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PUBLIC SERVICE
COMMISSION

OWEN Electric

A Touchstone Energy Cooperative 

**Rate Case No.
2008-00154**

**THIRD DATA REQUEST OF COMMISSION
STAFF TO
OWEN ELECTRIC COOPERATIVE INC**

**8205 Hwy 127 N
PO Box 400
Owenton, KY 40359
502-484-3471**

CRAWFORD & BAXTER, P.S.C.

ATTORNEYS AT LAW

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November 14, 2008

Ms. Stephanie Stumbo, Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

RE: **PSC Case No. 2008-00154**
Owen Electric Cooperative, Inc.

Dear Ms. Stumbo:

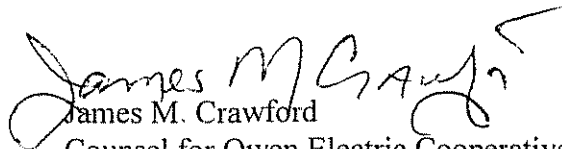
Please find in Case No. 2008-00154 the original and seven (7) copies of Applicant's Response to "Third Data Request of Commission Staff to Owen Electric Cooperative, Inc." This relates to the application for adjustment rates by Owen Electric Cooperative, Inc.

Contact me at (502) 732-6689 or Rebecca Witt at (502) 484-3471 if there are any questions.

Thanks for your assistance in this matter.

Respectfully yours,

CRAWFORD & BAXTER, P.S.C.


James M. Crawford
Counsel for Owen Electric Cooperative, Inc.

JMC/mns

Enclosures

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

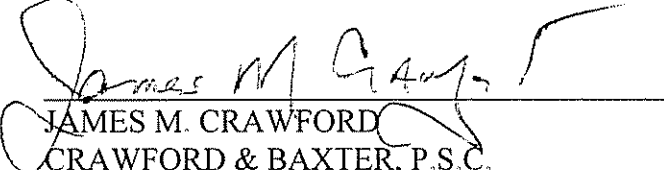
In the Matter of:

APPLICATION OF OWEN ELECTRIC)
COOPERATIVE, INC., FOR ADJUSTMENT) Case No. 2008-00154
OF RATES)

APPLICANT'S RESPONSES TO
THIRD DATA REQUEST OF COMMISSION STAFF

The applicant, Owen Electric Cooperative, Inc., makes the following responses to the "Third Data Request of Commission Staff", as follows:

1. The witnesses who are prepared to answer questions concerning each request are Robert Hood, Rebecca Witt, Alan Zumstein, and Jim Adkins.
2. Rebecca Witt, Senior Vice President of Corporate Services of Owen Electric Cooperative, Inc., is the person supervising the preparation of the responses on behalf of the applicant.
3. The responses and Exhibits are attached hereto and incorporated herein by reference.



JAMES M. CRAWFORD
CRAWFORD & BAXTER, P.S.C.
P.O. Box 353
Carrollton, Kentucky 41008
Attorney for Owen Electric Cooperative, Inc.
Telephone: (502) 732-6689

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF OWEN ELECTRIC)
COOPERATIVE, INC. FOR ADJUSTMENT OF) CASE NO.
RATES) 2008-00154

THIRD DATA REQUEST OF COMMISSION STAFF
TO OWEN ELECTRIC COOPERATIVE INC.

Owen Electric Cooperative, Inc. ("Owen"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 7 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before November 14, 2008. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Owen shall make timely amendment to any prior responses if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which

Owen fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to Owen's response to the Attorney General's ("AG") Initial Information Request, Items 2 and 3.

a. In Case No. 1999-00176¹, the Commission found that the interest expense associated with customer deposits should be excluded from pro forma operating expenses. In doing so, the Commission determined that customer deposits represent a liability to be repaid to the customer with interest,² and that the deposits are not readily available to the utility as cost-free capital.³ Given this finding, explain why the interest expense on Owen's customer deposits should be included in the Owen's revenue requirement determination.

b. Also in Case No. 1999-00176, the Commission found that "Customer deposit balance and interest must both be included in determining the

¹ Case No. 1999-00176, An Adjustment of the Rates of Delta Natural Gas Company, Inc. (Ky. PSC December 27, 1999).

² See KRS 278.460(1).

³ Application, Case No. 1999-00176, at 9.

revenue requirement or both excluded.”⁴ Given this Commission finding, if interest expense is to be included in determining revenue requirements, explain why customer deposits should not be deducted from Owen’s rate base.

c. Cite any prior Commission decision in which a utility has been allowed to recover the interest expense on customer deposits and the customer deposit balance was not deducted from rate base.

d. Has Owen included the interest income earned on the customer deposits in its revenue requirement determination?

(1) If the response to Item 1(d) is yes, identify the amount of interest income included in pro forma operations and the account where it is recorded.

(2) If the response to Item 1(d) is no, explain why it has been excluded.

e. Given that Owen’s revenue requirement is based upon a Times Interest Earned Ratio calculation, describe how reducing the rate base by the customer deposits would impact Owen’s revenue requirement determination.

2. Refer to Exhibit 5, page 1 of 2, of Owen’s response to the AG’s Initial Information Request, Item 5. Provide a detailed analysis of Account No. 456, Other Electric Revenue, for 2006 and 2007.

3. Refer to Owen’s response to the AG’s Initial Information Request, Item 28.

a. Provide an itemized schedule showing each cost of the “NRECA Annual Meeting” that is included in Owen’s pro forma operating expenses. The itemized list should also identify the account where each item is recorded.

⁴ Id.

b. Cite any Commission proceeding where the costs of the NRECA Annual Meeting have been included in the revenue requirement determination.

c. Owen states that the NRECA Annual Meeting is a combination of training and educational seminars during the day. Provide an itinerary for the NRECA Annual Meeting that includes detailed descriptions of the daily seminars.

d. Explain if the NRECA Annual Meetings have historically included training and educational seminars. In the response state the benefit that Owen's ratepayers derive from attendance at these meetings.

