

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

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

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

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

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

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

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

1. Refer to Exhibit D, page 1, of the application, which shows a proposed energy charge for commercial and industrial customers using 0-100 kW of \$0.07144. However, on Exhibit F, page 4, and Exhibit J, pages 30 and 55, the charge is shown as \$0.07148. Explain the discrepancy and state which charge is being proposed.

2. Blue Grass's current tariff includes rate schedules for which no revenues are shown on Exhibit G. State whether any customers were served in the test year on any of the schedules listed below. If yes, update Exhibit G to include the information.

a. Rate GS-3 Residential and Farm Time-of-Day.

b. Large Industrial Rate - Schedule B-1 for the Nicholasville and Madison Districts (The B1, Large Industrial Rate information on Line 25 of Exhibit G is for the Fox Creek District).

c. Rate M - Commercial and Industrial Power Service.

d. Interruptible Service Rates.

3. Refer to Exhibit E of the application, pages 23-28 and pages 53-58. Blue Grass proposes to delete the following rate schedules: Large Industrial Rate - Schedule

C-1, Large Industrial Rate - Schedule C-2, Large Industrial Rate - Schedule C-3, Schedule C1 - Large Industrial Rate, Schedule C2 - Large Industrial, and Schedule C3 - Large Industrial. No revenues are shown for these schedules on Exhibit G. State whether any customers were served in the test year on any of these schedules. If yes, update Exhibit G to include the information.

4. Refer to Exhibit H-1, page 5 of 9, of the application.

a. Explain whether Blue Grass has been able to receive advances on the "E44" loan referenced in the letter addressed to Jody Hughes, Blue Grass's chairman, from James M. Andrew of the Rural Utilities Service ("RUS").

b. If Blue Grass has not received advances on the "E44" loan, describe what impact this has had on its construction program and its ability to finance that program.

5. Refer to Exhibit H-1, page 7 of 9, of the application. This March 19, 2008 letter from J. Donald Smothers to Brian D. Jenkins of RUS includes projected financial ratios for Blue Grass for calendar year 2008. Provide the calculations and supporting assumptions showing how each of the four ratios was derived.

6. Refer to Exhibit H-2, page 2 of 3, of the application. This table, included in the testimony of J. Donald Smothers, shows that, for the three calendar years prior to the proposed 2007 test year, Blue Grass's Times Interest Earned Ratio ("TIER") averaged 1.30X, only 0.05 above RUS's minimum requirement (for the best two of these three years the average TIER was only slightly higher at 1.325X). The table also shows that Blue Grass's TIER for the test year, calendar year 2007, was only 0.03X.

a. Explain in detail why Blue Grass did not seek rate relief at an earlier point in time than the April 2008 filing of its pending application.

b. Based on its past results and projected TIER for 2008, as shown in Exhibit H-1, page 7 of 9, does Blue Grass expect to be in technical default of its RUS mortgage requirements after calendar year 2008? Explain the response.

7. Refer to Exhibit H-3, page 4, which includes a list of rate classes that Blue Grass is proposing to combine.

a. In Item No. 3, explain whether Rate M should also be listed as being combined into the new LP-1.

b. Explain whether the list should show that current schedules C-1, Schedule C, and Rate 2 are being combined into the new SC-1.

c. Explain whether the list should show that current schedules B1 and B-1 rates are being combined into the new B-1.

d. Refer to Exhibit H-3, page 6, line 138. Clarify whether the column titles are reversed (i.e., should the second column be titled "Old Size" and the third column be titled "New Size").

8. Provide copies of Exhibits I, J, and R electronically on CD-ROM in Microsoft Excel 1997-2003 format with all formulas intact and unprotected.

9. Refer to Exhibit J, page 14. When calculating the proposed revenue, explain why this schedule does not show the demand charge broken down between the first 10 kW of billing demand and the billing demand in excess of 10 kW. If a revision is required, file revised versions of all affected schedules.

10. Refer to Exhibit J, page 23. When calculating the proposed revenue, explain why this schedule does not show demand in excess of contract demand. If a revision is required, file revised versions of all affected schedules.

