

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF TAYLOR COUNTY)	
RURAL ELECTRIC COOPERATIVE)	CASE NO.
CORPORATION FOR AN)	2012-00023
ADJUSTMENT OF RATES)	

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION TO
TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION

Taylor County Rural Electric Cooperative Corporation ("Taylor County"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before November 1, 2012. 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.

Taylor County 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 Taylor County 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.

1. Refer to the response to Item 2 of Commission Staff's Second Request for Information ("Staff's Second Request"). Confirm that the response indicates that Taylor County incurs After Hours costs when performing a Service Investigation as set out in Exhibit 15 of the application. If this cannot be confirmed, explain what is meant by the response. If this can be confirmed, state whether Taylor County requests that the After Hours Service Investigation charge be increased to \$90.00.

2. Refer to the response to Item 3 of Staff's Second Request. Confirm that the response indicates that Taylor County incurs After Hours costs when performing a Termination or Field Collection as set out in Exhibit 15 of the application. If this cannot be confirmed, explain what is meant by the response. If this is can be confirmed, state whether Taylor County requests that the After Hours Termination or Field Collection charge be increased to \$90.00.

3. Refer to the response to Item 5 of Staff's Second Request

a. Refer to page 2. Does this exhibit indicate that the fuel adjustment clause ("FAC") under/over-recovery amount was zero at November 2004? If yes, given

that the under/over-recovery amount is a rolling amount, explain how the amount could be zero.

b. Refer to pages 2–4. Confirm that the “FAC Cost” column represents the FAC amount billed from Taylor County’s wholesale supplier, East Kentucky Power Cooperative, Inc. (“EKPC”), unadjusted for any over- or under-recoveries.

4. Refer to the response to Item 10 of Staff’s Second Request.

a. The file on the compact disc containing Exhibit R, the cost-of-service study (“COSS”), cannot be accessed. Provide an electronic copy of the COSS that is accessible.

b. In addition to filing a copy of the COSS as filed in the application, provide an electronic copy of the COSS with corrections made for errors addressed in Taylor County’s response to Items 15, 17, 20, and 25 of Staff’s Second Request (if applicable, based on Taylor County’s response to Item 9 of this request).

5. Refer to the response to Item 11 of Staff’s Second Request.

a. For the “Actual Test Year” column, explain the change in Net Rate Base from \$52,751,340, as filed in the application, to \$52,572,340, as filed in this response.

b. For the “Adjusted Test Year” column, explain the change in Net Rate Base from \$52,325,723, as filed in the application, to \$52,323,723, as filed in this response.

6. Refer to the response to Items 14 and 15 of Staff’s Second Request. The revised table provided in response to Item 15 shows a Total Investment of \$15,062,263

for Account 365, Conductors. The response to Item 14 states that this amount represents the value of all items in Account 365. Explain why the investment amount used in the table should not be \$7,840,221 which, according to the response to Item 14, represents the value of overhead conductors only.

7. Refer to the response to Item 19 of Staff's Second Request. The response states that the amounts on pages 35 and 36 of Exhibit R include margins. Page 29 of Exhibit R shows the Total Margin Requirement to be \$952,574.

a. Provide a breakdown of how the \$952,574 is allocated to each rate class.

b. Explain how the allocation to each rate class was calculated.

8. Refer to the response to Item 21.b. of Staff's Second Request.

a. The response states that "[t]he customer charge for these rate classes does include some of the cost associated with substation costs of the wholesale supplier." Provide the basis for this statement.

b. Taylor County's proposal for the FAC under/over-recovery aside, would Taylor County be supportive of lowering the customer and/or energy charges and increasing the demand charges for the General Power 2, Large Industrial B1, and Large Industrial C1 rate classes based on the COSS, if it was done on a revenue neutral basis?

