

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NOLIN RURAL ELECTRIC )  
COOPERATIVE CORPORATION FOR AN ) CASE NO.  
ADJUSTMENT OF RATES ) 2006-00466

SECOND DATA REQUEST OF COMMISSION STAFF TO  
NOLIN RURAL ELECTRIC COOPERATIVE CORPORATION

Nolin Rural Electric Cooperative Corporation ("Nolin") is requested, pursuant to 807 KAR 5:001, to file with the Commission the original and seven copies of the following information, with a copy to all parties of record. The information requested herein is due on or before May 11, 2007. Each copy of the data requested should be placed in a bound volume with each item tabbed. Responses to requests for information shall be appropriately indexed, for example, Item 1(a), Sheet 2 of 6, and shall include the name of the witness responsible for responding to the questions related to the information provided. Each response shall be under oath or accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity. The person signing the response shall acknowledge that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry. A party shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which a party refuses to furnish all or part of the requested information that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond. Careful attention should be

given to copied material to ensure that it is legible. Where information requested herein has been provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. Refer to the Application, Exhibit C.

a. On page 1 of Exhibit C, Nolin proposes an increase only for the customer charge component of Schedule 3 – Large Power Rate. Explain why the increase for Schedule 3 is limited to only the customer charge.

b. Does Nolin propose any text changes in its tariffs from the tariffs that are currently in effect?

c. If yes to part (b) above, provide a side-by-side comparison of the current tariff language and the proposed tariff language. Include only the tariffs for which text changes are proposed.

2. Refer to the Application, Exhibit D. Nolin proposes a 50 percent increase in its Schedule 6 street lighting rates.

a. Explain whether Nolin believes the requested increase in Schedule 6 rates is consistent with the principle of gradualism that has been used by regulatory agencies to limit the amount of increase that can be assessed at one time to a particular rate class.

b. Explain whether Nolin has received any inquiries or complaints concerning the magnitude of the increase proposed for its Schedule 6 lighting rates.

3. Refer to the Application, Exhibit H-1, the Testimony of Michael L. Miller, pages 3 and 4 of 5.

a. Provide a detailed description of the two projects at Fort Knox. Include in the description the terms and conditions of the agreements governing the projects. In addition, summarize the rights and obligations or responsibilities of Nolin under these agreements.

b. Does Nolin consider the Fort Knox projects to be utility operations or non-utility operations? Explain the response.

c. Provide a detailed description of the financing for the Fort Knox projects. Include all terms and conditions associated with the financing.

d. For each of the Fort Knox projects,

(1) Provide the test-year-end balance of any assets recorded on Nolin's books associated with the projects. Include the applicable account number.

(2) Provide the test-year-end balance of all debt incurred by Nolin to finance the project. Include the balance of any unadvanced loans as of test-year end. Indicate how any debt associated with the projects is shown on Nolin's balance sheet.

(3) Provide the revenues and expenses associated with the project that are reflected in the test year. List the applicable revenues and expenses by account number.

e. Describe the status of the "aggressive and comprehensive capital credit payment program" referenced on page 4 of 5 as of April 30, 2007.

f. Describe the purpose and function of the contingency fund referenced on page 4 of 5.

4. Refer to the Application, Exhibit H-2, the Testimony of O. V. Sparks ("Sparks Testimony"), page 3 of 4.

a. Explain how the Operating Times Interest Earned Ratio ("OTIER") is determined. Contrast the determination of the OTIER with the Times Interest Earned Ratio ("TIER") used to determine Nolin's revenue requirements.

b. Provide excerpts from Nolin's mortgage agreements that discuss the minimum TIER, OTIER, and Debt Service Coverage requirements.

c. Mr. Sparks states at line 63, "With the full amount of this rate increase, Nolin would have an OTIER of 1.0345X which is less than the agreements with its lenders."

(1) Explain the basis for this conclusion. Include any study or analysis that supports the conclusion.

(2) What revenue increase would be required to meet the minimum mortgage requirements for OTIER? Include all calculations and assumptions used to determine this amount of increase.

(3) Explain in detail why Nolin has allowed its financial condition to deteriorate to the extent that a \$2,934,263 increase, or 6.6 percent, will not enable it to meet minimum mortgage requirements.

(4) Explain in detail why Nolin did not seek an increase sufficient to meet the minimum mortgage requirements.