11. Refer to Exhibit J, page 25. For the first Mercury Vapor 175 W, explain why there is no normalized or proposed revenue although billing determinants and test year revenues are shown for this item. If a revision is required, file revised versions of all affected schedules.

12. Refer to Exhibit J, page 35. Under "Billing Determinants," should the amount shown for the first 10 kW of billing demand be the total of 57,818 from page 12, plus 11,860 from page 13, plus an amount from page 14, depending on Blue Grass's response to Item 9? If no, explain the answer. If a revision is required, file revised versions of all affected schedules.

13. Explain whether Blue Grass considered adjusting its miscellaneous charges or CATV attachment charges in this proceeding.

14. Refer to Exhibit R, page 8.

a. Explain why 50,972,084 billing units were used to calculate the energy rate given that Exhibit J, page 35, and Exhibit R, Schedule 9, page 64, show energy billing units of 51,152,084 for Small Commercial customers.

b. Explain why the "Revenue Requirement-Rates" total of \$4,934,660 does not reconcile to the Revenue Requirements shown for Commercial and Small Power on Exhibit R, page 12 of \$5,674,879.

15. Refer to Exhibit R, page 9.

a. Under the "Cost Based Rates" Section, the \$144,170 Consumer Related total is \$142,704 more than that calculated on Exhibit R, Schedule 5. The total \$3,208,926 for Demand Related is \$142,704 less than that calculated on Schedule 5. Explain why \$142,704 was shifted from Demand Related to Consumer Related.

b. Explain why the \$10,477,906 "Revenue Requirement-Rates" total does not reconcile to the Revenue Requirements shown for Rate B-2 on Exhibit R, page 13, but instead reconciles with the Current Revenue shown for Rate B-2 on page 13.

16. Refer to Exhibit R, page 10. Explain why there is no "Cost Based Rates" Section for Rate B-1 as is provided for the Residential and Small Commercial Power rates on Exhibit R, pages 8 and 9.

17. Refer to Exhibit R, page 11. For Rate LP-1, the Consumer Related total of \$127,221 is \$52,606 more than that calculated in Schedule 5 of Exhibit R. The Demand Related total of \$1,114,779 is also \$52,606 less than that calculated in Schedule 5. Explain why \$52,606 was shifted from Demand Related to Consumer Related.

18. Refer to Exhibit R, page 11.

a. For Rate LP-2, the \$69,718 Consumer Related total is \$64,058 greater than that calculated on Schedule 5 of Exhibit R. The Demand Related total of \$1,080,183 is also \$64,058 less than that calculated in Schedule 5. Explain why \$64,058 was shifted from Demand Related to Consumer Related.

b. Explain the origin of the "Revenue from Rates" of \$3,957,880 for LP-1 and \$4,871,801 for LP-2 and how these amounts were allocated between energy costs, consumer costs, and demand costs in the 3rd, 4th, and 5th sections on this page.

19. Refer to Exhibit R.

a. On page 53, for Accounts 580, 582-584, 588, 590, 592, 593 and 598, provide the location in the cost-of-service study where the allocation factors were derived, as well as an explanation of the rationale.

b. On pages 55-56, the summations in the line entitled "Total of Above" do not seem to be correct for the columns Lines Demand, Lines Customer, Services Consumer, Meters Consumer and Street Lighting. Explain the apparent discrepancies.

c. On page 55, the allocation factor for the line Total Admin & General does not seem to match the Distribution Plant allocation factor derived in Schedule 7. Explain the apparent discrepancy.

d. On pages 57-58, provide the location and derivation of the rate base allocator.

20. Refer to Exhibit R, page 59.

a. Explain why the allocation factors for Accounts 364 and 365 do not match the allocation factors derived on Schedule 8, pages 60-61.

b. Provide the worksheets showing the derivation of the allocation factors for Accounts 362, 364, 365, and 367.

c. Provide the worksheets showing the derivation of the allocation factor for CWIP.

21. Refer to Exhibit R, page 60, line 14. Provide a breakdown of Account 364 – Poles and identify the items, aside from poles, that are included in this account.

22. Refer to Exhibit R, page 61.

a. Explain whether 2 ACSR is the minimum size overhead conductor that is currently being purchased and installed by Blue Grass.

b. Explain why 4 ACSR is no longer being purchased and installed.

c. Provide a breakdown of Account 365 – Overhead Conductor, line 29, “all other OH Conductor invest.” Identify the items, aside from overhead conductors, that are included in this account.

