

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CUMBERLAND VALLEY)
ELECTRIC, INC. FOR A GENERAL) CASE NO. 2016-00169
ADJUSTMENT OF RATES)

NOTICE OF FILING

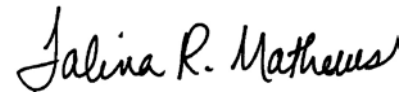
Notice is given to all parties that the following materials have been filed into the record of this proceeding:

- The digital video recording of the evidentiary hearing conducted on November 30, 2016 in this proceeding;
- Certification of the accuracy and correctness of the digital video recording;
- All exhibits introduced at the evidentiary hearing conducted on November 30, 2016 in this proceeding;
- A written log listing, *inter alia*, the date and time of where each witness' testimony begins and ends on the digital video recording of the evidentiary hearing conducted on November 30, 2016.

A copy of this Notice, the certification of the digital video record, hearing log, and exhibits have been electronically served upon all persons listed at the end of this Notice. Parties desiring an electronic copy of the digital video recording of the hearing in Windows Media format may download a copy at http://psc.ky.gov/av_broadcast/2016-00169/2016-00169_30Nov16_Inter.aspx. Parties wishing an annotated digital video

recording may submit a written request by electronic mail to pscfilings@ky.gov. A minimal fee will be assessed for a copy of this recording.

Done at Frankfort, Kentucky, this 8th day of December 2016.

A handwritten signature in black ink that reads "Talina R. Mathews". The signature is written in a cursive style with a large initial 'T'.

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Public Service Commission of Kentucky

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In the Matter of:

APPLICATION OF CUMBERLAND VALLEY)
ELECTRIC, INC. FOR A GENERAL) CASE NO. 2016-00169
ADJUSTMENT OF RATES)

CERTIFICATION

I, Stephanie Schweighardt, hereby certify that:

1. The attached DVD contains a digital recording of the Hearing conducted in the above-styled proceeding on November 30, 2016. Hearing Log, Exhibits, Exhibit List, and Witness List are included with the recording on November 30, 2016.


2. I am responsible for the preparation of the digital recording.

3. The digital recording accurately and correctly depicts the Hearing of November 30, 2016.

4. The "Exhibit List" attached to this Certificate correctly lists all exhibits introduced at the hearing of November 30, 2016.

5. The "Hearing Log" attached to this Certificate accurately and correctly states the events that occurred at the Hearing of November 30, 2016, and the time at which each occurred.

Signed this 6th day of December, 2016.


Stephanie Schweighardt, Notary Public
State at Large
My Commission Expires: January 4, 2019
ID#: 525987



Date:	Type:	Location:	Department:
11/30/2016	General Rates	Hearing Room 1	Hearing Room 1 (HR 1)

Judge: Bob Cicero; Dan Logsdon; Michael Schmitt
 Witness: Jim Adkins; Barbara Elliott; Ted Hampton; Robert Tolliver
 Clerk: Stephanie Schweighardt

Event Time	Log Event
8:31:19 AM	Session Started
8:31:21 AM	Session Paused
8:58:29 AM	Session Resumed
8:58:46 AM	Chairman Schmitt Note: Schweighardt, Stephanie Opening remarks and introduces Case No. 2016-00169.
8:59:37 AM	Atty. Mark David Goss for Cumberland Valley Note: Schweighardt, Stephanie Goss Samford Law Firm, Lexington, KY
9:00:10 AM	Atty Angela Goad and Kent Chandler for the Office of the Attorney General
9:00:25 AM	Attys Nancy Vinsel, Jennifer Fell and Ron Handziak for the PSC
9:00:38 AM	Chairman Schmitt Note: Schweighardt, Stephanie Chairman calls for public comments
	Note: Schweighardt, Stephanie No Public present for comments.
9:01:30 AM	Chairman Schmitt Note: Schweighardt, Stephanie Motions for confidentiality will be ruled at later date
9:02:08 AM	Chairman Schmit Note: Schweighardt, Stephanie Calls for Exhibits to be submitted
9:02:30 AM	Atty Goss Note: Schweighardt, Stephanie Cumberland Valley request to submit three Exhibits.
9:06:37 AM	Atty Goad Note: Schweighardt, Stephanie Request to submit five Exhibits
9:08:27 AM	PSC Staff Note: Schweighardt, Stephanie Request to submit one Exhibit
9:09:01 AM	Chairman Schmitt Note: Schweighardt, Stephanie Calls for 10 mins recess to allowed time for all Exhibits to be labeled, copied, distributed and reviewed.
9:09:19 AM	Session Paused
9:24:33 AM	Session Resumed
9:24:36 AM	Chairman Schmitt Note: Schweighardt, Stephanie No objections to exhibits at this time
	Note: Schweighardt, Stephanie Calls for any objections to submitted Exhibits
9:25:50 AM	Atty Goss Note: Schweighardt, Stephanie Calls Wittness Robert Tolliver to the stand

	Note: Schweighardt, Stephanie	Sworn in by Chairman Schmitt
9:26:29 AM	Atty Goss Direct Exam of Witness Note: Schweighardt, Stephanie	R. Tolliver Witness states he is the Office Manager for Cumberland Valley and has no changes to the documents or information submitted in the record.
9:27:30 AM	Atty Goad Cross Exam of Witness	R. Tolliver
9:28:04 AM	Atty Goad Cross Exam of Witness Note: Schweighardt, Stephanie	R. Tolliver Asking Witness about Order 2014-159 and the last salary rate increase
9:28:46 AM	Atty Goad Cross Exam of Witness Note: Schweighardt, Stephanie	R. Tolliver AG distribute CVs response to question #7
9:30:39 AM	Atty Goad Cross Exam of Witness Note: Schweighardt, Stephanie	R. Tolliver Asking Witness about AG's Exhibit # 1 - Page 3 - McCreary County
	Note: Schweighardt, Stephanie	Asking Witness about AG's Exhibit # 1 - Page 3 - Clay County
9:32:51 AM	Atty Goad Cross Exam of Witness Note: Schweighardt, Stephanie	R. Tolliver Asking Witness about Cumberland Valley's Labor Cost increase
9:33:18 AM	Objection - Atty Goss Note: Schweighardt, Stephanie	Atty Goad Withdraws the question
9:33:45 AM	Atty Goad Cross Exam of Witness Note: Schweighardt, Stephanie	R. Tolliver Distributes copies of Cumberland Valleys response to AGs First Request, question #13
9:34:30 AM	Atty Goad Cross Exam of Witness Note: Schweighardt, Stephanie	R. Tolliver Asking Witness about question #13, regarding pay raises
9:37:35 AM	Atty Goad Cross Exam of Witness Note: Schweighardt, Stephanie	R. Tolliver Asking Witness about the Cumberland Valley Union Contract
9:38:28 AM	Atty Goad Cross Exam of Witness Note: Schweighardt, Stephanie	R. Tolliver Asking why Cumberland Valley provides pay raises every year
9:42:32 AM	Atty Goad Cross Exam of Witness Note: Schweighardt, Stephanie	R. Tolliver Asking if the plan is to increase rates each year
9:43:39 AM	Atty Goad Cross Exam of Witness Note: Schweighardt, Stephanie	R. Tolliver Asking Witness about the PSC Order 2014-159 - pay increases
9:45:45 AM	Atty Goad Cross Exam of Witness Note: Schweighardt, Stephanie	R. Tolliver Asking Witness about Cumberland Valley Board and limiting salary increase
9:46:23 AM	Atty Goad Cross Exam of Witness Note: Schweighardt, Stephanie	R. Tolliver Asking Witness about the employee benefit packages and bonuses
9:48:14 AM	Atty Goad Cross Exam of Witness Note: Schweighardt, Stephanie	R. Tolliver Asking Witness for his personal knowlege of other Co-ops that pay 100% of the employees' insurance cost.
	Note: Schweighardt, Stephanie	Asking Witness if it is uncommon for an employer to pay 100% of the employees' insurance cost.

9:49:06 AM	POST HEARING DATA REQUEST by Atty Goad Note: Schweighardt, Stephanie Note: Schweighardt, Stephanie	Provide list of other employers that pay 100% of employees' insurance cost Chairman states, if available to please provide
9:49:56 AM	Atty Goad Cross Exam of Witness R. Tolliver Note: Schweighardt, Stephanie	Asking Witness about employees compensation packages
9:50:23 AM	Atty Goad Cross Exam of Witness R. Tolliver Note: Schweighardt, Stephanie	Asking Witness about wage comparison
9:50:46 AM	Atty Goad Cross Exam of Witness R. Tolliver Note: Schweighardt, Stephanie	Asking Witness about Cumberland Valley's response to PSC 4th Data Request, page 11 - Section B
9:55:17 AM	Atty Goad Cross Exam of Witness R. Tolliver Note: Schweighardt, Stephanie	Asking Witness why Cumberland Valley did not try to improve makes it a priority to hire local employees due to lost coal jobs.
9:56:04 AM	Atty Goad Cross Exam of Witness R. Tolliver Note: Schweighardt, Stephanie Note: Schweighardt, Stephanie	Asking Witness why Cumberland Valley did not try to improve its cost. AG asking Witness to agree that Cumberland Valley will no longer be at the bottom of the list of lowest rate in the state.
9:57:25 AM	Objection - Atty Goss Note: Schweighardt, Stephanie Note: Schweighardt, Stephanie	Chairman Schmitt sustains the objection. AG stating the Cumberland Valley will no longer be the lowest rate in the state.
9:58:00 AM	Atty Goad Cross Exam of Witness R. Tolliver Note: Schweighardt, Stephanie	Asking the Witness about the Nepotism policy
9:58:32 AM	Atty Goad Cross Exam of Witness R. Tolliver Note: Schweighardt, Stephanie	Asking Witness about the AG's First Request for information, line 31
10:00:24 AM	Atty Goad Cross Exam of Witness R. Tolliver Note: Schweighardt, Stephanie	Asking Witness about Cumberland Valley hiring relatives of current employees
10:00:59 AM	Objection - Atty Goss Note: Schweighardt, Stephanie	Chairman sustains the objection
10:01:29 AM	Atty Goad Cross Exam of Witness R. Tolliver Note: Schweighardt, Stephanie	Asking Witness about a monthly rate increase to its residential customers
10:03:36 AM	PSC Atty Fell Cross Exam Witness R. Tolliver Note: Schweighardt, Stephanie	Asking Witness about the type of meters Cumberland Valley has
10:04:38 AM	PSC Atty Fell Cross Exam Witness R. Tolliver Note: Schweighardt, Stephanie	Asking Witness for an AMR AMI breakdown
10:04:53 AM	PSC Atty Fell Cross Exam Witness R. Tolliver Note: Schweighardt, Stephanie	Asking Witness about Exhibit 20 of Cumberland Valley's application, regarding the equipment the cost is referring to.
10:06:18 AM	POST HEARING DATA REQUEST by Atty Fell Note: Schweighardt, Stephanie	Exhibit 20 - Describe what equipment is required for all the labor shown on this exhibit.

10:06:51 AM POST HEARING DATA REQUEST by Atty Fell
Note: Schweighardt, Asking Witness about PSC Staff's Third Request, Item 34
Stephanie

Note: Schweighardt, Provide a revised Exhibit 20 using 65% payroll overhead for all labor
Stephanie categories shown in the exhibit

10:07:27 AM PSC Atty Fell Cross Exam Witness R. Tolliver
Note: Schweighardt, Asking Witness about the Union Contract negotiation
Stephanie

10:07:55 AM PSC Atty Fell Cross Exam Witness R. Tolliver
Note: Schweighardt, Asking Witness about Exhibit 19 - CVs Applicaiton - Results of wage
Stephanie and salary survey

10:12:32 AM PSC Atty Fell Cross Exam Witness R. Tolliver
Note: Schweighardt, Asking Witness about adjustments that the 2016 market update
Stephanie suggested to the results of the survey performed in 2015.

10:13:37 AM PSC Atty Fell Cross Exam Witness R. Tolliver
Note: Schweighardt, Asking Witness about CVs response to PSC Staff's Third Request,
Stephanie 14c regarding increase to salary employees

10:15:11 AM PSC Atty Fell Cross Exam Witness R. Tolliver
Note: Schweighardt, Asking Witness about proposed adjustments for salaries and wages,
Stephanie payroll taxes and retirement that pertain to the portion resulting
from salaries.

10:18:42 AM PSC Atty Fell Cross Exam Witness R. Tolliver
Note: Schweighardt, Asking Witness general questions regarding Exhibits 1, 2 and 5 -
Stephanie proposed payroll, payroll taxes and retirement adjustments.

10:19:42 AM POST HEARING DATA REQUEST by Atty Fell
Note: Schweighardt, Provide the allocation of the payroll, payroll taxes and retirement
Stephanie adjustments between expense and capital, clearing and other non-
expense accounts.

10:20:11 AM PSC Atty Fell Cross Exam Witness R. Tolliver
Note: Schweighardt, Asking Witness about CVs response to PSC Staff Fourth Request,
Stephanie #11 Section a, last sentence - Salary Plan

10:21:30 AM PSC Atty Fell Cross Exam Witness R. Tolliver
Note: Schweighardt, Asking Witness about CVs response to PSC Staff Fourth Request,
Stephanie item 8, pages 8 - 24 regarding Wage and Salary Plan Administrative
Guide.

10:24:03 AM PSC Atty Fell Cross Exam Witness R. Tolliver
Note: Schweighardt, Asking Witness about CVs response to PSC Staff Third Request, item
Stephanie #32 - CEO Salary Survey

10:25:54 AM POST HEARING DATA REQUEST by Atty Fell
Note: Schweighardt, Provide the number of CV employees for eh years 2011 through
Stephanie 2015, broken down by salary, hourly and part time employees and
explain why the employee count changed from year to year.

10:30:01 AM POST HEARING DATA REQUEST by Atty Fell
Note: Schweighardt, Provide by employee teh cost incurred by CV in calendar year 2015
Stephanie of all benefits offered to all employees; health and dental insurance,
life insurance, retirement and 401k plan.

10:30:38 AM PSC Atty Fell Cross Exam Witness R. Tolliver
Note: Schweighardt, Asking Witness questions referring to his testimony in Exhibi H - first
Stephanie paragraph, page 2 of 8 and the response to PSC Staff Second
Request - #2, regarding CVs operating Tier and response from RUS.

