COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER COOPERATIVE, INC. FOR GENERAL ADJUSTMENT OF ELECTRIC RATES	))))	CASE NO. 2010-00167

<u>SECOND DATA REQUEST OF COMMISSION STAFF TO EAST KENTUCKY POWER COOPERATIVE, INC.</u>

East Kentucky Power Cooperative, Inc. ("EKPC"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due no later than July 22, 2010. 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.

EKPC 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

EKPC 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.

1. Refer to Tab 7 in Volume 1 of EKPC's application, the Special Contracts section. For the Large Special Contract rate, confirm that EKPC intended to show the proposed on-peak energy rate as $.049754.

2. Refer to the information at Tab 19 in Volume 1 of EKPC's application which shows the data for the forecasted test period as adjustments to the base period.

a. Provide a detailed description along with workpapers, spreadsheets or other support for the forecasted level of off-system sales revenues of $4,077,083.

b. Production Costs Excluding Fuel are shown increasing by $7.9 million, or 12.5 percent, from the base period to the forecasted period. Explain in detail why this cost category is expected to increase by this magnitude.

c. Fuel expenses are shown increasing from $337.9 million to $445.9 million, an increase of 31.9 percent, from the base period to the forecasted period. Explain in detail why this cost category is expected to increase by this magnitude.

d. Transmission costs are shown increasing from $31.4 million to $34.6 million, an increase of 10.1 percent, from the base period to the forecasted period. Explain in detail why this cost category is expected to increase by this magnitude.

e. Distribution costs are shown increasing from $1.1 million to nearly $1.5 million, or 34.2 percent, from the base period to the forecasted period. Explain in detail why this category of cost is expected to increase by this magnitude.

f. Sales costs are shown increasing from $2.46 million to $3.36 million, or 36.5 percent, from the base period to the forecast period. Explain in detail why this category of cost is expected to increase by this magnitude.

g. Provide schedules showing the derivation of depreciation expense levels for both the base period and forecasted period. These should include all plant balances at the necessary account or sub-account levels, along with the specific depreciation rates applied to each account or sub-account.

h. Provide a schedule of all long-term debt and the relevant interest rates which shows the derivation of interest on long-term debt for the forecasted period.

3. Refer to page 4 of the updated Testimony of Anthony S. Campbell, filed June 8, 2010, specifically, the discussion of productivity and efficiency gains.

a. Provide the date the Heat Rate Committee was formed.

b. Provide a summary of any improvements in efficiency that have been documented since the Heat Rate Committee began.

c. In Case No. 2008-00409,[1] then president and chief executive officer Robert M. Marshall identified, among other things, (1) a reduction in the defined benefit plan level, (2) increases in employee medical plan contributions, and (3)

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[1] Case No. 2008-00409, General Adjustment of Electric Rates of East Kentucky Power Cooperative, Inc. (Ky. PSC Mar. 31, 2009).

improvements in competitive bidding processes, as cost savings initiatives EKPC had implemented. Provide the current status of these initiatives and quantify the savings realized for a recent 12-month period as a result of these initiatives.

4. Refer to page 5 of the Testimony of Frank J. Oliva ("Oliva Testimony"). Starting at line 1, Mr. Oliva states that "EKPC continues to face the on-going risk of substantial unrecoverable costs due to forced outages."

a. Describe the conditions at EKPC that put it at risk for "substantial" unrecoverable costs due to forced outages.

b. Reconcile Mr. Oliva's statement concerning substantial unrecoverable costs due to forced outages with the Testimony of Craig A. Johnson ("Johnson Testimony") at page 7, which states that EKPC's coal-fired generating forced outage rate is lower than the national average.

5. Refer to page 6 of the Oliva Testimony, lines 17-21. Confirm that the anticipated private placement financing related to Smith Unit 1 is financing for which EKPC will need to receive Commission approval prior to its issuance.

6. Refer to page 8, lines 5-10, of the Oliva Testimony.

a. Explain whether the annual increases in interest expense and financing fees of $1.5 million referenced on lines 7-8 are meant to reflect differences between the existing 2005 credit facility and the proposed credit facility included in the original application in Case No. 2010-00166[2] or something other than those differences.

