

RESPONSE TO AG'S INITIAL REQUEST FOR INFORMATION

ENERGY SALES FOR 2004 BOOKED IN 2005

With regard to CVE's proposed revenue reduction adjustment (as part of the total revenue reduction adjustment of \$265,585) to remove from the 2004 test year billing units relating to the sale of energy in prior years, please provide the following additional information:

- a. Has CVE added to the test year 2004 billing units booked in 2005, but relating to sales of energy actually made in 2004? If not, why not?
- b. In same format as per Exhibit F, Schedule 1, part b-1, pages 1-2, provide the billing units that were actually booked in 2005 but related to the sales of energy made in 2004 test year.
- R. CVE to the best of its knowledge has not booked in 2005 any sale of energy that should have been booked in 2004.

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ADJUSTMENT FOR YEAR END CONSUMERS

With regard to the Year-End Customer revenue adjustment calculations shown on Exhibit F, Schedule 2, part b, please provide the following information:

- a. Please provide the actual number of customers and Energy kWh for the month of December 2003.
- b. Provide a calculation of the revenue adjustment using the 13-month average (12/03 - 12/04) results rather than the currently used 12-month average results.
- c. Provide a worksheet showing the calculations and calculation components in support of the \$68,856 for the associated increase in Wholesale Power Costs.

R. a&b. Please see the response to Item No. 5 of the PSC Staff's second data request.

c.	Normalization of wholesale power costs	21,179,018
	Total Energy Sales	<u>462,944,591</u>
	Average Cost of Purchased Power per kWh-Normalized	0.045748
	Additional energy kWh	<u>1,505,092</u>
		<u><u>68,856</u></u>

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YEAR END CONSUMER ADJUSTMENT

In the same format and detail as for the residential Year-End Customer revenue adjustment shown on Exhibit F, Schedule 2, part b (and using a 13-month average approach), provide the Year-End Customer revenue adjustment for CVE's Schedule II Small Commercial & Small Power customers.

R. Please see the response to Item No. 5 of the PSC Staff's second request for information.

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19 With regard to the non-operating items shown on Exhibit T, Schedule 1, please provide the following information:

- a) Actual Non-Operating Margins - Interest for each of the years 2001, 2002 and 2003 and for the 12-month period ended June 30, 2005

2001	149,160
2002	65,058
2003	67,085
12 month ended June 30, 2005	120,028

- b) Actual Other Capital Credits for each of the years 2001, 2002, and 2003 and for the 12-month period ended June 30, 2005

2001	77,985
2002	23,799
2003	36,173
12 month ended June 30, 2005	39,243

- c) Description of the Other Associated Organizations making up the Other Patronage capital credits referred to in part b above.

	<u>KAEC</u>	<u>United Utility</u>	<u>CFC</u>	<u>NISC</u>	<u>Total</u>
2001	1,151	21,452	53,824	1,558	77,985
2002	-	-	23,799	-	23,799
2003	8,055	-	23,271	4,847	36,173
12 month ended June 30, 20	8,139	3,800	18,607	8,697	39,243

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20. With regard to the Bonuses of \$200 per employee shown on Exhibit F, Schedule 6, pages 1 and 2, please provide the following information:

a) What do these bonuses represent?

Christmas bonus.

b) Item 25, page 1 shows that employees 4575 and 7158 did not receive bonuses during the 2004 test year but bonuses of \$200 are shown for these employees on Exhibit F, Schedule 6, pages 1 and 2. Please reconcile and explain this.

The \$200 bonus was inadvertently omitted from Item 25, page 1. The bonuses should have been included on this schedule.

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PAYROLL AMOUNTS

- Q. Please reconcile the total 2004 test year payroll amount of \$2,191,918 shown on Item 23a Page 1 and Exhibit F, Schedule 6, part b, page 3 to the total 2004 payroll of \$2,121,357 shown on Exhibit F Schedule 6, part b, page 2.
- R. The actual payroll for the test year of 2004 is the \$2,191,918. The \$2,121,357 listed on page 2, part b of Schedule 6, Exhibit F represents the amount paid during 2004 for the those employees employed as of 12/21/2004 and used in the normalization adjustment for employee wages and salaries.

