COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

GENERAL ADJUSTMENT OF ELECTRIC RATES OF EAST KENTUCKY POWER COOPERATIVE, INC.	)))	CASE NO. 2006-00472

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

East Kentucky Power Cooperative, Inc. ("EKPC"), pursuant to 807 KAR 5:001, is requested 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 on or before June 13, 2007. Each copy of the data requested should be placed in a bound volume with each item tabbed. Responses to requests for information shall be appropriately indexed, for example, Item 1(a), Sheet 2 of 6, and shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be under oath or, for representatives of a public or private corporation, a partnership, an 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 upon the basis of which it knows 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 to furnish all or part of the requested information, EKPC shall provide a written explanation of the specific grounds for its failure to furnish.

Careful attention shall be given to copied material to ensure its legibility. 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 provided for total company operations and jurisdictional operations, separately.

1. Refer to the response to the Commission Staff's Third Data Request dated May 1, 2007 ("Staff's Third Request"), Item 2. The following questions relate to information contained on the CD provided in the response.

a. Rows 8 through 31 of the "Details" tab of the spreadsheet file "PSC Response 2 Adjustment 3.xls" and Columns E through H of the "Sheet 1" tab of the spreadsheet file "PSC Response 2 Adjustment 25.xls" cannot be viewed. Provide electronic copies of the referenced spreadsheet files with all sections of the spreadsheet viewable.

b. Refer to the "Shift and OT" tab of the spreadsheet file "PSC Response 2 – backup for schedules 4, 5, part of 6.xls." Explain in detail why the majority of the adjustment calculations shown on this tab page reference 2 percent increases instead of 3 percent. In addition, indicate which percentage increase is correct.

c. Refer to the spreadsheet file "psc 2 backup for schedule 9.xls."

(1) Explain the purpose of the information shown on the "Prop Tax – 123106" and "Prop Tax – 123106 (2)" tabs.

(2) Explain why the totals from the "Prop Tax – 93006" tab should be used for the proposed property tax adjustment rather than the totals from the "Prop Tax – 123106" and "Prop Tax – 123106 (2)" tabs.

(3) Provide copies of the actual property tax bills that support the monthly amounts presented on the "PTax Exp" tab.

d. Refer to the spreadsheet file "PSC Response 2 Adjustment 19.xls."

(1) Explain how the balances shown on this spreadsheet for Account No. 92100 – Propane – Expense; Account No. 93022 – Propane – Expense; and Account No. 92100 – ACES – Expense were determined.

(2) The balances shown on this spreadsheet for the first six accounts listed have been cross-checked with the trial balances provided in the response to the Commission Staff's First Data Request dated December 5, 2006 ("Staff's First Request"), Items 13(a and b) and the response to the Kentucky Industrial Utility Customers, Inc. ("KIUC") Second Data Request dated April 30, 2007 ("KIUC Second Request"), Item 1.70. While the balances for the first six accounts shown on the spreadsheet agree with the trial balance provided in the Staff's First Request, Items 13(a and b), five of the six accounts do not agree with the trial balance provided in the KIUC Second Request, Item 1.70. Both trial balances are supposed to be as of September 30, 2006. Explain the reason(s) for these differences and indicate which account balances are correct.

(3) Prepare a comparison of the September 30, 2006 trial balances submitted in the response to the Staff's First Request, Items 13(a and b) and the response to the KIUC Second Request, Item 1.70. For each account balance that is different, explain the reason(s) for the differences and indicate which account balance is correct.

e. Refer to the Application, Exhibit F, Schedule 23, page 2 of 3, and file "PSC Response 2, Adjustment 23.pdf."

(1) The invoices provided in the file "PSC Response 2, Adjustment 23.pdf" show that the East Central Reliability Council ("ECAR") dues listed for October and November 2005 on Application Exhibit F, Schedule 23, page 2 of 3, are actually invoices for October and November 2006 from Reliability First. Provide copies of the October and November 2005 invoices from ECAR. In addition, identify Reliability First and describe the function of this entity.

