

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF GRAYSON RURAL)
ELECTRIC COOPERATIVE CORPORATION) CASE NO. 2012-00426
FOR AN ADJUSTMENT OF RATES)

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION
TO GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION

Grayson Rural Electric Cooperative Corporation ("Grayson"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before March 8, 2013. 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 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.

Grayson 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

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

Careful attention should 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.

1. State whether Grayson has experienced opposition from any of its members to its proposal to recover more of its fixed costs through the customer charge. Include whether Grayson has communicated its proposal to customers in any way other than through its Official Notice; for example, through civic or community group presentations.

2. Refer to Item 5.c. of the application where it states, "Grayson had a Times Interest Earned Ratio ("TIER") of 1.57 [a TIER of 0.25 excluding Generation and Transmission ("G&T") capital credits], for the test year ending May 31, 2012. The TIER was 1.60 for calendar year of 2011 [a TIER of 0.25 excluding G&T capital credits]. Grayson is required under its mortgage agreement to maintain both a Net TIER of 1.25 and an operating TIER of 1.1, based on the average of two of the three most recent years." Also refer to page 6 of Exhibit K.

a. What was Grayson's operating TIER for the test year ending May 31, 2012?

b. What was Grayson's net TIER and operating TIER for calendar year 2012?

c. Refer to page 6 of Exhibit K. Provide the definition of "Modified TIER".

d. What was Grayson's operating debt service coverage ratio and debt service coverage ratio for 2012?

3. Refer to paragraph 12 of the Application and Exhibit D. Grayson states that a copy of the notice given is provided in Exhibit D.

a. State the manner in which Grayson gave notice – i.e., publication or mailing.

b. If the notice was published, pursuant to 807 KAR 5:001 Section 16 (5)(a) (as revised on 1/1/2013), provide an affidavit from the publisher verifying that the notice was published, including the dates of publication with an attached copy of the published notice, no later than 45 days from the filed date of the application.

c. If the notice was mailed, pursuant to 807 KAR 5:001 Section 16 (5) (c), provide a written statement signed by an authorized representative of the utility verifying that the notice was mailed no later than 45 days from the filed date of the application.

4. Refer to Grayson's filing of January 25, 2013. Grayson identifies Exhibit D as the corrected copy of the official notice given.

a. State the manner in which Grayson provided notice to its customers of its corrected Exhibit D.

b. If the corrected notice was published, pursuant to 807 KAR 5:001 Section 16 (5)(a), provide an affidavit from the publisher verifying that the notice was

published, including the dates of publication with an attached copy of the published notice, no later than 45 days from the filed date of the application.

c. If the corrected notice was mailed, pursuant to 807 KAR 5:001 Section 16(5)(c), provide a written statement signed by an authorized representative of the utility verifying that the notice was mailed no later than 45 days from the filed date of the application.

5. Refer to Exhibit F of the Application. Provide a copy of the letter from Rural Utilities Service addressing the issue that Grayson did not meet the operating TIER for 2011.

6. Refer to page 3 of the Prepared Testimony of Carol H. Fraley ("Fraley Testimony"). Describe Grayson's experience to date with customer acceptance of and participation in the innovative, optional rate designs referenced in response to Question 10.

7. Refer to the response to question 8 in the Fraley Testimony where it states that "GRECC needs a level of margins that provides for its operating needs, to maintain its mortgage agreements and to pay capital credits." Describe Grayson's proposed plan for paying capital credits.

8. Refer to the response to question 11 in the Fraley Testimony where it states that "GRECC has developed an estimate of a reduction in wholesale power cost of between \$750,000 and \$1,000,000." Describe the basis for the projection and provide all calculations showing how the reductions were determined.

9. Refer to page 3 of the Prepared Testimony of Don Combs ("Combs Testimony"). The response to Question 11 states that there are no customers served

under rate schedules 12b, 12c, 13b, 13c, 14b, and 14c. Identify any other rate schedules under which no customers are served, and would therefore not be included in Exhibit J, Revenue and Billing Analysis.

