
13 Kentucky.¹ Mr. Kollen takes Mr. Simmons’ testimony out of context and mischaracterizes
14 Mr. Simmons’ testimony. In Mr. Simmons’ testimony, he is describing significant
15 extraordinary and temporary cost-containment measures the Cooperative had taken to
16 avoid increasing its rates during the COVID-19 pandemic and financial crisis.
17 Discontinuing the use of the temporary staffing assistance was one extraordinary measure
18 that South Kentucky pursued to reduce expenses, but was not meant to be a permanent
19 elimination.

20 South Kentucky ended its use of temporary staffing assistance at our office
21 locations strictly due to the onset of COVID-19 and the Government mandated closures
22 and safety measures. During COVID-19, office lobbies were closed, and doors were

¹ See Direct Testimony of Lane Kollen at page 8 and Direct Testimony of Ken Simmons at page 8.

1 locked. Members were served by phone or in our drive-thru stations, thus allowing for
2 temporary reduced staffing. Additionally, as with the Government mandated closures, the
3 Commission also issued Order in Case No. 2020-00085 that allowed for members to forego
4 paying their electric bills while continuing to maintain service without disconnection or
5 penalties. This order greatly impacted our cash flows and reduced the number of customer
6 visits to our office locations. South Kentucky continued to keep its lobbies closed until
7 July 2021. When they reopened, South Kentucky was forced to close its offices during the
8 lunch hour at three of its locations due to the absence of the temporary staffing.

9 **Q. WILL SOUTH KENTUCKY RESUME THE USE OF TEMPORARY STAFFING?**

10 A. Yes. South Kentucky will resume the use of temporary staffing at its district office
11 locations based upon members' needs, and when South Kentucky's financial ability permit
12 it to do so. The use of the temporary staffing assistance provides an important safety
13 measure to ensure that no employee is left in the office alone, while also providing quality
14 service to our members.

15 **Q. SHOULD MR. KOLLEN'S PROPOSED ADJUSTMENT BE REJECTED?**

16 A. Yes. Mr. Kollen's adjustment is not reflective of costs on a going forward basis and should
17 be rejected.

18
19 **ASSERTION C- CORRECT WAGES AND SALARIES ANNUALIZATION TO**
20 **REMOVE CAPITALIZED PORTION (KOLLEN TESTIMONY PAGES 9-10)**

21
22 **Q. HOW DID SOUTH KENTUCKY CALCULATE THE WAGES AND SALARIES**
23 **ADJUSTMENT REFERENCED IN MR. KOLLEN'S PROPOSED REDUCTION**

1 **RECOMMENDATION IN THE EXHIBIT TO HIS TESTIMONY?**

2 A. South Kentucky calculated the Wages and Salaries adjustment by using the differences in
3 budgeted amounts for the years 2019, 2020, 2021.

4 **Q. DO THESE BUDGETED AMOUNTS INCLUDE OVERTIME EXPENSE**
5 **ESTIMATES?**

6 A. No.

7 **Q. DO THESE BUDGET AMOUNTS REFLECT THE FINAL ACTUAL YEAR**
8 **ACTIVITY?**

9 A. No. These budgeted amounts are used in our budget preparation and are not inclusive of
10 the full 12 months of the year’s actual results. They are typically based upon shorter
11 periods as available for budget preparation.

12 **Q. CAN THESE BUDGET AMOUNTS DIFFER FROM ACTUAL?**

13 A. Yes.

14 **Q. HOW DID MR. KOLLEN DETERMINE THE PERCENTAGES OF**
15 **CAPITALIZED SALARIES AND WAGES FOR 2019 AND 2020?**

16 A. He utilized our responses to the Attorney General’s Second Data Request, Question 35.
17 The capitalized percentages utilized by Mr. Kollen relates to an overall annual
18 capitalization percentage based upon regular labor only. It does not include both regular
19 labor and overtime labor.

20 **Q. IF THAT SAME CAPITALIZATION PERCENTAGE WAS CALCULATED**
21 **USING REGULAR LABOR AND OVERTIME LABOR, WOULD THE**
22 **RESULTING PERCENTAGE CHANGE?**

1 A. Yes. The addition of overtime labor would reduce the amount of capitalized labor
2 percentage. Overtime labor is primarily expensed because the majority of overtime work
3 is performed to provide immediate restoration of power due to weather or accident outages
4 or afterhours reconnection requests.

