



INTER COUNTY
ENERGY COOPERATIVE

A Touchstone Energy Cooperative 

February 28, 2007

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PUBLIC SERVICE
COMMISSION

Ms. Beth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

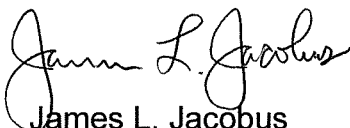
**Re: Case No. 2006-00415
Attorney General's Supplemental Requests for Information**

Dear Ms. O'Donnell:

Enclosed please find the original and ten copies of the responses to the Attorney General's Supplemental Requests for Information Initial Request for Information dated February 22, 2007.

If you have any questions, please do not hesitate to call.


Sincerely,



James L. Jacobus
President/CEO

- Copy To:
- 1) Attorney General
Utility & Rate Intervention Division
1024 Capital Center Drive
Frankfort, KY 40601
 - 2) Hon. James William Barnett
Attorney at Law
Sheehan, Barnett, Hays, Dean & Pennington, PSC
P. O. Box 1517
Danville, KY 40423-1517



A Touchstone Energy Cooperative 

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PUBLIC SERVICE
COMMISSION

CASE NO. 2006-00415

**Attorney General's
Supplemental Requests
for Information**

February 28, 2007



P. O. Box 87 • Danville, KY 40423-0087 • (859) 236-4561

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

INTER-COUNTY ENERGY
RECEIVED

FEB 26 2007

In the Matter of:

OFFICE OF PRESIDENT/CEO

APPLICATION OF INTER-COUNTY ENERGY)
COOPERATIVE CORPORATION FOR AN) CASE NO. 2006-00415
ADJUSTMENT OF RATES)

ATTORNEY GENERAL'S SUPPLEMENTAL REQUESTS FOR INFORMATION

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and submits this Supplemental Request for Information to Inter-County Energy Cooperative Corporation ["ICECC"], to be answered by the date specified in the Commission's Order of Procedure, and in accord with the following:

(1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.

(2) Please identify the witness who will be prepared to answer questions concerning each request.

(3) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.

(4) If any request appears confusing, please request clarification directly from the Office of Attorney General.

(5) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(6) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self evident to a person not familiar with the printout.

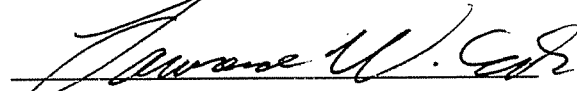
(7) If ICECC objects to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

(8) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(9) In the event any document called for has been destroyed or transferred beyond the control of the company, please state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

(10) Please provide written responses, together with any and all exhibits pertaining thereto, in one or more bound volumes, separately indexed and tabbed by each response.

Respectfully submitted,
GREGORY D. STUMBO
ATTORNEY GENERAL

A handwritten signature in black ink, appearing to read "Lawrence W. Cook", is written over a horizontal line.

DENNIS G. HOWARD, II
LAWRENCE W. COOK
ASSISTANT ATTORNEYS GENERAL
1024 CAPITAL CENTER DRIVE
SUITE 200
FRANKFORT KY 40601-8204
(502) 696-5453
FAX: (502) 573-8315

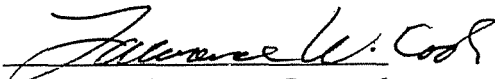
Certificate of Service and Filing

Counsel certifies that an original and ten photocopies of the Attorney General's Supplemental Requests For Information were served and filed by hand delivery to Beth O'Donnell, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; furthermore, it was served by mailing a true and correct copy of the same, first class postage prepaid, to:

Hon. James William Barnett
Attorney at Law
Sheehan, Barnett, Hays,
Dean & Pennington, P.S.C.
P.O. Box 1517
Danville, KY 40423-1517

James L. Jacobus
President/CEO
Inter-County Energy Cooperative
Corporation
P. O. Box 87
Danville, KY 40423-0087

all on this 22nd day of February, 2007.


