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February 27, 2018

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PUBLIC SERVICE
COMMISSION

FEDERAL EXPRESS

Ms. Gwen R. Pinson, Executive Director
Kentucky Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615

RE: In the Matter of: The Application of South Kentucky Rural Electric Cooperative Corporation for Approval of Master Power Purchase and Sale Agreement and Transactions Thereunder
Kentucky Public Service Commission, Case No. 2018-00050

Dear Ms. Pinson:

Enclosed please find an original and ten (10) copies of the first requests for information in this proceeding propounded to South Kentucky Rural Electric Cooperative Corporation by Big Sandy Rural Electric Cooperative Corporation, Blue Grass Energy Cooperative Corporation, Clark Energy Cooperative, Inc., Cumberland Valley Electric, Inc., Farmers Rural Electric Cooperative Corporation, Fleming-Mason Energy Cooperative, Inc., Grayson Rural Electric Cooperative Corporation, Inter-County Energy Cooperative Corporation, Jackson Energy Cooperative Corporation, Licking Valley Rural Electric Cooperative Corporation, Nolin Rural Electric Cooperative Corporation, Owen Electric Cooperative, Inc., Shelby Energy Cooperative, Inc., and Taylor County Rural Electric Cooperative Corporation.

I certify that on this date, a copy of this letter and a copy of the enclosure were served on the persons listed on the attached service list by first class mail and electronic mail, if their email address is listed.

If you have any questions or need additional information, please contact me.

Sincerely yours,

James M. Miller

JMM/ms
Enclosures

cc; w/enc: Service List

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PSC Case No. 2018-00050

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PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

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In the Matter of:

THE APPLICATION OF SOUTH KENTUCKY RURAL)	
ELECTRIC COOPERATIVE CORPORATION)	Case No.
FOR APPROVAL OF MASTER POWER)	2018-00050
PURCHASE AND SALE AGREEMENT AND)	
TRANSACTIONS THEREUNDER)	

FIRST REQUEST FOR INFORMATION TO SOUTH KENTUCKY RECC FROM BIG SANDY RURAL ELECTRIC COOPERATIVE CORPORATION, BLUE GRASS ENERGY COOPERATIVE CORPORATION, CLARK ENERGY COOPERATIVE, INC., CUMBERLAND VALLEY ELECTRIC, INC., FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION, FLEMING-MASON ENERGY COOPERATIVE, INC., GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION, INTER-COUNTY ENERGY COOPERATIVE CORPORATION, JACKSON ENERGY COOPERATIVE CORPORATION, LICKING VALLEY RURAL ELECTRIC COOPERATIVE CORPORATION, NOLIN RURAL ELECTRIC COOPERATIVE CORPORATION, OWEN ELECTRIC COOPERATIVE, INC., SHELBY ENERGY COOPERATIVE, INC., AND TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION

These first requests for information in this proceeding are propounded to South Kentucky Rural Electric Cooperative Corporation ("South Kentucky") by the following East Kentucky Power Cooperative ("EKPC") member distribution cooperatives: Big Sandy Rural Electric Cooperative Corporation, Blue Grass Energy Cooperative Corporation, Clark Energy Cooperative, Inc., Cumberland Valley Electric, Inc., Farmers Rural Electric Cooperative Corporation, Fleming-Mason Energy Cooperative, Inc., Grayson Rural Electric Cooperative Corporation, Inter-County Energy Cooperative Corporation, Jackson Energy Cooperative Corporation, Licking Valley Rural Electric Cooperative Corporation, Nolin Rural Electric Cooperative Corporation, Owen Electric Cooperative, Inc., Shelby Energy Cooperative, Inc., and Taylor County Rural Electric Cooperative Corporation ("Distribution Cooperatives"). The

1 Distribution Cooperatives request that South Kentucky answer these information requests in
2 accordance with the following Definitions and Instructions.

3 DEFINITIONS

4 1. Whenever it is necessary to bring within the scope of these information requests
5 documents that otherwise might be construed to be outside their scope (1) the use of “and” as
6 well as “or” shall be construed both disjunctively and conjunctively; (2) the use of a word in its
7 singular form shall be construed to include within its meaning its plural form as well, and vice
8 versa; (3) the use of “include” and “including” shall be construed to mean “without limitation”;
9 and (4) the use of a verb in any tense or voice shall be construed as the use of that verb in all
10 other tenses and voices.

