

# Grayson Rural Electric Cooperative Corporation

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March 29, 2013

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PUBLIC SERVICE  
COMMISSION

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

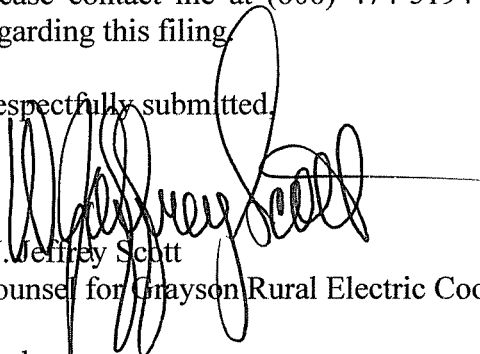
Re: Application of Grayson Rural Electric Cooperative  
Corporation for an Adjustment of Rates  
Case No. 2012-00426

Dear Mr. Derouen:

Please find enclosed the original and ten (10) copies of the responses to the Commission's Order "Commission Staff's Third Request for Information to Grayson Rural Electric Cooperative Corporation." dated February 22, 2013.

Please contact me at (606) 474-5194 or Carol Fraley at (606) 474-5136 with any questions regarding this filing.

Respectfully submitted,

  
W. Jeffrey Scott  
Counsel for Grayson Rural Electric Cooperative Corporation

Enclosure

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

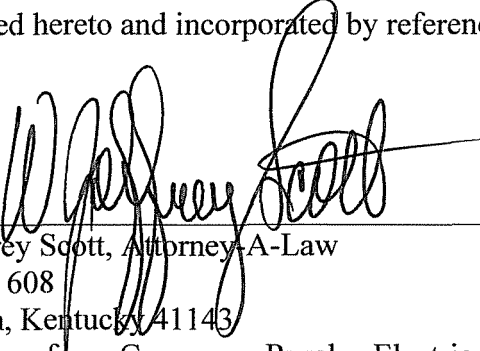
**In the Matter of adjustment of Rates  
Of Grayson Rural Electric Cooperative  
Corporation**

**Case No. 2012-00426**

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

The applicant, Grayson Rural Electric Cooperative Corporation, makes the following responses to the "Commission Staff's Second Request for Information", as follows:

1. The witnesses who are prepared to answer questions concerning each request are Carol Fraley, Don Combs, and Jim Adkins.
2. Carol Fraley, President and CEO of Grayson 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.

  
\_\_\_\_\_  
W. Jeffrey Scott, Attorney-A-Law  
PO Box 608  
Grayson, Kentucky 41143  
Attorney for Grayson Rural Electric Cooperative  
Corporation  
Telephone: 606-474-5194

The undersigned, Carol Fraley, as President & CEO of Grayson 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: March 29, 2013

GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION

By: Carol Fraley  
CAROL FRALEY, PRESIDENT & CEO

Subscribed, sworn to, and acknowledged before me by Carol Fraley, as President & CEO for Grayson Rural Electric Cooperative Corporation on behalf of said Corporation this 29<sup>th</sup> day of March, 2013.

Marsha A. Shaker  
Notary Public, Kentucky State At Large

My Commission Expires: 1-9-2015

CERTIFICATE OF SERVICE

The undersigned counsel certifies that the foregoing responses have been served upon the following:

Original and Ten Copies

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

This 29<sup>th</sup> day of March, 2013

[Signature]  
ATTORNEY FOR  
GRAYSON RURAL ELECTRIC COOPERATIVE

Grayson Rural Electric Cooperative  
Case No. 2012-00426  
Commission Staff's Third Request for Information

1. Refer to Item 1 of the application and the responses to Items 3 and 4 of Grayson's response to Commission Staffs Second Request for Information (Staffs Second Request"). Identify the counties in which Grayson published notice, as contained in the responses to Items 3 and 4 of Staffs Second Request, and explain why these were the only counties in which notice was published.

**Response:**

<u>County</u>	<u>Newspaper</u>	<u>Publisher</u>
Lewis Co.	Lewis Co. Herald	Lewis Co. Herald
Elliott Co.	Elliott Co. News	Courier Publishing
Greenup Co.	Greenup Co. News	Independent Publishing
Lawrence Co.	Big Sandy News	Big Sandy News
Rowan Co.	Morehead News	Morehead News Group
Carter Co.	Grayson Journal Times	Morehead News Group

All of Grayson's members reside in these counties.