5 **Q. IS IT REASONABLE TO USE AN OVERALL ANNUAL AVERAGE TO**
6 **DETERMINE A MONTH BY MONTH MEASURE OF THE REALIZED**
7 **CAPITALIZATION PERCENTAGE AS MR. KOLLEN HAS DONE?**

8 A. No. Construction work that is accomplished and capitalized is primarily performed in the
9 months when the weather best allows this type of work. Therefore, capitalization of labor
10 rates will vary from month to month.

11 **Q. DO ALL EMPLOYEES CAPITALIZE THE SAME AMOUNT OF LABOR?**

12 A. No. Each position is unique and the capitalized portion, if any, would vary by job position.

13 **Q. IS THE ADJUSTMENT PROPOSED BY MR. KOLLEN REASONABLE?**

14 A. No. As explained above, each day, week, month, and year present unique situations that
15 will affect the capitalized portion of labor. South Kentucky should not be bound by an
16 estimate that is not known. Similarly, regardless of capitalization, the wage expense is a
17 cost that requires cash resources to pay. The costs of increased labor are known and
18 measurable and represents a revenue need to meet the expense. Therefore, the costs that
19 are presented as the Wages and Salaries adjustment are reasonable and should be included
20 as presented in South Kentucky's original request. Because Mr. Kollen used a
21 generalized capitalization percentage that is based on regular labor only, and thus does not
22 include both regular labor and overtime labor, Mr. Kollen's proposed adjustment is flawed
23 and should be rejected.

1 **ASSERTION IV A- LONG-TERM DEBT INTEREST WAS NOT ANNUALIZED**
2 **CORRECTLY (KOLLEN TESTIMONY PAGES 18-20)**

3
4 **Q. WOULD YOU PLEASE SUMMARIZE YOUR ASSESSMENT FOR EACH OF**
5 **THE FOUR (4) ADJUSTMENTS PROPOSED BY MR. KOLLEN RELATED TO**
6 **LONG-TERM DEBT ANNUALIZATION?**

7 A. Yes. The four adjustments are discussed below:

8 **ADJUSTMENT 1- Double Count of Interest Expense For Feb 2020 Issuance-**

9 This amount is related to loan FFB 5-6 issued in February 2020. This amount was paid
10 on March 31, 2020. This amount includes the interest payment due March 31, 2020 of
11 \$14,031.97, plus the section 9 interest of \$905.05. We do not agree with this reduction to
12 WSS-4, schedule 2.08, as explained in the discussion of Adjustment 4, below.

13 **ADJUSTMENT 2- Reflect Annualization of March 31, 2020 Debt-**

14 We do not agree with the premise of this adjustment. The annualization based upon the
15 March 31, 2020 end of test year principal balances negates the principle of utilizing a test
16 year as the basis for the determination of our revenue requirements. The annualization of
17 long-term debt would most certainly require an adjustment that would include future
18 borrowing.

19 South Kentucky has entered into a work plan loan obligation with the Federal
20 Financing Bank, a note execution FFB KY 0054-BE48, in the amount of \$44,000,000, as
21 recorded on its financial records as of September 30, 2020. If an adjustment is made to
22 annualize long term debt based upon March 31, 2020, certainly the estimated annualization
23 based upon the additional \$44,000,000 should be made. Of this \$44,000,000, it is known

1 that South Kentucky drew down a portion of this funding. A note in the amount of
2 \$10,000,000 at 1/20/2022 at an interest rate of 2.098%, with a maturity of 32 years.

3 Ultimately, the interest expenses included in South Kentucky's revenue
4 requirements are conservative and less than what they will be on a going forward basis.

5 **ADJUSTMENT 3- Interest Expense Annualization Error for New Debt Issues-**

6 We agree with the reduction of \$15,941, as acknowledged in our response to the Attorney
7 General's First Data Request Question 46(d).

