




Cumberland Valley Electric

A Touchstone Energy Cooperative 

July 22, 2005

Beth A. O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

RECEIVED

JUL 22 2005

PUBLIC SERVICE
COMMISSION

RE: Case No. 2005-00187 – Application of Cumberland Valley Electric, Inc.
for an increase in retail electric rates

Dear Ms. O'Donnell

Attached you will find an original and eleven (11) copies of Cumberland Valley Electric, Inc. application for an increase in its retail electric rates.

A copy of this letter is being sent to the Office of Rate Intervention of the Office of the Attorney General.

Sincerely,



Ted Hampton
Manager

C: Office of Rate Intervention
Office of the Attorney General
1024 Capital Center Drive
Suite 200
Frankfort, Kentucky 40601

Ted Hampton • President & CEO

P.O. Box 440 • Gray, KY 40734

Phone: (606) 528-2677 • (606) 546-9295 • 1-800-513-2677 • FAX: (606) 528-8458

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

IN THE MATTER OF:

JUL 22 2005

ADJUSTMENT OF RATES)
OF CUMBERLAND VALLEY)
ELECTRIC, INC.)

CASE NO. 2005-00187

PUBLIC SERVICE
COMMISSION

APPLICATION

Comes Cumberland Valley Electric, Inc., (hereafter referred to as "Cumberland Valley") for an application to change its retail electric power tariffs and states the following:

- 1 Cumberland Valley is filing this Application for the purpose of requesting permission from the Commission to increase its basic rates effective July 1, 2005, in such amounts as are set forth herein for all electricity sold. The rates and revenue applied for are considered necessary as the minimum amounts by Cumberland Valley management and Board of Directors for Cumberland Valley Electric, Inc. to maintain the financial requirements set forth in its Financial Policy and Equity Management Policy.
- 2 The full name of Cumberland Valley is "Cumberland Valley Electric, Inc.," with a business address of P.O. Box 440, Gray, Kentucky 40734. (807 KAR 5:001, Section 8(1))
- 3 The Articles of Incorporation and all amendments thereto for Cumberland Valley as identified in Case No. 7772, Application to Increase Basic Retail Electric Rates, are on file with the Commission except those amendments for a corporate name change. Those amendments are provided in Exhibit A to this application (807 KAR 5:001, Section 8(3)).
- 4 This application is supported by a 12 month historical test year period ending December 31, 2004 and includes adjustments for known and measurable changes (807 KAR 5:001, Section 10(1)).
- 5 Cumberland Valley's annual reports, including the one for the most recent calendar year, are on file with the Commission (807 KAR 5:006, Section 3(1) and 807 KAR 5:001, Section 10(1)(a)2).

- 6 Cumberland Valley is not a limited partnership. (807 KAR 5:001, Section 10(1)(a)4).
- 7 Cumberland Valley has filed with this Application a current Certificate of Existence, Exhibit B, (807 KAR 5:001, Section 10(1)(a)5)
- 8 Cumberland Valley does not conduct business under an assumed name and therefore, no certificate of Assumed Name is needed for this Application. (807 KAR 5:001, Section 10(1)(a)6).
- 9 Cumberland Valley has attached the proposed tariff as Exhibit C (807 KAR 5:001, Section 10(1)(a)7).
- 10 Cumberland Valley has attached the present and proposed tariffs in comparative form as Exhibit D (807 KAR 5:001, Section 10(1)(a)8).
- 11 Cumberland Valley states that its members have been given notice of the filing of the Application in compliance with 807 KAR 5:001, Section 3-10 (3)-(4). A copy of the notice is contained in Exhibit E (807 KAR 5:00, Section 10 (1)(a)9).
- 12 Cumberland Valley states that it has provided written notice of its intent to file this Application at least four (4) weeks prior to filing it. The primary reasons for the filing of this Application for the increase in rates are the following ones:
 - a. Cumberland Valley's last general rate increase with this Commission was effective August 1, 1980 in Case No 7772. In the twenty-five (25) years since the date of the last increase except for wholesale increases, Cumberland Valley has been subject to increases in costs for employee labor, employee benefits, operating and maintenance materials, interest, depreciation as well as other costs. Additionally, Cumberland Valley's investment in physical distribution plant has increased significantly.
 - b. Cumberland Valley's Financial Policy and Equity Management Policy require that an equity level of 30% to 40% be maintained as well as the mortgage requirements on times interest earned ratio ("TIER") Cumberland Valley did not meet its mortgage TIER requirements for the test period and has been duly notified in a letter from the Rural Utility Services ("RUS") stating this fact and informing Cumberland Valley of its fiduciary responsibilities on this matter.
 - c. For the test period ended, Cumberland Valley had a TIER of 1.06X and an Operating TIER ("OTIER") of 0.89X. Cumberland

Valley is required to maintain TIER of 1.25x and OTIER of 1.10x for two of the three most current years. Cumberland Valley is requesting additional revenues in order to be in compliance with its mortgage agreements, to service its debts, and to pay its day to day financial obligations.

- d. Cumberland Valley's Board of Directors have reviewed the current financial salutation for the Cooperative as well as its results of operations and have authorized the Cooperative to pursue this requested increase in revenues.
- e. Cumberland Valley has paid capital credits to its members for several years but has decided not to pay any during this calendar year due to the current financial situation. Cumberland Valley is requesting an increase in revenue that will provide a TIER of 2.0x and believes that such an increase will not be an undue burden upon its consumers. Cumberland Valley's current rates are among the lowest for cooperatives in the state of Kentucky as well as for the whole United States. It has been a primary objective of Cumberland Valley to keep its rates low because of the deprived economic environment that exists in its service area.

13 A complete description and quantified explanation of all proposed adjustments with proper support is included in Exhibit F (807 KAR 5:001, Section 10(6)(a)).

Schedule 1.	Adjustment to revenue for base rate changes
Schedule 2	Adjustment to purchased power costs for changes in wholesale power rates
Schedule 3	Adjustment to revenues and expenses for year end number of consumers
Schedule 4	Adjustment for depreciation
Schedule 5	Adjustment for interest expense
Schedule 6	Adjustment for wages and salaries
Schedule 7	Adjustment for payroll taxes
Schedule 8	Adjustment for employee benefits
Schedule 9	Adjustment for postretirement benefits

Schedule 10	Adjustment for donations
Schedule 11	Adjustment for rate case expenses
Schedule 12	Adjustment for nonrecurring expenses
Schedule 13	Adjustment for Property Taxes
Schedule 14	Adjustment for directors fees
Schedule 15	Amount of Increase

- 14 Prepared testimony for each witness that Cumberland Valley will use is attached as Exhibits G-1 and G-2. (807 KAR 5:001, Section 10(6)(b)).
- 15 The effect that the new rates will have upon the revenues of Cumberland Valley resulting from this increase and percentage of increase is provided in Exhibit H (807 KAR 5:001, Section 10(6)(d)).
- 16 A schedule indicating the effect of the proposed increase upon the average bill for each rate class for each class the increase will apply is provided in Exhibit I (807 KAR 5:0001, Section 10(6)(e)).
- 17 An analysis of customer's bills that provides the revenue from current rates and the proposed rates for each rate class is easily determinable is included in Exhibit J (807 KAR 5:0001, Section 10(6)(g)).
- 18 Exhibit K provides the interest coverage ratios and debt service coverage (807 KAR 5:001, Section 10(6)(h)).
- 19 The reconciliation of the net investment rate base with the capital structure is provided in Exhibit L (807 KAR 5:001, Section 10(6)(i)). along with the returns on net investment rate base and capital structure.
- 20 A current chart of accounts is provided in Exhibit M (807 KAR 5:001, Section 10(6)(j)).
- 21 No audits of Cumberland Valley by the Federal Energy Regulatory Commission or by the Federal Communication Commission have been conducted. No reports are provided since none are available 807 KAR 5:001, Section 10(6)(l)
- 22 A copy of the independent auditor's annual report is provided in Exhibit N 807 KAR 5:001, Section 10(6)(k)).

- 23 A copy of the most recent depreciation study is provided in Exhibit O (807 KAR 5:001, Section 10(6)(n))
- 24 A listing of computer software used in the development of this rate application is provided in Exhibit P (807 KAR 5:001, Section 10(6)(o)).
- 25 Cumberland Valley has no stock or bond offerings (807 KAR 5:0001, Section 10(6)(p)).
- 26 The annual report to members for 2004 and 2005 are provided in Exhibit Q 807 KAR 5:001, Section 10(6)(q)).
- 27 Monthly managerial reports in the form of the monthly RUS Form 7 are provided for compliance with (807 KAR 5:001, Section 10(6)(r) in Exhibit R.
- 28 A waiver is requested for the requirements of 807 KAR 5:001, Section 10(6)(s) since Cumberland Valley is not regulated by the Securities and Exchange Commission.
- 29 Cumberland Valley has had no transactions with an affiliate or home office in the receipt of revenue or payment of moneys during the test period or the three previous calendar years (807 KAR 5:001, Section 10(6)(t)).
- 30 A cost of service study based a methodology generally accepted within the electric utility industry utilizing current and reliable data for the test period is provided in Exhibit S for compliance with (807 KAR 5:001, Section 10 (6)(u)).
- 31 The requirements of 807 KAR 5:001, Section 10(6)(f) and (v) are not applicable to Cumberland Valley and a waiver of these requirements is requested.
- 32 Exhibit T is a detailed income statement and balance sheet that reflects the impact of all proposed adjustments for the test period for compliance with 807 KAR 5:001, Section 10(7)(a) and contains the below listed schedules of adjustments to the historical test year for known and measurable changes.
- 33 The By Laws for Cumberland Valley are contained in Exhibit U.

Wherefore, Cumberland Valley Electric, Inc. requests that the Public Service Commission of Kentucky approve the requested increase as expeditiously as possible by authorizing Cumberland Valley to make the requested rates effective immediately through the issuance of an order.

Dated at Cumberland Valley Electric, Inc., Gray, Kentucky this the 21st day of July, 2005.

Respectfully submitted,

Cumberland Valley Electric, Inc.


Ted Hampton, Manager

COUNSEL

W. Patrick Hauser
Attorney at Law
P.O. Box 1900
Barbourville, KY 40906

414

22313

ARTICLES OF AMENDMENT
TO
ARTICLES OF INCORPORATION
OF

CUMBERLAND VALLEY RURAL ELECTRIC COOPERATIVE CORPORATION

KNOX ALL MEN BY THESE PRESENTS:

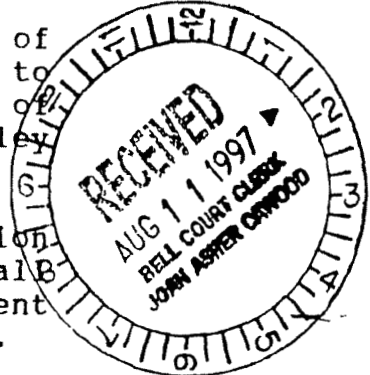
Ch. J.
AUG 6 9 28 AM '97
JOHN H. COREY
John H. Corey

THAT, we, Ray Baird, President, and John H. Corey, Secretary, of Cumberland Valley Rural Electric Cooperative Corporation, a Kentucky corporation, with its principal office at Gray, Knox County, Kentucky, do hereby certify that a regular meeting of the members of the Cooperative was held on June 16, 1997, at Gray, Kentucky, pursuant to notice to each member specifying the date and purpose of said meeting, one of which was to amend the Articles of Incorporation; that said amendments had previously been approved unanimously by the Board of Directors at its regular monthly meeting, and these Amendments were presented to the members in the following Resolutions:

RESOLVED, that Article I of the Articles of Incorporation of the corporation be amended to read in its entirety as follows: The name of the Corporation shall be: "Cumberland Valley Electric, Inc."

RESOLVED, that the officers of the corporation are hereby authorized to take any and all actions necessary, appropriate, or convenient to give effect to the foregoing resolution.

The Resolutions were unanimously adopted by the vote of the members, and said amendments were ordered to be recorded, as Articles of Amendments to the original Articles of Incorporation and the Amended Articles of Incorporation.



Ray Baird
RAY BAIRD, PRESIDENT

A True Copy Attest:

John H. Corey
JOHN H. COREY, SECRETARY



Received in the Office of
TOM RAINS
Whitley County Court Clerk

STATE OF KENTUCKY, COUNTY OF WHITLEY

I, Tom Rains, Whitley County Clerk, do certify that the foregoing A/O/I was, on the 14th day of August 19 97 at 9:25 A.M. lodged in my office for record, and that it has been duly recorded in my office, together with this and the certificate thereon endorsed.

Given under my hand this 14th day of August 19 97

JOM RAINS, Whitley County Clerk

By Phyllis Holmes D.C.

RECORDED IN
A/O/I BOOK 17
117474
Whitley County Clerk's Office

State of Kentucky, County of Laurel, Sec. 1,
DEAN JOHNSON, Clerk of the Laurel County Court,
do certify that the foregoing Catch order was on
the 11 day of Aug 1997 at 11:57 A.M.
lodged in my office for record, and that it has been
duly recorded in my said office, together with this
and the certificate thereon endorsed.
Given under my hand this 11 day of Aug
19 97 : Ap. Ec. Book 13 Page 84
Clerk: Dean Johnson
Phyllis Johnson D.C.

State of Kentucky
County of Bell

-ss-

I, Joan Asher Cawood, Clerk within and for the State and county aforesaid, do hereby certify that the foregoing Art of Inc. re: Cumberland Valley Rural Electric Cooperative Corp. was this day lodged for record whereupon the same has been duly recorded in Art Book No. 16 at page No. 846 record of my said office.

Given under my hand this the 14th day of Aug 19 97

JOAN ASHER CAWOOD, CLERK

By Adean Barrett
Deputy Clerk

STATE OF KENTUCKY))
) SCT
COUNTY OF KNOX))

I, the undersigned Notary Public, of the State and County aforesaid, do hereby certify that on the 17th day of July, 1997, personally appeared before me Ray Baird, President of Cumberland Valley Rural Electric Cooperative Corporation, who being by me first duly sworn, signed and acknowledged the foregoing Articles of Amendment to the Articles of Incorporation, to be his free, voluntary act and deed as a member and officer of said Corporation.

WITNESS my hand and seal, this the 17th day of July, 1997.

Mary H. Herrewé
NOTARY PUBLIC, STATE-AT-LARGE

My Commission Expires: Aug. 3, 1998

STATE OF KENTUCKY))
) SCT
COUNTY OF KNOX))

I, the undersigned Notary Public, of the State and County aforesaid, do hereby certify that on the 17th day of July, 1997, personally appeared before me John H. Corey, Secretary of Cumberland Valley Rural Electric Cooperative Corporation, who being by me first duly sworn, signed and acknowledged the foregoing Articles of Amendment to the Articles of Incorporation, to be his free, voluntary act and deed as a member and officer of said Corporation.

WITNESS my hand and seal, this the 17th day of July, 1997.

Mary H. Herrewé
NOTARY PUBLIC, STATE-AT-LARGE

My Commission Expires: Aug. 3, 1998

THIS INSTRUMENT PREPARED BY:

W. Patrick Hauser
W. PATRICK HAUSER
P. O. BOX 1900
BARBOURVILLE, KY 40906
(606) 546-3811

DOCUMENT NO: 7724
RECORDED ON AUGUST 07, 1997 10:56:00AM
TOTAL FEES: \$9.00
COUNTY CLERK: TROY HAMPTON
COUNTY: KNOX COUNTY CLERK
DEPUTY CLERK: LUCILLE SMITH

644

474

22313

ARTICLES OF AMENDMENT
TO
ARTICLES OF INCORPORATION
OF

CUMBERLAND VALLEY RURAL ELECTRIC COOPERATIVE CORPORATION

KNOX ALL MEN BY THESE PRESENTS:

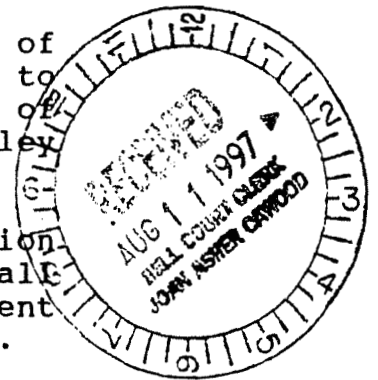
RECEIVED
Ch. Jr.
AUG 6 9 23 AM '97

Shades Perry

THAT, we, Ray Baird, President, and John H. Corey, Secretary, of Cumberland Valley Rural Electric Cooperative Corporation, a Kentucky corporation, with its principal office at Gray, Knox County, Kentucky, do hereby certify that a regular meeting of the members of the Cooperative was held on June 16, 1997, at Gray, Kentucky, pursuant to notice to each member specifying the date and purpose of said meeting, one of which was to amend the Articles of Incorporation; that said amendments had previously been approved unanimously by the Board of Directors at its regular monthly meeting, and these Amendments were presented to the members in the following Resolutions:

RESOLVED, that Article I of the Articles of Incorporation of the corporation be amended to read in its entirety as follows: The name of the Corporation shall be: "Cumberland Valley Electric, Inc."

RESOLVED, that the officers of the corporation are hereby authorized to take any and all actions necessary, appropriate, or convenient to give effect to the foregoing resolution.



The Resolutions were unanimously adopted by the vote of the members, and said amendments were ordered to be recorded, as Articles of Amendments to the original Articles of Incorporation and the Amended Articles of Incorporation.

Ray Baird
RAY BAIRD, PRESIDENT

A True Copy Attest:
John H. Corey
JOHN H. COREY, SECRETARY

AUG 11 1997 AM
KNOX COUNTY CLERK
Whitley County, Kentucky

STATE OF KENTUCKY, COUNTY OF WHITLEY

I, Tom Rains, Whitley County Clerk, do certify that the foregoing A/O/A was, on the 14th day of August 19 97 at 9:25 A.M. lodged in my office for record, and that it has been duly recorded in my office, together with this and the certificate thereon endorsed.

Given under my hand this 14th day of August 19 97

TOM RAINS, Whitley County Clerk

By Phyllis Holmes D.C.