Witness: Don M. Combs

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2. Refer to Item 25 of Grayson's application. It states that "Grayson performed a depreciation study as of December 31, 2010 and included the study in Case No. 2008-00254." Confirm that the correct year end of the depreciation study in Case No. 2008-00254 was December 31, 2007.

**Response:**

2007 is the correct year.

Witness: Jim Adkins

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3. Refer to the responses to Items 5 and 29 of Staffs Second Request.

- a. Identify the date on which Grayson received the letter from the Rural Utilities Service ("RUS") provided in response to Item 5.

**Response:**

On or around March 30, 2012

- b. Identify the date on which Grayson's Board of Directors received notification of the letter from RUS.

**Response:**

Grayson shared the letter and response with the Board on April 20, 2013 – the next regular Board of Directors meeting.

- c. Refer to the last sentence in the third paragraph of the letter from RUS. Identify and describe what additional actions Grayson took in response to the letter from RUS.

**Response:**

Grayson immediately developed a list of planned expenditures that could be delayed, without affecting customer service and utility operations. Among the items were:

- Downsizing the Annual Meeting
- Not expanding the coop information section in the Kentucky Living magazine.
- Not re- surfacing a portion of the parking area.
- Delaying various IT upgrades and improvements, including Grayson's mapping system.
- Delaying the development of the next 4 Year Work plan and a Strategic Plan.
- Reduced the number of Construction Contracting personnel due to reduced demand.

- d. Refer to the response to Item 29 of Staffs Second Request. State what consideration Grayson and its Board of Directors give to delaying or reducing its wage and salary increase in light of its financial condition.

**Response:**

Grayson's wages have historically been below market rates and Grayson's wage and salary studies and union contracts have been the means to raise the rates near market levels. At the same time, employees have been asked to take on additional responsibilities as the work functions have evolved, e.g. increased regulatory oversight and the role of computers in most every area of utility operations.

- e. State whether Grayson has received any other correspondence from RUS. If so, provide a copy of such correspondence and consider this an ongoing request.

**Response:**

No, however Grayson will provide copies of future correspondence from an to RUS.

Witness: Carol Fraley

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4. Refer to the response to Item 6 of Staffs Second Request. Identify which specific optional rate designs are the subject of this response and provide the number of customers currently participating in each identified rate design and associated tariff.

**Response:**

#20	Inclining Block	14 participants
#10	Residential Time of Day	2 participants
#15	Residential Demand & Energy	0 participants
#11	Small Commercial Time of Day	0 participants
#16	Small Commercial Demand & Energy	0 participants

Customers have been slow to choose optional rate designs, mainly because of the risk of a higher bill, if not able or willing to fit optimal energy usage patterns. Many are not able or willing to shift their loads (lifestyle) to achieve savings.

Most of Grayson's effort have centered around improving weatherization levels in homes and businesses.

Witness: Jim Adkins



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5. Refer to the response to Item 7 of Staffs Second Request.

- a. If the Commission approves Grayson rate request, state whether Grayson would restart the rotation of general capital credits.

**Response:**

The approval of the rate request would not, in itself, restart the rotation of capital credits. The increase requested in this rate application is to get Grayson in position to meet its mortgage requirements. If this increase allows Grayson to meet the covenants of its "Equity Management/Capital Credit Policy", then Grayson would review whether it was feasible to restart rotation of capital credits.

- b. State when and under what circumstances Grayson would consider starting rotation of general capital credits.

**Response:**

When Grayson meets the provisions of its equity management plan, it will consider all factors regarding rotating capital credits. There is not 1 (one) area that would dictate rotating capital credits. Mortgage ratios, cash positions, future expenditures, and other financial considerations would be part of that decision.

Witness: Carol Fraley

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6. Refer to the response to Item 9 of Staffs Second Request. Explain why Grayson is proposing increases to the rates of Rate Schedules 15 and 16 if no customers are served from them, and state whether Grayson believes this will make these optional tariffs more unattractive to customers.

**Response:**

In the process of reviewing all rates, Grayson desires to keep the various rates "balanced" that are eligible to similar classes of customers.

Witness: Jim Adkins

Grayson Rural Electric Cooperative  
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7. Refer to the response to Item 10.e.(1) of Staffs Second Request. Clarify which meters identified in this response are AMI meters.

**Response:**

All meters identified in this response are AMI meters.

