

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of Adjustment of Rates
of Farmers Rural Electric Cooperative
Corporation

Case No. 2016-00365

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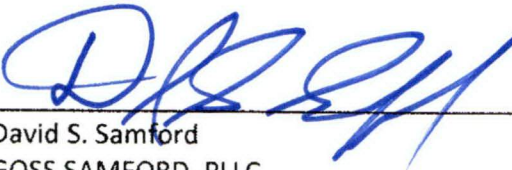
MAR 24 2017

PUBLIC SERVICE
COMMISSION

APPLICANT'S RESPONSES TO
COMMISSION STAFF'S FOURTH REQUEST FOR INFORMATION

The applicant, Farmers Rural Electric Cooperative Corporation, makes the following responses to the "Commission Staff's Fourth Request for Information", as follows:

1. The witnesses who are prepared to answer questions concerning each request are William T. Prather and Jennie Phelps.
2. William T. Prather, President & CEO of Farmers Rural Electric Cooperative Corporation 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.



David S. Samford
GOSS SAMFORD, PLLC
2365 Harrodsburg Road, Suite B325
Lexington, KY 40504
(859) 368-7740
david@gosssamfordlaw.com

*Counsel for Farmers Rural
Electric Cooperative Corporation*

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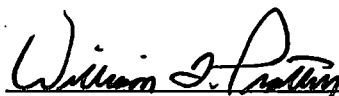
Case No. 2016-00365

AFFIDAVIT

The undersigned, William T. Prather, as President & CEO of Farmers Rural Electric Cooperative Corporation, being duly sworn, states that the responses herein are true and accurate to the best of his knowledge and belief formed after reasonable inquiry.

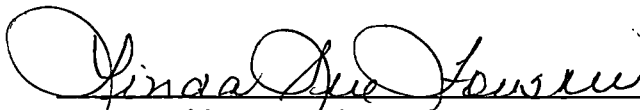
Dated: March 24, 2017

FARMERS RURAL ELECTRIC COOPERATIVE



WILLIAM T. PRATHER, PRESIDENT & CEO

Subscribed, sworn to, and acknowledged before me by William T. Prather, as President & CEO for Farmers Rural Electric Cooperative Corporation on behalf of said Corporation this 24 day of March, 2017.



Notary Public, Kentucky State At Large

ID: 446566

My Commission Expires: 07-30-2019

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of Adjustment of Rates
of Farmers Rural Electric Cooperative
Corporation

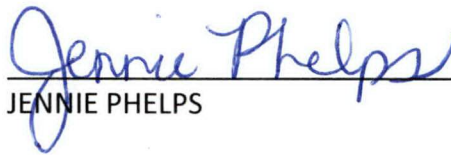
Case No. 2016-00365

AFFIDAVIT

The undersigned, Jennie Phelps, Vice President, Finance & Accounting of Farmers Rural Electric Cooperative Corporation, being duly sworn, states that the responses herein are true and accurate to the best of her knowledge and belief formed after reasonable inquiry.

Dated: March 24, 2017

FARMERS RURAL ELECTRIC COOPERATIVE



JENNIE PHELPS

Subscribed, sworn to, and acknowledged before me by Jennie Phelps, Vice President, Finance & Accounting of Farmers Rural Electric Cooperative Corporation on behalf of said Corporation this 24 day of March, 2017.



Notary Public, Kentucky State At Large

ID: 446566

My Commission Expires: 07-30-2019

Farmers Rural Electric Cooperative Corporation
Case No. 2016-00365
Commission Staff's Fourth Request for Information

Request 1.

Refer to Staff's Second Request, Item 49.e. Explain whether Farmers reduced its revenue requirement by the \$1,578 of compensation charged to its subsidiary.

Response 1.

Farmers did not reduce its revenue requirement by the \$1,578 of compensation charged by its subsidiary.

Witness: Jennie Phelps and William T. Prather

Farmers Rural Electric Cooperative Corporation
Case No. 2016-00365
Commission Staff's Fourth Request for Information

Request 2.

Refer to Commission Staff's Third Request for Information ("Staff's Third Request"), Item 1.

- A. In the narrative response to the data request, Farmers states, "Other amount paid (Column F, Other Compensation) and reported on employees' W-2 include miscellaneous earnings such as the taxable amounts of the fringe benefits for use of company vehicle and group term life insurance paid over \$50,000." Provide the number of employees with life insurance with over \$50,000 of coverage, and the total cost of the life insurance above the \$50,000 coverage for all such employees, and the amount, if any, paid by the employee.
- B. Provide the level of life insurance coverage for each employee.
- C. Refer to the Excel spreadsheet filed in response to the data request, column "Employee Number."
 1. Confirm that employee code "H" is for hourly employee.
 2. Confirm that code "PT" is for part-time employee.
 3. Provide the definition of code R/T.
- D. Explain what constitutes standby duty and the responsibilities associated with this type of employment activity.
- E. Explain why the president's salary has increased at a greater rate than the salaries of other employees over the five years ended in 2016.
- F. Also refer to Staff's Third Request, Item 31, regarding Farmers retirement plans. In the third paragraph of this response, Farmers states that it has maintained the R&S Defined Benefit Retirement ("DB") for employees hired before January 1, 2012, but that the DB plan was closed to new participants on December 31, 2011, and was replaced with a Defined Contribution 401(k) ("DC") plan for all new hires.
 1. Provide a comparison of the percentage of employee salary Farmers paid under the DB and DC plan from 2012 through 2016.
 2. Under the DC plan, Farmers contributes 6 percent on behalf of each employee. Provide the percentage of the employee's salary paid by the employee, if any, under the DC plan.
 3. For the voluntary 401(k) plan, provide the amount that Farmers paid on behalf of the DB employees in the test year.
 4. For the voluntary 401(k) plan, provide the amount that Farmers paid on behalf of the DC employees in the test year.

Witness: Jennie Phelps and William T. Prather

Farmers Rural Electric Cooperative Corporation
Case No. 2016-00365
Commission Staff's Fourth Request for Information

Response 2.

- A. The number of employees with life insurance with over \$50,000 of coverage would be all full-time employees. The benefit level is 2 x salary, meaning the life insurance coverage equals two times an employee's base annual earnings. The base annual earnings is provided annually to NRECA. Per Farmers' plan document, the employer pays the coverage.

The total cost of the life insurance above the \$50,000 coverage, for test year 2015 and financial year 2016, is shown in the exhibit attached to this response. In test year 2015, 65 employees had coverage above \$50,000, and Farmers paid \$9,241 for life insurance above the \$50,000 coverage. For financial year 2016, 63 employees had coverage above \$50,000, Farmers paid \$8,406 for life insurance above the \$50,000 coverage.

Employees pay no amount toward the insurance. However, by IRS regulations, the employee is required to pay taxes on coverage beyond \$50,000. The tax calculation is prepared based on IRS regulations, Publication 15-B.

