

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF EAST KENTUCKY )  
POWER COOPERATIVE, INC. FOR )  
APPROVAL OF AN AMENDMENT TO ITS ) CASE NO. 2008-00115  
ENVIRONMENTAL COMPLIANCE PLAN )  
AND ENVIRONMENTAL SURCHARGE )

FIRST DATA REQUEST OF COMMISSION STAFF TO  
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

Kentucky Industrial Utility Customers, Inc. ("KIUC"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 6 copies of the following information, with a copy to all parties of record. The information requested herein is due July 24, 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.

KIUC 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 request to which

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

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

1. Refer to the Direct Testimony of Lane Kollen (“Kollen Testimony”), pages 8 through 12. For East Kentucky Power Cooperative, Inc. (“East Kentucky”), the reasonable rate of return on compliance-related capital expenditures is determined by multiplying the weighted average debt cost for the debt issuances directly related to projects in the approved compliance plan times the authorized Times Interest Earned Ratio (“TIER”). For Louisville Gas and Electric Company, Kentucky Utilities Company, and Kentucky Power Company (“Kentucky Power”), the reasonable rate of return is the weighted average cost of capital, which includes a rate of return on common equity (“ROE”).

a. Would Mr. Kollen agree that, since the Commission began using the weighted average cost of capital as the environmental surcharge reasonable rate of return for the investor-owned utilities, the ROE component has generally been the same as the ROE authorized in the most recent general rate case for the investor-owned utility?

b. Would Mr. Kollen agree that calculating East Kentucky's rate of return based on the 1.35 TIER authorized in its recent base rate case would be similar to the situation for the investor-owned utilities where the ROE utilized in the environmental surcharge is updated to match the ROE used in the most recent rate case? Explain the response.

c. Concerning the reasonable rate of return, explain why Mr. Kollen believes East Kentucky should be treated differently than the investor-owned utilities that have been authorized an environmental surcharge.

d. Other than noting the achieved TIER levels for various time periods since the test year in East Kentucky's last general base rate case, has Mr. Kollen performed any in-depth analyses of the financial condition and revenue requirements for East Kentucky to support his proposal to utilize a 1.15 TIER for the environmental surcharge? Explain the response and include any analyses performed.

2. Refer to the Kollen Testimony, pages 14 through 16.

a. Was East Kentucky requested to provide the costs for engineering, design work, permitting, and construction costs incurred for the pollution control equipment in conjunction with the Spurlock 4 project as of September 30, 2006? Explain the response.

b. Based on Mr. Kollen's experience, would engineering, design work, and permitting for a generating unit be approximately 15 percent of the total cost of the project? Explain the response.

c. Explain why Mr. Kollen believes using the total completed construction percentage of 15 percent is reasonable to apply to the Construction Work in Progress (“CWIP”) balance as of September 30, 2006.

3. Refer to the Kollen Testimony, pages 17 through 19, concerning the effects of the new projects on the emission allowance expenses.

a. Is Mr. Kollen proposing that an adjustment to the environmental surcharge mechanism is necessary to recognize the estimated potential savings in emission allowance expenses? Explain the response.


b. Would Mr. Kollen agree that only actual expenses are recovered through East Kentucky’s environmental surcharge and that any future savings in emission allowance expenses will be reflected in the surcharge calculations as those savings are actually achieved?

4. Refer to the Kollen Testimony, pages 20 through 25.

a. What is the basis for Mr. Kollen’s statement on page 22 that Kentucky Power does not compute Allowance for Funds Used During Construction (“AFUDC”)?

b. Would Mr. Kollen agree that if East Kentucky recovers interest expense on CWIP through the environmental surcharge, the accounting treatment for this item should be as an expense instead of being deferred using AFUDC?

c. Would Mr. Kollen agree that previous decisions by the Commission to exclude environmental surcharge-related investments, revenues, and expenses from the determination of general base rates would also minimize the risk of double recovery of environmental costs? Explain the response.

  
Stephanie Stumbo *for Stephanie Stumbo*  
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Dated: July 10, 2008

cc: Parties of Record