10:34:04 AM POST HEARING DATA REQUEST by Atty Fell
Note: Schweighardt, Provide letters and emails between CV and RUS
Stephanie

10:34:42 AM	PSC Atty Fell Cross Exam Witness R. Tolliver Note: Schweighardt, Stephanie	Asking Witness questions referring CV response to PSC Staff Second Request item 19 and the revised Exhibit S attached to the response, regarding the correct Tier being requested by CV.
10:36:13 AM	PSC Atty Fell Cross Exam Witness R. Tolliver Note: Schweighardt, Stephanie	Asking Witness questions referring to Exhibit 18 of CVs application and the response to PSC Staff Second Request, item 29, page 3, regarding why the amounts in the response do not agree with Exhibit 18.
10:40:59 AM	POST HEARING DATA REQUEST by Atty Fell Note: Schweighardt, Stephanie	Provide a Revised Exhibit18 to CV applicaiton to reflect correct numbers
10:42:37 AM	PSC Atty Fell Cross Exam Witness R. Tolliver Note: Schweighardt, Stephanie	Asking Witness to refer to Exhibit 18 of CVs application and the response to PSC Staff Second Request, item 29, page 3, and explain why there has been no genrerel retirment of capital credits since 2012.
10:43:38 AM	PSC Atty Fell Cross Exam Witness R. Tolliver Note: Schweighardt, Stephanie Note: Schweighardt, Stephanie	Asking Witness questions referring to CV response to PSC Staff Fourth Request, item 4 regarding unclaimed capital credits. Account 217.0
10:49:16 AM	POST HEARING DATA REQUEST by Atty Fell Note: Schweighardt, Stephanie	Provide accounting entry to record unclaimed capital credits
10:50:47 AM	PSC Atty Fell Cross Exam Witness R. Tolliver Note: Schweighardt, Stephanie Note: Schweighardt, Stephanie	Asking Witness questions regarding the granted rate increase in case 2014-00159 and its Revenues. What has been the impact on revenues since that increase was granted in Jan 2015.
10:53:01 AM	POST HEARING DATA REQUEST by Atty Fell Note: Schweighardt, Stephanie	Provide copy of the Witness' "Talking points" and CVs revenused for 2014, 2015 and YTD 2016.
10:53:43 AM	Chairman Schmitt Note: Schweighardt, Stephanie	Calls for 15min break
10:54:06 AM	Session Paused	
11:15:32 AM	Session Resumed	
11:15:35 AM	Vice Chairman Cicero Cross Exam of Witness R. Tolliver Note: Schweighardt, Stephanie	Asking Witness about lowest customer charge of any co-op in KY, referring to CVs Exhibit 1.
11:20:01 AM	Vice Chairman Cicero Cross Exam of Witness R. Tolliver Note: Schweighardt, Stephanie	Asking Witness about the Energy Reduction program regarding how many people/customers are enrolled.
11:25:31 AM	Vice Chairman Cicero Cross Exam of Witness R. Tolliver Note: Schweighardt, Stephanie	Asking Witness about the salary and benefits portion of CV cost
11:28:52 AM	Vice Chairman Cicero Cross Exam of Witness R. Tolliver Note: Schweighardt, Stephanie	Asking Witness questions regarding salary employees and relative employees
11:30:37 AM	Commissioner Logsdon Cross Exam of Witness R. Tolliver Note: Schweighardt, Stephanie	Asking Witness questions regarding CVs bad debt of company

11:31:40 AM POST HEARING DATA REQUEST by Commissioner Logsdon
Note: Schweighardt, Provide listing of CVs Bad Debt of company
Stephanie

11:32:23 AM Commissioner Logsdon Cross Exam of Witness R. Tolliver
Note: Schweighardt, Asking Witness questions regarding employees contribution towards
Stephanie benefits and when the contribution stopped

11:33:26 AM Commissioner Logsdon Cross Exam of Witness R. Tolliver
Note: Schweighardt, Asking Witness questions regarding AMI AMR employees and its
Stephanie savings

11:35:42 AM Commissioner Logsdon Cross Exam of Witness R. Tolliver
Note: Schweighardt, Asking Witness in regards to PSC Staff Fourth Request, item 8 -
Stephanie Evaluation of employees

11:36:53 AM Chairman Schmitt Cross Exam of Witness R. Tolliver
Note: Schweighardt, Asking Witness questions regarding the number years employed
Stephanie with CV.

11:37:45 AM Chairman Schmitt Cross Exam of Witness R. Tolliver
Note: Schweighardt, Asking Witness questions regarding those involved with negotiations
Stephanie for CV.

11:38:06 AM Chairman Schmitt Cross Exam of Witness R. Tolliver
Note: Schweighardt, Asking Witness questions regarding benefits and wages paid by
Stephanie customer

11:38:57 AM Atty Goss Redirects Witness R. Tolliver
Note: Schweighardt, Asking Witness questions regarding increase in customer charge and
Stephanie the number of rate cases since Witness has been employed

11:41:04 AM Atty Goss Redirects Witness R. Tolliver
Note: Schweighardt, Asking Witness about wage increases for the non-union employees
Stephanie

11:42:42 AM Atty Goss Redirects Witness R. Tolliver
Note: Schweighardt, Asking Witness questions regarding benefits and employee
Stephanie contributions

11:44:44 AM Atty Goss Redirects Witness R. Tolliver
Note: Schweighardt, Asking Witness questions regarding the Nepotism Policy and the
Stephanie AG First Request - item 29

11:46:13 AM Atty Goss Redirects Witness R. Tolliver
Note: Schweighardt, Asking the Witness questions regarding the results of focus
Stephanie management audit

11:47:28 AM Atty Goss Redirects Witness R. Tolliver
Note: Schweighardt, Asking Witness questions regarding CVs Financial situation and case
Stephanie 2014-00159 - Rate increase

11:51:11 AM Atty Goss Redirects Witness R. Tolliver
Note: Schweighardt, Asking Witness questions regarding case 2014-00159 - Fixed
Stephanie Variable Interest Rate

11:54:55 AM Atty Goss Redirects Witness R. Tolliver
Note: Schweighardt, Asking Witness questions referring to PSC Staff Exhibit 1 regarding
Stephanie to flipping from fixed to variable rate

11:57:14 AM Atty Goss Redirects Witness R. Tolliver
Note: Schweighardt, Asking Witness questions regarding Exhibit 21 of CVs application
Stephanie

12:00:47 PM Atty Goss Redirects Witness R. Tolliver
Note: Schweighardt, Asking Witness about distribution rate typo / error
Stephanie

12:01:49 PM Atty Goad Redirects Witness R. Tolliver
Note: Schweighardt, Asking Witness questions regarding the AMI AMR meters
Stephanie

12:04:31 PM POST HEARING DATA REQUEST by Atty Goad
Note: Schweighardt, Provide Start date of AMI deployment
Stephanie

12:05:36 PM PSC Atty Fell Redirects Witness R. Tolliver
Note: Schweighardt, Asking Witness questions about the RUS Tier
Stephanie

12:06:19 PM PSC Atty Fell Redirects Witness R. Tolliver
Note: Schweighardt, Asking Witness questions about CVs employees from service area,
Stephanie

12:07:11 PM PSC Atty Fell Redirects Witness R. Tolliver
Note: Schweighardt, Asking witness about employees hired over the past five years and
Stephanie and lives out of the CV area

12:07:42 PM Vice Chairman Cicero Redirects Witness R. Tolliver
Note: Schweighardt, Asking Witness about the five year comparison of employees'
Stephanie salaries

12:08:05 PM POST HEARING DATA REQUEST by Vice Chariman Cicero
Note: Schweighardt, Provide the last 5 years of the cost of plan and portion paid by
Stephanie employees, including healthcare, dental, etc.

12:08:47 PM Chairman Schmitt
Note: Schweighardt, Witness R. Tolliver is dismissed from stand
Stephanie
Note: Schweighardt, Break for lunch
Stephanie

12:08:59 PM Session Paused

1:11:35 PM Session Resumed

1:11:58 PM Atty Goss calls Witness T. Hampton to stand
Note: Schweighardt, Witness is sworn in by Chairman Schmitt
Stephanie

1:12:35 PM Atty Goss direct exam of Witness T. Hampton
Note: Schweighardt, Witness states he is the CEO for Cumberland Valley and has no
Stephanie changes to the documents or information submitted in the record.

1:13:34 PM Atty Goss direct exam of Witness T. Hampton
Note: Schweighardt, Ask about job duties at CV
Stephanie

1:14:44 PM Atty Goad Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking why was a Testimony not filed
Stephanie

1:15:26 PM Atty Goad Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness about salary increases being provided in 2016
Stephanie

1:15:50 PM Atty Goad Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking about Order 2014-159 and salary increase
Stephanie

1:17:00 PM Atty Goad Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness if he admits CV violated the order
Stephanie

1:17:52 PM Objection - Atty Goss
Note: Schweighardt, Chairman Schmitt sustains the objection
Stephanie

1:17:55 PM Atty Goad Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness about exceptions to Nepotism Policy
Stephanie

1:18:41 PM Atty Goad Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness about CVs response to AG First Request, question
Stephanie #32

1:20:52 PM Atty Goad Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness about the Nepotism policy
Stephanie

1:21:41 PM PSC Atty Vinsel Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness about rate adjustments and implementation
Stephanie

1:22:38 PM PSC Atty Vinsel Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness about the 2015 salary increase based on received
Stephanie order

1:24:22 PM PSC Atty Vinsel Cross Exam of Witness Hampton
Note: Schweighardt, Asking Witness regarding his salary increase
Stephanie

1:25:29 PM PSC Atty Vinsel Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness about alternatives to address financial situation
Stephanie

1:26:30 PM POST HEARING DATA REQUEST by Atty Vinsel
Note: Schweighardt, Provide impact of changes moving from manual to machinery
Stephanie

1:27:05 PM PSC Atty Vinsel Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness about CV systematic evaluation of cost savings
Stephanie

1:29:24 PM POST HEARING DATA REQUEST by Atty Vinsel
Note: Schweighardt, Provide how many employees CV hired in another state within the
Stephanie past 5yrs

1:29:58 PM PSC Atty Vinsel Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness about salary and benefits for all employees
Stephanie

1:31:52 PM PSC Atty Vinsel Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness about contract negotiation, date of agreement
Stephanie

1:32:41 PM PSC Atty Vinsel Cross Exam of Witness T. Hampton
Note: Schweighardt, Request copy of contract once finalized
Stephanie

1:33:21 PM PSC Atty Vinsel Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness about loss of revenue
Stephanie

1:36:34 PM PSC Atty Vinsel Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness about Financial Condition and merging with another
Stephanie co-op

1:37:44 PM PSC Atty Vinsel Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness about Compensation Plan - when to be funded
Stephanie

1:38:42 PM PSC Atty Vinsel Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness about AMR AMI meters at CV
Stephanie

1:39:05 PM PSC Atty Vinsel Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness about Exhibit 20 of CV application, under equipment
Stephanie and cost

1:40:44 PM POST HEARING DATA REQUEST by Atty Vinsel
Note: Schweighardt, Provide what is the equipment listed in Exhibit 20 and how many
Stephanie meters were required

1:42:05 PM PSC Atty Vinsel Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness about CVs response to Staff Fourth Request, item 11
Stephanie - wage and salary policy

1:43:47 PM PSC Atty Vinsel Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness regarding Objective B - employees salaries and area
Stephanie to recruit employees

1:46:25 PM PSC Atty Vinsel Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness about Policy B - annual salaries
Stephanie

1:47:47 PM Vice Chairman Cicero Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness about Policy B - recommendation to board
Stephanie

1:48:40 PM Vice Chairman Cicero Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness about the Board's decision to implement salary
Stephanie increase despite the Commission's order not to do so.

1:51:35 PM Vice Chairman Cicero Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness why board didnt put salary increase on hold
Stephanie

1:52:59 PM Vice Chairman Cicero Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness about boarding co-ops and other utilities
Stephanie

1:54:57 PM Vice Chairman Cicero Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness about CV board reviewing merging with another
Stephanie

1:56:12 PM Commissioner Logsdon Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness about CV union contract
Stephanie

1:57:11 PM Commissioner Logsdon Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness about the Union agreement
Stephanie

1:57:28 PM Chairman Schmitt Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness about CVs service areas
Stephanie

1:58:15 PM Chairman Schmitt Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness about customer base served
Stephanie

1:59:26 PM Chairman Schmitt Cross Exam of Witness T. Hampton
Note: Schweighardt, Asking Witness about negotiations involvement of Union contract
Stephanie

2:00:44 PM Atty Chandler Redirects Witness T. Hampton
Note: Schweighardt, Asking Witness about any safety issues due to recent fires
Stephanie

2:02:04 PM Atty Chandler Redirects Witness T. Hampton
Note: Schweighardt, Asking Witness if he would be able to confirm the new AMI roll-out
Stephanie replacing the AMR.
Note: Schweighardt, Asking Witness about final order 2003-026
Stephanie
Note: Schweighardt, Roll-out of the AMI, Line 3 - Transformers and Meters
Stephanie

2:04:06 PM Atty Goss
Note: Schweighardt, Ask Chirman for the relavency of questions
Stephanie
Note: Schweighardt, Chairman Schmitt overrules
Stephanie

2:05:37 PM Chairman Schmitt Dismiss Witness T. Hampton

2:05:45 PM Atty Goss Direct Exam Witness J. Adkins
Note: Schweighardt, Sworn in by Chairman Schmitt
Stephanie

2:06:18 PM	Atty Goss Directs Exam Witness Adkins Note: Schweighardt, Stephanie	Witness states he is the Utility Rate Consultant for Cumberland Valley and has no changes to the documents or information submitted in the record.
2:07:38 PM	Atty Chandler Cross Exam Witness J. Adkins Note: Schweighardt, Stephanie	Asking Witness about his assistance with filing responses and corrections made
2:08:46 PM	Atty Chandler Cross Exam Witness J. Adkins Note: Schweighardt, Stephanie	Asking Witness about the number of changes and effect on company proposal
2:10:00 PM	Atty Chandler Cross Exam Witness J. Adkins Note: Schweighardt, Stephanie	Asking Witness about the resulting tier
2:11:03 PM	Atty Chandler Cross Exam Witness J. Adkins Note: Schweighardt, Stephanie	Asking Witness about testimony and rate increase
2:12:10 PM	Atty Chandler Cross Exam Witness J. Adkins Note: Schweighardt, Stephanie	Asking Witness about page 6 - 17 in his testimony within CV application
2:14:01 PM	Atty Chandler Cross Exam Witness J. Adkins Note: Schweighardt, Stephanie	Asking Witness about AG First Request, item 36, regarding RUS
2:16:28 PM	Atty Chandler Cross Exam Witness J. Adkins Note: Schweighardt, Stephanie	Asking Witness about AG Exhibit 5 - RUS - Bulletin
2:19:06 PM	Atty Chandler Cross Exam Witness J. Adkins Note: Schweighardt, Stephanie	AG distributes portion of Exhibit 21, page 8 (previously in record)Ask Witness about Table on page 8 and meters
2:24:01 PM	Atty Chandler Cross Exam Witness J. Adkins Note: Schweighardt, Stephanie	Asking Witness study and additions
2:27:11 PM	PSC Atty Vinsel Cross Exam of Witness J. Adkins Note: Schweighardt, Stephanie	AG distributes page 25 of Exhibit 21, depreciation study, previously in record
2:27:54 PM	PSC Atty Vinsel Cross Exam of Witness J. Adkins Note: Schweighardt, Stephanie	Asking Witness about the Rate design
2:28:56 PM	PSC Atty Vinsel Cross Exam of Witness J. Adkins Note: Schweighardt, Stephanie	Ask Witness to explain why CV has chosen to place most of the incresea on the customer charge rather than on the volumetric change
2:30:03 PM	PSC Atty Vinsel Cross Exam of Witness J. Adkins Note: Schweighardt, Stephanie	Asking Witness if CV conducted a study of the impact on low income customers
2:34:51 PM	PSC Atty Vinsel Cross Exam of Witness J. Adkins Note: Schweighardt, Stephanie	Asking Witness about Revised Exhibit J of the amended application
2:37:41 PM	PSC Atty Vinsel Cross Exam of Witness J. Adkins Note: Schweighardt, Stephanie	Asking Witness about Exhibit 21 of application depreciation study
2:38:22 PM	PSC Atty Vinsel Cross Exam of Witness J. Adkins Note: Schweighardt, Stephanie	Asking Witness if the CADLAS program select the Iowa curve for a particular account or is that determination made by other means
		Asking Witness aobut page 8 of depreciaiton study, accounts 362 365 367 369 and 371

2:41:30 PM PSC Atty Vinsel Cross Exam of Witness J. Adkins
Note: Schweighardt, Asking Witness about Exhibit 21, page 11 - net salvage percentage
Stephanie

2:43:13 PM POST HEARING DATA REQUEST by PSC Atty Vinsel
Note: Schweighardt, Provide Page 13 Exhibit 21 - Why five year net salvage amount was
Stephanie selected as opposed to other options noted.

2:44:29 PM PSC Atty Vinsel Cross Exam of Witness J. Adkins
Note: Schweighardt, Asking Witness if CVs equity levels do continue to decline what
Stephanie effect will this have on the company
Note: Schweighardt, What is the equity level that the company is trying to achieve
Stephanie

2:45:57 PM PSC Atty Vinsel Cross Exam of Witness J. Adkins
Note: Schweighardt, Asking Witness about page 15 of his testimony - discontinue electric
Stephanie thermal storage or ETS program

2:47:29 PM POST HEARING DATA REQUEST by PSC Atty Vinsel
Note: Schweighardt, Provide the number of kilowatt hours the average ETS customer was
Stephanie billed at the ETS rate during each month of the test period.

2:48:15 PM POST HEARING DATA REQUEST by PSC Atty Vinsel
Note: Schweighardt, Provide bill comparison of an average ETS Customer at the current
Stephanie rates, proposed residential rates and proposed TOD rate

2:49:02 PM Chairman Schmitt
Note: Schweighardt, List of Staff and AG Post Hearing Data Requests due by Friday to
Stephanie CV.

2:50:01 PM POST HEARING DATA REQUEST by PSC Atty Vinsel
Note: Schweighardt, Provide Witness testimony, page 17 - updated with revised table
Stephanie showing the proposed revenues.