- B. The level of life insurance coverage for each full-time employee is equal to two times an employee's base annual earnings.
- C. Employee codes are as follows:
1. Employee code "H" is for hourly employees.
 2. Employee code "PT" is for part-time employees.
 3. Employee code "R/T" is for retired or terminated employees.
- D. Operations employees, specifically Apprentice Linemen, Lineman, Journeyman Lineman, Service Technicians and Foreman, are subject to the daily and weekend on-call (standby) program. Service calls received after normal daily hours and on the weekend are handled by the on-call (standby) crew. Employees in the on-call (standby) program are paid one hour standby for each week day they are on duty. Saturday, Sunday and Holidays are paid at a rate of two hours standby for each day they are on duty. Standby hours are paid at time and one-half. Dispatchers, as necessary, are subject to the on-call (standby) program also. No salaried personnel are included in the on-call program.

Witness: Jennie Phelps and William T. Prather

Farmers Rural Electric Cooperative Corporation
Case No. 2016-00365
Commission Staff's Fourth Request for Information

Response 2 (continued).

Linemen who are on-call are expected to restrict their activities and travel to within the service area, and are to be available for immediate and quick response to handle any service call such as restoring a service outage. Dispatchers who are on-call are expected to also restrict their activities and travel to within the service area, and to be available to immediately come into the office to assume primary dispatching duties should there be multiple outages and multiple crews responding. Dispatchers rotate the on-call duty; dispatchers are on-call from midnight to 7:00 a.m. on weekdays and around the clock on weekends. During these off hours, the cooperative has a third party receiving service calls and a dispatcher may be required to report to the office and assume dispatching duties. Farmers' compensation for on-call was specifically established as a part of a Settlement of Wage Claims with the Commonwealth of Kentucky Labor Cabinet in Agency Case No. 00500283; Administrative Action No. 03-LABC-0116, on June 10, 2004.

- E. The President/CEO is charged with the responsibilities of working with the Board of Directors to develop and establish strategic direction for the cooperative, and then is held responsible and accountable for providing the overall leadership and management to successfully achieve the strategic goals and objectives. The President/CEO is the singular employee of the cooperative that has the ultimate and final responsibility and accountability for all of the cooperative's operations 24/7/365.

Farmers' Board of Directors conducts a formal assessment and appraisal of the President/CEO on an annual basis. This process requires the President/CEO to report on the progress of the organization in comparison to the stated goals and objectives of the cooperative's strategic plan. The Board uses this progress report in conjunction with its assessment of the President/CEO's success in meeting other established leadership and management objectives. The Board uses this annual appraisal process as the basis for any adjustment to the President/CEO's compensation. During the period of 2012 – 2016, the Board's annual assessments were that the President/CEO had fully accomplished and in many areas, exceeded the expected responsibilities of his position, and successfully led the organization in achieving the goals and objectives for each year. The Board has recognized the President/CEO's leadership success in lowering and constraining growth in costs, while improving service and reliability to the member-owners.

Witness: Jennie Phelps and William T. Prather

Farmers Rural Electric Cooperative Corporation
Case No. 2016-00365
Commission Staff's Fourth Request for Information

Response 2 (continued).

The Board of Directors has utilized the outside consulting service of Intandem, LLC, for a number of years to assist in establishing the proper compensation range for the position of President/CEO of Farmers. The Board has also reviewed the annual data from the NRECA National Compensation Service as a secondary source. The Board has also been aware of the compensation levels of comparable cooperative CEOs within the state from publically available data sources. It has been the goal of the Board to gradually move the President/CEO to the appropriate point within the cooperative's market-based compensation range as recommended by the outside consultant.

The Board understands that the demand and competition for competent and successful CEO talent is increasing nationally as recent National Rural Electric Cooperative Association surveys have shown that 25 percent of cooperative CEOs were already eligible for retirement, and in the next five years, over 50 percent of CEOs will be eligible for retirement. The Board's goal is to compensate its CEO fairly and competitively, based upon the market characteristics of Farmers. This gradual adjustment process achieved the Board's goal of compensating the President/CEO within their desired range.

F. The responses are as follows:

1. Contributions to retirement plans on based on an employee's base annual earnings. Billing rates for the DB plan are established by NRECA. The DB billing rate decreased between years 2012 and 2013 because Farmers made a voluntary prepayment to the Plan. The voluntary prepayment is discussed in Staff's Second Request, Response 9. Had Farmers not made the prepayment, the DB rate for 2013 would have been 25.12%. Please note that an employee must be employed one year before receiving employer contributions on retirement plans.

Year 2012:	DB – 23.87%	DC – 4.00% base; 6.00% match
Year 2013:	DB – 18.88%	DC – 4.00% base; 6.00% match
Year 2014:	DB – 19.37%	DC – 4.00% base; 6.00% match
Year 2015:	DB – 19.54%	DC – 4.00% base; 6.00% match
Year 2016:	DB – 20.12%	DC – 4.00% base; 6.00% match

Witness: Jennie Phelps and William T. Prather

Farmers Rural Electric Cooperative Corporation
Case No. 2016-00365
Commission Staff's Fourth Request for Information

Response 2 (continued).

2. For those employees hired after January 1, 2012, Farmers contributes a base amount of 6 percent to the employee's DC plan. The base amount of 6 percent is contributed regardless of the employee's contribution. Farmers will match up to 4 percent to each employee's DC Plan. For example, if an employee contributes 4 percent to his/her DC plan, Farmers will match the 4 percent and contribute the 6 percent base. If an employee contributes nothing to his/her DC plan, Farmers provides no match but contributes the 6 percent base.
3. For the voluntary 401(k) plan for those employees hired before January 1, 2012, Farmers paid \$28,512.
4. For the voluntary Defined Benefit 401(k) plan for those employees hired after January 1, 2012, Farmers paid \$19,702. This payment includes the base and match contribution.

Farmers Rural Electric Cooperative Corporation ("Farmers")
CONFIDENTIAL - Case NO: 2016-00365
Group Term Life Insurance
Year: 2015 - Test Year

