




Cumberland Valley Electric

A Touchstone Energy Cooperative 

September 18, 2014

RECEIVED  
SEP 18 2014  
PUBLIC SERVICE  
COMMISSION

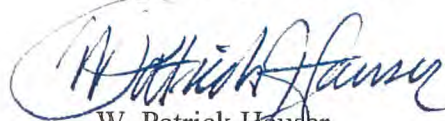
Attorney General  
Attn: Rate Intervention  
1024 Capital Center Drive  
Suite 200  
Frankfort, Kentucky 40601

Re: Application of Cumberland Valley Electric Cooperative  
Corporation for an Adjustment of Rates  
Case No. 2014-00159

Please find enclosed the responses to the Attorney General's Supplemental Requests for Information dated September 8, 2014.

Please contact me at should you have any questions regarding this filing.

Respectfully submitted,



W. Patrick Hauser  
P.O. Box 1900  
Barbourville, Kentucky 40906  
606-546-3811  
phauser@barbourville.com  
Attorney for Cumberland Valley Electric, Inc.

Enclosure

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED  
SEP 18 2014  
PUBLIC SERVICE  
COMMISSION

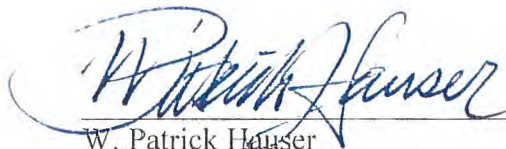
In the Matter of adjustment of Rates  
Of Cumberland Valley Electric Cooperative  
Corporation

Case No. 2014-00159

APPLICANT'S RESPONSES TO  
ATTORNEY GENERAL'S SUPPLEMENTAL REQUESTS FOR INFORMATION

The applicant, Cumberland Valley Electric Cooperative Corporation, makes the following responses to the "Attorney General's Supplemental Request for Information", as follows:

1. The witnesses who are prepared to answer questions concerning each request are Jim Adkins and Robert Tolliver.
2. Robert Tolliver, Office Manager of Cumberland Valley Electric, Inc 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. Patrick Hauser  
P.O. Box 1900  
Barbourville, Kentucky 40906  
606-546-3811  
phauser@barbourville.com  
Attorney for Cumberland Valley Electric, Inc.

The undersigned, Robert Tolliver, as Office Manager of Cumberland Valley Electric, Inc, 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: September 18<sup>th</sup>, 2014

CUMBERLAND VALLEY ELECTRIC, INC

By: Robert Tolliver  
ROBERT TOLLIVER, OFFICE MANAGER

Subscribed, sworn to, and acknowledged before me by Robert Tolliver, as Office Manager for Cumberland Valley Electric, Inc on behalf of said Corporation this 18 day of September, 2014.

Haron Dale Miller  
Notary Public, Kentucky State At Large

My Commission Expires: 4-11-2018

The undersigned, Jim Adkins, as Consultant for Cumberland Valley Electric, Inc, 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: September 18<sup>th</sup>, 2014

By: James R. Adkins  
JIM ADKINS, CONSULTANT

Subscribed, sworn to, and acknowledged before me by Jim Adkins, as Consultant for Cumberland Valley Electric, Inc on behalf of said Corporation this 18 day of September, 2014.

Harold Dale Miller  
Notary Public, Kentucky State At Large

My Commission Expires: 4-11-2018

CUMBERLAND VALLEY ELECTIRC  
CASE NO. 2014-00159  
RESPONSE TO ATTORNEY GENERAL'S SUPPLEMENTAL  
REQUEST FOR INFORMATION

Q1: Please reference CVE's Response to AGI-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 submission by CVE. Please provide the CD Rom with the information requested.

RESPONSE:

Enclosed with this response is a CD Rom with the requested information.

CUMBERLAND VALLEY ELECTRIC  
CASE NO. 2014-00159  
RESPONSE TO ATTORNEY GENERAL'S SUPPLEMENTAL  
REQUEST FOR INFORMATION

Q2: 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.

RESPONSE:

Interest rates have set record lows this year but the bottom has been reached and they are turning upward. As of September 12, 2013 the FFB 7 year rate is up to 2.20% which is higher than what has been utilized in the development of this application. On September 15, 2014, the FFB 7 year rate is at 2.26%. One wonders if CVE should have used a higher interest rate than what was utilized in the Applications.

Experts have been wrong in the past on interest rates and that is an item we can agree on. However, the Federal Reserve has stated that it will be raising its interest rates in 2015 which will cause all other interest rates to rise. I do not know of any better experts on this matter than the Federal Reserve.

