

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 February 23, 1999.

1. Refer to the response to the Commission s January 12, 1999 Order, Item 4(c). Does Grayson contend that Account No. 155.10, Merchandise, should be included in the calculation of its rate base? If yes, explain the reason(s) in detail.

2. Refer to the response to the Commission s January 12, 1999 Order, Item 6.

a. Provide a copy of a Guaranty Agreement as referenced in the response to Item 6(b) for a loan executed during the test year. The name and address of the loan recipient can be blacked out if there are confidentiality concerns.

b. For Item 6(c), provide the information that is available concerning the number and amount of outstanding geothermal heat pump loans for the years 1995 through 1997. Also, explain why this information is not available by year.

c. Concerning Item 6(d), indicate the date on which Grayson filed its application for authority to assume evidence of indebtedness with the Commission and provide the case number.

3. Refer to the response to the Commission's January 12, 1999 Order, Item 8.

a. Does Grayson know how the Touchstone Energy Executive Council determines the amount of the membership fee? If yes, provide an explanation of how the fee was determined.

b. Was Grayson aware that Touchstone Energy was a sponsor of a NASCAR race in Alabama, holds the right to name a convention facility in Minnesota, and has become a sponsor of a professional golf tournament in Arizona?

c. Does Touchstone Energy's involvement in the activities listed in part b cause Grayson any concern? Explain the response.

4. Refer to the response to the Commission's January 12, 1999 Order, Item 8, the minutes of the December 19, 1997 board of directors meeting. Concerning the right-of-way crews:

a. Provide the total expense of the gifts referenced in the board minutes for the right-of-way crews.

b. Were these crews employees of Grayson or an independent contractor? If an independent contractor, explain why Grayson believed it was necessary to provide these gifts to the crews.

c. Explain why this expense should be included for rate-making purposes.

d. During the test year, did Grayson provide similar gifts to employees of independent contractors who performed work for Grayson? If yes, provide the amount of expense incurred for these gifts by Grayson.

5. Refer to the response to the Commission's January 12, 1999 Order, Item 9, Grayson's Internet site (referred to herein as web page). For each organization listed below, indicate if there is a cost to Grayson to provide a web page link to that organization's web page. Also indicate if Grayson receives any revenues from the organization for including the web page link.

a. National Rural Electric Cooperative Association.

b. East Kentucky Power Cooperative, Inc.

c. The entities listed on the page titled Local Links.

d. Steffes ETS.

e. Local Colleges, Universities, and School Districts.

6. Has Grayson considered including a link to the Commission's web page as part of its consumer information efforts associated with its web page? Explain the response.

7. Refer to the response to the Commission's January 12, 1999 Order, Item 9, What's New page. Grayson states that it has replaced the billing card with a statement billing.

a. Indicate how long the conversion from billing cards to statement billings took.

b. Provide the test year and total costs associated with the conversion. Indicate the amount of costs that were expensed in the test year and in total. Identify the account numbers charged with the expense.

c. Does Grayson expect that the conversion to statement billings will be less expensive, more expensive, or about the same as the costs under the billing card system? Did Grayson perform any cost/benefit analysis when considering this change? Explain the responses.

8. For each of the services listed below, state when Grayson began offering the service, indicate the number of consumers utilizing the service as of test-year-end, provide a detailed breakdown of the test year and total start-up costs, and provide a detailed breakdown of the test year and total expected on-going costs. Indicate the expensed portion of these costs and identify the account numbers charged with the expense.

a. ACH program.

b. Submission of Consumer Meter Readings via E-mail.

c. Payment of electric bills using VISA or MasterCard.

9. Do consumers who use the ACH program or pay their electric bills using VISA or MasterCard pay any additional charges for the service? If yes, are these charges covered in Grayson's filed tariffs? If no, explain why not.

10. What impact on its uncollectible accounts does Grayson expect from the acceptance of credit cards for bill payments? Does the acceptance of credit cards have the potential of shifting some portion of its uncollectible accounts away from Grayson? Explain the responses.

11. Refer to the response to the Commission's January 12, 1999 Order, Item 10(e). Provide a copy of the text included in Grayson's Kentucky Living magazine insert and on its web page announcing the discontinuance of the free electricity give away.

