

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

THIRD DATA REQUEST OF COMMISSION STAFF
TO EAST KENTUCKY POWER COOPERATIVE, INC.

East Kentucky Power Cooperative, Inc. ("East Kentucky"), pursuant to 807 KAR 5:001, is requested 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 February 6, 2009. 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 response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which 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 the response to Item 1.c. of the Commission Staff's second data request ("Staff's second request").

a. Provide a detailed narrative description of the \$650,000 increase, from the base period to the forecasted period, in regular time labor.

b. Provide a detailed narrative description of the \$523,000 increase, from the base period to the forecasted period, in maintenance and service agreements.

c. The last item in the response is "[e]mployee education including training on new financial software - \$518,000." Identify the nature of the employee education aside from the training on the new financial software and provide the amount thereof. Provide, also, the amount related to training on the new financial software and explain whether or not this will be a one-time expense.

2. Refer to the response to Item 4 of Staff's second request in which East Kentucky states that it is seeking a ruling on its Phase Two Rates in this proceeding.

a. Given that it proposes for its Phase Two Rates to be effective one year after its Phase One Rates take effect, explain whether East Kentucky requires a ruling on the Phase Two Rates at the same time as a ruling on the Phase One Rates.

b. East Kentucky also indicates that it plans for the Phase Two Rates “pass-through” filings of its member systems to be filed pursuant to the 30-day notice requirement contained in KRS 278.180. Assuming, for the purpose of this request, that its Phase One Rates are effective June 1, 2009, at the end of the suspension period, and its Phase Two Rates are, therefore, scheduled to become effective June 1, 2010, explain whether this means that East Kentucky intends for its members to file their Phase Two applications 30 days prior to June 1, 2010.

c. If the answer to part b. of this request is affirmative, explain whether East Kentucky has considered the potential complications if the Commission determines that it cannot adequately review 16 Phase Two “pass-through” filings in 30 days and decides that they must be suspended.

3. Refer to the response to Item 5 of the Staff’s second request. Clarify whether the gist of the response is that, although the new combustion turbines (“CTs”) are scheduled to become operational October 1, 2009, when eight months of the forecasted test year remain, the forecasted test year actually contains nine months of depreciation expense for the two CTs.

4. Refer to the response to Item 13.b. of the Staff’s second request and to Eames Exhibit 1 to the Testimony of David G. Eames. The \$67.9 million increase in revenues proposed by East Kentucky is based on the recovery “[o]f all interest costs through current rates.”

a. Explain why East Kentucky proposes current recovery of all interest costs as opposed to continuing to capitalize interest during construction as it has done historically.

b. Provide a revised version of Eames Exhibit 1 which reflects the continued capitalization of interest during construction for the forecasted test period. Include any necessary narrative explanation, supporting documents, spreadsheets, calculations, etc.

5. Refer to the response to Item 18 of the Staff's second request and to Exhibits GTC-A, B, and C to the Testimony of Gary T. Crawford ("Crawford Testimony"). The response indicates that the cost estimates included in the forecasted test year for Spurlock 4 and Smith 9 and 10 are those included in East Kentucky's 2009-2011 budget rather than the more current estimated costs discussed in the Crawford Testimony.

a. Explain why East Kentucky made the decision to include the budget estimates in its forecasted test year rather than the more current estimates.

b. Pages 10-11 of the Crawford Testimony indicate that there is a cost estimate for Smith 1 more current than the estimate in the 2009 budget. However, the testimony also states that this more current estimate is not expected to change the estimated expenditures on Smith 1 during the forecasted test year from what was included in the 2009 budget. Provide a detailed explanation for why a decrease in the total estimated cost of the unit, from \$804 million to \$766.7 million, is not expected to impact the level of expenditures on the unit during the forecasted test year.

c. The estimated cost of \$164 million for Smith 1 as of the end of the forecasted test year was based on construction beginning in January 2010, as stated on page 10 of the Crawford Testimony. It has been approximately three months since the filing of East Kentucky's application. Explain whether East Kentucky currently expects to begin construction on Smith 1 in January 2010. If the expected date has changed to any extent, explain why.

