

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE
COMMISSION

In the Matter of:

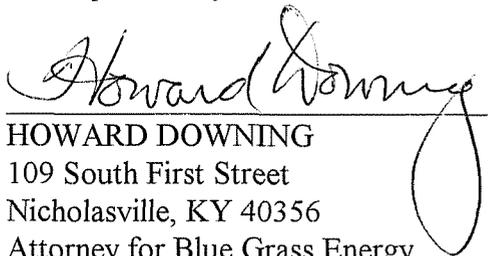
APPLICATION OF BLUE GRASS ENERGY)
COOPERATIVE CORPORATION FOR)
AN ADJUSTMENT OF RATES)

Case No. 2008-00011

APPLICANT'S RESPONSES TO
THIRD DATA REQUEST OF COMMISSION STAFF

The applicant, Blue Grass Energy Cooperative Corporation, makes the following responses to the "Third Data Request of Commission Staff", as follows:

1. The witnesses who are prepared to answer questions concerning each request are J. Donald Smothers and Jim Adkins.
2. J. Donald Smothers, Vice - President of Blue Grass Energy Cooperative Corporation is the person supervising the preparation of the responses on behalf of the applicant.
3. The responses and Exhibits are attached hereto and incorporated by reference herein

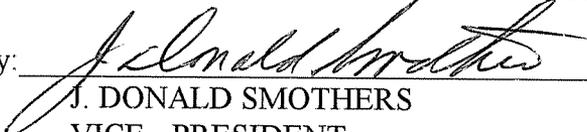

HOWARD DOWNING
109 South First Street
Nicholasville, KY 40356
Attorney for Blue Grass Energy
Cooperative Corporation
Telephone: 859-885-4619

The undersigned, J. Donald Smothers as Vice President of Blue Grass Energy Cooperative Corporation, being first duly sworn, states that the responses herein are true and accurate to the best

of my knowledge, information and belief formed after a reasonable inquiry.

Dated: June 30, 2008.

BLUE GRASS ENERGY COOPERATIVE CORPORATION

By: 
J. DONALD SMOTHERS
VICE - PRESIDENT

Subscribed, sworn to and acknowledged before me by J. Donald Smothers, as Vice -
President of Blue Grass Energy Cooperative Corporation on behalf of said Corporation this 30th day
of June, 2008.


NOTARY PUBLIC, KENTUCKY STATE AT LARGE
My Commission Expires: April 1, 2009.

CERTIFICATE OF SERVICE

The undersigned counsel certifies that the foregoing responses have been served upon the following:

Original and Seven Copies

Ms. Stephanie Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40601

Copy

Hon. Lawrence W. Cook
Assistant Attorney General
1024 Capital Center Drive, Suite 200
Frankfort, KY 40601-8204

Leigh and Troy Roach
115 Prestwick Drive
Georgetown, KY 40324

This 30th day of June, 2008.



ATTORNEY FOR BLUE GRASS ENERGY
COOPERATIVE CORPORATION

**BLUE GRASS ENERGY COOPERATIVE
CASE NO. 2008-0011**

RESPONSE TO COMMISSION STAFF'S THIRD DATA REQUEST

1. Refer to the response to item 2 of the Commission staff's second data request ("Staff Request No. 2") which states that no customers were served under Schedule B-1 for the test year. However, the response to item 7(c) states that customers were billed under Schedule B-1. Explain the discrepancy.

There were no customers billed under Schedule B-1 for the Nicholasville and Madison Districts. As stated the B1 rate on line 25 of Exhibit G is one account in the Fox Creek District. The B-1 tariff for the Nicholasville and Madison Districts in now combined with the B-1 tariff in the Fox Creek District to reflect one B-1 tariff

**BLUE GRASS ENERGY COOPERATIVE
CASE NO. 2008-0011**

RESPONSE TO COMMISSION STAFF'S THIRD DATA REQUEST

2. Refer to the response to item 4 of Staff Request No. 2.

- a. Explain whether Blue Grass is currently eligible to receive additional advances on loan "E44" and whether it anticipates receiving any such advances prior to the end of calendar year 2008.

We are eligible to receive up to 50% of the total loan of \$42,824,000 which is \$21,412,000. We have drawn \$12,000,000 leaving a balance of \$9,412,000 to draw when we have enough Work Orders and Special Equipment approved for advance. I anticipate we will request this by year end.

- b. The total amount approved for loan "E44" by the Rural Utilities Service ("RUS") was \$42, 824,000. Explain whether loan "E44" was approved by RUS in conjunction with a construction work plan or whether it was approved for some other purpose.

It was approved for a 2006-2009 construction work plan which was approved by the Commission in Case no. 2006-00540.

- c. Provide the date in April 2008 on which Blue Grass received the \$12 million advance on the "E44" loan and its long-term and short-term debt balances immediately upon its receipt of the \$12 million.