12.

a. Provide an explanation of how the amount of the Christmas bonus is determined, as was originally requested in Item 12(a).

b. Indicate how long Grayson has been making accumulated vacation payouts, as was originally requested in Item 12(b).

c. Explain in detail why Grayson believes the Christmas bonus and the accumulated vacation payout should not be considered part of the employees annual compensation for rate-making purposes.

d. Using the listing of employees shown in Exhibit S of the Application, page 6 of 113, provide a schedule showing the number of overtime hours associated with the February 1998 snow storm each employee worked. In addition, explain why

these overtime hours should be included as part of Grayson's wage and salary normalization calculations.

e. Provide the accounting entries Grayson made to record the Federal Emergency Management Agency (FEMA) reimbursement.

f. Indicate the expense portion of the total February 1998 snow storm costs and the FEMA reimbursement.

g. Indicate the amount of any FEMA reimbursement Grayson expected to receive as of test-year-end. Explain why Grayson did not propose an adjustment to reflect this reimbursement of costs.

13. Refer to the response to the Commission's January 12, 1999 Order, Item 13.

a. Provide a copy of the life insurance premium statement/invoice for the coverage in effect as of test-year-end. If not separately disclosed on the statement/invoice, provide the cost for \$50,000 worth of life insurance coverage.

b. Explain why Grayson does not have a written policy concerning vehicle compensation.

c. Of the eight employees permitted to drive cooperative vehicles to and from work, are all eight permitted to use the cooperative vehicles for personal use, or is this limited to the President/CEO of Grayson? If all are permitted personal use, explain why only one employee was shown as having received "Vehicle Comp. on Exhibit S of the Application, page 11 of 113.

14. Refer to the response to the Commission's January 12, 1999 Order, Item 15(b). In light of Grayson's declining depreciation reserve ratio and its change in

methodology for calculating depreciation expense, explain in detail why Grayson believes it is reasonable to delay consideration of a depreciation study until a model under development by the Rural Utilities Service (RUS) becomes available.

15. Refer to the response to the Commission s January 12, 1999 Order, Item 16(d) and Exhibit N of the Application.

a. Did the financial statements contained in the independent auditor s report reflect the effects of the change from composite basis to item basis depreciation?

b. Explain in detail why the materiality of the amount of change in depreciation constitutes a reasonable explanation for not disclosing a change in Grayson s accounting policies in the independent auditor s report.

16. Refer to the response to the Commission s January 12, 1999 Order, Item 21. As part of Item 21, Grayson was requested to explain how the payment of fees to a telling committee and for a provost were consistent with the concept of a cooperative and the shared responsibility which normally exists in non-profit cooperatives. This explanation was not provided in the response. Provide the originally requested information.

17. Refer to the response to the Commission s January 12, 1999 Order, Item 23, Board Policy No. 514 Insurance Benefits.

a. Provide the test-year expense for supplying major medical and hospitalization insurance coverage to spouses and dependents of deceased Grayson directors. Indicate the account numbers used to record the expense.

b. Provide the test-year expense for supplying major medical and hospitalization insurance coverage to retired attorneys of Grayson. Indicate the account numbers used to record the expense.

c. Describe the nature of the revisions made to Board Policy No. 514 in July 1997 and March 1998.

18. Refer to the response to the Commission's January 12, 1999 Order, Item 24. Provide a schedule showing the activity during the test year in Account No. 143.00. At a minimum, the schedule should include the date of the transaction, the amount, the vendor or payee involved, and a description of the transaction.

19. Refer to the response to the Commission's January 12, 1999 Order, Item 25(a). Pages 5 through 9 of 9 in this response were partially blocked by identifying labels and page 6 of 9 was missing. Resubmit pages 5 through 9 of 9 of this response.

20. Refer to the response to the Commission's January 12, 1999 Order, Item 26.

a. What other energy sources are available for home or business heating in Grayson's service territory?

b. Would Grayson agree that its advertising of geothermal heating and cooling systems and electric thermal storage (ETS) systems could be classified as forms of both energy conservation advertising and promotional advertising? Explain the response.

