

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF GRAYSON RURAL)
ELECTRIC COOPERATIVE CORPORATION) CASE NO. 98-455
FOR AN ADJUSTMENT OF RATES)

O R D E R

IT IS ORDERED that Grayson Rural Electric Cooperative Corporation (Grayson) shall file an original and 8 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 previously, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. The information requested herein shall be filed no later than January 26, 1999.

1. Refer to Exhibit B of the Application, Schedule 8.
 - a. When was the Schedule 8, Seasonal Services tariff, created?
 - b. Provide the case number that approved Schedule 8.

c. Has Grayson conducted any studies to determine the impact on each of the approximately 14 customers that will be switched from Schedule 8 to Schedule 1? If so, provide the results of the study.

2. Refer to Exhibit G of the Application, page 2 of 2, lines 31 through 34. Provide a more detailed explanation of the statement, Therefore, this is not functioning as the rate schedule was intended.

3. Refer to Exhibit K of the Application, page 2 of 4. Grayson has indicated that its net margins in calendar year 1994 were a negative \$360,954. Identify and describe the primary reasons contributing to this negative net margin situation in 1994.

4. Refer to Exhibits L and 5 of the Application.

a. Explain why Grayson's total electric plant decreased \$1,717,643 between the actual to adjusted test years.

b. Reconcile the total electric plant amount shown in Exhibit L with the asset balance reported in Exhibit 5. Identify and explain each reconciling item.

c. Explain why Account No. 155.10, Merchandise, was included in the Materials and Supplies category of Grayson's rate base.

5. Refer to Exhibit L of the Application, page 2 of 4. Between calendar year 1994 and May 31, 1998, Grayson's total electric plant balance has increased by \$6,876,827. During the same period, Grayson's accumulated depreciation balance has decreased by \$962,391. Explain how Grayson's accumulated depreciation balance can be decreasing while at the same time its electric plant balance is increasing.

6. Refer to Exhibit N of the Application, page 14 of 14, the independent auditor's report. The report discloses that Grayson guarantees payment on consumer

loans taken out for geothermal heat pumps, with the potential loss on any individual loan not to exceed \$5,000.

a. Provide a detailed explanation of this loan program. Include the date the program started, the history of the loan program, and identify any other financial sponsors of the program.

b. Describe the terms and conditions for a geothermal heat pump loan. Include copies of all loan documentation.

c. For each calendar year since the loan program began, and as of the test year end, provide a schedule listing the number of loans outstanding, the total dollars outstanding, the number of loans Grayson has paid off, and the total dollars Grayson has paid.

d. Indicate when Grayson sought Commission approval to guarantee these loans. If approval was not sought, explain how Grayson's role as guarantor of these loans does not violate the provisions of KRS 278.300.

7. Refer to Exhibit P of the Application, page 1 of 6, the annual meeting information.

a. Can Grayson identify any reason(s) why annual meeting attendance has dropped between 1994 and 1998?

b. Explain why the cost of annual meetings has increased between 1996 and 1998.

c. Concerning the 1998 annual meeting, indicate how many directors positions were up for election and how many individuals ran for those positions.

d. Provide copies of the minutes of the 1998 Annual Meeting.

8. Refer to Exhibit P of the Application, page 4 of 6. The sample bill shown indicates that Grayson is a Touchstone Energy Partner.

a. Describe the organization and purpose of Touchstone Energy.

b. Indicate when Grayson joined Touchstone Energy and explain why Grayson joined this organization.

c. Provide the membership fee or dues paid to join Touchstone Energy and the accounting entry to record the payment.

d. Explain how Grayson's membership fees or dues were determined. Include a description of the methodology used by Touchstone Energy.

e. Was the decision to join Touchstone Energy made by Grayson's board of directors? If yes, provide a copy of the appropriate resolution or section of the board minutes. If no, who decided that Grayson should join Touchstone Energy?

f. What kinds of activities do the Touchstone Energy membership fees or dues fund?

g. As a member of Touchstone Energy, describe any financial commitments or obligations Grayson has made to Touchstone Energy for the next five years.

h. Explain why the Touchstone Energy membership fees or dues should be included for rate-making purposes.

i. Do any employees, officers, or directors of Grayson serve on any committee, council, board, or other organizational unit of Touchstone Energy? If yes, identify the individual and their position with Grayson.

j. If any employee, officer, or director served on a committee, council, board, or other organizational unit of Touchstone Energy, explain how Grayson allocated any associated costs between it and Touchstone Energy.

