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AUG 09 2007
PUBLIC SERVICE
COMMISSION

Via Overnight Mail

August 8, 2007

Beth A. O'Donnell, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

Re: Case No. 2006-00472

Dear Ms. O'Donnell:

Please find enclosed the original and twelve (12) copies each of the First Set of Data Responses of Kentucky Industrial Utility Customers, Inc. to the Commission Staff and Eastern Kentucky Power Cooperative, Inc. in the above-referenced matter. By copy of this letter, all parties listed on the Certificate of Service have been served.

Please place this document of file.

Very Truly Yours,

Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY

MLKkew
Attachment
cc: Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by mailing a true and correct copy, by overnight mail to all parties on the August 8, 2007.

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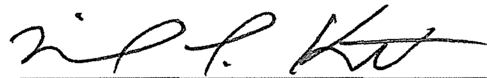

Michael L. Kurtz, Esq.

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AUG 09 2007

PUBLIC SERVICE
COMMISSION

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**

RESPONSES OF THE KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
TO FIRST DATA REQUEST OF COMMISSION STAFF

INFORMATION REQUESTS FOR LANE KOLLEN

REQUEST NO. 1. Refer to the Direct Testimony of Lane Kollen ("Kollen Testimony"), page 7. Provide a balance sheet and statement of operations reflecting the test year, all of Mr. Kollen's proposed adjustments, and the resulting adjusted test year.

RESPONSE:

Mr. Kollen developed his proposed adjustments only to certain operating income and capitalization amounts based on the Company's filing. He did not develop a complete balance sheet or statement of operations. Nevertheless, Mr. Kollen has taken the Company's balance sheet at September 30, 2006 and its statement of operations for the test year and computed the adjustments to the various balance sheet and income statement line items that would be necessary to equal the amounts Mr. Kollen recommends should be recognized for ratemaking purposes. These schedules are attached to this response. It should be noted that Mr. Kollen made no attempt to balance the balance sheet after reflecting KIUC's proposed adjustments to capitalization.

REQUEST NO. 2. Mr. Kollen has identified numerous adjustments where he has utilized account balances and other financial information as of March 31, 2007. East Kentucky Power Cooperative, Inc.'s ("EKPC") proposed test year is the 12 months ended September 30, 2006.

a. Is Mr. Kollen proposing that the Commission reject EKPC's proposed test year and adopt the 12th months ended March 31, 2007 as the appropriate test year in this case?

b. If yes to part (a) above, provide the reason(s) for his rejection of EKPC's proposed test year.

c. If yes to part (a) above, has Mr. Kollen updated all revenues, expenses, rate base, and capital items to balances as of March 31, 2007? Explain the response.

d. If Mr. Kollen is proposing to utilize the September 30, 2006 historic test year, are his proposed adjustments that use actual account balances as of March 31, 2007 consistent with the approach utilized by the Commission in previous cases for similar adjustments? Explain the response.

RESPONSE:

a. No. Mr. Kollen believes that the Commission should use the Company's proposed test year ending September 30, 2006, but reflect known and measurable changes using March 31, 2007 data.

b. See response to part (a) of this question.

c. See response to part (a) of this question.

d. The Commission generally reflects known and measurable changes to the historic test year data.

REQUEST NO. 3. Refer to the Kollen Testimony, pages 20 through 23 and Exhibit LK-3.

a. Was Mr. Kollen aware that in previous cases, when the Commission determines the normalized interest expense, the test-year-end balance of long-term debt is multiplied by the most current interest rates in the record?

b. Explain why Mr. Kollen has chosen to normalize interest expense by updating both the long-term debt balances and the corresponding interest rates. Include in this explanation the reason(s) why the circumstances in this case warrant an approach different from the approach normally followed by the Commission.

c. Concerning the pending $481 million loan application with the Rural Utilities Service ("RUS"), was Mr. Kollen aware that the applicable interest rate on this loan will not be determined until the first drawdown is made from that loan?

d. Given when the actual interest rate for the pending RUS loan will be determined, explain in detail how the proposed interest expense adjustment constitutes a known and measurable adjustment.

e. Concerning Exhibit LK-3, explain in detail why Mr. Kollen included the sick leave reserve in his determination of the blended long-term interest rate.

RESPONSE:

a. Mr. Kollen is aware that the Commission updates the historic test year cost of capital to reflect more recent information.

b. Mr. Kollen believes that the Commission either should update all ratemaking components in a consistent manner for known and measurable changes or make no adjustments to any ratemaking components. It is essential to maintain the integrity of the relationships among the test year data.

c. Yes.

d. The interest rate on the loan is known and measurable within a reasonable range.

e. The premise of the question is incorrect. On Exhibit__(LK-3), Mr. Kollen computed the average interest rate by dividing interest expense by the balance of long-term debt, which did not reflect either the cushion of credit or the sick leave reserve. The cushion of credit and sick leave reserve amounts were shown on this schedule to be consistent with the format for total indebtedness reflected by the Company on its Exhibit F Schedule 10.

REQUEST NO. 4. Refer to the Kollen Testimony, pages 24 and 25. Explain in detail why Mr. Kollen's approach of normalizing Allowance for Funds Used During Construction ("AFUDC") income by utilizing the actual AFUDC balances and corresponding interest rates as of March 31, 2007 is more appropriate than an approach that utilizes the test-year-end balance for AFUDC and the most current corresponding interest rates.

RESPONSE:

It is important that all ratemaking components be synchronized and computed consistently in the determination of the revenue requirement. The AFUDC rate should be consistent with the interest rate using the same dates. Similarly, the long term debt that gives rise to the interest rate and the AFUDC rate should be computed as of the same date and the CWIP that the AFUDC rate is applied to should be computed as of the same date. It is particularly inappropriate for cooperative ratemaking purposes to mismatch the test year end balance of CWIP with an updated AFUDC rate because the rate is developed by using the underlying long term debt at the same date.