RECORDED IN
A/O/A BOOK 17
117 474
Whitley County Clerk's Office

State of Kentucky, County of Laurel, Sec. 1.
DEAN JOHNSON, Clerk of the Laurel County Court, do certify that the foregoing Article 13 was on the 11 day of Aug 19 97 at 11:27 A.M. lodged in my office for record, and that it has been duly recorded in my said office, together with this and the certificate thereon endorsed.
Given under my hand this 11 day of Aug 19 97 : Geo. E. Book No. 848
By Dean Johnson Clerk

State of Kentucky
County of Bell

-55-

I, Joan Asher Cawood, Clerk within and for the State and county aforesaid, do hereby certify that the foregoing Art. 13 of Cumberland Valley Rural Electric Cooperative Corp. was this day lodged for record whereupon the same has been duly recorded in Art. Book No. 16 at page No. 846 record of my said office.
Given under my hand this the 11th day of Aug 19 97

JOAN ASHER CAWOOD, CLERK
By Adrian Barrett
Deputy Clerk

850

P. DORR
Page 283

STATE OF KENTUCKY
COUNTY OF McCREARY

I, Jo Kidd, Clerk of the County and State aforesaid, certify that the foregoing was lodged for record, whereupon the same, with the foregoing and this certificate have been duly recorded in my office, in ART. OF INCORP. Book No. 3 at page 387-392 Time 3:20 PM
Witness my hand this 7 day of AUGUST, 1997

BY: Jo Kidd County Clerk D.C.

STATE OF KENTUCKY
COUNTY OF LETCHER

I, CHARLIE WRIGHT, CLERK OF LETCHER COUNTY, DO HEREBY CERTIFY THAT THE FOREGOING Art of Amendment WAS ON THIS 8th DAY OF August 1997, LODGED IN MY OFFICE FOR RECORD AND THAT IT AND THIS CERTIFICATE HAVE BEEN DULY RECORDED IN Art of Inc BOOK 16 PAGE 532

WITNESS MY HAND THIS 8th DAY OF August 1997.

BY: Lucille Bates Polley CHARLIE WRIGHT CLERK D.C.

FILED FOR RECORD

8-7-1997

Book 3 Page 387-392

Time _____
McCreary Co. Clerk's Office

Jo Kidd, Clerk D.C.

HARLAN COUNTY
LARRY LEE
County Clerk

AUG 8 1997

AT 3:10 P. M

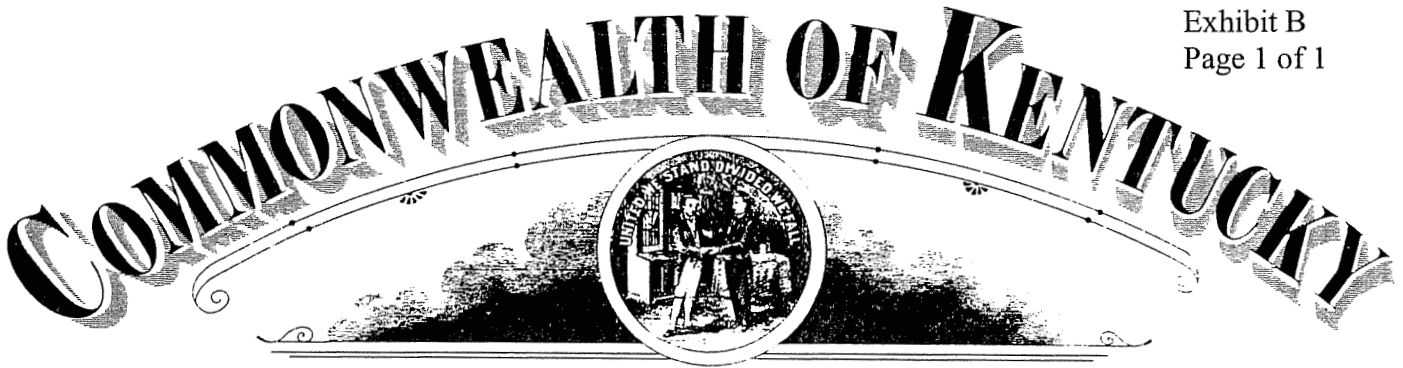
STATE OF KENTUCKY
COUNTY OF LESLIE

I, JAMES LEWIS, CLERK OF THE COUNTY AND STATE AFORESAID, DO HEREBY CERTIFY THAT THE FOREGOING ART OF INC WAS, ON THE 08 DAY OF AUGUST, 1997, LODGED IN MY OFFICE FOR RECORD, AND THAT IT, THE FOREGOING AND THIS CERTIFICATION, HAVE BEEN DULY RECORDED IN MY SAID OFFICE IN CORP. BOOK NO. 6 PAGE 378.

WITNESS MY HAND THIS 08TH DAY OF AUGUST 19 97,

JAMES LEWIS, CLERK

 AVERY



Trey Grayson
Secretary of State

Certificate of Existence

I, Trey Grayson, Secretary of State of the Commonwealth of Kentucky, do hereby certify that according to the records of the Office of the Secretary of State,

CUMBERLAND VALLEY ELECTRIC, INC.

is a nonprofit corporation duly incorporated and existing under KRS Chapter 273, whose date of incorporation is July 12, 1940 and whose period of duration is perpetual.

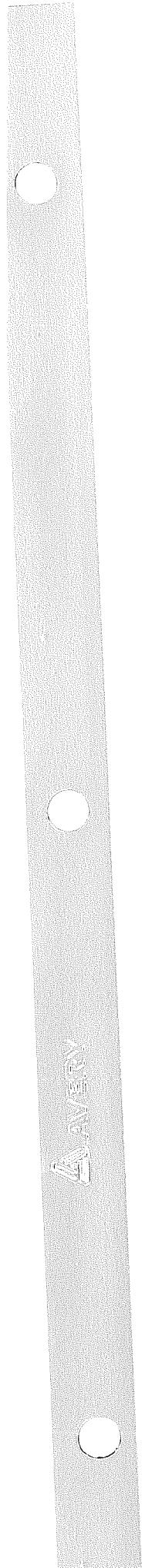
I further certify that all fees and penalties owed to the Secretary of state have been paid; that articles of dissolution have not been filed; and that the most recent annual report required by KRS 273.3671 has been delivered to the Secretary of State.

IN WITNESS THEREOF, I have hereunto set my hand and affixed my Official Seal at Frankfort, Kentucky, this 8th day of June, 2005.



Trey Grayson

Trey Grayson
Secretary of State
Commonwealth of Kentucky
BWeber/0012671 - Certificate ID: 15467



Form for filing Rate Schedules

For Entire Territory Served
Community, Town or City
P.S.C. NO. 4
First Revised SHEET NO. 23

CUMBERLAND VALLEY ELECTRIC, INC.
Gray, Ky. 40734

CLASSIFICATION OF SERVICE

Outdoor Lighting-Security Lights Schedule VI

AVAILABILITY

Available to all consumers of the Cooperative for dusk to dawn outdoor lighting in close proximity to existing overhead secondary circuits.

RATE PER LIGHT PER MONTH

Mercury Vapor Lamps

1)	175 Watt	\$ 6.50 Per Lamp Per Month I
2)	400 Watt	\$ 8.87 Per Lamp Per Month I

Other Lamps

1)	100 Watt OPEN BOTTOM	\$ 6.50 Per Lamp Per Month I
2)	100 Watt COLONIAL POST	\$ 7.42 Per Lamp Per Month I
3)	100 Watt DIRECTIONAL FLOOD	\$ 8.03 Per Lamp Per Month I
4)	400 Watt DIRECTIONAL FLOOD	\$ 12.47 Per Lamp Per Month I
5)	400 Watt COBRA HEAD	\$ 12.47 Per Lamp Per Month I

CONDITIONS OF SERVICE

1. The Cooperative shall furnish, install, operate, and maintain the outdoor lighting equipment including lamp, luminaire, bracket attachment and control device on an existing secondary pole.
2. The lighting equipment shall remain the property of the Cooperative. The Consumer shall protect the lighting equipment from deliberate damage.
3. The Consumer shall allow authorized representatives of the Cooperative to enter upon the Consumer's premises and to trim trees and shrubs as necessary for maintenance of the lighting equipment and for removal of lighting equipment upon termination of service under this schedule.

Date of Issue: July 22, 2005

Date Effective: September 1, 2005

Issued By: _____

Title: Manager

Issued by authority of an Order of the Public Service Commission of KY in
Case No.: 2004-00471

Dated: May 24, 2005

Form for filing Rate Schedules

For Entire Territory Served
Community, Town, or CityCUMBERLAND VALLEY ELECTRIC, INC.
Gray, Ky. 40734P.S.C. NO.4
First Revised SHEET NO. 2CLASSIFICATION OF SERVICE

Rates For Residential, Schools and Churches Schedule 1

APPLICABLE

In all territory served by the Seller.

AVAILABILITY

Available to all Residential, Schools and Churches.

TYPE OF SERVICE

Single phase at available voltages.

Customer Charge	\$5.00	Per month per customer
ALL KWH	.06278	I

MARKETING RATE:

Available to Consumers eligible for Tariff Schedule 1

The electric power and energy furnished under this section shall be separately metered for each point of delivery. This retail marketing rate applies only to programs which are expressly approved by the Commission to be offered under the Marketing Rate of East Ky. Power Cooperatives Wholesale Power Rate Schedule A.

Marketing rate for all kwh per month
PER KWH .03767 I

This rate is only applicable during the below listed OFF-PEAK hours:

<u>MONTHS</u>	<u>OFF-PEAK HOURS-EST</u>
OCTOBER thru APRIL	12:00 NOON TO 5:00 P.M.
	10:00 P.M. TO 7:00 A.M.
MAY thru SEPTEMBER	10:00 p.m. TO 10:00 A.M.

DATE OF ISSUE: July 22, 2005

DATE EFFECTIVE: September 1, 2005

ISSUED BY: _____

TITLE: Manager

Issued by authority of an Order of the Public Service Commission
of Ky. in Case No.: 2004-00471

Dated: May 24, 2005

CUMBERLAND VALLEY ELECTRIC, INC.
CASE NO. 2005-00187

PRESENT AND PROPOSED RATES IN COMPARATIVE FORM

	<u>Present Rates</u>	<u>Proposed Rates</u>
Schedule I - Farm, Home Schools, Churches		
Customer Charge per month	\$ 5.00	\$ 5.00
All kWh of energy per kWh	0.05832	0.06278
Marketing Rate	0.03499	0.03767
Schedule II - Small Commercial - Single Phase		
Customer Charge	\$ 5.00	\$ 5.00
Energy Charge per kWh		
First 3,000 kWh	0.07280	0.07280
All Over 3000 kWh	0.06723	0.06723
Schedule II - Small Commercial - Three Phase		
Customer Charge	\$ 5.00	\$ 5.00
Demand Charge per kW	3.68	3.68
Energy Charge per kWh		
First 3,000 kWh	0.07280	0.07280
All Over 3000 kWh	0.06723	0.06723
Schedule III - All Electric Schools		
All kWh per kWh	0.05883	0.05883
Schedule IV - Large Power Industrial		
Demand Charge per kW	5.71	5.71
All energy per kWh	0.03395	0.03395
Schedule IV-A Large Power (50 kW to (2500kW)		
Demand Charge per kW	3.68	3.68
All kWh per kWh	0.04283	0.04283
Schedule V Large Power - 1,000 kW to 2,500 kW		
Consumer Charge	535	535
Demand Charge		
Contract Demand per kW	5.39	5.39
Demand in excess of Contract per kW	7.82	7.82
All kWh per kWh	0.03902	0.03902

PRESENT AND PROPOSED RATES IN COMPARATIVE FORM

	<u>Present Rates</u>	<u>Proposed Rates</u>
Schedule V-A Large Power Industrial		
Consumer Charge	\$ 1,069.00	\$ 1,069.00
Demand Charge		
Contract Demand per kW	5.39	5.39
Demand in excess of Contract per kW	7.82	7.82
All kWh per kWh	0.03266	0.03266
Schedule VI - Security Lights - Mercury Vapor Lamps		
175 Watt Lamp	5.94	6.50
400 Watt Lamp	8.11	8.87
Security Lights - Sodium Vapor Lamps		
100 Watt Open Bottom	5.94	6.50
100 Watt Colonial Post	6.78	7.42
100 Watt Directional Flood	7.34	8.03
400 Watt Directional Flood	11.40	12.47
400 Watt Cobra Head	11.40	12.47

AVERY

CUMBERLAND VALLEY ELECTRIC, INC.
CASE NO. 2005-00187

NOTICE

Cumberland Valley Electric, Inc., Gray, Kentucky has filed with the Kentucky Public Service Commission an Application to increase some of its retail electric rates.

Cumberland Valley is seeking an increase in revenues in the amount of \$1,394,876 or a 4.92% increase in revenues from base rates. Those rate classes for which an increase in rates is being sought are the below listed ones:

<u>Rate Class</u>	<u>Amount of Increase</u>	<u>Percentage Increase</u>
<u>Schedule I</u> - Residences, Farms, Schools & Churches	\$1,318,115	7.15%
<u>Schedule VI</u> - Security Lights	76,783	9.40%

The proposed rates for each one of these rate classes is provided below:

	<u>Present Rates</u>	<u>Proposed Rates</u>
<u>Schedule I</u> - Residences, Farms, Schools & Churches		
Customer Charge per month	\$ 5.00	\$ 5.00
Energy Charge per kWh	\$ 0.05832	\$ 0.06278
Marketing Rate per kWh	\$ 0.03499	\$ 0.03767
<u>Schedule VI</u> - Security Lights - Mercury Vapor Lamps		
175 Watt Lamp	5.94	6.50
400 Watt Lamp	8.11	8.87
Security Lights - Sodium Vapor Lamps		
100 Watt Open Bottom	5.94	6.50
100 Watt Colonial Post	6.78	7.42
100 Watt Directional Flood	7.34	8.03
400 Watt Directional Flood	11.40	12.47
400 Watt Cobra Head	11.40	12.47

The rates contained in this notice are the rates proposed by Cumberland Valley Electric, however, the Public Service Commission may order rates to be charged that differ from the proposed rates contained in this notice.

Any corporation, association, or person with a substantial interest in the matter may, by written request, within thirty (30) days after publication or mailing of this notice of the proposed rate changes request to intervene; intervention may be granted beyond the thirty (30) day period for good cause shown.

CUMBERLAND VALLEY ELECTRIC, INC.
CASE NO. 2005-00187

Exhibit E
Page 2 of 2

Any person who has been granted intervention by the Commission may obtain copies of the application and any other filings made by the utility by contacting the utility as provided below:

Mr. Robert Prevatte
Cumberland Valley Electric, Inc.
P.O. Box 440
Gray, Kentucky 40734
Phone: 606-528-2677

Any person may examine the rate application and any other filings made by the utility at the main office of the utility or at the Commission's offices at the addresses listed below:

Cumberland Valley Electric, Inc.
6219 N. US Highway 25E
Gray, Kentucky 40734

Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

CUMBERLAND VALLEY ELECTRIC, INC.
CASE NO. 2005-00187

ADJUSTMENTS FOR TEST YEAR OF 2004

	Revenue Adjustments		Expense Adjustments							Expense Adjustments				Total Adjustments
	Normalization for Current Base Rates	Year End # of Consumers	1 Normalized Purchased Power	3 Normalized Depreciation Expense	5 Normalized Interest Expense	6 Wages	7 Payroll Taxes	8 & 9 Employee Benefits	10 Donations	11 Rate Case Expense	12 Non-Recurring Expenses	13 Property Taxes	14 Directors Fees	
	1	3	2	4	5	6	7	8 & 9	10	11	12	13	14	
	\$\$	\$\$	\$\$	\$\$	\$\$	\$\$	\$\$	\$\$	\$\$	\$\$	\$\$	\$\$	\$\$	
Operating Revenue														
Base Rates	(266,585)	94,367												(172,218)
Fuel Adjustment														-
Other Revenue														-
Total Operating Revenue	(266,585)	94,367												(172,218)
Purchased Power														
Purchased Power														-
Base Rates		68,856	(183,647)											(114,791)
Fuel Adjustment														-
Green Power														-
Total Purchased Power	-	68,856	(183,647)											(114,791)
Gross Margin	(266,585)	25,511	183,647											(57,427)
Distribution Expenses														
Distribution Operations						29,365	2,177	3,508				3,335		38,385
Distribution Maintenance						47,249	3,504	5,644				5,367		61,763
Consumer Accounts						24,976	1,852	2,983				2,837		32,648
Customer Service						3,856	286	461				438		5,040
Sales														-
Administrative & General						28,608	2,121	3,417			(79,066)	3,249	(160,065)	(201,735)
Depreciation				288,207										288,207
Taxes-Property														-
Taxes-other														-
Interest on Long Term Debt							140,234							140,234
Interest Expense - Other														-
Other Deductions									(9,736)	20,000				10,264
Total Distribution Expenses	-	-	-	288,207	140,234	134,053	9,940	16,013	(9,736)	20,000	(79,066)	15,226	(160,065)	374,807
Total Cost of Electric	-	68,856	(183,647)	288,207	140,234	134,053	9,940	16,013	(9,736)	20,000	(79,066)	15,226	(160,065)	260,016
Operating Margin	(266,585)	25,511	183,647	(288,207)	(140,234)	(134,053)	(9,940)	(16,013)	9,736	(20,000)	79,066	(15,226)	160,065	(432,234)
Non-operating Margins-Interest														-
Non-operating Margins-Other														-
Capital Credits														-
G&T														-
Other														-
Net Margins	(266,585)	25,511	183,647	(288,207)	(140,234)	(134,053)	(9,940)	(16,013)	9,736	(20,000)	79,066	(15,226)	160,065	(432,234)

CUMBERLAND VALLEY ELECTRIC, INC.
CASE NO. 2005-00187

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DESCRIPTION AND QUANTIFIED EXPLANATION OF PROPOSED ADJUSTMENTS

Schedule 1 - Normalization of Revenue

The normalization of revenue adjustment provides the revenue amount that is the product of the current rates, effective on June 1, 2005, multiplied by the billing units for the test year. The billing units contained in the test year financial reports have been adjusted or reduced by those units billed during 2004 for the actual sale of energy in previous years. This adjustment is a proper one to insure the proper matching of revenue with the costs incurred to provide service.