2015 Rate \$0.224 / 1000

Employee Number	Expense for \$50,000	Expense over \$50,000	Total Cost
S1	134.40	817.15	951.55
S2	134.40	354.82	489.22
S3	134.40	392.45	526.85
S4	134.40	354.82	489.22
S5	134.40	354.82	489.22
S6	134.40	381.70	516.10
H1	134.40	172.03	306.43
H2	134.40	225.79	360.19
H3	134.40	193.54	327.94
H4	134.40	209.66	344.06
H5	134.40	258.05	392.45
H6	134.40	193.54	327.94
H7	134.40	75.26	209.66
H8	134.40	172.03	306.43
H9	134.40	53.76	188.16
H10	134.40	166.66	301.06
H11	134.40	123.65	258.05
H12	134.40	80.64	215.04
H13	134.40	64.51	198.91
H14	134.40	198.91	333.31
H15	134.40	64.51	198.91
H16	134.40	188.16	322.56
H17	134.40	86.02	220.42
H18	134.40	177.41	311.81
H19	134.40	37.63	172.03
H20	134.40	155.90	290.30
H21	134.40	123.65	258.05
H22	134.40	86.02	220.42
H23	134.40	118.27	252.67
H24	134.40	80.64	215.04
H25	134.40	150.53	284.93
H26	134.40	139.78	274.18
H27	134.40	188.16	322.56
H28	134.40	96.77	231.17
H29	134.40	150.53	284.93
H30	134.40	198.91	333.31
H31	134.40	134.40	268.80
H32	134.40	129.02	263.42
H33	134.40	64.51	198.91
H34	134.40	86.02	220.42
H35	134.40	48.38	182.78
H36	134.40	37.63	172.03
H37	134.40	80.64	215.04
H38	134.40	37.63	172.03
H39	134.40	118.27	252.67
H40	134.40	53.76	188.16
H41	134.40	118.27	252.67
H42	134.40	43.01	177.41
H43	134.40	193.54	327.94
H44	134.40	37.63	172.03
H45	134.40	102.14	236.54
H46	134.40	107.52	241.92
H47	134.40	80.64	215.04
H48	134.40	80.64	215.04
H49	134.40	32.26	166.66
H50	134.40	75.26	209.66
H51	134.40	69.89	204.29
H52	123.20	246.40	369.60
H53	78.40	53.31	131.71
H54	78.40	47.04	125.44
H55	56.00	13.44	69.44
R/T2	89.60	82.43	172.03
R/T3	34.94	-	34.94
R/T4	100.80	88.70	189.50
R/T5	22.40	11.65	34.05
R/T7	67.20	80.64	147.84
	8,311.74	9,241.34	17,553.09

Farmers Rural Electric Cooperative Corporation ("Farmers")
CONFIDENTIAL - Case NO: 2016-00365
Group Term Life Insurance
Year: 2016

2016 Rate \$0.237 / 1000

Employee Number	Expense for \$50,000	Expense over \$50,000	Total Cost
S1	142.20	893.02	1,035.22
S2	142.20	386.78	528.98
S3	142.20	426.60	568.80
S4	142.20	386.78	528.98
S5	142.20	386.78	528.98
S6	142.20	420.91	563.11
H1	142.20	187.70	329.90
H2	142.20	244.58	386.78
H3	142.20	210.46	352.66
H4	118.50	184.86	303.36
H5	142.20	284.40	426.60
H6	142.20	210.46	352.66
H7	142.20	85.32	227.52
H8	142.20	187.70	329.90
H9	142.20	62.57	204.77
H10	142.20	182.02	324.22
H11	142.20	136.51	278.71
H12	142.20	91.01	233.21
H13	142.20	73.94	216.14
H14	142.20	216.14	358.34
H15	142.20	68.26	210.46
H16	142.20	204.77	346.97
H17	142.20	96.70	238.90
H18	142.20	193.39	335.59
H19	142.20	45.50	187.70
H20	142.20	176.33	318.53
H21	142.20	136.51	278.71
H22	142.20	96.70	238.90
H23	142.20	130.82	273.02
H24	142.20	91.01	233.21
H25	142.20	170.64	312.84
H26	142.20	147.89	290.09
H27	142.20	204.77	346.97
H28	142.20	108.07	250.27
H29	142.20	170.64	312.84
H30	142.20	221.83	364.03
H31	142.20	108.07	250.27
H32	142.20	142.20	284.40
H33	142.20	73.94	216.14
H34	142.20	96.70	238.90
H35	142.20	56.88	199.08
H36	142.20	45.50	187.70
H37	142.20	91.01	233.21
H38	142.20	45.50	187.70
H39	94.80	91.01	185.81
H40	142.20	62.57	204.77
H41	142.20	136.51	278.71
H42	142.20	45.50	187.70
H43	142.20	210.46	352.66
H44	142.20	45.50	187.70
H45	142.20	119.45	261.65
H46	142.20	119.45	261.65
H47	142.20	108.07	250.27
H48	142.20	108.07	250.27
H49	142.20	39.82	182.02
H50	142.20	108.07	250.27
H51	142.20	85.32	227.52
H52	142.20	301.46	443.66
H53	142.20	102.38	244.58
H54	142.20	85.32	227.52
H55	142.20	85.32	227.52
H56	47.40	30.34	77.74
H57	47.40	45.50	92.90
	8,271.30	8,405.92	16,677.22

Witness: Jennie Phelps and William T. Prather

Farmers Rural Electric Cooperative Corporation
Case No. 2016-00365
Commission Staff's Fourth Request for Information

Request 3.

Refer to Staff's Third Request, Item 2, regarding Medical/Health Insurance.

- A. Provide and explain the provisions in the Federal Affordable Care Act that prevented Farmers from being able to increase its deductibles from 2010 through 2015.
- B. For the test year, provide the amount of health insurance Farmers would have incurred, assuming the total cost equals the premium for each level of coverage plus the deductible, and that for the single coverage the employee would pay 21 percent of the total cost and that for all other types of coverage, the employee pay 32 percent of the total cost.
- C. Identify all other variables that are material in determining the cost of healthcare insurance and explain how they would affect the total cost of each type of coverage.
- D. Provide Farmers total Medical/Healthcare insurance cost for 2010.

Response 3.

- A. During the period of 2010 – 2015, Farmers maintained its own self-funded medical and dental plan, which had been established in 1995. Farmers' was the only participant in the plan. Since the plan was in existence before health care reform legislation was passed, it was considered a "grandfathered" plan and as such, did not have to comply with certain health care reform requirements. "Grandfathered" plans are restricted in the benefit and cost changes they can make or the plan will lose that status and have to offer all coverages mandated by the Affordable Care Act.

The plan administrators and advisors for Farmers' plan were North American Administrators ("NAA"), headquartered in Nashville, Tennessee. When the Federal Affordable Care Act became effective in 2010 and for the subsequent five years, NAA advised the cooperative's management as to how to comply with the Affordable Care Act while minimizing cost increases. NAA continually recommended that the Cooperative's plan maintain its "grandfathered" status. Their main concern was the potential impact of the costs associated with expanding coverage to meet the mandates imposed if Farmers plan were to give up its "grandfathered" status. Of prime concern was the provision of having to cover the exorbitant costs of clinical trials, associated medications, etc. NAA advised that those costs and others required under the new act would substantially drive up the plan costs and the costs associated with stop-loss coverage. One of the steps that

Witness: Jennie Phelps and William T. Prather

Farmers Rural Electric Cooperative Corporation
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Response 3 (continued).

could cause the Cooperative's plan to lose its "grandfathered" status, as specified by the Affordable Care Act, would be to adjust employee contributions above some very minimal levels each year. Based upon NAA's advice and direction each year, the Cooperative gradually increased the employee deductible amounts during 2010-2015 while maintaining "grandfathered" status of the plan.

The specific directives in the Affordable Care Act as published in the June 17, 2010 Federal Register are cited below. Also included as further information on the benefits of maintaining the grandfathered status of a health plan is an information piece published by our current health care plan administrator, Brown & Brown Benefit Administrators, in 2010 and 2011. It is included as an attachment to this response.

