

Expense Reduction Plan:
Supplemental Status Report

Cumberland Valley Electric, Inc.

July 27, 2018

OVERVIEW

On or about June 23, 2016, Cumberland Valley Electric, Inc. (“Cumberland Valley”), filed an application for an adjustment of its retail rates with the Kentucky Public Service Commission (“Commission”) initiating Case No. 2016-00169. Following multiple rounds of discovery and a formal hearing held November 30, 2016, the Commission granted rate relief to Cumberland Valley by Order entered February 6, 2017. The Commission also found, as part of that same Order, that Cumberland Valley “should conduct a formal study of its expenses and, within six months of the date of this Order, file with the Commission a formal plan to reduce Cumberland Valley’s expenses.”¹

Cumberland Valley submitted its Expense Reduction Plan and Report on August 1, 2017. As part of that filing, Cumberland Valley described the intentional and systematic efforts it had undertaken (and continued/continues to undertake) to identify, evaluate, and pursue various opportunities for operational cost savings. Cumberland Valley’s Expense Reduction Plan and Report included a listing of the one-time and recurring expenses that Cumberland Valley anticipated it could avoid or reduce in order to decrease spending on an annual basis.

On or about September 8, 2017, October 13, 2017, November 8, 2017, April 12, 2018, and May 4, 2018, Cumberland Valley submitted additional information and reports concerning its Expense Reduction Plan in response to requests and directives of Commission Staff. As these communications developed, the focus became on four (4) primary areas of Cumberland Valley’s operations which reflected notable variances between estimated cost savings and those actually achieved: Construction Contractors; Transportation; Right-of-Way; and Employee Medical/Dental Benefits.

¹ See Order, at p. 24.

Following a post-case informal conference held June 12, 2018, Cumberland Valley was instructed to provide additional detail with respect to these matters, including a “variance analysis with substantial quantitative information regarding the difference between forecasted and actual cost savings,” “line-by-line detail regarding major components for each cost savings area,” and “a descriptive narrative[] with associated explanation for the difference between forecasted and actual cost savings.” Cumberland Valley has developed and hereby submits this Supplemental Status Report to provide all information desired by the Commission and Commission Staff.

Each area of operations under scrutiny is examined fully and separately herein, as follows:

- I. Construction Contractors Expense
- II. Transportation Expense
- III. Right-of-Way Expense
- IV. Employee Medical/Dental Expense

Cumberland Valley believes it has achieved significant successes as a result of its commitment to reducing expenses; however, the cooperative remains committed to identifying and pursuing additional opportunities for savings and will continue its efforts to provide its Members safe, reliable, and efficient service.

I. Construction Contractors Expense

As part of its Expense Reduction Plan and Report dated August 1, 2017, Cumberland Valley identified costs associated with construction contractors as an area of potential operational savings for the cooperative. Specifically, included in Cumberland Valley's Expense Reduction Plan and Report was the following:

2. Reduce/Eliminate Use of Construction Contractors

a. Plan: Use Cumberland Valley employees for construction and retirement work whenever possible; competitively bid other work when appropriate

b. Estimated Savings: \$882,161 annual cash savings (\$70,752 bottom line savings)

c. Update: Starting June 2, 2017, Cumberland Valley has stopped the use of any construction contractors and is only using CVE employees for construction and retirement work.

Background. As part of its directive to examine all aspects of the cooperative's expenses and develop a robust, systematic plan to cut costs, Cumberland Valley's Cost Reduction Committee considered reducing or eliminating the use of Five-C Construction as a contractor. Cumberland Valley's President and Chief Executive Officer ("CEO") consulted its Superintendent and a plan was developed to utilize existing employee construction crews to perform Work Plan jobs that historically had been completed by third party contractors; with the cooperative's Work Plan nearing completion, Cumberland Valley determined all necessary jobs could be completed by its employees when time and workflow permitted. As stated in the Expense Reduction Plan and Report, Cumberland Valley estimated this course of action would result in annual cash savings of \$882,161 (*i.e.*, all of its 2016 construction contractor expenses), calculated as follows:

Amount Paid to Five-C Construction for Construction & Maint. in 2016	\$882,161.27
Amount Paid to Construction Contractors after Eliminating Five-C Construction ¹	\$ 0.00
Estimated Savings	\$882,161.27

Cumberland Valley’s CEO, on recommendation of the Cost Reduction Committee, decided to proceed with this cost reduction measure in or around April of 2017. Five-C Construction remained engaged to complete a pole change-out project requested by the Kentucky Information Highway Project, but the contractor ultimately ceased working for Cumberland Valley on June 2, 2017.

One Year Status Report. On April 12, 2018, Cumberland Valley submitted to the Commission an update with respect to its Expense Reduction Plan. The construction contractors expense information was provided as follows:

Expense	Cost Saving Measure	Actual Cost (Mar. 2016 – Feb. 2017)	2017 Budget	Actual Savings Achieved (Mar. 2017 – Feb. 2018)	Percentage Reduction
Construction Contractors	Reduce/Eliminate Use of Construction Contractors	\$838,261.02	\$885,000.00	\$635,485.02	75.81%

In order to compare like periods, reveal year-over-year savings, and present the most accurate representation of the impacts of Cumberland Valley’s Expense Reduction Plan, the cooperative selected March 2016 to February 2017 to serve as the base period for cost comparison purposes (as most of Cumberland Valley’s planned reduction efforts were implemented on or after April 1, 2017). The chart below details the actual construction and maintenance expense incurred

¹ Five-C Construction was the only construction contractor used by Cumberland Valley Electric in 2016.

by Cumberland Valley for work performed by Five-C Construction during the base period, as well as the expense incurred by Cumberland Valley during the March 2017 through February 2018 timeframe.

