



Big Sandy Rural Electric  
Cooperative Corporation

504 11th Street  
Paintsville, Kentucky 41240-1422  
(606) 789-4095 • Fax (606) 789-5454  
Toll Free (888) 789-RECC (7322)

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NOV - 4 2016

Public Service  
Commission

November 2, 2016

Talina R. Mathews  
Executive Director  
Public Service Commission  
211 Sower Blvd.  
P.O. Box 615  
Frankfort, KY 40602

RE: Public Service Commission Case No. 2016-00335

Dear Ms. Mathews:

Please find enclosed for filing with the Commission in the above-referenced case, an original and eight (8) copies of the responses of Big Sandy Rural Electric Cooperative Corporation to the Commission's Appendix B First Information Requests, contained in the Commission's Order dated October 12, 2016 and the Prepared Testimony of Billy O. Frasure on behalf of Big Sandy RECC.

If you should need any additional information, please do not hesitate to contact me.

Thank you,

David Estep  
President & General Manager

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 PERIOD ENDING )  
JUNE 30, 2016, AND THE PASS THROUGH )  
MECHANISM FOR ITS SIXTEEN MEMBER )  
DISTRIBUTION COOPERATIVES )

**RECEIVED**

NOV - 4 2016  
Public Service  
Commission

CASE NO.  
2016-00335


DIRECT TESTIMONY OF BILLY O. FRASURE  
ON BEHALF OF BIG SANDY RURAL ELECTRIC COOPERATIVE CORPORATION

Filed: November 2, 2016

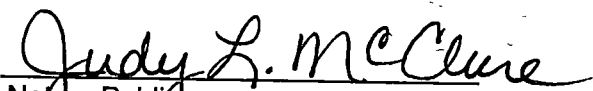
**CERTIFICATE**

**STATE OF KENTUCKY    )**  
**COUNTY OF JOHNSON   )**

Billy O. Frasure, CPA, being duly sworn, states that the testimony filed with this verification and for which he is listed as a witness is true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.

  
\_\_\_\_\_  
Billy O. Frasure, CPA  
Accounting & Finance Manager

Subscribed and sworn before me on this 2<sup>nd</sup> day of November, 2016

  
\_\_\_\_\_  
Notary Public

**Q. In its October 12, 2016 Order the Commission directed that each Member Cooperative file prepared testimony explaining: a) whether it has considered being billed a direct amount for environmental costs based on its monthly purchased power costs or, otherwise, why it has not been considered; b) whether a direct charge for environmental costs would lessen or eliminate the over-/under-recovery amounts that occur from being billed amounts calculated from an environmental surcharge factor; and c) whether being billed a direct amount for environmental costs would cause the environmental surcharge billings to its member customers to be less volatile and result in more timely recovery of environmental costs. Would you address the first question concerning billing the environmental costs as a direct amount?**

**A. Big Sandy has never considered being billed its environmental costs as a direct amount based on its monthly purchased power costs and has not discussed this concept with EKPC. As to why this approach has never been considered, Big Sandy believed that the language of the environmental surcharge statute and the history of the environmental surcharge would not support such an approach. As stated in the direct testimony of Isaac S. Scott on behalf of EKPC, the environmental surcharge statute specifically mentions the approval of a “rate surcharge”. Big Sandy also notes that the environmental surcharge statute was modeled after the Commission’s fuel adjustment clause (“FAC”) regulation.<sup>1</sup> The FAC utilizes a rate mechanism rather than the direct billing of any differences**

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<sup>1</sup> See *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 Period Ending December 31, 2013 and the Pass-Through Mechanism for Its Sixteen Member Distribution Cooperatives*, Order at 8, footnote 16, Case No. 2014-00051, (Ky. P.S.C., Aug. 25, 2015).

between the actual fuel costs incurred for a period and the level of fuel costs incorporated into base rates. Finally, Big Sandy was further aware that all of the environmental surcharges proposed and approved by the Commission utilized rate mechanisms rather than a direct billing approach.