Date received \$12,000,000 advance:	April 10, 2008
Short Term debt balance:	\$13,450,000
Long Term debt balance:	\$103,005,053

**BLUE GRASS ENERGY COOPERATIVE
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RESPONSE TO COMMISSION STAFF'S THIRD DATA REQUEST

3. Refer to the response to item 5 of Staff Request No. 2. Provide all assumptions sales volume, revenue and expense levels, outstanding long-term debt, etc. – used by Blue Grass to develop the projections shown in the response.

Projections end of 12/31/2008:

KWH Sales:	1,265,673,000
Revenue:	\$107,850,000
Total Cost of Service:	\$107,100,000
Long Term Interest:	\$ 5,700,000
Principal Payments:	\$ 5,000,000
Depreciation:	\$ 6,200,000
Long Term Debt:	\$120,000,000

**BLUE GRASS ENERGY COOPERATIVE
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Item No. 4
Page 1 of 1
Witness: Jim Adkins

RESPONSE TO COMMISSION STAFF'S THIRD DATA REQUEST

- Q. Refer to the response to Item 5 of Staff Request No. 2.
- a. The suspension period in this case runs to mid-October of 2008. Provide a narrative explanation and all related workpapers, calculations, etc. which show how Blue Grass determined that it will not be in technical default of its mortgages with the RUS after calendar year 2008 if it receives a rate increase with a Times Interest Earned Ratio ("TIER") of 2.00S less than 3 months prior to the end of the year.
- R. a. Blue Grass developed a budget for 2008 which had margins equal to a TIER of 2.00X for calendar year 2008. This budget was based on the assumption that the rate increase would go into effect so it would be effective on August 1, 2008. This budget was developed in October 2007. For this to be realistic it would have required that this application be filed in early February. It is easily determinable at the current time that it requires much more time than one month after the end of test year to develop, process and file rate application. The case as filed was an expedited one.
- Q. b. Provide the calculations showing Blue Grass's year-to-date TIER for calendar year 2008 through the month of May, and provide an update of its TIER through June 2008 no later than July 31, 2008.
- R. b. Blue Grass will provide its TIER calculation for 2008 through June by July 31, 2008. The TIER calculation for 2008 through May is provided below:

Margins	\$	867,411
Interest	\$	1,870,334
Total	\$	<u>2,737,745</u>
TIER		1.46

**BLUE GRASS ENERGY COOPERATIVE
CASE NO. 2008-00011**

Item No. 5
Page 1 of 1
Witness: Jim Adkins]

RESPONSE TO COMMISSION STAFF'S THIRD DATA REQUEST

- Q. Refer to the response to Item 10 of Staff No. 2, which states that "(t)his rate schedule does not contain an excess demand component as applied during the test year. Blue Grass is proposing that the new schedule applicable to this current schedule contain an excess demand component". Has Blue Grass projected whether any of the demand would be classified as demand in excess of contract demand?
- a. If yes, state how this amount was determined and why the projected revenue is not shown on Exhibit J, page 23, of the application.
- R. a. Blue Grass did not feel that any demand would be classified as demand in excess of contract demand. The customer determines the contract demand amount. Additionally, the actual demand for this one customer has been fairly consistent.
- b. If no, explain why Blue Grass believes it necessary to add a separate component for demand in excess of contract demand.
- R. Blue Grass believes that it is appropriate to add a separate component for demand in excess of contract demand for one primary reason. The current rate class LPR2 contains one (1) customer and is being combined with rate class B-2 which has several customers. The rate design recommended for the proposed rate schedule is similar to the current B-2 and is based on the wholesale power suppliers current Rate B. Finally, the rates for the proposed rate will be less than the current rates for LPR2.

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Item No. 6
Page 1 of 1
Witness: Jim Adkins

RESPONSE TO COMMISSION STAFF'S THIRD DATA REQUEST

- Q. Refer to the response to Item 16 of Staff Request No. 2, which states that "(n)o changes in rate design are being sought for Schedule B-1...." Explain how it was determined that the customer charge should be increased to \$1,000.
- R. The rationale for the \$ 1,000.00 per month customer charge is based on the following rationale. One,
- 1 The proposed customer charge would provide revenue equal to 82.4% of its revenue requirements.
 - 2 The proposed customer charge for Schedule B-2 is \$2,000.00 per month. Since, the customer demands for Schedule B-1 are approximately one half the size of the loads for Schedule B-2, a customer charge of one half the customer charge amount for Schedule B-2 or \$1,000 seems appropriate.
 - 3 Additionally, the substation charge that is billed by the wholesale power supplier for substations equal to the size load in Schedule B-1 is \$944 per month.

