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January 6, 2015

Mr. Jeff R. Derouen, Executive Director  
Public Service Commission  
PO Box 615  
211 Sower Boulevard  
Frankfort, KY 40602

RECEIVED

JAN 07 2015

PUBLIC SERVICE  
COMMISSION

RE: PSC Case No. 2014-00051

Dear Mr. Derouen:

Please find enclosed an original and six copies of the response to the Commission Staff's Post-Hearing Request for Information to East Kentucky Power Cooperative Inc.'s Sixteen Member Distribution Cooperatives order of December 24, 2014.

Please let me know if additional information is needed.

Respectfully,

*Michelle D. Herrman*

Michelle D. Herrman  
Vice President of Finance

MDH:ak

Enclosures

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

JAN 07 2015

PUBLIC SERVICE  
COMMISSION

IN THE MATTER OF:

AN EXAMINATION BY THE PUBLIC SERVICE )  
COMMISSION OF THE ENVIROMENTAL )  
SURCHARGE MECHANISM OF EAST KENTUCKY )  
POWER COOPERATIVE, INC. FOR THE SIX )  
MONTH BILLING PERIOD ENDING )  
DECEMBER 31, 2013 AND THE PASS THROUGH )  
MECHANISM FOR ITS SIXTEEN MEMBER )  
DISTRIBUTION COOPERATIVES )

CASE NO.  
2014-00051

CERTIFICATE

STATE OF KENTUCKY

COUNTY OF PULASKI

Michelle D. Herrman, being duly sworn, states that she has supervised the preparation of the response to the Commission Staff's Post-Hearing Request for Information dated December 24, 2014, 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.

Michelle D. Herrman

Subscribed and sworn before me on the 6th day of January, 2015.

Jammy Ash

Notary Public

My commission expires 12/7/17.

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE  
PSC CASE NO. 2014-00051  
ENVIRONMENTAL SURCHARGE MECHANISM  
RESPONSE TO COMMISSION STAFF'S POST-HEARING REQUEST  
FOR INFORMATION DATED DECEMBER 24, 2014

**Request 1**

This question is addressed to South Kentucky Rural Electric Cooperative Corporation ("South Kentucky"). Does South Kentucky agree that it had an over recovery of \$1,730,504 in Case No. 2012-00486,<sup>1</sup> which was to be amortized over six months at \$288,417 per month starting with the July 2013 expense month and continuing through the December 2013 expense month?

**Response**

Yes, using the methodology for reporting in place for case No. 2012-00486, the amount calculated was an over recovery of \$1,730,504 and the Pass Through Mechanism Factor as calculated by EKPC applied the amortization of \$288,417 to the Surcharge Factor Expense month beginning with July 2013, which was subsequently billed to the members for six months starting in September 2013.

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**Request 2**

This question is addressed to South Kentucky. Does South Kentucky agree that it had an under recovery of \$169,367 in Case No. 2013-00140,<sup>2</sup> which was to be amortized over six months at \$28,228 per month starting with the August 2013 expense month and continuing through the January 2014 expense month?

**Response**

Yes, using the methodology for reporting in place for case No. 2013-00140, the amount calculated was an under recovery of \$169,367 and the Pass Through Mechanism Factor as calculated by EKPC applied the amortization of \$28,228 to the Surcharge Factor Expense month beginning with August 2013, which was subsequently billed to the members for six months starting in October 2013.

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**Request 3**

This question is addressed to South Kentucky. Does South Kentucky agree that it had an over recovery of \$360,764 in Case No. 2013-00324,<sup>3</sup> which was to be amortized over six months at \$60,127 per month starting with the March 2014 expense month and continuing through the August 2014 expense month?

**Response**

Yes, using the methodology for reporting in place for case No. 2013-00324, the amount calculated was an over recovery of \$360,764 and the Pass Through Mechanism Factor as calculated by EKPC applied the amortization of \$60,127 to the Surcharge Factor Expense month beginning with March 2014, which was subsequently billed to the members for six months starting in May 2014.

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**Request 4**

This question is addressed to South Kentucky. Does South Kentucky agree that the three cases addressed in Items 1, 2, and 3 of this Request result in a net over recovery of \$1,921,901, \$852,912 of which was still to be amortized and used in the monthly pass-through mechanism factor calculations starting in January 2014?

**Response**

Yes, using the methodology for reporting in place for the three cases, the net over recovery was \$1,921,901, with \$852,912 remaining to be amortized and used in the monthly pass-through mechanism factor billed to the members starting in January 2014.

