

**Frost
Brown Todd** LLC
ATTORNEYS

KENTUCKY · OHIO · INDIANA · TENNESSEE · WEST VIRGINIA

August 19, 2010

Mr. Jeff Derouen
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

RECEIVED

AUG 19 2010

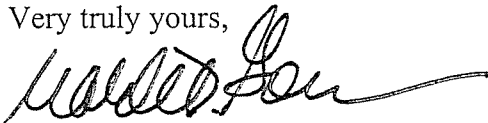
PUBLIC SERVICE
COMMISSION

Re: Case No. 2010-00167

Dear Mr. Derouen:

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 Third Data Request, dated August 5, 2010. Also enclosed are an original and ten copies of EKPC's Responses to the Second Set of Data Requests of Gallatin Steel and the Attorney General's Supplemental Data Requests, dated August 5, 2010 and August 2, 2010, respectively.

Very truly yours,



Mark David Goss
Counsel

Enclosures

Cc: Parties of Record

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

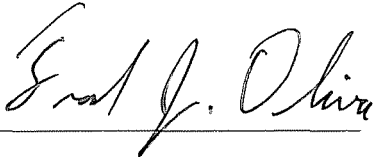
IN THE MATTER OF:

GENERAL ADJUSTMENT OF ELECTRIC RATES) CASE NO.
OF EAST KENTUCKY POWER) 2010-00167
COOPERATIVE, INC.)

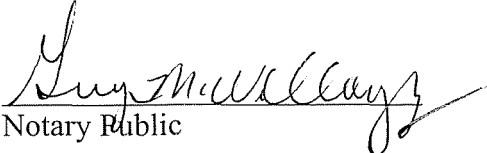
CERTIFICATE

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Frank J. Oliva, being duly sworn, states that he has supervised the preparation of the responses of East Kentucky Power Cooperative, Inc. to the Attorney General's Supplemental Data Request in the above-referenced case dated August 2, 2010, and that the matters and things set forth therein are true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.



Subscribed and sworn before me on this 13th day of August, 2010.


Notary Public

MY COMMISSION EXPIRES NOVEMBER 30, 2013
NOTARY ID #409352

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

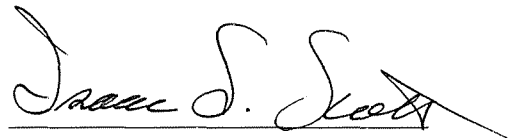
IN THE MATTER OF:

GENERAL ADJUSTMENT OF ELECTRIC RATES) CASE NO.
OF EAST KENTUCKY POWER) 2010-00167
COOPERATIVE, INC.)

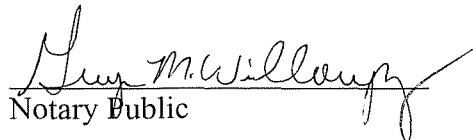
CERTIFICATE

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Isaac S. Scott, being duly sworn, states that he has supervised the preparation of the responses of East Kentucky Power Cooperative, Inc. to the Attorney General’s Supplemental Data Request in the above-referenced case dated August 2, 2010, and that the matters and things set forth therein are true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.



Subscribed and sworn before me on this 18th day of August, 2010.


Notary Public

MY COMMISSION EXPIRES NOVEMBER 30, 2013
NOTARY ID #409352

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

GENERAL ADJUSTMENT OF ELECTRIC RATES) CASE NO.
OF EAST KENTUCKY POWER) 2010-00167
COOPERATIVE, INC.)

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 Attorney General’s Supplemental Data Request in the above-referenced case dated August 2, 2010, 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 18th day of August, 2010.

Gregory M. Williams
Notary Public

MY COMMISSION EXPIRES NOVEMBER 30, 2013
NOTARY ID #409352

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

GENERAL ADJUSTMENT OF ELECTRIC RATES)	CASE NO.
OF EAST KENTUCKY POWER)	2010-00167
COOPERATIVE, INC.)	

