

Grayson Rural Electric Cooperative Corporation

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RECEIVED

FEB 05 2009

PUBLIC SERVICE
COMMISSION

February 5th 2009

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

Re: PSC Case No. 2008-00254
Grayson Rural Electric Cooperative

Dear Ms. Stumbo:

Please find in Case No. 2008-00254 the original and seven (7) copies of Applicant's response to "Third Data Request of Commission Staff to Grayson Rural Electric Cooperative, Inc". This relates to the application for adjustment of rates by Grayson Rural Electric Cooperative Corporation.

Contact me at (606) 474-5194 or Don Combs at (606) 474-5136 if there are any questions.

Thanks for your assistance in this matter.

Yours truly,


W. Jeffrey Scott
Counsel for Grayson Rural Electric Cooperative Corporation

Enclosures

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

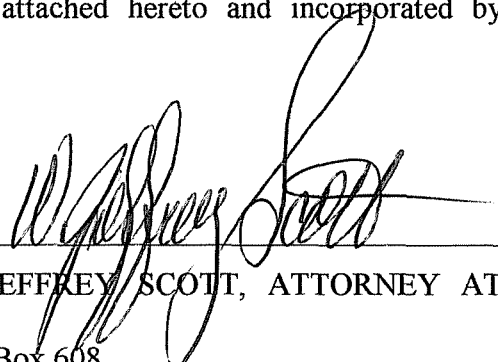
**APPLICATION OF GRAYSON RURAL ELECTRIC
COOPERATIVE CORPORATION FOR AN ADJUSTMENT
IN RATES AND AN INCREASE IN RETAIL ELECTRIC
RATES EQUAL TO INCREASE IN WHOLESALE
POWER COSTS**

Case No. 2008-00254

**APPLICANT'S RESPONSES TO
THIRD DATA REQUEST OF COMMISSION STAFF**

The applicant, Grayson Rural Electric Cooperative Corporation 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 Carol H. Fraley, Don Combs, Alan Zumstein, and Jim Adkins.
2. Don Combs, Manager of Finance and Accounting of Grayson Rural Electric Cooperative Corporation is the person supervising the preparation of the responses on behalf of the applicant.
3. The responses and Exhibits are attached hereto and incorporated by reference herein.




W. JEFFREY SCOTT, ATTORNEY AT
LAW
P.O. Box 608
Grayson, Kentucky 41143
Attorney for Grayson Rural Electric
Cooperative Corporation
Telephone: 606-474-5194

The undersigned, Don Combs, as Manager of Finance and Accounting of Grayson Rural Electric Cooperative Corporation., being first duly sworn, states that the responses herein are true and accurate to the best of my knowledge and belief formed after reasonable inquiry.

Dated: February 4, 2009

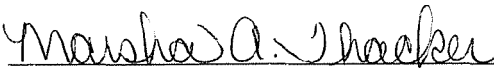
GRAYSON RURAL ELECTRIC COOPERATIVE

By:  _____

DON COMBS

MANAGER OF FINANCE AND ACCOUNTING

Subscribed, sworn to, and acknowledged before me by Don Combs, as Manager Finance and Accounting of Corporate Services for Grayson Rural Electric Cooperative Corporation on behalf of said Corporation this 4th day of February, 2009.

 _____

Notary Public, Kentucky State At Large

My Commission Expires: 1-9-2011

CERTIFICATE OF SERVICE

The undersigned counsel certifies that the foregoing responses have been served upon the following:

Original and Seven Copies

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

Copy

Paul D. Adams
Office of the Attorney General Utility and Rate
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601

This ~~4th~~^{5th} day of February, 2009



ATTORNEY FOR GRAYSON RURALRURAL
ELECTRIC COOPERATIVE CORPORATION

Grayson Rural Electric Cooperative
Case No. 2008-00254
Third Data Request of Commission Staff

Item 1
Page 1 of 1
Witness: Alan Zumstein

1. Refer to Grayson's response to the AG's Initial Information Request, Item 1. Cite any Commission proceeding where the utility has been allowed to recover in rate base the "13-month average test-year PSC assessment prepayments."

Response

The "13-month average test-year PSC assessment prepayments" should have been removed from the rate base.

2. Refer to Grayson's response to the Commission Staff's Second Information Request, item 9(e).

a. Provide copies of any written policy Grayson has regarding the payment of accumulated unused vacation and sick days to its employees.

