

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE
COMMISSION

In the Matter of:

APPLICATION OF CUMBERLAND VALLEY)
ELECTRIC, INC. FOR AN ADJUSTMENT)
OF RATES AND ALL CORRESPONDING)
MATERIALS)

CASE NO: 2014-00159

ATTORNEY GENERAL’S SUPPLEMENTAL REQUESTS FOR INFORMATION

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and submits the Supplemental Requests for Information to Cumberland Valley Electric, Inc. (“Cumberland Valley”) to be answered by the date specified in the Commission’s Order of Procedure, and in accord with the following instructions:

(1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.

(2) Please identify the witness (es) who will be prepared to answer questions concerning each request.

(3) Please repeat the question to which each response is intended to refer. The Office of the Attorney General can provide counsel for Cumberland Valley with an electronic version of these data requests, upon request.

(4) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.

(5) Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association, be accompanied by a signed certification of the preparer or 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.

(6) If you believe any request appears confusing, please request clarification directly from Counsel for the Office of Attorney General.

(7) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(8) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self evident to a person not familiar with the printout.

(9) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

(10) As used herein, the words "document" or "documents" are to be construed broadly and shall mean the original of the same (and all non-identical copies or drafts thereof) and if the original is not available, the best copy available. These terms shall include all information recorded in any written, graphic or other tangible form and shall include, without limiting the generality of the foregoing, all reports; memoranda; books or notebooks; written or recorded statements, interviews, affidavits and depositions; all letters or correspondence; telegrams, cables and telex messages; contracts, leases, insurance policies or other agreements; warnings and caution/hazard notices or labels; mechanical and electronic recordings and all information so stored, or transcripts of such recordings; calendars, appointment books, schedules, agendas and diary entries; notes or memoranda of conversations (telephonic or otherwise), meetings or conferences; legal pleadings and transcripts of legal proceedings; maps, models, charts, diagrams, graphs and other demonstrative materials; financial statements, annual reports, balance sheets and other accounting records; quotations or offers; bulletins, newsletters, pamphlets, brochures and all other similar publications; summaries or compilations of data; deeds, titles, or other instruments of ownership; blueprints and specifications; manuals, guidelines, regulations, procedures, policies and instructional materials of any type; photographs or pictures, film, microfilm and microfiche; videotapes; articles; announcements and notices of any type; surveys, studies, evaluations, tests and all research and development (R&D) materials; newspaper clippings and press releases; time cards, employee schedules or rosters, and

other payroll records; cancelled checks, invoices, bills and receipts; and writings of any kind and all other tangible things upon which any handwriting, typing, printing, drawings, representations, graphic matter, magnetic or electrical impulses, or other forms of communication are recorded or produced, including audio and video recordings, computer stored information (whether or not in printout form), computer-readable media or other electronically maintained or transmitted information, and all other rough drafts, revised drafts (including all handwritten notes or other marks on the same) and copies of documents as hereinbefore defined by whatever means made.

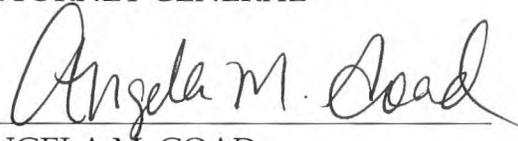
(11) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(12) In the event any document called for has been destroyed or transferred beyond the control of the company, please state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

(13) Please provide written responses, together with any and all exhibits pertaining thereto, in one or more bound volumes, separately indexed and tabbed by each response, in compliance with Kentucky Public Service Commission Regulations.

(14) The Attorney General reserves the right to pose additional preliminary data requests on or before the due date specified in the Commission's procedural schedule.

Respectfully submitted,
JACK CONWAY
ATTORNEY GENERAL

A handwritten signature in black ink that reads "Angela M. Goad". The signature is written in a cursive style and is positioned above a horizontal line.