Actual Monthly Cost for Maint. & Construction Work Performed by Five-C Construction			
Month	Construction & Maintenance Cost	Month	Construction & Maintenance Cost
March 2016	\$76,752.00	March 2017	\$62,981.00
April 2016	\$66,143.13	April 2017	\$64,010.00
May 2016	\$68,949.50	May 2017	\$75,785.00
June 2016	\$74,344.63	June 2017	\$0.00
July 2016	\$79,588.63	July 2017	\$0.00
August 2016	\$74,320.00	August 2017	\$0.00
September 2016	\$69,260.00	September 2017	\$0.00
October 2016	\$71,285.00	October 2017	\$0.00
November 2016	\$60,894.00	November 2017	\$0.00
December 2016	\$69,719.63	December 2017	\$0.00
January 2017	\$66,910.00	January 2018	\$0.00
February 2017	\$60,094.50	February 2018	\$0.00
Total	\$838,261.02	Total	\$202,776.00

The above chart reveals that Cumberland Valley paid Five-C Construction \$838,261.02 from March 2016 – February 2017 and \$202,776.00 from March 2017 – February 2018. The variance between the numbers is \$635,485.02, which is the actual dollar savings achieved over the specified timeframe as presented by Cumberland Valley in its One Year Status Report.

Additional Discussion. As is likely evident, the divergence between the savings Cumberland Valley expected to achieve by eliminating the use of construction contractors (\$882,161.27) and the amount actually achieved as reflected in the One Year Status Report (\$635,485.02) is explained by the timing of the implementation of the expense reduction measure.

Essentially, Cumberland Valley's originally-estimated savings assumed that, over the course of a full year without construction contractor expenses, the cooperative would avoid spending approximately \$882,161; conversely, the actual data provided by Cumberland Valley in April of 2018 reflected a year during which construction contractor expenses were incurred during the first quarter (March 2017 through May 2017) before being eliminated entirely. This is attributable to: (i) the fact that Cumberland Valley's Cost Reduction Committee did not complete its recommendation to the CEO until April 5, 2017; (ii) the need for a reasonable transition period for both Cumberland Valley and Five-C Construction; and (iii) the timing of the One Year Status Report (April 2018). When these variables are taken into account by comparing the 12-month period before implementation of the expense reduction measure (June 2016 – May 2017) to the 12-month period after implementation (June 2017 – May 2018),² it is clear that Cumberland Valley successfully eliminated *all* of its construction contractor expenses, as projected.

² Data is provided on the following page.

Actual Monthly Cost for Maint. & Construction Work Performed by Five-C Construction			
Month	Construction & Maintenance Cost	Month	Construction & Maintenance Cost
June 2016	\$74,344.63	June 2017	\$0.00
July 2016	\$79,588.63	July 2017	\$0.00
August 2016	\$74,320.00	August 2017	\$0.00
September 2016	\$69,260.00	September 2017	\$0.00
October 2016	\$71,285.00	October 2017	\$0.00
November 2016	\$60,894.00	November 2017	\$0.00
December 2016	\$69,719.63	December 2017	\$0.00
January 2017	\$66,910.00	January 2018	\$0.00
February 2017	\$60,094.50	February 2018	\$0.00
March 2017	\$62,981.00	March 2018	\$0.00
April 2017	\$64,010.00	April 2018	\$0.00
May 2017	\$75,785.00	May 2018	\$0.00
Total	\$829,192.39	Total	\$0.00

II. Transportation Expense

As part of its Expense Reduction Plan and Report dated August 1, 2017, Cumberland Valley identified costs associated with its vehicle fleet as an area of potential operational savings for the cooperative. Specifically, included in Cumberland Valley's Expense Reduction Plan and Report was the following:

8. Evaluate and Address Cumberland Valley's Fleet

a. Plan: Continually examine whether Cumberland Valley's fleet is appropriately sized and available for service; reduce the number of vehicles in Cumberland Valley's fleet by five, four vehicles will be sold and the remaining vehicle will be used for parts

b. Estimated Savings: \$23,161.03 (annual savings)

Background. As part of its expense reduction efforts, Cumberland Valley identified five (5) vehicles to eliminate from its fleet, four (4) of which it believed could be sold to third parties. By taking this course of action, Cumberland Valley estimated it could save approximately \$23,161 annually; this figure was selected because it is the amount Cumberland Valley actually expended on the vehicles to be sold (maintenance, fuel, insurance, and depreciation) during the 12-month period of June 2016 through May 2017.

Fleet Asset Number	Vehicle Description	Expenses (June 2016 – May 2017)
010	2009 Ford F250	\$6,686.10
019	2002 C Series Truck	\$2,088.84
025	2006 Chevy Pickup	\$1,358.51
081	2004 Ford F-550	\$13,027.58
Total		\$23,161.03

In July of 2017, Cumberland Valley sold the four (4) vehicles using a sealed bid process.