(2) Explain why there were no ECAR dues for the months of July through September 2006. If there were ECAR dues for these months, provide the actual invoices for these dues.

(3) Schedule 23, page 2 of 3, shows the Southeast Reliability Council ("SERC") 2007 Invoice to be $132,828. The invoices in the file "PSC Response 2, Adjustment 23.pdf" show a quarterly invoice from the North American Electric Reliability Council ("NAERC") in the amount of $33,206.94. Annualizing this quarterly amount produces a total of $132,828. Describe the differences between SERC and NAERC and explain why the NAERC invoice has been presented in Schedule 23 as the SERC invoice.

(4) Provide copies of the actual invoice received from SERC in the amount of $78,067 and from NAERC in the amount of $33,206.94.

2. Refer to the response to the Staff's Third Request, Item 5.

a. In the response to Item 5(c) EKPC states, "If the surcharge is to be excluded EKPC concurs with the approach followed in the aforementioned KU and LGE proceedings." Does EKPC contend that an exclusion is not necessary? Explain the response and include a discussion of how EKPC's position is consistent with the provisions of KRS 278.183(2).

b. In the response to Item 5(c) EKPC states, "The 1.35 TIER proposed by EKPC or any approved TIER different than 1.15 in this proceeding may necessitate a further adjustment in either the base revenue requirement or surcharge." Explain the meaning of this statement and provide examples of the type of "further adjustment" EKPC would envision.

c. Refer to the response to Item 5(a)(1), Attachment 1. Explain the environmental surcharge adjustment to cash and cash equivalents in the amount of $880,000.

3. Refer to the response to the Staff's Third Request, Item 6.

a. Concerning the response to Item 6(a), what was the average annual interest rate EKPC experienced on its investments for calendar years 2001 through 2006?

b. For the 6 months after test-year end, did EKPC experience interest rates on its investments that were significantly higher, significantly lower, or about the same as experienced during the test year?

c. What are EKPC's expectations concerning the interest rates available for its investments over the next 12 months? Explain the response.

d. Refer to the response to Item 6(e), the Attachment, pages 1 and 4 of 6. Explain how EKPC could earn interest income, as shown on page 1 of 6, in February, March, and April of 2005 on "Temporary Cash Investments – Smith Pollution Control Bond Fund" when there is no indication that investment funds were available, as shown on page 4 of 6.

e. Refer to the response to Item 6(e), the Attachment, pages 1 through 3 of 6.

(1) What was the average actual monthly interest income for the 27 months covered by the response?

(2) Using the response to subpart (1) above, calculate an annualized interest income.

4. Refer to the response to the Staff's Third Request, Item 9, and the response to the KIUC Second Request, Item 1.52, page 2 of 2. EKPC has proposed to recognize annualized salaries of $1,996,160 for 30 new employees it had expected to hire by March 31, 2007.

a. Using the information provided in the referenced data responses, provide the annualized salaries for those positions which have been filled by EKPC.

b. Would EKPC agree that, if any of the new positions are recognized as part of the payroll adjustment, only the annualized salaries for the new positions actually hired should be included in the adjustment? Explain the response.

5. Refer to the response to the Staff's Third Request, Item 10.

a. Refer to the response to Item 10(c). EKPC was asked if cost/benefit analyses or studies were performed by or for EKPC concerning the "early-out" retirement program. In addition, if no cost/benefit analyses or studies were performed, EKPC was requested to explain in detail why such analyses or studies were not performed. EKPC responded that there were no cost/benefit analyses performed concerning the program, but failed to provide the requested explanation. Provide the originally requested explanation of why cost/benefit analyses were not performed.

b. Refer to the response to Item 10(e).

(1) Provide a breakdown of the total annual savings associated with the "early-out" retirement program between salaries, payroll taxes, and employee benefits.

(2) Would EKPC agree that the annual savings associated with this program should be included for rate-making purposes in this proceeding? Explain the response.

c. Refer to the response to Item 10(f).

(1) Explain why EKPC believes the total actual costs of the program of $601,450.60 reflect an immediate cash outlay.

(2) How many annual installments did EKPC elect to utilize to finance the $601,450.60?

