

Steven L. Beshear
Governor

Leonard K. Peters
Secretary
Energy and Environment Cabinet

Daniel W. Brewer
President And Ceo
Blue Grass Energy Cooperative Corp.
P. O. Box 990
1201 Lexington Road
Nicholasville, KY 40340-0990



Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
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David L. Armstrong
Chairman

James Gardner
Vice-Chairman

John W. Clay
Commissioner

June 18, 2008

RE: Case No. 2008-00011

Please see enclosed data request from Commission Staff in the above case.

If you need further assistance, please contact my staff at (502) 564-3940.

Sincerely,

A handwritten signature in cursive script that reads "Stephanie Stumbo".

Stephanie Stumbo
Executive Director

SS/tw
Enclosure

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June 18, 2008

Lawrence W. Cook
Assistant Attorney General
Office of the Attorney General Utility & Rate Intervention Division
1024 Capital Center Drive
Suite 200
Frankfort, KY 40601-8204

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Honorable Howard Downing
Attorney at Law
109 South First Street
Nicholasville, KY 40356

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Leigh and Troy Roach
115 Prestwick Drive
Georgetown, KY 40324

June 18, 2008

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF BLUE GRASS) CASE NO.
ENERGY COOPERATIVE CORPORATION) 2008-00011

THIRD DATA REQUEST OF COMMISSION STAFF TO
BLUE GRASS ENERGY COOPERATIVE CORPORATION

Blue Grass Energy Cooperative Corporation ("Blue Grass"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 7 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before June 30, 2008. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Blue Grass shall make timely amendment to any prior responses if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any requests to which

Blue Grass fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to the response to Item 2 of the Commission Staff's second data request ("Staff Request No. 2"), which states that no customers were served under Schedule B-1 for the test year. However, the response to Item 7(c) states that customers were billed under Schedule B-1. Explain the discrepancy.

2. Refer to the response to Item 4 of Staff Request No. 2.

a. Explain whether Blue Grass is currently eligible to receive additional advances on loan "E44" and whether it anticipates receiving any such advances prior to the end of calendar year 2008.

b. The total amount approved for loan "E44" by the Rural Utilities Service ("RUS") was \$42,824,000. Explain whether loan "E44" was approved by RUS in conjunction with a construction work plan or whether it was approved for some other purpose.

c. Provide the date in April 2008 on which Blue Grass received the \$12 million advance on the "E44" loan and its long-term and short-term debt balances immediately upon its receipt of the \$12 million.

3. Refer to the response to Item 5 of Staff Request No. 2. Provide all assumptions - sales volumes, revenue and expense levels, outstanding long-term debt, etc. - used by Blue Grass to develop the projections shown in the response.

4. Refer to the response to Item 6(b) of Staff Request No. 2.

a. The suspension period in this case runs to mid-October of 2008. Provide a narrative explanation and all related workpapers, calculations, etc. which show how Blue Grass determined that it will not be in technical default of its mortgages with the RUS after calendar year 2008 if it receives a rate increase with a Times Interest Earned Ratio ("TIER") of 2.00X less than 3 months prior to the end of the year.

b. Provide the calculations showing Blue Grass's year-to-date TIER for calendar year 2008, through the month of May 2008, and provide an update of its TIER through June 2008 no later than July 31, 2008.

5. Refer to the response to Item 10 of Staff Request No. 2, which states that "[t]his rate schedule does not contain an excess demand component as applied during the test year. Blue Grass is proposing that the new schedule applicable to this current schedule contain an excess demand component." Has Blue Grass projected whether any of the demand would be classified as demand in excess of contract demand?

a. If yes, state how this amount was determined and why the projected revenue is not shown on Exhibit J, page 23, of the application.

b. If no, explain why Blue Grass believes it necessary to add a separate component for demand in excess of contract demand.

6. Refer to the response to Item 16 of Staff Request No. 2, which states that “[n]o changes in rate design are being sought for Schedule B-1....” Explain how it was determined that the customer charge should be increased to \$1,000.

