



**JACKSON ENERGY
COOPERATIVE**

A Touchstone Energy Cooperative 

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NOV -7 2016

Public Service
Commission

November 4, 2016

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

Dear Ms. Mathews:

Enclosed please find an original and eight copies of Jackson Energy Cooperative's response to the Commission Staff's first request for information dated October 16, 2016 in Case No. 2016-00335. The response includes the name of the witness responsible for responding to the questions relating to the information provided. A signed certificate of the person supervising the preparation of the response on behalf of Jackson Energy Cooperative is also included.

If you have any questions, please contact me at 606-364-9213.

Respectfully yours,

JACKSON ENERGY COOPERATIVE

Carol Wright
President & CEO

Enclosure

The undersigned, Carol Wright, President & CEO of Jackson Energy Cooperative Corporation (“Jackson Energy”), responds to PSC request 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. Jackson Energy 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, Jackson Energy 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”. Jackson Energy 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

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*

billing of any differences between the actual fuel costs incurred for a period and the level of fuel costs incorporated into base rates. Finally, Jackson Energy 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 Jackson Energy 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, Jackson Energy 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. Jackson Energy 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 Jackson Energy 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, Jackson Energy 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, Jackson Energy 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, Jackson Energy 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 Jackson Energy's member customers. Once Jackson Energy

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.

STATE OF KENTUCKY)

COUNTY OF JACKSON)


I, Carol Wright, state that I am President & CEO of Jackson Energy Cooperative, that I have personal knowledge of the matters set forth in this response to the Commission's request for information, and that the statements and calculations contained in each are true as I verily believe.

This 3rd day of November 2016.



Carol Wright

SUBSCRIBED AND SWORN to before me by Carol Wright this
3rd day of November, 2016.



Notary Public, KY State at Large

My Commission Expires: 1/19/18

Item #2 This question is addressed to EKPC and the 16 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 see EKPC's response to the Commission Staff's first data request dated October 12, 2016.

Witness: Mark R. Keene

Item #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 of any over- or under-recovery will have on the average residential customer's monthly bill for the requested recovery period.

Response: Actual Average Residential Bill

<u>12-Month Average Residential KWH Usage as of May 31, 2016</u>	<u>1,040</u>
Energy @ \$0.09849	\$102.43
Customer Charge	\$16.44
Fuel Adjustment @ \$-0.00873	(\$0.43)
Environmental Surcharge @ 11.62% (June 2016)*	\$13.76
Local School Tax @ 3.0%	\$3.97
Total Bill Amount	<u>\$136.17</u>

Recovery Period of Six Months

<u>12-Month Average Residential KWH Usage as of May 31, 2016</u>	<u>1,040</u>
Energy @ \$0.09849	\$102.43
Customer Charge	\$16.44
Fuel Adjustment @ \$-0.00873	(\$0.43)
Environmental Surcharge @ 12.34% (June 2016)*	\$14.62
Local School Tax @ 3.0%	\$3.99
Total Bill Amount	<u>\$137.05</u>

Dollar Impact on Average Residential Bill \$0.88

Witness: Mark R. Keene

East Kentucky Power Cooperative, Inc. - Distribution Cooperatives
 Pass Through Mechanism Report for Jackson Energy Cooperative

