EAST KENTUCKY POWER COOPERATIVE

December 22, 2004 HAND DELIVERED

Ms. Elizabeth O'Donnell
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

Re: PSC Case No. 2004-00321

Dear Ms. O'Donnell:

Please find enclosed for filing with the Commission in the above-referenced case an original and seven (7) copies of the Responses of East Kentucky Power Cooperative, Inc., to the Third Data Request of the Commission Staff dated December 10, 2004.

Very truly yours,

Charles A. Lile

Charles A. Lile
Senior Corporate Counsel

Enclosures

Cc: Elizabeth E. Blackford, Esq.- Office of the Attorney General
Michael L. Kurtz, Esq.- Gallatin Steel Co.

4775 Lexington Road 40391
P.O. Box 707, Winchester,
Kentucky 40392-0707

Tel. (859) 744-4812
Fax: (859) 744-6008
http://www.ekpc.coop

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

RESPONSES TO COMMISSION STAFF'S THIRD DATA REQUEST
TO EAST KENTUCKY POWER COOPERATIVE, INC.
DATED DECEMBER 10, 2004

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2004-00321
ENVIRONMENTAL SURCHARGE
THIRD DATA REQUEST RESPONSE

COMMISSION STAFF'S THIRD DATA REQUEST DATED 12/10/04
REQUEST 1
RESPONSIBLE PARTY: William A. Bosta/Robert E. Hughes

REQUEST 1. Refer to the Commission Staff's Second Data Request dated November 19, 2004 ("Staff's Second Request"), Item 2(a). East Kentucky contends that Kentucky Utilities Company ("KU") has been allowed to recover costs of emission allowances for non-coal generating units through its environmental surcharge. East Kentucky states the basis of this understanding "is from a review of KU's monthly environmental surcharge filings and the orders from several environmental surcharge proceedings, as well as through discussion with the current KU regulatory staff."

REQUEST 1a. Attached to this data request is KU's ES Form 2.30, the October 2004 expense month inventory of SO2 emission allowances. Specifically identify which SO2 emission allowances included in this inventory are associated with non-coal generating units.

RESPONSE 1a. EKPC does not possess detailed information about KU emission allowances that are associated with non-coal generating units, but understands that such allowances have not been excluded from KU reports in the past.

REQUEST 1b. Provide specific citations to Commission Orders relating to KU's environmental surcharge that permit the inclusion of non-coal generating unit emission allowances to be included for recovery in KU's environmental surcharge.

RESPONSE 1b. EKPC is not aware of any specific citations in the Commission's Orders permitting non-coal generating unit emission allowances, but understands that such allowances were not specifically excluded by such orders. This is the extent of any Commission authorization of which EKPC is aware.

REQUEST 1c. Identify the current KU regulatory staff with whom East Kentucky discussed the treatment of emission allowances associated with both coal generating units and non-coal generating units. Indicate when these discussions were held and provide a summary of each discussion.

RESPONSE 1c. EKPC staff, including Ms. Wood, Mr. Bosta and Mr. Markins, who works for Mr. Bosta, discussed the matter with Mr. Bush of the KU staff on November 3. The subject of the discussion was the treatment of emission allowances associated with KU's Combustion Turbines (CT). After a review of this issue raised by EKPC, Mr. Bush determined that KU had not eliminated any allowances associated with CTs from the monthly Environmental Surcharge reports. In addition, Mr. Hughes of EKPC discussed the same matter with Ms. Pfeiffer of KU on November 3. Ms. Pfeiffer confirmed that KU transferred allowances from coal-fired units to CTs in order to cover the expected emission allowance usage for the CTs.

REQUEST 1d. In referencing KU's environmental surcharge cost recovery of emission allowances related to non-coal generating units, is East Kentucky referring to SO2 emission allowances or NOx emission allowances? Explain the response.

RESPONSE 1d. EKPC is not aware of any specific information concerning KU allowances associated with non-coal generating units, but believes that the inclusion of such allowances could involve relatively small amounts of both SO_2 and NO_x allowances, based on EKPC's experience with the operation of CTs.

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2004-00321
ENVIRONMENTAL SURCHARGE
THIRD DATA REQUEST RESPONSE

COMMISSION STAFF'S THIRD DATA REQUEST DATED 12/10/04
REQUEST 2
RESPONSIBLE PARTY: Ann F. Wood

REQUEST 2. Refer to the Staff's Second Request, Item 4.

