

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF FLEMING-)
MASON ENERGY COOPERATIVE) CASE NO. 2001-244
CORPORATION)

SECOND DATA REQUEST OF COMMISSION STAFF
TO FLEMING-MASON ENERGY COOPERATIVE CORPORATION

Fleming-Mason Energy Cooperative Corporation (“Fleming-Mason”), pursuant to 807 KAR 5:001, is to file with the Commission the original and 8 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before January 11, 2001. 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 person who will be responsible for responding to questions relating to the information provided. If several witnesses are responsible for the information, either indicate which witness is responsible for that portion of the response or identify which witness is the primary witness for the response. Careful attention should be given to copied material to ensure that it is legible. Where information herein has been previously provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. Refer to the application, page 2, Item 12(b). Fleming-Mason states that “its financial operations have deteriorated substantially over the past few years.” Explain why Fleming-Mason did not file a rate application before 2001.

2. Refer to the application, page 2, Item 12(c). Fleming-Mason states that it is required to maintain a Times Interest Earned Ratio (“TIER”) ratio of 1.25, based on an average of 2 of the 3 most current years. Provide the section of the joint mortgage agreement that supports this statement.

3. Refer to the application, Exhibit C, page 8 of 30.

a. State whether the aggregate pole costs of \$12,056,734 for 2-party poles and \$7,587,502 for 3-party poles reflect gross or net plant balances.

b. Supply the calculations used to derive the average weighted costs of 2- and 3-party anchors of \$75.73.

4. Refer to the application, Exhibit C, page 9 of 30.

a. Explain whether accumulated depreciation of \$11,201,073 represents depreciation on distribution plant only.

b. If sufficient accounting detail is available, provide the total investment for Federal Energy Regulatory Commission Account No. 364 and accumulated depreciation pertaining to Account No. 364 as of December 31, 2000.

5. Refer to the application, Exhibit D, page 3 of 4, line 19. Provide a detailed explanation why the customer charge is being reduced to 0 for the RSP-ETS-Electrical Thermal Storage rate.

6. Refer to Exhibit E of the application, Fleming-Mason's Official Notice. Under the heading of "Nonrecurring Charges" on page 2 of 3, the charge for Meter Reading is increased by \$10.00, or a 67 percent increase over the current charge.

a. Explain why there is no total dollar increase shown for meter reading on page 1 of 3, Exhibit E.

b. Supply the total dollar increase expected as a result of the increased meter reading charge as it is proposed.

7. Refer to the application, Exhibit H-3, page 2 of 3. Explain why a May 31, 2001 test period was selected.

8. Refer to the application, Exhibit J, page 1 of 10, Fleming-Mason's revenue analysis. Concerning the contracts with Guardian Industries, Dravo and Inland Container:

a. Briefly discuss the nature of the contracts, including any expiration dates for any of the contracts.

b. Explain whether an increase in rates will be proposed for any or all of the wholesale customers that are under contract.

9. Refer to the application, Exhibit K, page 4 of 4. This schedule reflects TIER calculations from 1996 through the test year. Explain why, in 1998, the TIER increased to 1.87 from the 1.27 earned for 1997. The explanation should include any circumstances or events that influenced the increase.

10. Refer to the application, Exhibit L, page 4 of 4. The last reconciling item on the schedule is "Construction projects not financed with long-term debt." Explain what these projects were, and what type of financing was used to pay for the projects.

11. Refer to the application, Exhibit N.

a. Refer to page 5 of 15, Balance Sheets, December 31, 2000 and 1999.

(1) The balance sheet reflects deferred mapping costs of \$71,516. Explain what the mapping costs included, and when they were incurred and booked. The explanation and discussion should also include why Fleming-Mason did not seek Commission approval of the deferral.

(2) Explain why the short-term borrowings account increased by more than 20 percent during the year 2000.

(3) Explain why the accounts payable account increased by more than 20 percent during the year 2000.

b. Refer to page 6 of 15, The Statements of Revenue and Patronage Capital.

(1) Explain why the other interest expense increased from \$310,986 to \$600,193 from the end of 1999 to the end of 2000.

(2) Fleming-Mason incurred a loss of \$213,620 related to its subsidiary. Provide a discussion of the subsidiary and its activities. This discussion should include, but not be limited to, the following: the history of the subsidiary's activities; the amount that Fleming-Mason has invested in and/or loaned to the subsidiary; the source of Fleming-Mason's investment in the subsidiary; an explanation and any supporting documentation relating to whether Fleming-Mason has guaranteed or co-signed any loans or other borrowing instruments for the subsidiary.

c. Refer to page 10 of 15, Note 2, Investments in Associated Organizations. Explain what organizations are included in “Other associated organizations,” and the associated amounts of investments.

d. Refer to page 11 of 15. Provide a full description of the terms and conditions of the first mortgage notes due to the Federal Financing Bank (“FFB”), as well as supporting documentation.

e. Refer to page 12 of 15. Provide a full description of the terms and conditions of the \$7,000,000 line of credit from the National Rural Utilities Cooperative Finance Corporation (“CFC”).

f. Refer to page 13 of 15, Note 8, Post Retirement Benefits.