5. Refer to the Application, Exhibit J.

a. Provide electronic Excel versions of the spreadsheets included in Exhibit J on CD-ROM or diskette, with all formula intact.

b. Refer to page 8 of 10. Explain why Schedule 4, Rate 11, is the only schedule in Exhibit J in which rates are normalized for Case No. 2004-00478.<sup>1</sup>

c. Refer to pages 9 and 10 of 10. Explain why the environmental surcharge is not included in the revenues for security and street lights.

6. Refer to the Application, Exhibit K, pages 6 and 7 of 7.

a. Provide an updated version of these schedules including the results for calendar year 2006.

b. Provide the same information as shown on lines 11 through 23 on page 6 of 7 for the OTIER. Include the information for calendar year 2006.

7. Refer to the Application, Exhibit N.

a. What is the status of the independent audit for the 12-month period ending December 31, 2006? If available, provide copies of the independent auditor's report for December 31, 2006.

b. Refer to page 12. Has Nolin secured the Commission's approval of the notes Nolin has issued to KVNet, Inc. ("KVN")?

(1) If yes, provide the case numbers of Nolin's application for note approval.

(2) If no, explain in detail why Nolin has not sought Commission approval of the notes, given the provisions of KRS 278.300.

c. Refer to page 14. Provide a schedule of the services provided by KVN to Nolin during calendar years 2004, 2005, and 2006 as well as during the test

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<sup>1</sup> Case No. 2004-00478, An Examination of the Application of the Fuel Adjustment Clause of Nolin Rural Electric Cooperative Corporation from November 1, 2002 to October 31, 2004.

year. The schedule should include a detailed description of the service provided and the cost of that service.

d. Describe how KVN prices the services it provides to Nolin. In addition, explain how Nolin has determined that these services are being provided to it at the best available cost.

8. Refer to the Application, Exhibit P, the 2004 and 2005 Annual Reports. Indicate where in these reports Nolin specifically disclosed to its members that the net losses from KVN were \$29,784 in 2004 and \$106,399 in 2005.

9. Refer to the Application, Exhibit R, Nolin's Unbundled Cost of Service Study.

a. Explain whether the methodology used in preparing the study is the same basic methodology used in preparing the cost of service study for Case No. 2006-00415.<sup>2</sup> If differences exist in the methodologies used in the two cases, identify the differences and explain why the methodologies are different.

b. Provide electronic Excel versions of the spreadsheets included in Exhibit R on CD-ROM or diskette, with formula intact.

10. Refer to the Application, Exhibit U. Explain why Nolin has not made a general retirement of capital credits since 2000. Specifically address why general retirements were not made in 2002 and 2004, given the achieved TIERs shown in Exhibit K, page 6 of 7.

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<sup>2</sup> Case No. 2006-00415, Application of Inter-County Energy Cooperative for an Adjustment of Rates.

11. Refer to the Application, Exhibit W. For each income statement account listed below, describe the reason(s) for the change in the total account balance between the test-year end and the prior year.

- a. Account No. 410.00 – Miscellaneous Ft. Knox, page 1 of 9.
- b. Account No. 555.00 – Total Purchase Power, page 1 of 9.
- c. Account No. 588.00 – Miscellaneous Distribution, page 2 of 9.
- d. Account No. 593.00 – Maintenance of Overhead Line, page 3 of 9.
- e. Account No. 920.00 – Administrative Salaries, page 5 of 9.
- f. Account No. 921.00 – Office Supplies and Expenses, page 5 of 9.
- g. Account No. 427.10 – RUS Interest, page 6 of 9.
- h. Account No. 427.20 – CFC Interest, page 6 of 9.
- i. Account No. 427.30 – FFB Interest, page 7 of 9.
- j. Account No. 419.00 – Interest Income, page 7 of 9.
- k. Account No. 415.10 – Revenue from Ft. Knox, page 8 of 9.
- l. Account No. 415.12 – Revenue from Ft. Knox, page 8 of 9.
- m. Account No. 421.10 – Gain on Disposal of Property, page 9 of 9.
- n. Account No. 424.10 – Patronage Capital – Other, page 9 of 9.

12. Refer to the Application, Exhibit X. For each balance sheet account listed below, describe the reason(s) for the change in the account balance between test-year end and the prior year.

- a. Account No. 369 – Services, page 1 of 14.
- b. Account No. 108.6 – Reserve – Distribution Plant, page 3 of 14.
- c. Account No. 131.13 – Cash – General Funds, page 6 of 14.