2:51:36 PM PSC Atty Vinsel Cross Exam of Witness J. Adkins
Note: Schweighardt, Asking Witness about response to Staff First Request, item 24, page
Stephanie 3 of 6 - Property tax adjustment

2:53:54 PM PSC Atty Vinsel Cross Exam of Witness J. Adkins
Note: Schweighardt, Asking Witness about Staff Second Request, item 15, page 5.
Stephanie Response to #2, regarding square roots as inputs to linear
regression calculations

2:57:20 PM PSC Atty Vinsel Cross Exam of Witness J. Adkins
Note: Schweighardt, Asking Witness about the ETS average usage
Stephanie

2:57:59 PM POST HEARING DATA REQUEST by PSC Atty Vinsel
Note: Schweighardt, Provide revised tariffs for Schedule 1 - residential schools and
Stephanie churches

2:59:29 PM POST HEARING DATA REQUEST by PSC Atty Vinsel
Note: Schweighardt, Regarding PSC Staff Third Request item 5 Table, Regarding loss
Stephanie sales increase in expenses and decline in margins. Provide same
information for the company/customer classes annually for 2010-
2015 and 2016 through June 30, 2016

3:01:42 PM Chairman Schmitt
Note: Schweighardt, Break
Stephanie

3:01:55 PM Session Paused

3:16:58 PM Session Resumed

3:17:00 PM Chairman Schmitt
Note: Schweighardt, Chairman Schmitt ask question to be repeated due recording not on
Stephanie when first asked.

3:17:14 PM PSC Atty Vinsel Cross Exam of Witness J. Adkins
Note: Schweighardt, Asking Witness about the number of kilowatt-hours the average ETS
Stephanie customer was billed at the ETS rate each month of the test period.

3:18:02 PM PSC Atty Vinsel Cross Exam of Witness J. Adkins
Note: Schweighardt, Asking Witness about CV Tier
Stephanie

3:18:23 PM Vice Chairman Cross Exam of Witness J. Adkins
Note: Schweighardt, Asking Witness about the table on page 5 of staff request and what
Stephanie it includes

3:20:04 PM Atty Goss Redirects Witness J. Adkins
Note: Schweighardt, Asking Witness about CV tier
Stephanie

3:22:50 PM Atty Goss Redirects Witness J. Adkins
Note: Schweighardt, Asking Witness about depreciation study and questions asked
Stephanie

3:24:01 PM Atty Goss Redirects Witness J. Adkins
Note: Schweighardt, Asking Witness about sub-stations and who owns these
Stephanie

3:25:07 PM Atty Goss Redirects Witness J. Adkins
Note: Schweighardt, Asking Witness about the rate increase CV is requesting
Stephanie

3:26:31 PM Atty Goss Redirects Witness J. Adkins
Note: Schweighardt, Asking Witness about the revised Exhibit I to the application and
Stephanie questions from Atty Vinsel

3:28:29 PM Atty Goss Redirects Witness J. Adkins
Note: Schweighardt, Asking Witness about increase for typical customer and Y-Heap
Stephanie customer

3:29:45 PM POST HEARING DATA REQUEST by Atty Chandler
Note: Schweighardt, Provide Assets book, account 362, Regarding Tiers
Stephanie

3:30:25 PM POST HEARING DATA REQUEST by Atty Chandler
Note: Schweighardt, Provide CV study of low income users and of averager usage vs
Stephanie regular users

3:31:09 PM Chairman Schmitt Dismiss Witness J. Adkins

3:31:32 PM Atty Goss calls Barabar Elliott to the stand
Note: Schweighardt, Sworn in by Chairman Schmitt
Stephanie

3:32:06 PM Atty Goss Direct Exam of Witness B, Elliott
Note: Schweighardt, Witness states she is the accounting supervisor Cumberland Valley
Stephanie and has no changes to the documents or information submitted in
the record.

3:32:59 PM PSC Atty Fell Cross Exam of Witness B. Elliott
Note: Schweighardt, Asking Witness about PSC Staff Fourth Request, item 22, section a
Stephanie

3:34:11 PM POST HEARING DATA REQUEST by PSC Atty Fell
Note: Schweighardt, Provide expenses for PSC Staff Fourth Request item 22, section a
Stephanie

3:35:00 PM POST HEARING DATA REQUEST by PSC Atty Fell
Note: Schweighardt, Provide updated estimate and total rate case expense
Stephanie

3:35:48 PM POST HEARING DATA REQUEST by PSC Atty Fell
Note: Schweighardt, Provide Breakdown of 45,000 amount
Stephanie

3:36:05 PM Vice Chairman Cross Exam of Witness B. Elliott
Note: Schweighardt, Asking Witness about her recruitment to CV
Stephanie

3:36:29 PM Chairman Schmitt Cross Exam of Witness B. Elliott
Note: Schweighardt, Asking Witness about employment of CV and any contracts with
Stephanie company

3:36:55 PM Chairman Schmitt Dismiss Witness B. Elliott

3:37:15 PM Witness R. Tolliver takes stand

3:37:27 PM PSC Atty Vinsel Cross Exam of Witness R. Tolliver
Note: Schweighardt, Asking Witness about ETS rate, time of day residential rate
Stephanie

3:41:45 PM PSC Atty Vinsel Cross Exam of Witness R. Tolliver
Note: Schweighardt, Asking Witness about ETS customer charge by meter rate
Stephanie

3:42:46 PM PSC Atty Vinsel Cross Exam of Witness R. Tolliver
Note: Schweighardt, Asking Witness about meters not running accurately
Stephanie

3:44:44 PM PSC Atty Vinsel Cross Exam of Witness R. Tolliver
Note: Schweighardt, Asking Witness if meters will continue to be used at the time of day
Stephanie if customer wishes

3:45:24 PM PSC Atty Vinsel Cross Exam of Witness R. Tolliver
Note: Schweighardt, Asking Witness what will change with the different rate if meters
Stephanie may still be used

3:46:29 PM PSC Atty Vinsel Cross Exam of Witness R. Tolliver
Note: Schweighardt, Asking Witness about unable to tell what time meter is being used
Stephanie

3:46:49 PM PSC Atty Fell Cross Exam of Witness Tolliver
Note: Schweighardt, Asking Witness about majority of AMI Capitbilites
Stephanie

3:48:32 PM POST HEARING DATA REQUEST by PSC Atty Fell
Note: Schweighardt, Provide breakdown of AMI vs AMR meters and the number of those
Stephanie having the remote disconnect

3:49:00 PM Chairman Schmitt Cross Exam of Witness R. Tolliver
Note: Schweighardt, Asking Witness about employment of CV and any contracts with
Stephanie company

3:49:33 PM Witness dismissed

3:49:40 PM Chairman Schmitt to Atty Goss
Note: Schweighardt, Regarding CV employees not having or had any contract since Jan 1,
Stephanie 2012

3:50:15 PM Chairman Schmitt ask for motions
Note: Schweighardt, No Motions
Stephanie

3:50:30 PM POST HEARING DATA REQUESTS
Note: Schweighardt, File PHDRs by Friday, Dec 2nd to Atty Goss / CV
Stephanie
Note: Schweighardt, CV will have 14 days to file responses (by Dec 16)
Stephanie

3:51:20 PM Chairman Schmitt ask for any briefs to be filed
Note: Schweighardt, CV has no brief to be filed. Atty Goad ask for AG Office to reserve
Stephanie right to file brief after reviewing the PHDRs responses

3:53:02 PM Chairman Schmitt
Note: Schweighardt, If brief is to be filed, due by Friday, Dec 30
Stephanie

3:54:11 PM Chairman Schmitt adjourns hearing

3:54:34 PM Session Paused

Name:	Description:
AG Exhibit 01	US Census Quick Facts for McCreary Cty KY
AG Exhibit 02	US Census Quick Facts for Clay Cty KY
AG Exhibit 03	362 Station Equipment Code of Federal Regulations
AG Exhibit 04	PSC Final Order in case # 2003-26 Cumberland Valley
AG Exhibit 05	US Department of Agriculture Revision of REA Bulletin 183-1 dated Oct 28, 1977
Cumberland Valley Exhibit 01	Comparison of Electric Utilities in the State of Kentucky
Cumberland Valley Exhibit 02	Letter to CEO Ted Hampton from USDA Rural Development dated Nov 29, 2016
Cumberland Valley Exhibit 03	Vehicle Listing dated Sept 30, 2016
PSC Exhibit 01	Case # 2014-00159 Cumberland Valley Final Order

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CUMBERLAND)	CASE NO.
VALLEY ELECTRIC, INC. FOR AN)	2014-00159
ADJUSTMENT OF RATES)	

ORDER

On June 23, 2014, Cumberland Valley Electric, Inc. ("Cumberland Valley") applied for a \$1,605,137 increase in retail electric service rates. The requested increase is 3.95 percent over normalized test-year operating revenues. Cumberland Valley states that the proposed increase was required in order to maintain its financial integrity and stability, cover increases in fixed and variable costs, and meet the terms required by its mortgage agreement. Finding that an investigation would be necessary to determine the reasonableness of Cumberland Valley's proposed increase, the Commission suspended the rates for five months, up to and including December 22, 2014, pursuant to KRS 278.190(2).

BACKGROUND

Cumberland Valley is a consumer-owned rural electric cooperative corporation, organized under KRS Chapter 279, engaged in the distribution and sale of electric energy to approximately 23,700 member-consumers in the Kentucky counties of Bell, Clay, Harlan, Knox, Laurel, Leslie, Letcher, McCreary, and Whitley. Cumberland Valley has no electric generating facilities and purchases its total power requirements from East Kentucky Power Cooperative, Inc. ("EKPC").

The Commission granted a motion to intervene filed by the Attorney General, by and through his Office for Rate Intervention ("AG"). A public hearing was conducted on November 5, 2014. All information requested during the hearing has been submitted. Both parties filed post-hearing briefs on November 25, 2014.

TEST PERIOD

Cumberland Valley proposed and the Commission accepted the 12-month period ended December 31, 2013, as the test period for determining the reasonableness of the proposed rates. In utilizing the historical test year, the Commission considered appropriate known and measurable changes.

VALUATION

Rate Base

Cumberland Valley determined a net investment rate base of \$63,885,540¹ based on the adjusted test-year-end value of plant in service and construction work in progress ("CWIP"), the 13-month average balances for materials and supplies and prepayments, plus a cash working capital allowance, minus the adjusted accumulated depreciation and the test-year-end level of customer advances for construction.

The Commission concurs with Cumberland Valley's proposed rate base with the exceptions that (1) working capital has been adjusted to reflect the pro forma adjustments to operation and maintenance expenses and (2) accumulated depreciation has been adjusted to reflect the adjustment described herein. With these adjustments, Cumberland Valley's net investment rate base for ratemaking purposes is as follows:

¹ Response to Commission Staff's Second Request for Information ("Staff's Second Request"), Item 6, p. 4.

Utility Plant in Service	\$95,051,496
CWIP	<u>816,622</u>
Total Utility Plant	\$95,868,118
ADD:	
Materials and Supplies	\$ 740,992
Prepayments	175,484
Working Capital	<u>937,489</u>
Subtotal	\$ 1,853,965
DEDUCT:	
Accumulated Depreciation	\$33,700,358
Customer Advances for Construction	<u>87,549</u>
Subtotal	\$33,787,907
 NET INVESTMENT RATE BASE	 <u>\$63,934,176</u>

Capital Structure

The Commission finds that Cumberland Valley's capital structure at test-year-end for ratemaking purposes was \$62,330,183. This capital structure consisted of \$19,517,122 in equity and \$42,813,061 in long-term debt. The Commission excluded generation and transmission capital credits ("GTCCs") in the amount of \$20,577,050. Using this capital structure, Cumberland Valley's year-end equity to total capitalization ratio was 31 percent.

REVENUES AND EXPENSES

Cumberland Valley proposes several adjustments to revenues and expenses to reflect current and expected operating conditions. The Commission finds that seven of the adjustments proposed by Cumberland Valley and not opposed by the AG are reasonable and should be accepted without change. Those adjustments are shown in the following table:

<u>Descriptions</u>	<u>Adjustments</u>
Retirement & Security	\$ 34,902
FAS 106 Postretirement Benefits	\$ 33,809
Donations	\$ (10,671)
Professional Fees	\$ 17,164
Purchase Power Cost	\$ (4,394,432)
Normalize Revenues	\$ (4,358,835)
G & T Capital Credits	\$ (2,957,019)

The Commission makes the following modifications to the remaining proposed adjustments:

Interest Expense

Cumberland Valley proposed an increase of \$542,308 to normalize the test-year interest expense. Cumberland Valley's proposed adjustment did not use the Commission's traditional approach to normalize test-year interest expense for long-term debt. Rather Cumberland Valley proposed that a projected seven-year interest rate of 2.17 percent quoted in mid-April by the Federal Financing Bank be used to determine its interest expense.²

Cumberland Valley states that its efforts to minimize interest costs on its long-term debt by taking advantage of a short-term loan program has resulted in an extremely low average interest cost of 0.88 percent for the test year. Cumberland Valley maintains that this interest rate will not last and will be increasing in the future. It also maintains that in times of low or high interest rates, using the Times Interest Earned Ratio ("TIER") approach to determine revenue requirements is not prudent.

² See Prepared Testimony of James R. Adkins ("Adkins Testimony"), Exhibit H, p. 5 of 16. The testimony proposed an interest rate of 2.17 be used to determine the interest expense adjustment. However, Cumberland Valley's adjustment is based on an average rate of 2.094 percent. See also Exhibit 5 of the Application, and Response to Staff's Second Request, Item 28.d.

The AG recommends that the Commission continue to use its traditional approach to determine Cumberland Valley's interest adjustment. The AG states that until Cumberland Valley locks into a higher interest rate for its long-term debt, the ratepayers should not have to pay a rate higher than the rate Cumberland Valley currently enjoys. The AG also maintains that Cumberland Valley's argument that rates will continue to rise is not supported by fact in that Cumberland Valley has been quoted a rate as low as 1.98 percent since the application was filed. He also states that Cumberland Valley has not met its burden of proof to show that the increased interest rate it proposes is fair, just, and reasonable.

The Commission agrees with the AG that it is not appropriate in the context of a historical test-year rate case to use an interest rate based on a quoted rate that Cumberland Valley is not currently paying. Cumberland Valley could have filed this case using a forecasted test year in order to provide for expected increases in interest rates that it believes are likely. However, Cumberland Valley chose not to utilize that option.

The Commission recognizes that determining the interest adjustment using its traditional approach while establishing the revenue requirement based on a 2.0 TIER may not provide Cumberland Valley the revenue necessary to meet its mortgage requirements and cover its operating costs. Therefore, the Commission will utilize a five-year-average interest rate approach based on the actual average interest rate Cumberland Valley experienced for the five year period 2009 through 2013 of 1.34 percent.³ This departure from our traditional approach is based on the unique situation

³ Application, Exhibit H, Adkins Testimony, p. 3 of 16.

in which Cumberland Valley finds itself. Absent a comparable situation arising in the future, the Commission's belief is that its traditional approach for determining interest expense is the appropriate method to be used in future proceedings.

The Commission has recalculated the test-year interest expense using the test-year-end debt balances at a five-year interest rate of 1.34 percent and has decreased the interest expense adjustment from \$542,308 to \$219,353. The Commission commends Cumberland Valley's efforts to minimize its interest costs on long-term debt, thereby benefitting its customers.

Wages and Salaries

Cumberland Valley proposed an adjustment of \$62,741 to normalize total wages and salaries, of which \$21,986 was capitalized⁴ and \$40,755 was expensed. Cumberland Valley's calculations for full-time employees were based on 2,080 hours. Its calculations for its part-time employees were based on the number of hours actually worked during the test year. Test-year actual overtime hours were multiplied by 1.5 times the test-year-end wage rates for employees who come under the current labor agreement.⁵

In calculating its proposed adjustment, Cumberland Valley included a retired employee's wages. In its response to a Commission Staff's information request, Cumberland Valley agreed that the employee's wages should be removed for

⁴ The capitalized portion reflects actual capitalized costs and payroll costs allocated to "payroll other." The payroll other includes amounts assigned to clearing accounts and accounts receivable. Unless otherwise noted, references in this Order to "capitalized" reflect this combination of actual capitalized costs and other costs.

