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October 31, 2012

RECEIVED

OCT 31 2012

PUBLIC SERVICE
COMMISSION

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602

Dear Mr. Derouen:

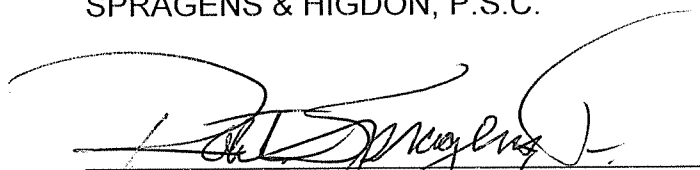
Re: Application of Taylor County Rural
Electric Cooperative Corporation
for an Adjustment of Rates;
Case No. 2012-00023

Enclosed herewith please find an original and ten (10) copies of Taylor County RECC's Responses to the Commission Staff's Third Request for Information in this proceeding.

With kind regards, I remain,

Respectfully submitted,

SPRAGENS & HIGDON, P.S.C.



Robert Spragens, Jr., Attorney for
Taylor County Rural Electric Cooperative

RS,JR:js
Enclosures

cc: Mr. John F. Patterson, Office Manager
Taylor County RECC

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of Adjustment of Rates of

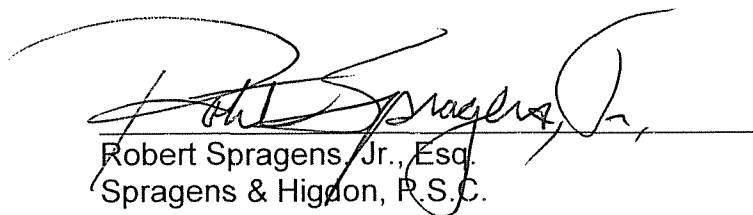
Taylor County Rural Electric Cooperative Corporation

Case No. 2012-00023

**APPLICANT'S RESPONSES TO
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION**

The applicant, Taylor County Rural Electric Cooperative Corporation, makes the following responses to the "Commission Staff's Third Request for Information", dated October 18, 2012, as follows:

1. The witnesses who are prepared to answer questions concerning each of these Requests are Barry Myers, John F. Patterson, and Jim Adkins.
2. Barry Myers, General Manager of Taylor County Rural Electric Cooperative Corporation, is the person supervising the preparation of the responses on behalf of the Applicant.
3. The responses and Exhibits are attached hereto and incorporated by reference herein.



Robert Spragens, Jr., Esq.
Spragens & Higdon, P.S.C.

Attorneys at Law

P.O. Box 681

Lebanon, Kentucky 40033

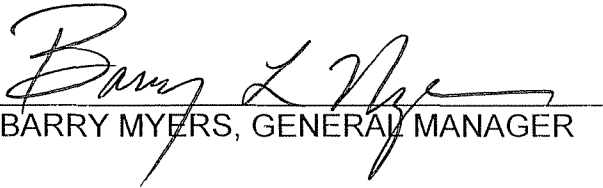
Telephone: 270-692-4131

**Attorney for Taylor County Rural Electric
Cooperative Corporation**

The undersigned, Barry Myers, as General Manager of Taylor County Rural Electric Cooperative Corporation, being duly sworn, states that the responses herein are true and accurate to the best of my knowledge and belief formed after reasonable inquiry.

Dated: October 31, 2012

TAYLOR COUNTY RURAL ELECTRIC
COOPERATIVE CORPORATION


By: 
BARRY MYERS, GENERAL MANAGER

COMMONWEALTH OF KENTUCKY

COUNTY OF TAYLOR

Subscribed, sworn to, and acknowledged before me by Barry Myers, as General Manager for Taylor County Rural Electric Cooperative Corporation on behalf of said Corporation this 31st day of October, 2012.

My Commission Expires: 5/6/2013


Notary Public, Kentucky State At Large
Notary I.D. 395951

CERTIFICATE OF SERVICE

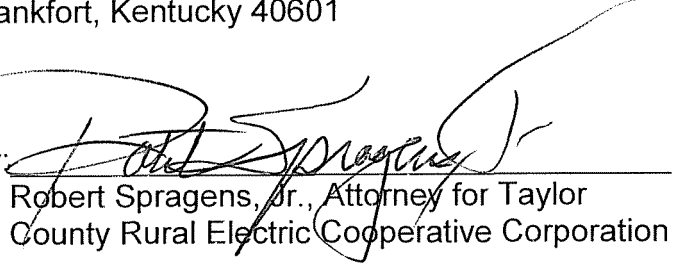
The undersigned counsel certifies that the foregoing responses have been served upon the following, this 31st day of October, 2012:

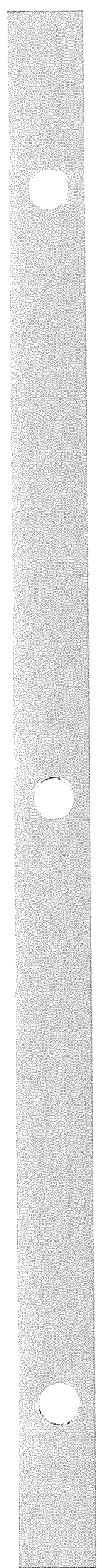
Original and Ten Copies
Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

Copy

Hon. Lawrence W. Cook
Assistant Attorney General
700 Capitol Avenue, Suite 118
Frankfort, Kentucky 40601

By:

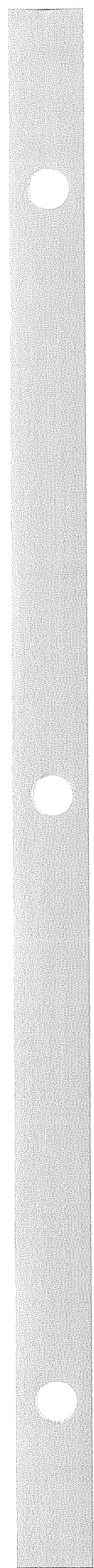

Robert Spragens, Jr., Attorney for Taylor
County Rural Electric Cooperative Corporation



Taylor County Rural Electric Cooperative
Case No. 2012-00023
Commission Staff's Third Request for Information

1. Refer to the response to Item 2 of Commission Staffs 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. **RESPONSE:** Taylor County does incur after hours costs when performing After Hours Service Investigation. Taylor County failed to include this increase in its advertising and thus had withdrawn the request to increase this charge.

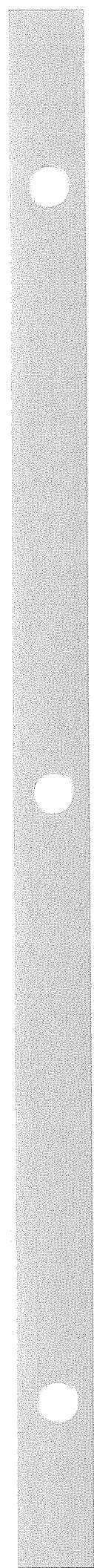
Witness: John Patterson



Taylor County Rural Electric Cooperative
Case No. 2012-00023
Commission Staff's Third Request for Information

2. Refer to the response to Item 3 of Staffs 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. **RESPONSE:** Taylor County does not and has no plans to work Termination or Field Collection after hours.

Witness: John Patterson



TAYLOR COUNTY RECC
CASE NO. 2012-00023

RESPONSE TO COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

Question:

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

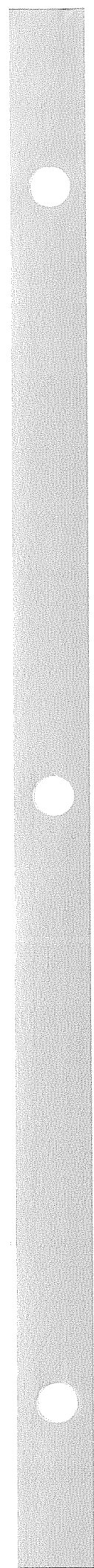
a. Refer to page. Does this exhibit indicate that the fuel adjustment clause ("FAC") under/over recovery amount was zero at November 2004? If yes, given that the under/over recovery amount is a rolling amount, explain how the amount could be zero.

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.

Response:

a. This exhibit does not indicate that the fuel adjustment clause was a zero on November 2004. It just provides the revenues from the FAC that Taylor County has received and the wholesale power costs for the FAC billed by EKPC.

b. The "FAC Cost" column represents the FAC amount billed from Taylor County's wholesale power supplier, EKPC.