CVE has taken a proactive stance in this situation by requesting an increase based on current, longer term interest rates than what it experienced during the test period. CVE must take this stance because of the fiscal cliff it is now facing for failing to meet its mortgage requirements for 2012 and 2013. There is an extremely high probability that CVE will not meet its mortgage requirements for 2014. CVE should be commended for the position that it has taken on managing its debt or it would have been before the Commission for an increase in rates two to three years before the filing of this case. CVE should not be penalized for its prudence in managing its debt and being good stewards of the cooperative's assets.

CUMBERLAND VALLEY ELECTIRC  
CASE NO. 2014-00159  
RESPONSE TO ATTORNEY GENERAL'S SUPPLEMENTAL  
REQUEST FOR INFORMATION

- Q3: Please reference CVE's Response to Commission Staff 2-1(b) wherein it is sated 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.

RESPONSE:

CVE's contention that interest rates will rise is most certainly a valid one in light of the fact that the rate as of September 12, 2014 is 2.20% and 2.26% as of September 15, 2014 for the Federal Financing Bank. It is extremely hard for CVE to understand the Attorney General's ("AG") assertion than interest rates will not rise. It is only common sense that interest rates will rise after setting record lows this year and to follow the opinion of the experts such as the Federal Reserve.

- b. Please provide the up to date Federal Financing Bank's interest rate.

RESPONSE:

See the response in part a above.

Cumberland Valley Electric

Case No. 2014-00159

Attorney General's Second Request for Information

Q4: Please reference CVE's Response to Commission Staff Questions 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 fully 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.

RESPONSE:

Cumberland Valley did not receive an invoice from the Boy Scouts of America. Cumberland Valley determined that \$250 was a reasonable amount to pay for the service of presenting the flag at the annual meeting.

a. Please also answer if CVE believes it is reasonable to pay \$250 to present a flag.

RESPONSE:

Cumberland Valley Electric feels that \$250 was a reasonable amount to pay for the presentation of the flag at our annual meeting.



CUMBERLAND VALLEY ELECTRIC  
CASE NO. 2014-00159  
RESPONSE TO ATTORNEY GENERAL'S SUPPLEMENTAL  
REQUEST FOR INFORMATION

Q5: Please reference CVE's Response to AG1-6 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 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?

RESPONSE:

CVE has never stated that the ratepayers should be forced to pay rates based on non-actual and inflated interest rates. The interest rates that CVE are proposing to be used for rate making purpose are based on actual, longer term rates. Also, I am not sure how one could say that an interest rate of 2.17% is highly inflated. Such assertions indicate a significant lack of knowledge of financing of the electric industry and rural electric program. CVE has had a significantly low average cost of debt during the last several years because they have taken advantage of the very low short term rates. CVE could have locked in long term debt at much higher cost than the short debt and we would not be having this discussion as interest expense would be much higher and margins requested much higher. Most probably, CVE would have been in for an increase a couple of years ago.

If CVE would select a 12 month period ending with August 2014, CVE could justify an increase request of at least \$720,000 removing EKPC GTCC's from the Statement of Operations and requesting a TIER of 2.0X. Of course the request would be somewhat larger after the normalization of expense process.

Provided below is a table which contains a summary statement of operations for the twelve month period ending in August of this year. This statement of operations

CUMBERLAND VALLEY ELECTRIC  
CASE NO. 2014-00159  
RESPONSE TO ATTORNEY GENERAL'S SUPPLEMENTAL  
REQUEST FOR INFORMATION

indicated very clearly some of the reasons why CVE has taken the approach they have in this application.

Cumberland Valley Electric Statement of Operations For the Twelve Months Ending August 2014	
Operating Revenue	\$ 47,423,539
Less: Purchased Power Costs	36,649,161
Gross Margins	<u>10,774,378</u>
Operations and Maintenance	11,356,317
Operating Margins	<u>(581,939)</u>
Other Income or Expenses	214,483
Net Margins (No GTCC's)	<u>\$ (367,456)</u>
<b>Increase Amount</b>	
Margins	\$ (367,456)
Margins for 2.0X TIER	352,404
Amount of Increase	<u>\$ 719,860</u>
Interest Expense for the period	\$ 352,404

CUMBERLAND VALLEY ELECTRIC  
CASE NO. 2014-00159  
RESPONSE TO ATTORNEY GENERAL'S SUPPLEMENTAL  
REQUEST FOR INFORMATION

- Q6: 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.

RESPONSE:

Other Cooperatives in Kentucky have not taken the same approach as CVE because the need has not risen yet. However, CVE has certainly demonstrated the shortcomings of using TIER as the basis for margins. Any forecast is speculative. However, interest rates are currently rising as demonstrated in the response to item 1 in these responses. Additionally, the Federal Reserve Chair has stated that interest rates will increase because they plan to increase the federal funds rate and discontinue the stimulus program that has kept interest rates artificially low. I do not know of any better source for information on interest rates than the Federal Reserve.

