




Cumberland Valley Electric

A Touchstone Energy Cooperative 

October 28, 2005

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

RE: Case No. 2005-00187
Cumberland Valley Electric

2005-10-28

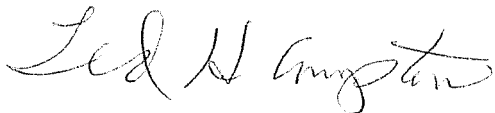
2005-10-28

Dear Ms. O'Donnell

Attached you will find an original and six (6) copies of the Cumberland Valley's responses to the Third Data Request of Commission Staff to Cumberland Valley Electric, Inc.

If you have questions on this matter or need any additional information, please contact me at your convenience.

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

RESPONSE TO THIRD DATA REQUEST OF THE COMMISSION STAFF

LETTER TO RUS IN REGARDS TO TIER DEFFICIENCY

- Q. Refer to the Second Data Request of Commission Staff dated September 2, 2005 ("Staff's Second Request"). Item 4. Provide a copy of Cumberland Valley's response to the letter dated February 16, 2005.

- R. Attached as Page 2 of this response is a copy of the letter provided to RUS indicating CVE's intention to file this rate application with this Commission.

Ted Hampton
Manager

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CUMBERLAND VALLEY ELECTRIC

P.O. Box 440
Cumberland, Kentucky 40823

P.O. Box C
Cumberland, Kentucky, 40823

March 4, 2005

Mr. Brian D. Jenkins
Chief, Operations Branch
Northern Regional Division
United States Department of Agriculture
1400 Independence Ave., SW
Washington, DC 20250-1500

Dear Mr. Jenkins

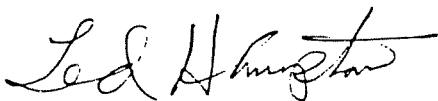
Your letter dated February 16, 2005 has been reviewed by Cumberland Valley Electric's management and Board of Directors with the following actions being taken to improve Cumberland Valley Electric, Inc. (CVE) financial condition. A rate application is being prepared at the current time by CVE to be filed with the Kentucky Public Service Commission in the second quarter of 2005.

Cumberland Valley Electric is estimating the need for an increase in revenue of approximately \$1.25 million per year with an approximate increase in revenue of \$425,000 for 2005. This increase in revenue will result in an increase in revenue of about 4.2% over actual revenue for 2004. This additional revenue for 2005 will provide for an OTIER estimated to be 1.12 and a TIER of 1.28. The OTIER of 1.12 and the TIER of 1.28 will be in excess of the minimum requirements of 1.1 OTIER and 1.25 TIER.

CVE has not had any areas of operations where a significant adverse effect caused CVE not to meet its minimum ratios. The primary cause has been the result of distribution costs increasing at a rate greater than additional revenue from rates. This trend has been in effect for several years but it has increased at a significant rate the last few years. It should be noted that CVE has increased its rates to its members during the last twenty-five years only to pass along increases in wholesale power costs. In other words, CVE has not increased its retail rates during this period due to increased distribution costs, and one must agree that this is a significant achievement by the management, the employees and the Board of Directors of CVE.

CVE will make every effort to keep its revenues in line with its costs in order to minimize the chance that it will not meet these minimum ratios in the future.

Sincerely,



Ted Hampton
Manager

RESPONSE TO THE THIRD DATA REQUEST OF THE COMMISSION STAFF

ELECTRONIC SPREADSHEETS

- Q. Refer to the Staff's Second Request, Item 5, the Initial Data Request of the Attorney General dated September 2, 2005 ("AG's Initial Request"), Item 36, and the Application, Exhibit J. The electronic spreadsheet for Exhibit J that was provided as the response to Item 46 of the AG's Initial Request is the electronic version of Exhibit J as it was originally provided in Cumberland Valley's application. Provide revised electronic copies of all spreadsheets, including Exhibit J, using the billing determinants for each rate class shown in Cumberland Valley's response to Item 5(a) of the Staff's Second Request.
- R. A CD containing the requested spreadsheets in electronic form is provided in the front cover of the binder. One CD is available for the Commission Staff and one CD for the AG's purposes.

