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BEFORE THE PUBLIC SERVICE COMMISSION

MAY 22 2008

PUBLIC SERVICE
COMMISSION

In the Matter of:

APPLICATION OF BLUE GRASS ENERGY)
COOPERATIVE CORPORATION FOR) Case No. 2008-00011
AN ADJUSTMENT OF RATES)

ATTORNEY GENERAL'S INITIAL REQUESTS FOR INFORMATION

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and submits these Initial Requests for Information to Blue Grass Energy Cooperative Corporation [hereinafter referred to as "BGECC"] to be answered by the date specified in the Commission's Order of Procedure, and in accord with the following:

(1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.

(2) Please identify the witness who will be prepared to answer questions concerning each request.

(3) Please repeat the question to which each response is intended to refer. The Office of the Attorney General can provide counsel for BGECC with an electronic version of these questions, upon request.

(4) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional

information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.

(5) Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association, be accompanied by a signed certification of the preparer or 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.

(6) If any request appears confusing, please request clarification directly from the Office of Attorney General.

(7) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(8) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self evident to a person not familiar with the printout.

(9) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

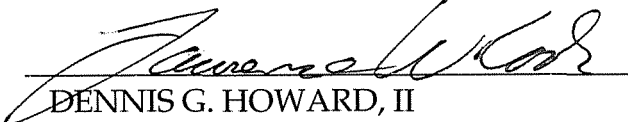
(10) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to

whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(11) In the event any document called for has been destroyed or transferred beyond the control of the company, please state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

(12) Please provide written responses, together with any and all exhibits pertaining thereto, in one or more bound volumes, separately indexed and tabbed by each response.

Respectfully submitted,
JACK CONWAY
ATTORNEY GENERAL



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Certificate of Service and Filing

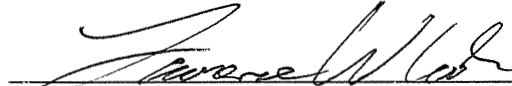
Counsel certifies that an original and ten photocopies of the foregoing were served and filed by hand delivery to Stephanie Stumbo, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; counsel further states that true and accurate copies of the foregoing were mailed via First Class U.S. Mail, postage pre-paid, to:

Daniel W. Brewer
President and CEO
Blue Grass Energy Cooperative Corp.
P. O. Box 990
Nicholasville, KY 40340-0990

Hon. Howard Downing
Attorney at Law
109 S. 1st St.
Nicholasville, KY 40356

Leigh and Troy Roach
115 Prestwick Dr.
Georgetown, KY 40324

this 22nd day of May, 2008



Assistant Attorney General

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I. REVENUE REQUIREMENTS

1. With regard to Exhibit S, page 1 of 4, please provide a workpaper showing explanations and calculations for the proposed test year adjustment amounts of \$8,801,833 for deferred debits, \$9,392,510 for patronage capital, and \$34,442 for accumulated operating provisions.
2. Please provide the portion of the 13-month average prepayment balance of \$596,352 (Exhibit K, page 2 of 7) that represents the 13-month average test year PSC assessment prepayments.
3. Exhibit K, page 4 shows that BECC carries on its books Consumer Advances with a balance of \$674,647 as of the end of the test year. In this regard, please provide the following information:
 - a. Provide the equivalent Consumer Advances balances for each of the years 2002 through 2006.
 - b. What is the difference between Consumer Advances and Consumer Deposits?
 - c. Is the Coop required to refund Consumer Advances to the Coop members and, if so, under what specific conditions?
 - d. Is the Coop required to pay interest on these Consumer Advances and, if so, what is the test year Consumer Advances interest and in what specific expense account is this interest reflected?
 - e. Explain why BECC has not reflected its test year Consumer Advances balance as a rate base deduction, as shown on Exhibit K, page 2, line 25.
4. Given that BECC has the availability of \$1,413,702 worth of Consumer Deposit funds (see Exhibit S, page 1, line 44) and has not deducted this Consumer Deposit balance from its rate base, explain why the Coop believes it appropriate to include Consumer Deposit interest expense (see Exhibit S, page 2, line 31) in its determination of the requested rate increase in this case. Stated differently, if Consumer Deposits are not to be considered for ratemaking purposes in this case, explain why the interest expenses associated with Consumer Deposits have been considered for ratemaking purposes by BECC.
5. Is BECC aware of the well-established and long-standing Commission ratemaking policy that consumer deposits may not be deducted from

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rate base and, consistent with that policy, that consumer deposit interest may not be included as an above-the-line ratemaking expense (see page 9 of the Commission's Order in Delta Natural Gas Company's 1999 rate case, Case No. 1999-176)?