**RESPONSES TO ATTORNEY GENERAL'S
SUPPLEMENTAL DATA REQUESTS TO
EAST KENTUCKY POWER COOPERATIVE, INC.
DATED AUGUST 2, 2010**

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2010-00167
RESPONSE TO SUPPLEMENTAL DATA REQUESTS

ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS DATED 8/2/10
REQUEST 1

RESPONSIBLE PERSON: **Ann F. Wood**

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

Request 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.

Response 1. EKPC advised the Commission of the correction of the error relating to the accounting for the fuel adjustment clause and the environmental surcharge mechanisms. EKPC restated its 2007 Annual Report to the PSC and included this note on page 30 of 186: "The net increases in 'Other Regulatory Assets' and 'Other Regulatory Liabilities' considers the non-cash adjustments to beginning 2007 equity balances relating to regulatory assets and liabilities for the fuel adjustment clause mechanism and environmental surcharge mechanism, respectively."

This accounting treatment has been discussed in various proceedings before the Commission; the Commission has accepted this accounting treatment.

**EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2010-00167
RESPONSE TO SUPPLEMENTAL DATA REQUESTS**

**ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS DATED 8/2/10
REQUEST 2**

RESPONSIBLE PERSON: Ann F. Wood

COMPANY: East Kentucky Power Cooperative, Inc.

Request 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.

Response 2. Below was EKPC's response to this significant deficiency:

Management Response: No generally accepted accounting principles (i.e., Accounting Principles Board Opinions or Statements of Financial Accounting Standards) govern this issue. Management established this reserve several years ago. EKPC had always tracked the MWh of inadvertent power, and will continue to do so, but the decision was made to also account for the dollars involved. Apparently, this is not a generally accepted practice among electric utilities, so we will discontinue this practice.

EKPC will continue to comply with this recommendation regarding the significant deficiency. The Commission has not issued any directives in this regard.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2010-00167
RESPONSE TO SUPPLEMENTAL DATA REQUESTS

ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS DATED 8/2/10
REQUEST 3

RESPONSIBLE PERSON: **Ann F. Wood**

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

Request 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.

Response 3. Below were EKPC's responses to these four findings and recommendations (please note that while there were five bullets, there were only four recommendations):

- Finding: During our review of the accounts receivable aging and detail, there were approximately \$382,000 of receivables over 120 days old (excluding credit balances) some of which date back to 2003. In addition, there were approximately \$73,000 worth of credits not applied, some of which date back to 2003.

Recommendation: Management should resolve open items on accounts receivable detail that have aged past 120 days, removing the old items (write-off) and applying the credits as applicable. An allowance and write-off policy should be implemented.

Management Response: Including credit balances, \$296,459.68 of receivables were over 120 days old at year end. Of this amount, \$128,206.79 from Thermal Engineering International for construction work at Spurlock Station was 143 days old and has since been collected. In addition, \$75,415.67 (net of credits) relates to the Energy Management Conference, which was collected in March. This is an annual event that will always have amounts over 120 days old. So, of the \$296,459.68 total, \$203,622.46 relates to two items. Nevertheless, we should still probably write off a few old items. We will review the accounts receivable aging and detail on a quarterly basis and write off those items we deem uncollectible.

- Finding: During the review of the accounts payable aging and detail, we noted there were approximately \$10.3 million of aged payables (excluding debit balances) that related to retainage deposits on construction projects (with dates ranging from 2004-2007). While it is common practice to record these retainages as payable, the amounts should be reviewed on an ongoing basis for reasonableness.

Recommendation: A payables analysis should be performed at least annually to review all outstanding payable items.

Management Response: The reason retainage was high and over a long period is due to the construction of Spurlock Unit 4, which just became operational on April 1, and two scrubbers. We have released 143 vouchers totaling \$3.2 million in retainage already this year, and we expect more will be paid before the end of the year.

Every month, the open accounts payable trial balance is reconciled to the general ledger in detail and signed off by the General Accounting Supervisor. An in-depth analysis is performed quarterly. Deloitte & Touche did not ask for this

documentation during their fieldwork. By the time we provided evidence of these reconciliations and analyses, it was too late to incorporate into this management letter.

