Steven L. Beshear Governor

Leonard K. Peters Secretary Energy and Environment Cabinet



Commonwealth of Kentucky **Public Service Commission**211 Sower Blvd.

P.O. Box 615 Frankfort, Kentucky 40602-0615 Telephone: (502) 564-3940 Fax: (502) 564-3460 psc.ky.gov

August 8, 2008

David L. Armstrong Chairman

> James Gardner Vice-Chairman

John W. Clay Commissioner

Mr. Howard Downing 109 South First Street Nicholasville, Kentucky 40356

> RE: Case No. 2008-00011 August 7, 2008 Informal Conference

Dear Sirs:

Enclosed please find a memorandum that has been filed in the record of the above-referenced case. Comments regarding the contents of the memorandum should be submitted to the Commission within seven days of receipt of this letter. Questions regarding this memorandum should be directed to Jeff Shaw of the Commission Staff at 502-564-3940, extension 237.

Sincerely

Śtephanie Stumbo

Executive Director

Attachment

CC: Parties of Record



INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Main Case File - Case No. 2008-00011

DATE: August 8, 2008

RE: Informal Conference of August 7, 2008

On August 7, 2008, an informal conference was held in this case for the purpose of discussing issues related to the Settlement Stipulation and Recommendation ("Settlement") between Blue Grass Energy Cooperative Corporation ("Blue Grass") and the intervening parties, the Office of the Attorney General ("AG") and Troy and Leigh Roach, which was filed with the Commission on July 31, 2008. A copy of the attendance list for the conference is attached hereto. Commission Staff ("Staff") telephoned the Roach residence and spoke with Ms. Roach at the beginning of the informal conference. She indicated that she had a conflict and would be unable to participate. She further stated in response to Staff's inquiry that she had no objection to the conference being held in her absence. Staff informed Ms. Roach that she would receive a copy of its memorandum summarizing the conference.

Blue Grass's proposed revenue increase, pursuant to its April 11, 2008 application, is roughly \$7.838 million while the increase agreed upon by the parties and contained in the Settlement is nearly \$7.406 million. Staff asked questions concerning three issues pertaining to the Settlement. On two of the issues; (1) whether the rates contained in the Settlement for Blue Grass's GS-3, Time of Day Rate, were correct and (2) the absence from the Settlement of any indication of whether it was based on the increased depreciation rates proposed by Blue Grass in its application, Blue Grass and the AG agreed that the Settlement would be amended and refiled with the Commission to address those issues.

The third issue was the level of interest on long-term debt upon which the Settlement was based. Staff was concerned that the most current level of interest expense included in the record, which was the updated interest expense filed by Blue Grass in response to Staff's second data request, did not support the revenue increase contained in the Settlement. The discussion that followed indicated there were several items, other than the updated information in the aforementioned data response, that were relevant to the issue of the level of interest expense on which the Settlement was based and which were pertinent to the Commission's consideration of the Settlement. Blue Grass provided handouts that provided additional information on its interest on long-term debt, which are included as attachments to this memorandum. The parties

and Staff agreed that the items impacting the interest expense issue should be addressed and made part of the case record at the upcoming August 12, 2008 hearing.

The conference ended with the understanding that the upcoming hearing in this matter would focus on the reasonableness of the Settlement. Staff also indicated that a memorandum summarizing the conference would be prepared and filed in the record of this case.

Attachments

Blue Grass Energy Case No. 2008-00011 August 7, 2008 Informal Conference

Name	Representing				
Jeff Shaw	PSC-FIN. ANALYSIS				
ANITA Mitchell	PSC				
JEFF JOHNSON	P3C				
Lary Cook	OAG				
Howard DOWN'NG	Blue Grass ENGRE				
Dowald Smithers	1, 0, 1,				
Mike Williams	, , , , , , , ,				
CHRIS BREWER	(1 // //				
Dan Brewer	11 80				
Jim lidbens	ic 11				
Dary Mewly	P3C - F/A				
John Rogness	PSC - FA				
	PSC - FA				
Chris Whelan Ron Handzeik	PSC-FA				
O					

