

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LICKING VALLEY RURAL)
ELECTRIC COOPERATIVE CORPORATION) CASE NO. 98-321
TO ADJUST ELECTRIC RATES)

O R D E R

IT IS ORDERED that Licking Valley Rural Electric Cooperative Corporation ("Licking Valley") shall file an original and 8 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 previously, 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 shall be filed on later than September 17, 1998.

1. Refer to Exhibit P of the Application, the annual meeting information.
 - a. Provide the same information for the 1998 Annual Meeting as was provided for the 1997 and 1996 meetings.
 - b. Explain why there were no director elections during the 1992 to 1997 period.

2. Refer to Exhibit H-3 of the Application, the direct testimony of James R. Adkins, and Exhibit R, the cost-of-service study printouts.

a. Was the model used to develop the cost-of-service study submitted in this case developed in-house by the East Kentucky Power Cooperative, Inc. ("East Kentucky") or is it based on another model? Explain the response.

b. Have the approaches and methodologies employed in this study been submitted to the Commission in any previous cooperative rate cases? If yes, identify the cooperative and provide the case number of the proceeding.

c. If the approaches and methodologies employed in this study have been changed since the last time the study model was submitted to the Commission, identify each change and explain the nature of the change.

d. Provide one 3.5 inch computer disc which contains Exhibit H-3, Attachments I through V and Exhibit R.

3. Refer to Exhibit S of the Application, page 4 of 63. Explain the amounts included in test-year salaries identified as "Storm and Bonus" and "Excess Vacation Payout." Include in this explanation a description of who was eligible for the payment, how the payment was calculated, and why only salaried employees received the payments.

4. Refer to Exhibit S of the Application, pages 5 through 8 of 63, the proposed salary and wage adjustment calculations.

a. Explain why Licking Valley used 2,088 hours, instead of 2,080 hours, when it normalized its payroll for the test year.

b. Explain why Licking Valley used 2,088 hours when it determined the adjustment to salaries and wages, but used 2,080 hours when it determined the adjustment to miscellaneous charges, Exhibit S, page 55 of 63.

c. When normalizing the payroll for Employee No. 7723, explain why the test-year actual hours of 1,703.5 were used rather than 2,088 hours.

d. Explain why the following employees did not receive a salary or wage increase on January 1, 1998:

(1) Employee No. 1105.

(2) Employee No. 2232.

(3) Employee No. 2233.

(4) Employee No. 2216.

e. Explain why Employee Nos. 2232 and 2233 received wage increases of approximately 5.7 percent on April 14, 1997.

f. Explain why Employee Nos. 2234 through 2239 received wage increases of approximately 21.4 percent on April 10, 1997.

g. Explain why Employee Nos. 2230, 4403, and 5512 received wage increases of approximately 10.8 percent on January 1, 1998.

h. Explain why Employee No. 7706 received a wage increase of approximately 6.1 percent on January 1, 1998.

5. Refer to Exhibit S of the Application, page 9 of 63, the analysis of salaries and wages.

a. Line No. 15 of this analysis appears to report overtime hours, rather than overtime wages, for the various time periods. Provide the overtime wages for each of the time periods shown on this schedule.

b. The change in overtime hours between 1996 and 1997 was reported to be a reduction of 29 percent, while the change between 1997 and the test year was reported to be an increase of 36 percent. However, checking these calculations reveals a reduction of 22 percent and an increase of 57 percent instead. Explain the reason(s) for these differences.

c. Explain why the overtime hours in the test year were higher than those reported for calendar year 1997.

d. Provide a schedule, by employee number, showing the total hours of overtime worked by each employee during the February 1998 snow storm.

