

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF INTER-COUNTY ENERGY)	CASE NO.
COOPERATIVE FOR AN ADJUSTMENT OF RATES)	2006-00415

SECOND DATA REQUEST OF COMMISSION STAFF TO
INTER-COUNTY ENERGY COOPERATIVE

Inter-County Energy Cooperative (“Inter-County”) is requested, pursuant to 807 KAR 5:001, to file with the Commission the original and six copies of the following information, with a copy to all parties of record. The information requested herein is due on February 16, 2007. 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 person 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, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. Refer to the Application, page 2, Item 12(b). Inter-County states that “its financial operations have deteriorated substantially over the past few years.” Explain why Inter-County did not file a rate application before 2007.

2. Refer to the Application, Exhibit H-1, page 2 of 3, Answer 10. Inter-County refers to its mortgage agreements that require it to attain a Times Interest

Earned Ratio (“TIER”) of 1.25, based on an average of two of the three most current years.

a. Provide the TIER reported to the Rural Utilities Service (“RUS”) for calendar year 2006. Include all supporting calculations and documentation.

b. For calendar year 2006, did Inter-County attain the TIER required in its mortgage agreements? If no, provide all correspondence or description of any discussion Inter-County has had with RUS regarding the mortgage agreements and TIER requirement.

3. Refer to the Application, Exhibit K, page 6 of 7. Explain the change in the margin excluding generation and transmission capital credits annually between 2001 and 2006.

4. Refer to the Application, Exhibit N, page 9 of 11, Item 4 – Long-Term Debt. Inter-County states that its long-term debt consists of an item titled “Due East Kentucky, 4.2% various 5 years”.

a. Provide the agreement between Inter-County and East Kentucky Power Cooperative, Inc. (“East Kentucky”) for the long-term debt.

b. Provide a description of the “ERC loans” due to East Kentucky.

c. Provide the case number in which the Commission approved the long-term debt with East Kentucky.

5. Refer to the Application, Exhibit W. For each balance sheet account listed below, describe the reason(s) for the change in the account balance between July 31, 2005 and July 31, 2006.

- 13.
- a. Account No. 367 – Underground conductor and devices, page 1 of 13.
 - b. Account No. 390 – Structures and Improvements, page 1 of 13.
 - c. Account No. 391 – Office furniture, page 1 of 13.
 - d. Account No. 398 – Miscellaneous, page 2 of 13
 - e. Account No. 107.20 – Construction work in progress, page 2 of 13.
 - f. Account No. 224.03 – RUS notes, page 9 of 13.
 - g. Account No. 224.60 – Advance payment, page 9 of 13.
 - h. Account No. 224.21 – Unadvanced Funds, page 9 of 13.
 - i. Account No. 224.14 – Marketing loans, page 9 of 13.

6. Refer to the Application, Exhibit W. For each account listed below, describe the purpose of the account and what types of items are included in the account.

- a. Account No. 124 – Business Development Corp., page 5 of 13.
- b. Account No. 124.01 – Industrial Development Corp., page 5 of 13.
- c. Account No. 224.14 – Marketing loans, page 9 of 13.

7. Refer to the Application, Exhibit W, page 13 of 13. Explain the purpose of Account No. 253, Deferred pole rentals. Explain why the account is deferred.

8. Refer to the Application, Exhibit X. For each income statement account listed below, describe the reason(s) for the change in the account balance between July 31, 2005 and July 31, 2006.

- a. Account No. 442.10 – Small commercial sale, page 1 of 9.

- b. Account No. 442.30 – Large commercial sale, page 2 of 9.
 - c. Account No. 442.32 – Industrial sales, page 2 of 9.
 - d. Account No. 450.00 – Forfeit discounts, page 2 of 9.
 - e. Account No. 454.00 – Rent from electric property, page 2 of 9.
 - f. Account No. 935.00 – Maintenance of general plant, page 7 of 9.
 - g. Account No. 427.20 – FFB interest, page 8 of 9.
 - h. Account No. 427.40 – CFC interest, page 8 of 9.
9. Refer to the Application, Exhibit 1, pages 3 through 5 of 10.
- a. Explain the nature and purpose of the Service Awards and Bonuses.
 - b. Explain how Inter-County determines eligibility for Service Awards and Bonuses.
 - c. Are the Service Awards and Bonuses one and the same or are they two different incentives? If different, provide the type of incentive provided to each employee identified as receiving a Service Award and Bonus.
10. Refer to the Application, Exhibit 1, page 7 of 10. Explain why it is reasonable to increase the compensation of the executive officers in the amounts indicated. Provide any supporting studies, documentation, and workpapers.
11. Refer to the Application, Exhibit 1, pages 9 and 10 of 10. The reason for increase is noted as an adjustment either “to market” or to some percentage “of market.” Explain how “market” is determined. Provide any supporting studies, documentation and workpapers.