(3) If EKPC elected to pay the $601,450.60 in multiple annual installments, calculate the total cost including the 8.5 percent annual interest charged on the installments.

(4) If the costs associated with the "early-out" retirement program were to be included for rate-making purposes in this proceeding, would EKPC agree that the adjustment should recognize the number of years over which the total costs have been financed? Explain the response.

6. Refer to the response to the Staff's Third Request, Item 11.

a. As of test-year end, provide the total number of employees who paid a family contribution to medical costs and the total number of employees who paid a single contribution to medical costs.

b. Explain why it is reasonable to use the mathematic average of the contribution rates for the two options rather than a weighted average approach that would reflect the proportion of family and single contributions.

7. Refer to the response to the Staff's Third Request, Item 12.

a. Do the property tax assessments issued by the Kentucky Department of Revenue ("KDR") always match exactly the net book values EKPC provided to KDR? If no, describe the type and nature of the differences.

b. Explain how construction work in progress is treated in the determination of property taxes.

8. Refer to the Application, Exhibit F, Schedule 8, page 3 of 3, and Schedule 9, page 2 of 2.

a. Explain in detail why both proposed adjustments to property taxes compare a normalized level of property taxes to the test-year actual property tax expense.

b. Explain why these proposed adjustments to property taxes were not calculated in a manner similar to the approach used for depreciation expense, where the first adjustment compared the annualized expense to the test-year actual expense and then the second adjustment compared the annualized expense with a final normalization of expense that reflected the new depreciation rates.

9. Refer to the response to the Staff's Third Request, Item 13 and the response to the KIUC Second Request, Item 1.23, page 2 of 2.

a. Does EKPC receive an initial property tax assessment and a final property tax assessment from either the KDR or the various county property valuation administrators? Explain the response.

b. Do the schedules shown on pages 3 through 8 of 42; pages 10 through 14 of 42; pages 16 through 21 of 42; pages 23 through 28 of 42; pages 30 through 35 of 42; and pages 37 through 42 of 42 reflect a recap of the actual property tax bills received for a particular year? If no, explain what these schedules represent.

c. Refer to the response to the KIUC Second Request, Item 1.23. In this response EKPC has indicated that, with the exception for the state rates, all property tax rates reflect an averaging calculation based on actual 2004 property taxes.

(1) Explain why it is reasonable to utilize averaged property tax rates to calculate the property tax adjustment.

(2) Explain in detail why the averaged property tax rates were based on 2004 taxes rather than 2006.

d. Refer to the response to Item 13, pages 37 through 42 of 42.

(1) Could the proposed adjustment to property taxes have been determined by substituting the adjusted net book values as determined by EKPC for the amounts shown in the column titled "Assess" and then calculating the revised tax bills?

(2) Explain why this approach was not utilized.

(3) Provide a property tax adjustment for EKPC using the approach outlined in subpart (1) above.

10. Refer to the response to the Staff's Third Request, Item 17.

a. Explain why the final costs for the Powell-Taylor, Southpoint, and Cedar Grove substations were higher than the estimated amounts provided in Exhibit F, Schedule 25 of the Application.

b. Provide a revised Schedule 25 reflecting the actual cost at in-service date and any actual substation revenues.

11. Refer to the response to the Staff's Third Request, Item 21.

a. Concerning the response to Item 21(a), if EKPC has a copy of the National Rural Utilities Cooperative Finance Corporation's ("CFC") post-September 30, 2006 credit evaluation, provide copies of that evaluation. EKPC may request confidential treatment of the response pursuant to 807 KAR 5:001, Section 7. If EKPC does not have a copy of the most recent CFC credit evaluation, but has summaries or other information from the evaluation, provide copies of the summaries or other information.

b. Refer to the response to Item 21(a)(3), the Attachment, page 8 of 11. Under the heading "New Loan Applications Submitted" is the reference to a loan for the construction of the Smith Unit 1 and combustion turbines 8 through 12. Given the

May 11, 2007 Order in Case No. 2006-00564,[1] will EKPC be amending the referenced loan application? Explain the response.

