

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LICKING VALLEY	)	
RURAL ELECTRIC COOPERATIVE	)	CASE NO.
CORPORATION FOR AN ADJUSTMENT	)	2009-00016
OF RATES	)	

SECOND DATA REQUEST OF COMMISSION STAFF  
TO LICKING VALLEY RURAL ELECTRIC COOPERATIVE CORPORATION

Licking Valley Rural Electric Cooperative Corporation ("Licking Valley"), pursuant to 807 KAR 5:001, is to file with the Commission the original and seven copies of the following information, with a copy to all parties of record. The information requested herein is due on or before August 26, 2009. 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.

Licking Valley shall make timely amendment to any prior response 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 Licking Valley 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. Explain whether Licking Valley considered adjusting any of its non-recurring charges in its current application.

2. Refer to the application, Exhibit C, page 3 of 12, and Exhibit D. The tariff in Exhibit C shows the "Commercial and Small Power Service" rate as "Schedule B." However, Exhibit D shows the rate as "Schedule A-2." State which schedule reference is correct.

3. Refer to Exhibit D of the application, page 2 of 2. The "Outdoor Lighting Service" shows a "175 Watt MV" at a current rate of \$8.05 and a proposed rate of \$9.55. Provide the location of this rate in Licking Valley's tariff.

4. Refer to Exhibit G of the application at page 2 of 2. The top of this page states that revenues were normalized for the increase in rates received by East Kentucky Power Cooperative, Inc. ("EKPC"), Licking Valley's supplier, and passed

through to Licking Valley in Case No. 2008-00419.<sup>1</sup> However, since the filing of the application in this case, the Commission authorized new rates for Licking Valley to reflect the roll-in of fuel costs into base rates in Case No. 2008-00532.<sup>2</sup> Given this change in rates, provide updates to Exhibit J, Exhibit S, and all other schedules that would be affected by the fuel cost roll-in to base rates.

5. Refer to Exhibit H, the Prepared Testimony of Kerry K. Howard, specifically, the response to question No. 10. Mr. Howard states that the rate application is necessary, among other reasons, “to continue to pay capital credits.” However, Licking Valley states in Exhibit 19 of the application that it has not paid capital credits to its members. Explain the discrepancy in these two statements.

6. Provide a copy of Exhibits J and R electronically on CD-ROM in Microsoft Excel format with all formulas intact and unprotected.

7. Refer to Exhibit M of the application, the fourth page of this exhibit. For Accounts 450, 454, 454.1, 456, and 456.1, provide the December 31 balances of these accounts for the most recent five-year period.

8. Refer to Exhibit I, the Prepared Testimony of James R. Adkins and Exhibit R. Describe any differences in methodology used in the cost-of-service study submitted in this case relative to recent cost-of-service studies prepared by Mr. Adkins in rate cases of other EKPC distribution cooperatives.

---

<sup>1</sup> Case No. 2008-00419, Application of Licking Valley Rural Electric Cooperative Corporation to Pass-Through an Increase of Its Wholesale Supplier Pursuant to KRS 278.455(2) (Ky. PSC Mar. 31, 2009).

<sup>2</sup> Case No. 2008-00532, An Examination of the Application of the Fuel Adjustment Clause of Licking Valley Rural Electric Cooperative Corporation from November 1, 2006 Through October 31, 2008 (Ky. PSC Jul. 15, 2009).

9. Refer to Exhibit R, Schedule 1, page 2 of 28, and Exhibit S, page 1 of 4. In Exhibit R, the Actual Test Year amount of "Total Costs" (line 75) is shown as \$26,058,296. Exhibit S, Actual Test Year, "Total cost of electric service" is shown as \$26,075,993. The \$17,697 difference is the amount of Other Deductions included in Exhibit S. Explain why Other Deductions are excluded from Exhibit R.

10. Refer to Exhibit R, Schedule 1, page 3 of 28. Explain the origin of the amounts that appear in the "Actual" column on the right-hand side of the page.

11. Refer to Exhibit R, Schedule 2, page 5 of 28.

a. Explain why Account 587, Consumer Installations, is allocated 100 percent to the Security Lighting function. Include in the response a detailed breakdown of the \$80,820 recorded in this account.

b. This page shows that the allocation basis for Account 590 is No. 3 on Schedule 2, page 7 of 28. However, the allocation percentages for Account 590 do not match the percentages shown in No. 3. Explain why.

12. Refer to Exhibit R, Schedule 2, page 8 of 28.

a. Provide a detailed breakdown of the \$1,573,324 balance in Account 371, Installations on Customers' Premises.

b. Explain how the "General Plant" allocation percentages were calculated.

c. Explain why Construction Work In Progress on line 35 was allocated based on distribution plant rather than directly assigned.

13. Refer to Exhibit R, Schedule 4, page 18 of 28. In section B, Transformers, explain how the weighted cost in column 3 was calculated.

14. Refer to Exhibit R, Schedule 4, page 21 of 28. Explain how the "Factor" column amounts were derived.

15. Refer to Exhibit R, Schedule 5, page 25 of 28. Provide the basis for the allocations on the line titled "Less Other Revenue," as well as the calculation of the total amount of \$661,670.