12. It does not appear that Inter-County has made any adjustment for employee benefits expense. Does Inter-County anticipate a change in its employee benefits expense? Provide a schedule of the employee benefits that Inter-County currently provides to its employees.

13. Refer to the Application, Exhibit 3. Was any consideration given to performing a depreciation study in conjunction with this rate case? Explain the response.

14. Refer to the Application, Exhibit 5. Provide an update of the current interest rates through January 31, 2007.

15. Refer to the Application, Exhibit 9, page 1 of 7. Inter-County states that expenses for the new loan services were not removed since legal services are required each time it applies for a loan. Does Inter-County incur expenses for new loan services annually? Provide a schedule of the number of loans and the associated expenses incurred for the past 3 years.

16. Refer to the Application, Exhibit 9, pages 1 through 4 of 7. Pertaining to Inter-County's legal expenses,

a. Provide a copy of the written agreement with the new law firm. If no written agreement exists, explain why Inter-County does not have one.

b. Explain in detail why expenses for legal seminars, special board meetings, and board meals for the attorney should be included for rate-making purposes, given the attorney is compensated by a retainer and normal hourly billed rate.

c. For the following transactions, explain if the transaction is recurring and why it should be included for rate-making purposes.

- (1) Page 3 of 7, line 45 – Legal fees for ETS loan.
- (2) Page 3 of 7, line 58 – Labor matters for employee issues.
- (3) Page 3 of 7, line 60 – By-Law review, election committee.
- (4) Page 4 of 7, line 69 – Labor matters for employee issues.

17. Refer to the Application, Exhibit 9, page 1 of 7. Inter-County states it employed East Kentucky's Internal Audit staff to conduct various internal audit services.

a. Explain in detail what services are included in the internal audit services provided by East Kentucky.

b. Provide a copy of the written agreement with East Kentucky. If no written agreement exists, explain why Inter-County does not have one.

c. Provide a copy of the audit report(s) provided to Inter-County by East Kentucky.

d. Was the test year the first time Inter-County employed the internal audit services of East Kentucky? Explain the response.

18. Refer to the Application, Exhibit 9, page 4 of 7, lines 78, 79, 81, 82, and 84. Explain in detail why meal expenses for auditors should be included for rate-making purposes.

19. Refer to the Application, Exhibit 10.

a. Refer to page 2 of 23. Inter-County provides an additional \$125 per month to the Treasurer to cover the time expended to review invoices and sign checks. Provide a reasonable estimate of the amount of time expended each month performing the duties as described by Inter-County.

b. Was Inter-County aware that in previous electric distribution cooperative rate cases the Commission has excluded for rate-making purposes additional fees to officers of the board of directors? Explain why Inter-County believes this additional per diem should be included for rate-making purposes.

c. Explain the nature and purpose of the following meetings attended by many of the directors. Include a detailed explanation of why each should be included for rate-making purposes. Provide a copy of any meeting materials or agendas provided to the attendees.

(1) Regional meeting.

(2) Strategic Issues Conference.

(3) Territorial issues meeting.

(4) Kentucky Association of Electric Cooperatives ("KAEC")

Director training.

(5) Coordinated Training Program.

(6) National Rural Utilities Cooperative Finance Corporation

Financial Forum.

(7) National Rural Electric Cooperative Association ("NRECA")

Director Conference.

(8) NRECA regional meeting.

(9) Energy Management Conference.

d. Refer to page 8 of 23. Explain the nature and purpose of the internet and telephone expenses. Explain in detail why the expenses should be included for rate-making purposes.

e. Refer to page 9 of 23, line 29. Explain why a flu shot should be included for rate-making purposes.

f. Refer to page 11 of 23, line 41. Inter-County removed all other associated KAEC annual meeting expenses for rate-making purposes for this director. Should this expense be removed for rate-making purposes?

g. Refer to page 15 and 16 of 23. Explain why Inter-County has included the NRECA Annual Meeting expenses for this director for rate-making purposes when he is not the designated NRECA representative.

h. Refer to page 21 and 22 of 23. Explain why Inter-County has included the NRECA Annual Meeting expenses for this director for rate-making purposes when he is not the designated NRECA representative.