4. Refer to Owen's response to the AG's Initial Information Request, Item 34.

a. In this response Owen states that its short-term debt balance as of December 2007 was approximately \$5.7 million. Using the short-term debt balance as of December 31, 2007, calculate the interest expense for the month of December 2007 and show the annualization of this amount. Show the effect the annualization of the December 31, 2007 short-term interest expense would have on Owen's revenue requirement determination. Include all workpapers, assumptions, and calculations used by Owen in its response.

b. Given that Owen used \$10 million of the proceeds of the November 2007 RUS loan to reduce short-term debt and that the interest expense for the 2007 RUS loan is included in Owen's revenue requirement determination, explain why it would not be appropriate to adjust short-term interest expense to reflect the end-of-period debt balance of \$5.7 million.

c. Provide Owen's monthly short-term debt balance and short-term interest expense for the period of January 1, 2008 through October 31, 2008.

5. Refer to Exhibit J of the application at page 10 of 14.

a. For "Existing pole, 120V available", explain how billing determinants of 104,066 multiplied by the proposed rate of \$7.71 equal proposed revenue of \$802,765 as shown on this schedule.

b. For "One pole added", explain how billing determinants of 19,788 multiplied by the proposed rate of \$9.39 equal proposed revenue of \$185,888 as shown on this schedule.

6. Refer to Owen's response to the Commission Staff's Second Information Request, Item 8. In this response Owen states that, as a result of the 2005 Collective Bargaining Unit negotiation process, there was an increase in the annual pension expense and a reduction in annual labor expense. Provide a comparison for the calendar years 2005, 2006, and 2007 of the increased pension expense and the reduction in labor expense that resulted from the Bargaining Unit negotiation process.

7. Refer to Owen's response to the Commission Staff's Second Information Request, Item 12, page 2 of 2. For the Small Commercial proposed rate design, it appears that Owen used a customer charge set at \$13.48 and backed into the "Revenue Required from Energy." Although this schedule shows a proposed energy rate of .07534, dividing the "Revenue Required from Energy" of \$3,524,991 shown on this schedule by the energy kWh of 46,804,027 from page 1 results in an energy rate of \$.07531. Since Owen is not proposing a change to the energy rate, wouldn't the appropriate calculation be to multiply the energy kWh by the current energy rate of \$.07534 which produces revenue from energy of \$3,526,215, a remaining revenue

amount to be collected through the customer charge of \$380,274, and a customer charge of \$13.44?

8. Refer to Owen's response to the Commission Staff's Second Information Request, Item 13.

a. This response states that "[b]ased on inputs from management and its consultant, it developed an estimate of approximately 30 hours each month deals with service to Gallatin" Provide a description of the work performed each month related to Gallatin Steel.

b. Explain the rationale for reducing the distribution consumer services costs for the Farm and Home class by a portion of the PSC assessment related to Gallatin Steel.

c. Explain why Owen did not propose to reduce the distribution costs of other rate classes by a portion of the PSC assessment related to Gallatin Steel.

d. Provide the amount of the PSC assessment recorded in the test year, the account in which it was recorded, and the amount allocated to each rate class

e. Did the cost-of-service study allocate the PSC assessment to the various rate classes based upon the gross operating revenues provided by each class? If yes, since the PSC assessment was allocated to Gallatin Steel based upon its proportionate share of gross operating revenues, explain why it is appropriate to allocate an additional portion of the PSC assessment to Gallatin Steel. If no, explain why it was not allocated based on gross operating revenues and provide the method of allocation.

f. Explain why Owen reduced the revenue from Gallatin Steel by one-half of the purchased power costs in the calculation at the bottom of page 1 of 1.

9. Refer to Owen's response to the Commission Staff's Second Information Request, Item 15. Provide an explanation of, and the calculations for, the combination of the distribution plant percentages and the wages and salaries percentages.

10. Refer to Owen's response to the Commission Staff's Second Information Request, Item 23. In paragraph 3, it is stated that the customer assistance factor of 100 assigned to Gallatin Steel "does not provide a cost that comes any where [sic] near the amount of time spent on Gallatin or the cost." Is this statement the reason that Owen reduced Farm and Home distribution consumer services costs by \$69,362 as discussed in Owen's response to Item 13 of the Second Data Request of Commission Staff? If no, explain the basis for the statement and how the existence of the inaccuracy in the cost of service study provides for reasonable results.

11. Refer to Owen's response to the Commission Staff's Second Information Request, Item 27.

a. For each key performance indicator listed in the response, provide the threshold, target, and stretch goal. Include a detailed explanation as to how each is established by the President/CEO and a description of the employee evaluation process.

b. Provide the payout values that are set for the employees and management staff. Include a detailed explanation as to how each payout value is established by the President/CEO and explain how the payouts are awarded to each employee.

c. Provide documentation to show that Owen's Board of Directors approved the performance bonus criteria that were established by the President/CEO.

12. Refer to Owen's response to the Commission Staff's Second Information Request, Item 28(e).

a. Provide a list of the vendors and the distribution electric cooperatives that Owen contacted regarding the proposed AMI depreciation rate of 6.67 percent.

b. For each vendor that was contacted, provide the depreciation life the vendor recommended.

c. For each cooperative contacted provide the depreciation life that they use.

d. Provide copies of all written correspondence between Owen and each vendor or cooperative contacted.

e. Given that Owen's current depreciation rate for meters is 3.53 percent,⁵ explain why a rate of 6.67 percent is appropriate for AMI meters.

13. Refer to Owen's response to the Commission Staff's Second Information Request, Item 31. In calculating its proposed retirement and security expense, Owen used normalized wages of \$7,172,880 and a composite rate of 18.08 percent. Recalculate the proposed retirement and security expense using the pro forma base wages for non-union and union employees and the actual rates of 18.64 percent for

⁵ Exhibit 3 of the Application at III-4, Schedule 1. Summary of Service Life and Net Salvage estimates and Calculated Remaining Life Annual Accruals Related to Original Cost at December 31, 1995.

non-union employees and 17.23 percent for union employees. Include copies of all workpapers, assumptions, and calculations used by Owen in its response.