10. Refer to the Prepared Testimony of Andrea McCleese (“McCleese Testimony”) and the Terms and Conditions section of Exhibit B, Schedule 21, Grayson’s Prepay Metering Program (“Prepay”) tariff.

a. Provide the agreement for Prepay Electric Service that the member will be required to sign that is referenced in paragraph 1 of the Terms and Conditions section of the Prepay tariff.

b. Refer to the response to question 15 of the McCleese Testimony and paragraph 1 of the Terms and Conditions section of the Prepay tariff. Identify and describe the individual member’s circumstances that Grayson would consider in granting an exception for the one-year term requirement, and whether Grayson believes its proposed tariff should be modified to indicate that the customer could return to the standard residential tariff.

c. Paragraph 2 of Terms and Conditions section of the Prepay tariff states, in relevant part, that “members must confirm that he/she can receive communications from the cooperative, either by telephone or electronically, to participate in the voluntary prepay program.” Confirm that if a customer is unable to receive either e-mail, text, or automated phone messages, the customer will not be able to participate in the prepay program.

d. Refer to the response to question 12 of the McCleese Testimony. State whether screen prints are available from the software vendor. If so, provide the screen prints.

e. Refer to the response to question 16 of the McCleese Testimony.

(1) Identify each type of meter Grayson has deployed, the number of each type deployed, and which type(s) is/are not compatible with the prepay program software.

(2) Confirm that members who do not have meters in service that are compatible with the hardware and software Grayson will deploy for the prepay program will not be able to participate in the prepay program.

f. Refer to paragraph 9 of the Terms and Conditions section of the Prepay tariff which states, "A new member, who previously received service from Grayson RECC and discontinued service without paying his/her final bill (i.e. an uncollectible account) will be required to make a substantial payment in accordance with our normal billing practices prior to establishing prepay service."

(1) Explain what is meant by "a substantial payment in accordance with our normal billing practices prior to establishing prepay service."

(2) State whether the provisions contained in paragraph 8 of the Terms and Conditions section are applicable to prior customers. If not, explain why such customers do not qualify for such billing practices.

g. Refer to paragraph 13 of the Term and Conditions Section of the Prepay tariff where it references Grayson's Rules and Regulations, Original Sheet 155,

item 45. State whether the reference should be to Section 45, Sheet No. 38, the \$25.00 Returned Check Charge.

h. Refer to paragraph 15 of the Terms and Conditions section of the Prepay tariff where it states that a monthly paper bill will be mailed to members who receive prepay service. State whether any other billing method is proposed to be offered to prepay customers.

i. Refer to paragraph 19 of the Terms and Conditions section. The tariff states the account will be disconnected regardless of weather/temperature.

(1) State whether there are any exceptions to this rule during periods of extreme temperature, such as for the elderly or dependent children. Include whether any attempt will be made to help the customer obtain aid in such a situation, or whether Grayson would discourage participation in such instances.

(2) Describe any differences between Grayson's criteria for disconnecting a prepay account and a post-pay account.

j. Refer to paragraph 20 of the Terms and Conditions section where it states, "A prepay account will be disconnected immediately in cases of theft, tampering, or hazardous code violation."

(1) State what costs the prepay customer would have to pay if prepay equipment is damaged as a result of tampering.

(2) State whether customers who violate this section would be able to receive electric service under another tariff.

11. Refer to the response to question 7 of the Prepared Testimony of Mary Elizabeth Purvis ("Purvis Testimony") where Grayson estimates that 500 members will use the proposed prepay program.

a. If Grayson's proposed prepay program does not achieve the assumed participation level, state whether non-participants could eventually be responsible for the costs not recovered from participants. Include the potential for unrecovered costs if, at the proposed rates, only 200 customers participate.

b. If Grayson's prepay program achieves more than the assumed participation level, describe the effect on participant costs if 700 customers participate.

