

November 8, 2017

Via Electronic Filing and U.S. Mail

Ms. Gwen R. Pinson
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
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 – Additional Follow-up*

Ms. Pinson:

Cumberland Valley Electric, Inc. (“Cumberland Valley”), acknowledges receipt of your letter dated October 25, 2017, containing another round of questions related to the cooperative’s Expense Reduction Plan and Report filed with the Commission following the conclusion of the above-referenced matter. The portions of your letter requiring a response are reproduced in bold below, with each item immediately followed by Cumberland Valley’s response.

- 1. With medical and dental expenses being the largest expense item shown on the Six Month Status Report for Expense Reduction Plan, and the smallest percentage of savings, why hasn't Cumberland Valley implemented a higher rate of employee contributions to their healthcare premiums, such as the Commission suggested rate of 32 percent rather than the contribution rates it implemented?**

Please see Cumberland Valley’s response to Item 1 of Commission Staff’s first set of post-case questions concerning the cooperative’s Expense Reduction Plan and Report (said response having been submitted by letter dated September 8, 2017).

Additionally, enclosed with this letter is a chart prepared by Cumberland Valley comparing the estimated cost savings to be achieved as a result of the cooperative’s chosen employee-contribution framework to the estimated cost savings that may have been recognized if Cumberland Valley had chosen to adopt “the Commission suggested rate of 32 percent.” While there can be no doubt that Cumberland Valley could have realized somewhat greater enterprise-wide savings had it made the business decision to more significantly diminish its employees’ compensation, Cumberland Valley’s leadership believes that the reasonable and gradual approach they have chosen for their cooperative appropriately balances the need for Cumberland Valley to reduce its

expenses with its need to recruit and retain a qualified workforce, as well as avoid a disproportionately negative impact on the individual employee and employee's family.

2. Explain the methodology and rationale used for calculating the percentage savings shown on the Six-Month Status Report for Expense Reduction Plan.

Cumberland Valley formatted its Six-Month Status Report, which included the referenced percentage savings, in an attempt to comply with Item 7 of Commission Staff's first set of post-case questions concerning the cooperative's Expense Reduction Plan and Report ("For each cost savings identified include the prior year's actual expense, current year budget, actual savings achieved to date, and percent reduction.").

The methodology used by Cumberland Valley to calculate the percentage savings was:

$$\text{Percentage Savings} = \frac{\text{2017 Actual Savings Achieved (Jan. - Aug.)}}{\text{2016 Actual Cost (Jan. - Aug.)}}$$

3. Explain why 2017 actual Administrative and General Expense on the Expenses from Form 7 Income Statement (January - August), line 11 increased \$21,921.50 year-to-year and \$33,529.41 over 2017 budget while O&M and customer related expenses on the Expenses from Form 7 Income Statement (January - August), lines 6, 7, 8 and 9) decreased?

The Administrative and General Expense included on the Statement of Operations of Form 7 for January thru August 2017 is a combination of general ledger accounts that report to this line. The majority of the referenced increase was a result of a large increase in legal fees. While some other expenses included in this line decreased, legal expenses from January thru August 2017 increased more than \$60,000, or approximately 409%, over the same time period in 2016. This increase is a result of continuing legal expenses incurred in connection with this case (Case No. 2016-00169) and incurred in connection with extended (1+ year) and contentious union contract negotiations.

Administrative and General Expense exceeded the budget by \$33,529.42 for the period of January thru August 2017, again primarily attributable to the large increase in legal fees as discussed above. The budgeted expenses for Administrative and General were reduced for 2017 because Cumberland Valley anticipated its rate adjustment case would be concluded in early 2017 and did not anticipate such protracted union contract negotiations. If the increase in legal fees of more than \$60,000 during January thru August 2017 were eliminated, the Administrative and General Expenses would be approximately \$27,000 under budget. Of course, there will be additional legal fees for the aforementioned legal work after August 2017.

- 4. Refer to Cumberland Valley's response filed September 8, 2017. Provide the calculation detail and explanation of how the compensation reduction of \$5,619 for each salaried employee with a family health plan was determined. Similarly, provide the same calculation and explanation for employees with other coverages (single, couple, employee and child) offered by Cumberland Valley.**

The calculation Cumberland Valley utilized to determine compensation reduction for each salaried employee with a family health plan was:

$$\text{Employee Compensation Reduction} = \text{Annual Medical Plan Cost (Employee \& Family)} \times \text{Thirty-Two Percent (32\%)}$$

The chart below reflects the same calculation for each of the coverages offered by Cumberland Valley.

