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October 15, 2010

Hand-Delivery

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PUBLIC SERVICE COMMISSION

Mr. Jeffrey Derouen
Executive Director
Public Service Commission
P. O. Box 615
211 Sower Boulevard
Frankfort. KY 40602

Re: PSC Case No. 2010-00167

Dear Mr. Derouen:

Please find enclosed for filing with the Commission in the above-reference case, an original and ten copies of East Kentucky Power Cooperative, Inc.'s Rebuttal Testimony.

Very truly yours,

Mark David Goss
Counsel

Enclosures

cc: Parties of Record

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COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:	)	
	)	
GENERAL ADJUSTMENT OF THE ELECTRIC	)	**CASE NO: 2010-00167**
RATES OF EAST KENTUCKY POWER	)	
COOPERATIVE, INC.	)	

PREFILED REBUTTAL TESTIMONY OF
DENNIS R. EICHER
PRESIDENT
D. R. EICHER CONSULTING, INC.

ON BEHALF OF
EAST KENTUCKY POWER COOPERATIVE, INC.

October 15, 2010

PREFILED REBUTTAL TESTIMONY OF DENNIS R. EICHER PRESIDENT D. R. EICHER CONSULTING, INC.

ON BEHALF OF EAST KENTUCKY POWER COOPERATIVE, INC.

Q. Please state your name.

A. My name is Dennis R. Eicher.

Q. Are you the same Dennis Eicher who prepared and caused to be prefiled Direct Testimony in this case?

A. Yes.

Q. What is the purpose of your Rebuttal Testimony?

A. I would like to respond to the prefiled Direct Testimony of Mr. Stephen J. Baron, who is testifying on behalf of Gallatin Steel Company ("Gallatin"). Specifically, I would like to address a number of modifications he has proposed to the functionalization/classification of Pro Forma Test Year Revenue Requirements included in the Cost of Service ("COS") analysis I prepared and attached as Exhibit __(DRE-2) to my prefiled Direct Testimony.

Q. Have you prepared any exhibits in support of your prefiled Rebuttal Testimony?

A. Yes. I have prepared and attached the following exhibits:

- Exhibit __(DRE-3) -- Eicher Workpaper WP-7, Breakdown of Dispatch Costs - 2009.
- Exhibit __(DRE-4) -- Eicher Workpaper WP-8, Breakdown of Accts. 556, 557 and 908 - 2009.

- Exhibit __(DRE-5) -- Eicher Workpaper WP-5, Estimate of Metering O&M Expense - 2009.
- Exhibit __(DRE-6) -- Gallatin Steel Company's Response to Commission Staff's First Request for Information (Request No. 7).

Q. Please explain your understanding of how Mr. Baron went about functionalizing and classifying East Kentucky Power Cooperative's ("EKPC" or "Cooperative") Pro Forma Test Year revenue requirements.

A. On page 10 of his prefiled Direct Testimony, Mr. Baron describes his approach in the following series of Q&As:

> **"Q. EKPC witness Dennis Eicher developed functionalized test year costs in this case. Did you rely on his results to develop the functional cost of service inputs into your analysis?**
>
> A. Yes. For the most part, Mr. Eicher's cost functionlization followed the methodology used by Mr. Seelye in EKPC's 2008 rate case. However, in cases where there were methodological differences, I applied EKPC's 2008 (Mr. Seelye's) functional cost methodology to the EKPC 2011 test year data to develop the Gallatin class cost of service study that I am presenting in this case.
>
> **Q. Did you follow Mr. Seelye's methodology for cost classification and allocation?**
>
> A. Yes. Each of the functionalized costs is classified as either demand, energy or customer following the 2008 EKPC method. I relied on the same

> allocation factors, updated to the 2011 EKPC test year, to allocate costs to rate classes. EKPC provided the data to develop these updated allocation factors in response to discovery in this case."

In summary, it appears that Mr. Baron generally relied upon the COS approach I used (see Exhibit __(DRE-2)) to functionalize EKPC's Pro Forma Test Year revenue requirements; but where my methodology differed from the methodology used by Mr. Seelye on behalf of EKPC in EKPC's 2008 rate filing, he used Mr. Seelye's. He also utilized Mr. Seelye's methodology for classifying costs (i.e., as demand, energy or customer related) and allocating the classified costs to the various rate classes.

Q. In the testimony quoted above, Mr. Baron notes that, while he started with your functionalization methodology, where he found differences between your methodology and Mr. Seelye's, he went with Mr. Seelye. Mr. Baron also states that he followed the classification methodology Mr. Seelye utilized in EKPC's 2008 rate case. Did Mr. Seelye prefile testimony in this case relative to any COS methodology on behalf of EKPC or any other party?

A. No.

Q. Did the Commission approve or in any other way endorse the COS methodology prepared by Mr. Seelye and filed in EKPC's 2008 rate case?

A. No. It is my understanding that the 2008 rate case was resolved through settlement; and, thus, the Commission did not rule on any COS methodology filed in that case.

Q. Did Mr. Baron explain where his functionalization/classification methodology differed from yours?

A. No.

Q. Have you been able to determine what adjustments Mr. Baron made to your functionalization analysis and the differences between your COS analysis methodology and his in the areas of functionalization and classification of Pro Forma Test Year revenue requirements?

A. Yes. I have been able to identify a number of differences between my functionalization/classification analysis and Mr. Baron's, including the following:

1. <u>General Plant Investment (Accts. 389 to 399)</u> -- I functionalized/classified General Plant Investment using labor ratios, while Mr. Baron used production, transmission and distribution plant investment for this purpose.

   While there is no standard methodology for functionalizing General Plant that is universally accepted, I believe that an allocation based on labor better represents the cost driver behind General Plant investment (i.e., office and warehouse facilities, office furniture and equipment, communications equipment, vehicles) than does production, transmission and distribution plant investment.

2. <u>Steam Plant Operation and Maintenance ("O&M") Expense (Accts. 500 to 514)</u> -- I allocated some Steam Plant O&M expense to the Steam Service class, while Mr. Baron did not allocate any of this cost to Steam Service. It is unreasonable not to allocate any Steam Plant O&M expense to the Steam Service class since this class,

like any other class, is responsible for covering a portion of the O&M expense associated with the equipment used to provide steam service.

3. System Control & Load Dispatch Expense (Acct. 556) -- I relied on an analysis prepared by EKPC personnel to functionalize this expense. (See Exhibit __(DRE-3), which is a copy of my Workpaper WP-7, filed in conjunction with this case.) Mr. Baron simply assigned this expense to Production-Capacity, providing no analysis or support for his approach.

4. Other Production Expense (Acct. 557) -- I split this cost equally between the Production-Capacity and Production-Energy components. This account is comprised of a variety of miscellaneous expenses; most notably: 1) Direct Load Control ("DLC"), related to reducing peak demand; 2) Routine Power Supply Operation; and 3) ACES brokerage fees, related to buying and selling energy on the market. Exhibit __(DRE-4), a copy of my Workpaper WP-8, indicates that a substantial portion of the expenses recorded in this account are indeed energy related; and my classification approach reflects that fact. Mr. Baron simply assigned this expense to Production-Capacity; again, providing no analysis or support for his approach.

5. Transmission O&M Expense (Accts. 562-567 and 569-573) -- I functionalized each account separately based on the functionalization of the plant investment in the associated account. For example, O&M expense associated with Stations (Accts. 562 and 570) was functionalized based on plant investment in Stations

(Acct. 353), while O&M expense associated with Overhead and Underground Line (Accts. 563 and 571) was functionalized based on the functionalization of the corresponding Overhead and Underground Line investment (Accts. 354, 355 and 356). Mr. Baron simply functionalized all of the O&M expense in the subject accounts based on total transmission plant investment. In my opinion, Mr. Baron's approach is much less precise than my approach.

6. Distribution Load Dispatching (Acct. 581) -- I split this expense between Distribution Substation and Metering based on a detailed analysis of the expenses in this category. (See Exhibit __(DRE-5), which is a copy of Workpaper WP-5.) Mr. Baron simply assigned these expenses to the Distribution Substation component with no apparent analysis of the actual expenses recorded in this account.

7. Customer and Information Service Expense (Accts. 907 to 916) -- I assigned the expense in this category to Production-Energy, since the majority of this expense is related to providing service and information to customers to assist them in various aspects of using electrical energy efficiently. Mr. Baron functionalized this expense based on total utility plant, without explaining how this expense is related to plant investment.

Q. Do the different approaches to functionalizing/classifying Pro Forma Test Year Revenue Requirements have a significant impact on the revenue requirements allocated to each rate class?

A. For some classes yes; for others no. A comparison of the results of my functionalization/classification analysis and Mr. Baron's is provided in the following Table 1. Note that Mr. Baron's cost allocation analysis to the various rate classes based on my functionalization/classification of revenue requirements was provided by Mr. Baron in response to Staff Data Request No. 7. (See Exhibit __(DRE-6).)

Table 1
Comparison of Revenue Requirements Under Baron and Eicher Functionalization/Classification Methodologies

	Revenue Requirements		
(a)	**(b)**	**(c)**	**(d) = (b) - (c)**
Rate	**With Baron Functionalization/ Classification**	**With Eicher Functionalization/ Classification**	**Difference**
	($)	($)	($)
E	379,215,373	375,811,520	3,403,853
B	22,308,233	22,563,183	(254,950)
C	7,396,184	7,489,630	(93,446)
G	8,229,632	8,297,005	(67,373)
Gallatin	14,099,485	14,164,179	(64,694)
Pumping Station	1,174,762	1,827,235	(652,473)
Steam Service	2,566,822	4,837,740	(2,270,918)
Total	434,990,491	434,990,492	0

Q. Does this conclude your prefiled Rebuttal Testimony?

A. Yes.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In re the Matter of:

THE APPLICATION OF EAST KENTUCKY POWER COOPERATIVE, INC. FOR A GENERAL ADJUSTMENT OF ITS WHOLESALE ELECTRIC RATES	))))	**CASE NO. 2010-00167**

AFFIDAVIT

STATE OF Isanti)
)
COUNTY OF Isanti)

Dennis R. Eicher, being duly sworn, states that he has read the foregoing prepared testimony and that he would respond in the same manner to the questions if so asked upon taking the stand, and that the matters and things set forth therein are true and correct to the best of his knowledge, information and belief.

