

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE)	
COMMISSION OF THE ENVIRONMENTAL)	
SURCHARGE MECHANISM OF EAST KENTUCKY)	
POWER COOPERATIVE, INC. FOR THE SIX-)	CASE NO.
MONTH BILLING PERIOD ENDING)	2016-00335
JUNE 30, 2016, AND THE PASS THROUGH)	
MECHANISM FOR ITS SIXTEEN MEMBER)	
DISTRIBUTION COOPERATIVES)	

ORDER

On March 17, 2005, the Commission approved East Kentucky Power Cooperative, Inc.'s ("EKPC") environmental surcharge application and established a surcharge mechanism.¹ The Commission also approved a mechanism to pass through the environmental surcharge to EKPC's 16 member distribution cooperatives ("Member Cooperatives").² Pursuant to KRS 278.183(3), at 6-month intervals, the Commission must review the past operations of the environmental surcharge. After hearing, the Commission may, by temporary adjustment in the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to KRS 278.183(1).

¹ Case No. 2004-00321, *Application of East Kentucky Power Cooperative, Inc. for Approval of an Environmental Compliance Plan and Authority to Implement an Environmental Surcharge* (Ky. PSC Mar. 17, 2005).

² Case No. 2004-00372, *Application of Big Sandy RECC, Blue Grass Energy Cooperative Corporation, Clark Energy Cooperative, Cumberland Valley Electric, Farmers RECC, Fleming-Mason Energy, Grayson RECC, Inter-County Energy Cooperative, Jackson Energy Cooperative, Licking Valley RECC, Nolin RECC, Owen Electric Cooperative, Salt River Electric, Shelby Energy Cooperative, South Kentucky RECC and Taylor County RECC for Authority to Pass Through the Environmental Surcharge of East Kentucky Power Cooperative, Inc.* (Ky. PSC Mar.17, 2005).

Therefore, the Commission hereby initiates the six-month review of the surcharge as billed from January 1, 2016, to June 30, 2016, to the Member Cooperatives. The Commission also initiates the corresponding reviews of the pass-through mechanism as billed from February 28, 2016, to July 31, 2016, to retail member customers.³

To facilitate this review, a procedural schedule is set forth in Appendix A to this Order. In accordance with that schedule, EKPC is to file prepared direct testimony: (a) in support of the reasonableness of the application of its environmental surcharge mechanism during the period under review; and (b) in support of the reasonableness of the application of the pass-through mechanism during the period under review. In addition, EKPC and the Member Cooperatives are to file their responses to the information requested in Appendix B to this Order.

Additionally, EKPC is to file prepared testimony explaining: (a) whether it has considered billing its environmental costs as a direct amount based on the monthly wholesale sales to each Member Cooperative or, otherwise, why it has not been considered; (b) whether the direct billing of its monthly environmental costs would eliminate the current over-/under-recovery amounts that occur from billing environmental costs based on a factor to its Member Cooperatives; and (c) whether billing a direct amount for its environmental costs would result in more timely recovery of EKPC's environmental costs.

³ The Settlement Agreement approved in Case Nos. 2004-00321 and 2004-00372 allows the Member Cooperatives to pass through the environmental surcharge to their customers at approximately the same time that EKPC bills the environmental surcharge to the Member Cooperatives, thus avoiding a billing lag for the Member Cooperatives. Therefore, the costs incurred from December 2015 through May 2016 are billed to the Member Cooperatives in the months of January 2016 through June 2016, with these same costs passed through to the member customers on the bills for February 2016 through July 2016.

Additionally, each Member Cooperative is to file prepared testimony explaining: (a) whether it has considered being billed a direct amount for environmental costs based on its monthly purchased power costs or, otherwise, why it has not been considered; (b) whether a direct charge for environmental costs would lessen or eliminate the over-/under-recovery amounts that occur from being billed amounts calculated from an environmental surcharge factor; and (c) whether being billed a direct amount for environmental costs would cause the environmental surcharge billings to its member customers to be less volatile and result in more timely recovery of environmental costs.

IT IS THEREFORE ORDERED that:

1. EKPC and each of its Member Cooperatives listed in footnote 2 shall be parties to this case.
2. The procedural schedule set forth in Appendix A to this Order shall be followed in this proceeding.
3. Any motion to intervene filed after November 10, 2016, shall show a basis for intervention and good cause for being untimely. If the untimely motion is granted, the movant shall accept and abide by the existing procedural schedule.
4. EKPC shall, by the date set forth in Appendix A, file its prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism and the application of the pass-through mechanism during the period under review.

