

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF OWEN ELECTRIC )  
COOPERATIVE, INC. FOR ADJUSTMENT OF ) CASE NO.  
RATES ) 2008-00154

SECOND DATA REQUEST OF COMMISSION STAFF  
TO OWEN ELECTRIC COOPERATIVE INC.

Owen Electric Cooperative, Inc. ("Owen"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 7 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before October 17, 2008. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or 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.

Owen shall make timely amendment to any prior responses 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

Owen fails or refuses to furnish all or part of the requested information, it 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 that it is legible. 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 separately provided for total company operations and jurisdictional operations.

1. Refer to Exhibit B of the application, pages 28 and 29 of 61. Should these pages have the heading of "Schedule XIII" rather than "Schedule XII?"

2. Owen's current tariff includes rates for which no revenues are shown on Exhibit J. For each rate listed below, state whether any customers were charged the rate in 2007. If so, update Exhibit J and all other applicable schedules to include the information.

- a. Schedule VIII – Large Industrial Rate LPC1
- b. Schedule IX – Large Industrial Rate LPC2
- c. Schedule X – Large Industrial Rate LPC1-A
- d. Schedule XII – Large Industrial Rate LPB1-A
- e. Schedule 1-B-Farm & Home -- Time of Day
- f. Schedule 1-C-Small Commercial – Time of Day
- g. Schedule III SOLS – Special Outdoor Lighting Service

3. Refer to the direct testimony of James R. Adkins ("Adkins Testimony") at Exhibit H-4, page 4 of 7. Mr. Adkins states that the largest percentage increases were

given to the outdoor lighting rate classes. Explain how it was determined that the outdoor lighting classes should receive the largest increases.

4. Refer to Exhibit I of the application. Explain why the percentage increase was calculated by dividing the "Increase Amount" by the "Proposed Rate" rather than dividing it by the "Existing Rate."

5. Refer to Exhibit J of the application at page 7 of 14. This schedule shows a rate of \$3.60 labeled as "interruptible credit." Explain this item and state how the rate shown and resulting credit were calculated.

6. Refer to Exhibit J of the application at page 10 of 14. Explain how the Proposed Revenue was calculated for the first three items on this schedule as follows: Existing pole, One pole added, and Two poles added.

7. Refer to Exhibit J of the application at page 13 of 14. Explain why this page does not include the rate used to calculate the revenues.

8. Refer to Exhibit N of the application at page 15 of 23. Regarding the pension plan sponsored by the National Rural Electric Cooperative Association, it is stated that, "[s]ubsequent to April 2005, there is no requirement for employees to contribute to this plan." Explain why this change was made and what effect this change has had on Owen's expense related to this plan.

9. Refer to Exhibit N of the application at page 17 of 23. It is stated that, as of December 31, 2007, Owen had deposits in institutions that exceeded the insured maximum by \$1,128,938. Given the bank failures that have occurred in the past several months, state what plans Owen has to safeguard this "at risk" amount or explain why it is not necessary to do so.

10. Provide a copy of Exhibits J and R electronically on CD-ROM in Microsoft Excel format with all formulas intact and unprotected.

11. Refer to Exhibit R of the application. State whether the methodology used for this cost-of-service study is different from that used in previous cases involving other East Kentucky Power Cooperative, Inc. distribution cooperatives and, if so, explain the differences.

12. Refer to Exhibit R of the application, Schedule 1, page 7 of 55. At the bottom of the page, under Schedule 2, "Revenue Required from Energy" is shown at \$3,524,991. Explain how this amount was calculated.

13. Refer to Exhibit R of the application, Schedule 4, page 13 of 55. Explain how the \$5,219,936 shown as Distribution Consumer Services expense for the Farm and Home class was calculated. If a correction is necessary, please file a copy of all schedules that would require updating as a result.

14. Refer to Exhibit R of the application, Schedule 6, pages 29 and 32 of 55.

a. For accounts 580 – 589 and the line Total Operations, the logic for allocating these accounts appears to be circular. It appears that the "Dist Oper" allocation factor is derived from numbers in the Total Operations line, which themselves are the sum of accounts 580 - 589. However, accounts 580 and 588 are also allocated using the "Dist Oper" allocation factor. Explain the circularity of this methodology.

b. A similar argument also applies to accounts 590 – 598 and the line Total Distribution Maintenance. Explain the circularity of this methodology.

c. Explain where in the cost-of-service study the allocation factors for accounts 582, 583, 584, 593 and 594 are derived.

d. Explain whether there were any operational expenses related to poles and transformers during the test year and, if so, where those expenses appear in the cost-of-service study.

e. Explain where the allocator for account 589 Rents is derived.