TAYLOR COUNTY RECC
CASE NO. 2012-00023

RESPONSE TO COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

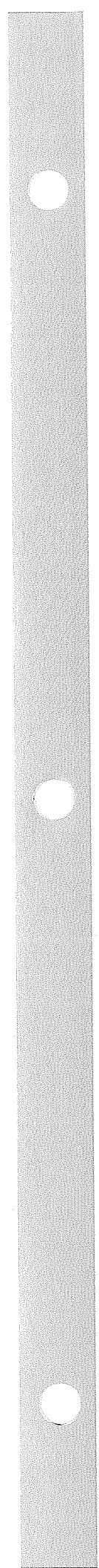
Question:

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 make 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)>

Response:

a. & b An electronic copy of the COSS as filed in the application is provided in the CD ROM attached to this filing. This same CD contains a COSS with the corrections make in the responses to Items 15, 17, 20, and 25 of the Second Request.



Taylor County Rural Electric Cooperative
Case No. 2012-00023
Commission Staff's Third Request for Information

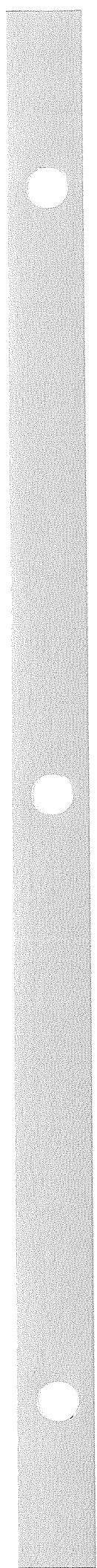
5. Refer to the response to Item 11 of Staffs Second Request.

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. **Response:** The information for the response to Item 11 was from a file that was not updated to include what was filed in the Application. The corrected revised schedule is provided below:

	<u>Actual Test Year</u>	<u>Adjusted Test Year</u>
Net margins	\$1,545,760	\$952,575
Less: G&T capital credits	(1,383,363)	0
Interest on long-term debt	<u>981,290</u>	<u>952,575</u>
Total	<u><u>1,143,687</u></u>	<u><u>1,905,150</u></u>
Net rate base	<u><u>52,751,340</u></u>	<u><u>52,325,723</u></u>
Rate of return	<u>2.17%</u>	<u>3.64%</u>
Equity Capitalization	<u><u>50,679,645</u></u>	<u><u>50,086,460</u></u>
Rate of return	<u>2.26%</u>	<u>3.80%</u>

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. **Response:** See a. of this same response.

Witness: Jim Adkins



TAYLOR COUNTY RECC
CASE NO. 2012-00023

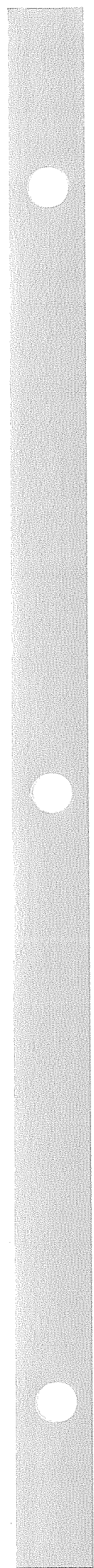
RESPONSE TO COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

Question:

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 is 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 in Item 14 represents the value of overhead conductors only.

Response:

The \$7,840,221 amount represents only the investment in overhead conductor and 33.02% of that amount is consumer related. The amount in the table represents the amount of the total account balance of \$15,062,263 that is consumer related. The purpose of the table is to determine for the total investment in lines the amounts that are consumer related and the amounts that are demand related weighted on the basis of the total investment in Account 364-Poles and Account 365-Overhead Conductor.



TAYLOR COUNTY RECC
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RESPONSE TO COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

Question:

Refer to the response to Item 19 of Staff's Second Request. The response states that the amounts in pages 35 and 36 of Exhibit R include margins. Page 29 of Exhibit R shows the Total Margin Requirements 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.

Response:

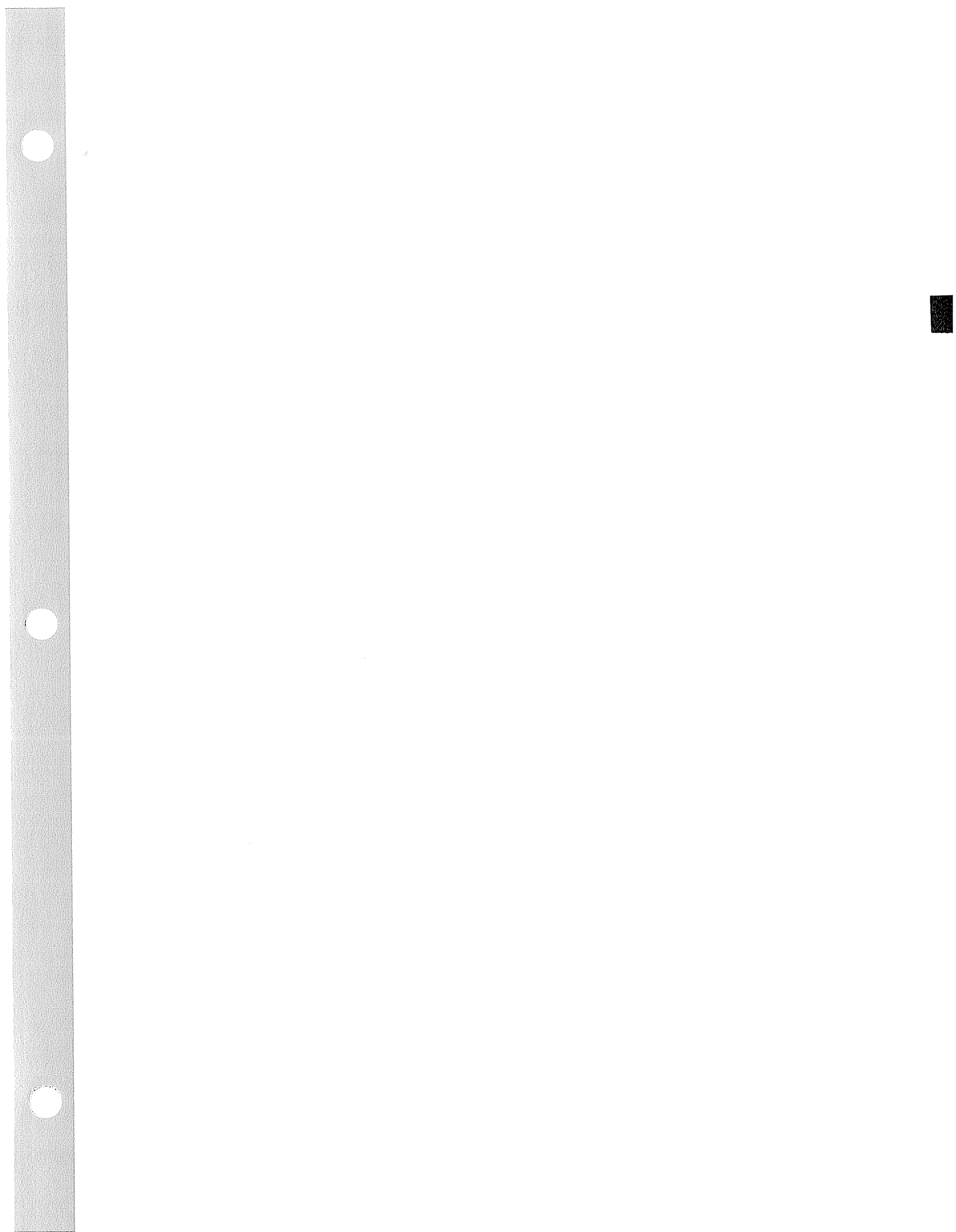
- a. & b. Pages 2 and 3 of this response contain the requested information.