⁵ Application, Exhibit 2.

ratemaking purposes.⁶ The Commission recalculated the proposed adjustment excluding the retired employee's wages, resulting in a total adjustment of \$20,437, of which \$7,161 was capitalized and \$13,276 was expensed. Accordingly, the Commission finds that an adjustment to increase test-year wages and salaries by \$13,276 is reasonable.

The AG expressed concern with what he described as Cumberland Valley's continuous and systematic salary and wage increases, even though the overall economy of its service territory is in decline. He states that, based on actual increases from 2008 through 2013, plus expected wage and salary increases for 2014 and 2015, Cumberland Valley will have granted pay raises to all employees totaling 26.5 percent increase. The AG believes there is an inherent problem for Cumberland Valley's CEO to negotiate pay raises with the union employees and then, along with the Board of Directors, grant the same increase to salaried employees, including himself. The AG claims there is no incentive for the CEO and Board of Directors to limit pay increases if the CEO and other salaried employees will receive the same benefit. The AG also cites merit increases in the test year and other increases to certain employees (including the CEO of \$5,000), in addition to the annual percentage increases. The AG is concerned that Cumberland Valley does not base its pay increases on the prevailing wages of its service territory, but compares itself to other Kentucky cooperatives in establishing its wage structure. The AG recommends that Cumberland Valley conduct a salary and wage survey in the counties which it serves to justify wage and salary increases. The AG also recommends that Cumberland Valley implement a performance review system on which to base future pay increases. Cumberland Valley stated that it bases its pay

⁶ Response to Staff's Second Request, Item 26.d.

structure on what other Kentucky cooperatives pay for similar jobs in order to retain an experienced workforce.

The Commission shares the AG's concern that there seems to be an inherent problem with Cumberland Valley's method for determining pay increases for salaried employees. While there is evidence that increases for bargaining-unit employees are properly determined through negotiations by both sides, there seems to be the expectation that whatever pay increase is granted to union employees will automatically be granted to the salaried employees. The Commission believes that any pay increase for salaried employees needs to be properly justified and not simply based on the increase negotiated for union employees. The Commission will allow the increases proposed in this case, but future increases granted to or proposed for salaried employees will need to be fully justified and documented to show the basis for any proposed increases.

Payroll Taxes

Cumberland Valley proposed to increase its payroll taxes by \$4,017,⁷ based on the proposed normalization of wages and salaries and reflecting the Federal Insurance Contribution Act ("FICA") base wage limit of \$117,000 for 2014, and federal and state unemployment wage limits and rates in effect at the test-year end. Of this amount, \$1,325 was capitalized and \$2,692 was expensed.⁸

As with the wage and salary normalization, the Commission finds that the impact of the retired employee's payroll taxes should be removed. The Commission has

⁷ Response to Commission Staff's First Request for Information ("Staff's First Request"), Item 23.a.

⁸ Application, Exhibit 3, and Response to Staff's First Request, Item 23.a.

recalculated the proposed adjustment excluding the retired employee's wages, resulting in a total adjustment of \$618, of which \$204 is capitalized and \$414 is expensed. Accordingly, the Commission finds that an adjustment to increase test-year payroll taxes by \$414 is reasonable.

Depreciation

Cumberland Valley depreciates its distribution plant using varying rates that have been in effect since December 31, 1990. Cumberland Valley proposed an adjustment to increase test-year depreciation expense by \$262,207. The proposed adjustment was due to a change in the depreciation rate for meters and increases in Cumberland Valley's utility plant in service over the course of the test year.

The depreciation adjustment was not supported by a current depreciation study. Cumberland Valley filed its previous study conducted as of December 31, 2004. In response to an information request questioning why a new depreciation study had not been conducted, Cumberland Valley stated that it had expected its financial situation to improve so that a rate application would not be necessary. However, its financial condition did not improve, Cumberland Valley stated, thus requiring this rate application to be filed, and there was not enough time to update its last study.⁹ Cumberland Valley stated that the change in the Meters depreciation rate from 3.23 percent to 6.70 percent is due to the implementation of Automated Metering Infrastructure ("AMI"), and is consistent with the rate applications filed by other electric cooperatives since 2001.¹⁰

⁹ Response to Staff's Second Request, Item 25.a.

¹⁰ *Id.*, Item 27.b.

Cumberland Valley's meters are recorded in the following accounts:¹¹

Account No. 370.0	Meters	\$2,211,882
Account No. 370.1	Turtle 1	\$ 139,455
Account No. 370.11	Turtle 2	\$3,637,953
Account No. 370.12	Meter w/Disconnect Switch	\$ 370,201
Account No. 370.15	Remote Service Switches	<u>\$ 371,337</u>
	Total Meters	\$6,730,828

Cumberland Valley stated that it had added AMI modules to its existing meters (which are recorded in Account No. 370.0, Meters), 16,436 of which were mechanical and 11,943 of which were solid state meters.¹² The existing meters are currently being depreciated using a useful life of 31 years. While the Commission has accepted a shorter life of 15 years for newer technology meters such as AMI, it does not find that the life of existing meters will be shortened by the addition of an AMI module.

Accordingly, the Commission has prorated the cost of the meters in Account 370.0 based on the number of mechanical and solid state meters provided by Cumberland Valley, resulting in \$1,281,035 assigned to mechanical meters and \$930,847 assigned to solid state meters. The Commission finds that the mechanical meters recorded in Account No. 370.0, Meters should continue to be depreciated at 3.23 percent or 31 years. The Commission also finds that it is reasonable that the solid state meters in Account 370.0, Meters should be depreciated at 6.70 percent or 15 years. The Commission also finds that Account Nos. 370.1, 370.11, 370.12 and 370.15 should be depreciated at a rate of 6.70 percent or 15 years. Therefore, the Commission will reduce the proposed depreciation adjustment by \$44,448 to \$217,759.

¹¹ Application, Exhibit Y, p. 3 of 6.

¹² Response to Commission Staff's Third Request for Information ("Staff's Third Request"), Item 7.b.

Rate Case Expense

Cumberland Valley estimated its rate case expense at \$75,000. It proposed to recover this expense through a three-year amortization. This estimate did not include in-house labor. Throughout this proceeding, Cumberland Valley has been providing updates of the actual expenses incurred in presenting this rate case. As of November 5, 2014, Cumberland Valley had expended \$100,159 to prepare and process this rate case. The Commission finds that a three-year amortization of these expenses is reasonable and will allow an increase in operating expense of \$33,386 to reflect the first year of the amortization for ratemaking purposes.

Directors' Fees and Expenses

During the test year Cumberland Valley paid its seven active directors and two retired directors fees and expenses totaling \$201,020. Cumberland Valley proposed an adjustment to reduce this expense by \$111,074 to exclude certain expenses for ratemaking purposes.¹³ The Commission agrees with the exclusions identified by Cumberland Valley.

The Commission has identified an additional adjustment that should be made to the directors' fees and expenses. Based on information provided,¹⁴ a director attending the annual meeting of the National Rural Electric Cooperative Association ("NRECA") did not attend any director training opportunity. Therefore, the cost of this director's attendance will be disallowed, as he was not the designated representative

¹³ Application, Exhibit 10. The \$111,074 adjustment comprised health insurance premiums and stipends, per diems, meeting fees paid to retired directors, and Christmas gifts.

¹⁴ Application, Exhibit 10, and Response to Commission Staff's Fourth Request for Information, Item 7.

to NRECA. The Commission will adjust the director fees and expenses by an additional \$2,052. Based on these findings, the Commission has reduced Cumberland Valley's operating expenses by \$113,126.

Property Taxes

Cumberland Valley did not include an adjustment for property taxes in the detailed schedule of adjustments filed with the application. However in response to an information request, Cumberland Valley provided an adjustment amount of \$55,027 to normalize property taxes for the test year.¹⁵ The Commission agrees with Cumberland Valley's response to the information request and finds that the property taxes should be increased by an additional \$55,027.

Amortization of Management Audit Expense

In Case No. 2005-00187,¹⁶ the Commission ordered a focused management audit of Cumberland Valley's operations. Cumberland Valley was to defer the costs of the management audit for recovery in its next general rate case. Cumberland Valley did not propose any adjustment in this case for the management audit, citing an oversight on its part. Through discovery it was determined that Cumberland Valley had expensed the full amount of the audit's cost of \$72,367 in 2007.¹⁷ Cumberland Valley stated that the audit's cost should not be amortized and be considered as an increase in expense for the test year.¹⁸ The Commission does not agree that the full amount of \$72,367

¹⁵ Response to Staff's First Request, Item 24.

¹⁶ Case No. 2005-00187, *Adjustment of Rates of Cumberland Valley Electric, Inc.* (Ky. PSC June 2, 2006).

¹⁷ Response to Staff's Second Request, Item 44.a.

¹⁸ Response to Staff's Third Request, Item 19.

should be allowed as a test-year expense. Accordingly, consistent with Commission practice in rate proceedings involving management audit fees, the Commission will allow the management audit expense of \$72,367 to be amortized over three years for ratemaking purposes only. The Commission will therefore adjust test-year expense by an additional \$24,122.

Miscellaneous Expenses

Cumberland Valley proposed to reduce operating expenses by \$2,365 to remove certain miscellaneous expenses not normally included for ratemaking purposes. The Commission agrees with the reductions proposed by Cumberland Valley.

The AG recommended that adjustments be made to Cumberland Valley's annual meeting expense for food and drinks, a singer, entertainment and buckets and bulbs should be removed for ratemaking purposes. The AG stated that Cumberland Valley had failed to demonstrate that the expenditures provided a material benefit for ratepayers or that they were otherwise reasonable.

The Commission notes that most cooperatives are required to hold an annual meeting according to their by-laws. A cooperative's annual meeting is held for the benefit of the members to inform them of the current status of the cooperative, issues to be addressed affecting cooperative operations, and election of the board of directors. The Commission has allowed these types of expenses in previous cooperative rate proceedings as necessary and reasonable to encourage attendance and participation by the cooperative's members.

Although not accepting the AG's recommendation, the Commission has identified three additional adjustments that should be made. Miscellaneous expenses included an

expenditure of \$1,551 for shirts for Cumberland Valley employees to wear while working at the annual meeting. Cumberland Valley stated that shirts are provided for employees working at cooperative functions to better identify the employees to its members. The Commission believes that there are much less expensive alternatives for identifying cooperative employees (i.e., name tags or badges) than incurring an expenditure of this magnitude. The Commission believes these funds should be expended in a manner that provides a greater benefit to the ratepayers. Accordingly, the Commission will remove \$1,551 from miscellaneous expenses.

Included in test-year miscellaneous expenses was \$250 for a payment to the Boy Scouts of America for presenting the flag at the annual meeting. Cumberland Valley was unable to provide any evidence in the form of an invoice or any other document that the payment was a fee and not a donation. Cumberland Valley stated that the amount of \$250 was determined as a reasonable amount for the flag presentation. Absent any documentation to the contrary, the Commission believes this payment is more in line with a donation and will remove it from the test-year expense.

Miscellaneous expense also included an expenditure of \$500 for advertising in the programs for the Border Bowl football game and sponsorship of the Border Bowl Lineman Award. The Commission believes this to be institutional advertising that should be disallowed. Additionally, it has been the Commission's practice to disallow sponsorships and awards in other rate proceedings.

Adding these additional items to Cumberland Valley's adjustment of \$2,365, the Commission has reduced miscellaneous expenses by a total of \$4,666.

PSC Assessment

Cumberland Valley did not propose an adjustment to its PSC Assessment to reflect the effects of normalizing revenues and purchased power expense or the impact of its proposed revenue increase. The Commission has determined that an adjustment to the PSC Assessment to reflect the normalization of revenue and purchased power expense found reasonable herein is appropriate. Based on the 2014–2015 assessment rate, the adjustment results in a \$494 increase in the PSC Assessment for the test year. The Commission has determined that an adjustment to the PSC Assessment based on the revenue increase being granted herein should also be calculated. This calculation results in an increase in the PSC Assessment Fee of \$1,886. The total result of these adjustments is an increase of \$2,380 in the PSC Assessment Fee.

Customer Growth Adjustment

Cumberland Valley proposed a negative customer growth adjustment of \$44,894.¹⁹ In response to a Staff information request, Cumberland Valley determined its proposed adjustment was incorrect and filed a revised calculation.²⁰ The revised amount of the adjustment is negative \$24,812. The Commission has reviewed the revised calculation and finds it to be reasonable. Therefore, we will accept the customer growth adjustment, as modified by Cumberland Valley, which results in an overall decrease in margins of \$24,812.

¹⁹ Application, Exhibit 16.

²⁰ Response to Staff's Second Request, Item 36.

Pole Attachment Rates

Cumberland Valley proposed increases in its cable television ("CATV") attachment charges that resulted in additional revenues of \$23,512. In response to requests for information, Cumberland Valley revised its CATV rates to reflect errors in the calculation. Cumberland Valley had included 45-foot poles in its calculation of the average cost of two-party poles. Further, through discovery it was determined that Cumberland Valley failed to subtract the cost of ground wiring to arrive at a bare-pole cost for the calculation. The Commission has reviewed the revised calculation to determine CATV rates and finds it to be reasonable and consistent with the methodology set forth by the Commission in Administrative Case No. 251.²¹ However, the Commission believes that the CATV rate calculations should reflect the most current rate of return. Therefore, the Commission finds that Cumberland Valley's CATV rates should be calculated based on the rate of return approved in this Order, resulting in an increase in revenues of \$12,484, rather than the increase of \$23,512 proposed by Cumberland Valley. This results in proposed CATV revenues being decreased by \$11,028.

²¹ Administrative Case No. 251, *The Adoption of a Standard Methodology for Establishing Rates for CATV Pole Attachments* (Ky. PSC Sept. 17, 1982).

Pro Forma Adjustments Summary

The effect of the pro forma adjustments on Cumberland Valley's net income is as follows:

	<u>Actual Test Period</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenues	\$46,665,845	\$ (4,371,163)	\$42,294,682
Operating Expenses	<u>46,410,119</u>	<u>(4,123,378)</u>	<u>42,286,741</u>
Net Operating Income	255,726	(247,785)	7,941
Interest on Long-Term Debt	354,342	219,353	573,695
Interest Expense-Other	3,176		3,176
Other Income and (Deductions) – Net	<u>3,133,648</u>	<u>(2,957,019)</u>	<u>176,629</u>
NET INCOME	<u>\$ 3,031,856</u>	<u>\$ (3,424,157)</u>	<u>\$ (392,301)</u>

REVENUE REQUIREMENTS

The actual rate of return earned on Cumberland Valley's net investment rate base established for the test year was 0.67 percent.²² Cumberland Valley requests rates that would result in a TIER excluding GTCCs of 2.00X and a rate of return of 2.81 percent on its proposed rate base of \$63,885,540.²³ Cumberland Valley proposes an increase in revenues of \$1,605,137 to achieve the 2.00X TIER excluding GTCCs.²⁴

Cumberland Valley's actual TIER excluding GTCCs for the test period was 1.21X. For the calendar years 2011 and 2012, it was 1.26X and 3.20X, respectively. After taking into consideration pro forma adjustments, Cumberland Valley would achieve a 0.32X TIER excluding GTCCs without an increase in revenues.

²² Application, Exhibit K, p. 1 of 9.

²³ Response to Staff's Second Request, Item 6, p. 3 of 11.

²⁴ Cumberland Valley's proposal was based on its proposed adjusted-interest expense on long-term debt of \$896,650.

The Commission finds that the use of a 2.00X TIER is reasonable for Cumberland Valley. In order to achieve the 2.00X TIER based on the adjusted test year with interest on long-term debt of \$573,695, Cumberland Valley would need to increase its annual revenues by \$967,882.

Based upon the pro forma adjustments found reasonable, the Commission has determined that an increase in Cumberland Valley's revenues of \$967,882 would result in a TIER of 2.00X. This additional revenue should produce net income of \$573,695, which should allow Cumberland Valley to meet its mortgage requirements and service its mortgage debts.

PRICING AND TARIFF ISSUES

Cost of Service

Cumberland Valley filed a fully allocated cost-of-service study ("COSS") in order to determine the cost to serve each customer class and the amount of revenue to be allocated to each customer class. Cumberland Valley filed revised COSSs in response to Staff's second, third, and fourth requests for information. Having reviewed Cumberland Valley's COSS, as revised through discovery, the Commission finds it to be acceptable for use as a guide in allocating the revenue increase granted herein.