14. Refer to Owen's response to the Commission Staff's Second Information Request, Item 32(a).

a. Provide a schedule listing the employee recruiting fees paid by Owen to Execquest for the calendar years 2005 and 2006 and the 2008 fees paid to date.

b. In the response to Item 14(a), identify the management positions that were filled in each year as a result of the services of Execquest and the length of time the positions remained unfilled.

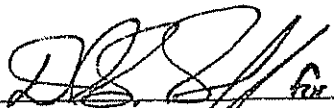
15. Refer to Owen's response to the Commission Staff's Second Information Request, Item 33(a).

a. Provide a detailed description of the East Kentucky Power Cooperative's Partner's Plus program.

b. Explain why East Kentucky Power Cooperative decided to eliminate the Partner's Plus program.

c. Provide an itemized list of Owen's expenses that were recovered through the Partner's Plus Program reimbursement. State whether Owen considers the expenses listed in the response to be normal, recurring expenses.

16. List all business activities of Owen aside from its regulated utility activities. For each activity listed, describe the accounting policies and procedures in place to ensure that those activities are not subsidized by regulated rates or vice versa.


Stephanie Stumbo *for Stephanie Stumbo*
Executive Director *w/permission*
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED: OCTOBER 31, 2008

cc: Parties of Record

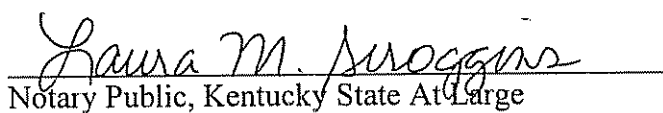
Case No. 2008-00154

Affiant, ROBERT HOOD, states that the answers given by him to the foregoing questions are true and correct to the best of his knowledge and belief.

A handwritten signature in black ink, appearing to read "Robert Hood", written over a horizontal line.

ROBERT HOOD

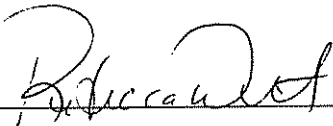
Subscribed and sworn to before me by the affiant, ROBERT HOOD, this 13th day of November, 2008.

A handwritten signature in black ink, appearing to read "Laura M. Stiggins", written over a horizontal line.

Notary Public, Kentucky State At Large

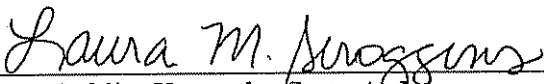
My Commission Expires: May 2, 2012

Affiant, REBECCA WITT, states that the answers given by her to the foregoing questions are true and correct to the best of his knowledge and belief.



REBECCA WITT

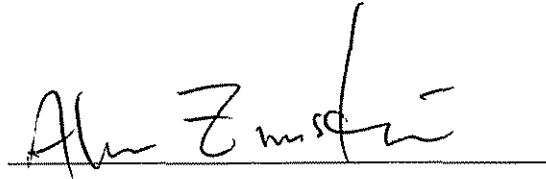
Subscribed and sworn to before me by the affiant, REBECCA WITT, this 13th day of November, 2008.



Notary Public, Kentucky State At Large


My Commission Expires: May 2, 2012

Affiant, ALAN M. ZUMSTEIN, states that the answers given by him to the foregoing questions are true and correct to the best of his knowledge and belief.

A handwritten signature in cursive script, reading "Alan M. Zumstein", written over a horizontal line.

ALAN M. ZUMSTEIN

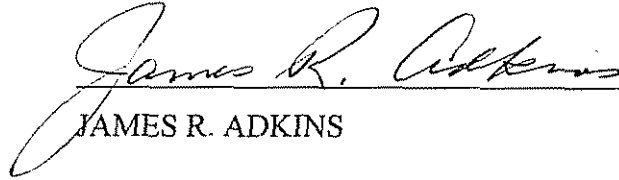
Subscribed and sworn to before me by the affiant, ALAN M. ZUMSTEIN, this 11th day of November, 2008.

A handwritten signature in cursive script, reading "Laura M. Proggins", written over a horizontal line.

Notary Public, Kentucky State At Large

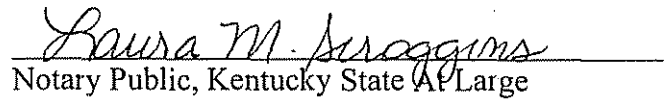
My Commission Expires: May 2, 2012

Affiant, JAMES R. ADKINS, states that the answers given by him to the foregoing questions are true and correct to the best of his knowledge and belief.



JAMES R. ADKINS

Subscribed and sworn to before me by the affiant, JAMES R. ADKINS, this 11th
day of November, 2008.



Notary Public, Kentucky State At Large

My Commission Expires: May 2, 2012

Owen Electric Cooperative
Case No. 2008-00154
Third Data Request of Commission Staff

1. Refer to Owen's response to the Attorney General's ("AG") Initial Information Request, Items 2 and 3.

a. In Case No. 1999-00176, the Commission found that the interest expense associated with customer deposits should be excluded from pro forma operating expenses. In doing so, the Commission determined that customer deposits represent a liability to be repaid to the customer with interest, and that the deposits are not readily available to the utility as cost-free capital. Given this finding, explain why the interest expense on Owen's customer deposits should be included in the Owen's revenue requirement determination.

Response

The reason to include interest on customer deposits in the revenue requirement is that the determination of revenue requirements for cooperatives is based on net margins (income) while it is Owen's understanding that the determination for the revenue requirement for IOUs is based on required net operating income.

b. Also in Case No. 1999-00176, the commission found that "Customer deposit balance and interest must both be included in determining the revenue requirement or both excluded." Given this Commission finding, if interest expense is to be included in determining revenue requirements, explain why customer deposits should not be deducted from Owen's rate base.

Response

Customer deposits represent a refundable amount in the instance that a consumer does not pay their electric bill. In the event an electric bill is not paid, the deposit is applied to the bill, and either the consumer has an additional liability, or the excess is refunded to them. All other costs associated with consumers billing and collection are included in revenue requirement for rate-making purposes. Since customer deposits represent a consumer accounting function, the customer deposit should not be deducted from Owen's rate base.

c. Cite any prior Commission decision in which a utility has been allowed to recover the interest expense on customer deposits and the customer deposit balance was not deducted from rate base.