RESPONSE TO THE THIRD INFORMATION FROM COMMISSION STAFF

ALLOCATION OF MARGINS TO EACH RATE CLASS												
	Lines		Transformers		Services		Meters		Consumer Service & Accounting		Lighting	Total
	Consumer	Demand	Consumer	Demand	Consumer	Demand	Consumer	Demand	Consumer	Demand		
Margin Requirements	\$ 195,396	\$ 392,288	\$ 55,773	\$ 125,479	\$ 76,404	\$ 78,423	\$ 3,496	\$ 25,316	\$ 952,574			
Sched A Fam & Home	173,092	236,624	48,575	96,794	66,550	68,614	2,807.71		693,057			
Sched GP - Part 1	20,201	40,871	5,669	11,128	7,767	8,008	327.68		93,972			
Sched GP - Part 2	2,004	83,214	1,379	14,276	2,079	1,731	81.27		104,764			
Sched L Street Lighting	61	3,659	3	524	-	-	275.15	25,316	29,838			
Sched R-1 ETS	-	-	-	82	7	69	1.07		160			
Sched B-1 Large Indust.	23	8,940	110	1,279	-	-	1.48		10,354			
Sched C-1 Large Indust	8	10,305	37	1,396	-	-	1.24		11,746			
Sched C-3 Special Contr. Tennessee Gas	8	8,675	-	-	-	-	0.49		8,683			
	195,396	392,288	55,773	125,479	76,404	78,423	3,496	25,316	952,574			

RESPONSE TO THE THIRD INFORMATION FROM COMMISSION STAFF

BASIS FOR THE ALLOCATION OF MARGINS TO EACH RATE CLASS										
	Lines		Transformers		Services		Meters		Consumer Service & Accounting	
	Consumer	Demand	Consumer	Demand	Consumer	Demand	Consumer	Demand	Consumer	Demand
Sched A Fam & Home	88.59%	60.32%	87.09%	77.14%	87.10%	87.49%	80.31%			
Sched GP - Part 1	10.34%	10.42%	10.16%	8.87%	10.17%	10.21%	9.37%			
Sched GP - Part 2	1.03%	21.21%	2.47%	11.38%	2.72%	2.21%	2.32%			
Sched L Street Lighting	0.03%	0.93%	0.01%	0.42%	0.00%	0.00%	7.87%	100%		
Sched R-1 ETS	0.00%	0.00%	0.00%	0.07%	0.01%	0.09%	0.03%			
Sched B-1 Large Indust.	0.01%	2.28%	0.20%	1.02%	0.00%	0.00%	0.04%			
Sched C-1 Large Indust	0.00%	2.63%	0.07%	1.11%	0.00%	0.00%	0.04%			
Sched C-3 Special										
Contr. Tennessee Gas	0.00%	2.21%	0.00%	0	0.00%	0.00%	0.01%			
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Exhibit R	Page 43	Page 41	Page 44	Page 42	Page 45	Page 46	Page 47	Page 16		
The percentages in the above table come from the pages listed above.										



TAYLOR COUNTY RECC
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RESPONSE TO COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

Question:

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

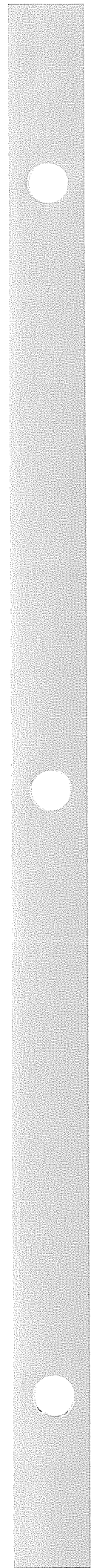
a. The response states that "[t]he customer charge for these rate classes does include some of the cost associated with substation costs of the wholesale supplier." Provide the basis for this statement.

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 basis.

Response:

a. It should be noted that the current customer charge for rate classes B1 and C1 are significantly higher than the consumer related costs for these rate classes. These customer charges were set at a significantly higher amount back when these rate classes were first developed in the late 1980s. The rationale for this situation is that most of these types of loads would be the predominate ones on an EKPC substation or the only ones on a substation. Since EKPC has a monthly substation charge for each one of its substations, it would be reasonable for the loads in these rate classes to bear that cost on a monthly basis and that this best accomplished through a monthly customer charge.

b. Taylor County would be supportive of increasing the customer charge and lowering the energy charge on a revenue neutral basis for the B1 and C1 rate classes but not for the GP2 rate class.



TAYLOR COUNTY RECC
CASE NO. 2012-00023

RESPONSE TO COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

Question:

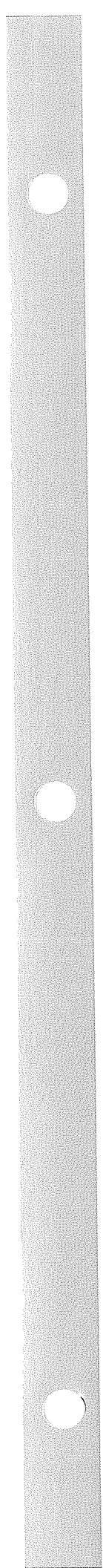
Refer to the response to Item 25a of Staff's Second Request. Taylor County was asked why metering and substation charges were omitted from the schedule on page 48 of Exhibit R. The response states that "[t]he metering and substation costs have been summed with the wholesale demand costs as part of the demand costs..." Explain how metering and substation costs included in the \$7,301,322, shown on page 48 of Exhibit R shows that, in addition to the \$7,301,322 of Purchased Power Demand costs, there were 4548,753 of metering and substation costs incurred.

Response:

Attached you find on page 2 of this response a revised page 38 of Exhibit R where the metering and substation expense is properly combined and allocated in the manner originally described in the response to Item 25a of Staff's Second request.

RESPONSE TO COMMISSION STAFF'S THIRD INFORMATION REQUEST

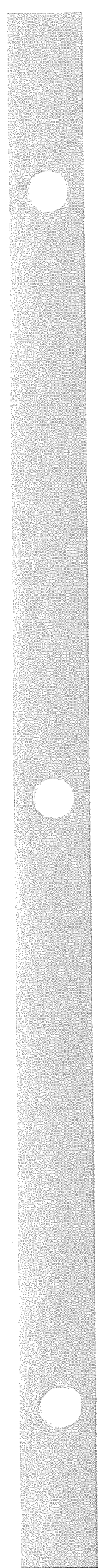
REVISED PAGE 48 OF EXHIBIT R											
	Schedule 1 Farm & Home Home	Schedule GP Small Comm < 50 kW	Schedule GP Large Comm > 50 kW	Schedule GP 2 Large Comm > 50 kW	Schedule SL Street Lights	Residential ETS	Total Schedule E Wholesale	Sched B1 Large Industrial	Sched C1 Large Industrial	Tennessee Gas Saloma	Total for All Rate Classes
Revenue from Rates	27,619,573	3,434,294	6,783,891	642,179	6,514	38,486,452	1,035,341	1,520,248	625,498	41,667,538	
Less Purchased Power Costs											
Demand	5,238,983	746,498	1,071,500	35,297	-	7,092,278	213,068	262,637	252,000	7,819,983	
Energy	16,205,649	2,015,792	4,116,949	264,979	5,937	22,609,307	635,938	1,019,136	233,782	24,498,163	
Total	21,444,632	2,762,291	5,188,449	300,276	5,937	29,701,585	849,005	1,281,773	485,782	32,318,146	
Gross Margin	6,174,942	672,003	1,595,442	341,903	577	8,784,887	186,336	238,474	139,716	9,349,393	
Less Distribution Costs											
Demand Related											
Lines	2,747,250	474,519	966,127	42,480	-	4,230,376	103,793	119,638	100,721	4,554,528	
Transformers	458,147	52,673	67,570	2,478	390	581,257	6,055	6,608	-	593,920	
Total	3,205,398	527,192	1,033,697	44,958	390	4,811,633	109,848	126,246	100,721	5,148,448	
Consumer Related											
Lines	2,009,623	234,537	23,268	708	-	2,268,136	265	88	88	2,268,578	
Transformers	229,916	26,833	6,526	16	-	263,291	523	174	-	263,988	
Services	310,975	36,293	9,713	-	35	357,016	-	-	-	357,016	
Meters	951,699	111,070	24,015	-	964	1,087,747	-	-	-	1,087,747	
Consumer Svc & Accounting	1,407,559	164,272	40,743	137,936	534	1,751,045	744	620	248	1,752,656	
Outdoor Lighting				142,462							
Total Consumer Related	4,909,773	573,005	104,265	281,123	1,533	5,727,235	1,532	882	336	5,729,986	
Total Distribution Costs	8,115,171	1,100,197	1,137,961	326,080	1,923	10,538,869	111,379	127,128	101,057	10,878,433	
Over (Under) Recovery	(1,940,229)	(428,193)	457,480	15,822	(1,345)	(1,754,002)	74,956	111,346	38,659	(1,529,041)	
Other Revenue	782,472	97,295	192,190	18,193	185	1,090,334	-	-	-	1,090,334	
Net Margins	(849,895)	(330,898)	649,670	34,016	(1,161)	(663,668)	74,956	111,346	38,659	(438,707)	



Taylor County Rural Electric Cooperative
Case No. 2012-00023
Commission Staff's Third Request for Information

10. Refer to the response to Item 27.a. of Staffs 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. **Response:** Exhibit V, page 3 of 3 of the application reflects the change in cash from 2010 to 2011 in the amount of \$2,383,769, of which the majority of this decrease relates to the change in Account 136.00. Specifically, the major items are plant additions, debt service payments, and the timing of advances of long-term debt.

