

Grayson Rural Electric Cooperative Corporation

109 Bagby Park • Grayson, KY 41143-1292
Telephone 606-474-5136 • 1-800-562-3532 • Fax 606-474-5862

RECEIVED

NOV - 7 2016

Public Service
Commission

November 3, 2016

Ms. Talina R. Mathews
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

Dear Ms. Mathews:

Re: PSC Case No. 2016-00335

In accordance with the Commission's Order in the above referenced case, dated October 12, 2016, please find enclosed for filing with the Commission the original plus 7 (seven) copies of the responses in the above referenced case.

If you have any questions about this filing, please feel free to contact me.

Very truly yours,



James Bradley Cherry
Manager of Finance & Accounting

Enclosures

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

In the Matter of:

NOV -7 2016

Public Service
Commission

AN EXAMINATION BY THE PUBLIC SERVICE)	
COMMISSION OF THE ENVIRONMENTAL)	
SURCHARGE MECHANISM OF EAST KENTUCKY)	
POWER COOPERATIVE, INC. FOR THE SIX-)	CASE NO.
MONTH BILLING PERIOD ENDING)	2016-00335
JUNE 30, 2016 AND THE PASS THROUGH)	
MECHANISM FOR ITS SIXTEEN MEMBER)	
DISTRBUTION COOPERATIVES)	

GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION'S RESPONSE TO:

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO
EAST KENTUCKY POWER COOPERATIVE, INC.
AND EACH OF ITS SIXTEEN MEMBER COOPERATIVES

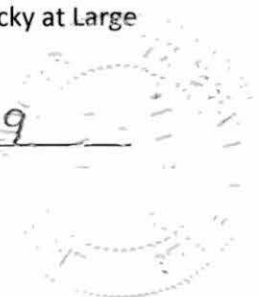
The affiant, James Bradley Cherry, Manager of Finance & Accounting for Grayson Rural Electric Cooperative Corporation, states that the testimony and the data presented in this filing are true and correct to the best of his knowledge and belief.

James Bradley Cherry
James Bradley Cherry

Subscribed and sworn to before me by the affiant, James Bradley Cherry, this 3rd day of November, 2016.

Mausha A. Chamber
Notary Public, State of Kentucky at Large

My Commission expires 1-9-2019



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

PREPARED TESTIMONY OF:

JAMES BRADLEY CHERRY

MANAGER OF FINANCE & ACCOUNTING

GRAYSON RURAL ELECTRIC

109 BAGBY PARK STREET

GRAYSON, KENTUCKY 41143

Q. Please state your name, business address and occupation.

A. My name is James Bradley Cherry, business address is Grayson Rural Electric Cooperative Corporation, 109 Bagby Park Street, Grayson, KY 41143. I am the Manager of Finance & Accounting.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to respond to the information requested in the Commission's Order dated October 12, 2016.

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. Grayson RECC 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. Grayson RECC 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”. Grayson RECC 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. To Grayson’s knowledge, 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 Grayson RECC 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.

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).

However, Grayson RECC 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. Grayson RECC 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 Grayson RECC 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, Grayson RECC 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, Grayson RECC'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, Grayson RECC 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 a more timely recovery of environmental costs from Grayson RECC's member customers. Once Grayson RECC 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 next month's billing cycle. This process would be no different than the current arrangement.

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Request: This question is addressed to EKPC and the Member Cooperatives. For each of the 16 member distributive cooperatives, prepare a summary schedule showing the distribution cooperative's pass-through revenue requirement for the months corresponding with the six-month review utilizing the revised methodology approved in Case No. 2015-00281. Include the two months subsequent to the billing period included in the applicable review period. 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 all supporting calculations and documentation in Excel spreadsheet format with formulas intact and unprotected and all rows and columns fully accessible.

Response: Please see EKPC's response to Request No. 2 of the Commission Staff's First Request for Information dated April 14, 2016. EKPC will be filling the electronic format of this request

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Request: This question is addressed to each of the 16 Member Cooperatives. For your particular distribution cooperative, provide the actual average residential customer's monthly usage for the 12 months ended November 30, 2015. Based on this usage amount, provide the dollar impact and over – or under-recovery will have on the average residential customer's monthly bill for the requested recovery period. Provide all supporting calculations and documentation in

Response: Please see EKPC's response to Request No. 2 of the Commission Staff's First Request for Information dated April 14, 2016 for the calculation of the review period's over- or under-recovery.

