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March 16, 2009

RECEIVED
MAR 16 2009
PUBLIC SERVICE
COMMISSION

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort, KY 40602

Re: Application of Farmers Rural Electric for an Adjustment of Rates
Case No. 2008-00030

Dear Mr. Derouen:

Please find enclosed the original and eight (8) copies of the responses to the Commission's Order "Third Data Request of Commission Staff to Farmers Rural Electric Cooperative Corporation" dated March 3, 2009.

Please contact me at (270) 651-8884 or William T. Prather at (270) 651-2191 with any questions regarding this filing.

Respectfully submitted,
RICHARDSON, GARDNER, BARRICKMAN & ALEXANDER

Woodford L. Gardner, Jr.
Counsel for Farmers Rural Electric Cooperative

Enclosure

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of adjustment of Rates

Of Farmers Rural Electric Cooperative

Corporation **Case No. 2008-00030**

APPLICANT'S RESPONSES TO

THIRD DATA REQUEST OF COMMISSION STAFF

The applicant, Farmers Rural Electric Cooperative Corporation, makes the following responses to the "Third Data Request of Commission Staff", as follows:

1. The witnesses who are prepared to answer questions concerning each request are William T. Prather, Alan Zumstein, and Jim Adkins.
2. William T. Prather, President and 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.

Woodford L. Gardner, Jr.
Richardson, Gardner, Barrickman & Alexander
Attorneys-At-Law
117 E. Washington Street
Glasgow, Kentucky 42141
Attorney for Farmers Rural Electric Cooperative
Telephone: 270-651-8884

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 my knowledge and belief formed after reasonable inquiry.

Dated: March 16, 2009

FARMERS RURAL ELECTRIC COOPERATIVE

By: William T. Prather

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 the 16th day of March, 2009.

Linda Sue Forsee

Notary Public, Kentucky State At Large

My Commission Expires: 7-30-2011

CERTIFICATE OF SERVICE

The undersigned counsel certifies that the foregoing responses have been served upon the following:

Original and Eight Copies

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

Copy
Hon. Lawrence W. Cook
Assistant Attorney General
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601

This 16th day of March, 2009

ATTORNEY FOR
FARMERS RURAL ELECTRIC COOPERATIVE

Farmers Rural Electric Cooperative
Case No. 2008-00030
Third Data Request of Commission Staff

1. Refer to Farmers' response to Staff's Second Data Request, item 10 and item 21. In response to item 10 at the second page of the Rural Utility Service ('RUS') Loan Contract Schedule 1, it is stated that Farmers may draw up to $8,701,000 of the total loan amount after Farmers demonstrates that it has filed a rate application with the Commission and that Farmers may draw the remaining $8,701,000 of the loan amount after Farmers demonstrates that it has received Commission approval of the rate increase. In response to item 21.b(1), Farmers states that it made the first draw on this loan on January 11, 2009 in the amount of $7 million. State the dates Farmers anticipates drawing the remaining $10,402,000 available loan funds assuming that the Commission's final order in this case is issued on the suspension date of Farmers' requested rates, July 8, 2009. For each date, state the amount of the anticipated draw and the expected interest rate.

Response

Farmers' received a $1,000,000 advance on March 12, 2009 with a rate of 3.63%.

RUS placed a covenant in the loan contract as follows:

..that the remaining $8,701,000 of the "AR8" loan guarantee commitment continue to be held under conditional agreement until the Borrower has submitted evidence, in form and substance satisfactory to the Administrator, that the KPSC has approved and the Borrower has implemented a retail rate design that demonstrates the Borrower's ability to achieve a TIER of not less than 1.25, a DSC of not less that 1.25, and OTIER of not less than 1.1, and an ODSC of not less than 1.1 for calendar year 2009..

If the rate request is granted on July 8, 2009, Farmers will probably not meet the ratios required in the covenant in 2009 and will probably not be able to make another draw before mid 2010. At that time draws would be made as needed to complete the current work plan.

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2. Refer to Farmers' response to Staff's Second Data Request, item 21, and Farmers' Application at Exhibit 5.

a. At Exhibit 5, page 4, Farmers states that the "adjustment is to remove interest on short term borrowings. It is presumed that the short term borrowings will be repaid as a result of additional revenues generated from the application." The result of the "adjustment" shown on page 4 is an increase to test year interest expense on short-term debt of $102,551 (Pro forma, $228,838 – Test Year, $126,287). Explain how increasing test year interest expense by $102,551 removes interest on short-term borrowings as suggested in Farmers' statement.

b. If short-term borrowings will be repaid as a result of the additional revenues generated from this Application, as suggested by Farmers, and no additional short-term borrowings are necessary, explain why the inclusion of interest on short-term borrowings in the amount of $228,838 is appropriate for rate recovery.

c. At Exhibit 5, page 4, the outstanding balance on which interest expense is determined is $4,817,646. State whether this amount is included in the $6,977,646 as referenced at item 21.b(2).

d. If yes to c, state why Farmers did not use the interest rate of 3.406 percent as stated at item 21.b(3) to calculate pro forma interest expense on Exhibit 5 instead of the 4.75 percent.

e. Refer to pages 2 and 3 of Exhibit 5. The total outstanding long-term debt reflects no change as of September 30, 2008 from the total outstanding as of December 31, 2007. If this is correct, provide a detailed explanation of why there has been no change in the total amount outstanding from December 31, 2007 to September 30, 2008. Otherwise, provide updated schedules reflecting the correct total outstanding long-term debt.

Response

2.a. The only reason for the short term debt is that RUS would not allow Farmers to advance funds until a rate application was filed with the Commission. Therefore, Farmers included the short term debt as long term debt and normalized the annualized interest as if it would have been long term advances. The short term portion has been removed from other interest expense.