23. Refer to Exhibit R, pages 62-63. Explain which transformers are currently being purchased and installed on Blue Grass’s system.

24. Refer to Exhibit R, page 64.

a. Explain what the numbers represent in the table and how they are used in the cost-of-service study.

b. Explain whether the numbers on page 64 are used to derive the numbers on pages 65-66 and, if so, how.

25. Refer to Exhibit R, pages 65-66.

a. For each page, explain what the monthly numbers represent, how they were derived, and how they are used in the cost-of-service study.

b. Arrange both pages so that class coincident and non-coincident peaks are discernable including the peaks for each class.

c. Provide an explanation of how the class coincident and non-coincident peaks were derived.

26. Refer to Exhibit R, page 67. In Section B, Transformers, the minimum cost of transformers is \$378.00. In Exhibit R, page 62, the transformer listed at that price is a 10 KVA CSP. There are two other transformers that appear to be of a similar

size, but listed at different prices. There is a transformer listed as "10" with a price of \$267.85 and another listed as "10 KVA SP" with a price of \$347.02.

a. Explain the apparent discrepancy in transformer prices and why the 10 KVA CSP is used in Schedule 10, page 67.

b. Similarly for other sized transformers for other rate classes, there are several transformers listed in Schedule 8, page 62, but only specific transformers used in Schedule 10. Also, there appear to be different transformers used for similar rate classes between Blue Grass (BG), Fox Creek (FC) and Harrison (H). Explain the discrepancies between the two schedules and between similar rate classes.

27. Refer to Exhibit R, page 69.

a. For each rate class, explain how the numbers in the Consumer Assistance column were derived and allocated.

b. Under Meter Reading, explain how the factors were derived and why the larger rate classes have a factor of 2.00.

28. Refer to Exhibit R, page 70. Explain how the factors were derived and why this particular weighting scheme appears to be allocating a greater percentage of expenses toward the residential rate classes when compared to the other sections of Schedule 10.

29. Refer to Exhibit R, Schedule 10. Explain where the information in Schedule 10 is used in the cost-of-service study.

30. Refer to Exhibit S, page 1 of 4, of the application. Explain the basis for the \$625,119 adjustment to reduce the balance of the Accumulated Depreciation reserve shown on the December 31, 2007 balance sheet.

31. Refer to Exhibit S, pages 2 and 3, of the application. Provide a narrative description of the adjustment to reduce interest expense – other by \$239,433 along with the calculations made to derive the adjustment.

32. Refer to Exhibit S, page 3, and Exhibit 15, pages 2 and 3, of the application. Clarify whether the results from the end of test year customer adjustment calculations for the commercial and large power customer classes in Exhibit 15 were inadvertently omitted from the amount of the adjustment included in Exhibit S. If yes, provide a revised version of pages 2 and 3 of Exhibit S which includes the corrected amount for the end of year customer adjustment.

33. Refer to Exhibit X of the application, which provides a comparison of income statement account levels for the test period and the 12 months immediately preceding the test period.

a. Page 2 of 7 shows that Account 426.30, Penalties, increased from \$0.00 in 2006 to \$297,000 in 2007. Provide a detailed description of the penalties incurred by Blue Grass which explains why the expense increased by this magnitude.

b. Page 2 of 7 also shows that Account 426.50, Other Deductions, increased by \$1,920,968, from \$1,976 to \$1,922,944, from 2006 to the 2007 test period. Provide a detailed explanation for why this expense increased by this magnitude.

c. Page 3 of 7 shows that Account 454.00, Rent from Electric Property, decreased by \$258,111, from \$1,057,426 to \$799,315, from 2006 to the 2007 test period. Provide a detailed explanation for why this revenue account decreased by this magnitude.

d. Page 4 of 7 shows that Account 583.00, Overhead Line Expense, increased by \$101,201, from \$853,676 to \$954,877, from 2006 to the 2007 test period. Provide a detailed explanation for why this expense increased by this magnitude.