CUMBERLAND VALLEY ELECTRIC, INC.
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RESPONSE TO THIRD DATA REQUEST OF THE COMMISSION STAFF

3. Q. Refer to the Staff's Second Request, Item 6. Recognizing the changes in the procedural schedule, provide an update of the current interest rates through December 31, 2005 by January 5, 2006 instead of by December 9, 2005 as previously requested.

R. Current interest on long-term debt as of October 26, 2005

RUS Debt

<u>Note Number</u>	<u>12/31/04 Interest Rate %</u>	<u>9/26/05 Current Interest Rate %</u>	<u>10/26/05 Current Interest Rate %</u>	<u>12/31/04 Balance</u>
4170	2.00	0.00	0.00	\$ 5,698
OB180	2.00	2.00	2.00	44,789
1B190	5.00	5.00	5.00	108,008
1B200	5.00	5.00	5.00	158,861
1B210	5.00	5.00	5.00	226,828
1B220	5.00	5.00	5.00	261,748
1B230	5.00	5.00	5.00	405,450
1B240	5.00	5.00	5.00	438,935
1B250	5.00	5.00	5.00	922,486
1B260	5.00	5.00	5.00	835,364
1B270	5.00	5.00	5.00	1,086,351
1B280	5.00	5.00	5.00	2,386,813
1B290	5.37	5.37	5.37	1,528,155
1B295	5.00	5.00	5.00	1,518,927
1B300	1.62	2.75	2.75	1,316,295
H0010	2.22	3.48	3.56**	3,934,456
H0015	2.22	3.48	3.56**	4,725,276
F0020	2.22	3.48	3.56**	2,200,000
F0025	--	3.48	3.56**	2,000,000*

*This amount was drawn down in January 2005.

**This interest rate is in effect until January 3, 2006.

CUMBERLAND VALLEY ELECTRIC, INC.
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RESPONSE TO THIRD DATA REQUEST OF THE COMMISSION STAFF

CFC and Other Debt

<u>Note Number</u>	<u>12/31/04 Interest Rate %</u>	<u>9/26/05 Current Interest Rate %</u>	<u>10/26/05 Current Interest Rate %</u>	<u>12/31/04 Balance</u>
9001	7.00	7.00	7.00	\$ 20,805
9003	7.00	7.00	7.00	54,618
9004	7.00	7.00	7.00	79,554
9007	4.35	5.60	5.95 [^]	115,394
9008	4.35	5.60	5.95 [^]	129,307
9010	5.70	5.75	5.75	213,138
9012	5.70	5.90	5.90	228,160
9014	7.95	7.95	7.95	487,617
9017	4.35	5.60	5.95 [^]	433,307
9018	4.35	5.60	5.95 [^]	482,906
9019	4.35	5.60	5.95 [^]	1,003,577
9020	4.35	5.60	5.95 [^]	1,319,536
9021	4.35	5.60	5.95 [^]	587,543

[^]This interest rate is in effect until November 1, 2005.

RESPONSE TO THE THIRD DATA REQUEST OF THE COMMISSION STAFF

EMPLOYEE BONUS

- Q. Refer to the Staff's Second Request, Item 7(a). Since Cumberland Valley views the annual bonus as "normal part of the annual remuneration for each employee," has it considered adjusting the base wages to reflect this compensation? Explain the response.
- R. Cumberland Valley does consider the bonus to be a part of the pay package of its employees. However, this bonus is an incentive and can be withheld if a decision is made by the Board to withhold said bonus. A decision to include it in the base wages of its employees would preclude it from being a separate piece of the package and no longer an incentive no matter how small it may be.

