

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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AUG 07 2014

PUBLIC SERVICE  
COMMISSION

In the Matter of:

APPLICATION OF CUMBERLAND VALLEY )  
ELECTRIC, INC. FOR AN ADJUSTMENT )  
OF RATES AND ALL CORRESPONDING )  
MATERIALS )

CASE NO: 2014-00159

ATTORNEY GENERAL'S INITIAL REQUESTS FOR INFORMATION

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and submits the Initial Data Requests for Information to Cumberland Valley Electric, Inc. ("Cumberland Valley") to be answered by the date specified in the Commission's Order of Procedure, and in accord with the following instructions:

(1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.

(2) Please identify the witness (es) who will be prepared to answer questions concerning each request.

(3) Please repeat the question to which each response is intended to refer. The Office of the Attorney General can provide counsel for Cumberland Valley with an electronic version of these data requests, upon request.

(4) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.

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

(6) If you believe any request appears confusing, please request clarification directly from Counsel for the Office of Attorney General.

(7) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(8) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self evident to a person not familiar with the printout.

(9) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

(10) As used herein, the words "document" or "documents" are to be construed broadly and shall mean the original of the same (and all non-identical copies or drafts

thereof) and if the original is not available, the best copy available. These terms shall include all information recorded in any written, graphic or other tangible form and shall include, without limiting the generality of the foregoing, all reports; memoranda; books or notebooks; written or recorded statements, interviews, affidavits and depositions; all letters or correspondence; telegrams, cables and telex messages; contracts, leases, insurance policies or other agreements; warnings and caution/hazard notices or labels; mechanical and electronic recordings and all information so stored, or transcripts of such recordings; calendars, appointment books, schedules, agendas and diary entries; notes or memoranda of conversations (telephonic or otherwise), meetings or conferences; legal pleadings and transcripts of legal proceedings; maps, models, charts, diagrams, graphs and other demonstrative materials; financial statements, annual reports, balance sheets and other accounting records; quotations or offers; bulletins, newsletters, pamphlets, brochures and all other similar publications; summaries or compilations of data; deeds, titles, or other instruments of ownership; blueprints and specifications; manuals, guidelines, regulations, procedures, policies and instructional materials of any type; photographs or pictures, film, microfilm and microfiche; videotapes; articles; announcements and notices of any type; surveys, studies, evaluations, tests and all research and development (R&D) materials; newspaper clippings and press releases; time cards, employee schedules or rosters, and other payroll records; cancelled checks, invoices, bills and receipts; and writings of any kind and all other tangible things upon which any handwriting, typing, printing, drawings, representations, graphic matter, magnetic or electrical impulses, or other

forms of communication are recorded or produced, including audio and video recordings, computer stored information (whether or not in printout form), computer-readable media or other electronically maintained or transmitted information, and all other rough drafts, revised drafts (including all handwritten notes or other marks on the same) and copies of documents as hereinbefore defined by whatever means made.

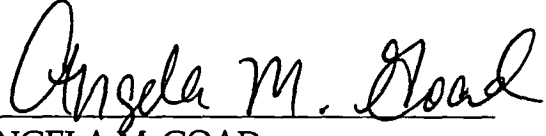
(11) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(12) In the event any document called for has been destroyed or transferred beyond the control of the company, please state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

(13) Please provide written responses, together with any and all exhibits pertaining thereto, in one or more bound volumes, separately indexed and tabbed by each response, in compliance with Kentucky Public Service Commission Regulations.

(14) The Attorney General reserves the right to pose additional preliminary data requests on or before the due date specified in the Commission's procedural schedule.

Respectfully submitted,  
JACK CONWAY  
ATTORNEY GENERAL

A handwritten signature in black ink that reads "Angela M. Goad". The signature is written in a cursive style and is positioned above a horizontal line.

