

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF HENDERSON-UNION RURAL)
ELECTRIC COOPERATIVE CORPORATION THAT)
ON SEPTEMBER 10, 1986, OR AT SUCH TIME)
AS BIG RIVERS ELECTRIC CORPORATION'S)
RATE INCREASE BECOMES EFFECTIVE IT WILL) CASE NO. 9620
ADJUST AND INCREASE ITS RATES TO FLOW)
THROUGH THE INCREASED WHOLESALE RATE)
CHARGES OF BIG RIVERS ELECTRIC)
CORPORATION SOUGHT IN PSC CASE NO. 9613)

O R D E R

IT IS ORDERED that Henderson-Union Rural Electric Cooperative Corporation ("Henderson-Union") shall file an original and 12 copies of the following information with this Commission, with a copy to all parties of record, by November 21, 1986, or within 2 weeks after the date of this Order, whichever is later. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Henderson-Union shall furnish with each response the name of the witness who will be available at the public hearing for responding to questions concerning each area of information requested. Careful attention should be given to copied material to insure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this

information request. The information requested herein is due no later than November 21, 1986, or 2 weeks after the date of this Order. If the information cannot be provided by the due date, you should submit a motion for an extension of time stating the reason a delay is necessary and include a date by which it will be furnished. Such motion will be considered by the Commission.

Information Request No. 2

The following questions are follow-up to the Commission's Information Request No. 1 issued September 12, 1986; Henderson-Union's response filed September 26, 1986.

1. In reference to Question No. 1, Application Exhibit K, page 4 of 29:

a. Provide a copy of the minutes of the board of director's meeting which approved the wage increase effective January 1, 1986.

b. Explain how a capitalization rate of 35.9 percent was determined; include any supporting calculations.

c. Provide a breakdown of employee strength at test year-end, indicating the number of employees who are full-time, part-time, seasonal or other classifications. Indicate if all groups are eligible to earn overtime.

d. Page 5 of 29, explain why overtime wages increased \$28,808, a 15.46 percent increase, in the test year over the 1984 year.

e. Page 7 of 29, identify the benefits which increased in the retirement income plan and explain how they justify the \$52,233 increase in expense.

f. Page 10 of 29, provide an explanation for the increases in the following utility plant accounts for 1985:

<u>Account No.</u>	<u>Account Title</u>	<u>Increase or Decrease</u>	<u>Amount</u>
366	Underground Conduit	Increase	\$ 4,262
367	Underground Conductors and Devices	Increase	45,651
395	Laboratory Equipment	Increase	53,603

g. Page 12 of 29, explain why the depreciation rates of 10, 5 and 3 percent were selected for the depreciation of Scada, Microwave, and Towers and Buildings. Indicate how these rates comply with REA Bulletin 183-1. Also explain why, if this equipment was placed in service in 1985, it was not recorded in the plant accounts until March 1986.

h. Page 13 of 29, for rural electric cooperatives, the assessment date for property tax purposes is December 31st of each year. With reference to the adjustment to property tax, provide the following:

(1) The 1986 tax year assessment, as determined by the Kentucky Revenue Cabinet which is based upon the plant in service as of December 31, 1985. Include a copy of the Notice of Assessment.

(2) The 1985 tax year assessment, as determined by the Kentucky Revenue Cabinet which is based upon the plant in service as of December 31, 1984. Include a copy of the Notice of Assessment.

(3) The 1985 and 1986 Certification of Public Service Company Property Assessment (Form 61A-200J) for each county.

(4) The 1985 and 1986 Real Estate and Tangible Personalty tax rates for each taxing district.

(5) The actual tax bills which equal the test year amount of \$132,796.

(6) An explanation of why this adjustment should not be calculated by applying the 1986 tax rate to the 1986 certified assessment and comparing that to the results of a similar calculation using the 1985 tax rate and the 1985 certified assessment.

i. Page 14 of 29, provide copies of the insurance premium billings for the periods July 1, 1984-85, and July 1, 1985-86. Explain the coverage provided under each policy and the fluctuation in the cost for each policy. Also, explain the methodology used to make the cost allocation to construction work in progress; include supporting calculations.

j. Page 16 of 29, explain in detail the conversion of CFC note number 9014. Include in the explanation the original fixed interest rate, the beginning variable rate, and what the \$43,313 represents. Also indicate if this note was originally eligible for conversion and if conversion was early or late.

k. Page 17 of 29, explain the use of an increase percentage of 20.98 percent in the calculation of the office electricity expense. Provide full documentation and calculations to support this figure. Also, explain why on page 28 of 29, Henderson-Union used a figure of \$1,750 for cooperative usage instead of the \$3,561 computed here.

1. Page 18 of 29, prepare a recalculation of the test-year PSC assessment. This is necessary because the submitted figures will not produce the assessment of \$55,813; instead the calculation for the test year as stated yields \$49,062. Also, provide a copy of the actual 1986 assessment if available.

m. Page 19 of 29, explain why the allowance for uncollectible accounts would increase proportionately with the amount of increase in rates charged. Provide the methodology currently used in calculating the allowance for uncollectible accounts. Also, explain how the proposed increase for residential of 15.50 percent was determined.

n. Pages 23 to 29, for each proposed adjustment, provide the detailed calculations and workpapers which support the adjustments. References to other exhibits or responses are acceptable only if they provide the detailed information requested.

2. In reference to Question No. 2, Sheet 11 of 11, provide a detailed breakdown of the annual meeting cost of \$12,684.68.