7. Refer to the responses to Items 15, 17, and 18 of Staff Request No. 2, which refer to the allocation of wholesale substation costs to Schedules B-2, LP-1, and LP-2, respectively. Provide the basis for the allocation of the wholesale substation costs to these rate schedules.

8. Refer to the response to Item 18(b) of Staff Request No. 2.

a. Explain why it was determined that the revenue requirements for Schedules LP-1 and LP-2 should be increased by 1.7 percent.

b. Blue Grass was asked to explain the basis of the allocation between energy costs, consumer costs, and demand costs in the 3rd, 4th, and 5th sections on Exhibit R, page 11; however, no response was provided. Provide a response to the original request.

9. Refer to the response to Item 25 of Staff Request No. 2, pages 4 and 7, and Exhibit R of the application, Schedule 5. Explain why the first row of percentages on pages 4 and 7 was used to allocate demand for the Transformers Section on Schedule 5 and the second row of percentages on pages 4 and 7 was used to allocate demand for the Lines Section on Schedule 5.

10. Refer to the response to Item 30 of Staff Request No. 2 and Exhibit S, pages 1 and 3 of 4, of the application.

a. With the change in amount of the adjustment to the Accumulated Depreciation reserve, will an offsetting adjustment to the Patronage Capital account be required? If no, explain why.

b. Based on the explanation for the adjustment to the Accumulated Depreciation reserve, explain why the adjustment is a decrease to the amount of the reserve. If it is based on the normalized increase in depreciation expense, explain why the resulting adjustment does not increase the reserve balance. Provide a revised page 1 of 4 showing all required changes.

11. Refer to the responses to Item 31 of Staff Request No. 2 and Item 36 of Staff Request No. 1.

a. Provide the dollar amount, out of the \$12 million advance on loan E44, which was used to reduce the balance of Blue Grass's short-term debt

b. Blue Grass's balance of short-term debt was \$13.2 million as of the end of the test year. What was its short-term debt balance immediately after the reduction effected by use of the proceeds from loan E44?

c. Based on the changes in its short-term debt balance due to the advance on loan E44, explain whether Blue Grass believes its proposed adjustment to reduce interest on short-term debt by one-half, based on a test-year level of interest of \$478,865, is appropriate for rate-making purposes.

12. Refer to the response to Item 33(e) of Staff Request No. 2. Provide a detailed description of the "Special Equipment labor credit" referenced in the response and, on a monthly basis, Blue Grass's meter expense (Account 586) for the first 5 months of calendar year 2008.

13. Refer to the response to Item 33(f) of Staff Request No. 2. Provide a breakdown of the \$285,000 increase in expense showing how much is attributable to the Pole Treatment program started in 2007. Describe the program, provide the amount charged to Account 593 through May of 2008, and explain whether the expense is expected to continue at the level experienced in 2007 and, if yes, for how long.

14. Refer to the response to Item 33(g) of Staff Request No. 2. Provide a detailed explanation for how 5 years was determined to be the appropriate cycle for the Right-of-Way trimming program.

15. Refer to the response to Item 33(h) of Staff Request No. 2. Explain whether the increase in locating underground meters due to the conversion to the 811 system has continued into 2008. Provide the amount charged to Account 594 through the month of May 2008.

16. Refer to the response to Item 33(j) of Staff Request No. 2. Provide the amount of the partners plus incentives Blue Grass received in 2006 and the cost it incurred in 2007 for the Washington Youth Tour.

17. Refer to the response to Item 33(m) of Staff Request No. 2. Provide the amount of expense incurred for the maintenance performed on the geothermal system. Explain whether such maintenance is performed regularly on an annual basis.