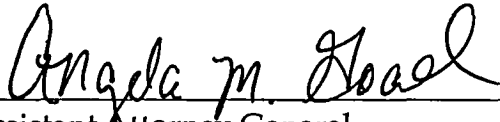
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*Certificate of Service and Filing*

Counsel certifies that an original and ten photocopies of the foregoing were served and filed by hand delivery to Jeff Derouen, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; counsel further states that true and accurate copies of the foregoing were mailed via First Class U.S. Mail, postage pre-paid, to:

Honorable W. Patrick Hauser  
Attorney at Law  
P.O. Box 1900  
Barbourville, KY 40906

this 7<sup>th</sup> day of August, 2014

  
\_\_\_\_\_  
Assistant Attorney General

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1. Please reference the Cumberland Valley ["CVE"] application generally. Please provide all tables and exhibits referenced in or supporting the application and testimony in their native electronic format (i.e. Microsoft Word, Microsoft Excel), with data including formulae in all cells and rows fully intact and fully accessible.
  - a. Please provide all relevant and supporting worksheets in electronic format with data including formulae in all cells and rows fully intact and fully accessible.
2. Please reference the CVE application generally. Please provide the rationale and justification for applying the large bulk of the rate increase upon the customer charge instead of upon the usage charge.
  - a. Does CVE agree that by placing a large percentage of the rate increase upon the customer charge it will prevent its customers from having the ability to reduce their bills through less energy usage?
3. Please reference the Adkins testimony at page 2, R6, where the witness states that: "CVE has filed this rate application because of its deteriorated financial condition. For the last two calendar years, CVE has not met its mortgage requirements by having an Operation times Interest Earned Ratio ("OTIER) less than required. For these two calendar years, 2012 and 2013, CVE has an OTIER of .71. Other reasons for this rate application are the need for improved cash flow, increased equity and for the ability to pay capital credits consistent with its equity management policies." Please provide as much detail to support the assertion that CVE is not meeting its mortgage requirements and that it is in need of improved cash flow, increased equity and ability to pay capital credits. Please also provide the "equity management policies" of CVE.
4. Please reference the Adkins testimony at page 3, R7, where the witness contends that, "CVE started 2013 with very good monthly margins. It did experience some deterioration of its margins in the late summer and early fall of 2013 but still with the expectation that margins for the complete year would still be above its mortgage requirements. However, monthly margins

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for the last quarter of the 2013 were severe losses and completely unexpected.”

- a. Provide any and all reasons and rationale as to why deterioration of the margins occurred in the late summer and early fall of 2013.
  - b. Why did CVE have an expectation that margins for the complete year of 2013 would still be above its mortgage requirements?
  - c. Please explain what caused the severe losses in the last quarter of 2013.
  - d. Please provide a copy of any and all written materials produced or upon which CVE, its staff and/or its rate consultant relied in reference to the review that was conducted early in the second quarter of 2013.
  - e. Please provide a detailed explanation as to why the severe losses in the last quarter of 2013 were completely unexpected.
5. On what did CVE rely in concluding that its financial condition would improve between 2012 and 2013? Please provide any documents, reports, or calculations supporting this conclusion.
6. Please reference the Adkins testimony at pages 3 and 4, R8, where the witness contends that, “The current financial situation at CVE is a very unique one and completely unexpected from a rate application perspective. CVE has experience[d] a decline in its annual interest expense while it continued to increase its debt during the period of 2008-2013... As most are aware, it is readily apparent that this situation will not last forever and that the use of the Times Interest Earned Ratio (“TIER”) as a basis for establishing margins with these very low interest expenses would not be a prudent one. A couple of different approaches have been reviewed and evaluated that are more appropriate in this situation. CVE has chosen an approach based on longer term interest rates that existed during the preparation phase of this application.”