**Q. Would you address the second question concerning whether a direct charge for environmental costs would lessen or eliminate the over-/under-recovery amounts that occur from being billed amounts calculated from an environmental surcharge factor?**

A. Yes. EKPC's surcharge factor is calculated by dividing the monthly environmental costs incurred by EKPC by the 12-month average Member Cooperatives' revenues. Since the 12-month average Member Cooperatives' revenues used to calculate the surcharge factor will not match the Member Cooperatives' revenues for the specific invoice billing period the surcharge factor is applied to, an over- or under-recovery will exist. As Big Sandy understands the suggestion of billing a direct amount for environmental costs based on the monthly purchased power costs, it would appear that approach would eliminate the over-/under-recovery as currently experienced.

However, Big Sandy would note that its monthly power bills from EKPC fluctuate month to month, often significantly, due to load characteristics and customer mix. Assigning environmental costs to the Member Cooperatives based on monthly power bills which fluctuate significantly would result in bill volatility. Big Sandy along with the other Member Cooperatives have had and continue to have serious concerns about bill volatility. Bill volatility can have significant impacts on the Member Cooperatives' monthly margins and in turn the financial measures such as the Times Interest Earned

costs from its members, timing lags especially at the end of the fiscal year could distort annual margins and TIER. To address the bill volatility, Big Sandy and the other Member Cooperatives would seek some modification to the direct bill approach to lessen the volatility. Modifications, like using average monthly power bills as the basis for the assignment of the environmental costs, would result in a new form of over-/under-recovery.

**Q. Would you address the third question concerning whether being billed a direct amount for environmental costs would cause the environmental surcharge billings to the Member Cooperatives' member customer to be less volatile and result in more timely recovery of environmental costs?**

A. Yes. As noted previously, Big Sandy monthly power bills from EKPC fluctuate, sometimes by significant amounts. Each of the Member Cooperatives experience this fluctuation. Assigning EKPC's environmental costs based on the Member Cooperatives' monthly power bills would likely result in fluctuations in the amount of environmental costs assigned to any one Member Cooperative, which would then have to be recovered from the member customers. Thus, Big Sandy believes that rather than lessen volatility, this approach would simply replace the volatility that comes with the surcharge factor approach with volatility resulting from assigning environmental costs recovery on fluctuating monthly power bills.

The utilization of a direct billing approach would not result in more timely recovery of environmental costs from Big Sandy member customers. Once Big Sandy was billed a particular month's environmental costs, it would in turn bill its member customers the

particular month's environmental costs, it would in turn bill its member customers the appropriate share of those costs in conjunction with the appropriate billing cycle. This process would be no different than the current arrangement.

**REQUEST NO. 2:**

This question is addressed to EKPC and the Member Cooperatives. For each of the 16 Member Cooperatives, prepare a summary schedule showing the Member Cooperative's pass-through revenue requirement for the months corresponding with the six-month review. Include a calculation of any additional over- or under-recovery amount the distribution cooperative believes needs to be recognized for the six-month review. Provide the schedule and all supporting calculations and documentation in Excel spreadsheet format with all cells and formulas intact and unprotected.

**RESPONSE:**

Please refer to EKPC's response to request No. 2 of the Commission Staff's First Request for Information dated October 12, 2016.

**WITNESS: BILLY FRASURE**



**REQUEST NO. 7:**

This question is addressed to each of the 16 Member Cooperatives. For your particular Member Cooperative, provide the actual average residential customer's monthly usage for the 12 months ended May 31, 2016. Based on this usage amount, provide the dollar impact any over- or under-recovery will have on the average residential customer's monthly bill for the requested recovery period.

**RESPONSE:**

Please refer to please refer to item 7 page 2 of 4 for the calculation of the dollar impact any over- or under- recovery will have on the average residential customer's monthly bill.

