

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE  
COMMISSION

In the Matter of:

GENERAL ADJUSTMENT OF ELECTRIC )  
RATES OF EAST KENTUCKY POWER )  
COOPERATIVE , INC. )

CASE NO. 2010-00167

ATTORNEY GENERAL'S SUPPLEMENTAL 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 Supplemental Requests for Information to East Kentucky Power Cooperative, Inc. [hereinafter referred to as "EKPC"] 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 EKPC 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*

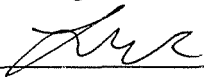
Counsel certifies that an original and ten photocopies of the foregoing were served and filed by hand delivery to Jeff Derouen, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; counsel further states that true and accurate copies of the foregoing were mailed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

Hon. Mark David Goss  
Frost, Brown, Todd, LLC  
250 W. Main St.  
Ste. 2700  
Lexington, KY 40507

Hon. Michael L. Kurtz  
Boehm, Kurtz & Lowry  
36 E. 7<sup>th</sup> St.  
Ste. 1510  
Cincinnati, OH 45202

Ann F. Wood  
East Kentucky Power Cooperative, Inc.  
4775 Lexington Rd.  
P. O. Box 707  
Winchester, KY 40392-0707

this 2<sup>nd</sup> day of August, 2010

  
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Assistant Attorney General

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1. Please reference the company's response to AG 1-10, pp. 9, 14-15 of 22, DeLoite & Touche LLP's management letter. Please explain whether the Commission has accepted the changes the company made regarding when assets, liabilities, revenues and expenses are recorded for purposes of the Fuel Adjustment Clause and Environmental Surcharge.
2. Please reference the company's response to AG 1-10, p. 9 of 22. Please specify whether the company will continue to comply with the recommendation regarding the significant deficiency therein identified, and whether the Commission has issued any directives in this regard.
3. Please reference the company's response to AG 1-10, p. 10 of 22, under the heading "Other Control Deficiencies," and the sub-heading "Internal Control Related." Please state whether the company is continuing to comply with the measures it implemented to address the five recommendations therein identified.
4. Please reference company's response to AG 1-10, p. 11 of 22 under the heading "Information Technology Related," finding number 3 which recommended that management adopt a formal IT security policy, please identify the measures the company has taken to address this recommendation.
5. Please reference the company's response to AG 1-40. Please explain the reasons for the 23.7% increase in workers' compensation insurance and claims expenditures from 2008 – 2009.
  - a. Has the company made any projections regarding these costs beyond the first five (5) calendar months for 2010?
  - b. Are there any cost trends foreseen through the end of the test year? If so, please provide all relevant information.
6. Please reference the company's response to AG 1-57. The request was not limited to third-party personal injury claims and lawsuits. Please provide the requested information pertaining to all lawsuits, not just personal injury actions, including any filed on behalf of company employees, with the exception of such items that are subject to the attorney-client and/or work product privileges.
7. Please reference application tab 39, p. 13 of 42, independent auditor's annual opinion. The report indicates the company maintains in excess of \$300,000 cash on hand at one bank, in excess of federal insurance. Does the company believe it would

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be prudent to limit such amounts at any one bank to the limits of applicable FDIC insurance? If not, why not? Explain in detail.

