COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

ORDER

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 no later than October 15, 1998.

1. Refer to the response to the Commission's September 2, 1998 Order, Item 3.

a. For Employee No. 2210, explain how the "arbitrary amount" paid as a bonus for the February 1998 snowstorm was determined. Indicate who at Licking Valley proposed that this payment be made.

b. For Employee No. 7715, explain how the "arbitrary amount" was determined and for what compensation this payment was made. Indicate who at Licking Valley proposed that this payment be made.

2. Refer to the response to the Commission's September 2, 1998 Order, Item 4.

a. Licking Valley has stated that during the test year, its employees were paid for 2,088 hours. Provide the number of hours employees were paid for in calendar year 1997. Indicate the number of hours employees will be paid for in calendar year 1998.

b. Indicate whether Licking Valley is aware of any general rate case proceeding before this Commission where 2,082 hours were used for the wage and salary adjustment.

c. In what year was Employee No. 1105 assigned to the new position referenced in this response?

d. Indicate how much higher Employee No. 1105's test-year-end salary is over the salary required for the position this employee currently holds.

3. Refer to the response to the Commission's September 2, 1998 Order, Item 5.

a. Explain why Licking Valley included the overtime hours associated with the February 1998 snowstorm in its normalization of wages and salaries.

b. Explain why the wage and salary normalization should reflect the overtime incurred due to the February 1998 snowstorm.

4. Refer to the response to the Commission's September 2, 1998 Order, Item 6.

a. Concerning the provision and use of a company vehicle, provide copies of Licking Valley's written policies relating to this benefit. If Licking Valley has not developed written policies for this benefit, explain in detail why not.

b. Indicate the year Licking Valley began providing a company vehicle to the General Manager, Manager of Operations, Manager of Engineering, and five service persons.

c. Concerning the provision of life insurance to employees, provide copies of Licking Valley's written policies relating to this benefit. If Licking Valley has not developed written policies for this benefit, explain in detail why not.

d. Indicate the year Licking Valley began providing life insurance coverage to its employees.

e. In the response to Item 6(b) Licking Valley indicated that it increased the life insurance coverage for its employees in 1992 from $25,000 to $80,000. This represents a 220 percent increase.

(1) Other than the reason given in the response, did Licking Valley perform any analyses or survey other cooperatives in order to determine that $80,000 was an appropriate level of life insurance coverage?

(2) Provide copies of any analyses or surveys performed. If no analyses or surveys were undertaken, explain in detail how Licking Valley determined that $80,000 was appropriate.

f. When Licking Valley computes its employer's share of Social Security and Medicare, does it use the actual additional expense of life insurance coverage over $50,000 or the calculated amounts based on Internal Revenue Service tables based on individual employee's age and premiums? Explain the response.

g. In determining Licking Valley's employer share of Social Security and Medicare, explain in detail why Licking Valley would recognize any amount other than the actual additional premium for life insurance coverage over $50,000.

h. Provide the calculations that support the $2,032 of Vehicle Compensation shown in Licking Valley's application.

5. Refer to the response to the Commission's September 2, 1998 Order, Item 9. Based on the analysis the National Rural Utilities Cooperative Finance Corporation ("CFC") prepared for Licking Valley, it appears that the only beneficial time to convert any outstanding loans is during the repricing year, when no conversion fee is charged. The conversion fee appears to be the total of all interest savings for the affected period plus a premium and a monthly interest differential. Would Licking Valley concur with this evaluation? Describe Licking Valley's understanding of CFC's policy on loan interest rate conversions outside of the scheduled repricing year.

6. Refer to the response to the Commission's September 2, 1998 Order, Item 10.

a. Explain why Licking Valley provides life insurance coverage for its attorney. Describe the type of insurance coverage provided.

b. Explain how the 10.37 percent employees with dependents rate was determined. Include any workpapers or other supporting calculations.

7. Refer to the response to the Commission's September 2, 1998 Order, Item 11. Explain why Licking Valley believes it is necessary in this proceeding to increase its annual accrual for post-retirement benefits, considering the fact that the annual accrual has not changed since 1994 while the medical insurance premiums have changed.

8. Refer to the response to the Commission's September 2, 1998 Order, Item 12. Describe the cost-shared advertising program of the East Kentucky Power Cooperative, Inc. ("East Kentucky"). Include a discussion of how this program works and whether it applies to specific types of advertising only.