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- a. Please provide the reasoning behind CVE requesting a rate increase even though it appears the interest expense on long term debt has dropped from \$1,097,400 in 2008 to \$354,342 in 2013.
  - b. Please provide all data and information upon which CVE relied in forming the assertion that it is readily apparent that the situation with low interest will not last forever.
  - c. Please provide all data and information upon which CVE relied in forming the opinion that using TIER is not prudent in this case.
  - d. Please explain why the ratepayers should be forced to pay rates based upon a non-actual and higher interest rate than what CVE is currently paying.
  - e. Please provide any and all citations to prior base rate cases in which the rate approved by the Kentucky PSC for a jurisdictional electric cooperative did not employ TIER as a basis for establishing margins. Please explain your answer.
  - f. Please provide any and all citations to base rate cases utilizing a historic test year in which the rate approved by the Kentucky PSC for a jurisdictional electric cooperative were premised upon an assumption that longer term interest rates will be higher than those existing during the preparation of the application. Please explain your answer.
7. Please reference the Adkins testimony at pages 4 and 5, R10, where the witness states that, "CVE is using a different approach to the normalization of interest expense in the determination of its revenue requirements. CVE is using a different approach because its average cost of debt for the test year was 0.88% which is an extremely low rate. This extremely low cost of debt is based on the use of very short term loans and will not last. It is believed that revenue requirements should be developed upon the basis of longer term rates. CVE is proposing to determine the cost of all of its debt at the Federal Financing Bank's ("FFB") seven year rate that existed in mid-April of 2.17%

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even though some of CVEs current debt is fixed at rates somewhat higher than this rate for a longer term.”

- a. Has the proposed different approach to the normalization of interest expense to determine the revenue requirement ever been approved by the Kentucky Public Service Commission?
- b. Please explain in detail why CVE believes it should obtain increased rates based upon a hypothetical increased interest rate that CVE does not currently pay.
- c. Please advise why CVE does not wait until the interest rates are actually raised, and then request the additional monies as a rate increase instead of attempting to guess as to what the interest increase may be in the future.
- d. If CVE currently has an extremely low rate on its cost of debt, then should the ratepayers not benefit from this by paying lower rates?
- e. Per the table presented by witness Adkins on page 5 it appears that the average cost of debt has continued to decrease since 2009. Please provide any and all evidence upon which Mr. Adkins relies for his belief that CVE's average cost of debt will spike to 2.17% within the near future.

<b>Year</b>	<b>Average Cost of Debt.</b>
<b>2009</b>	<b>2.03%</b>
<b>2010</b>	<b>1.62%</b>
<b>2011</b>	<b>1.23%</b>
<b>2012</b>	<b>1.13%</b>
<b>2013</b>	<b>0.88%</b>

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8. Please reference the Adkins testimony at page 5, R11, where the witness states that, "[t]he current TIER measurement for rate-making purposes is a 2.0X basis and results in a margin amount equal to annual interest expense and I do not believe that this is a reasonable amount in this situation. However, if the Commission would accept the interest normalization proposed in this application, the use of a TIER of 2.0X is reasonable. CVE is proposing margins based on a TIER of 2.0X based on its method of normalizing interest for this application."
  - a. Please state exactly why CVE believes that the standard TIER measurement for rate-making purposes of a 2.0X basis is not reasonable.
  - b. If the Commission does not accept the interest normalization proposed in this application then what level of TIER does CVE believe to be acceptable?
9. Please reference the Adkins testimony at page 6, R12, where the witness states that if the traditional approach to the interest expense adjustment were utilized in this case then, "CVE would have requested an increase in revenue that would equate to approximately \$500,000." Please confirm that the witness is testifying that if traditional methods were used to calculate interest expense then CVE would be requesting a revenue increase of \$500,000 instead of the proposed \$1,605,137. If not, please clarify the testimony.
10. Please reference the Adkins testimony at page 9, R20, where the witness agrees that some of the proposed rate increases are solely an increase in the customer charge, and an implementation of a customer charge where none previously existed. Does CVE agree that with the bulk of the proposed rate increases placed on the customer charge, the rate design as recommended by CVE will leave customers unable to mitigate the impact of CVE's proposed increase through means of conservation?

