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PUBLIC SERVICE  
COMMISSION

November 21, 2008

HAND DELIVERED

Ms. Stephanie L. Stumbo  
Executive Director  
Public Service Commission  
211 Sower Boulevard  
Frankfort, KY 40602

Re: PSC Case No. 2008-00409

Dear Ms. Stumbo:

Please find enclosed for filing with the Commission in the above-referenced case an original and ten copies of the responses of East Kentucky Power Cooperative, Inc. ("EKPC") to the Commission Staff's information requests made at the informal conference held in this case on November 13, 2008, concerning EKPC's Motion for the Creation of a Regulatory Asset Relating to Unrecovered Revenues.

Very truly yours,



Charles A. Lile  
Corporate Counsel

Enclosures

Cc: Dennis G. Howard II, Esq.  
Michael L. Kurtz, Esq.

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

<b>GENERAL ADJUSTMENT OF ELECTRIC RATES</b>	)	<b>CASE NO.</b>
<b>OF EAST KENTUCKY POWER</b>	)	<b>2008-00409</b>
<b>COOPERATIVE, INC.</b>	)	

**CERTIFICATE**

**STATE OF KENTUCKY**    )  
  )  
**COUNTY OF CLARK**     )

Ann F. Wood being duly sworn, states that she has supervised the preparation of the responses of East Kentucky Power Cooperative, Inc. to the Public Service Commission Staff Information Requests from Informal Conference held on November 13, 2008 in the above-referenced case, and that the matters and things set forth therein are true and accurate to the best of her knowledge, information and belief, formed after reasonable inquiry.

Ann F Wood

Subscribed and sworn before me on this 21<sup>st</sup> day of November, 2008.

Deborah S. Duffin  
Notary Public

My Commission expires:

December 8, 2009

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

<b>GENERAL ADJUSTMENT OF ELECTRIC RATES</b>	)	<b>CASE NO.</b>
<b>OF EAST KENTUCKY POWER</b>	)	<b>2008-00409</b>
<b>COOPERATIVE, INC.</b>	)	

**RESPONSES OF EAST KENTUCKY POWER COOPERATIVE, INC.**  
**TO COMMISSION STAFF'S INFORMATION REQUESTS FROM**  
**INFORMAL CONFERENCE HELD ON NOVEMBER 13, 2008**

**EAST KENTUCKY POWER COOPERATIVE, INC.**

**PSC CASE NO. 2008-00409**

**INFORMATION REQUEST RESPONSE**

**COMMISSION STAFF'S DATA REQUEST FROM INFORMAL CONFERENCE  
HELD ON NOVEMBER 13, 2008**

**REQUEST 1**

**RESPONSIBLE PERSON: William Steven Seelye**

**COMPANY: East Kentucky Power Cooperative, Inc.**

**Request 1.** Please provide corrections to the "Testimony of William Steven Seelye in Support of EKPC Motion to Create a Regulatory Asset."

**Response 1.** Page 2, lines 19 and 20, refers to account 182.4. This account number should be 182.3. Additionally, Page 3, line 8, refers to June 1, 2008. This date should be June 1, 2009.

**EAST KENTUCKY POWER COOPERATIVE, INC.**

**PSC CASE NO. 2008-00409**

**INFORMATION REQUEST RESPONSE**

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HELD ON NOVEMBER 13, 2008**

**REQUEST 2**

**RESPONSIBLE PERSON:** Frank J. Oliva

**COMPANY:** East Kentucky Power Cooperative, Inc.

**Request 2.** Provide a calculation of 2009 TIER and DSC with and without the \$10.5 million in increased revenues estimated to be lost in April and May 2009 without the requested relief.

**Response 2.** The TIER and DSC projections, with and without the \$10.5 million in increased revenues estimated to be lost in April and May 2009, are provided on page 2 of this response. These projections assume that EKPC is granted the full amount of the rate increase requested in this proceeding and assumes no other adverse events. However, as discussed on page 4, lines 11 and 12 of "Testimony of William Steven Seelye in Support of EKPC Motion to Create a Regulatory Asset," it is critical to note that EKPC's equity percentage is projected to be only 6.8 percent during April and May 2009, which is dangerously low. The impact on EKPC equity of the failure to recover the Spurlock 4 costs for April and May 2009 is the most important concern behind EKPC's request for relief.

**East Kentucky Power Cooperative, Inc.  
Projected TIER & DSC Calculations for year 2009**

**Rate Increase Effective 6-1-2009**

**For 2009: Mortgage Agreement and Credit Agreement Compliance Calculations**

<b><u>TIER</u></b>	(a) Net Margins	39,239,363			
	(b) Interest on Long Term Debt	<u>129,135,000</u>			
	<b>TIER = (a) + (b) / (b) =</b>	168,374,363	/	129,135,000	= 1.304
<b><u>DSC</u></b>	(a) Depreciation	64,633,000			
	(b) Interest on L-T Debt	129,135,000			
	(c) Margins	39,239,363			
	(d) Interest + Principal	204,233,000			
	<b>DSC = (a) + (b) + (c) / (d) =</b>	1.141			