For the Month Ending May 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 Jackson	On-peak Revenue Adjustment	EKPC Net Monthly Sales to Jackson	EKPC 12-months Ended Average Monthly Revenue from Sales to Jackson	Jackson Revenue Requirement	Amortization of (Over)/Under Recovery	Jackson Net Revenue Requirement	Jackson Total Monthly Retail Revenues	On-Peak Retail Revenue Adjustment	Jackson Net Monthly Retail Revenues	12-months ended Avg. Retail Revenues, Net	Jackson 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)
Jun-14	15.67%	0.00%	15.67%	\$ 4,766,565		\$ 4,766,565	\$ 5,194,796	\$ 814,025	\$ 8,228	\$ 822,253	\$ 7,562,435		\$ 7,562,435	\$ 7,951,257	10.38%
Jul-14	14.38%	0.00%	14.38%	\$ 4,811,312		\$ 4,811,312	\$ 5,205,752	\$ 748,587	\$ 8,228	\$ 756,815	\$ 7,246,034		\$ 7,246,034	\$ 7,934,170	9.52%
Aug-14	12.62%	0.00%	12.62%	\$ 4,852,253		\$ 4,852,253	\$ 5,223,107	\$ 659,156	\$ 8,228	\$ 667,384	\$ 7,374,753		\$ 7,374,753	\$ 7,946,616	8.41%
Sep-14	13.53%	0.00%	13.53%	\$ 4,147,002		\$ 4,147,002	\$ 5,231,687	\$ 707,847	\$ -	\$ 707,847	\$ 6,235,859		\$ 6,235,859	\$ 7,951,307	8.91%
Oct-14	15.57%	0.00%	15.57%	\$ 3,734,161		\$ 3,734,161	\$ 5,211,281	\$ 811,396	\$ -	\$ 811,396	\$ 7,710,570		\$ 7,710,570	\$ 8,044,624	10.20%
Nov-14	16.95%	0.00%	16.95%	\$ 5,554,042		\$ 5,554,042	\$ 5,230,349	\$ 886,544	\$ -	\$ 886,544	\$ 9,269,075		\$ 9,269,075	\$ 8,121,431	11.02%
Dec-14	13.88%	0.00%	13.88%	\$ 5,720,752		\$ 5,720,752	\$ 5,195,069	\$ 721,076	\$ -	\$ 721,076	\$ 10,061,533		\$ 10,061,533	\$ 8,056,013	8.88%
Jan-15	13.67%	0.00%	13.67%	\$ 6,802,584		\$ 6,802,584	\$ 5,090,284	\$ 695,842	\$ -	\$ 695,842	\$ 10,787,529		\$ 10,787,529	\$ 7,980,448	8.64%
Feb-15	11.49%	0.00%	11.49%	\$ 7,235,824		\$ 7,235,824	\$ 5,163,290	\$ 593,262	\$ -	\$ 593,262	\$ 9,953,214		\$ 9,953,214	\$ 8,057,328	7.43%
Mar-15	10.90%	0.00%	10.90%	\$ 5,302,629		\$ 5,302,629	\$ 5,108,150	\$ 556,788	\$ -	\$ 556,788	\$ 6,815,236		\$ 6,815,236	\$ 7,995,724	6.91%