**BLUE GRASS ENERGY COOPERATIVE
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Item No. 7
Page 1 of 1
Witness: Jim Adkins

RESPONSE TO COMMISSION STAFF'S THIRD DATA REQUEST

- Q. Refer to the response to Items 15, 17, and 18 of Staff Request No. 2, which refers to the allocation of substation costs to Schedules B-2, LP-1, and LP-2 respectively. Provide the basis for the allocation of the wholesale substation costs to these rate schedules.
- R. The basis for the allocation of substation costs to any rate class is the contribution of each rate class to the wholesale billing demand units. Listed below is the sum of the monthly contributions for each rate class to wholesale billing demand for for the test year for Blue Grass. This information is contained in Exhibit R, page 65.

<u>Rate Class</u>	<u>Billing Demand kW</u>	<u>Allocation Percent</u>
GS-1, Residential, Farm and Non-Farm	932,742	32.85%
R, Residential	465,281	16.39%
A, Farm and Home Service	541,890	19.09%
GS-2, Residential Marketing (ETS)	-	0%
R2, Residential Marketing (ETS)	-	0%
Rate 1, Residential Marketing (ETS)	-	0%
C-1, Commercial and Industrial Lighting & Power	191,106	6.73%
C, Small Commercial	45,521	1.60%
Rate 2, Commercial and Small Power	45,163	1.59%
LP-1, Large Power	92,336	3.25%
L, Large Power Service (50 to 200KW)	6,720	0.24%
Rate 8, Large Power Service (50 to 500KW)	110,114	3.88%
LP-2, Large Power	20,794	0.73%
N, Industrial & Large Power (Over 500KW)	17,014	0.60%
LPR1, Large Power Service (Over 500KW)	10,427	0.37%
B1, Large Industrial Rate	32,146	1.13%
B-2, Large Industrial Rate	243,182	8.57%
LPR2, Large Power (5,000 to 9,999KW)	71,677	2.52%
Street Lighting	1,122	0.04%
Outdoor Lighting Service	11,921	0.42%
	<u>2,839,156</u>	<u>100%</u>

RESPONSE TO COMMISSIONS STAFF'S THIRD DATA REQUEST

Q. Refer to the response to Item 18(b) of Staff Request No. 2.

a. Explain why it was determined that the revenue requirements for Schedules LP-1 and LP-2 should be increased by 1.7%.

R. a The rationale for the 1.7% increase for LP-2 rests upon several factors.

- 1 In both of these combined rate schedules, two current rate classes in each one of these rate classes were receiving rate decreases. In both instances in the combined rate schedules, one of the current rate classes would have had a rate reduction in excess of 10%. To hold a rate reduction to a reasonable level for these current rate classes, the revenue requirements were increased by 1.7%.
- 2 Blue Grass also wished to temper the amount of increase for the new combined rate schedule for small commercial and industrial loads (Schedule SC-1). The objective was to keep the proposed rate increase applicable to any of the current rate classes at an amount no greater than two times the average increase of 9.0%

Q b. Blue Grass was asked to explain the basis of the allocation between energy costs, consumer costs, and demand costs in the 3rd, 4th, and 5th section of Exhibit R, page 11; however, no response was provided. Provide a response to the original request.

R b The primary objective for the proposed rate design was developed with several objectives in mind. One objective was to simplify the rate design. A second object was to establish to establish a rate design that promotes load factor improvement.

The individual components of the rate design were developed in the following manner.

1 The cost of service study would have justified for consumer charges somewhat higher for both LP-1 and LP-2 than what is proposed. Provide below is a comparison with the current, the proposed and the COSS justified.

	<u>Current</u>	<u>Proposed</u>	<u>COSS</u>
LP-1	\$ 24.64	\$ 50.00	\$ 89.53
	\$ 30.00		
	\$ 29.44		

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Item No. 8
Page 2 of 2
Witness: Jim Adkins

RESPONSE TO COMMISSIONS STAFF'S THIRD DATA REQUEST

Below of the significant difference between the current and the COSS justified, management decided upon a \$50.00 customer charge which is an increase ranging from a 67% increase to over 100% increase for one of the current rate classes.

	<u>Current</u>	<u>Proposed</u>	<u>COSS</u>
LP-2	\$ 24.64	\$ 100.00	\$ 303.12
	\$ 277.18		
	\$ 41.23		

Below of the significant difference between the current and the COSS justified, management decided upon a 100.00 customer charge which is an increase ranging from over 400% increase to a decrease of 64% for the current rate classes.

- 2 Blue Grass wished to set a demand rate an amount greater than its wholesale demand rate. The current wholesale demand rate is either \$5.22 per kW or \$6.92 per kW dependent on the option chosen by Blue Grass. The proposed rate of \$7.50 is higher than the wholesale power supplier which would provide some contribution to the distribution demand-related costs at a coincidence factor of 100%. Finally, a higher demand charge does provide for a more load factor intensive design.
- 3 The energy rate was to be set an amount greater than the cost of energy might be at any given time. This statement means that Blue Grass's energy rate for LP1 and LP-2 must be higher than EKPC's highest energy rate adjusted for distribution line losses. The cost of purchased power at any given time is \$0.03830 per kWh. The energy rate that Blue Grass had to be set at a minimum of its cost. For Schedule LP 2, a distribution adder of 2.58 mills per kWh was selected and a distribution adder of 8.2 mills per kWh for LP-1.

