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Leonard K. Peters  
Secretary  
Energy and Environment Cabinet

Commonwealth of Kentucky  
**Public Service Commission**  
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David L. Armstrong  
Chairman

James W. Gardner  
Vice Chairman

Linda Breathitt  
Commissioner


November 3, 2014

**PARTIES OF RECORD**

Re: Case No. 2014-00159

Attached is a copy of a memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the memorandum please do so within five days of receipt of this letter. If you have any questions, please contact Jonathan Beyer, Commission Counsel, at 502/782-2581.

Sincerely,

  
Jeff Derouen  
Executive Director

Enclosures

## INTRA-AGENCY MEMORANDUM

### KENTUCKY PUBLIC SERVICE COMMISSION

**TO:** Case File – Case No. 2014-00159

**FROM:** Jonathan Beyer, Staff Attorney

**DATE:** November 3, 2014

**RE:** Informal Conference of October 29, 2014

Pursuant to the Commission's October 29, 2014 Order, an informal conference was held in this matter on October 29, 2014. A list of attendees is attached.

Beginning the conference, Cumberland Valley Electric, Inc. ("Cumberland Valley") personnel discussed and explained the rationale for its proposed interest expense adjustment. Cumberland Valley indicated that a significant portion of its debt, approximately 85%, is currently comprised of variable short-term debt so as to take advantage of the historically low rates. It, however, believes that rates will soon begin to increase and it will be compelled to lock in longer term rates, which it can do on any calendar quarter. It stated that due to the use of short-term borrowing, it has saved on interest expense and the ratepayers have thereby been benefited. Cumberland Valley noted that it has the lowest blended interest rate in the Commonwealth and one of the lowest nationwide rates. Several handouts, which are attached, were distributed to aid in the discussion.

Commission Staff indicated that the Commission has never previously permitted recovery for interest expense which remains hypothetical. Cumberland Valley stated that if it is not granted the full amount requested, particularly in regard to the interest expense, it will most likely continue to lose money, fail to meet its TIER requirements and will likely request another rate increase next year.

The Attorney General followed with questions concerning Cumberland Valley's consistent practice of granting raises to all employees. Cumberland Valley stated that the raises for union employees are negotiated and the non-union employees are granted the same increase. It opined that its salaries are in line with other electric cooperatives. The Attorney General further inquired into Cumberland Valley's proposed increase being placed exclusively on the customer charge.

Finally, the parties discussed the potential for resolving the issues in this case. Thereafter, finding that no party had any further questions, the conference was adjourned.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CUMBERLAND VALLEY  
ELECTRIC, INC. FOR AN ADJUSTMENT OF  
RATES

) CASE NO.  
) 2014-00159  
)