6. Refer to Exhibit S of the Application, pages 12 and 13 of 63.

a. Provide Licking Valley's policy concerning the provision and use of a company vehicle. Include a discussion of who is eligible for this benefit, how long Licking Valley has provided this benefit, and why Licking Valley believes this benefit is necessary.

b. Provide Licking Valley's policy concerning the provision of life insurance to employees. Include a discussion of the amount of life insurance coverage provided, who is eligible for this benefit, the amount of premiums paid by covered employees, how long Licking Valley has provided this benefit, and why Licking Valley believes this benefit is necessary.

c. Provide the test-year total cost and expensed portion of life insurance and company vehicle benefits. Indicate the accounts where the expensed portion of the total costs was recorded.

d. On pages 12 and 13 of 63, the schedule includes a column labeled "Life Ins. > \$50K." Do the amounts shown in this column represent the additional premium paid by Licking Valley for life insurance coverage in excess of \$50,000? If not, explain what the amounts in this column represent.

e. Does the amount shown as "Vehicle Comp." reflect the total cost of the benefit, the expensed portion only, or some other amount? Explain the response.

7. Provide the most recent compensation study performed by or for Licking Valley.

8. Refer to Exhibit S of the Application, page 15 of 63. The information on this page indicates that Licking Valley has not changed any of its depreciation rates since 1983.

a. When did Licking Valley last perform a detailed depreciation study?

b. Has Licking Valley performed any limited-scope reviews of its depreciation rates since 1983, to determine the adequacy and reasonableness of those rates?

c. Has the Rural Utilities Service ("RUS") expressed any concerns to Licking Valley about its depreciation rates or the length of time that the current rates have been in effect? Provide copies of any correspondence sent to or received from the RUS over the last 5 years concerning Licking Valley's depreciation rates.

9. Refer to Exhibit S of the Application, page 32 of 63. This schedule shows that National Rural Utilities Cooperative Finance Corporation ("CFC") Loan No. 9003 has a fixed interest rate of 8.45 percent and that Loan No. 9015 has a fixed interest rate of 8.80 percent.

a. Has Licking Valley explored the possibility of repricing or converting the interest rate option on either of these loans since the beginning of the test year?

(1) If yes, provide the results of Licking Valley's analysis, including any supporting workpapers or calculations.

(2) If no, explain in detail why Licking Valley has not explored this alternative.

b. As of test-year-end, list the various interest rate options that would have been available to Licking Valley if it had been considering a conversion or repricing of Loan Nos. 9003 and 9015.

c. Using either the CFC analysis model or some other internal rate of return analysis, evaluate whether Licking Valley could have reduced its interest expense on these loans through a repricing or conversion. The analysis should examine the various interest rate options available as of test-year-end for each loan separately. The analysis should take into consideration any conversion fees that could have been required of Licking Valley.

10. Refer to Exhibit S of the Application, page 35 of 63. This schedule shows the proposed adjustment for medical and life insurance premiums.

a. Provide Licking Valley's administrative policies concerning the provision of medical and life insurance to employees.

b. Concerning the medical insurance, provide the last monthly premium notice received which reflects the March 31, 1998 test-year-end date. If the premium notices are for a quarter or year, provide the last monthly premium notice that includes the March 31, 1998 date.

c. For family medical insurance coverage, explain how the employee portion is determined.

d. Provide the test-year actual total cost and the expensed portion for Licking Valley's medical insurance premiums.

e. Concerning the life insurance, provide the last monthly premium notice received which reflects the March 31, 1998 test-year-end date. If the premium notices are for a quarter or year, provide the last monthly premium notice that includes the March 31, 1998 date.

f. Provide the test-year actual total cost and the expensed portion for Licking Valley's life insurance premiums.

g. Explain why the amounts reported as "Life Insurance Premiums – Next \$30,000" do not match the amounts shown on Exhibit S, page 12 and 13 of 63, labeled as "Life Ins. > \$50K."