9. Refer to Exhibit P of the Application. The narrative discussing the 1998 annual meeting makes several references to Grayson s Internet site (referred to herein as web page).

a. Indicate when Grayson started its web page.

b. Was the web page developed in-house or by an outside firm? If an outside firm was used, identify the firm and how the firm was selected.

c. Explain in detail why Grayson decided to establish a web page.

d. Provide the initial start-up costs for the web page, the account number where the costs were recorded, and the test-year portion of the cost. Also provide the amount of any on-going or maintenance type costs for the web page.

e. Were any of the initial start-up or on-going web page costs capitalized? If yes, how much and explain how the capitalization rate was determined.

f. Was a cost/benefit analysis performed before Grayson decided to establish a web page? If yes, provide the results of that analysis. If no, explain why such an analysis was not performed.

g. Provide a printed copy of Grayson s entire web page as of January 15, 1999.

10. Refer to Exhibit P of the Application, page 5 of 6, and the three attached pages describing the 1997 annual meeting. These pages indicate that Grayson has been giving \$20 worth of free electricity to two randomly selected account numbers.

The 1997 annual meeting narrative indicates that blocks of free electricity were awarded as annual meeting prizes.

a. Concerning the program of giving \$20 worth of free electricity to randomly selected account numbers:

(1) When did Grayson start this program?

(2) Provide the total dollar amount awarded since the inception of the program and during the test year.

(3) Provide the accounting entries made to record this transaction.

b. Concerning annual meeting prizes of free electricity:

(1) When did Grayson start awarding free electricity as prizes at its annual meetings? Was free electricity a prize at the 1998 annual meeting?

(2) Provide the total dollar amount awarded since the inception of the practice and during the test year.

(3) Provide the accounting entries made to record this transaction.

c. Do these awards of free electricity appear on the recipients bills as credits or are customer account records adjusted by journal entry? Explain the response.

d. Provide the citation to Grayson s tariff that discusses the provision of free electricity.

e. Has Grayson determined whether it is in compliance with the requirements of KRS 278.170(2)? Explain the response.

11. Refer to Exhibit S of the Application, page 1 of 113. A comparison of the amounts shown as Actual Test Year with the corresponding balances shown in Exhibit 5 of the Application reveals that the balances for electric plant in service and investments do not match. Indicate which balance is correct and explain the reason(s) for the disagreement between the two exhibits for these account balances.

12. Refer to Exhibit S of the Application, pages 4 through 9 of 113.

a. Explain the purpose of the Christmas bonus. Include in the explanation a description of how the amount of the bonus is determined and how long Grayson has been paying a Christmas bonus.

b. Explain the purpose of the accumulated vacation payout. Include in the explanation a description of how the amount of the payout is determined and how long Grayson has been making such a payment.

c. Explain why Grayson excluded the Christmas bonus and the accumulated vacation payout from test year expenses when determining the amount of overall wage and salary increase proposed.

d. Explain why non-union employee wage increases were suspended and replaced by a one-time bonus during the test year. Did Grayson return to the practice of awarding anniversary date wage increases for non-union employees in 1998, after test-year end? Explain the response.

e. Page 5 of 113 shows that overtime wages increased 29 percent over the level experienced in 1997. Explain the reason(s) for this increase.

f. Provide the actual overtime hours worked for calendar years 1995, 1996, and 1997.

g. Were there any extraordinary or unusual events that occurred during the test year which contributed to the level of overtime hours worked? If yes, describe the nature of the event and how many overtime hours the event represented of the total reported for the test year.

h. Explain why the following employees apparently received a wage change different than the 1.5 percent increase referenced on page 4 of 113:

- (1) Employee No. 205.
- (2) Employee No. 213.
- (3) Employee No. 222.
- (4) Employee No. 239.

i. Explain why the following employees apparently received an anniversary date wage increase and a bonus during the test year:

- (1) Employee No. 218.
- (2) Employee No. 226.
- (3) Employee No. 602.
- (4) Employee No. 618.
- (5) Employee No. 901.