2.b. More precisely, with the rate application Farmers will not have to borrow short term funds with the additional revenues generated, and RUS will allow the advance of long term funds.

2.c. Yes. Farmers has increased its short term borrowings from $4,817,646 on September 30, 2008 increasing to $6,977,646 on December 31, 2008.

2.d. The interest rate on the last advance of funds was 4.915%, as reflected for Note H0065. At the time preparing the application Farmers did not know the interest rate on the January 11, 2009 advance. That is why the 4.75% rate was used in the application.

2.e. This was an oversight. The schedule with December 31, 2007 information is attached to this response.

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3. Refer to Farmers' response to Staff's Second Data Request, item 21; Farmers' Application at Exhibit 5; and Farmers' Application at Exhibit H-1.

a. In response to item 21.a, Farmers states that "short-term debt was accumulated to fund construction projects, pay for operating and maintenance costs, taxes, cost of power, and other expenses in the normal course of business." In response to items 21.b(2) and 21.b(3), Farmers states that the short-term borrowings converted to long-term debt on January 11, 2009 totaled $6,977,646. State the portion of the amount converted to long-term debt on January 11th that was used to pay operating expenses and fund construction projects separately.

b. At Exhibit 5, page 2, Farmers lists its total long-term debts as of September 30, 2008. State the portion of these borrowings that was used to pay operating expenses and fund construction projects separately.

c. At page 2 of Exhibit H-1, Farmers' President and CEO, William T. Prather, states that Farmers last general base rate adjustment was made in 1984. Would it be fair to say that Farmers has avoided general base rate increases over the last 25 years by continuously financing operating expenses through short-term debt financings that have been converted to long-term debt financings? If no, explain in full detail.

Response

3.a. The entire portion of the long term advance was to reimburse general funds for construction projects. However, since RUS delayed advancing loan funds to Farmers, it was necessary to use short term funds for amounts paid from Farmers operating cash accounts until such time as loan funds were available.

3.b. All loans were used to fund construction projects.

3.c. No. Farmers has used short term borrowings over the years, but this has not factored into whether Farmers needs to file for a rate increase. Interest on debt, whether long term or short term, has little effect on margins, although it does effect TIER differently.

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4. Refer to Farmers' response to Staff's Second Data Request, item 13.

a. For account 593.11, Maint – hand clearing, explain the decrease in the test-year amount when compared to the amounts shown for the other 5 years in the comparison.

b. For account 593.25, Maint – Chemicals, explain the relatively low expense reported in this account for 2006 when compared to the test year and the 4 other years included in the analysis.

c. For account 593.29, Maint – Cycle 2:

(1) When compared to 2006, the amounts reported in this account increased by 69 percent for 2007 and 113 percent for the test year. Explain these increases; and

(2) State whether it is Farmers' opinion that these increases will recur annually. Provide support for Farmers' position.

d. For account 597.00, Maint Meters:

(1) When compared to 2006, the amounts reported in this account increased by 407 percent for 2007 and 1022 percent for the test year. Explain these increases.

(2) State whether it is Farmers' opinion that these increases will recur annually. Provide support for Farmers' position.

e. For account 903.00, Consumer Records, since 2006, the amount recorded in this account has increased by approximately $100,000 annually, escalating to $872,761 during the test year.

(1) Explain the nature of the increases in this account since 2006.

(2) State whether it is Farmers' opinion that the test-year level will be recurring on a going-forward basis and give the basis for Farmers' position.

f. For account 908.00, Informational, explain why the test-year expense was about one-half of the expense for 2007.

g. For account 921.00, Office supplies & expense, this account has decreased on an annual basis since 2003. Explain the nature of these annual decreases.

Response

4.a. Farmers has been systematically reducing cooperative right-of-way crews and replacing them with contract right-of-way crews. The employees either left through attrition or were given other jobs in the cooperative.

4.b. Margins and TIER were steadily decreasing during 2006, as a result, Farmers significantly reduced spending on right-of-way. The reduction went from approximately September 2006 through March 2007 where almost no contractors were used.

4.c.(1) Farmers reduced, and even discontinued, right-of-way contractors for several months of 2006 and 2007. Farmers increased its right-of-way clearing to get back to levels needed to maintain its right-of-way clearing program.

4.c.(2) Farmers anticipates it will maintain the level during the test for future years. The test year right-of-way level will allow Farmers to get to, and maintain, a 5-6 year right-of-way clearing cycle.

4.d.(1) An employee that previously worked in dispatch was transferred to work in metering. A portion of that employee's labor and benefits are now charged to this account. An employee was hired to replace this employee in dispatching. This occurred during May 2007.

4.d.(2) The level of expense during the test year is estimated to continue into the future at the current level. The level of employees have been in place prior to the test year.

4.e.(1) Farmers hired an additional employee as Customer Service Representative during 2006, and one employee each year for 2007 and 2008 as Field Representatives to concentrate on collections. Farmers has made an effort to be more timely with collections and disconnects. Postage has increased during this time. During January 2008, Farmers implemented an on-line collection service for approximately $1,200 per month. In addition, starting in 2005 office supplies and expenses related to billing functions has been recorded in Account 903.00 that had previously been recorded in Account 921.00, Office Supplies and Expenses.

4.e.(2) The level of expense during the test year is estimated to continue into the future at the current level. The level of employees and activities have been in place prior to, and during the test year.

4.f. The employee in this position retired during January 2007. That employee charged all time to Account 908.00. The employee who replaced that employee now allocates labor to various accounts based on an estimate of time expended for that activity.

