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PUBLIC SERVICE
COMMISSION

November 12, 2015

VIA HAND DELIVERY

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

Re: PSC Case No. 2015-00281

Dear Mr. Derouen:

Please find enclosed for filing with the Commission in the above-referenced case, an original and six copies of the responses of East Kentucky Power Cooperative, Inc., ("EKPC") to the Commission Staff's Second Request for Information dated October 28, 2015.

Very truly yours,

David S. Samford

Enclosures

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

| | | |
|---|----------|-------------------|
| AN EXAMINATION BY THE PUBLIC SERVICE |) | |
| COMMISSION OF THE ENVIRONMENTAL |) | |
| SURCHARGE MECHANISM OF EAST KENTUCKY |) | |
| POWER COOPERATIVE, INC. FOR THE SIX- |) | |
| MONTH BILLING PERIODS ENDING |) | CASE NO. |
| JUNE 30, 2014 AND DECEMBER 31, 2014, |) | 2015-00281 |
| TWO-YEAR BILLING PERIOD ENDING |) | |
| JUNE 30, 2015, AND THE PASS THROUGH |) | |
| MECHANISM FOR ITS SIXTEEN MEMBER |) | |
| DISTRIBUTION COOPERATIVES |) | |

**RESPONSES TO COMMISSION STAFF'S SECOND REQUEST FOR
INFORMATION TO EAST KENTUCKY POWER COOPERATIVE, INC.
DATED OCTOBER 28, 2015**

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2015-00281

PUBLIC SERVICE COMMISSION REQUEST DATED 10/28/15

East Kentucky Power Cooperative, Inc. ("EKPC") hereby submits responses to the Second Request for Information of the Staff ("PSC") in this case dated October 28, 2015. Each response with its associated supportive reference materials is individually tabbed.

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

| | | |
|---|---|-------------------|
| AN EXAMINATION BY THE PUBLIC SERVICE |) | |
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| POWER COOPERATIVE, INC. FOR THE SIX- |) | |
| MONTH BILLING PERIODS ENDING |) | |
| JUNE 30, 2014 AND DECEMBER 31, 2014, |) | CASE NO. |
| TWO-YEAR BILLING PERIOD ENDING |) | 2015-00281 |
| JUNE 30, 2015, AND THE PASS THROUGH |) | |
| MECHANISM FOR ITS SIXTEEN MEMBER |) | |
| DISTRIBUTION COOPERATIVES |) | |

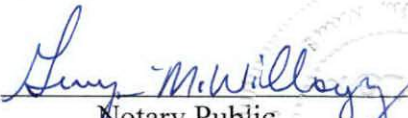
CERTIFICATE

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Isaac S. Scott, being duly sworn, states that he has supervised the preparation of the responses of East Kentucky Power Cooperative, Inc. to the Public Service Commission Staff's Second Request for Information in the above-referenced case dated October 28, 2015, and that the matters and things set forth therein are true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.



Subscribed and sworn before me on this 12th day of November, 2015.

 #500144
Notary Public

GWYN M. WILLOUGHBY
Notary Public
State at Large
Kentucky
My Commission Expires Nov 30, 2017

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2015-00281
ENVIRONMENTAL SURCHARGE MECHANISM
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 10/28/15
REQUEST 1

RESPONSIBLE PARTY: **Isaac S. Scott**

Request 1. Refer to the Direct Testimony of Isaac S. Scott ("Scott Direct Testimony"), and the Addendum to the August 2014 monthly Environmental Surcharge Report. Clarify whether the Scott Direct Testimony, pages 8 through 10, and the Addendum to the August 2014 Environmental Surcharge Report describe the same error or different errors. Provide a more complete description of the error or errors.

Response 1. The Scott Direct Testimony and the August 2014 Addendum to the monthly surcharge report describe three separate errors.

