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

<u>COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION TO EAST KENTUCKY POWER COOPERATIVE, INC.</u>

East Kentucky Power Cooperative, Inc. ("EKPC"), pursuant to 807 KAR 5:001, is requested to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due no later than August 19, 2010. 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.

EKPC shall make timely amendment to any prior response 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 request to which

EKPC 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.

1. Refer to page 4 of the Testimony of Dennis R. Eicher ("Eicher Testimony"). Starting at line 5, Mr. Eicher states that the third step in the cost-of-service study ("COSS") is the allocation of classified costs to the various rate classes, but then goes on to state that a generation and transmission cooperative has only a single class of service, its member systems. It appears that this is the reason that the results of Mr. Eicher's COSS, found on page 5 of Schedule A in Exhibit DRE-2, are by function and not by rate class.

a. Provide the results of the COSS by EKPC's rate classes. Include in the response all supporting workpapers which provide details of how the allocations were made to the different rate classes.

b. Given the results of the COSS, state whether Mr. Eicher believes it is reasonable to allocate the increase in revenues to each rate component of each rate schedule and special contract on a pro-rata basis as proposed by EKPC.

2. Refer to the response to Item 2.f. of Commission Staff's Second Data Request ("Staff's Second Request"), which indicates that the majority of the increase to the "Customer Service and Information" cost category is related to the Demand Side

Management ("DSM") program. Describe in detail the additional expenses that will be incurred due to the DSM program.

3. Refer to the response to Item 2.h. of Staff's Second Request.

a. Explain how $275,000,000 was determined to be the average 2011 balance of the Unsecured Credit Facility.

b. The response shows anticipated loan advances of $340,182,000 in 2011 at composite interest rates ranging between 5.0 and 5.5 percent. Provide a schedule which shows the estimated timing of these advances and the amount of 2011 interest expense associated with each advance.

c. Explain whether $175,000,000 is the average estimated balance of the Smith private placement debt in calendar year 2011.

4. Refer to the responses to Items 4.b., 18.b., and 18.c. of Staff's Second Request and to Wood Exhibit 1, Schedule 1.16 of EKPC's application. In its last rate case, EKPC reflected $10.0 million in forced outage costs not recoverable through the fuel adjustment clause ("FAC"). It reflects the same amount of forced outage costs that are not recoverable through its FAC in its current application plus $900,000 as the cost of outage insurance. Explain in detail how much EKPC expects its forced outage costs to be reduced as a result of acquiring outage insurance and why it is including the same amount, $10 million, for rate-making purposes as it did in the prior case when it had no forced outage insurance.

5. Refer to the response to Item 11.b. of Staff's Second Request. Explain whether EKPC intends to revise any part of its application or its forecasted test year to reflect the results of its 2010 load forecast, which are summarized in the response.

6. Refer to the response to Item 21.b. of Staff's Second Request, specifically, the invoices for legal expenses.

a. The most recent invoice with the subject "Management Audit" is Invoice No. 10610839 in the amount of $53,638.10, of which $42,281.50 is identified as being for professional services with $11,356.60 identified as other charges. A hand-written note on the invoice shows "Prof Svces – Mgt Audit 19,661.40" and "Other Charges – Mgt Audit 8,812.50." Explain what is meant by this note.

b. Provide a general description of the types of costs that make up the "Other Charges" component in the amount of $121,871.28 which EKPC has been billed by its outside counsel for the period from December 2008 through April 2010.

c. Two invoices show "Regulatory Asset/Forced Outages" as the subject of the heading REGARDING, with that subject marked-through and "Mgt. Audit" written in its place. However, Invoice No. 10527953 has "Regulatory Asset/Forced Outages" as the subject with no mark-through and without "Mgt. Audit" written in. Clarify whether this invoice is for legal services related to EKPC's management audit.

d. If Invoice No. 10527953 is related to EKPC's management audit, there appear to be two sets of monthly invoices included in the response, both of which cover the months from December 2008 through April 2010. One set shows as the subject "Management Audit" while the other set shows as its subject "General Counsel Matters." Explain why two sets of invoices were prepared to reflect charges from EKPC's outside counsel.

e. Notes on two of the invoices with the subject "General Counsel Matters" appear to indicate that a portion of the amount charged to EKPC was related to its management audit: Invoice No. 10585912 with a note "27 hrs chg to mgt audit" and Invoice No. 10603861 with a note "legal charges - $38,219, mgmt audit - $5,094." Confirm whether these notes reflect that only parts of the charges on these invoices were related to EKPC's management audit.

f. The request in Item 21.b. was for "[i]nvoices upon which the legal consultants' cost of $570,000 included in management audit expenses is based." The total in the invoices provided is approximately $465,000; however, a review of the invoices appears to indicate that only a portion of the amounts included in two of the 17 invoices with the subject "General Counsel Matters" are related to the management audit. Confirm whether this is an accurate assessment. If it is not, explain how the Commission can verify how much of the legal costs reflected on the invoices is related to the management audit.