Also the current rates for energy have changed since the test year end to reflect an increase in the fuel base of the energy component of Cumberland Valley rates. This change was made due to an increase in the fuel base of East Kentucky Power Cooperative ("EKPC"), the wholesale power supplier to Cumberland Valley. This part of the adjustment in concert with the adjustment for purchased power has the effect of removing the fuel adjustment clause ("FAC") from consideration or impact in this application. This adjustment amounts to a decrease in revenue of \$266,585 and supporting calculations are contained in Part 2 of this schedule.

Adjustment of Revenue Due to Changes in Base Rates for FAC Roll-in

<u>Rate Schedule</u>	<u>Description</u>	Current Rates Effective <u>6/1/2005</u>	<u>Data Provided for Information</u>	
			Rates in Effect <u>12/31/2004</u>	Effect of Base Rate Changes
I	Residential, Schools & Churches	\$ 18,382,370	16,951,618	\$ 1,430,752
I	Marketing Rate	44,002	40,317	3,685
II	Small Commercial & Small Power			
	No Demand	966,830	905,527	61,302
	With Demand	700,371	660,361	40,010
III	Three Phase Schools & Churches	634,941	582,272	52,669
IV	Large Power - Industrial (KW>2500 kW)	1,576,365	1,418,166	158,200
IV-A	Large Power Rate (50 kW - 2500 kW)	5,122,330	4,659,651	462,679
V	Large Power Rate (500 kW - 2500 kW)			-
V-A	Large Power - Industrial (kW>2500 kW)			-
VI	Outdoor Lighting - Security Lights	816,250	769,052	47,198
	Normalized Revenue for Base Rates of 6/1/2005	\$ 28,243,460	\$ 25,986,965	\$ 2,256,495
	Less: Revenue from Rates for Test Year	28,510,045	28,510,045	\$ -
	Adjustment for Normalized Rates 6/1/2005	\$ (266,585)	\$ (2,523,080)	\$ 2,256,495
	Adjustment Amount Used for Statement of Operations	\$ (266,585)		

NORMALIZATION OF REVENUE FOR BASE RATES EFFECTIVE JUNE 1, 2005

Rate Schedule	Billing Basis	Billing Quantities	Rates Effective 1-Jun-05	Normalized Revenue	Rates Effective 31-Dec-04	Normalized Revenue	Normalized Revenue for Rates 31-Dec-04
Schedule I - Residential	Consumer Charge	256742	\$ 5.00	\$ 1,283,710	\$ 5.00	\$ 1,283,710.00	
	Energy	293,186,902	0.05832	17,098,660	0.05344	15,667,908	\$ 16,951,618
				\$ 18,382,370			\$
Schedule I - ETS	Energy	1,257,547	0.03499	44,002	0.03206	40,317	40,317
Schedule II Small Commercial - kWh only	Consumer Charge	13,713	\$ 5.00	68,565	5.00	68,565	
	Energy Step 1	9,645,152	0.07280	702,167	0.06792	655,099	
	Energy Step 2	2,916,819	0.06723	196,098	0.06235	181,864	905,527
				966,830			
Schedule II - Demand	Consumer Charge	1,492	\$ 5.00	7,460	5.00	7,460	
	Energy Step 1	2,818,450	0.07280	205,183	0.06792	191,429	
	Energy Step 2	5,380,345	0.06723	361,721	0.06235	335,465	
	Demand	34,241	\$ 3.68	126,008	3.68	126,007.6	660,361
				700,371			

Cumberland Valley Electric, Inc.
 Gray, Kentucky
NORMALIZATION OF REVENUE FOR BASE RATES EFFECTIVE JUNE 1, 2005

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Rate Schedule	Billing Basis	Billing Quantities	Rates Effective 1-Jun-05	Normalized Revenue	Normalized Revenue for Rates 1-Jun-05	Rates Effective 31-Dec-04	Normalized Revenue	Normalized Revenue for Rates 31-Dec-04
Schedule III - 3 Phase Schools & Churches	Energy	10,792,809	0.05883	<u>634,941</u>	634,941	0.05395	<u>582,272</u>	582,272
Schedule IV - Large Power - Industrial	Energy	32,418,000	0.03395	1,100,591		0.02907	942,391	
	Demand	83,323.0	5.71	<u>475,774</u>	1,576,365	5.71	<u>475,774</u>	1,418,166
Schedule IV-A Large Power Rate (50-2500 kW)	Energy	94,811,272	0.04283	4,060,767		0.03795	3,598,088	
	Demand	288,468	3.68	<u>1,061,564</u>	5,122,330	3.68	<u>1,061,564</u>	4,659,651
Schedule VI - Security Lights	175 Watt MV Lamp	104,114 \$	5.94	618,437		5.60	583,038	
	400 Watt SV Lamp	17,352	11.40	<u>197,813</u>		10.72	<u>186,013</u>	
	kWh	9,717,295			<u>816,250</u>			<u>769,052</u>
Total Normalized Revenue					28,243,460			
Total Energy Sales - kWh		462,944,591						

DESCRIPTION AND QUANTIFIED EXPLANATION OF PROPOSED ADJUSTMENTS

Schedule 2 - Adjustment for Test Year End Numbers of Consumers

The adjustment for the test year end numbers of customers provides the amount of revenue received and purchased power costs have been incurred if the test year end number of consumers for Rate Schedule I - Residential, Schools, Churches had been purchasing energy at average monthly amount for the complete test year. The amount of additional revenue is determined along with the additional purchased power costs to properly match the additional revenue with the additional costs that would be incurred as a result of these sales. It is also assumed that no additional distribution costs would be incurred by Cumberland Valley to make these additional sales. The additional revenue that would be received is calculated to be \$94,367 with additional purchased power costs of \$68,856. Part b of this explanation provides the details associated with this adjustment.

WHOLESALE BILLING DETERMINANTS

Month	Charges in Dollars										
	Meter	Substation/Wheeling					Demand	Energy			Fuel Adj.
	Meter Pt Charges	0 - 1 MVA	1 - 3 MVA	3 - 7.5 MVA	7.5 - 15 MVA	15 - 100 MVA	C.P. kW	kWH On Peak	kWH Off Peak	kWH Total	Charge/ (Credit)
January	15	0	0	3	11	1	113,036	24,577,374	30,464,977	55,042,351	191,548
February	15	0	0	3	11	1	96,423	21,191,579	26,611,103	47,802,682	313,108
March	15	0	0	3	11	1	98,308	18,029,133	22,289,437	40,318,570	161,677
April	15	0	0	3	11	1	75,573	15,542,823	19,139,399	34,682,222	161,271
May	15	0	0	3	11	1	74,254	20,866,123	14,551,273	35,417,396	148,754
June	15	0	0	3	11	1	81,115	22,063,612	14,387,463	36,451,075	116,280
July	15	0	0	3	11	1	85,868	24,614,376	15,596,968	40,211,344	214,326
August	15	0	0	3	11	1	85,309	23,184,525	15,171,652	38,356,177	186,410
September	15	0	0	3	11	1	73,383	20,072,780	13,831,883	33,904,663	230,213
October	15	0	0	3	11	1	63,194	15,215,636	17,851,101	33,066,737	174,261
November	15	0	0	3	11	1	83,861	17,811,062	21,082,493	38,893,555	178,132
December	15	0	0	3	11	1	124,568	24,625,092	30,114,614	54,739,706	380,989
Totals	180			36	132	12	1,054,892	247,794,115	241,092,363	488,886,478	2,456,969
Wholesale Power Costs for Rates of 12/31/2005	22,500			85,428	376,860	55,260	5,506,536	7,442,248	5,416,863	18,905,696	21,362,665
Wholesale Power Costs for Rates of 6/1/2005	22,500			85,428	376,860	55,260	5,506,536	8,594,491	6,537,943	21,179,018	

ADJUSTMENT FOR PURCHASED POWER

Normalized Purchased Power Costs for New Wholesale Rates Effective 6-1-2005 for FAC Rollin	\$ 21,179,018
Cost of Purchased Power for the Test Period	<u>21,362,665</u>
Amount of Adjustment for Purchased Power Costs	<u><u>(183,647)</u></u>

Wholesale Power Costs		
	Current Rates	Proposed Rates
Demand Rate	5.22	5.22
kWH On-Peak Rate	0.030034	0.034684
kWH Off-Peak Rate	0.022468	0.027118
Metering Point	125	125
Substations		
1-2.5 MVA	944	944
2.5-7.5 MVA	2373	2373
7.5-12.5MVA	2855	2855
12.5 MV & larger	4605	4605

DESCRIPTION AND QUANTIFICATION OF PROPOSED ADJUSTMENTS

Schedule 3 - Normalization of Purchased Power

The adjustment for the normalization of purchased power provides what the cost of purchased power would have been for the test year if the new wholesale rates 05, had been in effect for the complete test period. These rates are the product of the test year billing quantities multiplied by the rates effective on June 1, 2005. This approach has the effect of removing the FAC from this application.

This adjustment is a necessary one so that revenues may be properly matched with the expenses that have been incurred to produce this revenue. The effect of this adjustment is a decrease in purchased power costs of \$183,647.

Cumberland Valley Electric, Inc.

Exhibit F
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CASE NO. 2005-00187

ADJUSTMENT FOR YEAR LEVEL OF CONSUMERS IN RATE SCHEDULE A-I

	<u>Number of Consumers</u>	<u>Energy kWh</u>
	21,275	34,480,316
January	21,325	33,018,731
February	21,365	27,681,459
March	21,343	19,656,689
April	21,280	17,681,692
May	21,307	23,349,147
June	21,359	22,284,012
July	21,452	21,090,289
August	21,480	21,336,834
September	21,513	17,025,291
October	21,538	20,560,532
November	21,505	35,021,910
December	21,505	35,021,910
	<hr/>	<hr/>
	256,742	293,186,902
Total	<hr/>	<hr/>
	21,395	1,142
Average	<hr/>	<hr/>
Annual Amount if December Level of Consumers Served for Full Year	258,060	294,691,994
	<hr/>	<hr/>
Increase in Billing Units	1,318	1,505,092
	<hr/>	<hr/>
Rates	5	0.05832
	<hr/>	<hr/>
Increase in Revenue	6,590	87,777
	<hr/>	<hr/>
Total Increase in Revenue for Rate Class		94,367
		<hr/>
Increase in Wholesale Power Costs		68,856
		<hr/>
Increase in Margins		25,511
		<hr/> <hr/>

CUMBERLAND VALLEY ELECTRIC, INC.
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Exhibit F
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Adjustment for Depreciation Expense

The adjustment for depreciation contains two separate parts. The first part is the normalization of depreciation which is the product of the year rates multiplied by the test year end plant account balances. This part of the adjustment has an increase in costs of \$57,740.

The second part of this adjustment is due to fact that a depreciation study has been completed for Cumberland Valley Electric, and this concludes and recommends that the depreciation rates for Cumberland Valley should be changed. The change in depreciation rates would be an increase in rates for several plant accounts while others would remain the same. The increase in some depreciation rates increases the amount of the adjustment in this expense item by an additional 230,467. The details to this adjustment is contained in Part b of this schedule.

CUMBERLAND VALLEY ELECTRIC, INC.
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Account Number	Description	12/31/2004 Balance \$\$	Depreciation Rates %	Annual Amount \$\$	New Depreciation Rates %	Annual Amount \$\$
360	Land and Land Rights	5,485		-		
362	Station and Equipment	215,708	3.10	6,687	4.00	8,628
364	Poles, Towers & Fixtures	17,966,551	4.00	718,662	4.44	797,715
365	Overhead Conductor & Devices	16,204,092	2.80	453,715	3.99	646,543
367	Underground Conductor & Devices	1,824,463	4.00	72,979	5.44	99,251
368	Line Transformers	9,111,263	3.10	282,449	2.33	212,292
369	Services	5,648,961	3.60	203,363	3.78	213,531
370	Meters	3,447,280	3.40	117,208	3.23	111,347
371	Installation on Consumer Premises	2,861,315	4.00	114,453	4.66	133,337
	Totals Distribution Plant	<u>57,285,119</u>		<u>1,969,514</u>		<u>2,222,645</u>
389	Land and Land Rights	98,652		-		
390	Structures and Improvements	1,357,634	2.86	38,828		38,828
391	Office Furniture and Equipment	572,963	5.00	28,648		28,648
392	Transportation Equipment	1,738,251	11.25	195,553		195,553
394	Tools, Shop and Garage	42,988	6.67	2,867		2,867
395	Laboratory Equipment	81,185	4.00	3,247		3,247
396	Power Operated Equipment	239,812	6.00	14,389		14,389
397	Communications Equipment	250,806	5.00	12,540		12,540
398	Miscellaneous Equipment	150,215	5.56	8,352		8,352
	Totals General Plant	<u>4,532,507</u>		<u>304,425</u>		<u>304,425</u>
	Totals Electric Plant in Service	<u>61,817,626</u>		2,273,939		2,527,070
	Less Transportation Expense- Clearing (a)			<u>203,594</u>		<u>226,257</u>
	Depreciation Expense			2,070,346		2,300,813
	Less Actual Depreciation Expense for Test Year			<u>2,012,606</u>		2,012,606
	Amount of Adjustment for Depreciation			<u>57,740</u>		<u>288,207</u>
(a)	The percentage of depreciation expense for the test year charged to clearing accounts using the following information					
	Transportations Expense - Clearing			197,916		
	Total Depreciation for Test Year			2,210,522		
	Percentage of Depreciation to Clearing Accounts			8.95%		

**CUMBERLAND VALLEY ELECTRIC, INC.
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Exhibit F
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Adjustment for Interest Expense

The adjustment for interest expense results in an increase of \$140,234. This adjustment has been calculated by multiplying the test year end debt amounts by the interests rates in effect at that point time for each loan. However, an exception is made to the above stated process. The interest expense for loans has been calculated using an updated interest rates. These loans are identified as 'H0010' H0015', and 'F0020' are loans with variable interest rates and these interest rates used in this calculation of interest expense are those established on January 4, 2005. This updated interest rate is appropriate because it occurred shortly after the end of the test year and better reflect current interest rates. The details on this adjustment are contained in Part b of this schedule.

Cumberland Valley Electric, Inc

Exhibit F
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CASE NO. 2005-00187

ADJUSTMENT FOR INTEREST

<u>RUS Debt</u>		<u>Long Term Debt</u>	
<u>Note Number</u>	<u>Interest Rate %</u>	<u>12/31/2004 Balance \$\$</u>	<u>Normalized Interest \$\$</u>
4170	2.00	5,698	114
OB180	2.00	44,789	896
1B190	5.00	108,008	5,400
1B200	5.00	158,861	7,943
1B210	5.00	226,828	11,341
1B220	5.00	261,748	13,087
1B230	5.00	405,450	20,272
1B240	5.00	438,935	21,947
1B250	5.00	922,486	46,124
1B260	5.00	835,364	41,768
1B270	5.00	1,086,351	54,318
1B280	5.00	2,386,813	119,341
1B290	5.37	1,528,155	82,062
1B295	5.00	1,518,927	75,946
1B300	1.62	1,316,295	21,324
H0010	1.73 2.22	3,934,456	87,431
H0015	1.73 2.22	4,725,276	105,005
F0020	1.65 2.22	2,200,000	48,888
Total RUS Debt		22,104,439	763,209
 <u>CFC and Other Debt</u>			
9001	7.00	20,805	1,456
9003	7.00	54,618	3,823
9004	7.00	79,554	5,569
9007	4.35	115,394	5,020
9008	4.35	129,307	5,625
9010	5.70	213,138	12,149
9012	5.70	228,160	13,005
9014	7.95	487,617	38,766
9017	4.35	433,307	18,849
9018	4.35	482,906	21,006
9019	4.35	1,003,577	43,656
9020	4.35	1,319,536	57,400
9021	4.35	587,543	25,558
Total CFC and Other Debt		<u>5,155,464</u>	<u>251,881</u>
Total Long Term Debt and Normalized Interest Expense		27,259,903	1,015,090
Less Actual Interest Expense for Test Year			<u>874,856</u>
Amount of Adjustment for Interest Expense			<u><u>140,234</u></u>

Adjustment for Wages and Salaries

The adjustment for wages and salaries provides an adjustment in the amount of \$134,053 to Cumberland Valley's expenses for the test period. The number of employees employed at test year end are used as the base. Their annual base salaries for 2,080 hours at December 31, 2004 are utilized as the base amount. Employees, who come under the labor agreement and paid for overtime work, have an overtime factor built into the wage and salary normalization based on the actual overtime experience for 2004.

Wages and salaries are then allocated to capital, expense and other on the same basis as the actual experience for 2004, the test period. Part b of this schedule provides the details associated with the adjustment.

