

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NOLIN ELECTRIC)
COOPERATIVE CORPORATION TO ADJUST) CASE NO. 94-402
ELECTRIC RATES)

O R D E R

IT IS ORDERED that Nolin Rural Electric Cooperative Corporation ("Nolin") shall file no later than March 24, 1995 the original and 12 copies of the following information with the 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.

1. Exhibit L, page 1 of 2, of the application reflects a Times Interest Earned Ratio ("TIER") of 2.02. Explain how Nolin determined that its revenue requirements should be based on a 2.02 TIER.

2. Refer to page 4 of the application. Nolin is requesting removal of that requirement in the 1990 Settlement Agreement mandating the retirement of member capital credits. Provide the following:

a. An explanation of how Nolin will systematically retire member capital credits.

b. An explanation of the standards Nolin would use to determine whether or not it is "fiscally responsible" to retire member capital credits.

c. A copy of the equity management plan supporting the systematic retirement of member capital credits in the event Nolin is relieved of its obligations under the 1990 Settlement Agreement.

3. If Nolin is relieved of the payment provisions of the 1990 Settlement Agreement, how does it intend to reduce its equity ratio?

4. Explain the significance of the fact that Nolin's past margins have allowed the cooperative to rotate its capital credits to within 9 years of the test year.

5. Refer to Nolin's response to Item 7 of the January 27, 1995 Order. Provide:

a. A reconciliation of the total of the motor vehicle tax notices provided with the amount shown on Exhibit L, Schedule 5, of the application.

b. The tax notices to support the totals shown on pages 6 and 7.

6. Provide the overtime hours worked in the 3 years preceding the test year for Employees 15, 16, 21, 101, 104, 108, 118, and 119.

7. Provide an analysis of Nolin's storm damage for the test year and for the 9 years preceding the test year. Identify the account(s) to which these costs are charged.

8. Refer to Nolin's response to Item 13 of the January 27, 1995 Order. Provide all supporting workpapers, calculations, and assumptions used to develop the amounts for FICA, Medicare taxes, FUTA, and SUTA.

9. Reconcile the following monthly rates shown in Nolin's response to Item 15, pages 1 and 2, of the January 27, 1995 Order with those shown on Schedule 7 of Exhibit L of the application:

- a. Basic life insurance.
- b. Dependent life insurance.
- c. \$20,000 Supplemental life insurance.
- d. Directors/Attorney life insurance.
- e. Business Travel insurance.
- f. Specific excess risk.
- g. Administration.
- h. Monthly contribution.

10. Refer to Nolin's response to Item 15 of the January 27, 1995 Order. Do Nolin's normalized FICA taxes reflect the impact of life insurance coverage that exceeds \$50,000 per employee? If not, compute Nolin's FICA tax liability for the coverage provided above the \$50,000 limit. Include with this response all supporting

workpapers, calculations and assumptions for the additional tax liability on a per employee basis.

11. Refer to Nolin's response to Item 16 of the January 27, 1995 Order. What was Nolin's actual contribution, if any, to the NRECA Retirement and Security Program in 1994?

12. Refer to Nolin's response to Item 18 of the January 27, 1995 Order. Why should any test year adjustment be based upon 1994 prepaid insurance?

13. Refer to Nolin's response to Item 28 of the January 27, 1995 Order. Nolin states that its geothermal loans from East Kentucky Power Cooperative, Inc. ("EKPC") have an interest rate of 5 percent per annum. However, the financial statements on page 13 of 29 of Exhibit H of its application shows the interest rate to be 6 percent per annum. Explain the discrepancy.

14. Provide an analysis of the geothermal loan program as of the end of the test year. This analysis should include the number of participants, the balance of each outstanding loan, the interest accrued on the loans during the test year, the interest and principal payments received during the test year, and any loans that were in default as of the end of the test year.

15. Refer to Nolin's response to Item 32 of the January 27, 1995 Order.

a. Why is Nolin obtaining its engineering services from Salt River Electric Cooperative Corporation ("Salt River")?

b. Provide a breakdown of the total amount paid for engineering services during the test year by vendor and project.

c. What other options did Nolin consider for obtaining engineering services? Why were these options rejected?

d. Provide Nolin's contract with Salt River.