Response:

See attached policies on pages 3-6.

b. Provide documentation to show that Grayson's Board of Directors approved the policy referenced in 2(a).

Response:

See attached policies on pages 3-6.

c. Provide any studies or analysis that Grayson has performed to document the benefit the ratepayers have received from the policy referenced in 2(a).

Response:

Grayson did not perform any formal studies to show the impact. However, based on previous history of employees calling in the morning they do not show up for work due to sickness and health reasons, it has had a major impact on work productivity in that crews that had jobs scheduled for the day. It takes time rearrange crews to get the correct number of employees on the crew for the day. This can take up to an hour to make sure crews have adequate personnel to perform work. If a job absolutely has to be done that day, Grayson may take a crew member from another crew, which leaves that crew short, and either another employee must be assigned to that crew, or the job that was originally assigned must now be changed to another job. This results in changing paper work that was assigned, changing material on the truck to the new job, and possibly reducing the total jobs that can be performed in the day.

Not only are the crews non-productive, but the management of Grayson has to spend time with the schedules and crew members. There are safety issues, OSHA concerns, and just making sure that crews have the adequate personnel to perform the work. There can not be too many 1st Class lineman on a job, and, conversely, there can not be too many apprentice lineman on the crew. As you can see, there are many factors that go into assigning crews and personnel each day.

d. Provide any documentation Grayson has showing how the policy referenced in 2(a) will impact employee productivity.

Response:

As described in 2.c., productivity will be greatly enhanced by having full crews show up to work each day. When employees have scheduled vacation and appointments for doctor visits, this scheduling of crews and jobs can be done at least the day before so crews can go straight to the work site in the morning instead of milling around, waiting on crews to be filled, material to be changed, and then going to the work site.

e. Explain why any amounts paid by Grayson to its employees in excess of the normal hours of 2,080 per year should be allowed for rate-making purposes.

Response:

Ratepayer benefit the most because the cost to perform work is greatly reduced by having the crews working instead of shuffling around and being non-productive. When employees lose the accumulated vacation and sick days, showing up for work as scheduled is greatly enhanced. The rate payers and Grayson management benefit from this.

GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION
GRAYSON, KENTUCKY

BOARD POLICY NO. 504

SUBJECT: SICK LEAVE AND DISABILITY

I. OBJECTIVE

To outline the eligibility and entitlement of all regular employees in the use of sick leave and disability payments earned from GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION.

II. POLICY

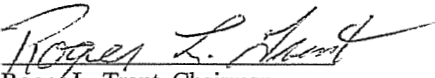
- A. Eligibility: provided the "Conditions for Payment" outlined in Section B below are met, an employee will be eligible to receive non-occupational disability if:
1. Employee has completed their probationary period and is currently employed as a regular full-time employee.
 2. Employee provides the Cooperative with a signed explanation of the injury or a doctor's excuse. If the Cooperative feels there is misuse of the sickness and accident plan it may request confirmation by a doctor selected by the Cooperative, as proof that his/her absence was due to his/her legitimate non-occupational illness or injury. (The doctor selected by the Cooperative will be paid directly by the Cooperative.)
 3. Employee must report his/her absence and the cause for same to employee's Department Head by work time of the next scheduled workday. Next scheduled workday means the first day the employee is off sick. If the employee is unable to make the report, a representative of the employee such as a parent or spouse should make the report for the employee.
- B. Conditions for Payment: Non-occupational (not relating to work) Disability Payments shall not be made for:
1. Any sickness or injury caused directly or indirectly by war or riot; or
 2. Any intentionally self-inflicted injury
 3. Purposely self-inflicted injury, or injury or illness due to willful misconduct, violation of company rules, or refusal to use safety appliances.
- C. Worker's Compensation-Occupational Disability
1. Worker's compensation shall be paid to an employee in accordance with company policy # 510.