- Finding: It is our understanding that accrual reconciliations are reviewed on a monthly basis; however, this review was not evidenced by a manual sign-off.

Recommendation: Payroll accrual calculations and reconciliations should be reviewed for accuracy by someone independent of the reconciliation process in a timely fashion. Evidence of this review should exist via a manual sign-off.

Management Response: The payroll accrual calculations are done automatically monthly and reversed the following month. The Accounting Manager does an accrued payroll “true-up” at year end. The automatic payroll accrual calculation will be reviewed and signed off on by the Accounting Manager on a monthly basis.

- Finding: During the Winchester physical inventory observation, D&T noted there were inventory items that had not been weighed. Further, we noted the inventory count sheets had the quantity identified prior to the count team’s arrival to the location.

Recommendation: Management should count and weigh all items during the physical inventory. Also, count procedures should be performed blindly (i.e. no counts identified on the count sheets). This will ensure counts are properly performed to verify the accuracy of what is in the system.

Management Response: It is common practice for EKPC’s warehouse employees to “pre-count” certain stock material in an effort to reduce the amount of time it takes to conduct the various inventories. Contrary to Deloitte’s comments, EKPC

does conduct blind counts. EKPC is continuing to explore an option to cycle count inventory to improve the entire process. In addition, receiving procedures will be reviewed and strengthened to make certain applicable weights are verified for accuracy prior to issuing a receiving document for payment to a supplier.

During the 2009 annual audit, EKPC's auditors, Deloitte & Touche, were satisfied that these four recommendations had been satisfactorily implemented. EKPC is continuing to comply with the measures it implemented to address them.

**EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2010-00167
RESPONSE TO SUPPLEMENTAL DATA REQUESTS**

**ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS DATED 8/2/10
REQUEST 4**

RESPONSIBLE PERSON: Ann F. Wood

COMPANY: East Kentucky Power Cooperative, Inc.

Request 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.

Response 4. In 2009, EKPC provided its bundled IT security policy to Deloitte; this consolidation of the policies addressed the management letter comment and no further actions were needed from EKPC.

**EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2010-00167
RESPONSE TO SUPPLEMENTAL DATA REQUESTS**

**ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS DATED 8/2/10
REQUEST 5**

RESPONSIBLE PERSON: Ann F. Wood

COMPANY: East Kentucky Power Cooperative, Inc.

Request 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.

Response 5. There are 2 main reasons for the increase in worker's compensation ("WC") costs from 2008 to 2009:

1. Increase in annual premium for Excess WC insurance (increase of \$22,485; from \$163,941 to \$186,426).

2. Increase in costs paid by EKPC's third party administrator from 2008 to 2009 due to severity of certain claims & settlement of certain claims.

Response 5a. EKPC's projection of costs for calendar year 2010 is \$608,000.

Response 5b. 2011 year-end projections/trends are based on previous claims experience, 2010 current experience year-to-date, and anticipated settlements of certain claims in 2010.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2010-00167
RESPONSE TO SUPPLEMENTAL DATA REQUESTS

ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS DATED 8/2/10
REQUEST 6

RESPONSIBLE PERSON: **Counsel**

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

Request 6. Provide 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.

Response 6. EKPC incorporates its previous response to AG 1-57 and in addition states and responds as follows:

2008 - EKPC paid \$37,500 to settle a wrongful termination claim. No outside legal fees were incurred.

2009 - EKPC paid \$150,000 to settle a wrongful termination claim. Litigated by in-house counsel and by Frost Brown Todd. Outside counsel fees totaled \$112,209.50.

2009 - EKPC paid \$75,000 for the settlement of a case filed against the Company and a Company employee resulting a personal injury claim arising from a traffic accident.

Litigated by in-house counsel and by Frost Brown Todd. Outside counsel fees totaled \$2,344.00.

2009 - EKPC paid \$28,000 to settle a wrongful termination claim. Litigated by in-house counsel and by Frost Brown Todd. Outside counsel fees totaled \$70,471.50.