Source: Federal Register – June 17, 2010

Interim Final Rules for Group Health Plans and Health Insurance Coverage Relating to Status as a Grandfathered Health Plan Under the Patient Protection and Affordable Care Act

<https://www.federalregister.gov/documents/2010/06/17/2010-14488/interim-final-rules-for-group-health-plans-and-health-insurance-coverage-relating-to-status-as-a>

Part 54 – Pension Excise Taxes – Example 2

(ii) Increase in percentage cost-sharing requirement. Any increase, measured from March 23, 2010, in a percentage cost-sharing requirement (such as an individual's coinsurance requirement) causes a group health plan or health insurance coverage to cease to be a grandfathered health plan.

(iii) Increase in a fixed-amount cost-sharing requirement other than a copayment. Any increase in a fixed-amount cost-sharing requirement other than a copayment (for example, deductible or out-of-pocket limit), determined as of the effective date of the

Witness: Jennie Phelps and William T. Prather

Farmers Rural Electric Cooperative Corporation
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Response 3 (continued).

increase, causes a group health plan or health insurance coverage to cease to be a grandfathered health plan, if the total percentage increase in the cost-sharing requirement measured from March 23, 2010 exceeds the maximum percentage increase (as defined in paragraph (g)(3)(ii) of this section).

(iv) Increase in a fixed-amount copayment. Any increase in a fixed-amount copayment, determined as of the effective date of the increase, causes a group health plan or health insurance coverage to cease to be a grandfathered health plan, if the total increase in the copayment measured from March 23, 2010 exceeds the greater of:

- (A) An amount equal to \$5 increased by medical inflation, as defined in paragraph (g)(3)(i) of this section (that is, \$5 times medical inflation, plus \$5),
- (B) or the maximum percentage increase (as defined in paragraph (g)(3)(ii) of this section), determined by expressing the total increase in the copayment as a percentage

- B. For the test year of 2015, Farmers' employees were subject to deductibles of \$1,220 for single plans and \$2,440 for family plans. Cost breakdowns were as follows:

	<u>Farmers Expense:</u>	<u>Employee Premiums:</u>	<u>Deductibles Subject To:</u>	<u>% Paid By EEs:</u>
FAMILY	\$ 900,400	\$ 84,781	\$ 119,560	22.69%
SINGLE	<u>\$ 135,153</u>	<u>\$ 0</u>	<u>\$ 19,520</u>	21.62%
TOTAL	\$1,035,553	\$ 84,781	\$ 139,080	

For the test year of 2015, to allocate 32 percent of the total cost for family coverage, Farmers would have incurred \$63,450 less in medical expense. The single coverage would see no changes as the employee paid 21 percent of the total cost.

Witness: Jennie Phelps and William T. Prather

Farmers Rural Electric Cooperative Corporation
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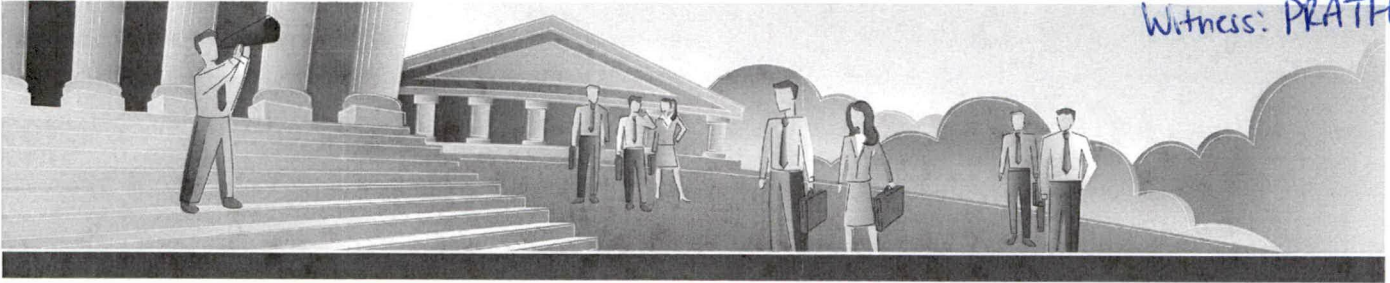
Response 3 (continued).

The new allocation would be as follows:

	<u>Farmers Expense:</u>	<u>Employee Premiums:</u>	<u>Deductibles Subject To:</u>	<u>% Paid By EEs:</u>
FAMILY	\$ 836,950	\$148,231	\$ 119,560	32.00%
SINGLE	<u>\$ 135,153</u>	<u>\$ 0</u>	<u>\$ 19,520</u>	21.62%
TOTAL	\$ 972,103	\$ 148,231	\$ 139,080	

Note that for financial year 2016, Farmers' employees were subject to increased deductibles: \$1,500 for single plans \$3,000 for family plans. Therefore, the cost breakdowns and allocation would be different.

- C. Farmers is uncertain how to answer this question due to its open-ended nature. Certainly, the personal behaviors and habits of Farmers' employees and their families can impact the extent to which their lifestyle is healthy, relatively speaking. Also, federal and state policies effecting the health insurance market and the healthcare system as a whole can have a significant impact upon healthcare insurance. In general, Farmers believes that is likely that policies which have reduced the number of insurance providers in Kentucky and national have likely caused healthcare insurances costs to rise generally.
- D. Farmers medical/healthcare insurance for 2010 totaled \$605,480.00



LEGISLATIVE BRIEF

Health Care Reform: What are the Benefits of Having a Grandfathered Plan?

What is a Grandfathered Plan?

Under the health care reform law signed into law on March 23, 2010, a grandfathered plan is essentially a health plan that existed before the health care reform legislation was passed. More specifically, a grandfathered plan is a group health plan or health insurance coverage in which an individual was enrolled on March 23, 2010.

If your company sponsored a health plan on March 23, 2010, you had a grandfathered plan. Whether your plan remains grandfathered depends on whether you made significant changes to the plan's benefits or costs since then. If you are considering changes to your health plan, you will need to consider whether it makes sense to try to retain grandfathered status for your plan.

Please contact Brown & Brown Benefit Advisors with any questions on which changes a grandfathered plan can make without putting its grandfathered status at risk.

What are the Benefits of Having a Grandfathered Plan?

In considering whether to keep your plan's grandfathered status, it is important to keep in mind the benefits the health care reform law provides to grandfathered plans. Under health care reform, grandfathered plans do not have to comply with some provisions of the health care reform law. On the other hand, losing grandfathered status means that a plan would have to comply with additional health care reform requirements.

You should also keep in mind that grandfathered plans are restricted in the benefit and cost changes they can make. You may find that it makes sense for your company to give up grandfathered status, and comply with the additional rules, to be able to make more significant changes to your plan.

Which Health Care Reform Rules Can Grandfathered Plans Avoid?