REQUEST 2a. The response to Item 4(a) did not answer the question. East Kentucky was asked to explain why it had not previously sought the Commission's approval of the depreciation rates proposed in the environmental surcharge application. The letter provided simply states that East Kentucky was implementing the changes in the depreciation rates, and makes no request of the Commission to approve those proposed rates. Provide the originally requested information.

RESPONSE 2a. East Kentucky provided the Commission a copy of the depreciation study by letter dated December 6, 2002, and advised that the new rates for the Cooper and Spurlock stations would be implemented beginning January 1, 2003. East Kentucky is unaware of any requirement for Commission approval of depreciation studies and resultant rates outside of formal proceedings. East Kentucky understands that the normal Commission practice is for utilities to provide depreciation studies upon their completion. East Kentucky further understands that it may implement new depreciation rates for financial reporting, recognizing that depreciation expense based on depreciable plant and rates is subject to Commission review and approval in appropriate rate proceedings.

REQUEST 2b. The response to Item 4(c)(4) did not answer the question. East Kentucky was asked whether its 1998 depreciation study had been approved in a previous Commission proceeding. East Kentucky's response only states the depreciation study was submitted to the Commission. Explain in detail why East Kentucky did not submit an application seeking Commission approval of the depreciation rates included in the 1998 depreciation study.

RESPONSE 2b. Please see the response to 2a. Attached is a portion of the Commission Order for Case No. 94-336. Page 2 of 2 states that a copy of the depreciation study should be filed with the Commission. No application for approval was required based on the Order.

REQUEST 2c. The response to Item 4(e) states in part that East Kentucky follows generally accepted accounting principles in decisions on capitalizing versus expensing and that it is subject to an annual audit by an independent accounting firm.

REQUEST 2c(1). During the last five annual audits, did the independent accounting firm specifically examine East Kentucky's capitalizing versus expensing policies? Explain the response.

RESPONSE 2c(1). As part of their regular audit procedures, our external auditors performed certain audit tests to determine proper capitalization of assets, along with certain audit tests to determine the propriety of maintenance expenses. These procedures have been performed for each of the last five years' audits.

REQUEST 2c(2). During the last five annual audits, did the independent accounting firm's audit report discuss East Kentucky's capitalizing versus expensing policies? If yes, provide excerpts from the applicable annual audit reports.

RESPONSE 2c(2). The "Summary of Significant Accounting Policies" portion of East Kentucky's audited financial statements addresses capitalizing versus expensing. Please see the attached financial statement excerpts for each of the last five years (paragraph titled "Electric Plant.")

REQUEST 2d. The response to Item 4(g) did not answer the question. East Kentucky was asked if it was seeking the Commission's approval of the depreciation rates used to determine the depreciation expense in this proceeding. East Kentucky states it is seeking Commission approval of its environmental compliance plan and the environmental surcharge tariff utilizing these depreciation rates. Provide the originally requested information.

RESPONSE 2d. Yes. East Kentucky is seeking Commission approval of the depreciation rates used to determine the depreciation expense in this proceeding.

It appears that East Kentucky has understated its short-term investments balance. The Commission has recalculated interest income using test-year-end balances and interest rates. Using a short-term investments balance of $46,582,347,[10] interest income should be reduced $7,305,702.

Kentucky Utilities' Wheeling Charges

East Kentucky proposed to increase operating expenses by $1,664,212 based on a Kentucky Utilities Company ("KU") transmission charge proposal filed with and allowed to go into effect by the Federal Energy Regulatory Commission ("FERC").[11] The AG opposed the adjustment as not final and, as such, not meeting the known and measurable standard.

In its post-hearing brief, East Kentucky indicated that it had settled with KU on the FERC transmission charge, resulting in an annual increase in expense of $673,284. This increase is known and measurable and should be accepted.

Depreciation Expense

East Kentucky proposed to normalize its depreciation expense, resulting in an increase of $1,365,938. The proposed adjustment is reasonable and should be accepted. During review, it was disclosed that East Kentucky has never performed a depreciation study.

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10 Test-year-end account balance minus FFB debt payment and non-recurring gain on sale of investments ($132,100,919 - $72,242,827 - $13,275,745 = $46,582,347).

11 At the hearing East Kentucky identified an error in its original calculation. The corrected calculation increases expenses by $2,024,780.