8 **ADJUSTMENT 4- Correct Further Company Interest Expense Annualization**
9 **for New Debt Issues-**

10 We agree with the adjustment to remove \$14,031.97, with the addition of \$905.05 for
11 section 9 interest for a total of \$14,937, as this was paid on March 31, 2020 and is included
12 in the test year interest expense.

13 We also do agree with the removal of the accrual of \$2,940.49, but not for the
14 reason given by Mr. Kollen. We agree with the removal because this amount is included
15 in the payment amount noted for June 30, 2020.

16 In total, we agree to the reduction of \$17,877.51 for adjustment 4.

17 **Q. DO YOU REJECT MR. KOLLEN'S PROPOSED REDUCTION OF LONG-TERM**
18 **DEBT IN THE COMBINED AMOUNT OF (\$0.534 million)?**

19 A. Yes.

20 **Q. PLEASE SUMMARIZE YOUR REQUESTED ADJUSTMENT TO WSS-4,**
21 **SCHEDULE 2.08.**

22 A. We would request a revision to WSS-4, Schedule 2.08 as follows:

Schedule 2.08 Adjustment to Reflect New Loans						
1	Additional Borrowing in First Half of 2020					\$ 17,000,000.00
	February 2020 (FFB 5-6)	\$5,000,000	1.94%	Plus Sec 9 int		\$ 116,116.08
	March 2020 (FFB 5-7)	\$12,000,000	1.12%	Plus Sec 9 int		\$ 168,982.86
3	Annual Increase in Interest Expenses					\$ 285,098.94
				Less FFB 5-7 adjustment Acknowledged in AG1- 46d		\$ (15,941.00)
				Less FFB 5-6 adjustment (AG Testimony Adjustment 4)		\$ (17,877.51)
4	Revised Annual Increase in Interest Expenses					\$ 251,280.43

1

2

This is a reduction of (\$33,819) or (\$67,637) based upon a 2.0 TIER calculation.

3

4

ASSERTION IV B- LONG-TERM DEBT INTEREST IS EXCESSIVE DUE TO

5

COMPANY’S FAILURE TO USE ITS RUS CUSHION OF CREDIT DEPOSITS TO

6

REPAY OUTSTANDING LONG-TERM DEBT WITHOUT PENALTY (KOLLEN

7

TESTIMONY PAGES 22-33)

8

**Q. DOES MR. KOLLEN CORRECTLY CHARACTERIZE THE COOPERATIVES’
DECISION TO REMAIN IN THE CUSHION OF CREDIT PROGRAM?**

9

10

A. No. On page 23 of Mr. Kollen’s testimony, he suggests that South Kentucky knew that changes to the RUS Cushion of Credit Program enacted in 2018, would change the interest rate to “nearly 0%.”² He wants the reader to believe that the change in the percentage rate will remain at this level for all periods in the future. He chooses this reference instead of the fact that the interest rate will reset annually on October 1 at the then one-year U.S. Treasury rate, which has historically averaged 2.86%.³

11

12

13

14

15

16

Similarly, he erroneously claims that the Cooperative “knew” that the interest rate would be at .09% on October 1, 2021, and be the rate temporarily established for the period

17

² Kollen Testimony, Page 23, lines 7-8.

³ https://ycharts.com/indicators/1_year_treasury_rate.

1 of October 1, 2021 through September 30, 2022.⁴ South Kentucky did not know, nor was
2 it possible for South Kentucky to know, what the temporary interest rate would be on
3 October 1, 2021 or any other date. Obviously, neither does Mr. Kollen know in advance
4 what prevailing interest rates will be in the future. When Mr. Kollen was asked, “Does Mr.
5 Kollen know what the interest rate will be on October 1, 2022,” he responds, “No, nor does
6 the Company.”⁵ It is disingenuous for Mr. Kollen to play “Monday morning quarterback”
7 by claiming that South Kentucky should have perfect foresight, when he acknowledges
8 that he possesses no such foresight.

9 This interest rate is temporary and will change. No one could have
10 predicted a pandemic that would last more than two years, or any other event that could
11 impact interest rates. If the interest rate were set based upon the one-year treasury interest
12 rate for April 1, 2022, that rate would be 1.72%.⁶ This is an increase over the October 1,
13 2021 rate of more than 1,811.00 basis points.