Response

Two (2) recent cases involving electric cooperatives where the interest expense on customer deposits was recovered and the customer deposit balance was not deducted from the rate base include: (1) Cumberland Valley Electric Cooperative, Case No. 2005-00187 and (2) Meade County Rural Electric Cooperative, Case No. 2006-00500. Owen can not cite any electric cooperative prior Commission decision that disallowed the utility to recover the interest expense on customer deposits, or where the customer deposit balance was deducted from the rate base.

d. Has Owen included the interest income earned on the customer deposits in its revenue requirement determination?

Response

Yes.

(1) If the response to Item 1(d) is yes, identify the amount of interest income included in pro forma operations and the account where it is recorded.

Response

Owen does not have a method to identify interest income by function. All deposits are recorded in general funds and commingled with other deposits. Any interest income that is generated from investing available general funds are recorded in Account 419.00, Interest Income.

(2) If the response to Item 1(d) is no, explain why it has been excluded.

Response

n/a

e. Given that Owen's revenue requirement is based upon a Times Interest Earned Ratio calculation, describe how reducing the rate base by the customer deposits would impact Owen's revenue requirement determination.

Response

The cable television attachment rates are determined, in part, by the rate of return granted by the Commission. The lower the rate of return, the less the cable television attachment rate is, therefore, the reduced revenue will have to be recovered from other rate classes.

Owen Electric Cooperative
Case No. 2008-00154
Third Data Request of Commission Staff

2. Refer to Exhibit 5, page 1 of 2, of Owen's response to the AG's Initial Information Request, Item 5. Provide a detailed analysis of Account No. 456, Other Electric Revenue, for 2006 and 2007.

Response

	2007	2006
Adjustments to sales tax payable	4,030	(6,775)
Sales tax collection compensation	14,842	14,642
School tax payable adjustments	8,220	7,827

Owen Electric Cooperative
Case No. 2008-00154
Third Data Request of Commission Staff

3. Refer to Owen's response to the AG's Initial Information Request, Item 28.

a. Provide an itemized schedule showing each cost of the "NRECA Annual Meeting" that is included in Owen's pro forma operating expenses. The itemized list should also identify the account where each item is recorded.

Response

All expenses are recorded in Account 930.00, Miscellaneous expense – director expenses, and detailed in Exhibit 10 of the application. There were six (6) directors attending the NRECA annual meeting.

03/02/2007	74606	NRECA	3,252.00	Registration fee
02/02/2007	74256	NRECA	1,095.00	Training course
02/09/2007	74313	Visa	2,404.82	Air fare
05/07/2007	75401	Visa	3,431.97	Hotel
05/07/2007	75401	Visa	755.80	Meals
05/07/2007	75401	Visa	362.47	Travel

b. Cite any Commission proceeding where the costs of the NRECA Annual Meeting have been included in the revenue requirement determination.

Response

There are no cases to cite.

c. Owen states that the NRECA Annual Meeting is a combination of training and educational seminars during the day. Provide an itinerary for the NRECA Annual Meeting that includes detailed descriptions of the daily seminars.

Response

A copy of the itinerary is attached. As can be seen by the “2007 Annual Meeting & Expo Schedule”, the NRECA annual meeting includes director training courses each day and updates for the electric industry during the business sessions.

d. Explain if the NRECA Annual Meetings have historically included training and educational seminars. In the response state the benefit that Owen’s ratepayers derive from attendance at these meetings.

Response

NRECA annual meetings have not always included director training and educational programs. Until the early 1990’s, the annual meeting was more entertainment and social activities. With costs increasing and the need for additional training, the annual meeting evolved into the combination of training and business sessions it is today.

With changing economic conditions, environmental issues, legal issues, technological advances, deregulation potential, and other areas that directly affect the electric distribution utilities, it is imperative that directors attend meetings and stay abreast of the utility industry. NRECA is devoted to providing this information from experience it has obtained and relaying this information to directors who attend director training and educational seminars. In fact, NRECA is the only organization entirely devoted to the electric utility industry that provides this type of training and education.

Members benefit in that directors can make more intelligent and informed decisions based on information and knowledge obtained from NRECA training and educational seminars as those that are included with the NRECA Annual Meeting.

