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May 22, 2009

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PUBLIC SERVICE
COMMISSION

Mr. Jeff Derouen
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

RE: PSC Case No. 2008-00371

Dear Mr. Derouen:

Please find enclosed for filing with the Commission in the above-referenced case an original and five (5) copies of the responses of South Kentucky Rural Electric Cooperative Corporation to the Commission's Order dated May 1, 2009.

Sincerely,

SOUTH KENTUCKY RECC

A handwritten signature in cursive script that reads 'Stephen Johnson'.

Stephen Johnson
Vice President of Finance

Enclosures

**COMMONWEALTH OF KENTUCKY
BEFORE
THE PUBLIC SERVICE COMMISSION**

CASE NO. 2008-00371

**DIRECT TESTIMONY
OF
E. ALLEN ANDERSON**

- Q1. Please state your name, your position with South Kentucky Rural Electric Cooperative Corporation (“SKRECC”) and your business address.
- A1. My name is Allen Anderson and I am the President and Chief Executive Officer (“CEO”) for SKRECC. My business address is P.O. Box 910, Somerset, Kentucky 42502.
- Q2. What is your educational background?
- A2. I received a Bachelors Degree from Berea College, April, 1976.
- 3Q. What is your professional business experience?
- A3. My professional work experience has been primarily in the electric utility industry and all of this experience has been with SKRECC. I started with SKRECC in 1978, as an Energy Advisor. I joined the executive management team in July, 1985 as the Manager of the Member Services Department. In April 2000, I became the Chief Operating Officer (“COO”). I assumed my current position in September 2001.
- 4Q. Have you ever provided testimony before the Kentucky Public Service Commission (“Commission”)?

4A. I have filed testimony with this Commission in SKRECC's last rate application in Case No. 2005-00450

5Q. What is the purpose of your testimony?

5A. The purpose of my testimony is to describe why SKRECC is planning to build a new Somerset facilities for Somerset and it includes the below listed areas:

- The need for a new Somerset facilities,
- How the current site was selected,
- The selection of the builder and the facility designer,
- The design itself, and
- Potential impact upon SKRECC's member/owners.

6Q. Why does SKRECC need a new Somerset facilities in Somerset

6A. The Board of Directors and management of SKRECC have the responsibility to our member owners to plan for the future and meet the service expectations and growth for the future. SKRECC hired a consultant to review our present facilities to see if major remodeling and renovation to the existing facility was economically feasible. It was determined that a new site and new construction was the best alternative for the future. SKRECC is always very concerned that it does the right thing for our members and, in this case, feels we have properly given this much in depth consideration to move forward with this building project. Problems associated with the current facilities include the following:

- The space of the current facilities is inadequate for SKRECC;
- The current facilities are a fire trap with no means of installing a sprinkler system;

- Fire evacuation routes cannot be improved without a significant investment;
- The current facilities are not capable of meeting some of the Americans with Disability Act (ADA) standards such as not being able to be made handicapped accessible;
- The current facilities are in a flood plane and subject them to being flooded at times of peak rainfall conditions;
- The current facilities are on a highly traveled thoroughfare where entering and exiting the SKRECC's property can be cumbersome and dangerous.
- The use of the current drive through facilities by members at peak times will cause problems that are hazardous and could be dangerous to members due to traffic congestion and backup.
- The location of computers, printers and other similar equipment is very limited due to how the current facilities are situated.

SKRECC's current Somerset facilities were initially built in 1952. Subsequent additions were made in the following years.

1. 1957 – Kitchen and auditorium built
2. 1960 – Garage and billing room added
3. 1964 – Directors and manager rooms added
4. 1969 – Room for Bookkeeping department added
5. 1971 – Converted garage area to member services offices
6. 1976 – Engineering offices added
7. 1986 – PCB building added
8. 1987 – Dock space added to garage

9. 1989 – Warehouse addition made along with office space addition for cashiers
10. 1991 - Warehouse addition made
11. 1992 – Large addition for office space, and
12. 1998 – Garage bays added with some office space renovations.

From the above listing, I believe that it is readily apparent that current headquarter facilities are outdated and that SKRECC needs new facilities.

7Q. Now that the need for new Somerset facilities is well established, what did SKRECC do to address this need?

7A. SKRECC has addressed this need for new facilities by first determining the size of the facilities, the needs of the employees, the type of property needed for an electric utility and a design that would accommodate all of the above. One additional factor that was also very important was the fact that current needs as well as future needs would have to be understood and accommodated. This process was started in 2002 when SKRECC hired Mr. Roy Cowan of the National Rural Electric Cooperative Association (“NRECA”) to lead SKRECC in determining what it would need in new facilities. Mr. Cowan is a well respected expert in this area with many years of experience in helping rural electric cooperatives on such matters.

8Q. What are the conclusions from this 2002 Facilities Study conducted by Mr. Cowan?

8A. This study was completed in October 2002 and was titled “Facilities Analysis”. This complete study was filed in this application as a part of response No. 3 to the Commissions Staff’s First Data Request. An updated “Facilities Analysis” was completed in 2008 and filed as a part of the application in this case. The primary conclusions from both these studies were the following ones:

- The current facilities and property have served well beyond their effective life;
- Access and egress are an issue of member and employee safety;
- Lack of compliance has potential liability with the Americans with Disabilities Act (“ADA”) such as long and narrow hallways, multiple levels with treacherous steps;
- Fire regulations may preclude any renovation or expansion
- Facilities in flood plane;
- Space is fragmented spreading many functions to different floors and or separated areas of the building and facility. This all reduces efficiency with a loss of productivity.
- Unable to retrofit most technological application such as the smart grid;
- Environmental issues and indoor air quality issues;
- Minimal space for employee meetings and business meetings;
- Storage needs have outgrown storage space capacity causing the need for several portable buildings and the use of old houses on the property;
- During peak times members create traffic jams on public roadways in front of building when trying to enter and/or exit our facilities;

- The use of the drive-thru payment facility is hazardous for members, employees and general public, and last
- Communications with fellow employees are difficult.

Based on Mr. Cowan's 2002 study and since all of these deficiencies still exist, SKRECC has most probably been derelict in coming to the Commission with this application because of the length of time that has elapsed since the original study. Attached as Exhibit A are some pictures which depict very well the situation at SKRECC's current headquarter facilities.

9Q. What was the response of SKRECC to this 2002 study?

9A. SKRECC management and its Board of Directors ("Board") in the timeframe of late 2002 through the early part of 2003 initiated two processes. One process was to select an appropriate site for the new facilities and the second process was to look at new facilities including size and design.

10Q. Please discuss the site selection process first.

10A. The search for a suitable site began in 2002 with a goal to acquire adequate acreage that would allow SKRECC to accommodate its annual meeting (Exhibit D) at its facilities as well as to accommodate the needs of SKRECC's employees and its equipment. SKRECC has always planned to sell its property on West Highway 80 ("Coop Farm") once construction has been completed on the new

facilities. SKRECC also plans to sell its current headquarter facilities once the new facilities are constructed. The 2002 study contained a list of potential sites that were identified. As these sites were being reviewed and evaluated, SKRECC became aware of property for sale on Norwood Road north of Somerset. The proposed relocation of Highway 27 and the construction of the Interstate 66 interchange were very close to this property making it a very feasible location with excellent access and egress for members and employees. This property also provides appropriate space to combine the Somerset facilities with the annual meeting grounds which is a goal that has been mentioned above. Additionally, this site is located approximately three miles from the present Somerset Facilities. This property was compared with those in the 2002 study in size and in potential price with favorable results. SKRECC saw this as an opportunity to acquire the optimum acreage at a very reasonable price. A decision was made to purchase this property for the new Somerset Facilities. This property contains about 85 acres with an average cost of \$14,188 per acre for a total amount of \$1,206,000. Four parcels were purchased during the period of August, 2003 and February, 2004. With the relocation of Highway 27 almost complete and the new property near the intersection of Highway 27 and the new Interstate 66 (interchange with Highway 27 is complete), this location will probably have a significantly higher value today than it cost SKRECC to purchase. Exhibit B to this testimony contains extracts from Minutes from SKRECC's Board meetings on matters pertaining to the new Somerset facilities and to the site selected for these facilities. References in regard to the purchase of subject land are contained in

the minutes of July 10, 2003, August 14, 2003, September 11, 2003, November 13, 2003, and January 15, 2004,

11Q. Please discuss the process utilized in the selection of the contractor and architect for these facilities?

11A. A Building Committee (“Committee”) was established in 2003 and was comprised of three directors and several employees representing the different areas of the co-op. The purpose of this Committee was to establish a process for the completion of the new district offices and the Somerset facilities. The Committee visited and reviewed the design of the new office facilities for other electric distribution cooperatives including Nolin RECC, Blue Grass Energy Cooperative, Owen Electric Cooperative and Jackson Energy Cooperative. The Committee after much discussion decided to use the general contractor approach in building the new district facilities and new Somerset facilities.

Six contractors were evaluated and interviewed by the Committee. To be interviewed the contractors must have demonstrated the competency and ability to complete projects of this scale and meet RUS Guidelines. The contractors interviewed by The Committee are listed below:

- Branscum Construction Company
- CDS
- Denham and Blythe
- DW Wilburn

- Lucas Construction.
- Peck Flannery Gream Warren Inc.

CDS was initially selected to provide the architect and engineering services for the Whitley City district facilities and Branscum Construction was selected as the general contractor. However, after the initial design of this facilities, the Board rejected the cost projection of CDS. CDS was replaced by Taylor-Whitney, and the Branscum Construction Contract was changed to provide the oversight as the project manager for the Whitley City district facility.

12Q. Did SKRECC continues this same approach to its other new district offices built after the Whitley City district office?

12A SKRECC duplicated the Whitley City district facility design when bidding the Albany and Russell Springs facilities. Since these offices were duplicate ones, Taylor Whitney continued their architect and engineering responsibility while Branscum Construction was not retained. Double-S Construction was selected as the general contractor for the Russell Springs and Albany district facilities. Double-S was basically the contractor on the Whitley City district facility with Branscum Construction's project manager oversight. We actually created this duplication of services on the Whitley City Project and learning from this situation we felt we only needed to move forward with the general contractor to avoid this unnecessary cost.

13Q. Was Double-S selected as the general contractor for the Somerset Facilities?

13A. Double-S was not selected as the general contractor for the Somerset facilities because it was determined not to be a large enough company to handle a project of this size.

14Q. What contractor was then selected for the Somerset facilities?

14A. DW Wilburn Construction, one of the contractors initially interviewed, was chosen as the general contractor for the Somerset facilities. DW Wilburn had finished a very strong second during the interview process. Tate, Hill and Jacobs was the firm selected to be the architect assigned to the project and was chosen from a group of architects provided by the general contractor.

15Q. How did SKRECC determine the building design it is proposing?

15A. An intensive and extensive programming process was performed by the architect team. Each function of every SKRECC team has been evaluated to determine the necessary space requirements for each team and team member to be able to efficiently complete their job responsibilities and provide service to SKRECC's members in the most productive manner possible. Additionally the building design was to include a layout plan that addressed the space for members, employees, equipment and storage which enhances productivity. The building

design for the new Somerset facilities will accommodate the current needs and the estimated future needs of the cooperative. The new facilities will address the problems of the current facilities which are lacking in restrooms, handicapped accessibility, hallway space, inadequate storage, meeting rooms and all areas are at maximum. Energy efficiency was an important component of the new facility design. We promote energy efficiency with all of our members and we wanted to support our beliefs by building this building energy efficient. Lastly, all of our new building designs are joining all areas of the co-op under one roof giving us much more efficiency in the work force and much more flexibility.

16Q. Would you explain the rationale for the size and the cost of the proposed headquarter facilities?

16A. The justification for the sizes of the proposed Somerset facilities comes from the 2008 Facilities Analysis which updated the 2002 Facilities Analysis. The changes from one analysis to the next is a result of the timing difference between these two analyses but the pattern in the 2008 analysis is very similar to those identified in the 2002 analysis. The two primary changes are the size of the proposed facilities and its project costs.

17Q. What are the reasons for the increase in costs?

17A. Several reasons exist for the increase in costs. The main ones are the increased cost of labor and the increased cost of materials. The estimates contained in the 2002 analysis were based only on cost estimates developed by the consultant as part of the 2002 analysis. Local contractors were queried by the consultant to develop the estimated project cost. These estimates were made based on estimated square footage from the study prior to the design of the building, leaving room for a higher level of inaccuracy on these estimates. The 2008 analysis was conducted by the same consultant and the estimates contained in that study were based on actual bid quotations that the general contractor had received in the bidding process. The cost per square foot is estimated at \$164.40 excluding cold storage parking in the 2008 study analysis. A revision has been made in 2009 due to the down turn of the economy which estimates the cost per square foot to be \$154.28 excluding cold storage parking. SKRECC feels that this cost is a reasonable cost per square foot and is comparable to what other distribution cooperatives have paid for new facilities at a per square foot basis.

18Q. How does SKRECC's proposed Somerset facilities compare with the facilities of other cooperatives that have recently built new headquarter facilities?

18A. It is felt that SKRECC's proposed facilities are in line in size and cost with those of other cooperatives on a per unit basis. Listed below is a table that lists some statistics that indicates that SKRECC is very similar on a per unit basis.

| COMPARISON OF SKRECC'S PROPOSED HEADQUARTERS WITH OTHER COOPS | | | | | | | |
|---|------------------|-------------------------|---------------------|---------------------|----------------------|-----------------|------------------------|
| Cooperative | HQ Facility Cost | Facility Square Footage | Coop Number Employ. | Coop Number Members | Cost per Square Foot | Cost per Member | Square Feet per Employ |
| Coop A | 8,191,400 | 59,800 | 107 | 47,000 | 136.98 | 174.29 | 558.88 |
| Coop B | 6,200,000 | 40,240 | 61 | 24,587 | 154.08 | 252.17 | 659.67 |
| SKRECC (a) | 16,773,340 | 108,722 | 167 | 67,000 | 154.28 | 250.35 | 651.03 |
| SKRECC Net(b) | 15,000,000 | 108,722 | 167 | 67,000 | 137.97 | 223.88 | 651.03 |

(a) Cold Storage square footage and cost has not been included.
(b) SKRECC Net is with sale of current Somerset Facilities plus Coop Farm.

19Q. Does SKRECC feel that these new Somerset facilities would significantly harm its members?

19A. SKRECC feels that its new Somerset facilities would not significantly harm its members. SKRECC feels that this investment is in the long term interest of its members. SKRECC makes this statement for several reasons.

