

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**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**

**RESPONSES TO COMMISSION STAFF'S POST-HEARING REQUEST
FOR INFORMATION TO SOUTH KENTUCKY RURAL ELECTRIC
COOPERATIVE CORPORATION, DATED MAY 11, 2022**

Filed: May 18, 2022

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

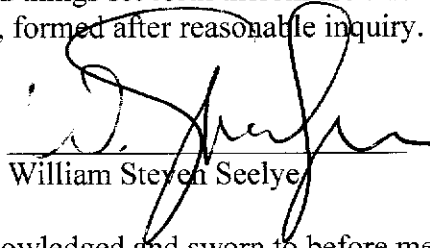
In the Matter of:

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 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 Post-Hearing 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 18th day of May, 2022, by William Steven Seelye.



Commission expiration: 11/16/2026

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

SOUTH KENTUCKY RECC

PSC CASE NO. 2021-00407

POST-HEARING REQUEST FOR INFORMATION RESPONSE

COMMISSION STAFF'S POST-HEARING DATA REQUEST—05/11/22

REQUEST 1

RESPONSIBLE PERSON: Michelle Herrman

COMPANY: South Kentucky RECC

Request 1. Provide the test-year margins from the cushion of credit using the assumption that the interest rate earned was 2.86 percent.

Response 1. The interest earned during the test year assuming a 2.86 percent interest rate is \$805,739.53. This results in a reduction of interest earned of \$610,821.31 (\$1,416,560.84 minus \$805,739.53). Our adjusted test-year margin would be (\$2,152,349). The attachments are Excel spreadsheets which are being uploaded into the Commission's electronic filing system separately.

ATTACHMENTS
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SPREADSHEETS
AND UPLOADED
SEPARATELY

SOUTH KENTUCKY RECC

PSC CASE NO. 2021-00407

POST-HEARING REQUEST FOR INFORMATION RESPONSE

COMMISSION STAFF’S POST-HEARING DATA REQUEST—05/11/22

REQUEST 2

RESPONSIBLE PERSON: Michelle Herrman

COMPANY: South Kentucky RECC

Request 2. Provide the capitalization ratio for wages and salaries, including all labor hours, for years 2018-2021.

Response 2. The overall organization capitalization ratio for the years 2018-2021 are as follows:

2018- 31.39% 2019- 32.91% 2020- 34.16% 2021-34.11%

As noted previously, each employee can have a different capitalization rate depending on job duties and assigned tasks for the day. The attached spreadsheet, which is being uploaded into the Commission’s electronic filing system separately, breaks out the capitalization rates by department for the years 2018- 2021. Additionally, the current vacant positions align to the following department categories and depreciation rates as follows:

Job Title	Dept	Capitalization Rate Average
Safety and Loss Control Coordinator	1807	21.59%
Accountant/Regulatory Coordinator	1600	31.52%
Member Service Representative- District	1703	12.99%
Credit and Collections Representative	1703	12.99%
Director of Corporate Services	1605	28.54%

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**SOUTH KENTUCKY RECC
PSC CASE NO. 2021-00407
POST-HEARING REQUEST FOR INFORMATION RESPONSE**

COMMISSION STAFF'S POST-HEARING DATA REQUEST—05/11/22

REQUEST 3

RESPONSIBLE PERSON: Michelle Herrman

COMPANY: South Kentucky RECC

Request 3. Provide the bad-debt recapture for years 2018-2021.

Response 3. The bad-debt recapture was first accomplished in the year 2020. The bad-debt recapture for the years 2018-2022 are noted below. The bad-debt recapture accomplished in 2020 was for the years from the inception of South Kentucky RECC in 1939, through December 31, 2015. The bad-debt recapture for the following years are singular years only.

2018- \$0

2019- \$0

2020- \$1,490,716

2021- \$64,273

2022- \$38,880

**SOUTH KENTUCKY RECC
PSC CASE NO. 2021-00407
POST-HEARING REQUEST FOR INFORMATION RESPONSE**

COMMISSION STAFF'S POST-HEARING DATA REQUEST—05/11/22

REQUEST 4

RESPONSIBLE PERSON: Michelle Herrman

COMPANY: South Kentucky RECC

Request 4. Provide total salaries and wages and the amount expensed for the periods ending March 31, 2021, and March 31, 2022.