Fleet Asset Number	Vehicle Description	Sale Price
010	2009 Ford F250	\$2,199.00
019	2002 C Series Truck	\$4,550.00
025	2006 Chevy Pickup	\$3,756.00
081	2004 Ford F-550	\$2,650.00
Total		\$13,155.00

One Year Status Report. On April 12, 2018, Cumberland Valley submitted to the Commission an update with respect to its Expense Reduction Plan. The transportation expense information was provided as follows:

Expense	Cost Saving Measure	Actual Cost (Mar. 2016 – Feb. 2017)	2017 Budget	Actual Savings Achieved (Mar. 2017 – Feb. 2018)	Percentage Reduction
Transportation	Evaluate and Address Cumberland Valley’s Fleet	\$892,721.65	\$900,000.00	\$167,593.56	18.77%

Clearly, the transportation expense information provided by Cumberland Valley as part of its One Year Status Report includes much more than the specific-vehicle-related information originally considered and submitted as part of the Expense Reduction Plan and Report. Indeed, Cumberland Valley’s efforts to reduce its transportation expense have gone far beyond selling four (4) vehicles (as explained below), and the measures it has implemented have resulted in demonstrable savings. The first chart below lists Cumberland Valley’s total fleet expense by month for March 2016 to February 2017 compared to March 2017 to February 2018. The second chart below details the categories of expenses over those same periods.

Month	Total Fleet Expenses	Month	Total Fleet Expenses	Difference
March 2016	\$72,022.82	March 2017	\$72,981.90	\$959.08
April 2016	\$85,166.26	April 2017	\$48,443.85	(\$36,722.41)
May 2016	\$88,382.40	May 2017	\$51,356.60	(\$37,025.80)
June 2016	\$71,445.97	June 2017	\$47,246.14	(\$24,199.83)
July 2016	\$79,120.28	July 2017	\$80,768.13	\$1,647.85
August 2016	\$82,291.72	August 2017	\$61,172.09	(\$21,119.63)
September 2016	\$60,779.68	September 2017	\$67,778.72	\$6,999.04
October 2016	\$74,396.28	October 2017	\$62,517.26	(\$11,879.02)
November 2016	\$68,599.76	November 2017	\$62,002.41	(\$6,597.35)
December 2016	\$72,913.01	December 2017	\$60,493.91	(\$12,419.10)
January 2017	\$71,118.90	January 2018	\$59,742.48	(\$11,376.42)
February 2017	\$66,484.57	February 2018	\$50,624.60	(\$15,859.97)
Total	\$892,721.65	Total	\$725,128.09	(\$167,593.56)

Fleet Expenses by Category			
Category	Mar. 2016 – Feb. 2017	Mar. 2017 – Feb. 2018	Difference
Office Supply Spread ¹	\$13,491.75	\$11,580.97	(\$1,910.78)
Insurance	\$36,603.00	\$35,551.00	(\$1,052.00)
On-Site Fuel Expense ²	\$124,544.68	\$111,041.18	(\$13,503.50)
Depreciation	\$222,744.03	\$221,309.99	(\$1,434.04)
Invoices for Parts, Repairs, Fuel, etc.	\$294,237.85	\$231,502.71	(\$62,735.14)
Cumberland Valley Labor	\$17,538.34	\$931.24	(\$16,607.10)
Contractor Mechanic Expense	\$178,351.00	\$113,211.00	(\$65,140.00)
GPS Spread ³	\$5,211.00	\$0.00	(\$5,211.00)
Total	\$892,721.65	\$725,128.09	(\$167,593.56)

In brief, the savings Cumberland Valley estimated as part of its Expense Reduction Plan and Report (\$23,161.03) included only the costs projected to be avoided by selling four (4) vehicles; conversely, the actual savings achieved by Cumberland Valley in this area, as reported by Cumberland Valley in its One Year Status Report (\$167,593.56), included various expense categories and numerous expense reduction measures.

Additional Discussion. Cumberland Valley has achieved significant savings with respect to its transportation expenses since 2016, as evidenced above. The majority of these savings are attributable to three (3) fleet expense categories: Invoices for Parts, Repairs, Fuel, etc. (“Invoices”); Cumberland Valley Labor; and Contractor Mechanic Expense.

When comparing Mar. 2016 – Feb. 2017 to Mar. 2017 – Feb. 2018, Cumberland Valley achieved savings with respect to Invoices of \$62,735.14. Expenses for parts and repairs on Cumberland Valley’s older bucket trucks, digger trucks and heavy equipment were greater in March 2016 – February 2017 than they were in the subsequent year; because Cumberland Valley

¹ A portion of the balance of Account 184.20 (Office Expense – Clearing), which is spread to various accounts at the end of each month.

² Fuel purchased and stored at Cumberland Valley facilities.

³ Cumberland Valley formerly utilized a third party to provide Automatic Vehicle Location (“AVL”) services for many of Cumberland Valley’s vehicles. This service was discontinued at the end of August 2016.

takes a conservative approach to vehicle upgrades and tries to extend the life of its existing fleet whenever possible, it does experience some fluctuation from year to year on expenses for parts and repairs. Additionally, in February 2017 Cumberland Valley engaged a third party to clean and service its on-site fuel tanks; this expenditure of \$7,848.00 was a one-time cost and was incurred during the March 2016 – February 2017 timeframe. Finally, the last major item to explain the variance in year-over-year expenses related to Invoices is the annual dielectric and structural exams performed on Cumberland Valley bucket and digger trucks; this expense decreased by \$8,449.00 in the March 2017 – February 2018 time period.

