

**Goss
Samford**

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PUBLIC SERVICE
COMMISSION

David S. Samford
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April 10, 2017

VIA HAND DELIVERY

Ms. Talina R. Mathews, Ph.D.
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40602

Re: Application of Farmers Rural Electric Cooperative Corporation
Corporation for an Adjustment of Rates; Case No. 2016-00365

Dear Dr. Mathews:

Please find enclosed for filing in the above-referenced matter the original and ten copies of the responses of Farmers Rural Electric Cooperative Corporation to the Commission Staff's Post-Hearing Request for Information, dated March 31, 2017. Please return a file-stamped copy of this filing to my office. Should you have any questions, or need additional information, please let me know.

Sincerely,



David S. Samford

Enclosures

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of Adjustment of Rates
of Farmers Rural Electric Cooperative
Corporation

Case No. 2016-00365

APPLICANT'S RESPONSES TO
COMMISSION STAFF'S POST-HEARING REQUEST FOR INFORMATION

The applicant, Farmers Rural Electric Cooperative Corporation, makes the following responses to the "Commission Staff's Post-Hearing Request for Information", as follows:

1. The witnesses who are prepared to answer questions concerning each request are William Prather, Jennie Phelps, James Adkins, Richard Macke and Lance Schafer.
2. William T. Prather, President & CEO of Farmers Rural Electric Cooperative Corporation is the person supervising the preparation of the responses on behalf of the applicant.
3. The responses and exhibits are attached hereto and incorporated by reference herein.



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*Counsel for Farmers Rural
Electric Cooperative Corporation*

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of Adjustment of Rates
of Farmers Rural Electric Cooperative
Corporation

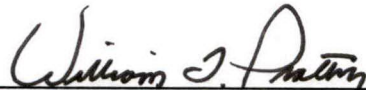
Case No. 2016-00365

AFFIDAVIT

The undersigned, William T. Prather, as President & CEO of Farmers Rural Electric Cooperative Corporation, being duly sworn, states that the responses herein are true and accurate to the best of his knowledge and belief formed after reasonable inquiry.

Dated: April 10, 2017

FARMERS RURAL ELECTRIC COOPERATIVE



WILLIAM T. PRATHER, PRESIDENT & CEO

Subscribed, sworn to, and acknowledged before me by William T. Prather, as President & CEO for Farmers Rural Electric Cooperative Corporation on behalf of said Corporation this 10th day of April, 2017.



Notary Public, Kentucky State At Large

ID: 446566

My Commission Expires: 07-30-2019

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of Adjustment of Rates
of Farmers Rural Electric Cooperative
Corporation

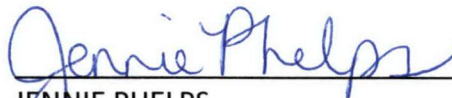
Case No. 2016-00365

AFFIDAVIT

The undersigned, Jennie Phelps, Vice President, Finance & Accounting of Farmers Rural Electric Cooperative Corporation, being duly sworn, states that the responses herein are true and accurate to the best of her knowledge and belief formed after reasonable inquiry.

Dated: April 10, 2017

FARMERS RURAL ELECTRIC COOPERATIVE



JENNIE PHELPS

Subscribed, sworn to, and acknowledged before me by Jennie Phelps, Vice President, Finance & Accounting of Farmers Rural Electric Cooperative Corporation on behalf of said Corporation this 10th day of April, 2017.



Notary Public, Kentucky State At Large

ID: 446566

My Commission Expires: 07-30-2019

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of Adjustment of Rates
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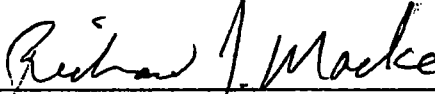
Case No. 2016-00365

AFFIDAVIT

The undersigned, Richard J. Macke, Vice President, Economics, Rates & Business Planning for Power System Engineering, Inc., being duly sworn, states that the responses herein are true and accurate to the best of his knowledge and belief formed after reasonable inquiry.

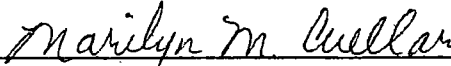
Dated: April 10, 2017

POWER SYSTEM ENGINEERING, INC.



RICHARD J. MACKE

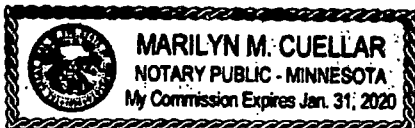
Subscribed, sworn to, and acknowledged before me by Richard J. Macke, Vice President, Economics, Rates & Business Planning for Power System Engineering, Inc. on behalf of said Corporation this 10th day of April, 2017.



Notary Public, State of Minnesota, Isanti County

ID: _____

My Commission Expires: 1/31/20



COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of Adjustment of Rates
of Farmers Rural Electric Cooperative
Corporation

Case No. 2016-00365

AFFIDAVIT

The undersigned, Lance C. Schafer, a Rate and Financial Analyst for Power System Engineering, Inc., being duly sworn, states that the responses herein are true and accurate to the best of his knowledge and belief formed after reasonable inquiry.

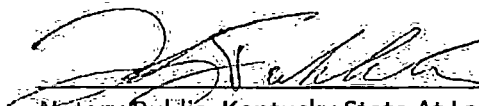
Dated: April 6, 2017

POWER SYSTEM ENGINEERING, INC



LANCE C. SCHAFER

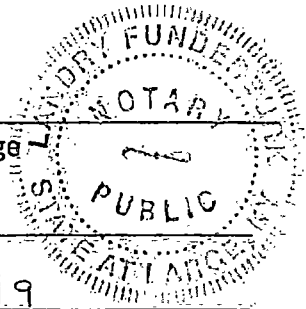
Subscribed, sworn to, and acknowledged before me by Lance C. Schafer, a Rate and Financial Analyst for Power System Engineering, Inc. on behalf of said Corporation this 6th day of April, 2017.



Notary Public, Kentucky State At Large

ID: 541185

My Commission Expires: 08/31/19



Farmers Rural Electric Cooperative Corporation
Case No. 2016-00365
Commission Staff's Post-Hearing Request for Information

Request 1.

Refer to page 42 of 74 of the Application, Exhibit F, Schedule G, Adjustment for Rate Case Expense, and Farmers' Supplemental Data Request, Item 34.c., regarding rate case expenses.

- A. Provide an update to Farmers' rate case expenses by category (legal, consulting, advertising, etc).
- B. Provide the amount that Farmers proposes to include in its test-year revenue requirement based on a three-year amortization periods.

Response 1.

- A. An updated schedule of Farmers' rate case expenses by category is attached to this response.
- B. Farmers is only seeking recovery of its original rate case budget which totaled \$143,620. Therefore, the amount that Farmers proposes to include in its test-year revenue requirements, based on a three-year amortization period, is \$47,873.

Farmers Rural Electric Cooperative Corp.
Case No. 2016-000365
Account 928.00 - Regulatory Commission Expense
Summary Breakdown

	Total
Legal	\$ 45,309.63
Consulting - James Adkins	12,900.70
Consulting - PSE (Labor)	76,508.35
Consulting - PSE (Expenses)	3,356.07
Advertising	17,949.06
Supplies & Miscellaneous	<u>1,917.18</u>
 TOTAL	 \$ 157,940.99

Farmers Rural Electric Cooperative Corporation
Case No. 2016-00365
Commission Staff's Post-Hearing Request for Information

Request 2.

Refer to the Response to Staff's Third Request, Items 1 and 2. Also refer to the confidential summary spreadsheet that lists dental benefits costs from 2011 through 2016. Provide the decrease in dental insurance expense incurred by Farmers if employees with single coverage had contributed 21 percent to their premium cost in the test year.

Response 2.

For the test year of 2015, Farmers' employees on single dental plans were subject to deductibles of \$25.00. The cost breakdown for single dental coverage were as follows:

	Farmers <u>Expense:</u>	Employee <u>Premiums:</u>	Deductibles <u>Subject To:</u>	% Paid <u>By EEs:</u>
SINGLE	\$ 7,250	\$ 0	\$ 675	9.31%

For the test year of 2015, to allocate 21 percent of the total cost for single dental coverage, Farmers would have incurred \$701 less in dental expense.

The new allocation would be as follows:

	Farmers <u>Expense:</u>	Employee <u>Premiums:</u>	Deductibles <u>Subject To:</u>	% Paid <u>By EEs:</u>
SINGLE	\$ 6,549	\$ 701	\$ 675	21.01%

Farmers Rural Electric Cooperative Corporation
Case No. 2016-00365
Commission Staff's Post-Hearing Request for Information

Request 3.

Refer to the response to Staff's Fourth Request, Item 3.b. Provide the impact that the increases in employees' 2016 deductible had on the health insurance cost and allocations between Farmers' and their employees.

Response 3.

For the financial year of 2016, Farmers' employees were subject to deductibles of \$1,500 for single plans and \$3,000 for family plans. Cost breakdowns were as follows:

	<u>Farmers Expense:</u>	<u>Employee Premiums:</u>	<u>Deductibles Subject To:</u>	<u>% Paid By EEs:</u>
FAMILY	\$ 767,087	\$ 82,397	\$ 144,000	29.51%
SINGLE	\$ 83,417	\$ 0	\$ 21,000	25.17%
TOTAL	\$ 850,504	\$ 82,397	\$ 165,000	

For the financial year of 2016, to allocate 32 percent of the total cost for family coverage, Farmers would have incurred \$14,450 less in medical expense. The single coverage would see no changes as the employee paid 25 percent of the total cost.