11. Refer to Exhibit S of the Application, pages 37 through 41 of 63, the proposed adjustment to post-retirement benefits expense.

a. Has Licking Valley updated the analysis contained on pages 38 through 41 of 63 since 1994? If yes, provide copies of the updated analysis.

b. Provide the actual annual accrual for each calendar year since 1994. Explain the reason(s) for any changes in the annual accrual from year to year.

c. Explain why Licking Valley believes it is appropriate to use the percentage increase in medical and life insurance premiums in the proposed adjustment when Licking Valley's post-retirement benefits do not include life insurance (see Exhibit N of the Application, page 13 of 14).

d. Provide the annual percentage change in medical insurance premiums for each calendar year since 1993.

e. Identify where the "projected unit credit cost method" is prescribed and discussed in Statement of Financial Accounting Standards No. 106 and provide copies of the section of the statement that discusses this methodology.

f. Using the approach presented in pages 37 through 41, recalculate the annual accrual as of March 31, 1998.

12. Refer to Exhibit S of the Application, pages 46 and 47 of 63, advertising expenses.

a. Licking Valley has indicated that the transactions listed on lines 13, 92, 127, and 129 should be removed for rate-making purposes. Doesn't Licking Valley's proposed adjustment actually reflect the transactions shown on lines 13, 95, 130, and 132? Identify which set of transactions Licking Valley is proposing to remove.

b. Concerning Morgan County Industries:

(1) Describe the nature of its business and the types of services it provides.

(2) Provide text copies of the radio advertising spots covered by Check Nos. 1300 and 2161.

(3) Explain why there are no transactions with Morgan County Industries listed after August 31, 1997.

(4) Does the test-year level of expenses for Morgan County Industries represent an on-going cost for Licking Valley? Explain the response.

c. Describe the nature of the advertising reimbursement received from East Kentucky.

d. For each transaction listed below, provide a copy of the actual advertisement or a copy of the radio spot text covered by the transaction. If the advertisement or radio spot was to be run multiple times, indicate the number of times the item was printed or broadcast.

(1) Check No. 1241, Intermountain Broadcasting, radio spot.

(2) Check No. 1297, Intermountain Publishing, newspaper item.

(3) Check No. 2392, Salyersville Independent, newspaper item.

(4) Check No. 450, WLKS Radio Station, radio spot.

13. Refer to Exhibit S of the Application, page 49 of 63, the dues to associated organizations.

a. Describe the organization and purpose of Touchstone Energy.

b. Indicate when Licking Valley joined Touchstone Energy and explain why Licking Valley joined this organization.

c. Was the decision to join Touchstone Energy made by Licking Valley's board of directors? If yes, provide a copy of the appropriate resolution or section of the board minutes. If no, who decided that Licking Valley should join Touchstone Energy?

d. What kinds of activities do the Touchstone Energy membership dues fund?

e. Explain how Licking Valley's membership dues were determined.

f. As a member of Touchstone Energy, describe any financial commitments or obligations Licking Valley has made to Touchstone Energy for the next five years.

g. Explain why the Touchstone Energy dues should be included for rate-making purposes.

14. Refer to Exhibit S of the Application, page 49 of 63, the scholarships included in annual meeting expenses. Explain why the provision of scholarships is a necessary cost of providing electric service. Also, explain why the scholarship expense should be included for rate-making purposes.

15. Refer to Exhibit S of the Application, page 50 of 63, miscellaneous general expenses.

a. Explain why the payment of nominating committee meeting fees is a reasonable expense and should be included for rate-making purposes. Include with this explanation a discussion of how the payment of these fees is consistent with the concept of a cooperative and the shared responsibility which normally exists in non-profit cooperatives. Also address why the fees should be included, considering the statement in Exhibit P of the Application that there have been no elections for director during the past 6 years.

b. The miscellaneous general expenses include three entries made in calendar year 1998 for Directors, Officers, and Managers insurance.

- (1) Did Licking Valley have this coverage prior to 1998?
- (2) If yes, in what account was the insurance expense recorded?
- (3) If no, why did Licking Valley begin this insurance coverage in 1998?