Response 4. The total salaries and wages for the twelve months ending March 31, 2021 was \$11,684,097.08. The total expensed for the twelve months ending March 31, 2021 was \$7,610,903.35.

The total salaries and wages for the twelve months ending March 31, 2022 was \$11,536,974.57. The total expensed for the twelve months ending March 31, 2022 was \$7,530,577.12.

SOUTH KENTUCKY RECC

PSC CASE NO. 2021-00407

POST-HEARING REQUEST FOR INFORMATION RESPONSE

COMMISSION STAFF'S POST-HEARING DATA REQUEST—05/11/22

REQUEST 5

RESPONSIBLE PERSON: Steve Seelye

COMPANY: South Kentucky RECC

Request 5. Refer to South Kentucky RECC's response to Commission Staff's Third Request for Information, Items 1, 2, 3, and 4 regarding demand charges as compared to the wholesale rate demand charge. Provide the cost-based demand charges.

Response 5.

The cost-based demand charges for Rates LP, LP-1, LP-2, and LP-3 were calculated and shown on Exhibit WSS-8, pages 35-36, submitted as part of Mr. Seelye's Direct Testimony. The Excel spreadsheet for Exhibit WSS-8 was provided in response to Item 53 of the Commission Staff's initial data request.

The cost-based demand rates charges referenced in the Commission Staff's Third Request for Information, Items 1, 2, 3, and 4 (which were from Exhibit WSS-8, pages 35-36) were calculated at the proposed overall system rate of return of 5.74%. Using the overall rate of return provides the most balanced view of a cost-based demand charge because ideally, each class's rate of return should eventually reflect the system average rate of return.

The following table summarizes the cost-based demand charges (unit costs) calculated on Exhibit WSS-8, pages 35-36, for Rates LP, LP-1, LP-2, and LP-3:

Cost-Based Demand Charges Computed at a 5.74% Overall ROR				
Rate	Purchased Power Demand	Purchased Power Substation Demand	Total Distribution Demand	Total Demand
Large Power -Rate LP (Rate 4)	\$2.95	\$0.32	\$5.79	\$9.06
Large Power - Rate LP-1 (Rate 9)	\$7.01	\$0.38	\$0.08	\$7.47
Large Power - Rate LP-2 (Rate 10)	\$7.45	\$0.46	-\$0.08	\$7.83
Large Power - Rate LP-3 (Rates 14, 15)	\$7.28	\$0.43	\$6.10	\$13.82

Source: Exhibit WSS-8, pages 35-36.

It should be noted that the large customers served under Rate LP-1 and LP-2 are not served from South Kentucky’s distribution system but from EKPC’s facilities. The small demand-related costs or credits shown for these two classes relate to miscellaneous revenues or miscellaneous costs that are indirectly allocated based on demand allocators.

While the demand charges proposed by South Kentucky move the charges in the direction of cost of service, they do not fully transition the demand charges to cost of service. Because of load factor differences between customers within each class of service, making even larger changes to the demand charge than proposed by South Kentucky could create substantial changes in members’ bills, particularly low load factor businesses. Taking further steps in moving the demand charges towards cost of service could be problematic for certain large employers in South Kentucky’s service territory that have low load factor usage patterns. For this reason, South Kentucky chose to move in the direction of cost of

service but not move the demand charges to full cost-based levels in this proceeding.

The current LP demand charge is \$7.26. South Kentucky proposed increases in the demand charge in step one to \$7.61 and in step 2 to \$8.12. South Kentucky's proposal moves the charge in the direction of cost of service but does not fully take the charge to the full cost-based charge derived from the cost of service study, as shown in the above table.

The current demand charge for Rate LP-1 is \$6.39. South Kentucky proposed increases in the demand charge in step one to \$6.49 and in step 2 to \$6.63. While these changes move the charge in the direction of cost, it does not fully take the demand charge to full cost. However, most of the increase to this rate was reflected in the demand charge.