3. In reference to Question No. 3, the Commission typically does not include in operating expenses charitable contributions. Explain why Henderson-Union charitable contributions should be included in operating expenses in this case.

4. In reference to Question No. 5:

a. Provide a detailed supporting schedule for the \$8,600 in advertising expenses. This schedule should include the date of the transaction, vendor or payee, check number, amount, and the type of advertising the expense involved and the medium

used. Provide additional detail as to the purpose and expected benefit of each expenditure.

b. Explain in detail the rate case advertising expense and identify which case number(s) were involved.

5. In reference to Question No. 6:

a. Provide comments as to why no action was deemed necessary on the following line items for the Borrower Statistical Profile:

<u>No.</u>	<u>Item</u>	<u>Flag</u>
1.	TIER	HI
2.	Average TIER	HI
3.	Modified TIER	HI
4.	DSC	HI
5.	Average DSC	HI
9.	Equity Ratio	HI
28.	O&M, A&G, Customer Accts. Exp./ Consumer	HI
29.	Power Cost, Tax, Depreciation, & Interest/Consumer	HI
45.	O&M Expenses/\$100 Plant	HI
66.	Amt. Written Off/Total Revenue	LO

b. Provide a copy of the Borrower Statistical Profile which has 1985 Borrower Data, if available.

6. In reference to Question No. 9, Application Exhibit S, page 2 of 4. Provide the detailed computation and workpapers which support the amount shown on page 2 of 4.

7. In reference to Question No. 10, Application Exhibit H, provide a Statement of Changes in Financial Position for the years ended December 31, 1985, and 1984, as was originally requested. Exhibit H is for the years ended September 30, 1985, and 1984.

8. In reference to Question No. 11, Sheet 2 of 2, provide the hourly rate and hours charged by Alan Zumstein, CPA, and

Allinder Engineering. If the information is not available, provide an explanation as to why.

9. In reference to Question No. 12, Henderson-Union included a copy of an Equity Management Plan with this response. The plan was adopted September 24, 1981. A review of this plan revealed that there are no provisions for the rotation of capital credits or for the establishment of an optimum equity level for Henderson-Union. Provide the details for these two components of the equity management plan and explain why they were not addressed in the 1981 adopted plan. Also, explain why TIER was stated at levels excluding generation and transmission capital credits.

10. In reference to Question No. 16, provide an explanation for the changes in the following expense accounts during the test year:

<u>Account No.</u>	<u>Account Title</u>	<u>Increase or Decrease</u>	<u>Amount</u>
403.7	Depreciation Expense - General Plant	Increase	\$ 12,998
408.1	Tax Expense - Property	Increase	25,096
408.5	Tax Expense - PSC Assessment	Increase	21,273
555.0	Purchased Power	Decrease	10,414,387
583.0	Overhead Line Expense	Increase	16,864
583.2	Overhead Line Expense - Special Equipment	Decrease	18,499
583.3	Overhead Line Expense - PCB Inspection	Increase	7,193
593.2	Maintenance Overhead Line Right-of-Way	Increase	43,348
594.0	Maintenance Underground Lines	Decrease	8,092
904.0	Uncollectible Accounts	Increase	9,000
920.0	Administration & General Salaries	Increase	21,663
923.0	Outside Services Employed	Decrease	8,968

<u>Account No.</u>	<u>Account Title</u>	<u>Increase or Decrease</u>	<u>Amount</u>
928.0	Regulatory Commission Expense	Decrease	\$ 8,245
932.0	Maintenance of General Plant	Increase	40,787

11. In reference to Question No. 19, the list of the board of directors was compared with the 1985 Annual Report filed with the Commission. In that comparison, the name of Charles E. Wells did not appear in the Annual Report. The 1984 Annual Report indicates that Charles Wells' term expired in August 1985. Provide an explanation to clarify this situation.

12. In reference to Question No. 20, provide a detailed schedule of all fees, benefits, per diems, and other compensation available to the directors of Henderson-Union, as of December 31, 1984, and 1985. Provide explanation for any changes between the 2 years.

13. In reference to Question 21:

a. Indicate if all 68 of Henderson-Union's employees are included in each benefit listed in the response.

b. Provide detailed calculations and workpapers to support each annual cost included in this response. Also, indicate if these costs are affected by overtime work or capitalization.

14. In reference to Question 22, identify the amount of the costs incurred to date of \$3,658 which were incurred in the test year, if any.

The following questions are follow-up to the Commission's Order issued September 15, 1986; Henderson-Union's response filed October 7, 1986:

15. Henderson-Union has stated that the assumptions about its customer load has changed since test year-end because Alcan Aluminum ("Alcan") curtailed one of its two potlines on June 9, 1986. This curtailment could be in effect for some time and would reduce Alcan's monthly KW demand by 100,000 KW. In calculating the effect of the curtailment, Henderson-Union used a load factor of 98 percent.

a. Explain how, in Henderson-Union's opinion, this adjustment is consistent with the assumptions made by Big Rivers Electric Corporation ("Big Rivers"), which assumes two lines and no curtailment.

b. Explain what factors were used to support the load factor of 98 percent, when Big Rivers is using only 97.5 percent. Include all supporting computations.

c. Provide the detailed calculations and workpapers which show the effect of the curtailment on revenues, purchased power, and operating margin.

Done at Frankfort, Kentucky, this 7th day of November, 1986.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:

Executive Director