Revenue Allocation

The approved increase of \$967,882 results in an overall increase of 2.4 percent in base rate revenue. This is approximately 60 percent of the increase Cumberland Valley requested in its application. As discussed above, Cumberland Valley's proposed increases to the various rate classes were based on its COSS results. The Commission has reviewed Cumberland Valley's allocation proposal and finds it to be reasonable;

however, given the reduction in the increase granted, the Commission finds that no increase to the demand charge will be allocated to Schedule IV-A – Large Power, 50–2,500 kW. With that exception, the \$967,882 increase will be allocated in proportion to the increase proposed by Cumberland Valley.

Rate Design

Cumberland Valley proposes to allocate the proposed increase to its customer classes mainly by increasing the customer charges. For three of its customer classes, Three Phase Schools & Churches, Large Power >2,500 kW, and Large Power 50–2,500 kW, Cumberland Valley proposes to establish a customer charge. Currently, these three classes do not include a customer charge component. Cumberland Valley's COSS shows that the current customer charges for each of its rate classes are insufficient to recover the customer-related costs of serving those classes.

Cumberland Valley proposed changing its kilowatt hour ("kWh") charge only for one class, its Large Power >2,500 kW class, and proposed changing its demand charge for only one class, its Large Power 50–2,500 kW class. For the lighting class, Cumberland Valley proposed an average increase of 6.4 percent.

The AG proposes that any increase should be to the volumetric charge for energy, rather than the customer charge. He argues that by placing a large proportion of the increase on the customer charge, customers have less control over their bills, and that financial risk is shifted from Cumberland Valley to its ratepayers.

With respect to the proposed increases in Cumberland Valley's customer charges, the Commission concludes that, for an electric cooperative that is strictly a distribution utility, there is merit to the argument that there is need for a means to guard

against the revenue erosion that often occurs due to the decrease in sales volumes that accompanies poor regional economics, changes in weather patterns, and the implementation or expansion of demand-side management and energy-efficiency programs. For this reason, and based on the results of the COSS, the Commission has placed the majority of the increase on the class customer charges.

The allocation of the increase granted to Cumberland Valley generally follows the methodology Cumberland Valley proposed to allocate its increase to its individual customer classes. The allocation of revenues to the customer classes and the increases in customer charges for the most part reflect the results of Cumberland Valley's revised COSS.

The chart below provides a comparison of Cumberland Valley's current customer charges, along with its proposed increase, and the rates approved by the Commission:

<u>Rates Class</u>	<u>Current Customer Charge</u>	<u>Proposed Customer Charge</u>	<u>Approved Customer Charge</u>
Schedule I – Residential, Schools and Churches	\$5.74	\$10.70	\$8.73
Schedule II – Small Commercial No Demand	\$5.74	\$11.04	\$8.96
Schedule II – Small Commercial w/ Demand	\$5.74	\$11.04	\$8.96
Schedule III – Three Phase Schools and Churches	\$0.00	\$40.00	\$25.00
Schedule IV – Large Power > 2500	\$0.00	\$50.00	\$50.00
Schedule IV-A – Large Power 50-2500	\$0.00	\$40.00	\$40.00

Because the implementation of a customer charge on the Schedule IV – Large Power > 2,500 kW class did not fully allocate its proportionate share of the revenue requirement increase, a slight increase was made to the energy charge for this class. Demand charges were left unchanged for all classes with a demand charge. Allocating the lighting class's share of the revenue increase yields an approximate 3.88 percent increase for each of the lights.

Based on Cumberland Valley's average residential usage of 1,146 kWh, the average bill for residential customers will increase \$2.99 from \$103.87 to \$106.86, or 2.88 percent.

OTHER ISSUES

Energy Efficiency and Demand-Side Management ("DSM")

In response to requests for information,²⁵ and testimony at the public hearing, Cumberland Valley stated that it offers its customers DSM programs in conjunction with programs offered by EKPC. Cumberland Valley also stated that it is open to offering DSM programs independent of EKPC if the program is beneficial to the members and the cooperative.

The Commission continues to believe that conservation, energy efficiency and DSM, generally, will become increasingly important as more constraints are likely to be placed upon utilities whose main source of supply is coal-based generation. As we have previously stated, the Governor's proposed energy plan, *Intelligent Energy Choices for Kentucky's Future, November 2008*, calls for an increase in DSM by 2025. In addition, the Commission has stated its support for cost-effective DSM programs in response to several recommendations included in *Electric Utility Regulation and Energy Policy in Kentucky*, the report the Commission submitted in July 2008 to the Kentucky General Assembly pursuant to Section 50 of the 2007 Energy Act.

The Commission recognizes Cumberland Valley's efforts regarding DSM program offerings but believes that it is appropriate to continue to encourage

²⁵ Response to Staff's Second Request, Item 43.

Cumberland Valley and all other electric providers to expand their efforts to offer cost-effective DSM and other energy-efficiency programs.

SUMMARY

The Commission, after consideration of the evidence of record and being otherwise sufficiently advised, finds that:

1. The rates set forth in Appendix A are the fair, just, and reasonable rates for Cumberland Valley to charge for service rendered on and after the date of this order.

2. The rate of return and TIER granted herein will provide for Cumberland Valley's financial obligations.

IT IS THEREFORE ORDERED that:

1. The rates proposed by Cumberland Valley would produce revenues in excess of the amount found reasonable herein and are hereby denied.

2. The rates set forth in the Appendix to this Order are approved for services rendered by Cumberland Valley on and after the date of this Order.

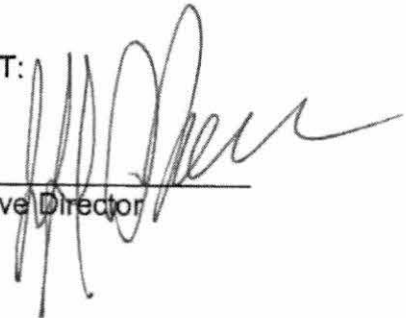
3. Within 20 days of the date of this Order, Cumberland Valley shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and reflecting their effective date and that they were authorized by this Order.

4. Cumberland Valley shall perform a depreciation study within five years from the date of this Order, or in connection with the filing of its next rate case, whichever is earlier.

By the Commission

ENTERED
JAN 16 2015
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2014-00159

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2014-00159 DATED **JAN 16 2015**

The following rates and charges are prescribed for the customers in the area served by Cumberland Valley Electric, Inc. All other rates and charges not specifically mentioned in this Order shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

SCHEDULE I
RESIDENTIAL, SCHOOLS, AND CHURCHES

Customer Charge	\$ 8.73
Energy Charge per kWh	\$.08563

SCHEDULE I
MARKETING RATE

Energy Charge per kWh	\$.05138
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SCHEDULE II
SMALL COMMERCIAL NO DEMAND

Customer Charge	\$ 8.96
Energy Charge per kWh up to 3,000 kWh	\$.09519
Energy Charge per kWh over 3,000 kWh	\$.0888

SCHEDULE II
SMALL COMMERCIAL w/ DEMAND

Customer Charge	\$ 8.96
Demand Charge per kW	\$ 4.22
Energy Charge per kWh up to 3,000 kWh	\$.09519
Energy Charge per kWh over 3,000 kWh	\$.0888

SCHEDULE III
THREE PHASE SCHOOLS AND CHURCHES

Customer Charge	\$ 25.00
Energy Charge per kWh	\$.07915

SCHEDULE IV
LARGE POWER >2,500 KW

Customer Charge	\$ 50.00
Demand Charge per kW	\$ 6.55
Energy Charge per kWh	\$.05112

SCHEDULE IV-A
LARGE POWER 50-2,500 KW

Customer Charge	\$ 40.00
Demand Charge per kW	\$ 4.22
Energy Charge per kWh	\$.06078

SCHEDULE VI
OUTDOOR LIGHTING

175W Mercury Vapor	\$ 8.57
400W Mercury Vapor	\$ 12.76
100W Open Bottom	\$ 8.59
100W Colonial Post	\$ 9.68
100W Directional Flood	\$ 10.42
400W Directional Flood	\$ 16.57
400W Cobra Head	\$ 16.57

Cable Television Attachment Charges

Annual attachment charges as follows:

Two-party Pole	\$ 4.26
Three-party Pole	\$ 3.53
Two-party Anchor	\$ 4.05
Three-party Anchor	\$ 2.67
Two-party Ground	\$.19
Three-party Ground	\$.12

Angela M Goad
Assistant Attorney General
Office of the Attorney General Utility & Rate
1024 Capital Center Drive
Suite 200
Frankfort, KENTUCKY 40601-8204

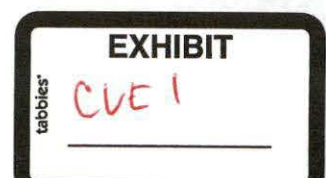
Honorable W. Patrick Hauser
Attorney At Law
P. O. Box 1900
Barbourville, KENTUCKY 40906

Robert Tolliver
Officer Manager
Cumberland Valley Electric, Inc.
Highway 25E
P. O. Box 440
Gray, KY 40734

Comparison of Electric Utilities in the State of Kentucky

<u>Utility</u>	<u>Customer Charge</u>
West Kentucky	\$23.40
Kentucky Utilities (Proposed)	\$22.00
Owen Electric	\$20.00
Warren	\$18.80
Kenergy	\$18.50
Pennyrile	\$18.40
Tri-County	\$18.00
Meade County	\$17.16
Jackson Energy	\$16.44
Big Sandy	\$15.00
Fleming-Mason	\$15.00
Grayson	\$15.00
Cumberland Valley (Proposed)	\$14.10
Blue Grass	\$14.00
South Kentucky	\$12.82
Jackson Purchase	\$12.45
Clark	\$12.43
AEP - Kentucky Power	\$11.00
Kentucky Utilities	\$10.75
Louisville Gas & Electric	\$10.75
Shelby Energy	\$10.14
Taylor County	\$9.82
Farmers	\$9.35
Licking Valley	\$9.32
Nolin	\$9.04
Inter-County	\$8.97
Salt River	\$8.84
Cumberland Valley	\$8.73
Duke	\$4.50

*Rates as of November 23, 2016



Comparison of Electric Utilities in the State of Kentucky

<u>Utility</u>	<u>Residential Consumers</u> <u>Bill Using 1,000 kWh</u>
West Kentucky	\$124.70
Grayson	\$124.10
Kenergy	\$120.54
Tri-County	\$117.07
Jackson Energy	\$114.93
Meade County	\$114.83
Jackson Purchase	\$113.23
Kentucky Utilities (Proposed)	\$107.23
Owen Electric	\$104.91
Clark	\$104.86
Big Sandy	\$104.00
Pennyrile	\$103.86
Inter-County	\$103.18
Licking Valley	\$102.87
Blue Grass	\$101.31
Cumberland Valley (Proposed)	\$100.46
Kentucky Utilities	\$99.45
Fleming-Mason	\$99.31
AEP - Kentucky Power	\$98.95
Shelby Energy	\$98.75
Farmers	\$98.30
South Kentucky	\$98.25
Louisville Gas & Electric	\$97.14
Nolin	\$95.02
Cumberland Valley	\$94.36
Taylor County	\$92.02
Warren	\$90.52
Salt River	\$88.36
Duke	\$85.24

*Rates as of November 23, 2016



United States Department of Agriculture
Rural Development

November 29, 2016

Mr. Ted Hampton
Chief Executive Officer
Cumberland Valley Electric
P.O. Box 440
Gray, KY 40734

Dear Mr. Hampton:

Cumberland Valley Electric, Inc. (CVEI) submitted a letter to the Rural Utilities Service (RUS) dated December 1, 2015 that included the Service Life and Net Salvage Study with recommended depreciation accrual rates as of December 31, 2014 (2014 Depreciation Study). The study, dated December 31, 2014, was performed by JDS Consulting, LLC. CVEI requested RUS approval of the depreciation rates contained in the 2014 Depreciation Study for implementation in CVEI's accounting records effective January 1, 2016.

Based on a review of the 2014 Depreciation Study and the information supplied in your letters, RUS approval is hereby granted for CVEI to implement the depreciation rates recommended in the depreciation study with an effective date of January 1, 2016. The approved depreciation rates are listed below.

<u>Distribution Plant Account</u>		<u>Proposed</u> <u>Rate</u>	<u>Present</u> <u>Rate</u>
362	Substation	6.70%	3.1.0%
364	Poles Towers and Fixtures	3.90%	4.00%
365	O/H Conductor and Devices	3.27%	2.80%
367	U/G Conductor	4.02%	4.00%
368	Transformers	2.39%	3.10%
369	Services	4.14%	3.60%
370	Meters	3.40%	3.40%
370.01	Meters, AMI	6.70%	6.70%
371	Installation on Cons. Premises	4.89%	4.00%

Please let us know if we can be of further assistance.

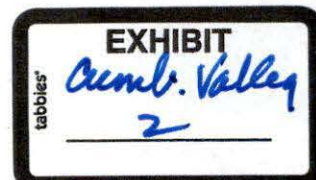
Sincerely,

JAMES F. ELLIOTT
Director of Operations
Rural Utilities Service-Electric Program

1400 Independence Ave, S.W. · Washington DC 20250-0700
Web: <http://www.rurdev.usda.gov>

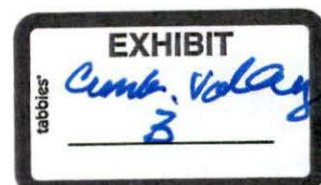
Committed to the future of rural communities.

"USDA is an equal opportunity provider, employer and lender."
To file a complaint of discrimination, write USDA, Director, Office of Civil Rights,
1400 Independence Avenue, S.W., Washington, DC 20250-9410 or call (800) 795-3272 (Voice) or (202) 720-6382 (TDD).



Cumberland Valley Electric
Vehicle Listing
September 30, 2016

<u>Fleet Asset</u>	<u>Description</u>	<u>Mileage</u>
81	2004 FORD F-550 SMALL BUCKET TRUCK 4X4	234,141.40
42	09 CHEV TAHOE	211,006.00
80	1999 INTERNATIONAL BKT TRUCK 4800 4X4	199,165.00
33	08 CHEV SILVER 2500HD 4WD REG	191,362.00
30	2007 CHEVY SILVERADO	186,042.00
36	11 FORD F250 4X4	185,115.00
74	1999 INTERNATIONAL BKT TRUCK 4800 4X4	182,284.00
55	2004 TOYOTA SIENNA	181,720.00
15	2007 CHEVY PICKUP	180,817.00
16	09 FORD F250	176,365.00
11	09 FORD F250	170,179.00
10	09 FORD F250	169,330.00
26	2011 FORD F250 4X4	165,818.00
40	2004 CC7500 POLE TRUCK	164,281.00
17	2007 CHEVY PICKUP	162,724.00
25	2006 CHEVY PICKUP	158,944.00
12	11 FORD F250 4X4 C/C	157,870.00
44	1996 CHEV MED CONV 7 CHIP TK	153,259.00
38	2008 CHEVY P/U	151,869.00
29	2007 CHEV SILVERADO	151,261.00
3	2009 CHEVY PICKUP CK20903	149,973.00
84	96 GMC C8500 BUCKET TRUCK	147,236.00
7	2007 CHEVY PICKUP	142,218.00
50	10 FORD F150	141,874.00
28	2006 CHEVY PICKUP	139,023.00
69	2005 CHEVY CC7500 DIGGER	138,809.00
54	1995 INTL DIGGER	136,679.00
79	1998 GMC DUMP TK	136,200.00
77	1995 GMC POLE TRUCK	133,382.00
19	2002 C SERIES TRUCK-CAB&CHASIS	131,539.00
18	2002 CHEV-POLE TRUCK	126,848.00
76	2000 FORD F750 POLE TRUCK	121,603.00
2	2007 CHEVY PICKUP	119,035.00
35	11 FORD F250 4X4 C/C	116,555.00
41	2004 CHEVY CC7500 POLE TRUCK	114,057.00
83	2007 GMC DIGGER TK	113,670.00
22	2013 CHEVY TAHOE 1500 4WD CK10706	101,120.00
88	09 GMC TC7C042 - BUCKET	97,300.00
94	2011 INTERNATIONAL 4400-BUCKET(FROM 40)	93,833.00
82	2007 GMC POLE TRUCK	92,944.00
90	10 INTERNATIONAL 4300 BUCKET	91,445.00
61	08 DODGE RAM 3500-MECHANIC TRUCK	89,280.00



27	2011 TOYOTA SIENNA	86,548.00
4	2013 FORD F-250 4X4	86,475.00
14	2013 FORD F-250 4X4	85,352.00
86	09 GMC TC5C044 SMALL BUCKET	83,300.00
5	2013 FORD F-250 4X4	82,540.00
87	09 GMC TC7C042 - BUCKET	72,882.00
34	2011 CHEVY SILVERADO 1500 4X4 CK10703	59,300.00
92	10 INTERN'L 4300 4X2 BUCKET	58,795.00
96	2012 INTERNATIONAL 4300 DIGGER DERRICK	52,255.00
21	2015 FORD F-250 SUPER DUTY 4X4	39,867.00
97	2014 INTERNATIONAL 4300 DIGGER DERRICK	39,671.00
24	2015 FORD F-250 SUPER DUTY 4X4	39,225.00
89	10 INTERN'L 4300 DIGGER 4X2	39,069.00
23	2015 FORD F-250 SUPER DUTY 4X4	37,800.00
1	2015 CHEVROLET MALIBU 1LTZ	29,527.00
95	2012 INTERNATIONAL 7400 DIGGER 4X2	28,826.00
31	2016 CHEVY SILVERADO 3500HD 4X4	19,605.00
93	10 KAWASAKI MULE 4X4 MODEL4010	1,197.00
75	2016 FORD F-550 SMALL BUCKET TRUCK 4X4	328

United States Census U.S. Department of Commerce (<http://www.commerce.gov/>) | Blogs (http://www.census.gov/about/contact-us/social_media.html) | Index A
(<http://www.census.gov/about/index.html>) | Glossary (<http://www.census.gov/glossary/>) | FAQs (<http://ask.census.gov>)



www.census.gov
n.html)

Search

AG
Exhibit 1

U.S. Census Quick Facts

QuickFacts



McCreary County, Kentucky

QuickFacts provides statistics for all states and counties, and for cities and towns with a *population of 5,000 or more*.