**Rate Increase Effective 6-1-2009 Plus \$10.5 Million of Revenue  
Estimated to Be Lost in April and May 2009**

**For 2009: Mortgage Agreement and Credit Agreement Compliance Calculations**

<b><u>TIER</u></b>	(a) Net Margins	49,739,363			
	(b) Interest on Long Term Debt	<u>129,135,000</u>			
	<b>TIER = (a) + (b) / (b) =</b>	178,874,363	/	129,135,000	= 1.385
<b><u>DSC</u></b>	(a) Depreciation	64,633,000			
	(b) Interest on L-T Debt	129,135,000			
	(c) Margins	49,739,363			
	(d) Interest + Principal	204,233,000			
	<b>DSC = (a) + (b) + (c) / (d) =</b>	1.192			

**EAST KENTUCKY POWER COOPERATIVE, INC.**

**PSC CASE NO. 2008-00409**

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**REQUEST 3**

**RESPONSIBLE PERSON:** Gary T. Crawford/Ann F. Wood

**COMPANY:** East Kentucky Power Cooperative, Inc.

**Request 3.** Can EKPC reduce its expenses by deferring the commercial operation date of Spurlock 4 from April 1, 2009 to June 1, 2009? If not, please explain why such a deferral would not be possible or reasonable. Include in such explanation references to any generally accepted accounting standards or other factors which would impact such a deferral decision.

**Response 3.** No. EKPC must begin recognizing the costs associated with Spurlock 4 as soon as it is ready and available for service. Therefore, EKPC cannot avoid such costs through any decision to defer the unit's commercial operation. Additionally, based on recent estimates from the EKPC construction department, EKPC would likely incur almost \$900,000 per month in contractor delay costs for fixed costs and engineering support, if commercial operation were delayed.

Not only under generally accepted accounting principles, but also under guidelines established by the Internal Revenue Service (IRS), property is placed in service when it is ready and available for its intended use. Depreciation begins when said property is placed in service. The following excerpt is taken from the IRS website, <http://www.irs.gov/pub/irs-pdf/p946.pdf>, and summarizes both the accounting and tax principles of placing property in service and starting depreciation.

## When Does Depreciation Begin and End?

Terms you may need to know (see Glossary):

Basis

Exchange

Placed in service

You begin to depreciate your property when you place it in service for use in your trade or business or for the production of income. You stop depreciating property either when you have fully recovered your cost or other basis or when you retire it from service, whichever happens first.

### Placed in Service

You place property in service when it is ready and available for a specific use, whether in a *business activity, an income-producing activity, a tax-exempt activity, or a personal activity*. Even if you are not using the property, it is in service when it is ready and available for its specific use.

**Example 1.** Donald Steep bought a machine for his business. The machine was delivered last year. However, it was not installed and operational until this year. It is considered placed in service this year. If the machine had been ready and available for use when it was delivered, it would be considered placed in service last year even if it was not actually used until this year.

**Example 2.** On April 6, Sue Thorn bought a house to use as residential rental property. She made several repairs and had it ready for rent on July 5. At that time, she began to advertise it for rent in the local newspaper. The house is considered placed in service in July when it was ready and available for rent. She can begin to depreciate it in July.

**Example 3.** James Elm is a building contractor who specializes in constructing office buildings. He bought a truck last year that had to be modified to lift materials to second-story levels. The installation of the lifting equipment was completed and James accepted delivery of the modified truck on January 10 of this year. The truck was placed in service on January 10, the date it was ready and available to perform the function for which it was bought.



**EAST KENTUCKY POWER COOPERATIVE, INC.**

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**REQUEST 4**

**RESPONSIBLE PERSON: Frank J. Oliva/Ann F. Wood**

**COMPANY: East Kentucky Power Cooperative, Inc.**

**Request 4.** Provide a schedule of estimated costs of Spurlock 4 for April and May 2009.

**Response 4.** A schedule of estimated costs is provided on page 2 of this response.

SPURLOCK 4 - REGULATORY ASSET

MO/YR	Total Capital Cost	Depreciation Expense	Interest Expense	TIER @ 1.45	O&M	Tax Expense	Property Insurance Expense	Total Expenses
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)=(3)+(5)+(6)+(7)+(8)
Apr-09	\$528,088,436	\$1,093,351	\$1,922,252	\$2,787,265	\$908,486	\$225,412	\$36,450	\$5,050,964
May-09	\$528,088,436	\$1,093,351	\$1,922,252	\$2,787,265	\$961,081	\$225,412	\$36,450	\$5,103,559
Totals		\$2,186,702	\$3,844,503	\$5,574,530	\$1,869,567	\$450,824	\$72,900	\$10,154,522

MO/YR	Environmentl Capital Cost	Depreciation Expense	Interest Expense @ 4.876%	TIER @ 1.45	O&M	Tax Expense	Property Insurance Expense	Total Expenses
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)=(3)+(5)+(6)+(7)+(8)
Apr-09	\$84,800,000	\$175,569	\$344,571	\$499,627	\$474,917	\$31,016	\$5,046	\$1,186,175
May-09	\$84,800,000	\$175,569	\$344,571	\$499,627	\$474,917	\$31,016	\$5,046	\$1,186,175
Totals		\$351,139	\$689,141	\$999,255	\$949,834	\$62,031	\$10,091	\$2,372,350

