

# Goss ■ Samford PLLC



Attorneys at Law

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JAN 05 2015

PUBLIC SERVICE  
COMMISSION

January 5, 2015

*VIA HAND DELIVERY*

Mr. Jeff Derouen  
Executive Director  
Kentucky Public Service Commission  
P.O. Box 615  
211 Sower Boulevard  
Frankfort, KY 40602

Re: PSC Case No. 2014-00432

Dear Mr. Derouen:

Please find enclosed for filing with the Commission in the above-referenced case an original and eight copies of the responses of East Kentucky Power Cooperative, Inc. ("EKPC"), to the Staff's Initial Request for Information dated December 24, 2014.

Very truly yours,

David S. Samford

Enclosures

Cc: Parties of Record

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

**RECEIVED**

**JAN 05 2015**

**PUBLIC SERVICE  
COMMISSION**

**In the Matter of:**

**THE APPLICATION OF EAST KENTUCKY POWER )  
COOPERATIVE, INC. FOR AN ORDER APPROVING )  
THE ESTABLISHMENT OF REGULATORY ASSETS )  
FOR THE DEPRECIATION AND ACCRETION )  
EXPENSES ASSOCIATED WITH ASSET RETIREMENT )  
OBLIGATIONS )**

**CASE NO.  
2014-00432**

**RESPONSES TO COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION  
TO EAST KENTUCKY POWER COOPERATIVE, INC.,  
DATED DECEMBER 24, 2014**

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

**IN THE MATTER OF:**

<b>THE APPLICATION OF EAST KENTUCKY POWER</b>	)	
<b>COOPERATIVE, INC. FOR AN ORDER APPROVING</b>	)	
<b>THE ESTABLISHMENT OF REGULATORY ASSETS</b>	)	<b>CASE NO.</b>
<b>FOR THE DEPRECIATION AND ACCRETION</b>	)	<b>2014-00432</b>
<b>EXPENSES ASSOCIATED WITH ASSET RETIREMENT</b>	)	
<b>OBLIGATIONS</b>	)	

**CERTIFICATE**

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

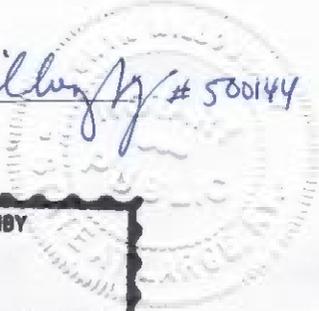
Michelle K. Carpenter, being duly sworn, states that she has supervised the preparation of the responses of East Kentucky Power Cooperative, Inc. to the Public Service Commission Staff's Initial Request for Information in the above-referenced case dated December 24, 2014, and that the matters and things set forth therein are true and accurate to the best of her knowledge, information and belief, formed after reasonable inquiry.

*Michelle K. Carpenter*

Subscribed and sworn before me on this 5<sup>th</sup> day of January 2015.

*Gwyn M. Willoughby*  
Notary Public # 500144

**GWYN M. WILLOUGHBY**  
Notary Public  
State at Large  
Kentucky  
My Commission Expires Nov 30, 2017



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

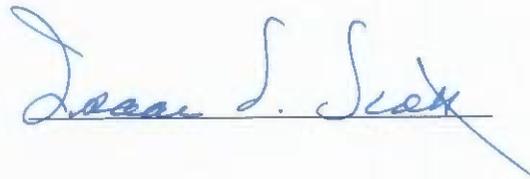
**IN THE MATTER OF:**

<b>THE APPLICATION OF EAST KENTUCKY POWER</b>	)	
<b>COOPERATIVE, INC. FOR AN ORDER APPROVING</b>	)	
<b>THE ESTABLISHMENT OF REGULATORY ASSETS</b>	)	<b>CASE NO.</b>
<b>FOR THE DEPRECIATION AND ACCRETION</b>	)	<b>2014-00432</b>
<b>EXPENSES ASSOCIATED WITH ASSET RETIREMENT</b>	)	
<b>OBLIGATIONS</b>	)	

