COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION FOR AN ADJUSTMENT OF RATES	)))	CASE NO. 2012-00023

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION TO TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION

Taylor County Rural Electric Cooperative Corporation ("Taylor County"), pursuant to 807 KAR 5:001, is to file with the Commission the original and ten copies of the following information, with a copy to all parties of record. The information requested herein is due on or before October 4, 2012. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the 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.

Taylor County shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Taylor County fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

1. Refer to Revised Exhibit B filed on August 29, 2012, proposed Tariff Sheet No. 41, Schedule GP – General Purpose Service. Under the Minimum Monthly Charges, confirm that Taylor County intended to replace the $8.15 shown at the beginning of this section with the $10.00 that appears above it.

2. Refer to Revised Exhibit B filed on August 29, 2012, Item 3, proposed Tariff Sheet No. 6, the Service Investigation Charge section. Taylor County is proposing to increase the Service Investigation Charge during regular working hours from $25 to $45. The Service Investigation Charge After Hours charge is currently $35. State whether Taylor County believes the Service Investigation Charge After Hours charge reflects the costs it incurs to provide this service. If no, provide the costs incurred for performing a service investigation after regular working hours or state that the costs are the same as those shown on the After Hours cost justification found on page 2 of Exhibit 15 of the application.

3. Refer to Revised Exhibit B Tariff Sheet No. 31 filed on August 30, 2012, the Termination or Field Collection Charge section. Taylor County is proposing to

increase the Termination or Field Collection Charge during regular working hours from $25 to $35. The Termination or Field Collection Charge After Hours charge is currently $35. State whether Taylor County believes the Termination or Field Collection Charge After Hours charge reflects the costs it incurs for this service. If no, provide the costs incurred for performing a termination or field collection after regular working hours or state that the costs are the same as those shown on the After Hours cost justification found on page 2 of Exhibit 15.

4. Refer to Exhibit C of the application, the page just prior to Tariff Sheet No. 59. This page is titled "CATV Pole Attachments PSC Administrative Case No. 251." State whether this page is current or if it contains outdated information. If it contains outdated information, state whether the page should be updated or deleted from the tariff.

5. Refer to Exhibit H-3 of the application, the Prepared Testimony of James R. Adkins ("Adkins Testimony"), page 4 of 15.

a. Mr. Adkins states that the fuel adjustment clause ("FAC") under-recovery "had its most significant amount during the test year in July 2011 which exceeded $544,000 for that one month." Provide a copy of the FAC filing made with the Commission which shows this under-recovery amount.

b. Reference is made to JRA Exhibit 1, which does not appear to be included in the application. Provide a copy of JRA Exhibit 1 or indicate where it can be found in the filing.

6. Refer to page 13 of 15 of the Adkins Testimony. Just below the middle of the page, Mr. Adkins states that "All ETS customers under contract will see no increase in their ETS rates."

a. State the number of ETS Marketing rate customers that are under contract and the remaining length of the contracts.

b. State the number of ETS Marketing rate customers who are not under contract.

c. State the amount of increase that ETS Marketing rate customers not under contract will receive.

7. Refer to page 14 of 15 of the Adkins Testimony. In response to question 17, Mr. Adkins states that by placing more of its costs into a fixed rate component, Taylor County "will be more prone and incentivized to enter into additional DSM programs." Identify and describe the additional Demand-Side Management ("DSM") programs to which Mr. Adkins is referring.

8. Refer to Exhibit I of the application. The percentage increase per kWh usage appears to be calculated by dividing the Increase Amount by the Proposed Rate rather than the Existing Rate. Provide a corrected Exhibit I showing the increase calculated as a percentage of the Existing Rate.

9. Refer to Exhibit J of the application, page 1 of 8.

a. Refer to Line 11. Confirm that the amount in the Increase Amount column for the Farm and Home class of $847,856 includes the Residential Marketing rate increase of $74, and therefore, should instead be $74 less since the Residential

Marketing rate increase of $74 is shown separately on Line 18. If this cannot be confirmed, explain.

b. Refer to Line 19.

(1) Explain how the amount of ($2,219) that appears in the Proposed Revenue column was calculated.

(2) Confirm that the proposed rates would result in an increase of $1,067,922 (the sum of the amounts in the Increase Amount column after correction for the $74 discussed in part a. to this question and prior to the subtraction of $2,219). If this cannot be confirmed, explain.

c. There are no billings for rate schedules B2, B3, C2, and C3. Confirm that there are no customers on these rate schedules.

10. Provide an electronic copy in spreadsheet format of Exhibits J and R of the application with all formulas intact and unprotected and with all columns and rows accessible. If it is necessary to update either exhibit in response to questions contained in this information request, provide the updated version instead of the original version in both hard copy and electronically.