Dennis R. Eicher

Subscribed and sworn before me on this 14th day of October, 2010.

CANDI LYNN ROSEN
Notary Public
Minnesota
My Commission Expires January 31, 2013

Candi Rosen
Notary Public

East Kentucky Power Cooperative, Inc.
Breakdown of Dispatch Costs--2009

	Generation		Transmission		Total $
	55600	$ 3,643,002.51	56100	$ 2,536,940.45	
Dispatch of Generation	35%	$ 1,275,050.88	0%	$ -	$ 1,275,050.88
Scheduling, System Control and Dispatch	60%	$ 2,185,801.51	100%	$ 2,536,940.45	$ 4,722,741.96
Direct Load Control	5%	$ 182,150.13	0%	$ -	$ 182,150.13

Note: Workpaper WP-7 assigns $98,612 of Acct. 556 to Dist Meters O&M. Assign the remainder based on the percentages shown above.

East Kentucky Power Cooperative, Inc.
Breakdown of Accts. 556, 557 and 908--2009

Acct 556	3,643,002.51	
Bill Turner area - Telephone, Elec - Radio Tower	280,300.24	
Power Supply - Lamb	15,565.17	
Twitchell--G&T Operations Administration	5,664.69	
IT Administration	2,953.85	
Metering	147,239.60	
Generation Dispatch	94,234.10	
Jim Davis - Dispatch	95,513.27	
Labor/Benefits	2,999,312.51	
Property Tax allocation	2,219.08	
	3,643,002.51	
Acct 55700	4,961,145.31	
Direct Load Control	3,281,126.31	5
A0101 MCR Modelling (mostly fin forecast)	88,674.26	
Routine Power Supply Operations	1,591,344.74	6
Acct 55701	333,665.05	
Load Forecasting	333,665.05	
Acct 55702	1,882,283.82	
Brokerage Fees (ACES)	1,882,283.82	6
Acct 90800	1,983,731.19	
Labor and Benefits	860,176.83	
Travel	73,202.74	
Printer/Office Supplies	12,727.36	
Phone/Cell Expenses	5,101.02	
Maintenance Agreements	89,879.60	1
Consulting	87,665.54	2
Training	12,030.54	
Misc	96,257.67	3
Energy Efficiency and Safety Events	14,736.96	
Partners Plus	656,537.26	4
Energy Management Conference	75,415.67	

[1] Includes $50K for Ventyx--used for benchmarking; coal and emissions info.
[2] Includes $34K for end use survey, $21K for Touchstone Energy licensing,and $10K for employee survey.
[3] Includes $42K for ETS tariff settlement and $30K for air conditioner switches.
[4] DSM and energy efficiency programs for member systems.
[5] Assign DLC to PROD_CAP.
[6] Assign to PROD_ENG.

East Kentucky Power Cooperative
Estimate of Metering O&M Expense-2009

Tot labor, travl	Meter labor travl	
563,077.44	339,892.29	0.603633288

Acct	Prod	Proj	Amount	Proj Descr	x	x	Incl for Meter Pt Chg
55600	1000	02660	411.68	Power Quality Installation			
55600	1000	02663	784.48	Rtn Meter Read Load Research			
55600	1000	02664	2,144.96	Rtn Meter Test Load Research			
55600	1000	02666	1,757.64	Meter Data Translation - Load Research			
55600	1400	02664	575.61	Rtn Meter Test Load Research			
55600	2200	02663	12.48	Rtn Meter Read Ld Research			
55600	2200	02664	36.41	Rtn Meter Test Ld Research			
55600	2600	00000	72.29				43.64
55600	2600	02600	42,662.80				25,752.69
55600	2600	02667	509.86	Meter Install Load Research			
55600	2615	00000	3,832.61	Office Furniture			2,313.49
55600	2616	00000	4,794.79	Software			2,894.29
55600	2617	00000	12,862.17	Personal Computer			7,764.03
55600	3404	00000	2,737.44	Rtn Meter Rd Subs			2,737.44
55600	4600	00000	47,329.66	Itron, Liebert			47,329.66
55600	4802	00000	8,688.03	Itron			8,688.03
55600	6201	00000	163.33	Training			98.59
55600	7400	00000	1,639.98	Misc			989.95
55600 Total			**131,016.23**				**98,611.81**
56100	1000	02661	28,485.63	Rtn Meter Test Subs			28,485.63
56100	1000	02662	13,605.43	Rtn Meter Read Subs			13,605.43
56100	1000	02665	104,584.43	Meter Data Translation - Subs			104,584.43
56100	1100	02661	2,403.00	Rtn Meter Test Subs			2,403.00
56100	1100	02665	(6,110.22)	Meter Data Translation Subs			(6,110.22)
56100	1400	02661	5,653.00	Rtn Meter Test Subs			5,653.00
56100	1400	02662	2,815.29	Rtn Meter Read Subs			2,815.29
56100	1400	02665	1,239.71	Meter Data Translation Subs			1,239.71
56100	2200	02661	5,909.10	Rtn Meter Test Subs			5,909.10
56100	2200	02662	3,170.15	Rtn Meter Read Subs			3,170.15
56100	2615	00000	1,535.13	Office Furniture			926.66
56100	3400	02662	110,790.83	Rtn Meter Rd Subs			110,790.83
56100	3404	00000	5,087.09	Rtn Meter Rd Subs			5,087.09
56100	3404	02662	44,244.19	Rtn Meter Rd Subs			44,244.19
56100	3800	00000	72.64	Elec Utility			43.85
56100	4600	00000	646.11				646.11
56100	7400	00000	515.66	Misc			311.27
56100 Total			**324,647.17**				**323,805.51**
57000	1000	03033	21,109.15	Rtn EMS Mtce			
57000	1000	03068	123,049.24	RTU Mtce			
57000	1000	0300H	105,024.76	Rtn Revenue Meter Mtce			105,024.76
57000	1000	0300N	14,898.54	Rtn Load Research Meter Mtce			
57000	1100	03033	4,045.71	Rtn EMS Mtce			
57000	1100	03068	2,850.92	RTU Mtce			
57000	1100	0300H	(91.79)	Rtn Revenue Meter Mtce			(91.79)
57000	1100	0300N	1,814.45	Rtn Load Research Meter Mtce			
57000	1400	03033	3,660.31	Rtn EMS Mtce			
57000	1400	03068	26,452.50	RTU Mtce			
57000	1400	300H	15,955.36	Rtn Revenue Meter Mtce			15,955.36
57000	1400	300N	2,719.96	Rtn Load Research Meter Mtce			
57000	2200	03033	891.47	Rtn EMS Mtce			
57000	2200	03068	14,087.82	RTU Mtce			
57000	2200	300H	18,446.59	Rtn Revenue Meter Mtce			18,446.59
57000	2200	300N	1,881.83	Rtn Load Research Meter Mtce			
57000	3000	03033	533.30	Rtn EMS Mtce			
57000	3000	03068	88,647.94	RTU Mtce			
57000	3000	0300H	177,533.97	Rtn Revenue Meter Mtce			177,533.97
57000	3000	0300N	3,918.02	Rtn Load Research Meter Mtce			

East Kentucky Power Cooperative
Estimate of Metering O&M Expense-2009

57000 Total			**627,430.02**		**316,868.88**
58100	1000	02661	29,583.90	Rtn Meter Test Subs	29,583.90
58100	1400	02661	5,923.59	Rtn Meter Test Subs	5,923.59
58100	2200	02661	2,412.08	Rtn Meter Test Subs	2,412.08
58100	2200	02662	650.26	Rtn Meter Read Subs	650.26
58100	2200	02665	232.03	Meter Data Translation Subs	232.03
58100	2615	00000	896.08	Office Furniture	540.90
58100	2616	00000	510.64	Software	308.24
58100	3400	02662	59,675.81	Rtn Meter Rd Subs	59,675.81
58100	3404	00000	3,345.61	Rtn Meter Rd Subs	3,345.61
58100	3404	02662	22,538.33	Rtn Meter Rd Subs	22,538.33
58100	6201	00000	1,431.74	Training	864.25
58100	7400	00000	429.00	Misc	258.96
58100 Total			**127,629.06**		**126,333.95**
92300	4803	00000	1,000.00	Itron	1,000.00
92300 Total			**1,000.00**		**1,000.00**
Grand Total			**1,211,722.49**		**866,620.16**

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER	)	
COOPERATIVE, INC. FOR GENERAL	)	CASE NO.
ADJUSTMENT OF ELECTRIC RATES	)	2010-00167

GALLATIN STEEL COMPANY'S RESPONSES TO
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

7. Refer to page 10 of the Direct Testimony of Stephen J. Baron ("Baron Testimony"). Starting at line 5, Mr. Baron states that, to the extent there were differences in methodology between the Dennis Eicher cost of service study ('COSS'') filed in the current case and the COSS used in EKPC's 2008 rate case, he applied the methodology used in the 2008 rate case. Explain why the 2008 methodology was used.