6. Refer to the response to Item 19 of the Staff's second request, specifically, page 1 of 4 of the attachment thereto, which appears to show that, on average, for each of the last nine years included in East Kentucky's 1994 forecast (2000 – 2008), actual winter peak demand exceeded the forecast peak demand by roughly 13 percent. It also shows that the next three forecasts, 1998, 2002, and 2004, included significantly higher peak demands than the 1994 forecast but that lower peak demands have been included in the 2006 and 2008 forecasts, compared to the three prior forecasts.

a. Recognizing that 2000 – 2008 represents the last nine years of a 14-year period covered by East Kentucky's 1994 forecast, what general factors would account for the differences between actual and forecast peak demands for that period.

b. Being short on capacity, as it has been in recent years, for how many years does East Kentucky need accurate forecasting results in order to properly plan on meeting its customers' future needs? Explain the response.

7. Refer to Item 27 of the response to the Staff's second request. In addition to the overhaul scheduled for Cooper 1 in the fall of 2009, clarify whether any portion of the cost of the overhauls of Dale 1 and 2 in the spring of 2009 will be incurred during the forecasted test year. If yes, provide the amounts.

8. Refer to the response to Item 29 of the Staff's second request. Specify which items in the Steam Allocation Attachment trace to Seelye Exhibit 6 and identify their specific locations in the Exhibit.

9. Refer to the response to Item 34 of the Staff's second request which states that a combustion turbine would likely qualify for low-cost financing from Rural Utilities Service at a rate that "[i]s currently less than 4 percent." Using this information, provide a revised Seelye Exhibit 8.

10. Refer to the response to Item 39 of the Staff's second request, which states that the \$45.6 million budgeted for a wind farm in 2010 represents a placeholder for development of a 25 MW wind farm, if and when it can be justified.

a. Identify what portion, if any, of the \$45.6 million is included in the forecasted test year.

b. Identify the schedules, exhibits, etc. that can be used to verify if, and in what amount, a portion of the \$45.6 million is included in the forecasted test year.

11. Refer to the response to Item 40 of the Staff's second request.

a. The discussion of the maintenance cost for Spurlock 2 being over budget for 2008 states that this was "[p]rimarily due to maintenance projects associated with the 10-year overhaul" of the unit. Explain whether this means that the \$8.5 million budgeted (shown in the response to Item 27 of Staff's second request) for the overhaul did not include some of the maintenance projects associated with the overhaul or if it means that the projects were included but that some, or all, of them turned out to be more costly than the amounts budgeted for them.

b. The discussion of the Smith 3 overhaul being over budget for 2008 focuses on the timing of the overhaul verses the receipt of invoices from contractors that performed the work of the overhaul and how that impacted when costs were recorded. Aside from the timing issue, the response indicates that the overhaul was \$5.5 million over budget at completion. Explain why the actual cost was so much greater than the budgeted amount.

12. Refer to the response to Item 41 of the Staff's second request. The forecasted test year will include the installation of Smith Units 9 and 10 and, based on the information in East Kentucky's application, five months of construction on Smith 1.

a. Provide the supporting workpapers, spreadsheets, etc. which show how the 89.4 percent of payroll charged to expense and the 10.6 percent of payroll capitalized in the forecasted test period were derived. Include appropriate narrative descriptions of the calculations as needed.

b. Provide, for each of the calendar years 2004 through 2008, annual payroll showing the amount and percentages charged to expense and the amount and percentages capitalized.

13. Refer to the response to Item 42 of the Staff's second request. Provide, for each of the calendar years 2004 through 2008, East Kentucky's Other Operating Revenue – Income.