MO/YR	NET Capital Cost	NET Depreciation Expense	NET Interest Expense	NET TIER	NET O&M	NET Tax Expense	NET Property Ins Expense	NET Total Expenses
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)=(3)+(5)+(6)+(7)+(8)
Apr-09	\$443,288,436	\$917,781	\$1,577,681	\$2,287,637	\$433,569	\$194,396	\$31,404	\$3,864,789
May-09	\$443,288,436	\$917,781	\$1,577,681	\$2,287,637	\$486,164	\$194,396	\$31,404	\$3,917,384
Totals		\$1,835,563	\$3,155,362	\$4,575,275	\$919,733	\$388,793	\$62,809	\$7,782,172

**EAST KENTUCKY POWER COOPERATIVE, INC.**

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**REQUEST 5**

**RESPONSIBLE PERSON:** William Steven Seelye/Ann F. Wood

**COMPANY:** East Kentucky Power Cooperative, Inc.

**Request 5.** Provide the proposed accounting entries for establishing a regulatory asset for both the deferral of revenue and deferral of expenses relating to Spurlock 4 for April and May 2009. Also provide the proposed amortization of the regulatory asset.

**Response 5.** The accounting entries for the deferral of revenue are shown below.

Debit—Account 182.3—Other Regulatory Assets

Credit 447—Other Electric Revenues

The calculation of this deferral will be based on “lost” revenue for the months of April and May 2009, using the rates proposed in Phase I. The proposed rates in Phase I would be applied to the billing determinants for the months of April and May; the regulatory asset would be adjusted to actual once the Commission issues its final Order to approve the proposed rates. The monthly amortization will be a debit to Other Revenue and a credit to account 182.3.

The accounting entries for the deferral of expenses are shown below.

Debit—Account 182.3—Other Regulatory Assets  
Credit Accounts 403—Depreciation Expense  
502/506/512—Various O&M Expenses  
427—Interest Expense

The accounting entries for the deferral of expenses will be based on actual expenses for the months of April and May 2009. The monthly amortization will be a debit to the expense accounts and a credit to credit account 182.3.

**EAST KENTUCKY POWER COOPERATIVE, INC.**

**PSC CASE NO. 2008-00409**

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**REQUEST 6**

**RESPONSIBLE PERSON: William Steven Seelye**

**COMPANY: East Kentucky Power Cooperative, Inc.**

**Request 6.** Provide the definition of “emergency relief” as referenced in the “Testimony of William Steven Seelye in Support of EKPC Motion to Create a Regulatory Asset.” Explain EKPC’s expectations about the need for and timing of any request such emergency relief, if the approval of the requested regulatory asset is rejected.

**Response 6.** “Emergency relief” is defined as the request for an interim increase, pursuant to KRS §278.190 (2), similar to that requested in Commission Case No. 2006-00472. EKPC has not sought immediate interim relief in this case, due to the fact that relevant events which could impact EKPC’s financial condition remain unresolved, and due to concerns about the potential for member system refunds related to any interim rate relief which might be granted. EKPC has no specific plans to seek interim relief in the case, but may need to do so if future events raise threats to its credit or operations.

**EAST KENTUCKY POWER COOPERATIVE, INC.**

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**REQUEST 7**

**RESPONSIBLE PERSON:** Frank J. Oliva

**COMPANY:** East Kentucky Power Cooperative, Inc.

**Request 7.** What are the fuel adjustment clause (FAC) benefits associated with the commercial operation of Spurlock 4?

**Response 7.** The monthly FAC budget for 2009 is provided on page 2 of this response. This budget considers the impact of the commercial operation of Spurlock 4 in April 2009. As shown, the estimated monthly FAC declines from an average rate of 13.55 mills/kWh during the first four billing months of 2009 to an average rate of 6.59 mills/kWh for the last eight billing months of the year.

This FAC rate reduction is primarily reflective of savings projected to be achieved by the displacement of purchased power with generation from Spurlock 4, beginning in April 2009. The average 2009 fuel cost for Spurlock 4 is projected to be about 26 mills/kWh. Assuming that this unit generates at an annual capacity factor of about 82% and displaces purchased power costing an average of about 69 mills/kWh during on-peak hours, FAC benefits of approximately \$43 million would be expected annually.

**East Kentucky Power Cooperative  
Fuel Adjustment Clause  
2009 Budget**

<u>Fuel Expense Month</u>	<u>F.A.C. Billing Month</u>	<u>Mills/kWh</u>	
Dec	Jan	14.12	} 13.55
Jan	Feb	14.68	
Feb	Mar	14.19	
Mar	Apr	11.19	
Apr	May	7.81	} 6.59
May	June	4.77	
June	July	4.95	
July	Aug	8.27	
Aug	Sept	7.21	
Sept	Oct	4.98	
Oct	Nov	4.71	
Nov	Dec	10.00	