Expenses related to Cumberland Valley Labor and the Contractor Mechanic also decreased notably over the time period analyzed, primarily due to Cumberland Valley's decision to change contractors for mechanic work on its fleet in 2017. This change, coupled with fewer necessary repairs, resulted in much lower costs to Cumberland Valley (as reflected in the chart above), while at the same time significantly reducing (essentially eliminating entirely) the need for Cumberland Valley employees to perform repair or maintenance work on vehicles since May 2017.

III. Right-of-Way Expense

As part of its Expense Reduction Plan and Report dated August 1, 2017, Cumberland Valley identified costs associated with its right-of-way program as an area of potential operational savings for the cooperative. Specifically, included in Cumberland Valley's Expense Reduction Plan and Report was the following:

7. Reduce Right-of-Way Budget

a. Plan: Reduce 2017 budget for Right-of-Way expense to \$750,000

b. Estimated Savings: \$469,212.87 (one-time savings)

c. Update: Cumberland Valley is currently on track to come in below the revised budget while minimizing any safety or reliability risk

Background. In conjunction with other expense reduction efforts, Cumberland Valley's CEO limited available spending on the cooperative's right-of-way maintenance program to \$750,000 in 2017 (down from the amount spent in 2016 of \$1,219,212.87, a reduction of \$469,212.87). In order to achieve these savings, Cumberland Valley halted its use of Shelton Construction Co. Inc., a third party that previously provided bush-hogging services, and directed its other right-of-way contractor, Phillips Tree Experts, Inc. ("Phillips"), to reduce the average number of crews assigned to Cumberland Valley from 8-9 to 5-6. As a result of these efforts, which culminated in April 2017, Cumberland Valley realized significant savings as detailed in the chart on the following page.

<u>Month</u>	<u>2016</u>	<u>2017</u>	<u>Difference</u>
January	\$74,775.78	\$79,782.72	\$5,006.94
February	\$79,851.89	\$97,938.37	\$18,086.48
March	\$123,080.85	\$109,147.97	(\$13,932.88)
April	\$106,784.56	\$47,700.61	(\$59,083.95)
May	\$98,209.49	\$55,748.24	(\$42,461.25)
June	\$105,323.25	\$42,918.88	(\$62,404.37)
July	\$91,543.43	\$44,156.56	(\$47,386.87)
August	\$116,127.73	\$59,136.61	(\$56,991.12)
September	\$127,451.36	\$47,744.56	(\$79,706.80)
October	\$89,892.73	\$52,591.67	(\$37,301.06)
November	\$110,218.10	\$57,868.85	(\$52,349.25)
December	\$95,953.70	\$43,015.25	(\$52,938.45)
Total	\$1,219,212.87	\$737,750.29	(\$481,462.58)

One Year Status Report. On April 12, 2018, Cumberland Valley submitted to the Commission an update with respect to its Expense Reduction Plan. The right-of-way expense information was provided as follows:

Expense	Cost Saving Measure	Actual Cost (Mar. 2016 – Feb. 2017)	2017 Budget	Actual Savings Achieved (Mar. 2017 – Feb. 2018)	Percentage Reduction
Right-of-Way	Reduce Right-of-Way Budget	\$1,242,306.29 ¹	\$750,000.00	\$567,919.09	45.71% ²

¹ Actual Cost (Mar. 2016 – Feb. 2017) was reported as \$1,126,489.65 on the One Year Status Report for Expense Reduction Plan. That amount was reported in error and has been corrected here to accurately reflect \$1,242,306.29.

² Percentage Reduction was originally reported as 50.41%, but this percentage was based on the incorrect Actual Cost amount of \$1,126,489.65. The corrected percentage reduction is 45.71% based on the corrected Actual Cost (\$1,242,306.29).

Due to the timing of the One Year Status Report, Cumberland Valley selected the 12-month period ending February 2018 and the 12-month period ending February 2017 for expense comparison purposes with respect to right-of-way expense. Actual Savings Achieved, as reflected in the One Year Status Report, was arrived at as follows:

Right-of-Way Expenses Mar. 2016 – Feb. 2017	\$1,242,306.29
Right-of-Way Expenses Mar. 2017 – Feb. 2018	<u>\$ 674,387.20</u>
Actual Savings Achieved	\$ 567,919.09

Additional Discussion. As part of its Expense Reduction Plan and Report, Cumberland Valley estimated it could achieve a one-time savings totaling approximately \$469,212 by reducing its right-of-way expenditures in 2017 as compared to 2016. As evidenced above, Cumberland Valley exceed its goal and actually spent \$481,462.58 less in 2017 than in 2016.

In its One Year Status Report, Cumberland Valley described its year-over-year savings during the immediately preceding two 12-month periods, covering March 2016 through February 2018. At Page 5 of this section, Cumberland Valley provides extensive detail concerning the actual hours worked by right-of-way contractors during each relevant 12-month period (a version of Page 5 in Excel format is also tendered herewith). The savings achieved by Cumberland Valley, totaling \$567,919.09, reflect the cooperative’s decision to continue its practice of utilizing third-party right-of-way crews only sparingly at this time; additionally, these savings reflect certain realities associated with right-of-way maintenance practices in Cumberland Valley’s service territory, as explained below.

Cumberland Valley contracts its right-of-way maintenance to Phillips, which works for many other electric utilities across the state. At the beginning of each year, Cumberland Valley’s Assistant Superintendent informs Phillips how many crews it will need for the upcoming year.

