

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF GRAYSON RURAL ELECTRIC)
COOPERATIVE CORPORATION FOR AN) CASE NO. 2012-00426
ADJUSTMENT OF RATES)

NOTICE OF FILING

Notice is given to all parties that the following materials have been filed into the record of this proceeding:

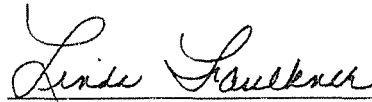
- The digital video recording of the evidentiary hearing conducted on June 18, 2013 in this proceeding;
- Certification of the accuracy and correctness of the digital video recording;
- All exhibits introduced at the evidentiary hearing conducted on June 18, 2013 in this proceeding;
- A written log listing, *inter alia*, the date and time of where each witness' testimony begins and ends on the digital video recording of the evidentiary hearing conducted on June 18, 2013.

A copy of this Notice, the certification of the digital video record, and hearing log have been served by first class mail upon all persons listed at the end of this Notice. Parties desiring an electronic copy of the digital video recording of the hearing in Windows Media format may download a copy at: http://psc.ky.gov/av_broadcast/2012-00426/2012-00426_18Jun13_Inter.asx. Parties wishing an annotated digital video

recording may submit a written request by electronic mail to pscfilings@ky.gov. A minimal fee will be assessed for a copy of this recording.

The exhibits introduced at the evidentiary hearing may be downloaded at <http://psc.ky.gov/pscscf/2012%20cases/2012-00426/>.

Done at Frankfort, Kentucky, this 19th day of June 2013.



Linda Faulkner
Director, Filings Division
Public Service Commission of Kentucky

Don M Combs
Manager Finance & Administration
Grayson R.E.C.C.
109 Bagby Park
Grayson, KY 41143

Carol Hall Fraley
President & CEO
Grayson R.E.C.C.
109 Bagby Park
Grayson, KY 41143

Honorable W. Jeffrey Scott
Attorney At Law
P.O. Box 608
311 West Main Street
Grayson, KENTUCKY 41143

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

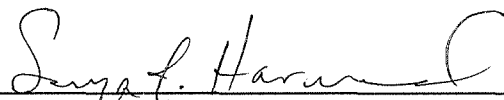
APPLICATION OF GRAYSON RURAL)	CASE NO.
ELECTRIC COOPERATIVE CORPORATION)	2012-00426
FOR AN ADJUSTMENT OF RATES)	

CERTIFICATE

I, Sonya J. Harward, hereby certify that:

1. The attached DVD contains a digital recording of the hearing conducted in the above-styled proceeding on June 18, 2013. Hearing Log, Exhibits, Exhibit List, and Witness List are included with the recording on June 18, 2013.
2. I am responsible for the preparation of the digital recording.
3. The digital recording accurately and correctly depicts the hearing.
4. The "Exhibit List" attached to this Certificate lists all exhibits introduced at the hearing of June 18, 2013.
5. The "Hearing Log" attached to this Certificate accurately and correctly states the events that occurred at the hearing of June 18, 2013 and the time at which each occurred.

Given this 18th day of June, 2013.



Sonya J. Harward (formerly Boyd)
Notary Public
State-at-Large

My Commission Expires: Aug. 25, 2013



Session Report - Detail

2012-00426_18Jun13

Grayson Rural Electric Cooperative

Date:	Type:	Location:	Department:
6/18/2013	General Rates	Public Service Commission	Hearing Room 1 (HR 1)

Judge: David Armstrong; Linda Breathitt; Jim Gardner
 Witness: James Adkins (Adkins Consulting Services); Carol Fraley (Grayson RECC); Mary Elizabeth Purvis (Adkins Consulting Services)
 Clerk: Sonya Harward

Event Time	Log Event
10:05:18 AM	Session Started
10:05:30 AM	Preliminary remarks and introduction of Commissioners Note: Harward, Sonya Chairman Armstrong
10:05:58 AM	Grayson Introductions Note: Harward, Sonya Atty. Jeffrey Scott and Witness Carol Fraley
10:06:16 AM	PSC introductions Note: Harward, Sonya Atty. Virginia Gregg and PSC Staff Jim Livers, Leah Faulkner, and Elie Russell
10:06:27 AM	Chairman Armstrong asked if public notice was given. Note: Harward, Sonya PSC Atty. Gregg confirms.
10:06:45 AM	Chairman Armstrong asked for outstanding motions - there were none. Note: Harward, Sonya Chairman Armstrong
10:07:06 AM	Public called to be heard - none present at this time Note: Harward, Sonya Chairman Armstrong
10:07:33 AM	Witness, Carol Fraley, Grayson President and CEO, takes stand. Note: Harward, Sonya Sworn in by Chairman Armstrong.
10:08:38 AM	Direct Examination of Witness Fraley by Grayson Atty. Scott. Note: Harward, Sonya Atty. Scott asks witness to state describe her role at Grayson.
10:09:41 AM	Witness Farley discusses population and economic status as it concerns rates.
10:11:28 AM	Witness Fraley discusses rate schedules.
10:13:52 AM	Adopted Witness Fraley's Responses to Commission Staff's Request for Information into record which were previously provided. Note: Harward, Sonya Asked by Atty. Scott and confirmed by Witness Fraley
10:14:10 AM	PSC Atty. Gregg Cross-Examination of Witness Fraley Note: Harward, Sonya Atty. Gregg starts by asking why Grayson needs a rate increase.
10:16:08 AM	Witness Fraley explains Grayson's Capital Credits.
10:18:34 AM	Several Exhibits handed out . Note: Harward, Sonya PSC Atty. Gregg
10:19:49 AM	Exhibit 1-PSC Note: Harward, Sonya 5 pages of letters
10:19:52 AM	Witness Fraley questioned about each letter. Note: Harward, Sonya PSC Atty. Gregg
10:26:15 AM	Don Combs is asked by Witness Fraley for help with an answer.
10:29:41 AM	Exhibit 2-PSC Note: Harward, Sonya Response to Comm. Staff's 3rd Request for Information
10:30:42 AM	Questioned about 3.d. of Exhibit 2-PSC Note: Harward, Sonya Answered by Witness Fraley
10:34:12 AM	Don Combs is asked by Witness Fraley for help with an answer.
10:36:20 AM	Witness Fraley discusses Union and non-Union wages with regard to Wage and Salary and a Survey of Job Market.

10:39:55 AM Chairman Armstrong asked if Staff has copy of Union Contract - PSC does not have one but one can be provided Post Hearing.
Note: Harward, Sonya POST HEARING REQUEST

10:40:24 AM Exhibit 3-PSC
Note: Harward, Sonya Director Fees and Expenses

10:42:47 AM Witness Fraley answers questions about Board Members' wages and expenses.

10:46:05 AM Witness Fraley confirmed answer about cost of individual insurance with Don Combs.

10:49:25 AM Comm. Breathitt asks difference between regular board meeting and meeting fees
Note: Harward, Sonya Answered by Witness Fraley

10:50:32 AM Witness Fraley answers question about Misc. Fees listed in Exhibit 3-PSC.

10:51:35 AM Exhibit 4-PSC
Note: Harward, Sonya Response to Comm. Staff's 3rd Request for Information

10:52:21 AM Witness Fraley is asked to explain cost savings measures from Exhibit 4-PSC, asked by PSC Atty. Gregg

10:59:16 AM Exhibit 5-PSC
Note: Harward, Sonya Response to Comm. Staff's 1st Request for Information

11:00:31 AM Witness Fraley explains the area population and their understanding of declining block.

11:01:15 AM Witness Fraley is asked if Grayson have an educational program to teach about energy usage.
Note: Harward, Sonya Most education is individually given.

11:03:31 AM Witness Fraley discusses the impact of the rate increase and how it may effect the population.

11:06:33 AM Exhibit 6-PSC
Note: Harward, Sonya Response to Comm. Staff's 1st Request for Information, Adkins

11:07:43 AM James Adkins responded to Witness Fraley about a question she could not directly answer.