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PAYROLL ADJUSTMENT

- Q. The 3 payroll components for the 2004 payroll shown on Exhibit F, Schedule 6, part b, page 2 add to \$2,123,366. Please reconcile this to the Total Paid amount of \$2,121,357.
- A. The correct total should be \$2,121,157. The amount of \$2,121,357 should be reduced by the bonus amount of \$200 that is listed as this employee did not receive a bonus in 2004. The amount of \$2,125,366 should also be reduced by the bonus amount of 200 plus the formula on the Excel spread sheet picked the year of 2004 on the "Base Wage" column and in the "Overtime" column.

Sum of three components	2,125,366
Total Amount	<u>2,121,357</u>
Difference	4,009
Excel formula included the year of 2004 twice	<u>4,008</u>
Difference due to rounding	<u>1</u>

It should be noted that these amounts were not used in developing the adjustment amount.

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Item No. 23

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Witness: Jim Kelly

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	<u>Full Time</u>	<u>Part-Time</u>		<u>Full Time</u>	<u>Part Time</u>		<u>Full Time</u>	<u>Part Time</u>
Jan-01	39	2	Jan-02	41	3	Jan-03	44	1
Feb-01	39	2	Feb-02	41	3	Feb-03	44	1
Mar-01	39	2	Mar-02	41	3	Mar-03	44	1
Apr-01	40	2	Apr-02	42	3	Apr-03	44	1
May-01	40	2	May-02	44	1	May-03	42	2
Jun-01	40	2	Jun-02	44	1	Jun-03	42	1
Jul-01	40	2	Jul-02	45	1	Jul-03	42	1
Aug-01	40	2	Aug-02	45	1	Aug-03	42	1
Sep-01	40	2	Sep-02	45	1	Sep-03	42	2
Oct-01	40	2	Oct-02	45	1	Oct-03	42	1
Nov-01	40	3	Nov-02	45	1	Nov-03	42	1
Dec-01	40	3	Dec-02	44	1	Dec-03	42	1

	<u>Full Time</u>	<u>Part Time</u>		<u>Full Time</u>	<u>Part Time</u>
Jan-04	42	1	Jan-05	44	1
Feb-04	42	1	Feb-05	44	1
Mar-04	42	1	Mar-05	44	1
Apr-04	42	1	Apr-05	45	1
May-04	42	2	May-05	46	0
Jun-04	41	1	Jun-05	46	1
Jul-04	42	1			
Aug-04	43	1			
Sep-04	43	0			
Oct-04	43	1			
Nov-04	43	1			
Dec-04	43	2			

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24. Please provide the actual overtime hours for each of the years 2001, 2002, 2003, and for the 12-month period ended 6/30/05.

2001	7,720
2002	9,044
2003	12,217
12 month ended June 30, 2005	14,917

PAYROLL INCREASES

With regard to the Normalized Payroll data shown on Exhibit F, Schedule 6, part b, pages 1-2, please provide the following information:

- a. Q. What is the number of overtime hours associated with the normalized and annualized overtime wages of \$458,190?
- R. The normalized overtime was determined on the basis of the actual overtime experience for the test year as a percentage of the base pay for each employee. This percentage of base pay has been applied to the wages in effect at the end of the test year to determine the overtime wages used in this adjustment.
- b. Q. The annualization of the wage increase of 3.75% on 9/1/04 would result in an approximate pro forma wage increase of 2.80%. Given this fact, provide a detailed explanation for the much higher base wage increases to employees nos. 0937, 3475, 9144, 4840, 9522, 6459, (all with increases of approximately 6.7%); and for employee numbers 1998 (18.67%) and 8388 (12.50%)>
- R. The union contract does provide for step increases in addition to the normal increases that may be approved by the board of directors. These step increases are a function of an employee, such as a lineman, progressing satisfactorily through the apprentice program. This seems to fit the situation for all the referenced employees above.
- c. Q. Please explain the very large base wage increases shown for employee numbers 0542,3139,6442,7125,7917. If these represent the annualized impact for employees that are new and came on line during the test year, provide the starting dates for each of these employees and explain whether they are employees that replaced existing employees who left during the year. If they replaced existing employees, provide the employee number of these existing employees who left during the year.

