

**Goss
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December 14, 2016

RECEIVED

DEC 14 2016

PUBLIC SERVICE
COMMISSION

Dr. Talina R. Mathews, Ph.D.
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602


Re: PSC Case No. 2016-00335

Dear Dr. Mathews:

Please find enclosed for filing with the Commission in the above-referenced case, an original and eight copies of the responses of East Kentucky Power Cooperative, Inc., ("EKPC") to the Commission's Second Request for Information dated November 30, 2016.

Please return a file-stamped copy to my office.

Very truly yours,



David S. Samford

Enclosures

**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)**

**CASE NO.
2016-00335**

**RESPONSES TO COMMISSION STAFF'S SECOND REQUEST FOR
INFORMATION TO EAST KENTUCKY POWER COOPERATIVE, INC.
DATED NOVEMBER 30, 2016**

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 3, 2016 AND THE PASS THROUGH)
 MECHANISM FOR ITS SIXTEEN MEMBER)
 DISTRIBUTION COOPERATIVES)**

CASE NO.
2016-00335

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 Second Request for Information in the above-referenced case dated November 30, 2016, 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.

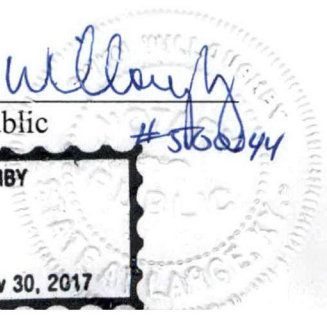
Isaac S. Scott

Subscribed and sworn before me on this 14th day of December, 2016.

Gwyn M. Willoughby

 Notary Public #560044

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



EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2016-00335

PUBLIC SERVICE COMMISSION REQUEST DATED 11/30/16

East Kentucky Power Cooperative, Inc. ("EKPC") hereby submits responses to Staff's Second Request for Information in this case dated November 30, 2016. Each response with its associated supportive reference materials is individually tabbed.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2016-00335
ENVIRONMENTAL SURCHARGE MECHANISM
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 11/30/16
REQUEST 1

RESPONSIBLE PARTY: **Isaac S. Scott**

Request 1. This item is addressed to EKPC. Refer to the memorandum prepared regarding the Informal Conference held at the Commission's offices on November 9, 2016, ("IC Memo") and the attached presentations provided by EKPC.

Request 1a. Explain how the proposed "flat rate" environmental surcharge factor adheres to the plain meaning of KRS 278.183(2), specifically the portion which states: "Recovery of costs pursuant to subsection (1) of this section that are not already included in existing rates shall be by environmental surcharge to existing rates imposed as a positive or negative adjustment to customer bills in the *second month following the month in which costs are incurred.*" (Emphasis added.)

Response 1a. The environmental surcharge is the sum of several components. The environmental costs incurred by EKPC are relatively constant from one month to another and passing them along through a flat rate would be consistent with KRS 278.183. The volatility of

the environmental surcharge arises primarily from other components of the environmental surcharge, and the refund and recovery of prior over- and under-recollections in particular. Those refunds and recoveries are not “costs” in a real sense so much as they are a reconciliation of past over- and under-recoveries.

Under the flat rate methodology, the costs in the environmental surcharge are still being billed as incurred since these have already been approved for inclusion. Neither the current over/under-recovery nor the over/under-recovery resulting from the use of the flat rate creates new costs being incurred, but rather recognizes that the recovery methodology is imperfect and some form of true-up is needed. The actual costs are still being billed in a timely manner and are included in the flat rate, but the use of the flat rate eliminates the currently experienced volatility. If the concern is related to additional costs approved for recovery in the interim between the dates for setting a new flat rate, EKPC could include those costs at interim dates approved and authorized by the Commission, if this were necessary to adhere to the statutory language. However, EKPC favors the annual adjustment as it would be gentler for the Member Cooperatives.

The Commission and its Staff has previously demonstrated flexibility in its interpretation of the fuel adjustment clause (“FAC”) regulation. The environmental surcharge is modeled on the FAC. The FAC provides for a monthly adjustment per kWh of sales equal to the difference between the fuel costs per kWh sale in the based period and current period. While the FAC does not include a “second month following the month in which costs are incurred” provision, it does require the recognition of the difference in current and base period fuel costs.

