

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF FARMERS RURAL)	
ELECTRIC COOPERATIVE CORPORATION)	CASE NO.
FOR AN INCREASE IN RETAIL RATES)	2016-00365

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION
TO FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION

Farmers Rural Electric Cooperative Corporation ("Farmers"), pursuant to 807 KAR 5:001, is to file with the Commission the original and ten copies of the following information, with a copy to all parties of record. The information requested herein is due on or before January 18, 2017. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, 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.

Farmers shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which

Farmers fails or refuses to furnish all or part of the requested information, Farmers shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When filing a paper containing personal information, Farmers shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to the application, paragraph 5.a., which states in relevant part, that one of the reasons for Farmers' proposed rate adjustment is the increase in the cost of power. Confirm that Farmers' cost of power is a pass-through cost and does not affect its proposed rate adjustment.

2. Refer to the application, paragraph 5.c., wherein information pertaining to Farmers' 2015 test year Times Interest Earned Ratio ("TIER") and Operating Times Interest Earned Ratio ("OTIER") are discussed.

a. Explain whether Farmers is compliant with its TIER and OTIER with respect to its mortgage covenants.

b. Provide any correspondence that Farmers has had with respect to its TIER and OTIER mortgage covenants from January 1, 2013, through present. Consider this an ongoing request throughout this proceeding.

c. Provide the proposed amounts of increase for each rate class and each class's contribution to TIER and OTIER before and after the proposed rate increase.

d. For each rate class, provide the percentage return on rate base at current and proposed rates.

3. Refer to the application, paragraph 17, which states that Farmers' determination of its revenue requirement based on net investment rate base, return on capitalization, interest coverage, debt service coverage or operating ratio, with supporting schedules, is shown by Exhibit J. Also refer to the response to Commission Staff's First Request for Information ("Staff's First Request"), Items 2 and 3. Provide the other information referenced in the paragraph 17 of the application for 2016 when it becomes available.

4. Refer to the application, paragraph 23, wherein Farmers states that it has never completed a depreciation study.

a. Explain why Farmers has never had a depreciation study performed.

b. Explain how Farmers determined its current depreciation rates.

c. State when Farmers implemented its current depreciation rates.

5. Refer to the Application, Exhibit D. This Exhibit lists changes in rates for a Fluorescent 40-Watt, 16-kWh light, a 150-W HPS, 63-kWh light, and a Metal Halide 175-Watt, 70-kWh light. Provide the Sheet number of Farmers' Commission-authorized tariff in which these charges appear.

6. Refer to the application, Schedule F, page 1 of 74, line 4, column (c), wherein the actual total operating revenues amount of \$49,472,781 is listed. Also refer to the application, Exhibit M, page 7 of 31, column 2015, Operating Revenue line, wherein the amount of operating revenue is listed as \$51,899,243.

a. Explain the discrepancy between the schedules in the amount of total operating revenues.

b. Provide a detailed breakdown of all operating revenues listed in each schedule.

7. Refer to the application, Schedule F, page 39 of 74. Explain why \$13,411 of depreciation expense for GP account 392 is being allocated to Construction and Retirement WIP for transportation equipment.

8. Refer to the application, Exhibit G, the Direct Testimony of William T. Prather ("Prather Testimony"), pages 2 and 3, which discuss the primary increases in costs, including the cost of the vegetation management plan.

a. Does Farmers have a vegetation management plan? If so, provide a copy.

b. Provide a five-year history through 2015 showing breakdown of all costs incurred in Farmers' vegetation management program.

c. Identify and explain what adjustments were made in the test year, if any, for vegetation management expenses and capital expenditures.

d. Provide a schedule showing the breakdown of the 2016 vegetation management expenditures when it becomes available.

e. Also refer to the response to Staff's First Request, Item 8.c., regarding initiatives taken for cost savings and energy efficiency, specifically, the reduction in system average interruption duration index ("SAIDI") and average restoration time ("CAIDI"). Provide Farmers' SAIDI and CAIDI for the years 2011 through 2015, and for 2016 when it becomes available.

9. Refer to the Prather Testimony, at page 4, regarding the voluntary prepay option to fund obligations of the National Rural Electric Cooperative Association Retirement & Security defined benefit Plan ("NRECA R&S Plan").

a. What was the amount of Farmers' prepayment to the NRECA R&S Plan?

b. How was the prepayment treated for accounting purposes?

c. State whether the prepay option was available in 2014 or 2015, and if so, why Farmers did not participate in those years.