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Witness: Jim Adkins

R. Listed below are the employment dates for the requested employees.

O542	6/28/2004
3139	7/19/2004
6442	8/2/2004
7125	8/16/2004
7017	10/27/2004

The employees listed in the adjustment for wages and salaries are those employees employed as of the end of the test year. The employees replaced are excluded from this adjustment as they were terminated prior to the end of the year. Therefore, no employee numbers need to be provided as they are not included in the development of this adjustment.

- d. Q. Please explain the annual \$68,000 salary claimed for employee number 1693. Has this employee been hired and, if so, provide the starting date for this employee. In addition, explain whether this is a new, incremental employee or whether this employee replaces an existing employee who left during the year. If the latter, provide the employee number of the existing employee who left during the last fiscal .
- R. This is the salary for the new professional engineer employed on January 1, 2005. The previous engineer left the company during 2004 and his employee number was 4546 and not contained in the calculation of this adjustment.

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26. Does CVE pay its employees any incentive compensation? If so, explain what this incentive compensation consists of, what the test year amount of this incentive compensation is, and in which account(s) this compensation is reflected in the test year.

Response:

No.

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27. With regard to FAS 106 costs, please provide the following information:

- a) Provide the actual monthly FAS 106 accruals for each month from 1/04 through 7/05.

01/04 through 12/04	7,192
01/05 through 05/05	7,192
06/05	13,900

- b) Provide the actual annual FAS 106 expenses booked by CVE during 2001, 2002, 2003 and 2004.

2001	86,300
2002	86,304
2003	86,304
2004	86,304

- c) The AG is aware of the explanation given in Item 44 (July 5, 2005 letter from W. Dudley Shryock, CPA to CVE) for the increase in 2005 FAS 106 expenses. However, this explanation is not sufficient to properly explain the FAS 106 increase of almost 100% from \$86,300 to \$167,000. Please provide a more detailed explanation justifying this very large expense increase and explain how CVE has reacted to the recommendations contained in the July 5, 2005 letter.

Response:

Based on a review of the last study, as of January 1, 2000, the annual accrual should have been \$113,700. There was an oversight as to why this accrual was not implemented. Giving consideration to the length of time from the last study, the increase appears reasonable.

Cumberland Valley has reviewed the increase and determined that it FAS 106 studies will be prepared on a more frequent basis. This should help keep the annual accrual from fluctuating so much between studies.

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28. Is the Union Negotiating meeting fee a regularly occurring expense for the Board of Directors? In addition, please provide the dates of the other Union Negotiating meetings where members of the Board of Directors were present in each of the years 2001, 2002 and 2003.

Response:

Union Negotiating meetings are a regularly occurring expense. The Union Negotiating Committee meets annually with the union to discuss the union contract.

August 28, 2001 Ray Baird
 Delno Tolliver
 Chester Davis
 Roger Vanover
 Roy Ferguson
 John H. Corey
 Vernon Shelley

August 28, 2002 Ray Baird
 Delno Tolliver
 Chester Davis
 Roger Vanover
 Roy Ferguson
 John H. Corey
 Vernon Shelley

August 26, 2003 Vernon Shelley
 Roger Vanover
 Delno Tolliver
 Chester Davis
 John H. Corey
 Elbert Hampton
 Lansford Lay

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29. Who is CVE's Designated Delegate to annual NRECA meetings? And who is the Alternate Delegate?