- d. Account No. 131.18 – Cash – Internet, page 7 of 14.
- e. Account No. 143.00 – Other Receivables, page 7 of 14.
- f. Account No. 219.10 – Current Year Margins, page 10 of 14.
- g. Account No. 232.1 – Accounts Payable – General, page 11 of 14.
- h. Account No. 237.20 – Accrued Interest – CFC, page 12 of 14.

13. Refer to the Application, Exhibit 1.

a. Page 1 of 9 shows the wage and salary increases during the test year could reflect a grade adjustment, a market adjustment, and a merit adjustment. Explain in detail how the amount of each adjustment was determined for 2006. Include all workpapers, calculations, assumptions, analyses, studies, and any other documentation that supports each adjustment percentage.

b. The payroll adjustments contained in recent rate increase applications from electric distribution cooperatives show the wage and salary increase during the test year has ranged between 3.0 and 3.5 percent. Explain why Nolin's total increase during 2006 of 6.35 percent is reasonable.

c. Refer to pages 3 through 5 of 9.

(1) Explain the purpose of the "Dispatch" category of wages. Include in the explanation a discussion of how employees qualify for this type of pay and how the pay rate is determined. Also, explain why it is reasonable to use the test-year level of dispatch hours in the wage and salary normalization calculations.

(2) During the test year, hourly employee numbers 229, 198, and 141 worked a level of hours significantly below the standard year of 2,080 hours.



Explain why it is reasonable to use 2,080 hours for these three employees when normalizing the wages and salaries.

(3) Does the normalization of wages and salaries shown on these pages assume all employees will receive a merit adjustment of 2.0 percent?

Explain the response.

d. Refer to pages 7 through 9 of 9.

(1) Explain why the percentage increase in salaries for the salaried employees reflecting the wage rates as of January 1, 2007 are all significantly higher than the 6.35 percent total increase referenced on page 1 of 9. Include a separate explanation for each salaried employee of the reason(s) for the level of increase.

(2) Provide an analysis by year of the salaried employees' wages reflecting the wage rates as of January 1 for 2003 through 2007. The analysis should reflect individual employee numbers and include a calculation of the percentage change for each year shown.

(3) Refer to the Sparks Testimony, page 2 of 4. Mr. Sparks states that the margins and TIER of Nolin have been deteriorating for the past few years. Given this statement, explain how Nolin can justify authorizing total wage and salary increases of 6.35 percent and increases to salaried employees of between 9.23 percent and 19.17 percent.

(4) For all employees shown on these pages, other than new hires during the test year, indicate the number of years of employment at Nolin as of test-year end.

(5) Explain the reason(s) for the percentage change in wages between January 1, 2006 and January 1, 2007 for hourly employee numbers 18, 251, 213, 28, 248, 190, 130, 123, 235, 110, and 89.

(6) On page 1 of 9 Nolin provided a breakdown of the total wage increase for 2006 between grade, market, and merit adjustments. A review of the hourly employee percentage increase in wage rates between January 1, 2006 and January 1, 2007 reveals percentages other than all the possible combinations of the grade, market, and merit adjustments. Explain why the percentage increases for hourly employees do not more closely match the 2006 wage increase information provided on page 1 of 9.

(7) Describe the approval process for the wage rates effective January 1, 2007. Include copies of any analyses or studies submitted to management or the board of directors in support of the proposed increases.

e. Provide copies of the latest wage and salary study Nolin performed or had performed. If the study was performed prior to 2003, explain why Nolin has not had a more recent study performed.

14. Refer to the Application, Exhibit 5.

a. The normalization of interest expense on long-term debt is shown on page 2 of 4. For each loan, indicate whether the interest rate is fixed or variable as of August 31, 2006.

b. Provide an update of the current interest rates for long-term debt through April 30, 2007. If the interest rate option, fixed versus variable, has changed

from what is stated in the response to part (a) above, indicate the applicable change in interest rate option.

c. Refer to page 4 of 4. Provide a schedule showing the ending balance of short-term debt as of the end of each month since the end of the test year through April 30, 2007. Include the applicable interest rate as of the end of each month.

15. Refer to the Application, Exhibit 7.

a. Provide documentation supporting the statement that the 2007 rate for the pension fund will be 19.43 percent.

b. Explain the classification "Employees Quasi retired" as it is used in this exhibit.

16. Refer to the Application, Exhibit 9.

a. Does Nolin have written policies concerning the compensation of its attorneys, auditors, and all other professional service providers?

(1) If yes, provide copies of these written policies, as was requested in the Commission Staff's First Data Request dated December 4, 2006 ("Staff's First Request"), Item 17.