11. Refer to Exhibit K of the application, page 1, the column titled "Actual Test Year" and the row titled "Total". Have the non-cash patronage dividends of $1,383,363 been included twice in the total amount of $3,910,413? If so, provide a corrected schedule.

12. Refer to Exhibit R of the application, page 5 of 53. Confirm that the third column on this page, the Amount column, represents the amount of payroll expense allocated to the expense accounts listed. If this cannot be confirmed, explain.

13. Refer to Exhibit R of the application, page 6 of 53. Explain why expense accounts 582 – Station Expense, and 591 – Maintenance of Station Equipment, are directly assigned to Lines rather than to Stations.

14. Refer to Exhibit R of the application, page 18 of 53. Explain the difference between the Total Investment for Acct. 365, Conductors, shown on this page as $7,840,221 and the total of $15,062,263 shown on page 11 of 53.

15. Refer to Exhibit R, page 19 of 53 of the application, the table at the bottom of the page.

a. For the first column, confirm that Acct. 365 should be shown on the first row and Acct. 364 on the second row. If this cannot be confirmed, explain why the percentage amounts for each account differ from those shown on pages 17 and 18 of 53.

b. Explain why the amounts in the second column, the Total Investment column, for each account do not reconcile with the investment amounts shown on pages 17-18 or page 11, lines 4 and 5?

16. Refer to Exhibit R of the application, page 21 of 53. Explain the difference between the Total Cost for Acct. 368, Transformers, shown on this page as $10,973,212 and the total of $12,850,077 shown on page 11 of 53, line 7.

17. Refer to Exhibit R of the application, page 27 of 53. The Transformers Demand Related and Consumer Related Margin Requirements are shown as $121,112 and $80,927, respectively. Explain why these amounts differ from the Transformer Demand Related and Consumer Related Margin Requirements of $125,479 and $55,773, respectively, shown on page 15 of 53.

18. Refer to Exhibit R of the application, page 30.

a. Explain how the Demand Related Purchased Power amount of $7,850,075 was allocated to the rate classes.

b. Explain how the Energy Related Purchased Power amount of $24,498,163 was allocated to the rate classes.

19. Refer to Exhibit R of the application, pages 30-36. Explain why, with the exception of Purchased Power Demand Related costs, none of the amounts on pages 30-34 reconcile with the amounts on the Summary of Allocation of Expenses on pages 35 and 36.

20. Refer to Exhibit R of the application, pages 35-36, the table at the bottom of the page. Explain why the amounts in the last row, Revenue Requirements, sum to $43,362,224 (after including the Lighting row of $142,462) rather than the amount shown in the Total column of $43,369,134.

21. Refer to Exhibit R of the application, pages 37-38 of 53.

a. Refer to page 37. For rate classes Farm and Home, General Power 1, Street Lighting, and Residential ETS, explain how the Demand Related billing units were calculated.

b. Pages 37 and 38 show that, for rate classes General Power 2, Large Industrial B1, and Large Industrial C1, the cost of service study supports a smaller customer charge and larger demand charge than currently approved. Explain to what extent Taylor County considered proposing a reduction to the customer charges and increase to the demand charges for these classes.

c. Refer to page 38. Explain the purpose of the $214,511 that appears in the middle of the page.

22. Refer to Exhibit R of the application, page 45. Explain why there is no allocation to rate classes B1, C1, and C3.

23. Refer to Exhibit R of the application, page 46. Explain why there is no allocation to rate classes B1, C1, and C3.

24. Refer to Exhibit R of the application, page 47. Explain the difference in customer number for the Street Lights rate class on this table and the tables on pages 43-46.

25. Refer to Exhibit R of the application, page 48.

a. The metering and substation charges appear to be omitted from this schedule. Explain why they are not included.

b. Provide a detailed breakdown of the $1,090,334 amount of Other Revenue.

c. Explain how the total was allocated to the rate classes.

26. Refer to Exhibit S of the application, page 4 of the application, which shows the amount of the proposed increase based on attaining a TIER of 2.0X.

a. Describe the methodology employed by Taylor County in determining that 2.0X was the appropriate TIER on which to base its requested rate increase.

b. Is Taylor County aware of any studies performed by the Rural Utilities Service ("RUS") or the National Rural Utilities Cooperative Finance Corporation

("CFC") on the subject of the appropriate TIER level for an electric distributive cooperative? If yes, identify the studies and when they were performed.