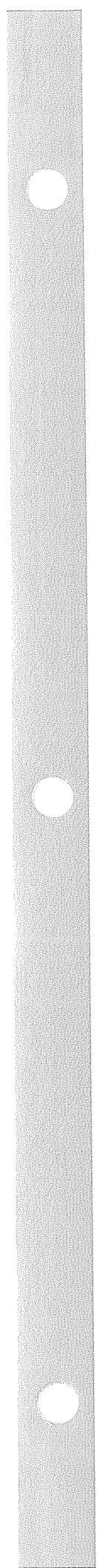
Witness: Jim Adkins



Taylor County Rural Electric Cooperative
Case No. 2012-00023
Commission Staff's Third Request for Information

11. Refer to the response to Item 29 of Staffs 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. **Response:** Exhibit 1 of the application should have stated the wage rates are effective December 1, 2011.

Witness: John Patterson



Taylor County Rural Electric Cooperative
Case No. 2012-00023
Commission Staff's Third Request for Information

12. Refer to the response to Item 30 to Staffs 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? **Response:** The letter to RUS is attached. Taylor County does not expect a quick response from RUS and will provide a copy of the response to the PSC when received.

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. **Response:** *Accounts 362 and 370* are specific to AMI equipment, which is more technology based, therefore a 15 year life was selected (this is consistent with all other electric cooperatives that have installed an AMI system). *Accounts 371 and 373* are also due to the fact that EPA will no longer allow mercury vapor lights, which caused a switch to high pressure sodium lighting. This reduced the lives of lighting. It is expected there will continue to be new developments in lighting. *Account 367* is for underground conductor, which usually has a useful life of 20-25 years, so any rate from 4-5% would be expected. *Account 369* has not specific reason, other than that is the useful life based on plant additions and retirements. Taylor County did not install much underground conduit until recent years with the majority of that in subdivisions. Since there was not much installed in past years, there would not be much retired, therefore the lives for *Account 366* would be longer and the rate lower.

c. Explain how past major ice and wind storms have been accounted for in Taylor County accounting records. **Response:** The majority of costs associated with ice and wind storms are maintenance related, therefore, Account 593 is debited with the costs incurred and credited with any FEMA funds that are received.

d. Explain what impacts past major ice and wind storms have had in increasing depreciation rates for the distribution plant accounts. **Response:** Since the majority of costs are maintenance related, major ice and wind storms would have little impact on depreciation rates.

e. The response to Item 30.g. of Staffs 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

Taylor County Rural Electric Cooperative

Case No. 2012-00023

Commission Staff's Third Request for Information

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. **Response:** The removal costs have remained fairly constant through those years, as a result, the reserve balance did not increase. When the plant balances started to increase at a larger rate than the removal costs, the reserve balance started to increase at a larger percent.

Taylor County
Rural Electric Cooperative
Corporation

P. O. BOX 100

CAMPBELLSVILLE, KENTUCKY 42719

(270) 465-4101 • Fax (270) 789-3625
(800) 931-4551

October 17, 2012

Brian Jenkins, Branch Chief
Northern Regional Division
Stop 1566 (Room 0243)
1400 Independence Avenue, SW
Washington, DC 02250-1566

Ref: KY 23 Taylor

Dear Mr. Jenkins

Taylor County RECC (TCRECC) has completed a depreciation study a copy of which is enclosed.

TCRECC by this letter request approval to implement the depreciation rates as proposed by the study.

Currently TCRECC has a request for a rate increase before the Kentucky Public Service Commission and has requested approval of the rates recommended by the depreciation study.

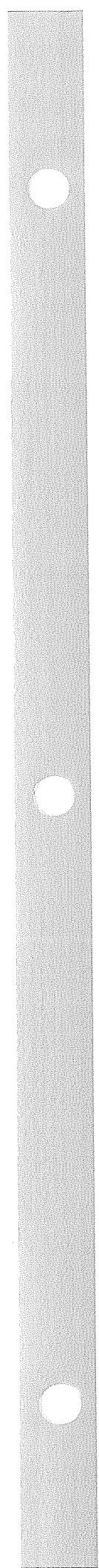
Implementation of the proposed rates is subject to the approval of RUS and the Kentucky Public Service Commission.

If additional information is need please let me know.

Sincerely:

John F. Patterson
Office Manager





Taylor County Rural Electric Cooperative
Case No. 2012-00023
Commission Staff's Third Request for Information

13. Refer to the response to Item 33.c. of Staffs 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. **Response:** Taylor County confirms. It should also be noted that if Taylor County had made the accrual based on the 2009 study, the test year margins would have been reduced by the expense portion of the 2009 study, therefore, the adjusted test year margins would be the same as filed in the application.

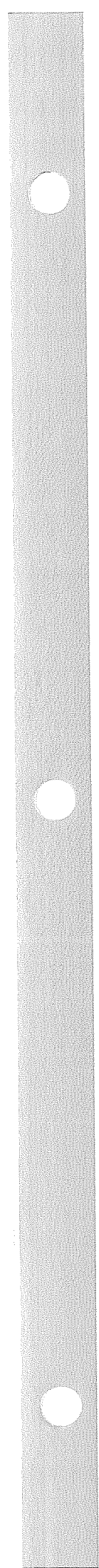
(2) The accrual called for in the 2012 actuarial valuation is \$565,522, an increase of \$231,730, or 67.6 percent, over the accrual called for in the prior 2009 valuation. Identify and describe the factors causing an increase of this magnitude. **Response:** Insurance rates have actually increased at a higher rate than anticipated. Also, employees are retiring at an earlier age than in past years. It is anticipated that future employees will retire at their normal retirement age.

(3) Taylor County provided the previous study which was dated January 17, 2009. How often are the actuarial studies performed? **Response:** Taylor County updates the study every 3-5 years.

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. **Response:** The payments are attached:

	2009	342,332
	2010	397,862
	2011	370,624
9 months	2012	288,182

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. **Response:** Employees are retiring at an earlier age and are living longer than in previous years. It is expected that the current level of retirees will be the normal level for future years.

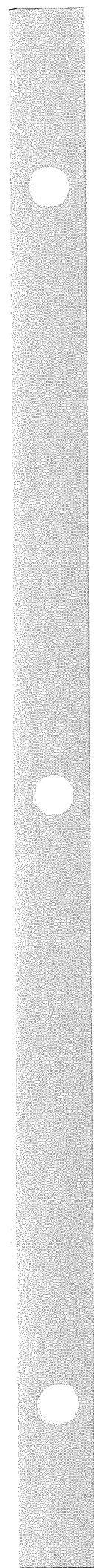


Taylor County Rural Electric Cooperative
Case No. 2012-00023
Commission Staff's Third Request for Information

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. **Response:** Exhibit 8 is for current employees. The additional enrollments are for retirees included with Exhibit 6.

b. Explain what each renewal summary represents and why there are different rates and enrollments. **Response:** The 1st summary is for active employees and the 2nd summary is for employees that retired between 1995 and 2003 that were eligible for Medicare at Retirement.



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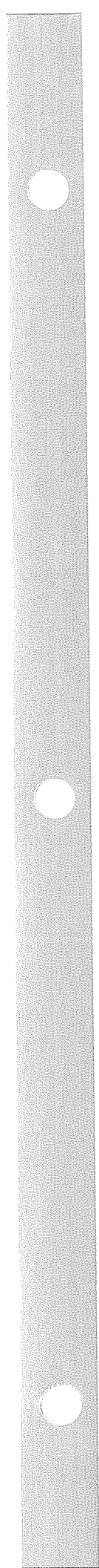
15. Refer to the response to Item 37.a. of Staff's Second Request.

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. If not, provide corrected schedules as necessary. Is that what Taylor County intended? **Response:** The corrected page is attached.

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. **Response:** Personal liability insurance that provides general cover to a firm's directors and senior executives. Paid usually by the firm, it reimburses (in part or in full) the costs resulting from law suits and judgments arising out of poor management decisions, employee dismissals, member grievances, and other such acts committed in good faith. Criminal offenses are not covered under this insurance. This is a normal expense for all corporations, including cooperatives.

