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Allen Anderson, President & CEO

July 10, 2014

Mr. Jeff R. Derouen, Executive Director
Public Service Commission
PO Box 615
211 Sower Boulevard
Frankfort, KY 40602

RECEIVED

JUL 11 2014

PUBLIC SERVICE
COMMISSION

RE: PSC Case No. 2014-00051

Dear Mr. Derouen:

Please find enclosed an original and five copies of the response to the Commission Staff's Second Request for Information to East Kentucky Power Cooperative Inc.'s Sixteen Member Distribution Cooperatives order of July 1, 2014 in the above stated order.

If additional information is needed, please let me know.

Respectfully,

Michelle D. Herrman
Michelle D. Herrman
Vice President of Finance

MDH: jg

Enclosures

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

JUL 11 2014

PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:

AN EXAMINATION BY THE PUBLIC SERVICE)
COMMISSION OF THE ENVIROMENTAL)
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)

CASE NO.
2014-00051

CERTIFICATE

STATE OF KENTUCKY

COUNTY OF PULASKI

Michelle D. Herrman, being duly sworn, states that she has supervised the preparation of the Responses of South Kentucky RECC to the Public Service Commission Staff's Second Request for Information to East Kentucky Power Cooperative Inc.'s Sixteen Member Distribution Cooperatives contained in the above-referenced case dated July 1, 2014, and that the matters and things set forth therein are true and accurate to the best of her knowledge, information and belief, formed after reasonable inquiry.

Michelle D. Herrman

Subscribed and sworn before me on the 10th day of July, 2014.

Jammy Cash
Notary Public

My commission expires 12-7-17.

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE
PSC CASE NO. 2014-00051
ENVIRONMENTAL SURCHARGE MECHANISM
RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST
FOR INFORMATION DATED JULY 1, 2014

Request 1. This question is addressed to each of the member distribution cooperatives. To further Staff's understanding of how environmental surcharge expenses and revenues impact a cooperative's financial position, explain how the transactions are recorded on your books and provide representative journal entries showing account numbers and descriptions.

Response 1: South Kentucky records the East Kentucky Power bill in the month which the usage occurred. South Kentucky records the revenue from the member based on when the member is billed within the month using the Environmental Surcharge percentage in effect for that month. The revenue accounts are adjusted to reflect the difference in the Surcharge billed by East Kentucky Power compared to the amount billed to the member for the month. This adjustment mitigates the effect on margins; however, this adjustment does not mitigate the effect on cash flow for both the member and the cooperative. The following representative journal entries are made.

<u>Account</u>	<u>Account Descriptions</u>	<u>Debit</u>	<u>Credit</u>
555.00	Purchased Power	807,073	
232.10	Accounts Payable		807,073
	To record the Environmental Surcharge from East Kentucky power invoice.		
142.10	Customer Accounts Receivable - Electric	613,201	
440.10	Residential Sales		375,258
442.10	Commercial & Industrial Sales- Small		45,886
442.20	Commercial & Industrial Sales- Large		176,441
442.21	Commercial & Industrial Large Without Demand		8,799
444.00	Public Street & Highway Lighting		1,093
445.00	Sales to Public Buildings & Other Public Authorities		5,724
	To record monthly billing of the Environmental Surcharge to members.		

<u>Account</u>	<u>Account Descriptions</u>	<u>Debit</u>	<u>Credit</u>
142.32	Accounts Receivable - Environmental Surcharge	193,872	
440.10	Residential Sales		108,484
442.10	Commercial & Industrial Sales- Small		11,537
442.20	Commercial & Industrial Sales- Large		69,683
442.21	Commercial & Industrial Large Without Demand		2,335
444.00	Public Street & Highway Lighting		252
445.00	Sales to Public Buildings & Other Public Authorities		1,581
	To accrue Environmental Surcharge revenue under-collected (or over-collected) based upon the difference between the Power Bill and Billing to the member for the month.		

Request 2. This question is addressed to each of the member distribution cooperatives. Refer to the responses to the Commission Staff’s First Request for information, Item 2.a., for your Cooperative.

a. Using the month of July 2013 as an example, for the amount shown in the column titled “EKPC Invoice Month recorded on Member’s Books,” for your cooperative, provide the month in which the expenses are incurred by EKPC and when this amount was billed to the member cooperative.

b. Using the month of July 2013, as an example, for the amount shown in the column titled “Billed to Retail Consumer & recorded on Member’s Books,” for your cooperative, provide the pass-through factor and the revenue amount to which it was applied to arrive at the amount shown.

Response 2a: The expenses are incurred by EKPC in June 2013 and billed by EKPC to SKRECC on the July 2013 (service period) power bill and invoiced in August 2013.

Response 2b: The pass-through factor for July 2013 was 12.99% applied to \$9,363,789 of revenue to arrive at the environmental surcharge revenue amount shown of \$1,216,380.