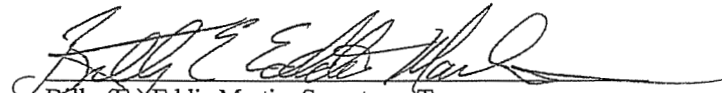
10. Personal Leave Days

- A. Three sick leave (3) days accrued each year can be used for "personal days". An employee may use no more than three personal leave days per calendar year. Any day used as a personal day will be deducted from employee sick leave balance.
- E. All disability payments provided for in this Agreement shall be reduced by the amount or amounts of any other benefit which might be provided through State or Federal legislation, workers' compensation, long term disability or any other benefits provided through the Cooperative from the same type of disability and for the same period of absence. Such period of absence to be deducted from accrued sick leave. When an employee on disability reaches normal retirement age, any accumulated sick leave will be paid in a lump sum.
- F. Cooperative Self-Funded Short Term Disability Program
1. Benefits under the Cooperative Short Term Disability Program shall commence no earlier than the eighth (8th) day of illness and is payable until the employee is eligible for Long Term Disability. If an employee has accumulated sick leave, it must be exhausted before Short Term Disability Benefits will commence. The employee will not be eligible for holiday pay during the Short Term Disability period. Payment of Short Term Disability shall be two-thirds (2/3) of the employee's current base wage. The Short Term Disability Program payments shall not exceed thirteen (13) weeks.
 2. Short Term Disability payments apply only to the illness of the employee and not to members of the immediate family, as defined in Board Policy 512 (Family Leave, Military Leave, etc.) However, employees may use accumulated sick leave as defined in that policy.
- G. This policy applies to all employees, including management. Any provision of this policy that is more restrictive than those set out in the IBEW Working Agreement shall not apply to bargaining unit employees.

III. RESPONSIBILITY

It shall be the responsibility of the President & CEO to see that this policy is adhered to.


Roger L. Trent, Chairman


Billy (E.) Eddie Martin, Secretary, Treasurer

GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION

GRAYSON, KENTUCKY

BOARD POLICY NO. 510

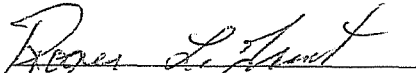
SUBJECT: VACATIONS


I. To outline rules and regulations involving the amount of vacation due each regular employee and under what circumstances that vacation may be used or saved.

II. POLICY

An employee will be entitled to a vacation with pay in each calendar year based upon the length of his/her continuous service in accordance with the following schedule:

- A. One year but less than eight (8) years of continuous service -- ten (10) work days of vacation.
- B. Eight (8) years or more continuous service -- one additional day of vacation for each additional year of continuous service, including the eighth (8th) year, not to exceed twenty-six (26) work days of vacation.
- C. An employee must complete the full minimum continuous service requirements before becoming eligible to take vacation or additional vacation.
- D. The vacation period shall be on a calendar year basis from January 1 to December 31, inclusive.
 - 1. An employee may carry forward into the succeeding year a maximum of thirty (30) days of vacation earned, but not taken.
 - 2. No employee may be credited at the beginning of any calendar year with more than thirty (30) days of previously accumulated vacation. All vacation earned in excess of the thirty (30) day carry-over will be taken with the vacation period.
- E. If a day observed as a holiday occurs during an employee's vacation, such employee shall receive an additional day of vacation.
- F. An employee shall receive eight (8) hours pay at his/her base hourly rate for each day of entitled vacation on his/her last scheduled workday prior to such vacation period.
- G. Vacations are scheduled by the Cooperative to be taken during the vacation period. Preference within a department as to dates will be given on the basis of seniority, provided such preference is indicated prior to February one.
- H. An employee must schedule one consecutive week of vacation each year. All other vacation time can be scheduled and taken in hourly increments with approval of the employee's Department Head/Supervisor.
- I. No pay will be made to an employee in lieu of vacation time, except after an employee becomes eligible for fifteen (15) or more annual vacation days. At the option of the COOPERATIVE, he/she may receive pay at his/her base hourly rate in lieu of five (5) work days (40 hours) of vacation time, not to exceed two (2) weeks per year. For the purpose of this sub-section, overtime rules applicable to vacation time are hereby suspended.


Roger L. Trent, Chairman


Bill E. (Eddie) Martin, Secretary/Treasurer

Date Adopted: 02/21/86
Minute Book Page: 1554-1555
Amended: 04/24/86
Minute Book Page: 1566
Amended: 02/20/87
Minute Book Page: 1629-1630
Amended: 06/30/89
Minute Book Page: 1854 – 1855
Date Revised: 05/28/92
Minute book Page: 2131 – 2133
Date Revised: 07/28/95
Minute Book Page: 2610 - 2612
Date Revised: 01/24/97
Minute Book Page: 2856 - 2858
Date Reviewed: 03/27/98
Minute Book Page: 2991 – 2993
Date Revised: 01/23/03
Minute Book Page: 3463 - 3465
Date Revised: 12/22/05
Minute Book Page: 3809 – 3811
Date Revised: 04/26/07
Minute Book Page: 3972 – 3974

3. Refer to Grayson's response to the Commission Staff's Second Information Request, item 12.

a. Provide the date Grayson completed its depreciation study.

