

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF FARMERS RURAL )  
ELECTRIC COOPERATIVE CORPORATION ) CASE NO. 2008-00030  
FOR AN ADJUSTMENT IN RATES )

THIRD DATA REQUEST OF COMMISSION STAFF TO  
FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION

Farmers Rural Electric Cooperative Corporation ("Farmers"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 8 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before March 16, 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.

Farmers 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

Farmers 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 Farmers' response to Staff's Second Data Request, item 10 and item 21. In response to item 10 at the second page of the Rural Utility Service ("RUS") Loan Contract Schedule 1, it is stated that Farmers may draw up to \$8,701,000 of the total loan amount after Farmers demonstrates that it has filed a rate application with the Commission and that Farmers may draw the remaining \$8,701,000 of the loan amount after Farmers demonstrates that it has received Commission approval of the rate increase. In response to item 21.b(1), Farmers states that it made the first draw on this loan on January 11, 2009 in the amount of \$7 million. State the dates Farmers anticipates drawing the remaining \$10,402,000 available loan funds assuming that the Commission's final order in this case is issued on the suspension date of Farmers' requested rates, July 8, 2009. For each date, state the amount of the anticipated draw and the expected interest rate.

2. Refer to Farmers' response to Staff's Second Data Request, item 21, and Farmers' Application at Exhibit 5.

a. At Exhibit 5, page 4, Farmers states that the “adjustment is to remove interest on short term borrowings. It is presumed that the short term borrowings will be repaid as a result of additional revenues generated from the application.” The result of the “adjustment” shown on page 4 is an increase to test year interest expense on short-term debt of \$102,551 (Pro forma, \$228,838 – Test Year, \$126,287). Explain how increasing test year interest expense by \$102,551 removes interest on short-term borrowings as suggested in Farmers’ statement.

b. If short-term borrowings will be repaid as a result of the additional revenues generated from this Application, as suggested by Farmers, and no additional short-term borrowings are necessary, explain why the inclusion of interest on short-term borrowings in the amount of \$228,838 is appropriate for rate recovery.

c. At Exhibit 5, page 4, the outstanding balance on which interest expense is determined is \$4,817,646. State whether this amount is included in the \$6,977,646 as referenced at item 21.b(2).

d. If yes to c, state why Farmers did not use the interest rate of 3.406 percent as stated at item 21.b(3) to calculate pro forma interest expense on Exhibit 5 instead of the 4.75 percent.

e. Refer to pages 2 and 3 of Exhibit 5. The total outstanding long-term debt reflects no change as of September 30, 2008 from the total outstanding as of December 31, 2007. If this is correct, provide a detailed explanation of why there has been no change in the total amount outstanding from December 31, 2007 to September 30, 2008. Otherwise, provide updated schedules reflecting the correct total outstanding long-term debt.

3. Refer to Farmers' response to Staff's Second Data Request, item 21; Farmers' Application at Exhibit 5; and Farmers' Application at Exhibit H-1.

a. In response to item 21.a, Farmers states that "short-term debt was accumulated to fund construction projects, pay for operating and maintenance costs, taxes, cost of power, and other expenses in the normal course of business." In response to items 21.b(2) and 21.b(3), Farmers states that the short-term borrowings converted to long-term debt on January 11, 2009 totaled \$6,977,646. State the portion of the amount converted to long-term debt on January 11<sup>th</sup> that was used to pay operating expenses and fund construction projects separately.

b. At Exhibit 5, page 2, Farmers lists its total long-term debts as of September 30, 2008. State the portion of these borrowings that was used to pay operating expenses and fund construction projects separately.

c. At page 2 of Exhibit H-1, Farmers' President and CEO, William T. Prather, states that Farmers last general base rate adjustment was made in 1984. Would it be fair to say that Farmers has avoided general base rate increases over the last 25 years by continuously financing operating expenses through short-term debt financings that have been converted to long-term debt financings? If no, explain in full detail.