16. Refer to Exhibit R, Schedule 6, page 27 of 28.

a. Explain why the Total Customer Costs for the LP and LPR classes do not include the consumer and accounting costs.

b. Explain how the Revenue from Customer Charge was calculated.

17. Refer to Exhibit R, Schedule 6, pages 27 and 28 of 28. Licking Valley's calculations on page 27 support a Residential, Farm, and Home customer charge of \$19.80. Explain how Licking Valley arrived at its proposed customer charge of \$10.00 shown on page 28.

18. Refer to Exhibit X of the application at page 7.

a. Provide a description of Account 454.

b. Provide a detailed breakdown of Account 456.

19. Refer to Exhibit 13 of the application.

a. Refer to page 2 of 3. Explain whether the weighted average cost of the Two-Party and Three-Party Poles are gross costs or net costs that reflect accumulated depreciation.

b. Refer to page 3 of 3.

(1) Explain why the fixed charges on investment are December 31, 2007 balances rather than balances of a more current date.

(2) In calculating the annual carrying charges, Licking Valley used the 6.83 percent rate of return allowed in its last general rate case, Case No. 1998-00321.<sup>3</sup> Explain whether Licking Valley expects the Commission to update the calculation for CATV attachments using the overall rate of return from this case, rather than the rate of return from Case No. 1998-00321.

20. Refer to Exhibit 16 of the application. In the "SL Security Lights" column, \$99,838 is shown as total billings on line 35. Explain how this amount was derived.

21. Refer to Exhibit J of the application, page 1 of 7. Explain why the third column from the right, "Percent of Total," totals 109 percent rather than 100 percent.

22. Refer to Exhibit S of the application. Explain why the "Fuel and Surcharge" revenues and expenses do not reconcile with those shown in Exhibit 14, page 3 of 3.

23. Refer to Exhibit V of the application. This schedule shows that revenues increased by approximately \$225,000 and the cost of power increased by \$1.4 million from 2007 to 2008. Given that Licking Valley has a fuel adjustment clause mechanism, explain why a \$1.4 million increase in fuel costs from 2007 to 2008 would not also result in a \$1.4 million increase in revenues.

24. Refer to Exhibit 1 of the application.

a. Provide a detailed description or documentation of Licking Valley's policy regarding employee medical days, including the practice of paying employees for medical days accumulated in excess of 75. Provide the effective date of the policy.

---

<sup>3</sup> Case No. 1998-00321, Application of Licking Valley Rural Electric Cooperative Corporation to Adjust Electric Rates (Ky. PSC Feb. 16, 1999).

b. On pages 3 and 4, explain why there is not an entry for each employee in the column titled "Vac/Sick." Provide the reason for the entry that is indicated for each employee listed.

c. Refer to pages 6 and 7 of the exhibit. Provide the effective dates of the promotions for the three employees indicated as receiving promotions.

d. Given that the percent increase in individual salaries and wages for all employees is, for the most part, 3 percent, explain why the proposed payroll adjustment calculates an overall increase of 7.6 percent.

25. Refer to Exhibit 3 of the application.

a. Based on page 2 of the exhibit, it appears that Licking Valley is not proposing to change its depreciation rates. However, in the cover letter for the 2007 Depreciation Study sent to Rural Utilities Service on February 1, 2009, Licking Valley indicated that it intended to implement the rates proposed in the study. Explain the discrepancy as outlined above. If Licking Valley has chosen not to implement the rates proposed in the depreciation study, explain the decision.

b. Provide a calculation of depreciation expense using the rates proposed in the depreciation study. Prepare a comparative schedule in the format of page 2 of Schedule 3, comparing the results to the normalized expense and test year expense previously provided.

26. Refer to Exhibit X of the application, which provides a comparison of income statement account levels for the test period and the 12 months immediately preceding the test period.

a. Page 2 of 7 shows that Account 583.00, Overhead Line Expense, increased from \$622,016 in 2007 to \$712,635 in 2008. Provide a detailed explanation for the magnitude of the increase in this expense.

b. Page 2 of 7 also shows that Account 593.10, Right-of-Way Maintenance, increased by \$88,996, from \$82,709 to \$171,705, from 2007 to the 2008 test period. Provide a detailed explanation for the magnitude of the increase in this expense.

c. Page 2 of 7 also shows that Account 595.00, Transformer Maintenance, increased by \$56,098, from \$18,428 to \$74,526, from 2007 to the 2008 test period. Provide a detailed explanation for the magnitude of the increase in this expense.

d. Page 3 of 7 shows that Account 903.00, Consumer Records & Collections Expense, decreased by \$49,902, from \$505,928 to \$456,026, from 2007 to the 2008 test period. Provide a detailed explanation for the magnitude of the decrease in this expense.

e. Page 3 of 7 also shows that Account 908.00, Consumer Assistance, decreased by \$64,757, from \$84,778 to \$20,021, from 2007 to the 2008 test period. Provide a detailed explanation for the magnitude of the decrease in this expense.

