

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF GRAYSON RURAL)
ELECTRIC COOPERATIVE CORPORATION) CASE NO. 9980
FOR AN ADJUSTMENT OF RATES)

O R D E R

IT IS ORDERED that Grayson Rural Electric Cooperative Corporation ("Grayson RECC") shall file an original and 12 copies of the following information with this Commission, with a copy to all parties of record. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to insure that it is legible. The information requested herein is due no later than November 6, 1987. If the information cannot be provided by this 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. 3

1. With reference to Grayson RECC's response to Information Request No. 2, Item No. 2, provide the following information:

- a. Grayson RECC's policy regarding payment of interest on consumer deposits.
- b. At test year-end, what is the amount of consumer deposits subject to interest?

c. Explain why Grayson RECC proposed no adjustment to Account No. 430, Interest on Short-Term Loan, to reflect the fact that at the end of the test year there were no outstanding short-term loans.

2. Explain Grayson RECC's justification for the proposed capitalization adjustments.

3. Explain Grayson RECC's justification for including in the proposed net investment the actual test year-end balance for materials and supplies, and an average of the actual test-year beginning and ending balances for prepayments rather than a 13-month average of these items.

4. With reference to Grayson RECC's Exhibit No. II, Schedule 8, provide the actual amount of principal and interest included in the debt service payments for each year shown.

5. With reference to Grayson RECC's response to Information Request No. 2, Item No. 16, provide the following information:

a. The per diem paid to each director for each meeting listed in the "Mtgs Attended" column on pages 4 through 14 of Item No. 16a. If the per diem for any meeting was for more than 1 day, indicate the number of days of the subject meeting.

b. Provide an itemized schedule of the amounts for the \$1,757.70 expense to the NRECA Annual Meeting paid by check no. 77073.

c. Correlate the \$1,250 cost of the airline tickets to the Congressional Breakfast paid by check no. 77054 with the \$250 plane fare refund for Clevenger.

d. Indicate the individuals that attended the Congressional Breakfast and the per diem received by each.

e. Correlate the \$296 expense for tickets for the KAEC Annual Meeting paid by check no. 76698 with the invoice on page 16 of Item No. 19.

6. With reference to the information regarding Employee Benefits in Exhibit II, Schedule 15, and in Item No. 17, response to Information Request No. 2, provide the following information:

a. The basis upon which Grayson RECC is billed for Major Medical and Group Life Insurance; NRECA - Long-Term Disability; NRECA - Retirement Insurance; and Business Travel Accident Insurance.

b. Provide invoices and workpapers, as necessary, supporting the amount charged for each benefit during the test year.

c. Provide the amount of each benefit for the five most recent policy or calendar years as appropriate.

d. Provide the amount Grayson RECC expects to incur for each benefit in the next policy or calendar year as appropriate.

e. Indicate the benefits in which participation is voluntary. If participation in any benefit is voluntary, indicate the employees participating and the basis upon which charges were made during the test year.

f. For the four items listed in Item No. 17 that were expensed based on payroll, provide an explanation of why the percentage expensed for each benefit differs from the 55.51 percent of wages expensed during the test year.

7. Please clarify Grayson RECC's response to Information Request No. 2, Item No. 4b, regarding the adjustment for other taxes. To which expense accounts is Grayson RECC referring? Provide a schedule and workpapers correlating the calculation of the percentage of taxes and wages expensed each month or for the test year-end as appropriate.

8. With reference to Exhibit II, Schedule 16, page 10, provide the following information:

a. Workpapers and/or calculations supporting the determination of the percentage allocation for liability insurance during the test year.

b. Provide the amount of liability insurance expensed and capitalized during the test year.

c. Provide any information deemed necessary to explain the difference between the 1987 premium of \$50,782 and the 1987 premium of \$30,728 for the Rural Electric Package Insurance as shown in Item No. 5a of Grayson RECC's response to Information Request No. 2.

9. Explain the reason for the adjustment of \$2,400 due to the balance of the reserve account for depreciation exceeding the Account 396 balance.

10. If available provide the Borrower Statistical Profile reflecting 1986 operations. Include a narrative explanation of actions taken in response to this profile.