2007 Annual Meeting & Expo Schedule

SCHEDULE SUBJECT TO CHANGE

Thursday, March 15

8:00 a.m. – 5:00 p.m. TechAdvantage® Pre-Conference Workshops

Friday, March 16

8:00 a.m. – 4:00 p.m. Director Training

8:15 a.m. – 5:00 p.m. TechAdvantage® Conference

Saturday, March 17

8:00 a.m. Standing Committee Joint Meeting

8:15 a.m. – 4:15 p.m. TechAdvantage® Conference

8:00 a.m. – 4:00 p.m. Director Training

8:30 a.m. – 4:00 p.m. Workplace Law

9:00 a.m. Standing Committee Meetings

4:30 p.m. – 7:30 p.m. TechAdvantage® Expo Opening Reception

Sunday, March 18

8:00 a.m. – 4:00 p.m. Director Training

8:00 a.m. – 5:00 p.m. Registration

8:30 a.m. Standing Committee Meetings

8:30 a.m. – 4:45 p.m. Legal Seminar 47

9:00 a.m. – 12:45 p.m. Technology Showcase

11:00 a.m. – 3:00 p.m. TechAdvantage® Expo *(complimentary brunch served)*

Noon – 2:00 p.m. Electric Cooperative Bar Association Annual Meeting

Monday, March 19

7:30 a.m. Congressional Action Center Opens

7:30 a.m. – 5:00 p.m. Registration

8:00 a.m. – 4:00 p.m. Director Training

8:30 a.m. – 11:30 a.m. Legal Seminar 47

8:30 a.m. NRECA Board Meeting

10:30 a.m. NISC Annual Meeting

11:00 a.m. – 3:00 p.m. TechAdvantage® Expo

3:00 p.m. NRTC Annual Meeting

Tuesday, March 20

7:30 a.m. – 5:00 p.m. Registration

8:30 a.m. – 11:00 a.m. NRECA Annual Meeting – Opening General Session

‡ Report of NRECA CEO

‡ Distinguished Service Award

‡ Keynote Address – James Woolsey

11:00 a.m. – 2:30 p.m. TechAdvantage® Expo

Noon Celebration Luncheon

1:00 p.m. NCSC Annual Meeting

2:30 p.m. Forum Sessions

8:00 p.m. Concert: The Charlie Daniels Band

Wednesday, March 21

7:30 a.m. – 5:00 p.m. Registration

8:30 a.m. Second General Session

‡ Youth Leadership Council

‡ Rural Utilities Service Report

‡ NRECA President's Report

‡ Touchstone Energy® Cooperatives Annual Meeting

10:30 a.m. Business Session

‡ NRECA Secretary/Treasurer's Report

‡ Nominations & Resolutions

11:45 a.m. International Luncheon

1:00 p.m. Forum Sessions

2:30 p.m. CFC Annual Meeting

4:30 p.m. Federated Rural Electric Insurance Exchange Annual Meeting

Thursday, March 22

7:00 a.m. ACRE® Breakfast

7:30 a.m. – Noon Registration

8:30 a.m. – 11:00 a.m. Closing General Session

‡ International Programs Report

‡ Award Ceremony

‡ Keynote Address – Mike Ditka

‡ Cooperative Director Celebration

Owen Electric Cooperative
Case No. 2008-00154
Third Data Request of Commission Staff

4. Refer to Owen's response to the AG's Initial Information Request, item 34.

a. In this response Owen states that its short-term debt balance as of December 2007 was approximately \$5.7 million. Using the short-term debt balance as of December 31, 2007, calculate the interest expense for the month of December 2007 and show the annualized amount. Show the effect the annualization of the December 31, 2007 short-term interest expense would have on Owen's revenue requirement determination. Include all workpapers, and calculations used by Owen in its response.

Response

See Exhibit 5, page 3 of 3 of the Application. The annualized interest on short-term debt for the December 31, 2007 balance is \$366,140. Interest for December 2007 would be 1/12 of this total, or \$30,512.

b. Given that Owen used \$10 million of the proceeds of the November 2007 RUS loan to reduce short-term debt and that the interest expense for the 2007 RUS loan is included in Owen's revenue requirement determination, explain why it would not be appropriate to adjust short-term interest expense to reflect the end-of-period debt balance of \$5.7 million.

Response

Owen agrees that it would be more appropriate to adjust interest based on the December 31, 2007 short-term debt balance.

c. Provide Owen's monthly short-term debt balance and short-term interest expense for the period of January 1, 2008 through October 31, 2008.

Response

	<u>Balance</u>	<u>Interest</u>
January, 2008	5,733,916	21,547
February	7,482,486	21,999
March	6,816,278	27,657
April	5,407,030	20,850
May	7,620,628	35,523
June	8,025,169	29,637
July	7,034,808	31,561
August	7,780,453	31,113
September	10,391,108	35,252
October		

Owen Electric Cooperative
Case No. 2008-00154
Third Data Request of Commission Staff

5. Refer to Exhibit J of the application at page 10 of 14.

a. For “Existing pole, 120V available”, explain how billing determinants of 104,066 multiplied by the proposed rate of \$7.71 equal proposed revenue of \$802,765 as shown on this schedule.

Response

The difference is rounding in the formulas.

b. For “One pole added”, explain how billing determinants of 19,788 multiplied by the proposed rate of \$9.39 equal proposed revenue of \$185,888 as shown on this schedule.

Response

The difference is rounding in the formulas.

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6. Refer to Owen's response to the Commission Staff's Second Information Request, Item 8. In this response Owen states that, as a result of the 2005 Collective Bargaining Unit negotiation process, there was an increase in the annual pension expense and a reduction in annual labor expense. Provide a comparison for the calendar years 2005, 2006, and 2007 of the increased pension expense and the reduction in labor expense that resulted from the Bargaining Unit negotiation process.

Response:

Union wages before the negotiation of the contract that became effective April 1, 2005 were \$2,951,427. The increase that was forfeited by the collective bargaining unit as a result of the negotiation process for 2005 was \$88,543. If this amount had not been forfeited, union wages would have increased by that amount during 2005, and been included in the union wage base for 2006 and 2007. The negotiated wage increases for 2006 and 2007 were 3.5% each year. The savings associated with the original forfeited increase for 2006 and 2007 was \$3,099 each year.

Contributions to the Retirement and Savings Account and associated increases in expense as a result of the negotiated agreement are:

	Owen R&S Contributions	3% Match Eliminated	
2005	\$1,039,628	\$23,392	Effective 4/1/2005
2006	\$1,209,686	\$36,291	
2007	\$1,089,936	\$32,365	

RESPONSE TO COMMISSION STAFF'S THIRD DATA REQUEST

- Q. Refer to Owen's response to the Commission Staff's Second Information Request, Item 12, page 2 of 2. For the Small Commercial proposed rate design, it appears that Owen used a customer charge set at \$13.48 and backed into the "Revenue Required from Energy." Although the schedule shows a proposed energy rate of \$0.7534, dividing the "Revenue Required from Energy" of \$3,524,991 shown on this schedule by the energy kWh of 46,804,027 from page 1 results in an energy rate of \$0.07531. Since Owen is not proposing a change to the energy rate, wouldn't the appropriate calculation be to multiply the energy kWh by the current energy rate of \$0.07534 which produces revenue from energy of \$3,526,215, a remaining revenue amount to be collected through the customer charge of \$380,274, and a customer charge of \$13.44?
- R. It is agreed that a calculation error has been made and the customer charge should be \$13.44 per month for Schedule I - Small Commercial.

RESPONSE TO COMMISSION STAFF'S THIRD DATA REQUEST

Q. Refer to Owen's response to the Commission Staff's Second Information Request, Item 13.

a. The response that "{based on inputs from management and its consultant, it developed an estimate of approximately 30 hours each month deals with service to Gallatin....}" Provide a description of the work performed each month related to Gallatin Steel.