- The current facilities are antiquated and allows for less than optimal services to members,

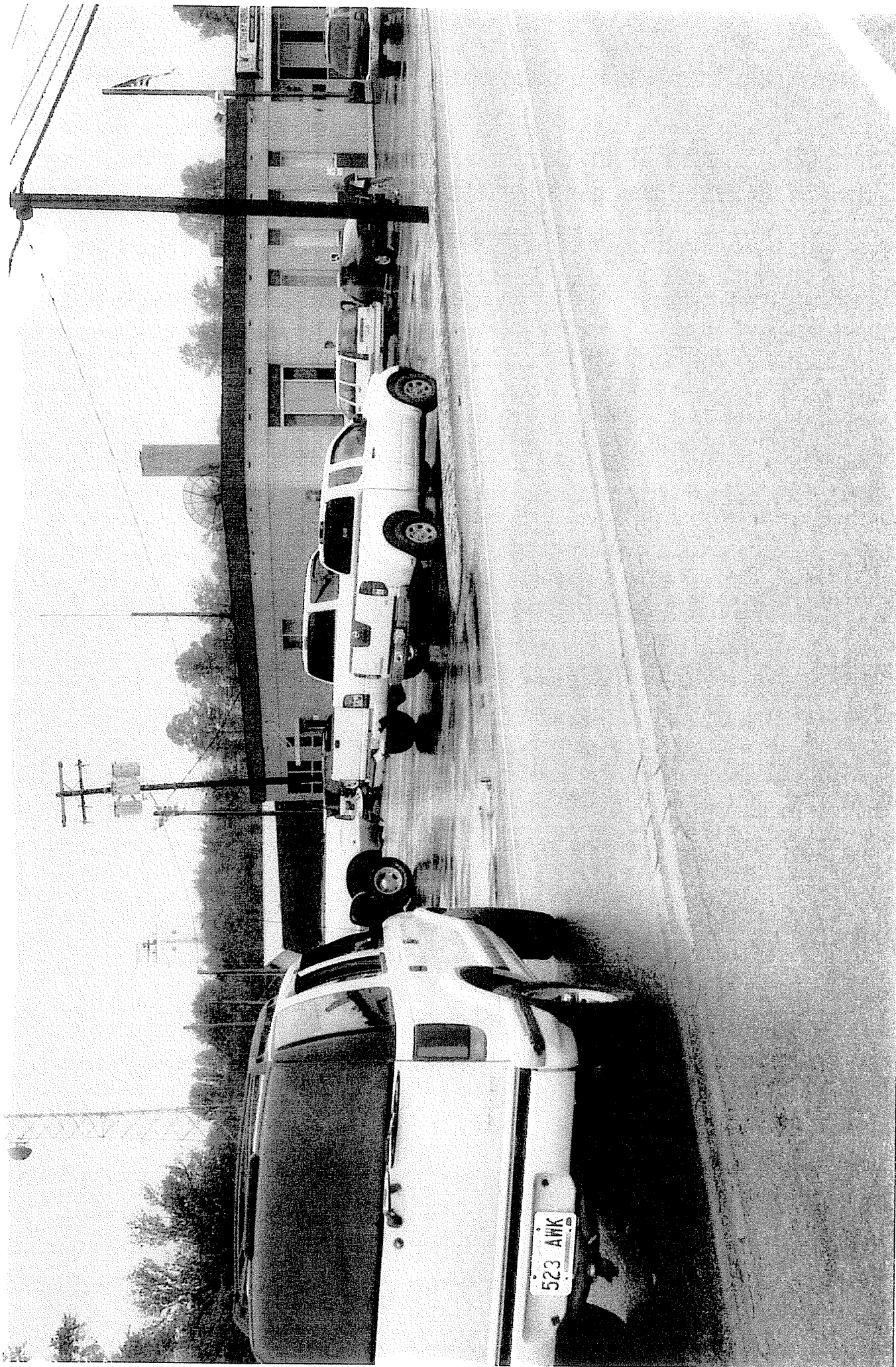
- The new facilities would provide the opportunity for new service as well as more efficient delivery of services,
- Improved efficiency would lead to enhanced productivity which can result in cost savings which have not been adequately modeled in this application
- Future growth would be accommodated.
- Operational efficiencies increase considerably which would have the long term effect of reducing some costs which have not been quantifiable for this application,
- The new facilities will allow for the placement of computer and technology infrastructure that can be utilized with future planned automated meter information (“AMI”) systems and for smart grid applications.
- All studies and research done show the current facilities are not adequate to meet the future needs and neither is it feasible to upgrade. This is what points us in the direction of building new facilities.

Attached as Exhibit C are copies of communications that SKRECC has had with its members on this matter.

20Q. Does this conclude testimony?

20A. Yes, this concludes my testimony.

27



181



(5)



(4)



(b)



(b)

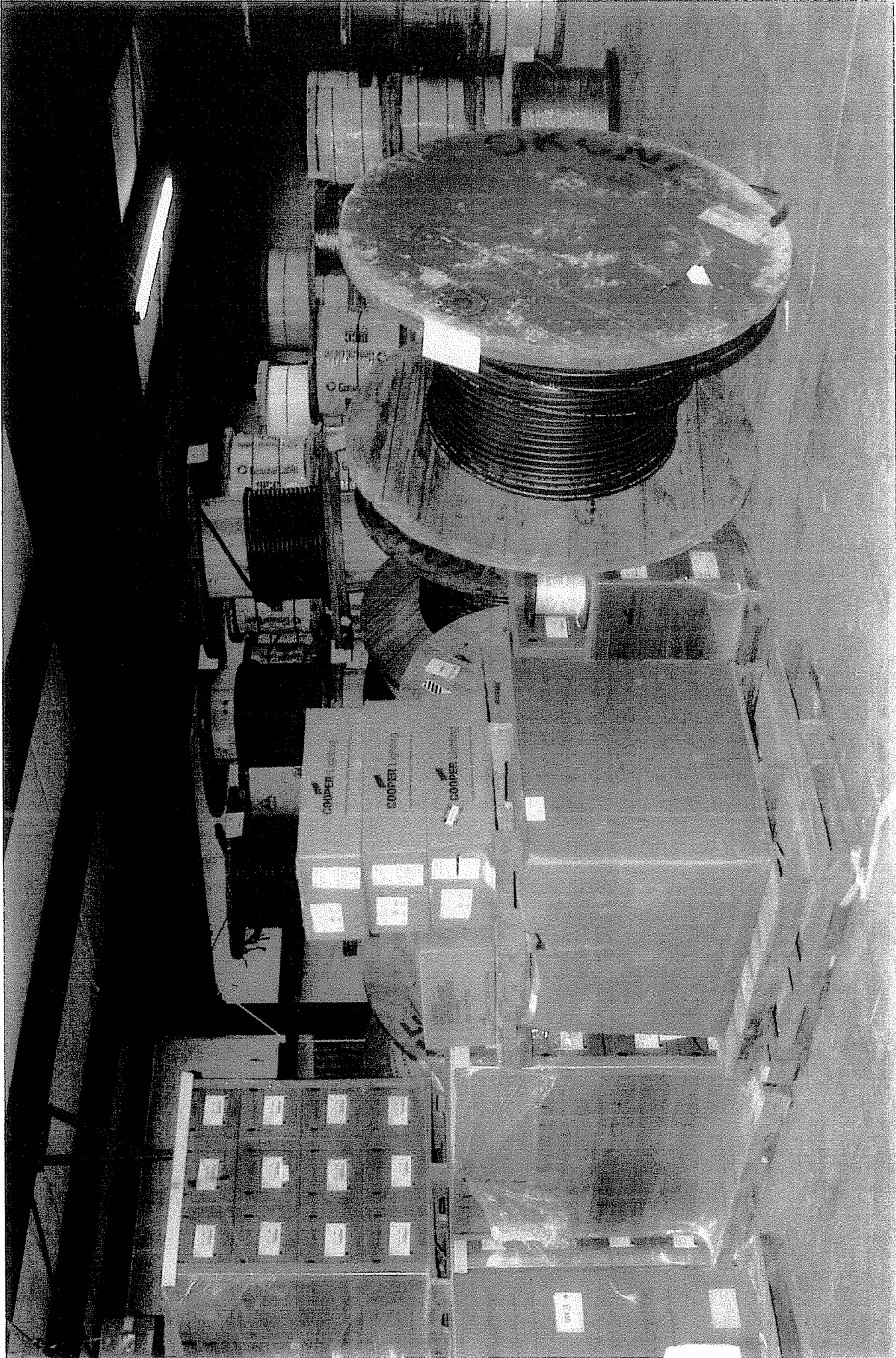


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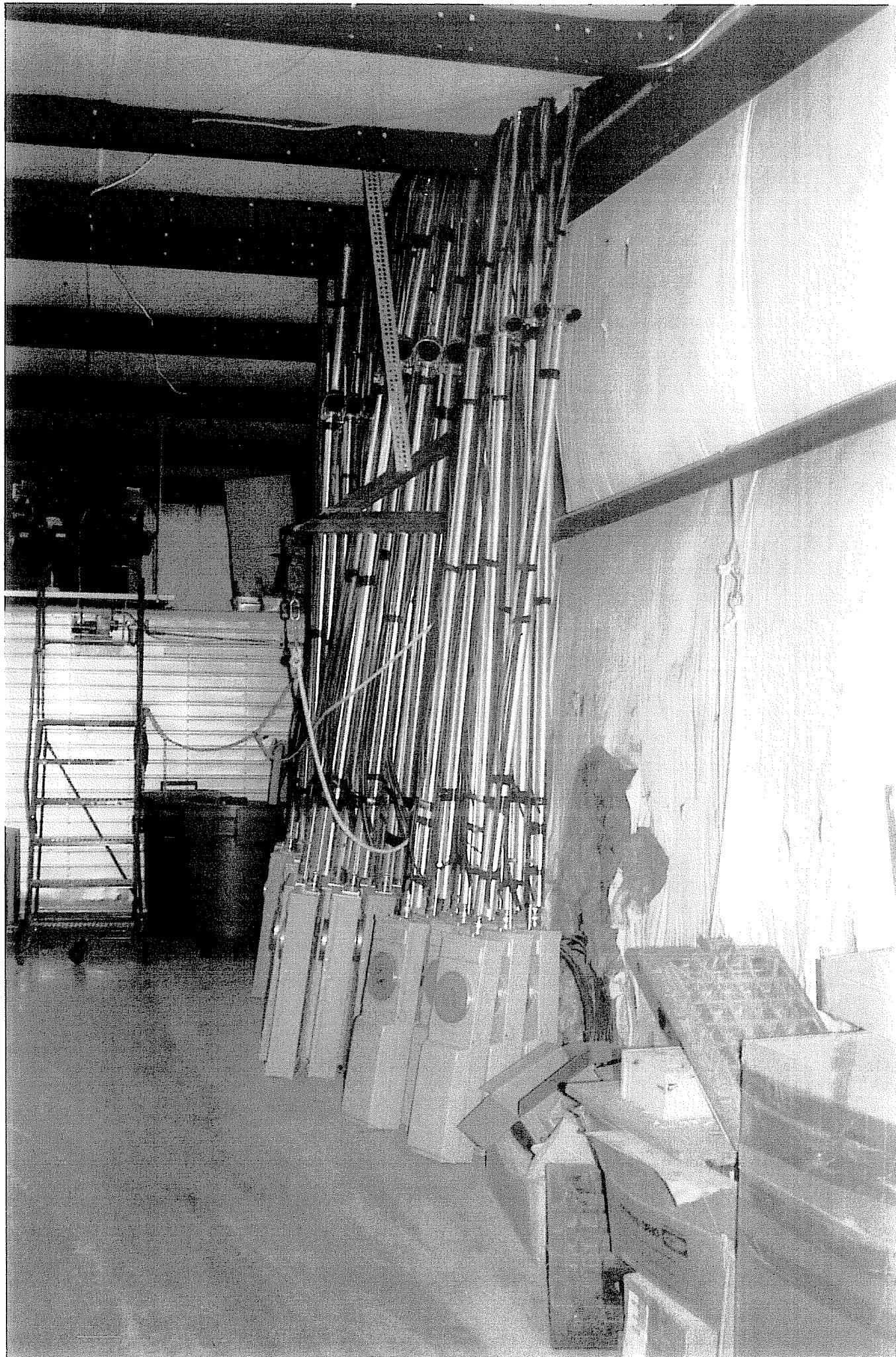




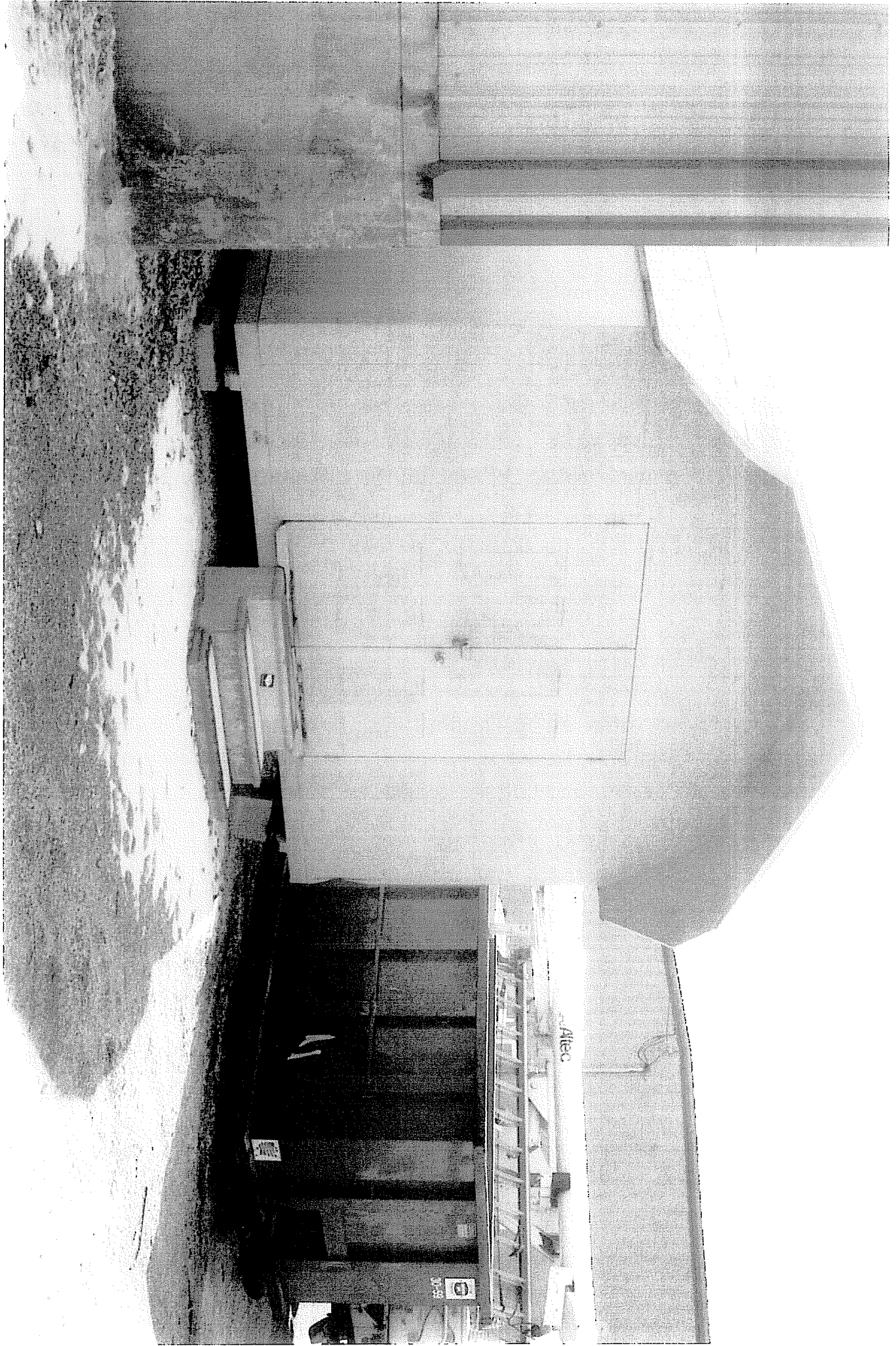
(4)



(21)



11/2



121



031



(14)



(15)



EVERY

Timeline
Based on Board Meeting Minutes
South Kentucky RECC

October 10, 2002

Building Site and Assessment Study – NRECA Consultant, Roy Cowan: Allen introduced Roy Cowan of NRECA to the Board and reported that Mr. Cowan was the consultant that was hired concerning the building and the site assessment study. A booklet was then distributed to the board for review concerning Mr. Cowan's findings. A presentation was also given which outlines Mr. Cowan's findings and his suggestions. Mr. Cowan indicated that this study was not in final form but was put together to help the Board decide on their next course of action. Mr. Cowan then proceeded to go over the materials that were contained in the booklet with the Board. Mr. Cowan reported that he had analyzed the current facilities in each service area along with the land. He had also spoken with employees to find out what their needs and suggestions were. Mr. Cowan reported that SKRECC's growth pattern was also taken into consideration. He reported that this study contained the cost for purchasing new land and building a new facility as opposed to upgrading the current facilities. He reported that due to SKRECC's expected growth rate that probably more land would need to be purchased and new facilities designed to accommodate the growth in each service area and had estimated the cost of same.

