

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

THIRD 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 June 19, 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, for representatives of a public or private corporation, a partnership, an association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Nolin shall make timely amendment to any prior response if it obtains information upon the basis of which it knows that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which

Nolin fails to furnish all or part of the requested information, Nolin shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure its legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be provided for total company operations and jurisdictional operations, separately.

1. Refer to the response to the Commission Staff's Second Data Request dated April 27, 2007 ("Staff's Second Request"), Item 2(b). Nolin states that it has received an inquiry in regard to the proposed increase in Schedule 6 – Street Lighting from the city of Radcliff.

a. Explain how the city of Radcliff communicated the inquiry. If the inquiry was written, or by e-mail, provide a copy of the inquiry.

b. Explain whether Nolin has responded to the inquiry. If the response was written, or by e-mail, provide a copy of the response. If the response was verbal, briefly summarize the response.

c. Provide copies of any subsequent communication between Nolin and the city of Radcliff following Nolin's response. If the communication was verbal, provide a summary of any and all communications.

2. Refer to the response to the Staff's Second Data Request, Item 3.

a. In the response to Item 3(b), Nolin states that it considers the Fort Knox privatization project to be part of its utility operations. Provide an expanded discussion of why Nolin believes this project should be considered part of its utility

operations. This discussion should address the fact that the majority of the Fort Knox installation is not part of Nolin's defined service territory.

b. Refer to the response to Item 3(d)(1). Provide the test-year actual depreciation expense and property tax expense associated with the assets related to the Fort Knox privatization project. In addition, indicate the portion of the proposed adjustments to depreciation expense and property tax expense associated with the Fort Knox privatization project.

c. Refer to the response to Item 3(f). Would Nolin agree that, regardless of the balance in the contingency fund, all other provisions of Nolin's Rural Utilities Service ("RUS") mortgage agreement would have to be met before an actual payment of capital credits could occur? Explain the response.

3. Refer to the response to the Staff's Second Request, Item 4(c). If Nolin failed to achieve the minimum Operating Times Interest Earned Ratio ("OTIER"), would this trigger a default under the provisions of the RUS mortgage agreement? Explain the response.

4. Refer to the response to the Staff's Second Request, Item 6. Nolin was requested to provide an updated version of Exhibit K of the Application, pages 6 and 7 of 7. Nolin was also requested to provide the calculation of the OTIER in a manner similar to the information presented on page 6 of 7. Nolin submitted an updated version of pages 3 and 4 of 7 from Exhibit K and did not provide the calculation of the OTIER. Provide all of the originally requested information.

5. Refer to the response to the Staff's Second Request, Item 7.

a. Item 7(d) requested a description of how KVNNet, Inc. ("KVN") prices the services it provides to Nolin. In addition, Nolin was requested to explain how it determined that the services from KVN were being provided at the best available cost. The response only addressed the provision of one service from KVN, a six mega-byte connection for Nolin's headquarters. Provide all of the originally requested information.

b. Refer to page 14 of the 2006 independent auditor's report and the response to the Attorney General's Initial Data Request dated April 20, 2007, Item 3. Explain in detail the lease of Nolin-owned land to a member of the board of directors. At a minimum include:

- (1) A description of the property.
- (2) A description of how Nolin had previously utilized the property.
- (3) A discussion of why Nolin decided to lease the property to others.
- (4) A discussion of how Nolin determined who would be "interested parties."
- (5) Copies of the request for bids and copies of the bid tabulation.
- (6) The date the lease was executed.
- (7) Copies of the lease.
- (8) A discussion of the involvement of the director in the entire process, from the date Nolin considered leasing the land to the finalization of the lease.

6. Refer to the Application, Exhibit P, the 2005 Annual Report, and the response to the Staff's Second Request, Item 8.

a. Was the 2005 Annual Report, as shown in Exhibit P, provided to members before the June 9, 2006 meeting or as members arrived and registered for that meeting?

b. The last page of the 2005 Annual Report presents financial results for 2005. Would Nolin agree that there is no specific disclosure in those financial results that KVN experienced a net loss of \$106,723 in 2005?

c. Indicate when pages 1 and 2 of 4 in the response to Item 8 were provided to the members.

d. Would Nolin agree that the minutes of the June 9, 2006 annual meeting, while noting the relationship with Fort Knox, did not mention the situation with KVN?