It is required to follow the Rural Electrification Administration ("REA", now Rural Utilities Service "RUS") Bulletin 183-1, Depreciation Rates and Procedures, which was issued on October 28, 1977. As a result of the Bulletin's age, East Kentucky has obtained permission to deviate from its requirements for several plant categories. In many instances, the deviations are not based on a depreciation study.[12]

The original cost of East Kentucky's utility plant in service exceeds $900 million[13] and this capital investment should be adequately recovered over the life of the equipment. Given the age of the Bulletin and the level of investment in utility plant, East Kentucky should perform a complete depreciation study of all utility plant within two years and file a copy of the study with the Commission.

Property Taxes

East Kentucky proposed to normalize its test-year property tax expense, resulting in an increase of $256,276. However, it indicated that the proposed adjustment included taxes for the J. K. Smith Plant,[14] which was canceled and reclassified on East Kentucky's books as non-utility property. The Commission has

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12 Response to the Commission's Order dated December 14, 1994, Item 90.

13 Application Exhibit B.

14 Response to the Commission's Order dated December 14, 1994, Item 16(d).

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: The Cooperative is engaged in generating and transmitting electrical power primarily to its sixteen member cooperatives throughout central and eastern Kentucky. The financial statements are prepared in accordance with policies prescribed or permitted by the Kentucky Public Service Commission (KPSC) and the United States Department of Agriculture, Rural Utilities Service (RUS), which conform with accounting principles generally accepted in the United States of America as applied to regulated enterprises.

Principles of Consolidation: The consolidated financial statements include the accounts of East Kentucky Power Cooperative, Inc. and its subsidiary, Charleston Bottoms Rural Electric Cooperative Corporation (CBRECC). All significant intercompany accounts and transactions have been eliminated.

Estimates in the Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Electric Plant: Electric plant is stated at original cost, which is the cost when first dedicated to public service, including applicable labor and overhead cost and an allowance for interest on borrowed funds used during construction.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to utility plant. The cost of units replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation.

Provision for depreciation has been made on the basis of estimated useful lives at straight-line composite rates generally as follows:

Production plant	3.30%
Transmission plant	2.75% - 8.00%
General plant	2.00% - 16.67%

Long-Term Assets: Electric plant and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value. No impairment has been recognized on long-term assets for the years ended December 31, 2003 or 2002.

(Continued)

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(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: The Cooperative is engaged in generating and transmitting electrical power primarily to its seventeen member cooperatives throughout central and eastern Kentucky. The financial statements are prepared in accordance with policies prescribed or permitted by the Kentucky Public Service Commission (KPSC) and the United States Department of Agriculture, Rural Utilities Service (RUS), which conform with accounting principles generally accepted in the United States of America as applied to regulated enterprises.

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Allowance for Interest on Borrowed Funds Used During Construction: In accordance with practices permitted by the prescribed system of accounts, the Cooperative provides an allowance for interest on borrowed funds used during construction. The allowance represents the calculated net interest cost of funds borrowed for construction of major projects which take longer than one year and cost in excess of $100,000.

(Continued)

East Kentucky Power Cooperative, Inc. and Subsidiary
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

The Cooperative is engaged in generating and transmitting electrical power primarily to its seventeen member cooperatives throughout central and eastern Kentucky. The financial statements are prepared in accordance with policies prescribed or permitted by the Kentucky Public Service Commission (KPSC) and the United States Department of Agriculture, Rural Utilities Service (RUS), which conform with accounting principles generally accepted in the United States of America as applied to regulated enterprises. The more significant of these policies are as follows:

Principles of Consolidation

The consolidated financial statements include the accounts of East Kentucky Power Cooperative, Inc. and its subsidiary, Charleston Bottoms Rural Electric Cooperative Corporation (CBRECC). All significant intercompany accounts and transactions have been eliminated.

Electric Plant

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Depreciation

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The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates used in accounting for such items as depreciation, postretirement medical benefit plan, self-insurance reserves and taxes.

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Estimates

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EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2004-00321
ENVIRONMENTAL SURCHARGE
THIRD DATA REQUEST RESPONSE

COMMISSION STAFF'S THIRD DATA REQUEST DATED 12/10/04
REQUEST 3
RESPONSIBLE PARTY: **Frank J. Oliva**

REQUEST 3. Refer to the Staff's Second Request, Item 6.

REQUEST 3a. Provide the source of the July 2004 estimated SO2 emission allowance price of $500 and the "current" spot price of over $700 per allowance. Include copies of documentation supporting these prices.