**CUMBERLAND VALLEY ELECTRIC, INC.
CASE NO. 2005-00187**

NORMALIZATION OF WAGES AND SALARIES

	<u>Employee</u>	<u>2004 Payroll</u>				<u>Normalized Payroll</u>			
		<u>Base Wages</u>	<u>Overtime</u>	<u>Bonus</u>	<u>Total Paid</u>	<u>12/31/2004</u>	<u>2004 Based</u>	<u>Bonus</u>	<u>Total</u>
		<u>2004</u>	<u>2004</u>			<u>Base</u>	<u>Overtime</u>		
1	1409	31,010	1,204	200	32,414	31,533	1,224	200	32,957
2	3317	67,878		200	68,078	69,554	-	200	69,754
3	1969	32,051	7,833	200	40,084	32,594	7,966	200	40,759
4	0589	30,729	338	200	31,267	31,533	347	200	32,079
5	6132	31,010	5,713	200	36,923	31,533	5,809	200	37,542
6	5772	31,010	5,289	200	36,499	31,533	5,378	200	37,111
7	0384	31,010	2,232	200	33,442	31,533	2,270	200	34,002
8	8231	31,010	1,695	200	32,905	31,533	1,724	200	33,456
9	7657	35,210		200	35,410	36,079	-	200	36,279
10	5869	31,010	719	200	31,929	31,533	731	200	32,464
11	6651	69,128		200	69,328	70,835	-	200	71,035
12	8777	41,791	2,989	200	44,980	42,494	3,039	200	45,733
13	6146	41,791	5,740	200	47,731	42,494	5,836	200	48,531
14	0937	40,110	40,202	200	80,512	42,786	42,884	200	85,870
15	3475	40,110	27,990	200	68,300	42,786	29,857	200	72,843
16	8597	42,085	9,805	200	52,089	42,786	9,968	200	52,954
17	1010	42,065	17,863	200	60,128	42,786	18,169	200	61,155
18	0720	42,065	18,007	200	60,272	42,786	18,315	200	61,301
19	8555	69,128		200	69,328	70,835	-	200	71,035
20	4575	115,283		200	115,483	118,129	-	200	118,329
21	1201	35,210		200	35,410	36,079	-	200	36,279
22	0429	42,085	27,137	200	69,421	42,786	27,589	200	70,574
23	7158	21,547		200	21,747	21,382	-	200	21,582

**CUMBERLAND VALLEY ELECTRIC, INC.
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	<u>Employee</u>	<u>2004 Payroll</u>				<u>Normalized Payroll</u>			
		<u>Base Wages</u>	<u>Overtime</u>	<u>Bonus</u>	<u>Total Paid</u>	<u>12/31/2004</u>	<u>Experience</u>	<u>Bonus</u>	<u>Total</u>
		<u>2004</u>	<u>2004</u>			<u>Base</u>	<u>Overtime</u>		
24	9144	40,110	41,246	200	81,556	42,786	43,997	200	86,983
25	0839	65,336		200	65,536	66,949	-	200	67,149
26	6285	59,482		200	59,682	60,950	-	200	61,150
27	1047	30,987	425	200	31,612	31,533	432	200	32,165
28	4840	40,110	30,660	200	70,970	42,786	32,705	200	75,691
29	9522	40,110	24,827	200	65,137	42,786	26,483	200	69,468
30	6459	40,782	22,396	200	63,378	43,514	23,896	200	67,610
31	2949	41,791	10,940	200	52,931	42,494	11,124	200	53,818
32	3158	28,802	2,347	200	31,349	29,286	2,387	200	31,873
33	7001	31,010	167	200	31,377	31,533	170	200	31,903
34	7219	42,300	14,830	200	57,330	43,517	15,257	200	58,973
35	1620	31,010	581	200	31,791	31,533	591	200	32,324
36	1998	36,055	15,777	200	52,032	42,786	18,722	200	61,708
37	8388	38,030	3,624	200	41,853	42,786	4,077	200	47,063
38	7347	42,044	13,617	200	55,860	42,786	13,857	200	56,843
39	8035	39,267	26,897	200	66,364	40,082	27,455	200	67,736
40	2593	2,477			2,477	2,477	-	-	2,477
41	0542	18,758	14,103	200	33,061	42,786	32,169	200	75,155
42	3139	14,092	6,205	200	20,497	31,533	13,884	200	45,617
43	6442	13,001	1,803	200	15,005	31,533	4,374	200	36,106
44	7125	12,075	1,340	200	13,616	31,533	3,500	200	35,233
45	7917	4,068			4,268	27,830	-	200	28,030
46	1693			200		68,000	-	200	68,200
Totals		1,708,022	408,544	8,800	2,121,357	1,970,067	458,190	8,800	2,437,057

CUMBERLAND VALLEY ELECTRIC, INC.
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ADJUSTMENT FOR WAGES AND SALARIES

	<u>Actual Payroll</u>	<u>Percent of Total</u>	<u>Normalized Payroll</u>	<u>Adjustment</u>	
Payroll Expenses	\$ 1,436,254	65.5%	\$ 1,596,881	\$ 160,627	Adjustment for Rates
Payroll Capitalized	624,023	28.5%	\$ 693,812	\$ 69,789	
Payroll Other	131,641	6.0%	\$ 146,363	\$ 14,722	
Total	<u>2,191,918</u>	<u>100.0%</u>	<u>2,437,057</u>	<u>\$ 245,139</u>	

Adjustment for Payroll Taxes

The adjustment for payroll taxes have been developed in manner consistent with the adjustment for wages and salaries. The rates for Medicare, Social Security, federal unemployment and state unemployment effective with January 1, 2005 have utilized to determine an annual costs for these expenses for Cumberland Valley. The test year end numbers of employee, wage rates and overtime experience have been utilized in the determination of this adjustment

Cumberland Valley's experience in allocating these expenses to capital, expense, and other for 2004 has also been used as a basis for determining this adjustment amount. Part b of this schedule provides the complete details for this adjustment.

Cumberland Valley Electric, Inc.
CASE NO. 2005-00187

NORMALIZATION OF PROPERTY TAXES

	:						
	<u>Overtime</u>						
	<u>Employee</u>	<u>Total</u>	<u>FUTA</u>	<u>SUTA</u>	<u>FICA</u>	<u>Medicare</u>	<u>Total</u>
1	1409	32,957	56	56	2,043	478	2,633
2	3317	69,754	56	56	4,325	1,011	5,448
3	1969	40,759	56	56	2,527	591	3,230
4	0589	32,079	56	56	1,989	465	2,566
5	6132	37,542	56	56	2,328	544	2,984
6	5772	37,111	56	56	2,301	538	2,951
7	0384	34,002	56	56	2,108	493	2,713
8	8231	33,456	56	56	2,074	485	2,671
9	7657	36,279	56	56	2,249	526	2,887
10	5869	32,464	56	56	2,013	471	2,596
11	6651	71,035	56	56	4,404	1,030	5,546
12	8777	45,733	56	56	2,835	663	3,611
13	6146	48,531	56	56	3,009	704	3,825
14	0937	85,870	56	56	5,324	1,245	6,681
15	3475	72,843	56	56	4,516	1,056	5,684
16	8597	52,954	56	56	3,283	768	4,163
17	1010	61,155	56	56	3,792	887	4,790
18	0720	61,301	56	56	3,801	889	4,802
19	8555	71,035	56	56	4,404	1,030	5,546
20	4575	118,129	56	56	5,729	1,713	7,554
21	1201	36,279	56	56	2,249	526	2,887
22	0429	70,574	56	56	4,376	1,023	5,511
23	7158	21,582	56	56	1,338	313	1,763

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	<u>Overtime</u>						
	<u>Employee</u>	<u>Total</u>	<u>FUTA</u>	<u>SUTA</u>	<u>FICA</u>	<u>Medicare</u>	<u>Total</u>
24	9144	86,983	56	56	5,393	1,261	6,766
25	0839	67,149	56	56	4,163	974	5,249
26	6285	61,150	56	56	3,791	887	4,790
27	1047	32,165	56	56	1,994	466	2,573
28	4840	75,691	56	56	4,693	1,098	5,902
29	9522	69,468	56	56	4,307	1,007	5,426
30	6459	67,610	56	56	4,192	980	5,284
31	2949	53,818	56	56	3,337	780	4,229
32	3158	31,873	56	56	1,976	462	2,550
33	7001	31,903	56	56	1,978	463	2,553
34	7219	58,973	56	56	3,656	855	4,623
35	1620	32,324	56	56	2,004	469	2,585
36	1998	61,708	56	56	3,826	895	4,833
37	8388	47,063	56	56	2,918	682	3,712
38	7347	56,843	56	56	3,524	824	4,460
39	8035	67,736	56	56	4,200	982	5,294
40	2593	2,477	0	0	154	36	189
41	0542	75,155	56	56	4,660	1,090	5,861
42	3139	45,617	56	56	2,828	661	3,602
43	6442	36,106	56	56	2,239	524	2,874
44	7125	35,233	56	56	2,184	511	2,807
45	7917	28,030	56	56	1,738	406	2,256
46	1693	68,200	56	56	4,228	989	5,329
	Total	2,434,853	2,520	2,520	147,000	34,752	186,792

Cumberland Valley Electric, Inc.
 CASE NO. 2005-00187

ADJUSTMENT FOR PAYROLL TAXES

	Percent of Total	Actual Payroll Taxes	Normalized Payroll Taxes	Adjustment
Payroll Expenses	65.5%	\$ 112,455	\$ 122,396	\$ 9,940
Payroll Capitalized	28.5%	48,860	53,178	4,319
Payroll Other	6.0%	10,307	11,218	911
Total	100.0%	\$ 171,622	186,792	\$ 15,170

Adjustment for Rates

CUMBERLAND VALLEY ELECTRIC, INC.
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Adjustment for Employee Benefits

The adjustment for employee benefits have a basis similar to the adjustment for wages and salaries and the adjustment for payroll taxes. For those employee benefits based on wages and salaries, the level of wages and salaries at test year end have been used as the basis for the calculation of those benefits. These types of benefits have include these: 401k, long term disability, life insurance, and retirement and security. Several factors need to be mentioned as one reviews this adjustment. One is the fact that insurance premiums for life insurance amounts in excess of \$50,000 have been removed from this calculation. This practice is consistent with previous ones on the Commission.

Additionally, it should be noted that Cumberland Valley has been able to lower its cost of medical insurance for its employees. Both of these factors have resulted in a decrease in Cumberland Valley's expenses for ratemaking purposes for medical insurance and life insurance. The magnitude of the sum of the decrease in expenses for these two costs has resulted in a decrease in employee benefit costs for ratemaking purposes. The amount of the adjustment for employee benefits is a decrease of \$36,866 for expense purposes. The total decrease is \$56,262 but some is allocated to capital and some to other.

CUMBERLAND VALLEY ELECTRIC, INC.
CASE NO. 2005-00187

NORMALIZATION OF EMPLOYEE BENEFITS

<u>Employee</u>	<u>Normalized Payroll Base</u>	<u>Contributions to 401K</u>	<u>Retirement & Security</u>	<u>Health Insurance</u>	<u>Dental Insurance</u>	<u>Workers Comp</u>	<u>Long Term Disability</u>	<u>Insured Amount 0(\$000)</u>	<u>Life Insurance</u>
1 1409	31,533	3,153		8,669	356.40	1,104.91	382.18	96.00	386.50
2 3317	69,554	3,478	13,980	8,669	722.46	2,437.17	842.99	210.00	845.46
3 1969	32,594	3,259		8,669	356.40	1,142.08	395.03	99.00	398.57
4 0589	31,533	3,153		8,669	722.46	1,104.91	382.18	96.00	386.50
5 6132	31,533	3,153		11,748	356.40	1,104.91	382.18	96.00	386.50
6 5772	31,533	3,153		8,669	356.40	1,104.91	382.18	96.00	386.50
7 0384	31,533	3,153		11,748	722.46	1,104.91	382.18	96.00	386.50
8 8231	31,533	3,153		8,669	722.46	1,104.91	382.18	96.00	386.50
9 7657	36,079	1,804	7,252	8,669	722.46	1,264.21	437.28	111.00	446.89
10 5869	31,533	3,153		8,669	356.40	1,104.91	382.18	96.00	386.50
11 6651	70,835	3,542	14,238	8,669	356.40	2,482.06	858.52	213.00	857.54
12 8777	42,494	4,249		11,748	722.46	1,489.00	515.03	129.00	519.35
13 6146	42,494	4,249		11,748	722.46	1,489.00	515.03	129.00	519.35
14 0937	42,786	4,279		11,748	722.46	1,499.21	518.56	129.00	519.35
15 3475	42,786	4,279		3,672	356.40	1,499.21	518.56	129.00	519.35
16 8597	42,786	4,279		8,669	356.40	1,499.21	518.56	129.00	519.35
17 1010	42,786	4,279		11,748	356.40	1,499.21	518.56	129.00	519.35
18 0720	42,786	4,279		11,748	356.40	1,499.21	518.56	129.00	519.35
19 8555	70,835	3,542	14,238	8,669	356.40	2,482.06	858.52	213.00	857.54
20 4575	118,129	5,906	23,744	8,669	722.46	4,139.26	1,431.73	357.00	1,437.28
21 1201	36,079	1,804	7,252	3,672	356.40	1,264.21	437.28	111.00	446.89
22 0429	42,786	4,279		8,669	722.46	1,499.21	518.56	129.00	519.35
23 7158	21,382	2,138		8,669	722.46	749.24	259.15	66.00	265.72

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	<u>Employee</u>	<u>Normalized Payroll Base</u>	<u>Contributions to 401K</u>	<u>Retirement & Security</u>	<u>Health Insurance</u>	<u>Dental Insurance</u>	<u>Workers Comp</u>	<u>Long Term Disability</u>	<u>Insured Amount 0(\$000)</u>	<u>Life Insurance</u>
24	9144	42,786	4,279		11,748	722.46	1,499.21	518.56	129.00	519.35
25	0839	66,949	3,347	13,457	8,669	722.46	2,345.91	811.43	201.00	809.23
26	6285	60,950	3,048	12,251	11,748	356.40	2,135.69	738.72	183.00	736.76
27	1047	31,533	3,153		8,669	356.40	1,104.91	382.18	96.00	386.50
28	4840	42,786	4,279		11,748	722.46	1,499.21	518.56	129.00	519.35
29	9522	42,786	4,279		11,748	722.46	1,499.21	518.56	129.00	519.35
30	6459	43,514	4,351		11,748	356.40	1,524.72	527.38	132.00	531.43
31	2949	42,494	4,249		11,748	722.46	1,489.00	515.03	132.00	531.43
32	3158	29,286	2,929		8,669	356.40	1,026.20	354.95	90.00	362.34
33	7001	31,533	3,153		8,669	356.40	1,104.91	382.18	99.00	398.57
34	7219	43,517	4,352		11,748	722.46	1,524.82	527.42	132.00	531.43
35	1620	31,533	3,153		11,748	722.46	1,104.91	382.18	96.00	386.50
36	1998	42,786	4,279		3,672	356.40	1,499.21	518.56	129.00	519.35
37	8388	42,786	4,279		3,672	356.40	1,499.21	518.56	129.00	519.35
38	7347	42,786	4,279		11,748	722.46	1,499.21	518.56	129.00	519.35
39	8035	40,082	4,008		11,748	722.46	1,404.46	485.79	123.00	495.20
40	2593	PT 2,477				86.79		30.02	-	-
41	0542	42,786	4,279		11,748	722.46	1,499.21	518.56	129.00	519.35
42	3139	31,533	3,153		11,748	722.46	1,104.91	382.18	96.00	386.50
43	6442	31,533	3,153		11,748	722.46	1,104.91	382.18	96.00	386.50
44	7125	31,533	3,153		11,748	722.46	1,104.91	382.18	96.00	386.50
45	7917	27,830	2,783		3,672	356.40	975.18	337.30	84.00	338.18
46	1693	68,000	3,400	13,668	11,748	722.46	2,382.72	824.16	204.00	821.30
		1,931,715	163,053	120,080	432,853	25,190	67,687	23,412	5,847.00	23,540
			\$2,437,057				Only 50,000 allowed per employee		2,200.00	8,857

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<u>Employee</u>	<u>Normalized Payroll Base</u>	<u>Contribu- tions to 401K</u>	<u>Retire- ment & Security</u>	<u>Health Insurance</u>	<u>Dental Insurance</u>	<u>Workers Comp</u>	<u>Long Term Disability</u>	<u>Insured Amount 0(\$000)</u>	<u>Life Insurance</u>
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ADJUSTMENT FOR EMPLOYEE BENEFITS

<u>Type</u>	<u>Amount</u>	Actual Expense	Difference		
401K		142,888	20,165		
Retirement & Security		110,706	9,373		
Medical		514,448	(81,595)		
Dental		21,227	3,962		
Workers Compensation		62,285	5,403		
Long Term Disability		21,303	2,110	Expense	Adjustment
Life Insurance		24,537	(15,680)	Percent	Amount
Total	<u> </u>	<u>897,394</u>	<u>(56,262)</u>	65.52%	<u>\$ (36,866)</u>

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<u>Employee</u>	<u>Normalized Payroll Base</u>	<u>Contribu- tions to 401K</u>	<u>Retire- ment & Security</u>	<u>Health Insurance</u>	<u>Dental Insurance</u>	<u>Workers Comp</u>	<u>Long Term Disability</u>	<u>Insured Amount 0(\$000)</u>	<u>Life Insurance</u>
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ADJUSTMENT FOR POSTIREMENT BENEFITS

Postretirement Benefits Accrual for 2005	167,000
Postretirement Benefit Accrual for 2004	<u>86300</u>
Amount of Adjustment	80,700
Percentage of Payroll Expensed	<u>65.52%</u>
Amount Adjustment	<u><u>52,879</u></u>

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Adjustment for Postretirement Employee Benefits (FAS 106)

The adjustment for postretirement employee benefits measures the most recent calculation of the proper accrual amount for this benefit. The determination of this accrual amount has been calculated in conformity with Financial Accounting Standard 106. The only postretirement benefit offered by Cumberland Valley is medical coverage.

The increase in the accrual amount has been allocated to expense, capital and other on the same basis as the allocation of payroll for the test year. The amount of this adjustment for ratemaking purposes is \$52,879. The specific details of this adjustment are provided in Part b of this schedule. An unbiased third party has been employed to make this calculation for Cumberland Valley.

Adjustment for Postretirement Benefits

Accrual for 2005 for postretirement benefits		\$	167,000
Accrual for 2004 for postretirement benefits			<u>86,300</u>
Increase in accrual		\$	<u>80,700</u>
Allocation of increase in postretirement benefits			
	<u>%</u>		
Expense	0.65525	\$	52,879
Capital	0.28469		22,975
Other	0.06006		<u>4,847</u>
		\$	<u>80,700</u>
The amount of this adjustment for ratemaking purposes is		\$	<u>52,879</u>

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Adjustment for Donations

The donations made by Cumberland Valley for the test period of calendar year 2004 have been removed from the statement of operations for ratemaking purposes. The amount of this adjustment is \$9,736.

CUMBERLAND VALLEY ELECTRIC, INC.
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Adjustment for Donations

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Account

Number Description

426.1	Donations	\$ 4,201
426.11	Donations-Scholarships	4,250
426.12	Donations-Memberships, Dues	<u>1,285</u>
		<u>\$ 9,736</u>

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Adjustment for Rate Case Expenses

The adjustment for rate case expenses measures the cost that Cumberland Valley reasonable expects to incur for pursuing this rate application. The annual expense base on a three year allocation of the total expenses amounts to \$20,000. All of these expenses is for outside personnel. Cumberland Valley has always maintained a minimal staffing level and relies upon outsourcing for projects similar to rate applications. Part b of this schedule provides the complete details.