Designated delegate	Chester Davis
Alternate delegate	Ted Hampton

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NRECA LEGISLATIVE CONFERENCE

- Q. Please provide the nature and purpose of the NRECA Legislative Conference and the reasons why Mr. Chester Davis attended this conference.
- R. Mr. Chester Davis attended the Legislative Conference in position as a Director of Cumberland Valley for the purpose of keeping in contact with the Kentucky Congressional Delegations. Congress does appropriate the money to the RUS and it is the RUS that is the major lender of money to Kentucky's Cooperatives. Congress is also of importance to Cooperatives since the laws it enacts can have a major impact upon the electric rates charged by cooperatives.

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NRECA DIRECTORS CONFERENCE

- Q. Please provide the nature and purpose of the NRECA's Director Conference and the reasons why Mr. Chester Davis attended this conference.
- R. NRECA sponsors and puts on this director's conference to better inform the Managers and Directors of cooperatives of issues, events and proposals that may impact them nationally, regionally or on a state level. Examples of the issues and topics covered at this conference include those listed below:

- Environmental issues and proposals
- Legal issues
- Employment issues including those dealing with HIPPA and ADA requirements
- Transmission issues
- Others

Cumberland Valley's directors and management believe that it is important for its Directors to be kept informed on matters of importance. Education of directors is important so that they are able to make the best decisions possible.

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32. With regard to uncollectible expenses, please provide the following information:

- a) Actual uncollectable expense accrual booked in account 904 in each of the years 2001 through 2004.

2001	84,000
2002	84,000
2003	84,000
2004	134,000

- b) Actual net write-offs incurred in each of the years 2001 through 2004

2001	75,181
2002	85,557
2003	138,905
2004	171,732

- c) Actual revenues subject to uncollectibles in each of the years 2001 through 2004

2001	25,572,008
2002	25,731,342
2003	26,120,092
2004	28,510,045

- d) Projected uncollectible expenses included in the 2005 Operating Budget.

2005	168,000
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- e) CVE's policy regarding the determination of the annual uncollectible accrual level.

Response:

The annual accrual is based on the net accounts written-off and the aging of accounts receivable.

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33. Please provide a detailed breakout (including brief description) showing all of the expense items included in the 2004 test year account 921 Office Supplies expenses of \$108,834.

Telephone, paper and supplies, clean office	48,348
Meeting expenses	13,671
Postage	521
Cooperative use of electricity	10,023
Property tax allocation	10,238
Property insurance allocated	3,286
Labor	4,800
Benefits	3,325
Transportation	7,815
Bank fees and charges	1,555
Employee training program	2,084
Picture frames, board and offices	409
First aid units	453
Rural coop tax	10
Newspaper and other subscriptions	906
Statement of nondiscrimination notices	432
Reconcile school tax accruals	958
	108,834

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34. Please provide a detailed breakout (including brief description) showing all of the expense items included in the 2004 test year account 908 Consumer Assistance expenses of \$105,398.

Labor and benefits	96,315
Transportation	2,983
Rebates to consumers	11,985
Employee uniforms and clothing	30,322
Employee meetings and travel	11,188
ETS and Geothermal info to members	60
ETS and Geothermal parts and supplies	2,939
Electrical Code books	168
Items to give to schools	7,179
Office picture frame	296
Candy for consumers	402
Cooperative Connection discount cards for meml	5,629
Reimbursements from EKPC	(64,068)
	105,398

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35. Please provide a detailed breakout (including brief description) showing all of the expense items included in the 2004 test year account 909 Customer Information expenses of \$42,519.

See Item 30, page 2 of 2 of Staff First Request for data.

