

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

In the Matter of:

NOV 25 2014

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

PUBLIC SERVICE  
COMMISSION

CASE NO.  
2014-00159

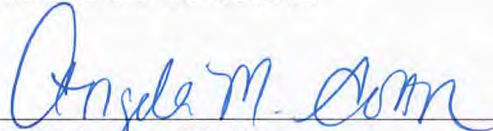
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ATTORNEY GENERAL'S POST-HEARING BRIEF

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Respectfully submitted,

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## ATTORNEY GENERAL'S POST-HEARING BRIEF

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and tenders the following post-hearing brief in the above-styled matter.

### I. STATEMENT OF THE CASE

Cumberland Valley Electric, Inc. ("Cumberland Valley" or the "Company") operates a retail electric distributions system in portions of nine (9) counties in Kentucky.<sup>1</sup> On June 23, 2014, Cumberland Valley filed an application with the Public Service Commission of Kentucky ("the Commission") proposing to adjust and increase its rates by \$1,605,137.<sup>2</sup> The application relies upon a twelve (12) month historical test period ending December 31, 2013, and, per the Company, includes adjustments for known and measurable changes.<sup>3</sup> Cumberland Valley contends that it has filed for a rate increase because it has incurred increases in cost of power, materials, equipment, labor, taxes, and other fixed and variable costs.<sup>4</sup> Further, Cumberland Valley asserts that its financial condition has "deteriorated significantly during the test year, and continues on this trend,"<sup>5</sup> and that for the last two calendar years it has not met its mortgage requirements.<sup>6</sup> The Company states that additional reasons for the rate

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<sup>1</sup> *Application of Cumberland Valley Electric, Inc. for an Adjustment of Rates*, Case No. 2014-00159 (Ky. PSC June 23, 2014) ("hereinafter Application") at p. 1.

<sup>2</sup> *Id.* See Also: Video Transcript of Evidence ("VTE") at 10:12:25 - 10:12:35. (The Attorney General has conformed the VTE time stamps to the Detailed Session Report due to a time discrepancy that exists on the video.)

<sup>3</sup> *Id.*

<sup>4</sup> *Id.*

<sup>5</sup> *Id.* at p. 2.

<sup>6</sup> *Id.*

increase are the need for improved cash flow, increased equity, and for the ability to pay capital credits.<sup>7</sup> Cumberland Valley concludes that the full rate increase is required in order to meet the terms of the mortgage agreement and to maintain its financial stability and integrity.<sup>8</sup>

The Attorney General, by and through his Office of Rate Intervention, sought and was granted intervention by Order of the Commission on July 23, 2014.<sup>9</sup> The Commission held an Informal Conference on October 29, 2014<sup>10</sup>; however settlement was not reached between the parties.<sup>11</sup> The Commission conducted a public hearing on this matter on November 5, 2014.

## **II. ARGUMENT**

The Attorney General recommends a downward adjustment to the requested 1.6 million dollar revenue increase because if the Company's application is accepted as is, then it would result in unjust, unfair, and unreasonable rates due to the following issues:

### **A. Interest Expense Adjustment**

Cumberland Valley proposes to take a traditional approach to the determination of its revenue requirements, yet proposes to utilize a novel and unprecedented method that has yet to be previously approved by the Commission, for normalization of interest

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<sup>7</sup> Direct Testimony of Adkins, p. 2, Response 6.

<sup>8</sup> *Id.*

<sup>9</sup> Case No. 2014-00159, Order (July 23, 2014)

<sup>10</sup> Case No. 2014-00159, Commission Staff's Notice of Informal Conference (Oct 29, 2014)

<sup>11</sup> Case No. 2014-00159, Commission Staff's Informal Conference Memorandum (Nov 3, 2014)

expense.<sup>12</sup> Instead of using the times interest earned ratio (“TIER”) formula for rate-making purposes, which is the current Commission precedent, the Company states that the interest expense should not be based upon the low interest rate that Cumberland Valley currently enjoys, but instead it proposes to force the customers to pay a non-actual higher interest rate with no valid justification.<sup>13</sup>

