

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF HARRISON COUNTY)
RURAL ELECTRIC COOPERATIVE) CASE NO. 92-226
CORPORATION TO ADJUST ELECTRIC)
RATES)

O R D E R

IT IS ORDERED that Harrison County Rural Electric Cooperative Corporation ("Harrison County") shall file an original and 12 copies of the following information with the Commission, with a copy to all parties of record. 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. 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 ensure 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 October 14, 1992.

1. Provide a reconciliation of the amounts shown as Long-Term Debt, Rural Electrification Administration ("REA") and Long-Term Debt, National Rural Utilities Cooperative Finance Corporation ("CFC") on Exhibit A, Schedule 1, page 2 of 2 with Exhibit A,

Schedule 3, page 2 of 2, of the application. Include a detailed explanation of why the amounts for the long-term debts did not agree between these two schedules.

2. Refer to Exhibit B, Schedule 3, page 3 of 3 of the application. For each CFC note listed, indicate whether the note is on the fixed or variable interest rate program. Also indicate when the next repricing cycle begins.

3. Refer to Exhibit B, Schedule 3, page 3 of 3 of the application. Five of the listed notes are shown at an interest rate of 9 percent or higher. The Commission has received and processed several applications converting fixed interest rate loans to variable interest rates. These applications have included the results obtained from a computer model developed by CFC which performs an Internal Rate of Return ("IRR") analysis of the possible conversion. Utilizing the CFC model, prepare an IRR analysis examining the possibility of converting CFC Loan Nos. 46-9010, 46-9013, 46-9016, 46-9023, and 46-9024 from fixed to variable interest rates. The analysis for each loan should include:

a. A scenario presenting the cash flows that are presently in effect until the loan reaches its repricing date.

b. A scenario presenting the cash flows that would result if the variable interest rate remained constant during the quarters remaining until the loan reaches its repricing date.

c. A scenario presenting the cash flows that would result if the variable interest rate began increasing in increments of .25 for each quarter, beginning with the third quarter, through

the quarters remaining until the loan reaches its repricing date. For purposes of this analysis, Harrison County should assume the conversion would have been accomplished on September 1, 1992 and that the interest rate to be used is the variable interest rate available from CFC for conversions by the September 1 conversion date. The scenarios described in parts (b) and (c) should be prepared twice, once showing the impact on the cash flows if the required conversion fee were paid up-front and once if the required conversion fee were paid quarterly.

4. Provide a reconciliation of the Long-Term-Debt Balance of \$9,623,219.97 as shown on Exhibit B, Schedule 3, page 3 of 3 of the application with the Long-Term-Debt Balance of \$9,872,080 shown in the response to Item No. 2, page 2 of 3 of the June 25, 1992 Order. Include a detailed explanation of why the balances reported for long-term debt do not agree.

5. Provide a detailed explanation for the increase in Transportation Equipment depreciation as proposed on Exhibit B, Schedule 4, page 3 of 3. For any transportation equipment purchased during the test year, state the purpose of the equipment, the date purchased, and provide copies of the invoices for such purchases.

6. Refer to Exhibit B, Schedule 5 of the application. Provide the following information:

a. Copies of the tax bills which document the test-year property tax expense of \$114,621.

b. A copy of the 1991 Notice of Assessment.

c. A copy of the 1991 tax year assessments (Revenue Cabinet Form K), which reports the value of utility property as of December 31, 1990.

d. A schedule of the 1991 Real Estate and Tangible Personal Property tax rates for each taxing district.

e. A schedule of the booked and assessed values for all motor vehicles for the 1990 and 1991 tax years.

f. A schedule of the assessed values for all motor vehicles for the 1992 tax year, if available.

7. Refer to Exhibit B, Schedule 6, pages 4 and 5 of 5, of the application. Provide a detailed explanation of the reason(s) for the level of overtime hours reported for Employee Nos. 16, 23, 26, and 61. In addition, provide the actual overtime hours worked during the twelve months preceding the test year, by employee number.