16. Refer to Exhibit S of the Application, page 53 of 63, the storm damage and Federal Emergency Management Agency ("FEMA") reimbursement.

a. Provide the status of Licking Valley's claim with FEMA as of September 1, 1998. Include copies of any correspondence with FEMA sent or received since August 1, 1998.

b. Explain the basis for the assumption that Kentucky will reimburse 12 percent of the costs. Include any documentation that supports this assumption.

c. Provide the amount of the February 1998 storm costs that were capitalized.

d. Provide the following information concerning storm damage costs separately for each calendar year beginning with 1992 and ending with 1997:

(1) The capitalized portion and expensed portion of the total storm damage costs for the calendar year, without any adjustment for insurance or FEMA reimbursements.

(2) The total insurance or FEMA reimbursements related to each calendar year's storm damage costs. Indicate whether the reimbursement was applied to the capitalized or expensed portion of the costs.

17. Refer to Exhibit 2 of the Application, pages 1 and 2 of 4, the Borrower Statistical Profile for Licking Valley, dated October 15, 1997. For each line item listed below, explain why neither Licking Valley's management nor board of directors have taken any action to address the item.

a. Line Item No. 54 – Interest on Long-Term Debt divided by Average Long-Term Debt.

b. Line Item No. 67 – Accounts Receivable over 60 Days divided by Operating Revenues.

18. Concerning Account No. 142.1 – Accounts Receivable:

a. Provide the account balance as of March 31st in 1995 and 1996.

b. Provide an aging schedule of accounts receivable as of March 31st in 1995, 1996, 1997, and 1998.

c. Explain how Licking Valley determined the appropriate level for its Allowance for Uncollectibles, Account No. 144.10. Indicate when Licking Valley last reviewed this procedure for its reasonableness.

d. Explain how Licking Valley determined that a monthly accrual of \$3,000 was appropriate for Account No. 904.00 – Uncollectibles. Indicate when Licking Valley last reviewed this procedure for its reasonableness.

19. Refer to Exhibit 4 of the Application, page 3 of 3, schedule of outstanding short-term debt. Explain the nature and purpose of the short-term borrowings Licking Valley had from East Kentucky.

20. Refer to Exhibit 5 of the Application, the comparison of test-year account balances with the preceding year – balance sheet accounts. For each of the accounts

listed below, explain the reason(s) for the change in the account balance between the two periods.

- a. Page 3 of 9, Account No. 132.00 – Special Deposits.
- b. Page 4 of 9, Account No. 136.00 – Temporary Investments.
- c. Page 6 of 9, Account No. 224.40 – REA notes unadvanced.
- d. Page 7 of 9, Account No. 224.12 – CFC notes unadvanced.
- e. Page 9 of 9, Account No. 252.20 – Consumer Advance – Mobile.

21. Refer to Exhibit 6 of the Application, the comparison of test-year account balances with the preceding year – income statement accounts. For each of the accounts listed below, explain the reason(s) for the change in the account balance between the two periods.

- a. Page 1 of 8, Account No. 583.00 – Overhead Line Expense.
- b. Page 2 of 8, Account No. 586.00 – Meter.
- c. Page 2 of 8, Account No. 593.00 – Maintenance of Overhead.
- d. Page 2 of 8, Account No. 593.10 – Right-of-Way Maintenance.
- e. Page 2 of 8, Account No. 593.20 – Contract Right-of-Way.
- f. Page 2 of 8, Account No. 595.00 – Transformer Maintenance.
- g. Page 3 of 8, Account No. 902.00 – Meter Reading.
- h. Page 3 of 8, Account No. 903.00 – Consumer Records.
- i. Page 3 of 8, Account No. 907.00 – Supervision – Customer Service.
- j. Page 3 of 8, Account No. 908.00 – Consumer Assistance.
- k. Page 4 of 8, Account No. 913.00 – Advertising.

- i. Page 4 of 8, Account No. 920.00 – Administrative Salaries.
- m. Page 4 of 8, Account No. 923.00 – Outside Services.
- n. Page 6 of 8, Account No. 930.40 – Miscellaneous General.
- o. Page 8 of 8, Account No. 419.00 – Interest Income.

22. Refer to Exhibit 6 of the Application. Explain why certain accounts listed on pages 4 and 6 of 8 show no balances for the last 3 months of the test year.