Witness: Michelle Herrman

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE  
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**Request 5**

This question is addressed to South Kentucky. Refer to South Kentucky's response to Staff's request for information from the informal conference held on June 18, 2014. Does South Kentucky agree that it determined that it had an under recovery of \$881,647 since inception through December 31, 2013?

**Response**

Yes.

Witness: Michelle Herrman

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE  
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**Request 6**

This question is addressed to South Kentucky. Confirm that the reason the over recovery of \$852,912, which was reflected in the monthly pass-through mechanism factor calculations starting in January 2014, was added to the under-recovery amount of \$881,647 to arrive at a total under recovery of \$1,734,559 at December 2013 was because the calculation of the \$852,912 used EKPC's invoiced amounts and South Kentucky's revenues billed to its members between January 1, 2011 and June 30, 2013, and if this \$852,912 over recovery would have been reflected in the revenues South Kentucky billed its customers as of December 31, 2013, the net under recovery would have been \$1,734,559 (\$881,647 + \$852,912)?

**Response**

Yes, that is correct.



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**Request 7**

This question is addressed to South Kentucky. Refer to South Kentucky's response to Commission Staff's Fourth Request for Information ("Staff's Fourth Request"), Item 3.d., page 13 of 17.

**Request (a)**

Confirm that South Kentucky is requesting that the under recovery of \$1,734,559 be amortized over a six-month period and used in future monthly calculations of the monthly pass-through mechanism factor?

**Response**

Yes, that is correct.

**Request (b)**

Does South Kentucky agree that the amortization of \$1,734,559 over six months would raise the average customer using 1,077 kWh per month by \$3.14 per month for the six-month amortization period?

**Response**

Yes, we agree.

Witness: Michelle Herrman

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE

PSC CASE NO. 2014-00051

ENVIRONMENTAL SURCHARGE MECHANISM

RESPONSE TO COMMISSION STAFF'S POST-HEARING REQUEST

FOR INFORMATION DATED DECEMBER 24, 2014

**Request 8**

This question is addressed to South Kentucky. Refer to South Kentucky's pass-through mechanism report included in EKPC's monthly environmental surcharge filing dated November 20, 2014.

**Request (a)**

In column 9, for the months of November 2013 through August 2014, does South Kentucky agree that the amortization of the monthly over-/under- recovery amounts total \$852,912, which is the same amount shown on the response to Staff's Fourth Request, Item 3.d., page 8 of 17?

**Response**

Yes, we agree.

**Request (b)**

Does South Kentucky agree that the amount shown in column 9 for the months of November 2013 through August 2014 were used in calculating South Kentucky's pass through factors shown in column 15 for the respective months?

**Response**

Yes, we agree.

Witness: Michelle Herrman

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE  
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**Request 9**

This question is addressed to South Kentucky. In what revenue month was August 2014's pass-through factor of 8.69 percent billed to South Kentucky's customers?

**Response**

October 2014.

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**Request 10**

This question is addressed to South Kentucky. If the August pass-through factor of 8.69 percent was used in calculating the bills for South Kentucky's customers beginning October 2014 or later, does South Kentucky agree that the customers were already billed for the under-collection amount of \$852,912? If not, explain why.

**Response**

Yes, the August pass-through factor of 8.69 percent was used in calculating the bills for South Kentucky's customers for October 2014. However, the \$852,912 was used in the calculation as a mandated reduction to the members' billings for the periods of January 2014 through October 2014.

Please see the following table on page 2 of 2 of this item.

Since the "Since Inception" cumulative amount through December 2013 indicates that South Kentucky had a net under recovery of \$881,648, the required reduction to the members' billings for the periods of January 2014 through October 2014 was not necessary. Nevertheless, South Kentucky was required to still refund the mandated remaining case amounts of \$852,912, thereby increasing the cumulative under recovery amount instead of reducing it. It is for this reason that South Kentucky has asked to recover the \$852,912 reduction in billings to the members combined with the Since Inception amount of \$881,648, for a total under recovery of \$1,734,560.

Witness: Michelle Herrman

East Kentucky Power Cooperative, Inc. - Distribution Cooperatives  
 Pass Through Mechanism Report for South Kentucky RECC