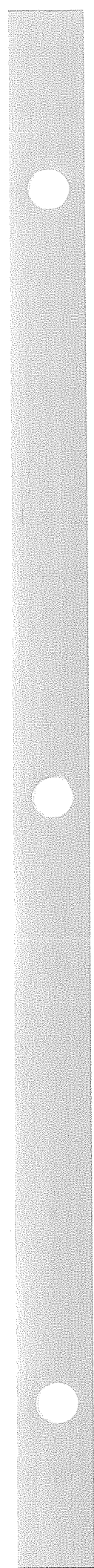
(2) Explain why this line item increased from \$27,648.18 in the application to \$29,089.98 in this response. **Response:** Taylor County identified all disbursements with DOM Liability Ins being the remaining portion of director expenses. This is the remaining costs.



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16. Refer to the response to Item 37.a. of Staffs Second Request. Fully describe the services provided by Guernsey & Associates and whether they continue to provide these services. Provide a copy of any contract or other agreement Taylor County entered into with Guernsey & Associates.
RESPONSE: Guernsey & Associates were used to do the FRESH LOOK study for the member Cooperatives of East Kentucky Power which was part of the East Kentucky management audit. It is expected that the member cooperatives of East Kentucky will continue to monitor and meet to update compliance with the Liberty Report as a result of the management audit.

Witness: Barry Myers



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17. Refer to the response to Items 37.b. and 37.d. of Staffs 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. **RESPONSE:** This is a Conference by NRECA that covers topics and issues that are of interest to CEO's of Electric Cooperatives.

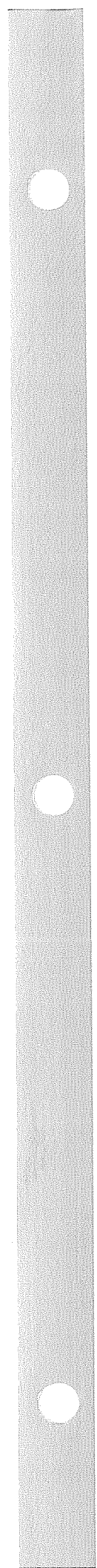
b. Provide a detailed schedule of all expenses related to Taylor County's attendance at the CEO conference including account charged, date, amount paid, payee, and reason for the expenditure by attendee. **RESPONSE:** Expenses for Manager attending CEO conference Meals \$120.52; Car Rental \$272.57; Hotel \$1195.90 and Airfare \$514.80. \$1,059.00 was for airfare 5 directors attending Director conference in San Antonio, Tx.

c. Provide the dates and location of the conference, who attended from Taylor County, and the frequency that this conference occurs. **RESPONSE:** Barry L. Myers, Manager attended the CEO Conference in St Petersburg, FL. January 8 – 12, 2011.

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. **RESPONSE:** The 394.14 is for meals, and hotel for the Manager attending the NRECA Regional Meeting.

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. **RESPONSE:** This meeting is sponsored by KAEC and covers topics of interest to the Manager's of Electric Co-op's in the state of Kentucky and is for Kentucky Managers.

Witness: Barry L. Myers



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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. **RESPONSE:** Agenda items for the Directors Conference in San Antonio, Tx were: Diversity in your Boardroom; The Audit Function from the director's Perspective; Creating a Culture of Accountability; The Board's Role in Understanding Safety Performance at you Co-op; Building Member Trust and Confidence. NRECA offers items at the Director Conference specific to Electric Cooperatives that help Directors understand the responsibilities of the position. The Director Conference In Orlando Fl covered items of interest on a national scale for Directors.

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. **RESPONSE:** See Attachment.

c. Provide the dates and location of the conference, who attended from Taylor County, and the frequency that this conference occurs. **RESPONSE:** January 31, - February 1, 2011 in San Antonio, Tx. Director Bardin, Giles, Minor, Rucker, and Shuffett attended. Taylor County was reimbursed \$1,740.00 by East Kentucky Power for Shuffett attending. March 5-9, 2011 In Orlando, Fl Director Shuffett, Rucker, Minor, Giles and Depp attended.

Witness: Barry Myers

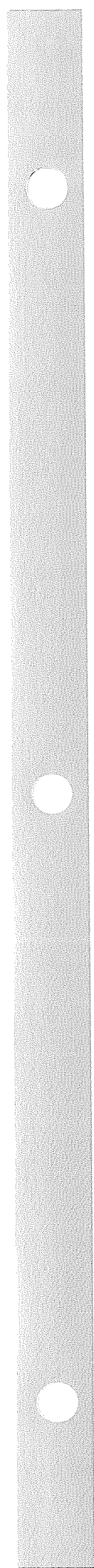
ITEM 18b

TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE
CASE NO 2012-00023
COMMISSION STAFF 3rd REQUEST FOR INFORMATION

Check 70843 VISA
NRECA Registraqtion Conference Orlando, FI 3370

Check 71225		VISA	MEAL	HOTEL	TRANSPORTATION
DATE					
2/9/2011	Southwest Airline	Orlando			1,589.50
1/30-2/3/11	MEALS	San Antonio	510.30		
1/30-2/3/11	Marriott	San Antonio		3,239.85	
2/3/2011	Airport Parking	Nashville			51.00

Check 71455		VISA	MEAL	HOTEL	TRANSPORTATION
DATE					
3/5-9/11	MEALS	Orlando	699.27		
3/5-9/11	Hilton	Orlando		5706.28	
	Airport Parking	Nashville			52

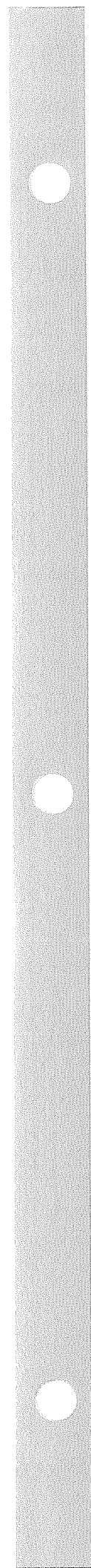


Taylor County Rural Electric Cooperative
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Commission Staff's Third Request for Information

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

RESPONSE: October 18 and 18, 2011. Those attending were Mr. Depp, Mr. Minor, Mr. Bardin, Mr. Rucker, Mr. Shuffett, and Mr. Myers Manager.

Witness: Barry Myers



Taylor County Rural Electric Cooperative
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20. Refer to the response to Item 37.i. of Staffs Second Request.

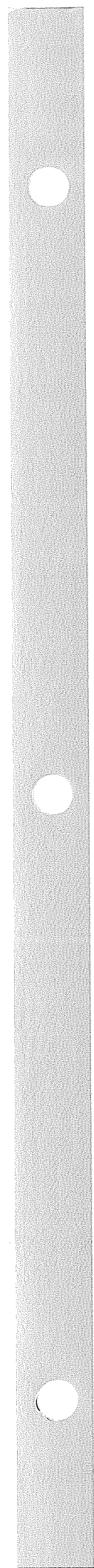
a. Discuss the circumstances that required Taylor County to employ SRW Environmental to perform soil testing and why Taylor County feels that similar expenses will be recurring in the future. **RESPONSE:** Taylor County had an underground gasoline storage tank owned by Ashland Petroleum removed by Ashland in 1990. Ashland paid for the removal of the tank. In 2010 Taylor County was contacted by the Kentucky Department of Energy – Environmental Cabinet Underground Storage tank Branch inquiring about the removal of the tank and that no paperwork existed showing a soil test. Taylor County contacted Ashland and was informed that they had no knowledge of the tank removal. As the tank was located on Taylor Counties Headquarters site the Environmental Cabinet required Taylor to have a soil test.

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. **RESPONSE:** NO

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. **RESPONSE:** One (1) \$1,982.00.

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. **REPOSNE:** None.

Witness: Barry Myers



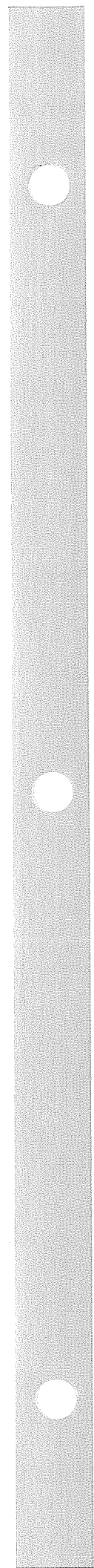
Taylor County Rural Electric Cooperative
Case No. 2012-00023
Commission Staff's Third Request for Information

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. **Response:** Personal liability insurance that provides general cover to a firm's directors and senior executives. Paid usually by the firm, it reimburses (in part or in full) the costs resulting from law suits and judgments arising out of poor management decisions, employee dismissals, member grievances, and other such acts committed in good faith. Criminal offenses are not covered under this insurance.