RESPONSE 3a. The source used for SO_2 emission allowance prices is the website of Cantor Fitzgerald Environmental Brokerage Services. Please see attached documentation for July 2004 and December 2004 prices.

REQUEST 3b. Provide the spot market clearing price from the Environmental Protection Agency's annual SO2 emission allowance auction held in March 2004.

RESPONSE 3b. The clearing price for vintage year 2004 SO_2 emission allowances was $260.00. Please see attached documentation.

REQUEST 3c. As of the date of the response to this request, has East Kentucky actually purchased any of the SO2 emission allowances it will need for 2004 compliance?

If yes, provide the price per ton, the quantity, the total cost, and the seller of the allowances.

RESPONSE 3c. No.

REQUEST 3d. Was East Kentucky aware that in the other authorized environmental surcharge mechanisms, the Commission has only permitted the recovery of actual costs and expenses, rather than estimated amounts? Explain the response.

RESPONSE 3d. Yes. However, at times it is necessary to record estimates to record expenses in the appropriate period to comply with the RUS Uniform System of Accounts and Generally Accepted Accounting Principles. At the appropriate time, these estimates are reversed and the actual amounts recorded. In the operation of the surcharge, only recorded amounts will be included in the calculation of the factor.

Market History - MPI | Market Selected: SO2 SPOT | Date Selected: 7/1/2004 to 7/31/2004

MPI Navigation:

Select Month: **July**

Select Year: **2004**

Select Market: **SPOT SO2 Market**

Search

Market ID	Date	Bid Price	Offer Price	Weighted Trade Price	MPI	% Change
SPOT SO2 Market	7/30/2004	$490.000	$505.000	$504.565	**$499.855**	▲**2.84%**
SPOT SO2 Market	7/29/2004	$450.000	$520.000	$488.125	**$486.042**	▲**1.39%**
SPOT SO2 Market	7/28/2004	$450.000	$500.000	$488.125	**$479.375**	▼**9.29%**
SPOT SO2 Market	7/27/2004	$490.000	$560.000	$535.380	**$528.460**	▼**0.63%**
SPOT SO2 Market	7/26/2004	$500.000	$560.000	$535.380	**$531.793**	0.00%
SPOT SO2 Market	7/23/2004	$500.000	$560.000	$535.380	**$531.793**	▼**3.91%**
SPOT SO2 Market	7/22/2004	$550.000	$575.000	$535.380	**$553.460**	▼**3.65%**
SPOT SO2 Market	7/21/2004	$560.000	$585.000	$578.333	**$574.444**	▼**3.49%**
SPOT SO2 Market	7/20/2004	$595.000	$620.000	$570.714	**$595.238**	▼**0.79%**
SPOT SO2 Market	7/19/2004	$585.000	$610.000	$605.000	**$600.000**	0.00%
SPOT SO2 Market	7/16/2004	$585.000	$610.000	$605.000	**$600.000**	▼**1.37%**
SPOT SO2 Market	7/15/2004	$600.000	$620.000	$605.000	**$608.333**	▲**0.14%**
SPOT SO2 Market	7/14/2004	$600.000	$620.000	$602.500	**$607.500**	▼**1.41%**
SPOT SO2 Market	7/13/2004	$600.000	$650.000	$598.529	**$616.176**	▼**5.39%**
SPOT SO2 Market	7/12/2004	$630.000	$715.000	$608.750	**$651.250**	▲**18.41%**
SPOT SO2 Market	7/9/2004	$545.000	$575.000	$530.000	**$550.000**	▲**15.87%**
SPOT SO2 Market	7/8/2004	$460.000	$485.000	$479.000	**$474.667**	▲**2.82%**
SPOT SO2 Market	7/7/2004	$450.000	$470.000	$465.000	**$461.667**	▲**3.88%**
SPOT SO2 Market	7/6/2004	$435.000	$465.000	$433.333	**$444.444**	▲**1.14%**
SPOT SO2 Market	7/5/2004	$435.000	$450.000	$433.333	**$439.444**	0.00%
SPOT SO2 Market	7/2/2004	$435.000	$450.000	$433.333	**$439.444**	▼**2.59%**
SPOT SO2 Market	7/1/2004	$450.000	$470.000	$433.333	**$451.111**	n/a

- Return to Market History -

MPI HISTORY

Market History - MPI | Market Selected: SO2 SPOT | Date Selected: 12/1/2004 to 12/31/2004

MPI Navigation:

Select Month: **December**

Select Year: **2004**

Select Market: **SPOT SO2 Market**

Search

Market ID	Date	Bid Price	Offer Price	Weighted Trade Price	MPI	% Change
SPOT SO2 Market	12/14/2004	$710.000	$730.000	$703.125	**$714.375**	**▲2.05%**
SPOT SO2 Market	12/13/2004	$685.000	$715.000	$700.000	**$700.000**	0.00%
SPOT SO2 Market	12/10/2004	$685.000	$715.000	$700.000	**$700.000**	0.00%
SPOT SO2 Market	12/9/2004	$685.000	$715.000	$700.000	**$700.000**	0.00%
SPOT SO2 Market	12/8/2004	$685.000	$715.000	$700.000	**$700.000**	**▼0.24%**
SPOT SO2 Market	12/7/2004	$685.000	$715.000	$705.000	**$701.667**	**▼0.71%**
SPOT SO2 Market	12/6/2004	$695.000	$720.000	$705.000	**$706.667**	0.00%
SPOT SO2 Market	12/3/2004	$690.000	$725.000	$705.000	**$706.667**	**▼0.82%**
SPOT SO2 Market	12/2/2004	$705.000	$725.000	$707.500	**$712.500**	**▲0.12%**
SPOT SO2 Market	12/1/2004	$705.000	$725.000	$705.000	**$711.667**	n/a

-- Return to Market History --

U.S. Environmental Protection Agency

Clean Air Markets - Allowance Trading

2004 Acid Rain Allowance Auction Results Allowances Available for Auction

I. ALLOWANCES AVAILABLE FOR AUCTION		
Origin of Allowances	Spot Auction (First Usable in 2004)	7 Year Advance Auction (First Usable in 2011)
EPA	125,000	125,000
Privately Offered	11	
Total	125,011	125,000

II. SPOT AUCTION RESULTS			
ALLOWANCES	NUMBER OF BIDS	NUMBER OF BIDDERS	BID PRICE
Bid For: 288,537	Successful: 25	Successful: 14	Highest: $300.00
Sold: 125,011	Unsuccessful: 39	Unsuccessful: 7	**Clearing: $260.00** (the clearing price is the lowest price at which a successful bid was made)
	Total: 64	Total: 21	Lowest: $107.00
			Average: $272.82

III. 7 YEAR ADVANCE AUCTION RESULTS			
ALLOWANCES	NUMBER OF BIDS	NUMBER OF BIDDERS	BID PRICE
Bid For: 275,053	Successful: 2	Successful: 2	Highest: $129.11
Sold: 125,000	Unsuccessful: 6	Unsuccessful: 3	**Clearing: $128.00** (the clearing price is the lowest price at which a successful bid was made)
	Total: 8	Total: 5	Lowest: $81.15
			Average: $128.00

SPOT AUCTION WINNERS			
BIDDER'S NAME	QUANTITY	PERCENTAGE OF TOTAL ALLOWANCES (%)	AMOUNT PAID
American Electric Power	75,000	59.99	$20,813,800.00
Morgan Stanley Commodities Group, Inc.	25,000	20.00	$6,569,250.00

Edison Mission Energy	10,481	8.38	$2,885,060.00
PSEG Energy Resources and Trade LLC	7,500	6.00	$1,965,625.00
Cantor Fitzgerald Brokerage L.P.	5,000	4.00	$1,337,500.00
Indianapolis Power & Light Company	1,500	1.20	$390,465.00
Cedar Falls Utilities	500	0.40	$134,705.00
Bates College Environmental Economics	9	< 0.01	$2,628.00
Acid Rain Retirement Fund	7	< 0.01	$2,100.00
Maryland Environmental Law Society	5	< 0.01	$1,500.00
Cleaner and Greener Program	5	< 0.01	$1,400.00
Beloit College SO2 Reduction Program	2	< 0.01	$600.00
AEM 250 Cornell Univ 2004	1	< 0.01	$300.00
AEM 451 ECON 409 Cornell Univ 2004	1	< 0.01	$295.00
TOTALS	**125,011**	**100%**	**$34,105,228.00**
7 YEAR ADVANCE AUCTION WINNNERS			
BIDDER'S NAME	**QUANTITY**	**PERCENTAGE OF TOTAL ALLOWANCES (%)**	**AMOUNT PAID**
American Electric Power	124,950	99.96	$15,993,600.00
James Ayres	50	0.04	$6,455.50
TOTALS	**125,000**	**100%**	**$16,000,055.50**
		Total Auction Proceeds	**$50,105,283.50**