CUMBERLAND VALLEY ELECTRIC  
CASE NO. 2014-00159  
RESPONSE TO ATTORNEY GENERAL'S SUPPLEMENTAL  
REQUEST FOR INFORMATION

Q7: Please reference CVE's Response to AG1-6(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.

RESPONSE:

CVE should be the first of many exceptions to this precedent as we demonstrated very clearly the primary shortcoming with using the TIER method for determining the margin level for an electric cooperative. Other utilities use a rate of return method and the Commission will provide a rate of return in its orders dealing with cooperatives in rate applications.

CUMBERLAND VALLEY ELECTRIC  
CASE NO. 2014-00159  
RESPONSE TO ATTORNEY GENERAL'S SUPPLEMENTAL  
REQUEST FOR INFORMATION

Q8: Please reference CVE's Response to AF 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.

RESPONSE:

CVE should be the first of many exceptions to this precedent as we demonstrated very clearly the primary shortcoming with using the TIER method for determining the margin level for an electric cooperative. Other utilities use a rate of return method and the Commission will provide a rate of return in its orders dealing with cooperatives in rate applications.

CUMBERLAND VALLEY ELECTIRC  
CASE NO. 2014-00159  
RESPONSE TO ATTORNEY GENERAL'S SUPPLEMENTAL  
REQUEST FOR INFORMATION

Q9: 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.

RESPONSE:

CVE is willing to change its interest rate that it used in the application especially in light of the fact that interest rates are now higher now than when the application was developed and is consistent with CVE's stated position that interest rates are expected to rise.

- 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.

RESPONSE:

Please see table provided in page 2 of this response.

CUMBERLAND VALLEY ELECTRIC  
CASE NO. 2014-00159  
RESPONSE TO ATTORNEY GENERAL'S SUPPLEMENTAL  
REQUEST FOR INFORMATION

<b>Interest Adjustment Using August 2014 Interest Rates</b>	
Long Term Debt at Test Year End	\$ 42,813,061
Seven Year Interest Rate as of August 2014	1.99%
Normalized Interest Expense	851,980
Less Actual Test Year Interest Expense	354,342
Adjustment for Interest Expense	<u>\$ 497,638</u>
<b>Adjusted Increase Amount</b>	
Original Adjustment for Interest Expense	\$ 542,308
Adjustment from above for Interest Expense	497,638
Decrease in Interest Expense Adjustment	44,670
Decrease in Margins based on TIER of 2.0X	44,670
Decrease in Amount of Rate Increase	<u>89,340</u>
<b>Revised Increase Request</b>	
Original Increase Amount Requested	\$ 1,605,137
Less: Decrease in Request due to Change in Interest Rates	89,340
Revised Increase Amount	<u>\$ 1,515,797</u>

- 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?

CUMBERLAND VALLEY ELECTIRC  
CASE NO. 2014-00159  
RESPONSE TO ATTORNEY GENERAL'S SUPPLEMENTAL  
REQUEST FOR INFORMATION

RESPONSE:

CVE does not agree and believes that its position is more than justified when one fully comprehends that interest rates are rising now and will continue to rise in 2015.



CUMBERLAND VALLEY ELECTRIC  
CASE NO. 2014-00159  
RESPONSE TO ATTORNEY GENERAL'S SUPPLEMENTAL  
REQUEST FOR INFORMATION

Q10: 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 TEIR 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.

RESPONSE:

CVE has determined a TIER level of 2.0X is justified in this case based on the use of a current interest rate applied to all loans. However, a better basis for the determining the level of margins required by CVE would be one based on a return on equity approach.

Cumberland Valley Electric  
Case No. 2014-00159  
Attorney General's Second Request for Information

Q11: 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.

RESPONSE:

Annual meetings for electric cooperatives are a necessity and Cumberland Valley's Annual Meeting has always been what we feel is conservative.

Cumberland Valley Electric

Case No. 2014-00159

Attorney General's Second Request for Information

Q12: 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.

RESPONSE:

Cumberland Valley Electric has had only one distribution rate increases since 1980; furthermore Cumberland Valley has the second lowest rates for residential customers based on 1,000 kWh among cooperatives in the state of Kentucky. This track record demonstrates Cumberland Valley's determination to keep rates low for our members. Cumberland Valley always considers every option when it comes to operational expenses and strives to make the best decision for the stability and success of our cooperative. Our employees play a major role in that success, therefore Cumberland Valley tries to offer competitive wages in order to retain the experienced workforce that has played a key role in allowing Cumberland Valley to keep rates low for our members.

Cumberland Valley Electric

Case No. 2014-00159

Attorney General's Second Request for Information

Q13: 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.