2010 - EKPC paid \$44,715.00 to settle damages to livestock allegedly caused by EKPC facilities. No outside legal expenses were incurred.

**EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2010-00167
RESPONSE TO SUPPLEMENTAL DATA REQUESTS**

**ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS DATED 8/2/10
REQUEST 7**

RESPONSIBLE PERSON: Frank J. Oliva

COMPANY: East Kentucky Power Cooperative, Inc.

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

Response 7. Because the federal insurance limit on this bank account was \$250,000 and it was held in a bank with an investment-grade credit rating, EKPC does not feel that it was taking an undue risk by exceeding the FDIC-insured limit.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2010-00167
RESPONSE TO SUPPLEMENTAL DATA REQUESTS

ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS DATED 8/2/10
REQUEST 8

RESPONSIBLE PERSON: Frank J. Oliva

COMPANY: East Kentucky Power Cooperative, Inc.

Request 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.

Response 8. The primary additional risks to be incurred due to the fact that EKPC is seeking private placement financing would be the availability of funding and the increased cost of funding. Both risks will be greatly influenced by EKPC's financial status at the time of the requested financings. If EKPC is able to acquire and maintain an investment-grade credit rating, financing will be secured more easily and will be available at a lower cost to ratepayers. The increased costs over the amounts that would have been incurred with RUS financing would be attributable to increased interest costs and financing-related costs.

**EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2010-00167
RESPONSE TO SUPPLEMENTAL DATA REQUESTS**

**ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS DATED 8/2/10
REQUEST 9**

RESPONSIBLE PERSON: Isaac S. Scott

COMPANY: East Kentucky Power Cooperative, Inc.

Request 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"?

Response 9. Yes, the Commission's December 23, 2008 Order in Case No. 2008-00436 ordered that EKPC would be subject to a comprehensive management audit. The results of that audit are found in the April 20, 2010 report issued by the Liberty Consulting Group, provided in response to the Attorney General's Initial Data Request, Item 11.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2010-00167
RESPONSE TO SUPPLEMENTAL DATA REQUESTS

ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS DATED 8/2/10
REQUEST 10

RESPONSIBLE PERSON: Isaac S. Scott

COMPANY: East Kentucky Power Cooperative, Inc.

Request 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.

Response 10. The Commission selected and hired the Liberty Consulting Group to perform the management audit, not EKPC. The Commission examined and evaluated the qualifications of all firms that bid for this project. EKPC believes the Commission would only retain a firm that was qualified to perform the audit.

**EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2010-00167
RESPONSE TO SUPPLEMENTAL DATA REQUESTS**

**ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS DATED 8/2/10
REQUEST 11**

RESPONSIBLE PERSON: Isaac S. Scott

COMPANY: East Kentucky Power Cooperative, Inc.

Request 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.

Response 11. EKPC believes questions relating to compliance with industry standards are more appropriate to ask of the Commission, as it hired the Liberty Consulting Group to perform the audit. As the Commission hired the Liberty Consulting Group, EKPC has not questioned whether the audit was performed in accordance with industry standards.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2010-00167
RESPONSE TO SUPPLEMENTAL DATA REQUESTS

ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS DATED 8/2/10
REQUEST 12

RESPONSIBLE PERSON: Isaac S. Scott

COMPANY: East Kentucky Power Cooperative, Inc.

Request 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.

Response 12. EKPC has previously attempted to explore these and other similar options on an informal basis with the types of enterprises mentioned in the request. However, EKPC received very little interest from those contacted and consequently has not further pursued these options.

**EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2010-00167
RESPONSE TO SUPPLEMENTAL DATA REQUESTS**

**ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS DATED 8/2/10
REQUEST 13**

RESPONSIBLE PERSON: Isaac S. Scott

COMPANY: East Kentucky Power Cooperative, Inc.

Request 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 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.

Request 13a. Did the Company agree with these findings at the time the report was issued?

Response 13a. EKPC continually monitors its expenses. Please see the response to Request 13b for a discussion of EKPC's cost containment initiatives.

Request 13b. State what, if any, measures the Company has taken to date to mitigate these issues.

