



Shelby Energy Cooperative

Your Touchstone Energy® Partner



ORIGINAL

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

APR 05 2010

**PUBLIC SERVICE
COMMISSION**

IN THE MATTER OF:

APPLICATION OF SHELBY ENERGY COOPERATIVE,) CASE NO.
INC. FOR AN ADJUSTMENT OF RATES) 2009-00410

THIRD DATA REQUEST OF COMMISSION STAFF
TO SHELBY ENERGY COOPERATIVE, INC.

APRIL 5, 2010

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April 2, 2010

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APR 05 2010

**PUBLIC SERVICE
COMMISSION**

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort, KY 40602


Re: Application of Shelby Energy Cooperative, Inc.
for an Adjustment of Rates
Case No. 2009-0410

Dear Mr. Derouen:

Please find enclosed the original and seven (7) copies of the responses to the Commission's Order "Commission Staff's Third Data Request to Shelby Energy Cooperative, Inc." dated March 19, 2010.

Yours truly,

MATHIS, RIGGS & PRATHER, P.S.C.


BY: _____
Donald T. Prather

DTP/pm
Enclosures
Cc: Debra Martin
Don/sec/PSC filing

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**PUBLIC SERVICE
COMMISSION**

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SHELBY ENERGY COOPERATIVE,) CASE NO.
INC. FOR AN ADJUSTMENT OF RATES) 2009-00410

THIRD DATA REQUEST OF COMMISSION STAFF
TO SHELBY ENERGY COOPERATIVE, INC.

Shelby Energy Cooperative, Inc. ("Shelby Energy"), pursuant to 807 KAR 5:001, is to file with the Commission the original and seven copies of the following information, with a copy to all parties of record. The information requested herein is due on or before April 5, 2010. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Shelby Energy shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Shelby Energy fails or refuses to furnish all or part of the requested information, it shall

provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to Shelby Energy's response to Commission Staff's Second Data Request ("Staff's Second Request"), Item 1, the attached revised tariff sheet. Shelby Energy made text changes to indicate that the ETS rate is applicable to proposed rates 11 and 12. Did Shelby Energy intend to make the ETS applicable only to proposed rate 12, the residential rate? If no, explain.

2. Refer to the response to Item 18 of Staff's Second Request. The table at the top of page 2 provides revised accounting services allocation percentages for use in the cost-of-service study. Provide what effect, if any, the changes in the allocation percentages would have on the results of the cost-of-service study.

3. Refer to the response to Item 20 of Staff's Second Request.

a. Refer to part a. of this response. The detail of Account 456, Other Electric Revenue, shows a credit of \$38,021 labeled as sales and use tax. Provide an explanation for the sales and use tax credit.

b. Refer to part b. of this response. For Account 456, Other Electric Revenue, provide a detailed breakdown for each of the five years listed similar to that provided in part a. of this response for the test-year total.

4. Refer to the response to Item 21.b. of Staff's Second Request. Shelby Energy states that, in calculating cable television attachment ("CATV") rates, it intended to use the rate of return proposed in the instant case of 6.4 percent. Provide updated proposed CATV rates using the 6.4 percent rate of return.

5. Provide the actual Times Interest Earned Ratio Shelby Energy attained for calendar year 2009 and a summary income statement supporting the calculation.

6. Refer to the response to Item 26 of Staff's Second Request.

a. Refer to part a. of this response. In its explanation for the change in Account 593, Shelby Energy stated that wind and ice storm expenses totaling \$236,537 were not reimbursed by the Federal Emergency Management Agency ("FEMA"). Given the nonrecurring nature of the storm events that led to Shelby Energy's incurring these expenses, explain why these expenses should be included for rate-making purposes. Provide a comparative schedule of Account 593 for the calendar years 2005 through 2009.

b. Refer to part d. of this response. In its explanation for the change in Account 903, Shelby Energy stated that personnel changes affected the reduction in expense from "2007 to 2009." Did Shelby Energy mean 2008 instead of 2007?

c. Refer to part h. of this response. Provide a detailed schedule of the transactions that resulted in a loss on dispositions of \$110,710.

7. Refer to the response to Item 27.b. of Staff's Second Request.

a. Does Shelby Energy have a formal written policy governing the employee performance bonus program? If so, provide a copy of the policy. If no,

explain in detail how Shelby Energy determines the amount of the potential performance bonus each year.

b. How long has Shelby Energy had a performance bonus program for employees?

c. Explain fully why Shelby Energy has chosen to include a performance-based incentive as part of its employees' compensation.

d. Provide the amount of the performance bonus paid in 2009 to each employee and in total for Shelby Energy. Also provide documentation of how the bonus was calculated.

8. Refer to the response to Item 31 of Staff's Second Request. Does the response mean that Shelby Energy agrees that the adjustment for Retirement and Security should be \$140,690 rather than \$211,554?

9. Refer to the response to Item 32 of Staff's Second Request.

a. Refer to part d. of this response. Explain fully why Shelby Energy expects recurring costs for engineering services to increase to approximately \$74,500 annually, given that its test-year engineering services expenses were only \$41,565.

b. Provide a comparative analysis of Account 923.0, Professional Services, for the calendar years 2005 through 2009. Expenses should be summarized by the major categories of expense incurred in each year.