15. Refer to Exhibit R, Schedule 6, pages 30 and 33 of 55.

a. Explain whether accounts 920 – 935 are allocated using the “Dist Plant” allocation factor.

b. The allocation factor for “Total Admin & General” is listed as “Dist Plant,” but on Schedule 8, page 37 of 55, the allocation factor appears to be “Total General Plant.” Which allocation factor should be used on Schedule 6?

16. Refer to Exhibit R of the application, Schedule 6, page 31 of 55. Explain why Forfeited Discounts and Miscellaneous Service Revenues are allocated based on Rate Base rather than direct assignment.

17. Refer to Exhibit R of the application, Schedule 8, page 37 of 55.

a. Explain why the allocation factor for account 367 Underground Conductor appears to be the same allocation factor derived on Schedule 9, page 40 of 55, which is a combination of investment in both Overhead Conductor and Poles.

b. Explain why the allocation factor for account 364 Poles, Towers and Fixtures does not seem to match the allocation factor derived on Schedule 9, page 38 of 55.

c. Explain what the number “187,857,581” appearing in the \$\$\$\$ column represents.

d. Explain the rationale for and what allocation factor is used for “Accumulated Depreciation.”

e. Explain the derivation of the allocation factor for “Total General Plant.”

18. Refer to Exhibit R, Schedule 9, page 38 of 55. Were the 28-foot aluminum and fiberglass poles included in the regression? If not, explain why not.

19. Refer to Exhibit R, Schedule 9, page 39 of 55. Provide an explanation for the size of the overhead conductor that is currently being installed.

20. Refer to Exhibit R, Schedule 9, pages 40-41 of 55.

a. Provide an explanation of which transformers are currently being installed.

b. On page 40 of 55 in the “Size” column, there are three sets of transformers ranging in size from 7.5 kVa to 50 kVa which have corresponding values in the “Predicted Value” column. Explain whether the three sets of transformers were the only sizes used in the regression and whether the correspondingly sized transformers were summed together for use in the regression.

21. Refer to Exhibit R, Schedule 10, pages 42-47 of 55.

a. Explain how and where the rate class percentages on pages 42–45 of 55 are used in the cost-of-service study. On Schedule 5, page 21 of 55, lines 2 and 3, the allocation factors do not appear to match any allocation factor in Schedule 10.

b. On page 47 of 55 for the Total column, explain how the Transformers number was derived and how the resulting percentages derived from Class monthly peak demands are used.

c. Explain how Rate Class CP and Monthly Peak Demands are derived.

22. Refer to Exhibit R of the application, Schedule 11, pages 48-51 of 55.

a. Explain the differences in Number of Customers shown on these pages.

b. Explain how the Relative Cost was determined on pages 49-51.

23. Refer to Exhibit R of the application, Schedule 11, pages 53-55. Explain how the "Factor" column on these pages was determined.

24. Refer to Exhibit S of the application, which shows the amount of the proposed increase based on attaining a Times Interest Earned Ratio ("TIER") of 2.0X.

a. Describe the methodology employed by Owen in determining that 2.0X was the appropriate TIER on which to base its requested rate increase.

b. Is Owen aware of any studies performed by Rural Utilities Service or the National Rural Utilities Cooperative Finance Corporation ("CFC") on the subject of the appropriate TIER level for an electric distributive cooperative? If yes, identify the studies and when they were performed.

c. Owen's request in this case for a 2.0X TIER would produce net margins of roughly \$4.3 million. For each of the 5 calendar years immediately preceding the 2007 test year, provide the approximate net margins that would have been realized if Owen had achieved a TIER of 2.0X.

25. Refer to Exhibit X of the application, which provides a comparison of income statement account levels for the test period and the 12 months immediately preceding the test period.

a. Page 2 of 9 shows that Account 580.00, Operations Supervision, decreased from \$405,818 in 2006 to \$199,788 in 2007. Provide a detailed explanation for why this expense decreased by this magnitude.

b. Page 2 of 9 shows that Account 584.00, Underground Line Expense, increased from \$278,932 in 2006 to \$449,924 in 2007. Provide a detailed explanation for why this expense increased by this magnitude.

c. Page 2 of 9 shows that Account 586.00, Meter Expense, increased from \$290,168 in 2006 to \$522,168 in 2007. Provide a detailed explanation for why this expense increased by this magnitude.

d. Page 3 of 9 shows that Account 588.10, IT, decreased from \$4,24,578 in 2006 to \$138,834 in 2007. Provide a detailed explanation for why this expense decreased by this magnitude.