16. Refer to Nolin's response to Item 35(b) of the January 27, 1995 Order which lists promotional advertising expenditures of \$50,263.88. Nolin states in response to subpart (c) of the same question that promotional advertising has been excluded for rate-making purposes; however, Schedule 9 of Exhibit L of the application lists only \$3,296.01 in promotional items removed from the test year. Reconcile these two statements.

17. Refer to Nolin's response to Item 36 of the January 27, 1995 Order.

a. Provide the contract with CADP.

b. When did Nolin last solicit bids for billing services?

c. When did Nolin begin using an outside contractor to maintain its patronage capital records?

d. Provide an analysis of the cost of maintaining the patronage capital records for each of the last 5 years.

e. Why does Nolin use an outside vendor to maintain its capital patronage records?

18. Refer to Nolin's response to Item 20 of the November 22, 1994 Order. Trace the amounts shown in the general ledger to the amounts shown on Schedule 9 of Exhibit L of the application.

19. Refer to Nolin's response to Item 39 of the January 27, 1995 Order. Provide the total expense for each of the following

items and state why each should be included for rate-making purposes:

- a. Storm compensation gift certificates.
- b. Subscription to "How They Spend Our Money".
- c. Elizabethtown-Hardin County Chamber-tuition.

20. Refer to Exhibit L, Schedule 4, page 1 of the Application.

a. Provide an analysis of the proposed depreciation expense that separately identifies any amounts Nolin believes have not previously been recovered based upon its depreciation study.

b. Why should Nolin be permitted to recover any past under-accrued depreciation expense through its proposed depreciation rates?

21. a. Refer to Nolin's response to Item 48e of the January 27, 1995 Order. Explain why service wire could be prematurely retired if a customer switches to natural gas.

b. The response to Item 48f indicates that Nolin does not intend to maintain accumulated depreciation at the individual distribution plant account level. At page 14 of Nolin's depreciation study, Dean, Dorton & Ford ("DDF") recommended that the accumulated depreciation be kept at the plant account level as this would:

". . .enable future analyses of net salvage at the primary plant account level thereby producing actual experienced data for analysis, resulting in a more definitive basis for expressing an opinion of the expected net salvage percentages."

Why should the Commission not require this "more definitive basis" before accepting the negative net salvage values which Nolin has proposed for some accounts?

c. At page 2 of Nolin's depreciation study, DDF stated that it has allocated the net salvage forecast of negative 45 percent to the various plant accounts "in a manner that is believed to be representative of the cooperative's experience and is consistent with other industry averages". Provide evidence, including depreciation studies for other electric utilities, which supports this contention.

d. What are the initial and annually recurring costs of maintaining accumulated provisions for depreciation at the plant account level .

e. What are the initial and annually recurring costs of maintaining salvage data at the plant account level?

f. Provide a schedule similar in format to Exhibit L, Schedule 4, Page 1, "Adjustment for Depreciation" which uses the depreciation rates in effect in Nolin's last rate proceeding.

g. Provide a schedule similar in format to Exhibit L, Schedule 4, Page 1, "Adjustment for Depreciation" which uses depreciation rates that fall within the ranges specified in REA Bulletin 183-1.

22. Refer to Exhibit L, Schedule 4, page 1 of Nolin's application. This Schedule lists a depreciation rate of 0.0075 for Account Number 392, Transportation Equipment. Is this rate

correct? If no, provide corrected schedules. If yes, show how this rate was determined.

23. Refer to Nolin's response to the Commission's Order of January 27, 1995, Item 47, Page 1 of 1.

a. How many substations serve Schedule B customers?

b. What is the size of each substation that serves Schedule B customers?

24. Refer to Case No. 94-336¹, East Kentucky Power's Application, Exhibit P, Page 2 of 4, which refers to Schedule E Revenue. Do portions of the load center revenue shown in Exhibit P apply to schedule B? If yes, provide a detailed description of the portion of Load Center Revenue on this schedule that applies to Schedule B rates. Provide all workpapers.

Done at Frankfort, Kentucky, this 10th day of March, 1995.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director

¹ Case No. 94-336, Application of East Kentucky Power Cooperative, Inc. For an Adjustment to its Wholesale Tariffs.