(2) If there are no written policies, explain in detail why Nolin does not have written policies.

b. Refer to page 1 of 4. Explain in detail why expenses for legal seminars, workplace law seminars, legal and cooperative subscriptions, and a legal reporting service subscription should be included for rate-making purposes, given the attorney is compensated by a retainer.

c. Refer to page 1 of 4. For each of the following transactions, explain if the transaction is recurring and why it should be included for rate-making purposes.

- (1) Line 12 – Engineer contract, loan application.
- (2) Lines 14 and 43 – Operation roundup, meter tampering, identity theft, and human rights.
- (3) Lines 15, 21, 23, 32, 47, and 51 – EEOC cases.
- (4) Lines 25 and 28 – Radcliff office issues.
- (5) Line 22 – CFC loan, PSC filings, identity theft.
- (6) Line 31 – Mulligan complaint.
- (7) Lines 35, 48, and 52 – Various filings, correspondence, various complaints, damages, and loan documents.

d. Refer to page 3 of 4. For each of the transactions listed below, provide a more detailed description of the services provided. In addition, indicate whether Nolin is reimbursed for the expense. If the expense is not reimbursed, explain why the expense should be included for rate-making purposes.

- (1) Lines 68 through 77 – Envision Energy – energy efficiency services.
- (2) Lines 80 through 82 – GWH Engineering – GPS engineering services and GPS Fort Knox.
- (3) Lines 88 through 93 – Preston Osborne – manager column in Kentucky Living magazine.

17. Refer to the Application, Exhibit 10.

a. Refer to page 2 of 15. Identify Nolin's delegate and alternative delegate to the National Rural Electric Cooperation Association ("NRECA").

b. Refer to pages 4 through 15 of 15. Explain the nature and purpose of the following meetings attended by many of the directors. Include a detailed explanation of why each should be included for rate-making purposes. Provide copies of any meeting materials or agendas provided to the attendees.

- (1) NRECA Regional meeting.
- (2) Strategic Issues Conference.
- (3) NRECA Annual meeting.
- (4) Kentucky Association of Electric Cooperatives ("KAEC")

Annual meeting.

- (5) Employee Assistance Program.
- (6) KAEC Director Training.
- (7) NRECA Director Training.

c. Refer to page 4 of 15. Explain why the Other Board Meeting fee for the KAEC Annual Meeting was included for rate-making purposes for this director.

18. Refer to the Application, Exhibit 11, pages 2, 4, 5, and 6 of 11.

a. Identify the transactions shown on pages 4 through 6 of 11 that make up the Institutional Advertising balance of \$3,500 shown on page 2 of 11.

b. Given the provisions of 807 KAR 5:016, Section 4, explain why the advertising identified by Nolin as "Institutional" should be included for rate-making purposes.

c. For each of the transactions listed below, provide copies of the printed advertisement or copies of the text of the radio advertisement.

- (1) Page 4 of 11, line 32 – News Enterprise.
- (2) Page 4 of 11, line 46 – Transwestern Publishing.
- (3) Page 5 of 11, line 72 – KOOL 103.5.
- (4) Page 5 of 11, line 103 – Big Cat 105.5.
- (5) Page 6 of 11, line 124 – Hardin Co. Independent.

19. Refer to the Application, Exhibit 11, pages 7 through 10 of 11. For each of the transactions listed below, provide an expanded description of the transaction, indicate if the transaction is recurring, and why the transaction should be included for rate-making purposes.

- a. Page 7 of 11, line 21 – NRECA conference registration.
- b. Page 7 of 11, line 26; and page 8 of 11, line 96 – MAC meeting and meal.
- c. Page 7 of 11, line 27 – Kitchen appliances.
- d. Page 7 of 11, line 47 – Management Quarterly magazine.
- e. Page 7 of 11, line 49 – NRECA Annual meeting.
- f. Page 7 of 11, line 51 – NRECA Committee meeting.
- g. Page 7 of 11, line 52; page 9 of 11, line 155; and page 10 of 11, lines 160 and 161 – NRECA Benefits conference.
- h. Page 8 of 11, lines 67 and 68 – KAEC annual meeting meals.
- i. Page 8 of 11, line 73; and page 9 of 11, line 132 – NRECA meeting.

