

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF OWEN ELECTRIC)
COOPERATIVE, INC. FOR ADJUSTMENT OF) CASE NO.
RATES) 2008-00154

THIRD DATA REQUEST OF COMMISSION STAFF
TO OWEN ELECTRIC COOPERATIVE INC.

Owen Electric Cooperative, Inc. ("Owen"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 7 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before November 14, 2008. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Owen shall make timely amendment to any prior responses if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which

Owen fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to Owen's response to the Attorney General's ("AG") Initial Information Request, Items 2 and 3.

a. In Case No. 1999-00176¹, the Commission found that the interest expense associated with customer deposits should be excluded from pro forma operating expenses. In doing so, the Commission determined that customer deposits represent a liability to be repaid to the customer with interest,² and that the deposits are not readily available to the utility as cost-free capital.³ Given this finding, explain why the interest expense on Owen's customer deposits should be included in the Owen's revenue requirement determination.

b. Also in Case No. 1999-00176, the Commission found that "Customer deposit balance and interest must both be included in determining the

¹ Case No. 1999-00176, An Adjustment of the Rates of Delta Natural Gas Company, Inc. (Ky. PSC December 27, 1999).

² See KRS 278.460(1).

³ Application, Case No. 1999-00176, at 9.

revenue requirement or both excluded.”⁴ Given this Commission finding, if interest expense is to be included in determining revenue requirements, explain why customer deposits should not be deducted from Owen’s rate base.

c. Cite any prior Commission decision in which a utility has been allowed to recover the interest expense on customer deposits and the customer deposit balance was not deducted from rate base.

d. Has Owen included the interest income earned on the customer deposits in its revenue requirement determination?

(1) If the response to Item 1(d) is yes, identify the amount of interest income included in pro forma operations and the account where it is recorded.

(2) If the response to Item 1(d) is no, explain why it has been excluded.

e. Given that Owen's revenue requirement is based upon a Times Interest Earned Ratio calculation, describe how reducing the rate base by the customer deposits would impact Owen’s revenue requirement determination.

2. Refer to Exhibit 5, page 1 of 2, of Owen’s response to the AG’s Initial Information Request, Item 5. Provide a detailed analysis of Account No. 456, Other Electric Revenue, for 2006 and 2007.

3. Refer to Owen’s response to the AG’s Initial Information Request, Item 28.

a. Provide an itemized schedule showing each cost of the “NRECA Annual Meeting” that is included in Owen's pro forma operating expenses. The itemized list should also identify the account where each item is recorded.

⁴ Id.

b. Cite any Commission proceeding where the costs of the NRECA Annual Meeting have been included in the revenue requirement determination.

c. Owen states that the NRECA Annual Meeting is a combination of training and educational seminars during the day. Provide an itinerary for the NRECA Annual Meeting that includes detailed descriptions of the daily seminars.

d. Explain if the NRECA Annual Meetings have historically included training and educational seminars. In the response state the benefit that Owen's ratepayers derive from attendance at these meetings.

4. Refer to Owen's response to the AG's Initial Information Request, Item 34.

a. In this response Owen states that its short-term debt balance as of December 2007 was approximately \$5.7 million. Using the short-term debt balance as of December 31, 2007, calculate the interest expense for the month of December 2007 and show the annualization of this amount. Show the effect the annualization of the December 31, 2007 short-term interest expense would have on Owen's revenue requirement determination. Include all workpapers, assumptions, and calculations used by Owen in its response.

b. Given that Owen used \$10 million of the proceeds of the November 2007 RUS loan to reduce short-term debt and that the interest expense for the 2007 RUS loan is included in Owen's revenue requirement determination, explain why it would not be appropriate to adjust short-term interest expense to reflect the end-of-period debt balance of \$5.7 million.

c. Provide Owen's monthly short-term debt balance and short-term interest expense for the period of January 1, 2008 through October 31, 2008.

5. Refer to Exhibit J of the application at page 10 of 14.

a. For "Existing pole, 120V available", explain how billing determinants of 104,066 multiplied by the proposed rate of \$7.71 equal proposed revenue of \$802,765 as shown on this schedule.

b. For "One pole added", explain how billing determinants of 19,788 multiplied by the proposed rate of \$9.39 equal proposed revenue of \$185,888 as shown on this schedule.

6. Refer to Owen's response to the Commission Staff's Second Information Request, Item 8. In this response Owen states that, as a result of the 2005 Collective Bargaining Unit negotiation process, there was an increase in the annual pension expense and a reduction in annual labor expense. Provide a comparison for the calendar years 2005, 2006, and 2007 of the increased pension expense and the reduction in labor expense that resulted from the Bargaining Unit negotiation process.

7. Refer to Owen's response to the Commission Staff's Second Information Request, Item 12, page 2 of 2. For the Small Commercial proposed rate design, it appears that Owen used a customer charge set at \$13.48 and backed into the "Revenue Required from Energy." Although this schedule shows a proposed energy rate of .07534, dividing the "Revenue Required from Energy" of \$3,524,991 shown on this schedule by the energy kWh of 46,804,027 from page 1 results in an energy rate of \$.07531. Since Owen is not proposing a change to the energy rate, wouldn't the appropriate calculation be to multiply the energy kWh by the current energy rate of \$.07534 which produces revenue from energy of \$3,526,215, a remaining revenue

amount to be collected through the customer charge of \$380,274, and a customer charge of \$13.44?