RESPONSE TO THE THIRD DATA REQUEST OF THE COMMISSION STAFF

EMPLOYEE BENEFITS

- Q. Refer to the Staff's Second Request, Item 9. Cumberland Valley states "the following benefits are provided to the employees of Cumberland Valley at no expense to the employee except for specific instances." Explain the specific instances in which benefits would not be provided to employee at no expense.
- R. The employee benefit that the CVE employees make a financial contribution to is the family portion of the dental insurance coverage. CVE pays for the single coverage for dental insurance. CVE also pays for fifty percent of the additional cost for family coverage on dental insurance.

Third Data Request of Commission Staff

Question 6. Refer to the Staff's Second Request, Item 24(a).

a. Provide the amounts and the number of overtime hours that Cumberland Valley charged to "accounts receivable other coops" between 2001 and 2004.

<u>Acct # & Description</u>	2001		2002		2003		2004	
	<u>OT Hours</u>	<u>Amount</u>	<u>OT Hours</u>	<u>Amount</u>	<u>OT Hours</u>	<u>Amount</u>	<u>OT Hours</u>	<u>Amount</u>
143.20 Jackson Energy	0	0	132	\$3,505.78	4	\$118.14	0	\$0.00
143.40 Grayson RECC	0	0	0	\$0.00	1546	\$43,093.39	0	\$0.00
143.40 Owen RECC	0	0	0	\$0.00	0	\$0.00	194	\$5,931.17
143.50 Clark Energy	0	0	0	\$0.00	156.5	\$3,988.62	0	\$0.00
143.50 Blue Grass	0	0	0	\$0.00	0	\$0.00	171	\$4,973.68
143.60 Fleming Mason	0	0	0	\$0.00	35.5	\$1,018.14	0	\$0.00
143.60 Salt River	0	0	0	\$0.00	0	\$0.00	122	\$3,392.82
143.70 Rappahannock Electric	0	0	0	\$0.00	1088	\$31,527.36	0	\$0.00
143.70 Escambia River	0	0	0	\$0.00	0	\$0.00	2072	\$64,067.01

b. Identify the accounts receivable account numbers included in "accounts receivable other coops."

See above account numbers in part (a).

c. Explain why the "accounts receivable other coops" does not appear in the response to the First Data Request of Commission Staff dated May 20, 2005 ("Staff's First Request"), Item 10.

The accounts receivable from other cooperatives was included in the response to Staff's First Request Item 10. The amounts were included in Account No. 143.30, Other Receivables. Since these were sporadic, they were included in the same account number.

d. Provide all documentation and/or information that Cumberland Valley has to support the statements it made in the second paragraph of its response to Item 24(a).

Cumberland Valley does not maintain its records in a manner that would allow for the proper quantification of overtime worked due to the increase in electric sensitive devices.

RESPONSE TO THE THIRD DATA REQUEST OF THE COMMISSION STAFF

ADVERTISING

- Q. Refer to the Staff's Second Request, Item 25, page 1 of 3 and Staff's First Request Item 30, page 1 of 2. Explain why \$31,750 of advertising originally classified as "Institutional Advertising" was reclassified as "Conservation Advertising."
- R. This reclassification was made in error and should be as originally presented in Item 30 of the Staffs First Request as Institutional Advertising.

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Third Data Request of Commission Staff

8. Q. Refer to the Staff's Second Request, Item 25, page 2 of 3 and the AG's Initial Request, Item 38 (c). 807 KAR 5:016, Section 4(1)(c) defines institutional advertising as "advertising which has as its sole objective the enhancement or preservation of the corporate image of the utility and to present it in a favorable light to the general public, investors, and potential employees." given this definition and the description of the advertising in the response to the AG's Initial Request, Item 38(c), subparts 2 through 7, explain why the items should be included for rate-making purposes.
- A. A complete description of the purpose of the Kentucky Living magazine is included in "Response to AG's Supplemental Request for Information", Item 15, pages 1 and 2.

As explained in that response, not only does the Kentucky Living magazine enhance the corporate image and present Cumberland valley in a favorable light to the member-owners, but also provides information on safety issues, outage reporting, and information specific to Cumberland Valley for its members.

Based on the above, all costs related to the Kentucky Living magazine should clearly be allowed for rate-making purposes.