**WITNESS: BILLY FRASURE**



East Kentucky Power Cooperative, Inc. - Distribution Cooperatives  
 Pass Through Mechanism Report for Big Sandy RECC

For the Month Ending June 2016

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Surcharge Factor Expense Month	EKPC CESF %	EKPC BESF %	EKPC MESF %	EKPC Monthly Revenues from Sales to Big Sandy	On-peak Revenue Adjustment	EKPC Net Monthly Sales to Big Sandy	EKPC 12-months Ended Average Monthly Revenue from Sales to Big Sandy	Big Sandy Revenue Requirement	Amortization of (Over)/Under Recovery	Big Sandy Net Revenue Requirement	Big Sandy Total Monthly Retail Revenues	On-Peak Retail Revenue Adjustment	Big Sandy Net Monthly Retail Revenues	12-months ended Avg. Retail Revenues, Net	Big Sandy Pass Through Mechanism Factor
			Col. (1) - Col. (2)			Col. (4) - Col. (5)		Col (3) x Col (7)		Col (8) + Col (9)			Col. (11) - Col. (12)		Col (10) / Col (14)
Jul-14	14.38%	0.00%	14.38%	\$ 1,303,224		\$ 1,303,224	\$ 1,419,541	\$ 204,130	\$ (5,357)	\$ 198,773	\$ 1,868,873		\$ 1,868,873	\$ 2,043,553	9.67%
Aug-14	12.62%	0.00%	12.62%	\$ 1,269,803		\$ 1,269,803	\$ 1,420,326	\$ 179,245	\$ (5,357)	\$ 173,888	\$ 1,867,471		\$ 1,867,471	\$ 2,046,262	8.51%
Sep-14	13.53%	0.00%	13.53%	\$ 1,094,371		\$ 1,094,371	\$ 1,420,776	\$ 192,231	\$ -	\$ 192,231	\$ 1,609,766		\$ 1,609,766	\$ 2,049,668	9.39%
Oct-14	15.57%	0.00%	15.57%	\$ 992,145		\$ 992,145	\$ 1,414,973	\$ 220,311	\$ -	\$ 220,311	\$ 1,625,101		\$ 1,625,101	\$ 2,051,585	10.75%
Nov-14	16.95%	0.00%	16.95%	\$ 1,513,000		\$ 1,513,000	\$ 1,418,260	\$ 240,395	\$ -	\$ 240,395	\$ 2,198,553		\$ 2,198,553	\$ 2,054,206	11.72%
Dec-14	13.88%	0.00%	13.88%	\$ 1,530,031		\$ 1,530,031	\$ 1,405,649	\$ 195,104	\$ -	\$ 195,104	\$ 2,228,327		\$ 2,228,327	\$ 2,035,250	9.50%
Jan-15	13.67%	0.00%	13.67%	\$ 1,816,836		\$ 1,816,836	\$ 1,373,101	\$ 187,703	\$ -	\$ 187,703	\$ 2,697,800		\$ 2,697,800	\$ 1,995,656	9.22%
Feb-15	11.49%	0.00%	11.49%	\$ 1,958,655		\$ 1,958,655	\$ 1,389,717	\$ 159,678	\$ -	\$ 159,678	\$ 2,711,263		\$ 2,711,263	\$ 2,018,908	8.00%
Mar-15	10.90%	0.00%	10.90%	\$ 1,399,911		\$ 1,399,911	\$ 1,367,975	\$ 149,109	\$ -	\$ 149,109	\$ 1,983,832		\$ 1,983,832	\$ 1,992,463	7.39%