July 10, 2003

Update on Land Purchases and Architect Selection: Allen reported that SKRECC had found a potential site for the Somerset Facility. Allen reported it contained approximately 80 acres and was located in the Norwood Area. Allen reported that a 10-day option to purchase could be acquired and that additional options to purchase could also be acquired for additional amounts, while SKRECC was determining if this piece of property was what was needed. The Board indicated that Allen should go ahead and acquire the 10 day option to purchase, have the Board to view the property once again and then determine what to do next. Allen further reported the building committee had now met with 6 people, 3 of whom were design and build and the other 3 were architects.

August 14, 2003

Update on Land Purchases and Architect Selection: Allen reported that Darrell has closed and prepared the deed on the largest tract with plans to close and prepare deeds on the other three tracts this week. Allen further reported that SKRECC exercised another 10-day option on the Pulaski County Property in order to get an executed contract to purchase the front property. Once the front is confirmed in writing SKRECC will close on this purchase. Allen further reported that Jeff has discussed the architects with RUS and SKRECC is now ready for the building committee to meet and select an architect or design/build contractor.

September 11, 2003

Update on Land Purchases and Architect Selection: Allen reported that the building committee met last night to discuss whether to hire a design and build firm or an architectural firm. Allen reported that John Carman was now in the process of doing a more in depth environmental study on the Somerset property to meet with RUS's requirements. Allen reported that he had been approached by a party who owns some acres of road frontage next to the property we had purchased for the Somerset area. Allen reported that they wanted \$70,000 per acre. Discussion followed concerning purchasing same. It was determined that at this point SKRECC did not need to acquire that property. Allen reported that an offer of \$400,000 had been made on the co-op farm. Discussion occurred concerning meeting again with Branscum and CDS the two firms that the building committee had selected as final candidates. It was discussed to have the full board meet with these firms for a final selection. Discussion occurred. The consensus of the Board was to have the building committee to select one. A special meeting was discussed to handle the land/building committee issues.

November 13, 2003

Construction Management Contract: Allen reported that SKRECC had received a draft of a contract from Branscum Construction and had passed same on to Darrell for his review and comment. Allen reported that he and Jeff had looked at the contract extensively and had some questions on Branscum's fee, CDS's fee, and the going rate for the industry standard, job site trailers and a performance bond. Discussion was held concerning this matter. It was indicated that the contract should be discussed with Branscum further and a final one brought back to the board for approval. Allen further reported that SKRECC had received a verbal okay on the archeological aspect of the Somerset site properties.

January 15, 2004

Land Purchase for Future Office Sites: Allen reported that 3.5931 acres were available for purchase at the Somerset Site. Allen reported that the total cost was \$126,000.00 for the acreage. Allen further reported that there were three parties involved and one party, which was an older couple, had requested a life estate in the property. Allen thought that this purchase should be made. Discussion followed. A motion was made by Glen Massengale and seconded by Jerry Purcell to approve Allen purchasing the 3.5931 acres for \$126,000.00, with a life estate being granted to the elderly couple involved. Motion carried.

Construction Manager Contract: Allen reported that some issues had been raised concerning the contract. Allen reported that answers needed to be obtained concerning pricing, insurance, liability, performance bond, subcontractors, etc. Discussion followed concerning these issues. Allen reported that the contract was not ready to be executed but would like approval to execute the contract with Branscum once these issues were worked out.

March 11, 2004

Building Design and Layout Update:

Presentation by CDS, John Carmen and Branscum Construction: Allen introduced Gary Sweeney and John Carmen to the Board and indicated that they would be giving a video presentation concerning the initial design layout of the new offices. Mr. Sweeney discussed with the Board where the project currently stood and discussed the schematic design and the design development with the board. John Carmen then proceeded to show a video presentation to the Board, showing a virtual tour of each of the district offices and the Somerset office layout while discussing the site analysis, its layout, and what it will be used for. Allen then introduced Jonathan Smith of Branscum Construction to the Board. Mr. Smith indicated that once the layout as presented by CDS was approved, Branscum would begin developing the budgets. Mr. Smith reported that once the budgets were approved they would begin the process of putting the projects out to bid, with the district offices being first and then the headquarters.

May 27, 2004

Special Board Meeting of South Kentucky RECC – Purpose to discuss Branscum Construction Company Proposals for Construction of the 4 field offices:

Allen then reviewed handout materials with the board and followed with a presentation from Branscum Construction, Inc. and a lengthy question and answer session. Mr. Branscum, Mr. Smith, and Mr. Cook left the meeting, and there was further discussion amongst the board regarding proposals. A motion was made by Jerry Purcell and seconded by Charles Gore to proceed with the bid process for the Whitley City, Kentucky office only and to reserve any further decisions until after bids have been received and the actual cost of the construction can be more accurately determined.

September 23, 2004

Special Board Meeting – to discuss with Mayes, Sudderth & Etheredge, Inc. their review of the contractor's bids on the new buildings for SKRECC and decide on how to proceed concerning the issues with office construction projects. Handouts were distributed to the Board concerning the costs of the Valley Oak Technology Building, the projects that MSE had been involved with, and a memo concerning MSE's response to the review of the contractor's bids and suggested possible cost saving alternatives that could be considered by SKRECC. Discussion followed with Marty Freeman and Glen Ross of MSE concerning this matter.

After discussion with MSE Representatives, Allen distributed to the Board a letter that he received from Mark H. Vaught concerning his examination and study of the plans that were provided to him by SKRECC. Allen reported that based upon Mr. Vaught's examination his opinion was that the fair market value of the subject new office building was \$900,000.00. Discussion followed. Allen then distributed to the Board value engineering ideas that he had received from Branscum. Discussion followed.

It was determined after reviewing all of the information presented that management was to find out what documents and other materials SKRECC needed to obtain from Branscum and CDS. Upon that determination management was to obtain that information and then proceed along with the Board attorney to discuss a resolution.

October 8, 2004

Update on Contract with Branscum:

Allen reported that after the Special Meeting at Valley Oak Technology Park he discussed with Mr. Taylor and Mr. Freeman what material and/or documents SKRECC needed to obtain from Branscum and/or CDS. Allen reported that they advised him to obtain the geological information such as the topographical maps, the plats, environmental, and the geo tech information. Allen reported that they also advised him to obtain the basic floor assessment plans. Allen reported that he was in the process of obtaining that information. Allen reported that after obtaining that information he and Darrell would proceed to contact CDS and Branscum and advise that SKRECC wished to terminate their contract with them and proceed to work on a termination agreement. Allen reported that he would keep the Board apprised of this matter.

November 11, 2004

Update on Contract with Branscum Construction: Allen reported that discussion had been held with Branscum concerning termination of the current contract with them. Allen reported that he was to receive the terms concerning the termination of the contract on Monday and he would apprise the Board.

January 13, 2005

Discuss Meeting with Branscum Construction: Allen gave a brief overview of his understandings of what has taken place with Branscum/CDS issue. Allen reported to the Board on the various discussions that he and/or he and Darrell had with Branscum concerning SKRECC's dissatisfaction with their performance to-date. Allen reported that three scenarios had been discussed: 1. Branscum would talk with CDS and make the requested changes that were needed without any change orders and move forward with both CDS and Branscum in their present rolls; 2. Discontinue our working relationship with CDS and disallow Branscum to bid on the project but still keep them as the project manager to oversee it; and 3. Agree upon a cost for Branscum and CDS to both be terminated and SKRECC to start over. Discussion followed. Allen reported to the Board on what had been paid to Branscum and CDS to date. Allen reported that he thought it best to not get into a legal battle with Branscum and inquired how the Board's feeling of terminating CDS and having Branscum be the project manager and take it out to bid and to this for a percentage fee, applying the \$58,000.00 already paid to Branscum, toward a new contract. Roundtable discussion followed. Discussion then occurred on executing a new contract with Branscum as project manager, but only for one building.

If that scenario worked out then discussion would be held concerning the other buildings. The majority of the Board agreed to this scenario, excluding Rick and Bill.

Discussion then occurred on what if Branscum declines the offer of the one building contract. The Board's consensus was then Branscum was to come back with final offer to cancel the existing contract, if that offer was not acceptable then SKRECC would proceed directly to mediation.

A motion was made by Glen Massengale and seconded by Charles Gore to approve Allen to execute the contract with Taylor and Whitney Architects and the new contract with Branscum as presented. Motion carried.

February 10, 2005

Update on CDS:

Allen reported that after the last Board meeting he had contacted CDS to inquire as to the amount it would take to terminate our working relationship with them. CDS indicated that a payment of \$68,000.00 would be required along with executing a release. Allen reported that Darrell had indicated to CDS that SKRECC would pay \$45,000.00 to terminate our working relationship with them and had revised the release that they had previously forwarded. Allen reported that CDS had accepted the \$45,000.00 in settlement and had executed our revised release.

Update on Taylor and Whitney Architects:

Allen reported that the employees had met with representatives of Taylor and Whitney Architects and had indicated that they were in favor of working with them. Allen reported that they had sent a contract to us, which was \$65,000.00 flat fee for the McCreary County District Office, \$75,000.00 thereafter for each of the other three District Offices and then 5% for the Somerset Office. Allen reported that discussion had been held concerning this contract and they had reduced the cost to \$65,000.00 for all four of the District Offices and 5% for the Somerset Office. Allen reported that they indicated that if SKRECC accepted the proposed contract that the McCreary County District Office should be out to bid by the first of April and finished in six months. Allen recommended to the Board that we work with them under the proposed contract.

Update on Branscum Construction: Allen reported that he had contacted Branscum concerning voiding the current contract with them and entering into a new contract with Branscum being project manager only and doing the work on a one building at a time concept. Allen reported that Branscum had agreed to this new contract with SKRECC. Allen reported that SKRECC had already paid Branscum \$58,000.00. Allen reported that Branscum had indicated that they would give SKRECC a 10% credit for each of the District Buildings that they complete and the remaining balance with the completion of the Somerset Office to compensate for the \$58,000.00. Branscum indicated that their fee under the contract would be 3.2% if they did all of the buildings and 5% if they did only one building. Allen reported that Darrell had reviewed and approved this new contract and Allen recommended that SKRECC enter into the new contract.

June 15, 2006

Land Available at "New" Somerset Site: Allen reported that a 10-Acre field in front of the property at the new Somerset site was available. Allen reported that the gentleman that owned same had approached Allen about leasing the property to SKRECC on a long-term lease agreement or maybe to sell it. Allen reported that the property had been appraised and contact had been made with the gentleman to advise him of the appraisal amount. Allen reported that the gentleman had made a verbal commitment to SKRECC for the first right of refusal. Discussion followed. It was indicated that SKRECC did not have to have the property and the best course of action was to let it lay until we hear from the gentleman again.

February 12, 2007

Discuss Moving Forward on New Somerset Office: Allen reported that he and Tom had met with D. W. Wilburn on February 1st to discuss any interest they may have as a design builder. Allen reported that an architect was needed on this project. D. W. Wilburn suggested Tate, Hill and Jacobs out of Lexington. Allen reported that a footprint of the building could be obtained before any charge was incurred. Allen reported that D. W. Wilburn had indicated a 5% built-in cost for the design builder. The Board's consensus was to let Allen move forward on this matter.

March 8, 2007

New Somerset Office Project Update: Allen reported that it may be worthwhile for the architect firm to do a drawing of the Somerset Office. Allen reported the architect firm had come in and taken a lot of pictures and spoke with the Management Team concerning what was needed. Discussion was held concerning scheduling a Special Board Meeting toward the end of March to discuss any questions that the Board may have with the architect firm and Doug Wilburn. Allen reported that he would advise the Board of the time and date of the Special Meeting as soon as we were ready to discuss.

April 2, 2007

The Special Meeting was called for the primary purpose of discussing the proposed design team for the Somerset Office. Allen introduced Doug Wilburn, Margaret Jacobs, Martin Delker and Chris Howard to the Board. Handouts were distributed concerning the proposal.

Allen reported that a couple of weeks ago he had met with Doug Wilburn and Margaret Jacobs concerning a design plan proposal for the Somerset Office. Allen reported that Ms. Jacobs had collected information concerning what was needed for the Somerset Office in order to produce a rough sketch of her proposal for the layout of the Somerset Office.

Ms. Jacobs then proceeded to give a presentation to the Board concerning her concept of the layout of the Somerset Office. Ms. Jacobs indicated that the Somerset Office needed a good circulation pattern with a lot of natural light. Ms. Jacobs discussed with the Board various plan but indicated that in her opinion the "Winged "I" Plan" was the plan that fit those needs the best. Ms. Jacobs indicated that this was a rough outline and more input from the staff was needed prior to confirming the plan. General discussion followed concerning the square footage, the main building and the warehouse building and how they would be situated on the site.

Doug Wilburn then discussed with the Board the components of the contract between SKRECC and his company. Mr. Wilburn indicated that the contract was a "fill-in" the blank contract and it was standard contract used throughout the industry. Mr. Wilburn indicated that the work would be described in detail along with the stipulations. Mr. Wilburn indicated that the contract was broken into phases: concepts, schematics, design, construction drawings and construction. Mr. Wilburn indicated that the exhibits to the contract would contain the design fees, bid tabs and schedule of values. Mr. Wilburn indicated that he liked to keep things simple because they worked better. Mr. Wilburn indicated that everything would be bid out, except the concrete and some general carpentry work, which D. W. Wilburn, Inc. would perform. Mr. Wilburn indicated that a rough time frame would be sixty days for each phase and if approved by the Board the building should begin construction by the end of February, 2008. Mr. Wilburn indicated that SKRECC would deal with him and it would be his job to handle everything else, along with advising SKRECC if he saw something that was not working. Mr. Wilburn indicated that he was bonded and insured and he would take care of all of the permits that would be required. General discussion occurred concerning the schematics and square footage on the buildings (office and warehouse) and getting Ms. Jacobs to finish out the concept of the buildings and Mr. Wilburn projecting and estimate of the costs.

General discussion was held among the Board concerning their feeling of the proposed design team and moving forward with this project.

May 10, 2007

New Somerset Office Project Update: Allen reported that SKRECC had provided Ms. Jacobs with all of the information that she had requested for the floor plan, and she had provided a revised floor plan for our review. Allen reported that those were being reviewed and we were trying to get an estimate of what a total project cost would be. Allen reported that in the next couple of weeks the costs needed to be nailed down on the total project cost. Allen reported that the estimates on the building alone appeared to be in the ballpark and Ms. Jacobs is just waiting on our approval. Allen reported that SKRECC had incurred no costs up to this point. Allen reported that the cost to the co-op would be around \$110,000.00 when we moved into the schematics portion of the project. We will need to move into this phase before we will be able to get a total project cost.

June 14, 2007

New Somerset Office Project Update: Allen reported that a contract had been executed with D. W. Wilburn. Allen reported that Margie had redone the plan and the team leaders were currently reviewing the plan to see if it would meet their needs. Allen reported that John Carmen and Margie Jacobs had attended the annual meeting to review the setup and attendance and indicated that an amphitheater would be nice for the new annual meeting site. Allen reported that SRECC was waiting for a cost estimate of same. Allen reported that so far everything looked as if it was falling within the cost range that had been discussed.

November 13, 2007

Somerset: Allen reported that we had been the holdup on this project but the floor plan should be approved shortly. Allen reported that the elevation was being worked on along with the pole yard, warehouse, amphitheater, parking, etc. Allen reported that they should have something to show the Board soon.

January 10, 2008

Allen reported that a meeting would occur probably during the last week of January with the architect concerning the floor plan and to confirm the cost on the Somerset Office. Allen reported that if everything was in range a Special Called Board Meeting might need to be scheduled to discuss this. Allen reported he would keep the Board updated on this matter. Allen reported that the old house that was located on the Somerset property had been sold for \$4,000.00.

February 14, 2008

Allen reported that we were close to having the plans completed for the Somerset Office. Allen reported that we had received the rough estimates on the price and Jeff was running that number through our finances to see how it would impact same. Allen reported that we would have to take it to the PSC for approval. Allen reported that the rough estimate was around \$19 million and that management was looking at the plans very closely to see if anything could be cut and/or amended.