REQUEST NO. 5. Refer to the Kollen Testimony, page 32. Explain in detail why 50 percent is a reasonable amount to disallow for non-recurring legal expenses.

RESPONSE:

If the Company is successful in settling the litigation, then it will incur no additional legal expenses for that purpose. However, the Company likely will incur new compliance and monitoring expenses associated with a settlement on a going-forward basis. These new expenses will be less than the litigation expenses. In lieu of recommending a disallowance of the entirety of the legal expenses associated with this litigation, Mr. Kollen believes that it is reasonable to assume that the new compliance and monitoring expenses will be equal to 50% of the test year litigation expenses.

REQUEST NO. 6. Refer to the Kollen Testimony, page 35. Explain in detail why Mr. Kollen did not recognize in some manner the costs incurred to achieve the savings from the "Early Out" retirement program.

RESPONSE:

First, the Company has not sought recovery of those costs, but it has agreed in response to PSC 4-5(b) that it would be reasonable to reflect the annual savings. Second, the Company will have retained six months of savings due to this program from March 2007 until its rates are reset on a permanent basis in this proceeding. Third, Mr. Kollen did not recommend resetting rates based on the Company's revenue requirement due to extenuating circumstances. Thus, even if the costs were reflected through amortization expense, it would not change Mr. Kollen's recommendation to simply retain the interim rate increase and make it permanent.

REQUEST NO. 7. Refer to the Kollen Testimony, page 40. Would Mr. Kollen agree that the most current PSC Assessment rate should be utilized when determining the revenue requirements for EKPC?

RESPONSE:

Yes.

INFORMATION REQUESTS FOR KEVIN HIGGINS

REQUEST NO. 8. Refer to the Direct Testimony of Kevin C. Higgins ("Higgins Testimony"), pages 16 through 18.

a. Explain how Gallatin Steel's rates were negotiated and whether or not those rates were tied in any way to a cost-of-service study.

b. Provide a chart showing when EKPC interrupted Gallatin Steel during the test year, the amounts of load actually curtailed, and the notice time given for each interruption.

c. What was the effective firm load that Gallatin Steel actually incurred during the test year?

d. From a cost-of-service point of view, if a firm operating under an interruptible tariff is never interrupted during the test year, explain what would be the appropriate amount of loan to include in the cost-of-service calculation using the Average and Excess Method.

RESPONSE:

a. The rates applicable to Gallatin Steel's current contract rates are tied to EKPC's cost of service and were negotiated as follows.

When Gallatin Steel decided to build its $500 million steel mill in the service territory of the Owen Electric Cooperative in the early 1990's there was a major concern about electricity service and cost. EKPC did not have adequate generation to serve the Gallatin load (which is currently about 175 mw). Because Owen and EKPC wanted to encourage economic development (Gallatin currently has approximately 410 full time employees) a creative solution was developed. About 50 mw of Gallatin's load was served by LG&E through a long term wholesale contract with EKPC, and the remainder was served from EKPC resources. This dual service arrangement was the basis for Gallatin's original ten year power supply agreement which expired in May 2005.

For power supply after the original ten year agreement all parties desired EKPC to be the sole wholesale provider to Owen for service to Gallatin. The negotiation process for the existing power supply agreement took several years and resulted in a five year agreement with the following provisions:

1. The demand charge in the contract was based upon EKPC's standard demand charge. Demand is measured over EKPC's standard 15 minute period, versus one hour in the prior contract.
2. The energy rate provision was modeled on EKPC's and Fleming-Mason's power supply agreement with Inland Container.
3. Gallatin is a highly interruptible customer, thus allowing EKPC to avoid having to plan for capacity requirements. As the cost of new power plant construction continues to climb, this benefit to EKPC is enhanced. Gallatin is subject to 360 hours of interruption per year. Importantly, Gallatin is subject to interruption before any other interruptible customer. This means that Gallatin may be called to interrupt its load while other interruptible customers continue to receive service.
4. The contract contains detailed provisions whereby Gallatin is to pay up to $780,000 per year for load following costs incurred by EKPC. This cost based charge is paid by no other customer on the EKPC system.
5. Gallatin is subject to the standard fuel adjustment charge and environmental surcharge.

b. Gallatin Steel does not keep a record of the requested information, but contacted EKPC in an attempt to obtain it. The information EKPC made available to Gallatin Steel pertaining to the test year is contained in the zip file Attachment to KIUC Response to Staff 8.b. Gallatin's contract includes provisions for market buy-throughs during interruption periods. During buy-throughs, the amount of Gallatin load interrupted is shown in Column R of each day's Interruption Summary. When Gallatin is interrupted, but no buy-through is offered/accepted (see for example, June 21, 2006) the total amount of the interruption is not shown (as it reflects the "absence of load"), but the total amount of actual Gallatin load during those interruptions is shown in Column P of each day's Interruption Summary. As shown for June 21, 2006, this amount is very close to Gallatin's firm load of 15 MW.

c. Mr. Higgins presumes the term "effective firm load" is referring to the amount of Gallatin's load that was not subject to actual interruption during the test year. This amount is 15 MW. See also response to 8.b.

d. Average demand would be calculated based on the firm's total kWh divided by 8,760 hours. Excess demand would be contractual firm demand minus average demand. This would be the case even if no interruptions actually occurred, as the presence of the interruptible load should still allow the utility to avoid capacity-related expenses.

REQUEST NO. 9. Refer to the Higgins Testimony, Exhibits KCH-1 through KCH-4. Provide electronic copies of the exhibits in Microsoft Excel 97-2003 format, with all formulas and underlying data intact.