10. Refer to the response to Item 38.d.1. of Staff's Second Request. The schedule of employee training expense provided by Shelby Energy shows that training expense for the test year totals \$55,407. Was this level of expense consistent with prior

years' employee training expenses incurred by Shelby Energy? Provide a summary schedule of training expenses incurred in calendar years 2005 through 2009.

11. Refer to the response to Item 39 of Staff's Second Request. Provide an itemized schedule of the total cost of the 2009 annual meeting, indicating those costs removed for rate-making purposes and the account number charged for each item listed.

12. Refer to the responses to Items 40 and 41 of Staff's Second Request.

a. The response to Item 40 indicates that a receivable from FEMA was established as of July 31, 2009 in the amount of \$538,763. The accompanying schedule shows FEMA payments of the same amount on July 28, 2009. Explain why a receivable was recorded if payments had been received.

b. The response to Item 41 indicates that a receivable from FEMA was established as of July 31, 2009 in the amount of \$34,756. The accompanying schedule shows a FEMA payment of the same amount on April 23, 2009. Explain why a receivable was recorded if payment had been received.

c. Exhibit Y, page 1 of the Application shows Account 143.60, Accounts Receivable -- FEMA, with a balance of \$428,603 as of 7/31/09. Provide a reconciliation of the Account 143.60 balance of \$428,603 with the receivable amounts indicated in a. and b. above.

d. Does Shelby Energy expect to receive further reimbursements from FEMA? If so, how much does Shelby Energy anticipate receiving?

13. Refer to the responses to Items 26.a, 40, and 41 of Staff's Second Request. Expenses and reimbursements associated with the wind and ice storms were

recorded in Account 593, Maintenance of Overhead Lines. The responses show that certain wind and ice storm expenses were not reimbursed by FEMA. Following is a summary of these expenses per Shelby Energy's responses. Explain the discrepancy between the amounts reported.

<u>Expenses Not Reimbursed</u>		
Item 40	Ice storm	\$433,841
Item 41	Wind storm	<u>\$141,106</u>
	Total	\$574,947
Item 26.a	Both storms	\$236,537

14. According to the tariffs in its application, Shelby Energy offers its customers the Touchstone Energy Home Program and the residential and commercial direct load control programs available to the member cooperatives served by East Kentucky Power Cooperative, Inc. ("EKPC").

a. Identify any of the EKPC non-tariffed demand-side management ("DSM") programs that Shelby Energy offers its customers.

b. For the Touchstone Energy Home Program, the residential and commercial direct load control programs, and the DSM programs identified in the response to part a. of this request, provide the number of customers participating in each program as of December 31, 2009.



Jeff Derouen
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED: MAR 19 2010

cc: Parties of Record

Debbie Martin
Shelby Energy Cooperative, Inc.
620 Old Finchville Road
Shelbyville, KY 40065

SHELBY ENERGY COOPERATIVE
CASE NO. 2009-00410

RESPONSE TO COMMISSIONS STAFF'S THIRD DATA REQUEST

Question:

Refer to Shelby Energy's response to Commission Staff's Second Data Request ("Staff's Second Request"), Item 1, the attached revised tariff sheet. Shelby Energy made text changes to indicate that the ETS rate is applicable to proposed rates 11 and 12. Did Shelby Energy intend to make the ETS applicable only to proposed rate 12, the residential rate? If no, explain.

Response:

No, the ETS rate would not be applicable only to proposed rate 12, the residential rate. Shelby Energy intends to make the ETS applicable to both rate 11 and 12. Historically, the ETS has frequently been associated with residential service but occasionally a member will wish to have an ETS unit for a non-residential account such as a work shop, garage or shed.

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Question:

Refer to the response to Item 18 of Staff's Second Request. The table at the top of page 2 provides revised accounting services allocation percentages for use in the cost-of-service study. Provide what effect, if any, the changes in the allocation percentages would have on the results of the cost-of-service study.

Response:

Attached as pages 2 and 3 of this response is the revenue requirements by function and by rate class for the filed original COSS and for the revised COSS. The difference in the revenue requirements for each rate class is very small and very insignificant.

RESPONSE TO COMMISSIONS STAFF'S THIRD DATA REQUEST

Function	Classification	REVISED COSS				Off-Peak Marketing ETS
		Amount	Green Power	1 General Service	2 Large Power Service	
Purchased Power	Demand	6,505,282		2,186,729	434,091	-
Purchased Power	Energy	23,003,451	3,285	5,724,719	2,054,553	24,550
Lines	Consumer	1,305,971		723,264	5,014	-
Lines	Demand	4,517,262		1,679,149	501,046	-
Transformers	Consumer	164,213		68,036	805	-
Transformers	Demand	686,345		224,245	66,913	-
Services	Consumer	1,245,392		681,997	4,728	337
Meters	Consumer	811,073		436,796	22,981	4,311
Consumer Services & Accounting	Consumer	1,121,874		412,570	3,599	1,904
Lighting	Lighting	294,833				
Revenue Requirements		39,655,698	3,285	12,137,505	3,093,730	31,102

