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October 16, 2015

HAND DELIVERED

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
P.O. Box 615
211 Sower Boulevard
Frankfort, KY 40602

Re: PSC Case No. 2015-00302

Dear Mr. Derouen:

Please find enclosed for filing with the Commission in the above-referenced case an original and ten copies of the responses of East Kentucky Power Cooperative, Inc. ("EKPC"), to the information requests contained in the Initial Request for Information of the Commission Staff dated October 2, 2015.

Very truly yours,

David S. Samford

Enclosures

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**THE APPLICATION OF EAST KENTUCKY POWER)
COOPERATIVE, INC. FOR AN ORDER APPROVING)
THE ESTABLISHMENT OF A REGULATORY ASSET) CASE NO.
FOR THE UNDEPRECIATED BALANCE OF THE) 2015- 00302
WILLIAM C. DALE GENERATING STATION)**

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

DATED OCTOBER 2, 2015

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2015-00302

STAFF'S INITIAL REQUEST FOR INFORMATION DATED 10/02/15

East Kentucky Power Cooperative, Inc. ("EKPC") hereby submits responses to the Initial Request for Information of the Staff ("PSC") in this case dated October 2, 2015. Each response with its associated supportive reference materials is individually tabbed.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF EAST KENTUCKY POWER)
COOPERATIVE, INC. FOR AN ORDER APPROVING)
THE ESTABLISHMENT OF A REGULATORY ASSET)
FOR THE UNDEPRECIATED BALANCE OF THE)
WILLIAM C. DALE GENERATING STATION)

CASE NO.
2015- 00302

CERTIFICATE

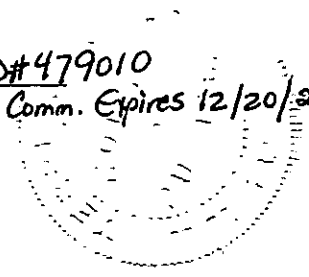
STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Michelle K. Carpenter, being duly sworn, states that she has supervised the preparation of the responses of East Kentucky Power Cooperative, Inc. to the Public Service Commission Staff's Initial Information Request in the above-referenced case dated October 2, 2015 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 K. Carpenter

Subscribed and sworn before me on this 9th day of October, 2015.

Terri K. Combs 10#479010
Notary Public My Comm. Expires 12/20/2016



COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF EAST KENTUCKY POWER)
 COOPERATIVE, INC. FOR AN ORDER APPROVING)
 THE ESTABLISHMENT OF A REGULATORY ASSET) CASE NO.
 FOR THE UNDEPRECIATED BALANCE OF THE) 2015- 00302
 WILLIAM C. DALE GENERATING STATION)

CERTIFICATE

STATE OF KENTUCKY)
)
 COUNTY OF CLARK)

Craig A. Johnson, 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 Initial Information Request in the above-referenced case dated October 2, 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 15th day of October, 2015.


 Notary Public

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



COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF EAST KENTUCKY POWER)
 COOPERATIVE, INC. FOR AN ORDER APPROVING)
 THE ESTABLISHMENT OF A REGULATORY ASSET) CASE NO.
 FOR THE UNDEPRECIATED BALANCE OF THE) 2015- 00302
 WILLIAM C. DALE GENERATING STATION)

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 Initial Information Request in the above-referenced case dated October 2, 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.

Isaac S. Scott

Subscribed and sworn before me on this 9th day of October, 2015.

Gwyn M. Willoughby #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. 2015-00302
INITIAL REQUEST FOR INFORMATION RESPONSE

STAFF'S INITIAL REQUEST FOR INFORMATION DATED 10/02/15

REQUEST 1

RESPONSIBLE PERSON: Craig A. Johnson/Isaac. S Scott

COMPANY: East Kentucky Power Cooperative, Inc.

Request 1. Refer to the Application, paragraph 5.

Request 1a. Explain what is meant by “condition the [Dale Units 3 and 4] facilities for indefinite storage.” Provide a complete description of the process involved and the length of time required to achieve EKPC’s plan.