March 13, 2008

The Special Meeting was called for the primary purpose of discussing the proposed final plans for the Somerset Office. Allen introduced Doug Wilburn and Margaret Jacobs to the Board and indicated that they were going to give a presentation concerning this matter.

Allen reported that Ms. Jacobs would go over the plans for the office and Mr. Wilburn would discuss an estimated cost of same. Ms. Jacobs distributed handouts concerning the project data and drawing of the facility. Ms. Jacobs reported that the

primary office building was a Winged "I" Plan configuration and that the first floor was 35,500 square feet and the second floor was 10,560 square feet for a total of 46,050 square feet for the primary office building. Ms. Jacobs reported, in detail, concerning the acreage, the connecting building square footage (which includes 16,845 square feet of office space; the warehouse that is 20,844 square feet; the garage that is 9,920 square feet and the covered dock that is 15,053 square feet.) Ms. Jacobs reported that there was also a separate building serving as covered fleet parking that is 25,390 square feet, which provides 50 parking spaces, and also open uncovered parking consisting of 351 parking spaces. Ms. Jacobs also discussed other site improvements. Ms. Jacobs reported on the layout of the building and where employees would be situated throughout. Ms. Jacobs reported that the community room will be able to act as its own separate space by security doors and the whole building would be very energy efficient. Ms. Jacobs reported that security gates would be erected on the property so that no drive through would occur after hours and that all the hard surfaces would accommodate SKRECC's heavy trucks. Ms. Jacobs reported that the building had been designed to meet all of SKRECC's needs with help from the management team and employees of SKRECC. Ms. Jacobs reported that they could work with Jeff on putting a package together for PSC approval. It was discussed that it would probably be a sixteen to eighteen month project, weather permitting. Mr. Wilburn distributed a handout, which outlined the original project cost estimate (which was done June 1, 2007) and the revised current project estimate for review. Mr. Wilburn reported that his fee was included in the revised budget. Mr. Wilburn indicated that the revised budget estimate number should be close if same was put out to bid. Discussion occurred concerning this matter.

A Motion was made by Tom Estes and seconded by John Pruitt to adjourn the Special Board Meeting. Motion carried.

March 13, 2008

Somerset Office: Allen reported that in follow-up to the Special Board Meeting held earlier concerning the final plans for the Somerset Office, he would like to get some direction from the Board as to how they wished to proceed concerning the facility. Discussion followed.

A Motion was made by Tom Estes and seconded by Glen Massengale to put the Somerset Office out to bid and see what projected numbers come back. Motion carried.

April 8, 2008

Somerset Office Plans Progress: Allen reported that site plans were out to bid and that the building plans were at the printer and should be ready by Monday. Allen reported that the contractors were given three weeks to bid after advertisement. Allen reported that the six-inch water line had been a concern, but it now appears that an eight-inch line will be run in that area; with the help of some grant money. Allen reported that discussion had occurred with the Cities of Somerset and Science Hill concerning the sewer line. Allen reported that the City of Science Hill

indicated that they did not have the funds and the City of Somerset indicated that they would need to build a new treatment plant in order to run sewer lines to that part of the county. Allen reported that he had just learned that the City of Somerset might be able to get some grant money for a new treatment plant and hopefully that would work out. Allen reported that would help with some of our costs concerning the new building. Allen reported that the Bill Mardis had contacted him concerning doing a story on the New Somerset Office Building. Allen reported that he would like to wait on that until the bids had come back before speaking with Mr. Mardis.

May 8, 2008

Somerset Office Building: Allen reported that we are still waiting on all the bids to come in on the Somerset building. Doug will have them all in by May 15th, and soon after that we will know what the real bid is. Allen reported once the bids are in we can then see ways to lower that cost some if we involve all winning bidders. Allen shared we will be getting an 8" water line on that site. The local water company got a grant from the State thanks to the help of Representative Tommy Turner, Representative Jeff Hoover, and Senator Vernie McGaha. The City of Somerset also got a grant for a new sewage treatment plant that now makes it possible for us to have sewer on the new site by the time we could have a building there rather than having to install an on site treatment facility. This will help our cost a lot.

June 26, 2008

Somerset Office Bids and Next Step: A Power Point Presentation was given concerning this matter. Allen reported that the plans were complete and the bids had been returned as of May 21, 2008. Allen reported that the cost to build was \$19,389,694.00. Allen reported that the estimated sale of SKRECC's assets was \$3,500,000.00, which included the farm and the existing office building and land. Allen reported that the estimated cost to stop was \$1,893,519.36, which included all geotechnical and archeological studies, monies due to the design team and 5% due to the contractor. Allen reported that the cost of the land purchased and the amount owed to the design team and contractor must be expensed if the building is stopped with no intent to build within the next two years. Allen reported that this would affect our bottom line margins this year. Allen reported that PSC approval could take up to six months. Allen reported that the cost to excavate and erosion control up to the point of pouring the footers is approximately \$1,200,000.00, which could be considered an at-risk cost pending PSC approval. Allen reported that the bids would be good for sixty days. Allen reported that he feels strongly that the Somerset Office is very much needed and it would take approximately 18 months to 2 years to build. Discussion followed concerning the co-ops financial status and how the building would affect same.

A Motion was made by Jerry Purcell and seconded by Glen Massengale to approve Management going to the PSC to request approval to build the Somerset Building and

also to inquire if the PSC would have an objection to SKRECC starting the excavation process, due to the weather, at the site while waiting for the PSC to make their final approval. Motion carried.

August 14, 2008

Somerset Office Progress: Allen reported that as the Board may recall discussion was held at the June Board Meeting concerning seeking approval from PSC to go ahead with the excavation at the Somerset site. Allen reported that on July 29th an informal conference was held with the PSC concerning this matter. Allen reported that the meeting was supposed to be with Stephanie Stumbo, but instead ended up being with other individuals from the PSC. Allen reported that the PSC indicated that they wanted SKRECC to put in writing requesting approval to proceed with the excavation. Allen reported that Jeff and Jim Adkins were working on the application to the PSC and that the letter and application were going to be taken to the PSC by the middle of next week. Allen reported that the PSC wanted to know the monthly cost of the excavation. Allen reported that the Needs Assessment Plan that had been prepared in 2002 needed to be updated and the gentleman that had initially prepared the original plan was going to update the plan. Allen reported that he would keep the Board apprised of this matter.

September 18, 2008

Somerset Building Progress: Allen reported that the application concerning the New Somerset Office Building had been filed with the PSC on September 5th. Allen reported that the letter requesting permission to proceed with the excavation had also been filed. Allen reported that on September 16th, SKRECC had received a letter from the PSC that indicated they had received the application and the letter seeking approval to proceed with the excavation and those had met their guidelines, and we should receive a decision shortly concerning the excavation request.


October 10, 2008

New Somerset Office Allen reported that SKRECC had received a response from the PSC concerning this issue. Allen reported that the PSC had sent 14 questions for us to answer and had given us 10 days to respond. Allen reported that there was nothing alarming contained in the questions and they would be answered within the allotted time. Allen reported that the AG had not involved itself in this matter to-date. Allen reported that an application needed to be made to RUS for a loan concerning the new facility. Allen reported that this would be a one-year process and the loan would be for \$20,731,735.00 million. Allen reported that Board approval was needed on this matter. Discussion followed.

A Motion was made by Glen Massengale and seconded by Charles Gore to approve making application to RUS for a \$20,731,735.00 million loan for the new Somerset Office. Motion carried.

AVERY

Mr. Anderson indicated that the co-op had been working toward the acquisition of the Monticello Electric Plant Board. Mr. Anderson indicated that the MEPB has 3,500-customer system in the City of Monticello. Mr. Anderson indicated that in January, 2007 the MEPB unanimously voted in favor of a resolution to sell to South Kentucky and in February, 2007 the Monticello City Council unanimously voted in agreement of the resolution and now it will be in the hands of the citizens of Monticello to decide on November 6, 2007. Mr. Anderson indicated that the MEPB System would create immediate revenue to South Kentucky, that the City of Monticello, its citizens and Wayne County would benefit from the revenue from the sell over a 30-year period, that they have more commercial industrial customers per mile of line, that they have a higher load factor, that they have recently built a new facility and South Kentucky needs a new office in Monticello, that the two systems would have stronger buying power and would gain efficiency, and that the two systems would have improved reliability and service restoration in time of emergencies.

 Mr. Anderson indicated to the members that progress was being made on the new office facilities. Mr. Anderson indicated that when the facilities were completed they should meet the members' needs for the next 30 years. Mr. Anderson indicated that the Whitley City Office had been completed August, 2006, the Russell Springs and Albany Office would be completed in 2007 and the Somerset Office was in the planning stages with a targeted completion date of late 2009. Mr. Anderson indicated that the new grounds would also accommodate a new outdoor meeting site for the annual meeting.

Mr. Anderson also indicated that South Kentucky had been involved along with other various organizations in a High Growth Training Center. Mr. Anderson indicated that the facility will be located behind the technology park off of Highway 461 and that it will provide career opportunities for individuals interested in the utility business. Mr. Anderson indicated that this facility is projected to be in operation in late 2008.


Mr. Anderson indicated that the co-op places a lot of resources into improving reliability and due to these efforts South Kentucky's reliability in 2006 was 99.9%. Mr. Anderson indicated that the co-op visually inspects 3,000 plus miles of line each year, which allows the co-op to correct problems before they occur.

Mr. Anderson further indicated that South Kentucky had its first rate increase in 17 years in October, 2006. Mr. Anderson indicated it was an 8.2% average increase. Mr. Anderson indicated that this increase along with expected future growth would allow the co-op to meet its obligations. Mr. Anderson indicated that Kentucky has the lowest rates in the nation.

Annual Meeting Minutes - June 7, 2007

op. Mr. Anderson thanked the Board of Directors, Attorney and Employees for all their dedication and hard work at the co-op.

Mr. Anderson reported to the members that for the first time in SKRECC history, 518,571 hours have been worked without a lost time accident and SKRECC had earned the Governor's Health and Safety Award. Mr. Anderson reported that there had been no major storms in 2005 and that SKRECC had assisted four other states that had been drastically damaged by either ice storms or hurricanes. Mr. Anderson reported that 43 employees had volunteered to aid others in the time of need.

 Mr. Anderson reported that as of June, 2006, SKRECC had an operational new call center and that construction had begun in late November, 2005 on the first new district office, being Whitley City and same should be completed by July of this year. Mr. Anderson reported that after completion of that district office SKRECC would begin construction on the Russell Springs and Albany district offices, with completion dates of September and October, 2007 respectively. After completion of the district offices we will begin the Somerset Office, which is expected to be completed by late 2009.

Mr. Anderson reported that he was very proud that SKRECC had provided 17 years of service without a rate adjustment. Mr. Anderson reported that our last rate adjustment had been in 1989. Mr. Anderson reported that his promise for no rate adjustment for 2005 had been fulfilled. Mr. Anderson reported that due to the slow down in growth since 9/11, the mild weather and the increased wholesale power costs SKRECC would have to seek a residential single digit rate adjustment from the PSC. Mr. Anderson reported that for the first time in many years SKRECC had a negative margin in 2005. Mr. Anderson reported that the rate adjustment was before the PSC and same should be in place by October, 2006.

Mr. Anderson reminded the members that SKRECC is a NOT FOR PROFIT MEMBER OWNED COOPERATIVE, but must have sufficient margins to operate and satisfy any debt obligations which they may have. Mr. Anderson reported that any remaining margins are given back to the members in the form of patronage capital.

Mr. Anderson stated that in conclusion, he promised as President and CEO of SKRECC, to manage your cooperative as cost efficiently as possible while continuing to provide a strong level of service to the members that they have grown to know.

Mr. Anderson thanks everyone for attending the Annual Meeting and returned the meeting back to the Co-op Attorney, Darrell Saunders.

*Annual Meeting
Minutes - June 8, 2006*

Mr. Anderson indicated to the membership that SKRECC might be forced in late 2006 or early 2007 to ask for a small rate increase. Mr. Anderson indicated that the growth in membership and the KWH sales have helped keep the rates the same but since 9-11 the membership growth has slowed and we have experienced tremendous increases in transportation, fuel, insurance, taxes, material cost, investment in technology and wholesale power rates. Mr. Anderson indicated that wholesale power cost is 70% of our total cost. Mr. Anderson indicated SKRECC was 1/16 owner of East Kentucky Power, who supplies our power, and EKP's cost have gone up drastically from the price increases of coal, oil, gas, and new environmental regulations. Mr. Anderson indicated that SKRECC's total operating cost was down this past year by \$400,000.00 but our wholesale power cost was up by \$5 million.

Mr. Anderson indicated to the members that beginning in August of this year a new line item on the electric bill would be seen. Mr. Anderson indicated that this was an Environmental Surcharge. Mr. Anderson indicated this charge had been approved by the PSC to help recover the increased cost required of EKP to meet the new Federal Clean Air Act. Mr. Anderson indicated that this charge would be around 5%, but could vary from month to month. Mr. Anderson indicated that this charge does not stay at SKRECC and is passed directly on to EKP, who would use this to add required equipment to power plants in order to reduce the air pollution emissions.

Mr. Anderson indicated that even with the rising costs, Kentucky is still one of the lowest energy cost states in the nation.

Mr. Anderson indicated that the SKRECC Board of Directors voted to return to the members in 2004, \$650,000.00 in patronage capital refunds. Mr. Anderson indicated that this was the 13th consecutive year that SKRECC has returned patronage capital to its members. Mr. Anderson further indicated that SKRECC had also started refunding capital credits to the estates of deceased members and has done so since September 2002.

Mr. Anderson re-emphasized that our current mission statement continues to be "We are for People, Not Profit."




Mr. Anderson indicated that soon SKRECC would be breaking ground on a new district office in McCreary County and would follow over the next few years of constructing new facilities at each of our five office locations. Mr. Anderson indicated that the facilities at SKRECC were 60 years old and that in order to keep our level of commitment to service, to meet new ADA requirements and to properly plan to meet our future growth needs these facilities were needed.

Mr. Anderson closed his report by re-emphasizing that South Kentucky will continue to be cautious with spending and will continue to do everything it takes to keep providing reliable service. Mr. Anderson indicated that the door to South

Annual Meeting Minutes - June 9, 2005

into the future. Mr. Anderson indicated to the members that Kentucky had the cheapest electric rates in the nation. Mr. Anderson reported that \$2.4 million was spent last year clearing right-of-ways and a new three-year work plan of \$26 million began January, 2004. Mr. Anderson reported that 3 new substations were added, a new outage management system was put into place and a new mapping system was installed three years ago. Mr. Anderson reported that SKRECC was among the top 25% of all co-ops in the nation for reliability. Mr. Anderson reported that SKRECC had started the People Fund Program to assist with community projects and to help families with emergency disasters. Mr. Anderson reported that envirowatts were started which provided members with a source of power that is environmentally friendly. Mr. Anderson reported that South Kentucky has hired a community development person to help obtain grants and loans for South Kentucky's service areas.



Mr. Anderson reported that South Kentucky had obtained a consultant to study and research the building and property needs for South Kentucky for the next fifteen years and that report showed a great increase of members, which would require an upgrade of our current facilities. Mr. Anderson reported that new facilities have been approved by this Board and are in the planning phase for the Somerset and each of the 4 District Offices. Mr. Anderson reported that the new facilities would be more conveniently located, have modern technology and new modern community rooms for public use.

Mr. Anderson reported that the co-op is financially solid and that we had total margins of \$2.3 million for the year and total assets of \$139 million. Mr. Anderson reported that our growth in services this past year was 1.6%.

Mr. Anderson closed his report by re-emphazing that South Kentucky will continue to be cautious with spending and will continue to do everything it takes to keep providing reliable service. Mr. Anderson indicated that the door to South Kentucky was always open and thanked all members for coming to the Annual Meeting.

Mr. Anderson then turned the meeting back over to Co-op Attorney, Darrell Saunders.