6. With regard to Exhibit G, please provide the following information:
 - a. The net of the billed and unbilled fuel adjustment and environmental surcharge amounts shown at the bottom of Exhibit G adds to \$15,046,677. Please reconcile this to the corresponding dollar amount of \$15,052,264 on Exhibit S, page 2, line 10.
 - b. Reconcile the test year base rate revenue amount of \$81,632,418 to the corresponding test year base rate revenue amount of \$81,635,499 on Exhibit S, page 2, line 9.
 - c. Reconcile the normalized Case No. 2006-0512 revenue amount of \$86,991,610 and the proposed revenue amount of \$94,824,821 to the corresponding amounts of \$86,992,427 and \$94,830,450 on Exhibit S, page 2, line 9.
7. For each of the income statement accounts listed on Exhibit X, pages 1 through 7, please provide the actual annual amounts (only annual amounts are requested, not monthly amounts) for calendar years 2003, 2004 and 2005.
8. As confirmed on Exhibit N, page 19, during 2007 BECC completed the installation of AMRs and the corresponding removal of all existing meters. In this regard, please provide the following information:
 - a. Provide all O&M expenses (including meter expenses, maintenance expenses, outside services expenses, etc.) booked in the 2007 test year that were directly or indirectly associated with this one-time meter conversion project. Provide these O&M expenses in total and broken out by O&M expense account (account number and title).
 - b. The 2007 Meter Expense of \$752,953 in Acct. 58600 is in excess of 42% higher than the 2006 Meter Expense of \$529,011 in that same account. Please indicate the reasons for this and indicate what portion of the 2007 Meter Expense of \$752,953 is associated with the one-time AMR conversion project.

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9. Account 59310 - Maintenance of Right of Way expenses for 2007 amounted to \$2,115,439 which is approximately 26% higher than the corresponding 2006 expenses of \$1,678,657. In this regard, please provide the following information:
 - a. Actual 59310 – Maintenance of Right of Way expenses for each of the years 2000 through 2005 and for the first 4 months of 2008.
 - b. Reasons for the large increase in 2007 over 2006.
 - c. Account 59310 – Maintenance of Right of Way expenses included in the Operating Budget for 2008.
 - d. Provide a more complete explanation of what exactly BECC means by its statement on Exhibit H-1, page 6 that 2007 includes “an increase in right of way maintenance expenses to *try to maintain a 5 year trim program.*” (emphasis supplied)

10. With regard to Account 59300 – Maintenance of Overhead Lines expenses, please provide the following information:
 - a. Actual expenses for each of the years 2000 through 2005.
 - b. Expenses included in the Operating Budget for 2008.

11. With regard to Account 91230 – Member Services Public Relations, please provide the following information:
 - a. Actual expenses booked in each of the years 2003, 2004 and 2005.
 - b. After removing disallowable expenses of \$91,910, the 2007 expenses still amount to \$254,933 which is still almost 4.5 times as high as the actual 2006 expense level for this account. Please provide an explanation for this.

12. With regard to Exhibit 11, pages 3 – 6, please provide the nature and purpose of the following Account 91230 expense items and, in addition, explain why it would be appropriate to include them for ratemaking purposes:
 - a. All expenses related to the cold air balloon.
 - b. Line 41: \$125 for fair and horse show expenses.
 - c. Line 56: \$5,678 for bulbs Customer Appreciation Days.
 - d. Line 59: \$501.31 for 150 pocket diaries.

