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June 30, 2014

Mr. Jeff Derouen
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

RECEIVED

JUN 30 2014

PUBLIC SERVICE
COMMISSION

Re: PSC Case No. 2014-00051

Dear Mr. Derouen:

Please find enclosed for filing with the Commission in the above-referenced case, an original and seven copies of (1) a Motion for an Informal Conference and to Establish a Hearing Date and (2) the Supplemental Testimony of Isaac S. Scott on behalf of East Kentucky Power Cooperative, Inc. and its member systems. The Supplemental Testimony is being filed as requested by the Commission Staff at the June 18, 2014 informal conference.

Please return a file-stamped copy of these filings to my office.

Sincerely,

David S. Samford

Enc.

cc: Patrick Woods (w/enc)

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In re the Matter of:

RECEIVED

**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, 2013 AND THE PASS THROUGH
MECHANISM FOR ITS SIXTEEN MEMBER
DISTRIBUTION COOPERATIVES**

) JUN 30 2014
) PUBLIC SERVICE
) COMMISSION
) CASE NO.
) 2014-00051
)
)

MOTION FOR INFORMAL CONFERENCE AND TO SET A HEARING DATE

Comes now East Kentucky Power Cooperative, Inc. ("EKPC"), by counsel, and, on behalf of its sixteen Members, moves the Kentucky Public Service Commission ("Commission") to schedule an informal conference and to set a hearing date in this proceeding. In support of the request for an informal conference, EKPC states that it is filing supplemental direct testimony contemporaneously with the filing of this motion and that EKPC's Members have filed updated Environmental Surcharge Mechanism ("ESM") calculations – all in fulfillment of the request of Commission Staff made in the course of an informal conference held on June 18, 2014. EKPC requests the informal conference to allow EKPC's Members the further opportunity to discuss the impact of the ESM on the Members' financial performance, to answer any questions on the part of Commission Staff regarding the supplemental direct testimony and updated calculations and to narrow the issues to be heard at a hearing.

In support of the motion for a hearing date, EKPC states that the unique nature of the relief requested in the supplemental direct testimony, and supported by the Members' updated calculations, is such that a hearing would likely be helpful to the Commission. EKPC desires that the Commission be fully apprised of the impact of recent ESM calculations upon Members, particularly with regard to increasing volatility in over- and under-recoveries, impacts upon cash flows and debt covenants and management challenges. Discussing the effects of the current ESM will give the Commission insight as to the impact it is having upon both the Members and the retail customers.

WHEREFORE, EKPC respectfully request that the Commission enter an Order scheduling this matter for an informal conference and a hearing.

This 30th day of June, 2014.

Respectfully submitted,



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Counsel for East Kentucky Power Cooperative, Inc.

CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the foregoing was served by depositing same in the custody and care of the U.S. Postal Service, postage pre-paid, on this the 30th day of June, 2014, addressed to the following:

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Counsel for East Kentucky Power Cooperative, Inc.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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JUN 30 2014

PUBLIC SERVICE
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In re the Matter of:

**AN EXAMINATION BY THE PUBLIC SERVICE)
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POWER COOPERATIVE, INC. FOR THE)
SIX-MONTH BILLING PERIOD ENDING)
DECEMBER 31, 2013 AND THE PASS THROUGH)
MECHANISM FOR ITS SIXTEEN MEMBER)
DISTRIBUTION COOPERATIVES)**

CASE NO.
2014-00051

**SUPPLEMENTAL TESTIMONY OF ISAAC S. SCOTT
ON BEHALF OF EAST KENTUCKY POWER COOPERATIVE, INC.**

Filed: June 30, 2014

1 **Q. Are you the same Isaac S. Scott who submitted direct testimony in this proceeding?**

2 A. Yes. I am the same Isaac S. Scott who submitted testimony dated April 4, 2014.

3 **Q. Have there been any changes in your background information or duties at EKPC?**

4 A. No. My background information and duties are still the same.

5 **Q. What is the purpose of your supplemental testimony in this proceeding?**

6 A. The purpose of my testimony is to describe a problem that EKPC's Member Systems
7 believe exists concerning the determination of over- and under-recover amounts during
8 the surcharge reviews and a possible solution to alleviate the problem.

