

January 25, 2010

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PUBLIC SERVICE
COMMISSION

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602

Re: Application of Clark Energy Cooperative, Inc. for an Adjustment of Rates
Case No. 2009-00314

Dear Mr. Derouen:

Please find enclosed the original and seven (7) copies of the responses to the Commission's Order "Commission Staff's Third Data Request to Clark Energy Cooperative, Inc." dated January 15, 2009.

Please contact me at (859) 231-0000 or Paul G. Embs at (859)744-4251 with any questions regarding this filing.

Respectfully submitted,
Frost, Brown & Todd, LLC

Mark David Goss
Counsel for Clark Energy Cooperative, Inc.

Enclosure

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
JAN 26 2010
PUBLIC SERVICE
COMMISSION

In the Matter of
Application of Clark Energy Cooperative,
Inc. for an Adjustment of Rates

Case No. 2009-00314

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

The applicant, Clark Energy Cooperative, Inc., makes the following responses to the "Commission Staff's Third Data Request", as follows:

1. The witnesses who are prepared to answer questions concerning each request are Paul G. Embs, Alan Zumstein, and Jim Adkins.
2. Paul G. Embs, President and CEO of Clark Energy 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 by reference herein.



Mark David Goss
Frost, Brown & Todd, LLC
Attorneys-At-Law
250 West Main Street, Suite 2800
Lexington, Kentucky 40507
Attorney for Clark Energy Cooperative, Inc.
Telephone: 859-231-0000

The undersigned, Paul G. Embs, as President & CEO of Clark Energy Cooperative, Inc., being duly sworn, states that the responses herein are true and accurate to the best of my knowledge and belief formed after reasonable inquiry.

Dated: January 25, 2010

CLARK ENERGY COOPERATIVE, INC.

By: 
PAUL G. EMBS, PRESIDENT & CEO

Subscribed, sworn to, and acknowledged before me by Paul G. Embs, as President & CEO for Clark Energy Cooperative, Inc. on behalf of said Corporation the 25th day of January, 2010.


Notary Public, Kentucky State At Large

My Commission Expires: MY COMMISSION EXPIRES SEPTEMBER 8, 2012

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

Hon. Lawrence W. Cook
Assistant Attorney General
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601

This 25th day of January, 2010


ATTORNEY FOR
CLARK ENERGY COOPERATIVE, INC.

Clark Energy Cooperative, Inc.

Case No. 2009-00314

Commission Staff's Third Data Request

1. Refer to Clark Energy's response to item 4.b. of Commission Staff's Second Data Request ("Staff's Second Request"), page 2 of 3.

a. Given that Schedule D was marketed to the 273 current customers as being 60 percent of the residential rate, explain why it is appropriate to authorize a rate that is not 60 percent of the residential rate.

b. Explain whether Clark Energy has notified the 273 current customers that the proposed rate is not 60 percent of the residential rate.

Response:

1. a. Establishing one rate as a percentage of another rate is normally not an appropriate rate-making concept. In this situation, the current approach did serve a purpose when it was initially established over twenty years ago. However, this approach is probably not a good one today for a couple of reasons. One, it is not necessarily based on the cost to serve, and two, it is being subsidized by other rate payers. A prime example as to why this current approach is not a good one is the following result due to an increase in Clark Energy's wholesale power supplier's fuel base in the wholesale energy rate. When East Kentucky Power Cooperative ("EKPC") increases its fuel base in its energy charge due to increases in fuel costs, Clark Energy increases all of its energy rates for all rate classes, except for Schedule D, by the same amount as EKPC adjusted for line losses. The energy rate for Schedule D is increased by an amount equal to 60 percent of the increase in the energy rate for the residential class. For this rate class, Clark Energy is able to pass on only 60 percent of the wholesale power increase that it receives.

b. Clark Energy has not notified the current customers on Schedule D of this proposed change except for the published official notice of proposed rate adjustments.

Clark Energy Cooperative, Inc.