Rate LP-2 is an hours' use of the demand rate, meaning that the demand costs are recovered through both a demand charge and through blocked energy charges reflecting the customer's monthly load factor. The blocked energy charges are billed on a kWh per kW basis. The first block kWh is based on 400 kWh per kW. The second block bills all remaining kWh. This rate design encourages the member to improve load factor. The first block must always include demand costs in order to achieve the desired declining block structure that encourages better load factor. The second block may, or may not, contain demand costs. In this case, South Kentucky proposed to lower the blocked energy charges and move some demand costs into the demand charge. Both the first and second block still contains demand costs, so with an hours' use rate design, the demand charge can never reflect the full cost-based rate while maintaining the hours use structure.

Rate LP-3 has two demand charges. The contract demand charge is \$6.52, and the excess demand charge is \$9.46. South Kentucky proposed to increase the excess demand charge to \$9.98, which reflects the wholesale excess demand charge. South Kentucky also proposed to increase the contract demand charge in step one to \$7.26 and to \$8.04 in step two. 100% of the increase to this class was directed into the demand charges. Again, South Kentucky chose to move the demand charge gradually in the direction of cost of service while mitigating significant bill impacts due to load factor differences within the class. Please note that in the response to Commission Staff's Third Request for Information, it was incorrectly stated that South Kentucky had not proposed an increase to excess demand charge.

SOUTH KENTUCKY RECC

PSC CASE NO. 2021-00407

POST-HEARING REQUEST FOR INFORMATION RESPONSE

COMMISSION STAFF’S POST-HEARING DATA REQUEST—05/11/22

REQUEST 6

RESPONSIBLE PERSONS: Steve Seelye

COMPANY: South Kentucky RECC

Request 6. Provide the number of occurrences and total revenue for each pole attachment charge for the test year.

Response 6. The following table shows the number of attachments and revenue for each pole attachment charge for the test year:

Type of Attachment	Number of Attachments	Annual Charge	Annual Revenue
Two-Party Attachment	4,366	\$3.63	\$15,848.58
Three-Party Attachment	36,179	\$2.47	\$89,362.13
Two-Party Attachment with Ground	0	\$3.97	\$0.00
Three-Party Attachment with Ground	0	\$2.68	\$0.00
Two-Party Anchor Attachment	5,138	\$3.44	\$17,674.72
Three-Party Anchor Attachment	1,338	\$2.27	\$3,037.26
Total	47,021		\$125,922.69

**SOUTH KENTUCKY RECC
PSC CASE NO. 2021-00407
POST-HEARING REQUEST FOR INFORMATION RESPONSE**

COMMISSION STAFF'S POST-HEARING DATA REQUEST—05/11/22

REQUEST 7

RESPONSIBLE PERSON: Steve Seelye

COMPANY: South Kentucky RECC

Request 7. Refer to South Kentucky RECC's response to Commission Staff's Second Request for Information, Item 31. On page 2, the annual expense of \$18.63 is listed for depreciation. In Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible, provide an updated depreciation rate and updated transaction times.

Response 7. In the response provided to Commission Staff's Second Request for Information, Item 31, a 15- year life was used for the prepay metering equipment, which corresponds to the estimated life used to develop the monthly charge for prepay service in Case No. 2013-00198. Based on an estimated life of 15 years, the depreciation rate used in the calculation was 6.67% (i.e., $1 \div 15 \text{ years} = 6.667\%$). This is a reasonable estimate of the expected service life for this type of metering equipment.

However, a depreciation rate of 6.667% does not correspond to the depreciation rate for Account 370 -- Meters proposed by South Kentucky in this proceeding. For Account 370 -- Meters, South Kentucky is proposing a depreciation rate of 5.050%. See Exhibit WSS-

4, Schedule 2.11.

Based on actual data for the test year, there were 5 transactions per month, and not 4 transactions as was shown in the workpaper submitted in response to Commission Staff's Second Request for Information, Item 31.

Revising the Excel spreadsheet, as discussed above, which is being uploaded into the Commission's electronic filing system separately, results in an updated Monthly Program Fee of \$15.00 per month. As Mr. Seelye explained at the hearing in this proceeding, South Kentucky respectfully requests that the Commission not increase the prepay fee from its current level of \$9.00 per month (\$0.30 per day). However, South Kentucky supports increasing the Pole Attachment Charge.

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**SOUTH KENTUCKY RECC
PSC CASE NO. 2021-00407
POST-HEARING REQUEST FOR INFORMATION RESPONSE**

COMMISSION STAFF'S POST-HEARING DATA REQUEST—05/11/22

REQUEST 8

RESPONSIBLE PERSON: Steve Seelye

COMPANY: South Kentucky RECC

Request 8. Provide the test-year number of occurrences and revenue for the monthly prepay meter charge.