The Company asserts that the cost of all of its debt should be based upon the Federal Financing Bank’s (hereinafter “FFB”) seven (7) year rate that existed in mid-April 2014 of 2.17 percent, even though roughly 85 percent of its debt currently has a 0.020 percent variable interest rate.<sup>14</sup> It is important to note that Cumberland Valley never explains how or why it chose to use a seven (7) year interest rate instead of utilizing a three (3) year, five (5) year, ten (10) year, or other term interest rate. The Commission would be treading a perilous precedent if it allows the Company to randomly choose any interest rate it wishes and apply it to short and long term debt with no underlying rationale regarding how such a methodology would result in fair, just and reasonable rates.

Although Cumberland Valley currently pays an average of 0.88 percent interest on all of its debt<sup>15</sup>, the Company contends that the customers should be forced to pay 2.17 percent interest on the cost of debt because the “extremely low cost of debt ... will not last.”<sup>16</sup> The Company attempts to justify the higher interest rate by asserting that

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<sup>12</sup> Direct Testimony of Adkins, p. 4, Response 9 and 10.

<sup>13</sup> Direct Testimony of Adkins, pp. 4 and 5, Response 10. *See Also:* VTE at 11:53:00 – 11:53:55.

<sup>14</sup> Cumberland Valley’s Responses to PSC 1-6 and 4-6. *See Also:* VTE at 11:53:55 – 11:54:15.

<sup>15</sup> Direct Testimony of Adkins, pp. 4 and 5, Response 10.

<sup>16</sup> Direct Testimony of Adkins, p. 4, Response 10.

“CVE believes that an increase of \$1.6 [million] is justified because the interest rates are not forecasted to remain at these historical low levels.”<sup>17</sup> Cumberland Valley’s witness Jim Adkins stated that, “[i]t is only common sense that interest rates will rise after setting record lows this year...”<sup>18</sup> This statement has not proven to be accurate based upon the facts set out below, demonstrating what is in fact currently known and measurable.

In mid-April 2014 when Cumberland Valley filed its application it was stated that the current Federal Financing Bank’s seven (7) year loan interest rate was 2.17 percent.<sup>19</sup> The Company did concede that according to the Rural Utilities Service, as of August 12, 2014 the interest rate on a seven (7) year loan had fallen to 2.09 percent.<sup>20</sup> The Attorney General found on August 18, 2014 that the FFB’s seven (7) year loan interest rate had dropped to 1.99 percent,<sup>21</sup> and as of November 25, 2014, the interest rate was 2.03 percent (with a 1.98 seven (7) year FFB Quarterly Rate).<sup>22</sup> Therefore, this disproves the Companies argument that the interest rates will only continue to rise and hence the customers should be forced to pay an imaginary interest rate that does not currently exist on the large majority of the Company’s debt. This evidence does however prove that interest rates are subject to change, either decreasing or increasing,

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<sup>17</sup> Cumberland Valley’s Response to AG 1-11(b).

<sup>18</sup> Cumberland Valley’s Response to AG 2-3(a).

<sup>19</sup> Direct Testimony of Adkins, p. 5, Response 10.

<sup>20</sup> *Id.*

<sup>21</sup> *See*: Question 3 of AG 2-3.

<sup>22</sup> United States Department of Agriculture Rural Development, Rural Utilities Loan Interest Rates, [http://www.rurdev.usda.gov/UEP\\_rates.html](http://www.rurdev.usda.gov/UEP_rates.html). *See Also*: Appendix 1.

and until Cumberland Valley locks in a specific interest rate the customers should not have to pay a higher rate than what the Company currently enjoys.

Cumberland Valley admits that if the Commission complies with the current precedent, which is to use the TIER formula for rate-making purposes and the traditional approach to the interest expense adjustment, then the Company would only be able to justify requesting a \$491,631 revenue increase.<sup>23</sup> Per KRS 278.190(3) the *burden of proof* to show that the increased rate or charge is just and reasonable shall be upon the utility<sup>24</sup> Cumberland Valley has not met its burden to demonstrate that any rate increase over \$491,631, subject to any known and measurable adjustments identified by Commission staff or the Attorney General, is fair, just and reasonable. Rather, the opposite is true; the application of a random and artificial interest rate that will grant the Company well over \$1.1 million is patently unjust, unfair and unreasonable.

