

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF SOUTH KENTUCKY )  
RURAL ELECTRIC COOPERATIVE )  
CORPORATION OF SOMERSET, KENTUCKY ) CASE NO. 89-040  
FOR AN ORDER AUTHORIZING AN INCREASE )  
IN ITS RETAIL RATES, APPLICABLE TO )  
ALL CONSUMERS )

O R D E R

IT IS ORDERED that South Kentucky Rural Electric Cooperative Corporation ("South Kentucky") shall file the original and 12 copies of the following information with this Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately. The information requested herein is due no

later than June 12, 1989. If the information cannot be provided by this date, South Kentucky should submit a motion for an extension of time stating the reason a delay is necessary and include a date by which it will be furnished. Such motion will be considered by the Commission.

1. On May 5, 1989, the Commission issued its Order in this case, directing South Kentucky to respond to requests for information. After a review of South Kentucky's response, the Commission finds that South Kentucky has failed to completely and adequately respond to the following items:

a. "In the Commission's Order of March 8, 1989, South Kentucky was ordered to provide information which would support and clarify its application. A review of these responses revealed the following omissions: . . . b. Item 5 requested a breakdown of advertising expenses. The information provided was not presented in the format requested and there was not an explanation as to the purpose and expected benefit of the expenditures. . . ." The response in Exhibit 20, page 18 provided no breakdowns or explanation of purpose and expected benefits. The Commission's advertising regulation, 807 KAR 5:016, addresses the expense breakdowns and benefits of utility advertising.

b. "With reference to Exhibit J, page 7 of 19, concerning the removal of postage and printing costs for water districts from test-year expenses, provide the following: . . . c. A detailed schedule by water district of all the expenses incurred and reimbursements received for services South Kentucky provided the water districts in the test year. The schedule should include

the date of the transaction, nature of the service, and voucher, check or other document reference. . . ." South Kentucky's response did not indicate the expenses it incurs in providing these services to the water districts.

c. "With reference to Exhibit J, page 15 of 19, concerning the proposed amortization adjustments, provide copies of the wage and salary plan study and any studies conducted for the preparation of this rate case." South Kentucky responded that the plan is still in the process of implementation and the plan and studies would be submitted when completed and approved by the board of directors. According to Exhibit 20, page 34, the board of directors approved the implementation of the plan at its November 10, 1988 board meeting.

d. "With reference to Exhibit X, pages 3 through 16 of 18, concerning the detailed income and expense accounts, provide a thorough explanation of the reasons for the increase or decrease in the account balance at test year-end over the previous year for the following accounts: [parts (a) through (n)]." No explanations were provided for the increases or decreases.

e. "With reference to Exhibit 8, Schedule 2, page 2 of 2, line 15, concerning the percent of overtime hours to regular hours, explain why this percentage has slowly increased over the past 6 years." South Kentucky's response discusses electric outages and does not reference overtime.

f. "Provide the following information concerning the calculation of property taxes: . . . e. The actual tax bills which equal the test-year amount of \$231,157.11. . . ." The tax

bill copies in Exhibit 20, pages 230, 232, 234, 236, and 239 are not legible; the tax rates and assessed values are not readable.

South Kentucky shall provide the requested schedules, studies, explanations, and documents in the formats indicated and shall make sure all copies are fully legible.

2. With reference to Exhibit 20, page 5; concerning the normalization of interest on long-term debt, provide the following:

a. Indicate if the interest rate changes on loans 9006 and 9017 with the National Rural Utilities Cooperative Finance Corporation ("CFC") were the only changes to occur between test year-end and March 1, 1989.

b. In its 1988 Annual Report, South Kentucky listed a CFC Capital Term Certificate ("CTC") in the amount of \$39,720 as a separate item of long-term debt. Provide a detailed explanation of why the CTC was listed in this manner in the annual report. The explanation should include a description of this transaction and why it is different from other CTC purchases. Also explain why this CTC does not appear on the schedule of CFC long-term debt on page 5.

3. With reference to Exhibit 20, pages 7 through 16, concerning South Kentucky's equity management plan, provide the following:

a. All workpapers which support the figures and calculations presented on pages 8 through 16. Include copies of all manuals and/or forms of instructions related to the use of the model.

b. If a computer model was used to generate the information on pages 8 through 16, identify the model and provide a copy of the model.

c. A detailed explanation of why an equity level of 45 percent is desirable. Also explain whether the 45 percent includes or excludes capital credits; if capital credits are excluded, identify those excluded.

d. A detailed explanation and supporting documentation of how the system's growth rate of 7.07 percent was calculated.

e. A detailed explanation of how the interest adder of .2 percent was determined.

f. A detailed explanation of how the growth in megawatt-hour sales of 3.11 percent was calculated.

g. A detailed explanation of how the 9.44 percent growth in expenses was determined.

h. A thorough explanation of why a 20-year cycle was selected.