11 2. “Amendment No. 3” means Amendment No. 3 to Wholesale Power Contract
12 between East Kentucky Power Cooperative, Inc., and South Kentucky dated November 13, 2003
13 and attached as Exhibit 1 to South Kentucky’s Application.

14 3. “CFC” means the National Rural Utilities Cooperative Finance Corporation.

15 4. “CoBank” means CoBank ACB.

16 5. “Commission” means the Kentucky Public Service Commission.

17 6. “Distribution Cooperatives” means Big Sandy Rural Electric Cooperative
18 Corporation, Blue Grass Energy Cooperative Corporation, Clark Energy Cooperative, Inc.,
19 Cumberland Valley Electric, Inc., Farmers Rural Electric Cooperative Corporation, Fleming-
20 Mason Energy Cooperative, Inc., Grayson Rural Electric Cooperative Corporation, Inter-County
21 Energy Cooperative Corporation, Jackson Energy Cooperative Corporation, Licking Valley
22 Rural Electric Cooperative Corporation, Nolin Rural Electric Cooperative Corporation, Owen

1 Electric Cooperative, Inc., Shelby Energy Cooperative, Inc., and Taylor County Rural Electric
2 Cooperative Corporation.

3 7. “Document” means any written, recorded, transcribed, printed or impressed
4 matter of whatever kind, however produced, stored or reproduced, including, but not limited to,
5 sound or pictorial recordings, computerized information, books, pamphlets, letters, memoranda,
6 telegrams, electronic or mechanical transmissions, communications of all kinds, reports, notes,
7 working papers, handwritings, charts, papers, writings, printings, transcriptions, tapes and
8 records of all kinds. Document includes, without limitation, all workpapers produced by or
9 relied upon by the witness.

10 8. “EKPC” means East Kentucky Power Cooperative.

11 9. “MOU” means the Memorandum of Understanding and Agreement Regarding
12 Alternate Power Sources dated July 23, 2015 and attached as Exhibit 2 to South Kentucky’s
13 Application.

14 10. “Person” includes a natural person, a business organization of any type, an
15 unincorporated association, a governmental subdivision, agency, or entity, and a business trust.

16 11. “PJM” means PJM Interconnection LLC, a regional transmission organization in
17 the United States.

18 12. “PPA” means the Master Power Purchase and Sale Agreement dated as of
19 December 17, 2017, by and between South Kentucky and Morgan Stanley Capital Group Inc.,
20 including all related documents filed as Exhibits 5 through 15 to South Kentucky’s application in
21 this proceeding.

22 13. “RUS” means the Rural Utilities Service of the United States Department of
23 Agriculture.

1 destroyed or lost and, if destroyed, the identity of the person authorizing such destruction, and
2 the identity of the last known custodian of such Document prior to its destruction.

3 4. These information requests shall be deemed continuing and you should serve
4 upon the Distribution Cooperatives' counsel (1) supplemental responses to these information
5 requests if additional information or information that changes your response to any information
6 request is obtained during the course of this proceeding, and (2) any Documents requested herein
7 that become available or that are discovered after the date your responses to these information
8 requests are due.

9 5. Please provide all Documents that evidence, require, concern or relate to all
10 calculations, workpapers and supporting Documents, and provide all spreadsheets in electronic
11 Excel spreadsheet format with all formulas intact and unprotected and with all columns and rows
12 accessible.

13

14 INFORMATION REQUESTS

15 1. Please provide a copy of each mortgage, indenture, and similar Document that is
16 currently in effect between South Kentucky and any one or more of its creditors that is
17 not already included as an attachment to Exhibit 19 to the Application.

18 2. Please provide a copy of each loan agreement, credit agreement, and Document of similar
19 nature that is currently in effect between South Kentucky and any one or more of the
20 United States of America acting through the RUS, CFC, CoBank, and any creditor that is
21 a party to a Document produced in response to the preceding information request.

22 3. Please provide a copy of each Document South Kentucky has provided to or received
23 from the RUS, CFC or CoBank arising out of, related to or connected with South

1 Kentucky seeking the approval or other consent of the RUS or any other creditor to South
2 Kentucky entering into the PPA.