Thus, the Attorney General recommends that the Commission continue to use the traditional approach to interest expense, which would result in a downward adjustment to Cumberland Valley's interest expense in the amount of \$1,113,506.

#### **B. Cumberland Valley's Continuous and Systematic Salary and Wage Increases**

Presuming the deteriorating financial condition that the Company asserts, Cumberland Valley should have taken multiple steps to improve its financial profile, yet it neglected to do so. Therefore, Cumberland Valley's management should not be

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<sup>23</sup> Direct Testimony of Adkins, p. 10, Response 22. *See Also:* VTE at 11:51:00 - 11:52:25. *See Also:* VTE at 11:55:00 - 11:55:30.

<sup>24</sup> KRS §278.190(3) (Emphasis Supplied).

rewarded for its own poor oversight. Chiefly, the Company admits that in the midst of one of the most severe economic recessions to affect the United States, it provided regular wage increases for not only its hourly and negotiated labor, but also for its salaried leadership.

The overall economy in the area Cumberland Valley serves is in a severe economic decline due to the loss of Eastern Kentucky coal business and jobs, and in turn it has experienced a decrease in residential and industrial energy sales.<sup>25</sup> Nevertheless, Cumberland Valley continued to provide continuous and systematic pay raises to all salaried and hourly wage employees every single year while the rest of the country, and especially the state of Kentucky were struggling in an economic recession.<sup>26</sup> While many Kentuckians lost their jobs entirely, or if fortunate enough to keep their jobs encountered pay freezes, Cumberland Valley was granting on average 3.5 percent wage increases on an annual basis, but also granted as high as 5 percent raises, to every single employee in the years 2008, 2009, 2010, 2011, 2012, and 2013.<sup>27</sup>

Per the Company's application two merit increases were also granted on top of the wage and salary increases in the test year.<sup>28</sup> Furthermore, it appears from the Board Minutes provided in the Post-Hearing Data Requests that certain employees, including the CEO, have also been awarded additional \$5,000 raises on top of the yearly percentage raises.<sup>29</sup> Cumberland Valley also awarded a 3.5 percent wage increase in

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<sup>25</sup> Direct Testimony of Adkins, p. 7, Response 15.

<sup>26</sup> Application, Exhibit 2 at p. 1.

<sup>27</sup> *Id.* See Also: VTE at 10:12:55 - 10:14:31.

<sup>28</sup> *Id.*

<sup>29</sup> Cumberland Valley's Responses to Post-Hearing Data Request, Question 5, p. 7.

2014 and will provide the same 3.5 percent wage increase in 2015.<sup>30</sup> Thus, between 2008 and 2015, Cumberland has awarded both its salaried and hourly employees a **cumulative 26.5 percent salary increase**, even in the face of a nationwide recession and severe job loss and declining economy in Eastern Kentucky.<sup>31</sup>

When the Attorney General asked Cumberland Valley why it did not cease, or at the very least, limit wage and salary increases in order to improve its financial condition instead of filing a rate increase request for over \$1.6 million dollars, the Company responded :“Cumberland Valley tries to offer competitive wages in order to retain the experienced workforce...”<sup>32</sup> However, the Company admitted that it had never performed a study to compare its salary, benefits, and raises per employee with the standard salary, benefits and raises of the workforce in the counties that it serves.<sup>33</sup> The Attorney General presented exhibits at the public hearing that according to the United States Census Bureau data the average income per capita of Cumberland Valley’s customers is extremely low.<sup>34</sup> For example, Cumberland Valley’s customers in McCreary County only make an average of \$12,213.00 per capita each year, and well

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<sup>30</sup> Cumberland Valley’s Responses to Post-Hearing Data Request, Question 5, p. 2.

<sup>31</sup> Application, Exhibit 2, page 1. *See Also:* Cumberland Valley’s Responses to Post-Hearing Data Request, Question 5, p. 2.