10. Refer to the application, Exhibit G-5, the Direct Testimony of Lance C. Schafer, beginning at page 11 of 20, wherein the remaining pro forma adjustments to the actual operating expenses in the test year, are discussed.

a. Refer to the Farmers' proposed payroll expense adjustment. Explain in detail what specific adjustments Farmers made for wage rate changes and any changes in staffing compared to its actual test year.

b. Explain whether Farmers considered the impact of changes in overtime wages as a result of the changes made on May 18, 2016, to the final rule of the Fair Labor Standards Act. If not, provide the financial impact of such changes to the test-year overtime wage assumptions.

c. Also refer to the application, Exhibit F, Schedule C, Payroll Expense. Provide, for each of the past five calendar years through 2015, a detailed list in Excel format with all formulas intact, by job title, all full-time and part-time Farmers' positions, including the President and CEO, which includes the total annual salary and/or wages, overtime if any, percentage of any pay increases, and the per-employee amount of each benefit, bonus, or other award or compensation. When available, provide the same for calendar year 2016.

d. With respect to Farmers' proposed depreciation expense, explain the statement beginning on page 11 of 20, that states, "The adjustment to the Depreciation Expense also accounts for the adoption of a historically Commission-approved rate for Distribution Plant Account 370." Explain the basis of this adjustment and the authority for the Commission-approved rate.

e. Refer to page 12 of 20 regarding Farmers' proposed depreciation expense. Explain the basis and authority for the increase in depreciation on transportation equipment and any changes to how the depreciation was allocated among expense categories.

f. Refer to page 12 of 20 regarding Farmers' proposed adjustment for property tax expense. Provide a copy of the final assessment notice for Farmers' December 31, 2015 (2016) assessment as determined by the Kentucky Department of Revenue and a schedule of the actual property taxes paid in calendar year 2016, when available.

g. Refer to page 12 of 20 regarding Farmers' proposed rate case expense. Also refer to the response to Staff's First Request, Item 34. Provide a

comparison by of Farmers' estimated and actual rate case expense in Case No. 2008-00030¹ in the format listed in the application, Exhibit F, Schedule F, page 42.

h. Refer to page 12 of 20 regarding Farmers' proposed adjustments to administrative and general expense made to remove items that are either non-recurring or typically excluded for ratemaking purposes.

(1) Also refer to Exhibit F, pages 43 and 44 of 74, regarding the adjustments to Accounts 921.00 and 165.20. Provide a schedule showing the unallowable expenses contained in the adjustments to these accounts.

(2) Also refer to Exhibit F, pages 43, 45, and 46 of 74, regarding the adjustments to Account 923.00 – Outside Services. For the expenses listed on page 46 labeled “Budgeted for 2016” that include the Update Wage Compensation Plan and Update Line Extension Policy, provide the account number and amount of expenditures that were recorded for 2011 through 2015 for these categories of expense.

(3) Also refer to Exhibit F, page 43 and pages 51 through 74, regarding Account 930.30 – Directors' Expenses. Provide a schedule showing the expenses that are unallowable for ratemaking purposes.

11. Provide Farmers' current nepotism policy and indicate when it was most recently changed.

12. Provide Exhibits F, H, and I of the application in Excel spreadsheet format with all formulas intact and unprotected and with all columns and rows accessible.

¹ Case No. 2008-00030, *Application of Farmers Rural Electric Cooperative Corporation for an Adjustment to Rates* (Ky. PSC June 10, 2009).

13. Refer to the application, Exhibit S, the detailed comparative income statement, statement of cash flows and balance sheet. Explain in detail the basis for the restatement of the 2014 financial statements and provide a copy of the original 2014 financial statements.

14. Provide a copy of the 2016 financial statements when they become available.

15. Refer to Staff's First Request, Item 6, regarding Farmers' long-term and short-term debt.

a. Provide the totals and grand total for the long term, pages 2 through 5, as originally requested, for the total amount of long-term debt and annualized and actual interest paid to each lender and the grand total of all long-term debt for 2014 and 2015.

b. Explain why there is no debt outstanding or annualized cost of debt listed for lines 31, 39, 40, 44, 45, and 56.

c. Refer to page 2 of the response, line 56, wherein the term "REDLG" is listed. Explain the source of this long-term debt, why the interest rate is 0.00 percent, and why there is no annualized cost associated with the debt.

16. Refer to Staff's First Request, Item 8.a., which provides a comparison of balance sheet account balances for the test period and the 12 months preceding the test year. Refer to page 8 of 23 of the response, Account 142.30 Unbilled Revenue. The balance of this account as of December 31, 2015, was zero compared to \$2,880,000 in the year preceding the test year. Explain in detail why this account decreased so significantly in the test year.

17. Refer to Staff's First Request, Item 13, Farmers' equity management plan.
 - a. Explain why capital credits were not paid to estates from 2010 through 2015.
 - b. Provide the amounts of capital credits paid to estates each year from 2000 through 2009.
 - c. Provide Farmers' plans for calendar year 2016 with respect to general and estate capital credit payments.