27. Refer to Exhibit W of the application, which provides a comparison of balance sheet account levels for the test period and the 12 months immediately preceding the test period.

a. Page 2 of 8 shows that Account 136.00, Temporary Cash Investment decreased by $2,121,771, from $6,443,085 to $4,321,314, from 2010 to the 2011 test period. Provide a detailed explanation for why this account decreased by this magnitude.

b. Page 2 of 8 shows that Account 144.1, Accum Prov for Uncoll Cons A/C increased by $133,598 from ($162,472) to ($296,070), from 2010 to the 2011 test period. Provide a detailed explanation for why this account increased by this magnitude.

c. Page 3 of 8 shows that Account 165.1, Prepayments - Insurance increased by $268,377 from $25,589 to $293,966, from 2010 to the 2011 test period. Provide a detailed explanation for why this account increased by this magnitude.

d. Page 3 of 8 shows that Account 182.1, Extraordinary Property Losses decreased by $182,451 from $618,293 to $435,842 from 2010 to the 2011 test period. Provide a detailed explanation for why this account decreased by this magnitude.

e. Page 4 of 8 shows that Account 219.2, Nonoperating Margins decreased by $1,196,590 from ($4,793,994) to ($3,597,404) from 2010 to the 2011 test period. Provide a detailed explanation for why this account decreased by this magnitude.

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 immediately preceding the test period.

a. Page 1 of 5 shows that Account 419, Interest and Dividend Income increased by $79,587 from ($63,053) to ($142,641) from 2010 to the 2011 test period. Provide a detailed explanation for why this account increased by this magnitude.

b. Page 2 of 5 shows that Account 427.2, Long Term Interest-LBC increased by $375,751 from $460,221 to $835,971 from 2010 to the 2011 test period. Provide a detailed explanation for why this account increased by this magnitude.

c. Page 2 of 5 shows that Account 427.3, Interest on FFB Loan increased by $251,968 from $0 to $251,968 from 2010 to the 2011 test period. Provide a detailed explanation for why this account increased by this magnitude

d. Page 2 of 5 shows that Account 442.3, Industrial Sales decreased by $641,517 from ($2,865,162) to ($2,223,644) from 2010 to the 2011 test period. Provide a detailed explanation for why this account decreased by this magnitude.

e. Refer to page 2 of 5. Provide a detailed breakdown of account 456, Other Electric Revenue for the test year ended November 30, 2011.

f. Refer to page 3 of 5. Provide a detailed breakdown of account 555.1, Purchased Power Soloma Sub. State whether this account represents purchases of power from East Kentucky Power Cooperative, Inc. ("East Kentucky") which is sold to Tennessee Gas Pipeline ("TGP"). If no, explain what this account represents.

g. Page 3 of 5 shows that Account 586, Meter Expense increased by $72,582 from $386,389 to $458,971 from 2010 to the 2011 test period. Provide a detailed explanation for why this account increased by this magnitude.

h. Page 3 of 5 shows that Account 593, Maint of Overhead Lines increased by $91,980 from $1,487,394 to $1,579,375 from 2010 to the 2011 test period. Provide a detailed explanation for why this account increased by this magnitude.

i. Page 4 of 5 shows that Account 902, Meter Reading Expense decreased by $34,841 from $126,949 to $92,109 from 2010 to the 2011 test period. Provide a detailed explanation for why this account decreased by this magnitude.

j. Page 4 of 5 shows that Account 903, Cons Records & Collection Exp increased by $42,174 from $769,313 to $811,487 from 2010 to the 2011 test period. Provide a detailed explanation for why this account increased by this magnitude.

k. Page 4 of 5 shows that Account 904, Uncollectible Accounts increased by $12,778 from $219,174 to $231,952 from 2010 to the 2011 test period. Provide a detailed explanation for why this account increased by this magnitude.

l. Page 4 of 5 shows that Account 926, Employees' Pension & Benefits decreased by $23,344 from $77,563 to $54,220 from 2010 to the 2011 test period. Provide a detailed explanation for why this account decreased by this magnitude.

m. Page 5 of 5 shows that Account 930.1, Director's Fees & Mileage increased by $11,717 from $159,974 to $171,691 from 2010 to the 2011 test period. Provide a detailed explanation for why this account increased by this magnitude.

29. Refer to Exhibit 1 of the application. On pages 3 and 4 the column titled "Wage Rate" indicates that the wages included in the column were in effect as of January 1, 2011. On pages 6 and 7 the wage rate is indicated to be as of December 1, 2011. Explain which date is the correct effective date of the wage rates used in Exhibit 1.