<sup>32</sup> Cumberland Valley’s Response to AG 2-12. *See Also:* VTE at 10:29:15 – 10:30:15.

<sup>33</sup> Cumberland Valley’s Response to AG 1-14(c). *See Also:* VTE at 10:18:15 – 10:18:42. *See Also:* VTE at 10:20:00 – 10:20:35.

<sup>34</sup> AG’s Hearing Exhibits 2-5 (Nov 5, 2014). *See Also:* United States Census Bureau, State & county QuickFacts, <http://quickfacts.census.gov/qfd/states/21/21013.html>, <http://quickfacts.census.gov/qfd/states/21/21095.html>, <http://quickfacts.census.gov/qfd/states/21/21121.html>, <http://quickfacts.census.gov/qfd/states/21/21147.html>. *See Also:* VTE at 10:21:00 – 10:26:00.



over 30 percent fall below the poverty line.<sup>35</sup> In response to this line of cross-examination by the Attorney General, the Company's witness testified that Cumberland Valley does not compare its salaries to those of its customers because, "most of those folks in Eastern Kentucky draw some type of government check..."<sup>36</sup> When comparing Cumberland Valley's average income per year for salaried employees of \$90,000<sup>37</sup> and hourly employees of \$65,000<sup>38</sup> it is apparent that there is a colossal gap between the average incomes of Cumberland Valley's employees versus the ratepayers that they serve.<sup>39</sup>

The Company further tried to argue at the public hearing that their wages were commensurate with other cooperatives across the state based upon a salary survey that had never been produced to the Commission or to the Attorney General for independent review or analysis.<sup>40</sup> Even though the Attorney General requested the entire salary survey to be submitted for review, only redacted portions were submitted as the Company's Post-Hearing Data Response.<sup>41</sup> Unfortunately, the information presented was not sufficiently complete, relevant or presented in a format where comparisons of salaries could feasibly be conducted. Therefore, the Company should not be able to rely on this evidence as proof that its wage increases are reasonable.

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<sup>35</sup> United States Census Bureau, McCreary County QuickFacts.

<http://quickfacts.census.gov/qfd/states/21/21147.html>. *See Also*: VTE at 10:25:32 - 10:26: 54.

<sup>36</sup> VTE at 10:29:40 - 10:29:59.

<sup>37</sup> Application, Exhibit 2 at pp. 4 and 5. *See Also*: VTE at 10:26:30 - 10:28:15.

<sup>38</sup> *Id.*

<sup>39</sup> VTE at 10:28:15 - 10:29:10.

<sup>40</sup> VTE at 10:14:30 - 10:16:07.

<sup>41</sup> Cumberland Valley's Responses to AG-1 Post-Hearing Data Request (Nov 18, 2014).

Also evidencing the Company's lack of justification for the salary increases is the plain fact that, without discussion or justification, every year the Board granted salaried employees the same exact raise as the union employees.<sup>42</sup> For example the President and CEO of Cumberland Valley's salary, based upon raises provided since 2008 has gone from an estimated \$143,000 in 2008 to \$174,047.28 in 2013.<sup>43</sup> Or in other words, by 2013 the CEO had received over \$31,000 in raises alone since the economic recession began in 2008. Moreover, on top of these egregious raises, the CEO stands to have another 3.5% wage increase in both 2014 and 2015 which would result in his salary inflating to an estimated \$186,443.80, which would constitute over \$43,000, or roughly a 30 percent salary increase since 2008.

Further, there seems to be an inherent conflict if the CEO of Cumberland Valley negotiates the raises of the union employees, and is responsible along with the Board of Directors for making the final decision on raises<sup>45</sup> and then turns around and grants himself and the non-union employees identical raises.<sup>46</sup> This process would thus provide no incentive for the CEO to limit raises to the union employees if he and the other non-union employees will enjoy identical benefit. Unfortunately the CEO did not submit testimony, respond to data requests, nor attend the public hearing in order for either Commission staff or the Attorney General to delve into the particulars of the

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<sup>42</sup> Application, Exhibit 2 at p. 1. *See Also:* Cumberland Valley's Response to PSC 3-20. *See Also:* VTE at 11:16:10 – 11:17:10.