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	
Surcharge Factor Expense Month	EKPC CESF%	EKPC BESF%	EKPC MESF%	EKPC Monthly Revenues from Sales to South Kentucky	On-peak Revenue Adjustment	EKPC Net Monthly Sales to South Kentucky	EKPC 12-months Ended Average Monthly Revenue from Sales to South Kentucky	South Kentucky Revenue Requirement	Amortization of (Over)/Under Recovery	South Kentucky Net Revenue Requirement	South Kentucky Total Monthly Retail Revenues	On-Peak Retail Revenue Adjustment	South Kentucky Net Monthly Retail Revenues	12-months ended Avg. Retail Revenues, Net	South Kentucky Pass Through Mechanism Factor	South Kentucky Pass Through Mechanism Bill Month
			Col. (1) - Col. (2)			Col. (4) - Col. (5)		Col. (3) x Col. (7)		Col. (8) + Col. (9)			Col. (11) - Col. (12)		Col. (10) / Col. (14)	
Nov-13	17.43%	0.00%	17.43%	\$ 7,187,844		\$ 7,187,844	\$ 6,894,429	\$ 1,201,699	\$ (260,189)	\$ 941,510	\$ 8,629,346		\$ 8,629,346	\$ 9,579,581	9.81%	Jan-14
Dec-13	14.54%	0.00%	14.54%	\$ 8,503,162		\$ 8,503,162	\$ 6,943,491	\$ 1,009,584	\$ (260,189)	\$ 749,395	\$ 10,585,938		\$ 10,585,938	\$ 9,661,316	7.82%	Feb-14
Jan-14	10.92%	0.00%	10.92%	\$ 11,366,310		\$ 11,366,310	\$ 7,166,716	\$ 782,605	\$ 28,228	\$ 810,833	\$ 12,851,992		\$ 12,851,992	\$ 9,739,227	8.39%	Mar-14
Feb-14	5.44%	0.00%	5.44%	\$ 8,979,796		\$ 8,979,796	\$ 7,248,947	\$ 394,343	\$ -	\$ 394,343	\$ 15,039,483		\$ 15,039,483	\$ 9,950,186	4.05%	Apr-14
Mar-14	11.62%	0.00%	11.62%	\$ 8,300,709		\$ 8,300,709	\$ 7,254,880	\$ 843,017	\$ (60,127)	\$ 782,890	\$ 11,091,124		\$ 11,091,124	\$ 9,986,831	7.87%	May-14
Apr-14	13.47%	0.00%	13.47%	\$ 5,911,467		\$ 5,911,467	\$ 7,259,486	\$ 977,853	\$ (60,127)	\$ 917,726	\$ 9,568,630		\$ 9,568,630	\$ 9,950,607	9.19%	Jun-14
May-14	15.84%	0.00%	15.84%	\$ 5,991,640		\$ 5,991,640	\$ 7,270,226	\$ 1,151,604	\$ (60,127)	\$ 1,091,477	\$ 7,788,981		\$ 7,788,981	\$ 9,962,977	10.97%	Jul-14
Jun-14	15.67%	0.00%	15.67%	\$ 6,800,613		\$ 6,800,613	\$ 7,300,644	\$ 1,144,011	\$ (60,127)	\$ 1,083,884	\$ 8,867,617		\$ 8,867,617	\$ 10,002,495	10.88%	Aug-14
Jul-14	14.38%	0.00%	14.38%	\$ 7,024,102		\$ 7,024,102	\$ 7,338,975	\$ 1,055,345	\$ (60,127)	\$ 995,218	\$ 9,678,462		\$ 9,678,462	\$ 10,028,718	9.95%	Sep-14
Aug-14	12.62%	0.00%	12.62%	\$ 7,115,619		\$ 7,115,619	\$ 7,381,420	\$ 931,535	\$ (60,127)	\$ 871,408	\$ 9,495,747		\$ 9,495,747	\$ 10,031,144	8.69%	Oct-14

Total Amortization for Period \$ (852,912)

(as reductions to the revenue requirement and pass-through factor.)

Witness: Michelle Herrman

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE  
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**Request 11**

This question is addressed to South Kentucky. Refer to South Kentucky's response to Staff's request for information from the informal conference held on June 18, 2014, Schedule A, page 2 of 2, and provide answers to the following:

**Request (a)**

Does South Kentucky agree that the schedule shows a cumulative under collection of \$881,647?

**Response**

Yes, we agree.

**Request (b)**

Does South Kentucky agree that the impact of the June 2009 EKPC power bill in the amount of \$535,927 is reflected in the cumulative under collection of \$881,647?

**Response**

Yes, we agree.

**Request (c)**

Does South Kentucky agree that the total EKPC power bill from July 2005 through December 2013 was \$71,102,693? If not, provide the amount.

**Response**

Yes, we agree.

**Request (d)**

Does South Kentucky agree that the total amount billed by South Kentucky to its members from July 2005 through December 2013 was \$70,221,045? If not, provide the amount.

**Response**

Yes, we agree.

**Request (e)**

Does South Kentucky agree that the difference between the \$71,102,693 expense billed by EKPC and the \$70,221,045 billed by South Kentucky to its members is \$881,648? If not, provide the difference.