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Commission Staff's Third Data Request

2. Refer to the response to item 5.a. of Staff's Second Request. Clark Energy states that the \$9,275 listed on page 6 of Exhibit J should not have been included. Given this statement, is the amount of the increase being sought by Clark Energy now \$9,275 less than originally requested, or \$4,077,719?

Response

Clark is proposing to eliminate the rate minimum charge, therefore, less revenue will be generated from this charge. The result would be that Clark would need to increase the amount of increase requested by \$9,275, or a total of \$4,096,269.

Clark Energy Cooperative, Inc.

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Commission Staff's Third Data Request

3. Refer to the response to item 6 of Staff's Second Request. The CD-ROM provided includes attachments labeled "Shortcut to Exhibit J" and "Shortcut to Exhibit R". However, Commission Staff was not able to open either attachment. Provide a copy of the CD-ROM as originally requested.

Response

Clark regrets that the CD that was submitted to the Commission was not able to be opened. The CD was tested at Clark's office after Exhibit J and R were copied, however, something must have occurred during the delivery of the CD's that would cause the attachments not to open. Another CD has been attached with Exhibits J and R.

Clark Energy Cooperative, Inc.

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Commission Staff's Third Data Request

4. Refer to the response to item 11 of Staff's Second Request. Confirm that the error identified in response to 11.a. would have no effect on the cost-of-service study ("COSS") given the response to 11.b. that footnote 6 was not used in the COSS.

Response:

The error identified in the response to 11a does not have any effect on this cost of service study based on the response in 11b. The heading for footnote 6 identifies this footnote is for "Overhead O&M Expense Allocation to Lines, Services & Lighting". This allocation has been accomplished in footnotes 1, 2 and 3 on this same page.

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Commission Staff's Third Data Request

5. Refer to the response to item 18 of Staff's Second Request. Clark Energy states that "most probably all future Rate L customers will be three-phase customers." Explain the basis for this statement.

Response:

Schedule L is for consumers whose demands are 50 kW or larger. All new customers coming on to this rate class in the past several years have all been three-phase customers. Clark Energy has not placed any new single-phase customers on this rate schedule for many years.

Clark Energy Cooperative, Inc.

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Commission Staff's Third Data Request

6. Refer to the response to item 22 of Staff's Second Request.

a. This response states that "Clark Energy was paying more in demand than it was passing on to its customers even though it was purchasing less in kwh [sic]." Provide a more detailed response which expands on this statement.

b. In addition to the more detailed explanation requested above, provide a comparison between the two-year periods ending June 30, 2008 and June 30, 2009 of kWh sales, kWh purchases, and monthly demands.

Response

6.a. Clark purchased over 8 million less kwh from the prior year, however, more than 80 kw of demand were purchased from East Kentucky Power Cooperative. This translates into less kwh sold but more demand being paid. There was also a substation that was added during the year.

6.b. Attached.

Clark Energy Cooperative
 Case No. 2009-00314
 Purchased Power
 Test Year Billing Determinants
 June 30, 2009

Billing Demand	<u>Total KWH Billing</u>									
	<u>Schedule E</u>	<u>Schedule E</u>		<u>Total</u>	<u>Green</u>	<u>Metering</u>	<u>1000</u>	<u>Substation Charge</u>		
		<u>On-Peak</u>	<u>Off-Peak</u>					<u>Kwh</u>	<u>Power</u>	<u>Point</u>
July, 2008	84,062	22,215,563	13,980,172	36,195,735	2,500	24	1	12	6	1
August	83,887	24,252,502	14,806,990	39,059,492	2,500	24	1	12	6	1
September	81,823	23,368,946	14,282,052	37,650,998	2,500	24	1	12	7	1
October	84,759	20,023,537	12,960,133	32,983,670	2,500	24	1	12	7	1
November	73,776	14,037,324	16,939,012	30,976,336	2,400	24	1	12	7	1
December	94,880	18,204,035	22,225,171	40,429,206	2,400	24	1	12	7	1
January	123,014	22,447,964	27,744,080	50,192,044	2,400	24	1	12	7	1
February	131,388	23,419,254	29,805,738	53,224,992	2,400	24	1	12	7	1
March	123,841	18,512,352	23,183,470	41,695,822	2,400	24	1	12	7	1
April	114,840	16,525,113	20,688,791	37,213,904	3,000	24	1	12	7	1
May	71,954	13,873,841	17,014,718	30,888,559	3,000	24	1	11	8	1
June	58,879	16,851,224	12,545,224	29,396,448	3,000	24	1	11	8	1
Total	1,127,103	233,731,655	226,175,551	459,907,206	31,000	288	12	142	84	12