1 2 3 4	Blue Grass Energy Case No. 2008-00011 Schedule of Outstanding Long-Term Debt December 31, 2007						Exhibit 5 page 2 of 4 Format 8a Schedule 2
5	TC.	D 4	D-4-		Cost	A	TD 4.3.7
6	Type	Date	Date	Outstanding	Rate	Annualized	Test Year
7	of	of	of	Outstanding	to	Cost	Interest
8	Debt Issued	<u>Issue</u>	<u>Maturity</u>	Amount	Maturity	$\frac{\text{Col } (d)x(g)}{(d)}$	<u>Cost</u>
9	(a)	(b)	(c)	(d)	(g)	(j)	
10	DUCLES						
11	RUS loans	Dec 72	Dec 07	2 212	2.0000/	16	155
12	B2190	Dec-72	Dec-07	2,313	2.000%	46 52.005	155
	B280	Aug-95	Jul-30	939,047	5.750%	53,995	54,569
13	B281	Aug-95	Jul-30	315,176	6.000% 5.500%	18,911	19,104
14	B285	Aug-95	Jul-30	849,274		46,710	47,219
15	B286	Aug-95	Jul-30 Dec-29	390,438	5.125%	20,010	20,240
16	B520	Jan-95		1,247,482	5.750%	71,730	72,530
17	B530	Jun-98	May-33	4,446,458	5.000%	222,323	224,463
18	B531	Jun-98	May-33	4,012,925	3.370%	135,236	147,313
19	B870	Sep-04	Aug-39	7,819,553	3.500%	273,684	285,904
20	B872	Sep-04	Aug-39	10,789,187	4.250%	458,540	461,931
21	B873	Sep-04	Aug-39	4,908,834	4.500%	220,898	222,451
22	B874	Sep-04	Aug-39	5,208,357	4.120%	214,584	188,722
23				40.000.044	-	1.726.667	1 7 4 4 6 0 1
24 25				40,929,044	-	1,736,667	1,744,601
26	FFB loans						
27	H0010	Feb-99	Jan-34	5,521,562	5.077%	280,330	284,064
28	H0050	Feb-99	Jan-34	11,672,054	4.635%	541,000	569,740
29	H0055	Jun-00	May-35	2,709,821	4.906%	132,944	134,494
30	H0070	Jun-00	May-35	11,880,307	4.635%	550,652	579,093
31	H0075	Apr-05	Mar-40	3,053,186	4.904%	149,728	151,852
32				34,836,930	_	1,654,654	1,719,243
33 34	CFC loans						
35	9001	Mar-74	Feb-09	14,935	7.00%	1,045	1,654
36	9004	Mar-75	Feb-10	24,533	5.65%	1,386	1,667
37	9005	Sep-76	Aug-11	84,973	6.95%	5,906	6,572
38	9006	Jun-78	May-13	270,485	7.00%	18,934	20,300
39	9007	Sep-80	Aug-15	390,838	5.65%	22,082	23,188
40	9008	Dec-82	Nov-17	275,340	7.00%	19,274	19,919
41	9009	Sep-84	Aug-19	585,774	7.00%	41,004	36,742
42	9010	Mar-89	Feb-24	1,249,286	7.10%	88,699	78,692
43	9010	Jun-95	May-30	1,099,030	7.10%	78,031	68,671
43	9013	Dec-73	Nov-08	5,459	7.10%	382	560
45	9014	Dec-73	Nov-09	27,142	7.00%	1,900	2,328
46	9015	Mar-76	Feb-11	73,782	6.95%	5,128	5,808
47	9016	Jun-78	May-13	200,391	6.10%	12,224	13,098
• •		0	<i>J</i>	,	,0	, '	,050