13. Refer to Exhibit S of the Application, pages 10 through 12 of 113.

a. Explain why Grayson has excluded the bonus in lieu of wage increase, the Christmas bonus, and the vacation payout in the calculation of the total adjustment.

b. Provide Grayson's policy concerning the provision of life insurance to employees. Include a discussion of the amount of life insurance coverage provided,

who is eligible for this benefit, the amount of premiums paid by covered employees, how long Grayson has provided this benefit, and why Grayson believes this benefit is necessary.

c. Provide Grayson's policy concerning the vehicle compensation. Include a discussion of who is eligible for this benefit, how long Grayson has provided this benefit, and why Grayson believes this benefit is necessary.

d. Provide the test-year total cost and expensed portion of life insurance and vehicle compensation benefits. Indicate the accounts where the expensed portion of the total costs was recorded.

e. On pages 11 and 12 of 113, the schedule includes a column labeled Life Ins. > \$50K. Do the amounts shown in this column represent the additional premium paid by Grayson for life insurance coverage in excess of \$50,000? If not, explain what the amounts in this column represent.

f. Does the amount shown as Vehicle Comp. reflect the total cost of the benefit, the expensed portion only, or some other amount? Explain the response.

14. Provide the most recent compensation study performed by or for Grayson.

15. Refer to Exhibit S of the Application, page 14 of 113. The information on this page indicates that Grayson has not changed any of its depreciation rates since 1987.

a. When did Grayson last perform a detailed depreciation study?

b. Has Grayson performed any limited-scope reviews of its depreciation rates since 1987, to determine the adequacy and reasonableness of those rates?

c. Has the Rural Utilities Service (RUS) expressed any concerns to Grayson about its depreciation rates or the length of time that the current rates have been in effect? Provide copies of any correspondence sent to or received from the RUS over the last 5 years concerning Grayson s depreciation rates.

16. Refer to Exhibit S of the Application, page 107 of 113, concerning the change in calculating depreciation from a composite plant balance method to an item basis.

a. Provide all of the accounting entries made to reconcile the accumulated depreciation balance to the depreciation subsidiary balance. Include all supporting workpapers or calculations.

b. Was the decision to change to an item basis the result of computerizing Grayson s depreciation records, or for some other reason? Explain the response.

c. Indicate when the conversion of the depreciation records was completed.

d. Explain in detail why this change was not disclosed in the independent auditor s report, Exhibit N of the Application.

17. Refer to Exhibit S of the Application, pages 22 through 31 of 113. Provide the 1998 property tax statements for Grayson. Identify any taxing authority included on pages 22 through 31 that has not submitted a 1998 property tax statement.

18. Refer to Exhibit S of the Application, page 38 of 113.

a. Explain the entries to Account No. 930.30 Miscellaneous General Expenses, identified as Capital credit labor.

b. Explain the purpose of the entries for August 31 and November 30 described as Employee labor.

19. Refer to Exhibit S of the Application, page 38 of 113. For each of the transactions listed below, explain the nature or purpose of the transaction. Also explain why the expense should be included for rate-making purposes.

- a. Check No. 111377 Rocky Adkins golf scholarship.
- b. Check No. 111814 Halloween bags.
- c. Check No. 112003 Candy for front counter.
- d. Check No. 112269 Calf at fair.
- e. Check No. 112332 Elliott Co. Chamber lunches.
- f. Check No. 112837 Christmas cards.
- g. Check No. 113472 Employee gift certificates.
- h. Check No. 113946 Lollipops for consumers.
- i. Check No. 112121 Regional meeting breakfast.
- j. Check No. 113141 Subscription to PPP magazine.
- k. Check No. 115282 Golf tournament.

20. Refer to Exhibit S of the Application, page 39 of 113. Concerning the scholarships included in annual meeting expenses, explain why the provision of scholarships is a necessary cost of providing electric service and why the expense should be included for rate-making purposes.