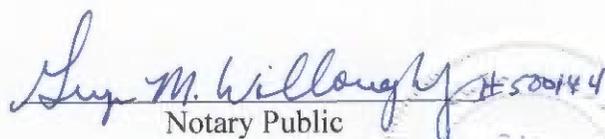
**CERTIFICATE**

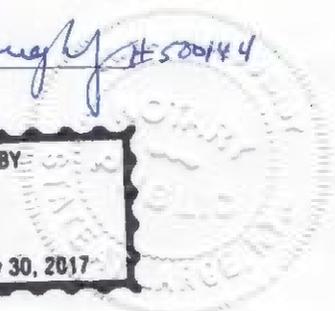
**STATE OF KENTUCKY** )  
                                  )  
**COUNTY OF CLARK**    )

Isaac S. Scott, being duly sworn, states that he has supervised the preparation of the responses of East Kentucky Power Cooperative, Inc. to the Public Service Commission Staff's Initial Request for Information in the above-referenced case dated December 24, 2014, 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 5<sup>th</sup> day of January 2015.

  
Notary Public



**EAST KENTUCKY POWER COOPERATIVE, INC.**  
**PSC CASE NO. 2014-00432**  
**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 12/24/14**  
**REQUEST 1**

**RESPONSIBLE PARTY:** Michelle K. Carpenter

**Request 1.** Refer to the Application, paragraph 6, where it states, "The asset retirement cost is to be depreciated over the useful life of the related asset that gives rise to the obligation."

**Request 1a.** Provide the remaining useful lives of the subject Asset Retirement Obligation ("AROs") in the instant case for the asbestos removal and the ash disposal sites.

**Response 1a.** The expected lives used in the ARO calculations are outlined in the chart below.

<b>ARO Location/Type</b>	<b>Expected Life Used in ARO Calculation</b>
Dale Station Asbestos	June 2019
Cooper Station Asbestos	June 2030
Dale Station Ash Ponds	June 2019
Cooper Station Ash Landfill	June 2025
Spurlock Station Ash Landfill Cells	June 2020

**Request 1b.** Explain how the remaining useful lives were determined for the asbestos removal and the ash disposal sites.

**Response 1b.** Generally, the ARO settlement date is assumed to be the expected life of the related asset unless other information is available. In the case of the landfills, the settlement date is consistent with estimated years of capacity remaining in the respective landfill cells plus five years of mandatory monitoring required by law. All other AROs settlement dates are consistent with the current depreciable lives of the assets.

**EAST KENTUCKY POWER COOPERATIVE, INC.**  
**PSC CASE NO. 2014-00432**  
**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 12/24/14**  
**REQUEST 2**

**RESPONSIBLE PARTY:**           **Michelle K. Carpenter**

**Request 2.**           Refer to the Application, paragraph 6, where it states, "The utility shall on a timely basis monitor measurement changes of the AROs." Provide the proposed schedule for the evaluation of changes of the AROs in the instant case.

**Response 2.**           Currently, AROs are evaluated annually in conjunction with year-end activities. However, if new information becomes available during the year that is material to an ARO calculation, efforts will be made to re-evaluate at that time.

**EAST KENTUCKY POWER COOPERATIVE, INC.**  
**PSC CASE NO. 2014-00432**  
**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 12/24/14**  
**REQUEST 3**

**RESPONSIBLE PARTY:**           **Michelle K. Carpenter**

**Request 3.**           Refer to the Application, paragraph 7, regarding asbestos abatement. Explain whether EKPC has any recourse through legal, insurance, or other means to recoup any of the costs associated with the asbestos abatement costs.

**Response 3.**           EKPC is unaware of any other means to recoup the costs associated with asbestos abatement. Regardless of the recovery mechanism used, the obligation still exists and there would still be a timing difference between when depreciation and accretion is recognized and when recovery takes place, thus necessitating a regulatory asset to ensure proper matching.

**EAST KENTUCKY POWER COOPERATIVE, INC.**  
**PSC CASE NO. 2014-00432**  
**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 12/24/14**  
**REQUEST 4**

**RESPONSIBLE PARTY:**           **Michelle K. Carpenter**

**Request 4.**           Refer to the Application, paragraph 7, the last sentence where it states the ARO associated with ash disposal sites is \$27,110,126. Also refer to the Application in Case No. 2014-00252,<sup>1</sup> page 11, where it states that Alternative 8, which is EKPC's selected alternative in that case, has a total cost of \$26,292,000. Explain the difference in the cost of the ARO associated with the ash disposal sites in the two cases.