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Last updated on Tuesday, March 23rd, 2004
URL: http://www.epa.gov/airmarkets/auctions/2004/04summary.html

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2004-00321
ENVIRONMENTAL SURCHARGE
THIRD DATA REQUEST RESPONSE

COMMISSION STAFF'S THIRD DATA REQUEST DATED 12/10/04
REQUEST 4
RESPONSIBLE PARTY: Ann F. Wood/William A. Bosta

REQUEST 4. Refer to the Staff's Second Request, Item 9(a). East Kentucky states 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. Using the information contained in the Direct Testimony of William A. Bosta, Bosta Exhibit 4, page 2 of 2, line 14, provide a schedule showing East Kentucky's estimate of the monthly operation and maintenance ("O&M") expense for the first full year of the environmental surcharge. Based on this schedule, calculate the following items:

REQUEST 4a. The estimated monthly fluctuation in O&M expense.

RESPONSE 4a. Please see the information contained in Column 2 of the attachment. This shows the estimated monthly O&M expense for the twelve-month period ending March 2006, as contained in Bosta Exhibit 4 Pages 1 of 2 and 2 of 2.

REQUEST 4b. The estimated monthly impact of the O&M expense fluctuation on the environmental surcharge billed to each of the member systems.

RESPONSE 4b. Please see the information shown in Column 8 of the attachment. As shown in Column 8, using a 12-month average serves to minimize the impact of the surcharge on our Member Systems as the Gilbert unit is brought into operation. Use of the 12-month average is identical to the approach authorized for Kentucky Utilities Company.

REQUEST 4c. The estimated monthly impact the fluctuation in the environmental surcharge would have on the pass through billed by the member system to the average retail customer.

RESPONSE 4c. Please see the information shown in Column 11 of the attachment.

PSC Request 4 (a-c)
Attachment
Page 1 of 1

Impact of Fluctuation in Operating and Maintenance Expenses

Current Expense Month	Bosta Exhibit 4 Estimated Current Expense Month's O&M	Rolling 12-month O&M AVG	Monthly Differential	Bosta Exhibit 4 Est. Monthly ES Allocation Factor	EKPC Revenue Requirement Effect	Bosta Exhibit 4 Estimated Monthly Revenue	Impact on EKPC Surcharge Factor	Resulting EKPC Surcharge Factor	Ratio of Wholesale to Retail*	Impact on Retail Surcharge Factor	Resulting Retail Surcharge Factor
(1)	(2)	(3)	(4)=(2)-(3)	(5)	(6)=(4)x(5)	(7)	(8)=(6)/(7)	(9)=Col.8+7.47%*	(10)	(11)=(8)x(10)	(12)=Col.11+5.23%*
Apr-04	$80,577										
May-04	$80,577										
Jun-04	$185,827										
Jul-04	$185,827										
Aug-04	$185,827										
Sep-04	$185,827										
Oct-04	$80,577										
Nov-04	$745,939										
Dec-04	$80,577										
Jan-05	$80,577										
Feb-05	$80,577										
Mar-05	$80,577	$171,107									
**Apr-05	$428,077	$200,065	$228,012	99.79%	$227,533	$40,308,333	0.56%	8.03%	70%	0.40%	5.63%
May-05	$428,077	$229,024	$199,053	99.79%	$198,635	$40,308,333	0.49%	7.96%	70%	0.34%	5.57%
Jun-05	$533,327	$257,982	$275,345	99.79%	$274,767	$40,308,333	0.68%	8.15%	70%	0.48%	5.71%
Jul-05	$533,327	$286,940	$246,387	99.79%	$245,869	$40,308,333	0.61%	8.08%	70%	0.43%	5.66%
Aug-05	$533,327	$315,899	$217,428	99.79%	$216,972	$40,308,333	0.54%	8.01%	70%	0.38%	5.61%
Sep-05	$533,327	$344,857	$188,470	99.79%	$188,074	$40,308,333	0.47%	7.94%	70%	0.33%	5.56%
Oct-05	$428,077	$373,815	$54,262	99.79%	$54,148	$40,308,333	0.13%	7.60%	70%	0.09%	5.32%
Nov-05	$1,093,439	$402,774	$690,665	99.79%	$689,215	$40,308,333	1.71%	9.18%	70%	1.20%	6.43%
Dec-05	$428,077	$431,732	($3,655)	99.79%	($3,647)	$40,308,333	-0.01%	7.46%	70%	-0.01%	5.22%
Jan-06	$428,077	$460,690	($32,614)	99.79%	($32,545)	$40,308,333	-0.08%	7.39%	70%	-0.06%	5.17%
Feb-06	$428,077	$489,649	($61,572)	99.79%	($61,443)	$40,308,333	-0.15%	7.32%	70%	-0.11%	5.12%
Mar-06	$428,077	$518,607	($90,530)	99.79%	($90,340)	$40,308,333	-0.22%	7.25%	70%	-0.16%	5.07%
Total -Apr-05 through Mar-06	$6,223,283	$4,312,033	$1,911,250								
	[redacted]										

