



SALT RIVER ELECTRIC

A Touchstone Energy Cooperative 

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PUBLIC SERVICE
COMMISSION

November 3, 2016

Ms. Falina R. Mathews
Executive Director
KY Public Service Commission
PO Box 615
Frankfort KY 40602-0615

Re: Case No. 2016 - 00335
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 the Sixteen Member
Distribution Cooperatives

Dear Ms. Mathews:

Enclosed are the original and eight copies of Salt River Electric Cooperative Corporation's Responses to Commission Staff's Request for Testimony by Order dated October 12, 2016, in the above-named case.

If you have any questions about these responses, please contact this office.

Sincerely,



Tim Sharp
President and CEO

Enclosures

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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NOV 04 2016

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)

CASE NO.
2016-00335

SALT RIVER ELECTRIC COOPERATIVE CORPORATION
RESPONSES TO **TESTIMONY** REQUEST OF COMMISSION STAFF
BY ORDER DATED OCTOBER 12, 2016
TO EAST KENTUCKY POWER COOPERATIVE, INC., AND
ITS SIXTEEN MEMBER DISTRIBUTION COOPERATIVES

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) CASE NO.
BILLING PERIOD ENDING JUNE 30, 2016, AND THE) 2016-00335
PASS-THROUGH MECHANISM FOR ITS SIXTEEN)
MEMBER DISTRIBUTION COOPERATIVES)

SALT RIVER ELECTRIC COOPERATIVE CORPORATION
RESPONSES TO TESTIMONY REQUEST OF COMMISSION STAFF
BY ORDER DATED OCTOBER 12, 2016
TO EAST KENTUCKY POWER COOPERATIVE, INC., AND
ITS SIXTEEN MEMBER DISTRIBUTION COOPERATIVES

The undersigned, Tim Sharp, President and CEO of Salt River Electric Cooperative Corporation, being duly sworn, responds to requests for information herein as follows:

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. Salt River Electric 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, Salt River Electric 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”. Salt River Electric also notes that the environmental surcharge statute was modeled after the Commission’s fuel adjustment clause (“FAC”) regulation.¹ The FAC utilizes a rate mechanism rather than the direct billing of any differences between the actual fuel costs incurred for a period and the level of fuel costs incorporated into base rates. Finally, Salt River Electric 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 Salt River

¹ 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).

Electric 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.

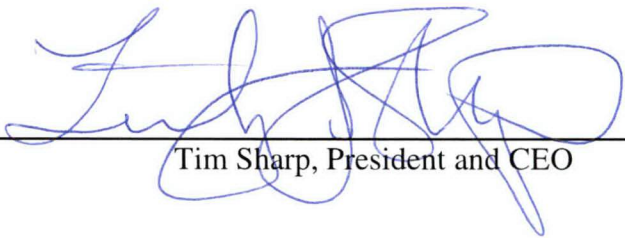
However, Salt River Electric would note that its monthly power bills from EKPC fluctuate month to month, often significantly, due to load characteristics and customer mix. Assigning environmental costs to the Member Cooperatives based on monthly power bills which fluctuate significantly would result in bill volatility. Salt River Electric 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 Ratio ("TIER"). While over time Salt River Electric would recover the EKPC-billed environmental 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, Salt River Electric 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, Salt River Electric's 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, Salt River Electric 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 Salt River Electric's member customers. Once Salt River Electric was billed a 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.

SALT RIVER ELECTRIC COOPERATIVE CORP.



Tim Sharp, President and CEO

STATE OF KENTUCKY
COUNTY OF NELSON

Subscribed and sworn to before me this 2nd day of November, 2016, by Tim Sharp, President and CEO, on behalf of Salt River Electric Cooperative Corporation.



Notary Public KY State at Large
My Commission Expires: December 16, 2018
I.D. No. 433406

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