Response 1a. The turbine/generator sets and supporting equipment and systems will be minimally maintained (lubricated, turned, protected from freeze/thaw, etc.) so they might be marketed or operated in the future. Currently, EKPC does not plan to maintain the coal related equipment (*e.g.*, coal chutes, pulverizers, coal-fired boiler, etc.). The plant will be locked down with 24-hour security. Existing staff will be used to perform the minimum amount of preventative maintenance required on the critical rotating equipment. EKPC does not currently have a timeline for when these activities will cease.

Request 1b. Provide a detailed analysis and explanation of the costs involved to condition Dale Units 3 and 4.

Response 1b. The majority of the maintenance items required to place Dale Units 3 and 4 into indefinite storage will be performed by EKPC staff. EKPC's budgetary estimate for the cost to place Dale Units 3 and 4 into indefinite storage, including EKPC labor, is approximately \$700,000. EKPC labor and contracted security are the two main cost components.

Request 1c. Provide the detailed annual costs EKPC would incur to maintain Dale Units 3 and 4 in a conditioned state for indefinite storage.

Response 1c. The main components for indefinite storage after initial layup include;

1. EKPC labor cost equivalent to three full-time equivalents or approximately \$300,000;
2. Contracted site security service of \$170,000 annually, and
3. Utilities, supplies, travel, misc. of approximately \$40,000 annually.

Request 1d. Define how long indefinite storage is expected to last.

Response 1d. EKPC does not currently have an end date defined for indefinite storage. EKPC is reviewing the impacts of the EPA's Clean Power Plan and will be weighing all options for complying with the plan while meeting EKPC's future load needs and serving the best interests of its sixteen (16) Owner-Member cooperatives.

Request 1e. Explain how EKPC's intentions to condition Dale Units 3 and 4 for indefinite storage and allow the Dale Station site to remain viable for potential future uses would constitute abandonment for accounting purposes.

Response 1e. Conditioning Dale Units 3 and 4 for indefinite storage is not the basis for determining abandonment for accounting purposes. As stated in Paragraph 5 of the Application, because the Dale Station will not be able to currently meet the federally-mandated Mercury and Air Toxics Standards ("MATS"), EKPC determined that all generation activities at the facility would cease indefinitely as of April 15, 2016. As EKPC currently has no plans to use the Dale Station after April 16, 2016, for accounting purposes it becomes increasingly likely that it will be abandoned. Thus, it is the fact that operations are ceasing that constitutes the determination of abandonment for accounting purposes, not the fact that EKPC intends to condition Units 3 and 4 for indefinite storage. With Dale Units 3 and 4 in indefinite storage, the assets will remain in place, but not in operation.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2015-00302
INITIAL REQUEST FOR INFORMATION RESPONSE

STAFF'S INITIAL REQUEST FOR INFORMATION DATED 10/02/15
REQUEST 2

RESPONSIBLE PERSON: **Craig A. Johnson**

COMPANY: **East Kentucky Power Cooperative, Inc.**

Request 2. Refer to the Application, paragraph 6.

Request 2a. Explain under what circumstances the Dale Station site would be repowered after April 16, 2016.

Response 2a. A decision by EKPC to repower the Dale Station site after April 16, 2016, would depend upon numerous factors, chiefly whether repowering would be economically advantageous and in the best interest of EKPC's Owner-Members. Notable considerations include the existing and anticipated conditions within the power market and the impacts of the EPA's Clean Power Plan. With respect to the Clean Power Plan, EKPC is reviewing all strategic options available to it to mitigate the Clean Power Plan's impact on costs to serve its Owner-Members. However, until: 1) the Clean Power Plan is published in the Federal Register, thereby setting the effective date of the rule; 2) the outcome is known of various legal efforts to stay the Plan's implementation until the judicial system resolves whether all or part(s) of the Plan must be remanded or vacated; and 3) a decision is made by the Commonwealth of Kentucky's leaders as to whether a

State Implementation Plan will be developed and submitted to the EPA or whether Kentucky will instead accept provisions of any final Federal Implementation Plan, EKPC cannot state its final plans, including the possible repowering of Dale 3 and 4.

Request 2b. Explain why it would be appropriate to repower any of the Dale units once they have been retired from an accounting standpoint.