4.g. Farmers has made more of an effort to allocate office supplies and expenses to the functional expense account where the cost has been incurred. Approximately $35,000 per year has been allocated to Account 903.00 since that time.

Witness: Alan Zumstein

Farmers Rural Electric Cooperative
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5. Refer to Farmers' response to Staff's Second Data Request, item 14. This response is non-responsive. Provide a copy of the audit adjustments for the year ended December 31, 2007.

Response

There were no audit adjustments for the year ended December 31, 2007. The "no" was omitted from the original response.

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6. Refer to Farmers' response to Staff's Second Data Request, items 15. a. and b.

a. State the impact on test-year revenues and expenses separately, assuming that the proposed change in the power factor from 85 percent to 90 percent had been in effect during the entire test year. Provide all workpapers used to make these calculations.

b. If the Commission were to approve the proposed change in the power factor, state why it would be inappropriate to include the effects of this change in the determination of the required revenue increase in this case.

Response

6.a. The following are the effect on revenue. East Kentucky Power currently bills Farmers for power factor penalty < 90%. Farmers would be recovering its cost.

	Demand Billed			Demand	
	Test Year	Proposed	Difference	Rate	Amount
October	10,550.95	10,961.44	410.49	$5.06	2,077
November	10,379.25	10,790.60	411.36	$5.06	2,081
December	9,533.76	9,928.03	394.28	$5.06	1,995
January	9,511.55	9,900.46	388.91	$5.06	1,968
February	9,364.84	9,777.55	412.71	$5.06	2,088
March	9,288.33	9,669.24	380.91	$5.06	1,927
April	9,059.67	9,449.82	390.15	$5.06	1,974
May	9,128.11	9,585.53	457.42	$5.06	2,315
June	9,260.48	9,813.92	553.44	$5.06	2,800
July	9,886.91	10,474.42	587.52	$5.06	2,973
August	10,846.15	11,394.17	548.02	$5.06	2,773
September	12,029.45	12,626.55	597.10	$5.06	3,021
Total	118,839.44	124,371.75	5,532.31		27,993

6.b. Farmers' agrees that it should have included the effects of this change.

Witness: Jim Adkins

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7. Refer to Farmers' response to Staff's Second Data Request, item 4. Provide the workpapers supporting the calculation of the $382,598 credit as referenced in the second paragraph.

Response

Farmers ran a billing query to select all accounts that had a penalty assessed during the test year. It then reran the query based on a 5% penalty, with no dollar limit on these same accounts. This resulted in the $328,598 penalty for those customers that incurred late payment penalties during the test year. Again, Farmers will never realize this level of penalty because it is expected that commercial and industrial customers would pay their bill on a timely basis where the penalty charge is 5% of their bill instead of a maximum dollar limit of $5.00.

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8. Refer to Farmers' response to Staff's Second Data Request, item 16.

a. Explain the nature of the amounts charged to account 588 for Fuel, Federal Mogul generator, in the amount of $129,751.42, and Remote monitoring, Federal Mogul, in the amount of $12,000.

b. State whether or not these expenses are expected to recur on an annual basis at the level included in the test year.

Response

8.a. Farmers has a generator located near one of its industrial customers whereby the generator can be used during outages, or blinks, and can also be used by Farmers to shave peak demand from using electricity supplied from East Kentucky to the generator. This is the cost to run the generator on an annual basis. Farmers' presently uses the generator several times each month. The remote monitoring assists in the decision as to when the generator should be run.

8.b. This will be an ongoing expense in the future.

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RESPONSE TO COMMISSION STAFF'S THIRD DATA REQUEST

Refer to Farmers' response to Staff's Second Data Request, items 13 and 17. The information shown in Table I was compiled from information presented by Farmers at Item 13.

Question:

a. As demonstrated in Table1, the level of each of these expense accounts generally fluctuates significantly (greater than 5 percent) from year to year. Explain the reason for the increases and decreases to each of the accounts shown in Table 1 that exceed 5 percent.

Response:

a. The reasons for the fluctuations in these expense accounts over the period of time are a result of three unique situations and periods. The period of 2005 through a part of 2007 was a time that Farmers was reducing as many expenses as it could for the primary reason of postponing a rate application for as long as possible. The other period encompasses the period of late 2007 until the end of the test year where the expenses referenced in Table 1 of this question returned to a more normal level.

Question:

b. Considering the continuous fluctuation in the accounts sown in Table 1, discuss whether Farmers agrees or disagrees that it would be appropriate to normalize these accounts for rate-making purposes by allowing recovery of a 5 or 10 year average of these annual expenses. Explain Farmers' position in full detail.

Response:

Farmers does not agree with the use of a five year average or a ten year average. The use of an average of expenses over a five year period such as 2003 through 2007 would be the equivalent to using the expenses for a period midway through the range of years used in determining the average expenses. This proposal does not seem to be reasonable. Using a ten year average would be even more detrimental to Farmers because the period midway through the range would be even more removed from the test year. The use of average could be improved by adjusting the average amount to the test year amount by some inflation factor. The proper inflation factor could be subject to much debate though.

Farmers suggests a different approach that may be appropriate in this situation. It is suggested that a ten year period of actual expenses be used to develop a regression line. This regression line then would be used to determine an estimate of expenses for the test year. This test year estimate would then be compared with the actual test year expenses. If the test year actual expenses are within a certain range of the predicted expenses such as five percent, then the actual expenses would be considered acceptable as provided in the application.