Twelve months prior to test year:

Billing Demand	<u>Total KWH Billing</u>									
	<u>Schedule E</u>	<u>Schedule E</u>		<u>Total</u>	<u>Green</u>	<u>Metering</u>	<u>1000</u>	<u>Substation Charge</u>		
		<u>On-Peak</u>	<u>Off-Peak</u>					<u>Kwh</u>	<u>Power</u>	<u>Point</u>
July, 2007	77,784	22,069,053	13,993,521	36,062,574	2,600	23	1	12	6	1
August	83,322	23,789,341	14,872,925	38,662,266	2,500	23	1	12	6	1
September	94,548	28,121,096	17,395,764	45,516,860	2,500	23	1	12	6	1
October	82,775	20,437,557	13,028,001	33,465,558	2,500	23	1	12	6	1
November	70,842	13,946,036	16,392,522	30,338,558	2,500	23	1	12	6	1
December	87,844	16,922,353	20,302,812	37,225,165	2,500	23	1	12	6	1
January, 2008	94,620	20,436,959	24,856,506	45,293,465	2,500	23	1	12	6	1
February	125,576	23,896,647	29,966,861	53,863,508	2,500	23	1	12	6	1
March	107,510	20,622,729	25,980,015	46,602,744	2,500	23	1	12	6	1
April	91,956	18,062,782	22,971,148	41,033,930	2,500	23	1	12	6	1
May	68,645	13,723,906	16,841,830	30,565,736	2,500	23	1	12	6	1
June	61,214	16,132,200	13,158,153	29,290,353	2,500	23	1	12	6	1
Total	1,046,636	238,160,659	229,760,058	467,920,717	30,100	276	12	144	72	12
Change from prior year	80,467	(4,429,004)	(3,584,507)	(8,013,511)	900	12	0	(2)	12	0

Clark Energy Cooperative, Inc.

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Commission Staff's Third Data Request

7. Refer to the response to item 24 of Staff's Second Request.

a. In response to 24.a., Clark Energy states that current employees are paid for unused vacation up to 40 hours per year. Provide a copy of Clark Energy's policy for paying unused vacation time.

b. Refer to the response to 24.e.

(1) Provide the number of hours and the amount of overtime attributable to the ice storm.

(2) Given the significant nature of the ice storm, provide further explanation as to why Clark Energy believes that the amount of overtime during the test year is representative of overtime that can be expected to be worked in a normal year.

Response

7.a. A copy of the policy is attached.

7.b. (1) 3,880 hours and \$136,385 are attributable to the ice storm.

7.b. (2) As illustrated in Question 24.d. and e. of Staff's Second Request, of the 6 years that are shown, 3 of the years had an excess of \$450,000 of overtime wages. This would indicate that it is just as likely that the level of overtime wages in the test year will again occur. That is the reason Clark believes that the overtime wages in the test year is representative of overtime that can be expected to be worked in a normal year.

**CLARK ENERGY COOPERATIVE, INC.
WINCHESTER, KENTUCKY**

OPERATIONS POLICY #304.1

SUBJECT: LEAVE

I. OBJECTIVE

- A. To establish the guidelines and administrative requirements for Cooperative personnel taking vacation, sick/personal time, leaves of absence, jury duty, holiday, and other leave.