* Based on Bosta Exhibit 5, page 2 of 3.

** Gilbert in operation.

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2004-00321
ENVIRONMENTAL SURCHARGE
THIRD DATA REQUEST RESPONSE

COMMISSION STAFF'S THIRD DATA REQUEST DATED 12/10/04
REQUEST 5
RESPONSIBLE PARTY: Ann F. Wood

REQUEST 5. Refer to the Staff's Second Request, Item 9(b). In its response, East Kentucky states, "While not directly tied to one of the nine projects outlined in Eames Exhibit 1, those incremental O&M costs are considered part of EKPC's Compliance Plan." Explain the basis for East Kentucky's conclusion and explain in detail how O&M costs that are not directly tied to the projects contained in the proposed environmental compliance plan can be considered part of that proposed environmental compliance plan.

RESPONSE 5. The subject costs are part of EKPC's Compliance Plan in that they represent only operating expenses for current and future compliance with environmental requirements covered by KRS §278.183, and do not represent a recovery of investments made prior to the effective date of the statute, or recovery of any capital or O&M costs that EKPC has previously included in its base rates. Projects constructed prior to the effective date of KRS §278.183, and those already reflected in EKPC base rates, are not included in the Compliance Plan, but those projects do involve on-going incremental costs of future compliance with environmental requirements which should be recoverable through the surcharge. EKPC contends that inclusion of such costs does not involve any retroactive application of the surcharge statute, since these are current expenses of compliance facilities, related solely to future compliance with environmental requirements, and should be recoverable through the surcharge whether the capital costs of those facilities can be included in the Compliance Plan or not.

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2004-00321
ENVIRONMENTAL SURCHARGE
THIRD DATA REQUEST RESPONSE

COMMISSION STAFF'S THIRD DATA REQUEST DATED 12/10/04
REQUEST 6
RESPONSIBLE PARTY: Ann F. Wood

REQUEST 6. Refer to the Staff's Second Request, Item 10. East Kentucky's response failed to explain why the listed expenses were appropriate for surcharge recovery. Provide the originally requested information.

RESPONSE 6. The nature of the expense, by account, is as follows:

a. Account 50144—Expenses included are fly ash and bed ash removal system ($300,000) and ash disposal ($810,000). These expenses are associated with the Gilbert Unit (Project 1), as included in Johnson Exhibit 1.
b. Account 50644—Expense consists solely of limestone. This limestone is associated with the Gilbert Unit (Project 1), as included in Johnson Exhibit 1.
c. Account 51243—Expense represents maintenance expense on the Spurlock Unit 2 scrubber. This represents the incremental O&M costs on the scrubber, which was constructed to comply with the Federal Clean Air Act requirements.

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2004-00321
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THIRD DATA REQUEST RESPONSE

COMMISSION STAFF'S THIRD DATA REQUEST DATED 12/10/04
REQUEST 7
RESPONSIBLE PARTY: William A. Bosta

REQUEST 7. Refer to the Staff's Second Request, Item 16(d). East Kentucky states that minimizing the fluctuation of the monthly environmental surcharge on its customers is more significant than the timing of the cost recovery. Provide the basis for this opinion.

RESPONSE 7. As indicated in the response to Item 16(a) of Staff's second request, the billing stability and bill predictability associated with EKPC's proposal is extremely important to the retail customers served by our Member Systems. This factor outweighs the effect of more immediate timing of cost recovery. The basis of this position is a need to do everything possible to meet the needs of our Member Systems and their retail customers without compromising the financial condition of EKPC. The deferral of the immediate recovery of any underrecovery of environmental surcharge cost will not significantly affect EKPC's financial condition. EKPC understands that a two-month over/under recovery approach is used for other utilities. Under EKPC's proposal, actual costs will be recovered – as in the case of other utilities, however, only the timing of the recovery will be different. EKPC interprets the environmental surcharge statute to permit such timing differences while providing consistent recognition of the over/under recovery of costs among utility surcharges.