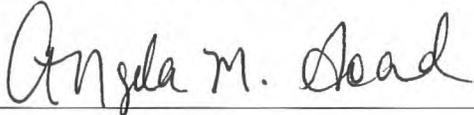
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Certificate of Service and Filing

Counsel certifies that an original and ten photocopies of the foregoing were served and filed by hand delivery to Jeff Derouen, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; counsel further states that true and accurate copies of the foregoing were mailed via First Class U.S. Mail, postage pre-paid, to:

Honorable W. Patrick Hauser
Attorney at Law
P.O. Box 1900
Barbourville, KY 40906

this 8th day of September, 2014

A handwritten signature in cursive script that reads "Angela M. Spad". The signature is written in black ink and is positioned above a horizontal line.

Assistant Attorney General

Attorney General's Supplemental Requests for Information
Application of Cumberland Valley Electric, Inc. for an Adjustment of Rates
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1. Please reference CVE's Response to AG 1-1 where the Attorney General requested all tables, worksheets, and exhibits referenced in or supporting the application in their native electronic format, with data including formulae in all cells and rows fully intact and fully accessible. Thus far the Attorney General has not received a CD Rom with any of the prior submissions by CVE. Please provide the CD Rom with the information requested.
2. Please reference CVE's Responses to Commission Staff 2-1(a) and AG 1-6(b). In the response CVE states that most experts are projecting an increase in interest rates in the very near future. Please admit that experts had also expected interest rates to increase in 2014, yet they have actually decreased throughout the year setting record lows.
3. Please reference CVE's Response to Commission Staff 2-1(b) wherein it is stated that the Federal Financing Bank's interest rate in mid April 2014 was 2.17% and has now dropped to 1.99% as of August 18, 2014.
 - a. Please explain how CVE is still contending that the interest rates will definitely rise, and ratepayers should pay for an inflated, non-existent interest rate, when by its own example interest rates have been lowered.
 - b. Please provide the up to date Federal Financing Bank's interest rate.
4. Please reference CVE's Response to Commission Staff Question 2-33(c). CVE responds that the \$250 payment to the Boy Scouts of America for presentation of the flag at the annual meeting should be considered a payment as a fee, instead of a donation. Please explain in full whether the Boy Scouts actually provided a bill of \$250 to CVE to pay for this service or if CVE paid \$250 on its own initiative.
 - a. Please also answer if CVE believes it is reasonable to pay \$250 to present a flag.
5. Please reference CVE's Response to AG 1-6 generally. CVE states that ratepayers should be forced to pay rates based upon a non-actual and inflated interest rate than what CVE currently enjoys because, "CVE would be filing for another rate increase very shortly after this one has been adjudicated if it had use[d] a TIER

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method." Why should CVE not be forced to wait to request increased rates on actual interest rates if and when they increase in the future?

6. CVE further responds to AG 1-6(f) that "as most folks are aware interest rates are forecasted to rise in 2015 and the Commission will see a very large number of rate filings thereafter." Are the other utility companies/cooperatives in Kentucky and across America not in the same situation that CVE is currently in, yet no other utility has filed a request for increased rates based upon artificially inflated interest rates?
 - a. Please confirm that the forecast of interest rates to rise in 2015 is merely speculative and there is no actual proof or way of knowing if interest rates will increase, decrease, or stay the same throughout 2015.
7. Please reference CVE's Response to AG 1-6(e) where CVE admits that the Kentucky Public Service Commission has never granted increased rates if the jurisdictional electric cooperative did not employ TIER as the basis for establishing margins. Please explain why CVE believes they should be the exception to this long standing precedent.
8. Please reference CVE's Response to AG 1-6(f) where CVE admits that the Kentucky Public Service Commission has never granted increased rates based upon higher interest rates than what the company is currently paying. Please explain why CVE believes they should be the exception to the long standing precedent.
9. Please reference CVE's Application generally where it proposes to determine the cost of all of its debt at the Federal Financing Bank's seven year rate that existed in mid-April of 2.17%. Since the Federal Financing Bank's seven year rate as of August 2014 is now 1.99%, is CVE proposing to change the initial request to conform with the lower interest rate? If yes, please explain. If no, please explain why not.
 - a. Please provide the adjusted rate request increase using the most current interest rate of 1.99% instead of 2.17%, and reflect the adjusted rate request using the traditional approach versus using CVE's interest normalization approach.