The new allocation would be as follows:

	<u>Farmers Expense:</u>	<u>Employee Premiums:</u>	<u>Deductibles Subject To:</u>	<u>% Paid By EEs:</u>
FAMILY	\$ 752,637	\$ 96,847	\$ 144,000	32.00%
SINGLE	\$ 83,417	\$ 0	\$ 21,000	25.17%
TOTAL	\$ 836,054	\$ 96,847	\$ 165,000	

Farmers Rural Electric Cooperative Corporation
Case No. 2016-00365
Commission Staff's Post-Hearing Request for Information

Request 4.

Refer to the response to Staff's Second Request, Item 4.

- A. For the accounts listed below which are either above or below the Rural Utility Service ("RUS") guidelines, provide the impact on Farmers' depreciation expense if the depreciation rate of assets in each of the accounts are brought within the range of rates for the RUS guidelines. For those rates that are greater than RUS guidelines, rates should be decreased to the maximum of the RUS range. For those rates that are less than the RUS guidelines, rates should be increased to the minimum of the RUS range.
1. Account 365 Overhead Conductors and Devices
 2. Account 367 Underground Conductors and Devices
 3. Account 368 Transformers
 4. Account 371 Installations on Customer Premises
 5. Account 373 Street Lighting
- B. Provide the procedures and any authority for Farmers' statement at the hearing that any changes to the current depreciation rates must be approved by RUS.

Response 4.

- A. Please see page 4 of this response for the details on the change in the depreciation adjustment based on using the prescribed rates above which is a decrease in the depreciation adjustment of \$98,779.
- B. Depreciation accounting is a subject included within the Uniforms System of Accounts ("USoA") applicable to borrowers of the Rural Utilities Service ("RUS") as set forth in 7 C.F.R. Chapter XVII. RUS is an agency of the United States Department of Agriculture's Rural Development Program ("RD"). Broadly speaking, the relevant regulations require RUS borrowers to develop and implement "a method of depreciation that allocates in a systematic and rational manner the service value of depreciable property over the service life of the property." 7 C.F.R. § 1767.15(v). In RUS Bulletin 183-1, specific elements and considerations that should go into an RUS borrower's depreciation accounting were spelled out in significantly greater detail. See RUS Bulletin 183-1 (Oct. 28, 1977). Of note, RUS Bulletin 183-1 grants authority for RUS borrowers to deviate from the Bulletin's general depreciation requirements when ordered to do so by a state regulatory authority:

Witness: James Adkins and William T. Prather

Farmers Rural Electric Cooperative Corporation
Case No. 2016-00365
Commission Staff's Post-Hearing Request for Information

Response 4 (continued).

...[N]o deviations are to be made from these depreciation procedures and prescribed rates without specific approval of [RUS] except where other rates or procedures are required by a regulatory agency having jurisdiction over the borrower. Borrowers under commission jurisdiction should inform REA of depreciation rates prescribed by the commission.

Id., p. 1.

However, subsequent to the issuance of Bulletin 183-1, RUS prescribed rules which must be followed whenever a departure from the guidelines in the regulation are contemplated. In 7 C.F.R. § 1767.13(a) it states, "[n]o departures are to be made to the prescribed Rural Development USoA without the prior written approval of Rural Development." The regulation goes on to prohibit any RUS borrower from filing with a state regulatory agency any: (1) request to depart from the establish USoA requirements; or (2) information or documents "based upon accounting methods and principles inconsistent with the provisions of this part." 7 C.F.R. § 1767.13(b). Moreover, if a state regulatory agency prescribes an accounting method or principle that is inconsistent with the USoA, the RUS borrower has a legal duty to "immediately notify [RUS] and provide such documents, information and reports as RUS may request to evaluate the impact that such accounting methods or principles may have on the interests of RUS." 7 C.F.R. § 1767.13(c). RUS may either approve the changes or require the borrower to maintain separate books. See 7 C.F.R. § 1767.13(c)(1) – (2). The regulation indicates that RUS should try to render a decision within ninety (90) days, however, it is not required to do so and the RUS borrower may not implement the departure from the USoA until receiving definitive approval from RUS. See 7 C.F.R. 1767.13(f).

Witness: James Adkins and William T. Prather

Farmers Rural Electric Cooperative Corporation
Case No. 2016-00365
Commission Staff's Post-Hearing Request for Information

Response 4 (continued).

Based upon the foregoing, Farmers believes that the regulations set forth in 7 C.F.R. Part 1767 are likely to prevail over the language of RUS Bulletin 183-1 to the extent that any inconsistencies may arise between them regarding the method for implementing alternative depreciation rates. As stated at the hearing, Farmers' existing depreciation rates have been verified to be wholly consistent with Bulletin 183-1 and have resulted in a composite depreciation rate that aligns with the optimal depreciation curve (see pages 5 and 6 of this response). There is no evidence in the record to support a departure from Farmers' existing composite depreciation rate and any requirement to do so would be arbitrary and result in a depreciation curve that tends to understate Farmers' true depreciation expense when viewed as a whole. If the Commission were to Order Farmers to change its depreciation rates, Farmers would be obligated to secure approval for such a change from the RUS and could potentially be required to maintain two sets of accounting records.

Farmers is willing to undertake a depreciation study prior to submitting its next application for an increase in base rates, however, it does not believe that incurring the cost of such a study is necessary in light of the non-volatile nature of its historic depreciation expense and its continuing adherence to the existing RUS accounting guidance on the subject.

Schedule E
Adjustment to Depreciation Expense

A. Depreciation on Existing Plant Using Depreciation Rates as of December 2015

Acct. No.	Description	Acct Balance as of 12/31/2015 (a)	Fully Depreciated Items ¹ (b)	Deprec Rate as of Dec 2015 ² (c)	Normalized Depreciat [(a) * (c)] (d)	Test-Year Depreciat (e)	Pro-Forma Adjust [(d) - (e)] (f)	Revised Depreciation		
								RUS Bulletin 183-1 Depreciat	Revised Normalized Depreciat Expense	Revised Pro Forma Adjust
								Upper Limit/Lower Limit		
1. Intangible Plant										
303	Misc. Intangible Plant	3,625								
	Subtotal	3,625								
2. Other Production Plant										
342	Fuel Holders, Producers/ACC	40,846		3.24%	1,323	1,323	0		1,323	0
344	Generators	1,032,397		3.24%	33,450	33,029	421		33,450	421
345	Accessory Electric Equipment	197,673		3.24%	6,405	6,405	(0)		6,405	(0)
	Subtotal	1,270,916			41,178	40,757	421		41,178	421
3. Distribution Plant										
362	Station Equipment ³	16,235	16,235	3.24%	-	-	-			
362.01	SCADA/Load Management	41,356		20.00%	8,271	8,272	(1)		8,271	(1)
364	Poles, Towers & Fixtures	25,005,047		3.24%	810,164	793,965	16,199		810,164	16,199
365	O/H Conductors & Devices	19,581,962		3.24%	634,456	618,152	16,304	2.80%	548,295	(69,857)
367	U/G Conduct. & Devices	1,654,669		3.24%	53,611	52,784	827	2.90%	47,985	(4,799)
368	Line Transformers	15,187,042		3.24%	492,060	481,424	10,636	3.10%	470,798	(10,626)
369	Services	7,787,963		3.24%	252,330	249,061	3,269		252,330	3,269
370	Meters-Traditional	118,333		6.67%	7,889	3,897	3,992		7,889	3,992
370.01	AMR-TWAC-Meters	4,024,563		6.67%	268,304	128,889	139,415		268,304	139,415
370.02	AMR-TWAC-Receiver/Equip.	637,137		6.67%	42,476	20,946	21,530		42,476	21,530
370.03	AMR-TWAC-Transformers	254,924		6.67%	16,995	8,260	8,735		16,995	8,735
370.04	AMR-TWAC-Computer	38,278		6.67%	2,552	-	2,552		2,552	2,552
370.05	AMR-TWAC-Control links	11,379		6.67%	759	298	461		759	461
371	Install/Cust. Premis	1,998,521		3.24%	64,752	63,846	906	3.90%	77,942	14,096
373	St. Light & Sign. Sys.	2,850		3.24%	92	93	(0)	3.80%	108	15
373.1	Street Lighting/City Of Glasgo	78,809		3.24%	2,553	2567	(14)	3.80%	2,995	428
373.2	Street Lighting/City--Cave City	65,761		3.24%	2,131	2142	(11)	3.80%	2,499	357
373.3	Street Lighting/Metcalf Cour	6,722		3.24%	218	219	(1)	3.80%	255	36
373.4	Street Lighting/City Of Munf\	4,792		3.24%	155	156	(1)	3.80%	182	26
373.5	Street Lighting/City Of Edmon	14,691		3.24%	476	479	(3)	3.80%	558	80
373.7	Street Lighting/Barren County	19,041		3.24%	617	620	(3)	3.80%	724	103
	Subtotal	76,550,075			2,660,860	2,436,070	224,790		2,562,081	126,011
4. General Plant										
389	Land And Land Rights	992,775			-	-	0		-	
390	Structures & Imprvemts	2,202,525	297,675	2.50%	47,621	48,180	(559)		47,621	(559)
391	Office Furniture & Equipment	827,359	278,725	20.00%	109,727	121,594	(11,867)		109,727	(11,867)
392	Transportation Equipment	3,428,981	1,038,298	14.00%	334,696	308,192	26,504		334,696	26,504
394	Tools,Shop,Garage Equipmen	67,682	36,397	20.00%	6,257	8,693	(2,436)		6,257	(2,436)
395	Laboratory Equipment	83,351	37,142	8.00%	3,697	3,490	207		3,697	207
396	Power Operated Equipment	131,149	58,636	12.00%	8,702	8,811	(109)		8,702	(109)
397	Communications Equipment	783,960	5,435	9.00%	70,067	67,382	2,685		70,067	2,685
398	Miscellaneous Equipment	177,056	51,054	7.00%	8,820	9,270	(450)		8,820	(450)
399	Temp Service/Cons Prem	6,509		7.00%	456				456	456
	Subtotal	8,701,345	1,803,362		590,042	575,612	14,430		590,042	14,430
Grand Total		86,525,960			3,292,080	3,052,439	239,641		3,193,301	140,862