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11. Please reference the Adkins testimony at page 10, R22, where the witness agrees that a significant basis for the amount of rate increase is the longer term interest rate that has been applied to CVE's current debt level at the end of the test year.
  - a. Please confirm that, per the witness' testimony, if the more traditional method of a TIER of 2.0X were used as a basis for margins, the requested increase that is justified would be \$491,631.
  - b. If yes, please explain in full why CVE believes it is entitled to over a \$1.6 million dollar rate increase instead of the \$491,631 that is arrived at via traditional accounting methods.
  - c. If no, please explain in full.
  
12. Please reference Exhibit P, Page 1 of 15 of CVE's Application. Please explain why the cost of the 2013 annual meeting was \$17,523 more than 2012's annual meeting?
  - a. Please explain why the 2009, 2010, and 2012 annual meetings were significantly less in cost than the 2011 and 2013 meetings.
  - b. Please explain why the 2011 and 2013 annual meetings were each over \$40,000, with the annual meeting held in 2013 being the most expensive at \$46,238.
  
13. Please reference Exhibit 11, page 2 of CVE's Application regarding the Annual Meeting Expenses.
  - a. Please confirm that, the total cost of the 2014 annual meeting was \$46,237.73 with only \$600 removed for rate-making purposes.
  - b. Please state why the ratepayers should have to pay for employee shirts that appeared to have cost roughly \$1500.00.

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- c. Please explain why the ratepayers should have to pay \$349.80 for drinks?
  - d. Please advise why the ratepayers should have to pay \$250.00 to the Boy Scouts of America to present the flag at the meeting.
  - e. Please answer why the ratepayers should have to pay \$1228.65 for food, supplies, and a truck rental and an additional \$175.26 charged for food and truck rental?
  - f. Please advise why the ratepayers should be responsible to pay \$26,753.74 for entertainment, bucket and bulbs?
  - g. Please explain why the ratepayers should be responsible to pay \$75.00 for a singer at the annual meeting?
14. Please reference CVE's Exhibit 2, page 1 of the application that refers to payroll adjustment.
- a. Please confirm that all of the union and non-union employees have received continuous pay raises since 2008.
  - b. Please explain why continued pay raises between 2% and 5% have been given since the economic recession that began in December 2007.
  - c. Please advise if CVE has conducted a study to compare CVE's salary, benefits, and raises per employee with the standard salary, benefits, and raises by the workforce in the counties which it services, including but not limited to the following counties: Bell, Harlan, Knox, Laurel, Leslie, Letcher, McCreary, and Whitley county. If so, please provide copies of all such studies.
15. Reference account no. 920.0, Administrative & General Salaries. Explain why salaries in 2013 increased approximately 16.06% above the prior year.

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16. Please reference the Adkins testimony at page 7, R15 where he states that the main reasons for the decrease in energy sales is because of the overall economy and the decline in the demand for Eastern Kentucky coal.
  - a. Since thousands of coal related jobs have been lost in Eastern Kentucky, does CVE believe that its customers have the means to pay the proposed higher electricity prices?
  
17. Provide a copy of the final report provided by the independent third party consultant which conducted the focused management audit which the Commission ordered in Case No. 2005-00187.
  - a. Please identify any and all changes in management practices which CVE may have adopted as a result of the focused management audit.
  
18. Reference CVE's application exhibit K, page 4 of 9, wherein total electric plant for the test year is identified as \$95,868,118, and for calendar year 2012 total electric plant is identified as \$63,417,416.
  - a. Explain the approximately 51.17% increase in total electric plant from the 2012 calendar year to the test year.
  
  - b. Explain the apparent differences in Exhibit N, page 7 of 19, wherein electric plant for 2013 is identified as \$92,575,223, and for 2012 is identified as \$88,137,134.
  
  - c. Please identify all electric plant construction projects, and state whether CVE has received Commission approval for each such project.
  