8. Refer to Exhibit B, Schedule 7, page 1 of 5 of the application.

a. Provide the most recent premium invoices received for each benefit listed.

b. Provide a description of how Harrison County procures its various insurance coverages. If competitive bidding is used, indicate when the last bids were taken, identify the bidders, the respective bids, and the reason(s) for the selection of the successful bidder. If the insurance coverages are not procured through competitive bidding, explain in detail why the process is not used.

9. Refer to Exhibit B, Schedule 7, page 2 of 5 of the application. Explain the reason(s) for paying the 24 hour accident insurance premiums on behalf of Harrison County's corporate attorney.

10. Refer to Exhibit B, Schedule 7, page 3 of 5 of the application. Provide detailed workpapers supporting each figure used in the calculation.

11. Refer to Exhibit B, Schedule 7, page 4 of 5 of the application, provide the following:

a. State the reason(s) for paying the dental insurance premiums on behalf of Harrison County's corporate attorney.

b. Supply detailed workpapers supporting each figure used in the calculations for dental and disability insurance.

12. Refer to Exhibit B, Schedule 7, page 5 of 5 of the application, provide the following:

a. Explain the coverage provided under the medical insurance policies.

b. Describe the eligibility requirements an employee or other covered participant must meet to qualify for coverage.

c. Details of any repayment arrangements made by the directors and the attorney for medical insurance.

d. State the reason(s) for paying medical insurance premiums on behalf of Harrison County's corporate attorney.

e. State whether Harrison County is aware of the Commission's past practice regarding fees, gratuities, premiums, etc., paid to or on behalf of emeritus directors.

13. Refer to Exhibit J, page 1 of 1 of the application. Provide detailed workpapers and all supporting documents for each figure shown.

14. Refer to Exhibit B, Schedule 9, page 1 of 1. Provide all supporting documents and calculations used in arriving at the monthly charge of \$7,411.

15. Refer to the response to Item 11 of the June 25, 1992 Order. Provide a description of the equity management policies and practices followed by Harrison County. In addition, explain why Harrison County has not adopted a formal equity management plan.

16. Concerning Harrison County's policies with regard to the retirement of capital credits, provide the following information:

a. Indicate the amount of capital credits paid to the estates of deceased members during the test year and the 5 previous calendar years.

b. Indicate when Harrison County last made a general retirement or refund of capital credits to its members. Include the date of the retirement and the amount retired or refunded.

c. Explain in detail Harrison County's plans concerning the possibility of future retirements or refunds of capital credits to members.

17. The response to Item 14 of the June 25, 1992 Order did not adequately answer the request. Harrison County was requested to provide several items of information concerning its annual meetings. One of the requests asked Harrison County to provide the total cost of the most recent annual meeting and the 5 previous

annual meetings. Harrison County did not provide this information. Provide the requested information as originally requested.

18. The response to Item 16 of the June 25, 1992 Order did not adequately answer the request. Harrison County was requested to explain how the test year capitalization rates were determined. This information was to be provided for each capitalization rate Harrison County utilized during the test year. Harrison County's response did not provide the requested information for the following capitalization rates:

- a. Employee benefits.
- b. Employee payroll taxes.
- c. Liability, workers compensation, and automobile and liability insurance.

Provide the information originally requested for these capitalization rates.

19. Provide a detailed explanation of Harrison County's policy regarding merit increases to employees. This explanation should include copies of any formal policies adopted by Harrison County regarding merit increases.

20. Refer to Harrison County's response to Item 21 of the June 25, 1992 Order. Provide copies of the advertisements or the text of the radio spots for the following advertising transactions:

- a. Newspaper transaction vouchers:
 - (1) 25016
 - (2) 25284

- (3) 25495
- (4) 25732
- (5) 26042
- (6) 26175
- (7) 26596
- (8) 26823
- (9) 27166
- (10) 27219

b. Radio transaction vouchers:

- (1) 24839
- (2) 25038
- (3) 25040
- (4) 25747
- (5) 26195
- (6) 26405
- (7) 26835

c. All magazine and other advertisement transaction vouchers.