The following Questions, Nos. 11 through 17, refer to the Direct Testimony of Harold A. Haight, General Manager:

11. With reference to the Times Interest Earned Ratio ("TIER") achieved in 1986, and the test year as noted in your testimony, provide comparative schedules listing the TIER for the period from 1982 through 1986, and the test year inclusive and exclusive of Generation and Transmission Capital Credits ("GTCC").

12. With reference to your testimony, have any factors in addition to the present rates contributed to Grayson RECC's failure to achieve the TIER level granted in Case No. 9352? What impact has demand had on the revenues for each period listed in Question No. 11 above? Has demand increased or decreased during this period? Provide a schedule showing the total KWH or KW billed for each period listed in Question No. 11 above.

13. Provide a schedule listing the operations and maintenance expenses, exclusive of purchased power costs as referred to in your testimony, for each period listed in Question No. 11 above.

14. Please correlate the amount of increased liability insurance premiums of \$31,886 included on page 2 of your testimony with the total adjustment for liability insurance of \$20,744 shown in Exhibit II, Schedule 16, page 10.

15. Enumerate any cost containment initiatives implemented by Grayson RECC not reflected in your testimony.

16. Enumerate the cost savings measures compiled by each department that Grayson RECC implemented.

17. What amount of expenses with regard to the PCB program was included in the test year? Provide a comparison of these expenses included in the test year and projected in Exhibit II,

Schedule 16, page 18, on a per transformer tested and on a per transformer changed basis.

The following Questions, Nos. 18 through 23, refer to Exhibit II, Schedule 16, page 18, the PCB testing program and response to Information Request No. 2, Item No. 8:

18. Provide a copy of the survey and workpapers supporting the amount of time to test each transformer as shown in Item No. 8a.

19. With reference to the costs applied to overhead in Item No. 8d, provide the calculations supporting the determination of the "rates per dollar." Include a thorough explanation of any assumptions employed.

20. With reference to Item No. 8e, provide the following information:

a. The basis for using the May 1987, transportation report as a backup for the \$.303789 mileage rate.

b. The transportation reports for each month of the test year.

c. Identify on each monthly report the vehicles used for the PCB testing program.

d. What was the per mile rate for testing during the test year? (Include workpapers or supporting calculations.)

e. Correlate the test-year per mile rate with the amount for transportation in Item No. 8j.

21. With reference to Item No. 8g, provide the following information:

a. The reasons for basing the hours required to change a transformer on a 1984 study of all work orders in which work on a transformer was involved.

b. What was Grayson RECC's experience during the test year of the amount of time to change and labor cost for the 26 transformers changed out?

c. Provide the work orders for the 26 transformers changed out during the test year.

d. Why would it not be appropriate to base the hours required to change a transformer on Grayson RECC's test year experience with the 26 transformers actually changed?

22. With reference to Item No. 8j, provide the following information:

a. The amount of overhead included in the test year charges of \$30,570.

b. What was the overhead "rate per dollar" during the test year for PCB testing and change out?

c. Provide an itemized breakdown of the \$12,684 test year materials and supplies. Correlate these charges with the projections in Exhibit II, Schedule 16, page 18.

d. How was the disposal charge of \$1,714 determined? Has Grayson RECC included any disposal expenses in the projections in Exhibit II, Schedule 16, page 18?

23. According to Item No. 8o, during the test year, 26 transformers were changed at \$1,134 for a rate of \$43.62 per transformer. Exhibit II, Schedule 16, page 18, projects that annually 77 transformers will be changed for \$8,961, a rate of

\$116.38 per transformer. Provide a thorough explanation of the reason for the difference in the rate per transformer.

The following Questions, Nos. 24 through 27, refer to Information Request No. 2, Item No. 9 - Meter Reading Costs:

24. Would Grayson RECC agree that the test-year meter reading costs of \$26,710 will be reduced by two-thirds as a result of the deviation granted in Case No. 9970?

25. In what manner will the level of service to the members improve as a result of the deviation? What specific expense accounts will be affected?

26. During the test year, what expenses decreased as a result of Grayson RECC's 1-year meter reading program?

27. What was the effect on the level of service provided and overtime hours during Grayson RECC's "crash" meter reading program?