(1) The note states that the last post-retirement plan evaluation was performed as of January 1, 1995. How often are the evaluations performed, and when is the next scheduled to take place? Additionally, when did the evaluation before the 1995 evaluation take place?

(2) Has Fleming-Mason made an adjustment to exclude directors’ and attorneys’ retirement benefits for rate-making purposes? If no adjustment has been made, explain in detail why Fleming-Mason believes these benefits should be included for rate-making purposes.

g. Refer to page 14 of 15, Note 9, Significant Patron Information. Identify the “significant patron” and provide a description of the arrangement with East Kentucky Power Cooperative, Inc. concerning this patron.

h. Refer to page 14 of 15, Note 11, Related Party Transactions.

Provide a list of each director and employee that is on a board of directors of associated organizations, as well as the name of the organizations of which they are directors.

i. Refer to page 15 of 15, Note 12, Commitments and Contingencies.

(1) Did Fleming-Mason seek Commission approval for the revolving line of credit that it has guaranteed with Fleming-Mason Services Corporation (“Services”)? Explain the response.

(2) Provide the agreement between Fleming-Mason, Services, and the National Cooperative Services Corporation (“NCSC”). If there is no such agreement, provide any documentation or other agreements relating to the revolving line of credit.

(3) Provide the contracts, agreements, and other documentation relating to industrial site development between Fleming-Mason and the four counties it serves.

(4) Provide a narrative explanation of why Fleming-Mason agreed to pay the debt service on the loans for industrial site development, and any plans it has for partnering with any of the other counties in its territory.

12. Refer to the application, Exhibit Q, page 1 of 24. Explain why the monthly report was not signed or dated. If this was not the final version, provide the final version submitted to the Rural Utilities Service (“RUS”).

13. Refer to the application, Exhibit S, page 1 of 4.

a. Explain the adjustment to Electric Plant Under Construction of \$57,990.

- b. Explain the adjustment, "Net Change in Assets," of \$1,789,829.
14. Refer to the application, Exhibit W. Explain the reason(s) for the changes between the test year and previous year balances for the following accounts:
- a. Account No. 364, Poles, Towers, and Fixtures, page 1 of 10.
 - b. Account No. 365, Overhead Conduct and Devices, page 1 of 10.
 - c. Account No. 367, Underground Cond and Devices, page 1 of 10.
 - d. Account No. 392, Transportation Equipment, page 1 of 10.
 - e. Account No. 395, Laboratory, page 2 of 10.
 - f. Account No. 397, Communication Equipment, page 2 of 10.
 - g. Account No. 107.20, CWIP-direct cost, page 2 of 10.
 - h. Account No. 108.74, Res-Tools, page 3 of 10.
 - i. Account No. 108.80, Retire Work in Progress, page 3 of 10.
 - j. Account No. 123.11, Subsidiary Investment, page 4 of 10.
 - k. Account No. 131.50, Cash-General Funds, page 4 of 10.
 - l. Account No. 142.10, Accounts Receivable, page 5 of 10.
 - m. Account No. 143.00, Other Accounts Receivable, page 5 of 10.
 - n. Account No. 144.10, Allowance for Uncollectible Accounts, page 5 of 10.
 - o. Account No. 146.00, AR from Associated Companies, page 5 of 10.
 - p. Account No. 154.00, Material and Supplies, page 5 of 10.
 - q. Account No. 186.20, Miscellaneous, page 6 of 10.
 - r. Account No. 219.10, Current Margins, page 7 of 10.
 - s. Account No. 233.00, Notes Payable, Short Term, page 7 of 10.

- t. Account No. 232.10, Accounts Payable-General, page 7 of 10.
- u. Account No. 232.50, Powerbill, page 8 of 10.
- v. Account No. 236.81, Employee Hospital, page 9 of 10.
- w. Account No. 242.21, Accrued Payroll, page 9 of 10.
- x. Account No. 242.40, Accrued Insurance, page 9 of 10.
- y. Account No. 252.00, Advance for Construction, page 10 of 10.
- z. Account No. 253.00, Meter Installations, page 10 of 10.