RESPONSE:

Please see Attachment to KIUC Response to Staff DR 9. Also included is the workpaper supporting Exhibit KCH-4 in Attachment to KIUC Response to Staff DR 9 (KCH-4 Workpaper).

REQUEST NO. 10. Refer to the Higgins Testimony, pages 19 and 20 and Exhibit KCH-4.

a. Explain whether of not Inland Electric, TGP, or AGC Automotive are interruptible. If any are interruptible, were adjustments similar to that made for Gallatin Steel also made for these special contract customers?

b. Provide a more detailed explanation of Mr. Higgins' recommended adjustment and a detailed chart showing how the AED_PROD_GS allocation factor in Line 1 of the top chart on Exhibit KCH-4 was derived.

RESPONSE:

a. It is Mr. Higgins' understanding that none of the identified customers are taking interruptible service from EKPC.

b. The recommended adjustment made by Mr. Higgins implements the following modification to EKPC's cost-of-service study, as described in Mr. Higgins' direct testimony on page 17, lines 18-21, which states:

"[L]et us consider the actual firm load for Gallatin Steel, which is just 15 MW. In this case, we have an excess demand equal to 15 MW – 118 MW = (103) MW, which is the negative excess demand case referenced in the NARUC Manual."

This modified Excess Demand for Gallatin Steel is incorporated into the Average and Excess Demand cost-of-service calculation otherwise utilized by EKPC, and new AED-PROD-GS allocation factors are derived, as shown in Line 1 of Exhibit 4, and replicated below.

Allocation Factor	Total	E	B	C	Inland Electric	Inland Steam	Gallatin	TGP	AGC
AED-PROD-GS	1.0000	0.8866	0.0459	0.0250	0.0113	0.0000	0.0083	0.0140	0.0089

The calculation of the new AED-PROD-GS allocation factors are shown in Attachment to KIUC Response to Staff DR 10(b). The allocation factors were calculated as follows:

- We identified Average Demand and NCP for each customer class. We used the same inputs as EKPC, except Gallatin's (unadjusted) Excess Demand was calculated as equal to its firm demand minus its average demand (as described above). The NCP demand and energy levels for each rate schedule used to derive these factors is shown in the following table.

Class	NCP Demand @ Plant kW(1)	Annual Energy @ Plant kWh(2)
E	2,225,286	9,181,636,048
B	113,120	835,086,583
C	61,730	430,698,767
Inland Electric	27,726	220,486,205
Inland Steam		
Gallatin	15,000	1,034,355,652
TGP	35,092	155,726,272
AGC	22,019	146,386,911
Total	2,499,973	12,004,376,438

- Using this information, we determined each class's (unadjusted) Excess Demand as shown in Column (e) in Attachment to KIUC Response to Staff 10(b).

- We determined each class's Adjusted Excess Demand as shown in Column (f) in Attachment to KIUC Response to Staff 10(b).

- As part of this calculation, we adjusted EKPC's "Total Adjusted Excess Demand" to reflect the lower system excess demand that results from the adjustment to Gallatin, as Mr. Higgins notes on page

19, line 17 through page 20, line 2. This adjustment is shown in Data Source Note 3 in the first line labeled "Retail System Peak Demand @ Plant - (kW):" in Attachment to KIUC Response to Staff 10(b).

- Each class's average demand was added to its Adjusted Excess Demand to derive its Allocated Demand, from which the AED-PROD-GS allocation factors in Line 1 of Exhibit KCH-4 were derived. The Allocated Demand is shown in Column (g) in Attachment to KIUC Response to Staff 10(b). The resulting average and excess allocation factors for AED-PROD-GS are shown in Column (h) of KIUC Response to Staff 10(b).

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PUBLIC SERVICE COMMISSION

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**

RESPONSES OF THE KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC. TO FIRST DATA REQUEST OF EAST KENTUCKY POWER COOPERATIVE, INC.

INFORMATION REQUESTS FOR LANE KOLLEN

REQUEST NO. 1. **Reference page 5 of Mr. Kollen's testimony. Please provide copies of all analyses developed by Mr. Kollen, or at his direction, that he considered in reaching his conclusion that the continuation of the $19 million revenue increase will enable the Company to meet its TIER and DSC Requirements for financial reporting purposes in 2007 and in 2008.**

RESPONSE:

The premise of the question is only partially correct. Mr. Kollen did not conclude that the continuation of the $19 million revenue increase will enable the Company to meet its TIER and DSC requirements for financial reporting purposes in 2008. In making his assessments of 2007 and 2008, Mr. Kollen reviewed the Company's actual results for 2007 filed monthly with the Commission. In addition, Mr. Kollen reviewed the Company's projected 2007 and 2008 results in conjunction with settlement discussions. These projections were prepared by the Company, not Mr. Kollen. Having been prepared by the Company, they are in the possession of the Company. Mr. Kollen understands that these are confidential documents provided to KIUC for purposes of settlement discussion.

REQUEST NO. 2. **Reference page 11 of Mr. Kollen's testimony. Using the two options described on page 11 lines 13-19, provide an example of how these two approaches would result in the same effect on customers.**

RESPONSE:

No example is necessary. The two options simply address which ratemaking recovery mechanism is used for the BESF amount, which does not vary between the two options. The BESF amount either is used to reduce the KIUC adjustment for the ECR/base rate mismatch and that same amount retained as a credit in the ECR or the BESF amount is not used to reduce the KIUC adjustment for the ECR/base rate mismatch and that same amount is not retained as a credit in the ECR. Mr. Kollen recommended that the Commission use the first option.