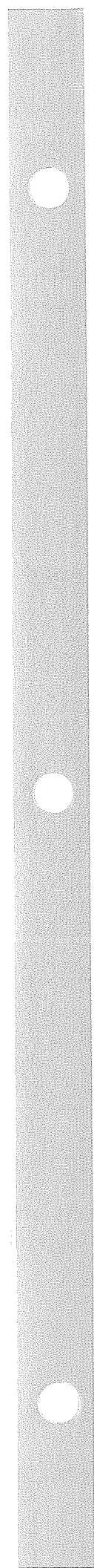
b. Is it common practice for electric cooperatives to have this kind of insurance coverage? **Response:** This is a normal expense for all corporations that have shareholders, and cooperatives that have members.

Witness: Jim Adkins



Taylor County Rural Electric Cooperative
Case No. 2012-00023
Commission Staff's Third Request for Information

22. Refer to the response to Item 41.a. of Staffs 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.
Response: Attached is the corrected page 2 of Exhibit 16.



Taylor County Rural Electric Cooperative
Case No. 2012-00023
Commission Staff's Third Request for Information

23. Refer to the response to Item 41.b. The response states that, for the month of July 2011, "[as 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. RESPONSE: The monthly FAC forms for Taylor County agree with these amounts.

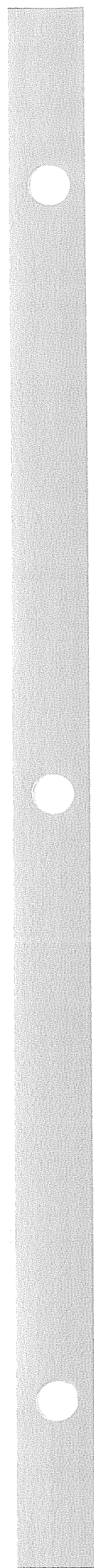
b. Confirm that the \$477,320.98 fuel cost shown for July 2011 resulted from a FAC credit from EKPC of \$400,365 plus an over-recovery by Taylor County of \$76,955.98. If this cannot be confirmed, explain. RESPONSE: This is how it is reported on the monthly FAC form for Taylor County.

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. RESPONSE: The corrected schedule is attached.

ITEM 23c

TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION
 CALCULATION OF OVER - UNDER - RECOVERY
 OF FUEL BILLS
 CASE NO 2012-00023
 FOR THE PERIOD January 1, 2009 - AUGUST 2012

DATE	FUEL REVENUE	FUEL COST	OVER (UNDER) RECOVERY
Jan-09	591,871.56	514,412.58	77,458.98
February	374,962.48	353,105.38	21,857.10
March	407,133.34	447,002.02	(39,868.68)
April	351,022.56	363,204.90	(12,182.34)
May	374,178.98	342,434.68	31,744.30
June	157,588.64	168,161.34	(10,572.70)
July	36,109.20	29,528.70	6,580.50
August	6,160.38	4,832.37	1,328.01
September	54,882.62	52,918.50	1,964.12
October	(326,316.21)	(404,671.68)	78,355.47
November	(238,003.69)	(249,351.12)	11,347.43
December	(468,027.41)	(438,739.47)	(29,287.94)
Jan-10	(509,766.54)	(366,954.43)	(142,812.11)
February	(474,860.45)	(429,669.06)	(45,191.39)
March	(98,750.61)	(117,006.89)	18,256.28
April	(132,826.55)	(134,979.61)	2,153.06
May	(237,334.16)	(327,416.28)	90,082.12
June	(433,443.24)	(393,785.06)	(39,658.18)
July	(717,403.31)	(554,413.12)	(162,990.19)
August	(390,227.67)	(369,035.82)	(21,191.85)
September	(130,959.42)	(130,756.81)	(202.61)
October	(241,707.21)	(310,015.15)	68,307.94
Nov-10	(240,038.46)	(271,343.39)	31,304.93
December	(493,884.21)	(421,692.94)	(72,191.27)
Jan-11	(729,981.76)	(457,353.93)	(272,627.83)
February	(328,162.33)	(342,061.73)	13,899.40
March	(25,726.98)	(33,729.17)	8,002.19
April	(291,658.86)	(326,516.40)	34,857.54
May	(309,574.21)	(386,530.19)	76,955.98
June	(335,221.97)	(310,248.54)	(24,973.43)
July	(557,017.98)	(477,320.98)	(79,697.00)
August	15,277.77	12,657.43	2,620.34
September	13,635.88	14,864.00	(1,228.12)
October	10,102.83	13,568.66	(3,465.83)
November	(10,348.32)	(10,325.88)	(22.44)
December	1,726.22	1,494.83	231.39
Jan-12	90,939.69	71,269.44	19,670.25
February	34,853.80	33,540.61	1,313.19
March	13,159.82	13,622.75	(462.93)
April	(20,040.36)	(24,857.19)	4,816.83
may	(48,806.00)	(53,475.07)	4,669.07
June	(149,561.12)	(129,165.83)	(20,395.29)
July	(132,661.93)	(123,475.07)	(9,186.86)
August	(121,923.62)	(98,627.71)	(23,295.91)
	(5,660,628.81)	(5,256,900.33)	(403,728.48)



Taylor County Rural Electric Cooperative
Case No. 2012-00023
Commission Staff's Third Request for Information

24. Refer to the response to Item 42 of Staffs Second Request.

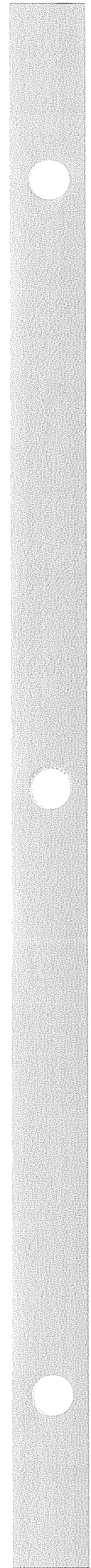
a. In its response to Item 42.b.(l), Taylor County did not explain the reference to the Advanced Metering Infrastructure ("AMI") project as requested. Explain the reference in the depreciation study to the 2010 project to replace existing meters with AMI equipment. **RESPONSE:** The dates in the study are wrong Taylor County installed AMR beginning in 2007 and completed the changes in 2009.

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. **RESPONSE:** \$207,778.25

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. **RESPONSE:** The AMR conversion was not completed until 2009, thus all retirement cost were not available until completion. The total cost retired at completion were then calculated to amortize over a five year period ending in 2014.

Witness: John Patterson

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).



Taylor County Rural Electric Cooperative
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Commission Staff's Third Request for Information

25. Refer to the response to Items 43.a. and 43.b. of Staffs Second Request. It appears that the response carried over to a second page which was not provided. Provide the full response to this request. **RESPONSE:** The full response is attached.

Taylor County Rural Electric Cooperative
Case No. 2012-00023
Commission Staff's Second Request for Information

43. Refer to Taylor County's response to Commission Staffs First Request for Information ("Staffs First Request"), Item 21.

a. On page 2, the distribution of benefits shows a total of \$959,873, while the total benefits shows a total amount of \$1,558,447. Explain this discrepancy. **Response:** Please find the following that reflects the correct benefits and average cost per employee. Taylor County apologized for the first response.

		Benefits <u>Distribution</u>
107.20	Construction work in progress	339,744
108.80	Retirement work in progress	47,878
163.00	Stores	39,477
184.10	Transportation	43,661
390.40	General plant additions	4,964
580.00	Supervision, operations	59,252
582.00	Station	1,570
583.00	Overhead line	158,454
586.00	Meter	115,551
587.00	Installations	706
588.00	Miscellaneous distribution	14
590.00	Supervision, maintenance	42,022
593.00	Maintenance	247,638
594.00	Underground	4,998
595.00	Transformers	3,780
597.00	Meters	29
598.00	Miscellaneous maintenance	6,876
902.00	Meter reading	21,914
903.00	Consumer records	199,492
907.00	Customer service	36,425
920.00	Administrative	<u>150,514</u>
930.00	Miscellaneous	7,207
935.00	Maintenance general plant	<u>26,281</u>
	Total	<u>1,558,447</u>

Benefits include the following:

Medical insurance	1,054,312
Life and disability insurance	14,228
Savings plan 401(k)	273,978

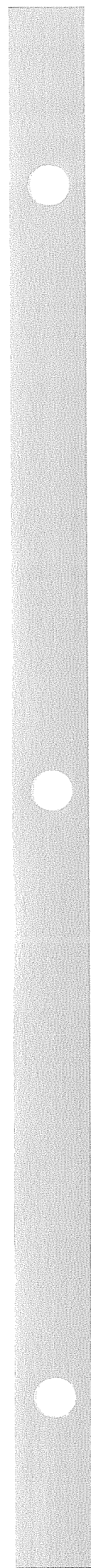
Taylor County Rural Electric Cooperative
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Payroll taxes	<u>215,929</u>
	<u>1,558,447</u>

Taylor County accumulates all benefits, then allocates these to accounts based on the labor distribution for the month. The above is the actual allocation for the test year for the above benefits

The total number of employees is 52, with an average benefit cost of \$29,970.

b. Page 3 indicates that the average benefit cost is \$21,815. Explain why using this amount multiplied by 52 employees does not result in an amount that agrees with one of the amounts indicated in 17.a. **Response:** See above.