Apr-15	14.44%	0.00%	14.44%	\$ 3,364,239		\$ 3,364,239	\$ 5,038,954	\$ 727,625	\$ -	\$ 727,625	\$ 5,980,797		\$ 5,980,797	\$ 7,982,089	9.10%
May-15	18.09%	0.00%	18.09%	\$ 3,499,526		\$ 3,499,526	\$ 4,982,574	\$ 901,348	\$ -	\$ 901,348	\$ 6,526,180		\$ 6,526,180	\$ 7,960,268	11.29%
Jun-15	18.44%	0.00%	18.44%	\$ 4,365,194		\$ 4,365,194	\$ 4,949,127	\$ 912,619	\$ -	\$ 912,619	\$ 6,785,665		\$ 6,785,665	\$ 7,895,537	11.46%
Jul-15	15.91%	0.00%	15.91%	\$ 4,656,993		\$ 4,656,993	\$ 4,936,267	\$ 785,360	\$ -	\$ 785,360	\$ 7,115,098		\$ 7,115,098	\$ 7,884,626	9.95%
Aug-15	16.25%	0.00%	16.25%	\$ 4,332,791		\$ 4,332,791	\$ 4,892,978	\$ 795,109	\$ 25,237	\$ 820,346	\$ 7,103,856		\$ 7,103,856	\$ 7,862,051	10.40%
Sep-15	17.07%	0.00%	17.07%	\$ 3,886,854		\$ 3,886,854	\$ 4,871,299	\$ 831,531	\$ 25,237	\$ 856,768	\$ 6,208,541		\$ 6,208,541	\$ 7,859,774	10.90%
Oct-15	18.51%	0.00%	18.51%	\$ 3,606,351		\$ 3,606,351	\$ 4,860,648	\$ 899,706	\$ 25,237	\$ 924,943	\$ 3,916,463		\$ 3,916,463	\$ 7,543,599	11.77%
Nov-15	18.81%	0.00%	18.81%	\$ 4,327,534		\$ 4,327,534	\$ 4,758,439	\$ 895,062	\$ 25,237	\$ 920,299	\$ 7,022,154		\$ 7,022,154	\$ 7,356,356	12.20%
Dec-15	18.40%	0.00%	18.40%	\$ 4,601,939		\$ 4,601,939	\$ 4,665,205	\$ 858,398	\$ 25,237	\$ 883,635	\$ 7,313,214		\$ 7,313,214	\$ 7,127,329	12.01%
Jan-16	16.00%	0.00%	16.00%	\$ 6,465,358		\$ 6,465,358	\$ 4,637,103	\$ 741,936	\$ 25,237	\$ 767,173	\$ 10,836,626		\$ 10,836,626	\$ 7,131,420	10.76%
Feb-16	10.92%	0.00%	10.92%	\$ 5,501,049		\$ 5,501,049	\$ 4,492,538	\$ 490,585	\$ -	\$ 490,585	\$ 9,173,166		\$ 9,173,166	\$ 7,066,416	6.88%
Mar-16	14.30%	0.00%	14.30%	\$ 4,066,146		\$ 4,066,146	\$ 4,389,498	\$ 627,698	\$ (8,493)	\$ 619,205	\$ 7,023,523		\$ 7,023,523	\$ 7,083,773	8.76%
Apr-16	17.59%	0.00%	17.59%	\$ 3,438,467		\$ 3,438,467	\$ 4,395,684	\$ 773,201	\$ (8,493)	\$ 764,708	\$ 6,242,422		\$ 6,242,422	\$ 7,105,576	10.80%
May-16	18.99%	0.00%	18.99%	\$ 3,477,503		\$ 3,477,503	\$ 4,393,848	\$ 834,392	\$ (8,493)	\$ 825,899					11.62%