Function	Classification	FILED COSS				Off-Peak Marketing ETS
		Amount	Green Power	1 General Service	2 Large Power Service	
Purchased Power	Demand	6,505,282		2,186,729	434,091	-
Purchased Power	Energy	23,003,451	3,285	5,724,719	2,054,553	24,550
Lines	Consumer	1,305,971		723,264	5,014	-
Lines	Demand	4,517,262		1,679,149	501,046	-
Transformers	Consumer	164,213		68,036	805	-
Transformers	Demand	686,345		224,245	66,913	-
Services	Consumer	1,245,392		681,997	4,728	337
Meters	Consumer	811,073		436,796	22,981	4,311
Consumer Services & Accounting	Consumer	1,121,874		412,970	3,586	1,909
Lighting	Lighting	294,833				
Revenue Requirements		39,655,698	3,285	12,137,905	3,093,716	31,107

Change - Revised minus Original

- (400) 13 (5)

RESPONSE TO COMMISSIONS STAFF'S THIRD DATA REQUEST

Function	Classification	REVISED COSS				
		10 Opt. DSM Schedule	B-1 Large Industrial	B-2 Large Industrial	3 Outdoor & St. Lighting	
Purchased Power	Demand	1,846,624	1,517,955	502,993	16,891	6,505,282
Purchased Power	Energy	7,621,360	5,682,524	1,766,144	126,316	23,003,451
Lines	Consumer	574,549	1,020	85	2,040	1,305,971
Lines	Demand	1,453,532	835,440	18,085	30,010	4,517,262
Transformers	Consumer	92,199	1,945	1,136	93	164,213
Transformers	Demand	194,115	148,760	48,304	4,008	686,345
Services	Consumer	541,768	-	-	16,563	1,245,392
Meters	Consumer	346,984	-	-	-	811,073
Consumer Services & Accounting Lighting	Consumer Lighting	676,662	1,201	31	25,906	1,121,874
Revenue Requirements		13,347,792	8,188,844	2,336,780	516,660	39,655,698

Function	Classification	FILED COSS				
		10 Opt. DSM Schedule	B-1 Large Industrial	B-2 Large Industrial	3 Outdoor & St. Lighting	
Purchased Power	Demand	1,846,624	1,517,955	502,993	16,891	6,505,282
Purchased Power	Energy	7,621,360	5,682,524	1,766,144	126,316	23,003,451
Lines	Consumer	574,549	1,020	85	2,040	1,305,971
Lines	Demand	1,453,532	835,440	18,085	30,010	4,517,262
Transformers	Consumer	92,199	1,945	1,136	93	164,213
Transformers	Demand	194,115	148,760	48,304	4,008	686,345
Services	Consumer	541,768	-	-	16,563	1,245,392
Meters	Consumer	346,984	-	-	-	811,073
Consumer Services & Accounting Lighting	Consumer Lighting	676,836	1,201	31	25,341	1,121,874
Revenue Requirements		13,347,966	8,188,845	2,336,779	516,094	39,655,698

Change - Revised minus Original (174) (0) 1 565 0

SHELBY ENERGY COOPERATIVE
CASE NO. 2009-00410

RESPONSE TO COMMISSIONS STAFF'S THIRD DATA REQUEST

Question:

Refer to the response to Item 20 of Staff's Second Request.

a. Refer to part a. of this response. The detail of Account 456, Other Electric Revenue, shows a credit of \$38,021 labeled as sales and use tax. Provide an explanation for the sales and use tax credit.

b. Refer to part b. of this response. For Account 456, Other Electric Revenue, provide a detailed breakdown for each of the five years listed similar to that provided in part a. of this response for the test-year total.

Response:

a. The amount shown in brackets is actually a debit to the account that normally has a credit balance. This represents sales taxes payable to the state where sales tax has not been included on an invoice. An example would include an out-of-state purchase.

b. Attached.

	<u>Test</u>					
	<u>Year</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Collection fee	9,680	9,600	15,735	15,875	14,645	10,875
Meter test fee	25	25	75	125	25	
Reconnect fee	27,350	28,632	38,725	35,350	36,430	25,850
Return check charge	4,990	5,020	4,580	3,690	3,880	3,840
Credit report fees	110	150	100	90	120	60
Sales tax compensation	12,905	13,420	11,240	4,758	2,547	3,180
Sales and use tax	(38,021)	(42,392)	(31,265)	(30,043)	29,474	27,699
	17,039	14,455	39,190	29,845	87,121	71,504

SHELBY ENERGY COOPERATIVE
CASE NO. 2009-00410

RESPONSE TO COMMISSIONS STAFF'S THIRD DATA REQUEST

Question:

Refer to the response to Item 21.b. of Staff's Second Request. Shelby Energy states that, in calculating cable television attachment ("CATV") rates, it intended to use the rate of return proposed in the instant case of 6.4 percent. Provide updated proposed CATV rates using the 6.4 percent rate of return.

Response:

The calculation for CATV attachments using a rate of return of 6.4 percent is attached with this response on page 2 and page 3.