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- e. Line 61: \$2,017.50 for Customer Appreciation Day/HDO
 - f. Line 62: \$30.00 for Customer Appreciation Day/Chili
 - g. Line 67: \$875.00 for Customer Appreciation Day Food
 - h. Line 70: \$1,103.89 for Customer Appreciation Day expenses
 - i. Line 77: \$769.99 for Customer Appreciation Halloween Booth, Hat
 - j. Line 151: \$123.64 for Training Snacks
 - k. Line 152: \$1,020 for lunches.
 - l. Line 170: \$4,260 for Liability Insurance Energy Advisors.
13. With regard to the Contract Advertising expense of \$4,360 on line 84 of Exhibit 11, page 4, please provide the following information:
- a. Description of nature and purpose of this advertising.
 - b. Copies of all underlying ads and ad campaigns.
14. With regard to Exhibit 11, page 7 please provide the following information for the Account 91240 – Marketing expenses claimed for ratemaking purposes in this case:
- a. Reconcile the requested expenses of \$13,124 on lines 11, 15 and 21 for surge protection expenses with the position shown by BECC on Exhibit 12 to remove for ratemaking purposes all revenues and expenses associated with non-operating activities, including surge protection activities.
 - b. Provide the nature and purpose of the \$1,397.26 expense for MH Heating Inserts (line 14): the \$100 expense for Safety Demo repairs (line 16); the \$125 for meter repairs for homes (line 30); the \$170 home improvement ad (line 38); the \$152.25 advertising expense (line 39); the \$223.58 for electric signs (line 44); the \$590 officer installation dinner expenses (line 46); and the \$641 image marketing expenses (line 47) and provide copies of the custom messages.
15. With regard to Exhibit 11, pages 8 and 9, provide the nature and purpose and the justification for rate inclusion of the following Account 91300 – Advertising expense items:
- a. Line 33: \$899 for Theme Billboards
 - b. Line 40: \$425 for 2007 Night Table Top Booth

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- c. Line 49: \$1,450 for Advertising Spots. Also included copies of underlying ad spots.
 - d. Line 73: \$1,000 for House Premiere Advertising
 - e. Lines 81 and 82: \$198 and \$115 for Customer Appreciation advertising. Also include copies of underlying ads.

- 16. Exhibit 9, page 2, line 80 shows that BECC's test year accounting expenses in Account 92300 includes \$18,000 for the Jim Adkins depreciation study. In this regard, please provide the following information:
 - a. Does the \$60,000 current rate case expense for Consulting services, shown on Exhibit 13 also include an expense allowance for the Jim Adkins depreciation study? If so, confirm that the \$18,000 expense in Account 92300 would represent a double-count. If not, provide a component breakout of the \$60,000 rate case Consulting fee amount.
 - b. How many times in the last 20 years has BECC performed a depreciation study or had a depreciation study performed by an outside group?
 - c. Would BECC agree that the depreciation study fee amount of \$18,000 does not represent an annually recurring expense?

- 17. With regard to Exhibit 9, page 2, please provide the following information:
 - a. Nature and purpose of the \$28,128.45 charge on line 94 for Culture Assessment training, as well as an explanation whether this represents a recurring or non-recurring event.
 - b. Nature and purpose of the \$29,925 fee on line 98 for the Rate Increase Campaign. Also explain why this expense should not be amortized over 3 years, similar to all other expenses associated with the instant rate case.

- 18. With regard to the legal services expenses shown on Exhibit 9, page 1 and 2, please provide the following information:
 - a. What is the nature and purpose of the "Tindle Site Legal Services" for which BECC was charged in each month of the test year?