The impact of the average residential customer's monthly bill has been determined using the methodology used in previous surcharge reviews. Please see below and accompanying pages for calculation and support.

Impact of Additional Over Recovery

<u>Actual Over Recovery</u>			<u>Additional Recovery</u>
Average Residential Usage per Month	1,105 kwh		
<u>Average Monthly Bill</u>			
Customer Charge		\$ 15.00	\$ 15.00
Kwh Charge @	0.10910	\$ 120.56	0.10910 \$ 120.56
Fuel Adjustment (June 2016) @	(0.004284)	\$ (4.73)	(0.004284) \$ (4.73)
ESC (June 2016)	10.86%	<u>\$ 14.21</u>	10.91% <u>\$ 14.27</u>
 Total Bill Amount		 <u>\$ 145.03</u>	 <u>\$ 145.09</u>
 Dollar Impact			 \$ 0.06

	Total Residential KWH	Y/L Only KWH	Residential KWH	Total Residential Customers	Y/L Only Customers	Residential Customers	Average KWH
June	12,654,272	10,414	12,643,858	12,046	103	11,943	1,059
July	14,416,629	10,404	14,406,225	12,034	103	11,931	1,207
August	11,974,249	10,591	11,963,658	12,021	104	11,917	1,004
September	9,595,464	10,066	9,585,398	12,068	104	11,964	801
October	11,439,620	9,837	11,429,783	11,983	102	11,881	962
November	13,638,784	9,897	13,628,887	12,067	101	11,966	1,139
December	18,443,937	9,895	18,434,042	12,049	102	11,947	1,543
January	20,194,254	10,019	20,184,235	12,017	101	11,916	1,694
February	12,635,950	10,099	12,625,851	12,061	102	11,959	1,056
March	11,745,605	10,107	11,735,498	12,037	106	11,931	984
April	9,285,270	9,979	9,275,291	12,003	105	11,898	780
May	12,330,030	10,381	12,319,649	12,037	104	11,933	1,032
Totals			158,232,375			143,186	1,105

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

Grayson Rural Electric
 2016-00335
 1st Request for Information
 Page 3 of 4
 Witness: James Bradley Cherry