RESPONSE TO COMMISSION STAFF'S THIRD DATA REQUEST

- Q. Refer to the response to Item 25 of Staff Request No. 2, pages 6 and 7, and Exhibit R of the application, Schedule 5. Explain why the first row of percentages on pages 4 and 7 was used to allocate demand for the Transformers Section on Schedule 5 and the second row of percentages on pages 4 and 7 was used to allocate demand for the lines Section of Schedule 5.
- R. The first row of percentages was used to allocate the transformer related demand costs because it excluded any demand related costs for the current schedules of LPR2, B-1 and B-2 because these rate classes provide their own transformers. It excluded any costs for the ETS rate classes because of the assumption that these rate classes do not cause any increase in transformer costs.

The second row of percentages was used to allocate the demand related costs for lines. No demand related line costs have been allocated to the ETS rate classes because of the assumption that these rate classes do not cause any increase in lines costs.

Witness: Jim Adkins

Blue Grass Energy Cooperative

Case No. 2008-00011

Third Data Request of Commission Staff

10. Refer to the response to Item 30 of Staff Request No. 2 and Exhibit S, pages 1 and 3 of 4, of the application.

a. With the change in amount of the adjustment to the Accumulated Depreciation reserve, will the offsetting adjustment to the Patronage Capital account be required? If no, explain why.

Response

No. The offsetting adjustment will be through the "Net Change in Assets" account.

b. Based on the explanation for the adjustment to the Accumulated Depreciation reserve, explain why the adjustment is a decrease to the amount of the reserve. If it is based on the normalized increase in depreciation expense, explain why the resulting adjustment does not increase the reserve balance. Provide a revised page 1 of 4 showing all required changes.

Response

The response to Item 30 of Staff Request No. 2 indicated an increase of \$973,220 in depreciation expense, which would correlate to an increase in the accumulated depreciation account.

A revised Exhibit S, page 1 of 4 is attached to this response.

Blue Grass Energy
Case No. 2008-00011
Balance Sheet, Adjusted
December 31, 2007

Exhibit S - Revised
page 1 of 4
Witness: Jim Adkins

	<u>Actual</u> <u>Test Year</u>	<u>Adjustments</u> <u>to Test Year</u>	<u>Adjusted</u> <u>Test Year</u>
<u>ASSETS</u>			
Electric Plant:			
In service	172,635,904		172,635,904
Under construction	7,831,343		7,831,343
	<u>180,467,247</u>		<u>180,467,247</u>
Less accumulated depreciation	39,049,560	973,220	40,022,780
	<u>141,417,687</u>	<u>(973,220)</u>	<u>140,444,467</u>
Investments	21,431,733		21,431,733
Current Assets:			
Cash and temporary investments	1,840,369		1,840,369
Accounts receivable, net	4,794,120		4,794,120
Material and supplies	1,252,330		1,252,330
Prepayments and current assets	496,644		496,644
	<u>8,383,463</u>		<u>8,383,463</u>
Deferred debits & Net Change in Assets	286,757	10,400,172	10,686,929
Total	<u>171,519,640</u>	<u>9,426,952</u>	<u>180,946,592</u>
<u>MEMBERS' EQUITIES AND LIABILITIES</u>			
Margins:			
Memberships	1,018,855		1,018,855
Patronage capital	40,249,133	9,392,510	49,641,643
	<u>41,267,988</u>	<u>9,392,510</u>	<u>50,660,498</u>
Long Term Debt	100,150,077		100,150,077
Accumulated Operating Provisions	5,440,539	34,442	5,474,981
Current Liabilities:			
Short term borrowings	13,200,000		13,200,000
Accounts payable	8,255,474		8,255,474
Consumer deposits	1,413,702		1,413,702
Accrued expenses	1,117,213		1,117,213
	<u>23,986,389</u>		<u>23,986,389</u>
Deferred credits	674,647		674,647
Total	<u>171,519,640</u>	<u>9,426,952</u>	<u>180,946,592</u>

Blue Grass Energy Cooperative
Case No. 2008-00011
Third Data Request of Commission Staff

11. Refer to the responses to Item 31 of Staff Request No. 2 and Item 36 of Staff Request No. 1.

a. Provide the dollar amount, out of the \$12 million advance on loan E44, which was used to reduce the balance of Blue Grass's short-term debt.

Response

The entire \$12 million was used to repay short-term debt. There was still \$3,200,000 of short-term debt outstanding after the \$12 million was applied to short term debt.

b. Blue Grass's balance of short-term debt was \$13.2 million as of the end of the test year. What was its short-term debt balance immediately after the reduction effected by use of the proceeds from loan E44?

