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November 3, 2006

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NOV 06 2006

PUBLIC SERVICE
COMMISSION

Ms. Beth A. O'Donnell, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Post Office Box 615
Frankfort, Kentucky 40602-0615

RE: Case No. 2006-00402

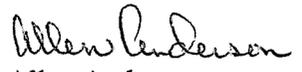
Dear Ms. O'Donnell:

Enclosed you will find an original and eight (8) copies of the cooperative's response to the Commission Staff data request dated October 23, 2006.

Should you require further information, please let us know.

Sincerely,

SOUTH KENTUCKY RECC


Allen Anderson
Chief Executive Officer

AA:cgw

Enclosures

f:PSC Case#2006-00402

RESPONSES TO COMMISSION STAFF DATA REQUEST DATED OCTOBER 23, 2006

OTHER NEW DISTRICT AND HEADQUARTERS OFFICE BUILDINGS

- Q. Provide a list of South Kentucky RECC office locations, including its general office. Indicate which office facilities South Kentucky RECC intends to replace, and when South Kentucky RECC plans to replace each facility.
- R. Provided below is a list of South Kentucky RECC's ("SKRECC") current office facilities.

<u>Type</u>	<u>Location</u>
Headquarter Offices	Somerset
District Office & Warehouse	Albany
District Office & Warehouse	Monticello
District Office & Warehouse	Russell Springs
District Office & Warehouse	Whitley City

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SKRECC will replace its headquarter facilities in Somerset most likely in 2008. SKRECC may not have a need to replace its district office facilities in Monticello. The current district office facilities in Monticello are very inadequate. Since SKRECC has made an offer to purchase the fixed assets of the Monticello Electric Plant Board ("MEPB"), the current office facilities of the MEPB would suffice for SKRECC's needs in Monticello and SKRECC would not need to build new offices in Monticello. If SKRECC is unsuccessful in purchasing the fixed assets of the MEPB, then a new district office with warehouse would be completed in late 2008 or early 2009.

RESPONSES TO COMMISSION STAFF'S DATA REQUEST DATED OCTOBER 23, 2006

USE OF OFFICE PLANS FOR ANY OTHER FACILITIES

- Q. Explain whether South Kentucky RECC intends to use the plans for the district offices in Russell Springs and Albany for any other locations.

- R. These same plans will be used for the Monticello district offices if SKRECC is unsuccessful in its quest to purchased the fixed assets of the MEPB.

RESPONSES TO COMMISSION STAFF'S DATA REQUEST DATED OCTOBER 23, 2006

INFORMATION ON THE ALBANY AND RUSSELL SPRINGS DISTRICT OFFICES

- Q. Provide the following information for the district offices presently in Russell Springs and in Albany. Provide the information separately for each office.
- a. Interior area (number of square feet) contained in the existing office structure.
 - b. Number of employees working in the present office structure. (If service personnel work out of another structure, indicate how many.
 - c. The number of customers served out of each district.
 - d. The interior area (number of square feet) of the warehouse facilities

R. Provided below is the information requested above.

	<u>Albany</u>	<u>Russell Springs</u>
a. Interior Space of each office in square feet	2,910	2,490
b. Number of employees working in the present structure	13	13
c. Number of customers served by each district	6,984	10,914
d. The interior area of the warehouse in square feet	1,464	2,000

RESPONSE TO COMMISSION STAFF'S DATA REQUEST DATED OCTOBER 23, 2006

DISTANCE OF DISTRICT OFFICES FROM THE SOMERSET HEADQUARTERS

- Q. Provide the approximate distance in miles of each of South Kentucky RECC's district offices from its general office location.
- R. Listed below is the distance from each district office to the general headquarters in Somerset.