14 Mr. Kollen attempts to marginalize South Kentucky’s Net Present Value
15 Analysis provided in response to the Staff’s discovery⁷. He wants to make the reader
16 believe that there was no basis for the assumptions used. However, there was a clear
17 basis for each assumption.

⁴ Kollen Testimony, Page 25, line 19; Page 28, line 3; Page 29, line 1.

⁵ Attorney General’s Response to South Kentucky RECC’s First Request for Information, Question No. 13, Page 1 of 1.

⁶ https://ycharts.com/indicators/1_year_treasury_rate.

⁷ Staff’s Third Data Request, Question 8.

1 1. The discount rate of 5.74% is based upon the weighted average cost of
2 capital as found in the provided cost of service study, return on net investment.⁸ The
3 5.74% represents the rate of return on net cost investment. As Mr. Kollen should know,
4 it is standard practice in the industry to use rate of return on net investment as a discount
5 rate in present value revenue requirement analysis.

6 2. The interest rate assumption is based upon the actual historical average. The
7 historical average is actually very conservative when considering that historically, the
8 one-year treasury rate yield has reached upwards of 17.31%⁹.

9 The Net Present Value Analysis was prepared with a solid basis for its
10 assumptions. The conservative Net Present Value Analysis provides sound support for the
11 Cooperative's decision to maintain the cushion of credit.

12 **Q. SOUTH KENTUCKY PROVIDED A PRESENT VALUE ANALYSIS THAT**
13 **SUPPORTS THE REASONABLENESS OF MAINTAINING ITS CUSHION OF**
14 **CREDIT. DID MR. KOLLEN PROVIDE HIS OWN PRESENT VALUE**
15 **ANALYSIS?**

16 A. No.

17 **Q. MR. KOLLEN SUGGESTS THAT THE COMMISSION SHOULD DIRECT THE**
18 **COMPANY TO USE THE ENTIRETY OF THE FUNDS ON DEPOSIT WITH THE**
19 **RUS TO REPAY ITS HIGHEST COST LONG-TERM DEBT. IS THIS POSSIBLE?**

20 A. No. Using funds in the cushion of credit to prepay any of its current long-term debt would
21 require that the Cooperative pay off all of it RUS and FFB long-term debt. Similarly, the

⁸ Direct Testimony of William Steven Seelye, Exhibit WSS-8, Page 21.

⁹ https://ycharts.com/indicators/1_year_treasury_rate.

1 Cooperative would need to exit the RUS Borrowers Program if it did so. If the Commission
2 directed the Cooperative to do as Mr. Kollen suggests, it would be punitive to the
3 Cooperative and its members both current and future. Please see the email exchange at
4 MDH-RT-1.

5 **Q. SHOULD THERE BE A REDUCTION IN THE COOPERATIVE’S REVENUE**
6 **REQUIREMENT BECAUSE IT MADE A SOUND BUSINESS DECISION TO**
7 **MAINTAIN FUNDS WITHIN THE CUSHION OF CREDIT PROGRAM?**

8 A. No.

9
10 **ASSERTION E- THE COMPANY EXCLUDED EKPC CAPITAL CREDITS**
11 **INCOME FROM CALCULATION OF REQUESTED BASE RATE INCREASE.**

12
13 **Q. DID THE COOPERATIVE “SIMPLY RETAIN” THE EKPC CAPITAL CREDIT**
14 **CASH PAYMENTS THAT WERE PAID OUT IN 2019 AND 2020?**

15 A. Absolutely not.

16 Mr. Kollen claims that South Kentucky retained the EKPC capital credits and did
17 not return them. In fact, he erroneously states that the Company “simply retained them.”¹⁰
18 When asked if the retirements of capital credits in the years 2020 and 2021 included any
19 retirement of EKPC Capital credits, he stated:

20 In any event, these questions go to factual matters within the
21 Company’s knowledge and control, and not within Mr. Kollen’s
22 knowledge and control, except to the extent the information is

¹⁰ Kollen Testimony, Page 17, line 19.