9. Refer to the response to Item 25.a. of Staff's Second Request. Taylor County was asked why metering and substation charges were omitted from the schedule on page 48 of Exhibit R. The response states that "[t]he metering and substation costs have been summed with the wholesale demand costs as part of the

demand costs” Explain how metering and substation costs are included in the \$7,301,322, shown on page 48 of Exhibit R, when page 36 of Exhibit R shows that, in addition to the \$7,301,322 of Purchased Power Demand costs, there were \$548,753 of metering and substation costs incurred.

10. Refer to the response to Item 27.a. of Staff’s Second Request. Fully explain where on Exhibit V the explanation for the decrease of \$2,121,771 in Account 136.00 from 2010 to the 2011 test period is located. Describe the nature of the transactions recorded in this account.

11. Refer to the response to Item 29 of Staff’s Second Request. Page 1 of Exhibit 1 of the application states that employees are granted wage rate increases on November 1 of each year. Confirm that the 12/1/11 wage rates used in Exhibit 1 were granted as of November 1, 2011.

12. Refer to the response to Item 30 to Staff’s Second Request.

a. Provide a copy of Taylor County’s request to Rural Utility Service (“RUS”) for approval of those depreciation rates that are outside the RUS ranges. When does Taylor County expect a response from RUS regarding this request?

b. Explain the factors unique to Taylor County that cause its depreciation rates for Accounts 362, 367, 369, 370, 371, and 373 to be higher than the RUS range for distribution plant accounts and the depreciation rate for Account 366 to be lower than the RUS range for distribution plant accounts.

c. Explain how past major ice and wind storms have been accounted for in Taylor County accounting records.

d. Explain what impacts past major ice and wind storms have had in increasing depreciation rates for the distribution plant accounts.

e. The response to Item 30.g. of Staff's Second Request infers that Taylor County's depreciation reserve ratio nearly doubled from 1996 to 2011 because its composite depreciation rate increased from 2.4 to 3.0 percent in 1986. A review of Taylor County's annual reports filed with the Commission reveal that its reserve ratio steadily declined from 1986 to 1996, before increasing as referenced in Item 30.g. Explain why this decline occurred after an increase in depreciation rates or whether something other than the 1986 increase in the composite was responsible for this 10-year decline followed by a 15-year increase in Taylor County's reserve ratio.

13. Refer to the response to Item 33.c. of Staff's Second Request which deals with the proposed adjustment for postretirement benefits.

a. The response states that Taylor County "failed to make the necessary increase in accrual" called for in the previous actuarial valuation in 2009.

(1) Confirm that, had Taylor County made "the necessary increase in accrual," the proposed adjustment would be only \$231,730 instead of the \$342,622 included in Exhibit 6 of the application.

(2) The accrual called for in the 2012 actuarial valuation is \$565,522, an increase of \$231,730, or 67.6 percent, over the accrual called for in the prior 2009 valuation. Identify and describe the factors causing an increase of this magnitude.

(3) Taylor County provided the previous study which was dated January 17, 2009. How often are the actuarial studies performed?

b. The seventh page in the 2009 actuarial valuation, attached to the data response, shows estimated payments for the years 2009 through 2013. Provide Taylor County's actual payments for the years 2009 through 2011, and for the first nine months of 2012.

c. The expected pay-as-you-go expense in the 2009 valuation was \$217,434, as compared to \$375,537 in the 2012 valuation. Explain why a change of this magnitude would occur over a period of three years.

14. Refer to the response to Item 34.a. of Staff's Second Request.

a. Explain why the enrollment shown on the renewal summaries does not agree with the number of participants that Taylor County shows on Exhibit 8.

b. Explain what each renewal summary represents and why there are different rates and enrollments.

15. Refer to the response to Item 37.a. of Staff's Second Request.

a. In its response to Item 35.b., Taylor County stated that the reference "VOUCHER COMM" should be listed as other board meetings, but did not revise Mr. Bardin's expenses to change the \$1,200 in per diem payments to other board meetings. Is that what Taylor County intended? If not, provide corrected schedules as necessary.

b. Refer to revised page 11 provided in response to Item 35.d.

(1) Explain the reference to "DOM LIABILITY INSURANCE" and explain why it should be included for ratemaking purposes.

