

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CUMBERLAND VALLEY)	CASE NO.
ELECTRIC, INC. FOR A GENERAL)	2016-00169
ADJUSTMENT OF RATES)	

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION TO
CUMBERLAND VALLEY ELECTRIC, INC.

Cumberland Valley Electric, Inc. ("Cumberland Valley"), pursuant to 807 KAR 5:001, is to file with the Commission the original in paper medium and an electronic version of the following information. The information requested herein is due on or before September 8, 2016. Responses to requests for information in paper medium 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.

Cumberland Valley 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 Cumberland Valley fails or refuses to furnish all or part of the requested information, Cumberland Valley 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 applicable, the requested information shall be separately provided for total company operations and jurisdictional operations. When filing a paper containing personal information, Cumberland Valley 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, the Direct Testimony of Robert D. Tolliver ("Tolliver Testimony"), Exhibit H-1, pages 4 and 5 of 8. Explain whether Cumberland Valley submitted the proposed depreciation rates to the Rural Utilities Service ("RUS") for approval. If so, provide documentation of Cumberland Valley's request and the response of RUS to the request. If not, explain why RUS approval was not requested.

2. Refer to the Application, Exhibit 19, page 2 of 16.

- a. Provide an explanation and meaning of the column headings Expertise, Leadership, Accountability, Problem Solving, and Intercommunication.

- b. Provide an explanation and meaning of the column headings Level and Pts, how the data shown was derived, and what it means.

3. Refer to the Application, Exhibit 21.
 - a. On page 6 of 38, it is stated that the study utilized "Iowa Type Survivor Curves" ("Iowa Curves"). Provide a full explanation and description of the derivation of the Iowa Curves and how they are used.
 - b. Explain why Iowa Curves are frequently used by utilities to analyze depreciation of property recorded on a mass basis.
 - c. Describe the available alternatives to the Iowa Curves, how they differ from the Iowa Curves, and why they would or would not be acceptable.
 - d. Refer to page 9 of 38. Clarify whether the depreciation rates Cumberland Valley has decided to use are those developed in this study using the whole life method.
 - e. Refer to page 11 of 38. Provide a revised schedule that indicates the survivor curve for each account.
 - f. Refer to pages 15 through 22 of 38. Explain the determination of the order in which the curves are shown.
 - g. Refer to pages 24 through 38 of 38. Explain how the information shown on these pages is utilized in determining the appropriate Iowa Curve and net salvage.
4. Refer to Cumberland Valley's response to Commission Staff's Second Request for Information ("Staff's Second Request"), Item 1.
 - a. Refer to the response to Item 1.a. State whether the response indicates that, for residential accounts, the minimum charge is the greater of the customer charge or the transformer capacity charge. If not, explain what the response

means. If so, state whether Cumberland Valley believes that the tariff language should be revised to clarify the issue, and provide the proposed tariff language.

b. Refer to the response to Item 1.b.

(1) Explain what is meant by “this type of customer.”

(2) Explain how 600 kWh was chosen as the level at which an inclining block rate customer bill would exceed the bill for a Schedule I residential customer.

(3) Provide Cumberland Valley’s reason(s) for proposing an inclining block rate.

5. Refer to Cumberland Valley’s response to Staff’s Second Request, Item 2.

a. Confirm that RUS requires that Cumberland Valley achieve an operating tier of 1.10.

b. Discuss the factors contributing to Cumberland Valley’s operating margin shifting from an income to loss position from 2011 to 2012, and subsequent years.

6. Refer to Cumberland Valley’s response to Staff’s Second Request, Item 7. The table referred to in the request was the table in response to Q21 on page 13 of 17 of the Direct Testimony of James R. Adkins (“Adkins Testimony”). The response provided by Cumberland Valley relates to the table in response to Q19 on page 12 of 17 of the Adkins Testimony. Provide a revised table in response to Q21 from the Adkins Testimony, page 13 of 17, using the rate class increases requested as shown in Revised Exhibit J.

7. Refer to Cumberland Valley's response to Staff's Second Request, Item 9.

a. Refer to the response to Item 9.b. State whether Cumberland Valley plans to remove the electric thermal storage ("ETS") meters since there is no need to have the units separately metered going forward. If Cumberland Valley has no such plans, explain why the meters would not be removed.

b. Refer to the response to Item 9.c. Regardless of whether the ETS meters are removed, state whether an ETS unit's electric use will continue to be limited to the same hours it is currently limited.

8. Refer to Cumberland Valley's response to Staff's Second Request, Item 10. Provide a revised table from page 17 of 17 of the Adkins Testimony using the proposed revenues as shown in Revised Exhibit J for the three Schedule I tariffs that appear in the table (Residential/Farm, Prepay, and Marketing).

9. Refer to Cumberland Valley's response to Staff's Second Request, Item 14. The amount for "Total margins and equities" in revised Exhibit K does not agree with Revised Exhibit S filed with Cumberland Valley's responses to Commission Staff's Second Request for Information, Item 19, in the amount of \$41,872,064. State which amount is correct and provide revised exhibits if necessary.