5. EKPC and the Member Cooperatives shall, by the date set forth in Appendix A, file their prepared direct testimony on their consideration to alternatively direct bill EKPC's environmental costs in lieu of the current billing methodology.

6. Any party filing testimony shall file an original and eight copies.

7. a. EKPC and each of its 16 Member Cooperatives shall file responses to the questions asked of the particular cooperative in Appendix B. The information requested herein is due no later than October 31, 2016. Responses to requests for information shall be appropriately bound, tabbed, and indexed and shall include the name of the witness responsible for responding to the questions related to the information provided, with copies to all parties of record and eight copies to the Commission.

b. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, 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.

c. Any party shall make timely amendment to any prior responses if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

d. For any request to which a party fails or refuses to furnish all or part of the requested information, that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

e. A party filing a paper containing personal information shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

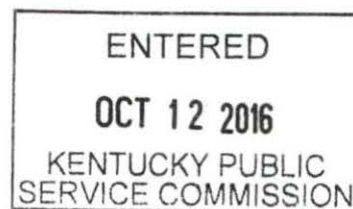
8. Within seven days of the Commission's granting intervention to a party, EKPC shall provide the party with a copy of its monthly environmental surcharge reports as filed with the Commission for the review period.

9. EKPC's monthly environmental surcharge reports and supporting data for the review period shall be incorporated by reference into the record of this case.

10. The Commission does not look favorably upon motions for continuance. Accordingly, motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

11. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

By the Commission



ATTEST:


Executive Director

APPENDIX A
APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2016-00335 DATED **OCT 12 2016**

EKPC shall file its prepared direct testimony and responses to the information requested in Appendix B no later than.....10/31/16

Each of the 16 Member Cooperatives shall file its prepared direct testimony and responses to the information requested in Appendix B no later than.....10/31/16

A person interested in becoming a party to this proceeding shall file a motion to intervene with the Commission pursuant to 807 KAR 5:001, Section 4(11), no later than11/04/16

An informal technical conference is to begin at 2:00 p.m., Eastern Standard Time, in Hearing Room No. 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky for the discussion of issues.....11/09/16

All additional requests for information to EKPC shall be filed no later than11/30/16

EKPC shall file responses to additional requests for information no later than12/14/16

Intervenor testimony, if any, in verified prepared form shall be filed no later than.....12/28/16

All requests for information to intervenors shall be filed no later than1/11/17

Intervenors shall file responses to requests for information no later than1/25/17

Last day for EKPC and its 16 Member Cooperatives or Intervenors to request a hearing or submit this case for decision based on the record.....2/08/17

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2016-00335 DATED **OCT 12 2016**

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO
EAST KENTUCKY POWER COOPERATIVE, INC. AND
EACH OF ITS 16 MEMBER COOPERATIVES

1. This question is addressed to EKPC. Prepare a summary schedule showing the calculation of $E(m)$ and the surcharge factor for the expense months covered by the applicable billing periods. Form 1.1 can be used as a model for this summary. Include the expense months for the two expense months subsequent to the billing period in order to show the over- and under-recovery adjustments for the months included for the billing period. Include a calculation of any additional over- or under-recovery amount EKPC believes needs to be recognized for the six-month review. Provide the schedule and all supporting calculations and documentation in Excel spreadsheet format with all cells and formulas intact and unprotected.

2. This question is addressed to EKPC and the Member Cooperatives. For each of the 16 Member Cooperatives, prepare a summary schedule showing the Member Cooperative's pass-through revenue requirement for the months corresponding with the six-month review. Include a calculation of any additional over- or under-recovery amount the distribution cooperative believes needs to be recognized for the six-month review. Provide the schedule and all supporting calculations and documentation in Excel spreadsheet format with all cells and formulas intact and unprotected.

3. This question is addressed to EKPC. Refer to Form 2.3, Inventory and Expense of Emission Allowances, for each of the expense months covered by the applicable billing period.

a. For the sulfur dioxide ("SO₂") emission allowance inventory, explain the reason(s) for all purchases of allowances reported during these expense months.

b. For the nitrogen oxide ("NO_x") emission allowance inventory, explain the reason(s) for all purchases of allowances reported during these expense months.

c. Explain how the purchases of allowances in the expense months covered by the applicable billing periods comply with EKPC's emissions allowance strategy plan.

4. This question is addressed to EKPC. Refer to Form 2.5, Operating and Maintenance Expenses, for each of the expense months covered by the applicable billing period. For each of the expense account numbers listed on this schedule, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.