Under normal working conditions, the number of crews should equate to a cost near the budgeted amount for right-of-way; however, other factors (including weather and workforce availability) can significantly impact the actual hours worked by each crew in any given year.

In particular, workforce availability is a significant and ongoing challenge facing Phillips. The job of cutting right-of-way requires working in harsh and sometimes dangerous conditions, and finding and retaining individuals that are willing to perform the job is difficult. As a result, crews are often understaffed due to employee absenteeism and high turnover, thereby reducing Cumberland Valley's expenses.

Cumberland Valley has been able to significantly reduce its right-of-way spending, at least temporarily, in order to realize immediate operational expense savings. While its right-of-way spending will vary year-over-year, it will continue to evaluate and refine its right-of-way practices to limit expenses without presenting a safety or reliability risk.

March 2017 - February 2018 Summary of Contractor Hours Worked on Right-of-Way												
Hours												Total Monthly Right-of-Way Expenses
Month	Average # Crews for the Month	Foreman	Trimmer	Groundman	Chain Saw	Aerial Lift Truck	Chipper	Pickup	Spray Truck	Split Dump Truck	Bushhog Truck/Trailer	
Feb-18	5	795.00	690.00	995.00	2,480.00	200.00	200.00	595.00	0.00	0.00	0.00	\$64,207.30
Jan-18	5	632.00	529.00	748.00	1,909.00	183.00	183.00	449.00	0.00	0.00	0.00	\$50,150.70
Dec-17	5	586.00	315.00	793.00	1,694.00	175.00	175.00	411.00	0.00	0.00	0.00	\$43,015.25
Nov-17	5	740.00	460.00	1,082.50	2,282.50	270.00	260.00	470.00	0.00	0.00	0.00	\$57,868.85
Oct-17	5	680.00	355.00	1,010.00	2,015.00	285.00	285.00	395.00	0.00	0.00	0.00	\$52,591.67
Sep-17	5	628.00	250.00	1,046.00	1,924.00	164.00	164.00	464.00	0.00	0.00	0.00	\$47,744.56
Aug-17	5	797.00	330.00	1,127.00	2,254.00	326.00	326.00	471.00	0.00	0.00	0.00	\$59,136.61
Jul-17	5	580.00	360.00	763.00	1,703.00	270.00	270.00	310.00	0.00	0.00	0.00	\$44,156.56
Jun-17	4	560.00	492.00	460.00	1,512.00	260.00	240.00	290.00	0.00	10.00	0.00	\$42,918.88
May-17	6	740.00	700.00	505.00	1,945.00	365.00	375.00	365.00	0.00	10.00	0.00	\$55,748.24
Apr-17	4	596.00	687.00	459.00	1,742.00	259.00	259.00	337.00	0.00	0.00	0.00	\$47,700.61
Mar-17	9	1,477.50	1,148.50	1,499.50	3,985.50	525.50	530.50	596.00	0.00	10.00	0.00	\$109,147.97
Total	5.1875	8,811.50	6,316.50	10,488.00	25,446.00	3,282.50	3,267.50	5,153.00	0.00	30.00	0.00	\$674,387.20

March 2016 - February 2017 Summary of Contractor Hours Worked on Right-of-Way												
Hours												Total Monthly Right-of-Way Expenses
Month	Average # Crews for the Month	Foreman	Trimmer	Groundman	Chain Saw	Aerial Lift Truck	Chipper	Pickup	Spray Truck	Split Dump Truck	Bushhog Truck/Trailer	
Feb-17	9	1,280.00	950.00	1,469.00	3,539.00	430.00	430.00	540.00	0.00	0.00	0.00	\$97,938.37
Jan-17	9	1,123.00	1,048.00	739.00	2,800.00	335.00	318.00	533.00	0.00	0.00	0.00	\$79,782.72
Dec-16	10	1,248.00	1,252.00	979.00	3,326.00	360.00	390.00	609.00	0.00	30.00	0.00	\$95,953.70
Nov-16	8	1,484.00	1,149.00	1,380.00	3,563.00	454.00	464.00	691.00	0.00	10.00	140.00	\$110,218.10
Oct-16	9	1,160.00	917.00	1,070.00	2,637.00	340.00	350.00	500.00	0.00	10.00	170.00	\$89,892.73
Sep-16	10	1,580.00	1,200.00	1,846.00	4,076.00	390.00	400.00	850.00	70.00	10.00	160.00	\$127,451.36
Aug-16	10	1,382.00	1,188.00	1,232.00	3,040.00	400.00	410.00	540.00	162.00	0.00	190.00	\$116,127.73
Jul-16	9	1,144.00	1,014.00	1,119.00	2,597.00	290.00	350.00	397.00	160.00	60.00	150.00	\$91,543.43
Jun-16	8	1,360.00	1,080.00	1,395.00	3,135.00	380.00	400.00	470.00	230.00	30.00	140.00	\$105,323.25
May-16	8	1,076.00	980.00	1,065.00	2,611.00	278.00	318.00	468.00	0.00	40.00	170.00	\$98,209.49
Apr-16	9	1,190.00	918.00	1,430.00	3,058.00	310.00	310.00	560.00	0.00	0.00	160.00	\$106,784.56
Mar-16	7	1,414.00	1,135.00	2,069.00	4,448.00	390.00	410.00	642.00	0.00	20.00	0.00	\$123,080.85
Total	8.821666667	15,441.00	12,831.00	15,793.00	38,830.00	4,357.00	4,550.00	6,800.00	622.00	210.00	1,280.00	\$1,242,306.29