Response

The balance of short-term debt after the reduction of the \$12 million loan was \$3,200,000 and at the end of May 2008, the balance was \$3,650,000 and at June 20, 2008 the balance was \$6,350,000.

c. Based on the changes in its short-term debt balance due to the advance on loan E44, explain whether Blue Grass believes is proposed adjustment to reduce short-term debt by one-half, based on a test-year level of interest of \$478,865, is appropriate for rate-making purposes.

Response

The \$12,000,000 advance was made on April 10, 2008. At April 30, 2008, Blue Grass had short-term borrowings of \$3,200,000. The interest rate was 4.75% on this advance. It is anticipated that Blue Grass will continue to borrow short term funds until the rate increase goes into effect. As such, Blue Grass is of the opinion that the adjustment to reduce short-term interest by one-half of the \$478,865 is appropriate for rate-making purposes.

**BLUE GRASS ENERGY COOPERATIVE
CASE NO. 2008-0011**

RESPONSE TO COMMISSION STAFF'S THIRD DATA REQUEST

12. Refer to the response to item 33(e) of Staff request No. 2. Provide a detailed description of the "Special Equipment Labor Credit" referenced in the response and, on a monthly basis, Blue Grass's meter expense (Account 586) for the first 5 months of calendar year 2008.

Special Equipment Labor Credit is a standard amount of labor (per meter purchased) that can be transferred from meter expense account 586 to Construction Work in Progress – Special Equipment account 107.3 according to RUS accounting. This is included in the Construction Property Records (CPR) with the cost of the meters and depreciation over the life of the meters.

2008	
January	\$16,098
February	\$ 9,921
March	\$58,071
April	\$26,560
May	\$22,579

**BLUE GRASS ENERGY COOPERATIVE
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RESPONSE TO COMMISSION STAFF'S THIRD DATA REQUEST

13. Refer to the response to item 33 (f) of Staff Request No. 2. Provide a breakdown of the \$285,000 increase in expense showing how much is attributable to the Pole Treatment program started in 2007. Describe the program, provide the amount charged to Account 593 through May of 2008, and explain whether the expense is expected to continue at the level experienced in 2007 and if yes for how long.

Labor	\$ 47,819
Transportation	\$ 28,883
Supplies	\$ 42,414
Pole treatment	\$ 91,500
Tools	\$ 7,936
Benefits	\$ 60,092
Miscellaneous	<u>\$ 7,217</u>
Total	\$285,861

As of May 31, 2008 we have not charged any expense to 583 for pole treatment, however, we anticipate spending approximately \$100,000 through the end of the year. We anticipate that we will expense approximately \$100,000 annually to maintain an ongoing pole treatment program. The program is designed to ground line inspect and treat appropriate poles to extend their useful life.

**BLUE GRASS ENERGY COOPERATIVE
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RESPONSE TO COMMISSION STAFF'S THIRD DATA REQUEST

14. Refer to the response to item 33(g) of Staff Request No. 2. Provide a detailed explanation for how 5 years was determined to be the appropriate cycle for the Right-of-Way trimming program.

This was reviewed by the Commission in Case No. 2006-00494, an Investigation of the Reliability Measures of Kentucky's Jurisdictional Electric Distribution Utilities and Certain Reliability Maintenance Practices. The strategy included in Appendix 2 no. 4.2 ROW Vegetation Maintenance Scheduling Strategy.

**BLUE GRASS ENERGY COOPERATIVE
CASE NO. 2008-0011**

RESPONSE TO COMMISSION STAFF'S THIRD DATA REQUEST

15. Refer to the response to item 33 (h) of Staff Request No. 2. Explain whether the increase in locating underground meters due to the conversion to the 811 system has continued into 2008. Provide the amount charged to account 594 through the month of May 2008.

Yes, the expense in locating underground meters due to implementing the 811 system continues to increase. The amount charged to 594 through May 2008 is \$167,516.

**BLUE GRASS ENERGY COOPERATIVE
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16. Refer to the response to item 33(j) of Staff Request No. 2. Provide the amount of the partners plus incentives Blue Grass received in 2006 and the cost it incurred in 2007 for the Washington Youth Tour.

Partners plus incentives received in 2006 were \$286,053. The cost of the Washington Youth Tour in 2007 was \$12,069.

**BLUE GRASS ENERGY COOPERATIVE
CASE NO. 2008-0011**

17. Refer to the response to item 33(m) of Staff Request No. 2. Provide the amount of expense incurred for the maintenance performed on the geothermal system. Explain whether such maintenance is performed regularly on an annual basis.

The maintenance performance on the geothermal systems was \$22,243. Based on the age of the systems at 3 of the districts we could have similar maintenance expense annually. They will be checked and maintenance performed accordingly.

Witness: Jim Adkins

Blue Grass Energy Cooperative
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Third Data Request of Commission Staff

18. Refer to the responses to Items 34(g) and 34(h) of Staff Request No. 2, the page immediately preceding Section 8 of the depreciation study in Exhibit 3 of the application, and the next-to-last paragraph on the second page of the Scope section of the depreciation study.

a. Explain how it was determined that the average net salvage amount for the past 5 years was the appropriate amount to use in arriving at the net salvage percent component of the proposed depreciation rates, as opposed to the average net salvage amount for some other period of time.