11:12:19 AM Witness Fraley discusses DSM Collaboration.

11:15:08 AM Comm. Breathitt asked for confirmation about what was considered resistance heat
Note: Harward, Sonya Answered by Witness Fraley

11:16:58 AM PSC Atty. Gregg has no more questions for Witness Fraley.

11:17:11 AM Chairman Armstrong Cross Examination of Witness Fraley
Note: Harward, Sonya Clarification questions answered by Witness Fraley.

11:20:35 AM Chairman Armstrong asks for number of participants in DSM programs -provide Post Hearing
Note: Harward, Sonya POST HEARING REQUEST

11:23:15 AM Vice Chairman Gardner Cross Examination of Witness Fraley

11:24:43 AM Vice Chairman Gardner asks question about Exhibit 3-PSC.

11:27:30 AM Vice Chairman Gardner requests description of each category in Director Expenses - provide Post Hearing
Note: Harward, Sonya POST HEARING REQUEST

11:28:49 AM Vice Chairman Gardner requests Monthly Tier (30 Months) - provide Post Hearing
Note: Harward, Sonya POST HEARING REQUEST

11:29:34 AM Vice Chairman Gardner references letter in Exhibit 1-PSC.

11:30:43 AM Vice Chairman Gardner requests Monthly Form 7 for kWh sales and margins through April 2013 - provide Post Hearing
Note: Harward, Sonya POST HEARING REQUEST

11:32:00 AM Vice Chairman Gardner asks questions about Exhibit 6-PSC.

11:33:33 AM Vice Chairman Gardner requests dollar amounts per DSM program for the test year, per program, by category - provide Post Hearing
Note: Harward, Sonya POST HEARING REQUEST

11:34:29 AM Vice Chairman Gardner requests number and dollar figure on estates paid out and the last year capital credits were paid out and how much - provide Post Hearing
Note: Harward, Sonya POST HEARING REQUEST

11:35:31 AM Vice Chairman Gardner asks questions about type of meters, etc.

11:39:14 AM Comm. Breathitt Cross Examination of Witness Fraley
Note: Harward, Sonya Starts with reference to Exhibit 1-PSC

11:41:35 AM Witness Fraley answers why Grayson took so long to file for rate increase from the time they knew they needed one.

11:44:19 AM Comm. Breathitt references Exhibit 2-PSC
Note: Harward, Sonya Questions Witness Fraley about summer employees and their duties.

11:49:00 AM Witness Fraley discusses DSM programs.
Note: Harward, Sonya Comm. Breathitt had various questions about DSM.

11:52:53 AM Atty. Scott Re-Direct Examination of Witness Fraley

11:55:28 AM Atty. Scott references Exhibit 2-PSC.
Note: Harward, Sonya Witness Fraley helps clarify some questions about Director expenses.

11:58:24 AM Atty. Scott asks about Union contract.
Note: Harward, Sonya Witness Fraley confirms some information about negotiations and wages.

12:00:29 PM Atty. Scott references Exhibit 6-PSC.
Note: Harward, Sonya Witness Fraley confirms information about numbers of members.

12:06:07 PM Atty. Scott asks questions about rates compared to other cooperatives.
Note: Harward, Sonya Witness Fraley responds.

12:08:15 PM Witness Fraley dismissed.
Note: Harward, Sonya Chairman Armstrong

12:08:50 PM Break for lunch

12:08:56 PM Session Paused

1:45:53 PM Session Resumed

1:46:01 PM Camera Lock Deactivated

1:46:01 PM Resumed hearing.

1:46:07 PM Witness James Adkins, President of Adkins Consulting Services, takes stand.
Note: Harward, Sonya Sworn in by Chairman Armstrong.

1:47:26 PM Atty. Scott Direct Examination of Witness Adkins.
Note: Harward, Sonya Discusses cost-of-service study.

1:50:56 PM Cross Examination of Witness Adkins by PSC Atty. Gregg.

1:52:52 PM Witness Adkins asked about conflicting figure given in various filed documents.
Note: Harward, Sonya Schedule S, pg. 2 of 4, 4th column --- \$2,063,535 is the developed revenue requirements.

1:54:40 PM Several exhibits distributed by PSC Atty. Gregg.

1:55:27 PM Exhibit 7-PSC
Note: Harward, Sonya Distribution Plant, dated May 31, 2012 and May 31, 2008

1:57:13 PM Witness Adkins is asked about discrepancies of numbers currently being used in Exhibit 7-PSC - provide Post Hearing
Note: Harward, Sonya POST HEARING REQUEST

2:01:24 PM Witness Adkins explains why pricing is different from other cooperatives based on the same 500 participants in a program.

2:03:05 PM Exhibit 8-PSC
Note: Harward, Sonya Comm. Staff's First Request for Information, Adkins

2:03:45 PM Witness Adkins is questioned about Exhibit 8-PSC.
Note: Harward, Sonya Asked by PSC Atty. Gregg.

2:07:43 PM Exhibit 9-PSC
Note: Harward, Sonya Response to Comm. Staff's First Request for Information, Adkins

2:09:42 PM Witness Adkins is questioned about Exhibit 9-PSC.
Note: Harward, Sonya Asked by PSC Atty. Gregg.

2:10:27 PM PSC Atty. Gregg requests status of mapping and parking lot - provide Post Hearing
Note: Harward, Sonya POST HEARING REQUEST

2:11:47 PM PSC Atty. Gregg requests revised Schedule J - provide Post Hearing
Note: Harward, Sonya POST HEARING REQUEST

2:12:51 PM Witness Adkins answers about the difference in rate case expenses listed in different filed documents.

2:13:53 PM PSC Atty. Gregg asks Witness Adkins to provide update of rate case expenses incurred - provide Post Hearing
Note: Harward, Sonya POST HEARING REQUEST

2:14:16 PM Exhibit 10-PSC
Note: Harward, Sonya Billing Analysis, Exhibit J, Adkins

2:15:46 PM Witness Adkins answers questions about Exhibit 10-PSC.
Note: Harward, Sonya Asked by PSC Atty. Gregg.

2:17:54 PM Exhibit 11-PSC
Note: Harward, Sonya Kentucky Electric Cooperatives Operating Expense Statistical Comparisons for 2011 and 2010 and Responses to Items from Comm. Staff's 1st and 3rd Requests for Information.

2:19:42 PM Witness Adkins responds to questions about Exhibit 11-PSC.
Note: Harward, Sonya By PSC Atty. Gregg.

2:21:38 PM Exhibit 12-PSC
Note: Harward, Sonya Response to Comm. Staff's 1st Request for Information, Item 37, Fraley

2:22:29 PM Witness responded to questions about Exhibit 12-PSC.
Note: Harward, Sonya Asked by PSC Atty. Gregg.

2:24:15 PM Exhibit 13-PSC
Note: Harward, Sonya Response to Item 7, Combs

2:24:58 PM Witness Adkins answered question about Exhibit 13-PSC.
Note: Harward, Sonya Asked by PSC Atty. Gregg.

2:25:39 PM Re-Direct of Witness Adkins by Atty. Scott

2:26:22 PM Vice Chairman Gardner Cross Examination of Witness Adkins

2:26:56 PM Vice Chairman Gardner asks Witness Adkins about previous information he has provided about types of meters.
Note: Harward, Sonya Witness's response to Comm. Staff's 3rd request, Item 7, is referenced.

2:30:42 PM Witness Adkins dismissed.
Note: Harward, Sonya Chairman Armstrong.

2:30:59 PM Break

2:31:10 PM Session Paused

2:38:04 PM Session Resumed

2:38:10 PM Witness Mary Elizabeth Purvis, Assistant at Adkins Consulting Services, takes stand.
Note: Harward, Sonya Sworn in by Chairman Armstrong.

2:38:36 PM Direct Examination of Witness Purvis by Atty. Scott

2:40:26 PM Witness Purvis discusses the pre-paid program.

2:42:04 PM Witness Purvis discusses difference in the way other cooperatives calculated their program fee.