21. Refer to Harrison County's response to Item 22 of the June 25, 1992 Order. State the purpose for the following expenses. Also indicate if these are recurring costs and explain why they should be included for rate-making purposes.

- a. Newsweek subscription.
- b. Christmas Cards.
- c. Calendars.
- d. Transactions with Atkinson's Greenhouse.

- e. Youth Tour.
- f. Funeral Costs.

22. Refer to Harrison County response to Item 24 of the June 25, 1992 Order. Explain the purpose and function(s) of the Executive Committee. Identify the members of the Executive Committee during the test year.

23. Refer to Item 24 of the June 25, 1992 Order. Identify the meetings, dates, directors, and amounts from those listed in this response that make up the \$4,350 that Harrison County has proposed to exclude from the expenses included for rate-making purposes.

24. Refer to Harrison County's response to Item 24 of the June 25, 1992 Order. Explain the purpose of the "Board Prep and Official Signature" fees paid to Director Palmer.

25. Refer to Harrison County's response to Item 25 of the June 25, 1992 Order.

- a. Provide the total costs for the external audits performed by Dean, Dorton and Ford P.S.C. for calendar years 1990 and 1991.

- b. Explain why the attorney retainer fee was increased 4 percent during the test year. State whether Harrison County has proposed to increase expenses to recognize the increase in the attorney retainer fee.

26. Concerning the professional services provided to Harrison County, provide the following information:

- a. Explain in detail how Harrison County selected the providers of its legal and auditing services.

b. Indicate when Harrison County retained its current providers of legal and auditing services. Also indicate how frequently the use of these providers is reviewed.

c. If competitive bidding procedures were used to secure legal or auditing services, indicate when the last competitive bidding was performed. Include a listing of all bidders and the bid amounts submitted. If the successful bidder was not the lowest bidder, explain why the successful bidder was chosen.

27. Refer to Harrison County's response to Item 26 of the June 25, 1992 Order. Harrison County has indicated that its only rate case cost would be for the material used for copies. In light of Harrison County's Board Policy No. 106, explain why Harrison County will not incur legal expenses related to this rate proceeding.

28. The response to Item 26 of the June 25, 1992 Order did not adequately answer the request. Harrison County was requested to provide details on the rate case costs incurred to date, an estimated total cost of the rate case proceeding, and monthly updates of actual rate case costs. In its response, Harrison County provided no details of actual costs incurred nor an estimate of the total cost of the rate case. Provide the information originally requested in Item 26.

29. Provide monthly updates of the actual rate case costs incurred by Harrison County. The updates should provide the same detail as was requested in Item 26(a) of the Commission's June 25,

1992 Order. The updates should be filed during each month of this proceeding, through and including the month of the public hearing. The updates should be filed by the 20th of the month following the reporting month.

30. The responses to Items 7 and 8 of the June 25, 1992 Order did not provide the information requested. Harrison County was requested to provide, for each balance sheet and income statement account or subaccount included in Harrison County's chart of accounts, a comparison of the balances for each month of the test year to the same month of the preceding year. The requested information was to be organized as shown on Format 7 of the June 25, 1992 Order. The furnished responses do not indicate what the dollar amounts represent. Provide the originally requested information for Items 7 and 8, using Format 7.

31. Refer to the response to Item 32 of the June 25, 1992 Order. Provide the specific account numbers charged for the transactions listed in this response, as was originally requested.

32. The Financial Accounting Standards Board ("FASB") has issued Opinion No. 106, concerning the accounting for other post-retirement benefits. Provide an explanation concerning whether Harrison County has reviewed FASB No. 106 and whether Harrison County has determined how FASB No. 106 will apply to its other post-retirement benefits.