30. Refer to Exhibit 3 of the application.

a. On Page 1 Taylor County states that its depreciation rates and procedures follow RUS Bulletin 183-1. In Exhibit 21, page 3 of the Scope section, the rates indicated for Accounts 362, 366, 367, 369, 370, 371 and 373 are outside of the rate ranges published in RUS Bulletin 183-1. Explain fully this discrepancy and why the rates being proposed by Taylor County are appropriate.

b. Has Taylor County sought formal approval from RUS for depreciation rates that are outside the RUS ranges? If so, provide documentation of RUS approval of those rates. If not, does Taylor County plan to do so and when?

c. How long have Taylor County's current depreciation rates been in effect?

d. Page 2 shows Account 371, Security Lights with a balance of $70,361 and does not show Account 373, Street Lighting as of the end of the test year. Page 5 shows Account 371, Security Lights with a balance of $1,634,097 and Account

373, Street Lighting with a balance of $70,361 as of the end of the test year. Explain this discrepancy and provide corrected schedules as necessary.

e. Refer to page 6. Expand this schedule by providing a detailed analysis for Distribution Plant in the same format as that provided for General Plant.

f. On page 6 the total accumulated depreciation is shown as $18,735,173. Confirm this amount is correct and should not be $18,828,023.

g. Refer to Exhibit 3, page 4 of 6, and Exhibit 21, the Service Life and Net Salvage Study ("depreciation study"). The depreciation study indicates that, except for its automated metering infrastructure ("AMI") meters, Taylor County uses a 3.0 percent depreciation rate for all distribution plant accounts, which make up nearly 95 percent of its total utility plant. Given that it uses a single rate for a large portion of its distribution plant and no previous depreciation study performed, explain why, as shown on page 4 of 6 of Exhibit 3, Taylor County's reserve ratio has steadily increased such that it nearly doubled from 1996 (12.62 percent) to 2011 (23.59 percent).

h. The amount of the proposed depreciation expense adjustment, $458,113, represents a 22 percent increase above the test year depreciation expense amount. In Case No. 2011-00096, noting its provisions regarding gradual changes to depreciation, the Commission cited RUS Bulletin 183-1 in limiting South Kentucky Rural Electric Cooperative Corporation ("South Kentucky") to a seven percent increase in its depreciation expense rather than the 12 percent increase that had been proposed.

(1) Explain whether Taylor County was aware of the decision in Case No. 2011-00096 prior to filing its application.

(2) If the answer to part h.1. of this request is affirmative, explain what consideration Taylor County gave to the ruling in Case No. 2011-00096 in deciding to request an increase in depreciation expense of 22 percent.

31. Refer to Exhibit 4 of the application.

a. Provide a detailed analysis of Other Taxes in the amount of $42,849.

b. Provide a comparative schedule of property tax expense for each year of the period 2007 through 2011.

32. Refer to Exhibit 5 of the application.

a. Provide an update of the current interest rates for outstanding long term debt as of the most recent date available and continue to update monthly until the date of the hearing in this proceeding.

b. On pages 2 and 3, in the section labeled "RUS loans", there is a line indicated as "Advance payment" reducing the total debt outstanding for RUS loans. Explain this amount and the impact on annual interest expense.

c. On page 4, lines 25 through 27 refer to a payment made by Big Sandy to East Kentucky. Explain this statement.

33. Refer to Exhibit 6 of the application.

a. Provide a narrative description of each section of the actuarial valuation study describing the process involved and how the amounts reported in the study are determined.

b. The cover letter included a journal entry to adjust accumulated other comprehensive income at December 31, 2011 in the amount of $1,099,060. Did Taylor County record the entry suggested?

c. Page 1, line 17, shows the test year accrual for Statement of Financial Accounting Standards 106 costs. In the same format shown as of January 1, 2012, on pages 2-8 of Exhibit 6, provide the actuarial variance results as of January 1, 2011 that resulted in the 2011 accrual of $222,900.

d. Refer to the fourth page of Exhibit 6, which has the heading, Exhibit 2.

(1) $110,892 is the amount of the "Amortization of net loss" on line 3 under "Other changes in plan assets and benefit obligations recognized in other comprehensive income."

(i) Provide the amount of the net loss being amortized.

(ii) Identify the period over which the loss was incurred and the period over which it is being amortized.

(2) On line 4 under the same heading, $1,099,060 is shown as the "Adjustment for current net loss." Provide a general description of how the loss was derived along with the source documents which show its derivation.

e. Refer to the fifth page of Exhibit 6, specifically, the top portion of the page which has the heading "FAS 106 Expense Components."

(1) Explain the derivation of the amounts shown for the service cost, interest cost, and the amortization of actuarial loss.

(2) Provide the amount of the loss being amortized.

(3) Identify the period over which the loss was incurred and the period over which it is being amortized.

f. Explain how the "Expected pay-as-you-go expense of $375,537 was derived.

g. Refer to the bottom portion of the fifth page of Exhibit 6. Explain why the annual amounts shown for estimated payments are expected to decline approximately 40 percent between 2012 and 2015.