<u>District Office</u>	Distance to Somerset <u>Miles</u>
Albany	48.4
Monticello	21.9
Russell Springs	29.2
Whitley City	23.3

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RESPONSES TO COMMISSION STAFF'S DATA REQUEST DATE OCTOBER 23, 2006

COST ESTIMATES FOR EACH FACILITY INCLUDING LAND COSTS

- Q. Refer to Exhibit 6 of South Kentucky RECC's September 6, 2006 Application. Explain whether the total cost estimate of \$2,168,390 for each proposed facility includes the cost of land. If the land cost is not included, provide the land cost for each proposed facility.
- R. The cost estimate contained in Exhibit 6 of the September 6, 2006 filing does not include the cost of land. The cost of the land for these facilities is provided below:

<u>District Office</u>	<u>Land Cost</u>
Albany	\$ 116,488.26
Russell Springs	\$ 292,047.64

RESPONSES TO COMMISSION STAFF'S DATA REQUEST DATED OCTOBER 23, 2006

COMBINING DISTRICT OFFICES

Q. Has South Kentucky RECC considered combining some of its district offices, or replacing some of its district offices with payment locations within another structure? Explain.

A. SKRECC has considered combining some of its district offices in previous periods. However, SKRECC has found it prudent to keep its current district offices intact. These district offices contain warehouse facilities, construction personnel, maintenance crews and office staff. It is these crews who serve as the first responders when an electric power outage or problem occurs.

The distance from the general offices in Somerset plus the quality of the roads makes it a wise and prudent investment to maintain these district offices.

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CONCERN ABOUT THE NECESSITY OR COST OF NEW DISTRICT OFFICES

- Q. Explain whether any South Kentucky RECC members have expressed concerns about the necessity for, or the cost of the Whitley City facility or any of its proposed office facilities.

- R. No concern has been voiced in regards to either the necessity or the cost of the Whitley City facilities or the proposed facilities.

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RESPONSE TO THE COMMISSION STAFF'S DATA REQUEST DATED OCTOBER 23, 2006

IMPACT OF NEW FACILITIES UPON RATES

- Q. Explain whether South Kentucky RECC has calculated the total estimated cost of its planned office facility construction program, including the Whitley City facility, and the effect of the program upon rates. Provide all calculations and workpapers needed to support the explanation.
- R. South Kentucky has not calculated the estimated cost of this construction program. This program has changed from its original conception due to the lengthening of the construction period for the new facilities plus the prospect of a change in need if the Monticello Plant Board's fixed assets are purchased by SKRECC.

However, a reasonable estimate is being developed as a part of this response and is based on the data from 2004 and the current estimates for Albany and Russell Springs proposed facilities.

Provided below is an estimate of the costs of these similar facilities as filed with the Commission in 2004.

<u>Location</u>	<u>Square Feet</u>	<u>Cost \$1,000</u>	<u>Cost per Square Foot</u>
Somerset	84,900	10,188	120.00
Albany	16,000	1,581	98.83
Monticello	16,000	1,607	100.45
Russell Springs	16,000	1,589	99.32
Whitley City	16,000	1,507	94.16
Subtotal	<u>148,900</u>	<u>16,472</u>	<u>110.62</u>
 <u>Other Costs</u>			
Geotech Engineering		25	
Furnishings		700	
Communication Equipment		348	
Architect/Engineer Fees		1,665	
Project Contingency		824	
		<u>3,562</u>	
 Total Costs		 <u><u>20,034</u></u>	

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If we increased the above costs based on the 2004 data and the current data for Albany and Russell Springs, we would have the estimated costs as presented below:

	<u>\$1,000</u>
Somerset	13,940
Albany	2,168
Monticello	2,199
Russell Springs	2,168
Whitley City	2,081
Total	<u><u>22,556</u></u>

Annual statement of operations costs would be based on the following estimators:

		<u>\$1,000</u>
Interest	5.0%	733
Margins		733
Depreciation	2.0%	451
Taxes	0.7%	155
Total		<u><u>2,072</u></u>

Interest is based on a capital structure of 65% debt and 35% equity.
Margins are based on a 2.0X Times Interest Earned Ratio

It is assume that these new facilities will not increase any other expenses. Also, no efficiencies or cost reductions that should be realized have not been factored into the above estimate.