Shelby Energy Cooperative
CATV Pole Attachments
Decebmer 31, 2008

A. 1. Two-Party Pole Cost:

<u>Size</u>	<u>Quantity</u>	<u>Amount</u>	<u>Weighted Average Cost</u>
35' poles	14,924	\$2,586,655	
40' - 45' poles	19,059	\$8,555,095	
	<u>33,983</u>	<u>\$11,141,750</u>	<u>\$327.86</u>

2. Three-Party Pole Cost:

<u>Size</u>	<u>Quantity</u>	<u>Amount</u>	<u>Weighted Average Cost</u>
40' - 45' poles	<u>19,059</u>	<u>\$8,555,095</u>	<u>\$448.87</u>

3. Average cost of anchors

\$88.29

B. 1. Pole Charge:

a. Two party =	\$327.86	85%	15.53%	0.1224	\$5.30
b. Three party =	\$448.87	85%	15.53%	0.0759	\$4.50

2. Pole Charge, with ground attachments:

a. Two party =	\$327.86	85%	\$12.50	15.53%	0.1224	\$0.24
b. Three party =	\$448.87	85%	\$12.50	15.53%	0.0759	\$0.15

3. Anchor Charge:

a. Two party =	\$88.29		15.53%	0.50	\$6.86
b. Three party =	\$88.29		15.53%	0.33	\$4.52

(1) Remove miscellaneous allocations to pole accounts when using Record Units in the continuing property record (CPR's) system, per PSC Administrative Case No. 251

Shelby Energy Cooperative
CATV Pole Attachments
December 31, 2008

Fixed charges on investment from PSC Annual Report at December 31, 2007.

Total Distribution Expense	2,765,603	
Reference Page 14		
Customer Accounts Expense	718,598	
Reference Page 15		
Customer Service and Informational Expense	140,184	
Reference Page 15		
Administrative and General	860,421	
Reference Page 15		
Depreciation Expense	1,793,305	
Reference Page 13		
Taxes Other than Income Taxes	34,608	
Reference Page 13		
	<hr/>	
Sub total	6,312,719	
Divided by Total Utility Plant	62,537,689	10.09%
Line 2, Page 1		
Cost of Money		
Rate of Return on Investment allowed in the last General		
Rate Request, Case No 8361	6.40%	
Net plant ratio adjustment:		
Distribution plant	<u>59,185,890</u>	
Accumulated depreciation	8,921,038	15.1%
Rate of return (times 1 minus reserve ratio)		<u>5.44%</u>
Annual carrying charges		<u><u>15.53%</u></u>

Shelby Energy Cooperative
CATV Pole Attachments
December 31, 2008

Additional revenues generated

Description	Number	Charges		Revenue		Increase	
		Existing	Proposed	Existing	Proposed	Amount	Percent
2 party Pole Attachments	3,131	\$1.95	\$5.30	\$6,105	\$16,586	\$10,480	172%
2 party Anchor Attachments	97	1.59	6.86	154	665	\$511	331%
2 party Ground Attachments	2,033	0.44	0.24	895	483	(\$411)	-46%
3 party Pole Attachments	1,395	1.68	4.50	2,344	6,274	\$3,930	168%
3 party Anchor Attachments	549	1.06	4.52	582	2,484	\$1,902	327%
3 party Ground Attachments	613	0.27	0.15	166	90	(\$75)	-45%
Total				\$10,245	\$26,582	\$16,336	159%

SHELBY ENERGY COOPERATIVE
CASE NO. 2009-00410

RESPONSE TO COMMISSIONS STAFF'S THIRD DATA REQUEST

Question:

Provide the actual Times Interest Earned Ratio Shelby Energy attained for calendar year 2009 and a summary income statement supporting the calculation.

Response:

Requested information is provided on page 2 of this response.

SUMMARY INCOME STATEMENT AND TIER CALCULATIONS
Calendar Year 2009

Operating Revenue & Patronage Capital	\$ 36,603,258
Cost of Purchased Power	<u>27,546,156</u>
Gross Margin	<u>9,057,102</u>
Distribution Operations Expense	1,332,167
Distribution Maintenance Expense	1,766,853
Customer Accounts Expense	699,155
Customer Service & Information Expense	164,974
Sales Expense	100
Administrative & General Expense	1,027,629
Depreciation Expense	1,855,080
Tax Expense - Other	34,070
Interest on Long Term Debt	1,683,702
Interest Expense - Other	61,985
Other Deductions	1,984
Total Distribution Expenses	<u>8,627,699</u>
Operating Margin	<u>429,403</u>
Non-operating Margins Interest	36,385
Income (Loss) from Equity Investment	67,243
Non-operating Margins - Other	(15,189)
G&T Capital Credits	1,211,316
Other Capital Credits	<u>63,896</u>
Net Margins	<u><u>1,793,054</u></u>
Operating TIER	1.26
Net TIER	2.06
Rate-Making TIER	1.35

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CASE NO. 2009-00410

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Questions:

Refer to the response to Item 26 of Staff's Second Request.

a. Refer to part a. of this response. In its explanation for the change in Account 593, Shelby Energy stated that wind and ice storm expenses totaling \$236,537 were not reimbursed by the Federal Emergency Management Agency ("FEMA"). Given the nonrecurring nature of the storm events that led to Shelby Energy's incurring these expenses, explain why these expenses should be included for rate-making purposes. Provide a comparative schedule of Account 593 for the calendar years 2005 through 2009.

b. Refer to part d. of this response. In its explanation for the change in Account 903, Shelby Energy stated that personnel changes affected the reduction in expense from "2007 to 2009." Did Shelby Energy mean 2008 instead of 2007?

c. Refer to part h. of this response. Provide a detailed schedule of the transactions that resulted in a loss on dispositions of \$110,710.

Responses:

a.

Shelby Energy agrees that the \$236,537 expensed to 593 for storm related events should not be included for rate-making purposes. A comparative schedule of 593 for years 2005 through 2009 is included with this response on page 3.

b.

Yes, Shelby Energy did intend to list year 2008 rather than 2007.

c.