Response 2b. The fact that the Dale units have been retired from an accounting standpoint does not foreclose the possibility that those assets could have value or be repurposed at a later date. As noted in Paragraph 14 of the Application, if EKPC sells any of the marketable parts from Dale Units 1 and 2, it would adjust the unamortized balance of the regulatory asset and the amortization expense to reflect the sale. Likewise, if it is cost effective to repower Dale Units 3 and 4, EKPC would adjust the unamortized balance of the regulatory asset and amortization to reflect the reactivation of these Units.

Request 2c. Identify any other possible uses at the Dale Station site and describe any considerations EKPC has had with respect to any other uses.

Response 2c. Given the infrastructure available at the Dale Station, the probable use would be for future natural gas-fired electric generation. EKPC has not had any detailed discussions about any other potential uses.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2015-00302
INITIAL REQUEST FOR INFORMATION RESPONSE

STAFF'S INITIAL REQUEST FOR INFORMATION DATED 10/02/15
REQUEST 3

RESPONSIBLE PERSON: Isaac S. Scott

COMPANY: East Kentucky Power Cooperative, Inc.

Request 3. Refer to the Application, paragraph 13.

Request 3a. For Projects 5 and 10, provide the original cost, accumulated depreciation and monthly depreciation expense for each project as of December 31, 2015.

Response 3a. The requested balances as of December 31, 2015 are:

Project	Original Cost	Accumulated Depreciation	Net Book Balance	Monthly Depreciation Expense
Project 5	\$2,012,723.47	\$1,417,410.92	\$595,312.55	\$14,174.11
Project 10 – Dale Only	\$345,050.48	\$190,879.00	\$154,171.48	\$3,670.75
Totals	\$2,357,773.95	\$1,608,289.92	\$749,484.03	\$17,844.86

Request 3b. Explain why it is appropriate for EKPC to earn a return on Projects 5 and 10 through the environmental surcharge once the Dale Station units have been retired.

Response 3b. EKPC would note that KRS 278.183(1) states,

Notwithstanding any other provision of this chapter, effective January 1, 1993, a utility shall be entitled to the current recovery of its costs of complying with the Federal Clean Air Act as amended and those federal, state, or local environmental requirements which apply to coal combustion wastes and by-products from facilities utilized for production of energy from coal in accordance with the utility's compliance plan as designated in subsection (2) of this section. These costs shall include a reasonable return on construction and other capital expenditures and reasonable operating expenses for any plant, equipment, property, facility, or other action to be used to comply with applicable environmental requirements set forth in this section. Operating expenses include all cost of operating and maintaining environmental facilities, income taxes, property taxes, other applicable taxes, and depreciation expenses as these expenses relate to compliance with the environmental requirements set forth in this section.

The Commission approved Projects 5 and 10 for inclusion in EKPC's environmental compliance plan and recovery through the surcharge mechanism in Case No. 2008-00115.¹ Since 2008, EKPC has earned a return on the net capital expenditures made for these projects. The return on these net capital expenditures has allowed EKPC to recover the interest expense associated with the long-term debt incurred to finance the projects.

The assets associated with Projects 5 and 10 will be fully depreciated in June 2019 and at that time would no longer earn a return as the net capital expenditure would equal zero. As a result of EKPC's compliance with the federally-mandated MATS, the Dale Station Units are expected to be retired early. Absent being allowed to earn a return on the regulatory asset proposed for the net book value associated with Projects 5 and 10

¹ Case No. 2008-00115, *Application of East Kentucky Power Cooperative, Inc. for Approval of an Amendment to Its Environmental Compliance Plan and Environmental Surcharge* (Ky. PSC September 29, 2008).

means that the possible early retirement of those assets will not permit EKPC to complete its recovery of the interest expense associated with the long-term debt used to finance those projects. Consequently, EKPC believes it is reasonable to be allowed to earn a return on the regulatory asset it proposes to be recovered through the environmental surcharge.

In conjunction with EKPC's request to establish a regulatory asset for the Dale Station Units, EKPC has proposed that the regulatory asset be recovered in the same manner as the Dale Station Units were recovered prior to the early retirement. For Projects 5 and 10, if early retirement occurs on December 31, 2015, this means the net book value of those projects would be classified as a regulatory asset to be recovered through the environmental surcharge. The net book value is the net capital expenditure associated with Projects 5 and 10. KRS 278.183(1) provides that a return on capital expenditures associated with compliance actions is a cost EKPC is entitled to recover through the surcharge.