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RESPONSE TO COMMISSION STAFF'S DATA REQUEST DATED OCTOBER 23, 2006

CONSULTING SERVICES FOR OFFICE DESIGN AND SPACE UTILIZATION

- Q. Explain whether South Kentucky RECC contracted consulting services specializing in office design and space utilization when planning for its proposed facilities. Blueprints or architectural plans are not to be considered a response.
- a. If South Kentucky RECC did not contract consultants, include in the explanation whether is aware that other cooperatives have included studies of such consultants applying for Certificates of Public Convenience and Necessity to construct office facilities.
 - b. If South Kentucky RECC has employed consultants to assist in space design for its new facilities, provide a copy of the results of that study.
- R. SKRECC did not employ such a consultant in its planning for these proposed facilities. SKRECC was also not aware that other cooperatives had utilized such consultants in the planning for their new facilities.

RESPONSES TO COMMISSION STAFF'S DATA REQUESTED DATED OCTOBER 23, 2006

OCTOBER 2002 FACILITIES ANALYSIS

- Q. Refer to Exhibit 6, page 1 of 2 of the Application, and the October 2002 Facilities Analysis filed in Case No. 2005-00261. ("October Analysis").
- a. Exhibit 6 states that the Albany facility will have approximately 16,000 square feet and be sited on 4 to 5 acres. The October Analysis indicated that the Albany facility would have approximately 15,000 square feet and be sited on 10 acres. Explain the reason(s) for the changes in the building size and site, and how the changes were determined.
 - b. Exhibit 6 states that the Albany facility is estimated to cost \$2,168,390. The October Analysis indicated an estimated cost of \$990,000. Explain the reason(s) for the change in the cost estimates.
 - c. Exhibit 6 states that the Russell Springs facility will have approximately 16,000 square feet and be sited on 4 to acres. The October Analysis indicated that the Russell Springs facility would have approximately 22,100 square feet and if land were purchased, would be sited on 6.9 acres. Explain the reason(s) for the changes in building size and site, and how the changes were determined.
 - d. Exhibit 6 states that the Russell Springs facility is estimated to cost \$2,168,390 .The October Analysis indicated an estimated cost of \$1,203,500 to \$1,373,400. Explain the reason(s) for the change in the cost estimates
- R. The October Analysis was conducted in 2002 and was a facility analysis with the primary purpose of determining in a general manner a need for new facilities at SKRECC's headquarters and its district office facilities. This study was to develop estimates on space needs, land needs, storage needs and office space needs. All estimates were based on some general parameters including member concentrations, growth in load and members, location of key accounts, transportation corridors, land availability, suitability and cost, and the availability and accessibility of employees. Finally, cost estimates were developed based on some general cost data for new construction in the region and were applied to an estimate of the need for new facilities. This October Analysis was never intended to be definitive cost estimate for potential new facilities. Provided below is a summary of the cost estimates from the October Analysis.

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Estimated Facilities Cost from the October Analysis

All Costs are in \$000

	<u>Garage Shop & Ware- house</u>	<u>Office</u>	<u>Commu- nity Room</u>	<u>Cold Storage Parking</u>	<u>Land Cost</u>	<u>Site Prep & A&E</u>	<u>Total</u>
Somerset Facilities	1,995	2,681	260	150	1,250	885	7,221
Russell Springs	525	383	130	-	169	166	1,373
Albany	350	225	130	-	100	185	990
Monticello	350	300	130	-	-	175	955
Whitley City	350	300	130	-	330	250	1,360
	-						
	<u>3,570</u>	<u>3,889</u>	<u>780</u>	<u>150</u>	<u>1,849</u>	<u>1,661</u>	<u>11,899</u>

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In 2004, SKRECC made a filing with the Commission that included the complete cost for all new facilities that were being considered at that time. Those cost estimates were based on comprehensive information developed by architects and engineers. This 2004 filing was withdrawn but the data is relevant for comparison purposes at least.