Grandfathered health plans are exempt from the following health care reform requirements:

- **Coverage of Preventive Health Services.** Effective for plan years beginning on or after Sept. 23, 2010, group health plans and group or individual health insurance policies must cover certain preventive health services without imposing cost-sharing requirements.
- **Patient Protections.** Effective for plan years beginning on or after Sept. 23, 2010:
 - Enrollees must be allowed to choose any available primary care provider that participates in their plan or network (including a pediatrician for children).
 - Group health plans and group or individual health insurance policies that provide emergency services may not impose preauthorization requirements or increased cost-sharing on emergency services (in- vs. out-of-network).
 - Group health plans and group or individual health insurance policies that provide OB/GYN care may not require preauthorization or referral for that care.

What are the Benefits of Having a Grandfathered Plan?

- **Nondiscrimination Rules for Fully Insured Plans.** Fully insured plans will have to satisfy the requirements of Internal Revenue Code section 105(h)(2). That section provides that a plan may not discriminate in favor of highly compensated individuals as to eligibility to participate and that the benefits provided under the plan may not discriminate in favor of participants who are highly compensated individuals. This provision will be effective sometime after regulations are issued. The regulations will specify the effective date.
- **Quality of Care Reporting.** Within two years of the date of enactment, reporting requirements will be developed for group health plans and health insurance issuers offering group or individual health insurance coverage. The reports will relate to benefit and reimbursement structures that are designed to improve health outcomes, prevent hospital readmissions, improve patient safety, reduce medical errors, and implement health and wellness activities.
- **New Appeals Process.** Effective for plan years beginning on or after Sept. 23, 2010, group health plans and health insurance issuers offering group or individual health insurance coverage must implement an effective appeals process for appeals of coverage determinations and claims. A grace period until July 1, 2011, has been granted for some elements of the process.
- **Insurance Premium Restrictions.** Effective for plan years beginning on or after Jan. 1, 2014, premiums charged for health insurance coverage in the individual or small group market may not be discriminatory and may vary only by individual or family coverage, rating area, age and tobacco use, subject to certain restrictions.
- **Guaranteed Issue and Renewal of Coverage.** Effective for plan years beginning on or after Jan. 1, 2014, health insurance issuers offering health insurance coverage in the individual or group market in a state must accept every employer and individual in the state that applies for coverage and must renew or continue the coverage at the option of the plan sponsor or the individual.
- **Nondiscrimination Based on Health Status.** Effective for plan years beginning on or after Jan. 1, 2014, group health plans and health insurance issuers offering group or individual health insurance coverage may not establish rules for eligibility or continued eligibility based on health status-related factors. Wellness programs must meet nondiscrimination requirements.
- **Nondiscrimination in Health Care.** Effective for plan years beginning on or after Jan. 1, 2014, group health plans and health insurance issuers offering group or individual insurance coverage may not discriminate against any provider operating within their scope of practice. However, this provision does not require a plan to contract with any willing provider or prevent tiered networks. Plans and issuers also may not discriminate against individuals based on whether they receive subsidies or cooperate in a Fair Labor Standards Act investigation.
- **Comprehensive Health Insurance Coverage.** Effective for plan years beginning on or after Jan. 1, 2014, health insurance issuers that offer health insurance coverage in the individual or small group market must provide the essential benefits package required of plans sold in the health insurance exchanges.
- **Limits on Cost-Sharing.** Effective for plan years beginning on or after Jan. 1, 2014, certain group health plans may not impose cost-sharing or out-of-pocket costs in excess of certain limits. Out-of-pocket expenses may not exceed the amount applicable to coverage related to HSAs, and deductibles may not exceed \$2,000 (single coverage) or \$4,000 (family coverage). These amounts are indexed for subsequent years.
- **Coverage for Clinical Trials.** Effective for plan years beginning on or after Jan. 1, 2014, group health plans and health insurance issuers offering group or individual insurance coverage must permit certain enrollees to participate in certain clinical trials, must cover routine costs for clinical trial participants and may not discriminate against participants.

Please contact Brown & Brown Benefit Advisors with any questions about grandfathered plans.

Farmers Rural Electric Cooperative Corporation
Case No. 2016-00365
Commission Staff's Fourth Request for Information

Request 4.

Refer to Staff's Third Request, Item 15, regarding interest expense.

- A. In the response, Farmers states that an annualized cost of debt of \$1,709,878, referred to in Staff's Second Request, Item 15, is calculated based on a formula that does not account for the variations in Farmers FFB variable loans. Explain what is meant by this statement and provide the formula referenced in the response.
- B. Provide an update to Farmers' annualized cost of debt based on the rates currently in effect for its variable rate debt in both the formula request by Staff and the formula used by Farmers.

Response 4.

- A. Farmers FFB variable loans are subject to 90-day interest rates. In referring to the Staff's Second Request, Item 15, the formula for annualized cost of debt (column J) calculates the outstanding debt (column D) multiplied by the cost rate to maturity (column G). At the end of the 2015 test year, the cost rate to maturity would have included only one 90-day period. Therefore, the formula does not account for the varying rates throughout the year. Attached to this response are the interest rates for Farmers FFB variable loans for the test year 2015, financial year 2016, and first quarter 2017.
- B. Updated annualized cost for variable debt only and all outstanding debt are attached to this response. Shown in the attachments are the debt for the test year 2015 and financial year 2016. As illustrated the overall cost of debt decreased from test year 2015 to financial year 2016. However, the cost of variable debt increased, which emphasizes the need for a 2.00 TIER to be able to account for future rate risk.

**Farmers RECC
FFB 90-Day Variable Loans**

Note Number	Date of Issue	Original Balance	Interest Rates				Interest Rates		Interest Rates		
			1st Qtr 2015	2nd Qtr 2015	3rd Qtr 2015	4th Qtr 2015	1st Qtr 2016	2nd Qtr 2016	3rd Qtr 2016	4th Qtr 2016	1st Qtr 2017
H0095	Jan-12	1,000,000.00	0.030%	0.039%	0.019%	0.010%	0.214%	0.203%	0.265%	0.274%	0.509%
H00100	Nov-12	1,000,000.00	0.030%	0.039%	0.019%	0.010%	0.214%	0.203%	0.265%	0.274%	0.509%
H00105	Jan-13	1,500,000.00	0.030%	0.039%	0.019%	0.010%	0.214%	0.203%	0.265%	0.274%	0.509%
H00110	Jul-13	3,152,000.00	0.030%	0.039%	0.019%	0.010%	0.214%	0.203%	0.265%	0.274%	0.509%
H00115	Jul-14	1,300,000.00	0.030%	0.039%	0.019%	0.010%	0.214%	0.203%	0.265%	0.274%	0.509%
H00120	Sep-14	1,000,000.00	0.030%	0.039%	0.019%	0.010%	0.214%	0.203%	0.265%	0.274%	0.509%
H00125	Feb-15	1,000,000.00		0.037%	0.019%	0.010%	0.214%	0.203%	0.265%	0.274%	0.509%
H00130	May-15	1,000,000.00			0.027%	0.010%	0.214%	0.203%	0.265%	0.274%	0.509%
H00135	Aug-15	1,500,000.00				0.116%	0.214%	0.203%	0.265%	0.274%	0.509%
H00140	Dec-15	1,500,000.00					0.277%	0.203%	0.265%	0.274%	0.509%
H00145	Mar-16	1,200,000.00						0.353%	0.265%	0.274%	0.509%
H00150	Jun-16	1,200,000.00							0.291%	0.274%	0.509%