5. This question is addressed to EKPC. The Settlement Agreement approved in Case No. 2004-00321 provides that EKPC's rate of return on compliance-related capital expenditures will be updated to reflect current average debt cost at the conclusion of the surcharge review period. Provide the following information as of May 31, 2016:

a. The debt issuances directly related to projects in the approved compliance plan and corresponding outstanding balances of each debt issuance.

b. The debt cost for each debt issuance directly related to the projects in the approved compliance plan.

c. EKPC's calculation of the weighted average debt cost and the rate of return resulting from multiplying the weighted average debt cost by a 1.50 Times Interest Earned Ratio ("TIER"). Include all supporting calculations showing how the weighted average debt cost was determined.

d. Provide all schedules and supporting calculations and documentation in Excel spreadsheet format with all cells and formulas intact and unprotected.

6. This question is addressed to EKPC. Provide the percentage of EKPC's debt issuances directly related to projects in the approved compliance plan that has a variable interest rate as of the May 2016 expense month.

7. This question is addressed to each of the 16 Member Cooperatives. For your particular Member Cooperative, provide the actual average residential customer's monthly usage for the 12 months ended May 31, 2016. Based on this usage amount, provide the dollar impact any over- or under-recovery will have on the average residential customer's monthly bill for the requested recovery period.

8. This question is addressed to EKPC.

a. Explain in detail the process by which EKPC bills the environmental surcharge to the Member Cooperatives and records the amounts. Include in your response when invoices are issued and the manner in which they are delivered to the Member Cooperatives.

b. Provide complete copies of EKPC's invoices to each Member Cooperative for the period July 2015 through June 2016.

9. This question is addressed to the Member Cooperatives. Explain in detail the process by which the environmental surcharge amounts billed by EKPC are recorded and billed to member customers. Include in the response a discussion of timing and accounting methodology.

10. This question is addressed to EKPC. Refer to the monthly environmental surcharge reports for the period July 2015 through June 2016, and the Member Cooperatives' responses to Commission Staff's First Request for Information ("Staff's First Request").

a. Provide a reconciliation between the amounts provided in EKPC's monthly environmental surcharge reports, Form 3.0, Column 4, and the total amount reported by the Member Cooperatives in their response to Staff's First Request, Item 2, in the column labelled "EKPC Invoice Month Recorded Member's Books."

b. Provide a reconciliation between the amounts determined in EKPC's monthly filings, Form 3.0, Column 6, and the total amounts reported by the Member Cooperatives in Column 6 on the Pass Through Mechanism Report, included in EKPC's monthly environmental surcharge reports.

c. Provide all schedules and supporting calculations and documentation in Excel spreadsheet format with all cells and formulas intact and unprotected.

11. This question is addressed to EKPC. Refer to the monthly environmental surcharge reports for the period July 2015 through June 2016, and the Member Cooperatives' responses to Staff's First Request, Item 2, in this case, and the Member

Cooperatives responses to Staff's First Request in Case No. 2016-00144,⁴ Item 2. Provide a reconciliation of the environmental expenses to be billed per the monthly environmental surcharge reports with the amounts reported by the Member Cooperatives in the column labelled "EKPC Invoice Month Recorded Member's Books" in their responses to Item 2 of Staff's First Request. Provide the reconciliation and all supporting calculations and documentation in Excel spreadsheet format with all cells and formulas intact and unprotected.

12. This question is addressed to the Member Cooperatives. Refer to your response to Staff's First Request, Item 2.

a. Explain how the amounts recorded in the column labelled "EKPC Invoice Month Recorded Member's Books" correspond with EKPC's expense month. For example, EKPC's monthly report for December 2015 indicates that the December 2015 expense month would be billed beginning February 2016 for service rendered in January 2016. Explain in which month the Member Cooperative would reflect its portion of the December 2015 expense billed by EKPC.

b. Explain whether the amounts reported in this column reflect only the actual amount billed by EKPC, or if the amount does or can include adjustments to the billed amount. Explain the adjustments that may be included, if any.

c. Refer to the column labelled "Billed to Retail Consumer & Recorded on Member's Books." Confirm that these amounts are the actual environmental

⁴ Case No. 2016-00144, *An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of East Kentucky Power Cooperative, Inc. for the Six-month Billing Period Ending December 31, 2015 and the Pass Through Mechanism for Its Sixteen Member Distribution Cooperatives* (Ky. PSC Sept. 9, 2016).

surcharge amounts billed and not environmental surcharge amounts actually collected from retail customers.

13. This question is addressed to the Member Cooperatives. Refer to the Member Cooperatives Pass Through Mechanism Report in EKPC's monthly environmental surcharge report. Provide the revenue month to which the pass through factor (Column 15) calculated for the expense month will be applied.

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