9 **Q. Why is EKPC preparing supplemental testimony on behalf of its Member Systems?**

10 A. During the informal conference held in this case on June 18, 2014, EKPC and its Member
11 Systems agreed to file supplemental testimony. The Member Systems are: Big Sandy
12 Rural Electric Cooperative Corporation ("RECC"), Blue Grass Energy Cooperative
13 Corporation, Clark Energy Cooperative, Inc., Cumberland Valley Electric, Inc., Farmers
14 RECC, Fleming-Mason Energy Cooperative ("Fleming-Mason"), Grayson RECC, Inter-
15 County Energy Cooperative Corporation, Jackson Energy Cooperative, Licking Valley
16 RECC, Nolin RECC, Owen Electric Cooperative ("Owen"), Salt River Electric
17 Cooperative Corporation, Shelby Energy Cooperative, Inc., South Kentucky RECC, and
18 Taylor County RECC. While EKPC is not directly affected by the problem identified by
19 the Member Systems, it supports the Member Systems on this issue.

20 **Q. Would you describe how the over- or under-recoveries are determined for the
21 Member Systems during a surcharge review period?**

22 A. Yes. Over- and under-recoveries are calculated for each Member System. For each
23 month of the surcharge review period, the environmental surcharge billed to the Member
24 System by EKPC is compared to the corresponding surcharge amount billed to the retail

1 customers and recorded on the Member System's books. The difference in the amounts
2 constitutes the over- or under-recovery for the month. A cumulative net over- or under-
3 recovery is determined for the entire review period and is proposed to be amortized over
4 a 6-month period. In the current review case, these calculations were provided in
5 Response 2(a) to the Commission Staff's First Request for Information ("Staff's First
6 Request").

7 **Q. Would you describe the problem the EKPC Member Systems believe exists in the**
8 **over- and under-recoveries determined during the surcharge reviews?**

9 A. Yes. In the current review case, the Commission Staff asked each Member System in
10 Request 2(b) of the Staff's First Request to explain the factors that contributed to each
11 Member Systems' over- or under-recovery amount. The Member Systems identified two
12 factors contributing to the current over- or under-recovery amount. First, part of the basic
13 operation of the surcharge pass-through mechanism will produce a monthly over- or
14 under-recovery as a result of the fact the 12-month average retail revenues utilized to
15 calculate the retail pass-through factor never match the retail revenues the pass-through
16 factor is applied to. If the 12-month average retail revenues are lower than the retail
17 revenues the pass-through factor is applied to, then there will be an over-recovery for that
18 period. Conversely, if the 12-month average retail revenues are higher than the retail
19 revenues the pass-through factor is applied to, then there will be an under-recovery for
20 that period.

21 The second factor is the impact the amortization of previous surcharge review over- or
22 under-recoveries have on the surcharge amounts the Member Systems bill and record.
23 During the months covered by the current review case, the amortization of over- or

1 under-recoveries determined and authorized in Case Nos. 2012-00486¹ and 2013-00140²
2 are reflected in the surcharge amounts billed and recorded by the Member Systems.
3 Because the Commission's final Orders in the two review cases were issued within 50
4 days³ of each other, the 6-month amortization periods for the cases overlapped and
5 compounded the affect on the level of surcharge revenues the Member Systems billed
6 and recorded. When compared with the corresponding surcharge amounts billed by
7 EKPC to each Member System, the over- or under-recovery was inflated beyond the
8 levels that would normally occur through the basic operation of the surcharge pass-
9 through mechanism.

10 It is this second factor that has caused problems for some of the Member Systems. Those
11 Member Systems amortizing a relatively large net under-recovery from the two review
12 cases experienced higher surcharge pass-through factors that were applied to retail
13 customers' bills during the winter season, increasing power bills. Those Member
14 Systems amortizing a relatively large net over-recovery from the two review cases
15 received surcharge revenues that were lower than the amounts being billed to them by
16 EKPC. The amounts of the net amortizations did vary among the Member Systems, as
17 did the effects on the Member System revenues.