Taylor County Rural Electric Cooperative
Case No. 2012-00023
Commission Staff's Third Request for Information

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. **Response:** Taylor County apologizes for this oversight. Attached is the response to all questions in Item 49 of Staff's Second Request.

Witness: Jim Adkins

Taylor County Rural Electric Cooperative
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Commission Staff's Second Request for Information

49. Refer to Exhibit 21 of the application, which contains Taylor County's depreciation study

a. Refer to the section titled Scope, second paragraph on page 1.

(1) Mr. Adkins states that the study used the technique of creating Simulated Plant Records ("SPR") on the vintage basis. Using SPRs, Mr. Adkins assigned Iowa Type Survivor Curves to determine the average service life for each distribution asset account group. He also created SPRs in the depreciation studies he recently prepared for South Kentucky in Case No. 2011-00096⁴ and Blue Grass Energy Cooperative Corporation ("Blue Grass") in Case No. 2008-0001⁵ and for Clark Energy Cooperative, Inc. ("Clark Energy") in Case No. 2009-00314.⁶ The average service lives assigned to each distribution asset account group of South Kentucky, Blue Grass, and Clark Energy are shown in Table 1.

Also listed in Table 1 are the estimated average service lives assigned to the electric distribution assets of investor owned utilities ("IOU's") Kentucky Utilities Company, Louisville Gas and Electric Company, and Duke Energy Kentucky, Inc. in depreciation studies submitted to the Commission in Case Nos. 2007-00565,⁷ 2007-00564,⁸ and 2006-00172,⁹ respectively. Each study was prepared by John Spanos of Gannet Flemming. In these studies, Mr. Spanos used the retirement rate method to assign survivor curves to each plant account group. The retirement rate method includes a combination of actual plant retirement data and statistically aged plant data."

For comparative purposes, the lives assigned by the four rural electric cooperative corporations ("RECC's") to each asset account group were averaged and shown in Table 1, along with the averaged lives assigned by the three IOU's. The averaged lives assigned to RECC distribution assets are significantly shorter than those assigned by IOU's. Discuss the reasons that Mr. Adkins' application of the SPR method results in such a significantly shorter life for the majority of distribution plant account groups when compared to Mr. Spanos' life assignments using the Retirement Rate Method. **Response:** The use of the SPR method opposed to the Retirement Rate Method, in and of itself, should not result in significant differences. However, the fact that RECC's lives of assets is shorter is a result of the service territories, consumer makeup, and demographics. The RECC's operate in rural areas where any growth causes lines to be upgraded and poles to be sturdier and longer. Growth in rural areas tends to be more in pockets than an overall system wide growth. Rural consumers' have been using more electricity as more electrical appliances and uses has increased significantly over the past several years. The rural territory served by RECC's results in more outages and right-of-way issues that lead to more replacement of poles and conductor.

(2) Explain how the absence of actual plant retirement data by vintage may result in the assignment of shorter lives by the RECC's than the lives assigned by the IOU's who have this retirement data. **Response:** Around 2005, the RECC's considered implementing vintage accounting for plant assets. One reason this was not implemented was the enormous cost for programming. Another reason was that vintage accounting records do not really reflect the retirement of plant, for instance, when meters and

Taylor County Rural Electric Cooperative
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transformers are retired, even though there are specific numbers on them, the actual date of installation for each unit can not be accurately identified. The same is true for construction of poles, conductor, lights, and other distribution plant items. The result is that retirements would be accounted for using the first-in, first-out approach. This is not true vintage accounting as the actual date of installation is not used as the cost for the retirement. It is my assumption that this is the case with the IOU's.

(3) Explain how the judgment required when developing the Iowa Type Survivor Curve analysis impacts the lives assigned to each asset group, and how the physical make-up of the RECC's distribution plant is different than that of the IOU's resulting in shorter average service lives. **Response:** Part of the judgment in developing the Iowa Curve is in smoothing out major changes in plant record accounting, i.e., changing from construction unit CPR's to record unit CPR's. This had the effect of changing some costs from one account to another. As described in (2) above, there are physical differences in plant.

(4) Identify and describe the factors that cause equipment of RECC's, to have a shorter economic life than similar equipment of IOU's. **Response:** The RECC's follow strict guidelines established by RUS to construct and maintain physical plant. RUS performs an annual Operations and Maintenance survey where the Field Representative rides around the service territory and inspects the lines. RUS constantly monitors lines around the country and makes recommendations for upgrading physical plant. Among these recommendations are removing idle services and replacing copper conductor.

Table1

b. Refer to the section titled Scope, third paragraph on page 2.

(1) Describe how the SPR method is used to analyze data to fit the data to the "best curve." **Response:** Additions and retirements by year are entered into the Computer Assisted Depreciation and Life Analysis System ("CADLAS") which provides best fits for each asset class. The CADLAS is used by most government agencies, including RUS, to determine lives of assets.

(2) Is the SPR method used in Exhibit 21 recognized by the Society of Depreciation Professionals as an acceptable method? **Response:** When vintage accounting is not available, the SPR method is accepted by the Society of Depreciation Professionals.

c. Refer to the section titled Scope, the second full paragraph on page 2. It states that, "[t]he most likely retirement patterns and average service lives were developed based on the SPR analysis." State specifically how the retirement patterns and average service lives were developed using the SPR analysis. Include in the response, discussion of the degree of professional judgment required when developing the

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retirement patterns and average service lives. **Response:** The program will provide the best fit for each Iowa Type Curve, i.e., S; L; O. Professional judgment is then used to determine which of the curves actually provides the best fit. This is done by comparing the Squared Error, Index of Variation, Conformation Index, and Retirement Experience. The Simulated Plant Record ("SPR") method is used by utilities and commissions to indicate generalized survivor curves that best represent the life characteristics of property when the property records do not contain the age of property upon retirement. The selection of curves is based upon the closeness of the match between actual and simulated annual amounts.

d. Refer to the section titled Scope, the second full paragraph on page 2. It states that the SPR analysis was "analyzed for appropriateness and a curve and service life were selected for each account."

(1) State specifically the type of analysis performed. Include in the response, discussion of the degree of professional judgment required in this analysis. **Response:** Additions and retirements are reviewed to make sure there are no unusual or extraordinary events that would cause there to be unusual variations in either there additions or retirements for a particular year. These are then smoothed out to make the analysis more representative.

(2) State what is meant by appropriateness. Include in the response, discussion of the degree of professional judgment required when determining the appropriateness. **Response:** An example is where Taylor County converted from construction unit CPR's to record unit CPR's and amounts changed from one account to another. This change required restatement of prior additions and retirements.

(3) State specifically how a curve and service life was selected for each asset account group. Include in the response, discussion of the degree of professional judgment required when making these selections. **Response:** Input information, additions, retirements, and adjustments, for each account was analyzed prior to entering into the CADLAS program to ensure there were no unusual or extraordinary circumstances that would skew the results. After this, information was entered into the program and the results were analyzed using the Curve Overlap for each curve, comparing the Squared Error, Index of Variation, Conformation Index, and Retirement Experience. Then selecting the appropriate Curve type and Estimated life for each account.

e. Refer to the section titled Scope, the third full paragraph on page 2. Taylor County states that net salvage was allocated to the primary account on a percentage basis. Provide the calculation of the allocations and explain why the allocations are appropriate. **Response:** Refer to the schedules listed as "Adjust Rates with Net Salvage" and "Calculation of Net Salvage Percent". These calculations and allocations are similar to other electric cooperatives and are consistent with other depreciation studies performed.