Coverage	Annual Medical Cost	Percentage Paid by Employee	Compensation Reduction
Employee	\$5,120.16	32%	\$1,638.45
Employee & Spouse	\$12,934.20	32%	\$4,138.94
Employee & Child(ren)	\$11,122.92	32%	\$3,559.33
Employee & Family	\$17,559.36	32%	\$5,619.00

- 5. Refer to Cumberland Valley's response filed September 8, 2017. Explain how Cumberland Valley will be able to make available the equivalent of \$882,000 of employee labor to perform the contract work normally done by construction contractors. Explain whether there will be an increase in overtime in order to complete this work.**

The work referred to in Cumberland Valley's response to Item 3 of Commission Staff's first set of post-case questions concerning the cooperative's Expense Reduction Plan and Report is in part represented by the 300 series projects identified in Cumberland Valley's current work plan previously filed with the Commission. These are summarized under Exhibit B line 300 and are identified separately as Exhibit E section C of said work plan. The construction contractor worked on these projects in 2016 and the first half of 2017 until its services were terminated. The construction contractor also occasionally worked on other work plan project types such as 100 – New Services and 606 – Pole Replacement. At the time Cumberland Valley decided to handle the work itself, the 300 series projects were mostly complete for the current work plan which runs through 2019. Therefore, with the 300 series projects now complete,

Cumberland Valley believes that it can manage its routine work with company construction employees, although Cumberland Valley recognizes that it may be necessary to utilize the service of third parties in the future (particularly with respect to right-of-way maintenance) on an as-needed basis to ensure safety and reliability.

With respect to overtime, it is possible that payroll expenses may increase during times of heavy demand for construction labor or when the cooperative is faced with projects with tight timelines to completion. However, Cumberland Valley believes somewhat-higher overtime expense will generally be more economical than utilizing a third-party contractor. Additionally, when demand for construction labor is sufficiently high, a construction contractor can be employed only for such time as they are needed to accomplish the work assigned.

6. **Refer to Cumberland Valley's response filed September 8, 2017. Since Cumberland Valley intends to allocate employee labor to perform work plan tasks as other maintenance and construction work permits, identify projects in the work plan that may be delayed or eliminated or have already been delayed or eliminated.**

For clarification, it should be understood that employee construction labor is and has always been used to perform "work plan tasks" and that "other... construction work" generally refers to work plan tasks, be they 100 – New Services, 606 – Pole Replacement, 603 – Sectionalizing Equipment, 608 – Conductor Replacement, etc. As stated above, the defined 300 series projects of the work plan are complete; therefore, none were delayed and none were eliminated. In light of this fact, the need for a construction contractor for completion of these projects is concluded for Cumberland Valley's current work plan.

7. **Refer to Cumberland Valley's response filed September 8, 2017. Describe the impacts that delaying recloser repairs and right of way maintenance will have on Cumberland Valley's system reliability.**

Reclosers are devices comprised of electrical, hydraulic and mechanical parts, components and systems that typically require regular maintenance and repairs. Cumberland Valley has traditionally maintained these on a five (5) year rotation for inspection and maintenance regardless of the number of operations accumulated by each device. This process insures mechanical reliability of these devices. While delaying maintenance on these devices may lead to failure that can cause or exacerbate a power outage situation, it is generally believed that maintenance activities may be based on the number of operations each device has been subjected to rather than the passage of time alone. Therefore, it is not expected that delay in maintenance of these devices will necessarily lead to reduced system reliability.

Delaying right of way maintenance, which is primarily vegetation management, will likely have an eventual undesired effect on system reliability. However, Cumberland Valley intends to address this temporary reduction in right of way maintenance in 2018.

Please note that the filename associated with the version of this document filed electronically is "CVE_Read1st_Post-Case_110817". 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 November 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

Enclosure

CC (with enclosure):

Hon. Rebecca W. Goodman
Hon. Kent Chandler
Assistant Attorneys General
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CUMBERLAND VALLEY ELECTRIC, INC.
 Info for PSC Post Case Questions from October 25,
 2017

# Salaried Employees	Coverage	Annual Medical Cost	5%	7.50%	10%	12.50%	32%
1	Employee	\$ 5,120.16	\$ 256.01	\$ 384.01	\$ 512.02	\$ 640.02	\$ 1,638.45
5	Employee & Spouse	\$ 12,934.20	\$ 3,233.55	\$ 4,850.33	\$ 6,467.10	\$ 8,083.88	\$ 20,694.72
0	Employee & Child(ren)	\$ 11,122.92	\$ -	\$ -	\$ -	\$ -	\$ -
4	Employee & Family	\$ 17,559.36	\$ 3,511.87	\$ 5,267.81	\$ 7,023.74	\$ 8,779.68	\$ 22,475.98
Total			\$ 7,001.43	\$ 10,502.15	\$ 14,002.86	\$ 17,503.58	\$ 44,809.15
Difference compared to 32%			\$ (37,807.72)	\$ (34,307.00)	\$ (30,806.29)	\$ (27,305.57)	