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Industry association dues	
NRECA 2004 membership dues	\$ 23,318.00
KAEC 2004 dues allocation	49,929.60
NRUCFC Integrity Fund Contribution	<u>1,271.30</u>
Total	<u>\$ 74,518.90</u>

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Witness: Jim Adkins

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37. a. All prizes and give-aways for the test year of 2004 were for the annual meeting. Prizes and give-aways totaling \$ 3,589.40 were posted to account 242.52 Other Current Accrued Liabilities – Annual Meeting.
- b. The flower fund expenses totaling \$ 607.77 were posted to account 184.40 Benefits Expense – Clearing.
- c. The coffee fund expenses totaling \$ 452.01 were posted to account 184.20 Office Expense – Clearing.
- d. Total gifts of \$ 918.46 were posted to account 930.10 Miscellaneous General Expense – Directors Expense. These expenses were for Christmas gifts and retirement gifts for board members.

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38. With regard to Item 30, page 2 of 2, please provide the following information:

- a) The total advertising amount of \$42,519 includes \$31,570 for Kentucky Living Magazine. This advertising amount of \$31,570 is designated as Institutional Advertising on Item 30, page 1. Please describe what the purpose and nature of this Kentucky Living Magazine advertising is and provide representative copies of the ads.

Response:

The total amount paid for the Kentucky Living Magazine for the test year was \$96,840. Approximately 1/3 of this cost, or \$31,570 was assigned to Account No. 909.00, Information and Instruction. There are no actual advertisements in the KLM. This amount is recorded in Account 909 as information to consumers.

- b) Item 31, page 2 shows total Kentucky Living Magazine expenses of \$65,270 which, on Item 4, page 6 of 7, is designated as "Advertising" expenses. What makes up the \$33,700 difference between the total KLM expenses of \$65,270 and the KLM institutional advertising portion of \$31,570? Please provide a detailed listing of this expense difference.

Response:

The Kentucky Living Magazine payments are allocated as follows:

Account 909, Information	31,570
Account 930.11, Miscellaneous	65,270
	<u>96,840</u>

The \$33,700 is the difference between the amount allocated to Account No. 909 and the amount allocated to Account No. 930.11. As such, there is no listing of this expense difference.

- c) Provide a description of the purpose and nature of the following advertising items listed on Item 30, page 2:
- 1) ETS and Button Up: Educate consumers on conserving and the efficiencies of ETS and Button Up programs to save energy and money on their electric bill.
 - 2) Sponsor Drug Free: consisted of "this is sponsored in part by CVE".
 - 3) Radio Spots: consists of "this program is sponsored in part by CVE".
 - 4) Sponsor Graduation: consisted of "this is sponsored in part by CVE".
 - 5) Sponsor Memorial Day: consisted of "this is sponsored in part by CVE".
 - 6) Sponsor Reds baseball games: promotion of CVE being a member of Touchstone Energy and the value of being a member of the local electric cooperative
 - 7) Sponsor Corbin football games: promotion of CVE being a member of Touchstone Energy and the value of being a member of the local electric cooperative

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Account 583.00 Year 2001

- A) Description of the type of services booked to this account
This account includes, respectively, the cost of labor materials used, and expenses incurred in the operation of overhead distribution lines. CVE's internal labor costs are primarily installation of OCR's and transformers.
- B) Total actual expenses booked
\$379,916.56
- C) Portion of total expenses representing internal labor expenses
\$31,607.66
- D) Portion of total expenses representing charges from outside contractors
\$51,962.54
- E) Description of what makes up the remainder of the total expenses
Property Tax Spread
Office Supplies Spread
Payroll Overheads
Transportation Clearing
- F) Breakout of the total expenses representing charges from outside contractors(to be provided in response to part c) by contractor and a description of the services rendered by each contractor.
- | <u>Contractor</u> | <u>Total Expense</u> | <u>Description of Service</u> |
|----------------------|----------------------|--------------------------------------|
| Five C Construction | \$35,302.77 | Installation of transformers & OCR's |
| Shelton Construction | \$16,659.77 | Installation of transformers & OCR's |