

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF GRAYSON RURAL ELECTRIC)
COOPERATIVE CORPORATION FOR AN)
ADJUSTMENT IN RATES AND AN INCREASE IN) CASE NO.
RETAIL ELECTRIC RATES EQUAL TO INCREASE) 2008-00254
IN WHOLESALE POWER COSTS)

SECOND DATA REQUEST OF COMMISSION STAFF TO
GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION

Grayson Rural Electric Cooperative Corporation ("Grayson"), 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 January 8, 2009. 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.

Grayson shall make timely amendment to any prior response 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 Grayson 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 page 1, Tab G in the application. The heading for column 5 is "Normalized Case No. 2006-00522" which is Owen Electric Cooperative, Inc.'s ("Owen") last fuel adjustment clause ("FAC") case.

a. Are the figures presented in column 5 from Grayson's last FAC case, rather than Owen's?

b. If no, explain why Owen's last FAC case is relevant to this case.

c. If no, provide a corrected version of this page.

2. Refer to page 5, Exhibit H-4, of the Direct Testimony of James R. Adkins. Explain why Grayson decided to propose 60 percent of the total consumer-related costs for the customer charge for the Farm and Home Rate Class.

3. Provide an electronic copy of the cost-of-service study.

4. Refer to page 2 of Exhibit 13 of the application.

a. What is the basis for the mileage rate used in the calculation of the meter reading, collection, disconnect-reconnect charge?

b. In Grayson's current tariff, Sheet 51 displays the cost support for work performed after normal working hours with a note at the bottom of the page that reads "I.B.E.W. union contract provides that an employee called out after completion of the scheduled workday will receive a minimum of 2 hours at 1 ½ time regular rate of pay." Grayson's current calculation of its overtime costs only uses one hour of pay. Explain whether the union contract requirement for pay based on 2 hours is still in force.

5. Refer to Exhibit R of the application. State whether the methodology used for this cost-of-service study is different from that used in previous cases involving other East Kentucky Power distribution cooperatives and, if so, explain the differences.

6. Refer to Exhibit I of the application. Explain why the percentage increase was calculated by dividing the "Increase Amount" by the "Proposed Rate" rather than dividing it by the "Existing Rate".

7. Refer to Exhibit S at 4, which shows the amount of the proposed increase based on attaining a Times Interest Earned Ratio ("TIER") of 2.0X.

a. Describe the methodology employed by Grayson in determining that 2.0X was the appropriate TIER on which to base its requested rate increase.

b. Is Grayson aware of any studies performed by Rural Utilities Service ("RUS") or the National Rural Utilities Cooperative Finance Corporation ("CFC") on the subject of appropriate TIER level for an electric distribution cooperative? If yes, identify the studies and when they were performed.

c. Grayson's request in this case for a 2.0X TIER would produce net margins of roughly \$3.4 million. For each of the calendar years immediately preceding

the 2008 test year, provide the approximate net margins that would have been realized if Grayson had achieved a TIER of 2.0X.

8. Refer to Exhibit Y. Depreciation expense for General Plant in Exhibit Y, Trial Balance, is \$88,334.47, however in Exhibit 3 depreciation expense is for the test year for General Plant is \$237,443. Provide a detailed explanation for the discrepancy between the two reported depreciation expenses.

9. Refer to Exhibit 1 at 3-4.

a. For each employee listed on Table 1 below, explain in detail why they worked less than 2,080 hours in the test-period.

Table 1		
	<u>Employee No.</u>	<u>Regular Hours</u>
(1)	100	1,928
(2)	203	1,840
(3)	215	1,120
(4)	220	1,840
(5)	231	1,272

b. Explain why 2,080 hours was used in calculating normalized wages rather than the actual hours worked during the test period.

c. If an employee worked over 2,080 regular hours in the test period, explain why they would also have payments for vacation/sick leave.¹

d. Explain why the majority of the employees worked over 2,080 regular hours in the test period.

e. If normalized wages assumes that each employee works 2,080 annual hours, or 40 hours per week, explain why there is also an allowance for vacation and sick time included in the calculation.

¹ Employee 100: Regular Hours 2,088; Vacation/Sick Hours 105.

10. Refer to Exhibit 1 at 3-4.

a. The manager of operations received a wage increase of 10.7 percent in the test period and 12.3 percent in the first preceding year. Provide a detailed explanation for the levels of wage increases given to this employee.

b. The manager, marketing and member services, received a 12.2 percent increase in the first preceding year. Provide a detailed explanation for the level of wage increases given to this employee.

11. Refer to Exhibit 1 at 8.

a. Grayson has included employee hospitalization and benefit expense of \$28,641 in administrative and general expenses. Describe the nature of this expense and explain why it is added to administrative and general.

b. Provide a detailed explanation for the 169 percent increase that occurred in this expense between 2006 and 2007.

12. Refer to Exhibit 3.

a. On page 3 Grayson states that "[T]he ending plant balance is multiplied by rates that are within RUS approved guidelines." Given this statement, explain why, in the comparison² of the proposed rates to the RUS recommended maximum and minimum rates, that the proposed rate exceed the RUS maximum for 6 of the 8 categories shown.

b. Has Grayson submitted its Depreciation Study to the RUS for its approval?

² Service Life and Salvage Study and Recommended Depreciation Accrual Rates as of December 31, 2007 ("Depreciation Study"). Section 2, Scope.

(1) If the response to 12(b) is yes, provide all correspondence, notes, memoranda, and related documents that Grayson has received from RUS regarding its Depreciation Study.

(2) If the response to 12(b) is no, when will Grayson seek the approval of RUS?

13. Refer to Exhibit 3, at 2. This is a schedule comparing the normalized depreciation with the test-year expense. Provide the account detail for test-year depreciation expense for the distribution plant that totals \$8,992,599.