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION

Case No. 2016-00365

Schedule of Outstanding Variable Debt

For the Year Ended December 31, 2015

Line No.	Type of debt Issued (a)	Date of Issue (b)	Date of Maturity (c)	Amount Outstanding (d)	Coupon Interest Rate ⁽¹⁾ (e)	Cost Rate at Issue ⁽²⁾ (f)	Cost Rate to Maturity ⁽³⁾ (g)	1st Qtr. 2015 Rate (g.1.)	2nd Qtr. 2015 Rate (g.2.)	3rd Qtr. 2015 Rate (g.3.)	4th Qtr. 2015 Rate (g.4.)	Rating at Time of Issue ⁽⁴⁾ (h)	Type of Obligation (i)	Annualized Cost Col. (d) x Col. (g) (j)	Actual Interest Cost 1st Qtr. (k.1.)	Actual Interest Cost 2nd Qtr. (k.2.)	Actual Interest Cost 3rd Qtr. (k.3.)	Actual Interest Cost 4th Qtr. (k.4.)	Actual Test Year Interest Cost ⁽⁵⁾ (k)
														PSC Cal*	~	**Farmers RECC Cal**			
1	FFB - H0095	Jan-12	Mar-16	870,270			0.21%	0.03%	0.04%	0.02%	0.01%			1,862	346	366	322	299	1,333
2	FFB - H00100	Nov-12	Mar-16	893,403			0.21%	0.03%	0.04%	0.02%	0.01%			1,912	355	376	331	307	1,369
3	FFB - H00105	Jan-13	Mar-16	1,352,057			0.21%	0.03%	0.04%	0.02%	0.01%			2,893	537	569	501	465	2,072
4	FFB - H00110	Jul-13	Mar-16	2,892,909			0.21%	0.03%	0.04%	0.02%	0.01%			6,191	1,150	1,218	1,071	994	4,433
5	FFB - H00115	Jul-14	Mar-16	1,260,759			0.21%	0.03%	0.04%	0.02%	0.01%			2,698	497	528	465	432	1,922
6	FFB - H00120	Sep-14	Mar-16	969,815			0.21%	0.03%	0.04%	0.02%	0.01%			2,075	382	406	357	333	1,478
7	FFB - H00125	Feb-15	Mar-16	969,784			0.21%		0.04%	0.02%	0.01%			2,075	236	401	357	333	1,327
8	FFB - H00130	May-15	Mar-16	984,680			0.21%			0.03%	0.01%			2,107			487	338	1,270
9	FFB - H00135	Aug-15	Mar-16	1,488,590			0.21%				0.12%			3,186			357	913	825
10	FFB - H00140	Dec-15	Mar-16	1,500,000			0.28%							4,155					-
11																			
12	FFB - VARIABLE DEBT			13,182,267										29,155	3,503	3,864	4,248	4,414	16,029
13																			
14	Please note that the amount outstanding in column D is as of December 31, 2015. Outstanding loan amounts are updated with payment at the end of each quarter.																		

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION

Case No. 2016-00365

Schedule of Outstanding Variable Debt

For the Year Ended December 31, 2016

Line No.	Type of debt Issued (a)	Date of Issue (b)	Date of Maturity (c)	Amount Outstanding (d)	Coupon Interest Rate ⁽¹⁾ (e)	Cost Rate at Issue ⁽²⁾ (f)	Cost Rate to Maturity ⁽³⁾ (g)	1st Qtr. 2016 Rate (g.1.)	2nd Qtr. 2016 Rate (g.2.)	3rd Qtr. 2016 Rate (g.3.)	4th Qtr. 2016 Rate (g.4.)	Rating at Time of Issue ⁽⁴⁾ (h)	Type of Obligation (i)	Annualized Cost Col. (d) x Col. (g) (j)	Actual Interest Cost 1st Qtr. (k.1.)	Actual Interest Cost 2nd Qtr. (k.2.)	Actual Interest Cost 3rd Qtr. (k.3.)	Actual Interest Cost 4th Qtr. (k.4.)	Actual Test Year Interest Cost ⁽⁵⁾ (k)
														PSC Cal*	**Farmers RECC Cal**				
1	FFB - H0095	Jan-12	Mar-17	836,468			0.509%	0.214%	0.203%	0.265%	0.274%			4,258	734	703	837	875	3,149
2	FFB - H00100	Nov-12	Mar-17	858,703			0.509%	0.214%	0.203%	0.265%	0.274%			4,371	753	721	859	898	3,231
3	FFB - H00105	Jan-13	Mar-17	1,299,542			0.509%	0.214%	0.203%	0.265%	0.274%			6,615	1,140	1,092	1,300	1,359	4,891
4	FFB - H00110	Jul-13	Mar-17	2,780,547			0.509%	0.214%	0.203%	0.265%	0.274%			14,153	2,438	2,336	2,781	2,909	10,464
5	FFB - H00115	Jul-14	Mar-17	1,222,832			0.509%	0.214%	0.203%	0.265%	0.274%			6,224	1,063	1,020	1,217	1,276	4,576
6	FFB - H00120	Sep-14	Mar-17	940,639			0.509%	0.214%	0.203%	0.265%	0.274%			4,788	817	785	936	982	3,520
7	FFB - H00125	Feb-15	Mar-17	940,611			0.509%	0.214%	0.203%	0.265%	0.274%			4,788	817	785	936	982	3,520
8	FFB - H00130	May-15	Mar-17	955,057			0.509%	0.214%	0.203%	0.265%	0.274%			4,861	830	797	951	997	3,575
9	FFB - H00135	Aug-15	Mar-17	1,443,809			0.509%	0.214%	0.203%	0.265%	0.274%			7,349	1,255	1,205	1,437	1,507	5,404
10	FFB - H00140	Dec-15	Mar-17	1,455,284			0.509%	0.277%	0.203%	0.265%	0.274%			7,407	1,946	1,214	1,449	1,519	6,128
11	FFB - H00145	Mar-16	Mar-17	1,173,195			0.509%		0.353%	0.265%	0.274%			5,972		1,740	1,168	1,224	4,132
12	FFB - H00150	Jun-16	Mar-17	1,181,998			0.509%			0.291%	0.274%			6,016			1,528	1,233	2,761
13																			
14	FFB - VARIABLE DEBT			15,088,685										76,801	11,793	12,398	15,399	15,761	55,351
15																			
16	Please note that the amount outstanding in column D is as of December 31, 2016. Outstanding loan amounts are updated with payment at the end of each quarter.																		