REQUEST NO. 3. **In analyzing whether a normalization adjustment is reasonable, would Mr. Kollen generally agree that a review of more years' historical information is better than fewer years' information? Please explain your response.**

RESPONSE:

No. The question provides insufficient context or information to agree to a general conclusion. In some instances, no review of historical information is necessary.

REQUEST NO. 4. **Reference EKPC's response to Staff Fourth Data Request, Item 2.**

(a) Does Mr. Kollen agree that EKPC should have the opportunity to earn a 1.35 TIER on all assets, including those assets subject to the environmental surcharge?

(b) Assuming the Commission grants a 1.35 TIER in this case as proposed by EKPC, does Mr. Kollen agree, that under that scenario, EKPC would be recovering a 1.35 TIER on all of its assets with the difference in the 1.35 TIER and 1.15 TIER in base rates on surcharge assets and this method is consistent with the approach approved by the Commission in Case Nos. 1998-00426, 1998-00474,2003-00433, 2003-00434 and 2005-00341? If no, please explain.

(c) Assuming the Commission grants a 1.35 TIER in this case as proposed by EKPC does Mr. Kollen agree that EKPC's proposed synchronization of ECR revenue with ECR costs is an acceptable approach? If not, please explain.

RESPONSE:

a. No. Mr. Kollen believes that EKPC should have the opportunity to earn a TIER of 1.15 based on Commission precedent.

b. If the Commission grants a TIER of 1.35 without removing the ECR rate base/capitalization amounts from the Company's filing, then this effectively will "step-up" the TIER on the ECR rate base/capitalization from 1.15 to 1.35 with the increase of 0.20 reflected in base rates. There still will remain the timing disconnect issue discussed in Mr. Kollen's testimony given that the Company's filing reflects projected capitalization at March 31, 2007 and the ECR reflects actual investment on a monthly basis and will reflect July 2007 rate base investment and the related interest and TIER in the September ECR rates. In any event, this method is not consistent with the approach approved by the Commission in the cited proceedings because in those proceedings the amount "rolled-in" to base rates was computed as a credit to the ECR recovery. In addition, in response to discovery, the Company claimed in this proceeding that it did not intend to roll-in any portion of the ECR to base rates. The fact that its revenue requirement was incorrectly computed because it failed to remove from or otherwise properly synchronize the ECR revenues and costs in its filing does not justify an "accidental" or unintentional partial roll-in of ECR costs.

REQUEST NO. 5. Reference page 12, lines 13-17, of Mr. Kollen's testimony. Does Mr. Kollen agree that in Case Nos. 1998-00426, 1998-00474, 2003-00433, 2003—00434 and 2005-00341 that only the per book actual surcharge revenues and expenses were eliminated from the test period? If not, please explain and provide copies of all Order sections where the Commission addresses removing the effects of ECR revenues and costs from the utility's base revenue requirement and the synchronization of any portion that is rolled-in to base rates and/or otherwise reflected as an offset to the ECR revenue requirement in the ECR filings.

RESPONSE:

No. There were amounts rolled-in to base rates in the latter three proceedings cited in the question. Details may be found in the schedules attached to the Commission's Orders in those proceedings.

REQUEST NO. 6. Reference page 15, lines 3 through 6 of Mr. Kollen's testimony. Did the Commission's Interim Order make the interim increase subject to a test limiting the Company's margins to a TIER of 1.15? Please explain?

RESPONSE:

No. In the cited testimony, Mr. Kollen states: "in the interim phase of this proceeding, all parties, except the Sierra Club, entered into a Settlement Agreement and agreed that the interim increase would be subject to a test limiting the Company's margins to a TIER of 1.15."

REQUEST NO. 7. Does Mr. Kollen believe that EKPC is in danger of not meeting its financial covenants in 2008? If not, please explain why not. If so, please explain the implications of such a result.

RESPONSE:

Please refer to page 5 line 12 through page 6 line of Mr. Kollen's Direct Testimony. As Mr. Kollen noted, if the $19 million on a permanent basis is insufficient for the Company to meet its TIER and DSC requirements, then EKPC may find it necessary to file for another base rate increase to be effective in 2008.

REQUEST NO. 8. **What is the basis and justification for Mr. Kollen's statement on page 18, lines 3 through 5 that "a TIER of 1.15 is excessive compared to the minimum RUS loan covenant and Credit Facility Agreement requirements," particularly with EKPC's equity percentage of about 5%? Please provide all workpapers and supporting documentation.**

RESPONSE:

The basis and justification is stated in the cited testimony. There are no workpapers or supporting documentation.

REQUEST NO. 9. **On page 18, line 1 of his testimony, Mr. Kollen states that he would not normally recommend a TIER of 1.15 because it is "excessive compared to the minimum RUS loan covenants and Credit Facility Agreement requirements." What TIER would Mr. Kollen normally recommend? Include supporting analysis. Provide documentation and analysis to demonstrate how a cushion of 0.10 above the 1.05 RUS TIER covenant is excessive.**

RESPONSE:

Mr. Kollen normally would recommend a TIER of 1.05 if the Company's growth in revenues at least kept pace with the growth in its costs and the related revenue requirement. The term "excessive" was based on a comparison to the minimum TIER and DSC requirements. If a minimum TIER of 1.05 and a minimum DSC of 1.00 are sufficient for the RUS and the lenders under the Credit Facility, then a greater TIER or DSC is excessive by comparison.

