

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

SECOND DATA REQUEST OF COMMISSION STAFF TO  
BIG SANDY RURAL ELECTRIC COOPERATIVE CORPORATION

Big Sandy Rural Electric Cooperative Corporation ("Big Sandy"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 7 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before February 23, 2009. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the 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.

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

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

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to Exhibit S at 4, which shows the amount of the proposed increase based on attaining a Times Interest Earned Ratio (“TIER”) of 2.0X.

a. Describe the methodology employed by Big Sandy in determining that 2.0X was the appropriate TIER on which to base its requested rate increase.

b. Is Big Sandy aware of any studies performed by Rural Utilities Service (“RUS”) or the National Rural Utilities Cooperative Finance Corporation on the subject of appropriate TIER level for an electric distribution cooperative? If yes, identify the studies and when they were performed.

c. Big Sandy’s request in this case for a 2.0X TIER would produce net margins of roughly \$1.1 million. For each of the calendar years immediately preceding the test year, provide the approximate net margins that would have been realized if Big Sandy had achieved a TIER of 2.0X.

2. Refer to Exhibit Y. Depreciation expense for General Plant in Exhibit Y, Trial Balance, is \$64,165; however, in Exhibit 3, depreciation expense for the test year

for General Plant is \$237,146. Provide a detailed explanation for the discrepancy between the two reported depreciation expenses.

3. Refer to Exhibit 1, Employee Earnings and Hours.

a. For each employee listed on Table 1 below, explain in detail why they worked less than 2,080 hours in the test period.

Table 1		
	<u>Employee No.</u>	<u>Regular Hours</u>
(1)	5	2,076.0
(2)	15	2,076.0
(3)	17	2,012.0
(4)	23	2,076.0
(5)	31	2,002.0
(6)	38	2,076.0
(7)	41	2,076.0

b. For each employee listed on Table 2 below, explain in detail why they worked more than 2,080 hours in the test period.

Table 2		
	<u>Employee No.</u>	<u>Regular Hours</u>
(1)	14	2,086.0
(2)	40	2,086.0
(3)	43	2,086.0
(4)	45	2,086.0

c. If an employee worked less than 2,080 annual hours, explain if they would have been paid for vacation or sick time used during the test period.

4. Refer to Exhibit 1, Employee Information. The schedule shows that employee 165 was hired to replace employee 156.

a. Provide the date that employee 156 terminated his employment with Big Sandy.

b. Provide the date Big Sandy hired employee 165.

c. Explain why the actual test-period wages do not include any compensation that Big Sandy paid to employee 156 during the test period.

5. Refer to Exhibit 1, Compensation of Executive Officers.

a. Explain why the President and General Manager has not received a wage increase in the 3 years shown on this schedule.

b. Provide a detailed explanation as to why the Office Manager only received a 1.6 percent wage increase in the test period.

c. The Manager, Finance and Administration, received a 7.7 percent wage increase in the test period. Provide a detailed explanation for the level of wage increase given to this employee.

d. The Plant Superintendent received a 6.3 percent wage increase in the test period. Provide a detailed explanation for the level of wage increase given to this employee.

6. Refer to Exhibits 1 and 2.

a. Big Sandy is capitalizing 18.7 percent<sup>1</sup> of its payroll taxes but is only capitalizing 18 percent<sup>2</sup> of its payroll. Explain the discrepancy between the two capitalization rates.

b. Explain why 5.5 percent of payroll is allocated to Account No. 108.8 – Retirement Work In Progress, but none of the payroll taxes are allocated to this account.

7. Refer to Exhibit 3.

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<sup>1</sup> Account No. 107 – Capitalized.

<sup>2</sup> Account No. 107.2 – Construction Work in Progress.

a. Big Sandy states that “[T]he ending plant balance is multiplied by rates that are within RUS approved guidelines.” Given this statement, explain why, in the comparison<sup>3</sup> of the proposed rates to RUS’s recommended maximum and minimum rates, the proposed rates exceed the RUS maximum for 9 of the 11 categories shown.

b. The following statement is in Big Sandy’s depreciation study: “The bulletin further provides for rates higher or lower than those in the range when supported by a depreciation study.” Explain in detail if RUS has to give prior approval for those depreciation rates that are outside the established RUS range of depreciation rates.

c. The depreciation study references RUS Bulletin 183-1, Depreciation Rates and Procedures. Provide a copy of the referenced RUS Bulletin.

d. Provide the date Big Sandy completed its depreciation study.

e. Provide the date Big Sandy submitted its request to RUS for the approval of the depreciation study that was performed as of December 31, 2007.

f. Has Big Sandy contacted RUS to determine when the approval of the depreciation study will be issued?

(1) If yes, state when Big Sandy expects to receive RUS’s approval.

(2) If no, explain in detail why Big Sandy has not contacted RUS regarding the pending approval of its depreciation rates.

