

RECEIVED

FEB 09 2009

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

PUBLIC SERVICE
COMMISSION

In the Matter of:

APPLICATION OF BIG SANDY RURAL)
ELECTRIC COOPERATIVE CORPORATION) CASE No. 2008-00401
FOR AN ADJUSTMENT IN RATES)

ATTORNEY GENERAL'S INITIAL REQUESTS FOR INFORMATION

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and submits these Initial Requests for Information to Big Sandy Rural Electric Cooperative Corporation [hereinafter referred to as "BSRECC"] to be answered by the date specified in the Commission's Order of Procedure, and in accord with the following:

(1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.

(2) Please identify the witness who will be prepared to answer questions concerning each request.

(3) Please repeat the question to which each response is intended to refer. The Office of the Attorney General can provide counsel for BSRECC with an electronic version of these questions, upon request.

(4) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests *between the time of the response and the time of any hearing conducted hereon.*

(5) Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association, be accompanied by a signed

certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

(6) If any request appears confusing, please request clarification directly from the Office of Attorney General.

(7) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(8) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self evident to a person not familiar with the printout.

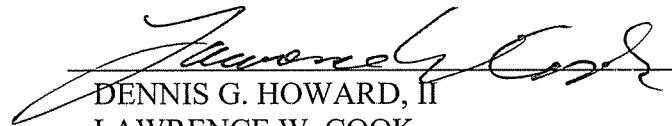
(9) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

(10) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(11) In the event any document called for has been destroyed or transferred beyond the control of the company, please state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

(12) Please provide written responses, together with any and all exhibits pertaining thereto, in one or more bound volumes, separately indexed and tabbed by each response.

Respectfully submitted,
JACK CONWAY
ATTORNEY GENERAL

A handwritten signature in black ink, appearing to read "Dennis G. Howard, II", written over a horizontal line.

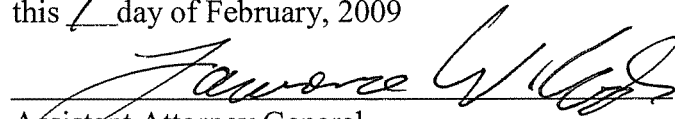
DENNIS G. HOWARD, II
LAWRENCE W. COOK
PAUL D. ADAMS
ASSISTANT ATTORNEYS GENERAL
1024 CAPITAL CENTER DRIVE, STE. 200
FRANKFORT KY 40601-8204
(502) 696-5453
FAX: (502) 573-8315

Certificate of Service and Filing

Counsel certifies that an original and ten photocopies of the foregoing were served and filed by hand delivery to Jeff Derouen, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; counsel further states that true and accurate copies of the foregoing were mailed via First Class U.S. Mail, postage pre-paid, to:

Bobby D. Sexton
President/General Manager
Big Sandy R.E.C.C.
504 11th Street
Paintsville, KY 41240-1422

this 9th day of February, 2009


Assistant Attorney General

**Attorney General's Initial Requests For Information to Big Sandy
Rural Electric Cooperative Case No. 2008-00401**

1. What is the relevance and applicability of the billing analysis data for the 12-month period ended June 30, 2008 that are shown in Exhibit 3, page 1? Does this information indicate that, based on the use of a test year ended June 30, 2008, the rate increase request should be \$1,591,999?
2. Please reconcile all of the present and proposed rates shown in Exhibit 2 to the present and proposed rates shown in Exhibit D, page 2 of 2.
3. Please provide the portion of the 13-month average prepayment balance of \$58,493 (Exhibit K, page 2 of 7) that represents the 13-month average test year PSC assessment prepayments.
4. Re. Exhibit K, page 2: Why hasn't BSRECC added the proposed \$499,642 depreciation expense increase to its pro forma deprecation reserve as is the Commission's ratemaking policy?
5. For each of the income statement accounts listed on Exhibit X, pages 1 through 6, please provide a schedule showing a side-by-side comparison of the actual annual amounts (only annual amounts are requested, not monthly amounts) for the 8/31/08 test year and the three years prior to the test year.
6. With regard to the Other Operating Revenues for the test year and the year prior to the test year, shown in Exhibit X, please provide the following information:
 - a. Re. account 450: explain why no revenues were booked in the month of December 2007.
 - b. Re. account 451: explain why no revenues were booked in the month of December 2007.
 - c. Explain the large decrease of \$91,692 in the test year account 454 revenues as compared to the account 454 revenues in the year prior to the test year.
 - d. Provide the actual monthly and annual account 450, 451, 454 and 456 Other Operating revenues for the 12-month periods ended 8/31/06 and 8/31/05.
7. The first column of Exhibit 13, page 1 shows the number of pole attachments used in the quantification of the CATV Pole Attachments revenue adjustment. For each type of pole attachment listed, please provide the actual annual number of events in the test year and in the year prior to the test year.
8. Please expand the year-end customer annualization adjustment on Exhibit 18 by also including Schedule 6, Security Lights and Envirowatts in the net revenue annualization calculations. Provide this information in the same detail and format as shown on Exhibit 18.