e. Page 4 of 7 also shows that Account 586.00, Meter Expense, increased by \$223,942, from \$529,011 to \$752,953, from 2006 to the 2007 test period. Provide a detailed explanation for why this expense increased by this magnitude.

f. Page 4 of 7 also shows that Account 593.00, Maintenance Overhead Lines, increased by \$285,861, from \$1,133,262 to \$1,419,123, from 2006 to the 2007 test period. Provide a detailed explanation for why this expense increased by this magnitude.

g. Page 4 of 7 also shows that Account 593.10, Maintenance of Right of Way, increased by \$436,762, from \$1,678,657 to \$2,115,439, from 2006 to the 2007 test period. Provide a detailed explanation for why this expense increased by this magnitude.

h. Page 5 of 7 shows that Account 594.00, Maintenance Underground Lines, increased by \$41,524, from \$183,200 to \$224,724, from 2006 to the 2007 test period. Provide a detailed explanation for why this expense increased by this magnitude.

i. Page 5 of 7 also shows that Account 902.00, Meter Reading Expense, decreased by \$253,872, from \$380,511 to \$126,639, from 2006 to the 2007 test period. Given Blue Grass's implementation of its Automated Meter Reading system ("AMR"), provide the meter reading expense for the first four months of 2008 and

explain whether Blue Grass expects that an annual level of expense comparable to its 2007 level will continue in the future. If yes, explain why.

j. Page 5 of 7 also shows that Account 912.30, Member Services Public Relations, increased by \$286,954, from \$59,888 to \$346,843, from 2006 to the 2007 test period. Provide a detailed explanation for why this expense increased by this magnitude.

k. Page 6 of 7 shows that Account 920.00, Administrative & General Expenses, increased by \$198,570, from \$1,905,864 to \$2,104,434, from 2006 to the 2007 test period. Provide a detailed explanation for why this expense increased by this magnitude.

l. Page 6 of 7 also shows that Account 930.60, Annual Meeting Expense, increased by \$41,864, from \$108,921 to \$150,786, from 2006 to the 2007 test period. Provide a detailed explanation for why this expense increased by this magnitude.

m. Page 7 of 7 shows that Account 932.00, Maintenance of General Plant, increased by \$68,097, from \$397,767 to \$465,863, from 2006 to the 2007 test period. Provide a detailed explanation for why this expense increased by this magnitude.

34. Refer to Exhibit 3 of the application, which supports the proposed adjustment to depreciation expense and which includes the Blue Grass depreciation study prepared by Jim Adkins Consulting.

a. Page 1 of 6.1 shows the entry to record the meters retired in 2007 due to Blue Grass implementing its AMR. Describe the manner of disposal of the

retired meters (scrapped, sold, etc.) and explain why \$258,132.65 worth of "Meters AMR" was retired.

b. Page 1 of 6.1 indicates that the accumulated depreciation account for meters did not contain sufficient reserve to retire the meters through the reserve. Cite the applicable provisions of the RUS Uniform System of Accounts which support the accounting approach utilized by Blue Grass.

c. Page 2 of 6.1 shows the test year-end plant account balances, the existing and proposed depreciation rates, the test-year depreciation expense, and the normalized depreciation expense based on the proposed depreciation rates. Provide a schedule showing what the "normalized" level of depreciation expense would be based on the test year-end plant account balances and the existing depreciation rates.

d. Page 5 of 6.1 shows the test year beginning balances in the plant accounts, the additions, retirements and transfers that occurred during the test year, and the test year ending balances in the plant accounts. Describe the nature of the transfers and explain why they occurred.

e. Refer to the first paragraph on the first page of the Scope section of the depreciation study. The latter part of the paragraph discusses the impacts of the conversion to the record unit basis for continuing property records ("CPR") which occurred in the mid 1980's. Clarify whether the last sentence in the paragraph means that plant additions and retirements prior to the conversion were recalculated based on the same ratios that were used for post-conversion plant recalculations.

f. The second paragraph of the Scope section refers to vintage accounting and the fact that vintage accounting records were not maintained for mass

plant items. Therefore, the depreciation study used the technique of creating simulated plant records on a vintage basis. Provide a detailed explanation for why vintage records are “desirable” or “beneficial” in preparing a depreciation study. In other words, explain why the depreciation study was not, or could not, be prepared based on the actual plant accounts as recorded and maintained in Blue Grass’s accounting system.