RESPONSE:

Cumberland Valley utilizes wage comparisons on an annual basis in preparation for union negotiations that typically occur each year. These wage comparisons are conducted to compare Cumberland Valley employees with the wages of employees in the electric utility and electric cooperative industry. These comparisons take into account the job duties, educational requirements and functions of the position. Cumberland Valley feels that this is the best way to accurately determine the level of pay for its employees. Cumberland Valley is comparing them to individuals who are performing similar job duties in the same industry.

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?

RESPONSE:

As stated above in response to question 13 Cumberland Valley believes there are better metrics to use in determining the wages for its employees than to conduct studies to compare those salaries to those not performing similar job duties. Cumberland Valley monitors wage levels and feel that our employees are compensated appropriately for the work that they perform.

Cumberland Valley Electric

Case No. 2014-00159

Attorney General's Second Request for Information

Q14: 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 service?

RESPONSE:

Cumberland Valley has a long track record of trying to keep the rates that our members pay as low as possible. Cumberland Valley is aware of the impact the loss of coal jobs has on its members and the communities in which they live. However, Cumberland Valley is a business and as such must meet its financial obligations. Currently Cumberland Valley is not meeting its Rural Utility Services (RUS) operating TIER requirements. This is the driving factor for Cumberland Valley's request for a rate increase. The decline of coal in Eastern Kentucky has not only affected our members but it also plays a significant part in the financial hardship that Cumberland Valley now faces.

Cumberland Valley Electric  
Case No. 2014-00159  
Attorney General's Second Request for Information

Q15: Please reference CVE's Responses to AG 1-24, i-25, and i-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.

RESPONSE:

See page 2 of 2 of this Item for hiring dates.

- b. Why were people hired at CVE that have familial relationships with existing employees since it is in violation of CVE's Nepotism Policy?

RESPONSE:

It is the position of Cumberland Valley that its nepotism policy is important and that it complies with that policy. Since the management audit dated May 4, 2007, the hiring of any new employees who may have been related to existing Cumberland Valley employees were approved by the Board of Directors.

- 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?

RESPONSE:

See answer to above question AG 2<sup>nd</sup> Request 15b.

Cumberland Valley Electric Employee/Board Member Relationship Summary			
Hire Date	CVE Employee/Board Member	Related Employee Hire Date	Related Employee Position
4/6/1964	CEO	7/10/1961	Board Member
		6/7/1965	Construction Superintendent
		11/1/1999	Asst. Construction Superintendent
		6/11/1968	Bookkeeper*
1/20/1998	Billing Supervisor	5/21/2012	Lineman
11/16/1999	Maintenance Tech	4/16/2002	Crew Leader
7/5/1968	District Manager	4/18/2013	Billing Clerk
3/5/2007	Lineman	4/18/2013	Billing Clerk
6/8/1998	Serviceman	11/4/1999	Asst. Engineer
6/12/1970	Board Member	7/19/2004	Serviceman
7/10/1961	Board Member	11/1/1999	Asst. Construction Superintendent
1/3/2005	Manager of Engineering	-	Five C Construction Contractor
5/7/2002	Crew Leader	1/2/2007	Lineman
11/2/1999	Serviceman	1/4/2007	Lineman
6/28/2004	Crew Leader	3/1/2008	Lineman

\*Not related as of hire date

## Cumberland Valley Electric

Case No. 2014-00159

## Attorney General's Second Request for Information

- Q16: 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 the 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.

RESPONSE:

**Remodel Project**

<u>Activity</u>	<u>Amount</u>
Architectural Fees	\$24,862.50
General Contractor	\$243,250.00
Roof Contractor	\$83,884.00
Electrician	\$10,746.12
Landscaping	\$13,092.67
Misc-Awning,Paint,Inspection Fees	\$4,253.40
<b>TOTAL</b>	<b>\$380,088.69</b>

See response to Commission Staff's Second Request Question 23.a.1. for basis of the need.

**Addition Project**

The only cost associated with this project was \$56,457 for architectural services as it was in its initial design stages. The project is currently on hold. The basis of need is for additional office space.



Cumberland Valley Electric  
Case No. 2014-00159  
Attorney General's Second Request for Information

- 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.

RESPONSE:

The \$300,000 was a ballpark estimate as we did not have the project details or bids at the time the PSC was advised of estimated costs.

Witness: Robert Tolliver

Cumberland Valley Electric  
Case No. 2014-00159  
Attorney General's Second Request for Information

Q17: 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.

RESPONSE:

Cumberland Valley employed a bidding process to select the contractor that performed the remodel of the Gray office. JMBA, Inc. was selected to perform the remodel and has no known relation to any of the employees or board of directors of Cumberland Valley.