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION

Case No. 2016-00365

Schedule of Outstanding Long-Term Debt

For the Year Ended December 31, 2015

Line No.	Type of debt Issued (a)	Date of Issue (b)	Date of Maturity (c)	Amount Outstanding (d)	Coupon Interest Rate ⁽¹⁾ (e)	Cost Rate at Issue ⁽²⁾ (f)	Cost Rate to Maturity ⁽³⁾ (g)	Rating at Time of Issue ⁽⁴⁾ (h)	Type of Obligation (i)	Annualized Cost Col. (d) x Col. (g) (j)	Actual Test Year Interest Cost ⁽⁵⁾ (k)
1	RUS - 1B310	Aug-98	Aug-33	1,617,611			5.12%			82,822	84,525
2	RUS - 1B315	Jan-99	Jan-34	863,302			4.50%			38,849	39,665
3	RUS - 1B316	Aug-99	Aug-34	636,321			4.12%			26,216	26,819
4	RUS - TOTAL			3,117,234						147,887	151,009
5											
6	FFB - H0010	Jan-01	Jan-35	3,567,192			5.49%			195,875	203,973
7	FFB - H0015	Jan-01	Jan-35	351,253			5.62%			19,730	20,530
8	FFB - H0020	Aug-03	Dec-37	4,108,291			4.77%			195,965	204,251
9	FFB - H0025	Nov-03	Dec-37	821,658			4.77%			39,193	40,851
10	FFB - H0030	Feb-04	Dec-37	821,658			4.77%			39,193	40,851
11	FFB - H0035	Dec-04	Dec-37	1,643,316			4.77%			78,386	81,700
12	FFB - H0040	Aug-05	Dec-37	2,449,001			4.35%			106,605	111,482
13	FFB - H0045	Dec-05	Dec-37	829,562			4.67%			38,749	40,416
14	FFB - H0050	Feb-06	Dec-37	828,079			4.59%			37,984	39,645
15	FFB - H0055	Oct-06	Dec-37	843,698			4.90%			41,324	43,032
16	FFB - H0060	Feb-07	Dec-37	847,452			4.93%			41,771	43,487
17	FFB - H0065	Apr-07	Dec-37	1,894,174			4.92%			93,099	96,933
18	FFB - H0070	Jan-09	Dec-40	6,209,305			3.41%			211,489	222,658
19	FFB - H0075	Mar-09	Dec-40	890,775			3.63%			32,335	33,951
20	FFB - H0080	Feb-10	Dec-40	903,673			4.45%			40,204	41,882
21	FFB - H0085	Nov-10	Dec-40	896,417			3.49%			31,294	32,912
22	FFB - H0090	Aug-11	Dec-40	675,932			2.87%			19,386	20,571
23	FFB - H0095	Jan-12	Mar-16	870,270			0.21%			1,862	1,333
24	FFB - H0100	Nov-12	Mar-16	893,403			0.21%			1,912	1,369
25	FFB - H0105	Jan-13	Mar-16	1,352,057			0.21%			2,893	2,072
26	FFB - H0110	Jul-13	Mar-16	2,892,909			0.21%			6,191	4,433
27	FFB - H0115	Jul-14	Mar-16	1,260,759			0.21%			2,698	1,922
28	FFB - H0120	Sep-14	Mar-16	969,815			0.21%			2,075	1,478
29	FFB - H0125	Feb-15	Mar-16	969,784			0.21%			2,075	1,327
30	FFB - H0130	May-15	Mar-16	984,680			0.21%			2,107	825
31	FFB - H0135	Aug-15	Mar-16	1,488,590			0.21%			3,186	1,270
32	FFB - H0140	Dec-15	Mar-16	1,500,000			0.28%			4,155	-
33	FFB - TOTAL			41,763,703						1,291,737	1,335,154
34											
35	CFC - 9011-001	Feb-80	Feb-15	-			6.800%		**	-	-
36	CFC - 9014-001	Apr-82	Mar-17	63,759			6.800%			4,336	6,245
37	CFC - 9015-001	Feb-86	Feb-21	105,322			6.800%			7,162	7,751
38	CFC - 9016-001	Dec-88	Dec-23	269,463			6.800%			18,323	19,021
39	CFC - 9017-001	Jan-92	Jan-27	572,215			6.800%			38,911	39,623
40	CFC - 9018-001	Apr-98	Apr-33	685,520			6.800%			46,615	46,634
41	CFC - 9018-002	Sep-98	Apr-33	304,676			6.800%			20,718	20,727
42	CFC - 9018-003	Nov-98	Apr-33	486,952			6.800%			33,113	33,127
43	CFC - 9019-004	Sep-10	May-14	-			3.100%		**	-	640
44	CFC - 9019-005	Sep-10	May-15	-			3.400%		**	-	313
45	CFC - 9019-006	Sep-10	May-16	41,958			3.700%			1,552	2,882
46	CFC - 9019-007	Sep-10	May-17	87,417			3.900%			3,409	3,409
47	CFC - 9019-008	Sep-10	May-18	42,960			4.100%			1,761	1,761
48	CFC - 9020-002	Jul-12	May-14	-			2.800%		**	-	-
49	CFC - 9020-003	Jul-12	May-15	-			2.900%		**	-	1,189
50	CFC - 9020-004	Jul-12	May-16	101,587			3.050%			3,098	5,762
51	CFC - 9020-005	Jul-12	May-17	215,713			3.300%			7,119	7,118
52	CFC - 9020-006	Jul-12	May-18	220,112			3.500%			7,704	7,705
53	CFC - 9020-007	Jul-12	May-19	228,652			3.750%			8,574	8,574
54	CFC - 9020-008	Jul-12	May-20	236,677			3.900%			9,230	9,231
55	CFC - 9020-009	Jul-12	May-21	230,578			4.050%			9,338	9,339
56	CFC - 9020-010	Jul-12	May-22	195,552			4.200%			8,213	8,213
57	CFC - 9020-011	Jul-12	May-23	218,285			4.300%			9,386	9,386
58	CFC - 9020-012	Jul-12	May-24	151,914			4.400%			6,684	6,684
59	CFC - 9021-001	Mar-13	Nov-16	1,111,353			2.250%			25,005	30,091
60	CFC - TOTAL			5,570,665						270,254	285,425
61											
62	REDLG Loan	Jan-15		888,880			0.00%			-	-
63	REDLG - TOTAL			888,880						-	-
64											
65	Total - ALL DEBT			51,340,482						1,709,878	1,771,588

** There is no debt outstanding and/or annualized cost of debt because the debt matured prior to the December 31, 2015 year end.