8. Please reference the company's response to PSC 2-5. Please describe in narrative form the additional risks the company's ratepayers face due to the fact that the company is seeking private placement financing. Please include in your response any additions to long-term debt over and above the amounts that the company would have incurred had the RUS moratorium not been in place.
9. Did the PSC order that that a comprehensive audit of EKPC's operations be performed?
  - a. If so, are the results of that audit found in the document entitled "Liberty Consulting Group Management Audit Report"?
10. Is it the company's position that Liberty Consulting Group is qualified to perform such an audit? If not, why not? Explain in detail.
11. Did the Liberty Consulting Group perform its audit in accordance with industry standards? If the company believes the answer is "no," then please explain in detail.
12. As identified on pp. 9-10 of the Liberty Consulting Group Management Audit Report which the company provided in response to data requests, a prior audit of EKPC performed by consultant Richard Byrne recommended, among other things, that EKPC: (i) partner with investor-owned utilities or coal companies to develop more efficient and economic power generation plants than EKPC could establish under self-build options; (ii) consider partnering with surrounding IOUs to combine purchased power and coal supply efforts; (iii) partner with local gas suppliers to obtain firm gas supplies through displacement and storage; and (iv) improve coal-price hedging.
  - a. Has the company undertaken any such efforts? If so, please state the results of those efforts, and any decisions that may have been made in this regard.
  - b. If not, why not? Explain in detail.
13. As identified on p. 11 of the Liberty Consulting Group Management Audit Report which the company provided in response to data requests, a prior audit of EKPC performed by National Consulting Group found, among other things that: (i) EKPC's maintenance costs also rose at rates significantly higher than national

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averages per kWh starting in 2003; and (ii) Administrative and general expenses per kWh began to outpace the G&T group even earlier, starting in 2000.

- a. Did the Company agree with these findings at the time the report was issued?
  - b. State what, if any, measures the Company has taken to date to mitigate these issues.
  
14. As identified on p. 42 of the Liberty Consulting Group Management Audit Report which EKPC provided in response to data requests, the company only recently initiated a "whistleblower policy," and planned to expand it in 2010. Please provide full details regarding the policy, how it has been expanded, and the protections (if any) that have been afforded to employees seeking protection under it.
  - a. Provide any documents related to this matter including, but not limited to, those distributed to the company's employees.
  
15. As identified on p. 53 of the Liberty Consulting Group Management Audit Report which EKPC provided in response to data requests, the company's auditor, Crowe Chizek, in 2008 identified a deficiency in fraud risk management specifically for the board's attention. Liberty's report indicates that company management issued a response to this recommendation in which the management promised formation of a task force to deal with this issue. However, it appears the company has not fulfilled this promise.
  - a. Please state whether the company has formed, or will form a fraud risk management task force, and provide full details.
  - b. Please provide the names of the Board directors who are serving or will serve on the fraud risk management task force as well as their credentials or qualifications if known or required.
  
16. As identified on p. 59 of the Liberty Consulting Group Management Audit Report which EKPC provided in response to data requests, Liberty stated that "EKPC's rates have grown to levels that are a burden to its members and far out of line with neighboring utility Kentucky Utilities." Liberty recommended that EKPC should "[o]btain independent analysis and recommendations for financing alternatives such as sale/leasebacks to more effectively fund capital expenditures and reach capital structure targets." Please state whether EKPC is committed to implementing this recommendation. If not, why not? Explain in detail.

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17. As identified on p. 60 of the Liberty Consulting Group Management Audit Report which EKPC provided in response to data requests, Liberty recommended that "EKPC should immediately make capital budget performance the most important measure affecting the compensation of the CFO and all managers with budget responsibility. The entire capital budget process should be evaluated and restructured as soon as possible to improve this crucial performance area." Please state whether EKPC is committed to implementing this recommendation. If not, why not? Explain in detail.
18. As identified on p. 60 of the Liberty Consulting Group Management Audit Report which EKPC provided in response to data requests, Liberty recommended that EKPC should "[h]ire an independent consultant to determine EKPC's optimal power supply portfolio, considering the possible sale of existing assets and more extensive use of purchased power." Please state whether EKPC is committed to implementing this recommendation. If not, why not? Explain in detail.
19. As identified on p. 61 of the Liberty Consulting Group Management Audit Report which EKPC provided in response to data requests, Liberty stated: "The inability to effectively transfer power with its neighbors or regional markets causes higher fuel and power supply costs. However, EKPC has not yet analyzed the alternative of investing in and strengthening the transmission system specifically to allow for additional purchased power or exchanges as power supply resources." Liberty recommended that EKPC should "[d]etermine whether investments in the transmission system to improve access to power supply alternatives are economically justified." Please state whether EKPC is committed to implementing this recommendation. If not, why not? Explain in detail.
20. As identified on p. 64 of the Liberty Consulting Group Management Audit Report which EKPC provided in response to data requests, Liberty recommended that EKPC should "[r]equire a structured program of risk management, including identification and management of continuing business risks and expansion of economic evaluation practices to incorporate risk. . . . Expanded efforts should include (a) more frequent meetings; (b) expanded risk capabilities; (c) implementation of its risk duties as defined in its charter and as may be modified by Recommendation #8 above; (d) implementation of an internal audit program; (e) greater focus on internal controls; (f) review of lessons learned from other cooperatives; . . . ." Please state whether EKPC is committed to implementing this recommendation. If not, why not?
21. As identified in several sections of the Liberty Consulting Group Management Audit Report which EKPC provided in response to data requests, Liberty stated that