21. Refer to the response to the Commission's January 12, 1999 Order, Item 28.

a. The response to Item 28(c) did not adequately describe Grayson's involvement and status with Kentucky Telecommunications, Inc. (KTI) as of test-year-end and as of December 31, 1998. Provide the originally requested information.

b. Concerning the response to Item 28(e), explain in detail why the fact that Grayson considered its involvement in KTI to be a minor activity, and not significant to the financial statements, was adequate justification for not disclosing the change in Grayson's relationship with its subsidiary, KTI, in its independent auditor's report.

c. The response to Item 28(f) did not provide the number of Grayson's customers who were also customers of KTI. Provide the originally requested information.

22. In Administrative Case No. 326,¹ the Commission issued accounting and reporting guidelines for electric cooperatives that had become involved in the distribution and sale of satellite-delivered television programming services.

a. For calendar year 1997, provide Grayson's supplemental report on its KTI involvement, which was to have been filed with its 1997 Annual Report.

b. In previous supplements to its Annual Reports, Grayson stated that the per diem and expenses incurred by a director for attending KTI board meetings were charged directly to Account No. 417.10 Expenses from KTI. Explain in detail why Exhibit S of the Application, pages 42 through 44 of 113 lists director per diems and

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

expenses associated with attendance at KTI meetings and these items are included in the total shown for Account No. 930.60 Directors Expenses.

c. Provide a schedule showing all test-year entries made to Account No. 417.00 Revenues from KTI and Account No. 417.10 Expenses from KTI. At a minimum, the schedule should include the date of the transaction, the amount, the vendor or payee involved, and a description of the transaction.

d. Provide updates on any contract or agreement with KTI in force during the test year.

e. Provide a detailed explanation of the cost allocation methodologies utilized by Grayson during the test year to ensure the proper assignment of common joint costs between Grayson and KTI.

23. Refer to the response to the Commission's January 12, 1999 Order, Item 30(d). Provide the following information concerning ETS unit transactions during the test year:

a. The number of units on hand at the beginning of the test year and the dollar value of the inventory.

b. The number of units purchased and the dollar value of all purchased units.

c. The number of units sold and the dollar value of all units sold.

d. The number of units on hand at the end of the test year and the dollar value of the inventory.

24. Refer to the response to the Commission's January 12, 1999 Order, Item 31.

a. Describe the purpose of the organization Business Development KY and explain why Grayson invested in this organization.

b. In the response to Item 31(b), it is indicated that transactions recorded in this account reflect purchases/expenses by Directors that are not approved by policy. Explain in detail why Grayson paid for the purchase or expense if it was not approved by policy.

c. Concerning Account No. 143.00 AR Directors:

(1) How soon are directors required to settle their accounts receivable with Grayson?

(2) During the test year, did Grayson write-off any of the accounts receivable? If yes, explain the reason(s) for each write-off.

(3) Provide a copy of Grayson's written policy concerning the use of this account.

25. Refer to the response to the Commission's January 12, 1999 Order, Item 33(d). The response provided implies that Grayson is directly funding the executive director's position with the Grayson Chamber of Commerce. Provide a thorough explanation of Grayson's relationship with this chamber of commerce, including whether Grayson is paying annual dues in addition to the funding of the executive director's position.

26. Refer to the response to the Commission's January 12, 1999 Order, Item 35.

a. Item 35(a) requested a resubmission of Exhibit 14 of the Application, page 1 of 3. While the response implied the item was included, the revised page was not provided. Provide the originally requested item.

b. Provide a detailed explanation of the practice of Bad Debts recovered from Capital Credit File. Include a discussion of when it is determined the debt is to be written off and how soon after the member terminates will the write-off be made. Also include any citations to authoritative references which support this practice.

c. Does Grayson have a written policy addressing its Bad Debts recovered from Capital Credit File practice? If yes, provide a copy of the policy. If no, explain why not.

d. Refer to the response to Item 35(b). If Grayson found no guidance in its bylaws addressing the issue of this form of bad debt write-off, explain the reason(s) supporting the board of directors conclusion that it would be in Grayson s best interest to continue the practice.

e. Provide copies of the July 23, 1993 and January 24, 1997 revisions to Grayson Board Policy No. 204.