Comparison of Annual Total												
Period	Foreman	Trimmer	Groundman	Chain Saw	Aerial Lift Truck	Chipper	Pickup	Spray Truck	Split Dump Truck	Bushhog Truck/Trailer	Total Monthly Right-of-Way Expenses	
Mar. 2017 - Feb. 2018	8,811.50	6,316.50	10,488.00	25,446.00	3,282.50	3,267.50	5,153.00	0.00	30.00	0.00	\$674,387.20	
Mar. 2016 - Feb. 2017	15,441.00	12,831.00	15,793.00	38,830.00	4,357.00	4,550.00	6,800.00	622.00	210.00	1,280.00	\$1,242,306.29	
Difference	-6,629.50	-6,514.50	-5,305.00	-13,384.00	-1,074.50	-1,282.50	-1,647.00	-622.00	-180.00	-1,280.00	-\$567,919.09	

IV. Employee Medical and Dental Expense

As part of its Expense Reduction Plan and Report dated August 1, 2017, Cumberland Valley identified costs associated with its employee benefits as an area of potential operational savings for the cooperative. Specifically, included in Cumberland Valley’s Expense Reduction Plan and Report was the following:

1. *Require Employee Contributions to Medical/Dental Insurance Premiums*

a. *Plan: Adjust the employee contribution schedule to ensure salaried employees pay a portion of both their medical and dental insurance premiums; Board resolution passed and submitted to Commission with respect to this matter*

b. *Estimated Savings:*

Timeframe	Projected Annual Savings (Medical)
4/1/17 – 3/31/18	\$7,232.70
4/1/18 - 3/31/19	\$10,849.05
4/1/19 – 3/31/20	\$14,465.41
4/1/20 - indefinitely	\$17,901.75

Timeframe	Projected Annual Savings (Dental)
4/1/17 – indefinitely	\$931.01

Background. In light of direction provided by the Commission and as part of the cooperative’s overall expense reduction efforts, Cumberland Valley’s Board of Directors reduced employer-sponsored medical and dental benefits for the cooperative’s ten (10) salaried employees by Resolution adopted February 23, 2017. Pursuant to this Resolution, salaried employee contributions for medical and additional contributions for dental began on April 1, 2017.

One Year Status Report. On April 12, 2018, Cumberland Valley submitted to the Commission an update with respect to its Expense Reduction Plan. The employee medical and dental expense information was provided as follows:

Expense	Cost Saving Measure	Actual Cost (Mar. 2016 - Feb. 2017)	2017 Budget	Actual Savings Achieved (Mar. 2017 - Feb. 2018)	Percentage Reduction
Medical and Dental	Employee Contribution to Medical/Dental Insurance Premiums	\$907,969.48	\$936,000.00	\$52,898.56	5.83%

Additional Discussion. Due to the timing of the One Year Status Report, Cumberland Valley selected the 12-month period ending February 2018 and the 12-month period ending February 2017 for expense comparison purposes with respect to employee medical and dental expense. However, in order to conduct a detailed and accurate comparison between the two periods, certain adjustments are required. These adjustments, which are detailed on Page 5 and Page 6 of this section, include changes to coverage types for some plan participants (which can include marriage, childbirth, retirement, death, etc.), fees and other items. The adjusted actual cost incurred by Cumberland Valley during the March 2016 through February 2017 timeframe for employee medical and dental expenses was \$903,807.65, reflecting a net adjustment of (\$4,161.83).

Actual cost incurred by Cumberland Valley for March 2017 – February 2018 was \$855,070.92, as shown on Page 7 this section. Likewise, this total requires adjustment to reflect a surplus allocation from the cooperative’s Kentucky Rural Electric Cooperative Employers Benefit Plan (“KREC”) which reduced the amount paid by Cumberland Valley for medical premiums for April 2017 by \$6,623.00. The employees did not receive any benefit from the reduced premium. The revised cost to Cumberland Valley for March 2017 – February 2018 is \$861,693.92 (see Page 8 of this section).

The difference between the adjusted actual cost incurred by Cumberland Valley during the March 2016 – February 2017 timeframe (\$903,807.65) and the revised actual cost incurred by Cumberland Valley during the twelve months that followed (\$861,693.92) totals \$42,113.73 (see Page 9 of this section). The difference of \$42,113.73 is a result of medical and dental coverage changes (such as a child aging out of the plan or the death of a participant), employee contributions and actuary fees paid for the plan. Supporting data and additional detail further explaining the year-over-year cost-savings achieved by Cumberland Valley is provided on Page 10 of this section.

Of course, Cumberland Valley's original Expense Reduction Plan and Report focused on savings the cooperative anticipated it would realize as a result of increasing salaried employee contributions to medical and dental insurance premiums. As reflected on Page 11 of this section (which contains a reconciliation of projected savings from employee medical contributions to actual savings from employee medical contributions), actual medical contributions from salaried employees during the timeframe examined totaled \$6,417.84. Additionally, actual medical contributions from union employees totaled \$18,600.00 (union employee contributions had not been determined at the time the Expense Reduction Plan and Report was filed with Commission due to ongoing union negotiations, and therefore was not included in the report); these contributions began in September 2017.