1 available in this proceeding or in another publicly available
2 source.¹¹

3 While there were multiple sources to document that the Cooperative absolutely did
4 in-turn retire the EKPC Capital Credits, one readily publicly available and reliable source
5 is Kentucky Living Magazine. Please see the attached inserts from the Kentucky Living
6 Magazine as MDH-RT-2, announcing the retirements of Capital Credits and the references
7 to the years being retired for South Kentucky and the related years for EKPC.

8 Furthermore, as is standard practice within the industry, cooperative capital credits
9 are allocated to members based upon their prorated share of revenues provided in a given
10 year that margins are produced. These capital credits are allocated annually to the
11 member's capital credit account. The same is true for the EKPC capital credits that may
12 be earned annually. Records are maintained for each member with the EKPC capital credit
13 balance. Again, this illustrates Mr. Kollen's lack of experience working with distribution
14 cooperatives.

15 When EKPC retired the Capital Credits for the years 1958-1975, there was no
16 question that the Cash Capital Credits would not be returned to the member. In 2020, the
17 Cooperative provided a general retirement distribution that included the \$201,317.92 of
18 EKPC Capital Credits. Similarly, in 2021, the Cooperative provided a general retirement
19 distribution that included \$720,778.97.

20 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

21 **A. Yes.**

¹¹ Attorney General's Response to South Kentucky RECC's First Request for Information, Question No. 12, Page 1 of 1.

Rebuttal Exhibit MDH-1

RUS Email

From: [SM.RD.NFAOC.TESB](#)
To: [Munnelyn, Cheryl - RD, Washington, DC](#); [Michelle Herrman](#); [SM.RD.NFAOC.TESB](#)
Cc: [Chu, Marina - RD, Washington, DC](#); [Pomicter, Joseph - RD, St. Louis, MO](#)
Subject: RE: [External Email]KY 054 Prepayment Penalty Question
Date: Thursday, February 24, 2022 8:00:33 AM
Attachments: [image012.png](#)
[image013.png](#)
[image015.png](#)
[image016.png](#)
[image018.png](#)
[image019.png](#)
[image020.png](#)
[image021.png](#)
[image022.png](#)
[image023.png](#)
[image024.png](#)
[image025.png](#)

CAUTION: This email originated from outside your organization. Exercise caution when opening attachments or clicking links, especially from unknown senders.

Hi Michelle,

The loan you referenced is FFB loan FFB-6-1. We have asked FFB in the past for a formula and they have said there is no formula and that it is dependent on the loan and the loan terms. It sounds like from the sentence you provided the terms may be located in another area of the document but we can't answer that. The only way to know what the premiums would be on that specific loan would be to request a payoff and receive an estimate. Outside of that we could try to put you in touch with someone in FFB to see if they can help you find the details of how the prepayment would be calculated for that loan.

You also mentioned using COC. You are not allowed to apply COC towards an individual loan payoff or paydown. It can only be used when paying off all loans and exiting the program. If you choose to get a payoff estimate for all loans there may be premiums on your RET loans. We would have to work with Cheryl on the premiums for your RET loans through the discounted prepayment process. I don't know the specific formula or details on how those are calculated but Cheryl could probably help to explain those or locate them in your loan documents.

If you would like to get the payoff estimate for all loans or any specific loans please send us the date you would like the payoff estimate for using the criteria below, as well as the specific loan accounts. You can also say all accounts if all.

- Payoff date needs to be at least 12 business days in the future, no weekends or Holidays.
- First business day and last 2 business days of month aren't allowed.
- Payoff date not allowed on 313A Due date (1/15, 4/15, 7/15, 10/15 or next business date if date falls on weekend or holiday)
- Intent to prepay or decline is due no later than the 5th day before the prepayment date but should be provided as soon possible.
- Only 1 Prepayment request may be made a quarter

Thank you,

Please note, we have a new branch email address:

rd.nfaoc.tesb@usda.gov. Please send **all** correspondence, both RUS and FFB to this new address. Please include your borrower reference number in your communications. Thank you for your cooperation!

