

ATTORNEYS AT LAW | PLLC
April 5, 2016

Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

Re: PSC Case No. 2015-00281

Dear Executive Director:

Please find enclosed for filing with the Commission in the above-referenced case, an original and seven copies of East Kentucky Power Cooperative, Inc.'s ("EKPC") revised response to the Commission Staff's First Request for Information dated August 31, 2015, Request No. 1. This filing is pursuant to the Commission's March 31, 2016 Order granting EKPC's March 24, 2016 motion to withdraw the March 15, 2016 motion to submit this case on the record and not have a hearing.

While preparing the revised response to Request No. 1, EKPC discovered that parts of the response to Request No. 7 also needed to be revised. Thus, a revised response to Request No. 7, parts (a), (c), and (e) are included.

Lastly, consistent with the Commission Staff's original requests, EKPC is providing a CD with the response schedules in Excel spreadsheet format with all cells and formulas intact and unprotected.

Very truly yours,

A blue ink signature of David S. Samford, consisting of stylized initials and a surname.

David S. Samford
Counsel

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)	

**REVISED RESPONSES TO COMMISSION STAFF'S FIRST REQUEST FOR
INFORMATION TO EAST KENTUCKY POWER COOPERATIVE, INC.**

DATED AUGUST 31, 2015

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2015-00281

PUBLIC SERVICE COMMISSION REQUEST DATED 08/31/15

East Kentucky Power Cooperative, Inc. ("EKPC") hereby submits revised responses to the information requests contained in Appendix B to the Order of the Public Service Commission ("PSC") in this case dated August 31, 2015. Each revised response with its associated supportive reference materials is individually tabbed.

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

In the Matter of:

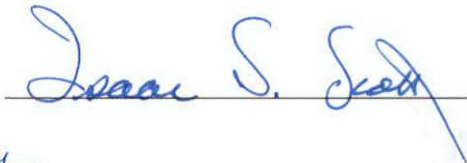
**AN EXAMINATION BY THE PUBLIC SERVICE
COMMISSION OF THE ENVIRONMENTAL
SURCHARGE MECHANISM OF EAST KENTUCKY
POWER COOPERATIVE, INC. FOR THE SIX-
MONTH BILLING PERIODS ENDING
JUNE 30, 2014 AND DECEMBER 31, 2014,
TWO-YEAR BILLING PERIOD ENDING
JUNE 30, 2015, AND THE PASS THROUGH
MECHANISM FOR ITS SIXTEEN MEMBER
DISTRIBUTION COOPERATIVES**

**CASE NO.
2015-00281**

CERTIFICATE

**STATE OF KENTUCKY)
COUNTY OF CLARK)**

Isaac S. Scott, being duly sworn, states that he has supervised the preparation of the revised responses of East Kentucky Power Cooperative, Inc. to the Public Service Commission Staff's First Request for Information in the above-referenced case dated August 31, 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 5th day of April, 2016.


Notary Public



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

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION DATED 08/31/15
REQUEST 1

RESPONSIBLE PARTY: Isaac S. Scott

Request 1. This question is addressed to EKPC. Prepare a summary schedule showing the calculation of E(m) and the surcharge factor for the expense months covered by the applicable billing periods. Form 1.1 can be used as a model for this summary. Include the expense months for the two expense months subsequent to the billing period in order to show the over- and under-recovery adjustments for the months included for the billing period. Include a calculation of any additional over- or under-recovery amount EKPC believes needs to be recognized for the two-year review. Include all supporting calculations and documentation for the additional over- or under-recovery. Provide the schedule in Excel spreadsheet format with all cells and formulas intact and unprotected.

Response 1. Please see the response to Request 1 included on the attached CD. The response includes spreadsheets showing a) the calculation of E(m) as originally filed, the calculation of a corrected E(m), and a summary spreadsheet showing the total proposed adjustment for the periods under review. As discussed in Mr. Scott's direct testimony, EKPC is

proposing an adjustment of \$163,782 to be reflected in the first month's surcharge filing after the Commission's decision in this review.