7. Refer to the response to Item 22 of Staff's Second Request, the July 20, 2010 updated response to Item 54.c. of Staff's First Request, and Wood Exhibit 1, Schedule 1.21.

a. Explain how, based on rate-case expenses of slightly less than $300,000 in a case completed 14 months prior to the filing of the current rate case, EKPC developed an estimate of rate-case expenses for the current case of $625,000.

b. In its July 20, 2010 filing, EKPC reports actual rate-case expenses to date of $126,914.35. Based on the documentation provided in this update, as well as that provided in the initial response to Item 54.c. of Staff's First Request, it appears the actual expenses incurred to date are fairly current. Explain whether EKPC expects to incur additional rate case expenses of $498,000. Provide a detailed analysis of the rate case expenditures EKPC expects to incur for the remainder of this case.

8. Refer to the response to Item 26 of Staff's Second Request and page 9 at Tab 30 in Volume 3 of EKPC's application.

a. The response to part b. of the request states that "[m]any factors are explored before an actual merit amount is determined for actual distribution." Identify these factors and describe how they are considered in determining whether an actual merit increase should be provided.

b. Provide the calculations, spreadsheets, workpapers, etc. which show the derivation of the amounts of total wages shown on page 9 at Tab 30 for the years 2010 and 2011. This should clearly reflect the timing of the estimated 2011 merit increase and the addition of new employees in 2010 and 2011.

c. Provide separately for 2010 and 2011 the amount of total wages attributable to the 20 new employees budgeted as part of total wages for those years.

d. Of the 20 new employees budgeted as part of the estimated total wages for 2011, 15 are shown as being added in 2010. Provide the number and position of the budgeted new employees that have been added thus far in 2010.

9. Refer to the response to item 29 of the Staff's Second Request.

a. Explain how 25.5 percent of base pay was determined as the level of the defined benefit premium for the eight months actual/budgeted in 2010.

b. Provide the actual defined benefit premium year-to-date for 2010. Consider this a continuing request that should be updated monthly through the month of the hearing in this case.

c. The last paragraph in the response to part b. indicates that 2009 medical costs trended lower than expected and that 2010 claims to-date are equal to contributions, but that EKPC does not expect this to continue. Given the experience of 2009 and the first half of 2010, explain EKPC's expectation, or lack thereof.

10. Refer to the response to item 32 of Staff's Second Request and item 13 of Staff's First Data Request. EKPC indicates that it agrees that a slippage factor should be applied to its forecasted test year capital expenditures, but that it does not believe a slippage factor should be applied to long-term debt and the related interest expense. EKPC states that "The interest expense included in this rate case reflects the long-term debt that EKPC believes it will obtain on projects or contracts that will be completed."

a. Absent applying it to the balance of long-term debt and the related interest expense, explain in detail how EKPC would apply a slippage factor to its forecasted test period.

b. EKPC advocates using separate slippage factors for production, transmission, and other plant, as stated in its response to item 13 of the Staff's First Request. Provide a schedule which shows how the application of the three slippage factors in that response will impact EKPC's forecasted test period, without them being applied to long-term debt and interest expense. Include all supporting calculations with a narrative description of what is shown in the schedule.

11. Refer to the response to item 33 of Staff's Second Request which states that Direct Load Control Services are included in other professional services. Explain in detail what is meant by Direct Load Control Services.

12. Refer to the response to item 34 of Staff's Second Request.

a. Provide the case numbers of the "[p]revious decisions of the Public Service Commission" referred to in this response.

b. Page 2 of the response indicates that the wholesale power marketing rate was discontinued in July 1995 and that all existing contracts would have expired by the end of 2008. Explain why the contracts would not have expired by the end of 2005.

c. State whether EKPC has made any recommendations to its cooperatives regarding whether or not to discontinue offering the Electric Thermal Storage rate to their customers.

for Aaron D. Greenwell

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DATED AUG - 5 2010

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