COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

RESPONSES TO COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION TO SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION, DATED FEBRUARY 16, 2022

Filed: March 3, 2022

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	)	

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 certain responses to Commission Staff's Third Request for Information 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 28th day of February, 2022, by Michelle D. Herrman.

JOYCE D. TURPIN NOTARY PUBLIC STATE AT LARGE, KY. ID KYNP35967 MY COMMISSION EXPIRES 8/31/2025

Joyce D. Turpin - KYNP35967

Commission expiration: 8/31/25

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

VERIFICATION OF WILLIAM STEVEN SEELYE

STATE OF NORTH CAROLINA)
)
COUNTY OF BUNCOMBE)

William Steven Seelye, Managing Partner, The Prime Group, LLC on behalf of South Kentucky Rural Electric Cooperative Corporation, being duly sworn, states that he has supervised the preparation of certain responses to Commission Staff's Third Request for Information in the above-referenced case and that the matters and things set forth therein are true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.

William Steven Seelye

The foregoing Verification was signed, acknowledged and sworn to before me this 23rd day of February, 2022, by William Steven Seelye.

Quade Covill
Notary Public
Buncombe County, NC
My Commission Expires 11/16/2026

Commission expiration: 11/16/2026

SOUTH KENTUCKY RECC

PSC CASE NO. 2021-00407

THIRD REQUEST FOR INFORMATION RESPONSE

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION—02/16/22

REQUEST 1

RESPONSIBLE PERSON: Steve Seelye

COMPANY: South Kentucky RECC

Request 1. Refer to the Application, Exhibit 3, Rate LP, Large Power Rate. Provide the wholesale demand charge for this class. If the wholesale demand charge is greater than the proposed, explain why South Kentucky RECC did not propose a higher demand charge.

Response 1. The wholesale demand charge for Rate LP is $6.55 which is less than both the step 1 proposed demand charge of $7.61 and the step 2 proposed demand charge of $8.12. With that being said, a coincident peak wholesale demand charge will always be lower when converted to a non-coincident peak billed demand charge at the retail level unless the member's peak demand is 100% coincident with the wholesale peak demand. If the demand charge is 100% cost based, the total retail demand charge (purchased power demand plus distribution demand) may still be higher than the stated wholesale coincident peak demand charge because of the addition of distribution capacity costs.

SOUTH KENTUCKY RECC
PSC CASE NO. 2021-00407
THIRD REQUEST FOR INFORMATION RESPONSE

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION—02/16/22
REQUEST 2
RESPONSIBLE PERSON: Steve Seelye
COMPANY: South Kentucky RECC

Request 2. Refer to the Application, Exhibit 3, Rate LP-1, Large Power Rate. Provide the wholesale demand charge for this class. If the wholesale demand charge is greater than the proposed, explain why South Kentucky RECC did not propose a higher demand charge.

Response 2. The wholesale demand charge for Rate LP-1 is $7.49 which is greater than both the step 1 proposed demand charge of $6.49 and the step 2 proposed demand charge of $6.63. A coincident peak wholesale demand charge will always be lower when converted to a non-coincident peak billed demand charge at the retail level unless the member's peak demand is 100% coincident with the wholesale peak demand. If the demand charge is 100% cost based, the total retail demand charge (purchased power demand plus distribution demand) may still be higher than the stated wholesale coincident peak demand charge because of the addition of distribution capacity costs. In this case, the demand charge was not a fully cost-based charge. Although we moved the demand charge toward a cost-based charge, it is still not a fully cost based charge. We choose to put 100%

of the step 1 and step 2 increases into the demand charge because it was not a fully cost based charge, but we stopped short of lowering the energy charge in order to further increase the demand component.

SOUTH KENTUCKY RECC

PSC CASE NO. 2021-00407

THIRD REQUEST FOR INFORMATION RESPONSE

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION—02/16/22
REQUEST 3
RESPONSIBLE PERSON: Steve Seelye
COMPANY: South Kentucky RECC

Request 3. Refer to the Application, Exhibit 3, Rate LP-2, Large Power Rate. Provide the wholesale demand charge for this class. If the wholesale demand charge is greater than the proposed, explain why South Kentucky RECC did not propose a higher demand charge.