Request 3c. Explain why it is appropriate that EKPC should be able to recover property tax and property insurance through the environmental surcharge once the Dale Station units are retired.

Response 3c. Paragraph 13 of the Application includes this statement concerning property tax and property insurance, "In addition, to the extent that property taxes or property insurance are incurred for Projects 5 and 10, EKPC requests that recovery of

those expenses continue to be permitted through the environmental surcharge.” (emphasis added) In its proposal, EKPC was requesting that if regulatory asset treatment was approved for Projects 5 and 10, that it be permitted to continue recovering through the surcharge costs it incurred just like it had prior to the expected early retirement of the Project 5 and 10 utility plant.

Since the filing of the Application, EKPC has determined that it will not incur property tax on the utility plant that will be part of the proposed regulatory asset. Consequently, EKPC will not be seeking to recover through the environmental surcharge any property tax associated with the regulatory asset related to Projects 5 and 10. Concerning property insurance, as long as the assets at the Dale Station are intact, EKPC expects it will incur property insurance on those assets regardless of whether the assets may have been retired from service. The fact that assets have been reclassified from utility plant in service to retired does not relieve EKPC from the need to maintain adequate property insurance on those assets. If the Commission authorizes the creation of the requested regulatory asset for the Dale Station Units and permits the amortization of that portion of the regulatory asset associated with Projects 5 and 10 through the environmental surcharge, it is reasonable to also permit the recovery of any property insurance costs it incurs associated with Projects 5 and 10. This cost is recognized as recoverable through the surcharge by KRS 278.183(1) as it is a cost to maintain the environmental facilities. In the event assets associated with Projects 5 or 10 are disassembled and/or removed from the Dale Station and the need for property insurance ceases, then the property insurance costs recovered through the environmental surcharge

would be reduced. Likewise, if no property insurance costs are incurred by EKPC for the retired assets, no cost would be included for recovery through the surcharge.

Request 3d. Provide an estimate of property tax and insurance expense that EKPC expects to incur once the Dale Station units are retired, and the period of time that EKPC would continue to incur these costs.

Response 3d. As noted in the response to Request 3c, EKPC has determined there will be no property tax on the regulatory asset for Projects 5 and 10.

The property insurance expense reported in the monthly environmental surcharge filings reflects an allocation of the total property insurance premium based on the ratio of the net book value of the surcharge project assets to the total net book value of all utility plant in service. A reasonable estimate of the annual property insurance expense for Project 5 would be \$972.00. A reasonable estimate of the annual property insurance expense for the Dale portion of Project 10 would be \$213.96. The total estimated annual property insurance expense would be \$1,185.96.

EKPC would expect to incur property insurance expense through June 2019. As noted previously, if any of the assets are disassembled and/or removed from the Dale Station and the need for property insurance ceases, then the property insurance expense would be reduced.

**EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2015-00302
INITIAL REQUEST FOR INFORMATION RESPONSE**

**STAFF'S INITIAL REQUEST FOR INFORMATION DATED 10/02/15
REQUEST 4**

RESPONSIBLE PERSON: Craig A. Johnson

COMPANY: East Kentucky Power Cooperative, Inc.

Request 4. Refer to the Application, paragraph 14.

Request 4a. Explain whether any disassembly of Dale Units 1 and 2 has occurred at the present time.

Response 4a. No disassembly has occurred.

Request 4b. Provide a detailed estimate of total disassembly costs to be incurred.

Response 4b. EKPC has not evaluated or estimated the cost for a total disassembly. The cost of disassembly would be paid by the company that purchased the item. It would be included in the "as is, where is" sales agreement.

Request 4c. Given that EKPC plans to only partially disassemble Dale Units 1 and 2, explain EKPC's plan for the portion of Dale Units 1 and 2 that are not to be disassembled.

Response 4c. EKPC believes the assets that are most marketable are in the turbine/generator sets that were installed in the mid-1990s. All other assets for Dale Units 1 and 2 do not have a high probability of being sold. The equipment that is not sold will remain in place until such time as the building is demolished.