Apr-15	14.44%	0.00%	14.44%	\$ 919,116		\$ 919,116	\$ 1,349,602	\$ 194,883	\$ -	\$ 194,883	\$ 1,428,865		\$ 1,428,865	\$ 1,978,798	9.78%
May-15	18.09%	0.00%	18.09%	\$ 966,048		\$ 966,048	\$ 1,335,833	\$ 241,652	\$ -	\$ 241,652	\$ 1,508,652		\$ 1,508,652	\$ 1,963,943	12.21%
Jun-15	18.44%	0.00%	18.44%	\$ 1,160,619		\$ 1,160,619	\$ 1,326,980	\$ 244,695	\$ -	\$ 244,695	\$ 1,658,540		\$ 1,658,540	\$ 1,948,903	12.46%
Jul-15	15.91%	0.00%	15.91%	\$ 1,229,220		\$ 1,229,220	\$ 1,320,813	\$ 210,141	\$ -	\$ 210,141	\$ 1,842,224		\$ 1,842,224	\$ 1,946,683	10.78%
Aug-15	16.25%	0.00%	16.25%	\$ 1,142,908		\$ 1,142,908	\$ 1,310,238	\$ 212,914	\$ (15,067)	\$ 197,847	\$ 1,733,177		\$ 1,733,177	\$ 1,835,492	10.16%
Sep-15	17.07%	0.00%	17.07%	\$ 1,002,256		\$ 1,002,256	\$ 1,302,562	\$ 222,347	\$ (15,067)	\$ 207,280	\$ 1,497,181		\$ 1,497,181	\$ 1,926,110	10.71%
Oct-15	18.51%	0.00%	18.51%	\$ 940,629		\$ 940,629	\$ 1,298,269	\$ 240,310	\$ (15,067)	\$ 225,243	\$ 1,446,071		\$ 1,446,071	\$ 1,911,190	11.69%
Nov-15	18.81%	0.00%	18.81%	\$ 1,133,411		\$ 1,133,411	\$ 1,266,637	\$ 238,254	\$ (15,067)	\$ 223,187	\$ 1,664,288		\$ 1,664,288	\$ 1,866,668	11.68%
Dec-15	18.40%	0.00%	18.40%	\$ 1,218,018		\$ 1,218,018	\$ 1,240,636	\$ 228,277	\$ (15,067)	\$ 213,210	\$ 1,807,365		\$ 1,807,365	\$ 1,831,588	11.42%
Jan-16	16.00%	0.00%	16.00%	\$ 1,745,134		\$ 1,745,134	\$ 1,234,660	\$ 197,546	\$ (15,067)	\$ 182,479	\$ 2,668,528		\$ 2,668,528	\$ 1,829,149	9.96%
Feb-16	10.92%	0.00%	10.92%	\$ 1,394,944		\$ 1,394,944	\$ 1,187,685	\$ 129,695	\$ -	\$ 129,695	\$ 2,072,017		\$ 2,072,017	\$ 1,775,878	7.09%
Mar-16	14.30%	0.00%	14.30%	\$ 1,037,174		\$ 1,037,174	\$ 1,157,456	\$ 165,516	\$ 941	\$ 166,457	\$ 1,648,078		\$ 1,648,078	\$ 1,747,916	9.37%
Apr-16	17.59%	0.00%	17.59%	\$ 876,538		\$ 876,538	\$ 1,153,908	\$ 202,972	\$ 941	\$ 203,913	\$ 1,415,947		\$ 1,415,947	\$ 1,746,839	11.67%
May-16	18.99%	0.00%	18.99%	\$ 896,189		\$ 896,189	\$ 1,148,087	\$ 218,022	\$ 941	\$ 218,963	\$ 1,373,096		\$ 1,373,096	\$ 1,735,543	12.53%
Jun-16	19.60%	0.00%	19.60%	\$ 1,062,374		\$ 1,062,374	\$ 1,139,900	\$ 223,420	\$ 941	\$ 224,361	\$ 1,617,121		\$ 1,617,121	\$ 1,732,091	12.93%