For the Month Ending July 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 Grayson	On-peak Revenue Adjustment	EKPC Net Monthly Sales to Grayson	EKPC 12-months Ended Average Monthly Revenue from Sales to Grayson	Grayson Revenue Requirement	Amortization of (Over)/Under Recovery	Grayson Net Revenue Requirement	Grayson Total Monthly Retail Revenues	On-Peak Retail Revenue Adjustment	Grayson Net Monthly Retail Revenues	12-months ended Avg. Retail Revenues, Net	Grayson 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)
Aug-14	12.62%	0.00%	12.62%	\$ 1,412,686		\$ 1,412,686	\$ 1,471,870	\$ 185,750	\$ 1,319	\$ 187,069	\$ 2,288,218		\$ 2,288,218	\$ 2,481,040	7.56%
Sep-14	13.53%	0.00%	13.53%	\$ 1,233,335		\$ 1,233,335	\$ 1,476,496	\$ 199,770	\$ -	\$ 199,770	\$ 1,902,568		\$ 1,902,568	\$ 2,487,847	8.05%
Oct-14	15.57%	0.00%	15.57%	\$ 1,076,397		\$ 1,076,397	\$ 1,473,451	\$ 229,416	\$ -	\$ 229,416	\$ 2,374,411		\$ 2,374,411	\$ 2,497,688	9.22%
Nov-14	16.95%	0.00%	16.95%	\$ 1,504,627		\$ 1,504,627	\$ 1,476,656	\$ 250,293	\$ -	\$ 250,293	\$ 2,672,532		\$ 2,672,532	\$ 2,475,512	10.02%
Dec-14	13.88%	0.00%	13.88%	\$ 1,562,408		\$ 1,562,408	\$ 1,464,692	\$ 203,299	\$ -	\$ 203,299	\$ 2,902,666		\$ 2,902,666	\$ 2,448,825	8.21%
Jan-15	13.67%	0.00%	13.67%	\$ 1,838,875		\$ 1,838,875	\$ 1,437,870	\$ 196,557	\$ -	\$ 196,557	\$ 3,473,152		\$ 3,473,152	\$ 2,448,284	8.03%
Feb-15	11.49%	0.00%	11.49%	\$ 1,945,197		\$ 1,945,197	\$ 1,452,210	\$ 166,859	\$ -	\$ 166,859	\$ 2,690,132		\$ 2,690,132	\$ 2,442,029	6.82%
Mar-15	10.90%	0.00%	10.90%	\$ 1,426,478		\$ 1,426,478	\$ 1,433,963	\$ 156,302	\$ -	\$ 156,302	\$ 1,996,203		\$ 1,996,203	\$ 2,420,969	6.40%
Apr-15	14.44%	0.00%	14.44%	\$ 1,023,932		\$ 1,023,932	\$ 1,420,272	\$ 205,087	\$ -	\$ 205,087	\$ 1,850,209		\$ 1,850,209	\$ 2,418,998	8.47%
May-15	18.09%	0.00%	18.09%	\$ 1,065,651		\$ 1,065,651	\$ 1,409,514	\$ 254,981	\$ -	\$ 254,981	\$ 2,077,952		\$ 2,077,952	\$ 2,407,237	10.54%
Jun-15	18.44%	0.00%	18.44%	\$ 1,279,488		\$ 1,279,488	\$ 1,399,832	\$ 258,129	\$ -	\$ 258,129	\$ 2,215,422		\$ 2,215,422	\$ 2,393,770	10.72%
Jul-15	15.91%	0.00%	15.91%	\$ 1,383,896		\$ 1,383,896	\$ 1,396,081	\$ 222,116	\$ -	\$ 222,116	\$ 2,435,417		\$ 2,435,417	\$ 2,406,574	9.28%
Aug-15	16.25%	0.00%	16.25%	\$ 1,285,673		\$ 1,285,673	\$ 1,385,496	\$ 225,143	\$ (19,792)	\$ 205,351	\$ 2,116,733		\$ 2,116,733	\$ 2,392,283	8.53%
Sep-15	17.07%	0.00%	17.07%	\$ 1,148,648		\$ 1,148,648	\$ 1,378,439	\$ 235,300	\$ (19,792)	\$ 215,508	\$ 1,800,343		\$ 1,800,343	\$ 2,383,764	9.01%
Oct-15	18.51%	0.00%	18.51%	\$ 1,048,406		\$ 1,048,406	\$ 1,376,107	\$ 254,717	\$ (19,792)	\$ 234,925	\$ 1,984,266		\$ 1,984,266	\$ 2,351,252	9.86%
Nov-15	18.81%	0.00%	18.81%	\$ 1,219,883		\$ 1,219,883	\$ 1,352,378	\$ 254,382	\$ (19,792)	\$ 234,590	\$ 2,250,855		\$ 2,250,855	\$ 2,316,113	9.98%
Dec-15	18.40%	0.00%	18.40%	\$ 1,308,105		\$ 1,308,105	\$ 1,331,186	\$ 244,938	\$ (19,792)	\$ 225,146	\$ 2,829,294		\$ 2,829,294	\$ 2,309,998	9.72%
Jan-16	16.00%	0.00%	16.00%	\$ 1,742,082		\$ 1,742,082	\$ 1,323,120	\$ 211,699	\$ (19,792)	\$ 191,907	\$ 3,021,084		\$ 3,021,084	\$ 2,272,326	8.31%
Feb-16	10.92%	0.00%	10.92%	\$ 1,484,960		\$ 1,484,960	\$ 1,284,767	\$ 140,297	\$ -	\$ 140,297	\$ 2,154,619		\$ 2,154,619	\$ 2,227,700	6.17%
Mar-16	14.30%	0.00%	14.30%	\$ 1,149,580		\$ 1,149,580	\$ 1,261,692	\$ 180,422	\$ (5,096)	\$ 175,326	\$ 1,983,179		\$ 1,983,179	\$ 2,226,614	7.87%
Apr-16	17.59%	0.00%	17.59%	\$ 1,009,598		\$ 1,009,598	\$ 1,260,498	\$ 221,722	\$ (5,096)	\$ 216,626	\$ 1,701,860		\$ 1,701,860	\$ 2,214,252	9.73%
May-16	18.99%	0.00%	18.99%	\$ 1,031,534		\$ 1,031,534	\$ 1,257,654	\$ 238,829	\$ (5,096)	\$ 233,733	\$ 2,058,093		\$ 2,058,093	\$ 2,212,597	10.56%
Jun-16	19.60%	0.00%	19.60%	\$ 1,217,857		\$ 1,217,857	\$ 1,252,519	\$ 245,494	\$ (5,096)	\$ 240,398	\$ 2,260,434		\$ 2,260,434	\$ 2,216,348	10.86%
Jul-16	16.50%	0.00%	16.50%	\$ 1,402,813		\$ 1,402,813	\$ 1,254,095	\$ 206,926	\$ (5,096)	\$ 201,830					9.11%