R. a In any discussion of service to Gallatin Steel, one must consider the complexity of service to it and the complexity of its contract for service. Additionally, EKPC is a most important and integral part of service to Gallatin Steel. Gallatin Steel's the Gallatin Steel contract includes the normal demand and energy components. However, the demand component includes firm demand and two levels of interruptible demand. The energy component has on-peak and off-peak elements. The contract also has buy through provisions that Gallatin can exercise. Finally, this contact has the usual fuel adjustment and environment surcharge elements. Because of the complexity of the billing for this contract and the amount of money over \$38 million on a normalized basis), much care, discussion and follow up is required. Listed below is a generalized breakdown that occurs about every month on the average for the last several years.

Review of wholesale power bill and preparation retail bill	3.00
Discussion with Gallatin on billing	2.50
Continuous coop monitoring during a month	1.50
Accounting for Gallatin bill	3.00
Interruption of Gallatin service	2.50
Board of Director's time	1.00
Contract Discussions	5.00
Key account work - CEO	4.00
Special monitoring, discussion and understanding on environmental surcharge	3.50
Miscellaneous	5.00

Much time has been spent recently on the fact that Owen Electric is billed more by EKPC wholesale for Gallatin Steel for the Environmental Surcharge adjustment clause than it bills Gallatin Steel for the retail portion of the Environmental Surcharge.

RESPONSE TO COMMISSION STAFF'S THIRD DATA REQUEST

- Q. b. Explain the rationale for reducing the distribution consumer services costs for the Farm and Home class by a portion of the PSC assessment.
- R. b. The changes made to better reflect a better representation of the costs to serve Gallatin Steel was a last minute change to the cost of service study. The easy way to handle this change was to reduce this classification most of the cost changes would have been to this account. The more proper way would have been to integrate it into the cost of service study in Schedule 6.
- Q. c. Explain why Owen did not propose to reduce the other distribution costs of other rate classes by a portion of the PSC assessment related to Gallatin Steel.
- R. c. As stated above in the response to Item b, this was a last minute change. It would have been more proper to integrate it into the cost of service study in Schedule 6.
- Q. d. Provide the amount of the PSC assessment recorded in the test year, the account in which it was recorded, and the amount allocated to each rate class.
- R. d. The PSC assessment for the test was \$128,898 and it was recorded in Acct No. 408.70-Other taxes. There is no direct allocation of this expense in the cost of service study. These costs have been assigned to each function based on rate base. These costs are then classified into a demand-related component and an energy related component. And finally, they are allocated to the rate classes on the basis of number of customers or demand contribution. In attempt to trace these costs through the cost of service study process, the following estimates have been developed.

Schedule I - Farm and Home	97,834
Schedule IA - Off Peak Marketing	2
Schedule I - Small Commercial	6,638
Schedule II - Large Power	12,237
Schedule XI - Large Industrial Rate LPB1	3,219
Schedule XIII - Large Industrial Rate LPB2	2,799

RESPONSE TO COMMISSION STAFF'S THIRD DATA REQUEST

Schedule XIV - Large Industrial Rate LPB	823
Schedule 2A - Time of Day	254
Schedule III - Security Lights	3,822
Schedule OLS - Outdoor Lighting Service	1,069
Schedule II SOLS - Special Outdoor Lighting Service	198
Gallatin Steel	3

- Q. e Did the cost-of-service study allocate the PSC assessment to the various rate classes based upon the gross operating revenues provided by each rate class. If yes, since the PSC assessment was allocated to Gallatin Steel based upon its proportional share of gross operating revenues, explain why it is appropriate to allocate an additional portion of the PSC assessment to Gallatin Steel. If no, explain why it was not allocated based on gross operating revenues and provide the method of allocation.
- R. e The allocation of the PSC assessment to the various rate classes was not based on gross operating revenues. It was functionalized, classified and allocated based on the process stated in the response to Item d above. The method used to assign this cost to the functions was based on the net investment rate base. These expenses were classified as either demand or energy based on the percentages for that apportionment from schedule 10 in the cost of service study. The allocation to the rate classes has the following basis. The demand related expenses were allocated on the basis of the rate classes' contribution to the sum of monthly peak demands for all rate classes. The customer related component has been allocated to the rate classes on the basis of the allocation percentages from schedule 11 of the cost of service study.

RESPONSE TO COMMISSION STAFF'S THIRD DATA REQUEST

- Q. Refer to Owen's response to the Commission Staff's Second Information Request, Item 15. Provide an explanation of, and the calculations for, the combination of the distribution plant percentages and the wages and salaries percentages.
- R. The response to Item 15 in the Commission Staff's Second Information Request deals with the classification of the Administrative and General Expenses or Accounts 920-935. These expenses are normally allocated with an approach similar to that utilized for general plant. And that is the approach utilized in the cost of service study. Schedule 6 attempts to accomplish two significant parts in a cost of service study: functionalization and classification. Wages and salaries are utilized as the initial step. Since administrative and general expenses are a support area and also not a function within a cost of service study, they have been allocated on a proportional basis to distribution operations, distribution maintenance, consumer accounts and consumer assistance. The combined distribution operations and maintenance expenses are considered to be related to the lines, transformers, services and meter functions. They expenses are then assigned to the above functions proportional on total distribution plant. Since total distribution plant has been broken down into its demand and customer components, the classification of these expenses has been accomplished. Consumer accounts and consumer assistance is considered to be related to the consumer and accounting service function.

This allocation process rests on the idea that general plant supports the other plant functions. Provided below and on Page 2 of this response provides the calculations for the determination of the allocated general plant.