f. Page 3 of 7 also shows that Account 913.00, Advertising, increased by \$19,411, from \$33,003 to \$52,414, from 2007 to the 2008 test period. Provide a detailed explanation for the magnitude of the increase in this expense.



g. Page 4 of 7 shows that Account 930.30, Annual Meeting, increased by \$16,692, from \$41,237 to \$57,929, from 2007 to the 2008 test period. Provide a detailed explanation for the magnitude of the increase in this expense.

h. Page 4 of 7 also shows that Account 930.40, Miscellaneous, increased by \$22,233, from \$68,758 to \$90,991, from 2007 to the 2008 test period. Provide a detailed explanation for the magnitude of the increase in this expense.

i. Page 4 of 7 also shows that Account 935.00, Maintenance of Generators, decreased by \$38,548, from \$196,839 to \$158,291, from 2007 to the 2008 test period. Provide a detailed explanation for the magnitude of the decrease in this expense.

j. Page 5 of 7 shows that Account 427.30, FFB Interest, decreased by \$361,632, from \$705,569 to \$343,937, from 2007 to the 2008 test period. Provide a detailed explanation for the magnitude of the decrease in this expense.

27. Refer to Exhibit 4 of the application.

a. Provide a detailed description of the Public Service Company Assessment. Explain fully the reason(s) for the reduction in the assessed value of the taxable items.

b. Provide a comparative schedule of property tax expense for each year in the period 2004 through 2008.

28. Refer to Exhibit 5 of the application. Provide an update of the current interest rates for outstanding long-term debt as of the most recent date available and continue to update monthly up to the date of the hearing in this proceeding.

29. Refer to Exhibit 9 of the application.

a. It appears that the annual audit expense for 2008 has been removed for rate-making purposes. Given that this type of expense normally is allowed for rate-making purposes, explain Licking Valley's rationale in removing it.

b. The amount indicated on page 3 of the exhibit as being disallowed is \$7,300. On the last page of the contract for the audit, the fees are stated to be \$7,800. Explain this discrepancy.

30. Refer to Exhibit 10 of the application, pages 7 and 9. Fully describe the nature of each NRECA seminar attended by Tommy Hill and John May during the test year. Explain whether Licking Valley considers this to be a normal recurring expense.

31. Refer to Exhibit 11, Advertising – Account 913.00, page 3. Explain why an expenditure of \$26.25 for "Shirts with LV logo" was not eliminated for rate-making purposes when 10 other expenditures for "Shirts with LV logo" were so eliminated.

32. Refer to Exhibit 11, Miscellaneous General Expenses – Account 930.40, pages 7 and 8.

a. Describe the nature of the expenditure of \$303.88 for employee exercise equipment paid to Larry Easterling and explain how this expenditure benefits Licking Valley customers.

b. Describe the nature of the expenditure of \$516.75 for two American flags paid to UUS and explain how this expenditure benefits Licking Valley customers.

c. Describe the nature of the expenditure of \$670.77 for an NRECA By-Law Seminar paid to Visa and explain how this expenditure benefits Licking Valley customers.

d. Describe the nature of the expenditure of \$4,626.08 for insurance expense and explain how this expenditure benefits Licking Valley customers.

33. Refer to Exhibit 11, Annual Meeting Expenses – Account 930.30, pages 9 and 10. There are eight entries for “Shirts for annual mtg” totaling \$4,654.96. Describe the nature of this expenditure and explain how it benefits Licking Valley customers.

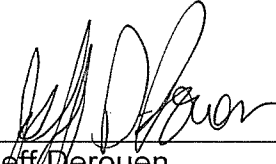
34. Refer to Exhibit 12 of the application, which shows the estimate of Licking Valley’s expenses associated with this rate case. On a monthly basis, beginning with January 2009, provide the amount of Licking Valley’s actual rate case expense, by category, as done with the estimate.

35. Refer to Exhibit S, page 4 of the application, which shows the amount of the proposed increase based on attaining a TIER of 2.0X.

a. Describe the methodology employed by Licking Valley in determining that 2.0X was the appropriate TIER on which to base its requested rate increase.

b. Is Licking Valley aware of any studies performed by the Rural Utilities Service or the National Rural Utilities Cooperative Finance Corporation on the subject of the appropriate TIER level for an electric distribution cooperative? If yes, identify the studies and when they were performed.

c. Licking Valley’s request in this case for a 2.0X TIER would produce net margins of roughly \$1.0 million. For each of the five calendar years immediately preceding the 2008 test year, provide the approximate net margins that would have been realized if Licking Valley had achieved a TIER of 2.0X.



---

Jeff Derouen  
Executive Director  
Public Service Commission  
P.O. Box 615  
Frankfort, KY 40602

DATED: AUG 12 2009

cc: Parties of Record

Case No. 2009-00016

Honorable Gregory D Allen  
Attorney at Law  
Collins & Allen Attorneys at Law  
730 Old Burning Ford Road  
P.O. Box 475  
Salyersville, KY 41465

Kerry K Howard  
Manager, Finance and Administration  
Licking Valley R.E.C.C.  
P. O. Box 605  
271 Main Street  
West Liberty, KY 41472