As reflected on Page 12 of this section (which contains a reconciliation of projected savings from employee dental contributions to actual savings from additional employee dental contributions), actual additional dental contributions from salaried employees during the timeframe examined totaled \$891.28. All of Cumberland Valley's salaried and union employees (except for employees with single dental coverage) were already contributing for dental insurance. The projected annual savings (dental) included in the Expense Reduction Plan and Report only

included additional contributions that began April 2017 from salaried employees. All salaried employees currently contribute 40% for dental insurance. One employee, participant O, changed from family coverage to single coverage and thus the contribution increased more than the projected amount since no contribution would have been required prior to this change. Again, additional detail is provided at Page 12 of this section.

In summary, Cumberland Valley estimated as part of its Expense Reduction Plan and Report that increased salaried employee contributions to medical and dental insurance would save the cooperative a combined total of \$8,163.71 annually. In Cumberland Valley's One Year Status Report, it reported overall cost savings in this area during the period analyzed of \$52,898.56. The additional savings, which are primarily related to contributions towards premiums paid by union employees and changes to participant coverage types, are explained herein and evidenced by the data provided herewith (an Excel file containing electronic versions of Pages 5 through 12 of this section is also tendered). Overall, Cumberland Valley has realized the approximate savings it anticipated from salaried employee contributions to medical and dental premiums, but has also achieved significant additional savings through other expense reduction measures and revised coverages/costs.

Medical and Dental Expense Adjustments for March 2016 to February 2017

Actual Cost Mar. 2016 - Feb. 2017

\$907,969.48

Changes to medical coverage during Mar. 2016 - Feb. 2017:

	Date of Change	Participant	Type of Coverage	Monthly Cost	YTD Cost
KREC ¹ Medical Plan	4/1/2016	A	Employee/Spouse to Family	\$ 385.43	\$ 385.43
	5/1/2016	B	Employee/Child to Family	\$ 536.37	\$ 1,072.74
	5/1/2016	C	Employee/Spouse to Med Ret/Med Spouse	\$ (466.26)	\$ (932.52)
	6/1/2016	D	Family to Employee/Spouse	\$ (385.43)	\$ (1,156.29)
	9/1/2016	E	Family to Employee/Spouse	\$ (385.43)	\$ (2,312.58)
	10/1/2016	F	Med Retiree/Med Spouse to Medical Spouse	\$ (292.93)	\$ (2,050.51)
	10/1/2016	G	Non-med ret/Med Sp to Med Ret/Med Sp	\$ (110.71)	\$ (774.97)
	2/1/2017	H	Med Spouse to Removed from Plan	\$ (222.44)	\$ (2,446.84)
ARC Administrators ²	10/1/2016	G	Medical to Medicare	\$ (26.40)	\$ (184.80)
	2/1/2017	H	Medicare to Removed from Plan	\$ (67.84)	\$ (746.26)

Result of medical insurance changes above thru 2/28/17

\$ (9,146.60)

	Date of Change	Participant	Type of Coverage	Monthly Cost	YTD Cost
Delta Dental Plan	2/12/2016	F	Family to Removed from Plan (Refund received in April for February)	\$ 112.30	\$ 112.30
	9/1/2016	I	Family to Removed from Plan	\$ (112.30)	\$ (673.80)

¹ Kentucky Rural Electric Cooperative Employers Benefit Plan (KREC)

² Third party administrator for KREC plan

Medical and Dental Expense Adjustments for March 2016 to February 2017 (Continued)

Result of dental insurance changes above thru 2/28/17	\$ (561.50)
ARC - Plan amendment fee paid 8/2016	\$ (53.34)
Additional medical funding 1/2017 and 2/2017 (Revised KREC funding statement was not received until 3/2017 . Additional funding will be included in net plan surplus or deficit at year end.)	\$ (535.95)
Change in medical plan administrators - HealthSmart (predecessor of ARC) required invoice to be paid one month early - changed to ARC effective 7/1/16 and invoices were paid at beginning of current month - resulting in only 11 months of administrator invoices being paid during Mar. 2016 - Feb. 2017, therefore expenses understated by one month	<u>\$ 6,135.56</u>
Adjusted actual cost Mar. 2016 - Feb. 2017 resulting from insurance coverage changes	<u><u>\$903,807.65</u></u>

Note: There were no net increases in the medical and dental premiums during the periods covered in this report.

Actual Costs for Medical and Dental

Actual Cost Mar. 2016 - Feb. 2017 Medical and Dental	\$ 907,969.48
Actual Cost Mar. 2017 - Feb. 2018 Medical and Dental	<u>\$ 855,070.92</u>
Decrease in medical and dental cost Mar. 2016 - Feb. 2017 compared to Mar. 2017 - Feb. 2018	<u><u>\$ 52,898.56</u></u>
Actual Savings Achieved Mar. 2017 -Feb. 2018 per One Year Status Report for Expense Reduction Plan (See page 5 of 13)	<u><u>\$ 52,898.56</u></u>

Medical and Dental Expense Revision for March 2017 to February 2018

Actual Cost Mar. 2017 - Feb. 2018	\$ 855,070.92
Surplus utilized Apr. 2017 (reduction in amount paid for medical premium)	<u>\$ 6,623.00</u> ¹
Revised actual cost Mar. 2017 - Feb. 2018 for surplus not previously accounted for in spreadsheet	<u><u>\$ 861,693.92</u></u>

¹The \$6,623.00 is the surplus allocation resulting from the 2016 calendar year. This is used to reduce the premiums that are paid in the following year. This reduction in premiums did not benefit the employees and did not reduce employees' contributions for medical insurance.