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Adjustment for Rate Case Expenses

Depreciation Study - Consulting Services	\$ 15,000
Cost of Service Study & Rate Design - Consulting Services	10,000
Revenue Requirements - Consulting Services	15,000
Attorney Fees	10,000
Rate Case Prosecution Consulting Services	<u>10,000</u>
Total Cost of Outside Services	\$ 60,000
Amortization Period in Years	<u>3</u>
Annual Expense for Ratemaking Purposes	<u><u>\$ 20,000</u></u>

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Adjustment for Nonrecurring Expenses

a.

During the test year, Cumberland Valley incurred nonrecurring expenses for a court case which amounted to \$75,000 and the employment of outside services dealing with a metering situation. It is not expected to incur these types of expenses in the near future. Therefore, these expenses have been removed from the Statement of Operations for ratemaking purposes

b.

Write-off of expenses incurred in CTA service dispute	\$ 75,000
Outside services - metering situation	<u>4,066</u>
Total	<u><u>\$ 79,066</u></u>

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Adjustment for Directors Fees and Expense

During the test year Cumberland Valley incurred expenses for its Board of Directors in the amount of \$214,082. This amount was comprised of expenses for varying reasons. Cumberland Valley is including in its Statement of Operations for ratemaking purposes \$54,017 of these expenses. The amount that is being included for ratemaking purposes has the express purpose of providing for the following purposes

- 1 Attendance at monthly board meeting for the Cooperative
- 2 Attendance at annual meeting of Cooperative
- 3 Attendance at NRECA annual meeting for all directors
- 4 Attendance at one NRECA regional meeting for all directors
- 5 Attendance at NRECA Directors Conference for one director
- 6 Attendance at a NRECA Legislative Conference for one
director
- 7 Attendance at one additional Cooperative Meeting such as
negotiation meeting for all directors
- 8 Travel for attendance at local Cooperative meetings
- 9 An amount for subscriptions to keep directors more up-to-date.

With additional demands being place upon organizations and especially its boards of directors through new legislation, it is imperative that boards of directors must be informed and knowledgeable about its responsibilities and obligations.

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<u>Director</u>	<u>Monthly Board Meetings</u>	<u>Mileage</u>	<u>Annual Meeting</u>	<u>Negotiation Meeting</u>	<u>Subscriptions</u>	<u>Annual</u>	<u>NRECA Meetings</u>			
							<u>Regional</u>	<u>Directors</u>	<u>Legislative</u>	
Vernon Shelby	\$ 3,600.00	\$ 493.50	\$ 300.00	\$ 300.00	\$ 43.00	\$ 1,545	\$ 300.00			\$ 6,581.70
Lansford Lay	3,600.00	493.50	300.00	300.00	43.00	551	400.00			5,688
Roger Vanover	3,600.00	78.82	300.00	300.00	43.00	-	400.00			4,722
Elbert Hampton	3,600.00	84.00	300.00	300.00	43.00	2,752	2,850.48			9,930
Chester Davis	3,600.00	640.50	300.00	300.00	43.00	3,315	2,955	3,259	2,594	<u>14,411</u>
Total										41,332
										<u>12,685</u>
										54,017
										<u>214,082</u>
										<u><u>\$(160,064.76)</u></u>

**CUMBERLAND VALLEY ELECTRIC, INC.
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Adjustment for Property Taxes

The adjustment for property taxes has been calculated using the assessed amounts for taxable property multiplied by the most current property tax rates. This adjustment amounts to an increase in expenses for ratemaking purposes of \$15,226. Part b of this schedule contains the details for this adjustment by taxing district.

**CUMBERLAND VALLEY ELECTRIC, INC.
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Adjustment for Property Taxes

Taxing Jurisdiction	12/31/2004 Property		Tangible Personalty		Taxes	
	Tax Rate/AftgMa/Reall Per \$100	Machinery	Submitted Amount	Assessment	Manf Mach Tang/Personal Tax Amount	Tax Amount
Bell Count		203,692	1,251,079	1,228,290		
County	0.00149					1,830.15
Common School	0.00435					5,343.06
Library	0.0007					863.49
Health	<u>0.00037</u>					<u>454.47</u>
District Total						8,491.17
Harlan County		394,535	3,027,010	2,875,716		
County-Real Estate	0.00273	1,077.08			1,077.08	-
Country-Tangible	0.00368					10,571.13
School-Real Estate	0.00389				1,534.74	
School-Tangible	0.00394					11,330.32
Library Real Estate	0.00046				181.49	
Library Tangible	0.00066					1,883.59
Health Real Estate	0.00035				138.09	
Health Tangible	0.00035					1,006.50
Extension Real Estate	0.00057				224.88	
Extension Tangible	0.00077					2,214.30
Conservation Real Est	0.00008				31.56	
District Total					<u>3,187.84</u>	<u>27,005.85</u>
Knox County		1,061,752	13,050,602	12,245,303		
County-Real Estate	0.00107				1,136.07	
Country-Tangible	0.00177					21,637.45
School-Real Estate	0.00432				4,586.77	
School-Tangible	0.00432					52,899.71
Health Real Estate	0.0004				424.70	
Health Tangible	0.0004					4,898.12
Extension Real Estate	0.00023				244.20	
Extension Tangible	0.0003					3,710.33
Library Tangible	0.00029				307.91	
Library Real Estate	0.00058					7,114.52
Ambulance Real Estate	0.00039				414.08	
Ambulance Tangible	0.00066					8,045.16
Conservation	0.00008				84.94	
District Total					<u>7,198.68</u>	<u>98,305.29</u>

CUMBERLAND VALLEY ELECTRIC, INC.
CASE NO. 2005-00187

Taxing Jurisdiction	12/31/2004 Property		Tangible Personalty		Taxes	
	Tax Rate/AftgMa/Reall Per \$100	Machinery	Submitted Amount	Assessment	Manf Mach Tang/Personal Tax Amount	Tax Amount
Laurel County			287748	282,507		
County Tangible	0.00071					200.58
School Tangible	0.00365					1,031.15
Health Tangible	0.0004					113.00
Extension Tangible	0.00018					51.42
Library Tangible	0.0008					226.57
District Total						<u>1,622.72</u>
Leslie County			625,540	614,145		
County Tangible	0.00162					994.91
School Tangible	0.00403					2,475.00
Library Tangible	0.0015					919.38
Health Tangible	0.0004					245.66
Extension Tangible	0.00068					414.55
District Total						<u>5,049.50</u>
Letcher County			1,588,870	1,559,928		
County Tangible	0.00189					2,948.26
School Tangible	0.00567					8,844.79
Library Tangible	0.00085					1,322.82
Health Tangible	0.00035					545.97
Extension Tangible	0.00052					815.84
District Total						<u>14,477.69</u>
McCreary County			638,050	614,145		
County Tangible	0.00204					1,252.86
School Tangible	0.00407					2,499.57
Health Tangible	0.0004					245.66
Library Tangible	0.00079					482.72
District Total						<u>4,480.80</u>
Whitley County						
County Tangible	0.00278		12,560,834	12,332,033		34,233.72
School Tangible	0.00438		12,035,381	11,816,151		51,754.74
District Total						<u>85,988.46</u>

CUMBERLAND VALLEY ELECTRIC, INC.
CASE NO. 2005-00187

Exhibit F
Schedule 14
Part b
Page 3 of 3

	<u>12/31/2004 Property</u>		<u>Tangible Personalty</u>		<u>Taxes</u>	
Taxing Jurisdiction	<u>Tax Rate/ftgMa/Reall</u>	<u>Per \$100 Machinery</u>	<u>Submitted</u>	<u>Assessment</u>	<u>Manf Mach Tang/Personal</u>	<u>Tax Amount Tax Amount</u>
Corbin Independent				515,882		
School						_____
Total Property Taxes						#####
Actual Property Taxes for Test Period						#####
Amount of Adjustment						<u>15,225.88</u>

CUMBERLAND VALLEY ELECTRIC, INC.
CASE NO. 2005-00187

Exhibit F
Schedule 15
Page 1 of 1

DETERMINATION OF THE AMOUNT OF INCREASE IN REVENUE

Level of Margins Required to obtain a TIER of 2.0x Margins will equal interest on long term debt)	\$ 1,015,090
Minus Actual Margins (Losses) for Test Year as Adjusted	<u>(379,785)</u>
Amount of Increase in Revenue	<u><u>\$ 1,394,876</u></u>

PERCENTAGE INCREASE IN REVENUE FROM RATE INCREASE

Amount of Increase in Revenue	\$ 1,394,876
Normalized Revenue from Current Rates (Effective 6/1/05)	<u>28,243,460</u>
Percentage Increase	<u>4.94%</u>

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

CUMBERLAND VALLEY ELECTRIC, INC.
CASE NO. 2005-00187

DIRECT TESTIMONY OF TED HAMPTON

- 1 Q. Please state your name, your business address and job position?
 - A. My name is Ted Hampton and I am the Manager of Cumberland Valley Electric, Inc. ("Cumberland Valley"). My business address is P.O. Box 440, Gray, KY 40734

- 2 Q. What are your responsibilities at Cumberland Valley and how long have you held your current position?
 - A. I am the general manager of the Cooperative with responsibility for the safe delivery of electric power to our consumer/members at affordable rates. All aspects of operations, maintenance, administration, customer relations, external affairs and financing come under my supervision and direction. I have held my current position since 1964.

- 3 Q. Why is Cumberland Valley Electric, Inc. seeking to increase its electric rates?
 - A. Cumberland Valley's last increase in electric rates for its own distribution expenses occurred in August 1980. Since our last rate increase for distribution expense reasons, Cumberland Valley has had increases in expenses in all areas of operations, maintenance, administration and customer service. The fixed costs of depreciation, interest expense and taxes related to distribution plant have all increased significantly in the twenty-five years since our last rate increase. Additionally, distribution plant investment has increased over that same period which has created increases in expenses..

4 Q. How has Cumberland Valley been able not to go twenty-five years without a rate increase for increases in own distribution expenses?

A. Cumberland Valley has been able to go this long without a rate increase because of diligent, dedicated and disciplined employees and management. Cumberland Valley recognizes that it serves an area of Kentucky that is economically deprived and Cumberland Valley has a commitment to keep our rates as low as possible. We have been able to accomplish this charge by minimizing our committed costs while maintaining maximum flexibility. By committed costs I mean that we have held costs dealing with administration, customer service, and other overhead areas to a minimum. A review of the two cost profiles we have submitted as a part of this application supports this statement. We have also emphasized line operation and maintenance as an important function in order to keep our consumer/members electric outages to a minimum.

5 Q How has Cumberland Valley been able to keep these costs to a minimum?

A. We have been able to accomplish it through minimizing the number of employees, the cross training of employees especially those in the administrative area and outsourcing of many line maintenance functions. Our administrative, customer service and finance employees are trained to handle several functions and can do so on a minimum notice. By outsourcing some of the line functions, Cumberland Valley is able to expand and contract its work force as may be needed. The outsourcing of some functions and the ability of employees to function in more than one capacity has led to cost savings that have been passed on to our member/consumers through lower rates.

6 Q The philosophy of outsourcing and minimizing the number of employees is of great interest today in our global economy. Is it a worthwhile philosophy and will it continue as Cumberland Valley?

A. I believe that Cumberland Valley's low rates, which are among the lowest in the country for cooperatives, and our low costs prove the merits of this operating and management philosophy. I do believe that it will continue at Cumberland Valley because of the results it has produced.

7 Q. Does Cumberland Valley really need to increase its electric rates?

A. Cumberland Valley needs to increase its electric rates for certain rate classes and would not have filed if the need were not true.

*. Q. Does this conclude your testimony?

A. Yes, this concludes my testimony.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

CUMBERLAND VALLEY ELECTRIC, INC.
CASE NO. 2005-00187

DIRECT TESTIMONY OF JAMES R. ADKINS

1 Q. Please state your name, your business address and job position?

A. My name is James R. Adkins. My business address is 1041 Chasewood Way, Lexington, KY 40513-1731. I am self-employed providing services to electric cooperatives in the areas of rates, rate design, cost of service studies, regulatory affairs, financial forecasting and other services.

2 Q. What is your education background and business experience?

A I am a graduate of the University of Kentucky with a Bachelors Degree in Commerce with a major in banking and finance granted in 1971 and a Masters of Science Degree in Accounting granted in 1976. My business experience for the last twenty-eight years has been with the electric utility industry and primarily with the rural electric cooperatives. I spent almost twenty-five years with East Kentucky Power Cooperative, Inc. ("EKPC") dealing with rates, regulatory affairs, cost of service studies, and helping its member distribution systems with their rate matters. I took an early retirement from EKPC in early 2002 due to health reasons. Since then I spent time providing consulting services to electric cooperatives and others. I was member of the Prime Group from early 2002 through the first quarter of 2003 providing assistance in the rate area to cooperatives in this area of the country. I have been self-employed since the first quarter of 2003.

3 Q. Have you ever provided testimony before the Kentucky Public Service Commission ("Commission")?

A. I have provided testimony many times before this Commission for EKPC and its member distribution cooperatives in rate application proceedings for revenue requirement purposes, cost of service studies, rate design, and other special types of rates including cogeneration rates, economic development rates, etc. I have also provided testimony in fuel adjustment cases and administrative cases. I made a journey to the Republic of Armenia in 1999 at the Commission Staff request to provide assistance to the Armenian Energy Commission on distribution cost of service studies, concepts and results.

4 Q. What has been your role in this rate application ?

A. My role in this rate application has been to provide assistance to Cumberland Valley Electric, Inc. ("Cumberland Valley") in its preparation. I have provided assistance in all areas of its preparation. I am responsible for the Statement of Operations, the Costs of Service Study and the Depreciation Study that have prepared specifically for this filing. I am also responsible for all other exhibits that may contain financial calculations and analyses and prepared specifically for this rate application. My statement on responsibility means that these documents have been developed by me or at my request and under my direct supervision. I am also responsible for testimony on those exhibits and documents.

5 Q Why does Cumberland Valley need an increase in rates?

A. Cumberland Valley needs an increase in rates because its margins have deteriorated to the point that Cumberland Valley is now in violation with its mortgage agreements with the Rural Utilities Service ("RUS"). Cumberland Valley did not meet its Times Interest Earned Ratio ("TIER") or Operational Times Interest Earned Ratio ("OTIER") requirements during the test year of 2004. Cumberland Valley's TIER was 1.06x for 2004 and its OTIER was 0.89x. Its mortgage requirements specify a TIER of 1.25x and OTIER of 1.10x. Cumberland Valley's margins for 2004 were \$52,449. The Adjusted Statement of Operations presented in this case has margins equal to a loss of \$379,786. Cumberland Valley has identified 14 revenue and expense adjustments that

has caused the loss amount stated above.

6 Q. What revenue adjustments is Cumberland Valley proposing?

A. Two revenue adjustments are proposed in this application. One revenue adjustment is the normalization of revenue for the base rates approved by this Commission on June 1, 2005 for an increase in the base fuel in the rates of Cumberland Valley. The second revenue adjustment deals with the revenue and purchased power expense of an adjustment for the year end number of customers in Rate Schedule I. This adjustment gives recognition to the continued growth in the number of consumers in this rate class.

7 Q. What expense adjustments is Cumberland Valley proposing?

A. Cumberland Valley is proposing twelve expense adjustments in this rate application. These expense adjustments include the following where the adjustment is an expense increase: depreciation expenses, interest expense, wages and salaries, postretirement benefits, payroll taxes, rate case expenses, and property taxes. Several of the expense adjustments result in a decrease and these adjustments include employee benefits, donations, directors fees, and nonrecurring expenses.

8 Q. Are you responsible for the Cost of Service Study filed in this rate application?

A. I am responsible for the Cost of Service Study ("COSS") in this application. This COSS is consistent with the 1993 NARUC Electric Utility Cost Allocation Manual and is based on a methodology generally accepted within the industry. The results of this study indicate that the Rate Schedules I and VI are not providing revenue sufficient to meet the revenue requirements for those rate classes. The COSS also indicates that the rates for some of the other rate classes are providing revenues in excess of their revenue requirements. Since Schedules I and VI are not producing sufficient revenue, these classes are the only ones where rates are being increased. The amount of increase allocated to Schedule VI will provide revenue sufficient for it to meet revenue requirements.

The types of lamps that are now in service are having their rates increased by 9.39% each. The remaining increase amount is allocated to Schedule I which includes residences, farms and single phase schools and churches. This increase has been placed on the energy charge so that the increase amount will be lowest for the lower energy users.

9 Q Are you responsible for the Depreciation Study?

A. I am responsible for the Depreciation Study. The results of this study indicates that Cumberland Valley needs to increase some of its depreciation rates for its distribution plant accounts. These new depreciation rates have been used in the normalization of depreciation expense. Cumberland Valley is using this rate application as a means to seek Commission approval on these proposed rates.