Response 3. The wholesale demand charge for Rate LP-2 is $7.49 which is greater than both the step 1 proposed demand charge of $6.54 and the step 2 proposed demand charge of $6.69. A coincident peak wholesale demand charge will always be lower when converted to a non-coincident peak billed demand charge at the retail level unless the member's peak demand is 100% coincident with the wholesale peak demand. If the demand charge is 100% cost based, the total retail demand charge (purchased power demand plus distribution demand) may still be higher than the stated wholesale coincident peak demand charge because of the addition of distribution capacity costs. In this case, the demand charge was not a fully cost-based charge. Although we moved the demand charge toward a cost-based charge, it is still not a fully cost based charge. We choose to put 100% of the step 1 and step 2 increases into the demand charge because it was not a fully cost based charge, but we stopped short of lowering the energy charge in order to further increase the demand component.

This rate design is also different from South Kentucky's other rates in that it is an hours use of the demand rate design. The first block energy component is billed against the first 400 kWh per kW of billing demand. The second block is billed against remaining kWh. The rate design creates an incentive to improve load factor. To accomplish this, a portion of demand costs are moved into the first block of the hours use of the demand energy charge. This rate design will require a lower demand charge than shown in the cost of service study because a portion of the demand costs has to be recovered through the first block of the hours use of the demand energy charge.

SOUTH KENTUCKY RECC

PSC CASE NO. 2021-00407

THIRD REQUEST FOR INFORMATION RESPONSE

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION—02/16/22
REQUEST 4
RESPONSIBLE PERSON: **Steve Seelye**
COMPANY: **South Kentucky RECC**

Request 4. Refer to the Application, Exhibit 3, Rate LP-3, Large Power Rate. Provide the wholesale demand charge for this class. If the wholesale demand charge is greater than the proposed, explain why South Kentucky RECC did not propose a higher demand charge.

Response 4. The wholesale demand charge for Rate LP-3 is \$7.49 per kW of contract demand and \$9.98 per kW of demand in excess of the contract demand. The demand is measured as the highest 15-minute demand coincident with East Kentucky Power Cooperative's peak. The step 1 proposed contract demand charge of \$7.26 is slightly lower than the wholesale contract demand charge and the step 2 proposed contract demand charge of \$8.04 is higher than the wholesale contract demand charge. The excess demand charge is \$9.98 which is the same as the wholesale excess demand charge. We did not propose a change to the excess demand charge.

A coincident peak wholesale demand charge will always be lower when converted to a non-coincident peak billed demand charge at the retail level unless the member's peak demand is 100% coincident with the wholesale peak demand. If the demand charge is 100%

cost based, the total retail demand charge (purchased power demand plus distribution demand) may still be higher than the stated wholesale coincident peak demand charge because of the addition of distribution capacity costs. In this case, the demand charge was not a fully cost-based charge. Although we moved the demand charge toward a cost-based charge, it is still not a fully cost based charge. We choose to put 100% of the step 1 and step 2 increases into the demand charge because it was not a fully cost based charge, but we stopped short of lowering the energy charge in order to further increase the demand component.

Increasing the demand charge to be more cost based while maintaining, or lowering the energy charge, will create a rate more reflective of cost, however, it can create significant changes to the bills of individual members based on relative load factors. Members with higher load factors will see less of an increase, or potentially a decrease, while members with poor load factors can see much larger increases. We attempted to balance these considerations with the proposed demand charges.

SOUTH KENTUCKY RECC
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THIRD REQUEST FOR INFORMATION RESPONSE

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION—02/16/22
REQUEST 5
RESPONSIBLE PERSON: Michelle Herrman
COMPANY: South Kentucky RECC

<u>Request 5.</u> Refer to South Kentucky RECC's response to Commission Staff's First Request for Information (Staff's First Request), Items 23, 31, and 32. Provide the adjustment necessary to remove employer benefit contributions in excess of the Bureau of Labor Statistics' 2021 average for single and family coverage of 78 and 66 percent, respectively.

<u>Response 5.</u> The adjustment necessary to remove employer benefit contributions in excess of the Bureau of Labor Statistics' 2021 average for single and family coverage for the test year is $307,481. Please see attached. The attachment is an Excel spreadsheet and is being uploaded into the Commission's electronic filing system separately.