**Response**

Yes, we agree. There is an immaterial rounding factor that is causing the one dollar difference in the mathematical calculation from the amount stated in South Kentucky's response to Staff's request for information from the informal conference held on June 18, 2014, Schedule A, page 2 of 2. We apologize for the error.

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE  
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**Request 12**

This question is addressed to EKPC and all of the member distribution cooperatives. If the Commission approves the since inception methodology proposed by South Kentucky, does EKPC and each member distribution cooperative agree that the since inception methodology should be applied to calculate the over-/under-recovery amount for all of the member distribution cooperatives, for this proceeding only, and adopt the amortization exclusion methodology for future proceedings?

**Response**

Yes, we agree if the Since Inception methodology incorporates the remaining amortizations of Cases 2012-00486, 2013-00140 and 2013-00324. This amount, for South Kentucky, would be a net reduction of \$852,912. The net of the remaining case amortizations at December 31, 2013 (\$852,912) combined with the Since Inception under recovery of (\$881,648) resulting in a net under recovery of \$1,734,560 for this proceeding only.

We believe that utilizing the Since Inception methodology accurately follows the cash flows associated with the environmental surcharge and ensures that there is no under collection or over collection by the cooperative and fulfills the spirit and intent of KRS 278.183. However, there may be special circumstances that impact the calculation of the net remaining case amortizations amount from cases 2012-00486, 2013-00140 and 2013-00324 that may require unique treatment on a cooperative by cooperative basis.



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**Request 13**

This question is for all of the member distribution cooperatives. Refer to South Kentucky's response to Staff's Fourth Request, Item 3.d., pages 6 - 13 of 17. Should the Commission elect to approve the since inception methodology in calculating the over/under balance at December 31, 2013, do the member distribution cooperatives agree with the information in Items 13.a. - 13.p. below? If not, provide the correct information along with supporting calculations in electronic format with all cells and formulas intact.

**Request 13 (o)**

South Kentucky will have a net under recovery at December 31, 2013 of \$1,734,560 [\$881,648-(\$852,912)], with an average increase in the residential bill of \$3.14 per month.

**Response**

Yes, we agree.

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE  
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**Request 14**

This question is addressed to South Kentucky. At the hearing held on December 16, 2014, Michelle Herrman stated that if the since inception model is not approved, South Kentucky would have to write off \$1.694 million. Provide the journal entry that would be made to record the transaction.

**Response**

<u>Account</u>	<u>Account Descriptions</u>	<u>Debit</u>	<u>Credit</u>
440.10	Residential Sales	\$ 1,150,762.13	
442.10	Commercial & Industrial Sales- Small	\$ 124,891.58	
442.20	Commercial & Industrial Sales- Large	\$ 375,244.60	
442.21	Commercial & Industrial Large Without Demand	\$ 24,113.84	
444.00	Public Street & Highway Lighting	\$ 1,997.11	
445.00	Sales to Public Buildings & Other Public Authorities	\$ 17,314.74	
142.32	Accounts Receivable- Environmental Surcharge		\$ 1,694,324.00
		<u>\$ 1,694,324.00</u>	<u>\$ 1,694,324.00</u>

To write- off Environmental Surcharge revenue  
under- collection per PSC Case 2014-00051.

Witness: Michelle Herrman

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE  
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**Request 15**

This question is addressed to South Kentucky. Refer to the response to Staff's Fourth Request, Item 3.d., pages 10 - 12.

**Request (a)**

Does the analysis of Account 142.32 - Accounts Receivable - Environmental Surcharge shown on these pages represent the actual entries made since the inception of EKPC's environmental surcharge, or is it a depiction of the account as if the entries had been made since inception?

**Response**

The monthly amounts shown under the heading of 142.32 are the net actual entries made on the general ledger for South Kentucky since the inception of the environmental surcharge. The actual entries may vary slightly on an entry by entry basis, but the net entry is the same. The general ledger balance in account 142.32 at December 31, 2013 was \$881,648. The case amounts highlighted in yellow and orange and the corresponding entries for the heading of 182.31- Other Regulatory Asset- Environmental Surcharge are a depiction of entries. It is our intention to begin recording the depiction entries on the general ledger after the order in this case is issued and to continue using the entry going forward. Utilizing the account 182.31 will provide a clearer tracking of the components of the Environmental Surcharge over or under recovery.

Witness: Michelle Herrman

**Request (b)**

Explain the rationale for recording the over/under amounts in this manner.