Impact on Depreciation Adjustment (98,779)

Response 1
Page 5 of 6
Witness: W Prather

Year	Distribution Plant	Avg Annual Compound Dist Plt Growth (Present/10 years ago)		Depreciation Reserve	Reserve Ratio (Depreciation/Distr. Plant)
2005	\$ 49,117,159				
2015	\$ 77,820,990	1.58	4.71%	2015 \$ 21,563,202	27.7%
2006	\$ 52,970,146				
2016	\$ 81,112,273	1.53	4.35%	2016 \$ 22,371,802	27.6%

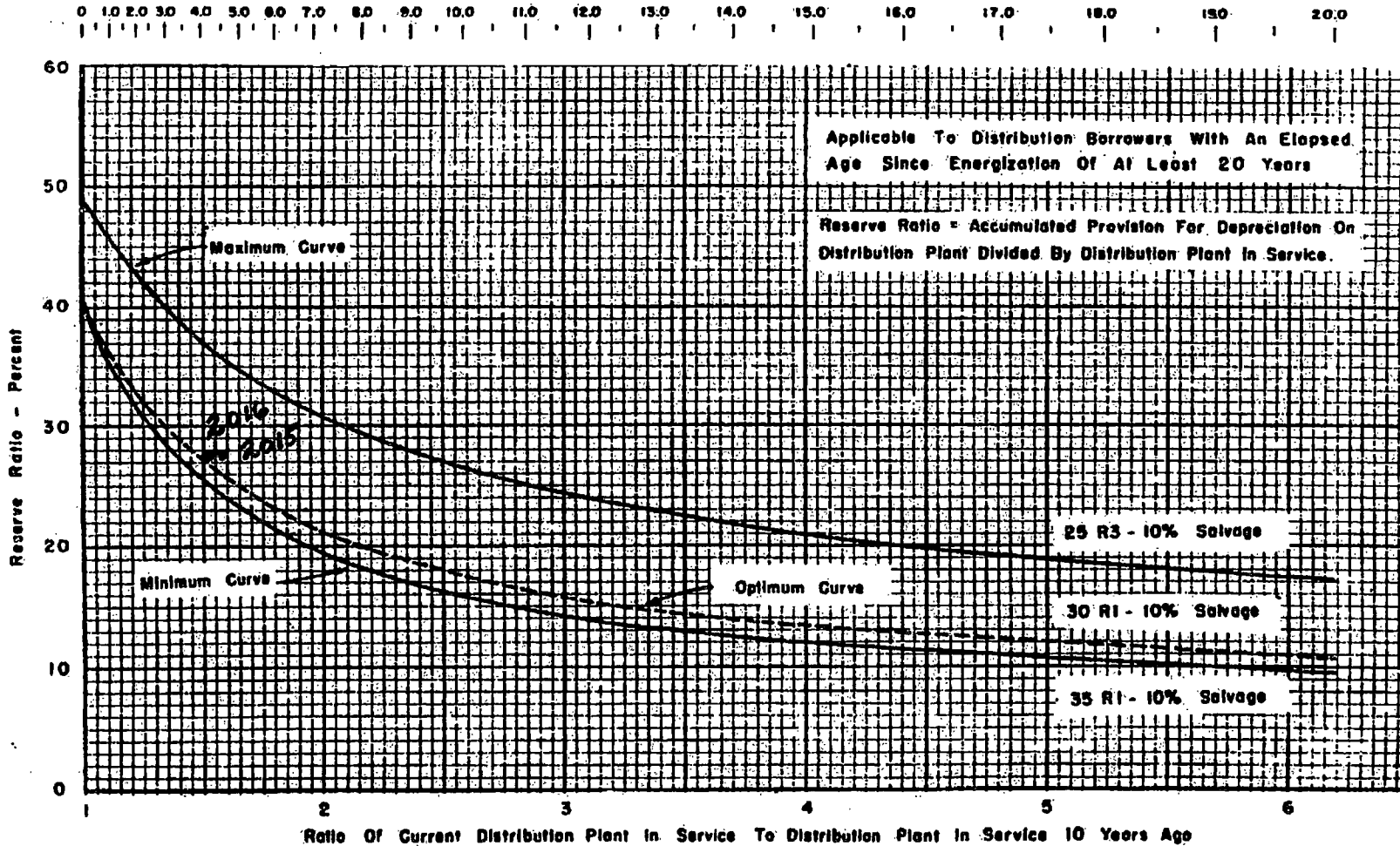
Response 4
Page 6 of 6
Witness: W Prather

Bulletin 183-1

Page 7

DEPRECIATION GUIDELINE CURVES

Average Annual Compounded Rate Of Growth Of Distribution Plant In Service (Percent) For At Least The Last 10 Years



Farmers Rural Electric Cooperative Corporation
Case No. 2016-00365
Commission Staff's Post-Hearing Request for Information

Request 5.

Refer to the response to Staff's Fourth Request, Item 4.b. Provide Farmers' annualized cost of debt based upon rates currently in effect.

Response 5.

Farmers' annualized cost of debt based upon rates currently in effect is reflected in the Fourth Data Response, Page 5 of 5. The total is \$1,730,638.

Farmers Rural Electric Cooperative Corporation
Case No. 2016-00365
Commission Staff's Post-Hearing Request for Information

Request 6.

Provide the itemized cost-saving measures by program and year that generated Farmers \$1.4 million in annual savings. Include cumulative individual program cost savings since inception.

Response 6.

The itemized cost-saving measures is attached to this exhibit.

Cost Saving Initiatives Implemented
Estimated Savings for 2016 and Since Inception of Each Initiative

	Savings Estimated for 2016	Cummulative Savings Estimate	Cost Savings Impact Capitalized (Balance Sheet) Or Expense (Operations Statement)	Notes
Reduction in Full Time Equivalent Employees / Productivity Improvement	\$ 352,444	\$ 565,146	Both - mainly to Operations Statement	Calculation based on reduction in number of employees during the period of 2011-2016
Higher level deductibles for medical insurance	\$ 154,000	\$ 887,390	Both - mainly to Operations Statement	Calculation based on raising deductibles over the period since last rate case (2009)
Improvement in SAIDI/CAIDI Reliability	\$ 47,099	\$ 248,380	Operations Statement	Calculation based on reliability improvements since 2011 - Labor and transportation costs.
Establishment of decentralized service personnel and material stock	\$ 7,500	\$ 22,500	Operations Statement	Calculation based on improvements since 2014 and 2015 - reduction in transportation costs
Installed new phone system/automated phone payments/outage reporting	\$ 53,625	\$ 294,565	Operations Statement	Calculation based on <u>avoidance of additional</u> labor costs to better handle outage calls, inquiries, payments since 2011. <i>This was a separate cost saving initiative and is not included in "FTE/ Productivity" initiative.</i>
Utilization of Cooperative Response Center for Dispatching/Customer Service during and after regular hours for 24x7x365 service to members	\$ 162,425	\$ 957,264	Operations Statement	Calculation based on <u>avoidance</u> of employing three <u>additional employees</u> (two for dispatch; one for customer service), since 2011, in order to provide 24x7x365 dispatching, and to provide expanded hours of payment acceptance, answer member inquiries, etc. <i>This was a separate cost saving initiative and is not included in "FTE/ Productivity" initiative.</i>
Refurbishment/conversion of transformers returned from the field to avoid purchase of new units.	\$ 183,575	\$ 1,063,020	Balance Sheet	Calculation based on the difference in cost of new replacement units versus the complete repair and refurbishment of existing units. Process has been in place since 2012.
Adoption of Defined Contribution Pension Plan	\$ 36,651	\$ 72,368	Both - mainly to Operations Statement	Calculation based on reduction in the cost of funding for new hires after January 1, 2012 through 2016.
Participation in Prepayment Option to Defined Benefit Retirement Plan	\$ 23,825	\$ 89,349	Both - mainly to Operations Statement	Calculation based on average annual savings due to reduced future funding requirements since 2013.
Pre pay Residential Service Plan - Reduction in delinquencies/writeoffs/etc.	\$ 81,777	\$ 216,893	Operations Statement	Calculation based on savings due to the reduction in mailed late notices; accounts written off due to non-payment; etc. - for the years of 2013-2016.
Refinanced RUS Long-Term Debt	\$ 26,256	\$ 115,051	Operations Statement	Calculation of annual savings due to separate financings in 2010 and 2012, as approved by the Commission.
Utilization of low FFB variable rates in debt portfolio	\$ 297,211	\$ 870,936	Operations Statement	Calculation based on fixed and variable rates in effect during periods of 2012-2016.
Utilization of CCA treatment poles - cheaper initial purchase/longer life	\$ 32,890	\$ 64,352	Balance Sheet	Calculation based on price quotes/purchase price in 2015 and 2016. No estimation made for longer life benefit.
Joined KREC medical plan	\$ 12,879	\$ 12,879	Both - mainly to Operations Statement	Calculation as submitted in current case and adjustment to test year period. Joined KREC on January 1, 2016.
Totals	\$ 1,472,157	\$ 5,480,093		

Farmers Rural Electric Cooperative Corporation
Case No. 2016-00365
Commission Staff's Post-Hearing Request for Information

Request 7.