**Attorney General's Initial Requests For Information to Big Sandy
Rural Electric Cooperative Case No. 2008-00401**

9. Please provide the reasons for the \$143,020 (50.6%) increase in the test year vs. prior year expenses for account 586 – Meters.
10. Please provide the reasons for the \$45,926 (39%) increase in the test year vs. prior year expenses for account 588 – Miscellaneous Distribution.
11. With regard to Exhibit 14, page 1, please provide the following information:
 - a. During which 12-month period is the \$752,508 expense supposed to be spent?
 - b. Provide the actual account 593.20 - Contract Right of Way for calendar year 2008.
 - c. What is the projected account 593.20 - Contract Right of Way expense for calendar year 2009? In addition, provide the calculations underlying this expense amount in the same detail as per the bottom part of Exhibit 14, page 1.
12. With regard to the pro forma distribution expense adjustments shown on Exhibit 15, page 1 (totaling \$39,843), please provide the following information:
 - a. In which distribution account numbers will each of the proposed expense increases of \$23,243, \$3,000, \$1,600, and \$12,000 be recorded?
 - b. What is the basis for the estimated safety director cost of \$92,972? In addition, provide any actual source documentation in support of this cost estimate.
 - c. Provide actual source documentation in support of the claimed license fee expense of \$3,000 and monthly T-1 trunk cost of \$1,000.
13. Please provide a copy of the ad underlying the “home conservation” expense of \$90 on Exhibit 11, page 2.
14. Please reconcile the proposed distribution depreciation rates shown on Exhibit 3, page 2 to the corresponding proposed distribution depreciation rates shown on page 1 of Mr. Adkins’ 12/31/07 depreciation study.
15. When is the last time that BSRECC had a depreciation study performed? In addition, please indicate since when the Company’s current composite distribution depreciation rate of 3.33% has been in effect and in which rate case this rate was approved by the Commission.
16. As shown in Exhibit 6, page 1, the proposed projected FAS 106 cost for 2009 is \$293,953. Please reconcile this to the expected FAS 106 cost for 2009 of \$183,479 shown on page 11 of the Audited Financial Statement for calendar year 2007.

**Attorney General's Initial Requests For Information to Big Sandy
Rural Electric Cooperative Case No. 2008-00401**

17. With regard to the R&S costs shown on Exhibit 7, page 1, please provide the following information:
 - a. The pro forma hourly employee Union base wages to which the R&S factor of 6.40% was applied is shown to be \$1,135,221. However, the payroll data in Exhibit 1 show that the pro forma hourly employee Union base wages amount to \$1,039,002 rather than \$1,135,221. Please reconcile this. If the calculated R&S expense should be corrected, provide a corrected version of Exhibit 7, page 1.
 - b. While Exhibit 7 shows support for the 20.78% R&S factor for non-union employees, it shows no support for the 6.40% factor for union employees. Please provide actual source documentation in support of this 6.40% factor. If the 6.40% factor was derived from the data on the 3rd page of Exhibit 7, show how exactly this factor was derived.

18. The proposed new depreciation rates for BSRECC from Mr. Adkins' December 2007 depreciation study are exactly the same as the proposed depreciation rates for Grayson Rural Electric that are being claimed in Grayson's pending rate case and the proposed Grayson depreciation rates were also based on the December 2007 depreciation study by Mr. Adkins. In this regard, please provide the following information:
 - a. Was Mr. Adkins's December 2007 depreciation study done not only for BSRECC, but also for Grayson and other coops? If so, list the coops for which Mr. Adkins performed his December 2007 depreciation study and for each coop provide the proposed distribution depreciation rates (for the same distribution plant categories as shown for BSRECC on Exhibit 3, page 2) as a result of his December 2007 depreciation study.
 - b. Did BSRECC, Grayson and any other coops for which Mr. Adkins performed the December 2007 depreciation study share in the cost of this Adkins depreciation study? If so, provide the total cost of Mr. Adkins' December 2007 depreciation study and show how this total cost was shared among the participating coops. If not, explain why not given that each coop for which Mr. Adkins performed the December 2007 depreciation study ended up with the exact same distribution depreciation rates?

19. With regard to the December 2007 depreciation study performed by Mr. Adkins for BSRECC, what is the cost for Mr. Adkins' depreciation study that is included in the requested rate case expenses of \$72,000?

20. With regard to rate case expenses, please provide the actual expenses incurred to date for the current rate case, in total and broken out by expense component per Exhibit 12.