2:43:04 PM Cross Examination of Witness Purvis by PSC Atty. Gregg
Note: Harward, Sonya Questioned about Item 10, concerning pre-paid program.

2:43:53 PM PSC Atty. Gregg asked if screen shots are available, and if not, when will they be - provide Post Hearing
Note: Harward, Sonya POST HEARING REQUEST

2:46:07 PM Comm. Breathitt asked who pays additional cost of meters.
Note: Harward, Sonya Witness Purvis responded that Grayson is responsible for the cost.

2:48:43 PM Atty. Gregg has no further questions of Witness Purvis.

2:48:51 PM Vice Chairman Gardner Cross Examination of Witness Purvis

2:49:57 PM Comm. Breathitt Cross Examination of Witness Purvis

2:51:56 PM Witness Purvis dismissed.

2:52:09 PM Atty. Scott recalls Witness Fraley for Re-Direct.

2:52:38 PM Witness Fraley discusses response of its members to the pre-pay program.

2:53:59 PM Witness Fraley explains Turtle 2 meter and access to automatic disconnect.

2:55:31 PM Witness Fraley discusses progress on mapping.

2:57:33 PM Witness Fraley discusses parking lot paving status.

2:58:35 PM Witness Fraley dismissed.

2:58:43 PM Atty. Scott asked if anything else was needed concerning their application.

2:59:07 PM PSC Atty. Gregg requested Post Hearing Request be due by 6/28/13.

2:59:57 PM Hearing Adjourned.
Note: Harward, Sonya Chairman Armstrong
3:00:17 PM Session Paused
3:09:00 PM Session Ended




Name:	Description:
Exhibit 10-PSC	Billing Analysis, Exhibit J, Adkins
Exhibit 11-PSC	Kentucky Electric Cooperatives Operating Expense Statistical Comparisons for 2011 and 2010 and Responses to Items from Comm. Staff's 1st and 3rd Requests for Information.
Exhibit 12-PSC	Response to Comm. Staff's 1st Request for Information, Item 37, Fraley
Exhibit 13-PSC	Response to Item 7, Combs
Exhibit 1-PSC	5 pages of letters
Exhibit 2-PSC	Responses to Comm. Staff's 3rd Request for Information
Exhibit 3-PSC	Director Fees and Expenses
Exhibit 4-PSC	Response to Comm. Staff's 3rd Request for Information, Item 3, Fraley
Exhibit 5-PSC	Response to PSC 1st Request for Information, Item 6, Fraley
Exhibit 6-PSC	Response to Comm. Staff's 1st Request for Information, Adkins
Exhibit 7-PSC	Distribution Plant, dated May 31, 2012 and May 31, 2008
Exhibit 8-PSC	Comm. Staff's Request for Information, Adkins
Exhibit 9-PSC	Response to Comm. Staff's First Request for Information, Adkins

Grayson Rural Electric Cooperative Corporation

109 Bagby Park • Grayson, KY 41143-1292
Telephone 606-474-5136 • 1-800-562-3532 • Fax 606-474-5862

“President Fraley presented a letter from RUS addressing the issue that GRECC did not meet operating T.I.E.R. this year and asked for approval for her prepared response to RUS. President Fraley pointed out that this letter affirmed the Board’s initial intention to file for a rate increase next year. Director Rice made a motion, seconded by Director Martin and unanimously agreed to approve the letter as presented, a copy of which shall be made a part of these minutes.”

This is a certified excerpt from the minutes of the April Board Meeting of April 20, 2012.



Priscilla Sparks, Executive Assistant

and Notary Public, State of Kentucky, County of
Carter. Notarized this 12th day of December
2012.

My Commission Expires March 22, 2013.

Grayson Rural Electric Cooperative Corporation

109 Bagby Park • Grayson, KY 41143-1292
Telephone 606-474-5136 • 1-800-562-3532 • Fax 606-474-5862

April 12, 2012

Mr. Brian D. Jenkins
Chief, Operations Branch
Northern Regional Division
Electric Programs
1400 Independence Avenue, SW
Washington, DC 20250-0700

Mr. Jenkins:

In response to your correspondence of March 27, 2012, we offer the following:

Our financial budget for 2012:

- Assumes no Kwh growth.
- Assumes no additional revenue
- Continues an aggressive right of way clearing budget.

Resulting in the projected ratios:

- OTIER .03
- TIER .98
- ODSC 1.18
- DSC 1.57

As there are no remedies that will significantly remedy our financial situation, we fully anticipate filing for a rate adjustment by the end of this calendar year. The amount of revenue increase to remedy our TIER deficiency will be determined later this year.

Sincerely,



Carol Hall Fraley
President & CEO

HQ-4 p.1

Witness: Fraley
Item 5

PAGE 2 OF 2



United States Department of Agriculture
Rural Development

MAY 24 2012

Mrs. Carol Hall Fraley
President & CEO
Grayson Rural Electric Cooperative
Corporation
109 Bagby Park
Grayson, Kentucky 41143-1203

Dear Mrs. Hall Fraley:

Thank you for your letter dated April 12, 2012, providing us the 2012 budget assumptions and ratio projections for Grayson Rural Electric Cooperative Corporation (Grayson). However, you did not include any explanation of why Grayson failed to meet the minimum Operating Times Interest Earned Ratio (OTIER) ratio of 1.10, outlined in Article V, Section 5.4 of the RUS Loan Contract, during 2011. Please provide this information within 30 days from the date of this letter.

Based on the information provided, it appears that Grayson will not meet the minimum requirements for Average OTIER in 2012. We must remind you that, should this prove to be correct, an Event of Default, as described in Article VII, Section 7 1 (d) of the Loan Contract, will exist.

It is our understanding that Grayson will be filing an application for a rate increase with the Kentucky Public Service Commission (KPSC) before the end of 2012 in order to remedy this situation. The decision to request a rate increase is never an easy one and we commend the board of directors and management of Grayson for recognizing the need, planning for, and taking this necessary action. We strongly encourage you to take appropriate action so that the rate application can be filed and new rates implemented as soon as possible. Please keep us advised as to the anticipated filing date, an estimate of the implementation date, and an approximation of additional revenues for 2013. In addition, please let us know of any additional actions that Grayson plans to take in order to improve its financial condition.

In order for us to more closely follow Grayson's financial condition as it progresses through the rate filing process, please forward copies of your March, June, and September 2012 Form 7, Parts A - C, to this office and to our General Field Representative, Mr. Mike Norman, whom we understand is assisting you in your financial review.

Sincerely,

A handwritten signature in black ink that reads "Brian D. Jenkins". The signature is written in a cursive style with a long horizontal line extending to the right.

BRIAN D. JENKINS
Chief, Operations Branch
Northern Regional Division
Electric Programs

1400 Independence Ave, S W Washington DC 20250-0700
Web <http://www.rurdev.usda.gov>

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1400 Independence Avenue S.W. Washington, DC 20250-9410 or call (800) 795-3272 (Voice) or (202) 720-6382 (TDD)

HQ-4 p 2



United States Department of Agriculture
Rural Development

Mrs. Carol Hall Fraley
President & CEO
Grayson Rural Electric Cooperative
Corporation
109 Bagby Park
Grayson, Kentucky 41143-1203

MAR 26 2013

Dear Mrs. Hall Fraley:

We have completed our review of Grayson Rural Electric Cooperative Corporation's (Grayson) December 31, 2012, Rural Utilities Service (RUS) Form 7, Financial and Statistical Report, and note that Grayson did not meet the minimum Operating Times Interest Earned Ratio (OTIER) of 1.10 or the Average OTIER of 1.10. We understand that the cause of these adverse ratios is a continued decrease in KWh sales. In addition, we are aware that Grayson filed an application for a rate increase with the Kentucky Public Service Commission in November of 2012 to remedy this situation. The decision to implement a rate increase is never an easy one, and we commend the Board of Directors and management of Grayson for recognizing the need and taking this difficult action.