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<sup>3</sup> Service Life and Salvage Study and Recommended Depreciation Accrual Rates as of December 31, 2007 (“Depreciation Study”). Section 2, Scope.

g. Explain in detail why the Commission should reflect depreciation rates that are outside the range RUS recommends before Big Sandy has received RUS approval to use those depreciation rates.

8. Refer to Exhibit S. Big Sandy is proposing to increase depreciation expense by \$499,642, but has not proposed an adjustment to its accumulated depreciation. Given the matching principal, explain why Big Sandy is not proposing to adjust accumulated depreciation by the expense adjustment of \$499,642.

9. Refer to Exhibit 5 at 2. Provide an explanation for the significant variance between the annualized interest expense and the test-year interest costs for RUS loan #1B283, with an outstanding balance of \$2,869,436.

10. Refer to Exhibit 5, page 3. For each loan listed, provide the actual interest expense for the 12-month period ending December 31, 2007.

11. Refer to Exhibit 5 at 2.

a. This is a schedule of Big Sandy's outstanding long-term debt. Identify each of the long-term debt issuances that have short-term fixed interest rates, and state how often the interest rates can be repriced.

b. For those long-term debt issuances identified in 11(a), provide a schedule showing the effective interest rates for the 2-year period from January 1, 2007 through December 31, 2008.

c. Provide an update of the schedule on page 2 that reflects the current interest rates for long-term debt applied to the long-term debt balances as of the end of the proposed test period.

12. Refer to Exhibit 5 at 2 and 4.

a. As of December 31, 2007, Big Sandy reports that there is no outstanding balance for RUS loan #1B283 that was issued in November 2004. However, Big Sandy reports an outstanding balance of approximately \$2.9 million for this loan on August 31, 2008. Provide a detailed explanation of why a loan issued in October 2004 does not have an outstanding balance until May 31, 2008.

b. Provide a detailed description of the use of the borrowed funds of \$2.9 million.

13. Refer to Exhibit 7.

a. Big Sandy requires its union employees to contribute 3 percent to their retirement plan, but does not require an employee contribution for the non-bargaining employees. Provide a detailed explanation as to why Big Sandy does not require the non-bargaining employees to contribute to their retirement plan.

b. Provide a detailed explanation as to why Big Sandy converted its union pension plan from a 401(k) plan to a defined benefit plan.

c. State when Big Sandy converted the union pension plan from a 401(k) plan to a defined benefit plan.

d. Explain if the union employees were required to make a contribution to the 401(k) plan.

e. The employer contribution rates for the non-bargaining and the union employee groups are 20.78 percent and 6.4 percent, respectively. Given the disparity between the two contribution rates, explain why Big Sandy does not require all of its employees to participate in the defined benefit plan.

f. Provide an explanation for the increase in the benefit level from 1.5 to 1.7 in 1993.

14. Refer to Exhibits 9 and 23. During the test period, Big Sandy paid its attorneys approximately \$37,784<sup>4</sup> for the negotiation of the union contract. The union contract is effective from February 6, 2008 through February 5, 2011. Explain why the attorney fees incurred in negotiating the contract should be expensed for rate-making purposes rather than over the contract term of 3 years.

15. Refer to Exhibit 14 of the application.

a. Big Sandy states that 100 miles will be cut by circuit, but the contract dated October 29, 2008 estimates that 75 miles of right-of-way will be cleared at a rate of \$4,500 per mile. Provide a detailed explanation for the discrepancy between the miles that will be cleared on an annual basis at a cost of \$4,500 per mile.

b. Provide a schedule that shows how the \$4,500 per-mile cost was derived.

c. Explain why 46 miles of right-of-way will be cut on a per-hour basis rather than "cut by circuit."

d. Explain why the side trimming will cost \$6,576 per mile ( $\$302,508 \div 46$  miles).

e. Provide a schedule showing how the \$84.03 per-hour cost for the side trimming was derived.

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<sup>4</sup> \$453 (Albert A. Burchett) + \$37,331 (Frost, Brown & Todd, Attorneys at Law) = \$37,784.



f. Big Sandy estimates that the contractor will be able to work 1,800 hours per year, per crew. Explain if the 3,600 hours includes both the line sections per mile and the side trimming.

g. Provide an itemized estimate of the total cost for the initial 7-year cycle of right-of-way clearing. Include all workpapers, calculations, and assumptions used in the response.

h. Describe the process Big Sandy used in awarding the right-of-way clearing contract to W. W. Kendall & Co., Inc. ("Kendall"). Include copies of the bids Big Sandy received for its right-of-way clearing.

i. Big Sandy provided a copy of its agreement with Kendall. Confirm that this is the complete agreement. If this is not the complete agreement, provide a complete copy of the agreement.