Attached as page 3 of this exhibit is the expenses for the period of 1998 through 2007 for the accounts listed in Table 1. Also included is the predicted values for each year of this period plus the test year. A regression line was developed on the basis of the actual expenses for 1998 through 2997 and the used to predict the amount for the test period. The regression data is provided for each account at that bottom of the table along with the "multiple R" factor and the "R square" measure. Farmers also feels that it is best to look at the expenses as a total amount versus each individual account.

Attached as page 4 of this response is a graph of the total actual expenses and the total predicted expenses. For the year, the predicted expenses were less than the actual by $38,695. The actual expenses were approximately 3.4% higher than predicted. This amount is well within a reasonable range based on a regression equation for actual expenses for 1998 through 2007. The actual test year amounts in these accounts should be accepted as presented in the Application.

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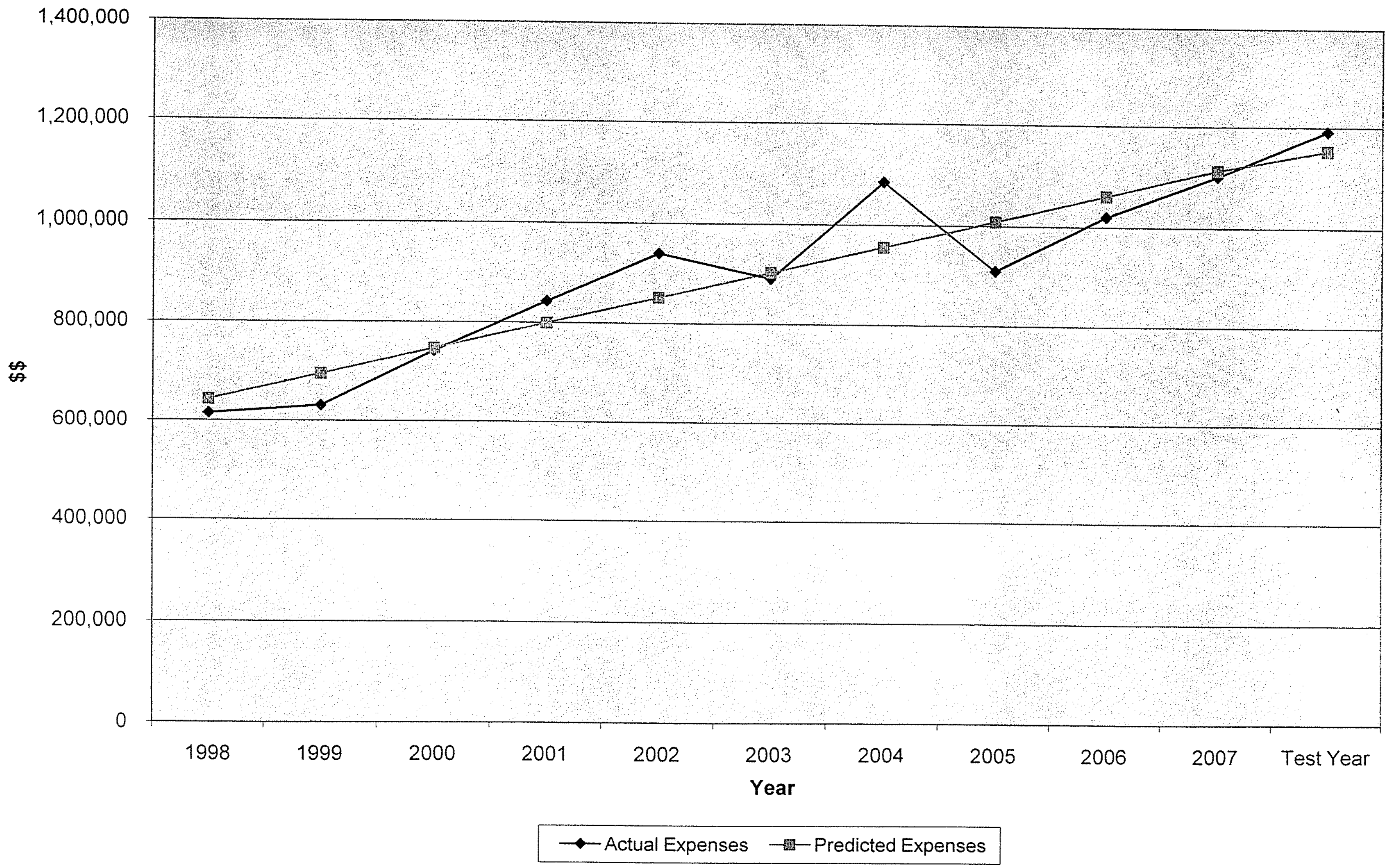
RESPONSE TO COMMISSIONS STAFF'S THIRD DATA REQUEST

		Account 593		Account 593.01		Account 595		Account 595.01		Total	
	Year	Actual	Predicted	Actual	Predicted	Actual	Predicted	Actual	Predicted	Actual	Predicted
1	1998	305,248	360,292	220,754	186,085	61,800	71,054	26,882	25,648	614,684	643,079
2	1999	347,114	378,098	207,138	221,344	51,848	69,637	24,871	26,228	630,971	695,307
3	2000	401,181	395,904	248,440	256,604	66,979	68,220	25,861	26,807	742,461	747,535
4	2001	468,555	413,711	246,822	291,863	99,605	66,803	28,536	27,386	843,518	799,763
5	2002	492,678	431,517	339,080	327,123	82,423	65,385	26,504	27,966	940,685	851,991
6	2003	459,674	449,324	327,951	362,382	72,718	63,968	31,864	28,545	892,207	904,219
7	2004	489,763	467,130	509,700	397,642	56,472	62,551	28,434	29,124	1,084,369	956,447
8	2005	487,983	484,936	358,825	432,901	41,084	61,133	23,174	29,704	911,066	1,008,675
9	2006	458,809	502,743	487,101	468,161	35,335	59,716	38,920	30,283	1,020,165	1,060,902
10	2007	493,199	520,549	501,714	503,420	78,502	58,299	27,507	30,862	1,100,922	1,113,130
10.75	Test Year	545,613	533,904	535,112	529,865	87,650	57,236	22,621	31,297	1,190,996	1,152,301
	Intercept		342,485		150,825		72,472		25,069		590,851
	X Variable		17,806		35,259		(1,417)		579		52,228
	Multiple R		0.80635		0.90295		0.21905		0.39734		0.91697
	R Squared		0.65020		0.81531		0.04798		0.15788		0.84084
5 Year Average		477,886		437,058		56,822		29,980		1,001,746	
10 Year Average		440,420		344,753		64,677		28,255		878,105	