Revised Response to Request 1 filed April 5, 2016

Please see the revised response to Request 1 included on the attached CD. The response includes spreadsheets showing a) the calculation of E(m) as originally filed for the expense months of December 2014 through February 2016, the calculation of a revised corrected E(m) for the expense months of December 2014 through February 2016, and a summary spreadsheet showing the total revised proposed adjustment of the periods under review. The spreadsheets showing the calculation of E(m) as originally filed and the corrected versions for the expense months of December 2013 through November 2014 as submitted with the original response to Request 1 have not been changed.

As noted in the March 24, 2016 motion to withdraw the motion to submit the case for a decision based upon the existing record and without the need for a hearing, during a review of the operating and maintenance expenses included in the February 2016 environmental surcharge filing, EKPC became aware that there were errors in the amounts that had been reported in the previous month's surcharge filing. EKPC determined it was reasonable to review operating and maintenance expenses allowable for inclusion in the environmental surcharge for the expense months corresponding to revenues billed during 2015. This review revealed similar errors occurred in reported operating and maintenance expenses beginning with the December 2014 expense month.

The errors discovered during the review for any particular month were the result of inconsistent or incorrect query criteria used to generate reports to compile allowable operating and maintenance expenses for inclusion in the surcharge filing.

EKPC personnel take very seriously the need to accurately report its surcharge eligible operating and maintenance expenses in the monthly surcharge filings. But there are numerous challenges to this effort. The surcharge eligible expenses are obtained from multiple accounting record sources rather than a single journal or ledger. Because of the specific nature of the compliance projects, eligible surcharge expenses must be located and identified by operating unit, department designations, and budget and project identifiers. Also, surcharge eligible expenses generally must be compiled during the first 15 days of the month, while the monthly closing of the accounting records is taking place. Adding to the complexity was the fact that due to staff turnover, three different staff members were responsible for preparing the operating and maintenance expenses for the surcharge in 2015, which led to inconsistency in how reports were generated.

In Mr. Scott's Direct Testimony, filed on September 30, 2015, it was noted that the reason for the errors previously identified in this proceeding was simple human error in retrieving information from the numerous reports containing account balances. While the recent review indicated that human error was again the cause, EKPC personnel were able to more specifically identify the problems. As a result of the review, EKPC personnel have examined the processes for compiling surcharge eligible operating and maintenance expenses and have standardized and finalized the criteria for the queries to recognize the necessary

operating unit, department, budget, and project identifiers. EKPC believes these actions will improve the process and ensure the completeness and accuracy of the surcharge eligible operating and maintenance expenses.

In its September 30, 2015 original response to Request 1, EKPC determined that as of the end of the review period it had experienced a net over-recovery of \$199,826. EKPC requested that it be permitted to also recognize the impact of the originally identified errors included in the 12-month averages of operating and maintenance expenses reported on ES Form 2.4 for the expense months of June through August 2015. These three additional months resulted in an under-recovery of \$36,044 and EKPC proposed that it be allowed to recognize this post-review period adjustment, resulting in a total net over-recovery adjustment of \$163,782 for this review. EKPC also proposed that the total net over-recovery be included as an adjustment on Line 11 of ES Form 1.1 in the first month after the Commission's Order in this proceeding.

In this revised response to Request 1, EKPC has determined that as of the end of the review period it has experienced a net under-recovery of \$391,155. The net under-recovery recognizes the corrections to the December 2014 through May 2015 expense months resulting from the recent review. As was noted previously, the recent review looked at all the expense months corresponding to revenues billed in 2015 as well as the first two expense months in 2016. EKPC has determined that for the expense months of June 2015 through February 2016 it experienced a net over-recovery of \$93,943. EKPC is again proposing that it be permitted to recognize this post-review period adjustment, which results in a net under-recovery of

\$297,212. Please see page 8 of 8 in this response for the calculation of the \$297,212 under-recovery and the attached CD. EKPC is proposing that the total under-recovery be included as an adjustment on Line 11 of ES Form 1.1 in the first two months after the Commission's Order in this proceeding.

