



EAST KENTUCKY POWER COOPERATIVE

December 3, 2004

HAND DELIVERED

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

RECEIVED

Re: PSC Case No. 2004-00321  
PSC Case No. 2004-00372

DEC 03 2004

PUBLIC SERVICE  
COMMISSION

Dear Ms. O'Donnell:

Please find enclosed for filing with the Commission in the above-referenced cases an original and seven (7) copies of the Responses of East Kentucky Power Cooperative, Inc., and the Joint Applicants to the Supplemental Data Requests of the Commission Staff and Gallatin Steel Company dated November 19, 2004.

Very truly yours,

Charles A. Lile  
Senior Corporate Counsel

Enclosures

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

**COMMONWEALTH OF KENTUCKY**

**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

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. )

**CASE NO.  
2004-00372**

**RECEIVED**

**DEC 03 2004**

**PUBLIC SERVICE  
COMMISSION**

**RESPONSES TO COMMISSION STAFF'S SECOND DATA REQUEST  
TO THE JOINT APPLICANTS  
DATED NOVEMBER 19, 2004**



**JOINT APPLICANTS**  
**PSC CASE NO. 2004-00372**  
**ENVIRONMENTAL SURCHARGE PASS THROUGH**  
**SECOND DATA REQUEST RESPONSE**

**COMMISSION STAFF'S SECOND DATA REQUEST DATED 11/19/04**  
**REQUEST 1**

**RESPONSIBLE PARTY:** William A. Bosta

**REQUEST 1.** Refer to the Commission Staff's First Data Request dated October 22, 2004 ("Staff's First Request"), Item 1. Assume for purposes of this group of questions that the Commission has approved an environmental surcharge for East Kentucky Power Cooperative, Inc. ("East Kentucky").

**REQUEST 1a.** If East Kentucky rolls a portion of its environmental surcharge into its base rates, do the Joint Applicants agree that they would experience an increase in their respective power bills?

**RESPONSE 1a.** The Joint Applicants will not experience an increase in their power bills as a result of a roll-in to base rates. The base rates would increase, but the surcharge component would be lower, resulting in no change in the power bill as a result of the roll-in.

**REQUEST 1b.** If East Kentucky rolls a portion of its environmental surcharge into its base rates, do the Joint Applicants agree that the environmental surcharge billed to them would only reflect environmental surcharge costs not already included in existing base rates?

**RESPONSE 1b.** Yes.

**REQUEST 1c.** Given the situations described in parts (a) and (b) above, explain in detail why the Joint Applicants’ retail environmental surcharge pass through (“ES pass through”) needs to include a Base Environmental Surcharge Factor.

**RESPONSE 1c.** As described in the response to Item 1, Staff Request 1, a base rate roll-in can occur at retail at the same time that a base rate roll-in occurs at wholesale. Under this scenario, the roll-in to base rates at retail will result in a higher level of base rates, but a lower environmental surcharge factor at retail. The retail customer will not see a change in the bill as a result of the retail base rate roll-in.

It is appropriate to have a base rate roll-in at retail at the same time as the wholesale roll-in. Otherwise, the surcharge factor at retail would be based on the entire surcharge cost calculated for EKPC, while the wholesale surcharge factor would be based on the increment above the level rolled-in to base rates at wholesale. The hypothetical example below illustrates the two alternatives.

Alternative 1 – Wholesale and Retail Roll-in at Same Time

	<u>Wholesale</u>	<u>Retail</u>	<u>Source</u>
1. Roll-in	7.47%	5.23%	Item 1, Staff Request 1, Page 2 of 3 (Case 2004-372)
2. Surcharge Cost in Next Month	8.47%	5.93%	Item 1, Staff Request 1, Page 2 of 3
3. Surcharge Factor	1.0%	0.7%	Line 2 - Line 1

Alternative 2 – Wholesale Roll-in and No Retail Roll-in

	<u>Wholesale</u>	<u>Retail</u>	<u>Source</u>
1. Roll-in	7.47%	--	Item 1, Staff Request 1, Page 2 of 3
2. Surcharge Cost in Next Month	8.47%	5.93%	Item 1, Staff Request 1, Page 2 of 3
3. Surcharge Factor	1.0%	5.93%	Line 2 - Line 1



**JOINT APPLICANTS**  
**PSC CASE NO. 2004-00372**  
**ENVIRONMENTAL SURCHARGE PASS THROUGH**  
**SECOND DATA REQUEST RESPONSE**

**COMMISSION STAFF'S SECOND DATA REQUEST DATED 11/19/04**  
**REQUEST 2**

**RESPONSIBLE PARTY:**            **William A. Bosta**

**REQUEST 2.**            Refer to the Staff's First Request, Item 2. The three environmental surcharge mechanisms approved by the Commission all include a 2-month true-up adjustment. The true-up adjustment deals with over- and under-recoveries resulting from a timing difference that occurs because of differences between the 12-month average revenues used to determine the surcharge factor and the billing month revenues. Would the Joint Applicants oppose the use of a 2-month true-up adjustment to deal with these timing difference over- and under-recoveries in the ES pass through? Explain the response.

**RESPONSE 2.**            Please see the response to Item 16, Staff Second Data Request in Case No. 2004-321. As mentioned in that response, the Joint Applicants believe that the proposed over/under recovery treatment will result in smoothing the monthly environmental surcharge factors. Due to the need for bill predictability and stability, this is extremely important to our customers.





**JOINT APPLICANTS**  
**PSC CASE NO. 2004-00372**  
**ENVIRONMENTAL SURCHARGE PASS THROUGH**  
**SECOND DATA REQUEST RESPONSE**

**COMMISSION STAFF'S SECOND DATA REQUEST DATED 11/19/04**  
**REQUEST 3**

**RESPONSIBLE PARTY:**           **William A. Bosta**

**REQUEST 3.**           Refer to the Staff's First Request, Item 3.

**REQUEST 3a.**           Would the Joint Applicants agree that under their respective Fuel Adjustment Clauses there is at least a one-month time lag between when the member system receives its power bill from East Kentucky and when the member system can bill its customers?

**RESPONSE 3a.**        Yes.

**REQUEST 3b.**        Explain in detail why it appears that East Kentucky and the Joint Applicants are attempting to avoid such a billing lag in the ES pass through. The response should also address why the proposed ES pass through treatment is reasonable.

**RESPONSE 3b.**        The Joint Applicants believe it is reasonable to avoid the billing lag that would occur if a typical pass-through approach is utilized. The Member System will have better cash flow and improved financial results and EKPC and the Member System will ultimately recover actual costs through the over/under recovery mechanism. Also, as shown in Mr. Bosta's testimony at page 10, the proposed billing process results in retail customers receiving an environmental surcharge factor in the second month following cost incurrence by EKPC – which

adheres to the requirement set forth in Section 278.183 (2) of the statute. This is also consistent with how the investor-owned utilities apply the surcharge. In summary, the Joint Applicants can see no reason why they should be subjected to a billing lag. Also, please see the response to Item 18, Staff Second Data Request.

**REQUEST 3c.** Explain why the Joint Applicants are not responsible for their own respective ES pass through factor monthly filings.

**RESPONSE 3c.** Please see the response to Item 18, Staff Second Data Request. The Joint Applicants believe that the proposed approach will be more efficient and easier to administer. Each Member System will approve the factor prior to submittal to the Commission.