<u>Wages & Salaries</u>	<u>Total</u>	<u>Percent</u>	Without <u>Admin&Gen</u>	<u>Percent</u>
Distribution Operations	1,539,255	32.6%	1,539,255	40.9%
Distribution Maintenance	873,879	18.5%	873,879	23.2%
Consumer Accounts	1,179,991	25.0%	1,179,991	31.4%
Consumer Assistance	168,998	3.6%	168,998	4.5%
Administrative & General	960,917	20.3%		
Total	4,723,040	100%	3,762,123	100%

**OWEN ELECTRIC COOPERATIVE
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Page 2 of 2
Witness: Jim Adkins

RESPONSE TO COMMISSION STAFF'S THIRD DATA REQUEST

Functions	1 Distrib. Plant Percent	2 Wage & Salary Percent	3 Total Gen. Plant Investment	4 Allocated General Plant 1x2x3	5 General Plant Allocation
Lines demand	44.39%	64.14%	22,346,638	6,363,386	28.48%
Lines Customer	20.67%	64.14%	22,346,638	2,962,360	13.26%
Transformers Demand	9.47%	64.14%	22,346,638	1,356,746	6.07%
Transformers Customer	5.08%	64.14%	22,346,638	727,678	3.26%
Services	9.90%	64.14%	22,346,638	1,418,938	6.35%
Meters	7.00%	64.14%	22,346,638	1,003,353	4.49%
Accounting Services	0.00%	35.86%	22,346,638	8,012,861	35.86%
Security Lights	<u>3.50%</u>	<u>64.14%</u>	<u>22,346,638</u>	<u>501,317</u>	<u>2.24%</u>
Total	<u><u>100.00%</u></u>			<u><u>22,346,638</u></u>	<u><u>100.0%</u></u>

RESPONSE TO THE COMMISSION STAFF'S THIRD DATA REQUEST

- Q. Refer to Owen's response to the Commission Staff's Second Information Request, Item 23. In paragraph 3, it is stated that the customer assistance factor of 100 assigned to Gallatin Steel "does not provide a cost that comes any where {sic} near the amount of time spent on Gallatin on cost." Is this the reason that Owen reduced Farm and Home distribution consumer services costs by \$69,362 as discussed in Owen's response to Item 13 of the Second Data Request of Commission Staff? If no, explain the basis for the statement and how the existence of the inaccuracy in the cost of service study provides for reasonable results.
- R. This is one of the reasons this amount was subtracted from the Farm and Home consumer services amount. As state previously, this calculation was a late change to the cost of service study and was made in this fashion so as to not change the other overall results. It was also accomplished in this manner because the amount of change did not cause a change in any of the results from the cost of service study. The same rate classes required revenue increases in similar amounts. Owen did not move go extent of the results of the cost of service study in its application because it would have lowered the revenue requirements of some rate classes as an example. Owen still feels that the cost of service study is a very representative of its rate classes.

Owen Electric Cooperative
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Third Data Request of Commission Staff

11. Refer to Owen's response to the Commission Staff's Second Information Request, Item 27.

a. For each key performance indicator listed in the response, provide the threshold, target, and stretch goal. Include a detailed explanation as to how each is established by the President/CEO and a description of the employee evaluation process.

Response

Attached is the performance indicator spreadsheet listing the threshold, target, and stretch goals. The indicators are set based on corporate goals established by the President/CEO, taking into account historical performance, desired outcomes, and corporate strategy.

b. Provide the payout values that are set for the employees and management staff. Include a detailed explanation as to how each payout value is established by the President/CEO and explain how the payouts are awarded to each employee.

Response

Attached are the performance indicator payout schedules. The President/CEO sets a dollar value for each of the performance criteria based upon the contribution made to each indicator from field and office personnel. The amount per employee for each level of performance is calculated by adding up the individual indicator factors for each level. The indicators are reviewed quarterly and an estimate is made for the year after the third quarter results are determined. A portion of the annual payout is paid in early December based on this estimate. The remainder of the payout is distributed after annual results are determined, usually in *March of the following year*.


During the test year, \$164,400 of the 2007 performance incentive award was paid out in December 2007. The remainder of the performance bonuses recorded during the test year were for final 2006 payouts and for a few small individual awards given for outstanding performance during the year.

c. Provide documentation to show that Owen's Board of Directors approved the performance bonus criteria that were established by the President/CEO.

Response

See attached.

OWEN Electric

A Touchstone Energy Cooperative 

Excerpt taken from the Minutes of a Regular Board Meeting
Held December 14, 2006

**PERFORMANCE
GOALS 2007**

Mr. Marshall reviewed with the Board the 2007 performance indicators in accordance with the summary attached hereto and made part of these minutes. Upon a motion by Hope Kinman, seconded by Ann Bond, the Board voted unanimously to approve the 2007 performance indicators in accordance with the attached summary.

I, John Grant, Secretary-Treasurer of Owen Electric Cooperative, Inc., certify that the above is a true and correct excerpt from the minutes of a meeting of the Board of Directors of Owen Electric Cooperative, held on December 14, 2006, and that a said meeting a quorum was present.



John Grant, Secretary-Treasurer
Owen Electric Cooperative, Inc.

11-13-08
Date

(Seal)

OWEN Electric

A Touchstone Energy Cooperative 

Excerpt taken from the Minutes of a Regular Board Meeting
Held February 22, 2007

PRESIDENT'S REPORT

2007 Performance Indicators - Mr. Hood reviewed the 2007 performance indicators in accordance with the summary attached hereto and made a part of these minutes. Upon a motion by John Grant, seconded by Ann Bond, the Board unanimously approved the 2007 Performance Indicators as proposed by management.

I, John Grant, Secretary-Treasurer of Owen Electric Cooperative, Inc., certify that the above is a true and correct excerpt from the minutes of a meeting of the Board of Directors of Owen Electric Cooperative, held on February 22, 2007, and that a said meeting a quorum was present.




John Grant, Secretary-Treasurer
Owen Electric Cooperative, Inc.

11-13-08

Date

(Seal)

OWEN Electric


A Touchstone Energy Cooperative 

Excerpt taken from the Minutes of a Regular Board Meeting
held on August 23, 2007

**WAGE AND SALARY
RECOMMENDATION**

Upon a motion by Hope Kinman, seconded by Frank Jackson, the Board voted unanimously to approve the recommendations set forth in A through K of Exhibit A attached hereto and incorporated by reference.