18 In addition, as the Member Systems began to look more closely at the calculations, it
19 became apparent that those Member Systems with an amortization of a net over-recovery
20 from Case Nos. 2012-00486 and 2013-00140 were showing an under-recovery for the
21 months in the current review period. Conversely, those Member Systems with an

¹ Case No. 2012-00486 covered the last 6 months of a 2-year review and two subsequent 6-month review periods, for a total of 18 months of surcharge operations.

² Case No. 2013-00140 covered a single 6-month review period.

³ The final Order in Case No. 2012-00486 was issued on August 2, 2013 and the amortization authorized was reflected in the monthly surcharge filed on August 20, 2013. The final Order in Case No. 2013-00140 was issued on September 17, 2013 and the amortization authorized was reflected in the monthly surcharge filed on September 20, 2013.

1 amortization of a net under-recovery from those two previous review cases were now
2 showing an over-recovery during the review period. Looking at all the Member Systems,
3 it has been determined this pattern existed for 14 of the 16 Member Systems.

4 This “back and forth” pattern leaves the Member Systems in the situation that the
5 amortization of an over- or under-recovery is never completely finished. Over-recoveries
6 in one review period lead to under-recoveries in the subsequent review period when the
7 amortization occurs and vice versa. The Member Systems do not believe this “back and
8 forth” pattern is reasonable. The Member Systems do not object to the initial
9 amortization of the determined over- or under-recoveries of the surcharge pass-through.
10 However, once the amortization period has finished, the Member Systems believe the
11 amortization for that particular review case should be completed.

12 **Q. Do the Member Systems believe this problem is a recent development and if not why**
13 **has the problem only now come to their attention?**

14 A. EKPC and the Member Systems have looked at the methodology used to determine the
15 over- and under-recoveries during the surcharge reviews and have concluded that this
16 problem has always existed. The problem has come to the Member Systems’ attention
17 now because the amortization of over- and under-recoveries from two previous surcharge
18 review cases occurred during the current case review period. The amortizations
19 authorized in Case Nos. 2012-00486 and 2013-00140 reflected 24 months of surcharge
20 operations. The timing of the two final Orders produced an overlap of the amortization
21 periods, requiring amortization to be completed in seven months.⁴ This overlap in
22 amortization periods impacted several of the months in the current review period and the

⁴ In each final Order, the Commission authorized a 6-month amortization period. Because of the timing of the final Orders, there was one month with just the amortization from Case No. 2012-00486, five months with the amortizations from Case Nos. 2012-00486 and 2013-00140, and one month of amortization from Case No. 2013-00140 only.

1 determination of the over- or under-recoveries originally reported in this case. While all
2 of the Member Systems have not been impacted to the same extent, they are in agreement
3 that the problem needs to be addressed and resolved.

4 **Q. Do the Member Systems have any suggestions on how to resolve this problem?**

5 A. Yes. As discussed at the June 18, 2014 informal conference, the Member Systems
6 believe two things can be done to resolve the problem. First, the Member Systems
7 propose that in this review case there should be a calculation of each Member Systems'
8 total over- or under-recovery since the inception of the environmental surcharge through
9 December 2013. This calculation would be done on a month-to-month basis. The
10 Member Systems believe this approach will provide a more accurate indication of the
11 true over- or under-recovery for each Member System. The Member Systems will
12 prepare these calculations and propose that the resulting over- or under-recoveries be the
13 amounts the Commission finds reasonable to amortize for this review case.

14 Second, the Member Systems propose that the format used to determine over- or under-
15 recoveries in future surcharge review periods be modified to remove the effects of any
16 amortizations in effect during the review period.

17 While not directly affected by this problem, EKPC supports the Member System
18 proposals.

19 **Q. You have indicated that these matters were discussed at the June 18, 2014 informal**
20 **conference. Could you describe what information EKPC and the Member Systems**
21 **will be filing?**

22 A. Yes. At the June 18, 2014 informal conference there were five items that EKPC and the
23 Member Systems agreed to provide. These are:

- 1) Testimony addressing the over- and under-recovery problem and how to address it.
- 2) A calculation from each Member System of its total over- or under-recovery from the inception of the surcharge in August 2005 through and including December 2013.
- 3) A statement from each Member System indicating the amortization period it believes is appropriate for the total over- or under-recovery determined in part 2 above.
- 4) A calculation by each Member System of the effect on average residential month bills using the total over- or under-recovery determined in part 2 and the amortization period designated in part 3 above.
- 5) A sample review period format showing the modifications the Member Systems believe are necessary to remove the effects of any amortizations in effect during the review period.