<sup>43</sup> Application, Exhibit 2 at p. 1. *See Also:* Cumberland Valley's Responses to Post-Hearing Data Request, Question 5, p. 2.

<sup>45</sup> VTE at 11:06:40 – 11:06:55.

<sup>46</sup> Application, Exhibit 2 at p. 1. *See Also:* Cumberland Valley's Response to PSC 3-20. *See Also:* VTE at 11:16:10 – 11:17:10.

rationale for and implementation of wage increases.<sup>47</sup> Therefore, the Attorney General recommends that the Commission adjust Cumberland Valley's revenue request to reflect more appropriate and justified wages, whether as a lump sum or by specific downward adjustments to the wages of salaried and non-negotiated employee classifications.

Finally, Cumberland Valley admitted during cross-examination that the raises are not rationally connected to a performance review of any kind.<sup>48</sup> Therefore, as a supplement or alternative to a wage adjustment that would lead to fair, just and reasonable rates for the near term, the Attorney General recommends that the Company implement a performance review system where an above standard review would be inextricably connected to any potential raise.<sup>49</sup> Additionally, a salary survey should be conducted to compare Cumberland Valley's salary and wages, 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: Bell, Harlan, Knox, Laurel, Leslie, Letcher, McCreary, and Whitley County.

### **C. Meeting Expense Adjustments**

Cumberland Valley held a 2013 annual meeting that cost roughly \$46,237.73.<sup>50</sup> The Attorney General asked the Company if it was fully aware of its bleak financial condition then why was there not a more conservative budget for the annual meeting. The Company replied matter-of-factly that Cumberland Valley did have a conservative

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<sup>47</sup> VTE at 11:06: - 11:08:00.

<sup>48</sup> VTE at 10:19:15 - 10:19:38.

<sup>49</sup> VTE at 10:19:39 - 10:19:58.

<sup>50</sup> Application, Exhibit 11, at p. 2.

meeting.<sup>51</sup> However, after the Attorney General discussed various areas where the Company could have conserved upon the annual meeting Cumberland Valley's Witness admitted that, "you could always be more conservative, I think you need to do what is reasonable."<sup>52</sup>

The Attorney General recommends adjustments to the annual meeting expense for sums the Company has failed to demonstrate produce a material benefit for ratepayers<sup>53</sup> or that are otherwise unreasonable. Specifically, the Attorney General posits that the following expenses are not reasonably designed to produce a material benefit and for which ratepayers should not be forced to pay: (1) over \$2,000 for food and drinks, (2) \$75 for a singer, (3) \$1,500 for Cumberland Valley employee tee-shirts (which constitute institutional advertising<sup>54</sup>), not required for basic identification purposes, \$250 as an honorarium disguised as fee to the Boy Scouts to present the flag (which should be considered a donation), and \$26,753.74 for entertainment, bucket and bulbs when they do not receive any material benefit from these items.<sup>55</sup> Thus, the Attorney General recommends removing these specified amounts for ratemaking purposes.

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<sup>51</sup> VTE at 10:30:30 – 10:30:50.

<sup>52</sup> VTE at 10:36:35 – 10:36:53.

<sup>53</sup> See 807 KAR 5:016 §3.

<sup>54</sup> Id. at §4(c).

<sup>55</sup> VTE at 10:30:15 – 10:36:45. See Also: Application, Exhibit 11, at p. 2. The Attorney General does not include in this list the \$500 fee to rent the area high school. Although potentially high, the Attorney General believes that the Company could meet its burden proof under 807 KAR 5:016 §5 to demonstrate that \$500 is a reasonable rental fee for a space large enough to accommodate its member ratepayers.