Please keep us advised as to the progress of the rate application as well as the estimated effective date for the revised rates and an approximation of additional revenues anticipated in 2013. In addition, please let us know of any additional actions that Grayson plans to take in order to improve its financial condition. Include the projected OTIER and Average OTIER for the year ending December 31, 2013.

In order for us to more closely follow Grayson's financial condition as it progresses through the rate filing process, please forward copies of your March, June, and September 2013 Form 7, Parts A - C, to this office and to our General Field Representative, Mr. Mike Norman.

We are sending a copy of this letter to your Chairman, Mr. Roger L. Trent, and to our General Field Representative, Mr. Mike Norman. We would appreciate receiving your response within 30 days from the date of this letter.

Sincerely,

A handwritten signature in black ink that reads "Joseph S. Badin". The signature is written in a cursive style with a long horizontal flourish at the end.

JOSEPH S. BADIN
Director
Northern Regional Division
Electric Programs

1400 Independence Ave, S.W. · Washington DC 20250-0700
Web: <http://www.rurdev.usda.gov>

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HQ-4, p 3

Grayson Rural Electric Cooperative Corporation

109 Bagby Park • Grayson, KY 41143-1292
Telephone 606-474-5136 • 1-800-562-3532 • Fax 606-474-5862

April 17, 2013

Mr. Joseph S. Badin
Director
Northern Regional Division
Electric Programs
1400 Independence Avenue, SW
Washington, DC 20250-0700

Mr. Badin:

In response to your correspondence of March 26, 2013, we offer the following:

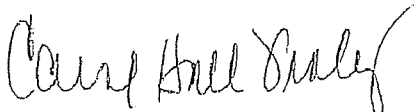
Our rate application is progressing on schedule with an estimated effective date for the revised rates being July 27, 2013. These rates should produce \$1,175,000 in additional revenue.

Resulting in the projected ratios:

- OTIER 1.83
- Avg OTIER 1.04

As of February 2013, kwh sales have been closer to normal and margins have improved. We will forward copies of March, June, September 2013 Form 7, Parts A-C, when produced.

Sincerely,



Carol Hall Fraley
President & CEO

Grayson Rural Electric Cooperative
Case No. 2012-00426
Commission Staff's Third Request for Information

3. Refer to the responses to Items 5 and 29 of Staffs Second Request.

- a. Identify the date on which Grayson received the letter from the Rural Utilities Service ("RUS") provided in response to Item 5.

Response:

On or around March 30, 2012

- b. Identify the date on which Grayson's Board of Directors received notification of the letter from RUS.

Response:

Grayson shared the letter and response with the Board on April 20, 2013 – the next regular Board of Directors meeting.

- c. Refer to the last sentence in the third paragraph of the letter from RUS. Identify and describe what additional actions Grayson took in response to the letter from RUS.

Response:

Grayson immediately developed a list of planned expenditures that could be delayed, without affecting customer service and utility operations. Among the items were:

- Downsizing the Annual Meeting
- Not expanding the coop information section in the Kentucky Living magazine.
- Not re-surfacing a portion of the parking area.
- Delaying various IT upgrades and improvements, including Grayson's mapping system.
- Delaying the development of the next 4 Year Work plan and a Strategic Plan.
- Reduced the number of Construction Contracting personnel due to reduced demand.

- d. Refer to the response to Item 29 of Staffs Second Request. State what consideration Grayson and its Board of Directors give to delaying or reducing its wage and salary increase in light of its financial condition.

Response:

Grayson's wages have historically been below market rates and Grayson's wage and salary studies and union contracts have been the means to raise the rates near market levels. At the same time, employees have been asked to take on additional responsibilities as the work functions have evolved, e.g. increased regulatory oversight and the role of computers in most every area of utility operations.

- e. State whether Grayson has received any other correspondence from RUS. If so, provide a copy of such correspondence and consider this an ongoing request.

Response:

No, however Grayson will provide copies of future correspondence from an to RUS.

Witness: Carol Fraley

29. Refer to Exhibit 1 of the Application.

- a. Refer to the wage and salary increase table on page 1. Describe the policies and procedures the Board of Directors utilizes in determining the amount of wage and salary increases for employees. Provide copies of any salary surveys or analysis of prevailing wage and salary amounts and any other information or documents utilized in the process of determining the amount of increase for wage and salaried employees.

RESPONSE:

Grayson has a consultant perform a complete wage and salary study every 7 years. Changes are made between studies for new positions, promotions, employees, and other changes

- b. Given Grayson's deteriorating financial condition identified in paragraph 5 of the Application and in tis margins for the test year, explain how Grayson can justify the salary and wage increases it has awarded to employees in the test year and the year preceding the test year.

RESPONSE:

Grayson attempts to grant wage increases to all employees based on the wage increase stated in the union contract. The union contract calls for an hourly increase, which is roughly calculated as a percentage for non-union employees.

Grayson Rural Electric
Case No. 2012-00426
May 31, 2012

Payroll Adjustment

To reflect the increase granted by the Board of Directors, the step increases granted and promotions during the year. To give recognition to employees terminated and employees hired during the test year. Increases are granted each May 31st to union employees. Non union employees are granted wage increases on their anniversary date. Overtime pay is calculated at 1-1/2 times regular pay for hours worked in excess of 8 hours per day.

Grayson has always hired summer and part time employees, and anticipates this to continue into future years. These employees were normalized at the same rate and hours during the test year.

As a general rule, outside employees are union and inside employees are non-union.

Wage and salary increases are as follows:

	<u>Union</u>	<u>Non-Union</u>
2012	\$1.00/hr	3.44%
2011	\$1.00/hr	3.56%
2010	\$1.00/hr	3.80%
2009	\$1.00/hr	4.00%
2008	\$1.00/hr	4.00%

The amount of increase was allocated based on the actual test year.

Projected wages	\$2,871,457
Actual wages for test year	<u>2,779,640</u>
Adjustment	<u><u>\$91,817</u></u>

The allocation is on the following page:



Grayson Rural Electric Cooperative
Case No. 2012-00426
Director Fees and Expenses

Certain director expenses are removed for rate-making purposes. These costs include director health insurance, directors' per diems, Christmas gifts, attending the Legislative conference, directors attending either the KAEC annual meeting or EKPC annual meeting, when the director is not the representative for the respective organization.

Expenses that are not removed for rate-making purposes include costs of attending NRECA director training/education seminars. These seminars are critical for directors to be updated on events and activities related to the electric industry. Also included is D-O-M Liability Insurance that protects the directors for decisions they make on a monthly basis. Without DOM insurance, directors would be hesitant to make any decisions as members, consumers, or any person could file a legal claim against the director(s).

A copy of the Board Policy regarding "Compensation, Expenses, and Travel of Directors" is attached.

Costs removed for rate-making purposes are as follows:

All items marked with an " x " are removed	65,704
Per diems	20,550
Less previously removed with an x	<u>(2,550)</u>
Total to remove for rate making purposes	<u><u>83,704</u></u>

Grayson Rural Electric Cooperative
Summary of Director Expenses
Case No. 2012-00426

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	<u>REGULAR</u> <u>BD MTG</u>	<u>OTHER</u> <u>BD MTG</u>	<u>PER</u> <u>DIEM</u>	<u>MILIEAGE</u>	<u>AIR</u> <u>FARE</u>	<u>METTING</u> <u>FEES</u>	<u>HOTEL</u>	<u>MEALS</u>	<u>HEALTH</u> <u>INSURANCE</u>	<u>MISC</u>	<u>TOTAL</u>
Roger Trent	2,400	400	5,000	2,689	434	3,260	4,405	1,203	7,652	-	27,442
Harold Dupuy	2,400	200	5,200	2,806	434	2,565	3,678	843	7,652	-	25,778
Donnie Crum	2,250	200	-	199	-	-	-	15	7,652	-	10,315
William T. Rice	2,400	200	3,000	1,178	434	1,495	2,007	616	7,652	-	18,981
Kenneth Arrington	2,400	400	3,200	1,704	734	2,770	2,599	837	7,652	-	22,296
Jimmy Whitt	2,400	400	4,000	2,970	-	1,495	2,247	868	7,652	-	22,032
Eddie Martin	1,950	200	150	36	-	-	80	15	7,652	-	10,082
General	-	-	-	-	-	40	-	261	6,555	9,754	16,610
	16,200	2,000	20,550	11,581	2,035	11,625	15,016	4,658	60,116	9,754	153,535

Grayson Rural Electric Cooperative
Case No. 2012-00426
Commission Staff's Third Request for Information

3. Refer to the responses to Items 5 and 29 of Staffs Second Request.

- a. Identify the date on which Grayson received the letter from the Rural Utilities Service ("RUS") provided in response to Item 5.