12. Refer to the Annual Expenses listed in Exhibits B and C on pages 3 and 4 of the Purvis Testimony.

a. In Exhibit B, provide the basis for the use of a 15-year life for establishing depreciation expense.

b. In Exhibit B, describe the types of operation and maintenance expenses for software and hardware that are included in these categories and how the respective percentages of 20 and 10 percent were determined. Provide any calculations used in determining these percentages.

c. The explanation for the monthly expenses per member for Exhibit C, the second bullet, lists monthly software support at \$.60 per member per month. State what costs and services are included in the monthly software support costs, explain how they differ from the software operation and maintenance expenses, and state what else is included in the monthly software cost of \$2.16 per member that is shown in Exhibit C.

d. Provide details concerning the software chosen for the proposed Prepay program.

e. Identify and provide a schedule of any cost savings associated with Grayson's proposed prepay metering program.

f. State whether Grayson will receive any grant money pertaining to the prepay metering program and, if so, provide the amount to be received.

13. Refer to the page 2 of the Prepared Testimony of James R. Adkins ("Adkins Testimony"), response to Question 7 where it states, "However, the primary reason for the need to increase its rates is its results from operations during the test year where its net margins and adjusted net margins were a loss of \$771,760 and \$1,085,514 respectively." Explain the basis of the adjusted net margin of \$1,085,514 and provide the calculation showing how this amount was determined.

14. Refer to page 10 of the Adkins Testimony, response to Question 21. It states, in relevant part, that by placing more of its costs into a fixed-rate component, less distribution costs will come from energy sales based on the volume of usage, and that Grayson will be more prone to enter into additional DSM programs. State whether Grayson has experienced a decline in customers or energy sales since 2008 over and above the energy reduction identified in the response to Item 49.c. of Staff's First Request.

15. Provide details concerning the natural gas well project discussed in the response to Question 22 of the Adkins Testimony.

16. Confirm that Grayson is proposing no increases in its non-recurring charges.

17. Confirm that Grayson is proposing no increase to its Cable Television Attachment charge.

18. Provide an electronic copy in spreadsheet format of Exhibit R with all formulas intact and unprotected and with all columns and rows accessible. If it is necessary to update Exhibit R in response to questions contained in this information request, provide the updated version instead of the original version in both hard copy and electronically.

19. Refer to Exhibit R of the application, page 9 of 42. Account 408.6, Taxes, and Accounts 425-426, Contributions, are shown as being allocated using Total Plant. The accounts were actually allocated using Footnote 7. State whether these accounts were allocated using Footnote 7 in error. If the answer is no, explain why the Footnote 7 allocations are appropriate for use in allocating these accounts.

20. Refer to Exhibit R of the application, page 10 of 42.

a. Under Footnote 1, the Poles and Conductor total of \$47,510,673 includes Accounts 362, 364, 365, 367, and 368 from page 12 of 42. Explain why Account 368, Transformers, should be included with Poles and Conductor when using Plant Investment to allocate expenses between Lines and Services.

b. In the "Actual" column under Footnote 2, explain why \$485,319 appears as the total for Lines instead of the \$427,998 that appears for Lines on page 8 of 42 for Account 583, Overhead Line Expense.

c. In the "Actual" column under Footnote 2, explain why the \$0 appears as the total for Services instead of the \$57,322 that appears for Services on page 8 of 42 for Account 583, Overhead Line Expense.

d. In the "Actual" column under Footnote 3, explain why the \$27,280 appears as the total for Transformers when page 8 of 42 shows the amount to be \$26,312 for Account 595, Maintenance of Line Transformers.

21. Refer to Exhibit R of the application, page 11 of 42. Explain why this schedule does not include Accounts 590, 593, 594, 597, and 598.

22. Refer to Exhibit R of the application, page 23 of 42. Under the column "Rate 5 Street Lights," explain why the total Revenue Requirements amount of \$11,408 in the Summary section differs from the total amount of \$13,431 in the table at the top of the page.