14. Refer to Exhibit 3, at 3. Grayson is proposing to increase depreciation expense by \$858,000, or 54.8 percent, based on the results of the first Depreciation Study that has been performed by Grayson. Explain why it is appropriate to increase depreciation expense by this amount.

15. Refer to Exhibit 5 at 2. Provide an explanation for the significant variance between the annualized interest expense and the test-year interest costs for RUS loan #1B431, \$3,956,836 and RUS loan #1B430, \$4,800,000.

16. Refer to Exhibit 5, page 3. Provide Actual Interest Cost for the year-end as of December 31, 2007.

17. Refer to Exhibit 5 at 2.

a. This is a schedule of Grayson's outstanding long-term debt. Identify each of the long-term debt issuances that have short-term fixed interest rates, and state how often the interest rates can be repriced.

b. For those long-term debt issuances identified in 30(b), provide a schedule showing the effective interest rates for the 2-year period from January 1, 2007 through December 31, 2008.

c. Provide an update of the schedule on pages 2 and 3 that reflects the current interest rates for long-term debt applied to the long-term debt balances as of the end of the proposed test year.

18. Refer to Exhibit 5 at 2 and 4. As of December 31, 2007, Grayson reports that there is no outstanding balance for RUS loan #1B431 that was issued in October, 2004. However, Grayson reports an outstanding balance of \$4.8 million for this loan on May 31, 2008. Provide a detailed explanation of why a loan issued in October 2004 does not have an outstanding balance until May 31, 2008.

19. Refer to Exhibit 6 at 1. Exhibit 6 indicates that the exhibit is Fleming Mason's updated study of SFAS No. 106. Provide the exhibit for Accounting for Postretirement Benefits for Grayson.

20. Refer to Exhibit 7 at 2-3.

a. Provide an explanation for the nature of the two Retirement and Security Program exhibits, System #1-18061-001 and System # 01-18061-002.

b. Describe in detail the difference in the two programs.

21. Refer to Exhibit 7 at 2. Provide an explanation for the increase in the benefit level from 1.40 to 2.0 in 1993.

22. Refer to Exhibit 7 at 3.

a. Provide an explanation for the increase in the benefit level from 1.40 to 2.0 in 1999.

- b. Explain the employee contribution that occurred in 1995.
- c. Explain why Grayson has not required its employees to contribute to their retirement plan since 1995.

23. Refer to Exhibit 11 of the application.

a. On page 4, describe the nature of the expense of \$16,702.68 labor and benefits and how the amount was derived. Does this amount result in duplication of labor and benefits in other accounts?

b. On page 4, provide the calculation of how the amount of \$54,648.64 dues in associated organizations was derived.

c. On page 4, describe the nature of the credit of \$2,540.59 Partner plus reimbursement and why this payment should be excluded for rate-making purposes.

d. On page 7, describe the nature of the credit of \$4,015.07 Partner plus reimbursement and why this payment should be excluded for rate-making purposes.

24. Refer to Exhibit 12 of the application.

a. Given that the last time Grayson filed a rate case was in 1998, explain the rationale for the 3-year amortization period.

b. Grayson estimates the expenses associated with this rate case. On a monthly basis, beginning in May 2008, provide the amount of Grayson's actual rate-case expenses, by category, as was done in the estimate.

25. Refer to Exhibit 21. Odd numbered pages from the Union contract are missing from the application. Provide pages 3, 5, 7, 9, 11, 13, 15, 17, 19, and 21.

26. Refer to Exhibit 14 of the application.

a. On page 1, the Purchased Power Schedule indicates a May 31, 2008 year-end date; however, the months shown with data are January through December. Provide a Purchased Power Schedule with test-period data.

b. On page 3, the Analysis of Fuel Adjustment and Environmental Surcharge indicates a May 31, 2008 year-end date; however, the months shown with the data are January through December. Provide an Analysis of Fuel Adjustment and Environmental Surcharge with test-year data.

27. Refer to Exhibit W of the application, which provides a comparison of income statement account levels for the test period and the 12 months immediately preceding the test period. Provide a detailed description of Account 224.40 – REA Notes Unadvanced.

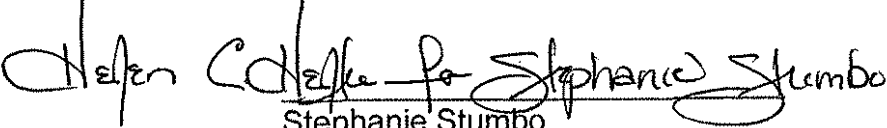
28. Refer to Exhibit X of the application, which provides a comparison of income statement account levels for the test period and the 12 months immediately preceding the test period.

a. Page 1 of 5 shows that Account 586.00, Meter Expense, increased from \$439,000 in test year 2007 to \$517,000 in test year 2008. Provide a detailed explanation for why this expense increased by this magnitude.

b. Page 2 of 5 shows that Account 593.00, Maintenance of Overhead Lines Expense, increased from \$1,340,000 in test year 2007 to \$2,206,000 in test year 2008. Provide a detailed explanation for why this expense increased by this magnitude.

c. Page 4 of 5 shows the total depreciation expense balance as \$1,560,000 for the test year 2008; yet schedule 3, pages 2 & 3, show different amounts

for test-year depreciation expense. Provide a detailed explanation for the discrepancy between the three reported depreciation expenses.

Handwritten signature of Stephanie Stumbo in black ink, written over a horizontal line.

Stephanie Stumbo
Executive Director
Public Service Commission
P.O. Box 615
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DATED: DECEMBER 23, 2008

cc: Parties of Record

Case No. 2008-00254

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