4. Refer to Farmers' response to Staff's Second Data Request, item 13.

a. For account 593.11, Maint – hand clearing, explain the decrease in the test-year amount when compared to the amounts shown for the other 5 years in the comparison.

b. For account 593.25, Maint – Chemicals, explain the relatively low expense reported in this account for 2006 when compared to the test year and the 4 other years included in the analysis.

c. For account 593.29, Maint – Cycle 2:

(1) When compared to 2006, the amounts reported in this account increased by 69 percent for 2007 and 113 percent for the test year. Explain these increases; and

(2) State whether it is Farmers' opinion that these increases will recur annually. Provide support for Farmers' position.

d. For account 597.00, Maint Meters:

(1) When compared to 2006, the amounts reported in this account increased by 407 percent for 2007 and 1022 percent for the test year. Explain these increases.

(2) State whether it is Farmers' opinion that these increases will recur annually. Provide support for Farmers' position.

e. For account 903.00, Consumer Records, since 2006, the amount recorded in this account has increased by approximately \$100,000 annually, escalating to \$872,761 during the test year.

(1) Explain the nature of the increases in this account since 2006.

(2) State whether it is Farmers' opinion that the test-year level will be recurring on a going-forward basis and give the basis for Farmers' position.

f. For account 908.00, Informational, explain why the test-year expense was about one-half of the expense for 2007.

g. For account 921.00, Office supplies & expense, this account has decreased on an annual basis since 2003. Explain the nature of these annual decreases.

5. Refer to Farmers' response to Staff's Second Data Request, item 14. This response is non-responsive. Provide a copy of the audit adjustments for the year ended December 31, 2007.

6. Refer to Farmers' response to Staff's Second Data Request, items 15. a. and b.

a. State the impact on test-year revenues and expenses separately, assuming that the proposed change in the power factor from 85 percent to 90 percent had been in effect during the entire test year. Provide all workpapers used to make these calculations.

b. If the Commission were to approve the proposed change in the power factor, state why it would be inappropriate to include the effects of this change in the determination of the required revenue increase in this case.

7. Refer to Farmers' response to Staff's Second Data Request, item 4. Provide the workpapers supporting the calculation of the \$382,598 credit as referenced in the second paragraph.

8. Refer to Farmers' response to Staff's Second Data Request, item 16.

a. Explain the nature of the amounts charged to account 588 for Fuel, Federal Mogul generator, in the amount of \$129,751.42, and Remote monitoring, Federal Mogul, in the amount of \$12,000.

b. State whether or not these expenses are expected to recur on an annual basis at the level included in the test year.

9. Refer to Farmers' response to Staff's Second Data Request, items 13 and 17. The information shown in Table I was compiled from information presented by Farmers at item 13.

		Table I					
		Test Year	2007	2006	2005	2004	2003
<b>Analysis of Line Maintenance Accounts</b>							
593.00	Maint. of Overhead Lines	\$ 545,613	\$ 493,199	\$ 458,809	\$ 487,983	\$ 489,763	\$ 459,674
	Increase/(Decrease) from Prior Year	52,414	34,390	(29,174)	(1,780)	30,089	
	Percentage	10.63%	7.50%	-5.98%	-0.36%	6.55%	
593.01	Maint. of Line/Emer. Repair	535,112	453,808	487,102	358,825	509,699	327,952
	Increase/(Decrease) from Prior Year	81,304	(33,294)	128,277	(150,874)	181,747	
	Percentage	17.92%	-6.84%	35.75%	-29.60%	55.42%	
<b>Total Line Maintenance</b>		<b>1,080,725</b>	<b>947,007</b>	<b>945,911</b>	<b>846,808</b>	<b>999,462</b>	<b>787,626</b>
	Increase/(Decrease) from Prior Year	133,718	1,096	99,103	(152,654)	211,836	
	Percentage	14.12%	0.12%	11.70%	-15.27%	26.90%	
<b>Analysis of Transformer Maintenance and Repairs Accounts</b>							
595.00	Maint. of Line Trans.	87,650	78,502	35,335	41,083	56,472	72,719
	Increase/(Decrease) from Prior Year	9,148	43,167	(5,748)	(15,389)	(16,247)	
	Percentage	11.65%	122.16%	-13.99%	-27.25%	-22.34%	
595.01	Maint. of Trans./Emerg. Repr.	22,621	27,507	39,921	23,174	28,433	31,864
	Increase/(Decrease) from Prior Year	(4,886)	(11,414)	15,747	(5,259)	(3,431)	
	Percentage	-17.76%	-29.33%	67.95%	-18.50%	-10.77%	
<b>Total Transformer Maintenance and Repairs</b>		<b>110,271</b>	<b>106,009</b>	<b>74,256</b>	<b>64,257</b>	<b>84,905</b>	<b>104,583</b>
	Increase/(Decrease) from Prior Year	4,262	31,753	9,999	(20,648)	(19,678)	
	Percentage	4.02%	42.76%	15.56%	-24.32%	-18.82%	

a. As demonstrated in Table I, the level of each of these expense accounts generally fluctuates significantly (greater than 5 percent) from year to year.