Response

The 3 year moving averages, the five year and 10 year average net salvage amounts were all reviewed. The trend for the 3 year moving averages indicated a continual increase. The 10 year average was deemed to be too outdated to be reflective of current activities. Since the Commission has accepted a 5-year net salvage amount for other electric cooperative depreciation studies, i.e. Jackson Energy in Cases No. 2000-00373 and 2007-00333 and Fleming-Mason Energy in Case No. 2007-00022, Blue Grass elected to use the 5-year average for net salvage.

The net salvage amount of \$(691,482) is shown in the attached study for the 5-year average.

b. For each year - 2005, 2006, and 2007 - in which Blue Grass was installing Automatic Meter Reading ("AMR") devices, for the metering equipment that was retired, provide the original cost, the gross salvage amount, and the cost of removal, and the net salvage amount.

Response

<u>Year</u>	<u>Original Cost</u>	<u>Gross Salvage</u>	<u>Cost of Removal</u>	<u>Net Salvage</u>
2005	217,930	0	0	0
2006	392,500	0	0	0
2007	3,207,810	0	0	0

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19. Refer to the response to Item 33(k) of Staff Request No. 2. Since it had a depreciation study performed previously, provide a detailed narrative explanation for why Blue Grass has no existing average service lives or net salvage factors.

Response

Blue Grass regrets that it omitted this information. The last depreciation study was performed as of December 1989 for the Blue Grass Rural Electric cooperative, which was prior to the consolidation of either Fox Creek Rural Electric or Harrison Rural Electric Cooperative.

		Average Service <u>Life</u>	Net Salvage <u>Ratio</u>
364.	Poles, tower and fixture	30	-35%
365.	Overhead conductor	35	5%
367.	Underground conductor	25	0%
368.	Line transformers	30	5%
369.	Services	15	5%
370.	Meters	30	0%
371.	Installation on customer	20	0%
373.	Street lighting	20	0%

Blue Grass Energy Cooperative
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Third Data Request of Commission Staff

20. Refer to the response to Item 37(b) of Staff Request No. 2, which asked for an update of interest rates on long-term debt for "the long-term debt balances as of the end of the proposed test year."

a. Explain why Blue Grass included the post-test-year advance of \$12 million on loan E44 in the update provided in the response.

Response

This was an oversight only.

b. Based on the updated interest rates, and excluding the \$12 million post-test-year advance, does Blue Grass agree that the annualized cost of long-term debt outstanding at test year-end is \$3,854,539? If no, explain.

Response

Yes, Blue Grass agrees.

**BLUE GRASS ENERGY COOPERATIVE
CASE NO. 2008-0011**

21. Refer to the response to item 40 of Staff Request No. 2.

- a. Part (a) of the response discusses the nature of the work performed by Combs & Hoffman and by Howard Downing. For the test year and each of the calendar years 2004, 2005, 2006, provide the dollar amounts charged to Blue Grass by each of the two legal firms.

Expense related to Howard Downing:

2004	\$20,421
2005	\$22,221
2006	\$20,078

Expense related to Combs & Hoffman:

2004	\$21,676
2005	\$35,176
2006	\$35,500

- b. Part (d) of the response concludes with the statement “ We do not consider this a normal item but we did have another issue in the Fox Creek District”. Identify and describe the other issue in the Fox Creek District.

This was the Tindle site EPA issue as described in 40(b) of the Commission’s second data request.

Blue Grass Energy Cooperative

Case No. 2008-00011

Third Data Request of Commission Staff

22. Refer to the response to Item 47(a) of Staff Request No. 2. Explain whether Blue Grass employed any sort of formulaic methodology, equity management plan, or other type of analyses to make the determination that a TIER of 2.00x should be the basis for the amount of proposed rate increase.

Response

Blue Grass reviewed its budget based on a 2.00x TIER and determined that it would require at least a 2.00x TIER to maintain its financial stability.

Blue Grass Energy Cooperative
Case No. 2008-00011
Third Data Request of Commission Staff

23. Refer to the response to Item 47(c) of Staff Request No. 2 and Answer 6 on page 2 of 9 of Exhibit H-1 of the application.

a. Provide the TIER levels allowed for each of the rate increases mentioned in Answer 6.

Response

Blue Grass Rural Electric Cooperative	2.50x
Fox Creek Rural Electric Cooperative	2.50x
Harrison Rural Electric Cooperative	2.00x

b. State whether the RUS minimum TIER requirement at the time of each of the 3 rate increases was the current level of 1.25x or the prior minimum requirement level of 1.50x.

Response

All of these increases were at the prior minimum requirement level of 1.50x.

c. For the years 2002 through 2006, provide a revised response which shows the approximate net margins for TIER levels of 2.00X, 1.75x, and 1.50x.