Response:

Mr. Baron relied on the EKPC 2008 methodology primarily because this 2008 functionalization was relied on by EKPC for a class cost of service analysis and ultimately rate design. In this case, while Mr. Eicher performed a functional cost analysis, it was not relied on for any class cost of service analysis or rate design. As such, Mr. Baron relied on the same functional cost methodology used by EKPC in its 2008 case in which the Company developed a class cost of service study using the results of the functional cost analysis. Mr. Baron disagreed with a number of Mr. Eicher's functional cost assignments. For example, Mr. Eicher assigned customer service and sales expense as 100% energy related, while in the 2008 study this expense was functionalized on the basis of Total Utility Plant, which Mr. Baron believes is more reasonable. Another example concerns Transmission O&M expenses. While we accepted Mr. Eicher's functionalized transmission plant, Mr. Eicher did not follow the transmission plan functionalization to functionalize Transmission O&M expenses, as was done in the 2008 EKPC study. Mr. Baron believes that it is reasonable to functionalize transmission O&M expense following the transmission plant functionalization.

Notwithstanding this, Mr. Baron has calculated the EKPC class cost of service for each rate schedule using Mr. Eicher's functionalization of costs. The impact on Gallatin of using Mr. Eicher's functionalization is an increase of $64,517, compared to Mr. Baron's analysis. The overall revenue increase to Gallatin using Mr. Eicher's functionalization is $2,205,877 vs. Mr. Baron's recommended increase of $2,141,359 (Note: neither of these increases include the effect of Mr. Baron's recommended increase in the Gallatin 10-minute interruptible credit). Other than the substitution of Mr. Eicher's functionlization of costs into the model, no other changes were made to the Gallatin class cost of service study. The results continue to show that Gallatin is paying current rates above cost of service. A summary of the cost of service analysis with Mr.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER	)	
COOPERATIVE, INC. FOR GENERAL	)	CASE NO.
ADJUSTMENT OF ELECTRIC RATES	)	2010-00167

GALLATIN STEEL COMPANY'S RESPONSES TO
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

Eicher's functionalization is attached, as well as the full study, in electronic form with all formulas.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

GENERAL ADJUSTMENT OF ELECTRIC RATES	)	PSC CASE NO.
OF EAST KENTUCKY POWER	)	2010-00167
COOPERATIVE, INC.	)	

REBUTTAL TESTIMONY OF
ISAAC S. SCOTT
MANAGER OF PRICING
EAST KENTUCKY POWER COOPERATIVE, INC.

Filed: October 15, 2010

Q. Please state your name, business address, and occupation.

A. My name is Isaac S. Scott and my business address is East Kentucky Power Cooperative ("EKPC"), 4775 Lexington Road, Winchester, Kentucky 40391. I am the Manager of Pricing for EKPC.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to respond to certain issues raised in the Direct Testimonies of Lane Kollen and Stephen J. Baron. Specifically, I will address the "excessive financing" issue raised by Mr. Kollen and the following issues raised by Mr. Baron: fuel savings resulting from interruptions, the treatment of rate schedule subsidies, the flow through of the proposed Gallatin Steel Company ("Gallatin") increase, the level of the interruptible credit, and the recommendation that the 20 MW limit included in the EKPC's interruptible service tariff should be eliminated. I will also address some concerns with Mr. Baron's calculation of his proposed rates for Gallatin, based on the EKPC proposed revenue increase and the revenue increase recommended by Mr. Kollen.

"Excessive Financing"

Q. Do you agree with Mr. Kollen's contention on pages 21 and 22 of his direct testimony that EKPC is projecting "excessive financing" in its forecasted test year?

A. No. Mr. Kollen contends that because the increase in EKPC's capitalization between December 2009 and December 2011 is greater than the increase in its net investment rate base for the same period, EKPC is proposing to issue excessive amounts of debt, which will result in higher than reasonable levels of interest expense. Further, on page 22, Mr. Kollen states, "The Commission sets rates for cooperatives based on the utility's interest expense, but ensures that net investment rate base and the capitalization used to quantify the utility's interest expense are closely synchronized and that the interest expense included in the revenue requirement is not used for non-utility purposes, such as investments in unregulated activities." Mr. Kollen's analysis is not the appropriate way to determine the reasonableness of interest expense in a Kentucky forecasted test year proceeding. Also, his stated understanding of the relationship between the net investment rate base, capitalization, and interest expense in determining revenue requirements for cooperatives is not correct.

Q. Would you explain why Mr. Kollen's analysis is not appropriate?

A. Yes. First, Mr. Kollen is attempting to use the rate-making theory that net investment rate base should equal capitalization as a basis for concluding EKPC has inflated its debt issuances and in turn its forecasted interest expense. Net investment rate base equaling capitalization is one of the basic theories of rate-making. While the Commission has accepted this theoretical concept, it has long recognized that a utility's net investment rate base is rarely equal to its capitalization. In determining a utility's revenue requirements, the Commission does not adjust or synchronize the net investment rate base or capitalization to be equal. Rather, the Commission's Orders state two different rates of return: one on net investment rate base and one on capitalization. When the net investment rate base and capitalization are multiplied by their respective rates of return, they produce the same net operating income found reasonable by the Commission.

However, the Commission has never utilized this rate-making theory to determine the appropriate level of debt or the reasonableness of interest expense. And at no time in Mr. Kollen's direct testimony or in his data responses has he explained why this approach is appropriate or reasonable.

Second, by basing his analysis on this rate-making theory, Mr. Kollen ignores the fact that EKPC's capital expenditures are entirely financed with debt. In order to determine whether or not EKPC is proposing "excessive financing" the change in the level of capital expenditures should be compared with the level of debt. This properly matches the assets with the financing source. For the December 2009 to December 2011 period that Mr. Kollen utilizes for his analysis, EKPC has shown that the proposed increase in capital expenditures exceeds the proposed increase in long-term debt by $138.2 million, $471.922 million versus $333.722 million.

Q. Would you explain why Mr. Kollen's statement on page 22 of his direct testimony is not correct?

A. Yes. EKPC agrees that when determining the interest expense that will be included in the determination of revenue requirements for cooperatives, the Commission takes steps to ensure that the revenue requirement does not reflect non-utility, unregulated activities. However, the Commission does not use the net investment rate base or the capitalization to quantify the reasonable interest expense. The reasonable interest expense is determined through an examination of the debt issuances included in the debt balance and the corresponding interest rates. In addition, as discussed earlier, the Commission does not synchronize or adjust the net investment rate base to the capitalization.

Fuel Savings Resulting from Interruptions

Q. Please describe Mr. Baron's recommendation concerning his adjustment to the cost of service study to reflect fuel savings resulting from interruptions.

A. On pages 13 through 18 of his direct testimony Mr. Baron explains that fuel savings are produced for EKPC when Gallatin is interrupted and notes that these savings are not incorporated into the interruptible credit Gallatin receives. Because of this situation, Mr. Baron argues that an adjustment to the cost of service study is necessary to reflect these interruption-related fuel savings. To calculate these fuel savings, Mr. Baron determined a weighted average purchase energy expense from EKPC data as the basis for an avoided energy rate per MWh associated with interruption hours. He then applied this avoided energy rate per MWh to the result of multiplying the Gallatin interruptible load by the total number of hours of annual interruption permitted in the Gallatin contract. Mr. Baron determined a fuel savings amount of $3,547,314, which he shows in his cost of service study as a credit to the Large Special Contract customer and an allocated charge to all rate schedules, including the Large Special Contract customer, with the allocation based on energy.

Q. Do you agree with the adjustment Mr. Baron has made to his cost of service study to reflect his claimed fuel savings resulting from interruptions?

A. No. I believe Mr. Baron's proposed adjustment to the cost of service study results in a double counting of the fuel savings resulting from interruptions. I agree with Mr. Baron that fuel savings are produced when Gallatin, or any other interruptible customer on the EKPC system, is interrupted. Those fuel savings are reflected in the fuel adjustment clause that is applied to the energy component of the bills of all customers of EKPC's Member Cooperatives. While I would agree that Gallatin does not receive the entire amount of the fuel savings resulting from the interruption of its operations, it does share along with all customers in the fuel savings resulting from all interruptions. Mr. Baron's calculated fuel savings of $3,547,314 does not reflect the operation of the fuel adjustment clause mechanism and thus is overstated.

Q. Have you made a calculation to determine what these fuel savings would be if the fuel adjustment clause was included?

A. Yes. Scott Rebuttal Exhibit 1 is a copy of the workpaper[1] from Mr. Baron's cost of service study where he determined the $3,547,314 in fuel savings. I have adjusted the $67.956 per MWh weighted average cost to include the fuel adjustment clause. The fuel adjustment clause calculation results in a rate of $32.957 per MWh. I have removed the fuel adjustment clause rate from Mr. Baron's weighted average cost, which produces an adjusted weighted average cost of $34.999 per MWh. I then applied this adjusted weighted average cost to the result of multiplying the Gallatin interruptible load by the total number of hours of annual interruption permitted in the Gallatin contract. This calculation produces a fuel savings of $1,826,959.

Q. Have you determined the impact of the $1,826,959 in fuel savings has on Mr. Baron's cost of service study?

[1] Please see electronic spreadsheet titled "SJB-2 EKPC_CCOSS_unit cost.xlsx", Tab "Avoided Energy" for Mr. Baron's original workpaper.