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION

Case No. 2016-00365

Schedule of Outstanding Long-Term Debt

For the Year Ended December 31, 2016

Line No.	Type of debt Issued (a)	Date of Issue (b)	Date of Maturity (c)	Amount Outstanding (d)	Coupon Interest Rate ⁽¹⁾ (e)	Cost Rate at Issue ⁽²⁾ (f)	Cost Rate to Maturity ⁽³⁾ (g)	Rating at Time of Issue ⁽⁴⁾ (h)	Type of Obligation (i)	Annualized Cost Col. (d) x Col. (g) (j)	Actual Test Year Interest Cost ⁽⁵⁾ (k)
1	RUS - 1B310	Aug-98	Aug-33	1,555,891			5.12%			79,662	81,459
2	RUS - 1B315	Jan-99	Jan-34	828,283			4.50%			37,273	38,127
3	RUS - 1B316	Aug-99	Aug-34	609,688			4.12%			25,119	25,746
4	RUS - TOTAL			2,993,862						142,053	145,332
5											
6	FFB - H0010	Jan-01	Jan-35	3,458,794			5.49%			189,922	199,630
7	FFB - H0015	Jan-01	Jan-35	340,725			5.62%			19,139	20,101
8	FFB - H0020	Aug-03	Dec-37	4,001,330			4.77%			190,863	200,728
9	FFB - H0025	Nov-03	Dec-37	800,266			4.77%			38,173	40,146
10	FFB - H0030	Feb-04	Dec-37	800,266			4.77%			38,173	40,145
11	FFB - H0035	Dec-04	Dec-37	1,600,531			4.77%			76,345	80,291
12	FFB - H0040	Aug-05	Dec-37	2,381,793			4.35%			103,679	109,406
13	FFB - H0045	Dec-05	Dec-37	807,692			4.67%			37,727	39,706
14	FFB - H0050	Feb-06	Dec-37	806,014			4.59%			36,972	38,937
15	FFB - H0055	Oct-06	Dec-37	822,087			4.90%			40,266	42,307
16	FFB - H0060	Feb-07	Dec-37	825,831			4.93%			40,705	42,760
17	FFB - H0065	Apr-07	Dec-37	1,845,761			4.92%			90,719	95,306
18	FFB - H0070	Jan-09	Dec-40	6,050,510			3.41%			206,080	218,890
19	FFB - H0075	Mar-09	Dec-40	868,705			3.63%			31,534	33,403
20	FFB - H0080	Feb-10	Dec-40	883,784			4.45%			39,320	41,321
21	FFB - H0085	Nov-10	Dec-40	873,767			3.49%			30,503	32,365
22	FFB - H0090	Aug-11	Dec-40	657,298			2.87%			18,851	20,183
23	FFB - H0095	Jan-12	Mar-16	836,468			0.51%			4,258	3,149
24	FFB - H00100	Nov-12	Mar-16	858,703			0.51%			4,371	3,231
25	FFB - H00105	Jan-13	Mar-16	1,299,542			0.51%			6,615	4,891
26	FFB - H00110	Jul-13	Mar-16	2,780,547			0.51%			14,153	10,464
27	FFB - H00115	Jul-14	Mar-16	1,222,832			0.51%			6,224	4,576
28	FFB - H00120	Sep-14	Mar-16	940,639			0.51%			4,788	3,520
29	FFB - H00125	Feb-15	Mar-16	940,611			0.51%			4,788	3,520
30	FFB - H00130	May-15	Mar-16	955,057			0.51%			4,861	3,575
31	FFB - H00135	Aug-15	Mar-16	1,443,809			0.51%			7,349	5,404
32	FFB - H00140	Dec-15	Mar-17	1,455,284			0.51%			7,407	6,128
33	FFB - H00145	Mar-16	Mar-17	1,173,195			0.51%			5,972	4,132
34	FFB - H00150	Jun-16	Mar-17	1,181,998			0.51%			6,016	2,761
35	FFB - H00155	Oct-16	Dec-47	2,000,000			2.14%			42,780	11,012
36	FFB - TOTAL			44,913,839						1,348,554	1,361,988
37											
38	CFC - 9014-001	Apr-82	Mar-17	13,185			6.800%			897	3,007
39	CFC - 9015-001	Feb-86	Feb-21	86,999			6.800%			5,916	6,577
40	CFC - 9016-001	Dec-88	Dec-23	243,176			6.800%			16,536	17,339
41	CFC - 9017-001	Jan-92	Jan-27	535,914			6.800%			36,442	37,299
42	CFC - 9018-001	Apr-98	Apr-33	663,243			6.800%			45,101	45,209
43	CFC - 9018-002	Sep-98	Apr-33	294,775			6.800%			20,045	20,092
44	CFC - 9018-003	Nov-98	Apr-33	471,128			6.800%			32,037	32,114
45	CFC - 9019-006	Sep-10	May-16	-			3.700%		**	-	583
46	CFC - 9019-007	Sep-10	May-17	44,132			3.900%			1,721	3,203
47	CFC - 9019-008	Sep-10	May-18	42,960			4.100%			1,761	1,766
48	CFC - 9020-004	Jul-12	May-16	-			3.050%		**	-	1,164
49	CFC - 9020-005	Jul-12	May-17	108,742			3.300%			3,588	6,689
50	CFC - 9020-006	Jul-12	May-18	220,112			3.500%			7,704	7,726
51	CFC - 9020-007	Jul-12	May-19	228,652			3.750%			8,574	8,598
52	CFC - 9020-008	Jul-12	May-20	236,677			3.900%			9,230	9,256
53	CFC - 9020-009	Jul-12	May-21	230,578			4.050%			9,338	9,364
54	CFC - 9020-010	Jul-12	May-22	195,552			4.200%			8,213	8,236
55	CFC - 9020-011	Jul-12	May-23	218,285			4.300%			9,386	9,412
56	CFC - 9020-012	Jul-12	May-24	151,914			4.400%			6,684	6,703
57	CFC - 9021-001	Mar-13	Nov-16	749,184			2.250%			16,857	21,963
58	CFC - TOTAL			4,735,208						240,031	256,300
59											
60	REDLG Loan	Jan-15		777,760			0.00%			-	-
61	REDLG - TOTAL			777,760						-	-
62											
63	Total - ALL DEBT			53,420,669						1,730,638	1,763,620

** There is no debt outstanding and/or annualized cost of debt because the debt matured prior to the December 31, 2016 year end.

Farmers Rural Electric Cooperative Corporation
Case No. 2016-00365
Commission Staff's Fourth Request for Information

Request 5.

Explain the fluctuations in the net income of Farmers Energy Services Corporation from 2014 through 2016.

Response 5.

The two primary fluctuations in the net income of Farmers Energy Services Corporation is the revenue of Farmers Energy Propane Plus and payments of federal & state income taxes.

First, the net income of Farmers Energy Propane Plus is recorded as "equity in earnings of sub" on the Farmers Energy Services income statement. Those earnings were as follows:

Year 2014 - \$290,298.46

Year 2015 - \$107,468.96

Year 2016 - \$173,756.19

The sale of propane gas is highly dependent upon weather. As illustrated in Staff's Third Request, Response 25, the beginning of 2014 saw bitterly cold temperatures, which averaged 29.1 degrees in January for Barren County. Weather conditions in November and December 2015 were very mild which resulted in less propane sales for the financial year. The end of 2016 saw cooler temperatures which averaged 38.2 degrees in December for Barren County (as compared to 50.3 degrees in December 2015).

Federal and state tax payments are made through Farmers Energy Services. Each year, the Corporation's Certified Public Accountant estimates the amount of tax payments for the following year. Net income was more than budgeted for fiscal year 2014. Therefore, in 2015, Farmers Energy Services Corporation made additional tax payments to cover its 2014 financial year.