15. Refer to the application, Exhibit W, page 10 of 10. Describe the purpose of Account No. 253.10, Energy Prepayments. Include an explanation of what types of items are included in this account.

16. Refer to the application, Exhibit X. Explain the reason(s) for the changes between the test year and previous year balances for the following accounts:

- a. Account No. 440.10, Residential, page 1 of 7.
- b. Account No. 442.20, Large Commercial, page 1 of 7.
- c. Account No. 450.00, Forfeit Discounts, page 1 of 7.
- d. Account No. 456.00, Other electric revenues, page 1 of 7.
- e. Account No. 580.00, Operations-Supervision and Engineering,
page 1 of 7.
- f. Account No. 587.00, Customer Installation Expense, page 2 of 7.
- g. Account No. 588.00, Miscellaneous Distribution Expense, page 2 of
7.
- h. Account No. 590.00, Maintenance Engineering and Supervision,
page 2 of 7.

- i. Account No. 593.00, Maintenance of Overhead Lines, page 2 of 7.
- j. Account No. 593.10, Maintenance-right of way cutting, page 2 of 7.
- k. Account No. 593.30, Maintenance-outages, page 2 of 7.
- l. Account No. 593.40, Maintenance-radio and telephone operators,
page 2 of 7.
- m. Account No. 594.00, Maintenance-Underground Lines, page 2 of 7.
- n. Account No. 598.00, Maintenance-Security Light, page 3 of 7.
- o. Account No. 903.00, Consumer Records and Collection Expense,
page 3 of 7.
- p. Account No. 904.00, Uncollectible Accounts Expense, page 3 of 7.
- q. Account No. 907.00, Supervision, page 3 of 7.
- r. Account No. 908.10, Consumer Assistance-Fringe Benefits, page 3
of 7.
- s. Account No. 920.00, Office Salaries, page 4 of 7.
- t. Account No. 923.00, Outside Services Employed, page 4 of 7.
- u. Account No. 930.70, Director fees and expenses, page 5 of 7.
- v. Account No. 424.10, Patronage Capital-Other, page 7 of 7.

17. Refer to the application, Exhibit X, Account No. 421.00, (Gain)/loss on plant disposed, page 7 of 7. During the 24-month period, there were balances in 8 of these months. For each month during the 24-month period that a balance is shown for this account, explain what items were included in the account. In addition, explain why the majority of these disposals were at a loss.

18. Refer to the application, Exhibit Z, page 2 of 2.

a. Explain why Fleming-Mason has no formal board policies for director compensation.

b. In order to receive \$290 compensation, does a director have to attend the monthly board meeting?

c. If there are no per diems paid for travel days, how are the directors compensated? Explain the response.

d. Fleming-Mason states, "The per diem is equal to the prevailing monthly board fee." What is the prevailing monthly board fee? When is a per diem paid? Explain the response

e. What is the current Internal Revenue Service authorized rate per mile?

f. Explain why Fleming-Mason raised the monthly meeting fee from \$255 to \$290 per month. Provide documentation and calculations supporting the raise.

19. Refer to the application, Exhibit 1, Salaries and Wages.

a. Refer to page 1 of 10. Explain how the wage allocation factors were determined.

b. Refer to pages 2 and 3 of 10.

(1) Provide an explanation of what is included in the columns labeled "Excess sick leave" and "Service & Annual Mtg."

(2) How is excess sick leave calculated?

(3) How many days of sick leave does each employee receive a year?

(4) How many days of vacation does each employee receive a year?

(5) Provide a narrative explanation of Fleming-Mason's policy on overtime. The explanation should include, but not be limited to, how much Fleming-Mason compensates employees for overtime worked and what is considered overtime.

(6) Provide an explanation of the policies of Fleming-Mason that allowed two of Fleming-Mason's salaried employees to earn overtime during the test year.

(7) Explain how Fleming-Mason evaluates the continuation of paying overtime versus the hiring of additional employees.

(8) For each employee, provide the number of years worked at Fleming-Mason. If applicable, also provide the number of years an employee worked at another electric cooperative.

c. Refer to pages 4-6 of 10. Provide a description of and related documentation on Fleming-Mason's policy for promotions, wage adjustments, hiring, and firing.

d. Refer to page 9 of 10. Explain why Fleming-Mason believes that the benefit allocation methodology designed by the computer software vendor is a reasonable basis for allocation. Describe the accounts included in the Benefits Matrix, and the allocation factors used.

e. Refer to page 10 of 10. Explain why the SUTA and FUTA taxes are capitalized at a lower percentage than the other items under taxes and benefits.

f. Refer to page 10 of 10. Explain the test year capitalization rates for transportation costs, stores, and materials and supplies. For transportation costs and stores, include a discussion of how labor is incorporated into the capitalization rate. For stores and materials and supplies, explain in detail the activities that resulted in such high capitalization rates.