During the “Polar Vortex” in early 2014, the Commission Staff permitted EKPC to cap its monthly FAC filings at a set rate rather than have the Member Cooperatives and in turn their customers experience significant increases in the FAC for costs incurred associated with the event. During the appropriate six-month and two-year FAC reviews the Commission ordered the charges and credits billed during the periods approved.¹ Also during 2014 the Commission Staff permitted Duke Energy Kentucky to defer certain fuel costs and purchased power expenses over a period of months to provide stability in its FAC and the Commission during the FAC reviews approved those charges and credits.²

EKPC believes it is reasonable for the Commission to approach the environmental surcharge volatility concerns with the same flexibility it has previously demonstrated with the FAC.

Request 1b. Confirm that EKPC proposes the changes to the environmental surcharge mechanism become effective for the March 2017 expense month.

¹ See *In the Matter of An Examination of the Application of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from November 1, 2013 Through April 30, 2014*, Order, Case No. 2014-00226, (Ky. P.S.C. Jan 30, 2015) and *See In the Matter of An Examination of the Application of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from November 1, 2012 Through October 31, 2014*, Order, Case No. 2014-00451, (Ky. P.S.C. Aug. 11, 2015).

² See *In the Matter of An Examination of the Fuel Adjustment Clause of Duke Energy Kentucky, Inc. from November 1, 2013 Through April 30, 2014*, Order, Case No. 2014-00229, (Ky. P.S.C. Jan. 30, 2015) and *See In the Matter of the Fuel Adjustment Clause of Duke Energy Kentucky, Inc. from November 1, 2012 Through October 31, 2014*, Order, Case No. 2014-00454, (Ky. P.S.C. Aug. 11, 2015).

Response 1b. Although originally stating in its direct testimony that the flat rate mechanism should begin with the January 2017 expense month, EKPC confirms that the proposed change to the flat rate mechanism should become effective for the March 2017 expense month, as noted in the November 14, 2016 informal conference memorandum. Using the March 2017 expense month would result in the flat rate surcharge factor appearing on the April power bills. This is typically a low sales month for EKPC, so as the flat rate is reflected in the pass-through surcharge factors for the Member Cooperatives, with the attendant lags, a March expense month effective date would cause less financial disruption at the Member Cooperative level than the originally suggested January expense month.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2016-00335
ENVIRONMENTAL SURCHARGE MECHANISM
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 11/30/16
REQUEST 2

RESPONSIBLE PARTY: Isaac S. Scott

Request 2. This item is addressed to EKPC. Provide proposed tariff sheets reflecting the "flat rate" methodology as proposed by EKPC.

Response 2. Please see the attached pages for a "red-line" and clean version of the tariff sheets reflecting the "flat rate" methodology.

FOR ALL COUNTIES SERVED
 P.S.C. KY NO. 34
~~Third~~ *Fourth* Revised Sheet No. 24
 Canceling P.S.C. No. 34
~~Second~~ *Third* Revised No. 24

EAST KENTUCKY POWER COOPERATIVE, INC.

**Rate ES
 Environmental Surcharge**

(T)

Applicability

Applicable to all sections of this rate schedule and this rate schedule shall apply to each Member System.

Availability

This rate schedule shall apply to EKPC rate sections A, B, C, E, and G and all special contracts with rates subject to adjustment upon the approval of the Commission.

Monthly Billing Rate

The Environmental Surcharge shall *be a flat rate* ~~provide for monthly adjustments~~ based on a percent of revenues equal to the difference between the environmental compliance costs in the base period and in the current period based on the following formula:

$$CESF = \text{Budgeted } E(m) / \text{Budgeted } R(m)$$

$$MESF = CESF - BESF$$

MESF = Monthly Environmental Surcharge Factor

CESF = Current Environmental Surcharge Factor

BESF = Base Environmental Surcharge Factor of 0%

where *budgeted E(m)* is the *annual budgeted* total of each approved environmental compliance plan revenue requirement of environmental costs, *adjusted for the previous year's annual net over- or under-recovery amount.* ~~for the current expense month and~~ *The budgeted R(m)* is the *annual budgeted revenues subject to the surcharge for the same year* ~~revenue for the current expense month as expressed below.~~ *The monthly billing rate shall be calculated and filed with the Commission in conjunction with the March expense month.*

Monthly Over- or Under-Recovery Calculation

Each expense month the total of each approved environmental compliance plan revenue requirement for environmental costs, E(m), will be calculated utilizing the following formula:

Definitions

$$E(m) = [(RB/12)(RORB) + OE - BAS + (\text{Over})\text{Under Recovery Commission adjustments}]$$

where:

DATE OF ISSUE _____
 Month / Date / Year



DATE EFFECTIVE _____
Month / Date / Year

ISSUED BY _____
(Signature of Officer)

TITLE _____
President and Chief Executive Officer

Issued by authority of an Order of the Public Service Commission
of Kentucky in Case No. 2016-00335 dated _____.