8. Refer to Owen's response to the Commission Staff's Second Information Request, Item 13.

a. This response states that "[b]ased on inputs from management and its consultant, it developed an estimate of approximately 30 hours each month deals with service to Gallatin" Provide a description of the work performed each month related to Gallatin Steel.

b. Explain the rationale for reducing the distribution consumer services costs for the Farm and Home class by a portion of the PSC assessment related to Gallatin Steel.

c. Explain why Owen did not propose to reduce the distribution costs of other rate classes by a portion of the PSC assessment related to Gallatin Steel.

d. Provide the amount of the PSC assessment recorded in the test year, the account in which it was recorded, and the amount allocated to each rate class

e. Did the cost-of-service study allocate the PSC assessment to the various rate classes based upon the gross operating revenues provided by each class? If yes, since the PSC assessment was allocated to Gallatin Steel based upon its proportionate share of gross operating revenues, explain why it is appropriate to allocate an additional portion of the PSC assessment to Gallatin Steel. If no, explain why it was not allocated based on gross operating revenues and provide the method of allocation.

f. Explain why Owen reduced the revenue from Gallatin Steel by one-half of the purchased power costs in the calculation at the bottom of page 1 of 1.

9. Refer to Owen's response to the Commission Staff's Second Information Request, Item 15. Provide an explanation of, and the calculations for, the combination of the distribution plant percentages and the wages and salaries percentages.

10. Refer to Owen's response to the Commission Staff's Second Information Request, Item 23. In paragraph 3, it is stated that the customer assistance factor of 100 assigned to Gallatin Steel "does not provide a cost that comes any where [sic] near the amount of time spent on Gallatin or the cost." Is this statement the reason that Owen reduced Farm and Home distribution consumer services costs by \$69,362 as discussed in Owen's response to Item 13 of the Second Data Request of Commission Staff? If no, explain the basis for the statement and how the existence of the inaccuracy in the cost of service study provides for reasonable results.

11. Refer to Owen's response to the Commission Staff's Second Information Request, Item 27.

a. For each key performance indicator listed in the response, provide the threshold, target, and stretch goal. Include a detailed explanation as to how each is established by the President/CEO and a description of the employee evaluation process.

b. Provide the payout values that are set for the employees and management staff. Include a detailed explanation as to how each payout value is established by the President/CEO and explain how the payouts are awarded to each employee.

c. Provide documentation to show that Owen's Board of Directors approved the performance bonus criteria that were established by the President/CEO.

12. Refer to Owen's response to the Commission Staff's Second Information Request, Item 28(e).

a. Provide a list of the vendors and the distribution electric cooperatives that Owen contacted regarding the proposed AMI depreciation rate of 6.67 percent.

b. For each vendor that was contacted, provide the depreciation life the vendor recommended.

c. For each cooperative contacted provide the depreciation life that they use.

d. Provide copies of all written correspondence between Owen and each vendor or cooperative contacted.

e. Given that Owen's current depreciation rate for meters is 3.53 percent,⁵ explain why a rate of 6.67 percent is appropriate for AMI meters.

13. Refer to Owen's response to the Commission Staff's Second Information Request, Item 31. In calculating its proposed retirement and security expense, Owen used normalized wages of \$7,172,880 and a composite rate of 18.08 percent. Recalculate the proposed retirement and security expense using the pro forma base wages for non-union and union employees and the actual rates of 18.64 percent for

⁵ Exhibit 3 of the Application at III-4, Schedule 1. Summary of Service Life and Net Salvage estimates and Calculated Remaining Life Annual Accruals Related to Original Cost at December 31, 1995.

non-union employees and 17.23 percent for union employees. Include copies of all workpapers, assumptions, and calculations used by Owen in its response.

14. Refer to Owen's response to the Commission Staff's Second Information Request, Item 32(a).

a. Provide a schedule listing the employee recruiting fees paid by Owen to Execquest for the calendar years 2005 and 2006 and the 2008 fees paid to date.

b. In the response to Item 14(a), identify the management positions that were filled in each year as a result of the services of Execquest and the length of time the positions remained unfilled.

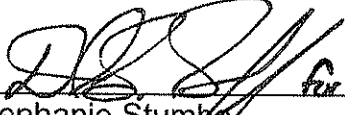
15. Refer to Owen's response to the Commission Staff's Second Information Request, Item 33(a).

a. Provide a detailed description of the East Kentucky Power Cooperative's Partner's Plus program.

b. Explain why East Kentucky Power Cooperative decided to eliminate the Partner's Plus program.

c. Provide an itemized list of Owen's expenses that were recovered through the Partner's Plus Program reimbursement. State whether Owen considers the expenses listed in the response to be normal, recurring expenses.

16. List all business activities of Owen aside from its regulated utility activities. For each activity listed, describe the accounting policies and procedures in place to ensure that those activities are not subsidized by regulated rates or vice versa.


Stephanie Stumbo *for Stephanie Stumbo*
Executive Director *w/permission*
Public Service Commission
P.O. Box 615
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DATED: OCTOBER 31, 2008

cc: Parties of Record

Case No. 2008-00154