34. Refer to Exhibit 8 of the application.

a. Provide documentation to support the approximate 5 percent increase in medical insurance premiums.

b. Page 2 shows a proposed expense for single participants of $106,933. Provide the calculation that results in this amount.

35. Refer to Exhibit 9 of the application.

a. On pages 4 through 11 payments to various directors are referenced as "VOUCHER COMM". Provide an explanation of these references.

b. Page 4 shows that Mr. Bardin received per diem payments with a reference of "VOUCHER COMM". Pages 6, 7, 8, 9, and 10 show that Messers Kessler, Shuffett, Depp, Minor and Rucker received other board meeting payments also with a reference of "VOUCHER COMM". Should Mr. Bardin's payments have been listed as other board meeting payments, or should the other directors payments have been listed as per diem, and therefore removed for ratemaking purposes?

c. Explain the reference of "FRESH LOOK CONF" that appears on page 4 for Mr. Bardin.

d. For Messers. Kessler, Shuffett, Depp and Minor, the detailed analysis of their expenses (pages 6 through 9) does not agree with the amounts shown for each on page 3 which is a summary of director's expenses.

36. Refer to Exhibit 10 of the application.

a. Page 3 shows payments to Robert Spragens, Jr. in the amounts of $2,389.02 and $3,570.42. Fully explain the nature of these expenditures and why Taylor County considers this to be a normal recurring expense.

b. Page 3 shows a payment to Robert Spragens, Jr. in the amount of $345.00 for Electric Coop Bar Assoc. dues. Fully explain the nature of this expenditure and why Taylor County considers this to be a normal recurring expense.

c. Page 3 shows three payments to Frost, Brown, Todd PLLC for employee issues. Fully explain the nature of these expenditures and why Taylor County considers this to be a normal recurring expense.

d. Page 3 shows a payment to Frost, Brown, Todd PLLC for union contract negotiations. Fully explain the services performed and why Taylor County considers this to be a normal recurring expense.

e. Page 3 shows payments to Patterson & Dewar Engineering totaling $17,309.33. Fully explain the nature of these expenditures, and why Taylor County considers this to be a normal recurring expense. Does Taylor County have a formal agreement with Patterson & Dewar Engineering to provide services?

37. Refer to Exhibit 11 of the application.

a. Page 3 shows payments to Gurnsey & Associates totaling $5,874.78 for "EKCP Strategic Review Shared Cost". Fully explain the nature of this expenditure and why Taylor County considers this to be a normal recurring expense.

b. Page 4 shows a payment to National Rural Electric in the amount of $795.00 for "2011CEO Close-Up Conf". Fully explain the nature of this expenditure and why Taylor County considers this to be a normal recurring expense.

c. Page 4 shows a payment to Visa in the amount of $3,730.00 for "2011CEO Close-Up Conf". Fully explain the nature of this expenditure and why Taylor County considers this to be a normal recurring expense.

d. Page 4 shows three payments to Visa in the amounts of $3,180.30, $421.89 and $394.14 for "CEO Conference Expense". Fully explain the nature of these expenditures and why Taylor County considers them to be a normal recurring expense.

e. Page 4 shows three payments to Visa in the amounts of $3,735.62, $1,748.28 and $6,417.95 for "Board Hotel Director Conf". Fully explain the nature of these expenditures and why Taylor County considers them to be normal recurring expense.

f. Page 4 shows a payment to Visa in the amount of $1,589.50 for "Board Air Fare Director Conf". Fully explain the nature of this expenditure and why Taylor County considers this to be a normal recurring expense.

g. Page 4 shows a payment to Visa in the amount of $421.89 for "CEO Conference Exp". Fully explain the nature of this expenditure and why Taylor County considers this to be a normal recurring expense.

h. Page 4 shows a payment to Visa in the amount of $1,095.45 for "Hotel, Meals, NRECA Director Conf". Fully explain the nature of this expenditure and why Taylor County considers this to be a normal recurring expense.

i. Page 4 shows a payment to SRW Environmental in the amount of $1,982.00 for "Site Assessment". Fully explain the nature of this expenditure and why Taylor County considers this to be a normal recurring expense.

j. Page 5 shows a payment to Dom Liability Ins in the amount of $11,745.00. Fully explain the nature of this expenditure and why Taylor County considers this to be a normal recurring expense.

k. Page 6 shows a payment to KAEC in the amount of $300.00. Fully explain the nature of this expenditure and why Taylor County considers this to be a normal recurring expense.

38. Refer to Exhibit 12 of the application where Taylor County estimates the expenses associated with this rate case. On a monthly basis, beginning with the first month in which it incurred any rate case expense, provide the amount of Taylor County's actual rate case expenses, by category, as was done in the estimate. Consider this an ongoing request which is to be updated monthly.