g. Refer to the last two sentences of the first paragraph on the second page of the Scope section, which indicate that the cost of removal and salvage were allocated to plant accounts based on percentages reflecting salvage and the cost of removal at Blue Grass for a 10-year period. Refer to Section 9 of the depreciation study, which indicates that net salvage rates have been calculated based on salvage data for the last 5 years. Explain the discrepancy between these two sections of the depreciation study.

h. Refer to the next-to-last paragraph on the second page of the Scope section of the study. Provide a thorough discussion of the judgmental factors mentioned and a list of the electric cooperatives referenced in the last sentence of the paragraph. The cooperative list should include the names of the individuals contacted and, for any not regulated by this Commission, the contact’s phone number.

i. Refer to the third numbered paragraph on the third page of the Scope section. Has Blue Grass sought RUS approval of those proposed depreciation rates which exceed the upper end of the RUS range? If no, when does Blue Grass expect it will seek RUS approval? Include any correspondence with RUS concerning the proposed depreciation rates.

j. Refer to the last paragraph on the third page of the Scope section. Provide a list of the factors and assumptions mentioned in the first sentence of the paragraph along with a brief description of each such item.

k. Refer to the first page of the study immediately following the Scope section, which is headed Mortality Characteristics – Distribution Plant and which shows the proposed average service lives and net salvage factors. Provide the existing average service lives and net salvage factors.

l. Refer to Section 9 of the depreciation study which shows the proposed net salvage ratios. Provide a narrative description, along with any related workpapers, spreadsheets, etc., that show how these net salvage ratios were derived.

35. Refer to Exhibit 4, page 8 of 8, of the application, the Analysis of Other Operating Taxes. The item shown on lines 15-19 is identified as the Public Service Commission (“PSC”) assessment, but the PSC assessment is based on revenues, not property values, which is the basis for the assessment shown on lines 15-19.

a. Provide a revised page 8 of 8 which correctly identifies the item shown on lines 17-19.

b. Explain why Blue Grass has not proposed an adjustment for the PSC assessment based on its proposed rate increase of \$7.8 million and the current assessment rate.

36. Refer to Exhibit 5 of the application and Item 6(b). of the response to the initial data request of the Commission Staff. The response states that Blue Grass’s short-term debt is shown in Exhibit 5 of the application; however, Exhibit 5, which

consists of 3 pages, includes only Blue Grass's long-term debt. Provide the short-term debt information as requested in the Staff's initial data request.

37. Refer to Exhibit 5 of the application.

a. Explain how it was determined that the proposed revenue increase would be sufficient to allow Blue Grass to repay approximately one-half of the short-term note payable.

b. Provide an update of the schedule on pages 2 and 3 that reflects the current interest rates for long-term debt applied to the long-term debt balances as of the end of the proposed test year.

38. Refer to Exhibit 7 of the application. Provide the derivation of the test-year retirement and security contributions of \$888,107 shown in the same manner as was done to derive the proposed contributions of \$1,030,325.

39. Refer to Exhibit 8 of the application.

a. Provide a detailed description of the circumstances regarding the \$285,000 EPA payment related to the Tindle site.

b. Provide a detailed description of Blue Grass's policies regarding jury duty payments to its employees.

c. Describe, generally, the nature of, and circumstances leading to, Blue Grass's work orders abandoned and explain whether the amount in the proposed test year is typical for a 12-month period.

40. Refer to Exhibit 9 of the application.

a. Describe the routine, normal work performed for Blue Grass by Combs & Hoffman and by Howard Downing and provide a detailed explanation for why

Blue Grass has need to engage more than one law firm for continuing monthly legal services. Explain in detail why the Commission should allow expenses for payments to both firms for rate-making purposes.

b. Describe the nature of the work performed during the test year by Ronald Van Stockum, Jr. in the amount of \$12,769, which is identified as "Tindle site legal services" and why it could not have been performed by Combs & Hoffman or by Howard Downing. Does Blue Grass consider this a normal, recurring expense item? Explain the response.

c. Describe the nature of the expenditures totaling \$1,600 paid to HR Enterprises, Inc. for "achiever tests" and "achiever reports."