OH Line & Transf. Maint. Expenses - Case No. 2008-00030, PSC 3-9



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10. Refer to Farmers' response to Staff's Second Data Request, item 17.a. Provide a separate schedule for accounts 593.00, 593.01, 595.00 and 595.01 that compares the general ledger detail of each account for the years 1998 through 2007 and the test year.

Response

Responses are attached.

Account 593.00, Maintenance of overhead lines

	Test Year	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Employee labor	151,773	171,354	175,722	183,316	196,544	162,487	188,896	152,948	145,536	137,298	134,603
Accrued vacation	13,625	13,041	13,387	13,800	13,569	10,757	13,750	11,219	10,538	9,375	9,401
Health insurance	58,050	63,873	43,160	45,988	60,086	47,682	48,223	22,118	19,653	16,145	14,798
Payroll taxes	14,881	16,249	16,878	17,374	17,529	15,174	17,182	13,952	13,234	13,035	12,474
Workers compensation	7,485	7,703	8,501	8,884	9,063	11,324	7,832	4,366	1,705	4,097	5,153
Life and disability	3,058	3,868	4,022	3,894	4,097	3,572	3,720	2,849	2,715	2,474	2,325
401(k)	1,514	981	930	965	915	825	919	743	679	670	632
R & S retirement	25,093	28,465	27,656	27,517	25,352	21,520	22,931	17,503	15,219	12,265	11,646
Employee assistance	98										
Office supplies	51	85	98	48	145	95	49	61		61	70
Material issued	25,387	20,400	11,143	10,046	10,722	19,081	24,342	15,045	10,534	(1,083)	11,820
Supplies and small tools	712	876	3,288			1,060	143	30			1,143
Contractor and supplies	142,966	71,849	60,768	74,356	61,789	76,297	70,776	137,982	96,069	76,682	27,972
Maintenance of meter dept	868	534	38	175	506	387	382		119	257	344
Maintenance of transformers								286			
Maintenance, customer repairs	350		(168)								
Stores expense	18,827	19,131	16,668	17,600	14,559	14,686	19,905	21,203	19,724	16,100	21,471
Telephone expense	18,371	18,677	20,174	20,372	20,983	27,788	21,043	23,592	18,831	19,728	15,569
After hour dispatch				8,777	5,851						
Trash pick up	24	24	24								
Transportation clearing	62,479	56,089	56,520	54,871	48,053	46,939	52,585	44,658	46,625	40,010	35,827
	545,613	493,199	458,809	487,983	489,763	459,674	492,678	468,555	401,181	347,114	305,248

PSC. 3-10
3 of 5

Account 593.01, Maintenance of overhead lines

	Test Year	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Employee labor	243,691	208,997	246,322	179,143	252,601	163,830	185,757	146,326	152,336	126,228	134,425
Accrued vacation	21,671	16,609	18,224	13,782	16,761	10,986	13,487	10,589	10,402	8,454	10,335
Health insurance	85,512	74,653	57,869	46,907	76,588	45,547	46,392	21,040	19,855	14,563	16,264
Payroll taxes	23,585	19,954	23,139	16,472	22,525	15,195	16,829	13,096	13,171	14,921	12,859
Workers compensation	11,834	9,554	11,793	8,531	11,904	11,387	7,769	4,127	3,383	3,756	5,369
Life and disability	4,498	4,681	5,632	3,745	5,233	3,539	3,649	2,706	2,737	2,275	2,293
401(k)	2,426	1,237	1,276	933	1,151	830	900	706	688	611	627
R & S retirement	40,145	34,646	38,701	26,543	32,411	21,374	22,600	16,699	15,357	11,125	11,151
Employee assistance	178										
Material issued					192					42	
Supplies and small tools	6,358										
Contractor and supplies	1,525	10,776	435		16,100	(2,915)	(1,109)	2,271	(1,124)	(529)	487
Stores expense					109						
After hour dispatch	17,484	14,826	17,924	15,150	17,982	16,356	2,468				
Transportation clearing	76,204	57,876	65,786	47,619	56,143	41,822	40,338	29,262	31,635	28,692	26,944
	535,112	453,809	487,101	358,825	509,700	327,951	339,080	246,822	248,440	207,138	220,754