21. Refer to Exhibit S of the Application, page 39 of 113. Explain why the payment of telling committee fees and provost fees are a reasonable expense and should be included for rate-making purposes. Include with this explanation a discussion

of how the payment of these fees is consistent with the concept of a cooperative and the shared responsibility which normally exists in non-profit cooperatives.

22. Refer to Exhibit S of the Application, pages 40 through 54 of 113.

a. Explain why it is reasonable to provide the directors with magazine subscriptions. Include an explanation as to why these expenses should be included for rate-making purposes.

b. Explain why there are multiple entries throughout the year for each director concerning Christmas gifts.

23. Refer to Exhibit 10 of the Application, concerning Grayson s directors.

a. Indicate how many years each director has served on Grayson s board of directors.

b. List the occupation of each director. If retired, indicate the director s occupation prior to retirement.

c. Indicate which director is the alternate representative on the East Kentucky Power Cooperative, Inc. (East Kentucky) board of directors.

d. Indicate which directors serve as the primary and alternate representatives to the Kentucky Association of Electric Cooperatives (KAEC).

e. Indicate which directors serve as the primary and alternate representatives to the National Rural Electric Cooperatives Association (NRECA).

f. Indicate how many directors have received NRECA Director Certification.

g. Provide copies of Board Policy No. 514 Insurance Benefits.

h. For each director, indicate whether health insurance coverage is a benefit available as part of his occupation.

i. Provide copies of Grayson's policy concerning the provision of post-retirement benefits. Indicate how many years a director must serve to be eligible for this benefit.

j. For each director, indicate whether post-retirement benefits are available in conjunction with his current or former occupation, exclusive of the post-retirement benefits provided by Grayson.

k. Explain in detail why Grayson provides health insurance and post-retirement benefits to its directors.

24. Refer to Exhibit 10 of the Application, pages 2 and 3 of 3, Grayson's Board Policy No. 110. Section II, part B.3. of this policy indicates that with prior board approval, Grayson will pay the costs associated with a spouse attending an official function on behalf of Grayson.

a. Do any of the expenses shown on Exhibit S, pages 40 through 54 of 113 include expenses for directors' spouses? If yes, indicate the amount of spouses' expenses on each page.

b. Explain in detail why expenses for directors' spouses should be included for rate-making purposes.

25. Refer to Exhibit S of the Application, pages 40 through 54 of 113.

a. For each meeting listed below, provide the date of the meeting, the meeting agenda, and indicate how many directors attended.

(1) East Kentucky Annual Meeting.

- (2) KAEC Annual Meeting.
- (3) NRECA Annual Meeting.

b. For each meeting listed below, indicate the purpose of the meeting and whether Grayson expects the meeting to be of a recurring nature.

- (1) Planning and Review Committee.
- (2) Strategic Planning Meeting.
- (3) Negotiating Committee.
- (4) Union Negotiating.
- (5) Special Board Meeting (May 1998 payment).

26. Refer to Exhibit S of the Application, pages 57 through 100 of 113, and the response to the Commission's September 24, 1998 Order, Item 28.

a. Explain why Check No. 111461, which was for \$1,000, was included in the schedule of advertising expenses as \$500.

b. Item 28 of the September 24, 1998 Order requested an analysis of advertising expenditures during the test year, covering all accounts used to record advertising expenses. Exhibit S, page 57 of 113, only references Account No. 913. Did Grayson record its advertising expenditures in any other account during the test year? If yes, provide the detailed analysis originally requested in Item 28.

27. Refer to Exhibit S of the Application, page 102 of 113, lines 23 through 39.

a. Since the regular time for a serviceman is one-half hour, shouldn't the direct wage expense be one-half of \$18.27? If so, submit a revision of Exhibit S, page 102.

b. Since Direct Wage Expense and Other Direct Costs Per Hour are associated with the 2,080 regular hours worked by an employee, isn't it improper to include these expenses in the Overtime computation? If no, explain your answer.