10. Refer to Cumberland Valley's response to Staff's Second Request, Item 15.f.(2) and Item 16, the Revised Cost of Service Study ("COSS"), page 25 of 40. The response to Item 15 states that the formula error related to the Percentage of Investment Consumer Related was corrected. A review of the response to Item 16, page 25 of 40, indicates that the error was not corrected. Provide a revised COSS with the formula corrected.

11. Refer to Cumberland Valley's response to Staff's Second Request, Item 15.g. The response indicates that the Prepaid customer kWh energy sales are included as part of the residential energy sales in the revised COSS. However, the correction does not appear to have been made. Provide a revised COSS with the correction included.

12. Refer to Cumberland Valley's response to Staff's Second Request, Item 16, Revision 2, Exhibit R, page 15 of 40. The Accum. Depreciation of \$36,032,638 shown on this page is the actual test-year amount rather than the adjusted test-year amount of \$36,252,248 as shown in the response to Staff's Second Request, Item 19, Revised Exhibit S, page 1 of 4. Explain whether the Accum. Depreciation used in the COSS should be the adjusted test year amount. If so, provide a revised COSS with the correction included.

13. Refer to Cumberland Valley's response to Staff's Second Request, Item 18.b. Provide the dollar equivalent of the 1 percent of the salary increase declined by the President and CEO ("CEO").

14. Refer to Cumberland Valley's response to Staff's Second Request, Item 18.c.

a. Provide the wage and salary plan or, if not available, provide an update on its status.

b. Is it Cumberland Valley's intent that the wage and salary survey that was filed as Exhibit 19 of the Application will be the basis for the wage and salary plan? Explain if that is not the intent.

c. The Tolliver Testimony indicates that the wage and salary survey was completed in 2015. Exhibit 19 is a draft of the survey which was submitted on July 16, 2015. Provide the date of the completed survey and explain why the Board of Directors has not acted on the results to date.

15. Refer to Cumberland Valley's response to Staff's Second Request, Item 18.f.

a. Provide the negotiated union contract replacing the current one which expires August 31, 2016, when it becomes available.

b. Provide all work papers supporting the negotiated annual wage and salary increases, including board minutes and documentation of negotiation meetings.

16 Refer to Cumberland Valley's response to Staff's Second Request, Item 19.a. Explain fully the 0.125 percent factor for the FFB loans that Cumberland Valley did not include.

17. Refer to Cumberland Valley's response to Staff's Second Request in response to Item 19.c. Explain how or where the interest earned is accounted for and why it should not be an offset to annual interest expense.

18. Refer to Cumberland Valley's response to Staff's Second Request, Item 19.d.

a. Explain the discrepancy in the response which lists only \$17.7 million in loans refinanced and the amount of \$22.6 million stated in the Application, Tolliver Testimony, pages 3–4 of 8.

b. Provide the case numbers that authorized the refinancing and/or execution of new long-term debt listed on page 5. If Cumberland Valley did not request

Commission authorization for the financing, explain why authorization was not requested.

19. Refer to Cumberland Valley's response to Staff's Second Request, Item 19, page 7 of 9, and Item 27. Revised Exhibit S provided in response to Item 19 does not include the revised year-end customer adjustment shown in the response to Item 27, revised Exhibit 15. Provide a revised Exhibit S which includes the updated year-end customer adjustment. If the year-end customer adjustment is further revised as a result of responses to these requests, provide the revised year-end customer adjustment in revised Exhibit S.

20. Refer to Cumberland Valley's response to Staff's Second Request, Item 20. Explain whether Cumberland Valley's retirement plans are defined benefit plans.

21. Refer to Cumberland Valley's response to Staff's Second Request, Item 23.c.

a. Explain when the credit for \$588 was issued and used. Provide the details of its usage, i.e., director, date, location of class, and the topics covered in the class. If it was not used during the test year, would Cumberland Valley agree that it should be removed for ratemaking purposes?

b. Provide the details of the transactions that resulted in the amount of \$626.

c. Confirm that the \$455 registration fee was for Mr. Vanover. Explain why there do not appear to be any expenses associated with Mr. Vanover's attending the National Rural Electric Cooperative Association ("NRECA") annual meeting. Is Cumberland Valley aware of the Commission's practice of allowing only expenses for

attendance at NRECA meetings for ratemaking purposes only by a cooperative's designated NRECA representative or designated alternate representative?

d. Explain why this amount was not paid until July 2015 if the expense was incurred for a February 2015 meeting.

22. Refer to Cumberland Valley's response to Staff's Second Request, Item 24, and Exhibits 9 and 10 of the Application.

a. Confirm that the amounts on Exhibit 10, lines 21–26 and line 28, are also shown on Exhibit 9, lines 42, 64, 83, 98, 114, 129, and 144.

b. If subpart a. is confirmed, explain whether Cumberland Valley agrees that these expenses should be removed from either Exhibit 9 or Exhibit 10.

23. Refer to Cumberland Valley's response to Staff's Second Request, Item 26 and Exhibit 13 of the Application. Confirm that the amounts listed on page 3 of 3 of Exhibit 13 are correct and that the column for the months was incorrectly stated.