REQUEST NO. 10. **Provide a list of any and all utility financing arrangements in which Mr. Kollen has participated. Include parties involved, date of financing, dollar amount of capital raised, and any other pertinent details.**

RESPONSE:

Mr. Kollen has been actively involved in the utility industry on behalf of utilities and their ratepayers for more than thirty years. While at the Toledo Edison Company, he was actively involved in working with Treasury Dept personnel in the sizing and timing of new debt and other securities issuances. He also was actively involved in working with the Tax Department in pollution control debt financing and identifying property eligible for such financing. Similarly, Mr. Kollen was actively involved with numerous utility clients in the sizing and timing of new debt and other securities issuances. Mr. Kollen has not maintained records of such financing arrangements. Most recently, Mr. Kollen was involved in a proceeding to separate Entergy Gulf States, Inc. into two separate utility companies and worked on developing the plan to redeem outstanding debt and issue new debt as well as drafting the various debt assignment and mortgage agreements that will be necessary to implement the separation.

REQUEST NO. 11. Explain how a TIER of 1.15 will allow EKPC to compete with other borrowers and attract capital from lenders other than RUS and CFC.

RESPONSE:

A TIER of 1.15 will provide the Company recovery of all its costs, including interest, plus a margin of 15% on its interest. That is a better deal than investor owned utilities receive because they get no margin on their interest.

REQUEST NO. 12. Provide copies of all testimony filed or papers authored by Mr. Kollen during the past five years relating to the determination of an appropriate TIER for cooperatives.

RESPONSE:

Please see Mr. Kollen's testimony in EKPC Case Nos. 2004-00321 and 2004-00372. The Company has previously been provided copies of Mr. Kollen's testimony in those proceedings. Alternatively, the Company may access Mr. Kollen's testimony from the Commission's website.

REQUEST NO. 13. Provide a copy of any analysis and/or work papers to support Mr. Kollen's recommendation of a 1.15 TIER in this proceeding.

RESPONSE:

Mr. Kollen's workpapers supporting his revenue requirement recommendations, including a TIER of 1.15 are provided on the attached CD.

REQUEST NO. 14. Explain how Mr. Kollen's analysis of an appropriate TIER for EKPC incorporates the ratemaking principle of capital attraction.

RESPONSE:

Although it is not clear from the question, Mr. Kollen believes that the question may refer to the ability of the utility to attract capital at a reasonable cost. The Company presently is able to attract capital at reasonable cost pursuant to the Credit Facility and the RUS loans. Setting the TIER at 1.15 for ratemaking purposes provides recovery of all costs, including interest, plus a margin of 15% over and above the interest. In addition, continuing the interim increase as the amount of the permanent increase provides the Company an effective TIER significantly in excess of 1.15.

REQUEST NO. 15. **How did Mr. Kollen consider the appropriate equity ratio for EKPC in his analysis? Please explain.**

RESPONSE:

Mr. Kollen reviewed the existing equity level and the requirements pursuant to the Credit Facility. A TIER of 1.15 will result in an increase to the existing equity level as the resulting margins are added to equity and will enable EKPC to meet the requirements of the Credit Facility..

REQUEST NO. 16. **Provide a list of all G&Ts that Mr. Kollen is familiar with that have issued non-RUS long-term debt in the last five years with a TIER at the time of debt issue of 1.15 or less. Identify the G&T ratings and details of financing.**

RESPONSE:

Mr. Kollen has not performed such an analysis. However, EKPC has issued non-RUS long-term debt in the last five years with a TIER at the time of debt issue of 1.15 or less.

REQUEST NO. 17. **Did Mr. Kollen use a benchmark approach of other comparable G&T's to derive his TIER recommendation? If so, which companies were used? Please provide all workpapers and analyses used in the comparison. If a benchmark approach was not used, please explain why it was not used and describe the approach that was used.**

RESPONSE:

No. A benchmark approach is not relevant to this proceeding for several reasons. First, the Commission, to Mr. Kollen's knowledge, has never based its determination of the appropriate TIER or rate of return on a survey of decisions by other regulatory commissions, nor would it be appropriate for the Commission to do so. Second, the Commission historically has independently determined that a TIER of 1.15 is appropriate

for the Company. Third, the Commission already is informed that the minimum TIER of 1.05 and minimum DSC of 1.00 must be met to meet the loan covenants of the RUS and the lenders under the Credit Facility. A TIER of 1.15 provides a significant margin in addition to the minimum requirement, which, for the TIER, already provides a margin over all costs and interest expense. Fourth, the Company has failed to demonstrate that there are lower-cost alternatives to financing through the RUS or the Credit Facility or other non-RUS federal agencies.

REQUEST NO. 18. Did Mr. Kollen examine and utilize any data typically used by investors to arrive at his recommendation? Please provide any data used in arriving at the recommendation.

RESPONSE:

Yes. In the case of the Company, the investors are the RUS and the Credit Facility lenders. Those investors rely on the TIER and DSC. In addition, the lenders under the Credit Facility require a minimum equity ratio and dollar amount. Mr. Kollen examined all these data provided by the Company in response to discovery in this proceeding and in the settlement discussions with EKPC.

REQUEST NO. 19. Reference page 18, lines 8-10, of Mr. Kollen's testimony. Please explain how having the same TIER of 1.15 for the base revenue requirement and the ECR influence the proper level of TIER for the Commission to decide in this proceeding for EKPC.

RESPONSE:

Mr. Kollen believes that a TIER of 1.15 is particularly excessive for the ECR given that there is almost real-time ratemaking recovery and virtually no risk of non-recovery for ECR costs. Nevertheless, the ECR TIER was the result of a settlement and should be considered an upper limit for base ratemaking purposes.

Alternatively, if the Commission determined that a TIER of more than 1.15 was appropriate for base ratemaking purposes, for whatever reason, it should not impose that TIER on the ECR costs, whether those costs are recovered partially through base rates or entirely through the ECR. Mr. Kollen continues to believe that a TIER of no more than 1.05 is appropriate for ECR costs.