**Attorney General's Initial Requests For Information to Big Sandy
Rural Electric Cooperative Case No. 2008-00401**

21. As noted on page 12 of BSRECC's 2007 Audited Financial Statements, the owner of the construction contractor for BSRECC is the brother of the President and General Manager of BSRECC and the amounts paid by BSRECC to this contractor were \$375,000 for 2006 and \$205,000 for 2007. In this regard, please provide the following information:
- a. Do BSRECC's bylaws allow for payments for contractual work performed by family members of directors and/or officers of the cooperative? If so, indicate where in the current bylaws these types of transactions are allowed.
 - b. When was the construction contract first awarded to the company of which the brother of the President of BSRECC is the owner?
 - c. When the construction contract was first awarded, was it subject to a competitive bidding process? If not, why not? If so, provide a summary of all of the bids received and the reason why the contract was awarded to the company of which the brother of the President of BSRECC is the owner. Also, provide copies of all RFPs issued (if any), and any and all bids received.
 - d. Is the construction contract subject to periodic renewal? If not, why not? If so, how many renewals have taken place since the original contract was awarded? In addition, explain whether a new bidding process is conducted during each contract renewal. If not, explain why not.
22. The O&M ratios used for the payroll, payroll tax, FAS106 and Pension expense adjustments in the current BSRECC rate case and the pending rate cases for Grayson Rural Electric and Owen Electric are as follows:

	<u>BSRECC</u>	<u>Grayson</u>	<u>Owen</u>
- Payroll	65.79%	62.84%	61.70%
- Payroll Tax	76.50	62.84	61.70
- FAS 106	76.50	62.84	61.70
- Pension	76.50	62.84	61.70

In this regard, please provide the following information:

- a. Explain why the O&M ratios of 76.50% used for the BSRECC payroll tax, FAS 106 and pension expense adjustments is not consistent with the O&M ratio for the payroll expense adjustment, similar to what is the case in the pending Grayson and Owen rate cases and many other prior cooperative rate cases?
- b. Why is it appropriate to use O&M expense ratios for ratemaking purposes for payroll taxes, FAS 106 and Pension expenses that are significantly higher than the O&M expense ratio used for payroll?

**Attorney General's Initial Requests For Information to Big Sandy
Rural Electric Cooperative Case No. 2008-00401**

- c. Explain the derivation of the 76.50% BSRECC O&M ratios for payroll tax, FAS 106 and pension and explain why it is so much higher than the BSRECC payroll O&M ratio of 65.79% and the Grayson and Owen O&M ratios of 62.84% and 61.70%.
23. With regard to BSRECC's number of employees, please provide the number of employees (in total and broken out between salaried, hourly non-bargaining, bargaining, and summer/part-time) for each month from January 2007 through December 2008, as compared to the corresponding employees used in calculating the adjusted test year payroll expense.
24. Please provide the actual number of hours worked by BSRECC's Summer and Part Time employees (in total and, if available, by employee number) in the three years prior to the test year.
25. Explain the requested payroll expense of \$9,600 for Dispatch in addition to the base wages for 2080 hours worked and overtime wages.
26. The information contained on the 8th page of Exhibit 1 shows that the President's salary numbers for the test year and the two preceding years remained at the same level. If this needs to be corrected, provide the corrected exhibit page.
27. Please reconcile the total professional services expense of \$61,884 shown in Exhibit 33 to the account 923 – Outside Services expense of \$61,725 shown in Exhibit X.
28. Why hasn't BSRECC removed for ratemaking purposes the \$514.06 expenses incurred by Robert Moore for the KAEC Annual Meeting?
29. With regard to Exhibit 11 (Miscellaneous Expenses), please provide the nature and purpose of \$1,878 Integrity Fund Contribution shown on page 4 of Exhibit 11.
30. What were the requested projected rate case expenses and the actual rate case expenses incurred by BSRECC in its prior rate case, Case No. 2005-00125?
31. With regard to the \$114,229 test year expenses included in account 921 – Office Supplies and Expenses, please provide the following information:
 - a. In the same format as per the response to AG-1-33 in the prior rate case, Case No. 2005-00125, please provide a detailed breakout of all expense items making up the total expense of \$114,229.
 - b. If the expense line items to be provided in the response to (a) above includes "Employee Meetings" expenses, Dues, and Others, please

**Attorney General's Initial Requests For Information to Big Sandy
Rural Electric Cooperative Case No. 2008-00401**

provide an additional detailed breakout for each of these expense line items in the same format and detail as per the response to AG-2-11 in Case No. 2005-00125.