14. Refer to the response to Item 47 of the Staff's second request. The request asked that East Kentucky provide the budgeted cost to be incurred in the forecasted test year for projects with in-service dates that fall within or after the forecasted test year. It is unclear whether this response addresses that request. Although the pages of the response contain a heading that appears consistent with the request, the response includes (1) projects with in-service dates prior to the forecasted test period and (2) columns with headings that refer to amounts budgeted for either calendar year 2009 or 2010, but no column with amounts specifically budgeted for the forecasted test period. Provide the information as originally requested or, in the alternative, an explanation of how this response complies with the original request.

15. The response to Item 48 of the Staff's second request explains that East Kentucky's forecasted test year does not include a slippage factor because, by the end of the forecasted test year, it will have completed construction on three major projects – Spurlock 4 and scrubbers on Spurlock 1 and Spurlock 2. The response goes on to

state that East Kentucky expects to complete all of its currently scheduled construction projects without any slippage.

a. Refer to the three-year construction work plan provided in response to Item 46 of the Staff's second request.

(1) Page 7 of the document discusses the installation of emission control equipment, including SCRs, scrubbers, and a new stack for Cooper 1 and 2, at a cost of \$484 million over the period 2009-2012. Describe how far along with this construction project East Kentucky expects to be by the end of the forecasted test year and how much of the \$484 million will have been expended by that point in time.

(2) Page 8 of the document, which discusses the Spurlock 2 scrubber project, identifies the expected "on-line" date as November of 2008. Provide the date on which the scrubber went into commercial operation.

(3) Page 10 of the document discusses the rebuild of the Spurlock 2 cooling tower, at an estimated cost of \$5,058,430, with the work, apparently, scheduled to be performed entirely during 2008. Provide the completion date of this project and the actual total cost.

(4) Page 12 of the document discusses the Spurlock 1 scrubber which is scheduled to be completed in 2009 at an estimated cost of \$172.9 million. Provide the specific "on-line" date for this scrubber.

(5) Pages 13 through 20 of the document discuss various projects at the Spurlock station, with a combined estimated cost of slightly more than \$20 million, with all the work apparently scheduled to be performed entirely during 2008. Provide the completion date and actual total costs of each of these projects.

(6) Page 21 of the document discusses various modifications to the Spurlock 1 boiler, with all the work, apparently, to be performed in 2009. Provide the planned “start” and “completion” dates for this project.

(7) Page 23 of the document, which is dated December 2007, discusses the new CTs, Smith Units 9 and 10. The section headed “Justification” identifies the commercial date for the units as June 2009. The response to Item 5 of the Staff’s second request indicates that, at the time the 2009 budget was prepared, the date had changed to September 2009, and that, at some later point in time, the date had changed to October 2009. Explain why, within less than 12 months, the date changed twice for a total period of four months.

16. Refer to the response to Item 51. parts b. and c. of Staff’s second request.

a. Clarify whether or not, based on October being the month in which merit pay raises are granted, any part of the planned 3 percent increases for 2010 is included in the forecasted test year.

b. Part c. of the response states that \$828,070 of budgeted increases are included in the forecasted test year but states that this amount is not specifically identified in East Kentucky’s application. Provide the workpapers, spreadsheets, etc., which show the derivation of this amount, along with any necessary narrative description of said derivation.

17. Refer to the response to Item 53 of the Staff’s second request. The request asked for the amount included in Account 930 in the forecasted test year and the portion of that amount that would be classified as “miscellaneous.” Clarify whether the \$2,633,859 cited in the response to be “categorized as miscellaneous” is the total

amount included in Account 930, or just the portion classified as "miscellaneous." If it is the latter, provide the total amount included in the account.



Jeff Derouen
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, Ky. 40602

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cc: All parties

Lawrence W Cook
Assistant Attorney General
Office of the Attorney General Utility & Rate
1024 Capital Center Drive
Suite 200
Frankfort, KY 40601-8204

Mark David Goss
Frost, Brown, Todd, LLC
250 West Main Street
Suite 2700
Lexington, KY 40507

Honorable Michael L Kurtz
Attorney at Law
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, OH 45202