

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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COMMISSION

In the Matter of:

ADJUSTMENT OF RATES)
OF CUMBERLAND VALLEY) CASE NO. 2005-00187
ELECTRIC, INC.)

ATTORNEY GENERAL'S SUR-REPLY TO PETITIONER'S REPLY TO ATTORNEY
GENERAL'S MOTION FOR A COMPLETE FINANCIAL, OPERATIONAL AND
MANAGEMENT AUDIT OR REVIEW

Comes now the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and files this Sur-reply to Petitioner's Reply to the Attorney General's Motion for a Complete Financial, Operational and Management Audit or Review. As grounds for his Sur-Reply the Attorney General states as follows.

Cumberland Valley ("CVE") mistakenly assumes that the Attorney General has relied **exclusively** on confidential information shared by a former employee, Mr. Joe Carroll, who CVE characterizes as "disgruntled." The Attorney General did obtain some information from Mr. Carroll, beginning several months prior to the filing of the instant rate case. However, the Attorney General did not base his motion merely on blanket assertions of imprudent spending from one person. In fact, the Attorney General has spoken with other individuals, whose names and occupations will not be disclosed herein, who have presented documentary evidence and statements which support the allegations of imprudent spending. The Attorney General is confident that

a Commission-ordered audit would likely produce further evidence buttressing the claims and existing evidence, as set forth in his previously filed motion.

CVE argues that the Attorney General's expert, Mr. Brown-Kinloch, did not address the arguments set forth in the Attorney General's motion. However, Mr. Brown Kinloch was not engaged for that purpose. Mr. Brown Kinloch provided testimony solely regarding CVE's cost of service study and its ETS rate design. Indeed, the Commission's order of March 14, 2006, limited all testimony to issues affecting rates.

CVE argues that it has a policy of assessing no charges to a school or church for relocation or construction of lines. While KRS 278.170 (2) allows a utility to grant free or reduced rates to a s charity or eleemosynary institution, the statute does not contemplate doing so for public schools. CVE's policy in this regard thus provides even further proof of the need for a comprehensive financial, operational and audit.

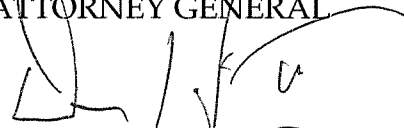
CVE also argues that invoices of purchases from Knox Auto Parts that CVE provided in response to discovery requests prove there was no improper or imprudent spending. However, a comprehensive audit would examine much more than mere invoices. Moreover, CVE has not refuted the allegation Mr. Carroll raised regarding Elbert Hampton's apparent instruction to Steve Hampton to charge CVE more for an item than CVE would have paid, had it obtained the same item itself.

CVE's argument regarding bidding procedures again fails to address the issue that personal friends and families of the Hampton family know their bids do not have to follow the instructions in CVE's RFP letters, and can thus underbid potential competitors.

The Attorney General wants CVE to charge the appropriate rates to its members. However, the appropriateness of its rates continues to be clouded by issues that can only be resolved by a comprehensive financial, managerial and operations audit. For the reasons stated in the Attorney General's motion for the audit or review, the same again are adopted and incorporated herein.

Respectfully submitted,

GREGORY D. STUMBO
ATTORNEY GENERAL

A handwritten signature in black ink, appearing to read "Dennis G. Howard, II", written over the printed name below.

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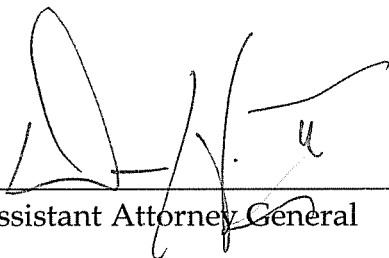
Counsel certifies that an original and ten photocopies of the Attorney General's Brief were served and filed by hand delivery to Beth O'Donnell, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; furthermore, it was served by mailing a true and correct copy of the same, first class postage prepaid, to

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Hon. Eric Lycan
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all on this 22nd day of May, 2006.


Assistant Attorney General