EKPC acknowledges that recognizing the post-review period over- and under-recoveries as part of the current review case is not the usual approach followed by the Commission. However, EKPC believes it is reasonable to recognize these post-review period over- and under-recoveries at this time. The corrections to the operating and maintenance expenses and the resulting effect on the nine monthly surcharge filings are already known. If the post-review period corrections were only addressed in subsequent surcharge reviews, these corrections would affect the next two six-month review periods. This would mean a final resolution of the corrections would likely not be determined until late 2016 or early 2017. EKPC believes it is reasonable and administratively efficient to go ahead and address the post-review period corrections in the current proceeding. EKPC is also aware that the Commission previously approved a similar request in a Kentucky Power Company surcharge review case.¹

In the original response to Request 1 and Mr. Scott's Direct Testimony filed on September 30, 2015, EKPC had proposed to reflect the net over-recovery of \$163,782 in the first month's surcharge filing after the Commission's decision in this review. After

¹ See *In the Matter of an Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Power Company for the Six-Month Billing Periods Ending December 31, 2002, December 31, 2003, June 30, 2004, December 31, 2004, and December 31, 2005, and for the Two-Year Billing Periods Ending June 30, 2003 and June 30, 2005*, Order, Case No. 2006-00128, (Ky. P.S.C., Jan. 31, 2007).

recognizing the corrections of the operating and maintenance expenses for the expense months of December 2014 through February 2016, EKPC has determined it experienced a net under-recovery of \$297,212. EKPC would like to collect the net under-recovery in a timely manner, but believes it needs to balance this desire by considering the impact the net under-recovery would have on its Member Systems and their customers. Consequently, EKPC is now proposing to include the net under-recovery as an adjustment on Line 11 of ES Form 1.1 in the first two months after the Commission's Order in this proceeding.

EKPC's surcharge mechanism utilizes a 12-month average of operating and maintenance expenses. Absent correction, errors existing in the current expense month will continue to impact the monthly surcharge calculations for the following 11 months.² Mr. Scott's Direct Testimony of September 30, 2015 addressed how EKPC originally proposed to deal this situation by stating that beginning with the September 2015 expense month, EKPC would include the corrected operating and maintenance totals on ES Form 2.4 for the remaining months impacted by the identified errors, thus resolving the errors in the subsequent months.³

As noted previously, this recent review uncovered errors in the reported operating and maintenance expenses for the expense months of December 2014 through February 2016. Without a correction to the operating and maintenance expenses reported on ES Form 2.4, the effects of the errors identified in the June 2015 through February 2016 expense

² Errors in the operating and maintenance expenses reported on ES Form 2.4 impact the determination of the average monthly operating and maintenance expense included in the surcharge calculations and the determination of the cash working capital component of the environmental surcharge compliance rate base.

³ EKPC subsequently included and noted this correction to ES Form 2.4 in the September 2015 expense month surcharge filing, which was submitted to the Commission on October 20, 2015.

months will impact monthly surcharge calculations through January 2017. Therefore, beginning with the March 2016 expense month, EKPC proposes to include the corrected operating and maintenance totals on ES Form 2.4, which will resolve the errors in subsequent months.

**East Kentucky power Cooperative, Inc. Environmental Surcharge Report
Calculation of Current Month Environmental Surcharge Factor (CESF)
and (Over)/Under Recovery Calculation
Summary of Net Revenue Requirement E(m)**

Source: Line 12c (As Filed and Corrected)