32. With regard to the \$84,141 test year expenses included in account 908 – Consumer Assistance Expenses, please provide the following information:
 - a. In the same format as per the response to AG-1-34 in the prior rate case, Case No. 2005-00125, please provide a detailed breakout of all expense items making up the total expense of \$84,141.
 - b. If the expense line items to be provided in the response to (a) above includes Advertising expenses, School Program expenses, Meeting expenses, and Miscellaneous expenses, please provide an additional detailed breakout for each of these expense line items in the same format and detail as per the response to AG-2-12 in Case No. 2005-00125.
33. With regard to Exhibit 5, page 2, please explain the \$101,109 difference between the actual test year and pro forma annualized interest expenses for the 1B283 RUS loan.
34. With regard to the proposed pro forma Other Interest expenses of \$55,003, please provide the following information:
 - a. Confirm that the \$55,003 consists of \$32,877 for interest on Customer Deposits and \$42,126 for the EKPC Inez line.
 - b. Provide the actual monthly interest paid by BSRECC to EKPC for each month from September 2007 through December 2008.
 - c. Explain why the interest paid to EKPC during the test year is \$15,174 lower than the proposed annualized interest expense.
35. With regard to your response to q. 21, above:
 - a. Identify the name of BSRECC's construction company, and identify the construction company's owner(s) and the members of its board of directors ("BOD").
 - b. Describe what measures, if any, that were taken to isolate BSRECC's President and General Manager from the decision-making processes involved in awarding the contract to BSRECC's construction contractor.
 - c. Describe the actions BSRECC's BOD took and the roles its members played in the company's decision to award the contract to BSRECC's construction company.
 - d. Please disclose whether any BSRECC personnel and/or members of its BOD presently have, or ever have had any financial or pecuniary interest

**Attorney General's Initial Requests For Information to Big Sandy
Rural Electric Cooperative Case No. 2008-00401**

of any type or sort in the company's construction contractor. For each such interest, provide full and complete details.

- e. Please disclose whether any personnel of BSRECC's construction contractor, and/or members of the contractor's BOD have, or ever have had any financial or pecuniary interest of any type or sort in BSRECC. For each such interest, provide full and complete details.
- f. Please disclose whether any current or former personnel of the construction contractor and / or the contractor's BOD conduct, or ever have conducted business transactions of any type or sort with businesses owned by the employees, managers or directors of BSRECC. For each such business transaction, provide full and complete details.
- g. Please disclose whether any employees, managers or directors of BSRECC conduct, or ever have conducted business transactions of any type or sort with businesses owned by the personnel of BSRECC's construction contractor. For each such business transaction, provide full and complete details.
- h. Please state whether any relative (by blood or marriage) of BSRECC's employees, managers or directors holds, will hold or has ever held any type or sort of position, whether as employee, officer, board member, contractor or consultant, with BSRECC's construction contractor. For each such position, provide full and complete details.
- i. Please state whether any relative (by blood or marriage), of the employees, managers or directors of BSRECC's construction contractor holds, will hold, or has ever held any type or sort of position, whether as employee, officer, board member, contractor or consultant, with BSRECC. For each such position, provide full and complete details.
- j. Does BSRECC currently maintain, or has it ever maintained, any contracts with vendors whose principals are in any manner related, by blood or marriage, to the personnel of BSRECC's construction contractor? If yes:

(i) Please provide copies of any such contract, and a breakdown of how much money was spent per contract per year for the last ten (10) calendar years; and

(ii) Please state whether the contracts were awarded pursuant to a bid process, and if so, provide specifics of that bid process, and provide copies of any and all relevant RFPs for the last five years.

36. Please state whether any current or former BSRECC employees or members of BSRECC's Board of Directors ("BOD") are or ever were employees, board members, partners, or members of any other business entity or organization with which BSRECC conducts or has conducted business.

(i) Identify each such individual, and the title of their position in both BSRECC and the other entity or organization.

**Attorney General's Initial Requests For Information to Big Sandy
Rural Electric Cooperative Case No. 2008-00401**

(ii) With regard to your response to q. #, above, identify the nature of the business transactions BSRECC conducted with any other entity or organization identified therein, and the amount of monies spent on such transactions annually.

37. Does BSRECC have any anti-nepotism policies in place? If so, provide copies of any and all such policies, and/or memoranda referring to such policies.
38. Describe, in detail, any and all inducements that BSRECC offered, or that the personnel of BSRECC's construction contractor demanded or requested during the course of negotiations leading to the establishment or initiation of business relations between the two entities.
39. Did the contract between BSRECC and its construction contractor have any other consideration of any type or sort not expressly stated in the contract?
40. Provide a copy of any and all contracts entered between BSRECC and its construction contractor for the past five years.
41. Please provide unredacted copies of minutes, notes, memoranda, or any and all other documents of any type or sort, regardless of the media in which they are stored, regarding meetings between employees, managers or directors of BSRECC and BSRECC's construction contractor and its employees, managers or directors in which business relations between the two entities were discussed.