(2) Explain why this line item increased from \$27,648.18 in the application to \$29,089.98 in this response.

16. Refer to the response to Item 37.a. of Staff's Second Request. Fully describe the services provided by Gurnsey & Associates and whether they continue to provide these services. Provide a copy of any contract or other agreement Taylor County entered into with Gurnsey & Associates.

17. Refer to the response to Items 37.b. and 37.d. of Staff's Second Request.

a. Provide a detailed narrative or documentation describing fully the agenda and the nature of the topics covered at the CEO Conference and how it benefits Taylor County to attend.

b. Provide a detailed schedule of all expenses related to Taylor County's attendance at the CEO conference including account charged, date, amount paid, payee, and reason for the expenditure by attendee.

c. Provide the dates and location of the conference, who attended from Taylor County, and the frequency that this conference occurs.

d. In its response to Item 37.d., Taylor County did not provide an explanation for the payment to Visa in the amount of \$394.14. Provide an explanation of this expenditure and why Taylor County feels it should be included for ratemaking purposes.

e. In its response to Item 37.d., Taylor County referenced the "Fall Managers Meeting" as an explanation for the payment to Visa in the amount of \$421.89. Fully explain the nature and purpose of the "Fall Manager's Meeting" and how it benefits Taylor County to attend.

18. Refer to the response to Items 37.c., 37.e., and 37.f. of Staff's Second Request, in which reference is made to the NRECA Directors Conference to explain the payments listed.

a. Provide a detailed narrative or documentation fully describing the agenda and the nature of the topics covered at the NRECA Directors Conference and how it benefits Taylor County to attend.

b. Provide a detailed schedule of all expenses related to Taylor County's attendance at the NRECA Directors Conference including account charged, date, amount paid, payee, and reason for the expenditure by attendee.

c. Provide the dates and location of the conference, who attended from Taylor County, and the frequency that this conference occurs.

19. Refer to the response to Item 37.h. of Staff's Second Request. Provide the date of the KAEC annual meeting and those attending from Taylor County.

20. Refer to the response to Item 37.i. of Staff's Second Request.

a. Discuss the circumstances that required Taylor County to employ SRW Environmental to perform soil testing and why Taylor County feels that similar expenses will be recurring in the future.

b. Was Taylor County responsible for the cost to remove the underground tanks? If yes, provide the cost that Taylor County incurred, when they were incurred, and the account(s) the costs were charged to.

c. Provide the number of occasions that Taylor County has been required to perform soil testing due to the removal of underground tanks for the period 2006 through 2010. Provide the total cost incurred by year.

d. Provide the number of occasions that Taylor County has been required to remove underground tanks for the period 2006 through 2010. Provide the total cost incurred by year.

21. Refer to the response to Item 37.j. of Staff's Second Request.

a. Explain the nature of Director, Officer, and Management Liability Insurance and why Taylor County carries this coverage.

b. Is it common practice for electric cooperatives to have this kind of insurance coverage?

22. Refer to the response to Item 41.a. of Staff's Second Request which states that a corrected page 2 of Exhibit 16 is attached. The attached page appears to be page 1 of the Exhibit. Provide a corrected page 2 of Exhibit 16.

23. Refer to the response to Item 41.b. The response states that, for the month of July 2011, "[a]s reflected in Exhibit 16, page 3 of 3, Taylor County had a credit from EKPC of \$12,316. During that same month, Taylor County gave credits to consumers of \$557,018, which resulted in a reduction in margins of \$544,702. This amount will not be recovered through the fuel adjustment over/under mechanism as reflected in the following month as shown through November, 2011."

a. The schedule filed in response to 41.b.(1) compares the amount of FAC revenue against the recoverable amount of FAC costs for specific FAC factors. For July 2011, this schedule shows that South Kentucky was required to credit customers \$477,320.98 through the FAC mechanism but, given the volume of sales, ended up crediting customers for \$557,017.98. This resulted in an under-recovery of \$79,697. Confirm that these amounts are correct and that this under-recovery of

