



ARKANSAS ELECTRIC COOPERATIVE CORPORATION

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Response to Entergy Services, Inc. Information Request of July 6, 2017

Prefatory Comment: AECC does not include any pension amounts (prepayment, overfunding, etc.) in its Attachment O transmission formula rate base on which it earns a return. AECC made a discretionary NRECA – Benefit Administrator prepayment in 2013 that is being amortized over ten years. The prepayment has lowered AECC’s current and future funding payments. Accordingly, it has lowered AECC’s expenses, which are reflected in AECC’s Annual Transmission Revenue Requirement. Guidance on the accounting treatment of the NRECA prepayment to stabilize AECC’s future pension costs was provided by the Rural Utilities Service (RUS) to all RUS borrowers, per letter dated February 14, 2013. Per the RUS guidance, the pension costs were recorded as a long term prepayment in Account 186, Miscellaneous Deferred Credit. Account 186 balances are not included in AECC’s Attachment O transmission formula rate. AECC allocates the prepaid expenses in same manner as current benefits. No amounts for the prepayment were booked into Account 165 – Prepayments.

1. Please list each account and associated amount by account related to the contribution prepayment.

Please see ***Prefatory Comment***, which is incorporated herein as if set forth word for word.

Subject to the foregoing, Account No. 186: \$8,796,372 prepayment balance as of December 31, 2016, which represents the remaining balance after the amortization of the prepayment contribution made during February 2013 described in response 3 below.

2. For the response to Item 1, what amount by account was applied to satisfy a current required minimum funding pension contribution or was a discretionary pension contribution above the current minimum required funding?

Please see ***Prefatory Comment***, which is incorporated herein as if set forth word for word.

Subject to the foregoing, the pension cost amount for the current year includes a component for the current portion of the pension costs from NRECA in the amount of \$ 5,398,489 and the amortization of the NRECA prepayment over 10 years in the amount of \$1,466,062. The combination of these two amounts is the total required by NRECA and RUS guidance for the current year. Amounts that are not

capitalized during the current year are allocated to benefit expense based on labor charges to the different accounts.

- 3. Please describe in detail how the contribution prepayment is the same as or differs from a normal pension contribution, an accrued pension cost, a discretionary pension contribution, or a prepaid pension contribution.**

Please see ***Prefatory Comment***, which is incorporated herein as if set forth word for word.

Subject to the foregoing, the NRECA Board of Directors approved an option to allow participating cooperatives in the Retirement Security Plan (RS Plan), a defined benefit multiemployer pension plan, to make an accelerated payment and reduce future required contributions. The prepayment amount is a cooperative's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned using the RS Plan's actuarial valuation assumptions. After making the prepayment, the billing rate was reduced by approximately 25%, retroactive to January 1, 2013. The 25% differential in billing rates is expected to continue for approximately 15 years. However, changes in interest rates, asset returns and other plan experience different from that expected, plan assumption changes, and other factors may have an impact on the differential in billing rates and the 15-year period. During March 2013, AECC made a \$14,660,620 million payment under this option. In accordance with RUS guidance, the payment is being amortized over a 10-year period based on the difference in the normal Plan retirement age, and average age of the AECC workforce.

- 4. Please describe and give details of the circumstances of how and when input from transmission customers and FERC was sought for the contribution prepayment decision and the results of any input sought. If no input was sought from either transmission customers or FERC, please provide the underlying reasoning why their input was not sought prior to AECC's decision on the contribution prepayment.**

Please see ***Prefatory Comment***, which is incorporated herein as if set forth word for word.

Subject to the foregoing, the prepayment was approved by AECC's Board of Directors, which is composed entirely of representatives from AECC's member distribution cooperatives. The prepayment was made prior to AECC becoming a member of MISO. Approval for the amortization was received from USDA RUS.

- 5. Please provide a calculated return on assets for the contribution prepayment for the 2016 test year.**

Please see ***Prefatory Comment***, which is incorporated herein as if set forth word

for word.

Subject to the foregoing, the contribution prepayments are not included in AECC's Attachment O transmission formula rate, and, therefore, AECC does not earn a return on this contribution prepayment.

6. For GAAP accounting purposes, how does AECC calculate pension cost recovered through Attachment O?

Please see ***Prefatory Comment***, which is incorporated herein as if set forth word for word.

Subject to the foregoing, annual pension costs are deemed a benefit expense. All annual benefit expenses are charged to a clearing account which is in turn allocated based on labor dollars charged to each account. Transmission O&M expense reported in the Attachment O includes labor and allocated benefit expense.

7. Is the amount of pension cost recovered through Attachment O the same amount as the contribution made by AECC to the NRECA Retirement Security Plan?

Please see ***Prefatory Comment***, which is incorporated herein as if set forth word for word.

Subject to the foregoing, no

Respectfully submitted,

A handwritten signature in black ink, appearing to read "J. T. Elkins". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

John T. Elkins
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