Provide any studies or other information of the impact of increased customer or fixed charges on low-income customers.

Response 7.

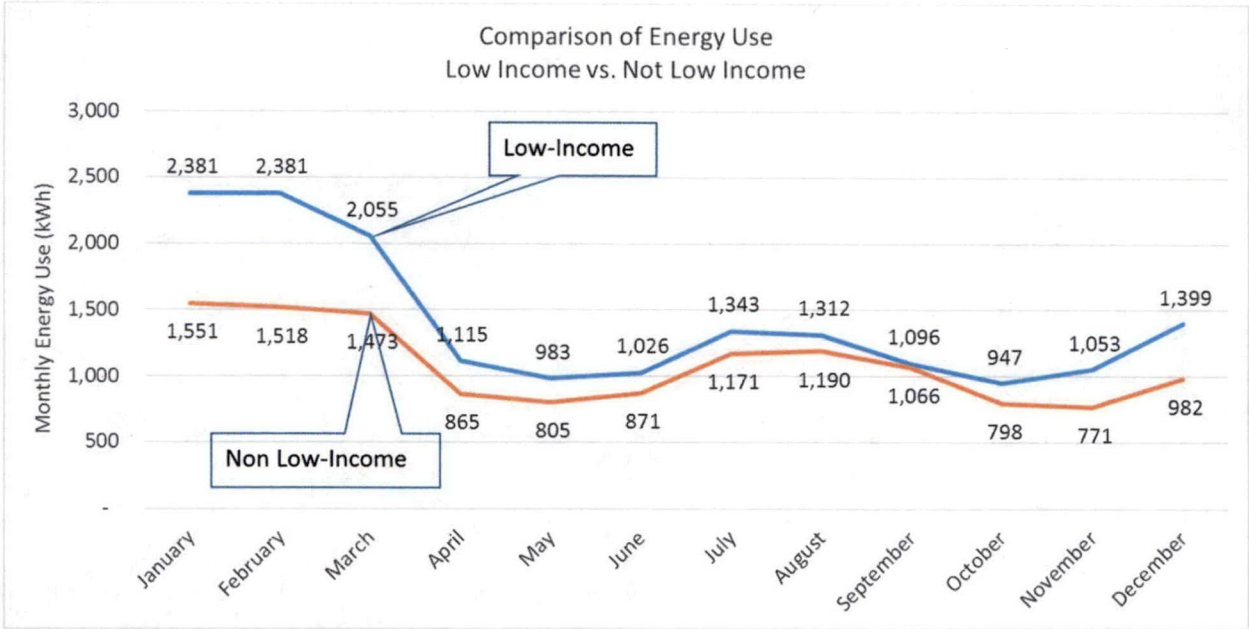
Farmers RECC proposed to increase the fixed charge from \$9.35 to \$14.00 to achieve the requested \$1,275,979 increase from the Residential rate class. In comparison, the class cost of service study filed in this case shows a consumer-related cost of \$31.19 per month. Under the current rates, Farmers RECC collects about 91% of its residential rate revenue through the volumetric charge, i.e. energy charge. Under the requested rates, it would be collecting about 87% through the energy charge and so the rate remains substantially volumetric. The requested fixed charge increase makes an appropriate, reasonable, yet gradual step toward a fairer rate design that will reduce the subsidy occurring from high usage members to low usage members.

In comparison to a rate design that includes an energy charge increase, the requested rate design will result in; 1) above average increases for members that use less than average amounts of energy, and 2) below average increases for members that use more than average amounts of energy. The question is whether low-income members are the former or latter.

As a group, low-income members at Farmers RECC fall into the second group described above. That is, they use more energy than the average. Below is a summary of energy usage information for Residential members for the 2015 Test Year:

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Response 7 (continued)

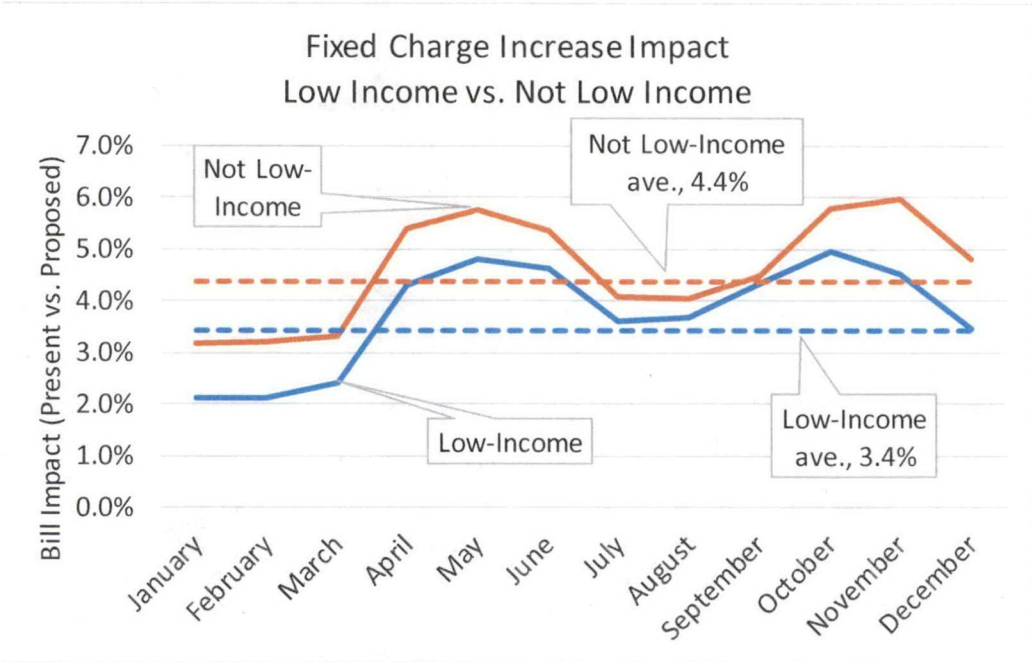


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Response 7 (continued)

The higher than average use for low-income members results in them experiencing a lower than average bill impact from the increased fixed charge requested. The graph below shows the bill impact of the fixed charge increase on low-income members.

Month	Fixed Charge Increase -- Bill Impact			
	Annual kWh	Present	Proposed	As Percent
Low-Income	17,091	\$ 1,632	\$ 1,688	3.4%
Not Low-Income	13,061	\$ 1,274	\$ 1,330	4.4%



As per the above, the impact of the fixed charge increase on low-income members is a full percentage point less than for other members on the residential rate. Low-income members, who are currently paying a subsidy to other members, will benefit from the requested rate design versus a rate design that increases the energy charge.

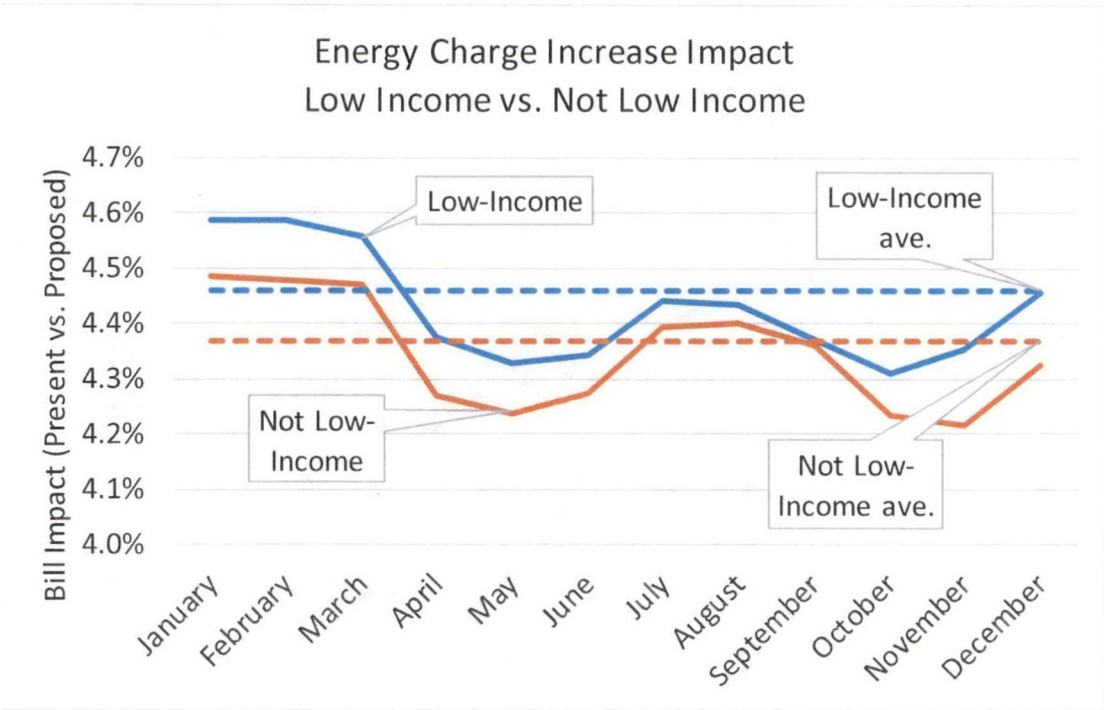
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Response 7 (continued)

In fact, if Farmers RECC were to increase the energy charge in the Residential rate instead of the fixed charge, its low-income members would experience larger than average bill increases. Reference the information below which recovers the \$1,275,979 residential increase in the energy charge instead of the fixed charge:

EXAMPLE Energy Charge Increase -- Bill Impact

Month	Annual		Annual Bill		As Percent
	kWh	Present	Proposed		
Low-Income	17,091	\$ 1,632	\$ 1,705		4.5%
Not Low-Income	13,061	\$ 1,274	\$ 1,330		4.4%



Again, it is concluded that, 1) Farmers RECC low-income members are higher than average users, and 2) the requested rate design that increases the fixed charge will benefit low-income members versus a rate design that includes an increase in the energy charge.