20. Refer to the Application, Exhibit 11, pages 3 through 7 of 11. Provide 3 sample copies of the print advertisements and the sample text of 3 of the radio advertisements.

21. Refer to the Application, Exhibit 11, pages 9 and 10 of 11. For the following transactions, explain if it is recurring and why it should be included for rate-making purposes.

- a. Line 12 – Shelves and frames.
- b. Line 16 – Portrait for office.
- c. Line 18 – Wellness room.
- d. Line 21 – Lobby display.
- e. Line 22 – Transformer for lobby display.
- f. Line 25 – Furniture for break room.

- g. Line 29 – Meeting room sound equipment.
- h. Line 34 – Bath supplies.
- i. Line 40 – Driving records.
- j. Line 44 – Flags for office.
- k. Line 48 – Flag for Lebanon office.
- l. Line 52 – Dues.
- m. Line 53 – Dues.
- n. Line 54 – Programming changes.
- o. Line 63 – Annual Dues

22. Refer to the Application, Exhibit 11, page 10 of 11. Are any of the items that were individually less than \$100 related to Christmas gifts, Christmas activities, or the Washington Youth Tour? If yes, identify the amounts.

23. Refer to the Application, Exhibit 11, page 11 of 11.

a. Explain why annual meeting uniforms and shirt logo should be included for rate-making purposes.

b. Provide a sample copy of the print advertisement and sample text of the radio advertisements for the annual meeting.

24. Refer to the Application, Exhibit 12. Provide an update of the current rate case expenses through January 31, 2007.

25. Refer to the Application, Exhibit 13. Does Inter-County consider the loss on the office furniture and equipment to be a recurring event? Explain in detail why the loss should be included for rate-making purposes.

26. Concerning the PSC Assessment:

a. Did Inter-County include an adjustment to normalize the PSC Assessment?

b. Would Inter-County agree that the normalization should be included and should reflect the current PSC Assessment rate? Explain the response.

27. Refer to the Application, Exhibit D, page 2. Inter-County proposes increases of 30 percent to 300 percent to its non-recurring charges. Explain whether Inter-County has reviewed its procedures involved in accomplishing the services covered by its non-recurring charges and if so, whether Inter-County is satisfied the services covered by the return check, meter reading and meter test charges are accomplished in the most efficient means possible.

28. Refer to the Application, Exhibit J, pages 1- 10. Provide electronic versions of the spreadsheets included in Exhibit J on CD-ROM or diskette.

29. Refer to the Application, Exhibit R, page 3 of 35. Explain the references to South Kentucky included in the last paragraph of the response.

30. Refer to the Application, Exhibit R, Schedules 1 – 11. Provide electronic versions of the spreadsheets included in Exhibit R on CD-ROM or diskette.

31. Refer to the Application, Exhibit R, page 8. Inter-County proposes a 36.29 percent increase in Schedule 6 lighting rates.

a. Explain whether Inter-County believes the requested increase in lighting rates is consistent with the principle of gradualism that has been used by regulatory agencies to limit the increase granted to particular rate classes.

b. Explain whether Inter-County has received any inquiries concerning the magnitude of the increase proposed for its Schedule 6 lighting rates.

32. Refer to the Application, Exhibit R, Schedule 11.

a. Provide an explanation as to why there are 23,581 Farm and Home Service consumers in part A. Lines (poles and conduit), part C. Services, part D. Meters, and part E. Consumer and Accounting Services, but only 19,651 Farm and Home Service consumers in part B. Transformers.

b. Provide a discussion of the derivation of Minimum Transformer Cost and Relative Cost and the rationale for each derivation in part B. Transformers.

c. Provide a discussion of the derivation of Minimum Service Cost and Relative Cost and the rationale for each derivation in part C. Services. Include in the discussion an explanation of how Service is provided for zero cost to the Schedule 1-A-ETS, All Electric Schools, Schedule B-1 and Schedule C-1 Rate Classes.

d. Provide a discussion of the derivation of Minimum Meter Cost and Relative Cost and the rationale for each derivation in part D. Meters. Also explain why Schedules B-1, C-1 and 6 have no minimum meter cost listed.

e. For part E. Consumer and Accounting Services, provide an explanation of the use and derivation of: Meter Reading Factor, Meter Reading Weight, Consumer Records Factor, Consumer Records Weight, Consumer Assistance Factor, and Consumer Assistance Weight.

f. For part E. Consumer and Accounting Services, provide an explanation for the differences in Consumer Records Relative Weights calculated in the middle of the page and then used at the top of the page to calculate the allocation percentages.