Assistant Attorney General

Attorney General's Supplemental Requests For Information
Inter County Energy Cooperative Corporation ("ICECC")
Case No. 2006-00415

1. In its response to AG-1-2, ICECC states that "Since customer deposits have not been deducted from the rate base, the interest should not be deducted either." In this regard, please provide the following information:
 - a. Please clarify this statement with regard to the interest. Does ICECC, through this statement, mean to say that since the ratepayer supplied customer deposit balance is not reflected for ratemaking purposes (i.e., is not given recognition as a rate base deduction), the associated customer deposit interest should similarly not be reflected for ratemaking purposes (i.e., not be treated as an above-the-line ratemaking expense)?
 - b. If not, provide the rationale as to why "the interest should not be deducted either" and explain exactly how and from what this interest "should not be deducted."

2. In the response to AG-1-5, ICECC states that the EKPC loan represents funds advanced from EKPC to ICECC so that ICECC can lend these funds to its members to finance the installation of geothermal systems. In addition, the response states that ICECC charges its customers interest at a rate that is 1% higher than the interest rate paid by ICECC to EKPC. In this regard, please provide the following information:
 - a. The amount of interest received by ICECC during the test year from its members for the loans given by ICECC to its members for the installation of geothermal systems.
 - b. Where is this test year interest income reflected in the Statement of Operations on Exhibit S, page 2 and in Exhibit X?
 - c. The interest expense paid by ICECC during the test year to EKPC for the outstanding EKPC loan. Where is this test year interest income reflected in the Statement of Operations on Exhibit S, page 2 and in Exhibit X?
 - d. Please confirm that the interest received by ICECC from its members should more than offset the interest payments made by ICECC to EKPC due to the fact that the interest rate paid by the members to ICECC is 1% higher than the interest paid by ICECC to EKPC.

3. With regard to the response to AG-1-10, please provide the actual gains or losses on the disposition of general plant items (*exclusive of the large losses associated with the retirement of the existing headquarters shown on Exhibit 13*) that have been booked by ICECC for each of the years 2002, 2003, 2004, 2005 and 2006.

4. In AG-1-8c, ICECC was requested to show what the test year Statement of Operations on Exhibit S, page 2 would be if all non-utility revenues, expenses and taxes are removed. In this regard, please provide the following information:

Attorney General's Supplemental Requests For Information
Inter County Energy Cooperative Corporation ("ICECC")
Case No. 2006-00415

- a. The response to AG-1-8c, page 2 of 2 shows a reduction in Other electric revenues from \$1,127,643 to \$1,071,055. This is a revenue reduction of \$56,588 and would appear to represent the removal of the pro forma Non-Recurring revenue adjustment of \$56,588 shown on Exhibit S, page 3, adj. #14 and Exhibit #14. Explain why ICECC believes these revenues should be removed as part of the restatement of Exhibit S, page 2 to remove all non-utility revenues, expenses and taxes.
 - b. The response to AG-1-8c, page 2 of 2 shows an increase in Consumer Accounts expenses from \$1,588,540 to \$1,688,540. This is an expense increase of \$100,000. Please explain in detail what this \$100,000 expense increase represents and why ICECC believes these expenses should be increased as part of the restatement of Exhibit S, page 2 to remove all non-utility revenues, expenses and taxes.
 - c. The response to AG-1-8c, page 2 of 2 shows a decrease in Administrative and General expenses from \$1,501,315 to \$1,201,315. This is an expense decrease of \$300,000. Please explain in detail what this \$300,000 expense removal represents and why ICECC believes these expenses should be removed as part of the restatement of Exhibit S, page 2 to remove all non-utility revenues, expenses and taxes.
5. The test year fuel and environmental surcharge purchases on Exhibit 15, page 3 add to \$5,725,689. Why is there a difference between this amount and the test year fuel and environmental surcharge expense of \$5,321,946?
 6. With regard to the response to AG-1-24, please provide the following information:
 - a. The historic expense comparison for Account 583.00 shows "remaining expense" levels of around \$760,000 in 2003 and 2004, \$840,065 in 2005 and \$1,012,658 in the test year. Please explain the very large increase in the test year expense over the prior year and indicate as to whether the test year expense includes activities that are only performed infrequently.
 - b. The response to AG-1-24, page 2 for Account 593.20 states that ..."The cost for this program is estimated to equal out at the level of the last two years over a 5-year period." Please explain this statement in more detail and provide an example for clarification.
 7. With regard to the response to AG-1-23 (Acct. 921 – Office Supplies and Expenses), please provide a detailed description of the purpose of the following expense items and explain why the expense should be allowed for ratemaking purposes:
 - a. Check # 188432 for \$190.80 – Christmas cards.
 - b. Check # 188928 for \$206.70 – practice pointer subscription.