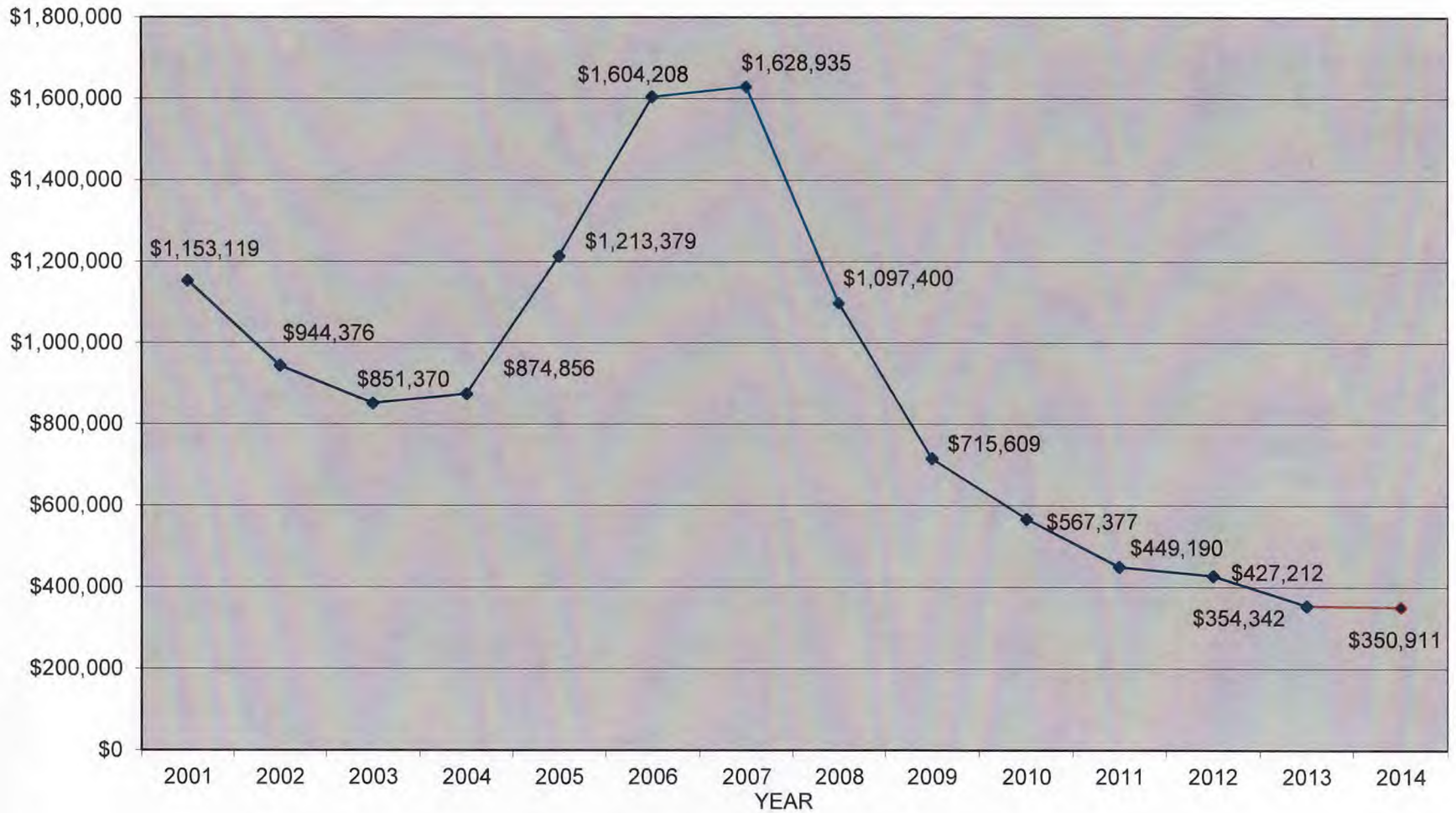
October 29, 2014

Please sign in:

NAME	REPRESENTING
<u>Lee Hampton</u>	<u>Cumberland Valley Elec.</u>
<u>Jim Adkins</u>	<u>" " " "</u>
<u>Barbara Elliott</u>	<u>" " " "</u>
<u>Brian Chaney</u>	<u>" " " "</u>
<u>Robert Tolliver</u>	<u>" " " "</u>
<u>PAT HAUSER ATTY</u>	<u>" " " "</u>
<u>Leah Faulkner</u>	<u>PSC - FA</u>
<u>Ron Handziak</u>	<u>PSC - FA</u>
<u>JENNIFER BLACK HANCOCK</u>	<u><del>PSC</del> OAG</u>
<u>Angela M. Goto</u>	<u>OAG</u>
<u>RICHARD RAFF</u>	<u>PSC - LEGAL</u>
<u>Jim Stevens</u>	<u>PSC - FA</u>
<u>JOHN SHUPP</u>	<u>PSC - ENG.</u>
<u>Jonathan Beyer</u>	<u>PSC - Legal</u>