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2004-00321
ENVIRONMENTAL SURCHARGE
THIRD DATA REQUEST RESPONSE

COMMISSION STAFF'S THIRD DATA REQUEST DATED 12/10/04
REQUEST 8
RESPONSIBLE PARTY: Ann F. Wood/William A. Bosta

REQUEST 8. Refer to the Staff's Second Request, Item 18(a). East Kentucky has proposed that it file the member systems' monthly environmental surcharge factors rather than the individual member systems filing their respective monthly surcharge factors. Explain in detail how each individual member system would approve the proposed factor prior to the actual filing.

RESPONSE 8. Prior to EKPC filing the monthly factor on behalf of each member, EKPC will provide each member system with a copy of their factor along with the support calculations used to derive the factor. The member system, in turn, will approve the factor prior to the filing date of the 20th of each month. EKPC anticipates using e-mail to facilitate and document the process.

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2004-00321
ENVIRONMENTAL SURCHARGE
THIRD DATA REQUEST RESPONSE

COMMISSION STAFF'S THIRD DATA REQUEST DATED 12/10/04
REQUEST 9
RESPONSIBLE PARTY: William A. Bosta

REQUEST 9. Refer to Gallatin Steel Company's First Data Request dated November 19, 2004, Item 3, the attachment to the response.

REQUEST 9a. Explain why East Kentucky used a rate of return on rate base of 7.58 percent, when the Commission in Case No. 1994-00336 stated that the revenue reduction based upon a 1.15X Times Interest Earned Ratio would result in a rate of return on rate base of 8.41 percent.

RESPONSE 9a. The BESF should be calculated consistent with the calculation of the Current Factor. To do otherwise would present a mismatch with the current period calculation. The TIER awarded in Case 94-336 was 1.15, which was applied to the 1993 year-ending average cost of debt of 6.59%. This approach reflects the TIER that was approved in the case and applies the TIER only to debt, which is used in the calculation of the current factor.

REQUEST 9b. Recalculate the response to Item 3 using a rate of return on rate base of 8.41 percent.

RESPONSE 9b. Please see the attached information.

Workpaper for Gallatin Steel's Data Request
Question #3
Revised to Rate of Return of 8.41%

		$ Amount		Total $	Source
1.	Depreciation Expense	501,570			Staff 8, p. 3 of 3, 1st Request
		70,778			Staff 8, p. 3 of 3, 1st Request
		30,960			Staff 8, p. 3 of 3, 1st Request
	Total			603,308	
2.	Oper & Mtce	213,791			Wood Exhibit 2, p. 1 of 1
	Air Permit Fees	188,636			Wood Exhibit 2, p. 1 of 1
	Total O & M			402,427	
3.	Property Tax	12,217			Staff 8, p. 3 of 3, 1st Request
		1,974			Staff 8, p. 3 of 3, 1st Request
		861			Staff 8, p. 3 of 3, 1st Request
				15,052	
4.	Insurance	11,203			Gallatin 10, 1st Request
				11,203	
	Return on Rate Base				
5.	Rate Base				
	Precip	8,144,692			Wood Exhibit 1, p. 1 of 11
	Preheater	1,315,867			Wood Exhibit 1, p. 9 of 11
	Fans	573,729			Wood Exhibit 1, p. 10 of 11
			10,034,288		
6.	Cash Working Capital (1/8 of O&M)		50,303		
	Total Rate Base		10,084,591		
	Apply Rate of Return		**8.41%**		**Per Commission Data Reques**
7.	Total Return on Rate Base			848,114	
8.	Total Costs			1,880,104	Line 1+2+3+4+7

9. Calculation of % of Member System Revenues to total revenues including off-system sales.

Member Sys Rev	240,629,490	76.29%	Page 3, this response
Off System Sales Revenue	74,774,167	23.71%	Page 4, this response
	315,403,657	100.00%	
Total Costs Incl Rate of Return	1,880,104		
Exclusion of Off-System Sales	76.29%		
Revenue Requirement	1,434,331		
Member Sys Revenue	240,629,490		
Rev Req / Mbr Sys Revenues	**0.60%**		