Account 595.00, Maintenance of transformers

	Test Year	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Employee labor	4,144	3,410	4,507	5,016	6,673	10,824	13,501	12,213	9,030	10,384	18,579
Accrued vacation	348	265	330	381	498	694	966	894	673	687	1,351
Health insurance	1,366	1,318	911	1,334	2,154	3,091	3,857	1,714	1,194	1,252	2,245
Payroll taxes	390	341	425	458	664	1,005	1,246	1,095	817	949	1,631
Workers compensation	251	163	218	237	345	742	557	342	206	298	688
Life and disability	80	77	103	107	147	237	268	223	166	186	323
401(k)	43	20	24	26	33	54	66	60	41	49	88
R & S retirement	693	570	706	753	908	1,423	1,645	1,388	928	997	1,548
Employee assistance	5										
Office supplies	55	51						47	47	140	47
Material issued	11,316	6,302	9,845	8,575	7,404	9,659	22,422	29,570	23,218	8,339	9,195
Contractor and supplies	583										
Maintenance of meter dept	33	108									
Maintenance of transformers	59,582	56,112	7,528	13,368	28,230	33,502	20,649	31,556	12,294	10,932	5,658
Stores expense	7,068	8,539	9,142	9,338	7,522	8,296	13,311	17,183	15,439	14,325	14,647
Transportation clearing	1,694	1,226	1,596	1,491	1,894	3,191	3,935	3,320	2,926	3,310	5,800
	87,650	78,502	35,335	41,084	56,472	72,718	82,423	99,605	66,979	51,848	61,800

Account 595.01, Maintenance of transformers, emergency repairs

	Test Year	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Employee labor	10,776	13,333	20,131	12,007	14,838	16,605	14,442	16,921	15,363	15,151	16,237
Accrued vacation	924	1,036	1,488	859	994	1,116	998	1,144	1,078	967	1,146
Health insurance	3,315	4,509	4,517	3,283	4,607	4,500	3,526	2,362	2,105	1,772	2,002
Payroll taxes	986	1,308	1,914	1,030	1,388	1,501	1,235	1,439	1,365	1,355	1,513
Workers compensation	471	633	982	538	731	1,130	578	455	356	431	633
Life and disability	154	296	459	244	315	353	282	308	295	274	277
401(k)	101	74	106	59	71	83	69	77	74	87	76
R & S retirement	1,756	2,205	3,151	1,731	1,950	2,140	1,749	1,910	1,639	1,335	1,331
Employee assistance	13										
Transportation clearing	4,126	4,113	6,172	3,423	3,540	4,436	3,625	3,920	3,586	3,499	3,667
	22,621	27,507	38,920	23,174	28,434	31,864	26,504	28,536	25,861	24,871	26,882

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11. Refer to Farmers' response to Staff's Second Data Request, item 17.a, item 17.b and item 17.c.

a. Explain what is meant by "unusual trouble items" as stated in item 17.c.

b. Explain what is meant by "overtime" as stated in item 17.c. Does this mean that only regular time and no "overtime" is reported in account 593.00?

c. Are test-year storm damage expenses for which Farmers did not receive reimbursement reported in accounts 593.00 or 593.01? If yes, state the amount reported in each account for storm damage expenses. Show these amounts in the same general ledger detail as shown in Farmers' response to item 17.a.

d. Would it be fair to characterize all amounts reported in account 593.01 as storm damage expenses? If not, explain in full detail.

e. Provide a schedule that separates the total labor hours charged to account 593.01 for the years 1998 through 2007 and the test year into these categories: (1) Unusual Trouble other than Storm-Related; (2) Regular Overtime for Routine Maintenance; and (3) Storm-Related. Separate labor hours into more detailed categories if possible and appropriate.

Responses

11.a. "Unusual trouble items" relate to outages that occur during normal working hours, that are not a major storm, and require no overtime. This includes, but is not limited to, outages that occur due to auto accidents, trees falling on lines, small animals getting into lines, right-of-way outages due to minor wind blowing, etc.

11.b. As a general rule, outages and overtime labor are recorded in Account 593.01. Normal maintenance activities occurring during regular time are recorded in Account 593.00.

11.c. No. Storm damage is reported in accounts 593.02 to 593.05.

11.d. No. Amounts recorded in Account 593.01 can be very minor outages not caused by storms. In addition, any overtime and on-call employees have their time recorded in this account.

11.e.

Labor hours charged to account 593.01:

	Unusual Trouble other than Storm Related	Regular Overtime For Routine Maintenance	Storm Related
1998	1,108	5,859	
1999	686	5,439	
2000	726	6,099	
2001	665	5,427	
2002	937	6,542	
2003	651	5,835	
2004	2,250	8,004	
2005	627	5,989	
2006	1,407	7,751	
2007	1,190	7,215	

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12. Refer to Farmers' response to Staff's Second Data Request, items 17.a, 17.d, and 17.e.

a. Explain what is meant by "unusual trouble items" as stated in item 17.e.

b. Explain what is meant by "overtime" as stated in item 17.e. Does this mean that only regular time and no "overtime" is reported in Account 595.00?

c. In Farmers' response to item 17.e, reference is made to accounts 593.01 and 593.00. Staff's original question was with regard to accounts 595.01 and 595.00. Was Farmers' reference to accounts 593.01 and 593.00 in its response made in error when it intended to reference accounts 595.01 and 595.00 instead?

d. Are test-year storm damage expenses for which Farmers did not receive reimbursement reported in accounts 595.00 or 595.01? If so, state the amount reported in each account for storm damage expenses. Show these amounts in the same general ledger detail as shown in Farmers' response to item 17.a.

e. Would it be fair to characterize all amounts reported in accounts 593.01 and 595.01 as storm damage expenses? If not, explain in full detail.

f. Provide a schedule that separates the total labor hours charged to accounts 593.01 and 595.01 for the years 1998 through 2007 and the test year into the following categories: (1) Unusual Trouble other than Storm-Related; (2) Regular Overtime for Routine Maintenance; and (3) Storm-Related. Separate labor hours into more detailed categories if possible and appropriate.