#### D. Customer Charge Increase

The Attorney General finds it extremely problematic that Cumberland Valley proposes to place the bulk of the \$1.6 million dollar rate increase request entirely on the customer charge, as opposed to placing a portion on the volumetric charge.<sup>56</sup>

Since Cumberland Valley is a regulated, public monopoly service provider and its ratepayers are captive customers, rate regulation is intended to be a substitute for competition. This fundamental principle of regulation was designed to stimulate a utility to act as it would if it was in a competitive industry. Increasing Cumberland Valley's customer charge to the extent the company seeks is tantamount to reimbursement ratemaking, and represents a clear departure from generally accepted ratemaking foundations. Competitive entities do not have any such guarantees. Since regulation is supposed to be a substitute for competition, regulated entities should not receive guaranteed recovery of costs if such guarantees are not available in the competitive marketplace.

The regulatory compact under which Cumberland Valley is operating dictates that the utility must provide safe, adequate and reliable service, and in exchange is allowed an opportunity to maintain a reasonable TIER or, when financially sound, earn a return on investment for its members. Conversely, the member ratepayers are required only to pay rates that are fair, just and reasonable and represent the lowest possible cost. Thus, the regulatory compact calls for a *balancing of interests* between a utility and its ratepayers with both benefits and detriments to be shared in an

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<sup>56</sup> Cumberland Valley's Response to AG 1-20 and AG 1-39 - AG 1-45. *See Also:* VTE at 11:52:35 - 11:52:50.

appropriate manner. An imbalance occurs when all of a rate increase is placed on the customer charge because the company virtually eliminates its financial risk while the ratepayer is trapped with a bill over which (s)he has virtually *no control*. Thus, Cumberland Valley's rate design clearly rewards and protects the Company's management by freeing it from risk to the greatest degree possible, but it transfers that risk to the ratepayers.

Stated another way, the Company would be guaranteed its income regardless of whether its management operates in a manner prudent enough to provide safe, adequate and reliable service at the lowest possible cost. Under Cumberland Valley's current regulatory compact, an increase in costs in any one area should stimulate cost cutting elsewhere as the Company strives to attain its above-TIER financial goals. However, this crucial incentive will be abolished if the customer charge is increased to the levels Cumberland Valley seeks.

In practical terms, it is axiomatic that customers dictate how much energy will be used, not the utility. The goal of empowering customers to conserve in order to save is a fundamental principle that the Commission and consumer advocates, like the Attorney General, must address as affordability of utility services is rapidly becoming a major issue - if not *the most important issue* -- for the Commonwealth's utility customers.

Cumberland Valley's attempt to shift its risks to ratepayers in such a trying time in Eastern Kentucky will add insult to injury. Hence, the Attorney General recommends placing any reasonable increase to rates (not to exceed \$491,631) upon the volumetric

charge as opposed to the Company's request to place the large bulk of the increase upon the customer charge.

#### **E. Anti- Nepotism Policy**

The Attorney General contends that Cumberland Valley's anti-nepotism policy should be amended to cease nepotism, or at the minimum the appearance of such, within the company. The Company's Nepotism Policy is as follows:

The board recognizes that the practice of nepotism in the employment of personnel or other favorable considerations by virtue of family relationships is bad practice as there is natural tendency for kinsman to favor kinsman if the opportunity presents itself. The cooperative shall not, in the future, employ any person or persons who are kin either by blood or by marriage to be closer than a second cousin, to any board member, manager, supervisor, or other employee of the cooperative. *Exceptions to this policy can be made by Board Resolution upon recommendation by the CEO.*<sup>57</sup>

There should be no exception to the Nepotism Policy, whereby the Board of Directors can essentially override the letter and spirit of the policy, upon recommendation by the CEO. When the Attorney General asked Cumberland Valley's witness on cross-examination whether he would concede that the exception to the anti-nepotism clause renders the policy ineffective and is counterproductive to the true intent he stated, "that could be taken that way."<sup>58</sup> It provides at the very least the appearance of nepotism that there is a long list of related employees that work for Cumberland Valley. One such instance is that the CEO is related to a Board of Directors Member, Construction

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<sup>57</sup> Cumberland Valley Electric Policy Statement No. 42, Nepotism. (Emphasis Supplied). *See Also:* Cumberland Valley's Response to AG 1-25, p. 2.

