

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

GENERAL ADJUSTMENT OF ELECTRIC)
RATES OF EAST KENTUCKY POWER) CASE NO.2008-00409
COOPERATIVE, INC.)

FIRST DATA REQUEST OF COMMISSION STAFF
TO EAST KENTUCKY POWER COOPERATIVE, INC.
REGARDING ITS REQUEST TO ESTABLISH A REGULATORY ASSET

East Kentucky Power Cooperative, Inc. ("East Kentucky"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 9 copies of the following information, with a copy to all parties of record. The information requested herein is due by December 12, 2008. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

East Kentucky shall make timely amendment to any prior responses if it obtains information which indicates that the response was incorrect when made or, though

correct when made, is now incorrect in any material respect. For any request to which East Kentucky fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to Paragraph No. 2 on page 2 of East Kentucky's Motion for the Creation of a Regulatory Asset Relating to Unrecovered Revenues ("Motion"), specifically, the last sentence of the paragraph which refers to East Kentucky's ability to meet its loan covenants being jeopardized if it is unable to recover the costs of Spurlock Unit 4 ("Spurlock 4") that it will begin to incur upon Spurlock 4's commercialization.

a. Page 2 of 2 in Item 2 of East Kentucky's responses to questions raised at the November 13, 2008 informal conference ("IC questions") shows that East Kentucky's projected Times Interest Earned Ratio ("TIER") and Debt Service Coverage Ratio for 2009 exceed its minimum mortgage requirements even if its requested rate increase is delayed until June 1, 2009. Identify and describe in detail the specific loan covenants under East Kentucky's financing through the Rural Utilities Service ("RUS"), the National Rural Utilities Cooperative Finance Corporation or its private Credit Facility that it believes would be jeopardized absent the relief sought in its Motion.

b. Page 1 of 2 in Item 2 of East Kentucky's responses to the IC questions references the "Testimony of William Steven Seelye in Support of EKPC Motion to Create a Regulatory Asset" ("Seelye Testimony") which refers to East Kentucky's projected mid-2009 equity percentage of 6.8 percent as dangerously low. The response concludes by stating that "[t]he impact on EKPC equity of the failure to recover the Spurlock 4 costs for April and May 2009 is the most important concern behind EKPC's request for relief." Describe in detail the implications of East Kentucky's not maintaining or increasing its equity ratio.

2. Refer to Item 3 of East Kentucky's responses to the IC questions which discusses deferring the operation date of Spurlock 4 from April 1, 2009 to June 1, 2009.

a. East Kentucky states that, "[n]ot only under generally accepted accounting principles, but also under guidelines established by the Internal Revenue Service, property is placed in service when it is ready and available for its intended use."

(1) Provide the specific generally accepted accounting principles referred to in the response.

(2) Given that East Kentucky's accounting and financial reporting and, therefore, its TIER calculation, is based upon recording transactions in accordance with the *Rural Utilities Service Uniform System of Accounts* ("USoA"), explain why Internal Revenue Service requirements regarding the placement of property into service are relevant to this issue.

(3) Explain in detail whether East Kentucky considered recording the costs of Spurlock 4 in Account 105, Electric Plant Held for Future Use,

from its estimated completion date of April 1, 2009 to June 1, 2009 as an alternative to its request to record a regulatory asset.

b. The response also states that East Kentucky would incur almost \$900,000 per month in contractor delay costs if commercial operation was delayed. Clarify whether these costs would only be incurred if construction of Spurlock 4 was delayed or if these costs would also be incurred if Spurlock 4 was completed by April 1, 2009 but not placed into service until June 1, 2009.

3. Refer to page 2 of 2 in Item 4 of East Kentucky's responses to the IC questions which contains a schedule of projected costs East Kentucky will incur in April and May of 2009 based on Spurlock 4 going into commercial operation April 1, 2009.

a. Provide clarification that the top part of the schedule reflects the total projected costs, including TIER, related to Spurlock 4's commercialization, while the middle part and bottom part reflect the projected Spurlock 4 costs, including TIER that would be recoverable through East Kentucky's environmental surcharge and its base rates, respectively.

b. The total projected costs, including TIER, are \$10.15 million. Given that the pollution control facilities at Spurlock 4 are included in the amended compliance plan approved for East Kentucky in Case No. 2008-00115,¹ if the middle part of the schedule reflects the costs that East Kentucky can include for recovery through its environmental surcharge, explain whether the amount of nearly \$7.8 million identified as NET Total Expenses at the bottom of the schedule is a subset of the \$10.5 million

¹ Case No. 2008-00115, The Application of East Kentucky Power Cooperative, Inc. for Approval of an Amendment to its Environmental Compliance Plan and Environmental Surcharge, Order dated September 29, 2008.

mentioned at line 5 on page 3 of the Seelye Testimony or if the \$10.15 million at the top of the schedule is comparable to the \$10.5 million.

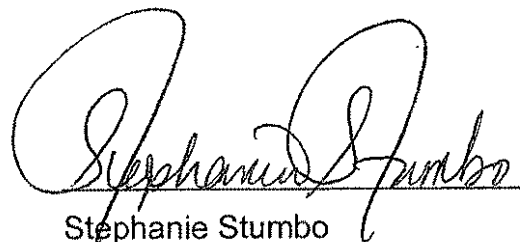
c. Provide clarification that Column 5 of the schedule, identified as NET TIER, equals the projected NET Interest Expense plus the margin resulting from a TIER calculated at 1.45 multiplied times the NET Interest Expense.

4. Refer to Item 5 of East Kentucky's response to the IC questions which reflects the accounting entries that could be made to reflect how it would record the proposed regulatory asset on its books. Clarify whether it is East Kentucky's position that the entries identified as "for the deferral of revenue" and "for the deferral of expenses" can be substituted one for the other, or is it East Kentucky's position that the former entries are appropriate if a regulatory asset is based on a revenue amount being recognized and deferred and that the latter entries are appropriate if the regulatory asset is based on an expense amount being recognized and deferred.

5. Refer to Item 7 of East Kentucky's response to the IC questions which reflects the estimated fuel cost benefits (savings) associated with the commercialization of Spurlock 4 and indicates that, based on certain assumptions, the annual expected savings would be \$43 million. Provide the estimated fuel cost savings East Kentucky expects to realize, by month, for the period April 1, 2009 through December 31, 2009, due to the commercialization of Spurlock 4.

6. Section 1767.13 of the USoA states that RUS borrowers will not implement the provisions of Statement of Financial Accounting Standards ("SFAS") No. 71, SFAS 90 and SFAS 92 without RUS approval, except as provided in Paragraph

(d), Subsections (1) through (5), of this section. Explain whether East Kentucky is required by the USoA to obtain prior RUS approval to establish the proposed regulatory asset.

A handwritten signature in black ink, appearing to read "Stephanie Stumbo", written over a horizontal line.

Stephanie Stumbo
Executive Director
Public Service Commission
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DATED DECEMBER 4, 2008

cc: All Parties

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