Provided below is an estimate of the costs of these similar facilities as filed with the Commission in 2004.

<u>Location</u>	<u>Square Feet</u>	<u>Cost \$1,000</u>	<u>Cost per Square Foot</u>
Somerset	84,900	10,188	120.00
Albany	16,000	1,581	98.83
Monticello	16,000	1,607	100.45
Russell Springs	16,000	1,589	99.32
Whitley City	16,000	1,507	94.16
Subtotal	<u>148,900</u>	<u>16,472</u>	<u>110.62</u>
 <u>Other Costs</u>			
Geotech Engineering		25	
Furnishings		700	
Communication Equipment		348	
Architect/Engineer Fees		1,665	
Project Contingency		<u>824</u>	
		<u>3,562</u>	
 Total Costs		 <u><u>20,034</u></u>	

It is readily apparent from the above amounts that the October Analysis was much too low.

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COSTS PER SQUARE FOOT

- Q. Refer to Exhibit 6, page 1 of 2 of the Application. Provide the cost per square foot calculations for the cost estimate of \$2,168,390 for each facility. Include all assumptions and workpapers used to determine the cost per square foot.

<u>Location</u>	<u>Cost</u>	<u>Square Feet</u>	<u>Cost Sq. Ft.</u>
Albany	2,168,390	16,000	135.52
Russell Springs	2,168,390	16,000	135.52

Basis for cost estimates:

Site	99,318
General Footings & Foundation	1,145,500
Masonry	51,000
Plumbing/HVAC/GEO	291,750
Electrical Contractor	119,400
Electrical Owner Provided	45,000
	<hr/>
	1,751,968
Furnishings, Communications, IT, Security, Etc.	144,862
Landscaping, Flag Pole, Pneumatic Drive-Thru, etc.	29,300
Contingency	92,307
A&E Fees	152,000
	<hr/>
	<u>2,170,437</u>

**RESPONSES TO THE COMMISSION STAFF'S DATA REQUEST DATED OCTOBER 23,
2006**

COST INFORMATION

- Q. Refer to Exhibit 7, pages 3 and 9 of 18 of the Application.
- a. Prepare a schedule showing the difference in the annual balances shown for Case A and Case B, for the following categories from 2008 through 2015.
 - (1) Distribution O&M
 - (2) Administrative and General
 - (3) Depreciation
 - (4) Tax Expense
 - (5) Interest Expense
 - (6) Non-Operating Margins
 - b. Compare the responses to part (a), subparts (1) through (4) with the estimated annual costs to operate the Albany and Russell Springs facilities, shown in Exhibit 5 of the Application. Explain the reason(s) for any differences between the information provided in Exhibits 5 and 7.
- R. a. Attached as pages 2 and 3 of this response is the comparison requested in part of this question.
- b. Exhibit 7's information is from a comprehensive financial model where most distribution operating expenses, depreciation expenses, administrative and general expenses, tax expense and others are estimated on the basis of total utility plant in service. Previous years' actual expenses as a percent of total utility plant in service is the basis to estimate similar future expenses. An example of these expense estimators is depreciation. Total depreciation expense for a year is divided by total utility plant in service at year end to develop an expense percent to estimate future expenses. This depreciation expense estimator does not provide a breakdown by type of plant or differentiate by different depreciation rates. It is simply a composite rate for the cooperative as a whole.

The purpose of the forecast is to look at long range trends and to provide a longer term analysis. It has been filed in this situation to determine the impact of the new buildings on the timing of the next potential rate application. Exhibit 5 is an estimate of the actual operating costs for the proposed facilities.