1							Exhibit 5	
2	Case No. 2008-00011							
3	Schedule of Outstanding Long-Term Debt							
4	December 31, 2007							
5	77 0	D-4-	Data		Cost	A 1: I	TD4 3.7	
6	Type	Date of	Date of	Outstandina	Rate	Annualized	Test Year	
7	of			Outstanding <u>Amount</u>	to <u>Maturity</u>	Cost	Interest	
8 9	Debt Issued (a)	<u>Issue</u> (b)	Maturity (c)	(d)	(g)	$\frac{\text{Col } (d)x(g)}{(j)}$	Cost	
10	(a)	(0)	(0)	(u)	(8)	()		
48	9017	Mar-80	Feb-15	220,124	7.00%	15,409	16,199	
49	2018	Dec-84	Nov-19	193,603	7.00%	13,552	13,902	
50	9019	Dec-86	Nov-21	188,825	7.10%	13,407	13,678	
51	9020	Mar-91	Feb-26	469,120	7.10%	33,308	33,741	
52	9021	Dec-94	Nov-29	529,864	5.65%	29,937	30,273	
53	9024	Jun-72	May-07	6,239	7.00%	437	822	
54	9026	Dec-73	Nov-08	10,864	7.00%	760	1,115	
55	9027	Mar-75	Feb-10	19,305	5.65%	1,091	1,312	
56	9028	Dec-75	Nov-10	75,920	5.65%	4,289	4,928	
57	9029	Jun-77	May-12	114,320	5.65%	6,459	7,073	
58	9030	Jun-79	May-14	168,330	5.65%	9,511	10,100	
59	9031 9032	Mar-81 Jun-83	Feb-16 May-18	219,188 149,529	5.65% 5.65%	12,384 8,448	12,958	
60 61	9032	Jun-85 Jun-85	May-18	211,875	5.65%	11,971	8,736 12,292	
62	9033	Dec-87	Nov-22	233,725	5.65%	13,205	13,478	
63	9035	Sep-89	Aug-24	413,947	5.65%	23,388	23,797	
64	9036	Dec-93	Nov-28	741,513	5.65%	41,895	42,404	
65	903705	Aug-03	May-08	552,265	3.65%	20,158	30,055	
66	903706	Aug-03	May-09	1,094,587	4.10%	44,878	44,878	
67	903707	Aug-03	May-10	1,094,587	4.35%	47,615	47,615	
68	903708	Aug-03	May-11	1,094,587	4.65%	50,898	50,898	
69	903709	Aug-03	May-12	1,094,587	4.85%	53,087	53,087	
70	903710	Aug-03	May-13	1,094,587	5.05%	55,277	55,277	
71	903711	Aug-03	May-14	1,094,587	5.25%	57,466	57,466	
72	903712	Aug-03	May-15	1,094,587	5.30%	58,013	58,013	
73	903713	Aug-03	May-16	1,094,587	5.40%	59,108	59,108	
74	903714 903715	Aug-03 Aug-03	May-17 May-18	1,094,587 1,094,587	5.35% 5.45%	58,560 59,655	58,560 59,655	
75 76	903713	Aug-03	May-18	322,926	3.65%	11,787	17,574	
77	9037020	Aug-03	May-09	640,039	4.10%	26,242	26,242	
78	9037022	Aug-03	May-10	640,039	4.35%	27,842	27,842	
79	9037023	Aug-03	May-11	640,039	4.65%	29,762	29,762	
80	9037024	Aug-03	May-12	640,039	4.85%	31,042	31,042	
81	9037025	Aug-03	May-13	640,039	5.05%	32,322	32,322	
82	9037026	Aug-03	May-19	273,647	5.80%	15,872	15,872	
83	9037027	Aug-03	May-19	273,647	5.88%	16,090	16,090	
84	9037028	Aug-03	May-19	273,647	5.91%	16,173	16,173	

l	Blue Grass Energy							
2	Case No. 2008-00011							
3	Schedule of Outstanding Long-Term Debt							
4			Decembe	er 31, 2007			Schedule 2	
5					Cost			
6	Type	Date	Date		Rate	Annualized	Test Year	
7	of	of	of	Outstanding	to	Cost	Interest	
8	Debt Issued	<u>Issue</u>	<u>Maturity</u>	<u>Amount</u>	<u>Maturity</u>	Col(d)x(g)	<u>Cost</u>	
9	(a)	(b)	(c)	(d)	(g)	(j)		
10								
85	9037029	Aug-03	May-19	273,647	5.94%	16,255	16,255	
86 87				24,384,103	_	1,323,547	1,329,793	
88	Total long te	rm debt and	4,714,868	4,793,637				
89			·		•			
90	Annualized cost rate [Total Col. (j) / Total Col. (d)] 4.71%							
91	Actual test year cost rate [Total Col (k) / Total Reported in Col (d)]							