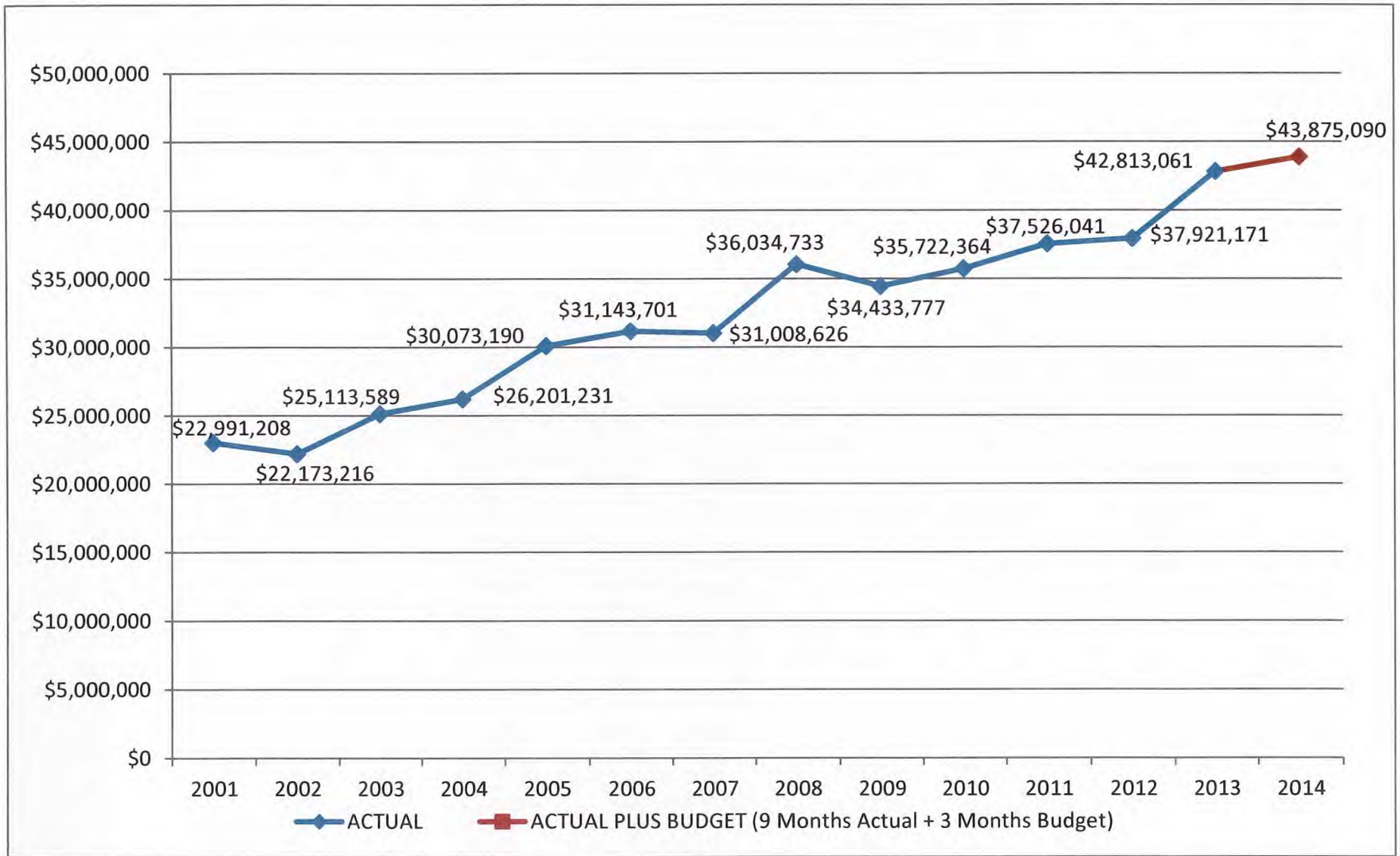
### INTEREST EXPENSE ON LONG-TERM DEBT

DOLLARS



—◆— ACTUAL      — ACTUAL PLUS BUDGET (9 Months Actual + 3 Months Budget)