Response:

On or around March 30, 2012

- b. Identify the date on which Grayson's Board of Directors received notification of the letter from RUS.

Response:

Grayson shared the letter and response with the Board on April 20, 2013 – the next regular Board of Directors meeting.

- c. Refer to the last sentence in the third paragraph of the letter from RUS. Identify and describe what additional actions Grayson took in response to the letter from RUS.

Response:

Grayson immediately developed a list of planned expenditures that could be delayed, without affecting customer service and utility operations. Among the items were:

- Downsizing the Annual Meeting
- Not expanding the coop information section in the Kentucky Living magazine.
- Not re- surfacing a portion of the parking area.
- Delaying various IT upgrades and improvements, including Grayson's mapping system.
- Delaying the development of the next 4 Year Work plan and a Strategic Plan.
- Reduced the number of Construction Contracting personnel due to reduced demand.

- d. Refer to the response to Item 29 of Staffs Second Request. State what consideration Grayson and its Board of Directors give to delaying or reducing its wage and salary increase in light of its financial condition.

Response:

Grayson's wages have historically been below market rates and Grayson's wage and salary studies and union contracts have been the means to raise the rates near market levels. At the same time, employees have been asked to take on additional responsibilities as the work functions have evolved, e.g. increased regulatory oversight and the role of computers in most every area of utility operations.

- e. State whether Grayson has received any other correspondence from RUS. If so, provide a copy of such correspondence and consider this an ongoing request.

Response:

No, however Grayson will provide copies of future correspondence from an to RUS.

Witness: Carol Fraley

11

- 6. Refer to page 3 of the Prepared Testimony of Carol H. Fraley (“Fraley Testimony”). Describe Grayson’s experience to date with customer acceptance of and participation in the innovative, optional rate designs referenced in response to Question 10.

RESPONSE:

Consumers in Grayson’s service territory have been slow to react to innovative changes. However, Grayson continues to explain these options to its consumers, especially those consumers who have complaints regarding their electric bills.

Witness: Carol Fraley

~~PR3~~
PR3-4

Grayson Rural Electric Cooperative
Case No. 2012-00426
Commission Staff's Third Request for Information

4. Refer to the response to Item 6 of Staffs Second Request. Identify which specific optional rate designs are the subject of this response and provide the number of customers currently participating in each identified rate design and associated tariff.

Response:

#20	Inclining Block	14 participants
#10	Residential Time of Day	2 participants
#15	Residential Demand & Energy	0 participants
#11	Small Commercial Time of Day	0 participants
#16	Small Commercial Demand & Energy	0 participants

Customers have been slow to choose optional rate designs, mainly because of the risk of a higher bill, if not able or willing to fit optimal energy usage patterns. Many are not able or willing to shift their loads (lifestyle) to achieve savings.

Most of Grayson's effort have centered around improving weatherization levels in homes and businesses.

Witness: Jim Adkins

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14. Refer to page 10 of the Adkins Testimony, response to Question 21. It states, in relevant part, that by placing more of its costs into a fixed-rate component, less distribution costs will come from energy sales based on the volume of usage, and that Grayson will be more prone to enter into additional DSM programs. State whether Grayson has experienced a decline in customers or energy sales since 2008 over and above the energy reduction identified in the response to Item 49.c. of Staff's First Request.

RESPONSE:

Grayson RECC has experienced a decline in customers and energy sales. Please see annual energy sales and the number of members at the end of the year.

GRAYSON RECC		
	Number of Members	Total Energy kWh
2008	15,722	270,151,286
2009	15,678	260,700,929
2010	15,479	269,324,801
2011	15,393	251,020,517
Test Year	15,425	243,823,180

14. Refer to page 10 of the Adkins Testimony, response to Question 21. It states, in relevant part, that by placing more of its costs into a fixed-rate component, less distribution costs will come from energy sales based on the volume of usage, and that Grayson will be more prone to enter into additional DSM programs. State whether Grayson has experienced a decline in customers or energy sales since 2008 over and above the energy reduction identified in the response to Item 49.c. of Staff's First Request.

RESPONSE:

Grayson RECC has experienced a decline in customers and energy sales. Please see annual energy sales and the number of members at the end of the year.

GRAYSON RECC		
	Number of Members	Total Energy kWh
2008	15,722	270,151,286
2009	15,678	260,700,929
2010	15,479	269,324,801
2011	15,393	251,020,517
Test Year	15,425	243,823,180

40. Refer to the response to Item 49 of the Staff's Frist Request.

- a. Provide the number of customers participating in each of the demand-side management/conservation/energy efficiency ("DSM") programs listed in the response to Item 49.1. during the years identified in the response to Item 49.b.

RESPONSE:

	2009	2010	2011	2012
Resistant Heat to Heat Pump	16	28	23	8
Touchstone Energy Home – Geothermal	21	20	24	3
Direct Load Control	41	60	131	79
Button-Up	14	29	31	8
Energy Audits (Residential and Commercial)	56	69	68	69
KY Energy Retrofit Rider	0	0	4	12
Commercial Advanced Lighting	0	0	0	1
Compact Fluorescent Lighting	2000	1700	2100	2500

- b. State whether each of the existing DSM programs was initiated by East Kentucky Power Cooperative ("EKPC") or by Grayson.

RESPONSE:

Resistant Heat to Heat Pump	EKPC
Touchstone Energy Home – Geothermal	EKPC
Direct Load Control	EKPC
Button-Up	EKPC
Energy Audits (Residential and Commercial)	EKPC
KY Energy Retrofit Rider	Grayson
Commercial Advanced Lighting	EKPC
Compact Fluorescent Lighting	EKPC

c. Provide, as a percentage, the ratio of Grayson’s expected annual investment in DSM relative to its annual electric sales revenue for the years 2012 through 2015 based on current estimates.

RESPONSE:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
DSM Investment per Sales Revenue (expected)	0.25%	0.25%	0.25%	0.25%

d. Provide, as a percentage, the ratio of Grayson’s expected annual DSM energy-efficiency savings relative to its total electric sales (in kWh) for the years 2012 through 2015, based on current estimates.

RESPONSE:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
DSM Energy -Efficiency savings per Total Electric Sales (expected)	0.40%	0.40%	0.40%	0.40%

e. State whether there are additional DSM programs that Grayson has identified or is analyzing that may be included in its DSM portfolio if its increased customer charge is approved. Include a brief description of each program. Include in this explanation a discussion of whether these programs are initiated by EKPC or by Grayson and whether Grayson will offer DSM programs in the future independent to EKCP.

RESPONSE:

There are currently no additional DSM programs that Grayson is currently looking to pursue including in their DSM portfolio. Any programs that would be initiated in the future would most likely be initiated with EKPC.

Grayson Rural Electric Cooperative
Case No. 2012-00426
Commission Staff's Third Request for Information

9. Refer to the response to Item 14 of Staff's Second Request, which referenced the statement that Grayson will be more prone to enter into additional DSM programs if more of its costs are placed into a fixed-rate component. Reconcile this statement with the response to Item 40.e., which states that Grayson is not looking to pursue including additional DSM programs in its portfolio as a result of approval of its proposed increased customer charge.

