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Governor

Leonard K. Peters  
Secretary  
Energy and Environment Cabinet



Commonwealth of Kentucky  
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David L. Armstrong  
Chairman

James W. Gardner  
Vice Chairman

Linda Breathitt  
Commissioner

September 11, 2014

**PARTIES OF RECORD**

Re: Case No. 2014-00051

Attached is a copy of a memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the memorandum please do so within five days of receipt of this letter. If you have any questions, please contact Jonathan Beyer, Commission Counsel, at 502/782-2581.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jeff Derouen".

Jeff Derouen  
Executive Director

Enclosures

## INTRA-AGENCY MEMORANDUM

### KENTUCKY PUBLIC SERVICE COMMISSION

**TO:** Case File – Case No. 2014-00051

**FROM:** Jonathan Beyer, Staff Attorney

**DATE:** September 11, 2014

**RE:** Informal Conference of September 4, 2014

Pursuant to the Commission's August 19, 2014 Order, an informal conference was held in this matter on September 4, 2014. A list of attendees is attached.

Beginning the conference, Mark Stallions for Owen Electric Cooperative Inc. ("Owen Electric") discussed the unique circumstances relating to Owen Electric which have impacted its environmental surcharge. He specifically noted that due to a switch from cash to accrual accounting in December of 2010, over \$2.2M related to an initial over-recovery of the environmental surcharge was deferred to January of 2011. This resulted in an imbalance in Owen Electric's surcharge whereby it has subsequently been experiencing substantial swings between over- and under-recovery, related to the original \$2.2M deferral. Mr. Stallions stated that without a change to the methodology to calculate their over- under recovery amount, the imbalance will likely never balance out.

Commission Staff member Errol Wagner proposed altering the member cooperatives environmental surcharge filings in each review case, but not monthly filings, to include the current amortization on the expense side in the revenue months in which amortization amounts were used in calculating the pass through mechanism factor. This change in calculation will match the monthly expense plus or minus any current amortization of any (Over)/Under recovery amount with the revenues recovered from the members, which also include any (Over)/Under current recovery of any current amortization amount. The parties generally agreed that this would produce the same mathematical result as had been originally proposed by East Kentucky Power Cooperative Inc. ("EKPC"). The parties agreed in principle that this change in methodology would largely alleviate concerns regarding over- and under-recovery swings in their respective environmental surcharges.

Michelle Herrman with South Kentucky Rural Electric Cooperative Corporation ("SKRECC") and Jennie Phelps with Farmers Rural Electric Cooperative Corporation ("Farmers RECC") both expressed a need to take a historical perspective in reviewing the past and future operation of the environmental surcharge. Ms. Herrman specifically noted that SKRECC has carried forward an under-recovery in excess of \$500,000 since 2005. The amount was reportedly overlooked in the original review period.

Representatives of Farmers and Owen Electric suggested the Commission may want to consider opening separate environmental surcharge reviews for each cooperative in order to more easily deal with the unique concerns pertinent to some

cooperatives. The issue of cooperatives using multiple pass-through billing factors in the same calendar revenue month was discussed. Other than for Fleming-Mason Energy Cooperative, Inc. ("Fleming-Mason"), the consensus was that moving to a single pass-through billing factor for all cooperatives would be agreeable. Fleming-Mason's unique mid-month close of its books dictates that it would be required to continue to use multiple pass-through billing factors.

Richard Raff for Commission Staff questioned whether going back to prior review periods was permissible. Counsel for EKPC, David Samford suggested the member cooperatives that have special circumstances file testimony outlining their respective situation. Mr. Samford also requested clarification on the Commission's Order scheduling the hearing in this matter. Mr. Samford noted that the Order is silent as to whether publication by trade publication is permissible. Mr. Raff suggested EKPC file a motion requesting approval of the proposed publication method.

Mr. Samford asserted that an Order authorizing notice through trade publication would be needed by the end of September, 2014, due to the advance notice required to submit items for publication. Accordingly, Mr. Samford stated that a motion requesting a deviation would be filed on or about September 8, 2014.

In closing, Jonathan Beyer, with Commission Staff, stated that the Commission would issue a procedural Order providing for the filing of testimony by September 30, 2014, supplemental data requests by October 14, 2014 and responses by October 30, 2014.

Finding that no party had any further questions, the conference was adjourned.

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE )  
COMMISSION OF THE ENVIRONMENTAL ) CASE NO.  
SURCHARGE MECHANISM OF EAST KENTUCKY ) 2014-00051  
POWER COOPERATIVE, INC. FOR THE SIX- )  
MONTH BILLING PERIOD ENDING DECEMBER )  
31, 2013 AND THE PASS THROUGH MECHANISM )  
FOR ITS SIXTEEN MEMBER DISTRIBUTION )  
COOPERATIVES )

September 4, 2014

Please sign in:

NAME

REPRESENTING

<u>David Samford</u>	<u>Goss Samford - EKPC</u>
<u>ISAAC S. SCOTT</u>	<u>EKPC</u>
<u>Jennie Phelps</u>	<u>Farmers RECC</u>
<u>Debra Martin</u>	<u>Shelby Energy</u>
<u>Michelle Herrman</u>	<u>South Kentucky RECC</u>
<u>JEFF Greer</u>	<u>South Kentucky RECC</u>
<u>Mike McValley</u>	<u>EKPC</u>
<u>Patrick Woods</u>	<u>ETPC</u>
<u>Jon Hagebrigg</u>	<u>Fleming - Mason Energy</u>
<u>Mark R. Keene</u>	<u>JACKSON ENERGY</u>
<u>Sheron K. Carson</u>	<u>Jackson Energy Cooperative</u>
<u>Phillip Johnson</u>	<u>Blue Grass Energy</u>



Via Telephone

Ann Wood  
Jim Crawford  
Mark Stallons  
Jonathan Beyer  
Ron Handziak  
Errol K Wagner  
RICHARD RAFF  
Billy Frasure  
Sheree Gilliam  
Brad Sherry  
Carol Fraley  
Robert Tolliver  
Holly Eades  
Nicky Rapier  
John May  
Barbara Elliott  
Eddie Boone  
Maudie Nickel

Owen  
Owen  
Owen  
PSC-legal  
PSC-FA  
PSC-FA  
PSC-LEGAL  
Big Sandy RECC  
Inter County  
Grayson RECC  
Grayson RECC  
Cumberland Valley  
Clark Energy  
Salt River Electric  
Licking Valley RECC  
Cumberland Valley  
Salt River Electric  
Licking Valley RECC