3 4. Please provide a copy of each Document South Kentucky has provided to or received
4 from its board of directors, any secured creditor, any credit rating agency, EKPC, any
5 EKPC member cooperative, PJM, Enervision, Inc., or Morgan Stanley Capital Group Inc.
6 (or any of its subsidiaries or affiliates) that arises out of, is related to or is connected with
7 any analysis by South Kentucky or any other person of the impact of the transaction
8 represented by the PPA on South Kentucky, EKPC, any one or more EKPC member
9 distribution cooperatives, or EKPC's wholesale rates for electric service to its member
10 distribution cooperatives. With respect to the analysis in each such Document, please
11 provide all assumptions, calculations, workpapers and supporting Documents used in that
12 analysis, including but not limited to any Documents in electronic Excel spreadsheet
13 format with all formulas intact and unprotected, and with all columns and rows
14 accessible.

15 5. Please provide a copy of each Document South Kentucky has used in any presentation to
16 its board of directors, any secured creditor, any credit rating agency, EKPC, any EKPC
17 member cooperative, PJM, Enervision, Inc., or Morgan Stanley Capital Group Inc. (or
18 any of its subsidiaries or affiliates) that arises out of, is related to or is connected with any
19 analysis by South Kentucky or any other person of the impact of the transaction
20 represented by the PPA on South Kentucky, EKPC, any one or more EKPC member
21 distribution cooperatives, or EKPC's wholesale rates for electric service to its member
22 distribution cooperatives.

1 6. In the process of analyzing and considering whether to enter into a transaction to meet a
2 portion of its wholesale power requirements from a source other than EKPC, did the
3 management or board of directors of South Kentucky consider the potential impact of a
4 transaction on EKPC's wholesale rates, including but not limited to EKPC's
5 environmental surcharge, and the extent to which such a transaction would shift EKPC's
6 costs to the other member distribution cooperatives on the EKPC system?

7 a. If your response to this information request is "no," please explain why these
8 factors were not considered by South Kentucky's management and board of
9 directors.

10 b. If your response to this information request is "yes," please provide a copy of
11 each Document provided or presented to or utilized by the management or board
12 of directors of South Kentucky in connection with the consideration by them of
13 any such potential impacts.

14 7. Please provide a copy of South Kentucky's wholesale power agreement(s) with EKPC,
15 including but not limited to any amendments thereto and any interpretive agreements
16 with EKPC relating to that wholesale power agreement.

17 8. Please refer to the testimony of Mr. Dennis Holt, page 13, lines 8 through 14.

18 a. Have South Kentucky and EKPC concluded their negotiations on the business
19 terms for EKPC acting as the market participant for South Kentucky? If so,
20 please provide those terms. If not, please state whether those terms will be
21 determined and submitted to the Commission prior to a decision in this
22 proceeding.

- 1 b. Does South Kentucky agree that the agreement between it and EKPC for EKPC to
2 act as market participant for South Kentucky in PJM requires approval of the
3 Commission? If your response is “no,” please explain in detail why Commission
4 approval is not required.
- 5 9. Please refer to the testimony of Mr. Dennis Holt, page 14, lines 14 through 20. Please
6 provide a copy of all Documents upon which South Kentucky relied to conclude “that the
7 significant savings it expects to realize far outweigh the potential risks” of the
8 transactions contemplated in the PPA.
- 9 10. Please refer to the testimony of Ms. Michelle Herrman, page 11. Ms. Herrman describes
10 the need for South Kentucky to establish an unsecured line of credit to meet potentially
11 significant collateral requirements under the PPA.
- 12 a. Has South Kentucky secured an agreement for that line of credit?
- 13 b. Please describe in detail how South Kentucky has determined the amount of the
14 line of credit it requires to meet its potential collateral requirements under the
15 PPA.
- 16 c. Does South Kentucky agree that the line of credit agreement will require
17 Commission approval?
- 18 d. When is South Kentucky required to have the required line of credit in place and
19 available to meet collateral requirements under the PPA?
- 20 e. What approvals must South Kentucky obtain from its existing creditors to enter
21 into the required unsecured line of credit facility?
- 22 11. Please refer to the testimony of Ms. Michelle Herrman, page 14.