4. On December 28, 1988, the Commission entered an Order in Administrative Case No. 326,<sup>1</sup> requesting information concerning rural electric cooperative involvement in satellite-delivered television programming. In its February 9, 1989 response, South Kentucky responded that all revenues received from Kentucky Telecommunications, Inc. ("KTI") would be recorded in Account No. 417.03, Revenues from Non-Utility Operations (KTI) and expenses

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<sup>1</sup> Administrative Case No. 326, An Investigation into the Diversification of Rural Electric Cooperative Corporations into the Satellite-Delivered Television Programming Services.

associated with KTI would be recorded in Account No. 417.13, Expenses, Non-Utility Operations (KTI). Exhibit X of South Kentucky's application, which is a comparative printout of revenue and expense accounts for the test year and the previous 12-month period, does not contain entries for Account No. 417.03 and Account No. 417.13. In addition, in Exhibit 19 of the application, references to fees and expenses of Director Gore for attending KTI meetings appear on pages 7 and 8 of 30. These expenses were recorded in Account No. 930.21, Director's Fees and Expenses. Finally, in the Commission's Order of May 5, 1989, South Kentucky was ordered to identify any revenues or expenses relating to its ownership in KTI that were included in Exhibit X. South Kentucky responded that no revenues were reported in Exhibit X and any expense would have been immaterial.

From the limited information available, it appears that South Kentucky has been recording KTI-associated expenses as utility operating items. While the expenses may be immaterial at this time, it appears the expenses are identifiable. Therefore, South Kentucky shall provide a schedule of all expenses associated with KTI incurred during the test year. The schedule shall include the date of the transaction, a document reference, amount, account in which the transaction was recorded, and a description of the transaction. The expenses should include, but not be limited to:

- a. Costs of visits to KTI offices by Director Gore and General Manager Sloan.

b. Costs of visits to KTI offices by employees of South Kentucky.

c. Advertising costs or other promotional expenses incurred on behalf of KTI.

The expenses also include any charges which result from allocations of expenses common to South Kentucky and KTI.

5. With reference to Exhibit 20, page 41, concerning the contracted meter reading expense, provide the following:

a. Indicate if all the individuals listed on page 41 are employees of Tru-Check Meter Service, Inc. ("Tru-Check").

b. Explain why Tru-Check is indicated as reading 4,972 meters in 1988.

c. Indicate the number of large power and miscellaneous meters included in the figures on page 41.

d. Indicate how long South Kentucky has utilized the services of an outside contractor to read its meters.

e. Describe the method used to read customer meters before the services of Tru-Check were employed.

f. Explain why South Kentucky reads all its meters every month rather than using a method of 1 month actual, 1 month estimated readings.

6. With reference to Exhibit 20, pages 49 through 58, concerning the reimbursements received from water districts for services provided by South Kentucky, provide an explanation of how it has been determined that the charges by South Kentucky allow it to recover the costs of the services provided to the water districts.

7. With reference to Exhibit 20, pages 61 through 71, concerning the adjustments to employee fringe benefits, provide the following:

a. On page 64, explain the reasons for the credit of \$7,390.48 to the National Rural Electric Cooperative Association ("NRECA") Life Insurance premium and the credit of \$8,939.98 to the NRECA Long-Term Disability premium in January 1988. Include in the explanation whether these credits occur each year.

b. A legible copy of the invoice which supports the January 1989 monthly premium charges of \$2,360.16 for NRECA Life Insurance, \$3,116.13 for NRECA Long-Term Disability, \$96 for NRECA 24-Hour Accident, and the annual charge of \$291 for NRECA Business Travel Accident coverage, as shown on page 64.

c. Identify the companies providing the medical and dental coverage.

d. Prepare a legible schedule for the test-year costs of the medical and dental plans, similar to the one on page 64. Include all cost assignments and allocations.

8. With reference to Exhibit 20, pages 94 and 95, concerning the insurance premium distributions, provide the following:

a. The 1989-90 calculations of insurance premium distributions.

b. Using the 1988-89 distribution sheet on page 95, calculate the amount that would be capitalized for the test year.

9. With reference to Exhibit 20, page 103 and the supplemental filing of May 23, 1989, concerning the costs of the current rate case, provide the following:



a. For the invoices from the firm of Coopers and Lybrand, the supporting detail for each invoice. This detail should include, at a minimum, the hours billed by Coopers and Lybrand, the services performed for each segment of time billed, the number and names of Coopers and Lybrand employees, included in the schedule, working on South Kentucky's rate case, and the rates charged by Coopers and Lybrand. Provide copies of any contracts with Coopers and Lybrand which support the charges.

b. For the payroll labor and sick leave accrual charges, the workpapers which support the allocation of South Kentucky employees' labor costs to the rate case expenses.

