

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC INVESTIGATION OF THE)
PROPOSED POLE ATTACHMENT TARIFFS OF) CASE NO. 2022-00106
RURAL ELECTRIC COOPERATIVE)
CORPORATIONS)

**SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION'S
RESPONSE TO COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION**

South Kentucky Rural Electric Cooperative Corporation (“South Kentucky” or the “Cooperative”), by counsel, files its Response to the Commission Staff’s Second Request for Information, issued in the above-captioned case on May 19, 2022.

FILED: June 2, 2022

ELECTRONIC INVESTIGATION OF THE PROPOSED POLE ATTACHMENT TARIFFS OF
RURAL ELECTRIC COOPERATIVE CORPORATIONS
CASE NO. 2022-00106

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION'S RESPONSE
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REQUEST NO. 1: Provide the service lives of distribution poles used to determine the average service life, by type and vintage, to the degree they are broken down.

RESPONSE: All poles are depreciated over 25 years, but their life is typically closer to 40 years. The soil conditions and many other factors affect the actual life of a pole, but 40 years is a fair estimate. All of our poles are wood poles other than a very few concrete poles (less than 5). The Cooperative does not assign different service lives to poles of different type and vintage.

Witness: Kevin Newton, Chief Operating Officer

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REQUEST NO. 2: Describe your recent efforts, if any, to reduce the number of above ground transmission and distribution lines, and identify the number of poles that have been eliminated in your system in each of the last ten years because the electric lines previously attached to those poles were placed underground.

RESPONSE: Due to the cost of placing distribution lines underground, there have been very few places lines have been changed from overhead to underground. This typically only takes place in a situation where there may be a safety concern, and the data does not exist as requested.

Witness: Kevin Newton, Chief Operating Officer

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REQUEST NO. 3: Other than identifying specific defective poles through inspections that require replacement, state whether you have a policy or practice of replacing poles in a circuit on a periodic basis or as they reach the end of their useful lives and, if so, describe that policy or practice in detail, including how and when (e.g. how far in advance) such replacements are identified or included in your projected capital spending budget.

RESPONSE: South Kentucky does not have a policy or practice of replacing poles purely based on age or location. The Cooperative replaces poles based on the pole inspection program, when building or upgrading an existing line, or as needed based on circumstances (vehicle damage, e.g.). The number of poles replaced each year is relatively consistent and is budgeted based on historical numbers annually.

Witness: Kevin Newton, Chief Operating Officer

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REQUEST NO. 4: Describe in detail the process you use to budget for future capital expenditures, including when you first develop a preliminary capital spending budget for a particular year (e.g. three years in advance, five years in advance, etc.), how you determine the amounts to include in the preliminary capital budget, the level of specificity included in any preliminary budget, and each step that is taken in the process to get from any preliminary budget to a final capital spending budget for a particular year.

RESPONSE: The majority of capital expenditures are related to building and maintaining lines and are budgeted from our 4-year Construction Work Plan ("CWP"). There are some other capital expenditures budgeted annually based on needs like transportation, etc. The portion of our capital budget related to pole change-outs is based on historical numbers and costs for the prior years at the time of developing our CWP. The number is consistent due to the pole inspection program finding a similar number of poles to be changed out annually.

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REQUEST NO. 5: Provide any current joint use agreements.

RESPONSE: Current joint use agreements are provided herewith in conjunction with a
request for confidential treatment.

Witness: Kevin Newton, Chief Operating Officer

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REQUEST NO. 6: For all except EKPC:

- a. Explain each basis for your contention, upon information and belief, that a market exists for the performance bonds required by Article XXI and Appendix D of the proposed tariff.
- b. Explain each basis for your contention that remedy through an insurance claim is not typically feasible if an attacher is no longer a going concern.
- c. Provide the average cost per attachment for the cooperatives' crews to remove stranded attachments left on the cooperatives used to determine the amount of the performance bond, and explain how that average cost per attachment was reached.

RESPONSE:

a. Performance bonds are often required in connection with projects involving construction and real property, and they are commonly used in pole attachment agreements across the country to mitigate risk in the event of default or non-performance by an attacher. There are many available sources for these types of bonds nationwide—for example, Surety One, Inc.¹, Telcom Insurance Group,² and Swiftbonds³—due to the ubiquity of bonding requirements in the industry. In Kentucky, specifically, performance bonds have historically served a proper role in the pole attachment framework, having been approved by the Commission as part of many tariffs filed by pole-owning utilities.⁴

¹ See <https://suretyone.com/pole-attachment-bond>, last accessed May 27, 2022.

