

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY)	
POWER COOPERATIVE, INC. FOR AN)	CASE NO.
ORDER APPROVING THE ESTABLISHMENT)	2019-00146
OF REGULATORY ASSETS FOR PRESENT)	
AND FUTURE MAINTENANCE EXPENSES)	

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION
TO EAST KENTUCKY POWER COOPERATIVE, INC.

East Kentucky Power Cooperative, Inc. (EKPC), pursuant to 807 KAR 5:001, is to file with the Commission the original and six copies in paper medium of the following information, with a copy to all parties of record. The information requested herein is due on or before August 14, 2019. Responses to requests for information in paper medium shall be appropriately bound, tabbed, and indexed.

Each response shall include the name of the witness responsible for responding to the questions related to the information provided. 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 the 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.

EKPC shall make timely amendment to any prior response 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. For any request to which EKPC fails or

refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. 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. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations. When filing a paper containing personal information, EKPC shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to EKPC's responses to Commission Staff's First Request for Information (Staff's First Request), Item 1, Exhibit 1, and Staff's First Request, Item 8. Explain why it is appropriate to record a regulatory asset for amounts that will be expensed before they are included for rate recovery, i.e., amounts for which it is not probable that they will be included in a different period for the purpose of developing rates.

2. Refer to EKPC's response to Staff's First Request, Item 2. Confirm that, through the settlement provisions accepted in Case No. 2015-00358,¹ the total balance of the regulatory asset for the stranded costs associated with the cancellation of the Smith Station coal-fired Unit #1 will be recovered through rates. If this cannot be confirmed, explain.

3. Refer to EKPC's response to Staff's First Request, Item 12.

¹ Case No. 2015-00358, *Application of East Kentucky Power Cooperative, Inc. for Deviation from Obligation Resulting from Case No. 2012-00169* (Ky. PSC Jan. 10, 2017).

a. Refer also to 7 C.F.R. § 1767.13(b)(1).² Explain why EKPC does not consider its proposal to amortize the requested regulatory assets before they are included for rate recovery to be a departure from 7 C.F.R. § 1767.18, which identifies the various asset and other debit accounts to be used by all Rural Utilities Service (RUS) borrowers and sets forth instructions for those accounts, including Account 182.3 Other Regulatory Assets.

b. Refer also to 7 C.F.R. § 1767.13(c).³ Explain whether approval of EKPC's application in this proceeding could require EKPC to maintain separate books,

² 7 C.F.R. § 1767.13(b)(1) provides, in full, as follows:

(b) RUS borrowers subject to the jurisdiction of a state regulatory authority with jurisdiction over rates and/or accounting for electric utilities will not:

(1) Request approval of such authority to use accounting methodologies and principles that depart from the provisions herein

³ 7 C.F.R. § 1767.13(c) provides, in full, as follows:

(c) If any state regulatory authority with jurisdiction over an RUS borrower prescribes accounting methods or principles for the borrower that are inconsistent with the provisions of this part, the borrower must immediately notify the Director, BAD, and provide such documents, information, and reports as RUS may request to evaluate the impact that such accounting methods or principles may have on the interests of RUS.

(1) If RUS determines that the accounting methods and principles do not adversely impact RUS interests, RUS will permit the borrower to use the accounting methods and principles prescribed by the state regulatory authority to comply with the provisions of the RUS loan documents.

(2) If RUS determines that the accounting methods and principles may adversely impact RUS's interests, RUS may require that, for the purposes of complying with provisions of RUS loan documents, including, without limitation, those provisions relating to financial coverage standards (e.g. "TIER"), the borrower continue to maintain books, records, and accounts in accordance with this subpart.

(i) RUS may, however, approve requests by the borrower to maintain such additional books, records, and accounts as necessary to comply with the requirements of the state regulatory authority.

records, and accounts for the purposes of complying with the provisions of the RUS loan documents and any impact this requirement would have on EKPC's decision to file a base rate application.

c. Refer also to 7 C.F.R. § 1767.13(d).⁴ Confirm that deferrals must comply with Statement of Financial Accounting Standards No. 71, which states in part that:

(ii) Such approval will not waive, modify or amend the requirements of the RUS loan documents or of this subpart.

⁴ 7 C.F.R. § 1767.13(d) provides, in full, as follows:

(d) RUS borrowers will not implement the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, Accounting for the Effects of Certain Types of Regulation, SFAS No. 90, Regulated Enterprises – Accounting for Abandonments and Disallowances of Plant Costs, SFAS No. 92, Regulated Enterprises – Accounting for Phase-in Plans, without the prior written approval of RUS except as provided for in paragraphs (d)(1) through (d)(5) of this section. Requests for approval shall be addressed in writing, to the Director, PASD. The specific deferrals set forth in paragraphs (d)(1) through (d)(5) of this section may be implemented without the prior written approval of RUS provided that the deferrals comply with Statement No. 71 and that the RUS borrowers implementing such deferrals continue to meet the requirements set forth in Statement No. 71 for doing so:

(1) The deferral and amortization of prior service pension costs (See § 1767.41, Interpretation No. 606, Pension Costs), remapping expenses (See § 1767.41, Interpretation No. 613, Mapping Costs), and preliminary survey and investigation charges (See § 1767.17, Interpretation No. 111, Engineering Contracts for System Planning);

(2) The deferral of any current period expense or expenses, on a cumulative basis for the fiscal year, only if a borrower would not have met each of its financial tests or coverage ratios that is has covenanted with RUS to meet for that fiscal year, had the deferral not been made;

(3) The deferral of any cost that will be fully amortized within the next 12 succeeding months;

(4) The accelerated amortization of any previously deferred expense; and

(5) The deferral of revenues coincident with a moratorium imposed by the National Rural Electric Cooperative Association on its Retirement and Security Program, provided, however, that the deferral is for the sole purpose of offsetting future pension costs.

Rate actions of a regulator can reduce or eliminate the value of an asset. If a regulator excludes all or part of a cost from allowable costs and it is not probable that the cost will be included as an allowable cost in a future period, the cost cannot be expected to result in future revenue through the rate-making process. Accordingly, the carrying amount of any related asset shall be reduced to the extent that the asset has been impaired. Whether the asset has been impaired shall be judged the same as for enterprises in general.

d. If confirmed, explain how EKPC's proposal to defer the full amount of the maintenance expenses and amortize the proposed regulatory assets before they are included for rate recovery would not depart from this standard.

e. Refer also to 7 C.F.R. § 1767.13(d)(2). Explain whether EKPC would need prior written approval from RUS for any deferrals that cumulatively affect its debt covenants with RUS for any fiscal year.

4. Refer to EKPC's response to Nucor Steel Gallatin's First Request for Information (Nucor's First Request), Item 4. Explain whether EKPC has considered establishing the threshold for retirement units in a manner that would allow it to capitalize the material components of its generation units as separate retirement units.

5. Refer to EKPC's response to Nucor's First Request, Item 7, pages 4–6 of 6. Confirm that EKPC's Board of Directors were explicitly informed of and approved EKPC's proposal to immediately begin amortization of the proposed regulatory assets.



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DATED JUL 30 2019

cc: Parties of Record

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