A. Yes. On Scott Rebuttal Exhibit 2 I have reprinted pages 15 through 18 of 24 from Mr. Baron's cost of service study.[2] Using the electronic spreadsheet version of Mr. Baron's cost of service study, I have replaced Mr. Baron's adjustment of \$3,547,314 with my calculation of \$1,826,959. This is shown on reprinted page 15 of 24. The cost of service study spreadsheet then was recalculated to reflect this change. The following schedule summarizes the results of the change:

Table A
Comparison of Baron Cost of Service Study Results – Dollar Subsidy

Rate Schedule or Contract	Summary – Pro Forma		Summary – EKPC Proposed Increase	
	Baron Filed	Revised	Baron Filed	Revised
Rate E	(\$2,512,766)	(\$1,141,171)	(\$4,218,107)	(\$2,846,512)
Rate B	\$551,492	\$666,355	\$1,247,236	\$1,362,099
Rate C	\$85,903	\$124,670	\$324,828	\$363,594
Rate G	(\$830,180)	(\$789,937)	(\$678,919)	(\$638,675)
Large Special Contract	\$753,638	(\$844,792)	\$980,258	(\$618,173)
Pumping Stations[3]	\$288,663	\$288,663	\$178,336	\$178,336
Steam Service	\$1,663,249	\$1,696,212	\$2,166,368	\$2,199,331

Positive subsidy values represent the excess amount paid by a rate schedule or contract above the cost of actually providing electric service; negative subsidy values mean the rate schedule or contract is receiving subsidized electric service.

Rate Schedule Subsidies

Q. On page 21 of Mr. Baron's direct testimony he recommends that the Large Special Contract customer receive an increase based on full cost of service, with a full elimination of subsidies. Do you agree with Mr. Baron's recommendation?

[2] Please see electronic spreadsheet titled "SJB-2 EKPC_CCOSS_unit cost.xlsx", Tab "Allocation by Rate", pages 15 through 18.

[3] The unique pricing provisions of the special contract for the pumping stations define the charges and rates utilizing a formula tied to market prices and do not recognize any adjustments due to a general rate case revenue increase by EKPC. Consequently, neither Mr. Baron's cost of service study nor the revisions addressed in this rebuttal testimony allocated any of the fuel savings resulting from interruptions to the pumping stations.

A. No. EKPC proposed an increase of $3,121,617 to the Large Special Contract customer, as shown in the Application, Tab 58, page 11 of 13. Mr. Baron recommends that this increase be reduced by $980,258, the amount of the subsidy he concludes the Large Special Contract customer is providing based on his cost of service study. I disagree with his recommendation for two reasons. First, as discussed previously and shown in Table A, after removing the double counting of the fuel savings resulting from interruptions, the cost of service study no longer shows a rate subsidy for the Large Special Contract customer. Second, I do not believe it is fair, just, or reasonable to eliminate perceived rate subsidies for one customer, while not addressing the subsidy issue for all other customers.

Q. Would you explain this point further?

A. Yes. EKPC agrees that ideally the results of a cost of service study should show that each rate schedule or rate class is providing enough revenues to cover the actual cost of providing electric service to that rate schedule or rate class. The reality is that for regulated utilities, subsidies between rate schedules or rate classes have existed for some time, continue to exist, and likely will continue to exist in the future. One of the challenges of revenue allocation and rate design is to gradually move away from these subsidies and work to the goal of no rate schedule or rate class subsidizing another. To adequately and reasonably meet this challenge, the utility has to take into consideration the effects of the subsidies on all rate schedules or rate classes and work to produce a balanced rate design that will over time minimize or hopefully eliminate the existing subsidies. Mr. Baron's proposal in this case to completely eliminate the perceived subsidy for only the Large Special Contract customer while not addressing the subsidy issue for the remaining customers is clearly not appropriate and does not provide a means to reasonably address the subsidy issue for the remaining customers.

Q. **Looking at the results shown in Table A above, it appears that there are rate subsidies. EKPC proposed no changes to its current rate design in this case. What actions are EKPC undertaking to try and begin addressing this subsidy issue?**

A. As I stated in my direct testimony, EKPC is currently conducting a Rate Design Feasibility Study along with its Member Cooperatives. This study is a coordinated examination of both the EKPC wholesale and the Member Cooperative retail rate designs. Due to unavoidable delays, the Rate Design Feasibility Study will not be completed until late October 2010. After the study results are provided to EKPC and the Member Cooperatives there will be a period of review and evaluation to determine what rate design is the most appropriate for EKPC's wholesale rates. EKPC will then file an application with the Commission that will include rate design and its initial attempts at addressing and resolving the subsidy issue. However, I must stress that it is highly unlikely the proposed rate design will eliminate all subsidies in one proceeding. Given the magnitude of the subsidies shown in Table A above, EKPC will likely propose a gradual approach to address the subsidy issue over a number of years.

Q. **On pages 21 through 23 of his direct testimony, Mr. Baron discusses why he believes it is appropriate to distinguish between the Large Special Contracts**

rate schedule and all other EKPC rate schedules. Do you have any comments on this discussion?

A. Yes. Gallatin is the only Large Special Contract customer, and electric service to it is provided under the terms and conditions of a special contract between Gallatin, EKPC, and Owen Electric Cooperative ("Owen"). Mr. Baron states that pursuant to the current contract Gallatin is required to pay for load following and regulation service in addition to all of the tariff based charges for its electric service. Mr. Baron contends that this means Gallatin is being treated as a "standalone" customer. He argues that it is unjust and unreasonable to require Gallatin to pay special load following and regulation charges in recognition of its unique costs that EKPC had determined Gallatin to be responsible for and at the same time be required to pay subsidies for its tariff service.

EKPC agrees that Gallatin's operations make it a unique customer among those served by EKPC and its Member Cooperatives. That is why there is a special contract for service between Gallatin, EKPC, and Owen. However, I would note that all charges paid by Gallatin are the result of extensive negotiations that resulted in the special contract. Gallatin is not provided electric service under any tariff of EKPC or Owen, nor are the charges contained in the special contract tariff based.

EKPC requested Mr. Baron to provide a description of the characteristics of a "standalone" customer. Mr. Baron responded that his testimony on pages 22 and 23 provided his description of a "standalone" customer. The only characteristics described on these pages of Mr. Baron's testimony are that Gallatin pays cost of service based rates, plus perceived subsidies, and charges for load following and regulation service due to its unique characteristics. However, as I have discussed previously, removing the double counting of the fuel savings resulting from interruptions from Mr. Baron's cost of service study shows that Gallatin is not subsidizing the other rate schedules. Consequently, EKPC does not have a clear understanding of what Mr. Baron believes constitutes a "standalone" company.

<u>Flow Through of Gallatin Increase</u>

Q. How does Mr. Baron propose to apportion the Commission approved EKPC overall revenue increase to the rate schedules and contracts?

A. On pages 23 and 24 of his direct testimony, Mr. Baron proposes that Gallatin receive an increase such that it pays cost of service rates with no excess charges for subsidies to other rate classes. For all other EKPC rate schedules and contracts, Mr. Baron recommends that the remaining revenue increase, after the Gallatin amount has been accounted for, be applied on a uniform percentage basis as originally proposed by EKPC. Mr. Baron indicates this approach should also be followed for Owen's flow through case, and notes that he addresses this topic in greater detail in direct testimony he filed in Owen's flow through case, Case No. 2010-00179.

In Mr. Baron's direct testimony in Case No. 2010-00179, he states that KRS 278.455(3) applies to the flow through of the approved EKPC increase to Gallatin by Owen. He expresses the belief that KRS 278.455(3) requires Owen to directly flow through the EKPC increase to Gallatin based solely on the increases applicable to the Commission approved EKPC Large Special Contract rate. For all other Owen rate classes, Mr. Baron recommends that the flow through can be computed in a manner consistent with Owen's calculations of a uniform percentage increase.[4]

Q. Do you have any comments concerning Mr. Baron's recommendations concerning the apportionment at the wholesale level of the Commission approved overall revenue increase for EKPC?

A. Yes. As explained previously in my rebuttal testimony, when Mr. Baron's cost of service study is revised to remove the double counting of fuel savings resulting from interruptions, there is no subsidy by Gallatin to recognize when apportioning overall revenue increase. EKPC continues to believe the approach it proposed in the application is the appropriate method to apportion the revenue increase to the rate schedules and contracts at the wholesale level.

Q. Do you have any comments concerning Mr. Baron's recommendations concerning the apportionment at the retail level of the Commission approved overall revenue increase for EKPC?

A. Yes. I believe Mr. Baron has identified an issue concerning the apportionment of the revenue increase at the retail level that the Commission must address. Owen filed its application in Case No. 2010-00179 pursuant to the authority of KRS 278.455 and 807 KAR 5:007. Based upon KRS 278.455(2) and 807 KAR 5:007, Section 2(2), as well as its understanding of the Commission's April 1, 2007 Order in Case No. 2006-00485, Owen allocated the EKPC wholesale revenue increase to each retail class and within each retail tariff on a proportional basis.

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[4] Please see Case No. 2010-00179, the Direct Testimony and Exhibit of Stephen J. Baron, pages 7 and 8, filed on September 1, 2010.

This approach resulted in Owen allocating to Gallatin an amount $541,796 lower than the increase determined by EKPC for Gallatin.[5] Mr. Baron believes that KRS 278.455(3) eliminates the need for the strict proportional allocation to Gallatin because of the special contract and allows for the direct flow through of the Commission determined EKPC increase for Gallatin.

KRS 278.455(3) states "Any rate increase or decrease as provided for in subsections (1) and (2) of this section shall not apply to special contracts under which the rates are subject to change or adjustment only as stipulated in the contract." Paragraph 15 of the current Gallatin contract states "The rates, terms and conditions of this Agreement for electric service shall be subject to modification or change by order of the KPSC during the initial five year term and thereafter."