**Response 4.**           The \$27,110,126 ash ARO balance cited in the Application represents the original fair value calculations for each plant location plus one month of accretion. The \$26,292,000 cited in Case No. 2014-00252 represents the estimated costs to close the Dale Station ash ponds plus an additional \$4,000,000 to construct the Smith Landfill. The estimated remediation cost used to calculate the Dale Station ash ARO was \$24,000,000. This amount was based upon preliminary estimates while the \$22,292,000 (\$26,292,000 net of \$4,000,000 landfill

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<sup>1</sup> Case No. 2014-00252, *Application of East Kentucky Power Cooperative, Inc. for a Certificate of Public Convenience and Necessity for Construction of an Ash Landfill at J.K. Smith Station, the Removal of Impounded Ash from William C. Dale Station for Transport to J.K. Smith and Approval of a Compliance Plan Amendment for Environmental Surcharge Recovery* (filed Sept. 8, 2014).

construction) in Case No. 2014-00252 was based upon Burns and MacDonnell's final report, Dale Station – Ash Impoundment Closure & Site Restoration Project.

**EAST KENTUCKY POWER COOPERATIVE, INC.**  
**PSC CASE NO. 2014-00432**  
**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 12/24/14**  
**REQUEST 5**

**RESPONSIBLE PARTY:**           **Michelle K. Carpenter**

**Request 5.**           Refer to the Application, paragraph 8, where it states, "Based on the monthly depreciation and accretion expense, at the end of 2014 the ARO-related depreciation expense will be \$5,275,341 and the accretion expense will be \$1,077,266." Explain how the accretion expense was determined and provide an example of how the accretion expense was determined for the asbestos removal and ash disposal projects.

**Response 5.**           Accretion expense was calculated for each respective ARO by multiplying the cumulative ARO liability balance by the estimated credit-adjusted risk free rate established at the time the ARO was initially recorded. The initial ARO liability represents the expected present value of expected cash flows using the credit-adjusted risk-free rate for the life of the asset, adjusted for inflation. Please refer to pages 2 and 3 of this response for detailed examples of asbestos and ash ARO calculations, which include the requested accretion expense component.

**EAST KENTUCKY POWER COOPERATIVE**  
**ASBESTOS ASSET RETIREMENT OBLIGATION CALCULATION FOR RETIREMENT IN PLACE--DALE UNITS 3 & 4**

**COST PER NEW STUDY--RETIRE IN PLACE UNIT 3&4**

78 months remaining life estimate

	Retirement Cost Jan 1	Inflation Rate	Inflation	Retirement w/ Inflation December 31	
2012	3,530,000.00				
2013	3,530,000.00	2.50%	88,250.00	3,618,250.00	
2014	3,618,250.00	2.50%	90,456.25	3,708,706.25	
2015	3,708,706.25	2.50%	92,717.66	3,801,423.91	
2016	3,801,423.91	2.50%	95,035.60	3,896,459.50	
2017	3,896,459.50	2.50%	97,411.49	3,993,870.99	
2018	3,993,870.99	2.50%	99,846.77	4,093,717.77	
2019	4,093,717.77	2.50%	51,171.47	4,144,889.24	Cost for inflation through June 2019
				3,644,280.64	PV at 2% 6.5 YEARS (78 months)

	Liability Balance Jan 1	Interest Rate	Accretion	Liability Balance December 31
2013	3,644,280.64	2.00%	72,885.61	3,717,166.25
2014	3,717,166.25	2.00%	74,343.33	3,791,509.58
2015	3,791,509.58	2.00%	75,830.19	3,867,339.77
2016	3,867,339.77	2.00%	77,346.80	3,944,686.56
2017	3,944,686.56	2.00%	78,893.73	4,023,580.30
2018	4,023,580.30	2.00%	80,471.61	4,104,051.90
2019	4,104,051.90	2.00%	40,837.34	4,144,889.24

	Estimated Depreciation	Accretion from above	Estimated Annual Depreciation & Accretion
2013	560,658.56	72,885.61	633,544.17
2014	560,658.56	74,343.33	635,001.89
2015	560,658.56	75,830.19	636,488.75
2016	560,658.56	77,346.80	638,005.36
2017	560,658.56	78,893.73	639,552.29
2018	560,658.56	80,471.61	641,130.17
2019	280,329.28	40,837.34	321,166.62
	3,644,280.64	500,608.60	4,144,889.24

Initial cost estimate, ARO established 12/31/12

Note 1: Inflation rate use is consistent with the general and capital cost rate used in the most recent financial forecast approved by the Board of Directors.