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- b. Would CVE agree that the fact that the Federal Financing Bank's seven year interest rate lowering in the past five months even though there was speculation that interest rates should have been on the rise in 2014 not bolster the point that CVE should not request higher artificial interest rates to be paid by the ratepayer?
10. Please reference CVE's Response to AG 1-8. The AG asked if the Commission does not accept the interest normalization proposed in this application then what level of TIER does CVE believe to be acceptable. CVE answered that, "I cannot specify a specific level of TIER because it depends on each individual situation." Please specify the TIER that CVE would find acceptable in this specific case. Please explain your answer in detail.
11. Please reference CVE's Response to AG 1-13 concerning the annual meeting budgets. Please state why Cumberland Valley Electric did not attempt to reduce the amount of the annual meeting budget in order to conserve funds if it is experiencing financial hardships. Please explain the answer in full.
12. Please reference CVE's Response to AG 1-14(a) and (b) where CVE confirms that it has given continuous yearly raises to all employees since the economic recession of 2008. Please explain why CVE did not reduce and/or limit pay increases in order to keep CVE financially sound, and in turn limit rate increases for the customers.
13. Please reference CVE's Response to AG 1-14(c). Why has CVE not conducted a study to compare CVE's salaries, benefits, and raises per employee with the standard salary, benefits, and raises in the workforce in the counties in which it serves, including but not limited to the following counties: Bell, Harlan, Knox, Laurel, Leslie, Letcher, McCreary, and Whitley counties.
 - a. Does CVE not believe it is important to determine if CVE's salaries, benefits, and raises per employee are inordinately higher than the ratepayers that they serve?

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14. Please reference CVE's Response to AG 1-15 where CVE confirms that there is a severe economic decline in Eastern Kentucky due to the loss of thousands of coal jobs that has had an extremely negative impact on its ratepayers. In consideration of this fact, should CVE not attempt to limit any rate increase, if any, due to the severe circumstances of the customers that they serve?
15. Please reference CVE's Responses to AG 1-24, 1-25, and 1-26. CVE confirms that there are multiple incidences of familial relationships amongst the employees such as the CEO being related to a Board Member, Superintendent, Assistant Superintendent, Bookkeeper, etc.
 - a. For all of the relationships listed in the responses please specify when each were hired and/or appointed the position.
 - b. Why were people hired at CVE that have familial relationships with existing employees since it is in violation of CVE's Nepotism Policy?
 - c. CVE's Nepotism Policy asserts that the board recognizes that the practice of nepotism in employment of personnel by virtue of family relationships is bad practice as there is natural tendency for kinsman to favor kinsman if the opportunity presents itself. It further states that the cooperative shall not employ any person or persons who are kin. Does CVE not find it important to comply with its nepotism policy? If not, why not for the instances referenced above?
16. Please reference CVE's Response to Commission Staff 2-23 where CVE advises that they spent \$380,089 to partially remodel the Gray office, and that they also plan to build an addition to the Gray Headquarters Office building at a projected cost of \$800,000.
 - a. Please provide a detailed breakdown of each project expenditure, as well as the basis of the need for the construction at this time.
 - b. Please explain why the remodel costs were \$380,089, but per the PSC letter from Jeff Derouen, CVE advised the PSC that the cost should be \$300,000. Please provide a detailed explanation.

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17. Reference CVE's Response to Commission Staff 2-23. Please state if the construction contractor used for the Gray office construction and the proposed addition to the Gray Headquarters Office building are related to a CVE board member, officer, consultant, or employee. If so, please provide a detailed list.