27. Grayson Board Policy No. 204, which is identified as an equity management and capital credits policy, only discusses capital credit practices.

a. Explain why Grayson considers its Board Policy No. 204 to be an equity management plan when it contains no discussion of equity levels, target earnings levels, or Grayson s overall approach to managing its equity.

b. Has Grayson considered seeking the assistance of an organization like the National Rural Utilities Cooperative Finance Corporation (CFC) to develop a comprehensive equity management plan for Grayson? Explain the response.

c. In the response to the Commission's January 12, 1999 Order, Item 35(d), Grayson acknowledges that, due to other financial priorities, the attainment of the goal of a 10-year capital credit rotation cycle is much less likely. Has Grayson considered seeking the assistance of CFC to review the overall reasonableness of Board Policy No. 204, in light of Grayson's current financial condition? Explain the response.

28. In the final Order in Case No. 94-392,² the Commission ordered Grayson to begin the payment of its 1993 capital credits when its recalculated current ratio, which was to assume the payment of the 1993 capital credits, exceeded 1.0.

a. From August 1995 through May 1998, has Grayson's recalculated current ratio exceeded 1.0? If yes, identify the month(s) and the recalculated ratio value.

b. In Case No. 94-392, the Commission stated Grayson should make every reasonable effort to improve its Current Ratio by achieving a proper balance of loan funds, short-term borrowings, and general funds.³ Describe the efforts undertaken since August 1995 by Grayson that are responsive to this directive.

² Case No. 94-392, The Request of Grayson Rural Electric Cooperative Corporation for a Deviation from its 1988 Settlement Agreement, final Order dated August 8, 1995.

³ Id. at 3.

c. For calendar years 1995, 1996, 1997, and the 12 months ending May 31, 1998, prepare a schedule showing the annual amounts for the following items:

- (1) The gross additions to utility plant in service.
- (2) The amount of long-term debt loan advances or drawdowns.
- (3) The amount of short-term debt loan advances or drawdowns.

d. Describe the process Grayson goes through in seeking, securing, and accessing long-term debt funds from RUS and CFC. Include an indication of how much time passes from the date of loan application to the first drawdown of loan funds.

e. As of the date of this Order, does Grayson have any applications for long-term debt funds pending before RUS or CFC or is Grayson in the process of preparing such applications?

f. Provide the following information concerning the last three long-term debt loan approvals received by Grayson:

- (1) The date the loan was approved.
- (2) The lender.
- (3) The amount of the loan.

29. Item 34(c) of the Commission's September 24, 1998 Order required Grayson to provide monthly updates of the actual costs incurred during the course of this proceeding, in the manner prescribed in Item 34(a). As of the date of this Order, the Commission has not received any rate case cost updates. Provide the information originally requested. Grayson correctly noted in its response to the Commission's

January 12, 1999 Order, Item 38, that all actual costs are to be included in the monthly updates.

30. Refer to the response to the Attorney General s (AG) First Data Request dated January 12, 1999, Item 2.

a. Why were rate schedules 3, 6, 7, and 8 omitted from this response?

b. The responses to this item do not appear to match Exhibit J of the Application, pages 2 through 10 of 10. Provide a complete and detailed reconciliation between these two documents.

c. Provide the number of customers in all rate classes as of May 31, 1998.

31. Refer to Exhibit R of the Application, page 6 of 14, Schedule C Classification of Functionalized Costs. Grayson provided the results of the Minimum Investment Method, which was used to classify costs as either demand or consumer related. While the Minimum Mile and the Y-Intercept Methods are also shown on page 6 of 14, there is no analysis done for either of these two methods. However, in response to the AG s First Data Request dated January 12, 1999, Item 12(e), Grayson states that Neither the minimum size method nor the minimum intercept method provided for any of the expenses for services to be classified as demand related, which indicates that both of these analyses were performed.

a. If the Minimum Mile and the Y-Intercept Methods were performed, explain why the results were not included on page 6 of 14.

b. If the Minimum Mile and the Y-Intercept Methods were performed, provide the results from these methods.

c. If the Minimum Mile and Y-Intercept Methods were not performed, explain why not.

32. Concerning the cost-of-service study model, some of the charts that were included in the computer disc are titled Fox Creek rather than Grayson as the cooperative. Was this an error, or do the charts reflect Fox Creek statistics?

Done at Frankfort, Kentucky, this 9th day of February, 1999.

By the Commission

ATTEST:

Executive Director