Response

3a

Grayson completed its depreciation study in July, 2008

b. Provide the date Grayson submitted its request to Rural Utilities Service ("RUS") for the approval of the depreciation study that was performed as of December 31, 2007.

Response

3b

The depreciation study was submitted to RUS on August 28, 2008

c. Has Grayson contacted RUS to determine when the approval of the depreciation study will be issued?

(1) If yes, when does Grayson expect to receive RUS's approval?

Response

3c (1)

No.

(2) If no, explain in detail why Grayson has not been in contact with RUS regarding the approval of its depreciation rates.

Response

3c (2)

Conversations with RUS personnel have indicated that RUS reviews the depreciation studies, but usually not on a very timely basis. It generally takes a while to get through the studies, and sometimes RUS does not even respond to the filings. It is not uncommon for RUS to not have responded on the depreciation study as filed with them.

Explain in detail why the Commission should reflect depreciation rates that are outside the range RUS recommends before Grayson has received RUS approval to use those depreciation rates.

Response

3d

RUS allows electric cooperatives to select rates that are within the RUS Bulletin 183-1, Depreciation Rates and Procedures without a study. The bulletin further provides for rates higher or lower than those in the range when supported by a depreciation study. Grayson has provided a study to support rates that are outside of the Low and High rates included in the bulletin.

4. Refer to Grayson's response to the Commission Staff's Second Information Request, item 18.

a. Provide a detailed description of the use of the borrowed funds of \$4.8 million

Response

4a

During July 2007, Grayson advanced \$4 million of RUS loan funds. Of that amount, about \$2.5 million was used to repay short term borrowings and the remaining used to pay amounts due in the near future. Since July, Grayson has needed to increasingly borrow short term funds to an excess of \$3 million. The advance of \$4.8 million in May was used to repay the short term borrowing and invest to pay amounts due in the near future.

Without an increase in rates, Grayson sees this trend continuing in the future.

b. Explain why the loan funds were not advanced until May 2008.

Response

4b

RUS has historically discouraged electric cooperatives from advancing loan funds in smaller amounts in short intervals, as this requires more administrative work for RUS personnel for each advance. As described in 4a above, Grayson generally accumulates short term borrowings, then uses the advance to repay the short term borrowings and any remaining funds are used to pay amounts due in the near future.

5. Refer to Grayson's response to the Commission Staff's Second Information Request, item 14.

a. Grayson indicated that it inadvertently inserted an incorrect depreciation amount in Exhibit S, page 2, of the application. Provide a revised Exhibit S and all other exhibits that may need to be revised as a result of this error.

Response

5a

The revised Exhibit S are attached. There are no other schedules that should be revised as a result of this revision.

b. Provide the impact the error in depreciation will have on Grayson's proposed rates.

Response

5b

Grayson would propose that the increase be allocated to the energy charge on Schedule 1, Farm and Home rate. The increase would be as follows:

\$426,201 divided by 183,445,786 kwh equals \$0.00232 increase from the application.

c. Will Grayson propose to amend its application to reflect the corrected rates?

Response

5c

Grayson does not propose to amend its application. As part of the review of the application process, Grayson was concerned about the amount of increase requested. Grayson wanted to know the impact of one-half of the increase in the depreciation adjustment, that was performed. However, Grayson forgot to go back and change the depreciation adjustment to the entire amount. The application was filed with the one-half impact of the depreciation rates. Grayson would request that rates be granted equal to the depreciation allowed.

6. Refer to Exhibit C of the application, pages 1 and 7. The rates listed in Exhibit C do not match the rates that are included in the public notice provided in Exhibit D. Explain this apparent discrepancy.

Response

The rates reflected on Exhibit C are the rates that would be effective had East Kentucky Power Cooperative ("East Kentucky") not filed for an increase. The rates as shown on Exhibit D are Grayson's proposed rate increase applied to East Kentucky's proposed increase. Exhibit C should have shown the rates as reflected in Exhibit D, as these will be the final proposed rates after East Kentucky and Grayson's increases.