19. Identify what incentives residential customers will have to conserve energy if CVE's requested rate design, which nearly doubles the monthly charge but leaves the energy charge unchanged, is approved.

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20. Does CVE acknowledge that many, if not most of its residential members would prefer to retain the ability to control the amount of the bill they owe to CVE, and that many are likely to view the company's proposal to place all of the proposed increase on the monthly customer charge as an attempt to eliminate their ability to control the amount of their bill? Cite all studies the company has conducted of its own ratepayer base to support the company's decision to seek the proposed rate design in the instant case.
21. Provide copies of all studies CVE conducted addressing the impact that the proposed rate design will have on the elderly, low income, fixed income and home bound segments of its ratepayer base. Please provide detailed information for each specified group.
22. Does CVE anticipate any changes in any existing contracts as a result of the new rates it seeks to implement in this filing (e.g., engineering, information technology, maintenance, etc.)? If so, please identify each such change.
23. Please state whether any relative, by blood or marriage, of CVE's board of directors or executive management team holds, or will hold any type or sort of position, whether as employee, officer, board member, contractor or consultant, with CVE. If so, please provide the name of the position(s) involved.
24. Does CVE maintain any contracts with vendors whose principals are in any manner related, by blood or marriage, to CVE's officers, members of its Board, its employees, its independent contractors or consultants? If yes:
  - a. Please provide copies of any such contract, and a breakdown of how much money was spent per contract per year for the last ten (10) calendar years; and
  - b. Please state whether the contracts were awarded pursuant to a bid process, and if so, provide specifics of that bid process.

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25. Does CVE have any anti-nepotism policies in place? If so, provide copies of any and all such policies, and/or memoranda referring to such policies.

26. Does CVE employ the relatives of:

- a. Any CVE board member;
- b. Any CVE officer;
- c. Any CVE consultant; and/or
- d. Any other CVE employee?

If so, please provide specific details.

27. Reference Exhibit N, page 16 of 19, wherein it is stated that several of the members of CVE's Board and its president and CEO are on the boards of directors of several organizations. Please provide:

- a. The name and address of each such entity, and the nature of that business; and
- b. The length of time they served on the other entity's board.

28. Please provide a schedule listing all CWIP projects included in the rate base. For each project, provide the scheduled completion date, projected cost at completion, and identify any and all PSC orders allowing CVE to include CWIP in the rate base.

29. State whether CVE intends to seek recovery of any performance bonus expenses for ratemaking purposes, and if so, provide:

- a. A quantification of same;



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- b. An indication of how many union, and non-union employees received a performance bonus; and
  - c. A complete justification for recovering such expense.
30. Reference the CVE application at page 1, paragraph 5(a). As to the statement that CVE's last rate case was filed in 2005, please explain in detail why CVE waited nine (9) years to file a rate case with the Commission.
31. Reference the same paragraph containing the statement that, since the last rate case, "Cumberland Valley has incurred increases in the cost of power, materials, equipment, labor, taxes, and other fixed and variable costs." Please explain over what length of time these costs increased and provide the breakdown of the increases by cost category for each of the years between the date of the last increase approved in 2005 and the end of the historic test period on December 31, 2013.
32. Reference CVE's application at page 2, paragraph 5(b), which contains the following statement: "The financial condition of Cumberland Valley has deteriorated significantly during the test year, and continues on this trend." Please explain this statement and provide all documents supporting this claim as to the historic test year and the year 2014 to date.
33. Reference CVE's application at page 2, paragraph 6. Please provide copies of any and all minutes of the Board of Directors between 2010 and 2014 addressing or discussing "the need for a rate adjustment to maintain the financial stability and integrity of the Cooperative."
34. Please provide copies of any and all documents, agendas, meeting notices, and/or annual reports relating to or distributed at any and all annual meetings of the members of the cooperative between 2010 and 2014, which address or otherwise discuss "the need for a rate adjustment to maintain the financial stability and integrity of the Cooperative."