12. Refer to the response to the Staff's Third Request, Item 24(b). Provide copies of the 2006 Annual Report. If the report is not available as of the date of the response to this request, explain the reason(s) for the delay and indicate when the report will be available.

13. Refer to the response to the Staff's Third Request, Item 32.

a. Indicate when the key assumptions, data sources, and commentary for the 2007-2026 financial forecast were developed.

b. Were the Board of Directors advised of any changed conditions that directly affected the assumptions, data sources, or commentary used to develop the 2007-2026 financial forecast before it was adopted on March 5, 2007? Explain the response.

c. Refer to page 4 of 24. Explain in detail why the assumptions concerning the annual off-system sales for the period 2007-2010 are reasonable given the following:

(1) EKPC's actual off-system sales levels in 2005 and 2006;

(2) EKPC anticipates new base load generation not becoming operational before 2009.

[1] Case No. 2006-00564, An Investigation Into East Kentucky Power Cooperative, Inc.'s Continued Need for Certificated Generation.

(3) In the response to the Staff's Third Request, Item 39, page 2 of 2 is the statement, "EKPC's off-system sales are minimal, due to the absence of excess capacity."

d. Refer to page 5 of 24. Is it correct that EKPC anticipates that Smith Unit 1 will become operational in June 2011? If yes, explain why the assumptions stated an operational date of June 2010.

e. Refer to page 7 of 24.

(1) Would EKPC agree that the response to the Staff's Third Request, Item 6(e), the Attachment, page 6 of 6, shows total sources of funds available for investment as of December 31, 2006 to be $208,127,891?

(2) Explain why the 2007-2026 financial forecast reported that funds available for investment were estimated to be $93.9 million as of December 31, 2006, in light of the information provided in the response to the Staff's Third Request, Item 6(e).

f. Refer to page 9 of 24. Explain in detail why the assumption concerning the capacity and energy purchases from the Southeastern Power Administration do not reflect the situation at the Wolf Creek dam.

14. Refer to the response to the Staff's Third Request, Item 42.

a. Refer to the response to Item 42(a). EKPC states, "Some directors elect to have a portion of their fees paid into a tax deferred compensation plan at NRECA rather than receiving a check in the present." Explain in detail this option available to the directors. Include citations to the Internal Revenue Service Tax Code that allow for this deferral by non-employees of EKPC.

b. Refer to the response to Item 42(d). EKPC states that Internet expenses are paid for each director. However, the analysis of directors' fees and expenses provided in the response to the Staff's First Request, Item 25(b), shows that only 12 of the 16 directors received this compensation. Explain why Internet service is provided for only some, but not all, directors.

c. Refer to the response to Item 42(g)(1). The Audit Committee Charter requires that this committee meet at least twice a year. However, the analysis of the directors' fees and expenses shows only one meeting during the test year.

(1) Did the Audit Committee meet between October 1 and December 31 of 2006?

(2) Indicate the number of Audit Committee meetings held in calendar year 2002, 2003, 2004, and 2005.

d. Refer to the response to Item 42(g)(2). Explain why all bid opening and negotiation meeting payments during the test year were paid to the same director.

e. Refer to the response to Item 42(g)(4). The response states, "These meetings of the President and CEO and the Board Officers were to discuss various issues with regard to EKPC, wherein power supply and cost were most likely the main topics."

(1) Why aren't the topics discussed at these meetings known?

(2) Were any notes, minutes, or other records kept of these meetings? If yes, provide copies of the applicable notes, minutes, or other records. If no, explain in detail why this information was not kept.

f. Refer to the responses to Items 42(g)(4) and 42(g)(5). EKPC was requested to explain why these expenses should be included for rate-making purposes. However, this explanation was not included in the responses. Provide the originally requested explanations.

g. Refer to the responses to Items 42(g)(6), 42(g)(7), 42(g)(9), and 42(g)(10). EKPC has stated that expenses for the CFC Forum, the Energy Management Conference, Director Conference, and the National Rural Electric Cooperative Association ("NRECA") Strategic Issues meeting have been excluded for rate-making purposes, except for two directors.