All Topics	MCCREARY COUNTY, KENTUCKY	UNITED STATES
People		
Population		
Population estimates, July 1, 2015, (V2015)	17,878	321,418,820
Population estimates base, April 1, 2010, (V2015)	18,306	308,758,105
Population, percent change - April 1, 2010 (estimates base) to July 1, 2015, (V2015)	-2.3%	4.1%
Population, Census, April 1, 2010	18,306	308,745,538
Age and Sex		
Persons under 5 years, percent, July 1, 2015, (V2015)	6.1%	6.2%
Persons under 5 years, percent, April 1, 2010	5.9%	6.5%
Persons under 18 years, percent, July 1, 2015, (V2015)	21.9%	22.9%
Persons under 18 years, percent, April 1, 2010	22.5%	24.0%
Persons 65 years and over, percent, July 1, 2015, (V2015)	14.1%	14.9%
Persons 65 years and over, percent, April 1, 2010	12.3%	13.0%
Female persons, percent, July 1, 2015, (V2015)	45.1%	50.8%
Female persons, percent, April 1, 2010	45.7%	50.8%
Race and Hispanic Origin		
White alone, percent, July 1, 2015, (V2015) (a)	91.2%	77.1%
White alone, percent, April 1, 2010 (a)	91.4%	72.4%
Black or African American alone, percent, July 1, 2015, (V2015) (a)	6.3%	13.3%
Black or African American alone, percent, April 1, 2010 (a)	5.5%	12.6%
American Indian and Alaska Native alone, percent, July 1, 2015, (V2015) (a)	0.8%	1.2%
American Indian and Alaska Native alone, percent, April 1, 2010 (a)	0.7%	0.9%
Asian alone, percent, July 1, 2015, (V2015) (a)	0.2%	5.6%
Asian alone, percent, April 1, 2010 (a)	0.1%	4.8%
Native Hawaiian and Other Pacific Islander alone, percent, July 1, 2015, (V2015) (a)	0.1%	0.2%

Native Hawaiian and Other Pacific Islander alone, percent, April 1, 2010 (a)	Z	0.2%
Two or More Races, percent, July 1, 2015, (V2015)	1.5%	2.6%
Two or More Races, percent, April 1, 2010	1.5%	2.9%
Hispanic or Latino, percent, July 1, 2015, (V2015) (b)	2.5%	17.6%
Hispanic or Latino, percent, April 1, 2010 (b)	2.1%	16.3%
White alone, not Hispanic or Latino, percent, July 1, 2015, (V2015)	89.3%	61.6%
White alone, not Hispanic or Latino, percent, April 1, 2010	90.4%	63.7%
Population Characteristics		
Veterans, 2010-2014	1,078	20,700,711
Foreign born persons, percent, 2010-2014	0.8%	13.1%
Housing		
Housing units, July 1, 2015, (V2015)	7,415	134,789,944
Housing units, April 1, 2010	7,507	131,704,730
Owner-occupied housing unit rate, 2010-2014	68.8%	64.4%
Median value of owner-occupied housing units, 2010-2014	\$63,100	\$175,700
Median selected monthly owner costs -with a mortgage, 2010-2014	\$743	\$1,522
Median selected monthly owner costs -without a mortgage, 2010-2014	\$253	\$457
Median gross rent, 2010-2014	\$559	\$920
Building permits, 2015	0	1,182,582
Families and Living Arrangements		
Households, 2010-2014	6,210	116,211,092
Persons per household, 2010-2014	2.60	2.63
Living in same house 1 year ago, percent of persons age 1 year+, 2010-2014	86.5%	85.0%
Language other than English spoken at home, percent of persons age 5 years+, 2010-2014	3.4%	20.9%
Education		
High school graduate or higher, percent of persons age 25 years+, 2010-2014	70.3%	86.3%
Bachelor's degree or higher, percent of persons age 25 years+, 2010-2014	7.5%	29.3%
Health		
With a disability, under age 65 years, percent, 2010-2014	24.8%	8.5%
Persons without health insurance, under age 65 years, percent	▲ 11.9%	▲ 10.5%
Economy		
In civilian labor force, total, percent of population age 16 years+, 2010-2014	38.8%	63.5%
In civilian labor force, female, percent of population age 16 years+, 2010-2014	39.1%	58.7%
Total accommodation and food services sales, 2012 (\$1,000) (c)	7,852	708,138,598
Total health care and social assistance receipts/revenue, 2012 (\$1,000) (c)	18,306	2,040,441,203
Total manufacturers shipments, 2012 (\$1,000) (c)	D	5,696,729,632
Total merchant wholesaler sales, 2012 (\$1,000) (c)	D	5,208,023,478
Total retail sales, 2012 (\$1,000) (c)	81,880	4,219,821,871
Total retail sales per capita, 2012 (c)	\$4,532	\$13,443
Transportation		

Mean travel time to work (minutes), workers age 16 years+, 2010-2014	28.6	25.7
Income and Poverty		
Median household income (in 2014 dollars), 2010-2014	\$20,000	\$53,482
Per capita income in past 12 months (in 2014 dollars), 2010-2014	\$11,287	\$28,555
Persons in poverty, percent	 47.0%	 13.5%
Businesses		
Total employer establishments, 2014	174	7,563,085
Total employment, 2014	1,528	121,079,879
Total annual payroll, 2014	35,676	5,940,442,637
Total employment, percent change, 2013-2014	3.9%	2.4%
Total nonemployer establishments, 2014	893	23,836,937
All firms, 2012	880	27,626,360
Men-owned firms, 2012	480	14,844,597
Women-owned firms, 2012	324	9,878,397
Minority-owned firms, 2012	F	7,952,386
Nonminority-owned firms, 2012	846	18,987,918
Veteran-owned firms, 2012	116	2,521,682
Nonveteran-owned firms, 2012	737	24,070,685
Geography		
Population per square mile, 2010	42.9	87.4
Land area in square miles, 2010	426.80	3,531,905.43
FIPS Code	21147	00

 This geographic level of poverty and health estimates are not comparable to other geographic levels of these estimates. Some estimates presented here come from sample data, and thus have sampling errors that may render some apparent differences between geographies statistically indistinguishable. Click the Quick Info  icon to the left of each row in TABLE view to learn about sampling error.

The vintage year (e.g., V2015) refers to the final year of the series (2010 thru 2015). Different vintage years of estimates are not comparable.

- (a) Includes persons reporting only one race
- (b) Hispanics may be of any race, so also are included in applicable race categories
- (c) Economic Census - Puerto Rico data are not comparable to U.S. Economic Census data

D Suppressed to avoid disclosure of confidential information
 F Fewer than 25 firms
 FN Footnote on this item in place of data
 NA Not available
 S Suppressed; does not meet publication standards
 X Not applicable
 Z Value greater than zero but less than half unit of measure shown

QuickFacts data are derived from: Population Estimates, American Community Survey, Census of Population and Housing, Current Population Survey, Small Area Health Insurance Estimates, Small Area Income and Poverty Estimates, State and County Housing Unit Estimates, County Business Patterns, Nonemployer Statistics, Economic Census, Survey of Business Owners, Building Permits.

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U.S. Census Quick Facts

QuickFacts


Clay County, Kentucky


AG
Exhibit 2


QuickFacts provides statistics for all states and counties, and for cities and towns with a *population of 5,000 or more*.

All Topics	CLAY COUNTY, KENTUCKY	UNITED STATES
People		
Population		
Population estimates, July 1, 2015, (V2015)	21,013	321,418,820
Population estimates base, April 1, 2010, (V2015)	21,730	308,758,105
Population, percent change - April 1, 2010 (estimates base) to July 1, 2015, (V2015)	-3.3%	4.1%
Population, Census, April 1, 2010	21,730	308,745,538
Age and Sex		
Persons under 5 years, percent, July 1, 2015, (V2015)	6.4%	6.2%
Persons under 5 years, percent, April 1, 2010	5.9%	6.5%
Persons under 18 years, percent, July 1, 2015, (V2015)	21.2%	22.9%
Persons under 18 years, percent, April 1, 2010	22.0%	24.0%
Persons 65 years and over, percent, July 1, 2015, (V2015)	13.9%	14.9%
Persons 65 years and over, percent, April 1, 2010	12.1%	13.0%
Female persons, percent, July 1, 2015, (V2015)	47.2%	50.8%
Female persons, percent, April 1, 2010	46.6%	50.8%
Race and Hispanic Origin		
White alone, percent, July 1, 2015, (V2015) (a)	94.4%	77.1%
White alone, percent, April 1, 2010 (a)	94.2%	72.4%
Black or African American alone, percent, July 1, 2015, (V2015) (a)	4.2%	13.3%
Black or African American alone, percent, April 1, 2010 (a)	4.2%	12.6%
American Indian and Alaska Native alone, percent, July 1, 2015, (V2015) (a)	0.2%	1.2%
American Indian and Alaska Native alone, percent, April 1, 2010 (a)	0.2%	0.9%
Asian alone, percent, July 1, 2015, (V2015) (a)	0.2%	5.6%
Asian alone, percent, April 1, 2010 (a)	0.1%	4.8%
Native Hawaiian and Other Pacific Islander alone, percent, July 1, 2015, (V2015) (a)	0.2%	0.2%

Native Hawaiian and Other Pacific Islander alone, percent, April 1, 2010 (a)	Z	0.2%
Two or More Races, percent, July 1, 2015, (V2015)	1.0%	2.6%
Two or More Races, percent, April 1, 2010	0.9%	2.9%
Hispanic or Latino, percent, July 1, 2015, (V2015) (b)	1.9%	17.6%
Hispanic or Latino, percent, April 1, 2010 (b)	1.8%	16.3%
White alone, not Hispanic or Latino, percent, July 1, 2015, (V2015)	92.7%	61.6%
White alone, not Hispanic or Latino, percent, April 1, 2010	92.9%	63.7%
Population Characteristics		
Veterans, 2010-2014	881	20,700,711
Foreign born persons, percent, 2010-2014	0.9%	13.1%
Housing		
Housing units, July 1, 2015, (V2015)	8,858	134,789,944
Housing units, April 1, 2010	8,875	131,704,730
Owner-occupied housing unit rate, 2010-2014	74.6%	64.4%
Median value of owner-occupied housing units, 2010-2014	\$58,600	\$175,700
Median selected monthly owner costs -with a mortgage, 2010-2014	\$783	\$1,522
Median selected monthly owner costs -without a mortgage, 2010-2014	\$269	\$457
Median gross rent, 2010-2014	\$469	\$920
Building permits, 2015	0	1,182,582
Families and Living Arrangements		
Households, 2010-2014	7,652	116,211,092
Persons per household, 2010-2014	2.56	2.63
Living in same house 1 year ago, percent of persons age 1 year+, 2010-2014	88.7%	85.0%
Language other than English spoken at home, percent of persons age 5 years+, 2010-2014	2.2%	20.9%
Education		
High school graduate or higher, percent of persons age 25 years+, 2010-2014	64.3%	86.3%
Bachelor's degree or higher, percent of persons age 25 years+, 2010-2014	9.5%	29.3%
Health		
With a disability, under age 65 years, percent, 2010-2014	19.3%	8.5%
Persons without health insurance, under age 65 years, percent	▲ 12.0%	▲ 10.5%
Economy		
In civilian labor force, total, percent of population age 16 years+, 2010-2014	39.3%	63.5%
In civilian labor force, female, percent of population age 16 years+, 2010-2014	38.0%	58.7%
Total accommodation and food services sales, 2012 (\$1,000) (c)	D	708,138,598
Total health care and social assistance receipts/revenue, 2012 (\$1,000) (c)	106,133	2,040,441,203
Total manufacturers shipments, 2012 (\$1,000) (c)	D	5,696,729,632
Total merchant wholesaler sales, 2012 (\$1,000) (c)	D	5,208,023,478
Total retail sales, 2012 (\$1,000) (c)	138,795	4,219,821,871
Total retail sales per capita, 2012 (c)	\$6,439	\$13,443
Transportation		

Mean travel time to work (minutes), workers age 16 years+, 2010-2014	27.0	25.7
Income and Poverty		
Median household income (in 2014 dollars), 2010-2014	\$22,626	\$53,482
Per capita income in past 12 months (in 2014 dollars), 2010-2014	\$14,574	\$28,555
Persons in poverty, percent	 38.2%	 13.5%
Businesses		
Total employer establishments, 2014	243	7,563,085
Total employment, 2014	2,732	121,079,879
Total annual payroll, 2014	69,391	5,940,442,637
Total employment, percent change, 2013-2014	7.5%	2.4%
Total nonemployer establishments, 2014	1,118	23,836,937
All firms, 2012	1,724	27,626,360
Men-owned firms, 2012	731	14,844,597
Women-owned firms, 2012	749	9,878,397
Minority-owned firms, 2012	31	7,952,386
Nonminority-owned firms, 2012	1,657	18,987,918
Veteran-owned firms, 2012	166	2,521,682
Nonveteran-owned firms, 2012	1,508	24,070,685
Geography		
Population per square mile, 2010	46.3	87.4
Land area in square miles, 2010	469.25	3,531,905.43
FIPS Code	21051	00

 This geographic level of poverty and health estimates are not comparable to other geographic levels of these estimates

Some estimates presented here come from sample data, and thus have sampling errors that may render some apparent differences between geographies statistically indistinguishable. Click the Quick Info  icon to the left of each row in TABLE view to learn about sampling error.

The vintage year (e.g., V2015) refers to the final year of the series (2010 thru 2015). Different vintage years of estimates are not comparable.

(a) Includes persons reporting only one race

(b) Hispanics may be of any race, so also are included in applicable race categories

(c) Economic Census - Puerto Rico data are not comparable to U.S. Economic Census data

D Suppressed to avoid disclosure of confidential information

F Fewer than 25 firms

FN Footnote on this item in place of data

NA Not available

S Suppressed; does not meet publication standards

X Not applicable

Z Value greater than zero but less than half unit of measure shown

QuickFacts data are derived from: Population Estimates, American Community Survey, Census of Population and Housing, Current Population Survey, Small Area Health Insurance Estimates, Small Area Income and Poverty Estimates, State and County Housing Unit Estimates, County Business Patterns, Nonemployer Statistics, Economic Census, Survey of Business Owners, Building Permits.