At this time, there being no further business to be discussed, a Motion was made and seconded to adjourn the business portion of the meeting. Motion carried.

Allen Anderson then introduced two special guests, Ron Sheets, President of KAEC, and Roy Palk, CEO of East Kentucky Power.

Mr. Sheets briefly spoke about what KAEC was and how South Kentucky was a great co-op with great members and thanked the members for coming and allowing him to speak.

Annual Meeting Minutes - June 3, 2004



Allen Anderson, Head Coach & CEO

EXHIBIT C

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For Immediate Release

October 22, 2007

For more information, contact:
Joy Bullock

South Kentucky RECC Opens New Russell County Office:

Photo Caption: South Kentucky RECC's new Russell County office is open for business as of October 22. The new office, located at 2405 North Main Street, Jamestown, will continue with the same office hours of 7:30 a.m. to 5:00 p.m., Monday through Friday.

South Kentucky RECC member Kimberly Owens of Russell Springs was the first to take advantage of the new facility. She made her electric bill payment to long-time SKRECC employee Teresa Bledsoe.

All members are invited to come by, and an Open House/Ribbon Cutting for the new building has been scheduled for Wednesday, November 14 at 9:30 a.m. through 2:30 p.m.



Allen Anderson, Head Coach & CEO

EXHIBIT C

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For Immediate Release
November 13, 2007

For more information, contact:
Joy Bullock

South Kentucky RECC Opens New Russell County Office:

South Kentucky RECC is pleased to announce the opening of its newest office in Russell County. The new facility, located at 2405 North Main Street, Jamestown, Kentucky, will maintain the same office hours of 7:30 a.m. through 5:00 p.m., Monday through Friday.

SKRECC CEO Allen Anderson said, "There were many things that led the board and management to the decision that a new facility was needed. The first consideration we had was that we are here to serve the members, and this co-op is for the member and not for profit. We want to keep local offices open and serve our members with local people. We feel the greatest thing we have to offer is service, and we want to do the best we possibly can, because our members deserve it. Secondly, there was a study conducted by a consultant with the National Rural Electric Cooperative Association (NRECA) that projected South Kentucky RECC's membership to be 82,090 by 2018. Our previous facility in Russell Springs has served our Russell County South Kentucky RECC members well for most of the past 30 years, but is becoming more and more inadequate to meet the growth of today and into the future. All of our offices receive a great deal of member walk-in traffic and drive-through window traffic, which we appreciate, but with the growth we've had, it becomes more and more difficult for our members to easily gain access to the services they are seeking. The new facility also meets all Americans with Disabilities Act requirements."

Albany 606-387-6476 Monticello 606-348-6771 Russell Springs 270-866-3439 Whitley City 606-376-5997

In addition, Anderson said the previous facility was not easily equipped for today's technology.

"Our older buildings are old enough that it is difficult to try to upgrade them to the latest technology, and we are constantly striving to keep South Kentucky RECC on the cutting edge of technology in order to provide better service to our members."

Anderson added that the new office also has a great deal more needed warehouse storage to help provide faster service to the Russell County area and to be more efficient in limiting the need to transport material from Somerset.

He said another major point is that the new building has a modern community room that is doubled in size of the previous one, adding that the public-use community rooms are an important part of all the new facilities.

The Russell County office is the second phase of South Kentucky RECC's construction project. A new building in Whitley City was the first phase, completed in September 2006. The third phase of construction has begun in Albany, with the new facility expected to be completed in April 2008.

Plans are for construction to be completed at all sites, including Monticello and Somerset, by the first quarter of 2010.

Photo Caption: South Kentucky RECC's new Russell County office opened for business as of October 22. The new office, located at 2405 North Main Street, Jamestown, will continue with the same office hours of 7:30 a.m. to 5:00 p.m., Monday through Friday.

South Kentucky RECC member Kimberly Owens of Russell Springs was the first to take advantage of the new facility. She made her electric bill payment to long-time SKRECC employee Teresa Bledsoe.



Allen Anderson, Head Coach & CEO

EXHIBIT C
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For Immediate Release
November 14, 2007

For more information, contact:
Joy Bullock

South Kentucky RECC Ribbon Cutting and Open House for New Russell County Office:

Photo Caption: South Kentucky RECC recently held an Open House/Ribbon Cutting Ceremony for the new Russell County office located at 2405 North Main Street, Jamestown.

In the photo, SKRECC board member representing Russell County, Charles Gore, SKRECC CEO Allen Anderson, and Russell County Chamber of Commerce president Alan Coffey, who is also the Member Services and Marketing Team Leader for South Kentucky RECC, along with the SKRECC Russell County employees and Jamestown and Russell Springs dignitaries cut the ribbon signifying the grand opening of the new facility.

All members are invited to come by to see their new office, Monday through Friday, 7:30 a.m. through 5 p.m.



Allen Anderson, Head Coach & CEO

EXHIBIT C

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For Immediate Release

June 10, 2008

For more information, contact:
Joy Bullock

South Kentucky RECC Celebrates Opening of New Clinton County Office:

South Kentucky RECC has scheduled an Open House/Ribbon Cutting on Thursday, June 26 for the new Clinton County office, which opened for business on May 12. The new office, located off of North Highway 127 at 715 Snow Vote House Road, will be open for tours beginning at 10 a.m.

All members are invited to come by, and enjoy refreshments and to be present for the Ribbon Cutting, which will be held at noon that day.

The new Clinton County office is open from 7:30 a.m. to 5:00 p.m., Monday through Friday.

You can call the office at 387-6476.

passes those savings on to you. Not only do you receive a 40% discount on the electricity used by the heater, but you will receive a \$50 per KW installation rebate from South Kentucky RECC.

There are any number of ways to reduce electricity consumption and costs. Please call the co-op to ask for help, which can often be provided cost-free. And tell your neighbors if you think these opportunities would benefit them.

Call center

Your co-op is always on the lookout for ways to improve our service to members. We abide by cost constraints (or else we couldn't have operated for 17 years without a rate increase), but we know that some investments make an enormous difference for our members.

In that spirit, we will soon be rolling out our new call center, which will enable us to provide comprehensive, personal service to people with questions about billing, electric usage, maintenance, and most inquiries without being placed on hold or being transferred. The call center will also separate the functions of telephone calls from "walk-in" service, which has traditionally been provided by the same personnel.

This new member service is based on an expanded computer data bank, and telephone attendants trained to operate it while on the phone with co-op members. They will take incoming calls and have the resources to respond to virtually any inquiry without switching the call to another employee and risk losing the caller in a maze of recordings and message systems. You'll speak to a real person when you call South Kentucky RECC. Usually, you already do, but our call center technology will provide more efficient and responsive telephone transactions.

"We are excited that this process has gotten under way, and we look forward to continuing it in our other communities."

SKRECC CEO Allen Anderson on the construction of the new buildings

And meanwhile, other member-services representatives will be free to wait on walk-in members without interruptions from the telephone.

The call center equipment is being installed this summer, and should be ready for operation early in the fall.

New construction

The 2003 annual report announced that South Kentucky RECC was building for the future; it told that all five of SKRECC's offices would be replaced by new facilities in those communities.

Construction began in 2005 with the Whitley City district office, with completion expected at the end of June.

CEO Allen Anderson said there were several factors that led to the construction of that office first.

"The Whitley City office that we occupy now was opened in the 1960s. In 40 years we have experienced a lot of growth, making our current facility inadequate, with no room to expand. And, the new construction on Highway 27 took a large portion of that facility's parking area, making it even more difficult for our members to do business there.

"We are excited that this process has gotten under way, and we look forward to continuing it in our other communities. The new buildings will help us be able to provide better service to our members, and that is what it is all about—serving our members as reliably and efficiently as possible."

Construction on the other district offices—in Albany, Monticello, and Russell Springs—is slated to get under way shortly after the Whitley City office is completed, probably in early July.

Our safety accomplishment

We began this report by acknowledging that South Kentucky RECC has much to be thankful for, despite the necessity of a rate increase. One thing to be thankful for, and proud of, is our safety record – and that may be one of our most important accomplishments of all. Working with electricity involves risks, and the only way to minimize them is with constant attention to safety.

Our co-op completed 2005 with zero lost-time accidents. When added to the consecutive safe hours of 2004 and early 2006, that gave South Kentucky 450,000 man-hours of work without lost time due to accident or injury. If we achieve 500,000 hours we will qualify for a Governor's Award. Look for an update in a future *Kentucky Living* issue.

"It's something to be proud of," said CEO Allen Anderson, "especially considering that we sent 23 of our employees to help in Mississippi after the hurricane. Working among destruction and in unfamiliar surroundings, people can be exposed to potentially unknown dangerous situations. But safety—public safety and safety for our employees—is something we constantly stress in our organization. The big thing is—all employees going home to their family each night without injury."

As our 68th year ends and our 69th begins, by working safe and as a team, we stand ready to meet our members' growing needs.

McCreary County Photo Contest Winners

About the cover:
Increasing costs over the past 17 years helped lead to the need for the SKRECC rate increase approved recently by the Kentucky Public Service Commission.

Visit www.skrecc.com for more information about the Co-op Connections Program.

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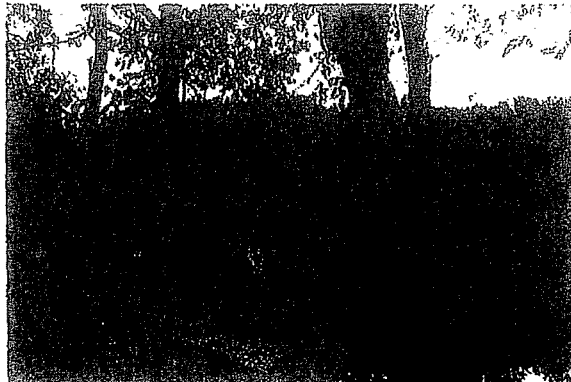


South Kentucky RECC recently held a photo contest in McCreary County to allow the residents and members assist in decorating their new co-op office.
Ruby Patterson, chief member

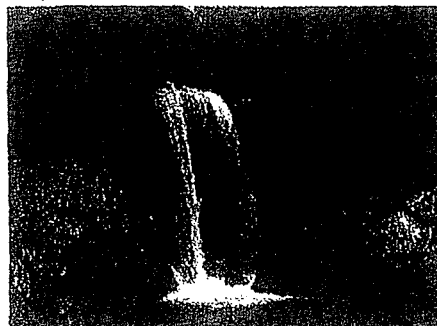
services and public relations officer, said the decision was a difficult one.

"We ended up with nearly 70 entries of photos from this beautiful county, so the choice was not easy. We gave all the Whitley City office employees a chance to look at the photos and give us input on their decision, and finally came up with the top three winners. I think everyone in McCreary County will be happy with the choices and proud of their new office and the local scenery that decorates it."

DSK



Above and right: There was a tie for first place from the same photographer, McCreary Countian Cathy Rose, who snapped pictures of the bridge going to Cumberland Falls in the fall of 2005 and the summer of 2006. For her winning efforts, Ms. Rose was awarded \$100.



Left, the second place winning photo, taken by Suzie Strunk, is of Eagle Falls, and right, the third place photo, snapped in the fall by Rudy Young, is at Cumberland Falls.



◦ Monticello's electric employees—12 in number—would not have anything to lose in this acquisition and much to gain. The skills of these employees would be welcome, as the co-op faces the impending retirement of a number of senior employees in coming years. This is one of the things that make the timing of this opportunity so crucial. The Monticello Electric Plant Board employees are actually needed and will become part of a much larger, growing company that will offer many more opportunities for their future growth and development.

Origins of the proposal

Like co-ops, municipal utilities are a form of public power. In this region, most municipals, in the past, have purchased their power exclusively from the Tennessee Valley Authority (TVA). However, as of November 2003, MEPB's TVA contract allowed an option for utilities being presently served by the power supplier, upon a 5-year notice, to discontinue service with them.

The Monticello Electric Plant Board took the TVA up on the offer to explore their options for power by giving the 5-year notice to TVA. In November 2003, MEPB sent out Requests for Proposals (RFPs) to other potential power providers. This attracted the interest of South Kentucky RECC. The co-op serves about 62,000 members including the rural areas surrounding Monticello, and because of growth, the need for more substations, a plan for a new district office, employee needs, and co-op interest in the Monticello community, SKRECC CEO Allen Anderson began sharing the co-op needs and interests with MEPB Superintendent Gary Dishman. Both parties began seeing the many synergies with the possibility of the two companies coming together.

The parties undertook negotiations, and in January 2007 the MEPB Board of Directors voted unanimously in favor of presenting the city of Monticello with a resolution outlining the sale of MEPB to South Kentucky RECC for \$4.686 million to be paid to the city with interest over a 30 year period. In February 2007, the Monticello City Council unanimously agreed to the proposal, which included the amount and stipulated conditions.

That leaves it up to the citizens of Monticello, and how they will vote on the issue on the November 6, 2007 ballot. The Kentucky Public Service Commission (PSC) must also approve the transaction. Primarily, the PSC will focus on the question of whether the co-op would be subsidizing the Monticello purchase with its membership's money. To be approved, South Kentucky RECC's investment must be economically viable and pay for itself, and co-op officials believe that is the case.

By this time next year we hope to report that South Kentucky RECC is serving its second small town located in the county where South Kentucky RECC was founded in 1938 (the co-op already serves Albany). That will mark a new and promising era for the 69-year-old cooperative.

Homecoming

It was there and then in Monticello, Wayne County, that a visionary group of farmers, rural merchants, and business folks, in places like Slat, Susie, Mill Springs, and Touristville, recruited sometimes-doubtful local residents to participate in this seemingly risky scheme—cooperative ownership of a

company that would put power poles on their property and electric lights in their homes. People had to put up a hard-earned minimum of \$2.50 a month to join.

It was a difficult sell. But the incorporators—Lloyd Dunnington, Walter Dalton, Ray Oats, G.P. Rice, John D. McKechnie, A.V. Stearns, Herschel Henninger, and Foxie Dunagan—were successful, and the papers were signed above the Monticello Bank on October 8, 1938. Article III of the incorporation papers made it official: "The principal office of the Corporation [was to be located at] Monticello, in the County of Wayne, Commonwealth of Kentucky."

During the 1940s the co-op migrated to Somerset, although SKRECC has remained the power provider for Susie and Slat and the rest of rural Wayne County. So somehow it seems right that South Kentucky RECC may have the opportunity to serve the good citizens of Monticello, and their families, schools, and businesses located within Wayne County.

New central and district buildings

Another major development to give an updated report on is the progress on the planned construction of new office/warehouse facilities throughout SKRECC's territory. These new facilities will replace the current facilities in Somerset, Russell Springs, Albany, and Whitley City.

The Whitley City office was completed in August 2006 and is now operational. A new facility to serve Wayne County members has been put on hold, pending the outcome of the Monticello Electric Plant Board proposal. If that is successful, the co-op will utilize the current MEPB office avoiding the need for construction in Monticello—another potential benefit of that transaction.

The Russell Springs and Albany facilities are both under construction with an expected completion date of August and November 2007 respectively. The Somerset facility is well into the design stage with an expected completion date of 2009.

The current facilities date from the 1950s and '60s, and have become inadequate for today's growing needs. Despite modifications, none are fully handicap-accessible, which is required under the Americans with Disabilities Act. The drive-through windows are heavily utilized, and are intended



The new Whitley City office was completed in August 2006. All the new South Kentucky RECC district offices will be the same floor plan and size.

People often assume that an electric utility's only job is maintenance—tending to the power lines that go past their homes and restoring power after outages. That's basically true; South Kentucky RECC's primary obligation is to make sure that when people flip a switch they have light.

And for South Kentucky RECC, basic maintenance is a big responsibility, because SKRECC serves a large territory. It serves 66,000 members in 13 counties in Kentucky and Tennessee; it maintains 6,600 miles of poles and wires (think of a power line stretching from Somerset, Kentucky, to Anchorage, Alaska, and back), and those lines are loaded with sophisticated electrical equipment that must be kept in order. The right-of-way (ROW) along that system, which must be kept clear of vegetation that could cause an outage, is equivalent to 30,000 acres.