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Response 7 (continued)

The following are reasons why low-income members for rural electric cooperatives like Farmers RECC tend to be higher than average users and would benefit from a fixed charge versus energy charge increase.

1. Low-income members tend to live in housing that is not as well insulated which significantly increases heating and cooling electric use.
2. Low-income members often have less efficient appliances for heating, cooling, washing, cooking, etc.
3. Related to the above, low-income members are not as likely to make purchases of energy efficient lighting and appliances as other members due to the lack of disposable income.
4. Low-income members frequently have electric heat versus gas or propane.

Identifying low-income members by those participating in LIHEAP or other assistance programs is the best way to identify this subgroup since Farmers RECC does not track income information by member. National survey information (such as EIA RECS) is inadequate and irrelevant to this question pertaining specifically to Farmers RECC membership. Further, using LIHEAP participation as an indicator produces a substantial sample size and there is not convincing evidence that such a sample is misrepresentative.

Rural electric cooperatives have a different mix of customers than urban utilities. It is possible that for some urban utilities low-income customers have below average usage. Low-income customers at urban utilities have relatively more access to high density housing and natural gas heat, both of which can substantially reduce electric use. Also, urban utilities don't have the amount of seasonal and miscellaneous low-usage account that rural electric cooperatives tend to serve which reduces the average usage for the non low-income group.

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Request 8.

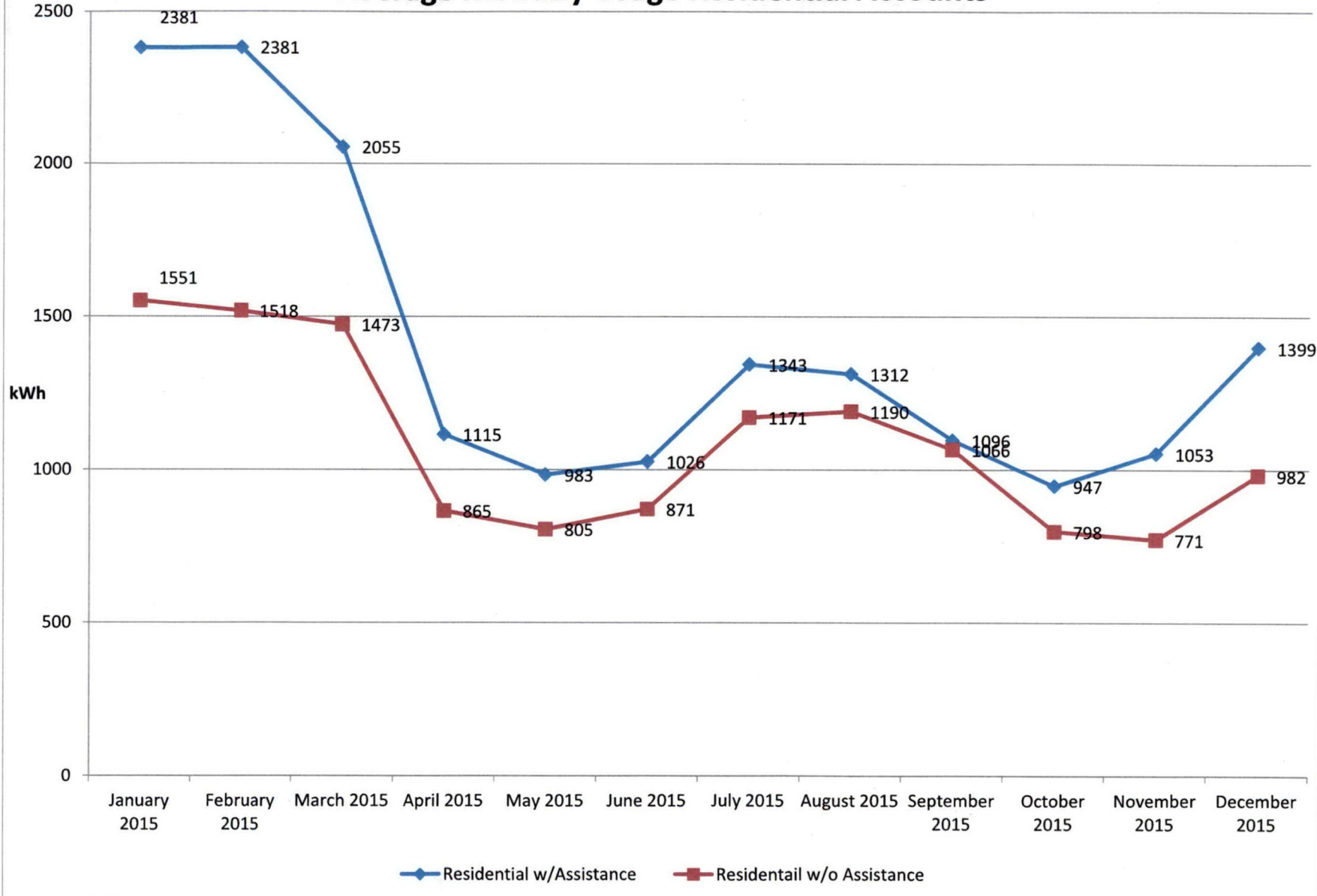
Provide any studies or other information that indicates whether Farmers' low-income customers use more or less kilowatt-hours than the average residential customer.

Response 8.

To determine whether Farmers' low-income members use more or less kilowatt-hours than the average residential member, all of the members who received payment assistance monies through LiHeap and other community assistance programs in 2015 were reviewed to determine their average monthly and annual usage patterns. There were 852 members whose usage was reviewed.

The average monthly use of both low-income and all other residential members is illustrated on the attached chart to this response. The overall average monthly use of all Li-Heap members averaged 1,424 kWhs for 2015 and for all other residential members (exclusive of those receiving assistance) was 1,088 kWhs per month – an average difference of 336 kWhs per month. There were no months during the year where the average usage for the low-income group equaled or was less than the average for all others.

Average Monthly Usage Residential Accounts



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Request 9.

- A. Provide an itemized list of the total consulting fees Power Service Engineering ("PSE") has charged Farmers in this rate case.
- B. Provide a complete schedule of all PSE hourly consulting rates and identify those rates charged for Richard Macke and Lance Schafer.

Response 9.

- A. To date, the total cost of consulting fees by PSE is \$79,864.42. The total includes \$3,356.07 for expenses and \$76,508.35 for labor as detailed in Response 9.B. below.
- B. The hourly rates for all PSE employees that have worked on the Farmers rate application are shown below. Please note that the second (higher) rate listed for Mr. Macke and Mr. Schafer are the 2017 billing rates and the other is the 2016. Also, please take notice that the project team was structured in a way to ensure high quality and accurate analyses at an economical and efficient cost. Specifically, project tasks were assigned between personnel (primarily Mr. Macke and Mr. Schafer) based upon the person with the best combination of experience and lowest billing rate. Thus, less than one third of the project hours were billed under Mr. Macke's billing rate and about two thirds under Mr. Schafer's lower billing rate.

**Summary of PSE Billing
Through April 2017**

Person	Hours	Rate	Amount	% of Hours
Admin 1	0.80	92.00	\$ 73.60	0.2%
Admin 2	1.00	90.00	\$ 90.00	0.2%
Analyst 1	4.00	130.00	\$ 520.00	0.8%
Manager	1.20	155.00	\$ 186.00	0.2%
Manager	4.25	160.00	\$ 680.00	0.9%
Analyst 2	8.00	135.00	\$ 1,080.00	1.6%
Analyst 3	0.75	90.00	\$ 67.50	0.2%
Macke, Richard	125.50	225.00	\$ 28,237.50	25.3%
Macke, Richard	30.00	230.00	\$ 6,900.00	6.0%
Schafer, Lance C	277.75	120.00	\$ 33,330.00	56.0%
Schafer, Lance C	42.75	125.00	\$ 5,343.75	8.6%
	496.00	\$ 154.25	\$ 76,508.35	100.0%

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Request 10.

Provide an update to Farmers' revenue requirement and proposed increase based upon the adjustments Staff has proposed for the following items:

- A. Compensation to its subsidiary in the amount of \$1,578 plus any applicable benefits that should have been removed as an allowable ratemaking expense.
- B. Exclude excess life-insurance premiums paid for coverage above \$50,000 in the amount of \$8,406.
- C. Exclude voluntary 401(k) contributions for employees hired prior to January 1, 2012, and participating in Farmers' defined benefit plan in the amount of \$28,512.
- D. Exclude an amount equal to 21 percent of the dental-insurance premium cost for employees with single coverage.
- E. Health insurance for employees with family coverage that amount to 32 percent of the total cost or \$63,450.
- F. Utilize RUS guidelines for depreciation rates as described in 4.a. above.
- G. Any applicable interest modifications based upon current cost of debt.
- H. Any change to Farmers' rate case expense. Identify and explain such adjustments and the amount.
- I. Any other items affecting Farmers' revenue requirement.
- J. Adjust the Public Service Commission Annual Assessment ("PSC Assessment") based on 2016 actual revenues, as adjusted for purchased power expense, for the PSC Assessment plus the revised increase in revenue as determined in this updated revenue requirement.

Response 10.