Attorney General's Supplemental Requests For Information
Inter County Energy Cooperative Corporation ("ICECC")
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- c. Check # 189232 for \$2,600 – affirmative action plan. In addition, explain whether or not this is an annually recurring expense.
 - d. Check # 189385 for \$1,200 – CEO Close Up seminar. In addition, explain whether or not this is an annually recurring expense.
 - e. Check # 187707 for \$1,181.22, # 189766 for \$1,454.86 and #190115 for \$1,197.49 – employee meeting expenses.
 - f. All other expense items with the description of “employee meeting expenses,” including those for check # 190273 and # 190713.
 - g. Check # 189536 for \$525 – CEO annual meeting registration.
8. With regard to the response to AG-1-23 (Account 926 – Employee Benefits), please provide a detailed description of the purpose of the following expense items and explain why the expense should be allowed for ratemaking purposes:
 - a. Check # 188097 – United Way breakfast
 - b. Check # 188756, # 189758 and # 190694 – coffee expenses
 - c. Check # 189153, 188827, 188855 and 190722 – all related to employee Christmas dinner and Christmas cards.
 - d. Check # 190445 – Employee picnic
9. As stated in the response to AG-1-20b, ICECC paid its previous attorney a retainer of \$4,800/year (\$400/month) and, on top of that, also paid the attorney's health insurance premiums. By contrast, ICECC does not pay the health insurance provisions for the new attorney, and “...therefore, the amount paid on a monthly basis to the new attorney is less than that paid to the previous attorney.” In this regard, please provide the following information:
 - a. What was the most recent annual amount of health insurance premium paid by ICECC for this previous attorney?
 - b. What was the total of the most recent annual retainer fees and the annual health insurance premium paid by ICECC for this previous attorney? (i.e., \$4,800 plus the annual health insurance premium expense to be provided in the response to part a above).
 - c. If there is a difference between the total expense for the prior attorney to be provided in the response to part c above and the annual retainer fee of \$7,200 for the new attorney, please provide an explanation for the difference and explain why the ratepayers should pay for this difference.
 - d. Is ICECC aware of the fact that the PSC has a well-established policy to disallow health insurance premium expenses paid by cooperatives to their respective attorneys?
 - e. Explain why the response to AG-1-20b states that ...”the amount paid on a monthly basis to the new attorney is less than that paid to the previous attorney.”

Attorney General's Supplemental Requests For Information
Inter County Energy Cooperative Corporation ("ICECC")
Case No. 2006-00415

10. With regard to the response to PSC-2-26, please provide the following information:
 - a. What are the actual test year PSC assessments and where in the filing schedules are these assessments reflected?
 - b. What would be the annualized/normalized PSC assessments based on the current PSC assessment rate? Please show all calculations and calculation components in support of this normalized assessment amount.

Inter County Energy
Case No. 2006-00415

Attorney General's Supplemental Request for Information

Item 1. Customer deposits and interest

Response

- a. Inter County believes that the method of reporting customer deposits and interest on customer deposits in its Application is the proper method.
- b. See response to Item 1. a. above.

Inter County Energy
Case No. 2006-00415

Attorney General's Supplemental Request for Information

Item 2. EKPC loans

Response

- a. Interest received on marketing loans for the test year was \$2,382.
- b. Exhibit S, page 2 of 2 of Application as Nonoperating margins, interest
Exhibit X, page 9 of 9, Account No. 419.00, Interest income
- c. Exhibit S, page 2 of 2 of Application as Interest expense, other
Exhibit X, page 8 of 9, Account No. 431.30, EKPC mkt loans
- d. Inter County does not advance loans from EKPC on a loan by loan basis. Several loans are accumulated, then funds are advanced from EKPC. The loans from customers may not equal the same length as the term of loan to EKPC. In addition, some customers pay the loan off early, which may not necessarily translate to paying the EKPC loan off early.

Even though Inter County charges its customers more than the interest to EKPC, the interest income may not be more than interest expense in a particular year.