ATTACHMENTS ARE EXCEL SPREADSHEETS AND UPLOADED SEPARATELY

SOUTH KENTUCKY RECC

PSC CASE NO. 2021-00407

THIRD REQUEST FOR INFORMATION RESPONSE

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION—02/16/22

REQUEST 6

RESPONSIBLE PERSONS: Michelle Herrman

COMPANY: South Kentucky RECC

Request 6. Refer to South Kentucky RECC's response to Staff's First Request, Item 31. As originally requested, provide the requested information for the test period.

Response 6. Please see attached for the information requested for the test year, April 1, 2019 through March 31, 2020. The attachment is an Excel spreadsheet and is being uploaded into the Commission's electronic filing system separately.

ATTACHMENTS
ARE EXCEL
SPREADSHEETS
AND UPLOADED
SEPARATELY

SOUTH KENTUCKY RECC
PSC CASE NO. 2021-00407
THIRD REQUEST FOR INFORMATION RESPONSE

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION—02/16/22
REQUEST 7
RESPONSIBLE PERSON: **Steve Seelye**
COMPANY: **South Kentucky RECC**

<u>Request 7.</u> Refer to SKRECC's response to Staff's First Request, Item 53, Excel spreadsheet titled, "PSC_1-53_South_Kentucky_2020_COSS_Revised.xlsx", tab labeled "Allocation Proforma."

a. Refer to row 916, Distribution Demand Martin (Per kWh or Kw). Explain what the Distribution Demand Margin represents.

b. Refer to row 921, Distribution Customer Margin (Per Customer Per Month). Explain what the Distribution Customer Margin represents.

<u>Response 7.</u>

a. The section of the cost-of-service study in the tab labeled "Allocation Proforma" from lines 907 through 922 calculate a unit revenue requirement at a specified rate of return. The rate of return can be entered for each class of service in row 907 and the unit revenue requirement will be recalculated at that specific rate of return. Margins (financing cost) should be added back to each rate component based on the amount of rate base for that component. The breakdown of rate base between customer related and distribution demand related is shown on rows 838 and 839. The margins associated with distribution demand shown on row 916 is the distribution demand related rate base multiplied by the rate of return for the class entered in row 907. This product is divided by the amount of kWh, or kW, for the class to get a unit distribution demand margin. Currently, the rates of return entered in row 907 reflect the proposed overall system rate of return, so the unit revenue requirements calculated would equate to rates that would yield equalized rates of return for all classes.

b. The amount shown in row 921 represents the margins (financing cost) for the customer related rate base. It is calculated by multiplying the customer related rate base by the rate of return on row 907 and dividing the product by the number of customer months. The sum of the distribution customer cost and the distribution customer margin would represent a cost-based customer charge at the overall system rate of return.

SOUTH KENTUCKY RECC

PSC CASE NO. 2021-00407

THIRD REQUEST FOR INFORMATION RESPONSE

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION—02/16/22
REQUEST 8
RESPONSIBLE PERSON: Michelle Herrman
COMPANY: South Kentucky RECC

Request 8. Refer to South Kentucky RECC's response to Commission Staff's Second Request for Information (Staff's Second Request), Item 1. Provide the penalty for paying down long term debt with South Kentucky's cushion of credit. Explain the original provision for the "gradual ramp down of the Cushion of Credit interest earning rate," and explain whether South Kentucky RECC evaluated the impact of the one-year variable treasury rate on its decision to maintain the cushion of credit. Provide a net present value analysis for using the cushion of credit to pay down long-term debt.

Response 8. There is no penalty for using the cushion of credit to pay regularly scheduled debt service payments. The penalty for prepayment of a specific note is calculated by the Rural Utilities Service. The penalty amount is dependent on the specific note and the maturity date of the note. However, it is important to note, that at this time, the cushion of credit can only be used for prepayment when paying off all RUS/FFB loans and exiting the program. Guidance on prepayment requirements is found in our FFB-BE48 loan documents Section 3.4 of the loan contract and paragraph 16 of the future advance promissory note. These loan documents were submitted in this case in response to the

Attorney General's First Data Request, Question 37.

Effective December 20, 2018, pursuant to the 2018 Farm Bill Section 6503, no new Cushion of Credit ("CoC") deposits could be made as of that date. With respect to existing CoC deposits, Section 6503 altered the 5 percent fixed interest rate, in that it was paid until September 30, 2020. Beginning on October 1, 2020, CoC deposits earned 4 percent interest until September 30, 2021. Starting on October 1, 2021 and thereafter, the interest rate will be based upon the variable 1-year Treasury rate at October 1 of each year.