August 2014 Addendum. This addendum was correcting an error that happened in the January 2014 expense month. As part of the process in compiling the monthly operation and maintenance ("O&M") expenses in the current expense month, EKPC examines the previous month's O&M expenses to determine if there are differences between accruals and actual expenses that should be recognized as an adjustment to the O&M expenses reported in the

current expense month. When preparing the January 2014 expense month filing, EKPC personnel inadvertently retrieved O&M expenses from December 2012 instead of December 2013 when reviewing the previous month accruals. This error impacted 21 of the 22 O&M expense accounts reported on ES Form 2.5 and resulted in the total O&M expenses for the January 2014 expense month being overstated.

This overstatement of O&M expenses was reflected in the January 2014 expense month surcharge calculations in two components. First, EKPC recovers the 12-month moving average of its eligible O&M expenses and the overstatement inflated the average. Second, EKPC includes a working capital allowance in its environmental compliance rate base which is based on 1/8th of the 12 month total O&M expenses. The overstatement resulted in an increase in the annual working capital allowance, which in turn resulted in an increase in the monthly return on rate base. The detailed calculations of these amounts were provided with the August 2014 Addendum.

The January 2014 overstatement of the O&M expenses affected the monthly surcharge filings submitted for February through July 2014. The overstatement was included in the calculation of the 12-month moving average of the eligible O&M expenses shown on ES Form 2.4 and in the determination of the 12 month total O&M expenses used to determine the working capital allowance. The intent of the August 2014 Addendum was to correct the January through July

2014 expense month filings and adjust the 12 month O&M expense report on ES Form 2.4 to eliminate the effects of the error on a going forward basis.

Scott Direct Testimony, pages 8 through 10. The Scott Direct Testimony discusses two additional errors that are the basis for the proposed over-recovery adjustment to EKPC's surcharge in this review case. The first error is related to the August 2014 Addendum and involves eligible air permit fees. The accounts reporting the air permit fees were part of the original January 2014 expense month error. While the August 2014 Addendum corrected the error in the January 2014 expense month for the air permit fees, the Addendum failed to capture and remove the effects of that error on a going forward basis as reported on ES Form 2.4. EKPC discovered this oversight while preparing its response to the Commission Staff's First Data Request, Item 1.

The second error related to the reporting of certain Spurlock precipitator O&M expenses. As established in EKPC's environmental compliance plan, Spurlock 1 precipitator O&M expenses are recoverable through the surcharge while similar Spurlock 2 precipitator O&M expense were not included for recovery. While preparing the October 2014 expense month surcharge filing, EKPC determined that it had inadvertently included Spurlock 2 precipitator O&M expenses in ES Form 2.5 instead of Spurlock 1 precipitator O&M expenses. This mix-up of expenses began in the January 2014 expense month and continued through September 2014. While EKPC began using the Spurlock 1 precipitator O&M expenses in the October 2014 expense month, it did not

correct the monthly O&M expense totals shown on ES Form 2.4. As discussed on page 10 of the Scott Direct Testimony, EKPC did correct the monthly expense totals shown on ES Form 2.4 in the September 2015 expense month surcharge filing.

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2015-00281

ENVIRONMENTAL SURCHARGE MECHANISM

RESPONSE TO INFORMATION REQUEST

**COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 10/28/15
REQUEST 2**

RESPONSIBLE PARTY: **Isaac S. Scott**

Request 2. Refer to the response to Staff's First Request for Information ("Staff's First Request"), Item 1, Summary of Net Revenue Requirement E(m). For the expense months of January through July 2014, explain why the amounts listed in the column titled "Monthly Difference due to Spur 1 v. 2 Proj 03330 Allocation" were not included with the adjustment made to the August 2014 monthly environmental surcharge filing.

Response 2. As noted in the response to Request No. 1, the August 2014 Addendum covered 21 of the 22 O&M expense accounts reported on ES Form 2.5. In addition, EKPC did not discover the mix-up of the Spurlock 1 and 2 precipitator expenses until it was preparing the October 2014 expense month surcharge filing. While the Spurlock precipitator expenses were included in the 21 O&M expense accounts corrected by the August 2014 Addendum, EKPC's focus was on the January 2014 expense month error and correcting the errors in those accounts. Simple human error was the reason the mix-up on the Spurlock precipitator O&M expenses was not discovered while preparing the August 2014 Addendum.