COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER COOPERATIVE, INC. FOR APPROVAL OF AN ENVIRONMENTAL COMPLIANCE PLAN AND AUTHORITY TO IMPLEMENT AN ENVIRONMENTAL SURCHARGE	)	CASE NO. 2004-00321

COMMISSION STAFF'S FIRST DATA REQUEST
TO GALLATIN STEEL COMPANY

Pursuant to Administrative Regulation 807 KAR 5:001, Commission Staff requests that Gallatin Steel Company ("Gallatin") file the original and 7 copies of the following information with the Commission with a copy to all parties of record. The information requested herein is due January 20, 2005. Each copy of the information requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure its legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

1. Refer to the Direct Testimony of Lane Kollen ("Kollen Testimony"), pages 14 through 19. In this portion of his testimony, Mr. Kollen rejects the proposal by East Kentucky Power Cooperative, Inc. ("East Kentucky") that its reasonable rate of return on

environmental compliance rate base should be the result of multiplying its average cost of long-term debt by a Times Interest Earned Ratio ("TIER") of 1.15X.

a. What rate of return on East Kentucky's environmental compliance rate base does Mr. Kollen propose?

b. Why does Mr. Kollen believe his proposed rate of return is reasonable?

c. On page 16 Mr. Kollen notes that East Kentucky's capital structure at October 31, 2004 was 88 percent long-term debt and 12 percent equity. If Mr. Kollen proposes to use East Kentucky's average cost of long-term debt as the reasonable rate of return on environmental compliance rate base, explain why this approach would be reasonable given that East Kentucky's capital structure and capitalization includes positive equity.

2. Refer to page 21 of the Kollen Testimony. Mr. Kollen argues that the Commission should not accept East Kentucky's proposal to recognize a full month's depreciation expense on environmental plant regardless of the in-service date during the month. To the extent Mr. Kollen knows, does East Kentucky's proposed accounting approach for depreciation expense reflect the normal approach followed by regulated utilities when new utility plant is placed in service? Explain the response.

3. Refer to pages 23 and 24 of the Kollen Testimony. On lines 9 through 13 of page 23, Mr. Kollen describes the base-current methodology as authorized for the environmental surcharge mechanisms used by Louisville Gas and Electric Company and Kentucky Utilities Company. However, the approach Mr. Kollen cites from the Big Rivers Electric Corporation environmental surcharge Order is similar to the base-current

approach authorized for the environmental surcharge mechanism used by Kentucky Power Company. Which variation of the base-current approach does Mr. Kollen recommend for East Kentucky's environmental surcharge mechanism? Explain the response.

4. Refer to pages 26 through 29 of the Kollen Testimony. Mr. Kollen explains why steam sales revenues from Inland Container ("Inland") and a portion of the revenues from Tennessee Gas Pipeline ("TGP") and Gallatin should be included in the determination of the R(m) revenues.

a. Does Mr. Kollen recommend that Inland should be billed an environmental surcharge for both its electric and steam sales? Explain the response.

b. Does Mr. Kollen recommend that TGP should be billed an environmental surcharge based on the bill for the East Kentucky-generated energy sold to TGP? Explain the response.

c. Does Mr. Kollen recommend that Gallatin should be billed an environmental surcharge based on the bill for the East Kentucky-generated energy sold to Gallatin? Explain the response.

d. If Mr. Kollen believes that Inland, TGP, or Gallatin should not be billed any environmental surcharge, explain in detail why it would be appropriate to include the revenues in the determination of the R(m) revenues used in the environmental surcharge mechanism, as proposed by Mr. Kollen.

5. For each of the items listed below relating to East Kentucky's proposed environmental surcharge mechanism, indicate if Mr. Kollen has any comments or recommendations and provide the comments or recommendations.

a. The treatment of the proceeds from the sale of Gilbert unit by-products of fly ash, bed ash, and scrubber particles.

b. The reasonableness of the depreciation rates used by East Kentucky to determine the depreciation expense to be included in the environmental surcharge mechanism.

c. The use of a 12-month rolling average expense for operation and maintenance expenses ("O&M expenses") and air permit fees included in the environmental surcharge mechanism.

d. The use of a 1993 baseline of O&M expenses in the environmental surcharge mechanism.

e. East Kentucky's proposal to accumulate the monthly environmental surcharge over- or under-recoveries during the six-month period and apply these recoveries prospectively over the next six-month period.

f. The inclusion of the estimated cost of SO_2 emission allowances in the SO_2 emission allowance inventory included in the environmental surcharge mechanism.

g. The treatment of the proceeds East Kentucky receives from the annual Environmental Protection Agency's auction of withheld SO_2 emission allowances.

h. East Kentucky's proposal to reset the rate of return on its environmental surcharge compliance rate base every six months, outside of a six-month environmental surcharge review.

i. East Kentucky's proposal to design the pass through of the environmental surcharge to cooperative member systems' retail customers in such a way as to eliminate a one-month lag in the billing process.

6. Refer to East Kentucky's responses to the Commission Staff's Third Data Request dated December 10, 2004, Items 4 and 7. East Kentucky has stated its belief that it is necessary to mitigate fluctuations in the calculation of the environmental surcharge factor for the benefit of its member systems and the member systems' retail customers. East Kentucky has further stated that minimizing the fluctuation of the monthly environmental surcharge on its customers is more significant that the timing of any cost recovery. Does Mr. Kollen have any comments or recommendations concerning these expressed positions of East Kentucky? If yes, provide the comments or recommendations.

7. Refer to East Kentucky's response to Gallatin's First Data Request dated November 19, 2004, Item 3, the attachment to the response. East Kentucky has stated that the rate of return on environmental compliance rate base it used in this response was the result of multiplying the 1993 year-end average cost of debt by a TIER of 1.15X. East Kentucky has indicated that it believes the calculation of the base period environmental surcharge factor ("BESF") should be consistent with the calculation of the current period environmental surcharge factor ("CESF").

a. Does Mr. Kollen agree that the rate of return on environmental compliance rate base East Kentucky used in its original response to Gallatin is appropriate? Explain the response.

b. In Case No. 1994-00336,[1] the Commission determined that revenues based on a TIER of 1.15X would result in a rate of return on rate base of 8.41 percent. In this case, when determining the BESF under the base-current methodology, does Mr. Kollen believe it would be appropriate to use a rate of return on environmental compliance rate base of 8.41 percent? Explain the response.

c. Does Mr. Kollen agree with East Kentucky's statement that the calculation of the BESF should be consistent with the calculation of the CESF? Explain the response.

Beth O'Donnell
Executive Director
Public Service Commission
P. O. Box 615
Frankfort, KY 40602

DATED January 6, 2005

cc: All Parties

[1] Case No. 1994-00336, Application of East Kentucky Power Cooperative, Inc. to Adjust Electric Rates, final Order dated July 25, 1995.