The requested adjustments have been made and their locations in the updated Exhibit F file, titled "Exhibit F (2nd amended)", are detailed below. Those pages of Exhibit F (2nd amended), Exhibit H (2nd amended), and Exhibit J (2nd amended) that were affected by the following adjustments are being provided with this response. Pages of the aforementioned exhibits that were not changed by the modifications are not included in hardcopy format; However, the entirety of Exhibit F (2nd amended), Exhibit H (2nd amended), and Exhibit I (2nd amended) are being provided in electronic format.

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Response 10 (continued)

- A. See Exhibit F (2nd amended), page 2 of 78, Part I, item "Adjustment to Other Revenues".
- B. See Exhibit F (2nd amended), page 16 of 78, Part A, Item 3, "Exclusion of Life-Insurance Premiums paid for coverage in excess of \$50,000.
- C. See Exhibit F (2nd amended), page 17 or 78, Part F, Item 2, Sub Item b, "Exclusion of voluntary 401(k) contributions for employees hired prior to Jan. 1, 2012, and participating in Farmers' defined benefit plan.
- D. See Exhibit F (2nd amended), page 16 of 78, Part C, Item 2, Sub Item c, "Decrease in Dental Insurance Expense".
- E. See Exhibit F (2nd amended), page 16 of 78, Part C, Item 1, Sub Item e, "Adjustment to Allocate 32% of the Total Cost for Family Coverage".
- F. See Exhibit F (2nd amended) pages 37 through 39 of 78.
- G. See Exhibit F (2nd amended), page 44 of 78, Schedule I, Part A.
- H. Farmers is not requesting recovery of any rate-case expense beyond the original rate-case expense estimate submitted in the application. There were therefore no changes made to rate-case expense in the 2nd amended Exhibit F submitted with this response.
- I. There are no additional items beyond those submitted with these responses to Staff's fourth request for information.

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Response 10 (continued)

- J. See Exhibit F (2nd amended), page 44 of 78, Schedule J, Part A.
See also the calculation of the Pro-Forma Test Year PSC Assessment:

Calculation of the pro-forma test year PSC Assessment		
2015 Pro Forma		
Revenues (Rate and Other)	\$	46,702,246
Kwh	\$	510,815,851
FAC	\$	(1,914,085)
ESR	\$	4,810,851
Intrastate Revenue:	\$	49,599,012
Purchased Power		
Cost	\$	33,510,060
KWh	\$	535,152,931
FAC	\$	(2,013,984)
ESR	\$	4,909,764
Total Purchased Power	\$	36,405,839
Purchased Power / 2	\$	18,202,919
Assessable amount:	\$	31,396,093
Assessment:	\$	62,792

The PSC Assessment that Farmers' paid in 2016 was \$62,767.

Statement of Operations
Present Rates
For the Test Year Ended December 31, 2015

(a) Line No.	(b) Description	(c) 2015 Actual	(d) Adjustments ¹	(e) Pro Forma Test Year
1	<u>Operating Revenue</u>	(\$)	(\$)	(\$)
2	Rate Schedules	48,538,417	(2,772,113)	45,766,304
3	Other	934,364	1,578	935,942
4	Total Operating Revenue	49,472,781	(2,770,535)	46,702,246
5	<u>Operating Expenses</u>			
6	Cost of Purchased Power	36,226,666	(2,716,606)	33,510,060
7	Transmission - O & M	-	-	-
8	Distribution - Operation	1,740,525	(26,984)	1,713,541
9	Distribution - Maintenance	2,969,616	(30,303)	2,939,313
10	Consumer Accounts	1,108,315	(19,309)	1,089,006
11	Consumer Service & Information	121,986	(2,615)	119,371
12	Sales	-	-	-
13	Administrative & General	2,147,127	(51,994)	2,095,133
14	Depreciation & Amortization	2,744,248	114,357	2,858,605
15	Taxes - Property	597,804	28,332	626,136
16	Taxes - Other	64,482	(1,690)	62,792
17	Interest on Long-Term Debt	1,769,176	(38,538)	1,730,638
18	Other Interest Expense	11,144	-	11,144
19	Other Deductions	2,830	-	2,830
20	Total Operating Expenses	49,503,919	(2,745,351)	46,758,568
21	Patronage Capital & Operating Margins (line 4 minus line 20)	(31,138)	(25,184)	(56,322)
22	Non Operating Margins - Interest	52,038		52,038
23	Allowance for Funds Used During Construction	-		-
24	Income (Loss) from Equity Investments	(12,108)		(12,108)
25	Non Operating Margins - Other	14,373		14,373
26	Generation and Transmission Capital Credits	2,372,445	(2,372,445)	-
27	Other Capital Credits and Patronage Dividends	98,868		98,868
28	Extraordinary Items	-		-
29	Patronage Capital or Margins (lines 21 through 28)	2,494,478	(2,397,629)	96,849

¹ Reference Page 2 for a summary of adjustments and page references to supporting schedules.

**Supporting Adjustment Schedules
Summary of Adjustments**

(a) Description	(b) Page	(c) Amounts
I. Revenues		
Schedule A - Adjustment to Remove FAC Revenue	3	\$ 1,910,752
Schedule A - Adjustment to Remove ESR Revenue	3	\$ (4,802,473)
Schedule A - Adjustment to Revenue for Normalization	4	\$ 119,608
		<u>\$ (2,772,113)</u>
Adjustment to Other Revenues (Post-Hearing DR Response 10, item A)		<u>\$ 1,578</u>
II. Purchased Power		
Schedule B - Purchased Power	10	<u>\$ (2,716,606)</u>
III. Distribution - Operations		
Schedule C - Payroll	15	\$ (15,881)
Schedule D - Payroll Related Expenses	18	\$ (14,121)
Schedule E - Depreciation (Charged-to-Clearing Adjustment)	39	\$ 3,017
		<u>\$ (26,984)</u>
IV. Distribution - Maintenance		
Schedule C - Payroll	15	\$ (19,832)
Schedule D - Payroll Related Expenses	18	\$ (17,634)
Schedule E - Depreciation (Charged-to-Clearing Adjustment)	39	\$ 7,164
		<u>\$ (30,303)</u>
V. Consumer Accounts		
Schedule C - Payroll	15	\$ (10,824)
Schedule D - Payroll Related Expenses	18	\$ (9,624)
Schedule E - Depreciation (Charged-to-Clearing Adjustment)	39	\$ 1,140
		<u>\$ (19,309)</u>
VI. Consumer Service and Information		
Schedule C - Payroll	15	\$ (1,384)
Schedule D - Payroll Related Expenses	18	\$ (1,231)
Schedule E - Depreciation (Charged-to-Clearing Adjustment)	39	\$ 632
		<u>\$ (2,615)</u>
VII. Administrative and General		
Schedule C - Payroll	15	\$ (15,561)
Schedule D - Payroll Related Expenses	18	\$ (13,837)
Schedule E - Depreciation (Charged-to-Clearing Adjustment)	39	\$ 496
Schedule G - Adjustment for Rate-Making Expense	42	\$ 47,873
Schedule H - Expense Adjustments	43	\$ (70,966)
		<u>\$ (51,994)</u>
VIII. Depreciation		
Schedule E - Depreciation	39	<u>\$ 114,357</u>
IX. Property Taxes		
Schedule F - Property Taxes	42	<u>\$ 28,332</u>
X. Long-Term Interest Expense		
Schedule I - Long-Term Interest Expense	44	<u>\$ (38,538)</u>
XI. Tax Expense - Other		
Schedule J - PSC Assessment	44	<u>\$ (1,690)</u>

**Schedule D
Adjustment to Payroll Related Expenses**

	Union	Non-Union	Total
<u>Total Change in Payroll per Schedule C</u>	\$ -	\$ (105,044)	\$ (105,044)
<u>A. Life, Long-Term Disability, and Business Travel Accident Insurance¹</u>			
1. 2015 Test Year Life, Long Term Disability, and BTA Insurance Expense			\$ 49,376
2. 2016 Proposed Life, Long Term Disability, and BTA Insurance Expense			\$ 49,544
3. Exclusion of Life-Insurance Premiums paid for coverage in excess of \$50,000 (see Post-Hearing DR Response 10, item B)			\$ (8,406)
4. Adjustment			\$ (8,238)
<u>B. Workers' Compensation</u>			
1. 2015 Test Year Workers' Compensation Expense			\$ 84,744
2. 2016 Proposed Workers' Compensation Expense ²			\$ 82,562
3. Adjustment			\$ (2,182)
<u>C. Hospitalization Expense³</u>			
1. Medical/Hospitalization Coverage Expense			
a. 2015 Medical/Hospitalization Coverage			\$ 927,624
b. Adjustments due to Changes in Participation at 2015 Rates			
i. Total Claims Fund - EKPC			\$ (31,811)
ii. Total Fixed Cost - Healthsmart			\$ (1,369)
iii. HRA Admin Fees			\$ (58)
			Subtotal \$ (33,238)
c. Adjustments due to 2016 Rate Changes			
i. Total Claims Fund - EKPC			\$ (1,190)
ii. Total Fixed Cost - Healthsmart			\$ (11,688)
			Subtotal \$ (12,879)
d. Adjustment due to Change in HRA Claims			
i. 2015 HRA Claims - All Employees			\$ 116,815
ii. 2016 HRA Claims - All Employees			\$ 143,625
			Increase \$ 26,810
e. Adjustment to Allocate 32% of the Total Cost for Family Coverage (see Post-Hearing DR Response 3)			\$ (63,450)
f. Subtotal of Adjustments			\$ (82,757)
g. 2016 Medical/Hospitalization Coverage Expense			\$ 844,867
2. Delta Dental Coverage			
a. 2015 Delta Dental Coverage			\$ 26,331
b. Adjustments due to Changes in Participation (no change in rate for Dental)			\$ (1,380)
c. Decrease in Dental Insurance Expense (see Post-Hearing DR response 2)			\$ (701)
d. 2016 Delta Dental Coverage			\$ 24,251
3. Total Adjustments to Medical/Hospitalization (including Dental)			\$ (84,837)
a. 2016 Total Medical/Hospitalization expense (including Dental)			\$ 869,117

¹ For supporting materials, see pages 29-32 of this exhibit.