10. With reference to Exhibit 20, page 119, concerning customer inspections, indicate whether the \$74,716 recorded in Account No. 587.10, Customer Inspection (Receipts) represents only the reimbursement of costs charged to Account No. 587.00, Customer Installation Expense, for the inspection services provided by South Kentucky, in accordance with the requirements of the Uniform System of Accounts.

11. With reference to Exhibit 20, pages 134 through 141, provide a detailed explanation and the supporting workpapers concerning the determination of allocation factors shown on pages 134 and 141.

12. With reference to Exhibit 20, pages 142 through 147, concerning South Kentucky's attorneys, provide the following:

a. Does M. D. Harris maintain law offices and have other clients or is South Kentucky his only client?

b. An explanation of how the policies presented on pages 142 through 144 relate to the services and compensation of Mr. Harris. Include any additional policy, agreement, contract, or other documentation which explains the services Mr. Harris provides and the reimbursements provided.

13. With reference to Exhibit 20, page 151, concerning the Management Advisory Council ("Council") of South Kentucky, provide a listing of all Council members during the test year and the 5 previous calendar years. Also provide the total fees and expenses paid each council member for this time period. Include a schedule of the meetings the Council was invited to participate in during the test year. Define what the Council's advisory capacity consists of.

14. With reference to Exhibit 20, page 287, concerning the right-of-way clearing program, provide the following:

a. The actual right-of-way clearing program expenses for 1984 through 1986.

b. A breakdown of the \$1,056,160 test-year expense into contract and in-house labor, materials, etc. Where allocations are used, provide complete details of all assumptions and calculations used to arrive at the allocations.

c. A detailed explanation of why the test-year expense of \$1,056,160 represents a reasonable, ongoing level of expense for such maintenance.

d. A detailed explanation of the bidding process used to award right-of-way clearing contracts. Include the bid tabulations and awarded contracts for 1987, 1988, and 1989.

e. A detailed breakdown and explanation of the nine three-man contract right-of-way crew expenses for 1987 and 1988. The breakdown should include:

- (1) Number of regular hours worked.
- (2) Number of overtime hours worked.
- (3) Regular hourly rates paid.
- (4) Overtime hourly rates paid.
- (5) Specific information with regard to any additional costs incurred with the three-man crews which were included in the annual amounts shown in the response.

15. File a revised Exhibit K Schedule #1, all four pages, incorporating the FAC rate base adjustments in Case No. 10463<sup>2</sup> to the present and proposed rates. Also state the effect on normalized revenue and normalized expenses.

16. On page 2 of 2 of Exhibit #20, in your response to the Commission's Order of May 5, 1989, question no. 38, you show KWH purchases of 513,695,064 and the dollar amount being \$12,440,870. Our calculations show 513,695,064 times East Kentucky Power Cooperative, Inc. rate of .02422 equals to \$12,441,694. Advise correct totals.

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<sup>2</sup> Case No. 10463, An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of South Kentucky Rural Electric Cooperative Corporation from November 1, 1986 to October 31, 1988.

17. Explain why a fixed cost such as substation cost should be included in your normalization adjustment no. 2 for purchase power expense.

18. With reference to Exhibit 20, pages 7 through 16, sheets 1 through 10, provide all of the same information contained in Exhibits A and B using the following variations in assumptions:

a. Total capital and equity level including all generation and transmission capital credits ("GTCCs") and other capital credits.

b. Total capital and equity level including all GTCCs and other capital credits; a 40 percent desired equity level.

c. Total capital and equity level including all GTCCs and other capital credits; a 40 percent desired equity level and a 15-year theoretical cycle.

d. Total capital and equity level including all GTCCs and other capital credits; a 40 percent desired equity level and a 10-year theoretical cycle.

19. For each of the scenarios in number 18, provide the information included on page 13, sheet 7 of 10, based on the information contained in Exhibit B which reflects rate case adjustments.

20. With reference to the response to Exhibit 20, Item 26(b), pages 123 and 124, explain your response that Exhibit A supports the cooperative's desirable equity level of 45 percent. As a part of this response, include your comments on whether the 45 percent is an output of the model or an input. Also, provide complete details of how you used the "other factors" referred to

in this response in the determination of the revenue requirements  
in this case.

Done at Frankfort, Kentucky, this 2nd day of June, 1989.

PUBLIC SERVICE COMMISSION

  
For the Commission

ATTEST:

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Executive Director