- 1 a. Please describe in detail equity goals of South Kentucky’s board of directors
2 referred to on line 19, the plan for achieving those goals, and how the anticipated
3 savings from the transactions contemplated in the PPA contribute to achieving
4 those goals. Please provide a copy of any Documents that describe or otherwise
5 reference those goals.
- 6 b. Please describe in detail the capital credit retirement plan that South Kentucky
7 expects to fund with savings from the transactions contemplated in the PPA, and
8 provide a copy of any Documents that describe or otherwise reference those
9 goals.
- 10 12. Please produce any agreement between South Kentucky and EnerVision, Inc.
- 11 13. Please produce a copy of the Request for Proposal identified in paragraph 7 of South
12 Kentucky’s Application that was sent to potential counterparties.
- 13 14. Please produce all communications between South Kentucky and EKPC concerning (1)
14 South Kentucky’s decision to offer the RFP, and (2) the proposals received in response to
15 the RFP.
- 16 15. Please produce all Documents related to South Kentucky’s analysis and determination
17 mentioned in paragraph 12 of its Application and the testimony of Mr. Dennis Holt at
18 page 14, lines 14 through 20, that the power cost-savings it will realize from the PPA are
19 substantial, and that the financial benefits anticipated to result by diversifying its power
20 supply portfolio far outweigh the risks and obligations attendant to the subject
21 transactions.
- 22 16. Pursuant to Amendment No. 3 and the MOU, please state and explain your computation
23 of the rolling average of EKPC’s coincident peak demand (measured in megawatts in 15

1 minute intervals and adjusted to include any interruptible load that was interrupted at the
2 time of measurement) for the single calendar month with the highest peak demand
3 occurring during each of the three twelve month periods immediately preceding South
4 Kentucky's election to receive electric power and energy under the PPA. Please provide
5 all assumptions, calculations, workpapers and supporting Documents used in this
6 computation, including but not limited to any Documents in electronic Excel spreadsheet
7 format with all formulas intact and unprotected, and with all columns and rows
8 accessible.

9 17. Pursuant to Amendment No. 3 and the MOU, please state and explain your computation
10 of the rolling average of South Kentucky's coincident peak demand (measured in
11 megawatts in 15 minute intervals and adjusted to include any interruptible load that was
12 interrupted at the time of measurement) for the single calendar month with the highest
13 peak demand occurring during each of the three twelve month periods immediately
14 preceding South Kentucky's election to receive electric power and energy under the PPA.
15 Please provide all assumptions, calculations, workpapers and supporting Documents used
16 in this computation, including but not limited to any Documents in electronic Excel
17 spreadsheet format with all formulas intact and unprotected, and with all columns and
18 rows accessible.

19 18. Please state the proportional allotment of alternate-source power available to South
20 Kentucky under the terms of its wholesale power agreements with EKPC and provide a
21 copy of each Document prepared by, for, or on behalf of South Kentucky showing the
22 calculation of the proportional allotment of alternate-source power available to South
23 Kentucky under the terms of its wholesale power agreements with EKPC, and with

1 respect to each such Document, provide all calculations, workpapers and supporting
2 Documents, including all Documents in electronic Excel spreadsheet format with all
3 formulas intact and unprotected, and with all columns and rows accessible.

4 19. Please state and explain your computation of the aggregate amount of the load of all
5 Owner Members of EKPC being served with Alternate Sources (as that term is defined in
6 the MOU), including the load of South Kentucky proposed to be served by the PPA, and
7 what percentage this total load is of the rolling average of EKPC's coincident peak
8 demand (measured in megawatts in 15 minute intervals and adjusted to include any
9 interruptible load that was interrupted at the time of measurement) for the single calendar
10 month with the highest peak demand occurring during each of the three twelve month
11 periods immediately preceding South Kentucky's election to receive electric power and
12 energy under the PPA. Please provide all assumptions, calculations, workpapers and
13 supporting Documents used in this computation, including but not limited to any
14 Documents in electronic Excel spreadsheet format with all formulas intact and
15 unprotected, and with all columns and rows accessible.

16 20. Please state and explain your computation of the average coincident peak demand in the
17 annual aggregate of the load that South Kentucky proposes to obtain under the PPA.
18 Please provide all assumptions, calculations, workpapers and supporting Documents used
19 in this computation, including but not limited to any Documents in electronic Excel
20 spreadsheet format with all formulas intact and unprotected, and with all columns and
21 rows accessible.

22 21. Please describe in detail the load that will be served by the electric power and energy
23 purchased by South Kentucky under the PPA, including but not limited to whether the

1 load involves acquisition of new service territory currently served by another power
2 supplier or municipal utility and whether the acquired territory must be served by Morgan
3 Stanley as a condition to acquisition of the new load. Produce any applicable acquisition
4 agreement.

5 22. Please describe in detail any other election of South Kentucky to receive electric power
6 and energy from any source other than EKPC, and for each such election state the name
7 of the party providing the electric power and energy and all relevant terms of the
8 proposed transaction.

9 23. Please state South Kentucky's load factor for 2017. Please provide all assumptions,
10 calculations, workpapers and supporting Documents used in this computation, including
11 but not limited to any Documents in electronic Excel spreadsheet format with all
12 formulas intact and unprotected, and with all columns and rows accessible.