23. Refer to Exhibit R of the application, page 37 of 42.

a. This page shows that an increase of \$21,085 is justified for Rate 4, Large Power. Explain why Grayson is not proposing an increase for this rate class.

b. This page shows that an increase of \$3,748 is justified for Rate 5, Street Lights, and that \$21,781 is justified for Rate 6, Yard Lights. Explain why Grayson is proposing an increase of only \$378 for Rate 5 (which is less than the amount justified) and \$27,622 for Rate 6 (which is more than the amount justified), as shown in Exhibit J, page 1 of 17.

24. Refer to Exhibit R of the application, pages 37 and 38 of 42. Provide the basis on which Other Revenue is allocated to the rate classes.

25. Refer to Exhibit R of the application, pages 39 and 40 of 42. Explain why the cost amounts on these pages do not reconcile with the cost amounts on pages 22 and 23 of 42.

26. Refer to Adjustment 11 on page 3 of Exhibit S and Exhibit 11. The amount for rate case expense in Exhibit S is \$30,000 and in Exhibit 11 the amount is \$25,000. Provide the amount of rate-case expense Grayson is proposing in this Application.

27. Refer to page 3 of Exhibit S and the Medical and Dental Insurance adjustment on page 1 of the second Exhibit 5 (Note: There are two exhibits listed as Exhibit 5 in the Application). There is not an amount listed in Exhibit S for Medical and Dental Expense, but Exhibit 5 lists a proposed adjustment of \$1,346,847.

a. Explain whether Grayson is proposing an adjustment for Medical and Dental Expenses in the Application.

b. Provide any revisions necessary to the affected Exhibits contained in the Application to reflect any proposed adjustment for Medical and Dental Expenses.

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

a. Account 583.00, Overhead Line Expense, decreased from \$515,000 in the 12 months preceding the test year to \$483,000 in the test year. Provide a detailed explanation for why this expense decreased in the test year.

b. Account 586.00, Meter Expense, increased from \$512,000 in the 12 months preceding the test year to \$552,000 in the test year. Provide a detailed explanation for why this expense increased by this magnitude.

c. Account 588.00, Miscellaneous Distribution Expense, decreased from \$144,000 in the 12 months preceding the test year to \$110,000 in the test year. Provide a detailed explanation for why this expense decreased in the test year.

d. Account 932.00, Maintenance of General Plant, increased from \$285,000 in the 12 months preceding the test year to \$326,000 in the test year. Provide a detailed explanation for why this expense increased by this magnitude.

29. Refer to Exhibit 1 of the Application.

a. Refer to the wage and salary increases table on page 1. Describe the policies and procedures the Board of Directors utilizes in determining the amount of wage and salary increases for employees. Provide copies of any salary surveys or analysis of prevailing wage and salary amounts and any other information or documents utilized in the process of determining the amount of increase for wage and salaried employees.

b. Given Grayson's deteriorating financial condition identified in paragraph 5 of the Application and in its margins for the test year, explain how Grayson can justify the salary and wage increases it has awarded to employees in the test year and the year preceding the test year.

c. Refer to the wage and salary increases table on page 1 of Exhibit 1 in the Applications in Cases No. 2011-00096¹ and 2012-00030². In both cases, the cooperative utility cited its deteriorating financial condition, and as a result limited the amount of wage and salary increases. Explain what consideration Grayson gave to

¹ Case No. 2011-00096, Application of South Kentucky Rural Electric Corporation for an Adjustment of Electric Rates (Ky. PSC Mar. 30, 2012).

² Case No. 2012-00030, Application of Big Sandy Rural Electric Cooperative Corporation for an Adjustment of Rates (Ky. PSC Oct. 31, 2012).

these cases as well as to the wage and salary increases granted by other cooperative utilities in determining the amount of wage and salary increases granted to its employees.

d. Refer to page 4. Explain why employee number 640 had less than 2,080 regular hours worked in the test year.

30. Refer to Exhibit 5. Provide a copy of the Nation Rural Electric Cooperative Association Retirement and Security Program that contains the rates for 2012 base wages for union and non-union employees.