e. Page 3 of 9 shows that Account 590.00, Maintenance Supervision and Engineering, decreased from \$267,115 in 2006 to \$66,532 in 2007. Provide a detailed explanation for why this expense decreased by this magnitude.

f. Page 4 of 9 shows that Account 901.00, Supervision, increased from \$86,672 in 2006 to \$145,212 in 2007. Provide a detailed explanation for why this expense increased by this magnitude.

g. Page 6 of 9 shows that Account 926.00, Employee Pensions and Benefits, increased from \$57,303 in 2006 to \$142,947 in 2007. Provide a detailed explanation for why this expense increased by this magnitude.



h. Page 6 of 9 shows that Account 403.60, Distribution Depreciation, increased from \$6,747,678 in 2006 to \$8,992,599 in 2007. Provide a detailed explanation for why this expense increased by this magnitude.

i. Page 6 of 9 shows that total depreciation in 2007 was \$9,656,698, but page 2 of Exhibit 3 of the application states that test year depreciation was \$10,118,271. Provide a detailed explanation for the discrepancy between the two reported depreciation expenses.

26. On page 1 of 8 of Exhibit 1, Owen states that its union employees are granted wage increases in August of each year. The wage increase for the union employees for 2008 is 3.5 percent. Provide all employment contracts between Owen and its union employees that are currently in effect and the most recent contracts previously in effect.

27. Listed on the "Employee Earnings and Hours" schedule contained on pages 3-6 of Exhibit 1 is a column entitled "performance bonus."

a. Provide a detailed description of the performance bonus, including the criteria used in granting the bonus and in determining the amount each employee receives.

b. Provide copies of any written policy Owen has regarding the performance bonuses.

28. Refer to Exhibit 3 of the application.

a. On page 1 of 6, Owen states that the depreciation study completed on December 31, 1995 will be updated when its meters are replaced with the

Automated Meter Information (“AMI”) technology. Provide the projected date the depreciation study will be completed and submitted to the Commission.

b. On page 1 of 6, Owen states that, as a result of the implementation of the AMI system, the old meters were retired in 2007 and \$1,500,000 has been removed from the proposed depreciation expense through the normalization process. Provide a schedule showing how the \$1,500,000 was eliminated from pro forma operations and the amounts that Owen uses to offset the decrease.

c. Provide the time line for the installation of the AMI meters, a comparison of the project costs that have been incurred to date to the projected costs, and the total projected cost of the AMI project.

d. On page 2 of 6, there is a schedule comparing the normalized depreciation with the test year expense. Provide the account detail for test year depreciation expense for the distribution plant that totals \$8,992,599.

e. On page 2 of 6, Owen proposes a depreciation rate of 6.67 percent for AMI-associated capital costs. Provide a narrative description, along with any related workpapers, spreadsheets, etc., that show how Owen’s AMI depreciation rate was derived.

29. Refer to Exhibit 4, page 6 of 6, of the application, Analysis of Other Operating Taxes. The item shown on lines 15-19 is identified as the Public Service Company assessment. Provide a detailed description of this tax.

30. Refer to Exhibit 5 of the application.

a. Explain how it was determined that the proposed revenue increase would be sufficient to allow Owen to repay approximately one-half of the short-term note payable.

b. Page 2 of 3 is a schedule of Owen's outstanding long-term debt. Identify each of the long-term debt issuances that has a variable interest rate, explain the basis for changing the variable rate, and state how often the rate can be modified during the year.

c. For those long-term debt issuances identified in 30(b), provide a schedule showing the effective interest rates for the 2-year period from January 1, 2006 through December 31, 2007.

d. There are approximately 4 CFC loans that have maturity dates ranging from August 2005 through August 2008.<sup>1</sup> Given that these loans have matured, explain why Owen has included the interest associated with these loans in its calculation of annualized interest.

e. Provide an update of the schedule on pages 2 and 3 that reflects the current interest rates for long-term debt applied to the long-term debt balances as of the end of the proposed test year.

31. Refer to Exhibit 7 of the application.

a. In calculating its proposed retirement and security expense, Owen uses normalized base wages of \$7,172,880; however, Owen calculates projected

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<sup>1</sup> CFC Loan #9031005; CFC Loan #9031006; CFC Loan #9031007; and CFC Loan #9031008.

wages of \$8,277,749 on Exhibit 1. Provide a detailed explanation for the discrepancy between the wages listed on the two exhibits.

b. Owen lists the contribution rates for the non-union and union employees, but uses a different rate in calculating its adjustment. Provide the basis for the rate used by Owen in its calculation.