Notes:
 Jackson 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.

APPENDIX B
 ITEM 1
 PAGE 2 OF 3

East Kentucky Power Cooperative, Inc. - Distribution Cooperatives
 Pass Through Mechanism Report for Jackson Energy Cooperative

For the Month Ending May 2016

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
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			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)
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Apr-15	14.44%	0.00%	14.44%	\$ 3,364,239		\$ 3,364,239	\$ 5,038,954	\$ 727,625	\$ -	\$ 727,625	\$ 5,980,797		\$ 5,980,797	\$ 7,982,089	9.10%
May-15	18.09%	0.00%	18.09%	\$ 3,499,526		\$ 3,499,526	\$ 4,982,574	\$ 901,348	\$ -	\$ 901,348	\$ 6,526,180		\$ 6,526,180	\$ 7,960,268	11.29%
Jun-15	18.44%	0.00%	18.44%	\$ 4,365,194		\$ 4,365,194	\$ 4,949,127	\$ 912,619	\$ -	\$ 912,619	\$ 6,785,665		\$ 6,785,665	\$ 7,895,537	11.46%
Jul-15	15.91%	0.00%	15.91%	\$ 4,656,993		\$ 4,656,993	\$ 4,936,267	\$ 785,360	\$ -	\$ 785,360	\$ 7,115,098		\$ 7,115,098	\$ 7,884,626	9.95%
Aug-15	16.25%	0.00%	16.25%	\$ 4,332,791		\$ 4,332,791	\$ 4,892,978	\$ 795,109	\$ 25,237	\$ 820,346	\$ 7,103,856		\$ 7,103,856	\$ 7,862,051	10.40%
Sep-15	17.07%	0.00%	17.07%	\$ 3,886,854		\$ 3,886,854	\$ 4,871,299	\$ 831,531	\$ 25,237	\$ 856,768	\$ 6,208,541		\$ 6,208,541	\$ 7,859,774	10.90%
Oct-15	18.51%	0.00%	18.51%	\$ 3,606,351		\$ 3,606,351	\$ 4,860,648	\$ 899,706	\$ 25,237	\$ 924,943	\$ 3,916,463		\$ 3,916,463	\$ 7,543,599	11.77%
Nov-15	18.81%	0.00%	18.81%	\$ 4,327,534		\$ 4,327,534	\$ 4,758,439	\$ 895,062	\$ 25,237	\$ 920,299	\$ 7,022,154		\$ 7,022,154	\$ 7,356,356	12.20%
Dec-15	18.40%	0.00%	18.40%	\$ 4,601,939		\$ 4,601,939	\$ 4,665,205	\$ 858,398	\$ 76,362	\$ 934,760	\$ 7,313,214		\$ 7,313,214	\$ 7,127,329	12.71%
Jan-16	16.00%	0.00%	16.00%	\$ 6,465,358		\$ 6,465,358	\$ 4,637,103	\$ 741,936	\$ 76,362	\$ 818,298	\$ 10,836,626		\$ 10,836,626	\$ 7,131,420	11.48%
Feb-16	10.92%	0.00%	10.92%	\$ 5,501,049		\$ 5,501,049	\$ 4,492,538	\$ 490,585	\$ 51,125	\$ 541,710	\$ 9,173,166		\$ 9,173,166	\$ 7,066,416	7.60%
Mar-16	14.30%	0.00%	14.30%	\$ 4,066,146		\$ 4,066,146	\$ 4,389,498	\$ 627,698	\$ 42,632	\$ 670,330	\$ 7,023,523		\$ 7,023,523	\$ 7,083,773	9.49%
Apr-16	17.59%	0.00%	17.59%	\$ 3,438,467		\$ 3,438,467	\$ 4,395,684	\$ 773,201	\$ 42,632	\$ 815,833	\$ 6,242,422		\$ 6,242,422	\$ 7,105,576	11.52%
May-16	18.99%	0.00%	18.99%	\$ 3,477,503		\$ 3,477,503	\$ 4,393,848	\$ 834,392	\$ 42,632	\$ 877,024					12.34%

Notes:

Jackson 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.

APPENDIX B
 ITEM 1
 PAGE 3 OF 3

Item #9 This question is addressed to each of the 16 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: Power Bill from EKPC:

Please refer to the worksheet provided in Appendix B, Item 7, Page 2 of 3. That worksheet is for the month ending May 2016. EKPC's CESF % for May 2016 is 18.99%. That percentage will be applied to June usage and the dollar amount will be billed on the June power bill to Jackson Energy. That power bill will be posted to Jackson Energy's books in June 2016.

JEC billing to member customers:

Please refer to the worksheet provided in Appendix B, Item 7, Page 2 of 3. That worksheet is for the month ending May 2016. Jackson's pass through mechanism factor for May 2016 is 11.62%. That percentage will be applied to June usage and the dollar amount will be billed on bills sent out in July 2016 to the member customers. The revenue from the billing will be posted to Jackson Energy's books in June 2016.

Witness: Mark R. Keene

Item #12 This question is addressed to the Member 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 will 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: Jackson Energy would record in January 2016 the purchases from EKPC for usage during January 2016. This January 2016 power bill would be paid to EKPC in February 2016.

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: The amount reported in the column reflect the actual 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: The amounts in the column labelled "Billed to Retail Consumer & Recorded on Member's Books" are the actual amounts billed.

Witness: Mark R. Keene

Item #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 month to which the pass through factor (Column 15) calculated will be applied to the next month. Example: In the report for the Month Ending May 2016, the factor in Column 15 is 11.62%. This percentage will be applied to the June 2016 revenue month.

Witness: Mark R. Keene

STATE OF KENTUCKY)


COUNTY OF JACKSON)

I, Mark R. Keene, state that I am the Manager of Finance, of Jackson Energy Cooperative, that I have personal knowledge of the matters set forth in this response to the Commission's request for information, and that the statements and calculations contained in each are true as I verily believe.

This 3rd day of November 2016


Mark R. Keene

SUBSCRIBED AND SWORN to before me by Mark R. Keene this
3rd day of November, 2016.


Connie Reid 560644
Notary Public, KY State at Large

My Commission Expires: 7-30-2020