d. Describe the nature of Blue Grass's connection to the Goodyear dump site for which it paid Greenebaum, Doll & McDonald \$3,021 for legal services during the test year. Does Blue Grass consider this a normal, recurring expense item. Explain the response.

e. Blue Grass paid the firm of Patterson & Dewar, Inc. \$2,952 during the test year for services related to Administrative Case No. 2006-00494,¹ which was an administrative case concerning distribution reliability and reliability maintenance practices. Does Blue Grass consider the work performed by Patterson & Dewar, Inc. to represent a normal, recurring item of expense? Explain the response.

f. Blue Grass incurred expenses totaling \$2,945 for amounts paid to Permadox for "A/P micro filming" in three payments over a period of roughly three

¹ Administrative Case No. 2006-00494, An Investigation of the Reliability Measures of Kentucky's Jurisdictional Electric Distribution Utilities and Certain Reliability Maintenance Practices.

weeks. Describe the nature of the micro filming work performed by Permadox and explain whether Blue Grass considers this to be a normal, recurring expense.

g. Is the \$18,000 cost incurred during the proposed test year the full cost of the depreciation study performed by Jim Adkins Consulting? If no, what was the full cost and when were the additional costs incurred?

h. In other cooperative rate cases the costs of their depreciation studies have been amortized over 5 years for rate-making purposes. Explain whether Blue Grass believes that the cost of the current depreciation study should be similarly amortized for rate-making purposes.

i. Blue Grass paid Fisher Consulting Group \$28,128 during the test year for "Culture Assessment Training." Describe the nature of the services provided by Fisher Consulting Group and explain whether Blue Grass considers this to be a normal, recurring expense.

j. Blue Grass paid Shelton Communications \$29,925 for "Creative and Strategic Services – Rate Increase Campaign." Describe the nature of the services provided by Shelton Communications and explain whether Blue Grass considers this to be a normal, recurring expense.

41. Refer to Exhibit 10 of the application which details the adjustments proposed for director expenses.

a. Refer to pages 2-12. Explain whether, during the test year, any director was designated to be the primary representative or the alternate to represent Blue Grass with either the Kentucky Association of Electric Cooperatives ("KAEC") or the National Rural Electric Cooperative Association ("NRECA").

b. Explain whether Blue Grass was aware that it has been Commission policy to allow expenses for KAEC or NRECA meetings for rate-making purposes only for attendance by a cooperative's designated representative or its designated alternate representative. Explain in detail why the Commission should allow such expenses for other directors in this case.

c. Describe the nature of the "CFC Financial Forum" and explain why it was necessary that four of the ten directors attend. Explain whether Blue Grass considers this to be a normal, recurring expense.

42. Refer to Exhibit 11 of the application.

a. Refer to pages 3 through 6.

(1) Describe the nature of the \$1,682.75 expenditure identified as "50% deposit 10" cold air balloon" paid to ARBC.

(2) Explain whether the amount of \$5,678.46 paid to ARBC for "Bulbs customer appreciation days" is the cost of light bulbs provided to customers and whether the bulbs were incandescent or compact fluorescent bulbs.

(3) Describe the purpose for Blue Grass spending \$501.31 for 150 pocket diaries.

(4) Describe the nature of the contract advertising in the amount of \$4,360 paid to WDKY Fox 56 and explain whether Blue Grass considers this to be a normal, recurring expense.

b. Refer to page 7.

(1) Describe "MHRA Membership" and explain why the amount of \$136.40 was paid to Nolin Rural Electric Cooperative Corporation.

(2) Describe the benefit Blue Grass's customers receive for the \$590 paid to the Home Builders Association for "Officer Installation Dinner and Membership Renewal."

(3) Describe the nature of "Individual Custom Messages" for which Blue Grass paid \$640.90 to Image Marketing International and explain how this benefits its customers.

c. Refer to pages 8 and 9.

(1) Describe "Office Notice Advertising" for which Blue Grass paid Bellsouth \$693.28 and explain how this advertising benefits its customers.

(2) Describe the nature of the "1/2 Page Color Advertisement" paid to Lanham Media Services LLC and explain how this expenditure benefits Blue Grass's customers.