² Calculated as the test-year ratio of workers' comp. to total payroll (2.32%) times the total pro-forma payroll (3,558,011).

³ For supporting materials, see pages 33-36 of this exhibit.

Schedule D
Adjustment to Payroll Related Expenses
Continued

<u>D. State and Federal Unemployment¹</u>		
1. Federal Unemployment		
A.	2015 Test year amount	\$ 2,942
B.	2016 Proposed amount	\$ 2,648
C.	Adjustment	\$ (294)
2. State Unemployment		
D.	2015 Test year amount	\$ 8,355
E.	2016 Proposed amount	\$ 7,740
F.	Adjustment	\$ (615)
3. Total Federal and State Unemployment Adjustment		\$ (909)
<u>E. Retirement and Security²</u>		
1. 2015 Test year on Base Wages		
a.	R&S Contributions	\$ 584,398
b.	R&S Prepayment	\$ 124,705
	Subtotal	\$ 709,103
2. 2016 Normalized on Base Wages		
a.	R&S Contributions	\$ 578,290
b.	R&S Prepayment	\$ 124,705
	Subtotal	\$ 702,995
3. R&S Adjustment		\$ (6,108)
<u>F. 401(k) Plan²</u>		
1. 2015 Test year on Base Wages		
a.	401k Contributions	\$ 53,142
2. 2016 Normalized on Base Wages		
a.	401k Contributions	\$ 69,088
b.	Exclusion of voluntary 401(k) contributions for employees hired prior to Jan. 1, 2012, and participating in Farmers' defined benefit plan.	\$ (28,512)
3. Adjustment		\$ (12,566)
<u>G. Employee Assistance Program</u>		
1.	2015 Test Year Long Term Disability Expense	\$ 3,358
2.	2016 Proposed Long Term Disability Expense ³	\$ 3,272
3.	Adjustment	\$ (86)
<u>H. Employer's Accounting for Postretirement Benefits</u>		
1.	2015 Test Year Accrual	\$ 85,860
2.	Proposed Annual Cost	\$ 112,595
3.	Proposed Adjustment	\$ 26,735

¹ For supporting materials, see pages 23-24 of this exhibit.

² For supporting materials, see pages 27-28 of this exhibit.

³ Calculated as the test-year ratio of Empl. Assistance to total payroll (0.092%) times the total pro-forma payroll (3,558,011).

Schedule E
Adjustment to Depreciation Expense

A. Depreciation on Existing Plant Using Depreciation Rates as of December 2015 and Commission-Approved Rates for Account 370

Acct. No.	Description	Account Balance as of 12/31/2015	Fully Depreciated Items ¹	Depreciation Rate as of December 2015 ²	Normalized Depreciation [(a) * (e)]	Test-Year Depreciation	Pro-Forma Adjustment [(d) - (e)]
		(a)	(b)	(c)	(d)	(e)	(f)
1. Intangible Plant							
303	Misc. Intangible Plant	3,625					
	Subtotal	3,625					
2. Other Production Plant							
342	Fuel Holders, Producers/ACC	40,846		3.24%	1,323	1,323	0
344	Generators	1,032,397		3.24%	33,450	33,029	421
345	Accessory Electric Equipment	197,673		3.24%	6,405	6,405	(0)
	Subtotal	1,270,916			41,178	40,757	421
3. Distribution Plant							
362	Station Equipment ³	16,235	16,235	3.24%	-	-	-
362.01	SCADA/Load Management	41,356		20.00%	8,271	8,272	(1)
364	Poles, Towers & Fixtures	25,005,047		3.24%	810,164	793,965	16,199
365	O/H Conductors & Devices	19,581,962		2.80%	548,295	618,152	(69,857)
367	U/G Conduct. & Devices	1,654,669		2.90%	47,985	52,784	(4,799)
368	Line Transformers	15,187,042		3.10%	470,798	481,424	(10,626)
369	Services	7,787,963		3.24%	252,330	249,061	3,269
370	Meters-Traditional	118,333		6.67%	7,889	3,897	3,992
370.01	AMR-TWAC-Meters	4,024,563		6.67%	268,304	128,889	139,415
370.02	AMR-TWAC-Receiver/Equip.	637,137		6.67%	42,476	20,946	21,530
370.03	AMR-TWAC-Transformers	254,924		6.67%	16,995	8,260	8,735
370.04	AMR-TWAC-Computer	38,278		6.67%	2,552	-	2,552
370.05	AMR-TWAC-Control links	11,379		6.67%	759	298	461
371	Install/Cust. Premis	1,998,521		3.90%	77,942	63,846	14,096
373	St. Light & Sign. Sys.	2,850		3.80%	108	93	15
373.1	Street Lighting/City Of Glasgow	78,809		3.80%	2,995	2567	428
373.2	Street Lighting/City--Cave City	65,761		3.80%	2,499	2142	357
373.3	Street Lighting/Metcalf County	6,722		3.80%	255	219	36
373.4	Street Lighting/City Of MunfVle	4,792		3.80%	182	156	26
373.5	Street Lighting/City Of Edmonton	14,691		3.80%	558	479	80
373.7	Street Lighting/Barren County	19,041		3.80%	724	620	103
	Subtotal	76,550,075			2,562,081	2,436,070	126,011
4. General Plant							
389	Land And Land Rights	992,775			-		0
390	Structures & Imprvemts	2,202,525	297,675	2.50%	47,621	48,180	(559)
391	Office Furniture & Equipment	827,359	278,725	20.00%	109,727	121,594	(11,867)
392	Transportation Equipment	3,428,981	1,038,298	14.00%	334,696	308,192	26,504
394	Tools,Shop,Garage Equipment	67,682	36,397	20.00%	6,257	8,693	(2,436)
395	Laboratory Equipment	83,351	37,142	8.00%	3,697	3,490	207
396	Power Operated Equipment	131,149	58,636	12.00%	8,702	8,811	(109)
397	Communications Equipment	783,960	5,435	9.00%	70,067	67,382	2,685
398	Miscellaneous Equipment	177,056	51,054	7.00%	8,820	9,270	(450)
399	Temp Service/Cons Prem	6,509		7.00%	456		
	Subtotal	8,701,345	1,803,362		590,042	575,612	14,430
Grand Total		86,525,960			3,193,301	3,052,439	140,862

¹ Fully depreciated items are removed from the end-of-year balance to calculate normalized depreciation.

² The depreciation rate used for account 370 is not historical, but rather a Commission-approved rate.

³ Per Farmers, account 362 - station equipment is fully depreciated.

Schedule E
Adjustment to Depreciation Expense
Continued

<u>C. Comparison of the Impact of Commission-Approved Rates for Account 370 on Total Normalized Depreciation</u>	
	<u>Amount</u>
1. Total Normalized Depreciation Using Commission-Approved Rates for Account 370	3,193,301
2. Total Normalized Depreciation Using December 2015 Rates for All Accounts	<u>3,125,532</u>
3. Increase in Total Normalized Depreciation Attributable to Commission-Approved Rates for Acct. 370	67,768

<u>D. Depreciation Adjustment</u>	
	<u>Amount</u>
1. Adjustment for Transportation Depreciation Charged to Clearing ¹	
A. Pro-Forma Test Year	
Normalized Depreciation Accrual	\$ 3,193,301
Less Charged to Clearing from GP Account 392	<u>\$ (334,696)</u>
	Subtotal \$ 2,858,605
B. Historical Test Year	
Test-Year Depreciation Accrual	\$ 3,052,439
Less Charged to Clearing from GP Account 392	<u>\$ (308,192)</u>
	Subtotal \$ 2,744,247

<u>E. Summary of Adjustment to Depreciation Expense</u>	
1. Total Depreciation Expense for the Pro Forma Test Year	\$ 2,858,605
2. Less: Actual Depreciation Expense for the Test Year	<u>\$ (2,744,248)</u>
3. Adjustment to Depreciation Expense	<u>\$ 114,357</u>

<u>F. Adjustment for Change in Charged to Clearing From GP Account 392</u>	
1. Adjustment to Transportation Charged-to-Clearing Amount	
Normalized Charged-to-Clearing Amount	\$ 334,696
Test-Year Charged-to-Clearing Amount	<u>\$ 308,192</u>
	Total \$ 26,504
2. Allocation of Charged-to-Clearing Adjustment ²	
Construction and Retirement WIP	51% \$ 13,411
Other	2% \$ 643
Distribution - Operations	11% \$ 3,017
Distribution - Maintenance	27% \$ 7,164
Consumer Accounts	4% \$ 1,140
Consumer Service and Information	2% \$ 632
Administrative and General	2% \$ 496
	<u>Total 26,504</u>

¹ Depreciation on transportation equipment is charged to a clearing account.
Transportation costs are then cleared to various accounts based on miles driven for each vehicle from the daily time sheets of employees driving the vehicles.

² The allocation of the increase in depreciation on transportation equipment is based on actual test-year transportation clearing.