Explain the reason for the increases and decreases to each of the accounts shown in Table I that exceed 5 percent.

b. Considering the continuous fluctuation in the accounts shown in Table I, discuss whether Farmers agrees or disagrees that it would be appropriate to normalize these accounts for rate-making purposes by allowing recovery of a 5- or 10-year average of these annual expenses. Explain Farmers' position in full detail.

10. Refer to Farmers' response to Staff's Second Data Request, item 17.a. Provide a separate schedule for accounts 593.00, 593.01, 595.00 and 595.01 that compares the general ledger detail of each account for the years 1998 through 2007 and the test year.

11. Refer to Farmers' response to Staff's Second Data Request, item 17.a, item 17.b and item 17.c.

a. Explain what is meant by "unusual trouble items" as stated in item 17.c.

b. Explain what is meant by "overtime" as stated in item 17.c. Does this mean that only regular time and no "overtime" is reported in account 593.00?

c. Are test-year storm damage expenses for which Farmers did not receive reimbursement reported in accounts 593.00 or 593.01? If yes, state the amount reported in each account for storm damage expenses. Show these amounts in the same general ledger detail as shown in Farmers' response to item 17.a.

d. Would it be fair to characterize all amounts reported in account 593.01 as storm damage expenses? If not, explain in full detail.



e. Provide a schedule that separates the total labor hours charged to account 593.01 for the years 1998 through 2007 and the test year into these categories: (1) Unusual Trouble other than Storm-Related; (2) Regular Overtime for Routine Maintenance; and (3) Storm-Related. Separate labor hours into more detailed categories if possible and appropriate.

12. Refer to Farmers' response to Staff's Second Data Request, items 17.a, 17.d, and 17.e.

a. Explain what is meant by "unusual trouble items" as stated in item 17.e.

b. Explain what is meant by "overtime" as stated in item 17.e. Does this mean that only regular time and no "overtime" is reported in Account 595.00?

c. In Farmers' response to item 17.e, reference is made to accounts 593.01 and 593.00. Staff's original question was with regard to accounts 595.01 and 595.00. Was Farmers' reference to accounts 593.01 and 593.00 in its response made in error when it intended to reference accounts 595.01 and 595.00 instead?

d. Are test-year storm damage expenses for which Farmers did not receive reimbursement reported in accounts 595.00 or 595.01? If so, state the amount reported in each account for storm damage expenses. Show these amounts in the same general ledger detail as shown in Farmers' response to item 17.a.

e. Would it be fair to characterize all amounts reported in accounts 593.01 and 595.01 as storm damage expenses? If not, explain in full detail.

f. Provide a schedule that separates the total labor hours charged to accounts 593.01 and 595.01 for the years 1998 through 2007 and the test year into the following categories: (1) Unusual Trouble other than Storm-Related; (2) Regular Overtime for Routine Maintenance; and (3) Storm-Related. Separate labor hours into more detailed categories if possible and appropriate.

13. Refer to Farmers' response to Staff's Second Data Request, item 17.g.

a. Did Farmers receive Federal Emergency Management Agency ("FEMA") funds or reimbursement from other sources for the amounts shown in response to item 17.g? If yes, how were the reimbursements accounted for—were they credited as an offset to the expense account, recorded as revenue, or accounted for in some other fashion?

b. Does Farmers maintain insurance to cover damage caused by storms or other acts of God? If yes, provide a detail of insurance proceeds received in each of the previous 10 calendar years and the test year and state how they were accounted for.

c. State the portion of the amounts supplied in response to item b above that were credited to Account 593.01 and Account 595.01.

14. Table II details a partial listing of amounts charged to Account 926.00 during the test year. These amounts were taken from Farmers' response to Staff's Second Data Request, item 18.