Inter County Energy
Case No. 2006-00415

Attorney General's Supplemental Request for Information

Item 3. Gain (loss) on disposition of general plant items.

2002	(47,025)
2003	23,970
2004	29,799
2005	16,976
2006	(21,732)

Inter County Energy
Case No. 2006-00415

Attorney General's Supplemental Request for Information

Item 4. Non utility revenues and expenses

- a. Should not have been changed, see attached Exhibit S, page 2 of 4.
- b. Should not have been changed, see attached Exhibit S, page 2 of 4.
- c. Should not have been changed, see attached Exhibit S, page 2 of 4.

Inter County Energy
Case No. 2006-00415
Statement of Operations, Adjusted

Item AG-2-4a.
page 2 of 2
Witness: Alan Zumstein

	<u>Actual</u> <u>Test Year</u>	<u>Normalized</u> <u>Adjustments</u>	<u>Normalized</u> <u>Test Year</u>	<u>Proposed</u> <u>Increase</u>	<u>Proposed</u> <u>Test Year</u>
Operating Revenues:					
Base rates	\$29,916,024	\$0	\$29,916,024	\$3,969,956	\$33,885,980
Fuel and surcharge	5,613,034	(5,613,034)	0		0
Other electric revenue	932,487	195,156	1,127,643		1,127,643
	<u>36,461,545</u>	<u>(5,417,878)</u>	<u>31,043,667</u>	<u>3,969,956</u>	<u>35,013,623</u>
Operating Expenses:					
Cost of power:					
Base rates	20,376,310	0	20,376,310		20,376,310
Fuel and surcharge	5,321,946	(5,321,946)	0		0
Distribution - operations	1,953,258	105,303	2,058,561		2,058,561
Distribution - maintenance	1,389,892	19,550	1,409,442		1,409,442
Consumer accounts	1,535,071	53,469	1,588,540		1,588,540
Customer service	476,804	16,358	493,162		493,162
Sales	0	0	0		0
Administrative and general	1,650,631	(149,316)	1,501,315		1,501,315
Total operating expenses	<u>32,703,912</u>	<u>(5,276,582)</u>	<u>27,427,330</u>	<u>0</u>	<u>27,427,330</u>
Depreciation	2,540,379	103,064	2,643,443		2,643,443
Taxes - other	37,048	0	37,048		37,048
Interest on long-term debt	2,165,551	327,127	2,492,678		2,492,678
Interest expense - other	208,415	(180,415)	28,000		28,000
Other deductions	33,378	(33,378)	0		0
Total cost of electric service	<u>37,688,683</u>	<u>(5,060,184)</u>	<u>32,628,499</u>	<u>0</u>	<u>32,628,499</u>
Utility operating margins	<u>(1,227,138)</u>	<u>(357,694)</u>	<u>(1,584,832)</u>	<u>3,969,956</u>	<u>2,385,124</u>
Nonoperating margins, interest	72,921	0	72,921		72,921
Nonoperating margins, other	(289,026)	255,246	(33,780)		(33,780)
Patronage Capital Credits:					
G & T		0	0		0
Other	68,413	0	68,413		68,413
Net Margins	<u>(\$1,374,830)</u>	<u>(\$102,448)</u>	<u>(\$1,477,278)</u>	<u>\$3,969,956</u>	<u>\$2,492,678</u>
TIER	0.37		0.41		2.00

Inter County Energy
Case No. 2006-00415

Attorney General's Supplemental Request for Information

Item 5. Test year fuel and environmental surcharge.

Response

Exhibit 15, Page 3 of 3	
Fuel adjustment	3,594,302
Environmental surcharge	<u>2,131,387</u>
	5,725,689
Exhibit W, Page 8 of 13	
Account No. 186.90, Defer fuel adjustment	195,377
Account No. 186.100, Environmental surcharge	<u>208,366</u>
	<u><u>5,321,946</u></u>

Starting January 1, 2006, Inter County elected to try to more closely match power costs, which include fuel adjustment and environmental surcharge, to revenues billed to its consumers. The current month amounts from the power bill are recorded in these deferred accounts, then reversed the next month as amounts are billed to consumers. There is a one month lag from the expense on the power bill to the time the amounts are billed to consumers. The account numbers 186.90 and 186.100 are from the July 2006 EKPC power bill.