33. Provide a schedule listing any extraordinary and/or non-recurring transactions which have been included in test-year

operations. Include a description of the transaction and the account number(s) where the transaction was recorded.

34. Provide a schedule showing revenue and expenses in 3 columns headed "Test Period," "Adjustments to Test Period," and "Adjusted Test Period." Exhibit B of the rate case filing does not meet this requirement.

35. a. State whether Harrison County has removed the fuel adjustment component from purchased power expense.

b. If yes, state the amount of this component and indicate where it appears in Harrison County's filing.

36. State whether revenue and purchased power expense have been adjusted for the change in base fuel rate in the test year. If yes, show the specific adjustments separate from any other adjustments to revenue and purchased power.

37. Refer to Harrison County's application. State whether Exhibit B, Schedule 2, page 2 of 5, reflects actual test-year data. If no, state whether it reflects adjusted test-year data.

38. Refer Exhibit B, Schedule 2, of Harrison County's application. Provide a reconciliation between page 2 and pages 3, 4, and 5. In several instances, the schedules do not agree. If there are errors in these schedules, file corrected copies.

39. Refer to the testimony of James Adkins, question 12, pages 10-11:

a. Explain the rationale behind the assumption that 50% of the outdoor lighting provided during the test year required an additional 30 foot pole.

b. Explain the rationale behind the assumption that 50% of the investment in general plant land and buildings should be assigned to consumer and accounting service.

c. Explain the rationale behind the assumption that 75% of the investment in office furniture and equipment should be assigned to consumer and accounting service.

d. Provide the exact number of extra 30 foot poles that were required during the test year for outdoor lighting as well as the total number of poles.

e. Describe the survey process that was undertaken and provide all workpapers and internal memoranda which document the survey and its results.

40. Refer to the testimony of James Adkins, question 13, pages 11-12:

a. O&M for lines allocated on the basis of functionalization from Schedule A appears to be 73.25% from line 8, but appears to be 87.4% on line 4 of Schedule B. Provide a more detailed explanation of the allocations on line 4 of Schedule B.

b. Explain why other miscellaneous O&M is allocated by total distribution plant investment functionalization and not simply total plant functionalization.

c. Explain the rationale for the 50%-50% split in A&G expenses and the different allocation ratios.

41. Refer to the testimony of James Adkins, question 14, page 13:

a. Explain why the minimum-system method is used as opposed to the zero-intercept method to bifurcate distribution lines, transformers and services.

b. State whether Harrison County considered using a zero-intercept method.

42. Refer to the testimony of James Adkins, question 15, page 14:

a. Explain why Harrison County chose the average and excess method.

b. Explain how and why East Kentucky Power Cooperative's system wide load research data is applicable to Harrison County.

c. Explain how the load research was conducted.

43. Refer to Harrison County's application, Schedule C, page 2 of 2, footnotes (c), (d) and (e):

a. Explain how the minimum sizes are determined.

b. Explain how the cost per unit was determined.

44. Refer to Schedule D, page 2 of 4, of Harrison County's application.

a. Explain in exact detail how each allocator (last three columns) was determined.

b. Explain how the peak demand figures were determined.

c. Explain how the allocated excess demand figures were determined.

d. Explain how the CP demand figures were determined.

45. Refer to Schedule D, page 4 of 4, of Harrison County's application:

a. Explain how the weighting factor in footnote (g) was determined.

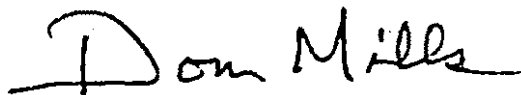
46. Refer to Schedule G, page 1 of 1, of Harrison County's application. Provide all workpapers and fully explain how this exhibit was developed.

Done at Frankfort, Kentucky, this 29th day of September, 1992.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:



Executive Director