Mr. Baron's recommendation that the Commission-approved EKPC increase for Gallatin be directly flowed through by Owen would appear to be logical and would mirror the treatment currently provided in the contract for the environmental surcharge. However, while I am not offering a legal opinion, it does not appear to me that KRS 278.455(3), read along with Paragraph 15 of the Gallatin contract, provides clear direction or authorization for the direct flow through proposed by Mr. Baron. Also, I am not aware of any previous Order of the Commission specifically addressing this situation. The Commission's April 1, 2007 Order in Case No. 2006-00485 did not reference how KRS 278.455(3) could impact the retail allocation of the authorized wholesale revenue increase.

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[5] Please see EKPC's Application, Tab 58, page 11 of 13 and Case No. 2010-00179, Application Exhibit 3, page 6 of 7. EKPC determined the increase to be $3,121,617 and Owen determined the flow through increase to be $2,579,821.

A similar situation exists for Nolin Rural Electric Cooperative Corporation ("Nolin") where the amount EKPC determined as the increase for a Rate G special contract customer is greater than the increase originally shown in Nolin's flow through application, Case No. 2010-00178. The special contract with the Nolin customer contains language similar to that in the Gallatin contract concerning the possible change in rates, terms, and conditions by the Commission. I would note that the Commission Staff has issued data requests that examine both the Owen and Nolin situations.[6]

While EKPC does not oppose Mr. Baron's recommendation to direct flow through the Commission determined EKPC increase for Gallatin, it is not clear the recommendation is consistent with KRS 278.455(2), KRS 278.455(3), and Paragraph 15 of the Gallatin contract. EKPC requests that the Commission specifically address this issue in the appropriate Orders and provide direction.

<u>**Level of Interruptible Credit**</u>

Q. On pages 29 and 30 of his direct testimony, Mr. Baron discusses his proposed increase to the 10-minute interruptible credit. Do you agree with Mr. Baron's proposal?

A. No. After detailing the benefits Gallatin's interruptible load provides to EKPC and its customers, Mr. Baron argues that the current 10-minute interruptible credit does not sufficiently compensate Gallatin because the calculation of the avoided cost of peaking capacity does not reflect the avoidance of "capacity reserves",

[6] Please see Case No. 2010-00178, Commission Staff's Second Information Request dated August 12, 2010, Item 2; Case No. 2010-00179, Commission Staff's Second Information Request dated August 12, 2010, Item 1; and Case No. 2010-00179, Commission Staff's Third Information Request dated September 20, 2010, Items 1 and 2.

which would be based on the reserve margin EKPC utilizes for generating capacity planning purposes. Using a 12 percent reserve margin, Mr. Baron determines that the 10-minute interruptible credit should be $6.22 per kW. The current 10-minute interruptible credit, which EKPC did not propose to change in this case, is $5.60 per kW. While the fact that 120,000 kW of Gallatin's load[7] is subject to 10-minute interruption and this provides benefits to EKPC, its Member Cooperatives and their customers, and Gallatin, I do not believe it is reasonable or necessary to include a reserve margin factor in the calculation of the 10-minute interruptible credit.

By including the reserve margin in his calculation of the 10-minute interruptible credit, Mr. Baron is treating the 120,000 kW of 10-minute interruptible load as if EKPC will never have to provide that generating capacity. If that were the case, there might be some merit to Mr. Baron's argument to include the reserve margin in the interruptible credit calculations. However, the reality is that EKPC can only interrupt[8] Gallatin 360 hours of the 8,760 hours in the year, or approximately 4.1 percent of the year. There are further limits on EKPC's ability to interrupt Gallatin. The maximum number of monthly interruptible hours is 100 hours and interruptions are limited to two per day. Gallatin's load is subject to economic interruptions for any reason except selling power off-system and Gallatin's interruptions are independent of interruptions for any other customer.

As EKPC is required to provide generating capacity for Gallatin's entire load at least 95.9 percent of the time, there simply is no justification to increase the 10-

[7] Gallatin's total interruptible load of 145,000 kW is composed of 120,000 kW subject to 10-minute notice and 25,000 kW subject to 90-minute notice.
[8] The limitations listed here apply to all interruptions, both the 10-minute notice and the 90-minute notice.

minute interruptible credit to reflect an "avoidance of capacity reserves" when EKPC does not actually avoid these capacity reserves for the majority of the year. EKPC has based the determination of the 10-minute interruptible credit on the avoided cost of a single cycle combustion turbine, which has been the traditional approach used to determine the interruptible credit. Given the development of energy markets, an alternative approach to determining the interruptible credit could be to use a market capacity cost. However, at this time, EKPC believes the traditional approach of determining the interruptible credit using the avoided cost of a single cycle combustion turbine is reasonable, as the turbine avoided cost can be easily determined and is relatively stable.

Interruptible Tariff Limit

Q. On pages 31 and 32 of his direct testimony, Mr. Baron recommends that based on EKPC's expected future load growth the limitation of 20 MW contained in Tariff Section D – Interruptible Service should be eliminated. Do you agree with Mr. Baron's recommendation?

A. No. Noting EKPC's 2009 Integrated Resource Plan ("IRP") projected load growth, Mr. Baron contends this future growth justifies the lifting of the 20 MW limit in the interruptible service tariff. He further reasons that if large customers could take a portion of their service under the interruptible provisions, then there would be a reduction in the need for future peaking capacity additions. However, I do not believe either of these points constitutes adequate justification for removing the 20 MW limit from the interruptible service tariff.

When considering or proposing a change to any provision of a tariff schedule or rate, I believe it is necessary to demonstrate that there is a need for the change and that the change is reasonable and appropriate. Mr. Baron has not provided any analyses to demonstrate there is a need to remove the 20 MW limit or that it is reasonable to do so. Mr. Baron bases his recommendation on the projected load growth presented in EKPC's 2009 IRP, but provides no analysis to indicate whether this growth will come from existing customers, new customers, or a mix of existing and new. Mr. Baron has produced no analysis showing that the customers producing the load growth will have contract demands greater than 20 MW or that there will be a need for interruptible service at levels greater than 20 MW.

Mr. Baron did not perform a study of the current contract demand loads of the Rate B, Rate C, and Rate G retail customers served by EKPC's Member Cooperatives. Had he conducted such a study, he would have discovered that none of these customers has a contract demand load greater than 20 MW. In response to a Gallatin data request, EKPC provided an analysis of interruptible loads and the number of interruptions from January 2007 through June 2010. Excluding Gallatin, this analysis shows EKPC's Member Cooperatives have not had more than five interruptible customers with a total interruptible load of 15.75 MW during the 42-month period.[9] I believe this information shows there is not a need to remove the 20 MW limit contained in the interruptible service tariff.

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[9] Please see EKPC's Response to First Set of Data Requests of Gallatin Steel Company dated July 8, 2010, Item 18.

Currently, the only retail customer of the EKPC Member Cooperatives with an interruptible load greater than 20 MW is Gallatin. In the event EKPC and its Member Cooperatives were approached by a large customer whose operations would benefit from an interruptible load greater than 20 MW, EKPC and its Member Cooperatives would work with that large customer to address this need through a special contract, similar to what has been done for Gallatin. If several large customers approached EKPC and its Member Cooperatives desiring to take interruptible service for loads greater than 20 MW, I believe it would then be appropriate for EKPC to reevaluate the reasonableness of the 20 MW limit and possibly file for approval with the Commission an amended tariff setting a new interruptible load limit.

Proposed Rates for Gallatin

Q. In the responses to Questions 22 and 23 of EKPC's data request to Gallatin, Mr. Baron has provided the rates he would propose for Gallatin reflecting EKPC's proposed revenue increase and the revenue increase recommended by Mr. Kollen. Both sets of rates reflect Mr. Baron's proposal to increase the 10-minute interruptible credit to $6.22 per kW. Do you have any concerns about Mr. Baron's proposed rates?

A. Yes. I have two concerns related to the responses to Questions 22 and 23 provided by Mr. Baron. Scott Rebuttal Exhibit 3 contains three pages[10] I have

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[10] Please see the following electronic spreadsheets: Page 1 of 3 is from the file titled "SJB-2 EKPC_CCOSS_unit cost.xlsx", Tab "Billing Analysis Gallatin"; Page 2 of 3 is from the file titled "Attachments to Q22, Q23.xls", Tab "Attachment Q22"; Page 3 of 3 is from the file titled "Attachments to Q22, Q23.xls", Tab "Attachment Q23".

copied from the electronic spreadsheets provided by Mr. Baron that relate to my concerns.

My first concern is related to a revision Mr. Baron included in his cost of service study but did not carry over to the calculation of the proposed Gallatin rates. On page 12 of his direct testimony Mr. Baron states that he has revised the Gallatin projected test year revenues by increasing the percentage of on-peak energy usage from 24.84 percent to 29.4 percent. This calculation is shown in Scott Rebuttal Exhibit 3, page 1 of 3. Mr. Baron incorporated this revision into his cost of service study. I do not have any objections to this revision. However, when Mr. Baron calculated his proposed rates for Gallatin, he did not reflect the 29.4 percent on-peak energy usage. Mr. Baron's calculation of the proposed rates is shown in Scott Rebuttal Exhibit 3, pages 2 and 3 of 3. It seems to me that the proposed rates should have reflected this revision.

My second concern is related to Mr. Baron's "Gallatin Proposed Class Rate Increases" shown in Scott Rebuttal Exhibit 3, pages 2 and 3 of 3. In both calculations provided by Mr. Baron, he shows the increase of the interruptible credit of $892,800 as an additional revenue component. For example, when showing the rate schedule and contract increases assuming the approval of EKPC's proposed revenue increase, Mr. Baron allocates $50,270,247 rather than EKPC's proposed increase of $49,377,447. It is my understanding that in previous cases such an increase in the level of the interruptible credit was incorporated into the overall proposed increase in revenues. It was not treated as an additional revenue increase above and beyond the amount requested.