Response

<u>Year</u>	<u>Net Margins as Indicated</u>		
	<u>2.00x</u>	<u>1.75x</u>	<u>1.50x</u>
2006	4,420,976	3,315,732	2,210,488
2005	3,488,700	2,616,525	1,744,350
2004	2,744,950	2,058,713	1,372,475
2003	2,900,592	2,175,444	1,450,296
2002	3,007,137	2,255,353	1,503,569

- Q. Refer to Blue Grass's responses to Items 6(b) and 6© of the Attorney General's Initial Request. These responses provided corrected amounts for certain line items in Exhibits G and S; however, revised schedules were not provided. Provide revised Exhibits G and S.
- R. Attached as page 2 through 3 of this response is a revised pages 1 and 2, Exhibit S.
- Attached as page 4 of this response is a revised Exhibit G.

Blue Grass Energy
Case No. 2008-00011
Balance Sheet, Adjusted
December 31, 2007

PSC 3 Item 24
Page 2 of 4
Exhibit S
page 1 of 4
Witness: Jim Adkins

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	Actual <u>Test Year</u>	Adjustments to <u>Test Year</u>	Adjusted <u>Test Year</u>
<u>ASSETS</u>			
Electric Plant:			
In service	172,635,904		172,635,904
Under construction	7,831,343		7,831,343
	180,467,247		180,467,247
Less accumulated depreciation	39,049,560	(625,119)	38,424,441
	141,417,687	625,119	142,042,806
Investments	21,431,733		21,431,733
Current Assets:			
Cash and temporary investments	1,840,369		1,840,369
Accounts receivable, net	4,794,120		4,794,120
Material and supplies	1,252,330		1,252,330
Prepayments and current assets	496,644		496,644
	8,383,463		8,383,463
Deferred debits & Net Change in Assets	286,757	8,801,833	9,088,590
Total	171,519,640	9,426,952	180,946,592
<u>MEMBERS' EQUITIES AND LIABILITIES</u>			
Margins:			
Memberships	1,018,855		1,018,855
Patronage capital	40,249,133	9,392,510	49,641,643
	41,267,988	9,392,510	50,660,498
Long Term Debt	100,150,077		100,150,077
Accumulated Operating Provisions	5,440,539	34,442	5,474,981
Current Liabilities:			
Short term borrowings	13,200,000		13,200,000
Accounts payable	8,255,474		8,255,474
Consumer deposits	1,413,702		1,413,702
Accrued expenses	1,117,213		1,117,213
	23,986,389		23,986,389
Deferred credits	674,647		674,647
Total	171,519,640	9,426,952	180,946,592

Blue Grass Energy
Case No. 2008-00011
Statement of Operations, Adjusted

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	<u>Actual</u> <u>Test Year</u>	<u>Normalized</u> <u>Adjustments</u>	<u>Normalized</u> <u>Test Year</u>	<u>Proposed</u> <u>Increase</u>	<u>Proposed</u> <u>Test Year</u>
Operating Revenues:					
Base rates	\$81,641,086	\$5,350,524	\$86,991,610	\$7,838,840	\$94,830,450
Fuel and surcharge	15,046,677	(15,046,677)	0		0
Other electric revenue	2,306,801	279,466	2,586,267		2,586,267
	<u>98,994,564</u>	<u>(9,416,687)</u>	<u>89,577,877</u>	<u>7,838,840</u>	<u>97,416,717</u>
Operating Expenses:					
Cost of power:					
Base rates	61,266,019	5,278,676	66,565,654		66,565,654
Fuel and surcharge	15,046,679	(15,046,679)	0		0
Distribution - operations	2,765,010	165,536	2,930,546		2,930,546
Distribution - maintenance	4,366,837	48,378	4,415,215		4,415,215
Consumer accounts	2,381,969	37,339	2,419,308		2,419,308
Customer service	1,041,225	22,256	1,063,481		1,063,481
Sales	0	0	0		0
Administrative and general	4,183,659	(266,259)	3,917,400		3,917,400
Total operating expenses	<u>91,051,398</u>	<u>(9,760,753)</u>	<u>81,311,604</u>	<u>0</u>	<u>81,311,604</u>
Depreciation	5,651,239	990,540	6,641,779		6,641,779
Taxes - other	3,386	0	3,386		3,386
Interest on long-term debt	4,793,634	(29,272)	4,764,362		4,764,362
Interest expense - other	559,841	(239,433)	320,408		320,408
Other deductions	316,537	(310,592)	5,945		5,945
Total cost of electric service	<u>102,376,035</u>	<u>(9,349,510)</u>	<u>93,047,484</u>	<u>0</u>	<u>93,047,484</u>
Utility operating margins	<u>(3,381,471)</u>	<u>(67,177)</u>	<u>(3,469,607)</u>	<u>7,838,840</u>	<u>4,369,233</u>
Nonoperating margins, interest	79,579	0	79,579		79,579
Nonoperating margins, other	(1,620,847)	1,620,847	0		0
Patronage capital credits	294,591	0	294,591		294,591
Net Margins	<u>(\$4,628,148)</u>	<u>\$1,553,670</u>	<u>(\$3,095,437)</u>	<u>\$7,838,840</u>	<u>\$4,743,403</u>
TIER	0.03		0.35		2.00
	2.00	7,859,799	9.04%		

