

**Big Sandy Rural Electric Cooperative Corporation
Paintsville, Kentucky**

COST ALLOCATION MANUAL

Originally Adopted August 28, 2025

**Regulated and Nonregulated Divisions and
Affiliates and Related Services and Products**

Big Sandy Rural Electric Cooperative Corporation (“RECC”)

RECC is a regulated distribution utility whose primary function is the delivery of retail electric services.

Big Sandy Forestry, LLC (“Forestry”)

Forestry is a for profit, nonregulated affiliate which provides vegetative maintenance for RECC. Forestry is solely owned by RECC.

Cost Allocation Manual

Pursuant to KRS 278.2205

This Cost Allocation Manual (“CAM”) is for the purposes of allocating costs between Big Sandy Rural Electric Cooperative Corporation (RECC) and Big Sandy Forestry, LLC.

For clarity throughout this manual, Big Sandy Rural Electric Cooperative Corporation will be referred to as RECC, and Big Sandy Forestry will be referred to as Forestry.

1. Introduction

This manual outlines the policies and procedures for allocating costs between RECC and its wholly owned subsidiary, Forestry. The purpose is to ensure:

- Financial transparency
- Compliance with applicable federal, state laws and PSC regulatory requirements
- Equitable sharing of shared services and resources
- Accountability in tracking direct and indirect costs

2. Objectives

- Establish standardized cost allocation practices
- Promote consistency in decision-making
- Prevent cross-subsidization between entities
- Facilitate accurate financial reporting and audits

3. Definitions

- **Direct Costs:** Costs that can be specifically attributed to either RECC or Forestry (e.g., labor hours for forestry operations).
- **Indirect Costs:** Overhead cost, etc.
- **Allocable Costs:** Costs that benefit both entities and must be distributed using a logical methodology.

4. KRS 278.2205 Requirements

- **List of regulated and nonregulated divisions within the utility**
 - RECC is a regulated utility and has no divisions.

- **A list of all regulated and nonregulated affiliates of the utility to which the utility provides services or products and where the affiliates provided nonregulated activities as defined in KRS 278.010(21).**
 - RECC and its wholly owned subsidiary, Forestry. Forestry meets the definition in KRS 278.010(21)
- **A list of services and products provided by the utility, an identification of each as regulated or nonregulated, and the cost allocation method applicable to each category.**
 - RECC provides regulated electrical service to its retail members
 - Forestry provides nonregulated vegetation management services for RECC
- **A list of incidentals, nonregulated activities that are subject to the provisions KRS 278.2203(4).**
 - RECC has no other incidental, nonregulated activities.
- **A description of the nature of transactions between the utility and the affiliates.**
 - RECC provides the following services to Forestry:
 - Supervision
 - Insurance
 - Equipment maintenance and repair
 - A portion of human relations services
 - Forestry provides the services to RECC:
 - Vegetation management services
 - New construction right of way clearing
 - Storm assistance and clearing after storms
- **For each Uniform System of Accounts account and subaccount, a report that identifies whether the account contains costs attributable to regulated operations and nonregulated operations. The report shall also identify whether the costs are joint costs that cannot be directly identified. A description of the methodology used to apportion each of these costs shall be included and the allocation methodology shall be consistent with the provisions of KRS 278.2203.**

Allocation Principles

- Costs shall be allocated based on **benefit received, fairness, and consistency.**
- Allocations must be supported by **documentation and auditable records.**
- Any intercompany charges must follow **arm's length transaction principles.**

5. Allocation Methodologies

Cost Category	Direct or Indirect	Allocation Basis
Labor	Direct/indirect	Payroll hours + overhead
Equipment & Vehicles	Direct/Indirect	Actual hours used X RECC's internal hourly transportation cost
Accounting	Direct/Indirect	Average hours spent + overhead
HR	Direct/Indirect	Average time spent + overhead
Supervision	Direct/Indirect	Average time spent + overhead
Insurance- Medical/Workers comp.	Direct	Reimbursement of actual cost

Miscellaneous items Direct Reimbursement of actual cost

Audit fees

Fuel Purchases

Credit card purchases

Facebook advertising for employee recruitment

Website domain fees

Other

6. Intercompany Transactions

- All intercompany transactions must be recorded at **fair market value**.

7. Documentation & Recordkeeping

- All cost allocations must be **documented, signed, and retained** for audit purposes.
- Records will be maintained for a minimum of **7 years** or as required by law.


8. Review and Updates


- This manual will be **reviewed annually** by the President/General Manager, VP of Operations, HR Manager, CFO and Manager of Accounting.
- Revisions must be approved by **both boards of directors**.

9. Compliance

- This manual aligns with GAAP, RUS accounting standards, and KRS requirements.
- Internal audits shall be conducted periodically to ensure continued compliance.

**ADOPTED AND APPROVED BY THE BIG SANDY RURAL ELECTRIC
COOPERATIVE CORPORATION, at the AUGUST 28, 2025, BOARD MEETING.**


Chairman Danny Wallen


Secretary James Vanhooose