Note 2: Interest rate was determined by giving consideration to rate of five year credit facility of 1.8% and quoted rate of 2% for 10 year treasury.

**EAST KENTUCKY POWER COOPERATIVE**  
**ASH ASSET RETIREMENT OBLIGATION CALCULATION FOR DALE ASH PONDS**

**COST TO HAUL ASH TO SMITH--excludes cost of new Smith Landfill**

	Retirement Cost Dec 1	Inflation Rate	Inflation	Retirement w/ Inflation December 31	
2013	24,000,000.00			24,000,000.00	
2014	24,000,000.00	2.50%	600,000.00	24,600,000.00	
2015	24,600,000.00	2.50%	615,000.00	25,215,000.00	
2016	25,215,000.00	2.50%	630,375.00	25,845,375.00	
2017	25,845,375.00	2.50%	646,134.38	26,491,509.38	
2018	26,491,509.38	2.50%	662,287.73	27,153,797.11	
2019	27,153,797.11	2.50%	339,422.46	27,493,219.57	Cost for inflation through June 2019
				<b>22,750,201.46</b>	PV at 3.45%
					5.583 YEARS (67 months)

	Liability Balance Dec 1	Interest Rate	Accretion	Liability Balance December 31
2013	22,750,201.46	3.45%	65,406.83	22,815,608.29
2014	22,815,608.29	3.45%	787,138.49	23,602,746.78
2015	23,602,746.78	3.45%	814,294.76	24,417,041.54
2016	24,417,041.54	3.45%	842,387.93	25,259,429.47
2017	25,259,429.47	3.45%	871,450.32	26,130,879.79
2018	26,130,879.79	3.45%	901,515.35	27,032,395.14
2019	27,032,395.14	3.45%	460,824.43	27,493,219.57

	Estimated Annual Depreciation	Accretion from above	Estimated Annual Depreciation & Accretion
2013	339,555.25	65,406.83	404,962.08
2014	4,074,662.95	787,138.49	4,861,801.44
2015	4,074,662.95	814,294.76	4,888,957.71
2016	4,074,662.95	842,387.93	4,917,050.88
2017	4,074,662.95	871,450.32	4,946,113.27
2018	4,074,662.95	901,515.35	4,976,178.30
2019	2,037,331.46	460,824.43	2,498,155.89
	<u>22,750,201.46</u>	<u>4,743,018.11</u>	<u>27,493,219.57</u>

Initial cost estimate, ARO established December 1, 2013

Note 1: Inflation rate use is consistent with the general and capital cost rate used in the most recent financial forecast approved by the Board of Directors.

Note 2: Interest rate was determined by giving consideration to rate of five year U.S. Treasury of 1.75% adjusted for credit spread to 3.45%.

**EAST KENTUCKY POWER COOPERATIVE, INC.**  
**PSC CASE NO. 2014-00432**  
**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 12/24/14**  
**REQUEST 6**

**RESPONSIBLE PARTY: Isaac S. Scott**

**Request 6.** Refer to the Application, paragraph 9, where it states, "EKPC believes the actual ARO settlement costs will be recoverable in rates or through the Environmental Surcharge mechanism when the projects are identified, costs are finalized, and the Commission has so authorized."

**Request 6a.** Identify the projects for which EKPC proposes to recover costs through the Environmental Surcharge Mechanism.

**Response 6a.** At the present time, EKPC has not finalized the development of any projects that it would propose for cost recovery through the Environmental Surcharge Mechanism other than the project included in Case No. 2014-00252. Presently, EKPC has recorded AROs associated with asbestos abatement and ash disposal sites. Projects associated with the asbestos abatement and reclamation and capping of ash disposal sites may be eligible

for cost recovery through the Environmental Surcharge Mechanism; however, until the particulars of the specific project are known this determination cannot be made.

**Request 6b.** Provide the authority for, and reasons why, any costs listed in the response to part a. of this request are eligible for recovery through the Environmental Surcharge Mechanism.

**Response 6b.** The authority for seeking cost recovery through the Environmental Surcharge Mechanism is KRS 278.183. Under KRS 278.183, a utility shall be entitled to the current recovery of its costs of compliance with federal, state, or local environmental requirements which apply to coal combustion wastes and by-products from facilities utilized for production of energy from coal. The statute further states that recoverable costs “shall include a reasonable return on construction and other capital expenditures and reasonable operating expenses for any plant, equipment, property, facility, or other action to be used to comply with applicable environmental requirements.”