28. With reference to Grayson RECC's response to Information Request No. 2, Item No. 25, provide a copy of the long-range financial forecasts and explain why you assumed an average earned TIER of 1.70.

29. Provide the amount of general funds and debt funds used for construction purposes by Grayson RECC for the test year and the 5 previous calendar years. Also, provide the forecast of general funds and debt funds requirements over the next 5 years.

30. Provide the amount of patronage capital paid by Grayson RECC for the test year and the 5 previous calendar years.

31. Provide the total Capital Credits assigned, and Capital Credits paid by National Rural Utilities Cooperative Finance Corporation ("CFC") to Grayson RECC for the past 5 calendar years.

32. With regard to Hedberg Testimony, Question No. 20, explain how the "feasibility of the proposed financing" is determined by CFC. Also, provide copies of any financial models used by CFC to evaluate the "financial soundness" of the borrower.

33. Provide the following information for all CFC borrowers obtaining loan approvals from CFC during 1986 and 1987:

- a. Borrower's Name.
- b. Borrower's state of operation.
- c. Borrower's power supplier.
- d. Amount of financing authorized.
- e. TIER with GTCC.
- f. TIER without GTCC.
- g. Debt/equity ratio.
- h. Equity to total asset ratio.
- i. Debt Service Coverage ("DSC") with GTCC.
- j. DSC without GTCC.
- k. Growth rate.
- l. Embedded debt cost.
- m. The Borrower's Capital Credit Rotation Policy.
- n. Regulatory jurisdiction for:
 - (1) Rates.
 - (2) Construction.
 - (3) Financing.

34. Provide a copy of the Rural Electrification Administration ("REA")/CFC Concurrent Mortgage with the TIER and equity level provisions highlighted. Include the formulas used by REA and CFC to test for compliance with these provisions and the source of the data used.

35. With regard to DJH-Exhibits 4 and 5, provide the after tax coverages by Bond Rating Category.

36. With regard to Hedberg Testimony, Question No. 22, explain what is considered a low equity level, a low blended cost of debt, and an unusually high rate of growth.

37. With regard to DJH-Exhibit 3, provide the TIER and equity data for each year 1979 through 1986, exclusive of GTCC, for Grayson RECC, Kentucky Median, and the National Composite data for CFC members.

38. With regard to Hedberg Testimony, Question No. 42, provide the basis for the statement that

...many state commissions have accepted a TIER that produces equity growth in the 3 percent per year area and seems to be acceptable benchmark for cooperative systems under most circumstances.

Include in this response, the name of the cooperatives referred to, the regulatory agency approving the rates, the TIER granted and other pertinent information used to arrive at this conclusion.

39. Provide a detailed explanation, including workpapers of the derivation of the assumptions contained in DJH-Exhibits 9-13. Also provide a copy of the model used to support this exhibit in hard copy and data disc form.

40. Provide the information on DJH-Exhibit 9-13 for all years included in the model for the following scenarios:

- a. BOY Equity 36.7 percent; TIER 2.5; CCR cycle 20 years.
- b. BOY Equity 36.7 percent; TIER 2.25; CCR cycle 20 years.
- c. BOY Equity 36.7 percent; TIER 2.0; CCR cycle 20 years.
- d. BOY Equity 38.65 percent; TIER 2.5; CCR cycle 20 years.
- e. BOY Equity 38.65 percent; TIER 2.25; CCR cycle 20 years.
- f. BOY Equity 38.65 percent; TIER 2.0; CCR cycle 20 years.
- g. BOY Equity 36.7 percent; TIER 2.5; CCR cycle 1,000 years.
- h. BOY Equity 36.7 percent; TIER 2.25; CCR cycle 1,000 years.
- i. BOY Equity 36.7 percent; TIER 2.0; CCR cycle 1,000 years.

41. Explain the basis for forecasting equity growth from the beginning equity level exclusive of GTCCs considering the fact that the target equity level of 40 percent includes GTCCs.

42. Provide the target equity level of Grayson RECC, exclusive of GTCCs.

Done at Frankfort, Kentucky, this 26th day of October, 1987.

PUBLIC SERVICE COMMISSION

Richard D. Henning Jr.

For the Commission

ATTEST:

Executive Director