I, John Grant, Secretary-Treasurer of Owen Electric Cooperative, Inc., certify that the above is a true and correct excerpt from the minutes of a meeting of the Board of Directors of Owen Electric Cooperative, held on August 23, 2007, and that a said meeting a quorum was present.



John Grant, Secretary-Treasurer
Owen Electric Cooperative, Inc.

Date 11-13-08

(Seal)

Owen Electric Cooperative
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Third Data Request of Commission Staff

12. Refer to Owen's response to the Commission Staff's Second Information Request, Item 28(e).

a. Provide a list of the vendors and the distribution electric cooperatives that Owen contacted regarding the proposed AMI depreciation rate of 6.67 percent.

Response

National Rural Telecommunications Cooperative (NRTC)

Blue Grass Energy Cooperative Corporation

Jackson Energy Cooperative Corporation

Various cooperatives through the KAEC Accountant's Association meetings

b. For each vendor that was contacted, provide the depreciation life the vendor recommended.

Response

Approximately 15 year life. These have not been utilized for a long enough period of time to have an established life span. With any technology, they will become obsolete within the 15 year time frame.

c. For each cooperative contacted provide the depreciation life that they use.

Response

Jackson Energy was granted 6.67% in Case No. 2007-00333

Blue Grass Energy was granted 6.67% in Case No. 2008-00011

d. Provide copies of all written correspondence between Owen and each vendor or cooperative contacted.

Response

There are no written responses, all have been verbal from vendors.

Blue Grass Energy and Jackson Energy, both referred to their cases before this Commission in the above mentioned case numbers.

e. Given that Owen's current depreciation rate for meters is 3.53 percent, explain why a rate of 6.67 percent is appropriate for AMI meters.

Response

The current depreciation rate for meters is based on old style mechanical technology. The new AMI meters are based on electronics technology. As with all current items using electronic technology as a base, obsolescence is much more prevalent than with mechanical technology. Owen's meters are similar to both Blue Grass Energy and Jackson Energy, therefore, it was determined to use the same deprecation rate as those cooperatives.

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Third Data Request of Commission Staff

13. Refer to Owen's response to the Commission Staff's Second Information Request, Item 31. In calculating its proposed retirement and security expense, Owen used normalized wages of \$7,172,880 and a composite rate of 18.08 percent. Recalculate the proposed retirement and security expense using the pro forma base wages for non-union and union employees and the actual rates of 18.64 percent for non-union employees and 17.23 percent for union employees. Include copies of all workpapers, assumptions, and calculations used by Owen in its response.

Response

Salary, base wages	1,160,661		
Non-union, base wages	<u>3,028,709</u>		
	4,189,370	18.64%	780,898
Union, base wages	2,983,510	17.23%	<u>514,059</u>
Proposed contribution cost			1,294,957

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Third Data Request of Commission Staff

14. Refer to Owen's response to the Commission Staff's Second Information Request, Item 32(a).

a. Provide a schedule listing the employee recruiting fees paid by Owen to Execquest for the calendar years 2005 and 2006 and the 2008 fees paid to date.

Response

Invoice Date	Amount	Position
April 2005	\$ 6,250	Manager, System Planning & Reliability
August 2005	\$12,500	Manager, System Planning & Reliability
January 2007	\$ 6,250	Manager, Engineering
May 2008	<u>\$12,500</u>	Manager, Engineering
Total Expended	\$37,500	

b. In the response to Item 14(a), identify the management positions that were filled in each year as a result of the services of Execquest and the length of time the positions remained unfilled.

Response

Execquest assisted Owen with filling two positions from 2005 through 2007, the Manager of System Planning & Reliability and the Manager of Engineering. The Manager of System Planning & Reliability position went unfilled from April 2005 until August 2005. The Manager of Engineering position was unfilled from January 2007 until May 2008.

RESPONSE TO COMMISSION STAFF'S THIRD DATA REQUEST

Q. Refer to Owen's response to the Commission Staff's Second Information Request, Item 33(a).

a. Provide a detailed description of the East Kentucky Power Cooperative's Partner's Plus Program

R. a. The Partner's Plus Program of EKPC was a matching fund and was an amount of \$3.08 per residential meter per cooperative for rebates, equipment and/or advertising for these programs:

Button-up	Tune Up	Geothermal and
Energy Efficient Water	Touchstone Energy	Air to Air Heat Pumps
Heaters	Homes	ETS
Surge Protection	Touchstone Mftgd Homes	Compact Fluorescent Lights
Residential Energy Audits	Safety	Conservation Programs

Q. b. Explain why East Kentucky Power Cooperative decided to eliminate the Partner's Plus Program.

R. b. EKPC eliminated this program due to cost cutting measures.

Q. c. Provide an itemized list of Owen's expenses that were recovered through the Partner's Plus Program reimbursement. State whether Owen considers the expenses listed in the response to be normal, recurring expenses.

Owen's expenses for the Partner's Plus Program were for labor related items dealing the geothermal heat pumps, air to air heat pumps, water heaters and touchstone energy manufactured homes. The reimbursement for 2007, the test year, amounted to \$134,866. Owen feels that these expenses will be recurring ones for Owen since they are labor related expenses.

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16. List all business activities of Owen aside from its regulated utility activities. For each activity listed, describe the accounting policies and procedures in place to ensure that those activities are not subsidized by regulated rates or vice versa.

Response

Owen sells material from its warehouse on a periodic basis. There is a slight markup on these items to cover the cost of handling. Since these are so sporadic, no other costs are assigned to this activity. The sales are recorded in Account 415.00 and the cost of materials sold is recorded in Account 416.00.

Owen also sells and installs surge protection rings that attach to the meter and protect the entire contents of the house from surges and lightning strikes. The revenues are recorded in Account 417.00. The cost of the surge protection rings, installation cost and administrative time are recorded in Account 417.10. Since the rings are attached to the meters, Owen uses a similar method as installing meters, i.e., it estimates the cost to install the rings as \$58.64 each. In addition, there is an administrative charge allocated to surge rings in the amount of \$230.72 per month.