Responses

12.a. “Unusual trouble items” relate to outages that occur during normal working hours, that are not a major storm, and require no overtime. This includes, but is not limited to, outages that occur due to auto accidents, trees falling on lines and damaging transformers, small animals getting into lines, right-of-way outages due to minor wind blowing, etc. that cause outage and damage to transformers.

12.b. As a general rule, outages and overtime labor are recorded in Account 593.01. Normal transformer maintenance activities occurring during regular time are recorded in Account 595.00.

12.c. Yes, this should have referenced Accounts 595.00 and 595.01.

12.d. No. Storm damage is reported in accounts 595.02 to 595.05.

12.e. No. Amounts recorded in Account 595.01 can be very minor outages not caused by storms. In addition, any overtime and on-call employees have their time recorded in this account.

12.f.

Labor hours charged to account 595.01:

	Unusual Trouble other than Storm Related	Regular Overtime For Routine Maintenance	Storm Related
1998	206	640	
1999	99	636	
2000	205	503	
2001	151	545	
2002	140	445	
2003	104	563	
2004	120	453	
2005	84	366	
2006	267	530	
2007	155	340	

Witness: Alan Zumstein

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13. Refer to Farmers' response to Staff's Second Data Request, item 17.g.

a. Did Farmers receive Federal Emergency Management Agency ("FEMA") funds or reimbursement from other sources for the amounts shown in response to item 17.g? If yes, how were the reimbursements accounted for–were they credited as an offset to the expense account, recorded as revenue, or accounted for in some other fashion?

b. Does Farmers maintain insurance to cover damage caused by storms or other acts of God? If yes, provide a detail of insurance proceeds received in each of the previous 10 calendar years and the test year and state how they were accounted for.

c. State the portion of the amounts supplied in response to item b above that were credited to Account 593.01 and Account 595.01.

Responses

13.a. Yes, reimbursements are reflected in the response to item 17.i. These reimbursements have been recorded as a credit back to the expense accounts as listed in item 17.i.

13.b. No. Insurance carriers do not insure distribution plant.

13.c. n/a

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14. Table II details a partial listing of amounts charged to Account 926.00 during the test year. These amounts were taken from Farmers' response to Staff's Second Data Request, item 18.

Table II	
Service Awards	1,635
Wellness Program	6,206
Employee Picnic	3,790
Employee Meetings	16,459
Employee Coffee Supplies	3,553
Employee Christmas Party	6,594
Flowers, employees family	736
Secretaries day lunch	188
Employee training programs	16,676
Employee retirement gifts	2,704
Food, extreme weather	500
Employee Christmas gifts	12,385
Rotary dues	576
Total	72,001

a. Confirm that Farmers has requested rate recovery for all the amounts listed in Table II.

b. Identify the amounts listed in Table II that Farmers believes are not necessary to provide safe, reliable electric service and should, therefore, not be included in rate recovery.

c. Identify the amounts listed in Table II that Farmers believes are necessary to provide safe, reliable electric service and should, therefore, be included in rate recovery.

d. Provide evidence supporting Farmers' position for all amounts listed in response to item c above.

Responses

14.a. Farmers' has not removed any of the above items.

14.b. The following should have been removed from the application, but were overlooked.

Service awards	1,635
Employee picnic	3,790
Employee Christmas party	6,594
Flowers, employees family	736
Secretaries day lunch	188
Employee retirement gifts	2,704
Employee Christmas gifts	12,385
Rotary dues	576
	28,608

14.c. Those that have not been listed above.

14.d. The Wellness Program was implemented to improve employees overall health and well-being to be able to perform job functions as efficiently as possible, and to reduce the overall costs for health insurance and time off for sickness. Employee meetings, coffee and supplies, and training programs assist employees in performing job functions with the knowledge and safety needed for both outside servicemen and office employees.

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15. Refer to Farmers' response to Staff's Second Date Request, item 23.

a. At item 23.c, Farmers states that test-year health insurance costs were $907,532.

(1) Provide a worksheet detailing how the test-year costs were distributed to Farmers' general ledger accounts.

(2) For each month of the test year, state the health and dental insurance costs that are included in the $907,532 test-year total.

(3) Explain why the annual costs decreased significantly from 2004 to 2005 and then increased significantly from 2006 to 2007.

b. Refer to the third page of Farmers' response. This page is a copy of Farmers' September-08 medical/dental statement.

(1) There is a section on this statement that lists the number of plan participants for each type of coverage. State the number of Directors included in the number of plan participants for each type of coverage.

(2) For each type of coverage, state the amount that is paid by Farmers and the amount that is paid by the employee.

(3) Does Farmers agree that it would be appropriate to normalize health and dental insurance expenses for rate-making purposes based on the monthly premiums presented on this page? If not, explain.

Response

15.a.(1) Test year costs distributed to general ledger during test year.

		Benefits Distribution
107.20	Construction work in progress	176,541
108.80	Retirement work in progress	54,482
142.2	Due from other cooperatives	7,361
163.00	Stores	26,243
184.00	Transportation	17,197
580.00	Operations	6,475
583.00	Overhead line	8,125
586.00	Meter	62,461
587.00	Installations	2,375
588.00	Miscellaneous distribution	60,909
593.00	Overhead line	133,777
595.00	Transformers	4,306
597.00	Street lights	1,504
598.00	Miscellaneous maintenance	7,745
902.00	Meter reading	9,237
903.00	Consumer records	107,714
908.00	Consumer accounting	20,683
909.00	Consumer information	1,159
920.00	Administrative	99,049
926.00	Employee benefits	28,127
930.00	Miscellaneous	12,255
935.00	Maintenance general plant	2,232
	Total	849,957

15.a(2) Health and dental cost per month

October	153,225
November	153,370
December	77,399
January	88,126
February	90,308
March	55,867
April	42,824
May	44,464
June	38,909
July	22,181
August	76,053
September	64,806
	907,532
Director costs	57,574
Cooperative cost	849,958

15.a.(3) The previous management made a concerted effort to meet TIER requirements during 2005 through 2006 to the extent of discontinuing right-of-way clearing for several months and reducing the funding of the self-funded health insurance plan. The current management of Farmers' has developed a plan where the plan reserve balance will be established as one-half (1/2) of the estimated claims expected to be paid from the fund. It is the plan of the fund that the present funding level will be maintained into the future at this same level.