Because of these concerns, I do not believe the proposed rates provided by Mr. Baron are accurate.

Q. Does this conclude your testimony?

A. Yes, it does.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In re the Matter of:

THE APPLICATION OF EAST KENTUCKY POWER COOPERATIVE, INC. FOR A GENERAL ADJUSTMENT OF ITS WHOLESALE ELECTRIC RATES	))))	**CASE NO. 2010-00167**

AFFIDAVIT

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Isaac S. Scott, being duly sworn, states that he has read the foregoing prepared testimony and that he would respond in the same manner to the questions if so asked upon taking the stand, and that the matters and things set forth therein are true and correct to the best of his knowledge, information and belief.

Isaac S. Scott

Subscribed and sworn before me on this 14th day of October, 2010.

Gwyn M. Willoughby
Notary Public

MY COMMISSION EXPIRES NOVEMBER 30, 2013
NOTARY ID #409352

Avoided Energy Calculation
Baron's Cost of Service Study, Adjusted

	Energy mWh	Cost Dollars	Avg Cost	Less: Capacity Cost	Net Avg Cost
	10,476	1,157,965	110.535		110.535
	11,905	1,123,767	94.395		94.395
	4,277	369,068	86.291		86.291
	332,800	23,939,804	71.935	(6.500)	65.435
Weighted Average	359,458	26,590,604	73.974		67.956
Adjustment to Weighted Average Cost					32.957
Adjusted Weighted Average Cost					$34.999
Gallatin Interruptible Load (mW)					145
Hours of Interruption					360
Total Avoided Energy (mWh)					52,200
Avoided Energy Cost					$1,826,959

Adjustment to Weighted Average Cost (Data from Wood Exhibit 1, Schedule 1.01):		
Fuel Cost in Base Rates		36.530
Less: Average FAC Billing Revenue per MWH Sales -		
Total FAC Billing Revenues	$48,873,789	
Total MWH Sales Subject to FAC	13,680,219	
Average FAC Billing Revenue per MWH Sales		3.573
Adjustment to Weighted Average Cost		32.957

EAST KENTUCKY POWL. .OOPERATIVE, INC
Cost of Service Study
Rate Schedule Allocation

Reflecting EKPL .vision to
Avoided Energy Cost Adjustment

12 Months Ended
December 31, 2011

Description	Ref	Name	Allocation Vector	Total System	Rate E	Rate B	Rate C
Cost of Service Summary -- Pro-Forma							
Operating Expenses							
Operation and Maintenance Expenses				$ 215,110,601	$ 173,454,605	$ 11,262,364	$ 3,754,542
Depreciation and Amortization Expenses				60,623,770	52,347,909	2,628,041	868,237
Property and Other Taxes			NPT	800	685	37	12
Adjustments to Operating Expenses:							
To Remove Fuel Expense Recoverable Through FAC			FACAL	$ (7,185,140)	$ -	$ -	$ -
To Reflect Avoided Costs of Interruptible Service				$ (9,324,000)			
Reallocation of Avoided Cost Savings			6CP	$ 9,324,000	$ 7,989,280	$ 450,461	$ 148,765
To Reflect Avoided Fuel Costs of Interruption				$ (1,826,959)			
Reallocation of Avoided Fuel Cost			PENGA	$ 1,826,959	$ 1,456,587	$ 121,981	$ 41,168
Reallocate Purchased Power - Remove on PENG			PPPENG	$ (42,997,833)	$ (28,552,533)	$ (2,391,113)	$ (806,995)
Reallocate Purchased Power - Allocate On-Peak/Off-Peak			PPTOU	$ 42,997,833	$ 29,029,232	$ 2,337,736	$ 782,835
Reallocate Fuel Expense - Remove on PENGA			PENGA	$ (445,953,276)	$ (355,547,004)	$ (29,775,049)	$ (10,049,008)
Reallocate Fuel Expense - Allocate on Monthly Energy			PENG_MON	$ 445,953,276	$ 355,322,335	$ 29,859,352	$ 10,073,954
Total Expense Adjustments				(7,185,140)	9,697,897	603,368	190,719
Total Operating Expenses		TOE		$ 268,550,031	$ 235,501,096	$ 14,493,809	$ 4,813,510
Utility Operating Margins -- Pro-Forma				$ 117,063,014	$ 98,973,088	$ 6,081,708	$ 1,913,883
Non-Operating Items							
Sum of Non-Operating Items				$ (108,925,422)	$ (93,210,642)	$ (5,020,756)	$ (1,658,771)
Adjustment To Remove Interest Exp. Recoverable Through ESR			6CP	$ -	$ -	$ -	$ -
Total Non-Operating Items				$ (108,925,422)	$ (93,210,642)	$ (5,020,756)	$ (1,658,771)
Net Utility Operating Margin				$ 8,137,592	$ 5,762,445	$ 1,060,951	$ 255,113
Net Cost Rate Base				$ 2,979,413,610	$ 2,548,044,644	$ 137,828,120	$ 45,537,930
Return on Rate Base -- Utility Operating Margin Divided by Rate Base				3.93%	3.88%	4.41%	4.20%
Dollar Subsidy				$ (0)	$ (1,141,171)	$ 666,355	$ 124,670

EAST KENTUCKY POWL.. .OOPERATIVE, INC
Cost of Service Study
Rate Schedule Allocation

12 Months Ended
December 31, 2011

Reflecting EKP.. ..vision to
Avoided Energy Cost Adjustment

Description	Ref	Name	Allocation Vector	Rate G	Large Special Contract	Special Contract Pumping Stations	Steam Service
Cost of Service Summary -- Pro-Forma							
Operating Expenses							
Operation and Maintenance Expenses				$ 4,075,584	$ 13,333,104	$ 7,874,916	$ 1,355,485
Depreciation and Amortization Expenses				1,022,088	3,332,172	113,097	312,226
Property and Other Taxes			NPT	14	47	2	4
Adjustments to Operating Expenses:							
To Remove Fuel Expense Recoverable Through FAC			FACAL	$ -	$ -	$ (7,185,140)	$ -
To Reflect Avoided Costs of Interruptible Service					$ (9,324,000)		
Reallocation of Avoided Cost Savings			6CP	$ 164,237	$ 571,258	$ -	$ -
To Reflect Avoided Fuel Costs of Interruption					$ (1,826,959)		
Reallocation of Avoided Fuel Cost			PENGA	$ 42,737	$ 129,480	$ -	$ 35,005
Reallocate Purchased Power - Remove on PENG			PPPENG	$ (837,755)	$ (2,538,118)	$ (7,185,140)	$ (686,179)
Reallocate Purchased Power - Allocate On-Peak/Off-Peak			PPTOU	$ 816,424	$ 2,179,566	$ 7,185,140	$ 666,901
Reallocate Fuel Expense - Remove on PENGA			PENGA	$ (10,432,042)	$ (31,605,608)	$ -	$ (8,544,565)
Reallocate Fuel Expense - Allocate on Monthly Energy			PENG_MON	$ 10,454,729	$ 31,688,575	$ -	$ 8,554,330
Total Expense Adjustments				208,330	(10,725,805)	(7,185,140)	25,491
Total Operating Expenses		TOE		$ 5,306,016	$ 5,939,518	$ 802,875	$ 1,693,207
Utility Operating Margins -- Pro-Forma				$ 1,238,034	$ 6,018,608	$ 550,224	$ 2,287,470
Non-Operating Items							
Sum of Non-Operating Items				$ (1,883,893)	$ (6,365,968)	$ (230,795)	$ (554,596)
Adjustment To Remove Interest Exp. Recoverable Through ESR			6CP	$ -	$ -	$ -	$ -
Total Non-Operating Items				$ (1,883,893)	$ (6,365,968)	$ (230,795)	$ (554,596)
Net Utility Operating Margin				$ (645,860)	$ (347,360)	$ 319,428	$ 1,732,874
Net Cost Rate Base				$ 51,614,612	$ 174,682,903	$ 6,657,070	$ 15,048,330
Return on Rate Base -- Utility Operating Margin Divided by Rate Base				**2.40%**	**3.45%**	**8.27%**	**15.20%**
Dollar Subsidy				$ (789,937)	$ (844,792)	$ 288,663	$ 1,696,212

Reflecting EKPC Revision to
Avoided Energy Cost Adjustment

EAST KENTUCKY POWER COOPERATIVE, INC
Cost of Service Study
Rate Schedule Allocation

12 Months Ended
December 31, 2011

Description	Ref	Name	Allocation Vector	Total System	Rate E	Rate B	Rate C
Cost of Service Summary -- Pro-Forma (EKPC Proposed Increase)							
Operating Revenues							
Total Operating Revenue				$ 385,613,045	$ 334,474,184	$ 20,575,517	$ 6,727,393
Pro-Forma Adjustments: To Reflect Proposed Increase				$ 49,377,447	$ 40,523,082	$ 2,979,952	$ 993,619
Total Pro-Forma Operating Revenue				$ 434,990,492	$ 374,997,266	$ 23,555,469	$ 7,721,012
Operating Expenses							
Total Operating Expenses				$ 268,550,031	$ 235,501,096	$ 14,493,809	$ 4,813,510
Utility Operating Margins -- Pro-Formed for Phase I Increase				$ 166,440,461	$ 139,496,170	$ 9,061,660	$ 2,907,502
Net Cost Rate Base				$ 2,979,413,610	$ 2,548,044,644	$ 137,828,120	$ 45,537,930
Rate of Return				5.59%	5.47%	6.57%	6.38%
Dollar Subsidy				$ (0)	$ (2,846,512)	$ 1,362,099	$ 363,594