Response 13b. EKPC has undertaken several cost containment and control initiatives during the last four years. These initiatives have been discussed in the last two general base rate cases, Case Nos. 2006-00472 and 2008-00409. EKPC believes its efforts have been successful, as shown in the reduction in the average operation and maintenance expense per MWh data provided in the response to the Attorney General's Initial Data Request, Item 13.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2010-00167
RESPONSE TO SUPPLEMENTAL DATA REQUESTS

ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS DATED 8/2/10
REQUEST 14

RESPONSIBLE PERSON: Isaac S. Scott

COMPANY: East Kentucky Power Cooperative, Inc.

Request 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.

Response 14. A copy of Board Policy No. 117 – "Whistleblower Reporting Procedure & Anti-Retaliation Policy" adopted November 10, 2009 is included on the attached CD. The policy has not been expanded as of the date of this response. Section III of the policy addresses the protections afforded to employees.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2010-00167
RESPONSE TO SUPPLEMENTAL DATA REQUESTS

ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS DATED 8/2/10
REQUEST 15

RESPONSIBLE PERSON: Isaac S. Scott

COMPANY: East Kentucky Power Cooperative, Inc.

Request 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.

Request 15a. Please state whether the company has formed, or will form a fraud risk management task force, and provide full details.

Response 15a. EKPC responded to the Crowe Chizek deficiency with the following actions. In April 2008 EKPC completed the Fraud Risk Assessment and Controls Test Planning Document, which was adopted from the Association of Certified Fraud Examiners' "ACFE Fraud Prevention Check-Up" and provided to EKPC by Crowe Chizek. Also in April 2008, EKPC conducted an internal audit of its Fraud Risk Assessment Program and issued a report. The report addressed the steps EKPC had taken to prevent or deter fraud by eliminating the motive or pressure, opportunity, and rationalization of fraud perpetrators. The report also covered the fraud risks that EKPC

had elected to insure, including various crime coverages, limits of liability, and retention amounts. Finally, there was a proposal for revised fraud policy provisions and sample language that was compared with the 1994 fraud policy. In August 2009 Administrative Policy & Procedure No. A026 – Fraud, was implemented. In November 2009, Board Policy No. 117 – Whistleblower Reporting Procedure & Anti-Retaliation Policy was approved. Lastly, EKPC is currently revising its Audit Committee Charter to include oversight responsibilities for (a) fraud detection policies and related procedures and (b) conflict of interest policies and related party transactions. On February 15, 2010, EKPC also hired an internal auditor who will assist with fraud risk issues.

Request 15b. 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.

Response 15b. The Audit Committee includes the following members:

- Bill Shearer, Chairman – Director, Clark Energy Cooperative
- Paul Hawkins – Director, Farmers Rural Electric Cooperative
- Larry Hicks – Alternate Director, Salt River Electric Cooperative
- Chris Perry – Alternate Director, Fleming-Mason Energy Cooperative

The Chairman of the Audit Committee must have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience, which results in “financial sophistication.” Chairman Shearer has such experience. Each member of the Audit Committee should be able to read and understand fundamental financial statements, including the balance sheet, statement of operations, and statement of cash flows. All members have this ability.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2010-00167
RESPONSE TO SUPPLEMENTAL DATA REQUESTS

ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS DATED 8/2/10
REQUEST 16

RESPONSIBLE PERSON: Isaac S. Scott

COMPANY: East Kentucky Power Cooperative, Inc.

Request 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.

Response 16. EKPC's management and Board of Directors have agreed to all of the recommendations contained in the April 20, 2010 report and implementation has begun and is on-going.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2010-00167
RESPONSE TO SUPPLEMENTAL DATA REQUESTS

ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS DATED 8/2/10
REQUEST 17

RESPONSIBLE PERSON: Isaac S. Scott

COMPANY: East Kentucky Power Cooperative, Inc.

Request 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.

Response 17. Please see the response to Request 16.

**EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2010-00167
RESPONSE TO SUPPLEMENTAL DATA REQUESTS**

**ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS DATED 8/2/10
REQUEST 18**

RESPONSIBLE PERSON: Isaac S. Scott

COMPANY: East Kentucky Power Cooperative, Inc.