20. Refer to the application, Exhibit 2, page 1 of 3. Explain why the state unemployment rate for 2001 is 0.00 percent. Provide documentation to support the explanation, including what this rate has been for the past 5 years.

21. Refer to the application, Exhibit 2, page 1 of 3. Explain why the allocation factors used for the payroll taxes are not the same as the allocation factors used for salaries and wages.

22. Refer to the application, Exhibit 3, page 1 of 6.

- a. Describe the utility plant classified as “Misc Intangible, EKPC.”
- b. Explain why the accumulated depreciation for distribution plant is not kept at the plant account level.
- c. This schedule reflects one item in a column titled, “Fully Depreciated.” Was the fully depreciated amount of \$150,305 excluded from the calculation of normalized depreciation expense? Explain the response.
- d. Describe the account “Miscellaneous-Fieldhouse.”

23. Refer to the application, Exhibit 5, page 1 of 6.

- a. Has Fleming-Mason had the opportunity to convert any of its CFC loans from fixed to variable interest since 1996? If yes, did Fleming-Mason convert? If it didn't, explain why it did not convert to the variable rate.

b. Provide the terms and conditions of the loans listed to the FFB and the RUS.

24. Refer to the application, Exhibit 7, page 1 of 2. Explain how the allocation factors were determined.

25. Refer to the application Exhibit 8, page 1 of 2. Provide a copy of the premium statements effective as of test-year end for both medical and dental insurances.

26. Refer to the application, Exhibit 8, page 2 of 2. Provide the basis for the determination of the allocation factors. Additionally, was the family insurance allocated differently than single insurance? Explain the response.

27. Refer to the application, Exhibit 9, pages 2-6 of 6. Explain the program between Fleming-Mason and the four counties in which Fleming-Mason has agreed to cover the debt service for industrial authorities.

28. Refer to the application, Exhibit 10, Director Fees and Expenses.

a. Identify the designated and alternate representatives for Fleming-Mason to Kentucky Association of Electric Cooperatives ("KAEC"), National Rural Electric Cooperatives Association ("NRECA"), and the United Utility Supply Cooperative, Inc.

b. Refer to pages 7-8 of 9. Explain the nature and purpose of the CFC Forum attended by two of the directors.

c. Refer to pages 2-9 of 9. Each director has health insurance by NRECA, but the amounts differ substantially by director. Explain the reasons why the amounts widely vary.

d. Provide a list of the life insurance benefits paid by Fleming-Mason for each director.

e. Provide a description of the post-retirement benefits provided to Fleming-Mason's directors. Identify each retired director currently receiving these benefits.

f. Does Fleming-Mason reimburse directors for expenses associated with the directors' spouses or families? Explain the response.

29. Refer to the application, Exhibit 11, Miscellaneous Expenses.

a. Refer to page 3 of 6. Describe the nature of the annual meeting gifts and explain why they should be included for rate-making purposes.

b. Refer to page 3 of 6. Describe the nature of the handouts in the expense listed as KAEC, and explain why it should be included for rate-making purposes.

c. Refer to page 5 of 6. Describe the nature of the expense associated with the Lexington Home and Garden show and explain why it should be included for rate-making purposes.

d. Refer to page 5 of 6. Describe the nature and purpose of the annual meeting meals, name who attended, and explain why it should be included for rate-making purposes.

e. Refer to page 5 of 6. The last payment shown on this schedule to the KAEC for the Kentucky Living magazine is substantially greater than any of the other months in the test period. Explain why this expense was greater, and provide documentation supporting it.

30. Refer to the application, Exhibit 12, and the response to the Commission Staff's First Data Request dated September 4, 2001, Item 34. The response did not include the requested schedule of costs incurred to date, and Exhibit 12 did not include any supporting documentation or calculations for the rate case costs.

a. Provide the information previously requested in Item 34(a) of the Commission Staff's First Data Request.

b. Provide documentation, calculations, and an explanation of how the estimated rate case costs were determined.

31. Refer to the application, Exhibit 14.

a. Explain in detail the business activities in which Services is involved.

b. Refer to page 1 of 6. List each member of the board of directors for Services, and the annual compensation for each director.

c. Refer to page 2 of 6.

(1) Does this schedule reflect amounts allocated to Services from Fleming-Mason? Explain the response.

(2) Explain how the hours per month were determined, as well as the rate of pay.

(3) Explain how the allocation factors for overheads were determined, and why they were different from 2000 to 2001.