Reflecting EKPC Revision to
Avoided Energy Cost Adjustment

EAST KENTUCKY POWER COOPERATIVE, INC
Cost of Service Study
Rate Schedule Allocation

12 Months Ended
December 31, 2011

Description	Ref	Name	Allocation Vector	Rate G	Large Special Contract	Special Contract Pumping Stations	Steam Service
Cost of Service Summary -- Pro-Forma (EKPC Proposed Increase)							
Operating Revenues							
Total Operating Revenue				$ 6,544,050	$ 11,958,126	$ 1,353,098	$ 3,980,677
Pro-Forma Adjustments: To Reflect Proposed Increase				$ 1,006,664	$ 3,121,617	$ -	$ 752,513
Total Pro-Forma Operating Revenue				$ 7,550,714	$ 15,079,743	$ 1,353,098	$ 4,733,190
Operating Expenses							
Total Operating Expenses				$ 5,306,016	$ 5,939,518	$ 802,875	$ 1,693,207
Utility Operating Margins -- Pro-Formed for Phase I Increase				$ 2,244,698	$ 9,140,225	$ 550,224	$ 3,039,983
Net Cost Rate Base				$ 51,614,612	$ 174,682,903	$ 6,657,070	$ 15,048,330
Rate of Return				4.35%	5.23%	8.27%	20.20%
Dollar Subsidy				$ (638,675)	$ (618,173)	$ 178,336	$ 2,199,331

East Kentucky Power Cooperative, Inc.
Comparison of Gallatin Proof of Revenue
Adjusted reflects 29.4% On-peak

Description	EKPC Forecast Billing Units	EKPC Forecast Rate	EKPC Forecast Current $	Adjusted Forecast Billing Units	Adjusted Forecast Rate	Adjusted Forecast Current $
Large Special Contract						
Demand Charge						
Firm Demand	1,920,000	$ 6.63	$ 12,729,600	1,920,000	$ 6.63	$ 12,729,600
10-Min Inturruptible Demand	1,440,000	$ (5.60)	(8,064,000)	1,440,000	$ (5.60)	(8,064,000)
90-Min Inturruptible Demand	300,000	$ (4.20)	(1,260,000)	300,000	$ (4.20)	(1,260,000)
Energy Charge						
On-Peak	240,697,818	$ 0.047128	11,343,607	284,874,240	$ 0.047128	13,425,553
Off-Peak	728,262,182	$ 0.043844	31,929,927	684,085,760	$ 0.043844	29,993,056
	968,960,000			968,960,000		
Sub-Total -- Base Rates			46,679,134			46,824,209
FAC	968,960,000	-0.00357	(3,463,784)	968,960,000	-0.00357	(3,463,784)
Environmental Surcharge	$ 43,215,350	12.309%	5,319,274	$ 43,360,425	12.309%	5,337,131
			$ 48,534,624			$ 48,697,556
Total Billings						
						$ 162,932

Adjusted Usage	968,960,000
EKPC Forecasted Usage	968,960,000
Incremental Usage	-
Base Fuel Rate	0.03653
Incremental Base Fuel	-
Adjusted FAC	(3,463,784)
EKPC Forecasted FAC	(3,463,784)
Incremental FAC	-
Adjusted ES	5,337,131
EKPC Forecasted ES	5,319,274
Incremental ES	17,857

Proposed @ Gallatin Revenue Apportionment of EKPC Increase
Billing Analysis - 12-Mo Ended December 31, 2011

Description	Current			Proposed @ Gallatin Revenue Apportionment of EKPC Increase			% Change
	Billing Units	Rate	Current $	Billing Units	Rate	Proposed $	
Large Special Contract							
Demand Charge							
Total Demand	1,920,000	$ 6.63	$ 12,729,600	1,920,000	$ 6.89	$ 13,228,800	3.92%
10-Min Inturruptible Demand	1,440,000	$ (5.60)	(8,064,000)	1,440,000	$ (6.22)	(8,956,800)	11.07%
90-Min Inturruptible Demand	300,000	$ (4.20)	(1,260,000)	300,000	$ (4.20)	(1,260,000)	0.00%
Energy Charge							
On-Peak kWh	240,697,818	$ 0.047128	11,343,607	240,697,818	$ 0.04896	11,785,287	3.89%
Off-Peak kWh	728,262,182	$ 0.043844	31,929,927	728,262,182	$ 0.04555	33,173,071	3.89%
	968,960,000			968,960,000			
Sub-Total -- Base Rates			46,679,134			47,970,358	
FAC	968,960,000	-0.00357	(3,463,784)			(3,463,784)	
Environmental Surcharge	$ 43,215,350	12.309%	5,319,274			5,319,274	
			$ 48,534,624			$ 49,825,848	2.66%
Total Billings						Annual Increase $	1,291,224
						Impact on Typical Monthly Invoice $	**107,602**

Lg Sp Contract	
Firm Demand	$ 12,729,600
Firm Energy	43,273,534
Total Current Rev	56,003,134
Rev Increase	2,180,078
Increase Factor	1.03893

Gallatin Proposed Class Rate Increases

	Gallatin Proposed Increases at Full Rate Request	Adjusted Increases
Rate E	41,382,761	42,131,008
Rate B	3,042,756	3,097,772
Rate C	1,014,546	1,032,890
Rate G	1,027,832	1,046,416
Large Special Contract	2,141,359	2,180,078
Spc Cont Pumping Stations	-	-
Steam Service	768,193	782,083
Total	49,377,447	50,270,247

Net Revenue Increase	49,377,447	1.02
Interruptible Credit Incr.	892,800	
Rate Schedule Increase	50,270,247	50,270,247

Proposed @ Gallatin Revenue Apportionment of $3.03 Million Increase
Billing Analysis - 12-Mo Ended December 31, 2011

Description	Current Billing Units	Current Rate	Current $	Proposed @ Gallatin Revenue Apportionment of $3.03 Million increase Billing Units	Proposed Rate	Proposed $	% Change
Large Special Contract							
Demand Charge							
Total Demand	1,920,000	$ 6.63	$ 12,729,600	1,920,000	$ 6.65	$ 12,768,000	0.30%
10-Min Inturruptible Demand	1,440,000	$ (5.60)	(8,064,000)	1,440,000	$ (6.22)	(8,956,800)	11.07%
90-Min Inturruptible Demand	300,000	$ (4.20)	(1,260,000)	300,000	$ (4.20)	(1,260,000)	0.00%
Energy Charge							
On-Peak kWh	240,697,818	$ 0.047128	11,343,607	240,697,818	$ 0.04727	11,377,786	0.30%
Off-Peak kWh	728,262,182	$ 0.043844	31,929,927	728,262,182	$ 0.04398	32,026,058	0.30%
	968,960,000			968,960,000			
Sub-Total -- Base Rates			46,679,134			45,955,044	
FAC	968,960,000	-0.00357	(3,463,784)			(3,463,784)	
Environmental Surcharge	$ 43,215,350	12.309%	5,319,274			5,319,274	
			$ 48,534,624			$ 47,810,534	-1.49%
Total Billings						Annual Increase $	(724,090)
						Impact on Typical Monthly Invoice $	**(60,341)**

Lg Sp Contract	
Firm Demand	$ 12,729,600
Firm Energy	43,273,534
Total Current Rev	56,003,134
Rev Increase	168,950
Increase Factor	1.00302

Gallatin Proposed Class Rate Increases

	Gallatin Proposed Increases at Full Rate Request	Adjusted Increases
Rate E	41,382,761	3,265,032
Rate B	3,042,756	240,068
Rate C	1,014,546	80,046
Rate G	1,027,832	81,094
Large Special Contract	2,141,359	168,950
Spc Cont Pumping Stations	-	-
Steam Service	768,193	60,609
Total	49,377,447	3,895,800

Net Revenue Increase	3,003,000	0.0789
Interruptible Credit Incr.	892,800	
Rate Schedule Increase	3,895,800	3,895,800

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

GENERAL ADJUSTMENT OF ELECTRIC RATES OF EAST KENTUCKY POWER COOPERATIVE, INC.	) PSC CASE NO.) 2010-00167)

REBUTTAL TESTIMONY OF
FRANK J. OLIVA
MANAGER OF FINANCE AND RISK
EAST KENTUCKY POWER COOPERATIVE, INC.

Filed: October 15, 2010

Q. Please state your name, business address and occupation.

A. My name is Frank J. Oliva and my business address is East Kentucky Power Cooperative (EKPC), 4775 Lexington Road, Winchester, Kentucky 40391. I am Manager of Finance and Risk.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to respond to certain issues raised in the Direct Testimony of Lane Kollen. I will address issues raised by Mr. Kollen regarding EKPC's projected interest expense.

Q. On page 22 of Mr. Kollen's direct testimony, he asserts that EKPC is projecting "excessive financing" resulting in "huge balances in cash and cash equivalents". Do you agree with this statement?

A. No. First, as explained in detail by Mr. Scott in his rebuttal testimony, Mr. Kollen's logic is flawed regarding the use of net investment rate base in this case. As demonstrated by Mr. Scott, Mr. Kollen's comparison of net investment rate base and capitalization is faulty. Second, it is highly implausible that the level of debt requested by EKPC will result in huge excess cash balances, in that proposed capital expenditures of $471.922 million, from December 2009 to December 2011, exceed the projected increase in long-term debt of $333.722 million (used to fund such capital expenditures) by $138.2 million.