24. Refer to Cumberland Valley's response to Staff's Second Request, Item 27.

a. The kWh usage for the Schedule I Residential class does not include the kWh usage for the Marketing rate. State whether the kWh for the Marketing rate should have been included in the usage.

b. The kWh usage for the Schedule II Small Commercial Power Single Phase does not reconcile with the kWh usage shown for this class in revised Exhibit J. Explain why the amounts do not reconcile.

c. If corrections are necessary as a result of responses to subparts a. and b. above, provide a revised Exhibit 15.

25. Refer to Cumberland Valley's response to Staff's Second Request, Item 28.b. Provide the test-year expense for dental insurance and long term disability.

26. Refer to Cumberland Valley's response to Staff's Second Request, Item 28.c. Explain why dental insurance and long-term disability are not listed in the allocation if all employee benefits are allocated

27. Refer to Cumberland Valley's response to Staff's Second Request, Item 28.d. Given Cumberland Valley's financial condition, explain why employees do not contribute to health, life, and single dental insurance premiums.

28. Refer to Cumberland Valley's response to Staff's Second Request, Item 29.a. Explain the basis for Cumberland Valley's retaining unclaimed capital credits rather than having the unclaimed capital credits escheat to the Unclaimed Property Division of the Kentucky State Treasurer.

29. Refer to Cumberland Valley's response to Staff's Second Request, Item 29.b.

a. If the capital credits that were paid in 2015 were for one-half of 1987, explain why "Prior Years" is considered to be 1958 through 2009.

b. Confirm the amount shown on Exhibit 18 for Prior Years represents the capital credits actually paid during those years.

30. Refer to Cumberland Valley's response to Staff's Second Request, Item 29.e.

a. Reconcile the amounts shown on page 3 of 3 of this response with the amount shown on Exhibit 18 of the Application.

b. Explain whether the amounts shown as "Unclaimed" on page 3 of 3 are recorded on Cumberland Valley's books. Provide the account in which they are recorded.

c. If unclaimed capital credit payments are not recorded on Cumberland Valley's books, explain Cumberland Valley's treatment of the payments.

31. Refer to Cumberland Valley's response to Staff's Second Request, Item 30.a. Provide the Excel file as requested.

32. Refer to Cumberland Valley's response to Staff's Second Request, Item 30.c. Confirm that the CEO's position is not included in the survey, and explain why this position was excluded.

33. Refer to Cumberland Valley's response to Staff's Second Request, Item 30.d. Explain Cumberland Valley's rationale for selecting the Kentucky values for the model input values.

34. Refer to Cumberland Valley's response to Staff's Second Request, Item 31. State whether 65 percent or 100 percent is the correct payroll overhead percentage.

35. Refer to Cumberland Valley's response to Staff's Second Request, Item 35.c. page 2 of 2, and Exhibit 13 of the Application, page 3 of 3. Explain why the amounts shown in the response and exhibit do not match. Provide revised schedules as necessary.

36. Refer to Cumberland Valley's response to Staff's Second Request, Item 41. Explain why Cumberland Valley does not have a written compensation policy, and whether it plans to develop a policy in the future.

37. Refer to Cumberland Valley's response to Staff's Second Request, Case_No_2016-00169_Exhibit_K.xlsx. On page 1 of 7 and page 5 of 7, interest on long-term debt is shown as \$850,647 for the Adjusted Test Year. In response to Item 19.a of Staff's Second Request, the interest adjustment was increased by approximately \$53,000 to produce a normalized test-year amount of interest on long-term debt of \$903,629.

a. Confirm that the \$903,629 amount is the correct amount.

b. Provide all revised exhibits to reflect the corrected interest rate adjustment, including the COSS, specifically Actual Test Year Expenses with Adjustments (page 6 of 40) and Increase for Each Rate Class (pages 38 and 39 of 40).

38. Did Cumberland Valley experience any extraordinary storm damage during the test period? If so, provide the costs incurred and details of the storm damage.

39. Provide a schedule of all bad debts or losses incurred during the test year.

40. Provide a copy of Board of Directors Meeting Minutes for the test year.

41. Refer to Cumberland Valley's response to the Attorney General's Initial Request for Information ("AG's First Request"), Item 3.

a. In the minutes provided in the response, one of the topics is labeled "New Connects". Explain fully the information that is provided under this heading.

b. The title and information provided would seem to indicate that Cumberland Valley's customer base is growing, yet revenues are in decline. Explain this discrepancy.

42. Refer to Cumberland Valley's response to the AG's First Request, Item 3, page 7 of 21. Explain why Jackson Cumberland Energy Incorporated was dissolved, its function, and how it benefited Cumberland Valley.

43. Refer to Cumberland Valley's response to the AG's First Request, Item 39. Provide the table on page 2 of 2 in Excel spreadsheet format with formulas intact and unprotected and all rows and columns fully accessible.

Talina R. Mathews

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DATED AUG 24 2016

cc: Parties of Record

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