EKPC is providing the testimony and the modified review period format while the Member Systems will each be providing the remaining items.

Q. Could you describe the modification to the format used to determine the over- and under-recoveries during the review period?

A. Yes. Exhibit ISS-1 shows the proposed modifications to the format. The modifications are the additions of columns 3, 4, and 5. Using this modified format, the information shown in columns 1 and 2 would be the same as is provided under the current approach. The amortization of previous review case over- or under-recoveries that impacted the monthly Member Systems' surcharge revenue would be recorded in columns 3 or 4. Exhibit ISS-1 was modeled assuming that during the 6-month review period at least two

1 previous amortizations were in effect. These could be overlapping periods, as has been
2 experienced in this review, or separate periods. The goal is to show the effect of each
3 amortization matched to the appropriate case number. There would be a separate column
4 for each previous review case amortization impacting the current review period. To
5 determine the amount in column 5, any amounts for each month in columns 3 or 4 would
6 be subtracted from the balance in column 2.⁵ To determine the monthly over- or under-
7 recovery, the amount in column 5 would be subtracted from column 1. The cumulative
8 total in column 7 would be determined as it currently is.

9 **Q. Would all 16 Member Systems be using this modified format?**

10 A. No. Fleming-Mason and Owen would be utilizing a slightly different format. The
11 surcharge amounts related to Fleming-Mason's Rate C and Special Contract customer
12 and Owen's Rate B and Special Contract customer are direct pass-throughs of the
13 amounts EKPC bills these cooperatives. The amortization of previous review cases does
14 not impact the cooperatives' surcharge revenues from these customers, so the adjustment
15 to remove an amortization amount is not applicable. The format for Fleming-Mason and
16 Owen would remain unchanged for the applicable Rate B, Rate C, or Special Contract
17 customers, and only be modified as shown on Exhibit ISS-1 for the remaining customers.

18 **Q. Does EKPC or the Member Systems believe there would need to be revisions to the**
19 **Member System Environmental Surcharge tariff sheets relating to this modification**
20 **of the format?**

21 A. No, EKPC and the Member Systems do not believe tariff sheet revisions would be
22 needed because the formats utilized in the surcharge review are not described or
23 established in the tariff sheets.

⁵ Column 5 = Column 2 – Column 3 – Column 4.

1 **Q. Do the changes proposed in your testimony address all the concerns that the**
2 **Member Systems have related to the environmental surcharge and the**
3 **accompanying pass-through mechanism?**

4 A. No, they do not. EKPC and the Member Systems have discussed from time to time
5 concerns about the volatility of EKPC's surcharge factor and the resulting Member
6 Systems' pass-through factors. There is a recognition that the handling of over- and
7 under-recoveries is a part of that volatility. EKPC and the Member Systems plan to
8 continue looking at alternatives that will address these concerns.

9 **Q. Does this conclude your testimony?**

10 A. Yes it does.

Proposed Modification to (Over)/Under Recovery

{Cooperative} – Calculation of (Over)/Under							
	EKPC Invoice Month recorded Member's Books	Billed to Retail Consumer & recorded on Member's Books	Remove Amortization of Previous (Over)/Under Recoveries		Net Billed to Retail Consumer	Monthly (Over) or Under Recovery	Cumulative (Over) or Under Recovery
			Case No. 201x-00xxx	Case No. 201x-00xxx			
Mo/Yr	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Jan-14	\$	\$	\$	\$	\$	\$	\$
Feb-14	\$	\$	\$	\$	\$	\$	\$
Mar-14	\$	\$	\$	\$	\$	\$	\$
Apr-14	\$	\$	\$	\$	\$	\$	\$
May-14	\$	\$	\$	\$	\$	\$	\$
Jun-14	\$	\$	\$	\$	\$	\$	\$
Jul-14	\$	\$	\$	\$	\$	\$	\$
Aug-14	\$	\$	\$	\$	\$	\$	\$
Cumulative 6-months (Over)/Under Recovery							\$
Monthly Recovery (per month for X months)							\$