**Response**

Account 142.32- Accounts Receivable- Environmental Surcharge- is utilized to record the difference in the Surcharge billed by East Kentucky Power to South Kentucky compared to the amount billed to the member for the month. This adjustment mitigates the effect on the cooperative's margins from the lag in the pass through of the expense to the members. This entry follows the principles of accrual accounting because in accordance with KRS 278.183, it is the intent that the costs associated with the compliance with environmental requirements are to be recovered by the cooperative. While the entries to account 142.32 mitigate the effect on the cooperative margins, this entry does not mitigate the effect on cash flow for the cooperative.

It is our intention to begin utilizing account 182.31- Other Regulatory Asset- Environmental Surcharge- after a ruling is made in this case in conjunction with the account 142.32. Account 182.31 will be utilized to track the amortization of the Commission case ruling amounts portion of the over/under recoveries. The utilization of both of these accounts will better identify the nature of future over/ under recoveries recorded on the general ledger.

**Request (c)**

Explain the rationale for recording the authorized case amortization amounts and the amortization amounts billed to customers in this manner given that they are offsetting amounts and ultimately do not impact the account balance.

**Response**

It is correct that they are offsetting amounts and, ultimately, does not impact the environmental surcharge receivable balance. The utilization of both of these accounts will better identify the nature of future over/ under recoveries recorded on the general ledger. Additionally, for future review cases, the balance that is in account 142.32 should align with the amounts that will be reported in future case reviews as in the amortization exclusion model, as the amortizations will

have been removed. This provides an additional check in verifying that the case review amounts are accurately reported. Similarly, this will help uncover any issues that may arise in the normal operation of the environmental surcharge reporting mechanism

**Request (d)**

Are the over/under amounts recorded in this account being refunded to or collected from customers?

(1) If the response is yes, explain how the entries to refund or bill customers is recorded as a transaction in Account 142.32.

(2) If the response is no, explain why the over/under amounts are not being refunded to or collected from customers.

**Response**

Yes. The amounts recorded in the account 142.32 Accounts Receivable- Environmental Surcharge are adjusted monthly based on the difference in the billing to the member and the amount paid to EKP for the environmental surcharge for the month. In some months, the cooperative may collect more from the customers than it paid to EKP and in other months it may collect less from the customers than it paid to EKP. Therefore, some months there may be an addition to the cumulative amount recorded in account 142.32 and in other months there may be a reduction to the cumulative amount recorded in account 142.32. The actual revenue amounts and the associated costs of the environmental surcharge are included in the calculation as prepared by EKP each month. Therefore, there is no separate refund or collection to or from the customer, but rather the calculation mechanism incorporates the amounts recorded in account 142.32 by the nature of its operations.

The over or under recovery is recorded in account 142.32 as illustrated in South Kentucky's example in response to the commissions 2nd Data request, page 2 of 2, as follows:

<u>Account</u>	<u>Account Descriptions</u>	<u>Debit</u>	<u>Credit</u>
142.32	Accounts Receivable- Environmental Surcharge	193,872	
440.10	Residential Sales		108,484
442.10	Commercial & Industrial Sales- Small		11,537
442.20	Commercial & Industrial Sales- Large		69,683
442.21	Commercial & Industrial Large Without Demand		2,335
444.00	Public Street & Highway Lighting		252
445.00	Sales to Public Buildings & Other Public Authorities		1,581

To accrue Environmental Surcharge revenue under-collected (or over-collected) based upon the difference between the Power Bill and Billing to the member for the month.

**Request (e)**

Explain why the over/under amounts recorded in Account 142.32 for July 2005 through July 2009 do not agree with the amounts shown for the same months in South Kentucky's response to Staff's request for information from the informal conference held on June 18, 2014.

**Response**

The amount reported in response to the Staff's request for information from the informal conference held on June 18<sup>th</sup>, were presented to align with the way the amounts were reported in the previous cases. In the early cases, information was reported based on an offset of the prior months expense compared to the following months revenue from July 2005 until July 2009, for example July 2005 expense was compared to August 2005 revenues. This is further explained in South Kentucky's response to Staff's Third Data request item 7c. The offset aligns with how the reporting was done in cases 2006-00131, 2007-00378, 2009-00039, and 2009-00317.

The subsequent cases utilize a match for the expense month and the revenue month, for example November 2009 expense compared to November 2009 revenue, this aligns with how the information is presented in our response to Staff's Fourth Request, Item 3.d., pages 10 - 12.

Ultimately, both the information provided in Staff's request for information from the informal conference held on June 18<sup>th</sup> and the information presented in Staff's Fourth Request, Item 3 d., pages 10 - 12 total to the same amounts. Total expenses billed by EKPC are \$71,102,693 and the total revenue billed by South Kentucky to its members is \$70,221,045, for a net difference of \$881,648.