9. Refer to the response to the Commission's September 2, 1998 Order, Item 13.

a. Describe the methodology used by the Touchstone Energy Executive Council to determine Licking Valley's membership dues.

b. Do any employees, officers, or directors of Licking Valley serve on any committee, council, board, or other organizational unit of Touchstone Energy? If yes, identify the individual and their position with Licking Valley.

c. If any employee, officer, or director served on a committee, council, board, or other organizational unit of Touchstone Energy, explain how Licking Valley allocated any associated costs between it and Touchstone Energy.

10. Refer to the response to the Commission's September 2, 1998 Order, Item 16. Based on this response and the application, Licking Valley's total cost related to the February 1998 snowstorm was $578,907.

a. Reconcile this total cost with the amounts reported on page 3 of 7 of this response.

b. Provide Licking Valley's estimate of the total reimbursement expected from the Federal Emergency Management Agency ("FEMA").

c. Concerning the 1994 storm reimbursement, explain how the reimbursement amounts were allocated to the capitalized and expensed categories.

11. Refer to the response to the Commission's September 2, 1998 Order, Item 17. Explain why Licking Valley writes off bad debts only twice a year rather than monthly. Include a discussion of why Licking Valley believes its approach is the most appropriate.

12. Refer to the response to the Commission's September 2, 1998 Order, Item 18.

a. According to information provided by Licking Valley, its Accounts Receivable balance, Account No. 142.1, as of March 31, 1996 and March 31, 1997 was $2,219,316. Is this correct? If not, provide the correct March 31st balances.

b. Explain how long Licking Valley usually carries an account before it is written off. Discuss the factors considered when writing off an account.

c. Based on the information provided, Licking Valley's accounts receivable that are outstanding by more than 90 days makes up approximately 40 to 45 percent of the total account balance. Has Licking Valley undertaken any analysis to determine whether this level of outstanding accounts receivable is in its best financial interests? Explain the response.

13. Refer to the response to the Commission's September 2, 1998 Order, Item 21.

a. Provide the documentation received from the Rural Utilities Service ("RUS") requiring Licking Valley to adopt functional accounting.

b. Describe the geothermal rebate program. Include an explanation of the roles Licking Valley and East Kentucky play in the program. Also include the amount of the rebate and the number of rebates issued during the test year.

14. Refer to the response to the Commission's September 2, 1998 Order, Item 29. Provide the calculations that support the $26,912 and the $38,952 payments.

15. Refer to the response to the Commission's September 2, 1998 Order, Item 30.

a. Explain why Directors Oldfield and May attended the directors and managers seminars in Jackson Hole, Wyoming instead of Williamsburg, Virginia. Would it have been less costly to Licking Valley for these directors to attend all sessions of these seminars in Williamsburg? Explain the response.

b. Explain why four directors attended the National Rural Electric Cooperatives Association ("NRECA") meeting in Las Vegas, when only one of these directors was Licking Valley's designated representative to the NRECA.

c. Clarify the response to Item 30(f). Director Howard is neither Licking Valley's representative nor its alternate on the East Kentucky board of directors. Explain why this director was paid a per diem for attending the East Kentucky annual meeting.

16. Refer to the response to the Commission's September 2, 1998 Order, Item 32.

a. Describe the positions taken by the RUS and CFC concerning the development and adoption of equity management plans by cooperatives.

b. Licking Valley Policy No. 125, which is identified as an equity management plan, only discusses capital credit practices. Explain why Licking Valley considers its Policy No. 125 to be an equity management plan when it contains no discussion of equity levels, target earnings levels, or Licking Valley's overall approach to managing its equity.

c. Explain whether Policy No. 125 is in conformity or agreement with the provisions of Article VIII of Licking Valley's current bylaws.

17. Refer to the response to the Commission's September 2, 1998 Order, Item 33(b). The response does not address the issue raised in the request. Licking Valley has never paid a capital credit. Licking Valley was requested to describe its philosophy concerning the payment of capital credits to its membership. The request was attempting to focus on what obligation Licking Valley understood that it had to its membership related to the payment of capital credits. In addition, the request was attempting to ascertain what actions Licking Valley was taking to meet its perceived obligations. With this clarification, provide the information originally requested.