15.b.(1) 3 single plans and 3 family plans.

15.b.(2) The amounts are as follows:

	Cooperative	Employee	Total
Single - medical	592.00	0.00	592.00
Family - medical	1,209.00	140.00	1,349.00
Single - dental	22.00	0.00	22.00
Family - dental	22.00	26.00	48.00

15.b.(3) Not necessarily. The more appropriate method to normalize the health and dental costs would be on the level for the test year. This funding mirrors the plan that management has implemented to adequately and systematically fund the self-funded health insurance plan.

15.c. To help reduce the costs in the plan, Farmers has implemented a Wellness Program for its employees in an effort to make employees more healthy, and thus, reduce the claims against the plan. In addition, Farmers management has increased the deductible for single employees from $100 to $1,000 and for family plans from $200 to $2,000.

Farmers has had conversations with its Plan Administrator to determine if it could bid the insurance to different carriers, but has been informed that due the recent claims, and history of claims over the past few years, it would not be prudent to bid the coverage until the claims made against the plan are reduced.

Witness: Alan Zumstein

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16. Refer to Farmers' response to Staff's Second Data Request, item 3. Farmers states that the rate of return on each rate class is not readily calculated or available. Explain whether Farmers intends to update the calculation for CATV attachments using the overall rate of return from this case, rather than the rate of return from Case No. 8438.

Response

Farmers' agrees that it should update the rate of return for this case rather than Case No. 8438.

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17. Refer to Farmers' response to the AG's Initial Data Request, item 11. At item 11, Farmers states that its depreciation rates are within the ranges established by RUS Bulletin 183-1. Explain why the schedule presented by Farmers at item 11 appears to show that Farmers' current depreciation rates for account numbers 365, 367, 368, 370.01, 370.02 and 370.03 are not within the allowable ranges of RUS Bulletin 183-1.

Response

Farmers is not proposing the change its depreciation rates. It has used the same rates as it used in its last general rate increase before this Commission. The RUS bulletin states that to change rates outside of the range would require a study be performed. Farmers is not proposing to change its rates.

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18. Refer to Farmers' Application, Exhibit 1, and Farmers' response to the AG's Initial Data Request, item 17. These documents include references to the accounting and rate-making treatment of the extra vacation day awarded to each employee for meeting safety goals. Is this extra-day award given to employees through an actual payment of cash equal to the employee's pay-rate times 8 hours, or is it given by accruing an extra 8 hours of vacation time to be taken by the employee at some time in the future? If it is awarded through an accrual of an extra vacation day, explain why it is appropriate to add an additional 8 hours to the regular 2,080 hours worked when calculating pro forma wages, as done in Exhibit 1, considering that the 2,080 hours already accounts for all vacation hours used by the employee.

Response

Employees were given an extra vacation day that was taken during the test year and recorded as regular hours. During the test year two (2) unique situations occurred. The first was leap year was included. The second was every several years an anomaly occurs when pay is on a bi-weekly basis where an additional day is included in a twelve-month period. Both of these occurred during the test year for Farmers. As a result, there were 2,096 actually paid during the test year to include the leap year and additional day for the bi-weekly pay period.

The extra vacation day was not paid in excess of the 2,096 hours as described above.

During the process of accumulating information to prepare Exhibit 1, there was a misunderstanding by Mr. Zumstein as to the extra vacation day. It was his assumption that this was paid as an extra day equal to 8 hours times the employee's pay-rate when in fact it was not.

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19. Refer to Farmers' response to the AG's Initial Data Request, item 27. Provide a detailed cost breakdown and description of the items of expense listed in Table III.

Table III	
Miscellaneous General	8,903
Maintenance Agreements	71,124
Support agreements	13,784

Response

Miscellaneous general		
Judy Smith	4,320	Monthly courier service
Employees	1,279	Reimburse mileage
Glasgow Courier	464	Advertise for lineman
Employees	1,595	Meals at meetings
Various	546	Drive thru candy
Various	377	Christmas cards
Various	224	Employee photos
	98	Bank charges
	8,903	
Maintenance agreements		
Southeastern Data Cooperative	71,124	Monthly software support
Support agreements		
Southeastern Data Cooperative	3,810	Hardware support
Com Squared Systems, Inc.	3,735	Scanner software support
Com Squared Systems, Inc.	4,170	Scanner hardware support
Open Solutions, Inc.	2,069	HP software maintenance
	13,784	

Witness: Alan Zumstein

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20. Refer to Farmers' Application, Exhibit 3, page 3 of 6. For each account listed under Distribution Plant, it appears that the amounts in the Test Year Expense column do not correspond to the amounts indicated in the Normalized Expense column. For example, the test year depreciation expense listed for account numbers 344 through 364 should correspond to the normalized expense for accounts 342 through 362, given that these accounts did not have any activity for the test year.

a. If Farmers agrees that Staff's assumptions are correct, provide a corrected page 3, as well as all other schedules affected by the correction.

b. If Farmers does not agree with Staff's assumption, explain how the test year expense is correct as provided.

Response

20.a. Farmers agrees and has included the corrected page 3.

20.b. n/a.