39. Refer to Exhibit 13 of the application where the cost of the depreciation study is indicated to be an estimate. If known provide the actual cost of the depreciation study. If not known at this time, provide an estimate of when the actual cost will be available.

40. Refer to Exhibit 15, page 3 of 6 of the application. This page shows that there were 31 occurrences of After Hours charges during the test period. Provide a

breakdown of the 31 occurrences as to whether they pertained to Reconnect, Service Investigation, or Termination/Field Collection charges.

41. Refer to Exhibit 16 of the application.

a. Refer to page 2 of 3. Explain why no metering or substation charges are shown for December 2010.

b. Refer to page 3 of 3.

(1) Regarding the fuel columns, this schedule appears to compare the FAC portion of the power bill received from East Kentucky with the amount of FAC revenues received from customers without taking into account the over or under recovery amounts that occur each month and without taking into account the lag between billing and collecting the FAC. Provide a schedule for the period January 2009 through January 2012 which removes the lag and takes into account the under and over recovery amounts each month (i.e., this schedule should compare the recoverable FAC revenue/(refund), which is represented by Line 10 on the monthly FAC filing, with the amount of FAC revenue actually collected/(refunded), which is represented by Line 11 on the monthly FAC filing, and show the resultant over or under recovery each month, which is represented by Line 12 on the monthly filing).

(2) The bottom of the page states that "the Environmental Surcharge has a built in over/under recovery mechanism." Confirm your understanding that the FAC has an over/under-recovery mechanism that is applied each month and is calculated using lines 10, 11, and 12 on the FAC form. Explain in detail how any amount of over or under-recovery would not be captured through this monthly calculation.

(3) The bottom of the page states that "The month that East Kentucky rolled the fuel into the base rates during June 2011, which Taylor recognized in July 2011, resulted [sic] a large credit to customers. Taylor County did not recognize this credit from East Kentucky, which resulted in a deficit for Taylor County." Explain in detail what is meant by "Taylor County did not recognize this credit from East Kentucky."

42. Refer to Exhibit 21 of the application.

a. Explain fully why Taylor County has never had a depreciation study performed prior to the filing of this case.

b. Under the section titled Scope, the study indicates that starting in 2010 and through 2012, Taylor County will replace its existing meters with AMI equipment.

(1) Taylor County included the installation of an automated meter reading system ("AMR") as part of its 2006 – 2009 construction work plan which the Commission approved in case 2006-00286.[1] Explain the reference to the AMI project noted above given that Taylor County had already replaced its meters with an AMR system.

(2) In case 2008-00376,[2] the Commission approved Taylor County's request to establish a regulatory asset to record the net meter write-off of the

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[1] Case No. 2006-00286, Application of Taylor County Rural Electric Cooperative Corporation for Certificate of Public Convenience and Necessity (Ky. PSC Oct. 5, 2006)

[2] Case No. 2008-00376, Filing of Taylor County Rural Electric Cooperative Corporation Requesting Approval of Deferred Plan for Retiring Meters (Ky. PSC Dec. 9, 2008)

replaced meters by AMI meters, and amortize the amount of the regulatory asset over 5 years. Provide the amount of the regulatory asset that Taylor County established.

(3) It appears that the amount of annual amortization expense is approximately $59,000 dollars less than the amount indicated in case 2008-00376. Explain why amortization expense is lower than initially estimated.

(4) Provide the date that Taylor County began amortizing the regulatory asset for the net meter write-off, and the date that amortization will be completed.

(5) Provide the unamortized balance of the regulatory asset net meter write-off as of the end of the test year, and as of February 28, 2012.

43. Refer to Taylor County's response to Commission Staff's First Request for Information ("Staff's First Request"), Item 21.

a. On page 2, the distribution of benefits shows a total of $959,873, while the total benefits shows a total amount of $1,558,447. Explain this discrepancy.

b. Page 3 indicates that the average benefit cost is $21,815. Explain why using this amount multiplied by 52 employees does not result in an amount that agrees with one of the amounts indicated in 17.a.

44. Refer to Taylor County's response to Staff's First Request, Item 49.

a. Are the DSM programs listed offered in conjunction with identical programs offered by East Kentucky?

b. Does Taylor County have plans to increase its DSM offerings in the future independent of East Kentucky's DSM programs?

c. Describe the level of customer interest in the DSM programs noted in Taylor County's response. Provide the number of customers that are actually participating or have indicated a desire to participate.

45. Refer to Exhibit P of the application. Explain why the cost of the annual meeting for 2012 increased significantly over 2011. Provide a summary schedule of annual meeting costs by major categories of expense for the years 2008 through 2012. The schedule should indicate total expenses incurred and the amounts removed for rate-making purposes.