Any way you slice it, that's an enormous job. So yes, South Kentucky RECC does place a lot of emphasis on maintenance; however, there is much more to the co-op than just electric poles and electric lines.

South Kentucky RECC is also in the business of "building": building reliability while it builds new power lines and ROW to accommodate a growth rate averaging 1.47 percent each of the last six years. In 2007, SKRECC extended its system by an additional 60 miles to serve new members. As the state and local highway departments straighten, widen, and relocate roadways, South Kentucky RECC must move and rebuild its system to accompany those changes.

Meanwhile, the co-op is in the midst of a major construction project of its own, building new facilities to serve its members locally more conveniently and efficiently.

Then there are other forms of "building," such as building trust and relationships with SKRECC's current members and with the 3,418 folks (plus their families and employees) who became new co-op members last December, when SKRECC purchased the assets of the Monticello Electric Plant Board and became the electricity supplier for the city of Monticello. And building other relationships, too, with mayors, county judges, community and economic development organizations, area non-

profits, and local groups so that South Kentucky RECC can better serve those communities and lend its resources to help them grow, provide new jobs, and improve their economies.

SKRECC also works hard to "build value." The state, the region, and the country are facing hard economic times, so SKRECC dedicates itself to increasing value to its members for all the services they receive from the co-op. The co-op does this by helping people use electricity more efficiently so their energy dollar goes farther, and responding quickly and effectively to their questions and concerns. As a member-owned, nonprofit utility started by rural neighbors in Wayne County in 1938, South Kentucky exists solely to serve its members, not to make profits for shareholders. "Building value" is central to that mission.

Your 2007 South Kentucky RECC annual report therefore is devoted to the theme of "building," and the many ways your electric co-op continues to work, to build itself into an even better co-op, so it can continue to meet its members' needs into the future, and help its members and their communities build a solid future for themselves and their families.

Building Facilities

South Kentucky RECC's bottom-line obligation is to provide electricity to its membership. As people construct new homes, SKRECC needs to build power lines to serve them. As stated above, SKRECC built 60 miles of new line for this purpose in 2007.

But for a utility, building never really ends. Poles get old; conductor (wire) needs to be upgraded as communities grow and their power demands increase. In 2007, South Kentucky replaced 727 poles and 61 miles of conductor.

The biggest construction project on SKRECC's agenda, though, is the replacement of its facilities throughout the service territory. The project grew out of a 2002 study that projected SKRECC's growth 15 years into the future, and an in-depth assessment of its facilities and infrastructure to determine its preparedness to handle that growth in the future.

South Kentucky RECC hired a professional planner with the National Rural Electric Cooperative Association for this research and analysis. Upon its completion, SKRECC's board of directors concluded, after deliberation, that the wisest course would be to decentralize and make an investment now in new facilities to better serve each district into the future.

In 2006, SKRECC completed its office in McCreary County. Similarly, in 2007 staff moved into a newly completed Russell County office, and by this summer the co-op will have a new facility open in Clinton County. (SKRECC moved into the recently purchased Monticello Electric Plant Board office, which meets its needs without having to construct a new facility in Wayne County.)

Each facility has convenient drive-through windows, with more lanes, to better serve members paying their bills. There is improved parking, and people entering the buildings will find the services they need conveniently located. These new offices are all designed more efficiently from an operational and employee standpoint. The co-op has always provided community rooms where local groups can meet and hold functions; in the new buildings members will find those spaces to be larger and better equipped.

The newly constructed facilities combine offices with fully stocked warehouses, loading bays, and pole yards. A construction/maintenance crew is stationed in each district to enable



The new Russell County office was completed last October. Clinton County's new facility will be open for business this month with an open house scheduled for this summer.

quick responses to local needs. And the facilities are designed with the future in mind: SKRECC expects them to serve co-op members for decades to come.

There is another reason for South Kentucky RECC's investment in better regional facilities. At a time when most utilities are reducing services and consolidating their operations, your co-op is going in the opposite direction—decentralizing, so that members can get more of what they need locally (including a friendly, familiar face behind the service counter).

The district offices are situated so that the trucks have quick access to major roadways, to reach any part of the service area quickly. This not only allows the co-op to provide better service, but also makes SKRECC more efficient by eliminating a great deal of road time and reducing outage time. By the same token, members will find the offices easily accessible.

Building Reliability

One of South Kentucky RECC's goals is to provide reliable electric service. System reliability can be measured—and, in fact, must be measured and reported to the state Public Service Commission.

In 2007, South Kentucky's system-wide "average customer reliability" was 99.957 percent, an extraordinary record for a rural electric system. The number means that, over the whole 66,000-member system, the average member had power 99.957 percent of the time. Some never lost their power, while others did for various periods. Any way you look at it, though, 99.9 percent reliability is an accomplishment.

That said, people nowadays have a more demanding standard of reliability.

"Reliability has taken on a different meaning with modern homes and the equipment people have," says SKRECC Chief Executive Officer Allen Anderson. "It used to be that a blink in the lights didn't matter. But now, if you have computers with data that could be lost, clocks that have to be re-set, appliances that need to be re-programmed, a minor blink can lead to very annoying inconveniences. And while we are proud of the 99.9 percent reliability, we still want to continue improving in this area."

So while actual outages are becoming less frequent (and shorter when they occur), SKRECC has more to do to achieve the kind of reliability the co-op expects and its members deserve.

One way this is accomplished is right-of-way maintenance. In 2007, South Kentucky re-cleared 700 miles of ROW, did spot-trimming at 1,374 locations, treated 1,160 cumulative acres with herbicide (where permitted), and bush-hogged another 206 acres to remove threats of overgrowth for several years. The co-op tries to stay on a seven-year cycle, meaning that all sections of right-of-way are revisited every seven years.

Another way to improve reliability is to properly install and maintain all line equipment, making certain that the equipment can properly perform the task it was designed to do through all weather conditions. An example of this is 1,100 lightning arres-

sors that SKRECC changed out in 2007 that were not performing properly. They were found to be a cause of some of the blink problems that were occurring.

Meanwhile, SKRECC is examining its newly acquired electric system in Monticello. The goal is to become thoroughly acquainted with the Monticello system and to integrate it with the co-op's. So far the co-op has identified 175 poles to replace. Citywide, SKRECC plans to change all the electric meters in order to get them into the same, PSC-approved cycle of random testing as the rest of the co-op's system.

South Kentucky RECC has also started entering the Monticello electric system into the co-op's computerized mapping system; that way, when crews answer a repair call, they'll know the proper location and what size poles, conductor, and transformers they'll find when they get there. The idea is to reduce the number and duration of outages in the city.

"We bought that system for the long haul," says Anderson, "and we're making significant investments to improve upon the good system that was already there."

Building Value

It's important to any company that its customers believe the money they pay for service brings good value in return. Electricity is still the best value, with Kentucky ranking number four in the nation with the lowest electricity costs; however, with costs rising, this becomes more of a challenge, but bringing good value is one of South Kentucky RECC's primary goals for improvement.

SKRECC wants to add value to the service its members receive. They do this by providing help quickly, technical assistance, financial incentives, and friendly, efficient service to enable members to get more from every electricity dollar spent.

One example that might seem small to people, until they understand its impact, is compact fluorescent light bulbs (CFLs). Today's CFLs are very efficient and customer-friendly. The savings they provide are dramatic. By installing one compact fluorescent of comparable lumens to a 60-watt incandescent bulb, a homeowner saves \$13.50 a year in electricity; put eight or 10 around your home and you could save \$100 or more. Plus, they last an average of seven years, 10 times longer than incandescents, which saves money on replacement.

CFLs also aid our environment by reducing the amount of greenhouse gases emitted, which decreases the greenhouse effect on our world.

Inspired by former Kentucky First Lady Glenna Fletcher's "Change A Light, Change The World" program, SKRECC has been giving CFLs away at its annual meeting for the last five years. SKRECC has now given away 54,484 CFLs; if each of them replaced a 60-watt incandescent bulb, co-op members by now have saved \$732,000 by reducing electricity consumption.

Why would SKRECC want to sell its customers less power?

There are several reasons. For one, SKRECC is a cooperative; its goal is not to make profits but to meet members' needs, in-

System reliability must be measured and reported to the Kentucky Public Service Commission.

In 2007, South Kentucky's system-wide "average customer reliability" was 99.957 percent.

Enter the South Kentucky RECC

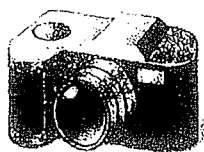


Photo Contest

You could win \$100 AND have your work displayed in our new office.

Send us your photos of a Russell County scene or natural attraction to SKRECC, Attention Ruby Patterson, P.O. Box 910, Somerset, 42502, or drop them off at the Russell Springs office.

DEADLINE: July 31

Best photo will win \$100; 2nd - \$75; and 3rd place - \$50

Good luck and have fun!

RULES:

Entries must be the original work of the photographer making the submission—no studio or professional shots accepted.

Entrants can submit one 4 x 6 unmounted photo, along with its negative, in an envelope to the local office. Each photo must be accompanied by a completed form below.

Entrants can submit their photos electronically in .jpg format. Photos should be taken at 1200 dpi and burned onto a CD readable by Windows, and accompanied by a printed photo as well as an entry form.

Name of Photographer _____

Address _____

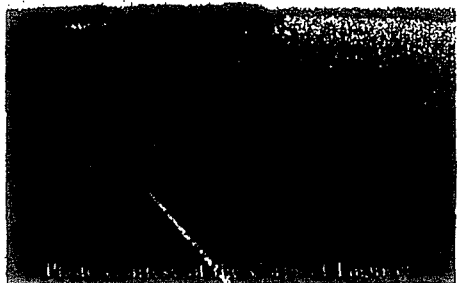
City _____ State _____ Zip Code _____ Phone Number _____

Where the photo was taken _____

Information about the photo _____

Entries must be postmarked by July 31, if mailed. Entries will not be returned. Rights to use of the photos are granted to South Kentucky RECC. South Kentucky RECC will not be responsible for lost or misdirected photos. Co-op employees are not eligible.

I have read, understand, and accept all the rules. Signature: _____



About the cover:
Employees of SKRECC and MEPB
joined forces to work on the
lights at the ballfield at the Mon-
ticello/Wayne County Park. Photo
by Joy Bullock.

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Russell County Photo Contest Winners

South Kentucky RECC recently held a photo contest in Russell County to allow assistance in decorating the new co-op office being constructed there.

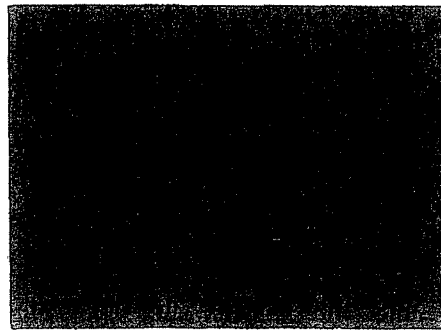
Ruby Patterson, vice president of member services, marketing and public relations, said choosing the winner was a difficult decision.

"Russell County is a beautiful, scenic county, and we ended up with many

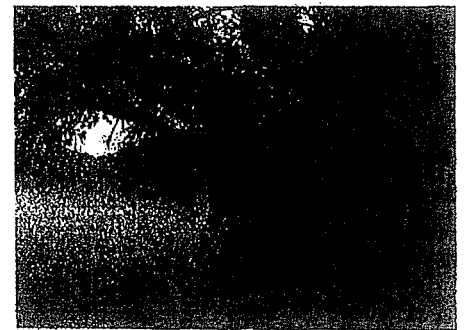
wonderful entries, so the choice was not an easy one. We gave all the employees of the Russell Springs office a chance to look at the photos and give us input on their decision, and finally came up with the top three winners. I think everyone in Russell County will be happy with the choices and proud of their new office and the local scenery that decorates it."



The first place photo, taken by Nancy Phelps, was snapped across the road from the new South Kentucky RECC facility. She was awarded \$100 for her winning effort.



The second place photo was taken by Jamie Martin. It was taken on Old Sano Road.



The third place photo, taken by Brian Skaggs, is of Helm's Landing.

South Kentucky RECC Opens

New Office

South Kentucky RECC is pleased to announce the opening of its newest office in Russell County. The new facility, located at 2405 North Main Street, Jamestown, Kentucky, will maintain the same office hours of 7:30 a.m. through 5:00 p.m., Monday through Friday.

SKRECC CEO Allen Anderson said, "There were many things that led the board and management to the decision that a new facility was needed. The first consideration we had was that we are here to serve the members, and this co-op is for the member and not for profit. We want to keep local offices open and serve our members with local people. We feel the greatest thing we have to offer is service, and we want to do the best we possibly can, because our members deserve it. Secondly, there was a study conducted by a consultant with the National Rural Electric Cooperative Association (NRECA) that projected South Kentucky RECC's membership

to be 82,090 by 2018. Our previous facility in Russell Springs has served our Russell County South Kentucky RECC members well for most of the past 30 years, but is becoming more and more inadequate to meet the growth of today and into the future. All of our offices receive a great deal of member walk-in traffic and drive-through window traffic, which we appreciate, but with the growth we've had, it becomes more and more difficult for our members to easily gain access to the services they are seeking. The new facility also meets all Americans with Disabilities Act requirements."

In addition, Anderson said the previous facility was not easily equipped for today's technology.

"Our older buildings are old enough that it is difficult to try to upgrade them to the latest technology, and we are constantly striving to keep South Kentucky RECC on the cutting edge of technology in order to provide better service to our members."

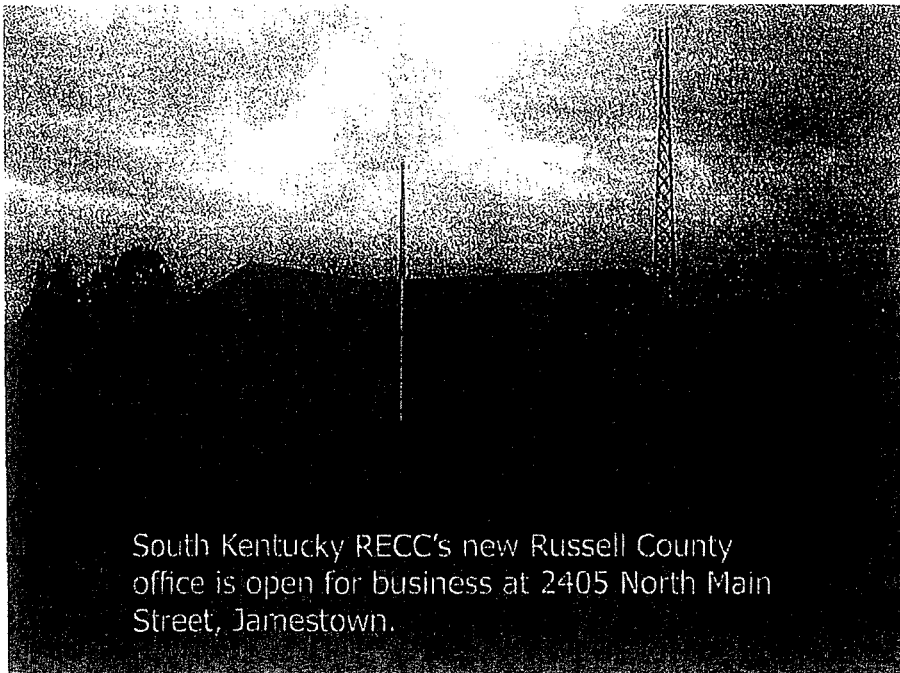
Anderson added that the new office also has a great deal more needed warehouse storage to help provide faster service to the Russell County area and to be more efficient in limiting the need to transport material from Somerset.

He said another major point is that the new building has a modern community room that is doubled in size of the previous one, adding that the public-use community rooms are an important part of all the new facilities.