Blue Grass Energy
Case No. 2008-00011

Revenue Analysis
December 31, 2007

Schedule	Rate	Usage Kwh	Test Year Revenue	Percent of Total	Normalized Case No. 2006-0512	Percent of Total	Proposed Revenue	Percent of Total	Increase Amount Percent
GS-1, Residential, Farm and Nor		434,562,009	\$29,434,175	36%	\$31,359,435	36%	\$36,082,433	38%	\$4,722,998 15.1%
R, Residential		174,838,533	12,751,166	16%	13,531,599	16%	15,079,887	16%	1,548,287 11.4%
A, Farm and Home Service		191,828,392	14,966,214	18%	15,852,091	18%	16,370,003	17%	517,912 3.3%
GS-2, Residential Marketing (ET)		683,506	25,517	0%	28,031	0%	30,601	0%	2,570 9.2%
R2, Residential Marketing (ETS)		173,940	7,003	0%	7,605	0%	7,787	0%	183 2.4%
Rate 1, Residential Marketing (E)		1,965,309	80,487	0%	87,869	0%	87,987	0%	118 0.1%
C-1, Commercial and Industrial L		35,732,767	2,899,461	4%	3,002,036	3%	3,490,766	4%	488,730 16.3%
C, Small Commercial		9,104,595	724,985	1%	788,156	1%	889,487	1%	101,331 12.9%
Rate 2, Commercial and Small P		6,314,722	552,810	1%	580,585	1%	637,082	1%	56,497 9.7%
LP-1, Large Power		44,482,000	2,823,306	3%	3,073,385	4%	3,124,066	4%	50,680 1.6%
L, Large Power Service (50 to 20		2,822,338	209,721	0%	250,010	0%	190,366	0%	(59,644) -23.9%
Rate 8, Large Power Service (50		7,516,501	535,719	1%	568,326	1%	528,122	1%	(40,204) -7.1%
LP-2, Large Power		62,053,980	3,374,081	4%	3,618,310	4%	3,678,690	4%	60,380 1.7%
N, Industrial & Large Power (Ove		12,690,531	724,312	1%	759,277	1%	723,403	1%	(35,874) -4.7%
LP-1, Large Power Service (Ove		6,295,920	386,897	0%	412,778	0%	360,877	0%	(51,901) -12.6%
B1, Large Industrial Rate		23,328,000	1,075,989	1%	1,212,640	1%	1,212,621	1%	(20) 0.0%
B-2, Large Industrial Rate		155,679,600	7,264,082	9%	7,770,800	9%	7,881,555	8%	110,755 1.4%
LP-2, Large Power (5,000 to 9,9		52,984,800	2,491,709	3%	2,707,106	3%	2,595,425	3%	(111,680) -4.1%
Street Lighting		822,482	162,860	0%	167,348	0%	223,588	0%	56,239 33.6%
Outdoor Lighting Service		9,287,615	1,150,592	1%	1,214,223	1%	1,630,077	2%	415,854 34.2%
Rounding differences							5,629		
Total from base rates		1,233,167,540	81,641,086	100%	\$86,991,610	100%	\$94,830,450	100%	\$7,838,840 9.01%
Fuel adjustment billed		9,380,614	7,099,448						
Environmental surcharge billed									
Increase									
Unbilled fuel adjustment			(598,268)		\$5,350,524		\$7,838,840		
Unbilled environmental surcharge			(835,117)						
Revenue per general ledger			\$96,687,763						

**BLUE GRASS ENERGY COOPERATIVE
CASE NO. 2008-00011**

Item No. 25

Page 1 of 1

Witness: Jim Adkins

RESPONSE TO COMMISSION STAFF'S THIRD DATA REQUEST

- Q. Refer to the application, Exhibit R, page 13 and Exhibit S, page 2. Explain why, on Exhibit r, total wholesale costs are shown as \$66,565,654, while Exhibit S shows Refer to the application, Exhibit R, page 13 and Exhibit S, page 2. Explain why,
- R. The correct amount is provided in Exhibit R and the amount is \$66,565,654

**BLUE GRASS ENERGY COOPERATIVE
CASE NO. 2008-0011**

26. For each of the following rate schedules, provide the number of participating customers as of December 31, 2007:

- | | | |
|----|--------------------------------------|-----|
| a. | GS-2-Off-Peak Marketing | 107 |
| b. | R-2-Residential Marketing rate | 24 |
| c. | Rate 1- ETS, Off-Peak Marketing Rate | 235 |