(4) Explain how the office space allocation was determined.

d. Refer to page 4 of 6. Discuss specifically the kinds of licenses in account 129.20, Licenses. Also, explain the purpose for which the proceeds from the Notes Payable to the NCSC of \$686,814.29 were used.

e. Provide an operating statement and balance sheet for Services reflecting the 12 months ending May 31, 2001.

32. Refer to the application, Exhibit 20.

a. Refer to page 2 of 4.

(1) Explain why the attorney's retainer increased during the test year.

(2) Explain why Fleming-Mason pays for its attorney's health insurance and why this should be included for rate-making purposes

(3) Provide the agreement that Fleming-Mason has with its attorney. This agreement should reveal the duties and obligations of the attorney in return for the monthly retainer paid to him. If it does not, provide an explanation of what Fleming-Mason receives in return for the retainer paid to its attorney every month.

(4) Explain why Fleming-Mason pays for the NRECA legal reporting subscription and for the KAEC annual meeting for its attorney. Explain why these services are not considered part of the services included in the monthly retainer. Additionally, explain why these should be included for rate-making purposes.

(5) Explain why the Christmas gift should be included for rate-making purposes.

(6) Is the loan application filing fee a non-recurring charge?

Explain the response. If yes, explain why this charge should be included for rate-making purposes.

b. Refer to page 3 of 4.

(1) Is the consolidation study a non-recurring charge? Explain

the response and explain why this charge should be included for rate-making purposes.

(2) Discuss the nature and purpose of the retirement trust fees

and the annual administration charges from Merrill Lynch.

(3) Discuss why Fleming-Mason chose Merrill Lynch to

administer its pension plan, given the fact that several other cooperative pension plans are administered by the NRECA.

33. Refer to the application, Exhibit 21. Pages 2 and 3 of 5 reflect Operating Policy No. 27, while pages 4 and 5 of 5 reflect Operating Policy No. 28.

a. When did Fleming-Mason last review Operating Policy Nos. 27 and 28?

b. Explain why there have been no revisions to Operating Policy No. 27 since 1985?

c. Explain why Fleming-Mason believes that Operating Policy Nos. 27 and 28 constitute a reasonable equity management plan.

d. Explain how Operating Policy Nos. 27 and 28 address the appropriate equity levels, targeted earnings levels, and the overall management of Fleming-Mason's equity.

34. Refer to Exhibit 22.

a. What accounts were included in the expense matrix that Fleming-Mason used in the journal entry to record the expense in 1995.

b. Discuss the qualifications of the person(s) who performed the study.

c. Have amounts been reflected in the 2001 study for benefits provided to Fleming-Mason's attorney? If yes, indicate the amounts and where they are included in the 2001 study.

35. The following items relate to Fleming-Mason's Website. Provide the information listed below.

a. Date the Website became available for use by the general public.

b. The development and startup costs of creating the Website.

c. Ongoing costs of maintaining the Website.

d. Any allocation of costs, if applicable.

36. Refer to the application, Service Life and Salvage Study and Recommended Depreciation Accrual Rates As of December 31, 2000 ("Depreciation Study").

a. Discuss the qualifications and/or certifications required to perform a depreciation study.

b. Discuss Mr. Zumstein's qualifications to perform the Depreciation Study.

c. Provide a list of other depreciation studies that Mr. Zumstein has prepared in the past 10 years.


d. Refer to the Depreciation Study, Scope Section, third page, and the “Existing and Proposed Depreciation Accrual Rates and Amount,” Section 3, page 2 of 3. Explain in detail why the proposed depreciation rates on the third page of the Scope Section do not agree with the proposed depreciation rates in Section 3, page 2 of 3.

37. State if there has been any significant change in any of Fleming-Mason’s customer classes, including residential, commercial, or industrial subsequent to May 31, 2001.

38. Refer to Fleming-Mason’s supplemental filing, filed November 13, 2001, Exhibit B, side by side tariff sheets, sheet 1 of 9, Schedule RSP. Fleming-Mason proposes a customer charge increase of 46 percent from \$5.55 per meter to \$7.73 per meter. Fleming-Mason also proposes an increase of 4.6 percent, from \$.05219 to \$.05457 in its energy charge.

a. Explain Fleming-Mason’s reasoning in proposing such a large discrepancy in the percentage increases for the customer charge and energy charge. Include in your discussion all necessary calculations or workpapers needed to adequately support your decision.

b. Discuss whether Fleming-Mason considered assigning a larger portion of the rate increase to the energy charge component in order to lessen the impact on the customer charge increase on small volume customers.



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DATED: December 21, 2001
cc: Parties of Record