Expense Month	As Filed	Corrected	Difference	Cumulative Difference	E(m) Refund per 9/19/14 Addendum per Filed Env Surcharge for Aug-14 Expense Month	Monthly Difference Net of E(m) Refund per 9/19/14 Addendum	Additional Amount to be Refunded (Cumulative Difference)
Dec-13	\$9,231,894	\$9,231,894	\$0	\$0			
Jan-14	\$7,087,657	\$7,009,555	(\$78,102)	(\$78,102)	(\$76,121)	(\$1,981)	(\$1,981)
Feb-14	\$3,563,894	\$3,486,096	(\$77,798)	(\$155,900)	(\$75,614)	(\$2,184)	(\$4,165)
Mar-14	\$7,635,825	\$7,512,842	(\$122,982)	(\$278,882)	(\$120,748)	(\$2,234)	(\$6,399)
Apr-14	\$8,858,265	\$8,775,484	(\$82,781)	(\$361,663)	(\$81,692)	(\$1,089)	(\$7,488)
May-14	\$10,427,817	\$10,336,177	(\$91,641)	(\$453,304)	(\$94,933)	\$3,292	(\$4,196)
Jun-14	\$10,358,693	\$10,252,286	(\$106,407)	(\$559,711)	(\$109,356)	\$2,949	(\$1,247)
Jul-14	\$9,552,365	\$9,417,754	(\$134,612)	(\$694,323)	(\$137,193)	\$2,581	\$1,334
Aug-14	\$8,429,889	\$8,430,963	\$1,075	(\$693,248)		\$1,075	\$2,409
Sep-14	\$9,071,492	\$9,040,520	(\$30,971)	(\$724,219)		(\$30,971)	(\$28,562)
Oct-14	\$10,452,303	\$10,440,239	(\$12,064)	(\$736,283)		(\$12,064)	(\$40,626)
Nov-14	\$11,433,773	\$11,409,791	(\$23,983)	(\$760,266)		(\$23,983)	(\$64,609)
Dec-14	\$9,315,079	\$9,423,825	\$108,746	(\$651,520)		\$108,746	\$44,137
Jan-15	\$9,028,468	\$9,008,504	(\$19,964)	(\$671,484)		(\$19,964)	\$24,173
Feb-15	\$7,630,362	\$7,668,663	\$38,301	(\$633,183)		\$38,301	\$62,474
Mar-15	\$7,171,396	\$7,278,026	\$106,630	(\$526,553)		\$106,630	\$169,104
Apr-15	\$9,383,392	\$9,474,263	\$90,872	(\$435,681)		\$90,872	\$259,976
May-15	\$11,609,443	\$11,740,622	\$131,179	(\$304,502)		\$131,179	\$391,155
Total for Review Period			(\$304,502)		(\$695,657)	\$391,155	
Jun-15	\$11,746,526	\$11,890,575	\$144,049	(\$160,453)		\$144,049	\$535,204
Jul-15	\$10,086,001	\$10,216,740	\$130,739	(\$29,714)		\$130,739	\$665,943
Aug-15	\$10,193,522	\$10,291,772	\$98,250	\$68,536		\$98,250	\$764,193
Sep-15	\$10,652,816	\$10,697,597	\$44,782	\$113,318		\$44,782	\$808,975
Oct-15	\$11,475,603	\$11,455,356	(\$20,247)	\$93,071		(\$20,247)	\$788,728
Nov-15	\$11,454,421	\$11,306,030	(\$148,390)	(\$55,320)		(\$148,390)	\$640,337
Dec-15	\$11,034,355	\$10,739,466	(\$294,889)	(\$350,209)		(\$294,889)	\$345,448
Jan-16	\$9,548,642	\$9,530,393	(\$18,249)	(\$368,458)		(\$18,249)	\$327,199
Feb-16	\$6,382,613	\$6,352,627	(\$29,986)	(\$398,445)		(\$29,986)	\$297,212
Total for Post- Review Period			(\$93,943)		\$0	(\$93,943)	
Total Proposed Adjustment			(\$398,445)		(\$695,657)	\$297,212	

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

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION DATED 08/31/15
REQUEST 7

RESPONSIBLE PARTY: **Isaac S. Scott**

Request 7. This question is addressed to EKPC. KRS 278.183(3) provides that during the two-year review, the Commission shall, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

Request 7a. Provide the surcharge amount that EKPC believes should be incorporated into its existing base rates. Include all supporting calculations, work papers, and assumptions.