[2] Case No. 2010-00166, Application of East Kentucky Power Cooperative, Inc. for Approval of a Three-Year Senior Unsecured Revolving and Term Credit Facility in an Amount up to $500,000,000, filed April 26, 2010.

b. Explain whether the $2.4 million annual cost increase referenced on lines 8-10 is intended to reflect the differences between the terms of the proposed credit facility included in the original application in Case No. 2010-00166 and the revised terms contained in the amended portion of the application filed June 4, 2010.

7. Provide an electronic version of Oliva Exhibit 1.

8. Refer to the Testimony of Daniel M. Walker ("Walker Testimony") at pages 4-7. For each of the five categories that ratings agencies use to evaluate cooperative utilities, provide a direct comparison of EKPC's credit profile with those of the cooperatives in the reference group.

9. Refer to page 10, lines 1-2, of the Walker Testimony. Mr. Walker states that "[i]f rated today by the three major rating agencies, East Kentucky most likely would not achieve an investment grade rating." In Case No. 2009-00476,[3] in its response to Item 9 of the Commission Staff's Second Data Request, EKPC indicated that it currently carried an NAIC-2 rating from the National Association of Insurance Commissioners ("NAIC") and that an NAIC-2 rating was considered to be equivalent to an investment grade rating. Explain whether this response contradicts Mr. Walker's Testimony or if circumstances have changed such that EKPC no longer carries an NAIC-2 rating.

10. Refer to Exhibit DMW-3 of the application, which indicates EKPC had a 6.8-percent equity ratio, apparently as of year-end 2009. Page 5, line 10, of the Oliva Testimony indicates that EKPC's 2009 equity ratio was 7.3 percent.

a. Explain the discrepancy or difference in the ratios.

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[3] Case No. 2009-00476, Application of East Kentucky Power Cooperative, Inc. for Approval of the Issuance of $900,000,000 of Secured Private Placement Debt and up to $21,435,000 of Unsecured Debt (Ky. PSC Jun. 22, 2010).

b. Explain how the equity ratio for EKPC is calculated.

11. Refer to the Testimony of John R. Twitchell, page 4, lines 14-15 and Exhibit JRT-1. The testimony indicates that load forecasts are prepared every two years. The exhibit is a load forecast work plan prepared by EKPC's Resource Planning Department in November 2009.

a. Explain whether the sales levels included in the 2011 calendar year forecasted test period are based on a load forecast prepared specifically in conjunction with this rate application.

b. If the response to part a. of this request is no, identify when the load forecast upon which the test-year sales levels are based was prepared and the period covered by the forecast.

12. Refer to pages 5-6 of the Johnson Testimony, beginning at line 22 on page 5 and continuing to line 19 on page 6. Provide the schedule of planned outages for steam turbine/generator overhauls for the period 2011 through 2013.

13. Refer to page 7 of the Johnson Testimony, lines 11-18. Provide the exact amount of EKPC's 2009 costs per megawatt hour excluding allocated costs.

14. Refer to page 8 of the Johnson Testimony, lines 6-15. The information provided covers the years 2004 through 2008. Provide the averages for EKPC for the years 2005 through 2009.

15. Refer to page 5, lines 22-24, of the Testimony of Dennis R. Eicher, which indicate EKPC is following the general approach used in preparing the cost-of-service ("COS") analysis in its last rate case. Identify any instances in which the COS

methodology used in this proceeding differs from that used in EKPC's last rate case. For all such differences, explain why the methodology has changed.

16. Refer to page 10, lines 19-23, of the Testimony of Ann F. Wood ("Wood Testimony"). Confirm that the start date of EKPC's proposed base period should be September 1, 2009 rather than September 1, 2010.

17. Provide an electronic version of Wood Exhibit 1.

18. Refer to Wood Exhibit 1, Schedules 1.02 and 1.16.

a. Explain whether $39.8 million is EKPC's budgeted amount of purchased power expense for calendar year 2011.

b. Explain whether Schedule 1.02 reflects that EKPC's 2011 budget includes $10.0 million in forced outage costs to be recovered through base rates.

c. Provide a detailed description of the terms of the coverage EKPC will have under the outage insurance for which it has budgeted $900,000.

19. Refer to Wood Exhibit 1, Schedule 1.02, and Oliva Exhibit 1. Identify the account in which the purchased power expense of $39.8 million is included in Oliva Exhibit 1. If the $39.8 million does not make up the entirety of the account shown in Oliva Exhibit 1, provide the details of what makes up the remainder of the account.