Witness: Jim Adkins

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8. Refer to the proposed Prepay Metering Program Tariff.

a. Explain why Grayson is proposing to include Rate Schedule 18, General Service as eligible participants in the prepay program. The explanation should include:

-

- (1) the characteristics of this class that, in Grayson's opinion, make it appropriate for inclusion in such a program;
- (2) the percentage of General Service customers Grayson believes will be interested in participating; and
- (3) the number of General Service customers who are also Rate Schedule 1 Domestic Farm & Home Service customers.

**RESPONSE:**

- (1) Rate Schedule 18, General Service, is defined those not classified as permanent residential or small commercial users such as camps, barns, garages, outbuildings, domestic pumping stations and unoccupied dwellings. Grayson is proposing to include this rate schedule in the prepay program because they are low usage members who may benefit from not having to make a large deposit.
- (2) The percent of general service customers Grayson believes will be interested in participating cannot be determined. However, if Grayson follows the 3 percent guide line, 48 members can be estimated. (In June of the test year there were 1,605 accounts.)
- (3) Grayson has 1140 General Service customers that are also Rate Schedule 1 Domestic Farm & Home Service customers.

b. State whether Grayson is aware that it's proposed \$10 Monthly Program Fee is higher than any proposed or approved for similar programs.

**RESPONSE:**

Yes, Grayson is aware that its proposed \$10 monthly program fee is higher. Grayson estimated participation of 3% of its members is lower than other programs because Grayson has a smaller member base, thus increasing the rate per customer.

c. State whether Grayson considered offering the proposed prepay program on a pilot basis.

**Response:**

No, Grayson is not considering offering the proposed prepay program on a pilot basis.

Witness: Jim Adkins

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9. Refer to the response to Item 14 of Staff's Second Request, which referenced the statement that Grayson will be more prone to enter into additional DSM programs if more of its costs are placed into a fixed-rate component. Reconcile this statement with the response to Item 40.e., which states that Grayson is not looking to pursue including additional DSM programs in its portfolio as a result of approval of its proposed increased customer charge.

**Response:**

The reconciliation of these two statements is based on the recognition of the timing difference. The response in Item 14 of Staff's Second Date Request is geared to the future if and when the proposed customer charge is increased to the requested amount and when new DSM programs come to light and/or offered by East Kentucky Power Cooperative. The response in Item 40e of the Staff's Second Data Request is talking only about the time frame.

Witness: Jim Adkins

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10 . Refer to the revised cost of service study ("COSS") filed in response to Item 18 of Commission Staffs Second Information Request ("Staff's Second Request"), pages 40-41 of 43. The following table shows Grayson's proposed increases and COSS justified increases for certain rate classes.

Rate Class	Proposed	COSS Justified
1 – Residential	1,627,302	1,577,966
4 – Large Power	-	71,805
5 – Street Lighting	378	3,389
6 – Security Lights	27,622	2,952

Given the revised "COSS Based Increase" amounts for the rate classes shown in the table, state whether Grayson now believes that the proposed increases to these classes should be revised. If yes, explain how Grayson would propose to revise them. If no, explain why a revision would not be appropriate.

**Response:**

Grayson agrees that the proposed increase for the rate classes listed above should be revised to the amounts that in the column labeled as COSS Justified.

Witness: Jim Adkins

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11. Refer to the response to Item 24 of Staffs Second Request. Explain why "Other Revenue" cannot be directly assigned to the rate classes.

**Response:**

The other revenue amounts in the Cost of Service Study includes the following accounts

450 Forfeited Discounts  
451 Misc Service Revenue  
452 Return Check Charge  
454 Rent from Electric Prop.  
456 Other Electric Revenue  
Total Misc Income

Less: Other Income

415 Net Revenue from Merchandising  
416 Cost of Merchandising  
417 Revenue from Non-utility Operatic  
418 Revenue from Non-operating rent  
419 Interest Income  
421 Misc. Non-operating Income  
424 Other Capital Credits  
423 G&T Capital Credits

None of the items that go into the above listed accounts are accounted for on the basis of rate class. Only accounts 450 – Forfeited Discounts, 451 – Misc. Service Revenue, 452 – Return Check Charge could be tied to a member of a specific rate class but the accounting does not account for in that way. All other listed accounts have no specific relationship with a specific member or rate class.

Witness: Jim Adkins



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12. Refer to the responses to Items 28.a. and b. of Staffs Second Request.

a. Grayson's response to Item 28.a. states, "Installation costs for meters were \$58k less during the test year." Given that the total expense in the test year for Account 586.00, Meter Expense was \$552,000 and installation costs for meters was \$58,000 less in the test year, explain how the total amount of expense for this account was more for the test year than for the 12 months preceding the test year.