28. Refer to Exhibit S of the Application, page 107 of 113, concerning KTI. Grayson has indicated that it is no longer an active participant in KTI.

a. Indicate when Grayson decided to change its involvement with KTI. Include copies of any board minutes or resolutions changing Grayson's status.

b. Provide the amount of the total investment in and total of all loans made to KTI. Indicate the original investment, the original loan amount, and any subsequent amounts of investment or loans.

c. Describe Grayson's involvement and status with KTI, as of test-year-end and as of December 31, 1998.

d. Provide all the accounting entries made to record the write off. Include copies of supporting workpapers or calculations.

e. Explain in detail why the change in Grayson's relationship with KTI was not disclosed in its latest independent auditor's report, Exhibit N of the Application.

f. As of test-year-end, how many customers of Grayson were also customers of KTI? Describe any obligations Grayson still has with those customers relative to its former status with KTI.

g. Refer to Exhibit 5 of the Application, page 4 of 13. On this page, Account No. 123.11 Investment in KTI, shows a negative balance of \$35,000 at test-year-end. Explain why Account No. 123.11 still has a balance if a write off has occurred.

29. Refer to Exhibit 4 of the Application, page 3 of 3.

a. Does the schedule of outstanding short-term debt reflect information as of March 31, 1998 or May 31, 1998, the test-year-end? If this information reflects March 31, 1998, provide the same information as of test-year-end.

b. Explain the nature and purpose of the short-term borrowings.

30. Refer to Exhibit 5 of the Application, the comparison of test-year account balances with the preceding year balance sheet accounts. For each of the accounts listed below, explain the reason(s) for the change in the account balance between the two periods.

a. Page 1 of 13, Account No. 391.00 Office Furniture.

b. Page 2 of 13, Account No. 394.00 Tools, Shop & Garage.

c. Page 2 of 13, Account No. 397.00 Communication.

d. Page 7 of 13, Account No. 155.10 Merchandise.

e. Page 9 of 13, Account No. 165.91 Lease Agreements.

31. Refer to Exhibit 5 of the Application. For each of the accounts listed below, explain the nature of the account, the types of transactions recorded in the account, and why the account is necessary.

a. Page 4 of 13, Account No. 123.24 Business Develop KY.

b. Page 6 of 13, Account No. 143.00 AR Directors.

c. Page 6 of 13, Account No. 143.60 Employee Loan Program.

d. Page 7 of 13, Account No. 146.10 FEMA Reimbursement.

e. Page 8 of 13, Account No. 165.20 Dues from Associated Organizations.

f. Page 10 of 13, Account No. 208.10 Discount on Deceased Estates.

32. Refer to Exhibit 6 of the Application, the comparison of test-year account balances with the preceding year income statement accounts. For each of the accounts listed below, explain the reason(s) for the change in the account balance between the two periods.

- a. Page 1 of 6, Account No. 583.00 Overhead Line Expense.
- b. Page 2 of 6, Account No. 588.00 Miscellaneous Distribution.
- c. Page 3 of 6, Account No. 903.00 Consumer Records & Collection.
- d. Page 3 of 6, Account No. 904.00 Uncollectibles.
- e. Page 3 of 6, Account No. 920.00 Administrative Salaries.
- f. Page 3 of 6, Account No. 921.00 Office Supplies & Expense.
- g. Page 4 of 6, Account No. 926.00 Employee Benefits.
- h. Page 4 of 6, Account No. 408.10 Property Taxes.
- i. Page 5 of 6, Account No. 427.10 REA Interest.

33. Refer to Exhibit 9 of the Application, pages 3 and 4 of 4, professional services.

- a. Page 3 of 4, lines 14 through 42, shows by check number the monthly retainer and other expenses paid by Grayson for its attorney. For each transaction shown on lines 14 through 42, with the exception of the retainer payments, explain why Grayson believes each of the costs associated with its attorney should be included for rate-making purposes.

b. Provide the amount of the monthly retainer paid to Grayson's attorney. If the retainer is not a constant amount, explain how the monthly retainer is determined.

c. Explain in detail why Grayson pays health insurance and provides post-retirement benefits to its attorney. Is the attorney an employee of Grayson or is Grayson one of his clients? In addition, explain why these costs should be included for rate-making purposes.

d. Page 4 of 4 includes a transaction identified as Monthly retainer for economic development. The transaction date is June 5, 1998. Explain the purpose of this transaction. In addition, explain why this transaction was included, since the test-year-end in this case is May 31, 1998.