II. CONTENT

- A. **VACATION LEAVE** is intended to provide for rest and relaxation for eligible employees in recognition of service performed.
1. Vacation leave for full-time personnel with less than ten (10) years of service shall be accrued monthly on the basis of ten days for an annual total of 80 hours.
 2. Vacation leave for full-time personnel with ten (10) years service shall be accrued monthly on the basis of 15 days for an annual total of 120 hours.
 3. Vacation leave will be prorated on employees who did not receive a full month's compensated time (i.e.; working hours, sick/personal hours, vacation hours, and holiday hours) for the previous working month. Vacation leave will be prorated to the nearest half hour, except that any uncompensated leave shall be subject to a half hour minimum reduction.
 4. Applications for vacation shall be made on the form supplied by the cooperative and shall be filled out in detail and go through the proper channels before the vacation is taken. Notification of approval or disapproval will be given to the employee as soon as possible after application. The minimum amount of vacation at one time shall be one (1) hour subject to prior approval by the department head or their designee.
 5. Vacations should be scheduled at such times as convenient with the Cooperative in accordance with this policy.
 6. Every effort will be made to accommodate employee's vacation requests, but management will factor in the ability of the department to function in the event of extraordinary occurrences (storms, illnesses or other emergencies) and the rotation of choice days prior to and after holidays in approving vacation requests.

7. Vacation may not be scheduled on annual meeting day /night, except under extenuating circumstances. Special written prior approval by the President/CEO is required.
8. In the case of illness or death in the family during the vacation period, the department head may reschedule the vacation period at the request of the employee provided the employee has the appropriate accumulated leave to cover the absence.
9. Employees who have received transferred sick time from another employee will not accrue vacation time.
10. Persons terminating employment shall be paid for vacation time at the rate earned. In the event of death of any employee, the beneficiary will be paid for any unused vacation allowance.
11. Employees may take pay in lieu of time off up to a maximum of 40 hours in the calendar year. Employees may request a vacation pay out anytime during the calendar year but **no later than December 1st** of each year. Employees are required to fill out a request form and submit to the payroll department.
12. An employee may, at the end of each calendar year; rollover for use within the next calendar year, the amount earned in the previous calendar year.
13. An additional forty hours of unused vacation leave, above the amount earned in the previous year, may be rolled over for use within the next calendar year or transferred to accumulated sick leave at the earned value.
14. Vacation pay is computed on the employee's current wage or salary.
15. Employees that are absent and have exhausted their sick/personal time will have their vacation time charged until it is exhausted.
16. Employees who have compensated time after the 13 weeks of FMLA Leave will not accumulate vacation leave.

B. SICK/ PERSONAL LEAVE is provided to supplement income in case of sickness, emergencies or other situations not covered by annual vacation leave.

1. Full time employees shall accumulate the dollar value of eight (8) hours of sick/personal leave per month, based on the previous calendar months rate of pay and compensated time (i.e.; working hours, sick hours, vacation hours, and holiday hours). Sick/personal leave will be prorated on employees who

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Commission Staff's Third Data Request

8. Refer to page 2 of 2 of the response to item 26 of Staff's Second Request and Exhibit 3, page 2 of the application. In the response, the existing rate for Account 370, Meters, is 3.0 percent while, in the application, it is 6.67 percent.

a. Clarify which is the correct existing rate for Account 370, Meters.

b. In addition to Account 370, Clark Energy also maintains Account 370.1, Meters, AMR. Given the existence of Account 370.1, Meters, AMR, explain whether the meters recorded in Account 370 are conventional meters or AMR meters.

c. If the meters recorded in Account 370 are conventional meters, explain why the proposed depreciation rate for the account is the same as that proposed for Account 370.1.

d. If the meters recorded in Account 370 are AMR meters, explain why Clark Energy maintains an account, Account 370.1, specifically identified as Meters, AMR.

Response

8.a. Clark apologizes for this mistake. The correct existing rate for Account 370, Meters is 3.0%, not 6.67%. The existing rate for Account 370.1 Meters, AMR is 6.70%.