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EKPC has retained several consultants to assist the company in implementing Liberty's recommendations (see, e.g., p. 67). However, ". . . the consultants named to take the lead on the management issues have worked on the same issues for EKPC in the past. It is more than optimistic to hope that a repeat of prior, consultant-led exercises will prove more beneficial than they have on repeated occasions in the past." Please state whether the company is committed to working to implement Liberty's recommendations, even if doing so requires the cessation of retaining the services of consultants with which it has previously worked. If not, why not? Explain in detail.

22. As identified on p. 67 of the Liberty Consulting Group Management Audit Report which EKPC provided in response to data requests, Liberty stated that that ". . . there was actually not a significant level of agreement between EKPC and Liberty . . .", and that "EKPC's responses made clear that there remains considerable disagreement on the fundamental issues, both on the part of management and the board. Moreover, EKPC's proposed action plan, which consists of a management plan and a governance plan, did not respond substantially to Liberty's conclusions about change needs."

- a. Does EKPC agree with Liberty's assessment in this regard? If not, why not? Explain in detail.
- b. What steps will EKPC implement in order to adequately address the issues identified in Liberty's report, and the measures it recommends?
- c. If EKPC believes measures other than those recommended by Liberty are called for or otherwise required, please identify those measures and the actions EKPC will initiate to implement those measures.

23. As identified on p. 74 of the Liberty Consulting Group Management Audit Report which EKPC provided in response to data requests, the report states: "EKPC's need to find a way to govern and manage itself much better ultimately involves fundamental questions of economic development, job retention and the region's competitiveness with others. EKPC has higher electric rates and lower equity than other regulated electric utilities in Kentucky. It proposes to accumulate perhaps \$4 billion dollars or more in debt within just a few years. That debt threatens further decreases in EKPC's equity or (and perhaps and) multiple, significant rate increases."

- a. Does EKPC agree with this statement? If not, why not? Explain in detail.

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- b. If this statement is true, is EKPC on an irrevocable course that will result in the most expensive electrical rates in the Commonwealth? If not, please justify and quantify your reasoning, to the best of your ability.

24. As identified on pp. 27-28 of the Liberty Consulting Group Management Audit Report which EKPC provided in response to data requests, the company often under-spends its capital budget, and this will have adverse consequences when the company attempts to obtain credit through corporate capital markets as opposed to the RUS. On p. 60, the report states: "EKPC should immediately make capital budget performance the most important measure affecting the compensation of the CFO and all managers with budget responsibility. The entire capital budget process should be evaluated and restructured as soon as possible to improve this crucial performance area."

- a. What steps is the company prepared to implement to insure that capital spending remains consistent with projected needs? Explain in detail.
- b. What steps will it take to improve the Board's capital budget oversight? Explain in detail.
- c. What steps will the company take to re-evaluate the capital budget process? Explain in detail.
- d. Will those measures be linked with any measures the company intends to implement to address those concerns set forth in AG DR 2-9 and AG DR 2-13? If not, why not? Explain in detail.