RESPONSE TO THE THIRD DATA REQUEST OF THE COMMISSION STAFF

MISCELLANEOUS EXPENSES

Q. Refer to the Staff's Second Request, Item 25, page 2 of 3. For each item listed below, provide a description of the expense and explain if it should be included for rate-making purposes.

- a. L.A.W. Review - Renewal
- b. WKDP - Class A tournament sponsor
- c. Universal Advertising - Maps of area for consumers
- d. Rockhill Marketing - Knox County map
- e. Woody's Frame Shop - Frame office pictures
- f. University Advertising - Mats of area for consumers

R. Items a, b, c, d, and f should be excluded for rate-making purposes.

Item e seem to be appropriate for rate-making purposes. The picture frames seems to be a reasonable expense for an office building.

RESPONSE TO THE THIRD DATA REQUEST OF THE COMMISSION STAFF

KAEC & NRECA REPRESENTATIVES

Q. Refer to the Staff's Second Request, Item 28. Cumberland Valley was asked to identify the designated and alternative representatives to the Kentucky Association of Electric Cooperatives ("KAEC") and the National Rural Electric Cooperative Association ("NRECA"). While Cumberland Valley provided the name of the alternative representative, it failed to provide the name of the designated representative. Provide the originally requested information.

R. The originally requested information is provided below:

KAEC	Primary: Vernon Shelley	Alternate: Ted Hampton
NRECA	Primary: Chester Davis	Alternate: Ted Hampton

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Third Data Request of Commission Staff

11) Question

Refer to the Staff's Second Request, Item 30. the response indicates that Cumberland Valley's accumulated depreciation is in the maximum curve range using the Depreciation Guideline Curves issued by the Rural Utilities Service ("RUS"). Cumberland Valley states that it "is of the opinion that its rates and accumulated depreciation are at a high level." Given this position, explain why Cumberland Valley is proposing to increase its depreciation rates.

11) Response

The point on the Depreciation Guideline Curve where the Reserve Ratio - Percent and the Ratio of Current Distribution Plant in Service to Distribution Plant in Service 10 Years Ago is near the Maximum Curve (high level). The depreciation guideline curve is used as a guideline. Being near the maximum does not automatically indicate that rates are too high, and conversely, being near the Minimum Curve does not, by itself, indicate that rates are too low.

The last study performed was as of December 31, 1990. Cumberland Valley reviewed the lives, net salvage, existing rates and depreciation guideline curve information and determined that the proposed rates using the study as of December 31, 2004 should be adopted. These lives are supported by the study, and the net salvage rate is the methodology using the average of the past five years net salvage.

RESPONSE TO THE THIRD DATA REQUEST OF THE COMMISSION STAFF

PSC ASSESSMENT

- Q. Refer to the Staff's Second Request, Item 31. Cumberland Valley was asked if it normalized the PSC assessment and to explain its position as to whether the current PSC assessment rate should be normalized. Cumberland Valley's answer was not responsive to the original question. Provide the originally requested information.
- R. Cumberland Valley did not normalize the PSC assessment . Cumberland Valley agrees that the current PSC assessment rate should be used to normalize this expense.

RESPONSE TO THE THIRD DATA REQUEST OF THE COMMISSION STAFF

DIRECTORS FEES

- Q. Refer to the Application, Exhibit F, Schedule 13, part b, page 1 of 1, and the Staff's First Request, Item 34. Refer to item 34, page 2 of 10. The meeting \$400 while the NRECA Regional Meeting Expenses on Schedule 13 are \$300. Reconcile the difference.
- R. The amount listed in Exhibit F of the application is an error. It should have been \$400.00

RESPONSE TO THE THIRD DATA REQUEST OF THE COMMISSION STAFF

DIRECTOR'S FEES AND EXPENSES

- Q. Refer to the Staff's First Request, Item 34, page 6 of 10.
- a. Regarding the KAEC Director Training, explain why the meeting expenses were not included for rate-making purposes.
 - b. Is Cumberland Valley aware that normally the Commission has not allowed both a per diem and actual expense reimbursement for meetings such as KAEC, NRECA and other board meetings.
- R. a. These expenses were overlooked when the adjustment for director fees was being developed.
- b. Cumberland Valley is aware of the fact that the Commission had not allowed both the per diem and actual meeting expenses. However, Cumberland Valley has not understood the rationale that governs this determination. Meeting expenses are out of pocket expenses and seems proper and reasonable to reimburse the director for attending a meeting for Cooperative business. Furthermore, it seems reasonable and proper to compensate the director something for his time expended in the pursuit of Cooperative business. The director is giving up the opportunity to do something else with his time.