10 Q Does this conclude your testimony?

A. This concludes my testimony.

EFFECT THAT NEW RATES WILL HAVE UPON REVENUES

1	Total Amount of Increase;	\$ 1,394,876
2	Normalized Revenue before Increase	<u>\$ 28,337,827</u>
3	Revenue Amount after Increase	<u>29,732,702</u>
4	Percentage Increase in Revenue	4.92%

IMPACT OF RATE INCREASE ON SCHEDULE I - RESIDETIAL, SCHOOLS AND CHURCHES

RATES	Present	Proposed
	Customer Charge	\$ 5.00
Energy Rate	\$ 0.05832	\$ 0.06278

Monthly Energy Usage kWh	Revenue		Increase Amount	Percent Increase
	Current Rates	Proposed Rates		
50	7.92	8.14	0.22	2.82%
100	10.83	11.28	0.45	4.12%
150	13.75	14.42	0.67	4.87%
200	16.66	17.56	0.89	5.35%
250	19.58	20.70	1.12	5.69%
300	22.50	23.83	1.34	5.95%
350	25.41	26.97	1.56	6.14%
400	28.33	30.11	1.78	6.30%
450	31.24	33.25	2.01	6.42%
500	34.16	36.39	2.23	6.53%
600	39.99	42.67	2.68	6.69%
700	45.82	48.95	3.12	6.81%
800	51.66	55.22	3.57	6.91%
900	57.49	61.50	4.01	6.98%
1000	63.32	67.78	4.46	7.04%
1100	69.15	74.06	4.91	7.09%
1200	74.98	80.34	5.35	7.14%
1300	80.82	86.61	5.80	7.17%
1400	86.65	92.89	6.24	7.21%
1500	92.48	99.17	6.69	7.23%
1750	107.06	114.87	7.81	7.29%
2000	121.64	130.56	8.92	7.33%
2250	136.22	146.26	10.04	7.37%
2500	150.80	161.95	11.15	7.39%
2750	165.38	177.65	12.27	7.42%
3000	179.96	193.34	13.38	7.43%
3250	194.54	209.04	14.50	7.45%
3500	209.12	224.73	15.61	7.46%

IMPACT OF RATE INCREASE ON SCHEDULE VI - LIGHTING

Lamp	Current Rate	Proposed Rate	Percent Increase
175 Watt MV	\$ 5.94	\$ 6.50	9.43%
400 Watt SV	\$ 11.40	\$ 12.47	9.39%

CUMBERLAND VALLEY ELECTRIC, INC.
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<u>Rate Schedule</u>	<u>Billing Basis</u>	<u>Billing Quantities</u>	<u>Rates Effective 1-Jun-05</u>	<u>Revenue from Rates Effective 1-Jun-05</u>	<u>Total Revenue</u>	<u>Proposed Rates</u>	<u>Revenue from Proposed Rates</u>	<u>Total Revenue</u>
Schedule I - Residential	Consumer Charge	258,060	\$ 5.00	\$ 1,290,300		\$ 5.00	1,290,300	
	Energy	294,691,994	\$ 0.05832	<u>17,186,437</u>	\$ 18,476,737	0.06278	<u>18,500,763</u>	\$ 19,791,063
Schedule I - ETS	Energy	1,257,547	\$ 0.03499	<u>44,002</u>	44,002	0.037668	<u>47,369</u>	47,369
Schedule II Small Commercial - kWh only	Consumer Charge	13,713	\$ 5.00	68,565		\$ 5.00	68,565	
	Energy Step 1	9,645,152	\$ 0.07280	702,167		\$ 0.07	702,167	
	Energy Step 2	2,916,819	\$ 0.06723	<u>196,098</u>	966,830	\$ 0.07	<u>196,098</u>	966,830
Schedule II - Demand	Consumer Charge	1,492	\$ 5.00	7,460		\$ 5.00	7,460	
	Energy Step 1	2,818,450	\$ 0.07280	205,183		\$ 0.07	205,183	
	Energy Step 2	5,380,345	\$ 0.06723	361,721		\$ 0.07	361,721	
	Demand	34,241	\$ 3.68	<u>126,008</u>	700,371	\$ 3.68	<u>126,008</u>	700,371

CUMBERLAND VALLEY ELECTRIC, INC.
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Schedule III - 3 Phase Schools & Churches	Energy	10,792,809	\$	0.05883	<u>634,941</u>	634,941	\$	0.06	<u>634,941</u>	634,941
Schedule IV - Large Power - Industrial	Energy	32,418,000	\$	0.03395	1,100,591		\$	0.03	1,100,591	
	Demand	83,323	\$	5.71	<u>475,774</u>	1,576,365	\$	5.71	<u>475,774</u>	1,576,365
Schedule IV-A Large Power Rate (50-2500 kW)	Energy	94,811,272	\$	0.04283	4,060,767		\$	0.04	4,060,767	
	Demand	288,468	\$	3.68	<u>1,061,564</u>	5,122,330	\$	3.68	<u>1,061,564</u>	5,122,330
Schedule VI - Security Lights	175 Watt MV Lamp	104,114	\$	5.94	618,437		\$	6.50	676,741	
	400 Watt SV Lamp	17,352	\$	11.40	<u>197,813</u>	816,250	\$	12.47	<u>216,379</u>	893,120
	kWh	9,717,295								
Total Normalized Revenue					<u>28,337,827</u>					<u>29,732,391</u>
Total Energy Sales - kWh		462,944,591						Increase Amount		<u><u>1,394,564</u></u>

CUMBERLAND VALLEY ELECTRIC, INC.
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COVERAGE RATIOS

	<u>Actual</u>	Proposed
<u>OTIER</u>		
Interest Expense	874,856	1,015,090
Operating Margins	(98,217)	864,424
Total	776,639	1,879,514
OTIER	0.89	1.85
<u>TIER</u>		
Interest Expense	874,856	1,015,090
Net Margins	52,449	1,015,090
Total	927,305	2,030,180
TIER	1.06	2.00
Interest Expense	874,856	1,015,090
Net Margins	52,449	1,015,090
Depreciation Expense	2,012,606	2,300,813
	2,939,911	4,330,993
Interest Expense	874,856	1,015,090
Principal Payments	1,061,086	1,061,086
	1,935,942	2,076,176
DSC	1.52	2.09

CUMBERLAND VALLEY ELECTRIC, INC.
CASE NO. 2005-00187

Exhibit K
Page 2 of 2

COVERAGE RATIOS
Return on Net Investment Rate Base

Net Investment Rate Base

Plant in Service at Test Year End	61,817,626	61,817,626
Construction Work in Progress	62,085	62,085
Total Utility Plant	61,879,711	61,879,711
ADD		
Materials and Supplies	321,605	301,203
Prepayments	90,485	90,485
Working Capital	757,818	768,674
Subtotal	1,169,908	1,160,362
DEDUCT		
Accumulated Depreciation	22,505,132	22,793,339
Customer Advances for Construction	785,533	785,533
Subtotal	23,290,665	23,578,872
 NET INVESTMENT RATE BASE	 \$ 39,758,954	 \$ 39,461,201
 <u>Operating Income</u>		
Net Income	\$ 52,449	1,015,090
Interest on Long Term Debt	874,856	1,015,090
	 \$ 927,305	 \$ 2,030,180
 Return on Rate Base	 2.33%	 5.14%

Return on Capital Structure

	\$ 23,515,186	\$ 24,477,827
	9,024,188	9,024,188
	14,490,998	15,453,639
	26,201,231	26,201,231
	 \$ 40,692,229	 \$ 41,654,870
	 2.28%	 4.87%



AVERY



Reconciliation of Rate Base and Capital
December 31, 2004

Reconciliation of Rate Base and Capital used to determine revenue requirements
are as follows:

Equity Capitalization, with G&T capital credits	49,716,417
G&T capital credits	<u>(9,024,188)</u>
	40,692,229
Reconciling items:	
Capital credits from associated organizations (Allocated but unpaid)	(1,351,218)
Working capital requirements	642,815
Material and supplies , 13 month average	321,605
Prepayments , 13 month average	90,485
Cash	(157,514)
Receivables	(4,556,681)
Material and supplies	(311,979)
Other current assets	(16,034)
Past service pension costs	(825,768)
Accumulated operating provisions	1,231,087
Accounts payable	2,898,713
Consumer deposits	785,533
Accrued expenses	965,846
	<hr/>
Net Rate Base	<u><u>40,409,119</u></u>

DATE TIME COOP-ID PROGRAM
 07/19/05 10:37 19057 GLCHTPRT

CUMBERLAND VALLEY ELECTRIC
 GENERAL LEDGER CHART OF ACCOUNTS LIST

Case No. 2005-00187
 Exhibit M
 001GLCHTPRT

ACCT	DEPT	DESCRIPTION	RPT LINE	CAT	W/O CD	STATUS	REASON

100	00	VOID CHECKS	2	15.0	000		
107.01	00	WK IN PROG WOFFORD BRDG LN MV	2	2.0	000		
107.02	00	WK IN PROG BLAIR MT	2	2.0	000		
107.03	00	WK IN PROG - TURTLE CHG OUT	2	2.0	000		
107.04	00	WISER OIL 1PH LINE	2	2.0	000		
107.05	00	WK IN PROG BRUMM CH LN MV	2	2.0	000		
107.06	00	WK IN PROG - ENG BLDG	2	2.0	000		
107.07	00	WORK IN PROG COMPUTER ROOM	2	2.0	000		
107.08	00	WK IN PROG - MICROWAVE	2	2.0	000		
107.09	00	WK IN PROG - SCADA	2	2.0	000		
107.10	00	WK IN PROG - DRIVE IN WINDOW	2	2.0	000		
107.11	00	HINKLE SUB REF 204 WP 24-1	2	2.0	000		
107.12	00	US 119 RD MOVE 1ST SECT	2	2.0	000		
107.13	00	WIP US 119 RD MOVE 2ND SECT	2	2.0	000		
107.16	00	CONST WK IN PROG 510 US119 J C	2	2.0	000		
107.19	00	WK IN PROG JULIP-80	2	2.0	000		
107.20	00	CONST WORK IN PROGRESS	2	2.0	000		CONSTRUCTION ACCT
107.21	00	WK IN PROG-OPEN	2	2.0	000		
107.29	00	SOUTH CENTRAL BELL-BLANKET	2	2.0	000		
107.30	00	CONST WK IN PROG SPEC EQUIP	2	2.0	000		
107.52	00	WK IN PROG - MICRO TOWER	2	2.0	000		
107.72	00	CONST WK WHITE OAK 3 PHASE	2	2.0	000		
107.76	00	WK IN PROG TRACE BR	2	2.0	000		
107.79	00	CONST WK IN PROG US119 57 511	2	2.0	000		
107.81	00	WK IN PROG CALLEBS CR PAYNE	2	2.0	000		
107.82	00	WK IN PROG-LAUREL SUB 9-1	2	2.0	000		
107.83	00	WK IN PROG-LAUREL SUB KU	2	2.0	000		
107.84	00	WK IN PROG-LAUREL SUB 9-2	2	2.0	000		
107.85	00	WK IN PROG STA 85 FEE 2 COV	2	2.0	000		
107.86	00	WK IN PROG-FOUNT TO DISAPMNT	2	2.0	000		
107.87	00	WK IN PROG 25E ROAD MOVE	2	2.0	000		
107.88	00	WK IN PROG US 119	2	2.0	000		
107.89	00	WK IN PROG VIKING COAL 3P CONV	2	2.0	000		
107.90	00	WK IN PROG VIKING COAL 3P #2	2	2.0	000		
107.91	00	WK IN PROG 3P-INDUST PK-SEWAGE	2	2.0	000		
107.92	00	WK IN PROG STA 85 FEE 1 COV	2	2.0	000		
107.93	00	WK IN PROG STA 85 FEE 3 COV	2	2.0	000		
107.94	00	3PH CONV BRUMMET CH-CEDAR GAP	2	2.0	000		
107.95	00	WIP HINKLE SUB 24-1 THRU 24-4	2	2.0	000		
107.96	00	GORDON TAP MOVE	2	2.0	000		
107.97	00	WHITE OAK 3 PH	2	2.0	000		
107.98	00	WK IN PROG CCC TIE LINE	2	2.0	000		
107.99	00	WK IN PROG STA 22 FLT CR 1ST	2	2.0	000		
108.04	00	WISER OIL LPH RET	2	4.0	000		
108.06	00	RET WK IN PROG JIM CORUM	2	4.0	000		
108.07	00	RET WK IN PROG 26 BRIDG MV	2	4.0	000		
108.10	00	RIP FEEDERS-PINE MT SUB 53-1	2	4.0	000		
108.11	00	HINKLE SUB RET	2	4.0	000		
108.12	00	US 119 RD MOVE 1ST SECT	2	4.0	000		
108.13	00	RIP US 119 RD MOVE 2ND SECT	2	4.0	000		
108.60	00	ACCUM PROV FOR DEPR OF DIST PT	2	4.0	000		
108.70	00	ACCUM PROV FOR DP OF TRANS	2	4.0	000		
108.71	00	ACCUM PROV-DEPT OF COMMUN EQUI	2	4.0	000		
108.72	00	ACCUM PROV-DEPR OR GRAY OFF	2	4.0	000		

ACCT	DEPT	DESCRIPTION	RPT LINE	CAT	W/O CD	STATUS	REASON

3	00	ACCUM PROV-DEPR FOR OTHER	2	4.0	000		
108.74	00	ACCUM PROV-DEPR OF SCHOOLEQUIP	2	4.0	000		
108.80	00	RETIREMENT WORK IN PROGRESS	2	4.0	000		RETIREMENT ACCOUNT
108.81	00	RET WK IN PROG OPEN	2	4.0	000		
108.85	00	STATION 85 CONV RET	2	4.0	000		
108.87	00	RETIREMENT-25E RD MOVE	2	4.0	000		
108.88	00	RET WK IN PROG BRDG MV CUMB	2	4.0	000		
108.89	00	RETIREMENT VIKING COAL	2	4.0	000		
108.90	00	RETIREMENT-VIKING COAL	2	4.0	000		
108.93	00	RET WK PROG ST 85 FD 3 CONV	2	4.0	000		
108.94	00	BRUMMETT CH CONV RETIREMENT	2	4.0	000		
108.95	00	RET WK IN PROG HINKLE SUB	2	4.0	000		
108.97	00	WHITE OAK 3 PH RET	2	4.0	000		
108.98	00	RET WK IN PROG-CCC TIE LINE	2	4.0	000		
123.11	00	PATRON CAPITAL-EAST KY RECC	2	8.0	000		
123.12	00	PATRONAGE CAPITAL FROM KY RECC	2	8.0	000		
123.13	00	PATRON CAPITAL FROM CONS CREDI	2	8.0	000		
123.14	00	PATRON CAPITAL-STATEWIDE RECC	2	8.0	000		
123.15	00	PATRON CAPITAL-ASSOC COOP-CFC	2	8.0	000		
123.16	00	PATRON CAPITAL - CADP	2	8.0	000		
123.17	00	PATRON CAPITAL-FEDERATED RURAL ELECTRIC	2	8.0	000		
123.21	00	SUBSCRIP TO CAP TERM CERT CFC	2	40.0	000		
123.22	00	INVEST IN CAP TERM CERT CFC	2	10.0	000		
123.23	00	OTHER INVEST IN ASSOC ORGAN	2	10.0	000		
123.24	00	INVEST-ENVISION	2	10.0	000		
123.26	00	INVEST-ASSOC COMP E KY MEMBER	2	10.0	000		
123.27	00	INVEST-KAEC CD	2	10.0	000		
127	28	00 INVEST-FEDERATED COMMON STOCK	2	10.0	000		
1	0	00 OTHER INVESTMENTS	2	12.0	000		
128.00	00	OTHER SPEC FDS-DEFERR COMP	2	24.0	000		
128.10	00	SPEC FDS RESERVE-DEFERR COMP	2	24.0	000		
131.10	00	CASH GENERAL FUNDS	2	15.0	000		
131.11	00	CASH-HARLAN NATIONAL BANK	2	15.0	000		
131.12	00	CASH-GEN UNION NATIONAL BK	2	15.0	000		
131.13	00	CASH-NATIONAL CITY BANK	2	15.0	000		
131.14	00	CASH PAYROLL UNOIN NATIONAL	2	15.0	000		
131.15	00	CASH UNION PLANTERS BANK	2	15.0	000		
131.16	00	CASH GENERAL FARMERS NATIONAL	2	15.0	000		
131.17	00	CASH GENERAL UNION NATIONAL	2	15.0	000		
131.18	00	CASH-BANK OF CORBIN	2	15.0	000		
131.19	00	CASH GENERAL CUMBERLAND VALLEY	2	15.0	000		
131.20	00	CASH REA CONST FUND FARMERS BK	2	16.0	000		
131.21	00	CASH REA CONST FUND UNION BK	2	16.0	000		
131.22	00	CASH-AFB MONEY MKT	2	15.0	000		
131.23	00	CASH-AFB CAPITAL CREDITS	2	15.0	000		
131.24	00	CASH - GENERAL TRI-COUNTY	2	15.0	000		
131.25	00	CASH-UNB CAPITAL CREDITS	2	15.0	000		
131.40	00	TRANSFER OF CASH	2	15.0	000		
134.00	00	SPECIAL DEPOSITS	2	17.0	000		
134.10	00	SPEC DEPOSITS-POSTAL PERMIT	2	17.0	000		
135.00	00	WORKING FUNDS	2	15.0	000		
136.00	00	TEMPORARY CASH INVESTMENTS	2	18.0	000		
141.00	00	NOTES RECEIVABLE - NISC	2	19.0	000		
142.00	00	CONSUMER ACCOUNTS	2	20.0	000		