	<u>Book Value</u>
Ford 4x4 truck traded, book value	11,444
Ford 4x4 truck traded, book value	11,444
Ford F550 Chasis, traded, book value	48,649
Ford F550 Chasis, traded, book value	49,290
Trade allowance	<u>(10,117)</u>
Loss on disposition	<u><u>110,710</u></u>

6 a.

Comparative Schedule of Account 593.00 Maintenance of Overhead Lines for Calendar Years 2005-2009					
	2005	2006	2007	2008	2009
Employee Labor	\$200,877.17	\$238,140.15	\$201,597.61	\$307,028.89	\$388,014.59
Communications	37,593.25	46,467.55	42,834.92	46,149.75	73,768.87
Miscellaneous	90.00	213.79	259.21	2,044.04	(249.43)
Shared Services	1,054.32	1,473.21	648.05	197.85	323.65
FEMA	(31,272.64)	(46,546.70)	(21,827.55)	(125,754.04)	(657,966.12)
Tools & Supplies	2,284.91	291.82	887.45	6,414.68	854.27
Outages	5,934.17	25,793.60	19,258.05	83,796.32	338,618.01
Safety Equipment & Supplies	10,137.46	16,633.96	18,343.50	36,300.07	26,977.65
Contract Labor	14,375.22	15,612.25	43.25	17,899.90	411,773.91
Employee Benefits Allocation	118,993.81	127,116.49	112,694.68	156,776.78	192,898.93
Materials & Stores	60,877.56	55,940.38	60,122.22	74,705.27	84,054.79
Transportation	39,189.13	50,497.66	45,444.07	68,954.78	67,058.78
Total	\$460,134.36	\$531,634.16	\$480,305.46	\$674,514.29	\$926,127.90

SHELBY ENERGY COOPERATIVE
CASE NO. 2009-00410

RESPONSE TO COMMISSIONS STAFF'S THIRD DATA REQUEST

Question:

Refer to the response to Item 27.b. of Staff's Second Request.

- a. Does Shelby Energy have a formal written policy governing the employee performance bonus program? If so, provide a copy of the policy. If no, explain in detail how Shelby Energy determines the amount of the potential performance bonus each year.
- b. How long has Shelby Energy had a performance bonus program for employees?
- c. Explain fully why Shelby Energy has chosen to include a performance-based incentive as part of its employees' compensation.
- d. Provide the amount of the performance bonus paid in 2009 to each employee and in total for Shelby Energy. Also provide documentation of how the bonus was calculated.

Response:

a.

No, Shelby Energy has no formal written policy regarding the performance bonus.

Shelby Energy bases the performance bonus on four specific factors as provided in this response along with a detailed explanation for each factor. Included with this response on page 6 and page 7 is the calculation of the 2008 performance bonus which correlates with the detailed explanation for each factor.

1. Safety & Reliability

This factor monitored and measured accidents, service interruptions and blinks. The factor was assigned a potential of \$550 to be awarded as part of the performance bonus. Any employee accident would reduce this amount by 40 points with each lost-time accident reducing it by 295 points. For 2008, three minor accidents were recorded, therefore reducing the potential \$550 by \$120 and resulting in an awarded bonus amount of \$430.

The area of service interruptions maintained a base target of 3.0 for total outage hours, per customer, per year and excluded any outage hours created by the power supplier. For each reduction of 0.10 to the base target resulted in 20 points awarded as a bonus amount. For 2008, a reduction of 1.5 to the outage hours was documented resulting in \$300 as the awarded bonus amount.

The area of momentary interruptions (blinks) maintained a base target of 14 oil circuit recloser (OCR) operations on an annual basis. Any reduction of OCR operations below the average of 14 was awarded 30 points for each reduction. For 2008, a reduction of 7.32 operations was documented resulting in \$219.60 as the awarded bonus amount.

2. Competitive Rates & Efficiency

This factor monitored and measured efficiencies in operations and billing services that included materials inventory, work order construction, collection of delinquent accounts and electronic payment of accounts receivables from members.

The area of material inventory used the target of 3%, based on the acceptable percentage of RUS on over and short for an inventory variance. If Shelby Energy had an inventory variance equal to or less than 3%, a potential bonus amount of \$175 was awarded. Should the Cooperative exceed the 3% target, no bonus amount was awarded. For 2008, a 2.37% was documented as the inventory variance and \$175 was awarded for the performance bonus.

The area of work order inspections had a potential of \$100 should no deficiencies be found for work orders constructed. For each trip required to clean-up or correct a deficiency, the potential bonus amount was reduced by 8 points for each trip. For 2008, 5 trips were documented therefore reducing the potential amount of \$100 by \$40 and resulting in a bonus amount of \$60.00 being awarded.

The area of collections of delinquent accounts monitored and measured the total amount written-off for non-payment of bills. A base target of .25% of electric energy revenue was used for comparison. For every 0.1% below the base target, 40 points were used to calculate the bonus amount awarded. For 2008, the percentage was reduced by 1.00 resulting in a bonus amount of \$40.

The area of "Bankdraft" payments monitored and measured the number of members that initiated Shelby Energy's electronic payment service for payment of energy bills. The target is set each year by using the total accumulated member accounts using the electronic payment service. For every % above the base target, 10 points were used to calculate the bonus amount awarded. For 2008, the percentage of increase was 7.275% resulting in a bonus amount of \$72.75.

3. Lasting Value

This factor monitors and measures customer satisfaction and marketing services.