Request 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.

Request 18. Please see the response to Request 16.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2010-00167
RESPONSE TO SUPPLEMENTAL DATA REQUESTS

ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS DATED 8/2/10
REQUEST 19

RESPONSIBLE PERSON: Isaac S. Scott

COMPANY: East Kentucky Power Cooperative, Inc.

Request 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.

Response 19. Please see the response to Request 16.

EAST KENTUCKY POWER COOPERATIVE, INC.
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RESPONSE TO SUPPLEMENTAL DATA REQUESTS

ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS DATED 8/2/10
REQUEST 20

RESPONSIBLE PERSON: Isaac S. Scott

COMPANY: East Kentucky Power Cooperative, Inc.

Request 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?

Response 20. Please see the response to Request 16.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2010-00167
RESPONSE TO SUPPLEMENTAL DATA REQUESTS

ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS DATED 8/2/10
REQUEST 21

RESPONSIBLE PERSON: Isaac S. Scott

COMPANY: East Kentucky Power Cooperative, Inc.

Request 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 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.

Response 21. Please see the response to Request 16.

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2010-00167

RESPONSE TO SUPPLEMENTAL DATA REQUESTS FOR INFORMATION

ATTORNEY GENERAL'S REQUESTS FOR INFORMATION DATED 8/2/10

REQUEST 22

RESPONSIBLE PERSON: Isaac S. Scott

COMPANY: East Kentucky Power Cooperative, Inc.

Request 22. For major plant construction projects representing plant additions costing more than \$5 million 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.

Response 22. Please see the enclosed CD for a copy of the Action Plans EKPC filed with the Commission concerning the management audit report.

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RESPONSE TO SUPPLEMENTAL DATA REQUESTS

ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS DATED 8/2/10
REQUEST 23

RESPONSIBLE PERSON: Isaac S. Scott

COMPANY: East Kentucky Power Cooperative, Inc.

Request 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."

Request 23a. Does EKPC agree with this statement? If not, why not? Explain in detail.

Response 23a. EKPC acknowledges and does not disagree with the statement.

Request 23b. 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.

Response 23b. EKPC objects to the question as it is based on speculation and is not relevant to the pending rate application. Without waiving this objection, EKPC states that it is committed to providing power to its member cooperatives and in turn their member consumers at the most reasonable rates possible. EKPC neither acknowledges nor agrees with the statement that it is on an “irrevocable course that will result in the most expensive electrical rates in the Commonwealth”.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2010-00167
RESPONSE TO SUPPLEMENTAL DATA REQUESTS

ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS DATED 8/2/10
REQUEST 24

RESPONSIBLE PERSON: Isaac S. Scott

COMPANY: East Kentucky Power Cooperative, Inc.

Request 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."

Request 24a. What steps is the company prepared to implement to insure that capital spending remains consistent with projected needs? Explain in detail.

Response 24a. The specific steps EKPC will be taking to address this item are still under development. Also, please see the response to Request 22.

Request 24b. What steps will it take to improve the Board's capital budget oversight? Explain in detail.

Response 24b. The specific steps EKPC will be taking to address this item are still under development. Also, please see the response to Request 22.

Request 24c. What steps will the company take to re-evaluate the capital budget process? Explain in detail.

Response 24c. The specific steps EKPC will be taking to address this item are still under development. Also, please see the response to Request 22.

Request 24d. 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.

Response 24d. AG DR 2-9 asks if the Commission ordered a comprehensive audit of EKPC's operations. There do not appear to be any concerns expressed in AG DR 2-9 that could be linked to actions planned to implement changes in the capital budgeting process. AG DR 2-13 asks if (a) EKPC agreed at the time with a report from the National Consulting Group and (b) what measures were taken by EKPC to mitigate growth in maintenance costs and administrative and general expenses at rates higher than national averages. There does not appear to be a direct link between the expense items identified in AG DR 2-13 and the capital budgeting process addressed in this request.