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- b. Provide all legal services expenses that are of a non-recurring nature.
19. With regard to rate case expenses, please provide the actual expenses incurred to date for the current rate case, in total and broken out by expense component per Exhibit 13.
20. Please provide a breakout of the expense components making up the 2007 Account 92800 Regulatory Commission expenses of \$92,092.
21. Please provide the nature and purpose of the following line items in Account 930.2 on Exhibit 11, pages 11 – 14:
- a. Line 34: \$578.76 for 89 Ayburn Anorak jackets
 - b. Line 49: \$765.33 for Home & Garden show shirts
 - c. Line 51: \$1,696.61 Safety meeting prizes, Horseman tickets
 - d. Line 150: \$8,560.90 for Health Fairs
 - e. Line 160: \$314.29 for Employee Shirt Order
22. Explain why the donation expense of \$200 on line 25 of Exhibit 11, page 6 should be allowed for ratemaking purposes.
23. Please provide a detailed breakout of the expense items making up the 2007 Account 92100 – Office Supplies and Expenses of \$336,782.
24. Please indicate the names of the directors who during the test year were the Designated Representatives of BECC with either the KAEC or the NRECA.
25. Please indicate the names of the directors who during the test year were the Alternate Representatives of BECC with either the KAEC or the NRECA.
26. With regard to the directors fees and expenses in Exhibit 10, please provide the following information:
- a. Should the \$600 for Jody Hughes' CFC Financial Forum fees on Exhibit 10, page 4 be classified as Meetings per Diem rather than Regular Board Meeting fees and, therefore, should it be disallowed for ratemaking purposes?

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- b. Why should the KAEC Annual Meeting expenses of \$350.11 for Danny Britt on Exhibit 10, page 7 be allowed for ratemaking purposes?
 - c. Traditionally, the PSC has disallowed for ratemaking purposes all NRECA Annual Meeting expenses other than the NRECA Annual Meeting expenses incurred by BECC's Designated or Alternate Representative to NRECA. Explain why BECC has included all of these NRECA Annual Meeting expenses for ratemaking purposes.
27. With regard to Exhibit P, page 1, please explain why the Annual Meeting expenses tripled from 2003 to 2007 and increased almost 50% from 2006 to 2007.
28. With regard to the test year charge of \$285,000 referenced on Exhibit H-1, page 6, has this charge been removed for ratemaking purposes on Exhibit S, page 2, line 32 under the Other Deductions adjustment? If not, please explain where this charge is reflected.
29. In the same format and detail as per Exhibit 12, please provide the actual Non-Operating Activities for each of the years 2004, 2005 and 2006.
30. Please provide the actual Gain and/or Loss on Disposition of Property bookings in accounts 421.10 and 410.20 in each of the years from 2000 through 2006.
31. With regard to the Non-operating Margins adjustment of \$1,620,847 shown on Exhibit S, page 2, line 39, please provide the following information:
- a. Confirm that the net charge of \$1,620,847 consists of the extraordinary write-off amount of \$1,916,999 for the AMR meter conversion, offset by a net non-operating income amount of \$296,152 for items that are not of an extraordinary nature.
 - b. Given that BECC has reflected for ratemaking purposes other non-operating margins that are not of an extraordinary nature (non-operating margins, interest, patronage capital credits), explain why the net amount of \$296,152 of non-operating income identified in part (a) above that is also not of an

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extraordinary nature was *not* reflected for ratemaking purposes by BECC.

32. With regard to Interest Expense -- Other of \$559,841 shown on Exhibit S, page 2, line 31, please provide the following information:
 - a. Breakout of the interest expense amount by short term debt interest, customer deposit interest and any other type of interest (specify what type).
 - b. Detailed explanation of the proposed interest expense adjustment of \$239,433. In addition, explain what portions of the adjusted interest amount of \$320,408 are associated with short term debt, customer deposits and other interest items.
33. Explain what represents the Taxes -- Other of \$3,386 on Exhibit S, page 2, line 29.
34. For each of the Employee Benefit expenses listed on Exhibit 20, page 2, provide the actual expenses for each of the years 2004, 2005 and 2006.
35. Are the proposed annual FAS 106 expenses of \$51,000 for Directors shown on Exhibit 6, page 1 reflected for ratemaking purposes in this case? If so, indicate on which schedule and line item and explain why it is appropriate to charge these expenses for ratemaking purposes.
36. Are any FAS 106 expenses for BECC's outside attorneys reflected for ratemaking purposes in this case? If so, indicate on which schedule and line item and explain why it is appropriate to charge these expenses for ratemaking purposes.
37. With regard to the Payroll information shown on Exhibit 1, please explain why BECC has assumed normalized annual hours of 2,080 for the following employees who worked substantially less than 2,080 hours during the test year: salaried employee no. 1550 and hourly employee numbers 2246, 2247, 2522, 3342, 3412, 3413, 3520 and 3521.
38. With regard to BECC's number of employees, please provide the number of employees (in total and broken out between salaried, hourly, summer and part-time) for each month from January 2007 through April 2008, as compared to the corresponding employees used in calculating the adjusted test year payroll expense.