Jerrold Penprase

Financial Specialist | Business, Electric and Telecomm Section
Community and Utilities Branch | Direct Loan Division
Servicing Office | Business Center Rural Development
United States Department of Agriculture
Phone: 314-457-4049 | Fax: 844-655-2429
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From: Munnelyn, Cheryl - RD, Washington, DC <cheryl.munnelyn@usda.gov>

Sent: Tuesday, February 22, 2022 4:27 PM

To: Michelle Herrman <michelleh@skrecc.com>; SM.RD.NFAOC.TESB <rd.nfaoc.tesb@usda.gov>

Cc: Chu, Marina - RD, Washington, DC <marina.chu@usda.gov>

Subject: FW: [External Email]KY 054 Prepayment Penalty Question

Michelle,

I am forwarding your request to our St Louis Finance Center for assistance with prepayment penalties.

Thank you.

Cheryl H. Munnelyn

Chief, Post-Loan Services Financial Operations Branch
Office of Portfolio Management and Risk Assessment
Rural Utilities Service - Electric Program | Rural Development
U.S. Department of Agriculture
1400 Independence Ave., S.W. | Stop 1568- Rm 4116

Washington, D.C. 20250
E-mail: Cheryl.Munnelyn@usda.gov
Phone: 202-720-8936
www.rd.usda.gov

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From: SM.RD.DCWA2.OPMRAElectric <OPMRAElectric@usda.gov>
Sent: Tuesday, February 22, 2022 5:23 PM
To: Munnelyn, Cheryl - RD, Washington, DC <cheryl.munnelyn@usda.gov>
Subject: FW: [External Email]KY 054 Prepayment Penalty Question

From: Michelle Herrman <michelleh@skrecc.com>
Sent: Friday, February 18, 2022 1:01 PM
To: SM.RD.DCWA2.RUSELECTRIC <RUSElectric@usda.gov>
Subject: [External Email]KY 054 Prepayment Penalty Question

[External Email]

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Please send any concerns or suspicious messages to: Spam.Abuse@usda.gov

Good Afternoon,

I need some assistance. Our Cooperative is currently seeking a rate increase before the Kentucky Public Service Commission. They have asked us the following question- "Provide the penalty for paying down long term debt with South Kentucky RECC's Cushion of credit."

Can you please assist me in answering this question?

I have reviewed our BE48 loan documents and have noted the discussion in Section 3.4 of the loan contract which cites "the borrower has no right to prepay a Note in whole or in part except such rights, if any, as are expressly provided for in a Note or applicable federal statutes."

And I have also reviewed our future advance promissory note for our BE48 loan,

paragraph 16 b and c.

I'm looking for a simple way to answer their question. How would you simply describe the penalty calculation for one of our loans?

I appreciate any help you can provide. I do have a short response time window, so any quick guidance you can provide would be appreciated.

Thank you.

Michelle D. Herrman, CPA, PHR
Vice President of Finance and Member Services
Phone: 606-451-4337



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Rebuttal Exhibit MDH-2

Kentucky Living Articles

South Kentucky RECC returning \$1,604,397 to members

For the second year in a row, the board of directors of South Kentucky Rural Electric Cooperative Corporation has announced the mailing of \$1,604,397 in capital credit refunds.

The refunds from South Kentucky RECC total \$1.4 million for the years of 1986, 1987 and 1988. In addition, more than \$200,000 for the years of 1958–1967 is being returned to members from East Kentucky Power Cooperative, which generates the electricity and is owned by South Kentucky RECC and 15 other distribution cooperatives across the state.

These amounts will be combined into one check.

A member's share of this refund is based upon the amount of electricity used in the specified years in relation to the electric usage of all members at that time.

In the world of co-ops, when revenues are greater than expenses, the difference is called a margin, and shares are not paid to investing stockholders, as an investor-owned utility would do. They are shared among the member-owners of South Kentucky RECC—the people who get their electricity from the co-op.

South Kentucky RECC CEO Ken Simmons says this is just one of the many benefits of being a member-owner of an electric cooperative.

“It gives the board and myself great pleasure to be able to send these patronage capital checks to our membership. It affirms what our mission statement says—that we were ‘formed for people, not profit.’ We believe in this mission statement and strive to do the best that we can for our members.”

If you have any questions about your patronage capital refund, call your local South Kentucky RECC office or call (800) 264-5112.

Get paid to be smart

Being smart has never been so simple. If you recently purchased a qualifying smart thermostat, you may be eligible for a \$100 credit from South Kentucky RECC.