18. Refer to Staff's First Request, Item 20, page 2, Farmers' capitalization policies.
 - a. Provide, by account, the payroll or labor distribution for the test year in similar format as provided on page 2.
 - b. Provide the benefit allocation rate for account 107.20 Construction Work In Progress, account 108.80 Retirement Work In Progress, and all other accounts listed on page 2.
 - c. Provide an explanation of how the benefit allocation rate(s) were determined and provide support for the benefit allocation rate.

19. Refer to Staff's First Request, Item 21, regarding salaries and wages.
 - a. Explain how the amount of increase for each year from 2010 through 2015 was determined.
 - b. Explain whether Farmers is aware of how its increase in salaries and wages from 2010 to 2015 and the defined benefit package compares to the commercial and industrial customers it serves.

c. Explain Farmers' plan for 2016 with respect to salary and wage increases, and explain how that plan was developed.

20. Refer to Staff's First Request, Item 49.

a. Provide an organizational chart for Farmers Energy Services Corporation ("Energy Services").

b. Explain whether any of Farmers' personnel are employed by both Farmers and Energy Services, and if so, provide a list of those employees.

c. Provide the salaries and benefits of any personnel that do work for both Farmers and Energy Services and the allocation.

d. Explain whether Energy Services is located and housed in Farmers' facilities, and whether there is any allocation of costs to Energy Services from Farmers. If so, provide the methodology of allocation and costs allocated.

e. Explain whether there was or should be any allocation of costs between Farmers and Energy Services and whether this was taken in consideration in the revenue requirement calculation and cost of service study.

f. Explain whether Energy Services is included in Farmers' capital structure as provided in the application.

g. Explain whether an Energy Services customer must also be a Farmers customer.

h. Explain the revenue and expense amounts provided in the profit & loss detail for 2014 and 2015.

i. Explain what type of investment is in account 1210 on the balance sheet for 2014 and 2015.

j. Does Farmers have a cost-allocation manual? If so, provide a copy.

k. Is Farmers compliant with the provisions of KRS 278.2203 and KRS 278.2205?

21. Refer to Farmers' Response to Staff's Initial Request, Item 52.

a. Refer to the COS Input Tab, Part I – Class Data, Meter Weighting Factor. Explain how the weights for each class were determined.

b. Refer to the COS Input Tab, Part VI – Revenue Requirements, Administrative & General. Explain why the unbundled balance for Administrative & General of \$2,097,451 is different from the 2015 actual unbundled balance of \$2,147,127 on page 1 of 74 of Exhibit F of the application.

c. Refer to the Classification tab, Distribution Plant, line 25, Acct. No. 371, Cons Premise. The classification factor used is Installed Consumer Premises ("ICON").

1. Explain why the allocation percentages for ICON references primary lines.

2. Explain why the direct allocation to outdoor lights was determined to be \$1,995,841, as the reference to the COS Input tab is a direct input.

d. Refer to the Classification tab, Distribution, line 34, Acct. No. 587, Oper. Cons. Install. The classification factor used is ICON, which references primary lines. Explain why this classification factor is used as opposed to a direct assignment to Sch. OL.

e. Refer to the Classification tab, Distribution, line 43, Acct. No. 596, Main. St. Lighting. Explain why the total is divided between Sch. OL and Sch. SL when this account is maintenance of street lighting.

f. Refer to the PRI and TRF Classification tab, Account 368 – Transformers. Provide a revised X Variable for the Zero Intercept Approach as the cell reads “FALSE”.

22. Explain whether Farmers has any smart grid investment in East Kentucky Power Cooperative, Inc.’s substations. If so, provide the type of equipment and the capital investment.

23. Provide an updated Exhibit Q in Excel spreadsheet format, with all formulas intact and unprotected and all rows and columns accessible, if any changes result based on this data request.



Talina R. Mathews
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED JAN 05 2017

cc: Parties of Record

*David S Samford
Goss Samford, PLLC
2365 Harrodsburg Road, Suite B325
Lexington, KENTUCKY 40504

*Farmers R.E.C.C.
504 South Broadway
P. O. Box 1298
Glasgow, KY 42141-1298

*Farmers R.E.C.C.
Farmers R.E.C.C.
504 South Broadway
P. O. Box 1298
Glasgow, KY 42141-1298

*James R Adkins
Jim Adkins Consulting
1041 Chasewood Way
Lexington, KENTUCKY 40513-1731

*Rich Macke
Power System Engineering, Inc.
10710 Town Square Drive NE
Suite 201
Minneapolis, MINNESOTA 55449

*Lance Schafer
Power System Engineering, Inc.
10710 Town Square Drive NE
Suite 201
Minneapolis, MINNESOTA 55449