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39. With regard to summer and part-time employees, please provide the total number of hours worked (equivalent to the test year number of 2,937.5 on Exhibit 1, page 5) and the total expense amount (equivalent to the test year number of \$26,727 on Exhibit 1, page 5) booked by BECC for each of the years 2003, 2004, 2005 and 2006.
40. Exhibit 1, pages 3 and 5 show that the 2007 test year had 32 salaried employees who worked a total number of hours of 66,408 and 82 hourly employees who worked a total number of hours of 162,658. For each of the years 2004, 2005 and 2006, provide the same type of actual information, i.e., the total number of salaried employees and the associated total number of hours worked and the total hourly employees and the associated total number of hours worked.

II. RATE DESIGN

41. RE: Exhibit D. If not provided in Exhibit D, please provide a complete copy of the tariffs and terms of service proposed in this case that reflect the Districts, Areas, etc. being proposed for consolidation in this case.
42. RE: Exhibit E. Please provide a complete copy of each of the current tariffs and terms of service for each of the Districts, Areas, etc. for which consolidation is being proposed in this case.
43. RE: Exhibit H. Please provide all electronic spreadsheets, workpapers, reference documents, etc. that support the prepared direct testimony of the Blue Grass Energy Cooperative witnesses included in Exhibit H. Please provide all electronic spreadsheets in executable format.
44. RE: Exhibit I. Please provide all electronic spreadsheets supporting Exhibit I.
45. RE: Exhibit J. Please provide all electronic spreadsheets supporting Exhibit J.
46. RE: Exhibit R. Please provide the "Unbundled Cost of Service Study, Test Year – Calendar Year 2007" in Exhibit R in executable Excel

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electronic format such that all schedules (Schedule 1 through Schedule 10) are included and electronically functional in terms of the capability of each schedule to execute the calculations presented.

47. Exhibit R., Schedule 1, Page 7. Please explain how the ETS Rate of \$0.04477 is determined, and how it is included in the proposed overall and specifically the Residential revenue requirements in this case.
48. RE: Exhibit R. With regard to the cost of service study, please provide the following information and documentation supporting the study. In this response, please provide all spreadsheets in executable electronic format:
- (a) the Excel electronic spreadsheet(s) and data used to determine the demand-related and consumer-related separation of lines, transformers, and poles investments referenced at Page 4 of 70 and in Schedule 8;
 - (b) the assumptions, data, calculations, workpapers, etc. that determine the "Number of Consumers" and "Minimum Transformer Cost" figures for each rate class presented in the panel entitled "B, Transformer" in Schedule 10, Page 67 of 70;
 - (c) the assumptions, data, calculations, workpapers, etc. that determine the "Number of Consumers" and "Minimum Service Cost" figures for each rate class presented in the panel entitled "C. Service" in Schedule 10, Page 68 of 70;
 - (d) the assumptions, data, calculations, workpapers, etc. that determine the "# of Consumers" and "Minimum Meter Cost" figures for each rate class presented in the panel entitled "D. Meters" in Schedule 10, Page 68 of 70;
 - (e) the assumptions, data, calculations, workpapers, etc. that determine the "Meter Reading" and "Consumer Assistance" figures for each rate class presented in the panel entitled "E. Consumer & Accounting Service" in Schedule 10, Page 69 of 70;
 - (f) the assumptions, data, calculations, workpapers, etc. that

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determine the "Factor" and "Number of Consumers" figures for each rate class presented in the panel entitled "Meter Reading" in Schedule 10, Page 69 of 70; and,