For customer satisfaction, the latest survey performed by the Preston-Osborne Group in 2008 was used as the satisfaction percentage. A base target of 70% had been set, and the bonus allowed 20 points for each % above the base target to determine the amount of bonus awarded. For 2008, the survey percentage was 82% which was 12 percentage points above the base of 70% resulting in a bonus amount of \$240.

4. Marketing

For marketing, points had been assigned to each product/service provided by the Cooperative as follows: (2) points for geothermal installations; (2) points for energy efficient heat pump installations; and (4) points for the button-up services performed.

For 2008, the Cooperative had 2 geothermal systems installed, 5 heat pumps installed and 2 “button-up” services performed. This resulted in \$4, \$10 and \$8 respectively awarded for the performance bonus.

Including the amount for the Christmas gift of \$150, the total amount issued to each employee classified as full-time was \$1,709.40.

b.

Shelby Energy has had the bonus program since 1996.

c.

Shelby Energy chose to include a performance-based incentive as part of employee compensation to encourage employee participation towards improving the specified areas listed above. This method of compensation allowed the employee to share in any improvements to safety, productivity, member satisfaction and service reliability while improving service to our membership.

d.

Due to economic conditions, no performance bonus was paid by Shelby Energy in 2009.

2008 DISCRETIONARY PERFORMANCE BONUS

<u>SAFETY & RELIABILITY</u>	<u>Potential</u>	<u>Awarded</u>
<p>ACCIDENTS Reduce 40 points for each accident (3) Reduce 295 points for each lost-time accident (0) 3</p>	<p>550.00</p>	<p>430.00</p>
<p>SERVICE INTERRUPTIONS Add up to 20 points for each 0.1 outage hour/customer/year below 3.0 (total - power supplier) = <u>1.50</u> thru Oct 08 15.00</p>		<p>300.00</p>
<p>MOMENTARY INTERRUPTIONS (Blinks) Add up to 30 points for each OCR operation below the feeder circuit average annual base of 14 = 3.63 7.32</p>		<p>219.60</p>
<u>COMPETITIVE RATES/EFFICIENCY</u>		
<p>MATERIALS INVENTORY Meets 3% RUS guideline =2.37%</p>	<p>175.00</p>	<p>175.00</p>
<p>WORK ORDER INSPECTIONS Reduce 8 points for each deficiency that requires a special clean-up trip = 5</p>	<p>100.00</p>	<p>60.00</p>
<p>DELINQUENT CUSTOMERS ACCOUNTS Add up to 40 points for each .01 % below .25% write-off base = 1.00</p>		<p>40.00</p>
<p>BANK DRAFT PAYMENTS Add up to 10 points for each % above the base of prior year = 7.28</p>		<p>72.80</p>
<u>LASTING VALUE</u>		
<p>TOTAL SYSTEM CUSTOMER SATISFACTION SURVEY Add up to 20 points for each % above 70% = 82% (2008 3rd qtr) 12</p>		<p>240.00</p>

2008 DISCRETIONARY PERFORMANCE BONUS

MARKETING

2 points for each geothermal	4.00
2	
2 points for each Heat Pump	10.00
5	
4 points for each Button-Up	8.00
2	

TOTAL BONUS

\$1,559.40

* This amount is in lieu of a Christmas gift card \$ 150.00

TOTAL

\$1,709.40

03/31/10

Financial status and cost reductions were used to establish monetary value of each point. Base line costs were adjusted for extraordinary items. Year refers to Performance Bonus Fiscal Year.

- 1) This bonus system is discretionary based on the financial condition of the Cooperative.
- 2) Employees who receive this bonus must be an active employee at the time the bonus is paid.
- 3) Part-time employees and newly hired employees will be pro-rated after a minimum of 6 months employment.

SHELBY ENERGY COOPERATIVE
CASE NO. 2009-00410

RESPONSE TO COMMISSIONS STAFF'S THIRD DATA REQUEST

Question:

Refer to the response to Item 31 of Staff's Second Request. Does the response mean that Shelby Energy agrees that the adjustment for Retirement and Security should be \$140,690 rather than \$211,554?

Response:

Yes, Shelby Energy meant the adjustment should be \$140,590.

SHELBY ENERGY COOPERATIVE
CASE NO. 2009-00410

RESPONSE TO COMMISSIONS STAFF'S THIRD DATA REQUEST

Question:

Refer to the response to Item 32 of Staff's Second Request.

a. Refer to part d. of this response. Explain fully why Shelby Energy expects recurring costs for engineering services to increase to approximately \$74,500 annually, given that its test-year engineering expenses were only \$41,565.

b. Provide a comparative analysis of Account 923.0, Professional Services, for the calendar years 2005 through 2009. Expenses should be summarized by the major categories of expense incurred in each year.

Response:

a.

Shelby has been utilizing the services of a consulting engineer until a degreed/licensed electrical engineer can be hired. It is estimated that the consulting engineer would be used for approximately ½ year. After the degreed/licensed engineer is hired, it is estimated that salary and benefits would be comparable to the amount paid for the consulting engineer.

b.

The comparative analysis of Account 923.0 with expenses summarized by major categories for years 2005 through 2009 is included on page 2 of this response.