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f. Refer to the section titled Scope, the first line of the last paragraph on page 2. This line reads, "When utilizing the whole life method . . ." Is this accurate or is this sentence actually referring to the remaining life method? **Response:** This should state the remaining life method.

g. The third full paragraph on the second page of the "SCOPE" section of the depreciation study indicates that the percentages for net salvage were based on a review of Taylor County's salvage and cost of removal accounts for a five- year period. Explain why a five-year period was chosen as opposed to a shorter or longer period. **Response:** The reason for a 5 year period is twofold; first, this Commission in the Fleming Mason case required the use of a five year period; second, a period less than five years could result in one year that has unusual circumstances which would skew the results, and any time period greater could result in an old trend that may likely not be occurring currently.

h. The fourth full paragraph on the second page of the "SCOPE" section of the depreciation study discusses the development of a calculated depreciation reserve for each plant account. Clarify whether the steps described in the last sentence of the paragraph produce a reserve for each plant account as a portion of (1) the total actual per books depreciation reserve as of the date of the study or (2) a "theoretical" reserve based on the SPR method and resulting simulated retirements. **Response:** The reserve would be an allocation for the actual per books depreciation reserve.

i. Refer to the chart that compares the current, proposed and RUS low and high depreciation rates at the bottom of the third page of the "SCOPE" section of the depreciation study. Aside from the AMI meters, which have been discussed, there are four accounts, 362 - station equipment, 367 - underground conductors and devices, 371 - installations on consumer premises, and 373 - street lights, for which the proposed rate is significantly above the high end of the RUS range of depreciation rates. For each of these four accounts, provide a general description of the factors that have resulted in the level of the proposed depreciation rates. **Response:** Station equipment represent computer equipment located at the substation to record meter readings in conjunction with the AMI project, since the rate for AMI equipment is 15 years, the equipment at the substation is also 15 years. Underground conductor has deteriorated at a faster pace than was projected. Most underground is located in subdivisions which are variable in regards to filling up the lots. Lighting has been going through a transitional period with mercury vapor being phased out and technology in regards to LED and translucent lighting. This is expected to continue in future years.

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5 Case No. 2008-00011, The Application of Blue Grass Energy Cooperative Corporation for an Adjustment in its Electric Rates. (Ky. PSC Aug. 28, 2008) See Application, Exhibit 3, Service Life and Net Salvage Study, Scope, First Page, Paragraphs 2 and 3.

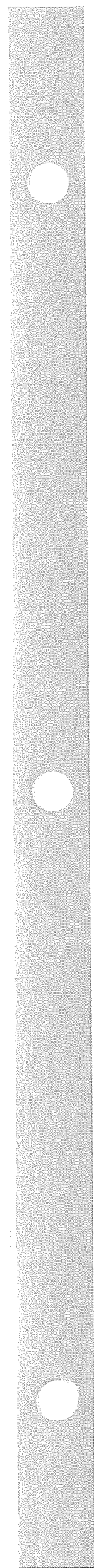
6 Case No. 2009-00314, Application of Clark Energy Cooperative, Inc. for an Adjustment of Rates (Ky. PSC Apr. 16, 2010). See Application, Exhibit 3, Service Life and Salvage Study and Recommended Depreciation Accrual Rates, Scope, First Page, Paragraphs 2 and 3.

7 Case No. 2007-00565, Application of Kentucky Utilities Company to File a Depreciation Study. (Ky. PSC Feb. 5, 2009).

8 Case No. 2007-00564, Application of Louisville Gas and Electric Company to file Depreciation Study (Ky. PSC Feb. 5, 2009).

9 Case No. 2006-00172, An Adjustment of the Electric Rates of the Union Light, Heat and Power Company D/B/A Duke Energy Kentucky, Inc. (Ky. PSC Dec. 21, 2006).

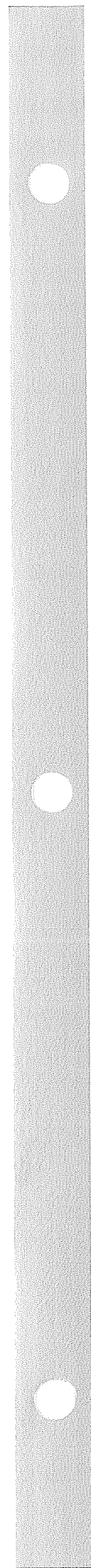
10 Case No. 2007-00565, Application, Part 1, Direct Testimony of John Spanos, Depreciation Study, Part II, Page 11-10; Case No. 2007-00564, Application, Part 1, Direct Testimony of John Spanos, Depreciation Study, Part II, Page 11-10; and Application of Duke Energy, Volume 8, Depreciation Study filed to satisfy 807 KAR 5:001, Section 10(9)(s), Part II, Page 11-10.



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Commission Staff's Third Request for Information

27. Refer to the response to Item 51 of Staffs 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. **RESPONSE:** Taylor County did not initiate a project in 2010 to replace AMR with AMI.

Witness: John Patterson



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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.

RESPONSE: The information is attached.

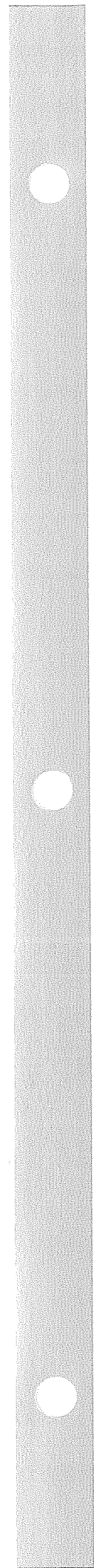
Witness: John Patterson

ITEM 28

TAYLOR COUNTY RECC
CASE NO. 2012-00023
PSC 3RD REQUEST FOR INFORMATION

LOCATION 1512015800

BILL DATE	KWH	CUSTOMER CHARGE	ENERGY CHARGE	FUEL CHARGE	ENVIRON CHARGE	SCHOOL TAX	TOTAL
4/4/2011	1814	7.94	161.37	-14.31	7.44	4.87	167.31
5/4/2011	1300	7.94	115.65	-13.42	9.60	3.59	123.36
6/3/2011	1439	7.94	128.01	-15.18	11.61	3.97	136.35
7/5/2011	2242	7.94	184.29	-33.05	17.57	5.30	182.05
8/3/2011	2496	7.94	205.17	0.85	22.94	7.11	244.01



TAYLOR COUNTY RECC
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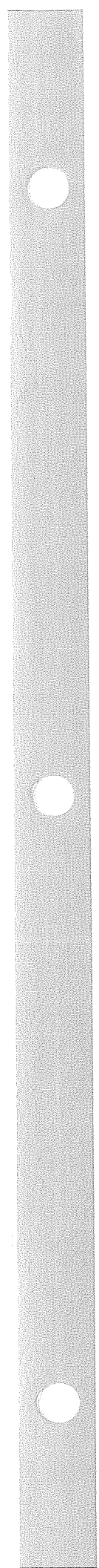
RESPONSE TO COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

Question:

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 the issue with its proposed rate design in this case.

Response:

Taylor County does realize that this an issue with most of it rate classes with demand charges. The only rate class it is not an issue with is class GP-Part2. It is an issue with all other rate classes with demand charges. Taylor County has not really addressed it in it rate design in this application.

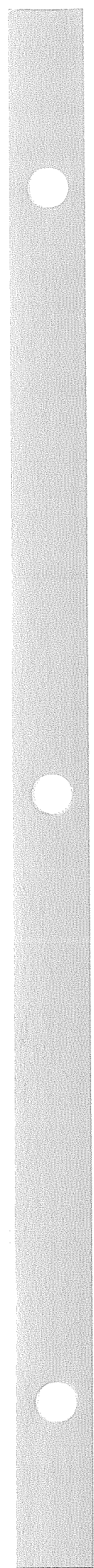


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30. Irrespective of when initiated, provide a listing, with descriptions, of all activities, initiatives, or programs undertaken by Taylor County for the purpose of minimizing costs or improving the efficiency of its operations or maintenance activities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

RESPONSE: Taylor County continued a program of fusing taps during the test year. Taylor County also continued an upgrade of the mapping system. A program of changing AMR meters for test was begun, for the purpose of returning to the eight year test cycle.

Witness: Barry Myers or John Patterson



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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 depreciation expense. **Response:** As stated in Item 30.d. of Staff's Second Request, the Test Year Expense column was off by 1 line. The correct test year expense for Account 368 is \$350,352 as reflected in the corrected page.

Witness: Jim Adkins