Q. On page 24 of Mr. Kollen's direct testimony, he proposes to eliminate $18.728 million (corrected amount) of interest expense from EKPC's projections. Please explain.

A. $5.603 million of the interest expense proposed to be eliminated is associated with Mr. Kollen's calculation regarding what he terms as EKPC's "excessive average cash and cash equivalent balance". On pages 23 through 26 of Mr. Kollen's direct testimony, by proposing that his calculated balance of EKPC's cash and cash equivalents be eliminated, he essentially assumes that EKPC's cash liquidity should be held to zero.

Q. Do you agree with this?

A. No. Using Mr. Kollen's apparent assumption that EKPC's cash liquidity should be held to zero, EKPC would operate without adequate working capital or contingency funding. As with any business, EKPC needs sufficient working capital to operate during a normal business cycle and to pay its bills in a timely manner. Mr. Kollen's proposal is not appropriate.

Q. Please explain what makes up the remaining portion of the $18.728 million of interest expense that Mr. Kollen proposes to eliminate.

A. As reflected in Mr. Kollen's response to the Staff's First Request For Information (Excel file entitled "Interest Expense Adjustment 1"), Mr. Kollen also proposes to eliminate $13.125 million of interest expense related to the Smith Unit 1 Private Placement Debt. On page 24 of Mr. Kollen's direct testimony, he states that the debt pursuant to the planned private placement issuance "is not necessary".

Q. Is the proposed adjustment to eliminate this expense appropriate?

A. No. The debt related to the Smith CFB project has been and will continue to be used to fund prudently incurred capital expenditures. As Mr. Kollen is aware, the funds expended for the Smith 1 project have been used for a long-term asset properly certificated by the Kentucky Public Service Commission. Accordingly, it is appropriate to finance these properly incurred capital expenditures on a long-term basis. Because of the Rural Utilities Service's moratorium on financing base load facilities for cooperatives, EKPC proposes to fund these obligations through a private placement debt offering.

Q. On page 28 of Mr. Kollen's direct testimony, he opines that, after reviewing the June 2010 confidential pricing information for EKPC's credit facility, the interest rate should be set at 4.0% or less. Do you agree with this opinion?

A. No, I do not agree. There are several factors to consider in estimating the projected interest rate of EKPC's unsecured credit facility. First, the interest rate is a variable rate and was not fixed in June 2010. Mr. Kollen is making his projection of future interest rates based on his perception of the current interest rate environment. Second, short-term interest rates can vary dramatically over relatively short periods of time. A relevant example can be found by examining the movement in yield of the six-month U.S. Treasury security. According to Federal Reserve statistics, the average rate for September 2010 was 0.19%. Three years prior, in September 2007, the average rate was 4.20%. This is a difference in excess of 400 basis points over a three-year period. Short-term interest rates can go up as quickly as they have come down in the current economic environment, making them difficult to predict, but almost ensuring that rates will increase rather than decrease. Third, the EKPC credit facility is a three-year agreement. As discussed here, interest rates can be volatile over this period and

EKPC is attempting to estimate an interest rate that is reasonable for its forecasted test year of 2011.

Q. Does this conclude your testimony?

A. Yes.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In re the Matter of:

THE APPLICATION OF EAST KENTUCKY POWER COOPERATIVE, INC. FOR A GENERAL ADJUSTMENT OF ITS WHOLESALE ELECTRIC RATES	)	**CASE NO. 2010-00167**

<u>A F F I D A V I T</u>

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Frank J. Oliva, being duly sworn, states that he has read the foregoing prepared testimony and that he would respond in the same manner to the questions if so asked upon taking the stand, and that the matters and things set forth therein are true and correct to the best of his knowledge, information and belief.

Frank J. Oliva

Subscribed and sworn before me on this 13th day of October, 2010.

Notary Public

MY COMMISSION EXPIRES NOVEMBER 30, 2013
NOTARY ID #409352

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

GENERAL ADJUSTMENT OF ELECTRIC RATES	**)**	**CASE NO.**
OF EAST KENTUCKY POWER	**)**	**2010-00167**
COOPERATIVE, INC.	**)**	

REBUTTAL TESTIMONY OF
ANN F. WOOD
MANAGER OF REGULATORY SERVICES
EAST KENTUCKY POWER COOPERATIVE, INC.

Filed: October 15, 2010

Q. Please state your name, business address and occupation.

A. My name is Ann F. Wood and my business address is East Kentucky Power Cooperative ("EKPC"), 4775 Lexington Road, Winchester, Kentucky 40391. I am the Manager of Regulatory Services for EKPC.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to respond to various portions of Mr. Kollen's direct testimony and data request responses.

Q. Which cases does Mr. Kollen cite with respect to his experience with Kentucky forecasted test years?

A. In the response to Request 2 of EKPC's Information Requests to Gallatin Steel, Mr. Kollen cited Case Nos. 2008-00472 and 2009-00040. Case No. 2008-00472 is The Application of East Kentucky Power Cooperative, Inc. for a Certificate of Public Convenience and Necessity for the Construction of an Air Quality Control System at Cooper Power Station. Case No. 2009-00040 is Notice and Application of Big Rivers Electric Corporation for a General Adjustment in Rates, an historic test year rate case that was withdrawn after the close of Big Rivers' Unwind Transaction. Neither case number cited relates to a Kentucky forecasted test year proceeding.

Q. Throughout Mr. Kollen's direct testimony and responses to data requests, he provides comparisons to EKPC's forecasted test year compared to calendar year 2009. Are these two periods appropriate to compare?

A. No. First, calendar year 2009 was an abnormal weather year, with EKPC's energy sales to its members being 4.7% less than in 2008. EKPC's 2009 sales to its member cooperatives were $748.8 million, compared to a budget of $921.2 million. Mr. Kollen focuses only on comparing expenses with no consideration of reduction in revenues.

Additionally, EKPC added substantial amounts of capital production investment in 2009. Second, Mr. Kollen has not utilized the base period in any of his analyses; Mr. Kollen's approach appears to be more consistent with analyses used in an historic test year proceeding.

Q. Why is the addition of capital production investment relevant?

A. During 2009 and 2010, EKPC added over $1 billion in production assets. These assets include Spurlock Unit 4, two 100 MW advanced LMS100 aeroderivative combustion turbines, two wet flue gas desulphurization scrubbers and two wet electrostatic precipitators. In his response to Request 8 of Gallatin Steel's Information Request to EKPC, Mr. Kollen acknowledges there is incremental O&M expense when new generators or scrubbing equipment are added. However, this statement provided no quantifications. During the first year of operation, most operational and maintenance problems associated with new generation and pollution control equipment are covered under warranty. After that first year, the cost of correcting operational or mechanical problems is borne by the utility. Each component of new generation and pollution control equipment is unique, and developing a maintenance strategy takes, on average, 3-5 years. New advanced technologies employed in this new equipment often pose additional maintenance challenges as the technologies reach operational maturity. For example, EKPC's circulating fluidized bed technology as utilized for Gilbert and Spurlock Unit 4 requires that a full boiler inspection be completed annually. This requires the erection of expensive temporary scaffolding inside the boiler to facilitate the inspection. This is in contrast with EKPC's pulverized coal fire boilers that typically require a complete inspection utilizing temporary scaffolding every five years. Parts of

2010 and all of 2011 will reflect the expiration of maintenance warranties and the increase in EKPC's own maintenance activities on the new production assets.

Q. **Page 17, Lines 1 through 11, of Mr. Kollen's Direct Testimony indicates that the level of EKPC's purchased power expense due to forced outages not recoverable through the fuel adjustment clause is excessive. Do you agree with this conclusion?**

A. No. In three of the last five years (2005-2009), EKPC's level of unrecovered forced outage replacement power costs has exceeded $9.7 million. Therefore, EKPC contends that the proposed $10 in annual forced outage costs is reasonable. As indicated in the response to Request 4 of Commission Staff's Third Data Request, estimating the savings associated with forced outage insurance is nearly impossible. EKPC's forced outage insurance policy is meant to protect EKPC in the event of a catastrophic outage of extended duration. Simply subtracting the amount of EKPC's forced outage insurance premium from the estimated unrecoverable forced outage costs does not adequately estimate the savings.

Q. **On page 18, lines 20 through 22, and page 19, lines 1 through 6, of Mr. Kollen's direct testimony, he proposes a three year amortization period for the unamortized costs of the 2004 Spurlock 1 outage. Does EKPC agree with Mr. Kollen's proposal?**

A. No. Mr. Kollen proposes to extend the amortization of the 2004 Spurlock 1 outage costs over an additional three-year time period versus EKPC's proposal to amortize the remaining costs over a two-year period. EKPC treats the 2004 Spurlock 1 outage costs differently than the other two regulatory assets for the following reasons: 1) EKPC has no regulatory asset on its books; this amortization is strictly a rate-making adjustment, and 2) Because this outage occurred in 2004, EKPC proposed a shorter amortization period in order to complete the cost recovery associated with this event.

Q. Does this conclude your testimony?

A. Yes.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In re the Matter of:

THE APPLICATION OF EAST KENTUCKY POWER COOPERATIVE, INC. FOR A GENERAL ADJUSTMENT OF ITS WHOLESALE ELECTRIC RATES	))))	**CASE NO. 2010-00167**

AFFIDAVIT

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Ann F. Wood, being duly sworn, states that she has read the foregoing prepared testimony and that she would respond in the same manner to the questions if so asked upon taking the stand, and that the matters and things set forth therein are true and correct to the best of her knowledge, information and belief.

Ann F. Wood

Subscribed and sworn before me on this 14th day of October, 2010.

Notary Public

MY COMMISSION EXPIRES NOVEMBER 30, 2013
NOTARY ID #409352