Comparative Schedule of Account 923.00 Professional Services for Calendar Years 2005-2009					
	2005	2006	2007	2008	2009
Human Resources	0.00	0.00	0.00	10,266.00	9,000.00
Management	94.44	23.00	0.00	(1,124.00)	9,333.45
Cooperative Attorney	14,352.89	17,479.81	19,668.56	29,532.55	29,701.91
Miscellaneous	0.00	0.00	0.00	24.30	2,546.09
Auditor	9,524.36	10,239.60	8,132.14	11,060.00	8,900.00
Cooperative Attorney Training	3,750.06	2,443.50	2,380.90	2,564.43	336.92
Engineering	98.35	9.92	(1,900.00)	12,088.14	58,782.93
Safety	29.19	0.00	0.00	90.00	6,308.00
Management Audit	0.00	0.00	0.00	0.00	25,714.14
Legal Fees - Union	0.00	0.00	0.00	63,788.02	92,788.68
Legal Fees - Miscellaneous	2,075.50	4,199.98	2,664.53	29.21	5,125.00
TOTAL	29,924.79	34,395.81	30,946.13	128,318.65	248,537.12

SHELBY ENERGY COOPERATIVE
CASE NO. 2009-00410

RESPONSE TO COMMISSIONS STAFF'S THIRD DATA REQUEST

Question:

Refer to the response to Item 38.d.1 of Staff's Second Request. The schedule of employee training expense provided by Shelby Energy shows that training expense for the test year totals \$55,407. Was this level of expense consistent with prior years' training expenses incurred by Shelby Energy? Provide a summary schedule of training expenses incurred in calendar years 2005 through 2009.

Response:

Shelby Energy has had an increased level of training from 2005 through 2009 and is expected to maintain current levels to further employee development in safety, management and other areas of the cooperative.

A summary schedule of training expenses incurred in calendar years 2005 through 2009 is included in page 2 of this response.

SHELBY ENERGY COOPERATIVE					
Case No. 2009 - 00410					
DEPARTMENT	2005	2006	2007	2008	2009
Engineering	7,741.46	1,456.75	3,797.02	2,027.48	4,091.34
Member Services	3,164.89	1,205.21	3,268.76	393.26	2,110.00
Office Services	3,504.25	10,708.55	8,358.40	10,862.22	18,893.93
Operations	2,682.05	8,965.43	11,084.13	14,976.24	14,032.60
Safety Coordinator				10,517.72	23,318.07
Executive			2,927.80	3,315.07	3,658.18
GRAND TOTAL	\$17,092.65	\$22,335.94	\$29,436.11	\$42,091.99	\$66,104.12

SHELBY ENERGY COOPERATIVE
CASE NO. 2009-00410

RESPONSE TO COMMISSIONS STAFF'S THIRD DATA REQUEST

Question:

Refer to the response to Item 39 of Staff's Second Request. Provide an itemized schedule of the total cost of the 2009 annual meeting, indicating those costs removed for rate-making purposes and the account number charged for each item listed.

Response:

An itemized schedule of the total cost of the 2009 annual meeting is included on page 2 of this response.

**SHELBY ENERGY COOPERATIVE
2009 ANNUAL MEETING
ITEMIZED SCHEDULE**

Account:	Miscellaneous General Expense	930.20	
DATE	DESCRIPTION	AMOUNT	
3/16/2009	Foam outlet covers	509.65	
4/3/2009	Rain gauges	1,142.40	*
6/9/2009	Outside banners	608.44	
8/9/2009	Buckets (480) & Bulbs (1920 cfl's)	2,995.34	
6/9/2009	Food signs	53.00	
6/9/2009	Annual Reports (8 page & extra handouts)	3,344.61	
6/9/2009	Newspaper advertising	1,433.79	
6/9/2009	WFKY radio advertising	300.00	
6/9/2009	Froggy radio advertising	137.50	
6/9/2009	Food coupons	0.00	
6/9/2009	Eminence Rotary (manned the concessions)	1,000.00	
6/9/2009	Eminence Rotary furnished concessions	1,164.87	
6/9/2010	Entertainment	1,000.00	
6/9/2010	Nominating Committee	119.46	*
6/9/2010	Credentials & Election Committee	507.78	*
6/9/2010	Youth workers	175.00	
6/9/2010	Children's prizes	251.95	*
6/9/2010	Door prizes	1,000.00	*
6/9/2010	Proxy & Postage	709.44	
7/9/2009	Tim Webb Photography	288.50	
7/9/2009	Henry Co. gym & workers	154.92	
7/9/2009	Annual meeting posters & reports	288.61	
8/9/2009	Caricaturist	525.00	
8/9/2009	Chairs, tables, sound system, KAEC fee	<u>2,734.52</u>	
		\$20,444.78	
*	Cost removed for rate-making purposes	<u>3,021.59</u>	
		\$17,423.19	

SHELBY ENERGY COOPERATIVE
CASE NO. 2009-00410

RESPONSE TO COMMISSIONS STAFF'S THIRD DATA REQUEST

Question:

Refer to responses to Items 40 and 41 of Staff's Second Request.

a. The response to Item 40 indicates that a receivable from FEMA was established as of July 31, 2009 in the amount of \$538,763. The accompanying schedule shows FEMA payments of the same amount on July 28, 2009. Explain why a receivable was recorded if payments had been received.

b. The response to Item 41 indicates that a receivable from FEMA was established as of July 31, 2009 in the amount of \$34,756. The accompanying schedule shows a FEMA payment of the same amount on April 23, 2009. Explain why a receivable was recorded if payment had been received.

c. Exhibit Y, page 1 of the Application shows Account 143.60, Accounts Receivable – FEMA, with a balance of \$428,603 as of 7/31/09. Provide a reconciliation of the Account 143.60 balance of \$428,603 with the receivable amounts indicated in a. and b. above.

d. Does Shelby Energy expect to receive further reimbursements from FEMA? If so, how much does Shelby Energy anticipate receiving?