<sup>58</sup> VTE at 10:39:00 - 10:39:15.

Superintendent, Assistant Construction Superintendent, and the Bookkeeper.<sup>59</sup> The Attorney General recommends that the Company's Anti - Nepotism Policy be amended to remove the exception language that allows for it to be overridden which deems it essentially ineffective, and furthermore casts doubt upon whether the Company is genuinely committed to having anti-nepotism practices in place.

### III. CONCLUSION

WHEREFORE, based on the factual record, legal analysis and the reasons set forth in this brief, the Attorney General recommends that Cumberland Valley's application for a revenue increase of over \$1.6 million dollars should be denied due to the fact that the Company did not meet the required burden of proof. If the Commission is inclined to grant a rate increase, then it should be limited to what the Company has proven with known and measurable evidence that will result in fair, just, and reasonable rates for the Company's ratepayers.

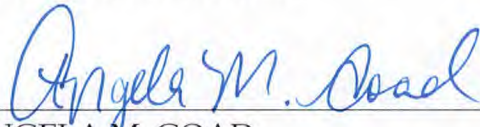
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<sup>59</sup> Cumberland Valley's Response to AG 2-15. *See Also:* Cumberland Valley's Response to AG 1-26.



Respectfully submitted,

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## Utilities

### Rural Utilities Loan Interest Rates

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#### Hardship Loan Rate

On November 1, 1993, the Rural Electrification Loan Restructuring Act, Pub. L. 103-129, 107 Stat. 1356, (RELRA) amended the Rural Electrification Act of 1936, 7 U.S.C. 901 et seq., (RE Act) to establish a new interest rate structure for insured electric loans. Insured electric loans approved on or after this date, are either municipal rate loans or hardship rate loans. Borrowers meeting the criteria set forth in 714.8 are eligible for 5 percent hardship rate loans.

#### Treasury and Federal Financing Bank (FFB) Rates

The following list of interest rates for loans shall not constitute an offer or commitment to make a loan at these rates. The interest rates listed are illustrative only of the rates that would apply to funds advanced on the date identified here as the "Issue Date." These rates change daily.

**Issue Date:11/24/14**

#### 11/21/14 TREASURY YIELD CURVE SEMIANNUAL RATES

3-mo	6-mo	1-yr	2-yr	3-yr	5-yr	7-yr	10-yr	20-yr	30-yr
0.01	0.07	0.14	0.53	0.96	1.63	2.03	2.31	2.75	3.02

#### APPROXIMATE FFB QUARTERLY RATES\*

3-mo	6-mo	1-yr	2-yr	3-yr	5-yr	7-yr	10-yr	20-yr	30-yr
0.01	0.09	0.17	0.57	0.98	1.61	1.98	2.24	2.60	2.71

\*These approximate FFB rates are based upon a common type of RUS loan in which the quarterly loan payments are derived by amortizing over 30 years, but the loan matures with a balloon payment at the maturity indicated in the column heading (for example, 10 years). The column headings are approximate maturity terms, since the loans end on quarterly payment dates.

Treasury rate loans are not available for terms

For information as to available "Call Options" and their associated pricing spreads, please contact the Electric Program directly (Northern Regional, Southern Regional, Power Supply Division).

To obtain the latest Federal Reserve Statistical Release of daily interest rates, you may use this link to go to the Federal Reserve Bank, where that information is available.

#### Municipal Interest Rates for the 4th Quarter of CY 2014

In accordance with 7 CFR 1714.5, the interest rates are established as shown in the following table for all interest rate terms that begin at any time during the first of calendar year 2014.

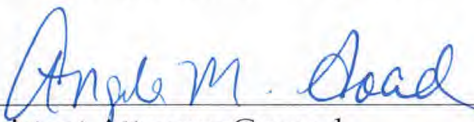
Interest Rate Term Ends in (Year ....)	RUS Rate (0.000 percent)
2015	0.125
2016	0.375
2017	0.625
2018	0.875

*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 25<sup>th</sup> day of November, 2014.

  
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Assistant Attorney General