Response 8. During the test-year, for the prepay charge, there were 1,377,489 customer days (i.e., occurrences) billed at \$0.30 per day (corresponding to the monthly prepay charge of \$9.00), resulting in test-year revenue of \$413,246.70.

SOUTH KENTUCKY RECC

PSC CASE NO. 2021-00407

POST-HEARING REQUEST FOR INFORMATION RESPONSE

COMMISSION STAFF'S POST-HEARING DATA REQUEST—05/11/22

REQUEST 9

RESPONSIBLE PERSON: Michelle Herrman

COMPANY: South Kentucky RECC

Request 9. Provide South Kentucky RECC's employee turnover rate for the last three years.

Response 9. The employee turnover rate for the last three years is as follows:

2019- 10.18%

2020- 2.93%

2021- 11.32%

SOUTH KENTUCKY RECC

PSC CASE NO. 2021-00407

POST-HEARING REQUEST FOR INFORMATION RESPONSE

COMMISSION STAFF'S POST-HEARING DATA REQUEST—05/11/22

REQUEST 10

RESPONSIBLE PERSON: Steve Seelye

COMPANY: South Kentucky RECC

Request 10. Explain whether a different meter or a collar with connection/reconnection ability must be installed for prepay customers. If so, provide the incremental capital cost and labor cost and time to change out the meter or add the collar.

Response 10. A collar is typically installed for prepay customers. South Kentucky has a few meters with disconnect capability, so those may be used as well. The cost differential between a standard meter and a meter with a collar, or a meter with disconnect capability, is approximately \$200. The time required would be approximately one hour for a single employee to travel and change the meter or add a collar at the time the member is switching to prepay. Labor plus benefits and overheads to install the collar would cost approximately \$69.08 (\$40.63 direct labor plus 59.17% benefits and 10.85% other overheads = \$69.08). This excludes the administrative cost for setting up the account.

SOUTH KENTUCKY RECC

PSC CASE NO. 2021-00407

POST-HEARING REQUEST FOR INFORMATION RESPONSE

COMMISSION STAFF'S POST-HEARING DATA REQUEST—05/11/22

REQUEST 11

RESPONSIBLE PERSON: Michelle Herrman

COMPANY: South Kentucky RECC

Request 11. Provide the salary for the CEO for the last seven years and the starting and ending or current salary for the three most recent CEOs. Include any severance pay separately.

Response 11. Please see the attached. The attachment is an Excel spreadsheet which is being uploaded into the Commission's electronic filing system separately.

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SOUTH KENTUCKY RECC

PSC CASE NO. 2021-00407

POST-HEARING REQUEST FOR INFORMATION RESPONSE

COMMISSION STAFF'S POST-HEARING DATA REQUEST—05/11/22

REQUEST 12

RESPONSIBLE PERSON: Michelle Herrman

COMPANY: South Kentucky RECC

Request 12. For the period 2017-2021, provide the salary increases for each year broken down by the overall increase, movement to the midpoint over the first three years of employment, and movement to the midpoint thereafter.

Response 12. Please see the attached. The attachment is an Excel spreadsheet which is being uploaded into the Commission's electronic filing system separately.

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SOUTH KENTUCKY RECC
1SC CASE NO. 2021-00407
POST-HEARING REQUEST FOR INFORMATION RESPONSE

COMMISSION STAFF'S POST-HEARING DATA REQUEST—05/11/22

REQUEST 13

RESPONSIBLE PERSON: Michelle Herrman

COMPANY: South Kentucky RECC

Request 13. For the 2020 and 2021 test years, provide a detailed description of all non-operating margins, capital credits, and dividends. For capital credits, state whether they are cash payments.

Response 13. Please see the attached. The attachments are Excel spreadsheets which are being uploaded into the Commission's electronic filing system separately. The first spreadsheet provides a detailed breakdown of the items included on the income statement for all non-operating items: Non- Operating Margins Interest, Non- Operating Margins Other, G & T Capital Credit Allocation, and Other Capital Credits & Patronage Dividends. The second spreadsheet notes the cash payment activity from General Ledger Account 123.10- Patronage Capital from Associated Organizations.