13 24. Please state South Kentucky's energy in kWh and billing demands in kW for calendar
14 year 2017, and include in your answer a breakdown of both energy and billing demands
15 by month and by EKPC rate schedule (e.g., E, B, C, etc.).

16 25. Please explain in detail your interpretation of how Amendment No. 3 and the MOU
17 address load factor, and what load factor requirements, if any, are incorporated directly or
18 indirectly in Amendment No. 3 and the MOU.

19 26. Please state whether Amendment No. 3 and the MOU impose any restrictions on the load
20 factor of your allowed purchases or otherwise place on you any requirements or
21 restrictions regarding the load factor of allowed purchases. If your answer is yes, please
22 describe any such requirements or restrictions. Please explain your answer in detail,

1 including but not limited to citing all provisions of Amendment No. 3 and the MOU that
2 support your answer.

3 27. If your response to the preceding information request is that Amendment No. 3 and the
4 MOU only pertain to demand values and not to energy values, please explain your
5 position in detail, including but not limited to citing all provisions of Amendment No. 3
6 and the MOU that support your position.

7 28. Please provide any alternate analysis of costs avoided by South Kentucky through the
8 purchase of power under the PPA, including but not limited to costs avoided using rate
9 Classes B or C. Please provide all assumptions, calculations, workpapers and supporting
10 Documents used in this computation, including but not limited to any Documents in
11 electronic Excel spreadsheet format with all formulas intact and unprotected, and with all
12 columns and rows accessible.

13 29. Please state all reasons that you used Class E, instead of Classes B or C, to calculate costs
14 avoided by South Kentucky through purchase of power under the PPA.

15 30. Please refer to the testimony of Mr. Carter Babbit (“Babbit”) in Exhibit 18. Please
16 provide all workpapers used to develop Exhibits CB-4 through CB-10 (including the
17 exhibits themselves and all of the supporting data sources and calculations) in electronic
18 Excel spreadsheet format with all formulas intact and unprotected, and with all columns
19 and rows accessible.

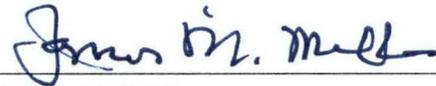
20 31. Please refer to Babbit Exhibit CB-10. Please explain in detail how the values in the
21 “Benefit vs Base Case (\$M)” column were derived.

- 1 32. Please refer to the testimony of Mr. Carter Babbit, page 11, lines 20-22. Please provide in
2 electronic Excel spreadsheet format the complete set of PJM prices that were used to
3 develop all cost comparison analyses.
- 4 33. Please refer to the testimony of Mr. Carter Babbit, page 14, lines 16-18. How did
5 EnerVision develop or otherwise acquire PJM capacity price forecasts for the years in the
6 cost comparison that follow 2021?
- 7 34. Please refer to the testimony of Mr. Dennis Holt, page 13, lines 1-7. Did EnerVision
8 include in its analyses all of the anticipated incremental costs that South Kentucky would
9 incur pursuant to its membership in PJM? If not, why not? If so, please describe those
10 costs and how they were incorporated into the cost comparisons, and provide a list of the
11 particular PJM settlement schedules / charge types and the estimated amounts per year
12 that were included for each charge type.
- 13 35. Please refer to the testimony of Mr. Dennis Holt, page 14, lines 14-20. Please list the
14 “possible material risks associated with the transactions with the Morgan Stanley Group”
15 that were considered. What quantification of these risks was developed for comparison
16 against the “significant savings” which make South Kentucky “quite comfortable” that
17 those savings outweigh the potential risks?
- 18 36. Please refer to the testimony of Ms. Michelle Hermann, page 4, lines 2-3. Please provide
19 the annual projections for each of these financial metrics for 2018 through 2023 assuming
20 that the proposed transaction is approved.
- 21 37. Please refer to the testimony of Ms. Michelle Hermann, page 4, lines 2-3 and page 13,
22 lines 8-12. If the 2017 estimated TIER is 2.46, and a rate increase may be deferred for
23 four years from 2019 to 2023, did South Kentucky consider the possibility of proposing a

1 rate reduction for this period to permit its members to directly benefit from the significant
2 savings of the proposed transaction? If not, please explain in detail South Kentucky's
3 reasons for not considering this possibility.

4 On this the 27th day of February, 2018.

5 Respectfully submitted,

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