8.b. All meters have AMR technology. Clark is using Account 370.1 AMR for the module that provides AMR capability.

8.c. The technology for meters, even without the AMR module, is constantly changing. Clark is replacing meters for new technology as new meters are purchased, and at a faster pace than in past years. The AMR module is switched from the old to the new meters, and also the AMR module is being replaced as technology is improved. In essence, there is constant change from older to newer technology for both the meter and the AMR module.

8.d. Account 370.1 was established for the sole purpose of accounting for the cost of the AMR module.

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Commission Staff's Third Data Request

9. Refer to the response to item 30.a. of Staff's Second Request. Clarify whether the latter part of the first sentence of the response which reads "[t]he year that the retirement was installed" is correct. If it is not correct, provide the corrected text.

Response

The response should have been stated as "simulated" to derive the Plant Survivors.

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Commission Staff's Third Data Request

10. Refer to the response to item 32.a. of Staff's Second Request. Consider this a continuing request. Provide the documentation, when received from Rural Utilities Service, indicating whether it approves Clark Energy's proposed depreciation rates.

Response

Clark will keep the Commission apprised of any correspondence with RUS in regards to its depreciation study. 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 depreciation 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.

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Commission Staff's Third Data Request

11. Refer to the response to item 34.a. of Staff's Second Request, which states that use of a five-year average net salvage amount in Clark Energy's depreciation study is consistent with other cooperative applications in recent years accompanied by a depreciation study. Aside from this consistency, explain whether there is a reason that a five-year average is preferred, or considered "better" than some other average.

Response

A three (3) year average is too short, in that one unusual year can have a major impact on the results. Either five or ten years will generally smooth out any unusual year that may exist in that time period. Averages past 10 years would include information that is too dated to reflect current levels and activities. Clark reviewed both the 5 and 10 year averages as part of the study. There was very little difference between the two averages, therefore, Clark used the 5 year average [since this has been accepted by the Commission in previous cases].

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Commission Staff's Third Data Request

12. Refer to the response to item 34.b. of Staff's Second Request and Section 10 of the Clark Energy depreciation study.

a. Provide the derivation of the Net Salvage Ratios for the individual plant accounts shown on pages 2 and 3 in Section 10 of the study. Are these ratios based solely on which Iowa curve type is selected?

b. The next-to-last sentence in the response indicates that the ratio of the total net salvage amount "[i]s multiplied by the five-year average net salvage amount to ultimately calculate the net salvage percentage by account." Provide an example of the calculation of the net salvage percentages shown on page 2 of Section 3.

Response

12.a. Net salvage does not affect which Iowa curve is determined. Attached is page 3 of Section 10 of the study which shows the calculation used to arrive at the net salvage percentages. The RUS Uniform System of Accounts does not allow for removal costs to be recorded on Accounts 368, Transformers and Account 370, Meters. That is the reason there are no net salvage percentages for those accounts. The purpose of this schedule is to calculate the portion of depreciation that relates to the five year average net salvage amount. Since a gain or loss is not recognized on the retirement of distribution plant items, the depreciation rate has the net salvage built into it. The columns have been given letters and a legend is shown at the bottom of the page to show the individual steps used to calculate the net salvage as a percentage of the plant balances. The Net Salvage Ratio's in column (b) have been selected based on the net salvage to plant retirements for the past 10 years. Should the Net Salvage Ratio be changed on any of the plant accounts, another account would be changed by the same amount so that the five year average net salvage amount would be calculated to arrive at the same total.

12.b. See 12.a. above and the attached schedule.

Question 12 (a)
12. a.