Inter County Energy
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Attorney General's Supplemental Request for Information

Item 6. Operations and maintenance accounts

Response

- a. Increases due to increase in property taxes, employee benefits, based on labor distribution, and increases in metals, fuels and other costs for repairs and maintenance of the electric plant. There are no activities that are only performed infrequently, or are of nonrecurring nature.
- b. Inter County will continue to test poles at the same level as the test year for at least the next five years. The expense for the test year will remain at about the same number of poles treated, and cost, for the next five years.

Inter County Energy
Case No. 2006-00415

Attorney General's Supplemental Request for Information

Item 7. Office supplies and expenses

- a. Christmas cards. This was an oversight, and should have been removed for rate making purposes.
- b. Practice pointer subscription. This is for employee training programs, which benefit the cooperative and its members.
- c. Affirmative action plan. Inter County Energy, a federal contractor, as defined in 41 CFR 60-1.3, who employs more than 50 employees and has \$50,000.00 or more in federal contracts/subcontracts, is required under 41 CFR 60-2.1 to develop a written affirmative action program and update it annually. As a federal contractor, we are subject to the nondiscrimination and affirmative action obligations of Executive Order 11246, as amended, with its implementing regulations.
- d. CEO Close up seminar. There are seminars for employees and CEO's on an annual basis. The CEO is responsible for overseeing the entire cooperative, therefore, the CEO will continue to attend seminars, especially for CEO's.
- e. Employee meeting expenses. Employees attend meetings and seminars that relate to their specific area. The engineer attends engineering meetings, the accountant attends accounting meetings, the consumer accounting employee attends meetings for consumer accounting, and so forth. Inter County Energy encourages its employees to be knowledgeable about the electric industry, both in the state of Kentucky and issues on a national scope.
- f. Same as e. above.
- g. CEO annual meeting registration. The CEO attends the NRECA annual meeting on an annual basis. It is the responsibility of the CEO to be aware of issues that effect the electric industry. The NRECA annual meeting is one of the ways this is accomplished.

Inter County Energy
Case No. 2006-00415

Attorney General's Supplemental Request for Information

Item 8. Employee benefits.

Response

- a. United Way breakfast. Should have been excluded.
- b. Coffee expenses. Inter County provides coffee for its employees. It is the opinion that this assists employees in performing their daily tasks.
- c. Christmas dinner and cards. Should have been removed.
- d. Employee picnic. Should have been removed.

Inter County Energy
Case No. 2006-00415

Attorney General's Supplemental Request for Information

Item 9. Attorney expenses

Response

- a. The month health insurance premium was \$867.44, or annually of \$10,409.28.
- b.
- | | |
|------------------|-------------------------|
| Retainer | 4,800.00 |
| Health insurance | <u>10,409.28</u> |
| Total | <u><u>15,209.28</u></u> |
- c. The previous attorney retired after more than 30 years of service. Inter County informally contacted several attorneys, and received lukewarm responses. The current attorney took the position since he was with the same firm as the previous attorney. This is also at a reduced rate, since the attorney actually attends each monthly meeting, which lasts approximately 4 hours. With the travel time and the time attending the meetings, the \$600 monthly retainer is considered reasonable.
- d. Yes. Inter County has removed the health insurance premiums paid to its attorney during the test year.
- e. The annual amount paid to the previous attorney amounted to \$15,209, the amount paid for the current attorney will amount to \$7,200.

Inter County Energy
Case No. 2006-00415

Attorney General's Supplemental Request for Information

Item 10. PSC assessment

a. Exhibit S, page 2 of 4, Taxes, other.

b.	2005	Operating revenues	34,637,170
		Cost of power, one-half	
			24,176,063
			<u>12,088,032</u>
			22,549,139
		PSC assessment	32,450
		Rate	0.1439%
Test year		Operating revenues	35,013,623
		Proposed increase	<u>3,991,675</u>
			39,005,298
		Cost of power, one-half	
			24,176,063
			<u>12,088,032</u>
			22,925,592
		Rate from above	0.1439%
		Normalized PSC assessment	32,992
		Test year assessment	<u>32,450</u>
		Adjustment	<u><u>542</u></u>