Response:

The reconciliation of these two statements is based on the recognition of the timing difference. The response in Item 14 of Staff's Second Data Request is geared to the future if and when the proposed customer charge is increased to the requested amount and when new DSM programs come to light and/or offered by East Kentucky Power Cooperative. The response in Item 40e of the Staff's Second Data Request is talking only about the time frame.

Witness: Jim Adkins

Grayson Rural Electric Cooperative
Case No. 2012-00426
May 31, 2012

Schedule 3
page 2 of 6

Account Number	Description	Test Year Balance	Rate	Normalized Expense	Test Year Expense	Exclude Items Fully Depreciated
Distribution plant:						
362	Station equipment	31,054	2.86%	888	888	
364	Poles, towers & fixtures	21,809,148	4.99%	1,088,276	1,076,953	
365	Overhead conductors & devices	17,682,213	4.84%	855,819	844,157	
367	Underground conductor & devices	356,196	3.13%	11,149	11,135	
368	Line transformers	7,632,062	3.45%	263,306	261,300	
369	Services	6,363,078	4.02%	255,796	250,848	
370	Meters	1,409,565	6.67%	94,018	93,851	
370.10	Meters, AMI	1,417,976	6.67%	94,579	93,233	
371	Installations on customer premises	1,481,876	9.61%	142,408	138,926	
		<u>58,183,168</u>		<u>2,806,240</u>	<u>2,771,291</u>	
General plant:						
389	Land	232,210				
390	Structures and improvements	1,674,154	2.50%	41,854	39,089	
391	Office furn and eqt	796,955	6.00%	47,817	46,460	
392	Transportation	1,632,068	16.00%	185,237	181,546	474,338
393	Stores	22,403	5.00%	816	816	6,083
394	Tools, shop and garage	42,161	6.00%	2,530	2,605	0
395	Laboratory	221,242	5.00%	11,062	10,307	0
396	Power operated	48,448	14.00%	0	0	48,448
397	Communications	909,699	7.00%	63,679	65,340	0
398	Miscellaneous	190,448	5.00%	8,874	8,874	12,968
		<u>5,769,788</u>		<u>361,869</u>	<u>355,037</u>	
	Total electric plant	<u>63,952,956</u>		<u>3,168,108</u>	<u>3,126,328</u>	

Items that are fully depreciated are removed from the ending balance to compute test year depreciation.

Grayson Rural Electric Cooperative
Case No. 2008-00254
May 31, 2008

Schedule 3
page 2 of 6

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Account Number	Description	Test Year Balance	Rate	Normalized Expense	Test Year Expense	Exclude Items Fully Depreciated
Distribution plant:						
362	Station equipment	31,054	2.86%	888		
364	Poles, towers & fixtures	18,663,608	4.99%	931,314		
365	Overhead conductors & devices	14,468,542	4.84%	700,277		
367	Underground conductor & devices	308,059	3.13%	9,642		
368	Line transformers	6,722,239	3.45%	231,917		
369	Services	5,493,899	4.02%	220,855		
370	Meters	1,313,762	6.67%	87,628		
370.10	Meters, AMI	1,266,049	6.67%	84,445		
371	Installations on customer premises	1,174,155	4.09%	48,023		
		<u>49,441,367</u>		<u>2,314,990</u>	<u>1,471,175</u>	
General plant:						
389	Land	79,057				
390	Structures and improvements	935,639	2.50%	23,391	20,570	
391	Office furn and eqt	548,623	6.00%	32,917	30,335	
392	Transportation	1,414,533	16.00%	155,231	149,109	444,338
393	Stores	7,564	5.00%	107	103	5,418
394	Tools, shop and garage	34,303	5.00%	1,540	2,139	3,507
395	Laboratory	181,491	5.00%	9,008	8,280	1,325
396	Power operated	48,447	14.00%	6,016	5,886	5,475
397	Communications	279,309	7.00%	18,291	16,913	18,013
398	Miscellaneous	119,561	5.00%	5,780	4,108	3,952
		<u>3,648,527</u>		<u>252,282</u>	<u>237,443</u>	
	Total electric plant	<u>53,089,894</u>		<u>2,567,272</u>	<u>1,708,618</u>	

Items that are fully depreciated are removed from the ending balance to compute test year depreciation.

23. Refer to Exhibit R of the application, page 37 of 42.
- a. this page shows that an increase of \$21,085 is justified for Rate 4, Large Power. Explain why Grayson is not proposing an increase of this rate class.

RESPONSE:

Grayson decided not to increase this rate class for a couple of reasons. One, the amount is not a large in the overall scheme and was overlooked in the development of the proposed increase amounts and rate designs.

- b. This page shows that an increase of \$3,748 is justified for Rate 5, Street Lights, and that \$21,781 is justified for Rate 6, Yard Lights. Explain why Grayson is proposing an increase of only \$378 for Rate 5 (which is less than the amount justified) and \$27,622 for Rate 6 (which is more than the amount justified), as shown in Exhibit J, page 1 of 17.

RESPONSE:

Grayson determined that the lighting rates should go approximately the same percent. The new rates were then rounded to the nearest one fourth of a dollar.



**GRAYSON RECC
CASE NO. 2012-00**

DETERMINATION OF INCREASE BY RATE CLASS

	Envior watts	Rate 1 Residential	Rate 2 Small Commercial	Rate 3 ETS Rate	Rate 4 Large Power	Rate 5 Street Lights	Rate 6 Yard Lights	Rate 7 AES
Total Revenue								
Requirements	2,378	20,698,016	2,128,632	230,517	1,717,881	13,071	567,732	551,214
Revenue from Rates	2,610	18,367,201	1,848,414	176,467	1,581,262	9,302	542,542	483,477
Margins (Loss)	233	(2,330,815)	(280,218)	(54,050)	(136,619)	(3,770)	(25,190)	(67,736)
Rate Revenue Percent of Total Rate Revenue		70.2%	7.1%	0.7%	6.0%	0.0%	2.1%	1.8%
Less Other Revenue		752,849	75,764	7,233	64,814	381	22,238	19,817
COSS Based Increase Revenue Increase Percent		(1,577,966)	(204,454)	(46,817)	(71,805)	(3,389)	(2,952)	(47,919)
Proposed Revenue from Rates		19,945,168	2,052,867	223,284	1,653,067	12,690	545,494	531,396
Consumer Charge					727			108
Billing Units		150,230	13,464		\$ 49.33			\$ 31.21
Revenue Requirements		\$ 33.28	\$ 34.43					
Energy Rate								5,266,280
Billing Units		161,238,331	15,613,032	1,747,542	16,562,418			\$ 0.05275
Revenue Requirements		\$ 0.05277	\$ 0.05275	\$ 0.09740	\$ 0.05275			
Demand Rate								18,453
Billing Units		1,311,194	100,082		64,207			\$ 13.68
Revenue Requirements		\$ 5.62	\$ 8.37		\$ 11.81			

Grayson Rural Electric Cooperative
Case No. 2012-00426
Commission Staff's Third Request for Information

10 . Refer to the revised cost of service study ("COSS") filed in response to Item 18 of Commission Staffs Second Information Request ("Staff's Second Request"), pages 40-41 of 43. The following table shows Grayson's proposed increases and COSS justified increases for certain rate classes.

Rate Class	Proposed	COSS Justified
1 – Residential	1,627,302	1,577,966
4 – Large Power	-	71,805
5 – Street Lighting	378	3,389
6 – Security Lights	27,622	2,952

Given the revised "COSS Based Increase" amounts for the rate classes shown in the table, state whether Grayson now believes that the proposed increases to these classes should be revised. If yes, explain how Grayson would propose to revise them. If no, explain why a revision would not be appropriate.

Response:

Grayson agrees that the proposed increase for the rate classes listed above should be revised to the amounts that in the column labeled as COSS Justified.

Witness: Jim Adkins

10

28. Refer to Exhibit X of the Application, which provides a comparison of income statement account levels for the test period and the 12 months preceding the test period.