# LONG-TERM DEBT



Cumberland Valley Electric  
Case No. 2014-00159  
Schedule of Long-Term Debt (Ongoing Request)

Type of Debt Issued	Date of Issue	Date of Maturity	10/13/2014	Cost Rate to Maturity	Annualized Cost Col (d)x(g)	Test Year Interest Cost
			Outstanding Amount			
<b>RUS loans</b>						
1B290	Dec-97	Jun-32	1,214,461.83	5.375%	65,277	68,128
1B295	Nov-98	Jun-32	1,190,673.59	5.000%	59,534	62,103
1B300	Aug-00	Mar-35	950,138.40	0.125%	1,188	2,517
Advance Payment			(1,362,682.41)			
			<u>1,992,591.41</u>		<u>125,999</u>	<u>132,748</u>
<b>FFB loans</b>						
H0010	Mar-01	Dec-14	2,818,608.30	0.020%	564	5,038
H0015	Jul-03	Dec-14	3,385,144.57	0.020%	677	6,051
H0020	Jul-04	Dec-14	1,666,896.56	0.020%	333	2,957
H0025	Feb-05	Dec-14	1,515,360.47	0.020%	303	2,688
H0030	Oct-05	Dec-14	2,267,341.93	0.020%	453	4,022
H0035	Sep-06	Dec-14	1,542,707.21	0.020%	309	2,737
H0040	May-07	Dec-14	859,185.68	0.020%	172	1,534
H0045	Aug-08	Dec-14	3,456,083.68	0.020%	691	6,676
H0050	Nov-08	Dec-14	2,160,052.29	0.020%	432	3,798
H0055	Jan-10	Dec-14	2,592,034.29	0.020%	518	4,557
H0060	Jul-11	Dec-14	3,619,034.35	0.020%	724	6,363
H0065	Jul-12	Dec-14	2,186,447.12	0.020%	437	3,844
F0070	Jan-13	Dec-14	3,000,000.00	0.020%	600	2,526
F0075	Jun-13	Dec-14	1,900,000.00	0.020%	380	1,600
F0080	Dec-13	Dec-14	2,000,000.00	0.020%	400	1,074
F0085*	Jul-14	Dec-14	3,000,000.00	0.053%	1,590	0
			<u>37,968,896.45</u>		<u>8,584</u>	<u>55,465</u>
*FFB Loan for \$3,000,000 on July 22, 2014						
<b>NCSC loans</b>						
2003	Oct-10	Aug-13	0.00	2.300%	0	4,662
2004	Nov-10	Aug-14	0.00	2.700%	0	9,027
2005	Nov-10	Aug-15	301,948.87	3.050%	9,209	10,635
2006	Nov-10	Aug-16	320,665.49	3.350%	10,742	12,405
2007	Nov-10	Aug-17	202,674.75	3.600%	7,296	8,425
2008	Nov-10	Aug-18	253,479.96	3.800%	9,632	11,123
2009	Nov-10	Aug-19	248,981.06	4.000%	9,959	11,500
2010	Nov-10	Aug-20	264,048.38	4.150%	10,958	12,654
2011	Nov-10	Aug-21	211,859.16	4.200%	8,898	10,275
2012	Nov-10	Aug-22	164,699.46	4.300%	7,082	8,178
			<u>1,968,357.13</u>		<u>73,778</u>	<u>98,884</u>
<b>CoBank loans</b>						
628T01	Feb-13	May-31	1,531,087.15	3.680%	56,344	45,236
628T02	Feb-13	Feb-22	603,227.19	2.590%	15,624	13,344
628T03	Feb-13	Nov-20	234,684.92	2.410%	5,656	4,935
628T04	Feb-13	May-16	81,539.84	1.860%	1,517	1,780
628T05	Feb-13	Nov-13	0.00	1.960%	0	1,950
			<u>2,450,539.10</u>		<u>79,140</u>	<u>67,245</u>
Total Long Term Debt			<u>44,380,384.09</u>		<u>287,501</u>	<u>354,342</u>