Notes:
 Grayson 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.

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Feb-16	10.92%	0.00%	10.92%	\$ 1,484,960		\$ 1,484,960	\$ 1,284,767	\$ 140,297	\$ 992	\$ 141,289	\$ 2,154,619		\$ 2,154,619	\$ 2,227,700	6.22%
Mar-16	14.30%	0.00%	14.30%	\$ 1,149,580		\$ 1,149,580	\$ 1,261,692	\$ 180,422	\$ (4,104)	\$ 176,318	\$ 1,983,179		\$ 1,983,179	\$ 2,226,614	7.91%
Apr-16	17.59%	0.00%	17.59%	\$ 1,009,598		\$ 1,009,598	\$ 1,260,498	\$ 221,722	\$ (4,104)	\$ 217,618	\$ 1,701,860		\$ 1,701,860	\$ 2,214,252	9.77%
May-16	18.99%	0.00%	18.99%	\$ 1,031,534		\$ 1,031,534	\$ 1,257,654	\$ 238,829	\$ (4,104)	\$ 234,725	\$ 2,058,093		\$ 2,058,093	\$ 2,212,597	10.60%
Jun-16	19.60%	0.00%	19.60%	\$ 1,217,857		\$ 1,217,857	\$ 1,252,519	\$ 245,494	\$ (4,104)	\$ 241,390	\$ 2,260,434		\$ 2,260,434	\$ 2,216,348	10.91%
Jul-16	16.50%	0.00%	16.50%	\$ 1,402,813		\$ 1,402,813	\$ 1,254,095	\$ 206,926	\$ (4,104)	\$ 202,822					9.15%

Notes:
 Grayson 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.

9

Request: This questions 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: Grayson RECC receives its power bill, including the environmental surcharge, from EKPC around the 5th of each month for the prior month's usage. The amount billed is recorded as an expense on the books for the month when usage occurred. Grayson will then bill its members for the environmental surcharge the following month, recording it as revenue in the following month.

Example:

EKPC will bill Grayson on August 5th the environmental surcharge rate of 19.60% approved by the PSC. The will be recorded as a July expense.

Grayson will bill its members the corresponding environmental surcharge rate of 10.86% approved by the PSC. This will be recorded as August Revenue.

12

Request: This Question is addressed to the Members Cooperatives. Refer to your response to Staff's 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 Member Cooperative would reflect its portion of the December 2015 expense billed by EKPC.

Response: Grayson Rural Electric records the entire power bill, including the Environmental Surcharge, received and billed in February for January usage as a January expense.

b. Explain whether the amounts reported in the 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: Grayson Rural Electric does not make any adjustments to the billed amount.

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: Grayson Rural Electric confirms that this is the amount of environmental surcharge billed, not what was collected.

13

Request: 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 expenses month will be applied

Response: In the June 2016 example below, EKPC will charge the 19.6% on the July Power Bill. The expense will be recorded as a July Expense on Grayson RECC's books.

Grayson RECC will charge its members the corresponding rate of 10.86% on their August bills. This will be recorded as revenue for August.

Factor Expense Month	EKPC CESF %	Mechanism Factor
	Col (10) / Col (14)	
16-Jun	19.60%	10.86%