16. Refer to Exhibit 15. Big Sandy states that it is sharing a safety director with Fleming-Mason, Grayson Rural Electric Cooperative, and Licking Valley Rural Electric Cooperative.

a. Provide the date the safety director position will be or was posted and the projected date the position will be filled.

b. Provide the current status of Big Sandy's efforts to fill the position and the anticipated hire date.

c. Big Sandy estimates that fringe benefits for the safety director will be 63.87 percent. Provide documentation to support the 63.87 percent fringe benefit factor.

d. Provide a schedule comparing the employee fringe benefits (i.e., retirement, taxes, insurance benefits), for each of the cooperatives that will be sharing the safety director.

17. Explain whether Big Sandy considered adjusting any of its nonrecurring charges in its current application.

18. Refer to Exhibit B. Explain why the proposed tariff does not include the cable television attachment rates.

19. Refer to Exhibit C at 33.

a. Explain why the proposed charges for anchor attachments and ground attachments are not shown on the tariff sheet when charges for those attachments are calculated in Exhibit 13. If Big Sandy proposes to delete the charges for anchors and grounds, explain why it proposes to do so.

b. Explain why the Two-Party charge of \$6.64 and Three-Party charge of \$4.87 are different from those charges shown in Big Sandy's CATV pole attachment calculations in Exhibit 13, page 2 of 3.

20. Refer to Exhibit H, Direct Testimony of James R. Adkins, at 6. Are the demand-related and consumer-related percentages shown in the table for Poles reversed?

21. Refer to Exhibit I. Explain why the percentage increase was calculated by dividing the "Increase Amount" by the "Proposed Rate" rather than dividing it by the "Existing Rate".

22. Provide a copy of Exhibits J and R electronically on CD-ROM in Microsoft Excel format with all formulas intact and unprotected.

23. Refer to Exhibit J at 1. Explain why the revenue analysis does not include revenue for rate schedules Ind 1 and Ind 2.

24. Refer to Exhibit H, Direct Testimony of James R. Adkins, Exhibit R. Provide an explanation of any differences in methodology for the cost-of-service study relative to recent cost-of-service studies provided by Mr. Adkins for East Kentucky Power Cooperative distribution cooperatives.

25. Refer to Exhibit R, Schedule 1 at 4.

a. Provide explanations of how and where calculations and data in each box entitled "Used in the Allocation of the Test Year Adjusted Expenses" and "Used in the General Plant Allocation in Rate Base" are used.

b. Explain the purpose of the "Oper. Adjust." and "Maint. Adjust." columns on this schedule.

c. All of the amounts in the "Oper. Adjust." and "Maint. Adjust." columns reconcile with the amount of the adjustments shown on page 2 of Schedule 1, with the exception of the \$24,315 maintenance adjustment for Account 593, Maintenance of Overhead Lines. Explain why the \$24,315 does not reconcile to the \$442,102 adjustment shown on page 2.

26. Refer to Exhibit R at 5-8.

a. For line 13, provide an explanation of and the calculations for the allocation factors for Account No. 583, Overhead Line Expenses.

b. For line 16, explain why "Consumer Installations" is allocated 100% to Lighting.

c. For line 23, provide an explanation of and the calculations for the allocation factors for Account No. 593, Maintenance Overhead Lines.

d. For line 56 on page 6 of 31, explain whether Account No. 403, Depreciation Distribution Plant is directly assigned or is allocated using the General Plant allocator.

e. Refer to footnote 3 on page 7. Explain how it was determined that \$1,100,165 of Maintenance of Overhead Lines expense should be allocated to lines and the remaining \$119,567 should be allocated to services.

27. Refer to Exhibit R, Schedule 2 at 8.

a. On line 17, explain why Account 371, Installation on Consumer Premises, is allocated 100% to Outdoor Lighting.

b. Explain the basis for the "Total General Plant" allocations on line 23.

28. Refer to Exhibit R, Schedule 3 at 10. Explain the basis for the allocation of purchased power between energy-related and demand-related.

29. Refer to Exhibit R, Schedule 5 at 29.

a. Explain the basis for the allocation of "Other Revenue" to the customer classes.

b. Explain why the total "Other Revenue" of \$779,111 does not reconcile to Exhibit S, page 2 of 4.

30. Refer to Exhibit S at 2. Provide the basis for and calculation of the \$1,465,107 normalized adjustment to base rates under "Cost of Power".

31. Refer to Exhibit X at 1. Explain why Account 454, Rent from Electric Property, decreased by \$91,692 from August 2007 to August 2008.


32. Refer to Exhibit 13 at 2. Explain whether the weighted average cost of the Two-Party and Three-Party Poles are gross costs or if the costs reflect depreciation.

33. Refer to Exhibit 16 at 3.

a. Under "Fuel Adjustment", information for the month of January is omitted. Provide the omitted amount.

b. Instead of the months of January through December shown on this schedule, should the months shown be September through August? If no, explain why the amount shown for each month, as labeled, does not reconcile with the fuel adjustment clause filings filed by Big Sandy with the Commission.

34. Refer to Exhibit 18 at 1. Update this schedule with the lighting rate schedule included.

  
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DATED: FEBRUARY 9, 2009  
cc: Parties of Record

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