23. Refer to Exhibit 6 of the Application, page 4 of 8. Explain why Licking Valley's PSC Assessment was recorded in Account No. 928.00 – Regulatory Commission Expense rather than in a subaccount of Account No. 408.00 – Taxes Other Than Income Taxes.

24. Refer to Exhibit 6 of the Application, page 5 of 8. Explain the December 1996 payment of \$38,952 recorded in Account No. 930.16 – Directors Expenses.

25. Refer to Exhibit 7 of the Application, Licking Valley's bylaws.

a. Explain why the terms of Licking Valley's board of directors are not staggered.

b. Is Licking Valley aware of any other cooperative in Kentucky that follows this approach? If yes, identify the cooperative.

26. Refer to Exhibit 9 of the Application, pages 3 and 4 of 4, professional services.

a. Explain why Licking Valley believes the following costs associated with its attorney should be included for rate-making purposes:

(1) Attendance at the National Rural Electric Cooperatives Association ("NRECA") annual meeting.

(2) Attendance at the Kentucky Association of Electric Cooperatives annual meeting.

(3) Attendance at a NRECA legal seminar.

(4) Subscription to Electric Coop Today.

(5) Christmas gift.

b. What is the status of Nickell vs. Licking Valley? Does this expense represent an on-going expense for Licking Valley? Explain the response.

c. Explain why the expense for the annual meeting provost should be included for rate-making purposes, considering Licking Valley's statement that there has not been a directors election during the last 6 annual meetings.

d. For each transaction listed below, indicate whether it represents an on-going expense for Licking Valley, and explain the response:

(1) PCB Treatment, Inc., superfund site.

(2) Easement filing.

(3) Implementation of functional accounting.

27. Refer to Exhibit 10 of the Application, page 1 of 15, concerning Licking Valley's directors.

a. Indicate how many years each director has served on Licking Valley's board of directors.

b. List the occupation of each director.

c. Indicate which director is the alternate representative on the East Kentucky board of directors.

d. Indicate which directors serve as the primary and alternate representatives to the Kentucky Association of Electric Cooperatives.

e. Indicate which directors serve as the primary and alternate representatives to the NRECA.

f. Does Licking Valley provide its directors with medical or life insurance coverage? If yes, provide the test-year expense for this coverage.

28. Refer to Exhibit 10 of the Application, page 3 of 15, Policy Number 108, section 5.

a. Provide a detailed listing of the official duties undertaken by the Secretary/Treasurer, for which an additional monthly per diem of \$300 is paid.

b. Explain why this additional per diem payment should be included for rate-making purposes.

29. Refer to Exhibit 10 of the Application, page 3 and 4 of 15, Policy Number 108, section 6.

a. Explain in detail the purpose of Licking Valley's policy concerning compensation for retired directors.

b. Since its adoption on October 15, 1987, indicate how many retired directors of Licking Valley have received this compensation and the amount paid to each retired director.

c. Indicate whether Licking Valley is aware of any other cooperative in Kentucky that has such a policy for retired directors. Identify the cooperatives, if known.

d. Does Licking Valley have any policies establishing or providing benefits to directors emeritus? If yes, provide copies of the policies and the amount of expense incurred during the test year.

30. Refer to Exhibit 10 of the Application, pages 8 through 15 of 15, directors' expenses.

a. Explain why it is reasonable to provide the directors with Christmas gifts and magazine subscriptions. Include an explanation as to why these expenses should be included for rate-making purposes.

b. Do any of the expenses shown on pages 8 through 15 of 15 include expenses for directors' spouses which have not been reimbursed to Licking Valley? If yes, indicate the amount of spouses' expenses on each page and provide a copy of Licking Valley's policy concerning expenses for directors' spouses.

c. Indicate the purpose for each of the following meetings and explain why the directors attended these specific meetings:

- (1) National meeting – Las Vegas, NV.
- (2) Regional meeting – Williamsburg, VA.
- (3) Director meeting – Jackson Hole, WY.
- (4) Director meeting – Nashville, TN.

d. For each of the meetings listed above, compare the amounts recorded as hotel expense, and explain why this expense varied between the various directors in attendance.

e. Concerning the meetings fees paid by Check No. 2149, explain why the fee for Director Jones was double the amount charged for Director Stacey.

f. Explain why Director Howard was paid a per diem for attending the East Kentucky annual meeting.