Cooperatives need well informed, competent and dedicated directors and will not be able to attract the type we want if we are prohibited from providing some compensation for the efforts they may be making for the Cooperative.

RESPONSE TO THE THIRD DATA REQUEST OF THE COMMISSION STAFF

BOARD EXPENSES FOR RATE-MAKING PURPOSES.

- Q. Refer to the AG's Initial Request, Item 30. The expenses associated with the NRECA Legislative Conference appear to be lobbying expenses. Explain why these expenses should be included for rate-making purposes.
- R. These expenses may appear on the surface to be lobbying expenses. However, they have been incurred for the purpose of educating the Cooperative Director's about the legislative process. Board members have a significant responsibility in the performance of their duties. More and more responsibility has been placed on boards of directors especially in light of recent legislation known as the Sarbanes Oxley Legislation. Well informed and educated board members are needed more than ever in this day and age in the light of recent debacles in the utility industry.

Rural electric cooperatives have been a very important happening for many of the rural areas of Kentucky. One which is very hard to gauge the overall significant impact if we attempted to measure it. Knowledge by rural electric cooperative directors about the means of keeping low cost funding available for the continued electrification of rural Kentucky is important to all. These expenses are appropriate ones for rate-making purposes because of their educational importance to CVE's board members.

RESPONSE TO THE THIRD REQUEST OF THE COMMISSION STAFF

EXPENSES FOR RATE-MAKING PURPOSES

- Q. Refer the AG's Initial Request, Item 33.j Explain why the expenses for "Picture Frames, board and offices" should be included for rate-making purposes.
- R. Cumberland Valley believes that these expenses are legitimate expenses for rate-making purposes. Such frames are used to display the pictures of former board members, to display notices or information of importance to employees and members and to provide for more aesthetically pleasing work environment.

RESPONSE TO THE THIRD DATA REQUEST OF THE COMMISSION STAFF

CATV ATTACHMENT RATES

- Q. Cumberland Valley has not proposed any changes to its cable television attachment ("CATV") tariffs. The final determination in this case may result in a change of Cumberland Valley's rate of return.
- a. Does Cumberland Valley believe that CATV tariffs should be amended to reflect the resulting rate of return in this case? Explain the response.
 - b. Calculate the CATV rates using the rate of return proposed in this case. Provide all supporting calculations and documentation.
- R. a. It was Cumberland Valley's intent to review the CATV attachment rates after the conclusion of this case to see if they needed to be amended. In that circumstance, a rate of return as a result of this case would be used in that development of the CATV attachment rates.
- b. The calculation of the CATV attachment rates using the rate of return on rate base requested in this application is contained in the next two pages.

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RESPONSE TO THE THIRD DATA REQUEST OF THE COMMISSION STAFF

**Cumberland Valley Electric, Inc.
CATV Pole Attachment Charges
PSC Administrative Case No. 251 Approach Using Rate Return Requested in Case No. 2005-00187
(Exhibit A)**

Annual Cost for Two-Party Poles

	<u>Quantity</u> <u>in Plant</u>	<u>Historical</u> <u>Embedded Cost</u>	<u>Avg Cost</u> <u>Per Pole</u>
35 Ft Poles:	9492	\$1,123,105.75	\$118.32
40 Ft Poles:	<u>16167</u>	<u>\$5,130,435.46</u>	<u>\$317.34</u>
Total:	25659	\$6,253,541.21	\$243.72

Note: All pole costs are obtained from Cumberland Valley Continuing Property Records (CPR) Account 364.00 for year ending December 31, 2004.