Response 7a. As stated in Mr. Scott's direct testimony, EKPC does not believe that any surcharge amounts should be incorporated into its existing base rates. However, EKPC has provided a calculation of the estimated roll-in amount, as shown on the spreadsheets provided in the attached CD. The total estimated roll-in (revenue requirement) is \$112,622,985 and EKPC has further estimated that \$74,651,548 of the total would be assigned to demand and \$37,971,437 would be assigned to energy.

To determine this estimated roll-in, EKPC used the environmental compliance rate base as shown in the monthly surcharge report for the expense month of May 31, 2015, the last expense month included in the two-year review. This rate base was multiplied by the rate of return which was authorized as of May 31, 2015, which was 6.060%, to calculate the dollar return on rate base. Pollution control operating expenses reflect the actual balances for the twelve month period ending May 31, 2015. The O&M expenses and the cash working capital allowance reflect the corrections to the monthly surcharge filings discussed in Mr. Scott's direct testimony. There were no proceeds from the sale of by-products or emission allowances for the twelve months ending May 31, 2015 to include in the calculations. The sum of the dollar return on rate base and pollution control operating expenses was multiplied by the Member System allocation ratio for May 31, 2015 of 98.42% to recognize that only the portion of the surcharge applicable to Member sales would be rolled into base rates. This adjusted surcharge revenue requirement constitutes the estimated roll-in amount.

In preparing this response, EKPC has utilized the same approach it followed when it responded to Request 7a of the Commission Staff's First Data Request in Case No. 2012-00486.

Revised Response to Request 7a filed April 5, 2016

As a result of the revisions to the pollution control operating expenses discussed in the revised response to Request 1, it is also necessary to revise the responses to Request 7a. The determination of the estimated roll-in has been prepared following the same approach as the

original response to Request 7a. Pollution control operating expenses reflect the actual balances for the twelve-month period ending May 31, 2015. The O&M expenses and the cash working capital allowance reflect the corrections to the monthly surcharge filings discussed in the revised response to Request 1. The revised total estimated roll-in (revenue requirement) is \$113,473,794 and EKPC has further estimated that \$74,657,945 of the total would be assigned to demand and \$38,815,849 would be assigned to energy.

Request 7c. Provide the Base Period Jurisdictional Environmental Surcharge Factor ("BESF") that reflects all environmental surcharge amounts previously incorporated into existing base rates and the amount determined in part (a). Include all supporting calculations, work papers, and assumptions.

Response 7c. EKPC's BESF as of May 31, 2015 was zero, as established by the Commission in Case No. 2009-00317. In the response to Request 7a, EKPC has provided a calculated amount of a base rate roll-in. If the Commission were to require EKPC to roll-in its environmental surcharge into base rates, based on the Member System base rate revenues for the twelve months ending May 31, 2015, the BESF would be 14.29%. However, EKPC notes that it would need to recalculate the BESF based on the most recent twelve month revenue information following the Order in this proceeding. EKPC believes this recalculation is consistent with the approach followed by Louisville Gas and Electric Company and Kentucky Utilities Company when recalculating its BESF.

Revised Response to Request 7c filed April 5, 2016

As a result of the revision to the response to Request 1 and 7a, the response to Request 7c must also be revised. In the revised response to Request 7a, EKPC has provided a calculated amount of a base rate roll-in. If the Commission were to require EKPC to roll-in its environmental surcharge into base rates, based on the Member System base rate revenues for the twelve months ending May 31, 2015, the BESF would be 14.40%. The remainder of the original response to Request 7c is still accurate and reflects EKPC's position.

Request 7e. Provide all schedules in Excel spreadsheet format with all cells and formulas intact and unprotected.

Response 7e. The CD attached to this response includes all schedules in Excel spreadsheet format with all cells and formulas intact and unprotected.

Revised Response to Request 7e filed April 5, 2016

The CD attached to this revised response includes all schedules in Excel spreadsheet format with all cells and formulas intact and unprotected.