REQUEST NO. 20. Reference Page 19, line 16 of Mr. Kollen's testimony. Please provide the derivation of the $18.624 million for non-ECR revenue requirement effect from a 1.15 TIER. Please provide all workpapers and supporting documentation.

RESPONSE:

Please refer to the workpapers provided on the enclosed CD.

REQUEST NO. 21. Reference page 22, line 15 of Mr. Kollen's testimony. Mr. Kollen states that the refinancing is "pending". Please explain, in light of the fact that that the loan is pending, the schedule of drawdown is unknown and the interest rate is not known until the day of drawdown, how this proposed adjustment is known and measurable?

RESPONSE:

The schedule of drawdown will be to repay the Credit Facility upon or shortly after receipt of the funds from the RUS. The interest rate is known within a reasonable range.

REQUEST NO. 22 See page 23, line 16-17, of Mr. Kollen's testimony. Please identify the costs the Company included in the filing which were projected calendar year 2007 costs.

RESPONSE:

Employee benefits expense, PSC assessment fee, forced outage expense, property tax expense.

REQUEST NO. 23. Has Mr. Kollen always concluded that interest income, AFUDC balance and interest cost annualization must be synchronized at a single point in time? Please provide excerpts from those instances where Mr. Kollen has testified about the interest income issue.

RESPONSE:

Yes. However, Mr. Kollen does not recall addressing the interest income issue previously in testimony.

REQUEST NO. 24. Please provide all references, excerpts and workpapers illustrating use of an historical average proposed by Mr. Kollen for any rate case in any proceeding.

RESPONSE:

Object. Question is unduly broad and burdensome and would require Mr. Kollen to review more than 20 years of testimony and case files. Nevertheless, in an effort to be responsive, Mr. Kollen has testified on bad debt and storm damage expense and the use of average historical amounts for ratemaking purposes. Excerpts from selected testimonies are included on the enclosed CD.

REQUEST NO. 25. Would Mr. Kollen agree that the level of short-term investments will fluctuate in the next year as a result of timing uncertainties associated with draw-downs of credit facility funds? Please explain.

RESPONSE:

Short term investments will fluctuate for various reasons, one of which may be the draw down of Credit Facility funds. In addition to short term debt, long term debt will fluctuate as will all other balance sheet and income statement items for various reasons.

REQUEST NO. 26. Since the availability of short-term investment funds and corresponding interest rates will vary month-to-month, please explain why it is not reasonable to use an historic average for interest income as compared to setting the level on the basis of a certain point in time.

RESPONSE:

All interest expense, interest income, AFUDC, capitalization, balance sheet items, revenues, expenses vary month-to-month, so variability alone is not the appropriate test for whether to use a historic average for ratemaking purposes. It is important to use the test year data, adjusted for known and measurable changes, to determine the proper level of capitalization, revenues, and expenses for the test year on a consistent basis. Please refer to page 25 line 5 through page 27 line 2 of Mr. Kollen's Direct Testimony wherein he provides an extensive explanation as to why the Company's proposal to use a historic average for interest income is inappropriate.

REQUEST NO. 27. Reference page 30, line 11-12. Please provide any analyses developed by Mr. Kollen, or at his direction, that he utilized in concluding that the 5-year average of forced outage MWH is <u>not</u> representative of replacement power costs on a going forward basis? Please explain.

RESPONSE:

Please refer to page 29 line 17 through page 30 line 16 of Mr. Kollen's Direct Testimony.

REQUEST NO. 28. Please provide any analyses developed by Mr. Kollen, or at his direction, that he utilized in concluding that the test year forced outage replacement cost is the "best" measure of such cost? Please explain.

RESPONSE:

The Company has provided no information that the test year forced outage replacement power cost is unreasonable or abnormally low. Unless there is a demonstration that somehow the actual test year expense is unreasonable, abnormally low, or otherwise needs to be normalized, the test year amount is considered reasonable and is used in the computation of the revenue requirement. The Company's approach, which included the abnormal and nonrecurring costs of the 2004 Spurlock 1 extended outage in the average, does not demonstrate that the test year forced outage replacement power cost was unreasonable or abnormally low. The Company's approach merely demonstrates that it is mathematically possible to compute a forced outage replacement power expense using a historic average that is greater than the amount incurred in the test year. The results of such an exercise have no inherent meaning or value and should not be relied on in an exercise of circular reasoning to justify an adjustment for ratemaking purposes.

REQUEST NO. 29. Please provide all testimony, exhibits and analyses presented by Mr. Kollen regarding any type of forced outage cost adjustment.

RESPONSE:

Mr. Kollen does not recall any utility base rate case filing in which this was an issue other than in the Company's filing and therefore, does not recall having addressed this issue previously.

REQUEST NO. 30. Reference page 35, lines 1-5 of Mr. Kollen's testimony. Since salaries and payroll taxes for those employees participating in the early out program were excluded from the annualization at March 31, 2007, would Mr. Kollen agree that the benefits portion is the only adjustment necessary? Please explain.

RESPONSE:

Mr. Kollen relied on the Company's response to KIUC 2-48 for the annualization of payroll at March 31, 2007. The Company did not provide any workpaper support for its annualization. Consequently, Mr. Kollen is unable to confirm the validity of the premise of the question. However, if the premise is correct, then there should not be a separate adjustment for the early out program and the benefits portion is the only adjustment that is necessary.

REQUEST NO. 31. Reference page 36, lines 3-11 of Mr. Kollen's testimony. Provide all workpapers and supporting documentation for the $0.045 million adjustment to medical benefits expense.

RESPONSE:

Please refer to the workpapers on the enclosed CD.

INFORMATION REQUESTS FOR KEVIN HIGGINS

REQUEST NO. 32. Please provide all workpapers, including sources of information for each cost component, for Exhibits KCH -1, KCH-2 & KCH-3. Please also provide the requested information in electronic format.