Response:

a.

The schedule provided in the response to Item 40 showed the total costs of the ice storm in January, 2009 of \$972,605. The amount FEMA approved to reimburse Shelby was \$846,166. As of July 31, 2009, FEMA had reimbursed Shelby \$538,764, which left a balance due from FEMA in the amount of \$307,402. On March 19, 2010 Shelby received \$193,962 from FEMA. Shelby anticipates the remaining \$113,441 will be received from FEMA. Shelby has not been notified when the remaining funds will be received. The receivable should have identified as \$307,402 instead of the \$538,763.

b.

The schedule provided in the response to Item 41 showed the total costs of the wind storm in September, 2008 of \$175,862. The amount FEMA approved to reimburse Shelby was \$153,000. As of July 31, 2009, FEMA had reimbursed Shelby \$34,756, which left a balance due from FEMA in the amount of \$118,244. On August 26, 2009 Shelby received \$106,420 from FEMA. Shelby anticipates the remaining \$11,824 will be received from FEMA. Shelby has not been notified when the remaining funds will be received.

c.

The receivable from FEMA for three (3) storms that are outstanding are as follows:

March 2003 ice storm	2,956
September 2008 Windstorm	118,244
January 2009 Ice storm	<u>307,403</u>
Total receivable	<u><u>428,603</u></u>

Since July 31, 2009, Shelby has received funds as follows:

	<u>Receivable</u>	<u>Subsequent Receipts</u>	<u>Date Received</u>
March 2003 Ice storm	2,956	2,956	August 26, 2009
September 2008 Windstorm	118,244	106,420	August 26, 2009
January 2009 Ice storm	307,403	193,962	March 19, 2010
Total receivable	<u>428,603</u>	<u>303,338</u>	

d.

In addition to the amounts received as reflected in **c.** above, Shelby expects to collect the remaining FEMA funds recorded as receivable.

SHELBY ENERGY COOPERATIVE
CASE NO. 2009-00410

RESPONSE TO COMMISSIONS STAFF'S THIRD DATA REQUEST

Question:

Refer to the responses to Items 26.a, 40 and 41 of Staff's Second Request. Expenses and reimbursement associated with the wind and ice storms were recorded in Account 593, Maintenance of Overhead Lines. The responses show that certain wind and ice storm expenses were not reimbursed by FEMA. Following is a summary of these expenses per Shelby Energy's responses. Explain the discrepancy between the amounts reported.

<u>Expenses Not Reimbursed</u>		
Item 40	Ice Storm	\$433,841
Item 41	Wind Storm	<u>\$141,106</u>
Total		\$574,947
Item 26.a	Both storms	\$236,537

Response:

The schedules in Items 40 and 41 reflected the total amounts for each storm rather than the 87% eligible for FEMA reimbursement. Based on total costs rather than the eligible reimbursement amounts, the expenses not to be reimbursed appeared to be more than what was stated in Item 26.a. The following provides a more accurate summary:

		<u>FEMA Eligible</u>	<u>87% Eligible Reimbursed</u>	<u>Not Eligible Reimbursed</u>
Item 40	Ice Storm	\$972,604.95	\$846,166.	\$126,439
Item 41	Wind Storm	\$175,861.89	\$153,000	\$ 22,862
	Non-eligible by FEMA			<u>\$ 87,236</u>
	Total			<u>\$236,537</u>
Item 26.a	Both storms			\$236,537

SHELBY ENERGY COOPERATIVE
CASE NO. 2009-00410

RESPONSE TO COMMISSIONS STAFF'S THIRD DATA REQUEST

Question:

According to the tariffs in its application, Shelby Energy offers its customers the Touchstone Energy Home Program and the residential and commercial direct load control programs available to the member cooperatives served by East Kentucky Power Cooperative, Inc. ("EKPC").

- a. Identify any of the EKPC non-tariffed demand-side management ("DSM") programs that Shelby Energy offers its customers.
- b. For the Touchstone Energy Home Program, the residential and commercial direct load control programs, and the DSM programs identified in the response to part a. of this request, provide the number of customers participating in each program as of December 31, 2009.

Response:

a.

Shelby Energy offers the following non-tariffed demand-side management programs to members:

1. Electric Thermal Storage
2. Geothermal Heating and Cooling
3. Button-up Weatherization
4. Touchstone Energy Home
5. Compact Fluorescent Lighting
6. Direct load control

7. Commercial/Residential Energy Audits
8. Commercial Advanced Lighting
9. Commercial Building Performance/Infrared Testing

b.

<u>Programs</u>	<u>Participants</u>
Electric thermal storage	134
Geothermal heating and cooling	125
Button-up Weatherization	66
Touchstone Energy Home	16
Compact Fluorescent Lighting	10,032
Direct Load Control – air conditioning	24
Direct Load Control – water heater	28
Commercial Energy Audits	11
Residential Energy Audits	85
Commercial Advanced Lighting	2
Commercial Building Performance/ Infrared Testing	35