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	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<u>Distribution O&M</u>				
Base Forecast	9,195,555	9,691,298	10,201,914	10,727,848
Forecast w/New Bldg.	9,433,564	9,929,307	10,439,923	10,965,857
Difference	238,009	238,009	238,009	238,009
<u>Administrative & General</u>				
Base Forecast	3,787,409	3,991,593	4,201,902	4,418,520
Forecast w/New Bldg.	3,885,439	4,089,622	4,299,932	4,516,550
Difference	98,030	98,030	98,030	98,030
<u>Depreciation</u>				
Base Forecast	4,817,182	5,076,882	5,344,373	5,619,889
Forecast w/New Bldg.	4,941,866	5,201,566	5,469,057	5,744,572
Difference	124,683	124,683	124,683	124,683
<u>Tax Expense</u>				
Base Forecast	94,534	99,631	104,880	110,287
Forecast w/New Bldg.	96,981	102,077	107,327	112,734
Difference	2,447	2,447	2,447	2,447
<u>Interest Expense</u>				
Base Forecast	5,305,163	5,578,637	5,837,192	6,094,345
Forecast w/New Bldg.	5,364,502	5,697,315	5,955,669	6,211,147
Difference	59,339	118,678	118,477	116,802
<u>Non-operating Margins</u>				
Base Forecast	354,550	437,023	477,458	508,968
Forecast w/New Bldg.	354,550	393,328	421,437	439,960
Difference	0	(43,696)	(56,021)	(69,008)

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	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<u>Distribution O&M</u>				
Base Forecast	11,269,560	11,827,523	12,402,226	12,994,169
Forecast w/New Bldg.	11,507,569	12,065,532	12,640,234	13,232,178
Difference	238,009	238,009	238,009	238,009
<u>Administrative & General</u>				
Base Forecast	4,641,638	4,871,448	5,108,153	5,351,959
Forecast w/New Bldg.	4,739,667	4,969,478	5,206,183	5,449,989
Difference	98,030	98,030	98,030	98,030
<u>Depreciation</u>				
Base Forecast	5,903,670	6,195,965	6,497,029	6,807,124
Forecast w/New Bldg.	6,028,354	6,320,648	6,621,712	6,931,807
Difference	124,683	124,683	124,683	124,683
<u>Tax Expense</u>				
Base Forecast	115,856	121,592	127,500	133,586
Forecast w/New Bldg.	118,303	124,039	129,947	136,032
Difference	2,447	2,447	2,447	2,447
<u>Interest Expense</u>				
Base Forecast	6,351,942	6,638,026	6,898,278	7,185,434
Forecast w/New Bldg.	6,466,716	6,750,694	7,008,759	7,293,646
Difference	114,774	112,667	110,481	108,212
<u>Non-operating Margins</u>				
Base Forecast	528,048	533,832	526,941	517,748
Forecast w/New Bldg.	445,377	437,388	416,615	393,429
Difference	(82,672)	(96,444)	(110,326)	(124,319)

RESPONSE TO COMMISSION STAFF'S DATA REQUEST DATED OCTOBER 23, 2006

RENOVATION COSTS FOR CURRENT FACILITIES

- Q. Provide the estimated cost to renovate the existing buildings. Explain how it as derived and provide all supporting calculations.
- R. Renovation of the current facilities was not really a viable option for SKRECC. The October Analysis filed in Case 2005-00261 clearly delineates the problems of the current facilities and that renovation was not feasible. Provided below is a synopsis from that document that clearly expresses why renovation was not a viable option for SKRECC.

Somerset HQ	ADA compliance problems Fire regulations could preclude renovation or expansion
Russell Springs	Flood plane Present facilities will not accommodate growth Present building not appropriate for expansion
Albany	Renovation and expansion not possible due to sighting, land area or traffic
Monticello	Current facility will not provide the needed space for conducting business, housing employees or for future growth.
Whitley City	US Highway 27 expansion will not leave enough room for cooperative Traffic flow and highway changes will pose hazards and inconvenience.

The above list presents reasons as to why renovation was not considered practical for the current facilities. Most of the current facilities are 40 years old or more and were built when SKRECC served many less members and when current needs were never anticipated.