7. Refer to the response to the Staff's Second Request, Item 13.

a. In Item 13(a), Nolin was requested to explain how the amount of a grade adjustment, a market adjustment, and a merit adjustment were determined for 2006. Nolin was requested to provide all workpapers, calculations, assumptions, analyses, studies, and other documentation that supported each adjustment. The response to Item 13(a) presents the analysis utilized to determine the grade adjustment and market adjustment of the wage and salary increase. However, it is not readily apparent from the analysis that the grade adjustment should be 0.23 percent and the market adjustment should be 4.12 percent for 2006. The analysis also does not show

how Nolin determined the merit adjustment of 2.00 percent. Provide the originally requested information concerning the adjustment values.

b. In the response to Item 13(a), page 1 of 11, Nolin states that approximately every 5 years an outside consultant reviews the wage and salary plan. Provide the following information concerning the most recent review by an outside consultant:

(1) The date the outside consultant review was performed and the name of the outside consultant.

(2) Copies of the outside consultant's written reports or evaluations presented to management or the board of directors concerning the wage and salary plan.

(3) If written reports or evaluations were not submitted, summarize any oral presentations the outside consultant made to management or the board of directors concerning his review.

(4) Identify any changes made in the wage and salary plan as a result of the outside consultant's review.

c. Refer to the response to Item 13(c)(2). Nolin states that it is not reasonable to use 2,080 hours for employee numbers 229 and 141, but did not explain why this approach was not reasonable. Provide the omitted explanation.

d. In Item 13(d)(4), the request was to provide the number of years of employment at Nolin as of test-year-end for all employees, other than new hires during the test year, shown in Exhibit 1 of the Application, pages 7 through 9 of 9. Nolin did not provide this information. Provide the originally requested information.

e. In Item 13(d)(7), Nolin was requested to describe the approval process for the wage rates effective January 1, 2007. Nolin was to include copies of any analyses or studies submitted to management or the board of directors in support of the proposed increases. The requested information does not appear to have been submitted with the response. Provide the originally requested information.

8. Refer to the response to the Staff's Second Request, Item 13, the six-page revision to Exhibit 1 of the Application. When compared to the originally filed Exhibit 1, the revised Exhibit 1 pages reflect changes in the wage rate effective January 1, 2007 for nine salaried employees and 17 hourly employees.

a. Explain in detail the reason(s) why the January 1, 2007 wage rates for 26 employees shown in Exhibit 1 have been revised.

b. Provide copies of any board resolutions or other documentation that establishes which set of wage rates accurately reflects the rates in effect January 1, 2007.

c. In Exhibit 1 of the Application, page 1 of 9, Nolin provided a breakdown of the total wage increase for 2006 between grade, market, and merit adjustments. The last three pages of the revised Exhibit 1 include the percentage increases in wages between January 1, 2006 and January 1, 2007. A review of this data reveals that the majority of the wage increase percentages differ from all the possible combinations of the grade, market, and merit adjustments. Explain why the percentage increases for employees do not more closely match the 2006 wage increase information provided on the original Exhibit 1, page 1 of 9.

9. Refer to the response to the Staff's Second Request, Item 13. Utilizing the normalized wages and salaries presented in the revised Exhibit 1, provide revisions to the following proposed adjustments and previous data responses. Include all workpapers, calculations, and other documentation that support the revised items.

- a. Exhibit 1 of the Application, pages 1 and 2 of 9.
- b. Exhibit 2 of the Application, all pages.
- c. Exhibit 7 of the Application.
- d. Response to the Commission Staff's First Data Request dated December 4, 2006 ("Staff's First Request"), Item 29.

10. Refer to the response to the Staff's Second Request, Item 16(c).

a. Based on its responses to Items 16(c)(3) and 16(c)(4), would Nolin agree that \$3,892 should be excluded for rate-making purposes, since the expenses were of a non-recurring nature? Explain the response.

b. For all other responses to Item 16(c), provide the originally requested explanation of why the expense should be included for rate-making purposes.

11. Refer to the response to the Staff's Second Request, Item 17.

a. The program agenda provided for the National Rural Electric Cooperative Association Regional meeting was for the fall 2006 meetings. The expense in the test year was for meetings in the fall of 2005. Provide copies of the applicable agenda.

b. Explain why Nolin did not provide agendas or meeting materials associated with the Strategic Issues Conference and the Kentucky Association of Electric Cooperatives Annual Meeting.

c. The response to Item 17(b)(5) states that the Employee Assistance Program is a benefit to the directors. However, the materials Nolin provided for this program clearly state the program is paid for by employers.