Difference in Medical and Dental Cost Between March 2016 - February 2017 and March 2017 - February 2018

Adjusted actual cost Mar. 2016 - Feb. 2017 resulting from insurance coverage changes	\$ 903,807.65
Revised actual cost Mar. 2017 - Feb. 2018 for surplus not previously accounted for in spreadsheet	<u>\$ 861,693.92</u>
Decrease in medical and dental cost between Mar. 2016 - Feb. 2017 and Mar. 2017 - Feb. 2018	<u><u>\$ 42,113.73</u></u>

Reconciliation of Difference in Medical and Dental Cost Between March 2016 - February 2017 and March 2017 - February 2018

	Date of Change	Participant	Type of Coverage	Monthly Reduction	YTD Reduction
KREC Medical Plan	4/1/2017	J	Family to Employee/Spouse	\$ (385.43)	\$ (4,239.73)
	4/1/2017	K	Family to Employee/Spouse	\$ (385.43)	\$ (4,239.73)
	6/1/2017	L	Family to Employee/Spouse	\$ (385.43)	\$ (3,468.87)
	9/1/2017	M	Med Ret/Med Spouse to Med Ret	\$ (292.93)	\$ (1,757.58)
	1/1/2018	N	Employee/Spouse to Removed from Plan	\$ (963.30)	\$ (1,926.60)
ARC Administrators	1/1/2018	N	Medical to Removed from Plan	\$ (114.55)	\$ (229.10)
	3/1/2017	H	Medicare to Removed from Plan (Refund received for Feb.)	\$ 71.09	\$ 71.09
Result of medical insurance changes above thru 2/28/18					\$ (15,790.52)

	Date of Change	Participant	Type of Coverage	Monthly Reduction	YTD Reduction
Delta Dental Plan	10/1/2017	O	Family to Employee	\$ (75.84)	\$ (379.20)
	12/1/2017	P	Family to Removed from Plan	\$ (112.30)	\$ (336.90)
Result of dental insurance changes above thru 2/28/18					\$ (716.10)

Contributions	Medical	Additional Dental	Total
Salaried employees 4/1/17-2/28/18	\$ (6,417.84)	\$ (891.28)	\$ (7,309.12)
Union employees 9/1/17-2/28/18	\$ (18,600.00)	\$ -	\$ (18,600.00)
Total contributions			\$ (25,909.12)
ARC - Actuary fees 5/2017			\$ 300.00
Rounding difference			\$ 2.01
Decrease in medical and dental cost from Mar. 2016 - Feb. 2017 and Mar. 2017 - Feb. 2018			<u>\$ (42,113.73)</u>

Reconciliation of Projected Medical Contributions {Projected Annual Savings (Medical)} to Actual Medical Contributions	
Projected Annual Savings (Medical) 4/1/17 - 3/31/18- Salaried Employee Contributions	\$7,232.70
Deduct projected savings for Mar. 2018 - One Year Status Report for Expense Reduction Plan was for Mar. 2017 - Feb. 2018	<u>\$ (602.73)</u>
Projected Annual Savings (Medical) 4/1/17 - 2/28/18	\$ 6,629.98
Change in contribution due to insurance coverage change for participant K (Coverage change resulted in \$385.43 premium reduction for 11 months @ 5% contribution rate)	<u>\$ (211.99)</u>
Revised Projected Annual Savings (Medical) 4/1/17 - 2/28/18	\$ 6,417.99
Actual Medical Contributions from Salaried Employees	<u>\$ (6,417.84)</u>
Rounding difference	<u><u>\$ 0.15</u></u>
Projected Annual Savings (Medical) 4/1/17 - 3/31/18- Union Employee Contributions	\$ -
Actual Medical Contributions from Union Employees beginning 9/1/17	<u>\$ (18,600.00)</u>
Increase in Projected Annual Savings (Medical) 9/1/17 - 2/28/18 - Union Employee Contributions	<u><u>\$ (18,600.00)</u></u>
Total Medical Contributions from Salaried Employees	\$ (6,417.84)
Total Medical Contributions from Union Employees	<u>\$ (18,600.00)</u>
Total Medical Contributions from Employees 4/1/17 - 2/28/18	<u><u>\$ (25,017.84)</u></u>

Reconciliation of Projected Dental Contributions {Projected Annual Savings (Dental)} to Actual Dental Contributions

Projected Annual Savings (Dental) 4/1/17 - 3/31/18- Additional Salaried Employee Contributions	\$931.01
Deduct projected savings for Mar. 2018 - One Year Status Report for Expense Reduction Plan was for Mar. 2017 - Feb. 2018	<u>\$ (77.58)</u>
Projected Annual Savings (Dental) 4/1/17 - 2/28/18	\$ 853.43
Change in contribution due to insurance coverage change for participant O	<u>\$ 37.90</u> ¹
Revised Projected Annual Savings (Dental) 4/1/17 - 2/28/18	\$ 891.33
Actual Additional Dental Contributions from Salaried Employees	<u>\$ (891.28)</u>
Rounding difference	<u><u>\$ 0.05</u></u>

¹ Participant O changed from family to employee coverage effective 10/1/17. Contribution amount increased by \$37.90. Employee contributions for family coverage increased by \$7 per month and employee only plans increased by \$14.58 per month resulting from the Expense Reduction Plan. Participant O's contribution for dental increased by \$7.58 per month (\$14.58 - \$7.00) for 5 months for an additional amount of \$37.90.