Coal ash is clearly a coal combustion waste. If a particular project involving the reclamation or capping of an ash disposal site reflects the costs of compliance with federal, state, or local environmental requirements which apply to coal combustion wastes and by-products from facilities utilized for production of energy from coal, then EKPC will seek cost recovery utilizing the Environmental Surcharge Mechanism. If the particular project does not satisfy this requirement, then EKPC will seek cost recovery through base rates.

**EAST KENTUCKY POWER COOPERATIVE, INC.**  
**PSC CASE NO. 2014-00432**  
**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 12/24/14**  
**REQUEST 7**

**RESPONSIBLE PARTY: Michelle K. Carpenter**

**Request 7.** Refer to the Application, paragraph 9, where it states, "EKPC is also requesting that all subsequent ARO-related depreciation and accretion expenses associated with the ARO balances at December 31, 2013 be recorded as regulatory assets."

**Request 7a.** Confirm that EKPC is only referring to the ARO-related depreciation and accretion expenses in the instant case.

**Response 7a.** EKPC only referred to the ARO-related depreciation and accretion expenses in the instant case. However, to further clarify, EKPC requests that the Commission grant permission for EKPC to treat any other depreciation or accretion expenses related to additions or modification to asbestos or ash AROs for our plant locations included in this Application as regulatory assets without filing additional applications. A summary of changes in these ARO balances will be reflected in the notes to EKPC's financial statements and EKPC is willing to file detailed schedules of all asbestos and ash AROs with the Commission on an annual basis to ensure transparency in the process. Should the Commission agree with EKPC's

request, EKPC understands that separate applications will be required to be filed for any other types of AROs or any other locations identified after the date of this Application.

**Request 7b.** Provide a schedule, by month and year, showing all expected future amounts for ARO-related depreciation and accretion expenses related to the instant case.

**Response 7b.** See annual summary below. Monthly balances would represent 1/12 of the annual balances shown until the final year of amortization, which would only cover six months.

Year	Asbestos Depreciation	Ash Depreciation	Total Depreciation	Asbestos Accretion	Ash Accretion	Total Accretion
2014	\$ 660,865.70	\$ 4,614,474.86	\$ 5,275,340.56	\$ 100,269.15	\$ 976,996.71	\$1,077,265.86
2015	660,865.70	4,614,474.86	5,275,340.56	103,703.47	1,012,595.26	1,116,298.73
2016	660,865.70	4,614,474.86	5,275,340.56	107,243.83	1,049,508.33	1,156,752.16
2017	660,865.70	4,614,474.86	5,275,340.56	110,893.77	1,087,785.22	1,198,678.99
2018	660,865.70	4,614,474.86	5,275,340.56	114,657.05	1,127,477.12	1,242,134.17
2019	337,737.83	2,577,143.37	2,914,881.20	64,323.61	696,843.98	761,167.59
2020	14,609.97	342,405.23	357,015.20	11,385.12	176,489.11	187,874.23
2021	14,609.97	144,998.49	159,608.46	11,783.60	113,626.50	125,410.10
2022	14,609.97	144,998.49	159,608.46	12,196.03	119,126.02	131,322.05
2023	14,609.97	144,998.49	159,608.46	12,622.89	124,891.72	137,514.61
2024	14,609.97	144,998.49	159,608.46	13,064.69	130,936.48	144,001.17
2025	14,609.97	72,499.24	87,109.21	13,521.96	67,529.09	81,051.05
2026	14,609.97		14,609.97	13,995.22		13,995.22
2027	14,609.97		14,609.97	14,485.06		14,485.06
2028	14,609.97		14,609.97	14,992.03		14,992.03
2029	14,609.97		14,609.97	15,516.75		15,516.75
2030	7,304.91		7,304.91	7,960.86		7,960.86
<b>Total</b>	<b>\$ 3,795,470.94</b>	<b>\$ 26,644,416.10</b>	<b>\$ 30,439,887.04</b>	<b>\$ 742,615.09</b>	<b>\$ 6,683,805.54</b>	<b>\$7,426,420.63</b>

**EAST KENTUCKY POWER COOPERATIVE, INC.  
PSC CASE NO. 2014-00432  
RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 12/24/14  
REQUEST 8**

**RESPONSIBLE PARTY: Michelle K. Carpenter**

**Request 8.** Refer to the Application, paragraph 10, where EKPC states that it is requesting the regulatory asset treatment for accounting purposes only. Explain whether EKPC is also seeking approval to establish the offsetting regulatory liabilities as part of this proceeding.