The cooperative considered the annual reset of the interest rate based upon the variable 1 year Treasury rate at October 1 of each year which the historical average has been approximately 2.9%, the blended interest rate of the RUS/FFB portfolio which is currently 2.59% , potential interest rates on new borrowing, the compounding of interest that would be earned during the one additional year at the 4% earning rate, as well as the ability to use the cushion of credit funds to make future debt service payments.

Attached is an Excel spreadsheet showing a present value analysis comparing interest expense and interest earnings of continuing to maintain current levels of the cushion of credit compared to using a portion of the cushion of credit to pay off the higher rate loans. The analysis indicates that the net present value of continuing to maintain current levels of cushion of credit is $3,995,245 compared to a net present value of using a portion of cushion of credit to pay off three loans is $789,861. The analysis assumes that earnings on all cushion of credit balances would be reinvested, as had been the historical practice. The attachment is an Excel spreadsheet and is being uploaded into the Commission's electronic filing system separately.

ATTACHMENTS
ARE EXCEL
SPREADSHEETS
AND UPLOADED
SEPARATELY

SOUTH KENTUCKY RECC
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THIRD REQUEST FOR INFORMATION RESPONSE

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION—02/16/22
REQUEST 9
RESPONSIBLE PERSON: Michelle Herrman
COMPANY: South Kentucky RECC

Request 9. Refer to South Kentucky RECC's response to Staff's Second Request, Item 2(a). Explain South Kentucky RECC's policy for writing off bad debt. If this policy changed when South Kentucky RECC changed collection providers, explain any changes.

Response 9. Accounts are final billed upon electric service termination. Two reminder letters are sent if the bill goes unpaid. After an account is final billed and remains unpaid for three (3) months, it goes into purge status. Accounts that are in purge status are final reviewed. After the final review, any remaining unpaid amounts are moved to uncollectible status. As this final review is accomplished monthly, accounts are determined uncollectible after remaining unpaid between 90-120 days, depending on the date of the final bill. Uncollectible accounts are turned over to a collection agency for collection. However, uncollectible balances are maintained in our member data system. If a member reinstates service with us in the future, the uncollectible amount remaining unpaid is collected. There were no changes in the policy for writing off bad debt with the change in collection providers.

SOUTH KENTUCKY RECC

PSC CASE NO. 2021-00407

THIRD REQUEST FOR INFORMATION RESPONSE

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION—02/16/22

REQUEST 10

RESPONSIBLE PERSON: Michelle Herrman

COMPANY: South Kentucky RECC

Request 10. Refer to South Kentucky RECC's response to Staff's Second Request, Item 8(a). Provide the "internal Revenue Service required plan discrimination testing requirements for the R&S plan." Provide the per employee contribution rates for South Kentucky RECC's retirement and security (R&S) plan an d401(k) matching for the past ten years. Refer also to South Kentucky RECC's response to Staff's Second Request, Item 8(b). Explain how South Kentucky RECC determined that "per-employee R&S plan contribution rates were actually lower" without a formal evaluation. If any informal evaluation was performed, provide the results.

Response 10. The Internal Revenue Service required plan discrimination testing requirements for the R&S plan that were in place in 2013 are provided below, as taken from our 2013 plan year contribution testing report from NRECA. South Kentucky was seeing a swift decline in its coverage ratio test for the R& S plan. The coverage ratio in 2011 was 96%, 92% in 2012 and declined to 84% in 2013.

MINIMUM PARTICIPATION TEST – RS PLAN ONLY

The Minimum Participation test looks at the number of participants covered by the RS Plan to ensure the plan is not maintained just for a select group of employees. This test is passed if 40% of your co-op's workforce earns an RS benefit during the year. Alternatively, large co-ops can pass this test if at least 50 participants earn an RS benefit during the year. For purposes of the Minimum Participation Test and the Minimum Coverage Test, the term "benefitting" is defined as accruing an additional benefit for the plan year. Corrective action for a failed Minimum Participation Test requires a retroactive plan amendment (e.g., board action) and contributions to retroactively cover additional employees in the RS Plan.

<u>MINIMUM COVERAGE TESTS – RS and 401(k) PLANS</u>

The Minimum Coverage Test compares the percentages of HCE's and NHCE's who earn a benefit (or receive a contribution) to ensure the plan covers rank and file employees. The Minimum Coverage Test can be satisfied by passing the Ratio Percentage Test ("ratio test") or the Average Benefits Test.