Request 4d. Explain whether EKPC has made any attempts to market parts from Dale Units 1 and 2, and the level of interest that EKPC has received to date regarding the assets of Dale Units 1 and 2.

Response 4d. EKPC has developed marketing material for Dale Units 1 and 2 to include an asset list as well as a profile of the most marketable items. EKPC has approximately fifteen (15) equipment brokers that are currently involved with the marketing of the Smith 1 assets and has made the primary brokers aware of the availability of Dale Units 1 and 2 assets as well. Although several parties have conducted site visits, minimal interest has been generated from parties EKPC considers likely buyers. EKPC plans to further develop marketing efforts utilizing additional equipment brokers and online technology.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2015-00302
INITIAL REQUEST FOR INFORMATION RESPONSE

STAFF'S INITIAL REQUEST FOR INFORMATION DATED 10/02/15
REQUEST 5

RESPONSIBLE PERSON: Isaac S. Scott/Michelle K. Carpenter
COMPANY: East Kentucky Power Cooperative, Inc.

Request 5. Refer to the Application, paragraph 9. Confirm that EKPC is not requesting accrual of any carrying charges associated with the proposed regulatory asset other than those associated with Projects 5 and 10 listed in paragraphs 11 and 13 of the Application.

Response 5. EKPC confirms that it is not requesting accrual of any carrying charges associated with the proposed regulatory asset other than those associated with Projects 5 and 10 as identified in the Application. As EKPC noted in paragraph 9 of the Application, "The RUS USoA clarifies that due to the nonprofit environment in which electric cooperatives operate, full recovery of interest expense on plant related long-term debt equates to full recovery of the rate of return for an investor-owned utility. Therefore, if a cooperative is permitted full recovery of the interest expense incurred on the long-term debt borrowed to finance construction of an abandoned plant, no discounting of the asset is required nor is accrual of the carrying charge permitted."

EKPC is requesting that it be allowed to continue to recover the costs of Projects 5 and 10 after classification as a regulatory asset through the environmental surcharge. A component of the costs is the earning of a return on the unamortized balance of the regulatory asset associated with Projects 5 and 10. As explained in the response to Request 3b, EKPC believes the earning of this return on the capital expenditures associated with Projects 5 and 10 is permitted under KRS 278.183(1). EKPC believes the return has allowed it to recover the interest expense associated with the long-term debt incurred to finance the projects.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2015-00302
INITIAL REQUEST FOR INFORMATION RESPONSE

STAFF'S INITIAL REQUEST FOR INFORMATION DATED 10/02/15
REQUEST 6

RESPONSIBLE PERSON: Michelle K. Carpenter

COMPANY: East Kentucky Power Cooperative, Inc.

Request 6. Refer to the Application, paragraph 15. Explain whether EKPC has requested approval from Rural Utilities Service ("RUS") for the retirement of the Dale Station units. Provide any documentation of such request and any response received from RUS approving or denying EKPC's request.

Response 6. EKPC has not yet requested approval from RUS for regulatory asset treatment of the undepreciated balance of the Dale Station at abandonment. EKPC will request approval from RUS upon receipt of an Order from the Commission granting the establishment of a regulatory asset.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2015-00302
INITIAL REQUEST FOR INFORMATION RESPONSE

STAFF'S INITIAL REQUEST FOR INFORMATION DATED 10/02/15
REQUEST 7

RESPONSIBLE PERSON: Michelle K. Carpenter

COMPANY: East Kentucky Power Cooperative, Inc.

Request 7. Refer to the Application, paragraph 19, where EKPC requests that the Commission approve this request no later than December 31, 2015. Provide the latest date after December 31, 2015, that the Commission could approve EKPC's request in order for EKPC to record the transaction for fiscal year 2015.

Response 7. If the Commission is unable to complete its review and issue an Order by January 31, 2016, for EKPC's normal year-end close process, EKPC requests authorization from the Commission no later than February 29, 2016. Authorization by this date is needed to ensure that EKPC's 2015 annual independent audit is issued timely to meet RUS and other lender loan covenant requirements.