- j. Page 8 of 11, lines 77 and 78 – Electric Coop Today magazine.
  - k. Page 8 of 11, lines 84 and 85 – Rural Electric magazine and magazine subscriptions.
  - l. Page 8 of 11, line 89 – National economic development dues.
  - m. Page 8 of 11, lines 92 and 99; and page 9 of 11, line 113 – NRECA Tech Advantage seminar and fee.
  - n. Page 8 of 11, line 100; and page 9 of 11, line 128 – NRECA NET conference.
  - o. Page 8 of 11, lines 101 through 103; page 9 of 11, lines 116, 152, and 158; and page 10 of 11, line 176 – NRECA conference.
  - p. Page 9 of 11, lines 112, 122, and 150; and page 10 of 11, lines 171 and 172 – NRECA Connect conference.
  - q. Page 9 of 11, line 117 – NRECA employee meeting.
  - r. Page 9 of 11, line 139 – NRECA board meeting.
  - s. Page 10 of 11, line 177 – NRECA Finance Conference.
20. Refer to the Application, Exhibit 11, page 11 of 11.
- a. The total annual meeting expenses shown on this page and page 3 of 11 are \$94,911.05. On page 10 of 11 it is stated that annual meeting expenses were \$109,908.68. Explain the difference in these amounts and indicate which reflects the correct level of expense for the annual meeting.
  - b. Explain the purpose of providing employee shirts in conjunction with the annual meeting. Indicate how long Nolin has been providing these shirts and explain why this expense should be included for rate-making purposes.

21. Refer to the Application, Exhibit 13. Provide a detailed schedule listing by account number all revenues and expenses that resulted in the \$106,724 expense balance for KVN during the test year.

22. Refer to the Application, Exhibit 15.

a. Reconcile the total shown for the fuel adjustment charge with the fuel adjustment clause monthly filings submitted to the Commission.

b. Reconcile the total shown for the environmental charge with the environmental surcharge pass through monthly filings submitted to the Commission.

23. Refer to the Application, Exhibit 16. Nolin provided an end of test year customer adjustment, but the adjustment is not reflected in its billing analysis provided in Exhibit J of the Application.

a. Explain why Nolin omitted the effect of the year-end customer adjustment in its billing analysis.

b. Provide a recalculated Schedule J billing analysis which includes the effect of the end of test year customer adjustment shown in Exhibit 16 of the Application.

24. Explain whether Nolin considered adjusting any of its non-recurring charges when preparing its application for this case. If Nolin considered adjusting its non-recurring charges, include in the explanation why it decided not to adjust them at this time.

25. Concerning the PSC Assessment:

a. Did Nolin include an adjustment to normalize the PSC Assessment?



b. Would Nolin agree that the normalization should be included and should reflect the current PSC Assessment rate? Explain the response.

26. Refer to the response to the Staff's First Request, Item 16. Nolin was requested to provide its equity management plan, to indicate when the current plan was adopted, and to identify any changes made in the plan since the year utilized as the test year in Nolin's last rate case. While Nolin responded that the information was included as Exhibit U of the Application, the requested information does not appear to have been provided. Provide the originally requested information.

27. Refer to the response to the Staff's First Request, Item 36(a). Nolin was requested to provide a detailed schedule of costs incurred to date for this rate case. The schedule was to include the date of the transaction, check number or other document reference, the vendor, amount, a description of the services performed, and the account number in which the expenditure was recorded. In addition, Nolin was to identify any costs incurred for this case during the test year and include copies of invoices received from the vendors. The only information provided in the response to Item 36(a) was an indication of the account number where rate case expenses were recorded. Provide the originally requested information, updated through April 30, 2007.

28. Refer to the responses to the Staff's First Request, Items 48 through 50.

a. Refer to Item 48(e). Concerning the annual compensation charged to KVN:

(1) Explain how Nolin determined that a monthly allocation of \$120 from board fees was reasonable.

(2) Indicate the amount of Mr. Miller's compensation that was allocated to KVN. If none of Mr. Miller's compensation was allocated to KVN, explain in detail the reason(s) why there was no allocation.

b. Refer to Item 49. Indicate the last calendar year when KVN reported a net income.

c. The schedule of net losses from KVN in Item 49 for 2004 and 2005 does not agree with the financial statements presented in Exhibit N, pages 18 and 19. Provide a corrected response to Item 49 for all years listed.

d. Has Nolin annually reported to its members the nature of KVN's business, the KVN financial status, and the future expectations Nolin has for KVN?

(1) If yes, provide copies of this annual report for calendar years 2005 and 2006.

(2) If no, explain in detail why this information has not been provided to Nolin's members.

e. Has Nolin developed a business plan for KVN? If yes, provide copies of the business plan.



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

DATED April 27, 2007

cc: All Parties

Case No. 2006-00466