- a. Account 583.00, Overhead Line Expense, decreased from \$515,000 in the 12 months preceding the test year to \$483,000 in the test year. Provide a detailed explanation for why this expense decreased in the test year.

RESPONSE:

Property taxes decreased from \$440k to \$410k

- b. Account 586.00, Meter Expense, increased from \$512,000 in the 12 months preceding the test year to \$552,000 in the test year. Provide a detailed explanation for why this expense increased by this magnitude.

RESPONSE:

Installation costs for meters were \$58k less during the test year.

- c. Account 588.00, Miscellaneous Distribution Expense, decreased from \$144,000 in the 12 months preceding the test year to \$110,000 in the test year. Provide a detailed explanation for why this expense decreased in the test year.

RESPONSE:

Grayson installed a new mapping system. Employee labor, benefits, and expenses were recorded in this account as the mapping system was being installed. Labor and expenses are now being recorded in other accounts.

- d. Account 932.00, Maintenance of General Plant, increased from \$285,000 in the 12 months preceding the test year to \$326,000 in the test year. Provide a detailed explanation for why this expense increased by this magnitude.

RESPONSE:

The parking lot was repaved and striped at a cost of \$49k during the test year.

Witness: Jim Adkins

Grayson Rural Electric Cooperative
Case No. 2012-00426
Commission Staff's Third Request for Information

12. Refer to the responses to Items 28.a. and b. of Staffs Second Request.

a. Grayson's response to Item 28.a. states, "Installation costs for meters were \$58k less during the test year." Given that the total expense in the test year for Account 586.00, Meter Expense was \$552,000 and installation costs for meters was \$58,000 less in the test year, explain how the total amount of expense for this account was more for the test year than for the 12 months preceding the test year.

Response:

Installation costs are credits. This accounting is in accordance with the Uniform System of Accounts ("USoA") for installing meters and transformers.

b. Grayson's response to Item 28.d. of Staffs Second Request states that Account 932.00, Maintenance of General Expense, increased from \$285,000 in the year preceding the test year to \$326,000 in the test year due to the "parking lot being repaved and striped at a cost of \$49k during the test year."

- (1) Identify and explain the authority and threshold for which Grayson capitalizes rather than expenses costs.
- (2) Explain why the parking lot improvements were not capitalized.
- (3) If Grayson had capitalized the cost of the parking lot improvements, what would the amount of the annual depreciation on the asset?

Response:

- (1) Grayson capitalizes items of general plant over \$2,500. This is what the USoA recommends. However, when an item of general plant is repaired, and not removed from service, it becomes a maintenance costs. Grayson did not remove the existing parking lot, but repaved the lot, which was accurately accounted for as maintenance.
- (2) Since the existing parking lot was not removed, the cost of repaving was maintenance.
- (3) $\$49,025 \times 2.5\% = \$1,226$.

Witness: Jim Adkins

Billing Analysis
Case No. 2012-00426
Billing Analysis
May 31, 2012

Exhibit J
page 9 of
Witness: Jim Adkins

Schedule 10 - Residential Time of Day

Description	Billing Determinants	Test Year Revenues	Normalized Case No. 2010-00502		Proposed	
			Rates	Revenues	Rates	Revenues
Facility Charge	20	\$310	\$15.52	\$310	\$19.75	\$395
Energy charge	10,699	2,128	\$0.19888	2,128	\$0.20000	2,140
On peak rate	31,361	1,967	\$0.06128	1,922	\$0.06250	1,960
Off peak rate						
Total from base rates	42,060	4,406		\$4,360		\$4,495
Fuel adjustment		(17)				
Environmental surcharge		379				
Total revenues		\$4,768				
Amount				(\$46)		\$135
Percent				-1.0%		3.1%
Average monthly bill		\$220.28		\$218.00		\$224.74
Amount				(\$2.28)		\$6.74
Percent				-1.0%		3.1%

Schedule 20 - Residential Inclining Block

Description	Billing Determinants	Test Year Revenues	Normalized Case No. 2010-00502		Proposed	
			Rates	Revenues	Rates	Revenues
Facility Charge	128	\$1,325	\$10.35	\$1,325	\$15.00	\$1,920
Energy charge						
First 300 kwh	36,501	2,673	\$0.07323	2,673	\$0.07503	2,739
Next 200 kwh	10,663	946	\$0.08875	946	\$0.09003	960
All over 500 kwh	3,062	411	\$0.13531	414	\$0.14003	429
	50,226					
Total from base rates		5,355		<u>\$5,358</u>		<u>\$6,047</u>
Fuel adjustment		(40)				
Environmental surcharge		480				
Total revenues		<u>\$5,795</u>				
Amount				\$4		\$689
Percent				0.1%		12.9%
Average monthly bill		\$41.84		\$41.86		\$47.25
Amount				\$0.03		\$5.38
Percent				0.1%		12.9%

2011
KENTUCKY ELECTRIC COOPERATIVES
OPERATING EXPENSE STATISTICAL COMPARISONS
AVERAGE ANNUAL BASIS

COOPERATIVE NAME	DISTRIBUTION OPERATION PER CONSUMER	DISTRIBUTION MAINTENANCE PER CONSUMER	TOTAL OP. & MAINT. PER CONSUMER	CONSUMER ACCOUNTING PER CONSUMER	CONSUMER INFORMATION PER CONSUMER	ADM. & GEN. EXPENSE PER CONSUMER	TOTAL EXPENSE PER CONSUMER	NUMBER OF EMPLOYEES	MILES OF LINE	NUMBER OF CONSUMERS BILLED	MILES OF LINE PER EMPLOYEE	CONSUMERS PER EMPLOYEE	DENSITY CONSUMERS PER MILE
BIG SANDY RECC	68	99	167	59	11	91	328	45	1,030	13,213	23.0	294	13.0
BLUE GRASS ENERGY COOP	50	105	155	53	31	80	319	110	4,650	55,087	42.3	501	11.8
CLARK ENERGY COOP	71	108	179	60	10	54	303	51	3,042	26,041	59.6	511	8.6
CUMBERLAND VALLEY ELECTRIC	54	111	165	78	5	53	301	55	2,614	29,684	47.5	431	9.1
FARMERS RECC	57	108	165	44	5	86	300	65	3,591	24,683	55.2	380	6.9
FLEMING-MASON ENERGY	73	115	188	74	8	59	329	52	3,550	23,827	68.3	458	6.7
GRAYSON RECC	74	191	265	68	18	125	476	46	2,485	15,470	54.0	336	6.2
INTER-COUNTY ENERGY	106	63	169	78	21	81	349	67	3,765	25,250	56.2	377	6.7
JACKSON ENERGY COOP	89	114	203	71	13	84	371	134	5,676	51,224	42.4	382	9.0
LICKING VALLEY RECC	87	108	195	51	5	66	317	45	2,039	17,428	45.0	387	8.6
NOLIN RECC	99	120	219	74	27	91	411	97	2,991	32,948	30.8	340	11.0
OWEN EC	89	62	151	64	11	63	289	133	4,509	57,596	33.9	433	12.8
SALT RIVER ELECTRIC	54	62	116	44	8	63	231	74	4,040	47,411	54.6	641	11.7
SHELBY ENERGY COOP	102	125	227	45	12	64	348	36	2,097	15,315	58.3	425	7.3
SOUTH KENTUCKY RECC	53	90	143	63	10	64	280	145	6,755	66,361	46.6	458	9.8
TAYLOR COUNTY RECC	71	69	140	44	4	56	244	52	3,210	25,613	61.7	493	8.0
EKPC GROUP AVERAGE	76	103	178	61	12	74	325	75	3,603	32,572	46.7	434	9.3
JACKSON PURCHASE ENERGY	107	133	240	36	4	73	353	80	2,918	29,199	36.5	365	10.0
KENERGY CORP	72	160	232	62	6	62	362	147	7,047	55,210	47.9	376	7.8
MEADE COUNTY RECC	91	99	190	48	10	54	302	64	2,974	28,478	46.0	445	9.6
BIG RIVERS GROUP AVERAGE	90	131	221	49	7	63	340	97	4,313	37,629	44.5	388	8.7
HICKMAN-FULTON COUNTIES RECC	182	265	447	65	74	173	759	16	691	3,675	43.2	230	5.3
PENNYRILE RECC	99	99	198	48	10	69	325	120	5,089	46,965	42.4	391	9.2
TRI-COUNTY EMC	91	99	190	45	11	44	290	132	5,449	50,240	41.3	381	9.2
WARREN RECC	96	91	187	55	14	89	345	160	5,626	60,265	35.2	377	10.7
WEST KENTUCKY RECC	75	164	239	70	5	56	370	89	4,079	38,154	45.8	429	9.4
TVA GROUP AVERAGE	109	144	253	57	23	86	419	103	4,187	39,860	40.7	387	9.5
OVERALL AVERAGE	84	115	199	58	14	75	346	84	3,747	34,722	44.6	413	9.3