Service Awards		1,635
Wellness Program		6,206
Employee Picnic		3,790
Employee Meetings		16,459
Employee Coffee Supplies		3,553
Employee Christmas Party		6,594
Flowers, employees family		736
Secretaries day lunch		188
Employee training programs		16,676
Employee retirement gifts		2,704
Food, extreme weather		500
Employee Christmas gifts		12,385
Rotary dues		576
Total		72,001

a. Confirm that Farmers has requested rate recovery for all the amounts listed in Table II.

b. Identify the amounts listed in Table II that Farmers believes are not necessary to provide safe, reliable electric service and should, therefore, not be included in rate recovery.

c. Identify the amounts listed in Table II that Farmers believes are necessary to provide safe, reliable electric service and should, therefore, be included in rate recovery.

d. Provide evidence supporting Farmers' position for all amounts listed in response to item c above.

15. Refer to Farmers' response to Staff's Second Date Request, item 23.

a. At item 23.c, Farmers states that test-year health insurance costs were \$907,532.

(1) Provide a worksheet detailing how the test-year costs were distributed to Farmers' general ledger accounts.

(2) For each month of the test year, state the health and dental insurance costs that are included in the \$907,532 test-year total.

(3) Explain why the annual costs decreased significantly from 2004 to 2005 and then increased significantly from 2006 to 2007.

b. Refer to the third page of Farmers' response. This page is a copy of Farmers' September-08 medical/dental statement.

(1) There is a section on this statement that lists the number of plan participants for each type of coverage. State the number of Directors included in the number of plan participants for each type of coverage.

(2) For each type of coverage, state the amount that is paid by Farmers and the amount that is paid by the employee.

(3) Does Farmers agree that it would be appropriate to normalize health and dental insurance expenses for rate-making purposes based on the monthly premiums presented on this page? If not, explain.

c. Provide all evidence possessed by Farmers demonstrating that its current self-funded health insurance plan is more cost-effective than all other options available to Farmers to provide health and dental insurance coverage to its employees.

16. Refer to Farmers' response to Staff's Second Data Request, item 3. Farmers states that the rate of return on each rate class is not readily calculated or available. Explain whether Farmers intends to update the calculation for CATV

attachments using the overall rate of return from this case, rather than the rate of return from Case No. 8438.

17. Refer to Farmers' response to the AG's Initial Data Request, item 11. At item 11, Farmers states that its depreciation rates are within the ranges established by RUS Bulletin 183-1. Explain why the schedule presented by Farmers at item 11 appears to show that Farmers' current depreciation rates for account numbers 365, 367, 368, 370.01, 370.02 and 370.03 are not within the allowable ranges of RUS Bulletin 183-1.

18. Refer to Farmers' Application, Exhibit 1, and Farmers' response to the AG's Initial Data Request, item 17. These documents include references to the accounting and rate-making treatment of the extra vacation day awarded to each employee for meeting safety goals. Is this extra-day award given to employees through an actual payment of cash equal to the employee's pay-rate times 8 hours, or is it given by accruing an extra 8 hours of vacation time to be taken by the employee at some time in the future? If it is awarded through an accrual of an extra vacation day, explain why it is appropriate to add an additional 8 hours to the regular 2,080 hours worked when calculating pro forma wages, as done in Exhibit 1, considering that the 2,080 hours already accounts for all vacation hours used by the employee.

19. Refer to Farmers' response to the AG's Initial Data Request, item 27. Provide a detailed cost breakdown and description of the items of expense listed in Table III.

Table III	
Miscellaneous General	8,903
Maintenance Agreements	71,124
Support agreements	13,784

20. Refer to Farmers' Application, Exhibit 3, page 3 of 6. For each account listed under Distribution Plant, it appears that the amounts in the Test Year Expense column do not correspond to the amounts indicated in the Normalized Expense column. For example, the test year depreciation expense listed for account numbers 344 through 364 should correspond to the normalized expense for accounts 342 through 362, given that these accounts did not have any activity for the test year.

a. If Farmers agrees that Staff's assumptions are correct, provide a corrected page 3, as well as all other schedules affected by the correction.

b. If Farmers does not agree with Staff's assumption, explain how the test year expense is correct as provided.

  
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DATED: MARCH 3, 2009

cc: Parties of Record

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