Annualized cost rate [Total Annualized Cost Col./Total Outstanding Amount]

0.65%

Actual test year cost rate [Total Test Year Interest Cost/Total Outstanding Amount]

0.80%



Residential Rates  
as of 8/2/2014

Ranked Based on Monthly Bill Amount				
	Power Provider	Monthly Consumer Charge	Residential Rate per Kwh	Monthly Bill Based on 1,000 Kwh
Hickman-Fulton RECC	TVA	\$21.50	\$0.113760	\$135.26
Jackson Purchase Energy	Big Rivers	\$14.13	\$0.114370	\$128.50
West Kentucky	TVA	\$23.40	\$0.102730	\$126.13
Grayson RECC	East Ky	\$15.00	\$0.109100	\$124.10
Pennyrile Electric	TVA	\$18.40	\$0.099400	\$117.80
Kenergy	Big Rivers	\$15.60	\$0.101300	\$116.90
Meade County RECC	Big Rivers	\$17.16	\$0.097670	\$114.83
Tri-County	TVA	\$18.00	\$0.095220	\$113.22
Jackson Energy Coop. Corp.	East Ky	\$12.44	\$0.098490	\$110.93
*Warren RECC	TVA	\$18.80	\$0.091800	\$110.60
Clark Energy Cooperative, Inc.	East Ky	\$12.43	\$0.092425	\$104.86
Owen Electric Cooperative, Inc.	East Ky	\$17.10	\$0.087560	\$104.66
Big Sandy RECC	East Ky	\$15.00	\$0.089000	\$104.00
Inter-County RECC	East Ky	\$8.97	\$0.094210	\$103.18
Licking Valley RECC	East Ky	\$9.32	\$0.093550	\$102.87
Fleming-Mason RECC	East Ky	\$15.00	\$0.084310	\$99.31
Blue Grass Energy Cooperative	East Ky	\$9.73	\$0.089510	\$99.24
Shelby Energy Cooperative, Inc.	East Ky	\$10.14	\$0.088610	\$98.75
Farmers RECC	East Ky	\$9.35	\$0.088953	\$98.30
<i>South Kentucky RECC</i>	East Ky	<i>\$12.82</i>	<i>\$0.085430</i>	<i>\$98.25</i>
Nolin RECC	East Ky	\$9.04	\$0.085980	\$95.02
AEP (Kentucky Power)		\$8.00	\$0.085900	\$93.90
Taylor County RECC	East Ky	\$9.82	\$0.082200	\$92.02
Louisville Gas & Electric		\$10.75	\$0.080760	\$91.51
**Cumberland Valley Electric, Inc.	East Ky	\$5.74	\$0.085630	\$91.37
Salt River Electric Coop. Corp.	East Ky	\$8.84	\$0.079520	\$88.36
Kentucky Utilities		\$10.75	\$0.077440	\$88.19
Duke Energy		\$4.50	\$0.079090	\$83.59

Rate Options Available to Residential Consumers			
TOD	ETS	Inclining Block	Low Emission Vehicle
x	x		
x			
	x		
x	x	x	
	x		
	x		
x			
		x	
			x
	x		
x			
			x



**CUMBERLAND VALLEY ELECTRIC**

**DECREASE IN ANNUAL INTEREST EXPENSE**

			Base Year	
		Interest	Minus	Cumulative
Year		Expense	Current Year	Decrease
2007-Base		\$ 1,628,935		
2008		1,097,400	\$ 531,535	\$ 531,535
2009		715,609	913,326	1,444,861
2010		567,377	1,061,558	2,506,419
2011		449,190	1,179,745	3,686,164
2012		427,212	1,201,723	4,887,887
2013		354,342	1,274,593	6,162,480