<u>Ratio Percentage Test:</u>

The ratio test is passed if the ratio of benefitting NHCEs under the Plan divided by the ratio of benefitting HCEs under the Plan is at least 70%.

<u>Average Benefits Test:</u>

The average benefits test is a two-step test that is considerably more complicated than the ratio test. By using the average benefits test, a plan may have a coverage ratio well below 70%. Generally, the first part of the average benefits test looks at the group of employees earning a benefit (or receiving a contribution) to determine if the classification is objective, based on a valid business reason, and does not favor HCEs. The second part of the test compares the accrued benefits (or contributions) of the HCEs and NHCEs. Both parts must pass in order to pass coverage testing. In rare cases, the 401(k) and RS Plan may be tested together on the average benefits test, if doing so would cause the test to pass.

Corrective action for a failed Minimum Coverage Test requires a retroactive plan amendment (e.g., board action) and contributions to either retroactively cover excluded employees in the plans or retroactively increase contributions to NHCEs.

GENERAL NONDISCRIMINATION TEST – RS and 401(k) PLANS

Once the coverage test has been satisfied, the general nondiscrimination test must be performed for RS plans, as well as 401(k) Plans that make Employer Base Contributions without a required employee contribution. The general test compares the annual accruals for HCEs and NHCEs to ensure benefits (or contributions) are not allocated more favorably to HCEs. This test is similar to the coverage testing above. The actuarial unit will complete this test for the RS Plan. Corrective action for a failed General Nondiscrimination Test requires board action and contributions to retroactively cover excluded employees, retroactively increase benefits for NHCEs or to retroactively change the plans' definition of salary to Full Salary.

TOP HEAVY TEST – RS and 401(k) PLANS

This test compares the 2013 accumulated 401(k) account balances and RS Plan accrued benefits for key employees to the co-op's total account balance (or total RS benefits) for all employees to ensure that, over time, benefits are not skewed towards key employees. If the account balances (and/or accrued benefits) for key employees exceed 60% of the total account balance, the plan is top heavy for 2014. Corrective action for a Top Heavy Plan requires that minimum contribution/benefit and minimum vesting standards be met. If the co-op participates in both the RS and 401(k) plans, the minimum contribution/benefit usually will be met through the RS plan. The plan would need to be amended to provide appropriate language in the Adoption Agreement to amend the vesting standards and provide minimum benefits for any employees if necessary. In the rare case where the benefits in the RS Plan do not meet the minimum standards (or if the co-op does not offer the RS Plan to all employees), additional contributions to the 401(k) Plan may be required to satisfy the minimum benefits/contributions requirements.

If the co-op only has the 401(k) plan, the minimum contribution must be provided through that plan (the minimum vesting standard is automatically met). This requires board action and may require additional contributions. NRECA will ensure that required minimums were met for the 2013 plan year, if the co-op was deemed top heavy during the 2012 testing cycle.

The per employee contribution rates for South Kentucky are as follows:

Retirement & Security (R&S) Plan		**401(k) Plan (REA 18054)**		**401(k) Plan (REA 18710)**		
	Contribution Rate		*Contribution Rate*		*Contribution Rate*	
2012	30.66	2012	2% Match	2012	4% Match	6% Base
2013	33.12	2013	2% Match	2013	4% Match	6% Base
2014	24.45	2014	2% Match	01/2014	4% Match	6% Base
2015	24.89	2015	2% Match	02/2014	4% Match	6% Base
2016	25.62	2016	2% Match		Plan Ended	
2017	26.40	2017	2% Match			
2018	27.06	2018	2% Match			
2019	26.38	2019	2% Match			
2020	26.90	2020	2% Match			
2021	27.70	2021	2% Match			
2022	27.74	2022	2% Match			

The per-employee R&S plan contribution rates are determined by the pool of eligible participants, with a prevailing factor being the average age of the eligible participants. When all cooperative employees at the time were included in the pool of eligible participants, the average age declined. The average age of the pre- 2008 employee group for 2014 was 47 and the post- 2008 employee group was 36, providing a combined average age for 2014 of 44 years old. Below is an age factor table that was provided by NRECA to evaluate the age factor impact on the contribution rates.