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SOUTH KENTUCKY RECC

PSC CASE NO. 2021-00407

POST-HEARING REQUEST FOR INFORMATION RESPONSE

COMMISSION STAFF'S POST-HEARING DATA REQUEST—05/11/22

REQUEST 14

RESPONSIBLE PERSON: Michelle Herrman

COMPANY: South Kentucky RECC

Request 14. Provide an accounting of all cushion of credit deposits.

Response 14. Please see the attached. The attachment is an Excel spreadsheet which is being uploaded into the Commission's electronic filing system separately. The spreadsheet provides the detail of the cushion of credit held with RUS and the funds that have been transferred to CFC related to the cushion of credit. The total deposits held is \$31,098,753.64 as of April 30, 2022.

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SOUTH KENTUCKY RECC

PSC CASE NO. 2021-00407

POST-HEARING REQUEST FOR INFORMATION RESPONSE

COMMISSION STAFF'S POST-HEARING DATA REQUEST—05/11/22

REQUEST 15

RESPONSIBLE PERSON: Michelle Herrman

COMPANY: South Kentucky RECC

Request 15. Refer to the Application, Exhibit 4, P.S.C. KY. No. 7, Second Revised Sheet No. R-14, Section 5.43-Evidence, Duration, and Recalculation of Deposit. Explain why South Kentucky RECC is requesting to increase the refund time from 12 consecutive payments to 18 consecutive payments and cite any applicable regulation that South Kentucky RECC believes requires this change.

Response 15. The guidance regarding recalculation of deposits at 807 KAR 5.006, Section 8, 1. d. 3. states:

Recalculation of deposits

- a. If a utility retains either an equal or calculated deposit for more than eighteen (18) months, it shall notify customers in writing that, at the customer's request, the deposit shall be recalculated every eighteen (18) months based on actual usage of the customer.
- b. The notice of deposit recalculation shall be included:
 - (i) On the customer's application for service;
 - (ii) On the receipt of deposit; or
 - (iii) Annually with or on customer bills.

The reference to eighteen (18) months for recalculation of deposits as required by statute and our internal regulation stating that at our discretion we may refund a deposit after

twelve (12) consecutive payments with no cut-off notices having been generated, caused confusion both internally and with our members. To avoid confusion and increase consistency, we are requesting to change the refund timeframe to 18 months.

Current Refund Verbiage:

5.43 EVIDENCE, DURATION AND RECALCULATION OF DEPOSIT (T)

- (a) The deposit paid shall be evidenced by the application for service when properly executed and signed by the President and Secretary of the Cooperative and the Corporate seal is affixed.
- (b) The duration of the deposit shall be for the period the account is connected and billed for service and until all bills for same have been paid. Deposits will be applied to any balance remaining after disconnection, and refund any portion in excess. **The Cooperative, at its discretion, may refund any deposit when there is currently twelve (12) consecutive payments with no more than two cut-off notices having been generated.**

Proposed Refund Verbiage:

5.43 EVIDENCE, DURATION AND RECALCULATION OF DEPOSIT

- (a) The deposit paid shall be evidenced by the application for service when properly executed and signed by the President and Secretary of the Cooperative and the Corporate seal is affixed.
- (b) The duration of the deposit shall be for the period the account is connected and billed for Service and until all bills for same have been paid. Deposits will be applied to any balance remaining after disconnection, and refund any portion in excess. **The Cooperative, at its discretion, may refund any deposit when there are currently eighteen (18) consecutive payments with no cut-off notices having been generated.** (T)

Current Recalculation Verbiage (In compliance with 807 KAR 5.006, Section 8, 1. d. 3):

(c) Recalculation of Deposit:

1. **On Commercial and Industrial accounts, if requested by the consumer, the Deposit will be recalculated once every eighteen (18) months based on their actual usage for the last 12 months, and if the variance is more than 10% then the Cooperative will refund or credit any excess to consumers bill, or, if less than calculated, consumer will pay difference.**
2. **On all other accounts, if requested by the consumer, their deposit will be recalculated once every eighteen (18) months, based on their actual usage for the last 12 months, and if the variance is more than \$10.00, the Cooperative will credit or refund any overage, or if under the consumer will pay the difference.**