(3) Describe the nature of the "Poster Grip Frame" for which Blue Grass paid East Kentucky Power Cooperative, Inc. \$177.55 and explain how this expenditure benefits Blue Grass's customers.

(4) Describe the nature of the various expenditures identified as "Foreign Directory Charges," "White Pages Foreign Directory Listing" or "Foreign Directory" and explain how these expenditures benefit Blue Grass's customers.

(5) Describe the nature of the numerous expenditures identified as "Directory Advertising" and explain how "Directory Advertising" differs from "Directory Listing."

(6) Describe the nature of the three expenditures identified as "Broadcasting Spots" for which Blue Grass paid \$4,917 to WTVQ-TV and WDKY Fox 56 and explain how these expenditures benefit Blue Grass's customers.

(7) Describe the nature of the expenditure identified as "House Premier Advertising" for which Blue Grass paid \$1,200 to WDKY Fox 56 \$1,200 and how this benefits Blue Grass's customers.

43. Refer to pages 11 through 14.

a. Explain why expenditures of \$24.43 and \$314.29 for "Employee Shirt Order" were not eliminated for rate-making purposes when 16 other expenditures for "Employee Shirt Order" were so eliminated.

b. Describe the nature of the expenditure of \$578.76 for 89 "Auburn Anorak Jackets" paid to Perryville Embroidery and explain how this expenditure benefits Blue Grass's customers.

c. Describe the nature of the expenditure of \$1,060 for "20 Dale Hammond Ltd Books" paid to Texas Electric Cooperative and explain how this expenditure benefits Blue Grass's customers.

d. Describe the nature of the expenditure of \$765.33 for "Home & Garden Show Shirts" paid to Lands End Business Outfitter and explain how this expenditure benefits Blue Grass's customers.

44. Refer to page 15.

a. Describe the benefit Blue Grass's customers receive for the \$620 paid to the Home Builders Association for "Membership Dues."

b. Describe the benefit Blue Grass's customers receive for the \$330 paid to the Madison County Home Builders Association for "Membership Dues."

c. Describe the benefit Blue Grass's customers receive for the \$1,050 paid to the National Food & Energy Council for "Membership."

45. Refer to pages 16 and 17.

a. Describe the nature of the two \$721.90 payments to Pro-Bots Promotional Robots described as "Deposit 2007 Annual Meeting" and "Robot Rental" and explain how these expenditures benefit Blue Grass's customers.

b. Describe the nature of the payment of \$1,219.88 to Ipromoteu, Inc. for "700 flying disks, 1,000 balloons" and explain how this expenditure benefits Blue Grass's customers.

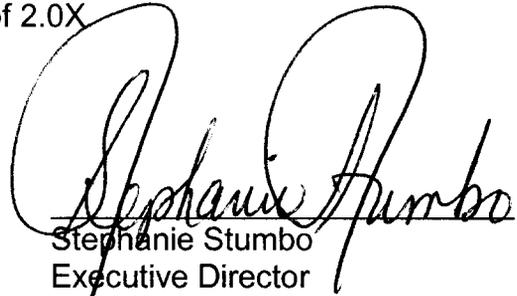
46. Refer to Exhibit 13 of the application, which shows the estimate of Blue Grass's expenses associated with this rate case. On a monthly basis, beginning with May 2008, provide the amount of Blue Grass's actual rate case expenses, by category, as done with the estimate.

47. Refer to Exhibit 16 of the application, which shows the amount of the proposed increase based on attaining a TIER of 2.0X.

a. Describe the methodology employed by Blue Grass in determining that 2.0X was the appropriate TIER on which to base its requested rate increase.

b. Is Blue Grass aware of any studies performed by RUS or the National Rural Utilities Cooperative Finance Corporation ("CFC") on the subject of the appropriate TIER level for an electric distributive cooperative? If yes, identify the studies and when they were performed.

c. Blue Grass's request in this case for a 2.0X TIER would produce net margins of roughly \$4.8 million. For each of the 5 calendar years immediately preceding the 2007 test year, provide the approximate net margins that would have been realized if Blue Grass had achieved a TIER of 2.0X



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DATED: May 19, 2008

cc: All Parties