**Response 8.** EKPC depreciation rates used the assumption of net zero salvage, which implies that cost of removal will not exceed the salvage of the asset. Therefore, there is no cost of removal component of accumulated depreciation that would need to be recorded as a regulatory liability.

**EAST KENTUCKY POWER COOPERATIVE, INC.  
PSC CASE NO. 2014-00432  
RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 12/24/14  
REQUEST 9**

**RESPONSIBLE PARTY: Michelle K. Carpenter and Isaac S. Scott**

**Request 9.** Refer to the Application, Exhibit 1, where it states, "Resolved, that management is authorized to record a regulatory asset or assets for accretion and depreciation expenses associated with ARO's and to initiate regulatory filings necessary to obtain regulatory asset treatment of such expenses for all AROs (asbestos and ash) recorded at December 31, 2013 and that such treatment be granted retroactive to January 1, 2014."

**Request 9a.** Confirm that this statement is correct.

**Response 9a.** Yes, this statement is correct. We are requesting regulatory asset treatment for all accretion and depreciation expenses beginning in January 2014 for all AROs on EKPC's books at December 31, 2013.

**Request 9b.** State whether there were any accretion and depreciation expenses associated with the ARO's in the instant case for 2013. If so, provide the amounts.

**Response 9b.** Yes, EKPC incurred ARO related accretion and depreciation expenses in 2013. Total depreciation expense of \$1,045,405 was comprised of \$660,866 from asbestos AROs and \$384,540 from one month of ash ARO depreciation. Total accretion expense of \$178,107 was comprised of \$96,937 for asbestos related ARO liabilities and \$81,170 for one month of accretion for ash related ARO liabilities.

**Request 9c.** Confirm that EKPC is requesting retroactive treatment for all accretion and depreciation expenses for the proposed regulatory asset in this proceeding.

**Response 9c.** As stated in the Application, paragraph 14, EKPC is requesting authority to establish regulatory assets for ARO-related depreciation and accretion expenses resulting from ARO balances at December 31, 2013 beginning in January 2014 and for all years subsequent to 2014. The retroactive treatment being sought only applies to the depreciation and accretion expenses recorded beginning in January 2014. EKPC is not seeking to include ARO-related depreciation and accretion expenses recorded in 2013 or earlier years in the proposed regulatory assets. EKPC does not believe the level of expense recorded for 2013 would justify the additional effort to restate its 2013 financial statements. Restatement would be required as EKPC had already recognized and recorded the ARO-related depreciation and accretion expenses as expenses in 2013.

**EAST KENTUCKY POWER COOPERATIVE, INC.**  
**PSC CASE NO. 2014-00432**  
**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 12/24/14**  
**REQUEST 10**

**RESPONSIBLE PARTY: Isaac S. Scott**

**Request 10.** State whether EKPC's depreciation rate(s) for the Dale ash ponds included a provision related to the cost of removal.

**Response 10.** The depreciation rates applicable to the Dale ash ponds included a net salvage percentage of zero. Net salvage is an estimate of the gross salvage to be realized from resale, reuse, or scrap disposal of a retired plant less its cost of removal. There would be no resale, reuse, or scrap disposal value for an ash pond. So the use of a net salvage percentage of zero indicates no cost of removal was recognized in the depreciation rates applicable to the Dale ash ponds.

**EAST KENTUCKY POWER COOPERATIVE, INC.**  
**PSC CASE NO. 2014-00432**  
**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 12/24/14**  
**REQUEST 11**

**RESPONSIBLE PARTY: Isaac S. Scott**

**Request 11.** Identify and describe any factors that could impact the regulatory asset treatment proposed by EKPC in this case

**Response 11.** Until the AROs are settled, any measurement changes in the liability would result in changes in the ARO-related depreciation and accretion expenses, which in turn will change the amounts recorded in the regulatory assets. Upon the settlement of any specific ARO, the difference between the estimated ARO liability and the actual cost associated with settling the ARO will be recognized as a gain or loss, with the gain or loss transferred to the ARO regulatory asset. The gain or loss entry will adjust the regulatory asset to be consistent with the actual settlement costs. Depreciation and accretion expense on the settled ARO would cease. The portion of the regulatory asset associated with the settled ARO would be amortized as actual costs to settle are recovered, either through base rates or the environmental surcharge.