Weighted Avg Embedded Cost per Pole: \$243.72 for 35 Ft and 40 Ft poles

Annual 2-Party Cost per Attachment = (Wt. Avg. Embedded Cost per Pole x 0.85 Bare Pole Factor - \$12.50 per ground)
x Annual Carrying Charge x 0.1224 CATV Usage Factor for 1 Ft of 8.17 Ft Usable Space

Pole costs represent bare poles, i.e. all pole costs do not include costs for any appurtenances. If "Yes", check box:
Pole costs represent bare poles, i.e. all pole costs do not include costs for any pole ground. If "Yes", check box:

Annual 2-Party Cost per Attachment = (\$243.72 per pole x 1.00 Bare Pole Factor - \$0.00 per ground)
x 14.64% Annual Carrying Charge x 0.1224 CATV Usage Factor

Annual 2-Party Cost per Attachment = \$4.37 per Attachment

Annual Cost for Three-Party Poles

	<u>Quantity</u> <u>in Plant</u>	<u>Historical</u> <u>Embedded Cost</u>	<u>Avg Cost</u> <u>Per Pole</u>
40 Ft Poles:	16167	\$5,130,435.46	\$317.34
45 Ft Poles:	<u>4769</u>	<u>\$1,770,785.41</u>	<u>\$371.31</u>

Note: All pole costs are obtained from Cumberland Valley Continuing Property Records (CPR) Account 364.00

**CUMBERLAND VALLEY ELECTRIC, INC.
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RESPONSE TO THE THIRD DATA REQUEST OF THE COMMISSION STAFF

**Cumberland Valley Electric, Inc.
CATV Pole Attachment Charges
PSC Administrative Case No. 251
(Exhibit B)**

Fixed Charges Based on PSC Annual Report Dated December 31, 2004

1. Return on Rate Base:

Test Year Operating Income: \$0 (PSC Final Order on General Rate Increase, Case No. 2005-_____)
Net Operating Income Increase: \$0 (PSC Final Order on General Rate Increase, Case No. 2005-_____)
Approved Test Yr Oper. Income: \$0 (Sum of Test Year Operating Income and Approved Revenue Increase)

Approved Rate Base: \$0 (PSC Final Order on General Rate Increase, Case No. 2005-_____)

Approved Return on Rate Base = $\frac{\text{Approved Test Year Operating Income}}{\text{Approved Rate Base}} \times 100\% = \frac{\$0}{\$0} \times 100\% = 5.14\%$

Utility Plant (101-107, 114): \$61,879,710 (Balance Sheet, Ref Page 1 of Dec 31, 2004 PSC Annual Report)
Net Utility Plant: \$39,374,578 (Balance Sheet, Ref Page 1 of Dec 31, 2004 PSC Annual Report)

Ratio of Net Utility Plant/Total Utility Plant = (* $\frac{\text{Net Utility Plant}}{\text{Utility Plant (101-107, 114)}} \times 100\% = \frac{\$39,374,578}{\$61,879,710} \times 100\% = 63.63\%$
See reference below on past PSC orders.)

Adjusted Gross Rate of Return = 5.14% Approved Return on Rate Base x 63.63% Net/Total Plant Ratio = **3.27%**

2. Embedded Cost of Distribution O&M Expense

Total Distribution O&M Expense: \$2,939,031 (O&M Expenses, Ref Page 15 of Dec 31, 2004 PSC Annual Report)
Utility Plant (101-107, 114): \$61,879,710 (Balance Sheet, Ref Page 1 of Dec 31, 2004 PSC Annual Report)

Embedded Distribution O&M Expense = $\frac{\text{Total Distribution O\&M Expense}}{\text{Utility Plant (101-107, 114)}} \times 100\% = \frac{\$2,939,031}{\$61,879,710} \times 100\% = \span style="border: 1px solid black; padding: 2px;">**4.75%**$