The Russell County office is the second phase of South Kentucky RECC's construction project. A new building in Whitley City was the first phase, completed in September 2006. The third phase of construction has begun in Albany, with the new facility expected to be completed in April 2008.

Plans are for construction to be completed at all sites, including Monticello and Somerset, by the first quarter of 2010.

DSTK



South Kentucky RECC's new Russell County office is open for business at 2405 North Main Street, Jamestown.

New Facility Features:

Office—5,200 sq. ft.
Warehouse—9,450 sq. ft.
Community Room—1,350 sq. ft.
Total—16,000 sq. ft.

Total Parking—71 spaces

Total Acreage—8.845 acres

Energy Efficiency Measures—
Geothermal Heating/Cooling, Blown
Foam Insulation, Efficient Windows,
Newest Technology in Fluorescent
Lighting

Wired for Modern Technologies

Fully Secured with Card Reader Entries

Meets ALL ADA Requirements

New Office Open in Clinton County

South Kentucky RECC is pleased to announce the opening of its newest office in Clinton County. The new facility, located at 4607 North Highway 127, will maintain the same office hours of 7:30 a.m. through 5:00 p.m., Monday through Friday.

The Clinton County District Office is the third phase of South Kentucky RECC's construction project. A new building in McCreary County was the first phase, completed in September 2006. The second phase, the Russell County District Office, was finished last October.

With the acquisition of the Monticello Electric Plant Board and its new office building, South Kentucky RECC will not construct a new building in Wayne County; however, the co-op is looking at future expansion of the parking area and may consider adding a community room.

Plans have been completed for construction on a new Pulaski County head-

quarters office. The plans have been let for bid, and a decision will soon be made whether or not to start construction at this time. This is about a two-year construction project and must be approved by the Kentucky Public Service Commission before construction can begin.

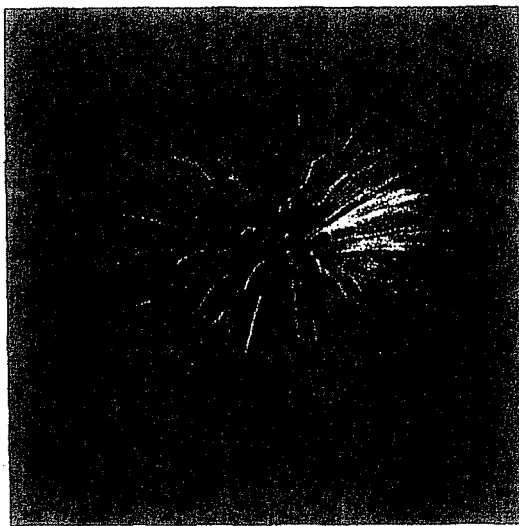
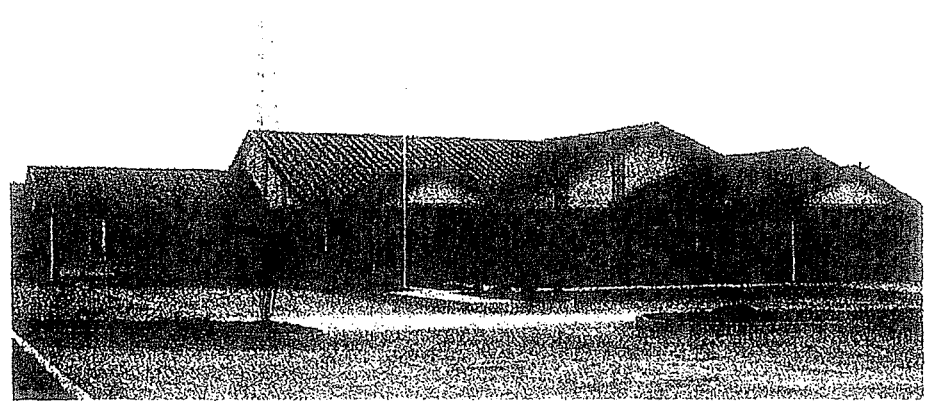
SKRECC CEO Allen Anderson says the new facilities, including the Clinton County office, were needed.

"We had outgrown our existing

Clinton County office and needed more warehousing, pole storage, and parking area. The new facility meets all Americans with Disabilities Act requirements, includes the latest technology, and has the needed warehouse space to help us to provide faster and more efficient service to the members of Clinton County."

The public is invited to stop by and visit the new facility.

DSK



Be Safe with Fireworks

Independence Day is typically celebrated with picnics, parades, and the beautiful colors and pyrotechnics of fireworks displays. South Kentucky RECC wants you to have a safe, fun-filled holiday, free from possible disaster.

Here are some tips from the U. S. Consumer Product Safety Commission and National Council on Fireworks Safety to help you celebrate July 4th the safe way:

- Never allow children to play with or ignite fireworks.
- Read and follow all warnings and instructions.
- Be sure other people are out of range before lighting fireworks.
- Only light fireworks on a smooth, flat surface away from houses, dry leaves, and flammable materials.
- Use fireworks outdoors only.
- Never try to relight fireworks that have not fully functioned.
- Keep a bucket of water or a garden hose connected in case of

a malfunction or fire.

◦ Dispose of fireworks properly by soaking them in water before placing them in a trash container. Also, remember not to pick up fireworks trash for at least 15 minutes after shooting them to prevent getting burned.

◦ Never shoot fireworks in metal or glass containers.

◦ The shooter should always wear eye protection and never have any part of his body over the fireworks.

◦ Pets can be frightened by the loud noises and bright flashes of the fireworks, so keep them in the house or put up so they can't run off or be injured.

By following safety rules and taking proper precaution, fireworks can be a fun, safe way to celebrate Independence Day.

Mr. Anderson reported that SKRECC was very concerned about the economy and all of the rising costs to serve the members. Mr. Anderson reported that since the beginning of 2007 SKRECC has seen gas prices increase by 58%, diesel prices increase by 83% and most all equipment used to construct power lines has increased from 20% to 50%. Mr. Anderson reassured the members that SKRECC would do everything that they could to manage these rising costs while continuing to provide good and reliable service. Mr. Anderson reported that the biggest concern that they face in controlling future electric costs is the political push nationally to eliminate the use of coal to produce electric power. Mr. Anderson reported that coal is the primary source of power and is Kentucky's Natural Resource that has allowed Kentucky to have the fourth lowest electric rates in the nation. Mr. Anderson asked the member to help with contacting the political leaders to keep coal as a power source and continue to invest in new clean coal technologies that would help keep Kentucky's energy rates competitive.

Mr. Anderson reported to the members that in 2006 the McCreary County District Office had been completed; in 2007 the Russell County District Office had been completed; in 2007 the purchase of the MEPB Municipal System consisting of 3400 members serving the City of Monticello had been completed along with moving into the newly purchased MEPB Offices; in 2008 the Clinton County District Office was expected to be completed. Mr. Anderson reported that this completed the replacement of our 50 year old facilities in all of our districts which will help SKRECC to better serve the members for many years to come. Mr. Anderson reported that the Somerset Office was still under planning and review and would be SKRECC's next project when it is determined that the timing is right to begin.

Mr. Anderson reported that SKRECC will continue to improve upon its reliability of electric service to the members. Mr. Anderson reported that overall SKRECC has a 99.957% reliability rate. Mr. Anderson reported that SKRECC understood that they have some areas with less reliability and the plan is to concentrate on those areas for improvements. Mr. Anderson reported that SKRECC would try to isolate the problems and correct them while continuing our 7-year cycle of right-of-way clearing over the entire system.

Mr. Anderson reported that SKRECC is and always will try to help the members manage their electric costs. Mr. Anderson reported that SKRECC offered many services to the members that would help the members use electricity more efficiently and reduce costs. Mr. Anderson reported that by using one CFL Bulb it would save \$13.50 per year in electric energy costs and Mr. Anderson reported that before tonight SKRECC had given away 54,484 CFL's which could be \$732,000.00 savings annually in electric costs to the members. Mr. Anderson reported that SKRECC did free in-home energy advice, that tune-ups were available for all electric heat pumps through SKRECC and that

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DECEMBER 2008

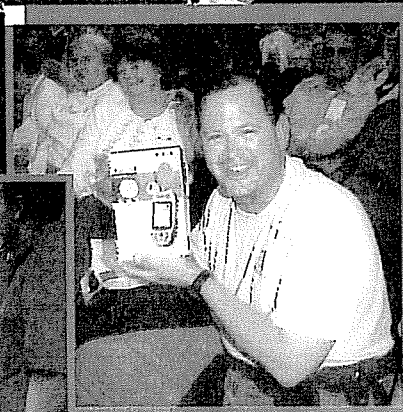
South Kentucky
RECC
Annual Meeting

RURAL ELECTRIC MAGAZINE

EXHIBIT D
Page 1 of 2

SUBSTITUTED
PAGE 38

Adding Pizzazz to Annual Meetings



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SOUTH KENTUCKY RECC
PO BOX 910
SOMERSET KY 42502-0910

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MEMBER PARTICIPATION

Horry Electric CEO James P. "Pat" Howle chuckles that free hot dogs and chili sponsored by Conway National Bank have become a big hit. "As people arrived, they asked where the hot dogs were served. They also wanted to know what time Olde Dawg [a regional band famous for being the only group asked to play at the 25th *Dukes of Hazzard* TV show reunion] would perform their Southern rock licks."

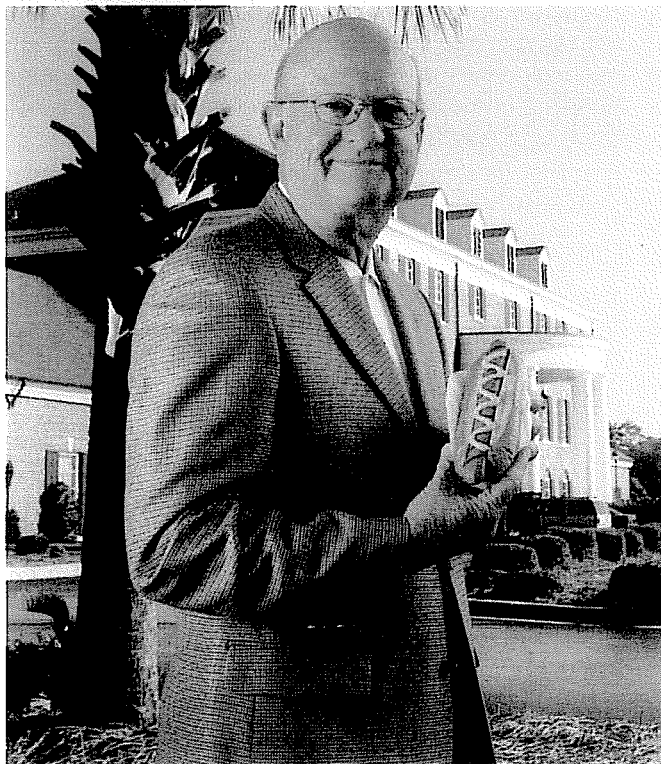
Hinson credits the turnaround simply. "Our membership spoke. We listened. What they asked for, we delivered. Now we have people lined up at 10 o'clock in the morning on a weekday for annual meeting festivities that begin at noon. Every year we discover something to add to the next one. It helps us be more successful and boost participation."

Member control

Horry Electric and more than 900-plus other consumer-owned, not-for-profit electric co-ops nationwide share the heritage of hosting annual meetings—a requirement of state electric cooperative enabling acts that is incorporated into co-op bylaws. At the events, chief executives and board officers provide reports on the financial condition of the co-op and review the status of various projects. Guest speakers, often from electric cooperative statewide associations, generation and transmission cooperatives, or national organizations, serve up keynote addresses. Local elected officials campaign in droves. Members, in turn, cast ballots for candidates to serve as directors and ask questions of management.

Most annual meetings, though, are distinguished by what happens outside the official program—activities for children, booths with information on energy efficiency and various co-op services, health fairs, meals ranging from box lunches to turkey with all the trimmings, and entertainment. But the format and turnout differ greatly.

Year in and year out, South Kentucky Rural Electric Cooperative Corporation in Somerset, Ky., tallies some of the biggest attendance figures of any annual meeting. In 2008, 16,000 folks—including more than 4,100 members—showed up for the assembly on the co-op's 65-acre site.



PHOTOGRAPH BY ED THOMPSON

"We have had as much as 4 miles of traffic waiting to get in," recounts Allen Anderson, South Kentucky RECC president & CEO.

The 66,000-member distribution system sticks to a traditional schedule, holding its annual meeting the first Thursday in June at 4 p.m. At registration this year (the co-op's 70th annual meeting), members received a complimentary 3-gallon plastic bucket containing two energy-efficient compact fluorescent lightbulbs (CFLs). The gala kicked off with a special presentation of the U.S. and Kentucky state flags by five linemen who climbed a wooden utility pole set in the middle of the meeting grounds and unfurled the banners.

"We offer things of interest to the entire family, and that helps us achieve a good representation of our membership," Anderson explains. "People take advantage of our health clinic with blood-pressure and cholesterol screenings. Representatives from civic organizations, local industry, and businesses staff booths. We offer free children's rides, face painting, and entertainment, along with agricultural equipment displays. We've even had antique tractor and car shows."

On top of this, the co-op recognizes 12 high school seniors who have received \$1,000 scholarships as well as its Rural Electric Youth Tour participants. And every member who registers becomes eligible for prize drawings at the end of the business meeting, including a chance to win a used vehicle from the South Kentucky RECC fleet.

The co-op also works hard to land top-notch entertainment. "We want to have a great concert," notes spokeswoman Joy Bullock. "We schedule shows about nine months in advance through a booking agency that represents country music performers. We look for stars who have had a recent record released or have one in the works."

She continues, "After registration, we always have a gospel group as our opening act, performing for an hour on stage, beginning at 6 p.m., followed by the business meeting. At 8:30 p.m., the headline act goes on stage."

For 2008, South Kentucky RECC landed country singer-songwriter Tracy Lawrence, who captivated the crowd by playing acoustic guitar and singing with his backup group in tropical heat for two hours.

Hitting the road

Out west, Powder River Energy Corporation (PRECorp) in Sundance, Wyo., steered its annual meeting this year into the fast lane at Gillette Thunder Speedway, one of the co-op's commercial loads. After convening a 45-minute business meeting on Saturday, August 23, with some 250 members in attendance at the CamPlex Event Center in Gillette, free passes and meal vouchers were distributed for that night's races. (The co-op negotiated free passes at a reduced rate.)

"While our attendance at the meeting didn't increase, we added a lot of value," asserts Doreen Schaar, PRECorp vice president of communications & external relations. "About 210 of those at the business meeting went to the speedway. We can't put a number on how many total co-op consumers turned out, but the track reported attendance of about 1,500."

In a population of 28,000, Gillette's raceway offers the biggest draw in town. Everyone packing seats embracing the clay oval that

Top of opposite page: Penelope Hinson (with banner) and other Horry Electric Cooperative employees delivered on member requests for improving the co-op's annual meeting. Left: James P. "Pat" Howle, CEO of the South Carolina co-op, notes that free hot dogs sponsored by a local bank have become a favorite at the event.

**COMMONWEALTH OF KENTUCKY
BEFORE
THE PUBLIC SERVICE COMMISSION**

CASE NO. 2008-00371

**DIRECT TESTIMONY
OF
JAMES R. ADKINS**

1Q. Please state your name and business address:

1A. My name is James R. Adkins and my business address is 1041 Chasewood Way,
Lexington, KY.

2Q. What is your educational background work experience?

2A. I have a BS Degree in Commerce and a MS Degree in Accounting with both
degrees from the University of Kentucky. I have been associated with the electric
utility industry for well over thirty years. I was employed with East Kentucky
Power Cooperative ("EKPC") for twenty-five years as the Manager of Pricing.
Since leaving this firm, I have been a consultant for electric utilities mainly with
rural electric cooperatives.

3Q. Have you ever appeared as a witness before this Commission before?

3A. I have appeared as a witness many times before the Commission for EKPC and
its members systems as an employee of EKPC. As a consultant, I have appeared
as witness for rural electric cooperatives many times.