(1) Explain why the expenses for two directors should be included for rate-making purposes.

(2) Provide copies of programs, agendas, and other materials that describe and discuss the topics covered at these four meetings.

15. Refer to the response to the Staff's Third Request, Item 43.

a. Provide copies of the complete 2006 Generation and Transmission ("G&T") Compensation Survey. In addition, identify the preparer of the survey.

b. Provide a profile for each of the G&Ts listed by identification code below. The profile should include the number of member distribution cooperatives of the G&T, the number of ultimate retail customers served by the G&T, the total revenues for 2006, the total megawatt hours generated and sold during 2006, and the number of directors of the G&T.

(1) B02

(2) B15

(3) B20

(4) B22

(5) B28

(6) B34

(7) B35

(8) B41

16. Concerning the directors of EKPC:

a. Identify the representatives to the NRECA and the Kentucky Association of Electric Cooperatives.

b. Provide the total directors' fees and expenses for calendar years 2001 through 2006.

c. Provide the occupation or profession of each director serving on the board as of test-year end. If the director is retired, provide the director's occupation or profession while employed.

17. Refer to the response to the Staff's Third Request, Item 45, page 2 of 2. EKPC states that its economic/industrial development activities promote both its economic well-being and the Kentucky economy in general. Indicate the primary focus of these activities, promoting EKPC or the Kentucky economy. Explain how this conclusion was reached.

18. Refer to the response to the Staff's Third Request, Item 46(c). Explain in detail how EKPC determined the appropriate level of Partners Plus program promotional-type expenses to exclude for rate-making purposes. Include all workpapers, calculations, assumptions, and other supporting documentation.

19. Refer to the response to the Staff's Third Request, Item 49(c). EKPC was requested to provide a schedule detailing the transactions that made up the $32,507,300 balance for Account No. 426 listed as "Other." While identifying three types of transactions and the amounts, EKPC responded that a difference of $32,554,641 was redacted. However, EKPC did not submit the redacted information or request confidential treatment pursuant to 807 KAR 5:001, Section 7. Provide the originally requested information for the difference of $32,554,641. EKPC may seek confidential treatment of the response by complying with the requirements of the applicable regulation.

20. Refer to the response to the Staff's Third Request, Item 50. Concerning the satisfaction survey services provided by Cooper Research and Preston Osborne Research:

a. Explain why EKPC conducts these surveys for its member systems.

b. Provide the amounts paid during the test year by the member systems to reimburse EKPC for the cost of the satisfaction surveys. If no reimbursement was provided, explain why.

21. Refer to the response to the Staff's Third Request, Item 52.

a. Provide the member annual service fees for 2007.

b. Refer to the responses to Items 52(j)(1) and 52(k)(1). Explain why there were no written reports or written documentation of the presentations.

22. Refer to the response to the Staff's Third Request, Item 53(e), the Attachment, page 5 of 22. Article II of the Operating Agreement for Envision Energy Services, LLC ("Envision") states in part that the business and purpose of Envision shall

be to sell or otherwise provide energy. Explain in detail how Envision can sell or provide energy.

23. Refer to the response to the Staff's Third Request, Item 54(a).

a. Did each borrower in the propane gas program begin making monthly payments of principal and interest on August 1, 2005? If no, indicate when these payments began.

b. Are all borrowers current on their loans? Explain the response.

24. Refer to the response to the Staff's Third Request, Item 55. Provide a schedule listing all the Electric Power Research Institute projects EKPC has purchased since April 1, 2007. Include a description of the project and the project cost.

25. Refer to the response to the Staff's Third Request, Item 57.

a. How much of the $54,205 cost of the depreciation study was expensed during the test year?

b. Did EKPC propose to remove this expense as a non-recurring expense? Explain the response.

26. Refer to the response to the Staff's Third Request, Item 58. Provide the minimum Times Interest Earned Ratio and the Debt Service Coverage Ratio EKPC would need to achieve for calendar year 2007 to meet the Rural Utilities Service mortgage covenants.

DATED May 30, 2007

cc: All Parties

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