As a local Touchstone Energy Cooperative, we are partners with several thermostat manufacturers, including Nest, Honeywell, ecobee and others. Once you've registered your qualifying smart thermostat online, you'll receive an e-mail from the manufacturer about enrolling in the SimpleSaver program.

If you meet the requirements and enroll in SimpleSaver, you are eligible for a \$100 rebate.* Plus, there's a \$10 one-time enrollment incentive. Each year you continue in the program, you'll receive an additional \$20 bill credit after the summer season.

“Your participation is risk-free,” says Alan Coffey, energy services/member engagement manager of South Kentucky RECC. “It's a great way to reduce energy demand, but not your comfort.”

When you sign up for the program, your thermostat will be adjusted a

limited number of times throughout the summer.

Here's how it works:

- At the start of an adjustment period, your thermostat will be automatically adjusted up to four degrees above the current temperature.
- The adjustment will typically last no more than four hours on non-holiday weekdays and will occur between 1 p.m. and 7 p.m.
- Once the temperature adjustment is over, your thermostat will return to its normal set point and/or schedule. In some cases, your thermostat may be adjusted by up to three degrees prior to an adjustment event to pre-cool your home.

Those minor thermostat adjustments help us all work together to reduce energy use during peak demand times. And at any time during one of the events, you can opt out from your thermostat, mobile device or web app. For the majority of the devices, when you opt out of the pre-cool, you are also opting out of the temperature adjustment.



Sounds simple and smart, right? Find out if you're eligible by visiting www.enrollmythermostat.com/simplesaver. For questions about the program, email simplesaver@energyhub.com.

**Eligibility requires being a member of one of the 15 participating local Touchstone Energy Cooperatives who uses an eligible, fixed internet-connected thermostat for cooling. The \$100 credit is available for qualifying thermostats that were purchased on or after March 2, 2019. See website for complete details.*

DISCOVERING SOUTH KENTUCKY

www.skrecc.com • FEBRUARY 2021

South Kentucky RECC returning more than \$3 million dollars to members

Story by Joy Bullock

For the third year in a row, the board of directors of South Kentucky Rural Electric Cooperative Corporation has announced that the co-op is mailing capital credit refunds to members. This year's total is the largest in the cooperative's history at \$3,112,921—nearly double its previous highest general retirement refund.

The refund is comprised of \$2.39 million for the years of 1990 and a large portion of 1991, and is combined with more than \$720,000 related to South Kentucky RECC's membership in East Kentucky Power Cooperative for the years 1968 through 1975. East Kentucky Power Cooperative, which generates the electricity sold by South Kentucky RECC, is owned by SKRECC and 15 other distribution cooperatives across the state. These capital credit refunds will be returned in one check to members.

A member's share of this refund is based upon the amount of electricity used in the specified years in relation to the electric usage of all members at that time.

In the world of co-ops, when revenues are greater than expenses, the difference is called a margin, and dividends are not paid to investing stockholders, as an investor-owned

utility would do. They are shared among the member-owners of South Kentucky RECC—the people who get their electricity from the co-op. (You can learn more about capital credits on our website www.skrecc.com.)

South Kentucky RECC CEO Ken Simmons says this is just one of the many benefits of being a member-owner of an electric cooperative.

"It gives the board and employees great pleasure to be able to send these capital credit checks to our membership. It affirms what our mission statement says—that we were 'formed for people, not profit.' We believe in this mission statement and strive to do the best that we can for our members. Particularly this year, when many of our members have had to face some great challenges, it is especially important that we are able to return capital credits.

"We wanted to make an impact for our membership, by providing our largest refund in the cooperative's 82-year history. The checks received by our members will be



South Kentucky RECC members should receive their portion of the largest capital credits refund in the history of the co-op soon as \$3.1 million is being returned to members.

able to be used for any purpose that they choose."

We ask that our members ensure that we have correct mailing information so that these checks can be easily and quickly delivered. This is especially important for active or past members during the years noted above. Past members should maintain current mailing information with us so that we may reach them in the event of future capital credit retirements.

If you have any questions about your capital credit refund, call your local South Kentucky RECC office or call (800) 264-5112. **DSK**