- 4Q. What is the purpose of your testimony?
- 4A. The purpose of this testimony is to provide the impact of the proposed facilities upon the financial condition of SKRECC.
- 5Q. What would be the impact of the new facilities upon the operational costs of the cooperative.
- 5A. Based on current conditions, SKRECC feels that the annual impact upon the operational costs of these new facilities would be close to \$1,250,000 compared with our original estimate in this application of almost \$2.1 million. The main reason for this reduction deals with the much more favorable interest rates that SKRECC is enjoying at the current time plus a reduction in depreciation expense due to the reduced costs and a longer expected useful life for this facility. Additionally, since SKRECC did not start and will not complete these facilities at the time estimated in the original application, the forecast of the next rate application will not be moved forward as a result of these new facilities. The estimate in the original application was for the next rate application to be moved forward one year due to the new headquarter facilities. Attached as Exhibit E is a copy of the revised financial forecast including the statement of operations, balance sheet and other key data.
- 6Q. Do you feel that proposed construction would significantly harm SKRECC's member-owners?

6A. The estimated additional annual costs for these new Somerset facilities will amount to approximately \$20 per member per year. I do not think that this amount would significantly harm SKRECC's member-owners. I do know that SKRECC current Somerset facilities are completely outdated for use as an electric utility headquarters with many problems and inefficiencies associated with it. The description of the current facilities provided in this application along with photographs of these same facilities does not adequately depict the problems and condition of the Somerset facilities. I have attempted to estimate the impact upon the members as accurately as possible. However, one item that has not been quantifiable is the enhanced productivity and cost savings that would come with the proposed Somerset facilities. These cost savings that would occur have not been made a part of the cost projection because no way has been found to properly estimate and quantify them.

7Q. In your opinion, should the Kentucky Public Service Commission approve the construction of the proposed Somerset facilities?

7A. It is my opinion that the proposed Somerset facilities are needed and should be approved. Now is a favorable time to start construction with potential lower construction costs, reduced interest rates and a very weak economy. All would help to bring this project to fruition at a good time.

8Q. Does that conclude your testimony?

8A. This concludes my testimony.



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**SOUTH KENTUCKY RECC
SOMERSET, KY
TEN YEAR FINANCIAL FORECAST**

Schedule A
CASE B
Revised May 2009

Statement of Operations

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | \$\$ | \$\$ | \$\$ | \$\$ | \$\$ | \$\$ | \$\$ | \$\$ | \$\$ | \$\$ |
| Revenue | | | | | | | | | | |
| Revenue from Current Rates | 113,435,992 | 111,890,417 | 113,206,412 | 114,537,583 | 115,890,151 | 126,960,321 | 128,451,645 | 129,959,745 | 131,485,647 | 133,027,443 |
| Increases for Distribution Costs | 0 | 0 | 0 | 0 | 8,618,097 | 0 | 0 | 0 | 0 | 0 |
| Increases for Purchased Power | (2,642,607) | (2,673,660) | (2,705,078) | (2,736,860) | (2,769,008) | (2,801,520) | (2,834,404) | (2,867,658) | (2,901,302) | (2,935,304) |
| Total Revenue | 110,793,384 | 109,216,758 | 110,501,334 | 111,800,723 | 121,739,240 | 124,158,801 | 125,617,242 | 127,092,087 | 128,584,344 | 130,092,140 |
| Expenses | | | | | | | | | | |
| Cost of Purchased Power | 80,780,609 | 78,694,350 | 79,618,892 | 80,554,080 | 81,500,065 | 82,456,780 | 83,424,408 | 84,402,954 | 85,392,971 | 86,393,494 |
| Gross Margin | 30,012,776 | 30,522,407 | 30,882,452 | 31,246,644 | 40,239,175 | 41,702,021 | 42,192,834 | 42,689,133 | 43,191,373 | 43,698,646 |
| Distribution O&M | 9,920,718 | 10,146,671 | 10,601,361 | 11,477,040 | 12,379,026 | 13,320,582 | 14,303,522 | 15,329,744 | 16,401,237 | 17,520,083 |
| Consumer Accounts Expenses | 4,418,184 | 4,456,856 | 4,545,528 | 4,632,432 | 4,722,260 | 4,810,864 | 4,899,808 | 4,989,024 | 5,078,444 | 5,169,088 |
| Administrative & General | 4,048,517 | 4,175,877 | 4,363,005 | 4,723,392 | 5,094,605 | 5,482,104 | 5,886,634 | 6,308,978 | 6,749,952 | 7,210,414 |
| Depreciation | 5,197,072 | 5,240,183 | 5,475,004 | 5,927,243 | 6,095,732 | 6,559,377 | 7,043,401 | 7,548,738 | 8,076,367 | 8,627,313 |
| Tax Expense | 98,357 | 102,720 | 107,323 | 116,188 | 125,319 | 134,851 | 144,802 | 155,191 | 166,038 | 177,364 |
| Operating Margins before Interest | 6,329,928 | 6,400,101 | 5,790,230 | 4,370,348 | 11,822,233 | 11,394,243 | 9,914,666 | 8,357,459 | 6,719,335 | 4,994,383 |
| Interest Expense | 5,189,900 | 5,371,254 | 5,508,223 | 5,725,964 | 6,049,952 | 6,424,763 | 6,795,282 | 7,208,658 | 7,631,916 | 8,072,187 |
| Operating Margins after Interest | 1,140,029 | 1,028,848 | 282,007 | (1,355,615) | 5,772,281 | 4,969,480 | 3,119,384 | 1,148,801 | (912,581) | (3,077,804) |
| Non-operating Margins | 159,860 | 228,670 | 292,575 | 329,159 | 198,248 | 236,207 | 250,088 | 223,800 | 150,552 | 18,453 |
| Other Capital Credits | 97,024 | 92,982 | 89,000 | 83,999 | 79,424 | 76,981 | 70,986 | 65,196 | 59,091 | 53,542 |
| G&T Capital Credits | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Margins | 1,396,913 | 1,350,500 | 663,583 | (942,457) | 6,049,952 | 5,282,668 | 3,440,458 | 1,437,797 | (702,938) | (3,005,809) |
| Op-TIER | 1.22 | 1.19 | 1.05 | 0.76 | 1.95 | 1.77 | 1.46 | 1.16 | 0.88 | 0.62 |
| TIER | 1.27 | 1.25 | 1.12 | 0.84 | 2.00 | 1.82 | 1.51 | 1.20 | 0.91 | 0.63 |

**SOUTH KENTUCKY RECC
SOMERSET, KENTUCKY**

TEN YEAR FINANCIAL FORECAST

Balance Sheet

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Assets | \$\$ | \$\$ | \$\$ | \$\$ | \$\$ | \$\$ | \$\$ | \$\$ | \$\$ | \$\$ |
| Total Utility Plant in Service | 184,009,802 | 192,171,800 | 200,783,355 | 217,368,187 | 234,451,241 | 252,283,748 | 270,900,039 | 290,336,070 | 310,629,493 | 331,819,747 |
| Accumulated Depreciation | 36,708,827 | 39,569,749 | 42,594,116 | 45,997,202 | 49,493,052 | 53,374,551 | 57,659,737 | 62,367,514 | 67,517,691 | 73,131,029 |
| Net Plant | 147,300,975 | 152,602,051 | 158,189,239 | 171,370,985 | 184,958,189 | 198,909,197 | 213,240,302 | 227,968,555 | 243,111,802 | 258,688,718 |
| Current Assets | 15,244,663 | 14,628,770 | 13,166,367 | 7,929,904 | 9,448,285 | 10,003,531 | 8,951,994 | 6,022,095 | 738,135 | (6,913,561) |
| Other Property & Investments | 24,505,588 | 24,598,570 | 24,687,570 | 24,771,569 | 24,850,993 | 24,927,974 | 24,998,960 | 25,064,156 | 25,123,247 | 25,176,789 |
| Other Assets and Deferred Debits | 617,015 | 617,015 | 617,015 | 617,015 | 617,015 | 617,015 | 617,015 | 617,015 | 617,015 | 617,015 |
| Total Assets | 187,668,241 | 192,446,406 | 196,660,191 | 204,689,473 | 219,874,482 | 234,457,717 | 247,808,271 | 259,671,821 | 269,590,199 | 277,568,962 |
| Liabilities and Equity | | | | | | | | | | |
| Distribution Equity | 31,659,477 | 32,264,989 | 32,174,501 | 30,479,331 | 35,801,998 | 40,277,541 | 42,843,741 | 43,369,787 | 41,745,222 | 37,843,140 |
| G&T Capital Credits | 18,006,351 | 18,006,351 | 18,006,351 | 18,006,351 | 18,006,351 | 18,006,351 | 18,006,351 | 18,006,351 | 18,006,351 | 18,006,351 |
| Total Equity and Margins | 49,665,828 | 50,271,340 | 50,180,852 | 48,485,682 | 53,808,349 | 58,283,892 | 60,850,092 | 61,375,138 | 59,751,573 | 55,849,491 |
| Long Term Debt - RUS | 100,144,148 | 105,065,137 | 110,133,884 | 120,659,524 | 131,341,505 | 142,296,394 | 154,112,513 | 166,245,010 | 178,670,315 | 191,393,251 |
| Long Term Debt - Other | 14,789,238 | 14,040,902 | 13,276,427 | 12,475,239 | 11,655,600 | 10,808,403 | 9,776,639 | 8,982,646 | 8,099,284 | 7,257,193 |
| Total Long Term Debt | 114,933,387 | 119,106,039 | 123,410,312 | 133,134,763 | 142,997,106 | 153,104,797 | 163,889,152 | 175,227,656 | 186,769,599 | 198,650,443 |
| Current Liabilities & Other | 23,069,027 | 23,069,027 | 23,069,027 | 23,069,027 | 23,069,027 | 23,069,027 | 23,069,027 | 23,069,027 | 23,069,027 | 23,069,027 |
| Total Liabilities and Equity | 187,668,241 | 192,446,406 | 196,660,191 | 204,689,473 | 219,874,482 | 234,457,717 | 247,808,271 | 259,671,821 | 269,590,199 | 277,568,962 |

**SOUTH KENTUCKY RECC
SOMERSET, KY**

**Schedule C
CASE B**
Revised May 2009

TEN YEAR FINANCIAL FORECAST

Source and Application of Funds

| Source of Funds | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| | \$\$ | \$\$ | \$\$ | \$\$ | \$\$ | \$\$ | \$\$ | \$\$ | \$\$ | \$\$ |
| Current Assets BOY | 14,532,763 | 15,244,663 | 14,628,770 | 13,166,367 | 7,929,904 | 9,448,285 | 10,003,531 | 8,951,994 | 6,022,095 | 738,135 |
| Cash From Operations | | | | | | | | | | |
| Margins | 1,396,913 | 1,350,500 | 663,583 | (942,457) | 6,049,952 | 5,282,668 | 3,440,458 | 1,437,797 | (702,938) | (3,005,809) |
| Interest | 5,189,900 | 5,371,254 | 5,508,223 | 5,725,964 | 6,049,952 | 6,424,763 | 6,795,282 | 7,208,658 | 7,631,916 | 8,072,187 |
| Depreciation | 5,197,072 | 5,240,183 | 5,475,004 | 5,927,243 | 6,095,732 | 6,559,377 | 7,043,401 | 7,548,738 | 8,076,367 | 8,627,313 |
| Less: Capital Credits Allocated | 97,024 | 92,982 | 89,000 | 83,999 | 79,424 | 76,981 | 70,986 | 65,196 | 59,091 | 53,542 |
| G&T Capital Credits Paid | | | | | | | | | | |
| Plus Loan Funds | 8,035,969 | 7,378,881 | 7,743,535 | 13,376,292 | 13,778,055 | 14,357,270 | 14,962,154 | 15,593,894 | 16,253,729 | 16,942,961 |
| Total Source of Funds | 34,255,592 | 34,492,498 | 33,930,115 | 37,169,410 | 39,824,172 | 41,995,383 | 42,173,841 | 40,675,885 | 37,222,078 | 31,321,246 |
| Application of Funds | | | | | | | | | | |
| Capital Credits Retired | 735,060 | 744,987 | 754,070 | 752,713 | 727,285 | 807,125 | 874,258 | 912,751 | 920,627 | 896,274 |
| Internal Funds Invested in Plant | 2,008,992 | 3,162,378 | 3,318,658 | 5,732,697 | 5,904,881 | 6,153,116 | 6,412,352 | 6,683,097 | 6,965,884 | 7,261,269 |
| Loan Funds Invested in Plant | 8,035,969 | 7,378,881 | 7,743,535 | 13,376,292 | 13,778,055 | 14,357,270 | 14,962,154 | 15,593,894 | 16,253,729 | 16,942,961 |
| Debt Service | 8,230,908 | 8,577,483 | 8,947,485 | 9,377,804 | 9,965,665 | 10,674,341 | 10,973,082 | 11,464,047 | 12,343,703 | 13,134,303 |
| Total Application of Funds | 19,010,929 | 19,863,729 | 20,763,748 | 29,239,506 | 30,375,887 | 31,991,852 | 33,221,847 | 34,653,790 | 36,483,943 | 38,234,806 |
| Current Assets EOY | 15,244,663 | 14,628,770 | 13,166,367 | 7,929,904 | 9,448,285 | 10,003,531 | 8,951,994 | 6,022,095 | 738,135 | (6,913,561) |

**SOUTH KENTUCKY RECC
SOMERSET, KY**

TEN YEAR FINANCIAL FORECAST

Key Financial Indicators

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| CAPITAL STRUCTURE | | | | | | | | | | |
| A. Capital Structure | | | | | | | | | | |
| Equity | 49,665,828 | 50,271,340 | 50,180,852 | 48,485,682 | 53,808,349 | 58,283,892 | 60,850,092 | 61,375,138 | 59,751,573 | 55,849,491 |
| Debt | 114,933,387 | 119,106,039 | 123,410,312 | 133,134,763 | 142,997,106 | 153,104,797 | 163,889,152 | 175,227,656 | 186,769,599 | 198,650,443 |
| Total | 164,599,214 | 169,377,379 | 173,591,164 | 181,620,446 | 196,805,455 | 211,388,690 | 224,739,244 | 236,602,794 | 246,521,172 | 254,499,935 |
| Equity Capitalization Ratio | 30.17% | 29.68% | 28.91% | 26.70% | 27.34% | 27.57% | 27.08% | 25.94% | 24.24% | 21.94% |
| Debt Capitalization Ratio | 69.83% | 70.32% | 71.09% | 73.30% | 72.66% | 72.43% | 72.92% | 74.06% | 75.76% | 78.06% |
| B. Return on Capital | | | | | | | | | | |
| Margins | 1,396,913 | 1,350,500 | 663,583 | (942,457) | 6,049,952 | 5,282,668 | 3,440,458 | 1,437,797 | (702,938) | (3,005,809) |
| Interest | 5,189,900 | 5,371,254 | 5,508,223 | 5,725,984 | 6,049,952 | 6,424,763 | 6,795,282 | 7,208,658 | 7,631,916 | 8,072,187 |
| Total | 6,586,813 | 6,721,753 | 6,171,806 | 4,783,507 | 12,099,905 | 11,707,431 | 10,235,741 | 8,646,455 | 6,928,978 | 5,066,378 |
| Return on Capital | 4.00% | 3.97% | 3.56% | 2.63% | 6.15% | 5.54% | 4.55% | 3.65% | 2.81% | 1.99% |
| Return on Equity | 2.81% | 2.69% | 1.32% | -1.94% | 11.24% | 9.06% | 5.65% | 2.34% | -1.18% | -5.38% |
| Return on Debt | 4.52% | 4.51% | 4.46% | 4.30% | 4.23% | 4.20% | 4.15% | 4.11% | 4.09% | 4.06% |
| C. Equity to Asset Ratio | | | | | | | | | | |
| | 26.46% | 26.12% | 25.52% | 23.69% | 24.47% | 24.86% | 24.56% | 23.64% | 22.16% | 20.12% |