ACCT	DEPT	DESCRIPTION	RPT LINE	CAT	W/O CD	STATUS	REASON
1	0	00 CONS ACCTS FLOOD LT ADV PAY	2	20.0	000		
143.00	00	OTHER ACCOUNTS RECEIVABLE	2	21.0	000		
143.20	00	ACCTS REC JACKSON ENERGY	2	21.0	000		
143.30	00	OTH ACCTS REC TRAV EX	2	21.0	000		
143.40	00	ACCTS REC-OWEN RECC	2	21.0	000		
143.50	00	ACCTS REC- BLUEGRASS RECC	2	21.0	000		
143.60	00	ACCTS REC-SLOW METER ACCTS	2	20.0	000		
143.70	00	ACCTS REC ESCAMBIA RIVER ELECT COOP	2	21.0	000		
143.80	00	OTHER ACCTS REC- MIDWEST ELECTRIC	2	21.0	000		
144.20	00	ACCUM PROV UNCOLL CONS ACCTS	2	20.0	000		
144.21	00	ACCURAL OF BAD DEBTS	2	20.0	000		
144.30	00	ACCUM PROV OTH UNCOL ACCT CRED	2	20.0	000		
154.00	00	MATERIALS-SUPPLIES-ELEC	2	22.0	000		
154.10	00	MATERIALS-SUPPLIES-FUEL	2	22.0	000		
163.00	00	STORES EXPENSE-CLEARING	2	27.0	000		
165.11	00	PREP INS BARB INS WKMANS COMP	2	23.0	000		
165.12	00	PREP INS BARB INS AGCY VARIOUS	2	23.0	000		
165.13	00	PREP INS BARB INS AGCY AUTO	2	23.0	000		
165.14	00	PREPAID INS-DIRECTORS LIA	2	23.0	000		
165.20	00	OTHER PREPAYS-EMPLOYEE RETIRE	2	23.0	000		
165.21	00	OTHER PREPAYS-EMPLOYER RETIRE	2	23.0	000		
171.00	00	INT AND DIVIDEND RECEIC CFC	2	24.0	000		
172.00	00	RENTS RECEIVABLE	2	24.0	000		
181.00	00	UNAMORTIZED LOAN EXPENSE	2	27.0	000		
182.30	00	OTHER REGULATORY ASSETS	2	26.0	000		
183.20	00	PRELIMINARY SURVEY-INVEST CHAR	2	27.0	000		
184.10	00	TRANS EXPENSE-CLEARINGS	2	27.0	000		
187	20	00 OFFICE EXP-CLEARING	2	27.0	000		
1	0	00 CREDIT UNION	2	27.0	000		
184.40	00	BENEFITS EXP-CLEARING	2	27.0	000		
186.10	00	DEF DEBIT LONG RANGE PLAN	2	27.0	000		
186.20	00	MISC DEF DEBITS-DUE OTHER COOP	2	27.0	000		
186.21	00	MISC DEFERR DEBITS-DEFERR COMP	2	27.0	000		
200.10	00	MEMBERSHIPS ISSUES	2	29.0	000		
200.20	00	MEMBERSHIPS SUBS BUT UNISSUE	2	29.0	000		
201.10	00	PATRONS CAPITAL CREDITS	2	30.0	000		
201.20	00	PATRONAGE CAPITAL ASSIGNABLE	2	30.0	000		
208.00	00	DONATED CAPITAL	2	34.0	000		
217.00	00	RETIRED CAPITAL CREDITS - GAIN	2	34.0	000		
219.10	00	OPERATING MARGINS	2	34.0	000		
219.20	00	NONOPERATING MARGINS	2	33.0	000		
219.30	00	OTHER MARGINS	2	34.0	000		
219.40	00	OTH MARG & EQUIT-PRIOR PER.	2	34.0	000		
224.11	00	OTHER LONG TERM DEBTS-SUBS	2	40.0	000		
224.12	00	OTHER LONG TERM DEBT CFC	2	40.0	000		
224.13	00	CFC NOTES EXECUTED-DEBIT	2	40.0	000		
224.14	00	OTHER LONG TERM DEBT-MISC	2	40.0	000		
224.30	00	LONG-TERM DEBT-CONST NOTE EXEC	2	36.0	000		
224.35	00	LONG-TERM DEBT-FFB CONST NOTE EXEC	2	38.0	000		
224.40	00	REA NOTES EXECUTED-CONST DEBIT	2	36.0	000		
224.45	00	FFB NOTES EXECUTED-CONST DEBIT	2	38.0	000		
224.50	00	INT. ACCRUED-DEFER REA CONS	2	36.0	000		
224.60	00	ADVANCE PAYMENTS UNAPPLIED-LONG TERM DEBT	2	36.0	000		
228.30	00	ACCUM PROV FOR PENS & BEN	2	43.0	000		

ACCT	DEPT	DESCRIPTION	RPT	LINE	CAT	W/O	CD	STATUS	REASON

10	00	ACCOUNTS PAYABLE-GENERAL	2	46.0	000				
232.30	00	ACCTS PAYABLE-GARNISHMENT	2	46.0	000				
232.31	00	ACCOUNTSS PAYABLE-HOSPITAL	2	46.0	000				
232.32	00	ACCTS PAYABLE UNIONDUES	2	46.0	000				
232.33	00	ACCTS PAYABLE DENTAL	2	46.0	000				
232.34	00	ACCTS PAYABLE 401K LOANS	2	46.0	000				
232.36	00	ACCTS PAYABLE-ACCIDENT INS	2	46.0	000				
232.37	00	ACCTS PAYABLE-FLOWER FUND	2	46.0	000				
232.38	00	ACCTS PAYABLE-WINTER CARE	2	46.0	000				
232.39	00	ACCT PAYABLE-FRANKLIN AMERICAN	2	46.0	000				
232.40	00	ACCT PAYABLE-HENDERSON SETT	2	46.0	000				
232.41	00	ACCT PAYABLE-SELECTRE PENSION	2	46.0	000				
232.42	00	ACCT PAYABLE EQUITY LIFE	2	46.0	000				
232.43	00	ACCT'S PAYABLE-A PEACE PLACE	2	46.0	000				
233.00	00	NOTES PAY TO ASSOC CO	2	45.0	000				
235.00	00	CONSUMER DEPOSITS	2	47.0	000				
235.10	00	CONSUMER DEPOSITS-CATV	2	47.0	000				
236.10	00	ACC PROPERTY TAXES	2	51.0	000				
236.20	00	ACC US SOC SEC TAX-UNEMPLO	2	51.0	000				
236.30	00	ACC US SOC SEC TAX-FICA	2	51.0	000				
236.40	00	ACC ST SS TAX-UNEMPLOYMENT	2	51.0	000				
236.50	00	ACC ST SALES TAX-CONSUMERS	2	51.0	000				
236.51	00	ACC STATE SALES TAX-OTHER	2	51.0	000				
236.52	00	ACC ST SALES TAX-TENNESSEE	2	51.0	000				
236.53	00	ACCR SCHOOL TAX WILLIAMSBURG	2	51.0	000				
236.54	00	ACCR FRANCHISE TAX-CUMBERLAND	2	51.0	000				
236.55	00	ACCR SCHOOL TAX WHITLEY COUNTY	2	51.0	000				
236.56	00	ACCR SCHOOL TAX KNOX COUNTY	2	51.0	000				
236.57	00	ACCR SCHOOL TAX LAUREL COUNTY	2	51.0	000				
236.58	00	ACCR SCHOOL TAX BELL COUNTY	2	51.0	000				
236.59	00	ACCR SCHOOL TAX MCCREARY	2	51.0	000				
236.60	00	ACCR SCHOOL TAX CLAY COUNTY	2	51.0	000				
236.61	00	ACCR SCHOOL TAX HARLAN COUNTY	2	51.0	000				
236.62	00	ACCR SCHOOL TAX LESLIE COUNTY	2	51.0	000				
236.63	00	ACCR SCHOOL TAX LETCHER COUNTY	2	51.0	000				
236.64	00	ACCR SCHOOL TAX CORBIN CITY	2	51.0	000				
236.70	00	ACCR KNOX CO PROFITS TAX	2	51.0	000				
237.10	00	INT ACC-REA CONST OBLIGATION	2	51.0	000				
237.15	00	INT ACC - FFB CONST OBLIGATION	2	51.0	000				
237.20	00	INTEREST ACCURED CFC	2	51.0	000				
237.30	00	OTHER INTEREST EXPENSE ACCRUED	2	51.0	000				
237.40	00	ACCR CFC INTEREST-LINE OF CREDIT	2	51.0	000				
237.50	00	INT ACC - FFB CONST OBLIGATION	2	51.0	000				
237.60	00	ACC INTEREST ON CONSUMER DEPOSITS	2	51.0	000				
238.10	00	PATRONAGE CAPITAL PAYABLE	2	51.0	000				
241.00	00	TAX COLL PAYABLE-FED INCOME	2	51.0	000				
241.10	00	TAX COLL PAYABLE-STATE INC	2	51.0	000				
241.15	00	TAX COLL PAYABLE-WHITLEY OCCUPATIONAL	2	51.0	000				
241.20	00	TAX COLL PAYABLE-KNOX OCCUPATIONAL	2	51.0	000				
242.10	00	CONT PYBLE SUB OFFICE	2	51.0	000				
242.31	00	OTH CURR-ACC LIAB=SICK LEAVE	2	51.0	000				
242.32	00	OTH CURR-ACC LIAB-VACATION	2	51.0	000				
242.50	00	OTHER CURRENT & ACCRUED LIAB	2	51.0	000				
242.51	00	OTH CURR-ACC LIAB=OUTSIDE SE	2	51.0	000				

ACCT	DEPT	DESCRIPTION	RPT LINE	CAT	W/O CD	STATUS	REASON
2	2	00 OTH CURR-ACC LIAB-ANNUAL MEE	2	51.0	000		
242.53	00	DEFERRED COMPENSATION PAYABLE	2	51.0	000		
252.00	00	ADV CONST-GILLAWAY FUEL 6-81	2	54.0	000		
252.01	00	ADV CONST GRI COAL 10-81	2	54.0	000		
252.02	00	ADV CONST SHAMROCK COAL 9-81	2	54.0	000		
252.03	00	ADV CONST AMER VIKING	2	54.0	000		
252.04	00	ADVANCE CONST-JIM CORUM	2	54.0	000		
252.05	00	ADV CONST SHAMROCK COAL 2-85	2	54.0	000		
252.30	00	ADV CONST REFUNDABLE	2	54.0	000		
253.30	00	OTH DEFERR CR-ADV FOR CONST	2	54.0	000		
360.00	00	LAND AND LAND RIGHTS	2	1.0	000		
360.10	00	LAND RIGHTS	2	1.0	000		
362.00	00	STATION EQUIPMENT	2	1.0	000		
362.01	00	TS2 STATION EQUIPMENT	2	1.0	000		
364.00	00	POLES-TOWERS-FIXTURES	2	1.0	000		
365.00	00	OVERHEAD COND AND DEVICES	2	1.0	000		
367.00	00	UNDERGROUND COND AND DEVICES	2	1.0	000		
368.00	00	LINE TRANSFORMERS	2	1.0	000		
369.00	00	SERVICES	2	1.0	000		
370.00	00	METERS	2	1.0	000		
370.10	00	TURTLES	2	1.0	000		
370.11	00	TURTLE II	2	1.0	000		
371.00	00	INSTALL ON CONSUMERS PREMISES	2	1.0	000		
389.10	00	LAND RTS-GEN PLT-OFF SITE GRA	2	1.0	000		
389.20	00	LAND CUMBERLAND OFFICE	2	1.0	000		
390.00	00	STRUCTURES CUMBER. RADIO SHACK	2	1.0	000		
390.10	00	STRUCTURES-IMPROVE-GRAY OFF	2	1.0	000		
390.15	00	STRUCTURES-IMPROVE-GRAY ENG	2	1.0	000		
390.7	00	STRUCT-IMPROV GRAY TRANS BLDG	2	1.0	000		
390.18	00	STRUCT-IMPROV GRAY TRANS #2 BLDG	2	1.0	000		
390.20	00	STRUCTURES CUMBERLAND OFFICE	2	1.0	000		
391.00	00	OFFICE FURN AND EQUIP	2	1.0	000		
392.00	00	TRANSPORTATION EQUIPMENT	2	1.0	000		
394.00	00	TOOLS-SHOP-GARAGE EQUIP	2	1.0	000		
395.00	00	LABORATORY EQUIPMENT	2	1.0	000		
396.00	00	POWER OPERATED EQUIPMENT	2	1.0	000		
397.00	00	COMMUNICATIONS EQUIPMENT	2	1.0	000		
398.00	00	MISCELLANEOUS EQUIPMENT	2	1.0	000		
398.10	00	MISC EQUIP-SCHOOL APPLIANCES	2	1.0	000		
403.60	00	DEPT EXP-DISTRIBUTION PLANT	1	12.0	000		
403.70	00	DEPT EXP-GENERAL PLANT	1	12.0	000		
408.00	00	TAXES-OTHER THAN INCOME TAXES	1	14.0	000		
408.10	00	TAXES-PROPERTY	1	13.0	000		
408.12	00	TAXES US SOC SEC-UNEEMPLOY	1	14.0	000		
408.13	00	TAXES=US SOC SEC-FICA	1	14.0	000		
408.14	00	TAXES-ST SOC SEC-UNEMPL	1	14.0	000		
408.70	00	TAXES-KNOX CO PROFITS	1	14.0	000		
415.00	00	REVENUE FROM MERCHANDISING	1	24.0	000		
416.00	00	COSTS AND EXPENSES OF MERCHANDISING	1	24.0	000		
419.10	00	INTEREST INCOME NISC	1	21.0	000		
419.30	00	INT DIV INCOME-P AND P INVEST	1	21.0	000		
419.40	00	INTEREST AND DIVIDEND INC CFC	1	21.0	000		
419.50	00	INTEREST INCOME - RUS ADVANCE PAYMENTS	1	21.0	000		
423.00	00	GEN-TRANS COOP CAPITAL CREDITS	1	25.0	000		

ACCT	DEPT	DESCRIPTION	RPT LINE	CAT	W/O CD	STATUS	REASON
426.10	00	OTH CAP CR-PATRON CAP ALLOC	1	26.0	000		
426.10	00	DONATIONS	1	18.0	000		
426.11	00	DONATIONS-SCHOLARSHIPS	1	18.0	000		
426.12	00	DONATIONS-MEMBERSHIPS, DUES	1	18.0	000		
426.50	00	OTHER DEDUCTIONS	1	18.0	000		
427.10	00	INT ON REA CONST LOAN	1	15.0	000		
427.15	00	INT ON FFB CONST LOAN	1	15.0	000		
427.20	00	INT ON OTHER LONG TERM DEBT	1	15.0	000		
427.30	00	INT ON FFB CONST LOAN	1	15.0	000		
428.00	00	AMORT FO LOAN EXP	1	18.0	000		
431.00	00	INTEREST EXP-OTHER	1	17.0	000		
431.10	00	INT EXP-CFC LINE OF CREDIT	1	17.0	000		
435.10	00	CUMM EFF ON PRIOR YRS	1	27.0	000		
440.10	00	RESIDENTIAL SALES-RURAL FARM	1	1.0	000		
440.11	00	RESIDENTIAL SALES-ENVIROWATTS	1	1.0	000		
442.10	00	COMM-INDUST SALE-SMALL	1	1.0	000		
442.20	00	COMM-INDUST SALES-LARGE	1	1.0	000		
450.00	00	FORFEITED DISCOUNTS	1	1.0	000		
451.00	00	MISC SERVICE REVENUES	1	1.0	000		
454.00	00	RENT FROM ELECTRIC PROPERTY	1	1.0	000		
456.00	00	OTHER ELEC REVENUES	1	1.0	000		
555.00	00	PURCHASED POWER	1	3.0	000		
580.00	00	OPERATION-SUPERVISION-ENGINEER	1	5.0	000		
582.00	00	STATION EQUIPMENT	1	5.0	000		
583.00	00	OVERHEAD LINE EXPENSE	1	5.0	000		
584.00	00	UNDERGROUND LINE EXP	1	5.0	000		
586.00	00	METER EXPENSES	1	5.0	000		
587.00	00	CONSUMER INSTALL EXPENSES	1	5.0	000		
588.00	00	MISC DISTRIBUTION EXPENSE	1	5.0	000		
593.00	00	MAINT OF OVERHEAD LINES	1	6.0	000		
593.01	00	RIGHT OF WAY CUTTING	1	6.0	000		
593.02	00	RIGHT OF WAY MATERIALS	1	6.0	000		
593.03	00	RIGHT-OF-WAY BUSHHOGGING	1	6.0	000		
593.04	00	CONTRACTORS MAINT EXPENSE	1	6.0	000		
593.05	00	PCB MAINTENANCE EXPENSE	1	6.0	000		
593.06	00	POLE TESTING & TREATING	1	6.0	000		
593.07	00	ICE STORM	1	6.0	000		
593.08	00	BILLABLE-OVH LINES MAINT EXP	1	6.0	000		
595.00	00	MAINT OF LINE TRANSFORMERS	1	6.0	000		
597.00	00	MAINTENANCE OF METERS	1	6.0	000		
597.10	00	MAINT OF METERS-METER TEST FEE	1	6.0	000		
598.00	00	MAINT OF MISC DISTR PLANT	1	6.0	000		
902.00	00	METER READING EXPENSES	1	7.0	000		
903.00	00	CONSUMER RECORDS-COLLECT EXP	1	7.0	000		
903.10	00	CONS REC-COLL EXP-OVER-UNDER	1	7.0	000		
903.20	00	CONS REC-COLL AGENCIES	1	7.0	000		
904.00	00	UNCOLLECTIBLE ACCOUNTS	1	7.0	000		
908.00	00	CUSTOM ASSIST EXP	1	8.0	000		
908.10	00	CUSTOMER ASST TUNE-UP	1	8.0	000		
909.00	00	INFO AND INST ADV EXP	1	8.0	000		
910.00	00	MISC CUST SERV AND INFO EXP	1	8.0	000		
920.00	00	ADMIN AND GENERAL SALARIES	1	10.0	000		
920.10	00	DEFERRED COMPENSATION EXPENSE	1	10.0	000		
921.00	00	OFFICE SUPPLIES AND EXPENSES	1	10.0	000		

DATE TIME COOP-ID PROGRAM
07/19/05 10:37 19057 GLCHTPRT

CUMBERLAND VALLEY ELECTRIC
GENERAL LEDGER CHART OF ACCOUNTS LIST

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PAGE
7

ACCT	DEPT	DESCRIPTION	RPT LINE	CAT	W/O CD	STATUS	REASON
!	00	OUTSIDE SERVICES EMPLOYED	1	10.0	000		
924.00	00	PROPERTY INSURANCE	1	10.0	000		
925.00	00	INJURIES AND DAMAGES	1	10.0	000		
926.00	00	EMPLOYEE PENSIONS AND BENEFITS	1	10.0	000		
928.00	00	REGULATORY COMM EXPENSES	1	10.0	000		
929.00	00	DUPLICATE CHARGES	1	10.0	000		
930.10	00	MISC GENERAL EXP-DIRECTORS EXP	1	10.0	000		
930.11	00	GENERAL ADVERTISING EXP	1	10.0	000		
930.20	00	MISC GENERAL EXPENSE-OTHER	1	10.0	000		
930.30	00	MISC GEN EXP-CAPITAL CREDITS	1	10.0	000		
930.40	00	MISC GEN EXP-ANNUAL MEETING	1	10.0	000		
930.50	00	MISC GEN EXP-TRAVEL	1	10.0	000		
931.00	00	RENTS	1	10.0	000		
932.00	00	MAINT OF GEN PLANT	1	10.0	000		

Kentucky 57
Cumberland Valley Electric
Gray, Kentucky
Report on Audits of Financial Statements
for the years ended May 31, 2004 and 2003

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ALAN M. ZUMSTEIN
CERTIFIED PUBLIC ACCOUNTANT

1032 CHETFORD DRIVE
LEXINGTON, KENTUCKY 40509
(859) 264-7147

Board of Directors
Cumberland Valley Electric, Inc.
Highway 25W
Gray, Kentucky 40734

MEMBER:

AMERICAN INSTITUTE OF CPA'S
INDIANA SOCIETY OF CPA'S
KENTUCKY SOCIETY OF CPA'S
AICPA DIVISION FOR FIRMS

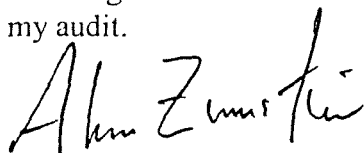
Independent Auditor's Report

I have audited the balance sheets of Cumberland Valley Electric, Inc., as of May 31, 2004 and 2003, and the related statements income and patronage capital and cash flows for the years then ended. These financial statements are the responsibility of Cumberland Valley Electric, Inc.'s management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and 7 CFR Part 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cumberland Valley Electric, Inc. as of May 31, 2004 and 2003, and the results of operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued a report dated July 8, 2004, on my consideration of Cumberland Valley Electric, Inc.'s internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.