32. Refer to Exhibit 9 of the application

a. Owen identifies Execuquest as a "Professional Recruiter" and reports paying them \$6,250 during the test period. Describe the nature of the services provided by Execuquest and explain whether Owen considers this to be a normal, recurring expense.

b. Describe the nature of the expenditure of \$4,779 for "Architectural design" paid to CDS Associates and explain how this expenditure benefits Owen's customers.

c. Describe the nature of the expenditure of \$2,905 for "Emergency tabletop exercise" paid to Coop Consulting Group and explain how this expenditure benefits Owen's customers.

d. Describe the nature of the expenditure of \$5,215 for "Ky Wins Job Evaluation" paid to KCTS and explain how this expenditure benefits Owen's customers.

e. During the test period, Owen paid \$23,996 to NRECA for "AMR Consulting fees." Describe the nature of the expenditure and explain why it was expensed rather than capitalized as overhead cost for the AMI project.

33. Refer to Exhibit 11 of the application.

a. Owen states that the annual meeting and general advertising costs have been eliminated which would be a decrease to operating expenses of \$26,493. However, Owen shows the elimination as an increase of \$6,279 on Exhibit S, page 3 of 4. Provide a detailed explanation.

b. On page 2 of 9, there is a payment of \$10,000 to Kentucky Speedway for a billboard of general information. Provide a detailed description or a picture of the billboard and explain why this cost should be included for rate-making purposes.

c. On page 3 of 9, there is a payment of \$4,800 to KAEC for a Washington youth tour. Provide a complete description of the tour and explain why this cost should be included for rate-making purposes.

34. Refer to Exhibit 12 of the application at page 1 of 6. At the bottom of the page, under "Other Direct Costs," explain why it is appropriate to divide the annual cost per employee by 1,786 hours rather than 2,080 hours.

35. Refer to Exhibit 12 of the application at page 2 of 6. Given that the hourly rate used to calculate the "Direct Labor Charge" for nonrecurring costs consists of both the 85.87% actual hours worked and 14.13% non-working hours (as calculated by Owen on page 1), explain why it is appropriate to also include in the calculation of non-recurring charge expense the "Direct Wage Expense" which is calculated using the 14.13% non-working hours.

36. Refer to Exhibit 12 of the application, at pages 5-6 of 6. On page 5, under "Labor for Overtime Charges," Owen seems to indicate that no extra mileage is required for a service trip during regular working hours because of coordination with other jobs,

but that mileage would be required for service trips after hours. However, in calculating its mileage expense, Owen has included mileage of 15 miles during regular working hours and 30 for after-hours service calls. Given that on page 6 Owen estimates the average service trip to be 15 miles, why would it not be more appropriate to include 15 miles for mileage regardless of when the service call occurs?

37. Refer to Exhibit 13 of the application.

a. Given that the last time Owen filed a rate case was in 1982, explain the rationale for the 3-year amortization period.

b. Owen estimates the expenses associated with this rate case. On a monthly basis, beginning with May 2008, provide the amount of Owen's actual rate case expenses, by category, as done with the estimate.

38. Refer to Exhibit 14 of the application at page 4 of 4.

a. Reconcile the amounts listed in the second column labeled "Fuel Adjustment" under "Sales" with the amounts filed with the Commission by Owen in its fuel adjustment clause ("FAC") filings.

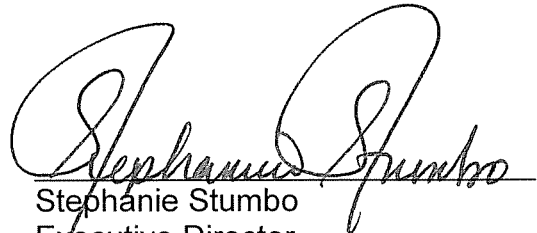
b. Explain why the \$609,273 shown as July "Fuel Adjustment" under "Purchases" does not reconcile to Owen's FAC filed with the Commission in July 2007, Line 13.a.

39. Refer to Exhibit 16 of the application at page 1 of 1.

a. Explain why the 55,952,448 Test Year Base Revenue shown for the Farm and Home class does not reconcile with Exhibit J, page 1 of 14.

b. Explain why the Total Billings of \$2,858 for Schedule II Large Power and \$83 for Schedule XI Large Industrial Rate do not reconcile to Exhibit J, pages 5 and 6, respectively.

40. Refer to Exhibit 19 of the application at page 1 of 1. Explain the circumstances under which it was necessary to capitalize Benefits Distribution into Account 143 AR, Other, and Account 426, Donations.



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DATED: October 2, 2008

cc: Parties of Record