20. Refer to Wood Exhibit 1, Schedule 1.10, which shows the proposed $16,000 adjustment to remove directors' severance costs. Provide a detailed listing of all directors' compensation, reimbursements, etc. included in the forecasted test year.

21. Refer to page 19, lines 8-10, of the Wood Testimony and Wood Exhibit 1, Schedule 1.20.

a. Explain whether the cited portion of the testimony is intended to convey that KRS 278.255 prescribes a specific amortization period for management audit expenses.

b. Provide workpapers and the supporting invoices upon which the legal consultants' cost of $570,000 included in management audit expenses is based.

22. Refer to Wood Exhibit 1, Schedule 1.21, which shows the make-up of the estimated $625,000 rate case expenses for this case. Provide, using the same categories, a schedule of EKPC's actual rate case expenses incurred in connection with Case No. 2008-00409.

23. Refer to Tab 24 in Volume 3 of EKPC's application. Describe the nature of the following items identified as major projects:

a. New CT site;

b. 404 Mitigation; and

c. 1 & 2 Mercury Mitigation.

24. Refer to Tab 26 in Volume 3 of EKPC's application.

a. Provide pages 2-5 electronically.

b. Provide EKPC's actual 2009 statement of operations at the same level of detail as the budgeted statement of operations on page 2.

25. Refer to Tab 30 in Volume 3 of EKPC's application at page 3. Explain in detail why the "Fuel Adjustment" amounts are negative in 2011 and 2013 but positive in 2012.

26. Refer to the information at Tab 30 in Volume 3 of EKPC's application, pages 6 and 9.

a. In the same format as shown on page 6, provide EKPC's actual MWh and kW levels, by rate schedules and contracts, for calendar year 2009 and calendar year 2010 to date.

b. Page 9 indicates that EKPC has budgeted a 3.5-percent wage and salary increase for 2011. Provide the specific dates in 2011 when wage and salary increases will become effective.

c. Explain in detail how EKPC arrived at 3.5 percent as the budgeted wage and salary increase for 2011.

d. At what point in time will the actual levels of 2011 wage and salary increases be determined by EKPC's management?

e. Provide a detailed description of the positions for which EKPC budgeted an additional 21 employees over the course of 2010 and 2011.

27. Refer to Tab 37 in Volume 3 of EKPC's application and the April 2010 budget variance report filed with the Commission on June 11, 2010. For each month, provide the portion of the MWh volume variance attributable to differences between forecasted normal temperatures and the actual temperatures.

28. Refer to Tab 51 in Volume 5 of EKPC's application at page 4. Provide detailed explanations for the projected increases in customer assistance expenses and general advertising expenses from the base period to the forecasted period.

29. Refer to Tab 52 in Volume 5 of EKPC's application at pages 2 and 3.

a. Provide a detailed explanation for the projected increase in the cost of the defined benefit plan from $9.3 million in the base period to $14.8 million in the forecasted period.

b. Provide a detailed explanation for the projected increase in the cost in medical insurance from $6.5 million in the base period to $8.4 million in the forecasted period.

30. Refer to Tab 54 in Volume 5 of EKPC's application at page 2. Explain the fluctuations in "Other Operating Revenue – Income" from one period to the next.

31. Refer to Tab 58 in Volume 5 of EKPC's application. Provide an electronic version of the billing analyses with the formulas intact and unprotected.

32. Refer to the response to Item 13 of Commission Staff's ("Staff") initial data request. Given the results EKPC has experienced over the past 10 calendar years regarding its slippage factor, explain in detail why it did not reflect a slippage factor in developing its forecasted test-year capital expenditures and interest expense.

33. Refer to the response to Item 46 of Staff's initial data request. Provide a general description of the types of services provided that account for the $6.1 million in "other" professional services expenses for the 12 months ended March 31, 2010.

34. Refer to the responses to Item 47, pages 7 and 8, and Item 56, page 2, of Staff's initial data request. Item 47 show disbursements to various EKPC cooperatives with the description "ETS Rebates." Item 56 shows costs for "Electric Thermal Storage Incentive" in 2007 with a footnote which states that, "[t]he Electric Thermal Storage incentive in 2008 and 2009 was a discount in the price of heating units rather than an

actual incentive payment as was done in 2007." Given the information provided in the footnote in Item 56, explain the disbursements to the cooperatives shown in Item 47.

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