(1) Does Nolin contend that its directors are employees?

(2) Explain in detail the benefit to the directors of their involvement with a program that specializes in personal counseling.

12. Refer to the response to the Staff's Second Request, Item 18.

a. Explain in detail why Nolin classified newspaper advertisements explaining the fuel adjustment and environmental clauses and an electrical safety advertisement as institutional advertising.

b. The response to Item 18 failed to include the information requested in Item 18(b). Provide the originally requested information.

c. The text of the advertisement with Transwestern Publishing was not provided in the response. Provide the originally requested information.

13. Refer to the response to the Staff's Second Request, Item 19.

a. Based on its responses to Items 19(c) and 19(q), would Nolin agree that \$2,176 should be excluded for rate-making purposes, since the expenses were of a non-recurring nature? Explain the response.

b. For all other responses to Item 19, provide the originally requested explanation of why the expense should be included for rate-making purposes.

14. Refer to the Application, Exhibit 11, and the response to the Staff's Second Request, Item 20(a). Pages 3 and 11 of 11 in Exhibit 11 state that the test-year annual meeting expenses were \$94,911.05. However, on page 10 of 11 it is stated that the test-year annual meeting expenses were \$109,908.68. Nolin was requested in Item 20(a) to explain the difference in the amounts and indicate which reflected the correct level of expenses for the annual meeting. Nolin's response stated that the \$109,908.68 was the amount of expenses that were allocated during the year. The response does not adequately explain a \$14,997.63 difference in the reported test-year annual meeting expenses. Provide the originally requested information.

15. Refer to the response to the Staff's Second Request, Item 22. The requested information for Item 22(b) was not provided. Provide the originally requested information.

16. Refer to the response to the Staff's Second Request, Item 23. Nolin provided a version of Schedule J which includes an end of test-year customer adjustment, but failed to carry through the resultant effects of the adjustment upon the proposed individual rates for Rate Classes 1, 2, 3, and 4. Provide a revised Schedule J that shows the impact of the end of test-year customer adjustment upon the rates of the affected classes.

17. Refer to the response to the Staff's Second Request, Item 26.

a. Has Nolin reviewed and evaluated the adequacy of its equity management plan since its adoption in June 2000? Explain the response.

b. Nolin Board Policy 307.0 appears to only address the allocation and retirement of patronage capital. Explain why Nolin believes such a policy adequately constitutes an equity management plan.

c. Would Nolin agree that a comprehensive equity management plan would include the components listed below? Explain the responses.

(1) Establishes certain financial goals.

(2) Requires the development of a long-range financial plan, which would be updated periodically.

(3) Requires the development of a capital credit rotation program.

(4) Requires an annual financial study and review of the equity and capital management performance.

18. Refer to the response to the Staff's Second Request, Item 27. Provide the invoices associated with the rate case expenses, as were previously requested in the Staff's First Request, Item 36(a) and the Staff's Second Request, Item 27.

19. Refer to the response to the Staff's Second Request, Items 28(d) and 28(e).

a. The response to Item 28(d) states that Nolin provides a summary of KVN operations in the materials that are passed out to members at the annual meeting and that copies were attached. However, the attachment with this response is titled "Business Plan" and only reflected KVN's situation through 2002. The response to Item 28(e) appears to indicate a business plan for KVN is currently being developed. Clarify

the responses to Items 28(d) and 28(e) and provide the originally requested information if not previously provided.

b. Indicate when Nolin expects Central Associated Engineers to complete its review of the operations of KVN and develop a plan of action for the future of KVN.

20. Provide the following information concerning Nolin's association with TransWorld Network Corp. ("TransWorld") and the Affinity Long Distance Program ("Affinity"):

a. Indicate when Nolin partnered with TransWorld. If prior to or during the test year, provide references to the applicable data responses that discuss the partnership with TransWorld.

b. Provide a description of the partnership with TransWorld. Include a discussion of the services provided by TransWorld and Affinity, the initial and all subsequent investments by Nolin into TransWorld and Affinity, and any revenues received or expenses incurred by Nolin during the test year and the 6 months after test-year-end.



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

DATED June 5, 2007

cc: All Parties