Example: To turn a billing rate determined at age 40 to one determined at age 41, you would multiply the billing rate by 1.04/1.01=1.0297. So for our pre-2008 group the multiplier applied to the RS calculated base billing rate, as determined by NRECA would have been 1.17. When the post-2008 employee group was added the multiplier was reduced to 1.10.

Age	Factor
30	0.73
31	0.76
32	0.78
33	0.81
34	0.84
35	0.87
36	0.89
37	0.92
38	0.95
39	0.98
40	1.01
41	1.04
42	1.06
43	1.08
44	1.1
45	1.12
46	1.14
47	1.17
48	1.18
49	1.19
50	1.21

SOUTH KENTUCKY RECC
PSC CASE NO. 2021-00407
THIRD REQUEST FOR INFORMATION RESPONSE

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION—02/16/22
REQUEST 11
RESPONSIBLE PERSONS: Michelle Herrman and Steve Seelye
COMPANY: South Kentucky RECC

Request 11. Refer to South Kentucky RECC's response to Staff's Second Request, Item 9(b) and the Application, Exhibit 10, WSS-4, Schedule 2.01. Provide South Kentucky RECC's 2021 salaries and wages. Provide a detailed explanation of the adjustment to annualize salaries and wages.

Response 11. The 2021 regular salaries and wages were $10,095,584.37.

In calculating the adjustment to annualize salaries and wages, we first determined the wages and salaries recorded in the test year. We then made a reduction for position attrition based upon the difference between the 2021 budgeted wages (less estimated salary increase amount assumption) and the 2020 budgeted wages amount. Next, consideration was given to wage and salary increase changes using an annualized value of the salary increase projection from the 2019 budget, plus the projected wage and salary increase included in the 2020 budget. Finally, the test year wages were adjusted to reflect the salary change difference during the test year period from the previous CEO and our new CEO while also considering an adjustment for the past CEO severance payment amount that was included in the test year period wage amount.

SOUTH KENTUCKY RECC

PSC CASE NO. 2021-00407

THIRD REQUEST FOR INFORMATION RESPONSE

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION—02/16/22
REQUEST 12
RESPONSIBLE PERSON: **Michelle Herrman**
COMPANY: **South Kentucky RECC**

Request 12. Refer to South Kentucky RECC's response to Staff's Second Request, Item 11. Explain whether the metrics provided account for regulatory exclusions.

Response 12. South Kentucky utilizes accrual accounting to recognize the associated revenue from regulatory surcharge expenses incurred during the period. This practice would negate the effect of the regulatory surcharges for the fuel adjustment and the environmental surcharge from impacting our margin outcomes and associated resulting metrics provide in response to Staff's Second Request, Item 11.

SOUTH KENTUCKY RECC

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THIRD REQUEST FOR INFORMATION RESPONSE

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION—02/16/22
REQUEST 13
RESPONSIBLE PERSONS: Michelle Herrman and Steve Seelye
COMPANY: South Kentucky RECC

Request 13. Refer to South Kentucky RECC's response to Staff's Second Request, Item 17. Explain whether South Kentucky RECC ever recorded any expenses for the terminated programs. If so, provide the amount incurred in the last year of the programs.

Response 13. Any expenses incurred for EKPC pass-through DSM programs were reimbursed by EKPC, with the exception of a portion of costs for shared advertising, administrative cost and low energy light bulbs. Employee time and associated costs by each individual DSM program are not segregated within our accounting system.

EKPC reimbursed South Kentucky 75 percent of DSM advertising costs capped at a fixed limit based on the number of meters serviced by South Kentucky. EKPC discontinued advertising reimbursement after 2017. This reimbursement was limited to outgoing funds expended by South Kentucky for television, radio, newspaper, and other advertisement specific to DSM programs. At that time, South Kentucky discontinued advertising that would have incurred costs for television, radio, newspaper and other advertisements specific to DSM programs.

EKPC also reimbursed an amount for each DSM program administered to assist with our cost to administer the programs. Administrative costs included employee wages, benefits, transportation, and communication expenses attributed to the DSM programs. South Kentucky employee time and associated costs by each individual DSM program are not segregated within our accounting system. Employees were not let go due to the reduction in DSM programs. Any employee expenses would be included in the collective wage and salary expenses recorded by the cooperative. Estimated average employee time and costs associated for completed participant incentives only associated with DSM programs in 2018 that were subsequently terminated were $58,354

EKPC reimbursed South Kentucky $0.90 cents per light bulb in 2018. Light bulbs have traditionally been provided to our members at our membership events. In 2018, $4,590 was unreimbursed for light bulbs distributed to our members. The practice of distributing light bulbs to our members continues and has not been discontinued.