Schedule H
Adjustment to Expense
Continued

	Amount
G. Account 930.30 - Directors' Expenses ¹	
1. General Ledger as of December 31, 2015	\$ 114,040
2. Less: Exclusions for Rate-Making Purposes	\$ (15,160)
4. Net Expense	\$ 98,880
5. Adjustment	\$ (15,160)
H. Summary of Expense Adjustments ²	
1. Adjustment to Account 426.10 - Other Income Deductions	\$ (2,520)
2. Adjustment to Accounts 921.00 and 165.20 - Dues	\$ (2,490)
3. Adjustment to Account 923.00 - Outside Services	\$ (24,281)
4. Adjustment to Account 930.20 - Miscellaneous General Expense	\$ (500)
5. Adjustment to Account 930.21 - Annual Expense	\$ (6,933)
6. Adjustment to Account 930.23	\$ (19,082)
7. Adjustment to Account 930.30 - Directors' Expenses	\$ (15,160)
Total	\$ (70,966)

Schedule I
Adjustment to Debt

	Amount
A. Summary	
1. 2015 Historical Test Year Long-Term Interest Expense	\$ 1,769,176
2. Annualized Long-Term Interest Expense as reported in Response 4.B of Farmers' response to Staff's 4th request for information.	\$ 1,730,638
3. Adjustment	\$ (38,538)

Schedule J
Adjustment to PSC Assessment

	Amount
A. Summary	
1. 2015 historical PSC Assessment	\$ 64,482
2. Pro-Forma Test Year calculated PSC Assessment ³	62,792
3. Adjustment	(1,690)

¹ For supporting data, see pages 55-78 of this exhibit (section F).
² Schedules I & J have been added as post-hearing data request responses and are summarized below.
³ Calculated assuming test-year ratios of FAC and ESR

Statement of Operations
Proposed Rates
For the Test Year Ended December 31, 2015

(a) Line No.	(b) Description	(c) 2015 Actual	(d) Adjustments	(e) Pro Forma Test Year
1	Operating Revenue	(\$)	(\$)	(\$)
2	Rate Schedules	48,538,417	(2,772,113)	47,660,109 ¹
3	Other	934,364	1,578	935,942
4	Total Operating Revenue	49,472,781	(2,770,535)	48,596,051
5	Operating Expenses			
6	Cost of Purchased Power	36,226,666	(2,716,606)	33,510,060
7	Transmission - O & M	-	-	-
8	Distribution - Operation	1,740,525	(26,984)	1,713,541
9	Distribution - Maintenance	2,969,616	(30,303)	2,939,313
10	Consumer Accounts	1,108,315	(19,309)	1,089,006
11	Consumer Service & Information	121,986	(2,615)	119,371
12	Sales	-	-	-
13	Administrative & General	2,147,127	(51,994)	2,095,133
14	Depreciation & Amortization	2,744,248	114,357	2,858,605
15	Taxes - Property	597,804	28,332	626,136
16	Taxes - Other	64,482	(1,690)	62,792
17	Interest on Long-Term Debt	1,769,176	(38,538)	1,730,638
18	Other Interest Expense	11,144	-	11,144
19	Other Deductions	2,830	-	2,830
20	Total Operating Expenses	49,503,919	(2,745,351)	46,758,568
21	Net Operating Income	(31,138)	(25,184)	1,837,483
22	Non Operating Margins - Interest	52,038		52,038
23	Allowance for Funds Used During Construction	-		-
24	Income (Loss) from Equity Investments	(12,108)		(12,108)
25	Non Operating Margins - Other	14,373		14,373
26	Generation and Transmission Capital Credits	2,372,445	(2,372,445)	-
27	Other Capital Credits and Patronage Dividends	98,868		98,868
28	Extraordinary Items	-		-
29	Patronage Capital or Margins (lines 21 through 28)	2,494,478	(2,397,629)	1,990,654

¹ Reference Schedule A for an estimate of the Pro Forma Test Year revenue under proposed rates.

**Balance Sheet, Adjusted
Proposed Rates
For the Test Year Ended December 31, 2015**

(a) Line No.	(b) Description	(c) 2015 Actual	(d) Adjustments ¹	(e) Pro Forma Test Year
1	<u>Assets and Other Debits</u>			
2	Total Utility Plant in Service	86,525,960		86,525,960
3	Construction Work in Progress	662,102		662,102
4	Total Utility Plant	<u>87,188,062</u>		<u>87,188,062</u>
5				
6	Less: Accum. Provision for Depreciation and Amort.	25,640,619	114,357	<u>25,754,976</u>
7				
8	Net Utility Plant	<u>61,547,443</u>		<u>61,433,086</u>
9				
10	Total Other Property and Investments	28,642,551		28,642,551
11				
12	Current Assets:			
13	Cash and Temporary Investments	385,991		385,991
14	Accounts Receivable, Net	1,589,501		1,589,501
15	Materials and Supplies	824,947		824,947
16	Prepayments	195,246		195,246
17	Subtotal	<u>2,995,685</u>		<u>2,995,685</u>
18				
19	Other Current and Accrued Assets & Other Deferred Debits	4,495,640	1,941,172	6,436,812
20				
21	Total (sum of lines 9, 11, 19, and 22)	<u>97,681,319</u>	<u>1,826,815</u>	<u>99,508,134</u>
22				
23	<u>Liabilities and Other Credits</u>			
24	Margins and Equities:			
25	Memberships	540,380		540,380
26	Patronage Capital	33,830,313	1,826,815	35,657,128
27	Operating Margins - Prior Years	-		-
28	Operating Margins - Current Year	(31,138)		(31,138)
29	Non-Operating Margins	3,277,563		3,277,563
30	Other Margins and Equities	1,009,085		1,009,085
31	Total Margins & Equities	<u>38,626,203</u>	<u>1,826,815</u>	<u>40,453,018</u>
32				
33	Total Long-Term Debt	48,983,611		48,983,611
34				
35	Other Noncurrent Liabilities:			
36	Obligations Under Current Capital Leases - Noncurrent	-		-
37	Accum. Op. Provisions and Asset Retirement Oblig.	878,967		878,967
38	Total Other Noncurrent Liabilities	<u>878,967</u>		<u>878,967</u>
39				
40	Current Liabilities:			
41	Notes Payable	-		-
42	Accounts Payable	3,961,765		3,961,765
43	Consumer Deposits	861,686		861,686
44	Current Maturities Long-Term Debt	2,154,000		2,154,000
45	Current Maturities Long-Term Debt - Econ. Dev.	111,120		111,120
46	Current Maturities Captial Leases	-		-
47	Other Current and Accrued Liabilities	1,302,849		1,302,849
48	Total Current & Accrued Liabilities	<u>8,391,420</u>		<u>8,391,420</u>
49				
50	Regulatory Liabilities	453,668		453,668
51	Other Deferred Credits	347,450		347,450
52	Subtotal	<u>801,118</u>		<u>801,118</u>
53				
54	Total Liabilities and Other Credits (sum of lines 34, 36, 41, 51, and 55)	<u>97,681,319</u>	<u>1,826,815</u>	<u>99,508,134</u>

Determination of Revenue Requirements
TIER of 2.00

(a)	(b)	(c)	(d)	(e)
Line No.	Description	2015 Actual	Present Rates Pro Forma Test Year	Proposed Rates Pro Forma Test Year
Financial Results From Rates		(\$)	(\$)	(\$)
1	Total Revenue ¹	49,472,781	46,702,246	48,596,051
2	Operating Expense (excluding interest expense) ¹	47,734,743	45,027,930	45,027,930
3	Net Operating Margins (before interest expense) ²	1,738,038	1,674,316	3,568,121
4	Capital Credits ³	98,868	98,868	98,868
5	Other Non-Operating Margins ³	54,303	54,303	54,303
6	Total Margin (before interest expense) ⁴	1,891,209	1,827,487	3,721,292
7	Long Term Interest ³	1,769,176	1,769,176	1,769,176
8	Total TIER ⁵	1.07	1.03	2.10
Required Increase (Decrease) --TIER Objective				
9	Operating Expenses (excluding interest) ¹	47,734,743	45,027,930	45,027,930
10	Margin Requirements			
11	Interest Expense ³	1,769,176	1,769,176	1,769,176
12	Target TIER ⁶	2.00	2.00	2.00
13	Total Margin Required (before interest) ⁷	3,538,352	3,538,352	3,538,352
14	Less: Capital Credits ³	98,868	98,868	98,868
15	Less: Non-Operating Margins ³	54,303	54,303	54,303
16	Net Operating Margins Required ⁸	3,385,181	3,385,181	3,385,181
17	Total Revenue Requirements ⁹	51,119,924	48,413,111	48,413,111
18	Revenue From Present Rates			
19	Tariff Revenue ¹	48,538,417	45,766,304	47,660,109
20	Other Operating Revenue ¹	934,364	935,942	935,942
21	Total Revenue ¹⁰	49,472,781	46,702,246	48,596,051
22	Required Increase (Decrease) ¹¹	1,647,143	1,710,865	(182,940)
23	Percent Increase (Decrease) ¹²	3.39	3.74	(0.38)

¹ Reference Exhibit F (amended) and Exhibit H (amended).

² Line 1 minus Line 2.

³ Actual 2015 from December 31, 2015 Form 7 (Line 4 amount excludes G&T capital credits).

⁴ Line 3 plus Line 4 plus Line 5.

⁵ Line 6 divided by Line 7.

⁶ As determined by Farmers RECC.

⁷ Line 11 times Line 12.

⁸ Line 13 minus Line 14 and Line 15.

⁹ Line 9 plus Line 16.

¹⁰ Line 19 plus Line 20.

¹¹ Line 17 minus Line 21.

¹² Line 22 divided by Line 19.