33. Refer to the Application, Exhibit R, Schedule 9 page 23 of 35.

a. The percent Customer Related and Demand Related cost calculations do not seem to be tied in any way to the regression. Provide an explanation of why the regression was rejected.

b. The minimum size and the zero intercept methods are similar. Compare and contrast the two methods.

34. Refer to the Application, Exhibit R, Schedule 9 page 24 of 35.

a. There appear to be several types of wire that were not included in the regression. Provide an explanation of why these were excluded.

b. Provide an explanation of why the #6ACWC size wire was selected.

c. In calculating the Consumer and Demand Related costs and percentages, the predicted cost of 0.07469 is used, as opposed to the actual unit cost of 0.0465. Provide an explanation of why this method was used when actual cost is used in the calculations on the previous page 23 of 35.

d. The regression coefficient is negative, as it was in the regression for poles. Provide an explanation of why the minimum actual price was not used to calculate the allocation factor, as it was for poles.

35. Refer to the Application, Exhibit R, Schedule 9 pages 25 and 26 of 35.

a. From page 25 of 35, it appears that one or more regressions were run, since there are predicted values for 23 different sized transformers and pads. Provide an explanation of why the regression equation on page 26 of 35 was selected and why it does not match the transformer data on page 25 of 35.

b. Provide a copy of the regression equations from which the predicted values listed on page 25 of 35 were derived.

c. The graph on page 26 of 35 appears to show that the actual cost of 50 KVA transformers is \$1,200, yet the data on the previous page lists 254 units of 50 KVA transformers at a unit cost of \$983.86 and 54 units of 50 KVA transformers at a unit cost of \$1,101.39. Provide the data which supports the regression equation on page 26 of 35.

36. Refer to the Application, Exhibit R, Schedule 8 page 22 of 35.

a. The Customer and Demand allocation factors for accounts 364 – 367 do not seem to reflect the calculations from Schedule 9. Provide a reference to where the allocation factors were derived.

b. Should the cell in column 3 containing the value 82,125,031 be blank? If not, provide an explanation of its derivation.

c. Provide an explanation of and the location of the derivation of the allocation factor for Total General Plant.

d. Provide an explanation of the derivation of the allocation factor used for Total Utility Plant, Accumulated Depreciation, Net Plant, Cash Working Capital, Materials and Supplies, and Prepayments.

37. Refer to the Application, Exhibit R, Schedule 7 page 21 of 35. The Schedule includes 3 columns in which some data is illegible. Provide a corrected copy of page 21 of 35.

38. Refer to the Application, Exhibit R, Schedule 6 pages 19-20 of 35.

a. For Account No. 555, provide an explanation of why \$5,321,946 is subtracted from the actual amount charged to obtain the Pro Forma Energy Charge.

b. For Accounts 580 – 598 on page 19 of 35, provide an explanation of how each of the allocation factors for each of these accounts was derived.

c. For Account 403 on page 20 of 35, provide an explanation of why the same allocation factor was used to allocate Distribution Plant and General Plant, when different allocation factors are derived in Schedule 8.

d. On page 20 of 35, provide an explanation of Margin Requirements and why it is identical to the Interest on Long Term Debt figures.

39. Refer to the Application, Exhibit R, Schedule 5.

a. For each line on page 13 of 35, identify the allocation factor and the location in the cost of service study where it may be found.

b. Was a peak day allocation factor used to allocate any costs? If so, provide the location of its derivation in the cost of service study.

40. Refer to the Application, Exhibit 15, page 3.

a. Reconcile the monthly fuel adjustment totals shown in the exhibit to the fuel adjustment clause calculations and the environmental surcharge pass through filed each month with the Commission by Inter-County.

b. Inter-County states that the fuel purchased and environmental surcharge from East Kentucky Power Cooperative is passed on to the consumers using the fuel adjustment procedures established by the Commission. Explain the relevance of the fuel adjustment procedures to the environmental surcharge.



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DATED February 2, 2007

cc: All Parties

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