

Cumberland Valley Electric, Inc.

Case No. 2016-00169

Expense Reduction Plan and Report – *Additional Information*

In follow-up to the Supplemental Status Report filed July 27, 2018, by Cumberland Valley Electric, Inc. (“Cumberland Valley”), Commission Staff requested additional information regarding cost savings associated with Cumberland Valley’s elimination of the use of third party construction contractors as part of its Expense Reduction Plan. Specifically, Executive Director Pinson’s September 26, 2018 letter stated as follows:

In your filing, the cost savings for this category are calculated as amounts previously paid to third party contractors that are no longer being incurred because the work is being done in-house. Please refile the cost savings from the elimination of the use of third party construction contractors by comparing the amount previously paid to third party contractors to the actual cost to utilize Cumberland Valley Electric, Inc.’s employees for the same tasks. The difference between the two amounts will reflect the actual cost savings from eliminating third party contractors.

As the Commission and its Staff are aware, the Expense Reduction Plan instituted by Cumberland Valley following its 2016 rate adjustment case included a decision by the cooperative to perform most or all required construction work “in-house” and without the use of third-party contractors. In June of 2017, Cumberland Valley ceased contracting for construction work; during the year that followed, Cumberland Valley personnel successfully managed and performed the required work of the cooperative.

With respect to the relevant one-year period (June 2017 – May 2018), Cumberland Valley has identified three notable (3) projects that the former construction contractor would have likely been retained to perform had it remained engaged by Cumberland Valley subsequent to June 1, 2017. Two (2) of the projects were for the Kentucky Department of Transportation and the other

was the completion of a Work Plan project that had been started by the construction contractors. The savings obtained by Cumberland Valley performing the work as compared to the construction contractors is \$6,324.84 for these three (3) projects.

COST SAVINGS FROM ELIMINATION OF THIRD PARTY CONSTRUCTION CONTRACTORS			
Cost of completion for Construction Contractors		Cost of completion for Cumberland Valley	
Project A	\$ 65,396.25	Project A	\$ 60,643.80
Project B	\$ 3,502.50	Project B	\$ 3,020.62
Project C	\$ 9,060.25	Project C	\$ 7,969.74
Total	\$ 77,959.00	Total	\$ 71,634.16
COST SAVINGS			\$ 6,324.84

As stated by Cumberland Valley in response to an earlier inquiry with respect to this matter (*see* post-case correspondence dated November 8, 2017), the cooperative's decision to discontinue the use of its third-party construction contractor in June of 2017 was made possible by the fact that most of the major Series 300 projects identified under Cumberland Valley's current Work Plan (which runs through 2019) had been substantially completed. That said, Cumberland Valley remains committed to looking first to internal personnel and resources to complete construction work and utilizing third-party contractors only as-needed, consistent with its mission to provide safe, reliable and affordable service to its owner-members.