34. Refer to Exhibit 11 of the Application. For each of the accounts listed below, explain the nature of the account, the types of transactions recorded in the account, and why the account is necessary.

a. Page 2 of 8, Account No. 121.00 Leased homeguard systems.

b. Page 4 of 8, Account No. 201.12 Rotation of CC.

c. Page 4 of 8, Account No. 232.31 Employees fund.

35. Concerning Grayson's retirement of capital credits:

a. Exhibit 14 of the Application, page 1 of 3, indicates that the last capital credit retirements made by Grayson occurred prior to 1992. However, Exhibit N of the Application, page 11 of 14, indicates that \$5,335 in retirements were made between May 31, 1997 and May 31, 1998. In addition, Grayson's Annual Report for 1993, filed with the Commission, indicates that a sizable retirement was made in 1993.

Explain why page 1 of 3 indicates no retirements have been during the last six and one half years. Resubmit page 1 of 3, correctly showing all retirements made by Grayson.

b. Included in the Patronage Capital section of Grayson's 1997 Annual Report is an adjustment entitled Bad Debts recovered from Capital Credit File. Explain the nature and purpose of this adjustment. Include copies of any board policies or citations to the bylaws that address this procedure.

c. Describe the status of the delayed 1993 capital credit retirement of \$111,159 associated with Case No. 94-392.¹ Include with the description the outstanding balance of the retirement, explain how any payments were funded, and who received payments. Also explain in detail how Grayson plans to pay the outstanding retirement.

d. Exhibit 14, pages 2 and 3 of 3 contain Grayson Board Policy No. 204, equity management and capital credit policy. The policy sets as a target a capital credit rotation cycle of 10 years. Has Grayson performed any financial analysis or modeling to determine when it could expect its financial position could accommodate a 10-year capital credit rotation cycle? If yes, provide copies of the analysis or modeling results.

36. Exhibit 15 of the Application concerns Grayson's adoption of Statement of Financial Accounting Standard (SFAS) No. 106.

a. Provide the test year accrual for SFAS No. 106 costs. Show the capitalized and expensed portions of the total accrual.

¹ Case No. 94-392, The Request of Grayson Rural Electric Cooperative Corporation for a Deviation from its 1988 Settlement Agreement.

b. Do the amounts shown on Exhibit S, page 40 of 113, and Exhibit 9, page 3 of 4, as post-retirement benefits represent the expensed portion of the annual accrual for SFAS No. 106 costs associated with Grayson's directors and attorney? If no, provide the amount of the total annual accrual for SFAS No. 106 costs associated with the directors and attorney, showing the capitalized and expensed portions separately.

c. What was the basis for the assumption that the normal retirement age for directors and the attorney would be 70?

37. Refer to the response to the Commission's September 24, 1998 Order, Item 22(b). Explain why this response indicates that union salaries increased 2.5 percent in the test year, while the statement is made in Exhibit S, page 4 of 113 that the union increase was 1.5 percent.

38. Refer to the response to the Commission's September 24, 1998 Order, Item 34, page 2 of 10. Explain why Regular Labor was included as part of the cost of this rate case, in light of the statement about in-house labor contained in Exhibit S, page 35 of 113.

39. Refer to Exhibit H(1) of the Application, the direct testimony of James R. Adkins, and Exhibit R, the cost-of-service study printouts.

a. Was the model used to develop the cost-of-service study submitted in this case the same as the model submitted in Case No. 98-321?² If the approaches and methodologies employed in this model have been changed since the submission in Case No. 98-321, identify each change and explain the nature of the change.

² Case No. 98-321, Application of Licking Valley Rural Electric Cooperative Corporation to Adjust Electric Rates.

b. Provide one 3.5 inch computer disc which contains Exhibit H(1), Attachments I through VI and Exhibit R.

Done at Frankfort, Kentucky, this 12th day of January, 1999.

By the Commission

ATTEST:

Executive Director