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35. Please provide copies of any and all documents, correspondence, newsletters, and/or annual reports mailed or provided electronically to the members of the cooperative between 2010 and 2014, which address or otherwise discuss "the need for a rate adjustment to maintain the financial stability and integrity of the Cooperative."
36. Reference Tariff PSC KY No. 4, Sheets Nos. 2 and 7. Please explain the distinction between "Schools and Churches Schedule 1" and "Three Phase Schools and Churches Schedule III".
37. How many school and church customers fall in each of the foregoing customer classes?
38. Reference the Company's "Official Notice" at page 2. Please explain why Schedule 1 schools and churches are estimated to experience a 4.77% increase while Schedule III schools and churches are estimated to experience a 1.63% increase under the company's application. Provide any documentation supporting the distinction or distinguishing factors between these customer classes.
39. Reference the Company's "Official Notice" at page 3, which provides the present and proposed rate structure. Please confirm that CVE is proposing to increase the customer charge for Residential, School, and Church ratepayers by 86.4%.
  - a. Explain in detail CVE's rationale for such an increase.
  - b. As to the same referenced class, confirm that CVE is not proposing to make any change to the volumetric energy rate per kWh.
40. Reference the Company's "Official Notice" at page 3, which provides the present and proposed rate structure. Please confirm that CVE is proposing to increase the customer charge for Small Commercial with no demand ratepayers by 92.3%.

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- a. Explain in detail CVE's rationale for such an increase.
  - b. As to the same referenced class, confirm that CVE is not proposing to make any change to the volumetric energy rate per kWh.
41. Reference the Company's "Official Notice" at page 3, which provides the present and proposed rate structure. Please confirm that CVE is proposing to increase the customer charge for Small Commercial with demand ratepayers by 92.3%.
- a. Explain in detail CVE's rationale for such an increase.
  - b. As to the same referenced class, confirm that CVE is not proposing to make any change to the volumetric energy rate per kWh.
42. Reference the Company's "Official Notice" at page 3, which provides the present and proposed rate structure. Please confirm that CVE is proposing to increase the customer charge for the 3 Phase Schools and Churches ratepayers by 4,000%.
- a. Explain in detail CVE's rationale for such an increase.
  - b. As to the same referenced class, confirm that CVE is not proposing to make any change to the volumetric energy rate per kWh.
43. Reference the Company's "Official Notice" at page 3, which provides the present and proposed rate structure. Please confirm that CVE is proposing to increase the customer charge for Large Power greater than 2500 ratepayers by 5,000%.
- a. Explain in detail CVE's rationale for such an increase.

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- b. As to the same referenced class, confirm that CVE is proposing to change the volumetric energy rate from .05058 per kWh to .05151 per kWh.
  
- 44. Reference the Company's "Official Notice" at page 3, which provides the present and proposed rate structure. Please confirm that CVE is proposing to increase the customer charge for Large Power 50-2500 ratepayers by 4,000%.
  - a. Explain in detail CVE's rationale for such an increase.
  
  - b. As to the same referenced class, confirm that CVE is not proposing to make any change to the volumetric energy rate per kWh, but do propose an increase of the demand rate per kWh.
  
- 45. Please provide an electronic copy of Exhibit G and any and all related workpapers in Excel format with data including formulae in all cells and rows fully intact and fully accessible.
  
- 46. Reference the Adkins testimony at pages 7 and 8, R18-R19. Please confirm that Jim Adkins is the only person responsible for the COSS exhibit, and for the workpapers and data used to generate the COSS
  
- 47. Reference the Adkins testimony at page 11, R23. Explain the Capital Growth Method. Please cite cases in which the Commission has approved such a method of rate structure for other electric cooperatives.
  
- 48. Why did Alan M. Zumstein not provide testimony in the present case since CVE submitted his audited financial statements with the application?
  
- 49. Why did the CVE officers and/or management not file any testimony on behalf of the company in the present rate case?