- (g) the assumptions, data, calculations, workpapers, etc. that determine the "Factor" figures for each rate class presented in the panel entitled "Consumer Records" in Schedule 10, Page 70 of 70.
49. Exhibit R, Schedule 9, Pages 64 through 66.
- (a) Do the billing energy (kwh) amounts on Page 64 represent actual per book amounts or adjusted amounts? If adjusted, please fully explain how each amount is adjusted from actual level.
- (b) Provide a detailed explanation of how each coincident demand was determined on Page 65.
- (c) Provide all workpapers, analyses, and spreadsheets utilized to develop the amounts on Page 65.
- (d) Provide a detailed explanation of how each non-coincident demand was determined on Page 66.
- (e) Provide all workpapers, analyses, and spreadsheets utilized to develop the amounts on Page 66.
50. Exhibit R, Page 4. Please provide the rationale and the amounts being referred to by the phrase "Many expenses are directly assigned to a function". Include in this response the account references from those listed in Exhibit M of Volume 1 of the Application, and the specific line item(s) and Schedules that reflect these amounts in the cost of service study.
51. Exhibit R, Schedules 2 and 3. Please provide a table that lists the current rate classes identified in Schedule 3 that are included in the proposed consolidated rate classes identified in Schedule 2.
52. Exhibit R, Schedule 5. Exhibit R, Schedule 5 is entitled "Allocation of Revenue Requirements To Rate Classes" and lists "Revenue Requirements" for various categories; e.g., "Revenue Requirement-

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Lines". Please reconcile and cross reference each amount shown in the column "Total \$\$\$" with the amounts for specific accounts in Exhibit M of Volume 1 of the Application. As an example, provide the account(s) and amount(s) that equate to the figure associated with Distribution O&M Consumer Related costs under "Lines" (Schedule 5, Page 2, Lines 10 and 11).

53. Exhibit R, Schedule 6.
- (a) Included in Schedule 6 is a column entitled "Allocation Basis". Please provide an explanation of what each of the Allocation Basis designations represents, as well as all workpapers, data, calculations, electronic spreadsheets, etc. that show how each is determined.
- (b) Explain what "Actual \$\$\$" and "Adjusted \$\$\$" represent and how each column was calculated.
- (c) Please explain what \$76,312,696 represents in Page 53 of Schedule 6 of Exhibit R under Purchased Power, column "Actual \$\$\$."
54. RE: Volume 2, Exhibits 1 through Exhibit 20. Please provide all assumptions, electronic spreadsheets and calculations that reconcile the analyses, adjustments, financial accounting figures, etc. presented in Exhibit 1 through Exhibit 20, as appropriate, to the cost of service study presented in Exhibit R.
55. RE: Consumer Connection Policies. Please provide a copy of the consumer connection policies currently in-force, and those proposed to be in-force, regarding hook-up, line extension, etc. requirements, payments and fees applicable to consumers who want to connect to the Blue Grass Energy system.
56. RE: Power Requirements. Please provide a copy of the most recent power requirements study undertaken by, or for, Blue Grass Energy.
57. RE: Distribution System. Please provide a schematic diagram of the current Blue Grass Energy distribution system. Include in this response a schematic of each of the Districts, Areas, etc. that are

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proposed for consolidation with Blue Grass Energy in this case and how each interconnects with the current Blue Grass Energy distribution system.

58. RE: Accounting Amounts. Please provide actual test year amounts, all adjustments, and test year adjusted amounts for each of the accounts in Exhibit M of Volume 1 of the Application incorporated in the cost of service study in Exhibit R.
59. RE: Revenues. Please provide the detail of the revenues, identified by revenue accounts in Exhibit M of Volume 1, and reconcile these to the revenues presented in the cost of service study in Exhibit R for each consumer rate class.
60. RE: Bill Frequency Analysis. Please provide a detailed bill frequency analysis based on actual test year number of customers and usage for each current residential and farm rate schedule.
61. RE: Exhibit R, Schedule 2.
 - (a) Please provide a detailed explanation of how each "Actual Increase" was selected or determined for each rate class.
 - (b) Please explain why the total "Increase per COSS" does not equal the total "Actual Increase."
62. RE: Exhibit R, Schedule 1. Please provide a detailed explanation along with all analyses explaining and supporting each proposed:
 - (a) Customer charge;
 - (b) Demand charge; and,
 - (c) Energy charge.