31. Refer to Exhibit 12 of the Application, the capitalization policies.

a. Explain why the capitalization percentage for payroll taxes is not the same as that for salaries and wages.

b. The capitalization percentages for insurance, pensions, post-retirement benefits, and workers' compensation are all based on labor each month. Explain why the actual percentage used in the test year varies, considering the statement that all four items are allocated on the same basis.

32. Refer to the response to the Commission's June 23, 1998 Order, Item 15. Explain in detail why Licking Valley has not developed and adopted an equity management plan. Include in this explanation a discussion of what position the RUS and CFC have taken concerning cooperatives developing and adopting equity management plans.

33. Refer to the response to the Commission's June 23, 1998 Order, Item 15 and Exhibit 7 of the Application, page 5 of 5, Licking Valley's bylaws, Article VIII.

a. Provide the total capital credits owed by Licking Valley to its members as of test-year-end.

b. Describe Licking Valley's philosophy concerning the payment of capital credits to its membership.

c. For calendar years 1993 through 1997, provide a schedule that shows for each year:

(1) the unexpended revenues and receipts;

(2) the amount of the unexpended revenues and receipts assigned to the general reserve fund for working capital; and

(3) the amount of the unexpended revenues and receipts assigned to a reserve for the payment of interest on the principal of all outstanding notes.

If any of the unexpended revenues and receipts in any calendar remained after these distributions, indicate what Licking Valley did with the remaining unexpended revenues and receipts.

d. As of test-year-end, provide the balance in the reserve fund for working capital and the reserve fund for the payment of interest on the principal of all outstanding notes.

e. Explain how Licking Valley assigns patronage capital to its members.

f. In what year did Licking Valley originally adopt the language contained in Article VIII?

g. Is Licking Valley aware of any other cooperative in Kentucky that has language similar to that found in Article VIII? If yes, identify the cooperative.

34. Refer to Exhibit N of the Application, page 10 of 14 of the independent auditor's report. On this page the report discloses that Licking Valley has an off-balance sheet risk in that it maintains cash deposits in a financial institution in excess of the amounts insured by the Federal Deposit Insurance Corporation. Describe what actions Licking Valley has undertaken to minimize this off-balance sheet risk.

35. Refer to Exhibit G of the Application, page 2 of 2. Provide a more detailed explanation for elimination of the demand charge for Schedule B. Explain how the elimination of the demand charge is supported by the Cost of Service Study.

36. Refer to Exhibit S of the Application, page 2 of 63. Revise this schedule by adding a new column entitled "Normalized test year revenue." This should enable the staff to track revenue from test year actual, to test year normalized, to proposed revenue based on the \$810,221 increase in this application. Extend the new column to include operating expenses as well.

37. Refer to Exhibit S of the Application, page 55 of 63. If other direct costs include health insurance of \$438 per month, why shouldn't hours worked be the annual total of 2080 hours, not the net of 1808 hours?

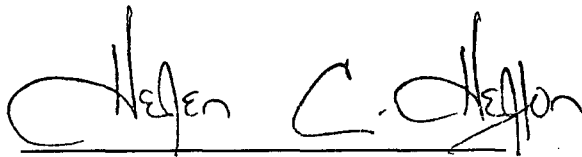
38. Refer to Exhibit S of the Application, page 56 of 63, Paragraph B. What is the source of the following? Explain in detail.

- a. 85 percent.
- b. 21.75 percent.
- c. 0.1224.
- d. 0.0759.

Done at Frankfort, Kentucky, this 2nd day of September, 1998.

PUBLIC SERVICE COMMISSION

ATTEST:


Executive Director


For the Commission