1 2 3 4	Case No. 2008-00011 Schedule of Outstanding Long-Term Debt December 31, 2007						
5 6 7 8 9	Type of <u>Debt Issued</u> (a)	Date of <u>Issue</u> (b)	Date of <u>Maturity</u> (c)	Outstanding Amount (d)	Cost Rate to Maturity (g)	Annualized Cost Col (d)x(g) (j)	Test Year Interest <u>Cost</u>
10 11 12	RUS loans B2190	Dec-72	Dec-07	2,313	2.000%	46	155
13 14	B280 B281 B285	Aug-95 Aug-95 Aug-95	Jul-30 Jul-30 Jul-30	939,047 315,176 849,274	5.750% 6.000% 5.500%	53,995 18,911 46,710	54,569 19,104 47,219
15 16	B286 B520	Aug-95 Jan-95	Jul-30 Dec-29	390,438 1,247,482	5.125% 5.750%	20,010 71,730	20,240 72,530
17 18 19	B530 B531 B870	Jun-98 Jun-98 Sep-04	May-33 May-33 Aug-39	4,446,458 4,012,925 7,819,553	5.000% 3.370% 3.500%	222,323 135,236 273,684	224,463 147,313 285,904
20 21 22	B872 B873 B874	Sep-04 Sep-04 Sep-04	Aug-39 Aug-39 Aug-39	10,789,187 4,908,834 5,208,357	4.250% 4.500% 4.120%	458,540 220,898 214,584	461,931 222,451 188,722
23 24 25	B890	Apr-08	Apr-43	12,000,000 52,929,044	3.630%	435,600 2,172,267	1,744,601
26 27	FFB loans H0010	Feb-99	Jan-34	5,521,562	5.077%	280,330	284,064
28 29	H0050 H0055	Feb-99 Jun-00	Jan-34 May-35	11,672,054 2,709,821	1.875% 4.906%	218,851 132,944	569,740 134,494
30 31 32	H0070 H0075	Jun-00 Apr-05	May-35 Mar-40	11,880,307 3,053,186 34,836,930	1.875% 4.904% _	222,756 149,728 1,004,609	579,093 151,852 1,719,243
33	CFC loans				-		1,717,243
35 36 37	9001 9004 9005	Mar-74 Mar-75 Sep-76	Feb-09 Feb-10 Aug-11	14,935 24,533 84,973	7.00% 5.65% 6.95%	1,045 1,386 5,906	1,654 1,667 6,572
38 39	9006 9007	Jun-78 Sep-80	May-13 Aug-15	270,485 390,838	7.00% 5.65%	18,934 22,082	20,300 23,188
40 41	9008 9009 9010	Dec-82 Sep-84 Mar-89	Nov-17 Aug-19 Feb-24	275,340 585,774 1,249,286	7.00% 7.00% 7.10%	19,274 41,004	19,919 36,742
42 43 44	9010 9011 9013	Jun-95 Dec-73	May-30 Nov-08	1,099,030 5,459	7.10% 7.10% 7.00%	88,699 78,031 382	78,692 68,671 560
45 46 47	9014 9015 9016	Dec-74 Mar-76 Jun-78	Nov-09 Feb-11 May-13	27,142 73,782 200,391	7.00% 6.95% 6.10%	1,900 5,128 12,224	2,328 5,808 13,098
			•	*		•	,

1 2 3 4	Case No. 2008-00011 Schedule of Outstanding Long-Term Debt						
5	property.	.	5 .		Cost		
6	Type	Date	Date	O-4-4 1:	Rate	Annualized	Test Year
7	of	of	of Maturity	Outstanding	to Moturity	Cost	Interest
8	Debt Issued (a)	<u>Issue</u> (b)	Maturity (c)	Amount (d)	Maturity (g)	$\frac{\text{Col }(d)x(g)}{(i)}$	<u>Cost</u>
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57	9029	Jun-77	May-12	114,320	5.65%	6,459	7,073
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65	903703	•	May-09	1,094,587	4.10%	44,878	30,033 44,878
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68	903707	Aug-03	May-11	1,094,587	4.65%	50,898	50,898
69	903709	Aug-03	May-12	1,094,587	4.85%	53,087	53,087
70	903710	Aug-03	May-13	1,094,587	5.05%	55,277	55,277
71	903711	Aug-03	May-14	1,094,587	5.25%	57,466	57,466
72	903712	Aug-03	May-15	1,094,587	5.30%	58,013	58,013
73	903713	Aug-03	May-16	1,094,587	5.40%	59,108	59,108
74	903714	Aug-03	May-17	1,094,587	5.35%	58,560	58,560
75	903715	Aug-03	May-18	1,094,587	5.45%	59,655	59,655
76	9037020	Aug-03	May-08	322,926	3.65%	11,787	17,574
77	9037021	Aug-03	May-09	640,039	4.10%	26,242	26,242
78	9037022	Aug-03	May-10	640,039	4.35%	27,842	27,842
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88	Total long term debt and annualized co 112,150,077 4,						4,793,637	
89			·		•			
90	Annualized cost rate [Total Col. (j) / Total Col. (d)] 4.01%							
91	Actual test year cost rate [Total Col (k) / Total Reported in Col (d)]							