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Exhibit

3

362 Station Equipment

This account shall include the cost installed of station equipment, including transformer banks, which are used for the purpose of changing the characteristics of electricity in connection with its distribution.

Items

1. Bus compartments, concrete, brick and sectional steel, including items permanently attached thereto.
2. Conduit, including concrete and iron duct runs not part of building.
3. Control equipment, including batteries, battery charging equipment, transformers, remote relay boards, and connections.
4. Conversion equipment, indoor and outdoor, frequency changers, motor generator sets, rectifiers, synchronous converters, motors, cooling equipment, and associated connections.
5. Fences.
6. Fixed and synchronous condensers, including transformers, switching equipment, blowers, motors, and connections.
7. Foundations and settings, specially constructed for and not expected to outlast the apparatus for which provided.
8. General station equipment, including air compressors, motors, hoists, cranes, test equipment, and ventilating equipment.
9. Platforms, railings, steps, and gratings appurtenant to apparatus listed herein.
10. Primary and secondary voltage connections, including bus runs and supports, insulators, potheads, lightning arresters, cable and wire runs from and to outdoor connections or to manholes and the associated regulators, reactors, resistors, surge arresters, and accessory equipment.
11. Switchboards, including meters, relays, and control wiring.
12. Switching equipment, indoor and outdoor, including oil circuit breakers and operating mechanisms, truck switches, disconnect switches.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CUMBERLAND VALLEY)
ELECTRIC FOR A CERTIFICATE OF PUBLIC) CASE NO.
CONVENIENCE AND NECESSITY) 2003-00026

O R D E R

Cumberland Valley Electric, Inc. (Cumberland Valley) filed its application on January 23, 2003 for a Certificate of Public Convenience and Necessity to construct certain improvements and additions to its existing plant at an estimated cost of \$10,305,689. In support of its application, Cumberland Valley filed its 2003-2006 Work Plan which describes in detail the improvements and additions to its plant that are required over the next 4 years to serve its load.

Cumberland Valley seeks authorization to construct extensions and additions to its plant as follows:

1.	New Distribution Lines	\$ 5,293,750
2.	Distribution Line Conversions	360,800
3.	Transformers and Meters	2,392,039
4.	Service Upgrades	203,196
5.	Sectionalizing Equipment	276,090
6.	Voltage Regulators	94,500
7.	Line Capacitors	36,000
8.	Pole Replacements	350,946
9.	SCADA	265,300
10.	Security Lights	<u>1,033,068</u>
	TOTAL	\$10,305,689

The proposed construction will enable Cumberland Valley to continue to provide adequate and dependable electric service to its customers. The system improvements

recommended in this Work Plan will not duplicate existing facilities and are needed to correct voltage problems, improve phase balance, and provide for improved service reliability.

Based on the application and supporting 2003-2006 Work Plan, and being advised, the Commission finds that the proposed improvements and additions to be constructed by Cumberland Valley are necessary to provide adequate, reliable electric service to existing customers and anticipated new customers.

IT IS THEREFORE ORDERED that Cumberland Valley is granted a Certificate of Public Convenience and Necessity to construct the facilities described in its 2003-2006 Work Plan.

Done at Frankfort, Kentucky, this 6th day of May, 2003.

By the Commission

ATTEST:


Executive Director

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration

October 28, 1977

REVISION OF REA BULLETIN 183-1

Attached is revised REA Bulletin 183-1, Depreciation Rates and Procedures.

Depreciation rates and procedures prescribed in this bulletin are effective January 1, 1978. However, borrowers wishing to make the changes retroactive to January 1, 1977, may do so. Borrowers may continue to use those rates which REA has approved on the basis of special studies.

A recent review of current industry depreciation rates and practices indicates REA's prescribed rates for generation and transmission and the ranges of rates for distribution plant are generally in agreement with current industry data. The review did indicate an upward trend in certain prescribed rates which have been reflected in the new rates as follows:

1. The prescribed rate for steam production plant is changed from 2.82 percent to 3.10 percent.
2. The prescribed rate for transmission lines is changed from 2.60 percent to 2.75 percent. If communication equipment is not "significant" (see page 14) borrowers may now use a composite rate of 2.75 percent for all transmission plant.
3. The prescribed range of rates for Account 364, Poles, Towers and Fixtures is changed from a range of 3.0 to 3.5 percent to a range of 3.0 to 4.0 percent.

The revised bulletin requires that the accumulated provision for depreciation of distribution plant be analyzed on at least an annual basis. The only other major change in the bulletin is the clarification (page 14, B) of the handling of depreciation rates for nuclear production plant.

To eliminate some apparent confusion, the following points concerning this bulletin are emphasized.

1. REA will not object to the use of the "unit method" of depreciation for "General Plant," where the board of directors approve of this procedure as being necessary to meet their management needs.
2. The use of REA approved rates for general plant has not been necessary since the 1969 revision of Bulletin 183-1. We recommend that borrowers use the range of rates for general plant provided in the bulletin. However, a rate based upon the experience of the cooperative, representing the estimated service life and salvage is satisfactory.

Attachment

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration

October 28, 1977
Supersedes 11/3/69

REA BULLETIN 183-1

SUBJECT: Depreciation Rates and Procedures

- I. General: This bulletin is issued to aid borrowers in their accounting for depreciation. Specific rates are prescribed for production and transmission plant. Ranges of rates are prescribed for distribution plant and recommended for general plant. A method is furnished for borrowers to appraise their reserve ratio for distribution plant. Borrowers may continue to use rates which have received specific REA approval since January 1, 1967. Otherwise, no deviations are to be made from these depreciation procedures and prescribed rates without specific approval of REA except where other rates or procedures are required by a regulatory agency having jurisdiction over the borrower. Borrowers under commission jurisdiction should inform REA of depreciation rates prescribed by the Commission.
- II. Depreciation Defined: Depreciation is defined in the REA Uniform System of Accounts as "the loss in service value of depreciable plant not restored by current maintenance resulting from causes against which no insurance is carried, such as wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand, and requirements of public authorities."
- III. Objectives of Depreciation Accounting:
 - A. The objective of depreciation accounting is to charge to expense the capital investment in certain fixed assets, less salvage at time of retirement, over their useful lives. Thus it may be said that the cost of capital investments in plant is recovered by means of proper depreciation accounting. The useful life of such assets is dependent upon such factors as use, misuse, maintenance and obsolescence. The charge to expense is accomplished by establishing depreciation rates as a percentage. This percentage is applied to the asset cost to yield a monthly or annual amount of depreciation expense.

- B. Depreciation accounting provides for the systematic, periodic writedown or allocation of the cost of a limited-life asset or asset group. The established rate of depreciation should recognize useful life and recovery values. Depreciation is not intended to provide funds for replacement, nor is it to be legitimately considered as a means to make a desirable showing on the revenue and expense statement.

IV. Methods of Depreciation:

- A. REA recommends the straight-line method of computing depreciation for use by its borrowers to provide uniform accounting and reporting practices. The REA Uniform System of Accounts defines straight-line depreciation as "a method for periodically computing the expense represented by loss in service value of depreciable plant, under which the objective is to prorate such loss in equal installments over the estimated or remaining estimated service life."
- B. The REA Uniform System of Accounts, in conformity with the practice of electric and other utility industries, provides for the use of composite rates for each class of property including general plant. This is commonly referred to as "group method depreciation." Although the use of the unit method of computing depreciation is not consistent with general utility practices nor recognized in the Uniform System of Accounts Prescribed for Electric Borrowers of the Rural Electrification Administration (REA Bulletin 181-1), REA will not object to this method of computing depreciation for general plant where boards of directors approve this procedure as being necessary to meet their management needs.
- C. The group method differs from the unit depreciation method in that a number of units of property are grouped for depreciation accounting purposes; depreciation is computed for the whole group. The units may be grouped by primary accounts or by functions, the essential requirement being that the property included in each group have some homogeneity. Under the group method, when retirement of a depreciable unit of plant occurs, the cost of the unit less net salvage is charged to the appropriate accumulated provision for depreciation account. No

recognition is given to so-called gain or loss until all the units included in the particular group are abandoned.

- V. Depreciation Guideline Curves - Distribution Plant: The ratio of the accumulated provision for depreciation to gross plant in service (reserve ratio), has been widely recognized as an important measure of the propriety of depreciation rates and practices. Guideline curves are supplied in Section V.C. for use as a screening tool to determine whether a borrower's reserve ratio is consistent with normal experience. Using the procedure outlined in V.C. below, the cooperative should, on an annual basis, prepare an analysis of the adequacy of its accumulated provision for depreciation of distribution plant. This analysis should be maintained in the cooperative files and be made available for review by REA field personnel.

A. Underlying Theory:

1. Electric distribution plant is an example of a "continuous class" of property, consisting of many individual units of property, each of which is replaced when it reaches the end of its useful life. For such a "continuous class" of property, and with proper depreciation accounting, the reserve ratio for a particular company will be determined by the following factors:
 - a. Its history of growth.
 - b. Its age.
 - c. Its experience with respect to retirements and replacements. This involves not only the average useful life of the plant, but also the dispersion in the average useful life of the individual plant items.
 - d. Its experience with net salvage.
 - e. Its rate of depreciation.
2. The depreciation guideline curves are a simplified application of this underlying theory. The factor of growth is taken into account by the horizontal scale at the bottom of the chart which is a ratio comparing the present plant with plant ten years ago. The factor of age is taken into account by the fact that the curve is recommended for use only by borrowers with an elapsed age since energization of at least 20 years. The factors of experience with replacements and salvage are taken into account by the provision of a range between maximum and minimum

which encompasses the range in average life and in patterns of replacement dispersion which is most commonly experienced by REA borrowers. These ranges were determined by reference to industry experience, both public and private, and through simulated plant-record analyses made of a number of REA borrowers. The applicability of the basic factors of growth, age, and history of retirements to REA distribution borrowers' reserve ratios has been confirmed by statistical analysis, and it has been determined that the experience of most distribution borrowers which have followed good depreciation accounting practices will place their reserve ratio within the "normal" area between the maximum curve and the minimum curve.

3. It will be noted that there is a considerable spread between the maximum and the minimum guideline curves. It is significant that conditions which may result in fairly high reserve ratios for certain borrowers at the present time should lead to lower reserve ratios as these borrowers become older. It is more likely, therefore, that in later years the maximum curve may be lowered.

B. Application of Depreciation Guideline Curves:

1. Depreciation guideline curves can be used very easily by the borrower. Following the detailed procedure for use of the guideline curves (Section V C), the reserve ratio and rate of growth of distribution plant in service are determined for the latest ten year period. Reference to the depreciation guideline curves will immediately indicate whether the borrower's reserve ratio lies between the maximum and minimum curves for plant growing at such a rate.
2. If a borrower is above the maximum, or below the minimum, this is an indication of an unusual condition which warrants a more detailed study. Such a study may indicate need for correction in accounting procedures or a change in depreciation rates or both. In some instances, detailed study may reveal exceptional conditions which justify the unusually high or low reserve ratio.

3. It is also important to consider the change in the reserve ratio during the last several years, and the future reserve ratio as predicted in a long range financial projection. If the reserve ratio is below the minimum curve, but increasing, and if the financial projection indicates that it will soon reach the minimum curve, no corrective action may be required, though subsequent progress should be watched to see that it corresponds to the estimates.
4. Similarly, if the reserve ratio falls between the maximum and minimum guide curves, but the financial projection indicates that the reserve ratio is expected to increase within a few years to a point well above the maximum curve, a special study of the depreciation practices should be made to determine whether there is a need for corrective action.

C. Procedure for Use of the Depreciation Guideline Curves:

1. The chart which follows, shows depreciation guideline curves with suggested levels of depreciation reserve ratios at various growth rates. The solid curves indicate the upper and lower limits of normal reserve ratios for distribution plant. The curve shown by dashes indicates the optimum level of reserve ratios which might be expected in the case of a typical distribution borrower.
2. To check the accumulated provision for depreciation of distribution plant against the depreciation guideline curves, four steps are necessary:
 - a. Determine whether the elapsed age since energization is at least 20 years. If it is less than 20 years, the guideline curves are not applicable.
 - b. Determine the current reserve ratio by dividing the accumulated provision for depreciation on distribution plant by the distribution plant in service. Typical figures might be \$855,220 divided by \$2,861,150, which gives a reserve ratio of 29.9%.
 - c. Determine the ratio of current distribution plant in service to distribution plant in service ten

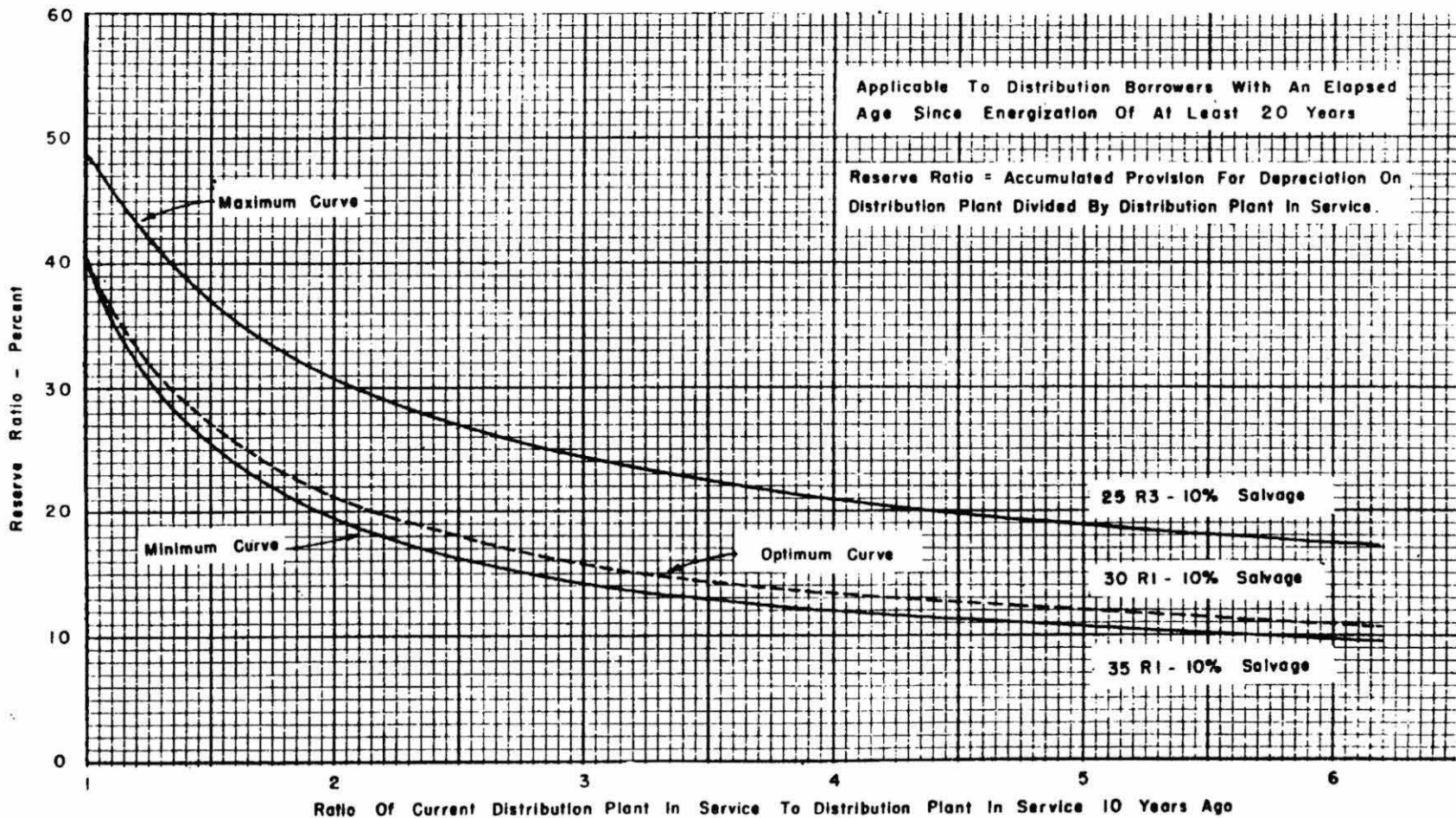
years before. To do this, divide the current distribution plant in service by the distribution plant in service ten years earlier. Typical figures might be \$2,861,150 divided by \$1,540,350, which gives a ratio of 1.86.