Alan M. Zumstein
July 8, 2004

ALAN M. ZUMSTEIN
CERTIFIED PUBLIC ACCOUNTANT

1032 CHETFORD DRIVE
LEXINGTON, KENTUCKY 40509
(859) 264-7147

MEMBER:
AMERICAN INSTITUTE OF CPA'S
INDIANA SOCIETY OF CPA'S
KENTUCKY SOCIETY OF CPA'S
AICPA DIVISION FOR FIRMS

Board of Directors
Cumberland Valley Electric, Inc.
Highway 25W
Gray, Kentucky 40734

I have audited the financial statements of Cumberland Valley Electric, Inc. as of and for the years ended May 31, 2004 and 2003, and have issued my report thereon dated July 8, 2004. I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

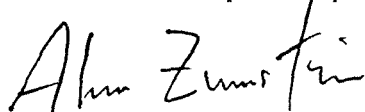
Compliance

As part of obtaining reasonable assurance about whether Cumberland Valley Electric's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Cumberland Valley Electric's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended for the information of the audit committee, management, the Rural Utilities Service and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties.



Alan M. Zumstein
July 8, 2004

Cumberland Valley Electric
Balance Sheets, May 31, 2004 and 2003

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
Electric Plant, at original cost:		
In service	\$59,749,178	\$57,120,202
Under construction	98,649	33,661
	<u>59,847,827</u>	<u>57,153,863</u>
Less accumulated depreciation	21,721,432	20,528,202
	<u>38,126,395</u>	<u>36,625,661</u>
Investments, at cost	<u>10,364,520</u>	<u>8,954,296</u>
Current Assets:		
Cash and cash equivalents	403,236	339,182
Accounts receivable, less allowance for 2004 of \$58,851 and 2003 of \$113,171	2,593,533	2,313,729
Material and supplies, at average cost	360,751	297,584
Other current assets	367,004	321,433
	<u>3,724,524</u>	<u>3,271,928</u>
Deferred Past Service Costs	<u>894,586</u>	<u>1,012,558</u>
Total	<u>\$53,110,025</u>	<u>\$49,864,443</u>
<u>MEMBERS' EQUITIES AND LIABILITIES</u>		
Members' Equities:		
Memberships	\$396,905	\$390,305
Patronage capital	23,139,064	22,106,719
Other equities	51,150	49,842
	<u>23,587,119</u>	<u>22,546,866</u>
Long Term Debt	<u>23,584,155</u>	<u>20,836,408</u>
Accumulated Postretirement Benefits	<u>1,198,058</u>	<u>1,142,482</u>
Current Liabilities:		
Current portion of long term debt	1,050,000	925,000
Short term borrowings	-	1,099,203
Accounts payable	1,871,300	1,545,504
Consumer deposits	758,558	690,359
Accrued expenses	1,039,917	1,049,269
	<u>4,719,775</u>	<u>5,309,335</u>
Consumer Advances for Construction	<u>20,918</u>	<u>29,352</u>
Total	<u>\$53,110,025</u>	<u>\$49,864,443</u>

The accompanying notes are an integral part of the financial statements.

Statements of Revenue and Patronage Capital
for the years ended May 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating Revenues	<u>\$27,650,637</u>	<u>\$26,858,057</u>
Operating Expenses:		
Cost of power	20,011,500	18,666,880
Distribution - operations	1,040,371	1,107,583
Distribution - maintenance	1,851,865	1,648,263
Consumer accounts	912,085	856,600
Customer services and information	161,721	144,155
Administrative and general	1,026,504	987,806
Depreciation, excluding \$187,246 in 2004 and \$149,592 in 2003 charged to clearing accounts	1,960,559	1,867,263
Taxes	31,095	31,559
Other deductions	<u>14,330</u>	<u>61,824</u>
Total operating expenses	<u>27,010,030</u>	<u>25,371,933</u>
Operating Margins before Interest Charges	640,607	1,486,124
Interest Charges:		
Long term debt	836,198	913,898
Other	<u>47,286</u>	<u>73,706</u>
	<u>883,484</u>	<u>987,604</u>
Operating Margins after Interest Charges	<u>(242,877)</u>	<u>498,520</u>
Patronage Capital Assigned by:		
East Kentucky Power Cooperative	1,382,517	1,761,418
Other organizations	<u>36,173</u>	<u>23,799</u>
	<u>1,418,690</u>	<u>1,785,217</u>
Nonoperating Margins		
Interest income, principally	<u>93,362</u>	<u>52,351</u>
Net Margins	1,269,175	2,336,088
Patronage Capital - beginning of year	22,106,719	19,937,896
Retirements of capital credits	<u>(236,830)</u>	<u>(167,265)</u>
Patronage Capital - end of year	<u>\$23,139,064</u>	<u>\$22,106,719</u>

The accompanying notes are an integral part of the financial statements.

Statements of Cash Flows

for the years ended May 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash Flows from Operating Activities:		
Net margins	\$1,269,175	\$2,336,088
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation		
Charged to expense	1,960,559	1,867,263
Charged to clearing	187,246	149,592
Capital credits allocated	(1,418,690)	(1,785,217)
Accumulated postretirement benefits	55,576	78,170
Net change in current assets and liabilities:		
Receivables	(279,804)	(348,499)
Material and supplies	(63,167)	14,794
Other current assets	72,401	156,495
Accounts payable	325,796	(74,364)
Consumer deposits	68,199	17,500
Accrued expenses	(9,352)	102,872
Consumer advances for construction	(8,434)	(3,857)
Net cash provided by operating activities	<u>2,159,505</u>	<u>2,510,837</u>
Cash Flows from Investing Activities:		
Construction of plant	(3,658,203)	(3,615,300)
Salvage recovered from plant	9,664	46,470
Receipts from investments, net	<u>8,466</u>	<u>29,577</u>
Net cash used by investing activities	<u>(3,640,073)</u>	<u>(3,539,253)</u>
Net Cash Flows from Financing Activities:		
Net increase in memberships	6,600	4,495
Retirement of capital credits	(236,830)	(167,265)
Increase in other equities	1,308	2,611
Short-term borrowings	(1,099,203)	1,099,203
Payments on long term debt	(981,494)	(859,538)
Advance of long term debt	4,887,000	-
Advance payments on long term debt	<u>(1,032,759)</u>	<u>-</u>
Net cash used by financing activities	<u>1,544,622</u>	<u>79,506</u>
Net increase in cash balances	64,054	(948,910)
Cash balances - beginning	<u>339,182</u>	<u>1,288,092</u>
Cash balances - ending	<u>\$403,236</u>	<u>\$339,182</u>
Supplemental disclosures of cash flow information:		
Interest on long term debt	\$867,410	\$905,165

The accompanying notes are an integral part of the financial statements.

1. Summary of Significant Accounting Policies

Cumberland Valley Electric maintains its records in accordance with policies prescribed or permitted by the Kentucky Public Service Commission (PSC) and the United States Department of Agriculture, Rural Utilities Service (RUS), which conform in all material respects with generally accepted accounting principles. The more significant of these policies are as follows:

Electric Plant

Electric plant is stated at original cost, less contributions, which is the cost when first dedicated to public service. Such cost includes applicable supervisory and overhead costs. There was no interest required to be capitalized on construction for the year.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to electric plant. The cost of units of property replaced or retired, including cost of removal net of any salvage value, is charged to accumulated depreciation for distribution plant and a gain or loss is recognized for general plant items.

The major classifications of electric plant in service consisted of:

	<u>2004</u>	<u>2003</u>
Distribution plant	\$55,309,885	\$52,880,067
General plant	<u>4,439,293</u>	<u>4,240,135</u>
Total	<u>\$59,749,178</u>	<u>\$57,120,202</u>

Depreciation

Provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. Cumberland Valley uses a composite depreciation rate of 3.34% per annum for distribution plant. General plant depreciation rates are as follows:

Structures and improvements	2.5%
Transportation equipment	11.3%
Office furniture and equipment	5.0%
Other general plant	4.0% - 6.0%

Cost of Power

The cost of purchased power is recorded monthly during the period in which the energy is consumed, based upon billings from East Kentucky Power Cooperative (East Kentucky). The membership of East Kentucky is comprised of Cumberland Valley and 15 other distribution cooperatives.

Continued

1. Summary of Significant Accounting Policies, continued

Revenue

Cumberland Valley records revenue as billed to its members based on monthly meter-readings. Cumberland Valley's sales are concentrated in a six county area of eastern Kentucky. There were no customers whose individual account balance exceeded 10% of outstanding accounts receivable at May 31, 2004 and 2003. Certain customers are required to pay a refundable deposit.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates used in the preparation of the financial statements.

Fair Value of Financial Instruments

Financial instruments include cash, temporary investments and long-term debt. Investments in associated organizations are not considered a financial instrument because they represent non transferable interests in associated organizations.

The carrying value of cash and temporary investments approximates fair value because of the short maturity of those instruments. The fair value of long term debt approximates the fair value because of the borrowing policies of Cumberland Valley.

Off Balance Sheet Risk

Cumberland Valley has off balance sheet risk in that at certain times of the month they have cash deposits in financial institutions in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC).

Statement of Cash Flows

For purposes of the statement of cash flows, Cumberland Valley considers temporary investments having a maturity of three months or less to be cash equivalents.

2. Investments in Associated Organizations

The Capital Term Certificates (CTCs) of National Rural Utilities Cooperative Finance Corporation (NRUCFC) are recorded at cost. The CTCs were purchased from NRUCFC as a condition of obtaining long-term financing. The CTCs bear interest at 0%, 3% and 5% and are scheduled to mature at varying times from 2020 to 2080.

Continued

2. Investments in Associated Organizations, continued

Cumberland Valley records patronage capital assigned by associated organizations in the year in which such assignments are received.

Investments in associated organizations consisted of:

	<u>2004</u>	<u>2003</u>
Associated Organizations:		
East Kentucky:		
Patronage capital assigned	\$9,024,188	\$7,641,671
National Rural Utilities Cooperative Finance Corporation:		
Capital Term Certificates	857,748	857,748
Patronage capital assigned	167,689	173,108
Other associated organizations	<u>314,895</u>	<u>281,769</u>
 Total	 <u>\$10,364,520</u>	 <u>\$8,954,296</u>

3. Patronage Capital:

Under provisions of the long-term debt agreement, return to patrons of capital contributed by them is limited to amounts which would not allow the total equities and margins to be less than 30% of total assets, except that distributions may be made to estates of deceased patrons. The debt agreement provides, however, that should such distributions to estates not exceed 25% of net margins for the next preceding year, Cumberland Valley may distribute the difference between 25% and the payments made to such estates. The equity at May 31, 2004 was 44% of total assets.

Patronage capital consisted of:

	<u>2004</u>	<u>2003</u>
Assigned to date	\$25,298,092	\$23,686,308
Assignable	128,475	471,084
Retirements to date	<u>(2,287,503)</u>	<u>(2,050,673)</u>
 Total	 <u>\$23,139,064</u>	 <u>\$22,106,719</u>

4. Long Term Debt

All assets, except vehicles, are pledged as collateral on the long term debt to RUS, Federal Financing Bank (FFB) and NRUCFC under a joint mortgage agreement. Long term debt consisted of:

Continued

Notes to Financial Statements, continued

4. Long Term Debt, continued

	<u>2004</u>	<u>2003</u>
First mortgage notes due RUS:		
2%	\$71,240	\$112,129
1.00% to 5.37%%	11,483,931	12,010,347
Advance payment	<u>(1,032,759)</u>	<u>-</u>
	<u>10,522,412</u>	<u>12,122,476</u>
First mortgage notes due FFB:		
0.955% (1.22% in 2003)	<u>8,832,933</u>	<u>4,124,408</u>
First mortgage notes due NRUCFC:		
7%	172,021	204,383
2.65% variable rate (3.35% in 2003)	4,136,782	4,261,923
5.70% - 7.95%	<u>970,007</u>	<u>1,048,218</u>
	<u>5,278,810</u>	<u>5,514,524</u>
	24,634,155	21,761,408
Less current portion	<u>1,050,000</u>	<u>925,000</u>
	<u>\$23,584,155</u>	<u>\$20,836,408</u>

The interest rates on notes payable to NRUCFC at 5.70% - 7.95% are subject to change every seven years. The 4.20% variable rate loans can be fixed at any time based on Board action. The long term debt payable to RUS and NRUCFC is due in quarterly and monthly installments of varying amounts through 2027. Cumberland Valley has loan funds approved from FFB in the amount of \$10,306,000. These funds will be used for future plant additions.

As of May 31, 2004, the current annual portion of long term debt outstanding for the next five years are as follows: 2005 - \$1,050,000; 2006 - \$1,070,000; 2007 - \$1,100,000; 2008 - \$1,200,000; 2009 - \$1,300,000.

5. Short Term Borrowings

At May 31, 2004, Cumberland Valley had a short term line of credit of \$5,000,000 available from NRUCFC. At May 31, 2004, Cumberland Valley had repaid all advances against this line of credit.

6. Related Party Transactions

Several Directors of Cumberland Valley, the Manager and another employee are on the Board of Directors of various associated organizations.

7. Advertising

Cumberland Valley expenses advertising costs as incurred.

Continued

8. Pension Plan

All eligible employees of Cumberland Valley participate in the NRECA Retirement and Security Program, a defined benefit pension plan qualified under section 401 and tax-exempt under section 501(a) of the Internal Revenue Code. Cumberland Valley makes annual contributions to the Program equal to the amounts accrued for pension expense. In this multiemployer plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. Cumberland Valley also sponsors a Retirement Savings Plan available for all eligible employees. The plan allows participants to make contributions by salary reduction, pursuant to Section 401(k) of the Internal Revenue Code. Cumberland Valley makes contributions of 10% of the participant's base compensation. Contributions were \$260,461 for 2004 and \$253,115 for 2003.

Effective July 1, 1993, Cumberland Valley adopted the NRECA Retirement and Security Program to recognize salaried employees' prior service. The cost to provide this benefit was \$1,568,591. During 2002, Cumberland Valley included additional employees as salaried. The cost to recognize the past service benefits for these employees was an additional \$395,389. The past service benefits have been recorded as a deferred asset and are being amortized over a twenty year period. RUS approval has been granted for this deferred treatment.

9. Accumulated Postretirement Benefits

Cumberland Valley sponsors a defined benefit plan that provides medical insurance coverage to retired employees, their dependents and retired directors. Cumberland Valley pays all the premiums for retired employees, their dependents and retired directors. For purposes of the liability estimates, the substantive plan is assumed to be the same as the extant written plan.

The following is a reconciliation of the postretirement benefit obligation for 2003 and 2002:

	<u>2004</u>	<u>2003</u>
Postretirement Benefit Obligation:		
Balance, beginning of period	\$1,142,482	\$1,064,312
Recognition of components of net periodic postretirement benefit cost:		
Service cost	16,200	18,200
Interest cost	57,700	55,700
Amortization of gains or losses	12,400	12,400
	<u>86,300</u>	<u>86,300</u>
Benefits paid to participants	<u>(30,724)</u>	<u>(8,130)</u>
Net change	<u>55,576</u>	<u>78,170</u>
Balance, beginning of period	<u>\$1,198,058</u>	<u>\$1,142,482</u>

Continued

9. Accumulated Postretirement Benefits, continued

At April 30, 2004 and 2003, the funded status of the plan was as follows:

	<u>2004</u>	<u>2003</u>
Accumulated postretirement benefit obligation	\$1,210,281	\$1,180,762
Plan assets at fair value	-	-
Funded status	<u>1,210,281</u>	<u>1,180,762</u>
Unrecognized net (gains) / losses	75,100	87,500
Unrecognized prior service cost	<u>(87,323)</u>	<u>(125,780)</u>
Accrued postretirement benefit cost	<u><u>\$1,198,058</u></u>	<u><u>\$1,142,482</u></u>

A 9.0% annual rate of increase in the per capita cost of covered medical benefits was assumed for 2000, decreasing gradually to 5.5% per year by 2007 and remaining at that level thereafter. The discount rate used was 6.50% for 2004 and 2003.

10. Income Tax Status

Cumberland Valley is exempt from federal and state income taxes under provisions of Section 501(c)(12). Accordingly, the financial statements include no provision for income taxes.

11. Contingencies and Commitments

Cumberland Valley is contingently liable as guarantor for approximately \$625,000 of long term obligations of East Kentucky to RUS, NRUCFC and institutional investors. Substantially all assets of Cumberland Valley are pledged as collateral for this guarantee, in addition to the pledge in the mortgage agreement referred to in Note 4. This contingent liability was part of an overall financing plan for the construction of a generating facility near Maysville, Kentucky.

Cumberland Valley has various agreements outstanding with local contractors. Under these agreements, the contractors will perform certain construction and maintenance work at specified hourly rates or unit cost, on an as needed basis. The duration of these contracts are either one or two years.

12. Risk Management

Cumberland Valley is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Cumberland Valley carries commercial insurance for all risks of loss, including workers' compensation, general liability and property loss insurance. As is customary in the utility industry, Electric Plant is not insured. Settled claims resulting from these risks have not exceeded commercial insurance coverage in 2004 or 2003.