2010
KENTUCKY ELECTRIC COOPERATIVES
OPERATING EXPENSE STATISTICAL COMPARISONS
AVERAGE ANNUAL BASIS

COOPERATIVE NAME	DISTRIBUTION OPERATION PER CONSUMER	DISTRIBUTION MAINTENANCE PER CONSUMER	TOTAL OP. & MAINT. PER CONSUMER	CONSUMER ACCOUNTING PER CONSUMER	CONSUMER INFORMATION PER CONSUMER	ADM. & GEN. EXPENSE PER CONSUMER	TOTAL EXPENSE PER CONSUMER	NUMBER OF EMPLOYEES	MILES OF LINE	NUMBER OF CONSUMERS BILLED	MILES OF LINE PER EMPLOYEE	CONSUMERS PER EMPLOYEE	DENSITY CONSUMERS PER MILE
BIG SANDY RECC	72	118	190	56	9	101	358	40	1,027	13,226	25.7	331	12.9
BLUE GRASS ENERGY COOP	52	107	159	54	30	77	320	111	4,632	54,980	41.7	495	11.9
CLARK ENERGY COOP	73	102	175	55	8	57	295	52	3,036	26,154	58.4	503	8.6
CUMBERLAND VALLEY ELECTRIC	54	122	176	74	6	53	309	55	2,616	23,749	47.6	432	9.1
FARMERS RECC	54	107	161	40	7	81	209	66	3,577	24,574	54.2	372	6.9
FLEMING-MASON ENERGY	64	111	175	75	8	59	317	51	3,537	23,822	69.4	467	6.7
GRAYSON RECC	72	158	230	64	17	112	423	47	2,483	15,533	52.8	330	6.3
INTER-COUNTY ENERGY	85	67	152	77	21	78	328	65	3,748	25,256	57.7	389	6.7
JACKSON ENERGY COOP	83	105	188	64	13	79	344	125	5,664	51,338	45.3	411	9.1
LICKING VALLEY RECC	87	110	197	46	10	63	316	48	2,031	17,493	42.0	364	8.6
NOLIN RECC	111	108	219	77	26	84	408	96	2,980	32,638	31.1	340	11.0
OWEN EC	95	66	161	65	10	56	292	134	4,493	57,478	33.5	429	12.8
SALT RIVER ELECTRIC	50	60	110	44	9	60	223	75	4,016	47,046	53.6	627	11.7
SHELBY ENERGY COOP	97	119	216	56	12	68	352	35	2,096	15,311	59.9	437	7.3
SOUTH KENTUCKY RECC	53	104	157	64	11	59	291	154	6,735	66,430	43.7	431	9.9
TAYLOR COUNTY RECC	65	68	133	44	5	55	237	52	3,198	25,456	61.5	490	8.0
EKPC GROUP AVERAGE	73	102	176	60	13	71	319	75	3,492	32,530	46.6	434	9.3
JACKSON PURCHASE ENERGY	90	110	200	39	5	75	319	81	2,909	29,152	35.9	360	10.0
KENERGY CORP	79	168	247	61	5	59	372	148	7,010	54,991	47.4	372	7.8
MEADE COUNTY RECC	79	106	185	47	8	54	294	64	2,974	28,267	46.0	442	9.5
BIG RIVERS GROUP AVERAGE	83	128	211	49	6	63	329	98	4,298	37,470	43.9	382	8.7
HICKMAN-FULTON COUNTIES RECC	130	183	313	58	3	148	522	16	684	3,716	42.8	232	5.4
PENNYRILE RECC	92	76	168	47	10	62	287	121	5,100	46,984	42.2	388	9.2
TRI-COUNTY EMC	81	96	177	53	11	43	284	136	5,451	50,340	40.1	370	9.2
WARREN RECC	92	89	181	55	13	87	336	158	5,622	59,995	35.6	380	10.7
WEST KENTUCKY RECC	78	150	228	65	5	55	353	85	4,069	38,189	47.9	449	9.4
TVA GROUP AVERAGE	95	119	214	56	8	79	357	103	4,185	39,845	40.6	387	9.5
OVERALL AVERAGE	79	109	188	58	11	72	329	84	3,737	34,672	44.5	413	9.3

35. Refer to the Total Operations and Maintenance Expense Per Customer Column on page 1 of Exhibit 16. State the reason(s) why Grayson had the highest amount of this expense among the cooperatives on a per-customer basis.

RESPONSE:

Grayson included the postretirement benefits in its total benefits in the calculation of average cost per employee. A review of the other cooperatives indicates they did not include postretirement benefits. Had Grayson not included the postretirement benefits, its average per employee would be \$35,410, which would be more comparable to the other cooperatives.

Witness: Jim Adkins

Grayson Rural Electric Cooperative
Case No. 2012-00426
Commission Staff's Third Request for Information

14. Refer to the response to Item 35 of Staffs Second Request. The answer is not responsive. State with explanation the reason(s) why Grayson had the highest amount of Total Operations and Maintenance Expense Per Customer (Column 4 on Exhibit 16, page 1).

Response:

Grayson operates in a very rural and sparsely populated area. Even though there are not many consumers on a line, there is still maintenance and other associated costs. Grayson has the lowest density of consumers per mile, this translates into have the highest operations and maintenance per consumer.

Witness: Jim Adkins

37. Provide a listing, with descriptions, of all activities, initiatives, or programs undertaken or continued by Grayson since its last general rate case through the end of the proposed test period ending May 31, 2012 for the purpose of minimizing costs or improving the efficiency of its operations or maintenance activities.

RESPONSE:

Grayson, along with four (4) other electric cooperatives in eastern Kentucky have been meeting on a regular basis to discuss operational activities, member service, right-of-way, safety, consumer related, financing, and other aspects of the electric cooperative activities for the purpose of sharing ideas and activities that have both been successful and those that have not been successful. These cooperatives on occasion have shared employees for training and educational purposes. Grayson can not put a dollar value on these meetings, but they have been very helpful for management, and other employees.

Activities specific to Grayson are as follows:

- Starting in early 2010 an Inventory Analysis Program was implemented through a collaborative effort of the warehouseman and purchasing agent where processes were set up to improve the efficiency of ordering and accounting for material. This has resulted in a reduction of the amount of material on hand.
- During 2011 Grayson realized approximately a \$26,000 savings by switching to a different brand of chemicals for spraying right of way.
- Grayson has been installing a disconnect switches on meters of consumers who are habitual delinquents to reduce trips for servicemen.
- The annual meeting was moved from an offsite location to another location that saved approximately \$15,000.

Witness: Carol Fraley

7. Does Grayson RECC have an AMR or AMI system? If yes, indicate the type of system, when it was installed, and whether Grayson RECC requested a Certificate of Public Convenience and Necessity to install the system (provide the case number).

Response:

Grayson installed a Landys & Gyr Turtle 1 AMR system in 2001 and did not request a Certificate of Convenience and Necessity. Grayson is currently upgrading its AMR to a Turtle 2 system in order to accommodate optional inclining block and off peak rate structures, as they are requested by its customers.