Clark Energy Cooperative
Calculation of Net Salvage Percent
as of December 31, 2008

Account Number	Description	(a) Balance Dec 31, 2008	(b) Net Salvage Ratio	(c) Net Salvage Amount	(d) Ratio to Total	(e) Net Slavage Allocation	(f) Net Slavage Percentage
364	Poles, Towers & Fixtures	24,777,657	40%	9,911,063	40.22%	125,649	0.51%
365	Overhead Conductors & Devices	29,426,614	40%	11,770,646	47.76%	149,224	0.51%
366	Underground conduit	2,647,690	25%	661,923	2.69%	8,392	0.32%
367	Underground Conductors & Devices	2,907,736	15%	436,160	1.77%	5,529	0.19%
368	Line Transformers	13,707,955	0%	0	0.00%	0	0.00%
369	Services	7,641,849	20%	1,528,370	6.20%	19,376	0.25%
370	Meters	4,985,737	0%	0	0.00%	0	0.00%
371	Installations on Customers' Premises	2,090,180	15%	313,527	1.27%	3,975	0.19%
373	Street lights	148,598	15%	22,290	0.09%	283	0.19%
	Total	<u>88,334,016</u>		<u>24,643,978</u>	100%	<u>312,427</u>	
						<u>312,427</u>	
							Five year average net salvage amount

(a) x (b) = (c)
 (d) = Ratio of (c)
 (e) = 312,427 x (d)
 (f) = (e) ÷ (a)

Clark Energy Cooperative, Inc.

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Commission Staff's Third Data Request

13. Refer to the response to item 35 of Staff's Second Request. The request stated, "Identify all retirements, replacements, additions and costs of removal reflected in the budgets." The response fails to identify the specific components. Provide a revised response which is responsive to the original request.

Response

Clark does not budget by "retirements, replacements, additions and costs of removal", however, in an attempt to reply to the request, estimates were used by Clark personnel to develop these amounts. The estimated components are listed below:

<u>Year</u>	<u>Retirements</u>	<u>Replacements</u>	<u>Additions</u>	<u>Cost of Removal</u>
2009	741,824	595,762	2,701,681	374,472
2010	751,251	606,446	2,732,900	379,230
2011	1,151,160	2,514,814	2,602,147	581,104
2012	839,848	1,134,082	2,599,081	423,954
2013	778,212	917,552	2,541,638	392,840
2014	818,176	971,442	2,665,389	413,014

Clark Energy Cooperative, Inc.

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Commission Staff's Third Data Request

14. Refer to the corrected Exhibit 7 in response in item No. 41.a. The proposed adjustment for Retirement and Security is now \$340,426 minus the \$72,864 capitalized and the \$53,101 charged to clearing, for a net amount of \$214,461, which is a decrease of \$51,393 from \$265,854, the amount of the adjustment in the application. Given this corrected amount, should the amount of the increase being sought by Clark Energy be \$51,393 less than originally requested? If yes, explain where and how within its proposed rate schedules Clark Energy would prefer to reflect this reduction.

Response

That reduction is correct. Clark would propose that all adjustments to the revenue requirements in the application be reflected in the energy charge for Schedule R – Residential consumers.

Clark Energy Cooperative, Inc.

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Commission Staff's Third Data Request

15. Refer to the response to Attorney General's ("AG") Initial Request for Information at item 6. The AG requested total sums spent on Account 593.90 for the past five years. The requested information was omitted. Provide the requested information.

Response

<u>Year</u>	<u>Amount</u>
2010 Budget	1,076,911
2009	1,117,884
Test year	888,539
2008	684,664
2007	752,985
2006	629,682
2005	770,581
2004	799,095

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Commission Staff's Third Data Request

16. Refer to the response to item 44 of Staff's Second Request, which shows the cost of Clark Energy's depreciation study as part of its rate case expense. Given that: (1) depreciation studies are at times performed independent of rate applications and (2) rate applications often do not include depreciation studies, explain whether Clark Energy believes that the cost of its depreciation study must be a part of its rate case expenses and amortized over three years, or if the study's cost can be considered apart from the rate case expense and amortized over a longer period of time.

Response

Depreciation studies usually suggest that they be updated every five (5) years, therefore, Clark would suggest that the depreciation study be amortized the same time period (five years).