**Response:**

Installation costs are credits. This accounting is in accordance with the Uniform System of Accounts ("USoA") for installing meters and transformers.

b. Grayson's response to Item 28.d. of Staffs Second Request states that Account 932.00, Maintenance of General Expense, increased from \$285,000 in the year preceding the test year to \$326,000 in the test year due to the "parking lot being repaved and striped at a cost of \$49k during the test year."

(1) Identify and explain the authority and threshold for which Grayson capitalizes rather than expenses costs.

(2) Explain why the parking lot improvements were not capitalized.

(3) If Grayson had capitalized the cost of the parking lot improvements, what would the amount of the annual depreciation on the asset?

**Response:**

(1) Grayson capitalizes items of general plant over \$2,500. This is what the USoA recommends. However, when an item of general plant is repaired, and not removed from service, it becomes a maintenance costs. Grayson did not remove the existing parking lot, but repaved the lot, which was accurately accounted for as maintenance.

(2) Since the existing parking lot was not removed, the cost of repaving was maintenance.

(3)  $\$49,025 \times 2.5\% = \$1,226$ .

Witness: Jim Adkins

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13. Refer to page 2 of 4 in the response to Item 31 of Staffs second Request. The information in the third column is not legible. Provide a copy that is legible.

**Response:**

A legible copy is attached.

Witness: Jim Adkins

Grayson Rural Electric Cooperative

Exhibit S

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page 2 of 4

Statement of Operations, Adjusted

Witness: Jim Adkins

	Actual Test Year	Normalized Adjustments	Normalized Test Year	Proposed Increase	Proposed Test Year
Operating Revenues:					
Base rates	26,132,515	32,442	26,164,957	2,070,472	28,235,429
Fuel and surcharge	2,124,407	(2,124,407)	-		-
Other electric revenue	1,043,073	(121,411)	921,662		921,662
	<u>29,299,995</u>	<u>(2,213,376)</u>	<u>27,086,619</u>	<u>2,070,472</u>	<u>29,157,091</u>
Operating Expenses:					
Cost of power:					
Base rates	16,754,918	-	16,754,918		16,754,918
Fuel and surcharge	2,086,626	(2,086,626)	-		-
Distribution - operations	1,145,370	18,900	1,164,270		1,164,270
Distribution - maintenance	2,950,336	40,808	2,991,144		2,991,144
Consumer accounts	1,057,413	26,289	1,083,702		1,083,702
Customer service	216,591	3,940	220,531		220,531
Sales	29,527	845	30,372		30,372
Administrative and general	1,851,689	(53,022)	1,798,667		1,798,667
Total operating expenses	<u>26,092,470</u>	<u>(2,048,866)</u>	<u>24,043,604</u>	<u>-</u>	<u>24,043,604</u>
Depreciation	2,944,782	38,090	2,982,872		2,982,872
Taxes - other	30,541	-	30,541		30,541
Interest on long-term debt	1,030,994	56,437	1,087,431		1,087,431
Interest expense - other	111,711	(35,691)	76,020		76,020
Other deductions	12,065	(12,065)	-		-
Total cost of electric service	<u>30,222,563</u>	<u>(2,002,095)</u>	<u>28,220,468</u>	<u>-</u>	<u>28,220,468</u>
Utility operating margins	<u>(922,568)</u>	<u>(211,281)</u>	<u>(1,133,849)</u>	<u>2,070,472</u>	<u>936,623</u>
Nonoperating margins, interest	29,873	-	29,873		29,873
Nonoperating margins, other	(47,666)	-	(47,666)		(47,666)
G & T capital credits	1,357,241	(1,357,241)	-		-
Patronage capital credits	168,601	-	168,601		168,601
Net Margins	<u>585,481</u>	<u>(1,568,522)</u>	<u>(983,041)</u>	<u>2,070,472</u>	<u>1,087,431</u>
TIER	1.57		0.10		2.00

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14. Refer to the response to Item 35 of Staffs Second Request. The answer is not responsive. State with explanation the reason(s) why Grayson had the highest amount of Total Operations and Maintenance Expense Per Customer (Column 4 on Exhibit 16, page 1).

**Response:**

Grayson operates in a very rural and sparsely populated area. Even though there are not many consumers on a line, there is still maintenance and other associated costs. Grayson has the lowest density of consumers per mile, this translates into have the highest operations and maintenance per consumer.

Witness: Jim Adkins