46. In Case No. 2010-00511[3], the Commission approved new rates for Taylor County for service on and after June 1, 2011.

a. Provide the number of billing cycles employed by Taylor County in June 2011 and the start and end dates for each cycle.

b. Explain in detail how Taylor County prorated customer bills when the new rates went into effect for service on and after June 1, 2011.

47. Provide a copy of the purchased power bills for each month of the test year as well as for the last month preceding the start of the test year and the first month following the end of the test year.

48. Provide a copy of the monthly bills that were issued to TGP for the period of the test year.

49. Refer to Exhibit 21 of the application, which contains Taylor County's depreciation study.

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[3] Case No. 2010-00511, An Examination of the Application of the Fuel Adjustment Clause of Taylor County Rural Electric Cooperative Corporation from November 1, 2008 through October 31, 2010 (Ky. PSC May 31, 2011)

a. Refer to the section titled Scope, second paragraph on page 1.

(1) Mr. Adkins states that the study used the technique of creating Simulated Plant Records ("SPR") on the vintage basis. Using SPRs, Mr. Adkins assigned Iowa Type Survivor Curves to determine the average service life for each distribution asset account group. He also created SPRs in the depreciation studies he recently prepared for South Kentucky in Case No. 2011-00096[4] and Blue Grass Energy Cooperative Corporation ("Blue Grass") in Case No. 2008-00011[5] and for Clark Energy Cooperative, Inc. ("Clark Energy") in Case No. 2009-00314.[6] The average service lives assigned to each distribution asset account group of South Kentucky, Blue Grass, and Clark Energy are shown in Table 1.

Also listed in Table 1 are the estimated average service lives assigned to the electric distribution assets of investor owned utilities ("IOU's") Kentucky Utilities Company, Louisville Gas and Electric Company, and Duke Energy Kentucky, Inc. in depreciation studies submitted to the Commission in Case Nos. 2007-00565,[7] 2007-

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[4] Case No. 2011-00096, The Application of South Kentucky Rural Electric Cooperative for an Adjustment in its Electric Rates (Ky. PSC May 11, 2012). *See* Application, Exhibit 20, Service Life and Net Salvage Study, Scope, Pages 1 and 2, Paragraphs 3, 4 and 5.

[5] Case No. 2008-00011, The Application of Blue Grass Energy Cooperative Corporation for an Adjustment in its Electric Rates (Ky. PSC Aug. 28, 2008). *See* Application, Exhibit 3, Service Life and Net Salvage Study, Scope, First Page, Paragraphs 2 and 3.

[6] Case No. 2009-00314, Application of Clark Energy Cooperative, Inc. for an Adjustment of Rates (Ky. PSC Apr. 16, 2010). *See* Application, Exhibit 3, Service Life and Salvage Study and Recommended Depreciation Accrual Rates, Scope, First Page, Paragraphs 2 and 3.

[7] Case No. 2007-00565, Application of Kentucky Utilities Company to File a Depreciation Study (Ky. PSC Feb. 5, 2009).

00564,[8] and 2006-00172,[9] respectively. Each study was prepared by John Spanos of Gannet Flemming. In these studies, Mr. Spanos used the retirement rate method to assign survivor curves to each plant account group. The retirement rate method includes a combination of actual plant retirement data and statistically aged plant data.[10]

For comparative purposes, the lives assigned by the four rural electric cooperative corporations ("RECC's") to each asset account group were averaged and shown in Table 1, along with the averaged lives assigned by the three IOU's. The averaged lives assigned to RECC distribution assets are significantly shorter than those assigned by IOU's. Discuss the reasons that Mr. Adkins' application of the SPR method results in such a significantly shorter life for the majority of distribution plant account groups when compared to Mr. Spanos' life assignments using the Retirement Rate Method.

(2) Explain how the absence of actual plant retirement data by vintage may result in the assignment of shorter lives by the RECC's than the lives assigned by the IOU's who have this retirement data.

(3) Explain how the judgment required when developing the Iowa Type Survivor Curve analysis impacts the lives assigned to each asset group, and

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[8] Case No. 2007-00564, Application of Louisville Gas and Electric Company to file Depreciation Study (Ky. PSC Feb. 5, 2009).

[9] Case No. 2006-00172, An Adjustment of the Electric Rates of the Union Light, Heat and Power Company D/B/A Duke Energy Kentucky, Inc. (Ky. PSC Dec. 21, 2006).

[10] Case No. 2007-00565, Application, Part 1, Direct Testimony of John Spanos, Depreciation Study, Part II, Page II-10; Case No. 2007-00564, Application, Part 1, Direct Testimony of John Spanos, Depreciation Study, Part II, Page II-10; and Application of Duke Energy, Volume 8, Depreciation Study filed to satisfy 807 KAR 5:001, Section 10(9)(s), Part II, Page II-10.

how the physical make-up of the RECC's distribution plant is different than that of the IOU's resulting in shorter average service lives.