RESPONSE:

See Attachment to KIUC Response to EKPC DR 32.

REQUEST NO. 33. Does Mr. Higgins agree that, to the extent possible, costs should be directly assigned rather than allocated?

RESPONSE:

Yes.

REQUEST NO. 34. Is it Mr. Higgins position that, other than the allocation of production demand, that EKPC's direct assignment and cost allocations used in the cost-of-service study are acceptable? Are such direct assignments and allocation methodologies reasonable for future proceedings? If not, please indicate which items are not acceptable and state why.

RESPONSE:

Other than the allocation of production demand, Mr. Higgins has no objections to the direct assignments and cost allocations EKPC uses in the cost-of-service study in this proceeding. Mr. Higgins is not aware of a reason at this time to oppose the use of these direct assignments and cost allocations in a future proceeding, but would review any subsequent filing on its merit, if requested by a party to the case.

REQUEST NO. 35. **On page 13, lines 22 and 23, Mr. Higgins states, "Consequently, it is appropriate to view the class cost-of-service analysis solely for information purposes at this time." Then on page 20, lines 7 through 9 of his testimony, he states that, based on his recalculated cost-of-service, Gallatin is overpaying for its electric service and that Gallatin's interruptible credit should be increased by $950,000. Moreover, EKPC's revenue requirement should be increased by $950,000.**

a) What is Mr. Higgins' recommendation with regard to EKPC's revenue requirement in this proceeding?

b) If the $950,000 is applicable to increasing EKPC's revenue requirement, does it apply to any revenue requirement level ordered by the Commission?

c) Should EKPC's Schedule D, Interruptible Service, be changed as a result of Mr. Higgins' recommendation? Why or why not?

RESPONSE:

a. Mr. Higgins' recommendation with respect to EKPC's revenue requirement is limited to the incremental $950,000 referenced in the question. He does not make a recommendation with respect to EKPC's overall revenue requirement in this proceeding.

b. Yes.

c. Mr. Higgins is not proposing to change Schedule D. The $950,000 credit was calculated based on Gallatin's cost of service.

REQUEST NO. 36. **Compared to EKPC's filing, does the change in the allocation of production demand cost for Gallatin cited by Mr. Higgins also result in a change in the allocation of such demand costs to other classes?**

RESPONSE:

Yes. Please see Exhibit KCH-4, lines 17 and 35.

REQUEST NO. 37. **If the response to Item 5 herein is yes, why is the KIUC's proposal limited only to the effect on Gallatin Steel?**

RESPONSE:

Respondent assumes that Item 5 refers to Question 36. KIUC's proposed methodology for revenue apportionment is not limited to Gallatin Steel. Please see direct testimony of Kevin C. Higgins, page 8, lines 18-20. The incremental revenue associated with an increase in the $950,000 credit should be apportioned using the same methodology described therein.

REQUEST NO. 38. Assume the Commission accepts the $950,000 increase in the interruptible credit; please provide a revision to the Gallatin special contract to reflect the change in the credit.

RESPONSE:

Page 4, Paragraph 4a: Change "$3.60" to "$4.11".

Page 4, Paragraph 4b: Change "$2.70" to "$3.09".

REQUEST NO. 39. Is it Mr. Higgins' contention that EKPC's request for a 1.35 TIER is the primary factor in his recommendation for revenue apportionment and rate design? Would the revenue apportionment and rate design change if EKPC were seeking a 1.15 TIER? Would it change if EKPC were seeking a 1.05 TIER?

RESPONSE:

No. Mr. Higgins' recommendation for revenue apportionment and rate design is strongly influenced by his view that EKPC's requested base revenue increase is primarily a request for increased fixed cost recovery. EKPC's arguments for a 1.35 TIER support this view. However, if EKPC requested a lower TIER, but its requested base revenue increase was still driven primarily by increased fixed cost recovery, Mr. Higgins' recommended approach to revenue apportionment and rate design would not change. See also Mr. Higgins' direct testimony, page 8, lines 7-15.

REQUEST NO. 40. **On Page 4, Lines 2 and 3 of his testimony, Mr. Higgins states, "A customer specific apportionment would better capture the specific cost characteristics of each individual contract".**

a) Is it Mr. Higgins' position that each of EKPC's special contracts warrants this treatment?

b) Are the load characteristics of EKPC's B/C industrial customers (over 500 KW) sufficiently different to warrant this treatment? Please explain why or why not, with cost support.

RESPONSE:

a. With respect to his primary recommendation, no. Mr. Higgins' primary recommendation is that a customer-specific treatment should be applied only to Gallatin and the remaining special contracts be treated in the aggregate. He indicates that as an alternative, a customer-specific treatment could also be applied to each individual special contract. See Higgins Direct Testimony, page 9, lines 5-11 and page 12, lines 6-17.

b. Mr. Higgins does not have any information on EKPC's B/C industrial customers at the individual customer level, but presumes these customers to be significantly different from Gallatin. He does not propose a customer-specific apportionment for these customers.

REQUEST NO. 41. **If EKPC typically uses combustion turbines to meet peak load and offers interruption under a 10-minute notice period, what should be the basis of the avoided capacity cost for recognizing the ability of the customer to interrupt?**

RESPONSE:

Mr. Higgins' testimony does not address EKPC's interruption practices and the theoretical basis for EKPC's interruptible credits. As a general proposition, given the conditions posited in the question, the interruptible

credit to the customer should reflect the avoided capacity value to EKPC plus the avoided energy cost realized by backing off the combustion turbine generation.

REQUEST NO. 42. Please provide all workpapers in support of and in development of Exhibit KCH-4. Please provide the information in electronic format.