7. Grayson's current tariff includes rates for which no revenues are shown on Exhibit J. For each rate listed below, state whether any customers were charged the rate in the test year. If so, update Exhibit J and all other applicable schedules to include the information.

- a. Schedule 12(a) – Large Industrial Service LLF 1,000 to 4,999 kVa.
- b. Schedule 12(b) – Large Industrial Service LLF 5,000 to 9,999 kVa.
- c. Schedule 12(c) – Large Industrial Service LLF 10,000 kVa and Over.
- d. Schedule 13(b) – Large Industrial Service HLF 5,000 to 9,999 kVa.
- e. Schedule 13(c) – Large Industrial Service HLF 10,000 kVa and Over.
- f. Schedule 14(a) – Large Industrial Service MLF 1,000 to 4,999 kVa.
- g. Schedule 14(b) – Large Industrial Service MLF 5,000 to 9,999 kVa.
- h. Schedule 14(c) – Large Industrial Service MLF 10,000 kVa and Over.

Response

7 a thru h

There were no customers on any of the rate schedules listed during the test, or after the test year.

Refer to Exhibit 13 of the application at page 1 of 6. At the bottom of the page, under "Other Direct Costs", explain why it is appropriate to divide the annual cost per employee by 1,800 hours rather than the 2,080 total hours.

Response

2,080 is the total number of hours an employee can work if they perform 8 hours of work each day. Since employees receive vacation, holidays, and sick days off from work, the direct costs should be divided by the actual hours worked on an annual basis.

9. Refer to Exhibit 13 of the application at page 2 of 6.

a. The hourly rate used to calculate the "Direct Labor Charge" for the nonrecurring charges consists of both the 86.54% actual hours worked and 13.46% non-working hours (as calculated by Grayson on page 1) and therefore 100% of wage expense. Grayson added to that amount a "Direct Wage Expense" which is calculated using the 13.46% non-working hours. Given that the 13.46% is included in the "Direct Labor Charge" and in the "Direct Wage Expense", explain how including the 13.46% in both line items is not double-recovery.

Response

9a

Using the "Direct Labor Charge" allows this rate to include vacation, holiday, and sick time. The "Direct Wage Expense" is only the benefits that are associated with labor. This method allows Grayson to capture both the direct and other benefits in addition to the direct labor. This is not double-recovery in that Grayson's computer software does not allocate benefits to labor charged to vacation, holiday, and sick time

b. Grayson has estimated that it takes 40 minutes to process a returned check.

Provide a list of the tasks involved in processing a returned check.

Response

9b.

When a check is not honored by the bank and is returned, the check is stamped "VOID". The Customer Service Representative ("CSR") reviews the return check, verifying the account name, customer name, accounts paid by check, number of return checks for that individual consumer, the reason the check was returned, (i.e., NSF, Stop Payment, Account Closed, etc), whether the check was collected by a Servicemen, or CSR. The CSR will also ensure that there is not an arrangement or membership/security deposit involved. The return check is then keyed to the consumers' account, as is the return check fee. The batch is balanced and the cash sheet is pulled. Totals are added to the Daily Balance Sheet to reconcile payments posted to accounts, and adjustments added to consumer accounts.

A letter is typed for mailing to the consumer notifying them of the return check and /or letter typed notifying consumer on a "No Check" basis of payment on the account. The consumers account is noted and if the consumer is on the bank draft program their account is taken off auto-payment and applicable notes are made to the account.

A service order is then issued to collect if the return check was collected by the Servicemen during a collection trip, or arrangement, or for membership/security deposit, and the account is added to the call out list for the Operations Department.

The account is monitored by the CSR to ensure that the account is paid within 10 days. If not paid, a service order is issued. Possible arrangements may be made by the CSR to extend time on a return check, for good cause. If the return check is paid, the payment is processed by the CSR and the collection system is updated to clear out the field notification and returned check is pulled from the file and marked "Paid".

The accounting department reconciles the return checks with the bank statement on a monthly basis and runs applicable reports and follows up to ensure the return check has been paid.

Grayson makes every effort possible to work with consumers to make arrangements to ensure return checks are paid.

Discussions with the departments involved indicate that it takes, at a minimum, 40 minutes to process and account for each return check.