18. Refer to the response to the Attorney General's First Data Request dated September 2, 1998, Item 10. Several of the advertisements appear to be of an institutional or political nature. For each advertisement listed below, provide the test year expense for the advertisement, an explanation of the purpose for the

advertisement, and explain why the expense of the advertisement should be included for rate-making purposes.

a. Pages 3, 5, 30, 39, 135, and 139 of 177, "How A Co-op Works For You – Crime Fighter, etc."

b. Pages 6 and 107 of 177, "How A Co-op Works For You – Some of the Things We Do Will Shock You."

c. Page 8 of 177, "Light Up Your Holiday."

d. Page 10 of 177, Honey Picture Sponsor.

e. Page 12 of 177, "Congratulations Graduates!"

f. Page 32 of 177, "We Can't Deliver Electricity If You Don't Give Us the Power."

g. Page 35 of 177, "You're shining stars!"

h. Page 38 of 177, "The Implications of Deregulation."

i. Page 45 of 177, "With A Song In Our Hearts."

j. Page 47 of 177, "Acres of Appreciation."

k. Pages 49, 51, 55, and 168 of 177, untitled advertisements.

l. Page 53 of 177, "Shine Bright."

m. Pages 57 and 59 of 177, "Planning For the Future."

n. Page 113 of 177, "Glory to the Newborn King."

o. Pages 119 and 121 of 177, "We Hear You Loud and Clear."

p. Page 125 of 177, "Founders' Day."

q. Page 128 of 177, "Why Would A Business That Sells Electricity Encourage You To Use It Efficiently?"

r. Pages 138 and 148 of 177, "In A Co-op, What Goes Around Comes Around."

19. Refer to the response to the Commission's September 2, 1998 Order, Item 35.

a. Provide examples from prior Licking Valley rate cases where the Commission has allowed a restructured rate based on customer complaints and contrary to cost-of-service study findings.

b. Provide a listing of the number of customer complaints received concerning the Schedule B demand charge for 1995, 1996, 1997, and 1998 to date, as well as for the test year.

c. When was the Schedule B demand charge first established?

d. Was the Schedule B demand charge based on a cost-of-service study? If so, provide a copy of the study.

e. Licking Valley has stated, "Consumers do not understand the reason for the demand charge and continually complain about the demand charge on their bill." What steps has Licking Valley taken to educate its ratepayers concerning the demand charge? Has Licking Valley asked East Kentucky to assist in ratepayer education?

f. If Licking Valley's request to eliminate the Schedule B demand charge is approved, how does the cooperative plan to deal with its ratepayers served on tariffs other than Schedule B when they find out that rate structures can be changed by complaints?

20. Concerning the cost-of-service model, provide all documentation for the model. Included herein should be:

a. All assumptions.

b. Supporting data.

c. Formulas used.

d. An explanation of column R. Is this a dummy variable? If so, what is the variable?

21. Concerning the cost-of-service study itself:

a. Why are lines 18-21 (Direct Assign Associated Rate Classes) blank?

b. Explain in detail footnote (a) on Schedule A.

c. Explain in detail footnotes (a)-(g) on Schedule B.

d. Explain in detail Methods 1, 2, and 3 (lines 227 – 262) as shown on Schedule C.

e. Explain in detail the "Key" and all footnotes shown on Schedule D.

f. How is the TIER of 2.00X determined, as shown on Schedule E?

g. Explain in detail the Load Research section.

h. Explain in detail the Macro algorithm.

i. What are lines 676 – 690?

j. Explain in detail the Plant Investment Allocation section.

k. Explain in detail the Revenue Requirements section.

l. Explain in detail the TOD – Rate Design section.

m. Explain in detail the derivation of Customer vs. Demand Charges.

n. Explain in detail the No Rate Case – TOD – Present Revenue TOD analysis.

22. Concerning the Attachments to the cost-of-service study:

a. Attachment II – How is the Plus Margin (TIER 2.00X) obtained? In other words, looking at the Total column, the Plus Margin amount is 939,102, which is 7 percent of the Cost to Serve of 13,311,691. How does the 7 percent relate to the TIER 2.00X?

b. How do you go from an Increase of 818,025 to 0 (Total Column) as the Amount of Increase for All Rate Classes with No Increase for LPR?

Done at Frankfort, Kentucky, this 1st day of October, 1998.

PUBLIC SERVICE COMMISSION

B. J. Helton

For the Commission

ATTEST:

Helen C. Helton

Executive Director