SOUTH KENTUCKY RECC
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THIRD REQUEST FOR INFORMATION RESPONSE

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION—02/16/22
REQUEST 14
RESPONSIBLE PERSON: Steve Seelye
COMPANY: South Kentucky RECC

Request 14. Refer to South Kentucky RECC's response to Staff's Second Request, Item 24. Explain whether a Times Interest Earned Ration of 1.2 will satisfy South Kentucky RECC's loan covenants.

Response 14. The 1.2 Times Interest Earned Ratio provided in the Phase 1 rates would not be adequate to meet South Kentucky's ongoing financial requirements. The phased-in approach is merely a stopgap designed to allow for a more gradual implementation of higher rates. It is important to recognize that the specification of a TIER for a test year will not guarantee that a cooperative will achieve the specified TIER. Specifically, test-year operating results cannot account for the many uncertainties that could arise once rates are placed in service, for example, variances caused by weather variation, inflation, the addition of new customers, higher-than-normal expenses due to storm damage, etc. Therefore, it would be unreasonable to establish rates that would meet or just barely meet the minimum requirements in the cooperative's debt covenants. Additionally, it is important that rates last for a period of time before they have to be updated again. The consequences of setting rates at the bare minimum TIER is that cooperatives will have to file frequent rate cases to keep TIER above the debt covenant requirement. Depending on weather fluctuations, inflation, customer growth, storm damage, etc., this could potentially be as frequent as every year for some cooperatives. It is also important to consider that as a not-for-profit utility, earnings at or above TIER will allow the cooperative to avoid adding additional debt to cover its expenditures, thereby lowering costs.

South Kentucky is required to obtain an Operating Times Interest Earned Ratio (OTIER) of 1.10 and a TIER of 1.25 using the formula as provided within their loan covenants. The TIER result provided in the Phase 1 and Phase 2 rates as depicted in the Cost of Service Study for "TIER" excludes non-cash, nonoperating G&T credits and other non-cash non-operating credits. This is the definition that the Commission has traditionally used for TIER in setting rates for electric cooperatives in Kentucky.

Without the inclusion of the items described above, the 1.2 TIER result for the Phase 1 rates would not satisfy the single loan covenant.

SOUTH KENTUCKY RECC
PSC CASE NO. 2021-00407
THIRD REQUEST FOR INFORMATION RESPONSE

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION—02/16/22
REQUEST 15
RESPONSIBLE PERSON: Steve Seelye
COMPANY: South Kentucky RECC

Request 15. Refer to South Kentucky RECC's response to Staff's Second Request, Item 27. For each non-recurring charge, provide an update using current data.

Response 15. Please see attached.

South Kentucky Rural Electric Cooperative Corporation

Miscellaneous Charges

February 2022

Return Check Charge:

		Per Hour	Amount
Number of Minutes	20		
Direct labor charge	$26.95	$26.95	$8.98
Other cost based on labor per hour		61.25%	$5.50
Other direct cost per hour (mailing, printing & envelopes, return mailings)		$1.80	$0.60
Bank charges			$5.60
Total charges			$20.69
Updated charge			$21.00
Present charge			$17.00

South Kentucky Rural Electric Cooperative Corporation

Miscellaneous Charges

February 2022

Special Charges. Meter Tests

		Per	Special Trip Charges		Meter
		Hour	Regular	Overtime	Tests
Serviceman:					
Number of minutes			45	240	75
Direct labor charge		$38.76	$29.07	$232.55	$21.80
Other cost based on labor		61.25%	17.80	94.96	29.67
Mileage	30	$0.59	17.55	17.55	17.55
Office Clerical:					
Number of minutes			20	20	20
Direct labor charge		$26.95	$8.98	$8.98	$8.98
Direct wage expense		$0.00	0.00	0.00	0.00
Other cost based on labor		61.25%	5.50	5.50	5.50
Other direct cost		$0.00	0.00	0.00	0.00
Total			$78.91	$359.54	$83.51
Updated Charge			$79.00	$360.00	$84.00
Present charge			$36.00	$120.00	$48.00