\$79,697, which was calculated on line 12 of the FAC form filed in August 2011, was used on line 13.b. on the same form to reduce an FAC credit passed on from EKPC and therefore reduced the amount that Taylor County had to credit its customers by \$79,697 when calculating the FAC factor for that form. If this cannot be confirmed, explain.

b. Confirm that the \$477,320.98 fuel cost shown for July 2011 resulted from a FAC credit from EKPC of \$400,365 plus an over-recovery by Taylor County of \$76,955.98. If this cannot be confirmed, explain.

c. Item 41.b. requested that the schedule be prepared for the period January 2009 through January 2012. The schedule provided begins in November 2010. Provide an updated schedule which begins in January 2009.

24. Refer to the response to Item 42 of Staff's Second Request.

a. In its response to Item 42.b.(1), Taylor County did not explain the reference to the Advanced Metering Infrastructure ("AMI") project as requested. Explain the reference in the depreciation study to the 2010 project to replace existing meters with AMI equipment.

b. Provide the projected unamortized balance of the regulatory asset net meter write-off as of the end of February 28, 2013 which is the end of the rate suspension period in this proceeding.

c. Refer to the response to Item 42.b.(4). Explain how an end date of May 2014 was determined given that the five-year amortization period approved in Case No. 2008-00376¹ would end December 2012 if amortization of the net meter write-off began in January 2008 as was stated in the response.

¹ Case No. 2008-00376, Filing of Taylor County Rural Electric Cooperative Corporation Requesting Approval of Deferred Plan for Retiring Meters (Ky. PSC Dec. 12, 2008).

25. Refer to the response to Items 43.a. and 43.b. of Staff's Second Request. It appears that the response carried over to a second page which was not provided. Provide the full response to this request.

26. Taylor County failed to respond to Staff's Second Request, Items 49.b.(1), 49.b.(2), 49.c., 49.d.(1), 49.d.(2), 49.d.(3), 49.f., 49.g., 49.i. Provide the information as requested.

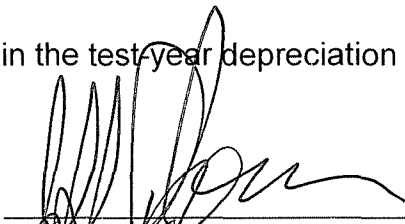
27. Refer to the response to Item 51 of Staff's Second Request. Confirm that Taylor County did not initiate a project in 2010 to replace its existing Automated Meter Reading meters with an AMI system as was stated in Exhibit 20, Scope, page 3.

28. Provide an account history for a residential account which shows the kilowatt hours billed and a breakdown of each of the separate charges billed to that customer each month for the period April 2011 through August 2011.

29. EKPC and most of its electric cooperatives met with Commission Staff on January 5, 2012 at the Commission's offices to discuss rate design. There was some discussion at that meeting about the cooperative demand charges not keeping pace with the EKPC demand charges when the cooperatives flow through a wholesale increase on a proportional basis. Does Taylor County believe this to be an issue for its rate classes with demand charges? If yes, explain how Taylor County is addressing this issue with its proposed rate design in this case.

30. Irrespective of when initiated, provide a listing, with descriptions, of all activities, initiatives, or programs undertaken by Taylor County for the purpose of minimizing costs or improving the efficiency of its operations or maintenance activities available to Taylor County during the test year.

31. Refer to Exhibit 3 of the application. Page 2, line 18, Account 368, Line Transformers, shows normalized expense of \$382,932, based on a depreciation rate of 2.98 percent, and test-year expense of \$205,740. In Exhibit 21, the fifth page in the SCOPE section of the depreciation study shows (1) the proposed 2.98 percent rate and the existing 3.00 percent rate for Line Transformers and (2) a decrease in the expense, or accrual, due to the lower proposed rate, from \$354,811 to \$351,995 for the 12 months ended December 31, 2010. Explain why, based on the same decrease in the depreciation rate, there is a \$277,192 increase in the test-year depreciation expense.



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DATED OCT 18 2012

cc: Parties of Record

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