31. Refer to Exhibit 7 of the Application and the total expenditures for Account Number 426.00 listed on page 6 of Exhibit X. The adjustment proposed in Exhibit 7 is \$19,000, whereas the total expense for Account Number 426.00 in Exhibit X is \$12,000. Confirm that the proposed adjustment is correct. If the amount is incorrect, provide updates to all affected exhibits in the Application.

32. Refer to line item 54 on page 2 of Exhibit 7, where the amount of donation is listed as \$6,647.67. Confirm that the amount is correct.

33. Refer to Exhibit 9 of the Application, Director Fees and Expenses. The first paragraph states, "Certain director expenses are removed for rate-making purposes. These costs included director health insurance, directors' per diems, Christmas gifts, attending the Legislative conference, directors attending either the KAEC annual meeting or EKPC annual meeting, when the director is not the representative for the respective organization." In addition to the unallowable expenses identified in the first paragraph, has Grayson incurred any expenses related to the costs

of post-retirement benefits of former directors or for the cost of insurance for spouses or dependents of former directors?

34. Refer to Exhibit 10, Miscellaneous Expenses.

a. Refer to line item 36 on page 2. Explain what the Honors Flight Donation is for and why it is considered a deductible item for ratemaking purposes.

b. Refer to the last line item description on page 3 titled Labor and Benefits.

(1) State what types of labor and benefits are included in this expense.

(2) Explain why the labor and expense in question were not considered as part of Grayson's labor and benefits addressed in the relevant exhibits contained earlier in the Application.

35. Refer to the Total Operations and Maintenance Expense Per Customer Column on page 1 of Exhibit 16. State the reason(s) why the Grayson had the highest amount of this expense among the cooperatives on a per-customer basis.

36. Refer to Exhibit 21 of the Application. There is no information contained in the exhibit. Did Grayson intend to include information in this exhibit? If so, provide the information.

37. Provide a listing, with descriptions, of all activities, initiatives, or programs undertaken or continued by Grayson since its last general rate case through the end of the proposed test period ending May 31, 2012 for the purpose of minimizing costs or improving the efficiency of its operations or maintenance activities.

38. Refer to Grayson's response to Item 13 of Commission Staff's First Request for Information ("Staff's First Request"). Identify all changes in Grayson's bylaws since its last general rate case and provide an explanation for each change.

39. Refer to Grayson's response to Item 35 of Staff's First Request and Exhibit 11 of the Application.

a. Provide a detailed schedule of all costs, including but not limited to those categories shown on Exhibit 11, and all documentation requested below, regarding all costs incurred for the preparation of this case to date:

- (1) Date of each transaction;
- (2) Check number or other document reference;
- (3) Vendor;
- (4) Amount;
- (5) Description of the services performed;
- (6) Account number in which the expenditure was recorded; and
- (7) Cost incurred for this case during the test year;

b. Provide copies of invoices received from vendors.

c. Provide an itemized estimate of the total cost to be incurred, a detailed explanation of how the estimate was determined, and all supporting work papers and calculations.

d. Provide monthly updates of the actual costs incurred during the course of this proceeding in the same manner prescribed above.

40. Refer to the response to Item 49 of the Staff's First Request.

a. Provide the number of customers participating in each of the demand-side management/conservation/energy efficiency ("DSM") programs listed in the response to Item 49.a. during the years identified in the response to Item 49.b.

b. State whether each of the existing DSM programs was initiated by East Kentucky Power Cooperative ("EKPC") or by Grayson.

c. Provide, as a percentage, the ratio of Grayson's expected annual investment in DSM relative to its annual electric sales revenue for the years 2012 through 2015 based on current estimates.

d. Provide, as a percentage, the ratio of Grayson's expected annual DSM energy-efficiency savings relative to its total electric sales (in kWh) for the years 2012 through 2015, based on current estimates.

e. State whether there are additional DSM programs that Grayson has identified or is analyzing that may be included in its DSM portfolio if its increased customer charge is approved. Include a brief description of each program. Include in this explanation a discussion of whether these programs are initiated by EKPC or by Grayson and whether Grayson will offer DSM programs in the future independent of EKPC.



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DATED FEB 22 2013

cc: Parties of Record

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