² See <https://www.telcominsgrp.com/products-and-services/bonds/>, last accessed May 27, 2022.

³ See <https://swiftbonds.com/performance-bond/kentucky/>, last accessed May 27, 2022.

⁴ See, e.g., Louisville Gas and Electric (PSC Electric No. 13, Rig Sheet 40.23), Big Rivers Electric Corporation (PSC Ky No. 27, Sheet No. 38), Clark Energy Cooperative, Inc. (PSC Ky No. 2, Sheet No. 116), and many others.

South Kentucky's Response to PSC No. 6

Witness: Kevin Newton

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b. The intention of the performance bond requirement is chiefly to ensure the Cooperative has recourse in the event an attacher is unwilling or unable to remove its attachments upon discontinuance of business and non-payment of rental fees. In such a case, recovery through insurance is unlikely, both due to the nature of the possible claim and the low probability that the defunct attacher continued to maintain its policy. Performance bonds and insurance are related but distinct risk-mitigation tools often employed together in the context of commercial contracts, and again, have worked alongside each other in Commission-approved pole attachment tariffs for decades.

c. We estimate the cost per attachment to be in excess of \$50. Our cost for 2 linemen and two trucks to remove 4 attachments per hour would result in a cost of over \$50. We would expect the actual work to take substantially longer. Although we have not had to perform this removal work, to date, we believe the proposed bond is reasonable in light of the burden that would occur in the event facilities were abandoned in the future.

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REQUEST NO. 56: For South Kentucky RECC only: Refer to South Kentucky RECC's response to Staff's First Request, Item 11.

- a. Provide the typical timeline for replacing a pole when a defect requiring replacement is identified.
- b. Explain in detail how you keep track of when poles are inspected and how you track the condition of the pole at the time of inspection.

RESPONSE:

a. Poles that are indicated for replacement will typically be replaced within a year. If the work order is marked showing any priority, it will be changed much sooner; if warranted, it will be changed immediately.

b. All poles that are identified as needing to be replaced are drawn up on a work order, and the work order is processed and held until the time at which the pole is changed. The pole's condition is indicated on the work order by the employee or contractor drawing up the job, which is used to prioritize the work.

Witness: Kevin Newton, Chief Operating Officer

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REQUEST NO. 57: For South Kentucky RECC only: Refer to South Kentucky

RECC's response to Staff's First Request, Item 16, regarding the estimated per pole survey costs.

- a. Provide detailed support for the man hour cost of \$34.72.
- b. Provide detailed support for the overhead rate of 428 percent.
- c. Provide support for the assertion that travel time takes one hour per pole.

RESPONSE:

- a. Please see provided Exhibit 57(a).
- b. Please see provided Exhibit 57(b).
- c. Many areas of our system exceed a 45-minute drive (one way) from our nearest office to the pole location. The hourly travel cost of \$7.43 is part of the survey cost calculation, which takes into account that we would review 10 poles at each "location" per hour, both pre and post construction.

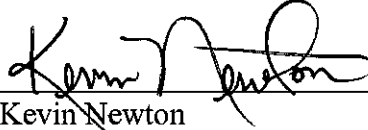
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VERIFICATION

I, Kevin Newton, verify, state, and affirm that the information request responses filed with this verification for which I am listed as a witness are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

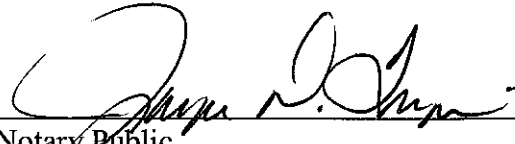
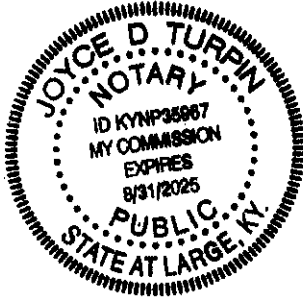


Kevin Newton
Chief Operating Officer
South Kentucky Rural Electric Cooperative
Corporation

COMMONWEALTH OF KENTUCKY)
) ss:
COUNTY OF Pulaski)

SUBSCRIBED AND SWORN TO before me on this the 2nd day of June, 2022.

My commission expires: Aug 31, 2025


Notary Public