Notes:  
 Big Sandy Total Monthly Retail Revenues in Column (11) Includes demand and energy charges, customer charges, and FAC revenues.  
 Revenues reported in Columns (4), (6), (7), (11), (13), and (14) are net of Green Power Revenues.

East Kentucky Power Cooperative, Inc. - Distribution Cooperatives  
 Pass Through Mechanism Report for Big Sandy RECC

For the Month Ending June 2016

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Surcharge Factor Expense Month	EKPC CESF %	EKPC BESF %	EKPC MESF %	EKPC Monthly Revenues from Sales to Big Sandy	On-peak Revenue Adjustment	EKPC Net Monthly Sales to Big Sandy	EKPC 12-months Ended Average Monthly Revenue from Sales to Big Sandy	Big Sandy Revenue Requirement	Amortization of (Over)/Under Recovery	Big Sandy Net Revenue Requirement	Big Sandy Total Monthly Retail Revenues	On-Peak Retail Revenue Adjustment	Big Sandy Net Monthly Retail Revenues	12-months ended Avg. Retail Revenues, Net	Big Sandy Pass Through Mechanism Factor
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Jun-16	19.60%	0.00%	19.60%	\$ 1,062,374		\$ 1,062,374	\$ 1,139,900	\$ 223,420	\$ (991)	\$ 222,429	\$ 1,617,121		\$ 1,617,121	\$ 1,735,543	12.53%
													\$ 1,617,121	\$ 1,732,091	12.82%

Notes:  
 Big Sandy Total Monthly Retail Revenues In Column (11) Includes demand and energy charges, customer charges, and FAC revenues.  
 Revenues reported in Columns (4), (6), (7), (11), (13), and (14) are net of Green Power Revenues.

**REQUEST 9:**

This question is addressed to the Member Cooperatives. Explain in detail the process by which the environmental surcharge amounts billed by EKPC are recorded and billed to member customers. Include in the response a discussion of timing and accounting methodology.

**RESPONSE:**

Big Sandy records amounts billed by EKPC for environmental surcharge in the accounting month which the billing applies to. Using January 2016 as the example, Big Sandy will be billed environmental surcharge, as part of its monthly power bill from EKPC, within the first week of February 2016 for services rendered during January. The power bill, which includes environmental surcharge, is recorded as an expense in January because it applies to January's services.

Big Sandy bills its members environmental surcharge based on the pass through factor received from EKPC. Continuing with January 2016 as the example, Big Sandy receives the surcharge pass through factor from EKPC. This pass through factor is used when Big Sandy bills its members in February for January's services rendered. Revenue would be recorded in January because this is the month members are being billed for.

WITNESS: BILLY FRASURE

**REQUEST 12:**

This question is addressed to the Member Cooperatives. Refer to your response to Staffs First Request, Item 2.

- A.** Explain how the amounts recorded in the column labelled "EKPC Invoice Month Recorded Member's Books" correspond with EKPC's expense month. For example, EKPC's monthly report for December 2015 indicates that the December 2015 expense month would be billed beginning February 2016 for service rendered in January 2016. Explain in which month the Member Cooperative would reflect its portion of the December 2015 expense billed by EKPC.

**RESPONSE A:**

Like EKPC, Big Sandy would also apply the environmental surcharge factor calculated from the December 2015 expense month in its February billing for services rendered during January. Referring to Item 7 page 3 of 4, EKPC calculates its environmental surcharge factor to be 18.40% and Big Sandy's to be 11.42%. Both EKPC and Big Sandy will apply these factors in February's billing for services rendered in January.

- B.** Explain whether the amounts reported in this column reflect only the actual amount billed by EKPC, or if the amount does or can include adjustments to the billed amount. Explain the adjustments that may be included, if any.

**RESPONSE B:**

Big Sandy confirms the amounts reported in this column reflect the actual amount billed by EKPC.

- C.** Refer to the column labelled "Billed to Retail Consumer & Recorded on Member's Books." confirm that these amounts are the actual environmental surcharge amounts billed and not environmental surcharge amounts actually collected from retail customers.

**RESPONSE C:**

Big Sandy confirms that the amounts expressed in column labelled "Billed to Retail Consumer & Recorded on Member's Books" are the amounts billed to members.

WITNESS: BILLY FRASURE

### REQUEST 13:

This question is addressed to the Member Cooperatives. Refer to the Member Cooperatives Pass through Mechanism Report in EKPC's monthly environmental surcharge report. Provide the revenue month to which the pass through factor (Column 15) calculated for the expense month will be applied.

### RESPONSE

The revenue will be recorded in the month following the expense month. Referring to Item 7 page 3 of 4, Big Sandy would apply its 11.42% surcharge factor, calculated from the December 2015 expense month, when billing consumers for services rendered during January.