- d. Refer to the depreciation guideline curves. For a ratio of current distribution plant in service to distribution plant 10 years ago of 1.86, the maximum curve is about 32% and the minimum curve is about 21%. The example of 29.9%, in paragraph 2 above, lies within this range.
3. It may be desirable to use the depreciation guideline curve with a growth period of more than 10 years. In that case, it will be necessary to use compound interest tables to obtain the average annual compounded rate of growth of distribution plant in service for the particular number of years involved. Then the horizontal scale at the top of the chart will be used.
4. References: For general information on depreciation of a "continuous class" of property, see Report of the Committee on Depreciation, 1960, National Association of Railroad and Utilities Commissioners. For information on the "Iowa Curves" of plant mortality dispersion, which were used in the development of the REA depreciation guideline curve, see Statistical Analysis of Industrial Property Retirements by Robley Winfrey, Iowa Engineering Experiment Station, Bulletin No. 125, 1935, and Depreciation of Group Properties by Robley Winfrey, Iowa Engineering Station, Bulletin No. 155, 1942. For information on the simulated plant-record and other methods of life analysis, see Methods of Estimating Utility Plant Life, Publication 51-23, Published 1952, Edison Electric Institute. A more extensive bibliography can be obtained from REA on request.

DEPRECIATION GUIDELINE CURVES

Average Annual Compounded Rate Of Growth Of Distribution Plant In Service (Percent) For At Least The Last 10 Years

0 1.0 2.0 3.0 4.0 5.0 6.0 7.0 8.0 9.0 10.0 11.0 12.0 13.0 14.0 15.0 16.0 17.0 18.0 19.0 20.0



VI. Prescribed Depreciation Rates for Distribution Plant: The table below (paragraph C) sets forth the range of depreciation rates for distribution plant. Within this range each borrower should select the rate, or rates, which in its judgment would be most suitable in measuring expiration of the service life of its depreciable plant on a straight-line basis. Such judgment is essential since depreciation rates cannot be determined precisely through application of exact formulas.

A. Calculation of Composite Depreciation Rates for Groups:
The primary plant accounts required by the REA Uniform System of Accounts represent groupings of plant units which are suitable for depreciation accounting purposes. Although not all units in a given account have identical characteristics or similar service lives, it is possible to calculate a composite rate for each primary account and, in turn, by utilizing the rates for each primary account, to arrive at a composite rate for a functional group, such as distribution property. The rate for a primary account is computed by first determining a rate for each group of similar materials within an account; secondly, the cost of each group of similar materials is multiplied by the rate selected for that group; and finally, the products of these multiplications are totaled and divided by the balance in the primary account. This same procedure is followed in determining the composite rate for the functional group; that is, the balances in the respective primary accounts are multiplied by the individual rates selected for the various accounts and the products added to arrive at a total which, divided by the aggregate cost of the depreciable plant accounts involved, produces a composite rate for the functional group.

B. Selection of Appropriate Rates Within Range:

1. Review Composition of Each Account: Rates for individual accounts, within the ranges set forth in Section VI.C. below, are to be used in calculating composite rates for functional plant groups. In selecting the rates for individual accounts, plant accounts should be reviewed to determine the composition of each. (For example, in Account 364, Poles, Towers and Fixtures, the types and relative proportions of poles, crossarms, and anchor-guys should be ascertained.) Estimates should be made as to the expected life, removal costs and material

to be salvaged for the various types of material comprising the property in each account. These data will form a basis for judgment as to the rate of depreciation within the recommended range to be applied to each account in computing the composite rate for the functional group.

2. Consider External Factors: Differences in geographical location, climate, operating practices, maintenance policy, load conditions and similar factors may justify differences in depreciation rates since any of these variables may affect or limit the service life of distribution plant.
 - a. Factors and conditions contributing to the use of the upper range of the rate for poles would be (1) growing conditions favorable for decay, fungi (and vegetation in general) such as in southeastern states with high average humidity and rainfall, or where irrigation and crop fertilization are widely practiced and (2) large numbers of substandard poles such as were produced in 1946 through 1948.
 - b. Factors and conditions contributing to the use of the lower range of the rate for poles are growing conditions that are slow or poor; for example, in dry and unirrigated areas, in northern states and at higher altitudes.
3. Select Rate for Each Account Within the Range: It is recommended that borrowers whose systems are operated under normal conditions select a rate for each account which is near the middle of the range. For systems operating under extreme conditions, such as prevail in coastal or sleet areas, or in extremely arid localities, the rate should be selected from near the top or bottom of the range as appropriate. However, in no case should the low end nor the high end of the range be selected unless extraordinary conditions exist which lead to long or to exceptionally short service life.

Illustrations of rate computations and accounting procedures to be followed by borrowers are included in the Appendix.

4. Review Prior Practices:

Consideration should be given to adjusting rates to compensate for the under or over accumulation of the provisions for depreciation resulting from inadequate accounting practices, procedures or improper rates. The guideline curves discussed in Section V above provide a basis for evaluating the need for changes in depreciation rates for distribution plant.

For instance, when it is determined that the accumulated provision for depreciation is excessive because high depreciation rates have been used, or incorrect accounting has been followed, corrective action should be taken. Accounting procedures should be checked and, if necessary, corrected. It may be necessary to reduce the depreciation rate. The reduction should be sufficient to bring the reserve ratio into line with the depreciation guideline curves on a gradual basis over a number of years.

C. Range of Rates - Distribution Plant:

Acct. No.	Account	Annual Depreciation Rate
361	Structures and Improvements	See Account 390
362	Station Equipment	2.7 - 3.2%*
364	Poles, Towers, and Fixtures	3.0 - 4.0%
365	Overhead Conductor and Devices	2.3 - 2.8%
366	Underground Conduit	1.8 - 2.3%
367	Underground Conductor and Devices	2.4 - 2.9%
368	Line Transformers	2.6 - 3.1%
369	Services	3.1 - 3.6%
370	Meters	2.9 - 3.4%
371	Installation on Consumers' Premises	3.9 - 4.4%
372	Leased Property on Consumers' Premises	3.6 - 4.1%
373	Street Lighting and Signal Systems	3.8 - 4.3%

* Power type borrowers should use 2.88% for distribution station equipment.

Requests for REA approval to use rates below or above the composite rate computed by using the ranges recommended must be supported by a clear statement of the factors and conditions which justify such rates.

VII. Recommended Depreciation Rates for General Plant: The table below sets forth the range of recommended depreciation rates for general plant.

General plant is subdivided into six functional groups for depreciation purposes. Separate decimal subaccounts of the accumulated provision for depreciation of general plant should be maintained for each group. The six groups and the ranges of rates are:

<u>Functional Group</u>	<u>Annual Depreciation Rates</u>
Structures and Improvements	2.0 - 3.0%
Office Furniture and Equipment	5.0 - 7.0%*
Transportation Equipment	14.0 - 17.0%
Power Operated Equipment	11.0 - 16.0%
Communications Equipment	5.0 - 8.0%
Other General Plant	3.6 - 6.0%

A. Account 390, Structures and Improvements:

A composite rate should be computed for this account by selecting a rate appropriate for each structure recorded in it. A new composite rate should be computed when a structure is added or deleted. A rate at or near the lower side of the range should generally be used when structures are new or of masonry construction or in areas normally having favorable climatic conditions. A rate at or near the upper side of the range should normally be used when structures are frame type construction, or remodeled or in areas subject to severe climatic conditions.

B. Account 391, Office Furniture and Equipment:

In the computation of a composite rate, office furniture and equipment may be divided into three groups: (a) furniture and miscellaneous office fixtures and equipment,

*Upper limit of range increased to 12.5% when data processing and automatic accounting machines are included.

(b) office machines such as addressographs, typewriters, calculators and adding machines, and (c) data processing equipment and automatic accounting machines. If data processing equipment and automatic accounting machines are included, the annual composite rate may be greater than 7.0% but it should not exceed 12.5%.

To the amount of each group mentioned above a rate within the following ranges should be applied:

	<u>Estimated Service Life-Years</u>	<u>Range Depreciation Rate</u>
Furniture and Miscellaneous Office Fixtures and Equipment	15 to 25	4.0 to 6.0%
Adding Machines, Typewriters, Addressographs and Calculators	9 to 15	6.0 to 10.0%
Data Processing Equipment and Automatic Accounting Machines	6 to 10	10.0 to 16.0%

C. Account 392, Transportation Equipment:

The computation of annual depreciation on a composite basis may be in accordance with the following schedule:

<u>Type</u>	<u>Estimated Service Life-Years</u>	<u>Estimated Percent Salvage Value</u>	<u>Range Depreciation Rates</u>
Automobiles	3 to 5	20 to 40	16.0 to 20.0%
Pickups, Light Trucks, including Auxiliary Equipment	4 to 6	10 to 30	15.0 to 17.5%
Heavy Trucks, including Auxiliary Equipment	5 to 10	Zero to 20	10.0 to 16.0%
Trailers	8 to 14	Zero	7.0 to 12.5%

D. Account 396, Power Operated Equipment:

Ordinarily, depreciation should be computed on this account using an appropriate composite rate. However, units of exceptionally high cost which are used only occasionally, should be depreciated on a time basis, subject to a minimum monthly charge. Estimated life and salvage should be used in arriving at the time rate.

E. Account 397, Communications Equipment:

A composite depreciation rate on the low side of the range should be selected if towers and base stations for two-way radio systems and miscellaneous equipment represent a larger portion of the account balance. If, on the other hand, mobile radio units represent a larger portion of the balance, a rate on the high side should be used. When the account contains a considerable investment in such items as telephone, carrier, or supervisory and load control equipment properly included in general plant, a rate on the low side of the range should be used.

F. Other General Plant:

This group includes Accounts 393, Stores Equipment; 394, Tools, Shop and Garage Equipment; 395, Laboratory Equipment and 398, Miscellaneous Equipment.

VIII. Prescribed Depreciation Rates for Production and Transmission Plant: The tables below set forth the depreciation rates for various types of production and transmission plant. These rates are to be used by borrowers and REA except where regulatory commissions prescribe other rates or unusual conditions justify special rates. A detailed depreciation study should be made for the special cases and submitted to REA for approval of appropriate rates. The rates shown below should be used unless the special rates as determined by the study are more than 0.1 percentage point greater or less than the recommended rates.

B. Rates for Production Plant:

<u>Functional Group or Type of Facility</u>	<u>Annual Depreciation Rate</u>
Steam Production	3.10%
Diesel Production:	
720 RPM and below	3.00%
Above 720 RPM	7.00%
Hydro Production	2.00%
Gas Turbine Production	3.00%

Nuclear Production

A proposed composite rate for nuclear production plant shall be submitted to REA for approval. For joint participation projects in which the borrower is a minor participant, the rate being used by the other participant(s), shall be used. Justification, including supporting studies and regulatory commission's order, for the proposed rate, shall be submitted to REA.

C. Rates for Transmission Plant:

<u>Functional Group or Type of Facility</u>	<u>Annual Depreciation Rate</u>
Transmission Lines	2.75%
Transmission Station Equipment	2.75%

When the amount of communication equipment recorded in Account 353, Station Equipment, is significant (7.5 percent or more of the account total), the depreciation on the communication equipment is computed using the same rate used for Account 397, Communication Equipment.

D. Depreciation Rates for Production and Certain Transmission Facilities to be Included in Loan Agreements:

1. To assure consistency in the use of depreciation rates by REA in its review and analyses of loan applications and by the borrower in its computation of depreciation expense, loan agreements, where production or certain

transmission facilities are involved, will include a provision that the borrower (a) shall adopt as its depreciation rates only those which have previously been approved for the borrower by the Administrator unless other depreciation rates are required by regulatory bodies having jurisdiction in the premises, and (b) shall not file with or submit for approval of regulatory bodies any proposed depreciation rates which have not previously been approved for the borrower by the Administrator.

2. Loan agreements will contain the above provisions for transmission facilities when:
 - a. The borrower will own both generation and transmission facilities; or
 - b. When more than 50 percent of the borrower's plant investment is in transmission facilities; or
 - c. When REA determines in other cases that the depreciation rates should be specified in the loan agreement.

IX. Periodic Review:

Depreciation guideline curves should be used to evaluate the adequacy of current depreciation practices and rates for distribution plant. Under the group method of depreciation, it is especially necessary to re-examine depreciation accounting practices periodically. (Every year is recommended for general plant.) Incorrect accounting procedures found should be corrected immediately. Rates should be altered where necessary to give effect to justifiable changes in estimates of service life or net salvage. When frequent reviews are made only modest changes in depreciation rates are necessary to keep the reserve ratio in line with the guideline curves.


Acting
Administrator

Attachment:

Appendix - Illustrations of Rate Computations and Accounting
Procedures to be Followed by Borrowers

Index:

DEPRECIATION:
Rates and Procedures

APPENDIXILLUSTRATIONS OF RATE COMPUTATIONS AND ACCOUNTING PROCEDURES TO BE FOLLOWED BY BORROWERS1. Calculating a composite rate for distribution plant:

a. Showing effect of change in rate for each primary account:

<u>Account</u>	<u>Balance</u>	<u>Rate A</u>	<u>Depreciation Amount A</u>	<u>Rate B</u>	<u>Depreciation Amount B</u>
362	\$ 30,000	2.7%	\$ 810	3.2%	\$ 960
364	340,000	3.0	10,200	4.0	13,600
365	290,000	2.3	6,670	2.8	8,120
368	210,000	2.6	5,460	3.1	6,510
369	50,000	3.1	1,550	3.6	1,800
370	40,000	2.9	1,160	3.4	1,360
	<u>\$960,000</u>		<u>\$25,850</u>		<u>\$32,350</u>

$$\$25,850 \div \$960,000 = 2.7\%, \text{ composite rate A}$$

$$\$32,350 \div \$960,000 = 3.3\%, \text{ composite rate B}$$

b. Showing effect of change in composition of functional plant group with reference to respective proportions of cost in the various primary accounts:

<u>Account</u>	<u>Rate</u>	<u>Balance A</u>	<u>Depreciation Amount A</u>	<u>Balance B</u>	<u>Depreciation Amount B</u>
362	2.7%	\$ 30,000	\$ 810	\$ 20,000	\$ 540
364	3.5	340,000	11,900	375,000	13,125
365	2.3	290,000	6,670	280,000	6,440
368	2.6	210,000	5,460	125,000	3,250
369	3.6	50,000	1,800	100,000	3,600
370	3.4	40,000	1,360	60,000	2,040
		<u>\$960,000</u>	<u>\$28,000</u>	<u>\$960,000</u>	<u>\$28,995</u>

$$\$28,000 \div \$960,000 = 2.9\%, \text{ composite rate A}$$

$$\$28,995 \div \$960,000 = 3.0\%, \text{ composite rate B}$$

2. Calculating a composite rate for transportation equipment:

<u>Equip- ment</u>	<u>Esti- mated Life</u>	<u>Quan- tity</u>	<u>Total Cost</u>	<u>Esti- mated Salvage</u>	<u>Depre- ciable Cost</u>	<u>Annual Depre- ciation</u>
A	10 yrs.	1	\$18,000	\$ - 0 -	\$18,000	\$ 1,800
B	5 yrs.	6	54,000	7,200	46,800	9,360
C	4 yrs.	2	8,000	2,000	6,000	1,500
			<u>\$80,000</u>	<u>\$9,200</u>	<u>\$70,800</u>	<u>\$12,660</u>

$$\$12,660 \div \$80,000 = 15.8\% \text{ composite rate}$$

3. Accounting procedure for trade-in of truck: (Note that under the group depreciation procedure the net book cost of any particular item of general plant is not ascertainable, as depreciation charges are not allocated to the individual items as is done under the unit depreciation method.)

a. Given a situation in which a truck with original cost of \$2,000 is traded for a \$2,600 new truck, with \$600 being allowed on the old truck:

b. Accounting procedure:

Account 392 Transportation Equipment	
17,000	2,000 (a)
(b) 2,600	

Account 108.7 Accumulated Provision for De- preciation of General Plant	
(a) 2,000	9,000
	600 (b)

Account 131 Cash-General	
	17,000
	2,000 (b)

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