(4) Identify and describe the factors that cause equipment of RECC's, to have a shorter economic life than similar equipment of IOU's.

Table1

	Average Life Based on Survivor Curve Analysis								
	Rural Electric Cooperative Corp. (RECC)				Investor Owned Utilities (IOU)				
								Average	
Distribution Plant	Taylor County 2012-00023	South Kentucky 2011-00096	Blue Grass Energy 2008-00011	Clark Energy 2009-00314	Kentucky Utilities 2007-00565	Louisville Gas & Electric 2007-00564	Duke Energy 2006-00172	RECC	IOU
Station Equipment	15	10	24		52	55	45	16	51
Poles, Towers and Fixtures	34.3	32	39	31	48	50	44	34	47
Overhead Conductors and Devices	46	29	29	22	48	45	44	32	46
Underground Conduit	42.1	45		36	55	70	65	41	63
Underground Conductors and Devices	24.1	23	22	25	44	50	60	24	51
Line Transformers	33.6	45	38	33	40	45	42.5	37	43
Service (Pole to House)	29.4	28	22	47	43	45	51.5	32	47
Meters	15	24	22	12	40	30	28	18	33
Meters, AMR									
Installations on Customers' Premises	18.2	24	31	17	20		25	23	23
Street Lighting & Signal Systems	17	15	23	14	33	32.5	30	17	32

b. Refer to the section titled Scope, third paragraph on page 2.

(1) Describe how the SPR method is used to analyze data to fit the data to the "best curve."

(2) Is the SPR method used in Exhibit 21 recognized by the Society of Depreciation Professionals as an acceptable method?

c. Refer to the section titled Scope, the second full paragraph on page 2. It states that, "[t]he most likely retirement patterns and average service lives were developed based on the SPR analysis." State specifically how the retirement patterns and average service lives were developed using the SPR analysis. Include in the response, discussion of the degree of professional judgment required when developing the retirement patterns and average service lives.

d. Refer to the section titled Scope, the second full paragraph on page 2. It states that the SPR analysis was "analyzed for appropriateness and a curve and service life were selected for each account."

(1) State specifically the type of analysis performed. Include in the response, discussion of the degree of professional judgment required in this analysis.

(2) State what is meant by appropriateness. Include in the response, discussion of the degree of professional judgment required when determining the appropriateness.

(3) State specifically how a curve and service life was selected for each asset account group. Include in the response, discussion of the degree of professional judgment required when making these selections.

e. Refer to the section titled Scope, the third full paragraph on page 2. Taylor County states that net salvage was allocated to the primary account on a percentage basis. Provide the calculation of the allocations and explain why the allocations are appropriate.

f. Refer to the section titled Scope, the first line of the last paragraph on page 2. This line reads, "When utilizing the whole life method . . . ." Is this accurate or is this sentence actually referring to the remaining life method?

g. The third full paragraph on the second page of the "SCOPE" section of the depreciation study indicates that the percentages for net salvage were based on a review of Taylor County's salvage and cost of removal accounts for a five-year period. Explain why a five-year period was chosen as opposed to a shorter or longer period.

h. The fourth full paragraph on the second page of the "SCOPE" section of the depreciation study discusses the development of a calculated depreciation reserve for each plant account. Clarify whether the steps described in the last sentence of the paragraph produce a reserve for each plant account as a portion of (1) the total actual per books depreciation reserve as of the date of the study or (2) a "theoretical" reserve based on the SPR method and resulting simulated retirements.

i. Refer to the chart that compares the current, proposed and RUS low and high depreciation rates at the bottom of the third page of the "SCOPE" section of the depreciation study. Aside from the AMI meters, which have been discussed, there are four accounts, 362 – station equipment, 367 – underground conductors and devices, 371 – installations on consumer premises, and 373 – street lights, for which the proposed rate is significantly above the high end of the RUS range of depreciation rates. For each of these four accounts, provide a general description of the factors that have resulted in the level of the proposed depreciation rates.

50. Provide a detailed explanation why there are such strong similarities between the Taylor County and South Kentucky depreciation studies.

51. Refer to the Exhibit 20, Scope, third page, second paragraph. Mr. Adkins states, "[s]tarting in 2010 and through 2012, Taylor County is changing its existing meters with new Advanced Metering Infrastructure ("AMI")."

a. Explain when the meter replacement was completed from the older mechanical existing to the new AMI meters.

b. Provide any documents to show the current status of Taylor County metering systems.

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DATED SEP 20 2012

cc: Parties of Record

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