RESPONSE:

See Attachment to KIUC Response to EKPC DR 42.

REQUEST NO. 43. Reference EKPC's response to the KIUC's Second Data Request, Item 1.9. The language on Page 50 of the NARUC Manual states, "If your objective is – as it should be using this method (referencing the average & excess method) – to reflect the impact of average demand on production plant costs..." Does Mr. Higgins disagree with this statement from the NARUC Manual? Please explain.

RESPONSE:

Mr. Higgins does not disagree with this statement.

REQUEST NO. 44. If Gallatin was 100% interruptible and continued to have the same monthly load factor of 70 to 80%, under Mr. Higgins interpretation of the average & excess allocation method, would Gallatin be assigned any demand costs? If the assignment of demand cost to Gallatin is zero, how does that comport with the statement on Page 50 of the NARUC manual that the purpose of the average & excess method is to reflect average demand on production costs? Please explain your response.

RESPONSE:

If Gallatin was 100% interruptible and continued to have the same monthly load factor, under Mr. Higgins calculation of the average and excess allocation method, Gallatin would be assigned demand costs. Please see response to Question 45.

REQUEST NO. 45. Reference Mr. Higgins' testimony at Pages 19 and 20. Please provide the analysis which supports the following claim on Page 20, Lines 2-4: "Similarly, if EKPC had made this adjustment to its calculation of a 100-percent interruptible customer, the resulting allocation would not be negative, as EKPC claims in its data response."

RESPONSE:

Please see Attachment to KIUC Response to EKPC DR 45.

REQUEST NO. 46. Reference Exhibit KCH-4, please provide the allocation factors used to derive the production demand dollars shown on Line 1. Please make a comparison of the allocation factors used in Line 19 to the allocation factors used for Line 1, for columns (c) through (k). Please show the KW demand level for each column.

RESPONSE:

The allocation factor, AED-PROD-GS, used in Line 1 of Exhibit 4 is shown below.

Allocation Factor	Total	E	B	C	Inland Electric	Inland Steam	Gallatin	TGP	AGC
AED-PROD-GS	1.0000	0.8866	0.0459	0.0250	0.0113	0.0000	0.0083	0.0140	0.0089

The demand level for each rate schedule used to derive these factors is shown in the following table.

Class	NCP Demand @ Plant kW(1)
E	2,225,286
B	113,120
C	61,730
Inland Electric	27,726
Inland Steam	
Gallatin	15,000
TGP	35,092
AGC	22,019
Total	2,499,973

The allocation factor, AED-PROD-EKPC, used in Line 19 of Exhibit 4 is shown below.

Allocation Factor	Total	E	B	C	Inland Electric	Inland Steam	Gallatin	TGP	AGC
AED-PROD-EKPC	1.0000	0.8493	0.0434	0.0237	0.0107	0.0000	0.0511	0.0134	0.0084

The demand level for each rate schedule used to derive these factors is shown in the following table.

Class	NCP Demand @ Plant kW(1)
E	2,225,286
B	113,120
C	61,730
Inland Electric	27,726
Inland Steam	
Gallatin	171,246
TGP	35,092
AGC	22,019
Total	2,656,219

The workpapers supporting the development of these allocations factors are in Attachment to KIUC Response to EKPC DR 46.

REQUEST NO. 47. **Reference EKPC's response to KIUC's Third Data Request Item 1.9(f). From Page 67 of the NARUC Manual: "The possibilities for varying the methods are numerous and should suit the analysts' assessment of allocation objectives. Keep in mind that no method is prescribed by regulators to be followed exactly".**

a) Does Mr. Higgins agree that this passage of the NARUC Manual allows for two analysts to interpret an issue in two different ways, yet allows both to be considered plausible approaches?

b) Please provide a copy of any Order from the Kentucky Public Commission wherein the Commission directly addressed the issue of how to handle interruptible loads for production demand cost allocation under the average and excess method.

RESPONSE:

a. Mr. Higgins agrees that two analysts may interpret an issue in two different ways, and each may offer plausible approaches, and that such a scenario is consistent with the quoted passage. At the same time, the passage does not indicate that differing interpretations are necessarily equally plausible.

b. Mr. Higgins is not aware of any such orders.

REQUEST NO. 48. **Reference Mr. Higgins' testimony on Page 15 wherein he describes the NARUC manual and its passage on Page 49 regarding interruptible load and the average and excess demand allocation method. Mr. Higgins cites the following statement from the NARUC manual "The difference may (emphasis added) be negative for curtailable rate classes".**

a) Would Mr. Higgins agree that the term "may" allows for instances when the difference could be negative or could be positive?

b) Would Mr. Higgins agree that the NARUC Manual does not require use of his proposed methodology for handling interruptible loads under the average & excess methodology?

c) If the NARUC manual does dictate use of his proposed methodology, please provide the specific passage and any specific examples shown in the manual.

RESPONSE:

a. Mr. Higgins agrees that the term "may" allows for instances when the difference could be negative or could be positive, but the negative or positive outcomes are determined by the curtailable customer's load characteristics; that is, the term "may" is not intended to suggest that positive or negative outcomes is a matter of "choice" for the analyst. The difference will be positive if the interruptible customer's firm demand is greater than its average demand, and negative if the interruptible customer's firm demand is less than its average demand.

b. Mr. Higgins does not view the treatment of interruptible load under the average and excess demand method as described in his testimony to be "his" methodology, but the proper application of the average and excess demand method as this method is described in the NARUC Manual.

c. With respect to the NARUC Manual's treatment of interruptible load using the average and excess demand method, please see Mr. Higgins' direct testimony, page 14, line 14 to page 17, line 21. Mr. Higgins is not aware of the NARUC Manual providing an example using interruptible load.