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RESPONSE TO THE THIRD DATA REQUEST OF THE COMMISSION STAFF

3. Embedded Cost of Depreciation Expense

Depreciation Expense (403): \$2,012,606 (Statement of Income, Ref Page 13 of Dec 31, 2004 PSC Annual Report)
Utility Plant (101-107, 114): \$61,879,710 (Balance Sheet, Ref Page 1 of Dec 31, 2004 PSC Annual Report)

$$\text{Embedded Depreciation Expense} = \frac{\text{Depreciation Expense (403)}}{\text{Utility Plant (101-107, 114)}} \times 100\% = \frac{\$2,012,606}{\$61,879,710} \times 100\% = \boxed{3.25\%}$$

4. Embedded Cost of Administrative & General Expense

Total Admin & General Expense: \$1,097,455 (O&M Expenses, Ref Page 15 of Dec 31, 2004 PSC Annual Report)
Utility Plant (101-107, 114): \$61,879,710 (Balance Sheet, Ref Page 1 of Dec 31, 2004 PSC Annual Report)

$$\text{Embedded Admin \& General Expense} = \frac{\text{Total Admin \& Gen Expense}}{\text{Utility Plant (101-107, 114)}} \times 100\% = \frac{\$1,097,455}{\$61,879,710} \times 100\% = \boxed{1.77\%}$$

5. Embedded Cost of Customer-Related Expenses

Customer Accts Expense: \$958,114 (O&M Expenses, Ref Page 15 of Dec 31, 2004 PSC Annual Report)
Customer Svc & Info Expense: \$147,917 (O&M Expenses, Ref Page 15 of Dec 31, 2004 PSC Annual Report)
Total Customer Expenses: \$1,106,031
Utility Plant (101-107, 114): \$61,879,710 (Balance Sheet, Ref Page 1 of Dec 31, 2004 PSC Annual Report)

$$\text{Embedded Customer-Related Expense} = \frac{\text{Total Customer Expenses}}{\text{Utility Plant (101-107, 114)}} \times 100\% = \frac{\$1,106,031}{\$61,879,710} \times 100\% = \boxed{1.55\%}$$

6. Embedded Cost of Sales Expense

Total Sales Expense: \$0 (O&M Expenses, Ref Page 15 of Dec 31, 2004 PSC Annual Report)
Utility Plant (101-107, 114): \$61,879,710 (Balance Sheet, Ref Page 1 of Dec 31, 2004 PSC Annual Report)

$$\text{Embedded Sales Expense} = \frac{\text{Total Sales Expense}}{\text{Utility Plant (101-107, 114)}} \times 100\% = \frac{\$0}{\$61,879,710} \times 100\% = \boxed{0.00\%}$$

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RESPONSE TO THE THIRD DATA REQUEST OF THE COMMISSION STAFF

7. Embedded Cost of Tax Expense

Total Taxes - Other (408.1): \$30,111 (Taxes Other Than Income Taxes, Ref Page 16 of Dec 31, 2004 PSC Annual Report)
Utility Plant (101-107, 114): \$61,879,710 (Balance Sheet, Ref Page 1 of Dec 31, 2004 PSC Annual Report)

$$\text{Embedded Tax Expense} = \frac{\text{Total Taxes - Other (408.1)}}{\text{Utility Plant (101-107, 114)}} \times 100\% = \frac{\$30,111}{\$61,879,710} \times 100\% = \boxed{0.05\%}$$

Note: Property taxes are now capitalized into historical embedded cost of poles per RUS plant accounting changes.

8. Annual Carrying Charges (Sum of Embedded Costs Calculated in Items 1-7 Above): **14.64%**

* Represents net-to-gross ratio of utility plant adjustment to the approved rate of return based on year-end accumulated depreciation, pursuant to the 2/26/01 PSC Order in Case No. 2000-359, Application of Cumberland Valley Electric, Inc. to Adjust CATV Rates and the 2/24/05 PSC Order in Case No. 2004-00442, Application of Clark Energy Cooperative, Inc. to Adjust CATV Rates.