18. Refer to the responses to Items 34(g) and 34(h) of Staff Request No. 2, the page immediately preceding Section 8 of the depreciation study in Exhibit 3 of the application, and the next-to-last paragraph on the second page of the Scope section of the depreciation study.

a. Explain how it was determined that the average net salvage amount for the past 5 years was the appropriate amount to use in arriving at the net salvage percent component of the proposed depreciation rates, as opposed to the average net salvage amount for some other period of time.

b. For each year – 2005, 2006, and 2007 - in which Blue Grass was installing Automatic Meter Reading (“AMR”) devices, for the metering equipment that was retired, provide the original cost, the gross salvage amount, the cost of removal, and the net salvage amount.

c. Provide a detailed description of how the estimated useful life of 15 years was determined to be an acceptable life for the AMR devices.

d. For each of the cooperatives shown in the response to Item 33(h), identify whether or not it had implemented an AMR program prior to when Blue Grass began its program. For any cooperative that had not implemented such an AMR program, explain why Blue Grass chose to contact it.

19. Refer to the response to Item 33(k) of Staff Request No. 2. Since it had a depreciation study performed previously, provide a detailed narrative explanation for why Blue Grass has no existing average service lives or net salvage factors.

20. Refer to the response to Item 37(b) of Staff Request No. 2, which asked for an update of interest rates on long-term debt for “the long-term debt balances as of the end of the proposed test year.”

a. Explain why Blue Grass included the post-test-year advance of \$12 million on loan E44 in the update provided in the response.

b. Based on the updated interest rates, and excluding the \$12 million post-test-year advance, does Blue Grass agree that the annualized cost of long-term debt outstanding at test year-end is \$3,854,539? If no, explain.

21. Refer to the response to Item 40 of Staff Request No. 2.

a. Part (a) of the response discusses the nature of the work performed by Combs & Hoffman and by Howard Downing. For the test year and each of the calendar years 2004, 2005, 2006, provide the dollar amounts charged to Blue Grass by each of the two legal firms.

b. Part (d) of the response concludes with the statement "We do not consider this a normal item but we did have another issue in the Fox Creek District." Identify and describe the other issue in the Fox Creek District.

22. Refer to the response to Item 47(a) of Staff Request No. 2. Explain whether Blue Grass employed any sort of formulaic methodology, equity management plan, or other type of analyses to make the determination that a TIER of 2.00X should be the basis for the amount of the proposed rate increase.

23. Refer to the response to Item 47(c) of Staff Request No. 2 and Answer 6 on page 2 of 9 of Exhibit H-1 of the application.

a. Provide the TIER levels allowed for each of the rate increases mentioned in Answer 6.

b. State whether the RUS minimum TIER requirement at the time of each of the 3 rate increases was the current level of 1.25X or the prior minimum requirement level of 1.50X.

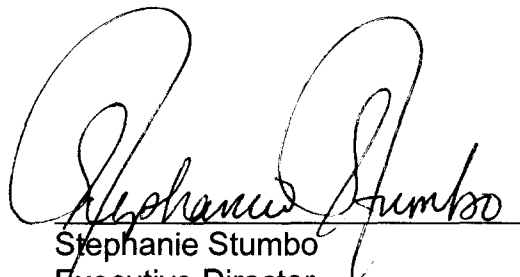
c. For the years 2002 through 2006, provide a revised response which shows the approximate net margins for TIER levels of 2.00X, 1.75X, and 1.50X.

24. Refer to Blue Grass's response to Items 6(b) and 6(c) of the Attorney General's Initial Request. These responses provided corrected amounts for certain line items in Exhibits G and S; however, revised schedules were not provided. Provide revised Exhibits G and S.

25. Refer to the application, Exhibit R, page 13, and Exhibit S, page 2. Explain why, on Exhibit R, total wholesale costs are shown as \$66,565,654, while Exhibit S shows the cost of power to be \$66,544,695.

26. For each of the following rate schedules, provide the number of participating customers as of December 31, 2007:

- a. GS-2 – Off-Peak Marketing
- b. R-2 – Residential Marketing Rate
- c. Rate 1 – ETS, Off-Peak Marketing Rate



Stephanie Stumbo
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED: June 18, 2008

cc: All Parties