

September 8, 2017

Via Electronic Filing and U.S. Mail

Mr. John S. Lyons
Acting Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

Re: PSC Case No. 2016-00169 - *In the Matter of: Application of Cumberland Valley Electric, Inc. for a General Adjustment of Rates Expense Reduction Plan and Report – Follow-up*

Mr. Lyons:

Cumberland Valley Electric, Inc. (“Cumberland Valley”), acknowledges receipt of your letter dated August 24, 2017, containing “clarifying questions and requirements for Cumberland Valley” related to the Expense Reduction Plan and Report it filed herein on August 1, 2017, in compliance with Commission directive. The portions of your letter requiring a response are reproduced in bold below, with each item immediately followed by Cumberland Valley’s response.

- 1. Explain Cumberland Valley’s decision to implement employee contributions to their health insurance premiums at percentages lower than the percentage noted in our Order in Case No. 2016-00169. Explain the decision to implement employee health insurance contributions over four years rather than immediately.**

In its final Order in Case No. 2016-00169, the Commission adjusted (for ratemaking purposes) Cumberland Valley’s test-year health and dental insurance expense for salaried employees based on national average employee contribution rates. The Commission found that Cumberland Valley “should limit its contributions to its employees’ health care and dental plans to percentages more in line with those of other businesses in order to reduce its expenses,” and further stated that it “expects Cumberland Valley to increase its efforts to reign in expenses for employee benefits by re-establishing a policy of limiting Cumberland Valley’s contribution to health insurance premiums and requiring that employees pay some portion of the premium.” Shortly following entry of this Order, the Board of Directors of Cumberland Valley Electric took action to responsibly address its salaried employees’ contributions to health and dental premiums and, by Board Resolution dated February 23, 2017, stated the following: “Whereas, The Board of Directors of Cumberland Valley believes that any such change [to employee contributions] shall be gradually implemented in order

to prevent a sudden and unduly burdensome impact on the personal financial condition of Cumberland Valley's salaried/management employees, while at the same time realizing increased savings for the cooperative over time." Indeed, if implemented immediately, each salaried employee with a family health plan would have had their compensation effectively reduced by \$5,619 per year. The Board of Directors and management of Cumberland Valley felt that such a compensation shock should be avoided in favor of a more gradual approach to implementation of this important change.

2. Explain how Cumberland Valley arrived at the \$882,000 savings for eliminating the use of construction contractors.

The cash outlay Cumberland Valley incurred for the use of construction contractors in 2016 was approximately \$882,000. Cumberland Valley used this amount as estimated savings. Cumberland Valley halted the use of all its construction contractors as part of its expense reduction plan. Please see footnote 3 on page 10 of the Cost Reduction Plan and Report for details of the expense-to-capitalization breakdown.

3. Explain Cumberland Valley's plan to use employees to perform the \$882,000 contract work normally done by construction contractors, and if this work can be accomplished satisfactorily without hiring additional employees. What effects does Cumberland Valley expect to its daily operations by requiring employees to perform construction and retirement work?

Cumberland Valley's plan is to use existing employee construction crews to perform the work that has historically been completed by construction contractors. In the past, contractors have been used to help complete Cumberland Valley's work plan. Cumberland Valley intends to allocate employee labor to perform this work as other maintenance and construction work permit. At this time, Cumberland Valley does not foresee the need of adding additional employees to its construction crews. There is no growth in Cumberland Valley's service area and revenues are still in decline. Cumberland Valley's construction employees are very capable and have many years of experience in performing construction and retirement work. Cumberland Valley feels confident that it can complete the necessary work to maintain its system with its current workforce.

4. Confirm that Cumberland Valley's plan does not include capitalizing employee labor utilized on construction and retirement jobs.

Cumberland Valley complies with the Rural Utilities Service ("RUS") Uniform System of Accounts with respect to the allocation and charging of employee labor. There would be no expense or capitalization differences between company labor and contract labor. The expense reduction plan does not specifically address the capitalization of

employee labor as Cumberland Valley will continue to follow RUS recommended practices.

5. **Explain how Cumberland Valley determined the \$469,000 savings from reducing right of way maintenance. When does Cumberland Valley expect that the right of way maintenance postponed this year would have been performed, and at what cost?**

Cumberland Valley spent \$1,219,212.87 on right-of-way maintenance in 2016. Cumberland Valley's CEO directed staff that the right-of-way budget for 2017 would be decreased to \$750,000 as a temporary expense-reduction measure. The Superintendent made the appropriate adjustments to the right of way crews in order to reduce the right-of-way expense below the \$750,000 budgeted amount, thus resulting in Cumberland Valley's estimated one-time savings of \$469,000. Cumberland Valley will revert back to the original number of right-of-way crews at the beginning of 2018, and the areas of Cumberland Valley's system that were scheduled to be maintained in 2017 will be first priority in 2018. Cumberland Valley expects that right-of-way expense in 2018 will be more in line with spending in 2016.

6. **Provide a breakdown of material and labor for the \$40,000 savings identified by delaying recloser repairs until 2018. Will costs increase in 2018 to perform the repairs deferred from 2017?**

Cumberland Valley utilizes a third party to perform the repair work on reclosers. Cumberland Valley estimates that, of the \$40,000 in savings, approximately \$21,600 will be for materials and \$18,400 will be for labor. Cumberland Valley spent approximately \$58,000 to have reclosers repaired in 2016, and spent approximately \$18,000 in 2017 before the expense reduction plan was fully implemented. This accounts for the estimated \$40,000 in savings identified in the expense reduction plan. It is expected that costs for recloser repairs will increase in 2018.

7. **Provide status reports on the actual savings achieved at six-month and one year intervals following the implementation of the cost savings plan. For each cost savings identified include the prior year's actual expense, current year budget, actual savings achieved to date, and percent reduction.**

Cumberland Valley will provide the information at the six-month and one year intervals as requested.

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Please note that the filename associated with the version of this document filed electronically is "CVE_Read1st_Post-Case_090717". One (1) original and six (6) copies of this document in paper-medium have also been sent to the Commission via U.S. mail.

In accordance with 807 KAR 5:001, Section 8, this is to certify that the electronically filed document is a true and accurate copy of the same document being filed in paper medium; that the electronic filing has been transmitted to the Commission on September 8, 2017; that there are currently no parties in this proceeding that the Commission has excused from participation by electronic means; that the original of the document transmitted electronically will be filed with the Commission in paper medium within two (2) business days from the date of the electronic filing; and that attached to the top of the paper medium submission is a copy in paper medium of the electronic notification from the Commission confirming receipt of electronic submission.

Please do not hesitate to contact me if you have any questions or concerns.

Respectfully submitted,



Mark David Goss

CC:

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