FOR ALL COUNTIES SERVED
P.S.C. KY NO. 34
~~Third~~ Fourth Revised Sheet No. 25
Canceling P.S.C. No. 34
~~Second~~ Third Revised No. 25

EAST KENTUCKY POWER COOPERATIVE, INC.

Environmental Surcharge (continued)

(T)

(a) RB is the Environmental Compliance Rate Base *for the expense month*, defined as electric plant in service for applicable environmental projects adjusted for accumulated depreciation, CWIP, cash working capital, spare parts and limestone inventory, emission allowance inventory;

(b) RORB is the Rate of Return on the Environmental Compliance Rate Base, designated as the average cost of debt for environmental compliance plan projects approved by the Commission plus application of a times-interest-earned ratio of 1.50;

(c) OE is the Monthly Pollution Control Operating Expenses *for the expense month*, defined as the average of the twelve month operating and maintenance expense; depreciation expense, property taxes, insurance expense, emission allowance expense, and consulting fees.

(d) BAS is the net proceeds from By-Products and Emission Allowance Sales, and;

(e) ~~(Over) or Under recovery amount~~ *Adjustments* resulting from the amortization of amounts determined by the Commission during six-month and two-year reviews and the one-month "true-up" adjustment.

(2) Total E(m) is multiplied by the Member System Allocation Ratio *for the expense month* to arrive at Net E(m). The Member System Allocation Ratio is based on the ratio of the 12-month total revenue from sales to Member Systems to which the Surcharge will be applied, ending with the current expense month, divided by the 12-month total revenue from sales to Member Systems and off-system sales.

(3) ~~The revenue R(m) is the average monthly revenue, including base revenues and automatic adjustment clause revenues less Environmental Cost Recovery Surcharge revenues, for EKPC for the twelve months ending with the current expense month.~~

(4) The current expense month (m) shall be the second month preceding the month in which the Environmental Surcharge is billed.

The monthly over- or under-recovery amount is calculated by comparing the Net E(m) for the expense month with the corresponding billed surcharge revenues generated by applying the Monthly Billing Rate to Member Systems' bills. The calculation of the current expense month Net E(m) along with the calculation of the previous expense month over- or under-recovery amount will be filed with the Commission pursuant to KRS 278.183(3).

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TITLE _____
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P.S.C. KY NO. 34
Fourth Revised Sheet No. 24
Canceling P.S.C. No. 34
Third Revised No. 24

EAST KENTUCKY POWER COOPERATIVE, INC.

Rate ES
Environmental Surcharge

(T)

Applicability

Applicable to all sections of this rate schedule and this rate schedule shall apply to each Member System.

Availability

This rate schedule shall apply to EKPC rate sections A, B, C, E, and G and all special contracts with rates subject to adjustment upon the approval of the Commission.

Monthly Billing Rate

The Environmental Surcharge shall be a flat rate based on a percent of revenues equal to the difference between the environmental compliance costs in the base period and in the current period based on the following formula:

$CESF = \text{Budgeted } E(y) / \text{Budgeted } R(y)$

$MESF = CESF - BESF$

MESF = Monthly Environmental Surcharge Factor

CESF = Current Environmental Surcharge Factor

BESF = Base Environmental Surcharge Factor of 0%

where budgeted E(y) is the annual budgeted total of each approved environmental compliance plan revenue requirement of environmental costs, adjusted for the previous year's annual net over- or under-recovery amount. The budgeted R(y) is the annual budgeted revenues subject to the surcharge for the same year. The monthly billing rate shall be calculated and filed with the Commission in conjunction with the March expense month.

Monthly Over- or Under-Recovery Calculation

Each expense month the total of each approved environmental compliance plan revenue requirement for environmental costs, E(m), will be calculated utilizing the following formula:

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Fourth Revised Sheet No. 25
Canceling P.S.C. No. 34
Third Revised No. 25

EAST KENTUCKY POWER COOPERATIVE, INC.

Environmental Surcharge (continued)

$$E(m) = [(RB/12)(RORB) + OE - BAS + Commission adjustments]$$

where:

(a) RB is the Environmental Compliance Rate Base for the expense month, defined as electric plant in service for applicable environmental projects adjusted for accumulated depreciation, CWIP, cash working capital, spare parts and limestone inventory, emission allowance inventory;

(b) RORB is the Rate of Return on the Environmental Compliance Rate Base, designated as the average cost of debt for environmental compliance plan projects approved by the Commission plus application of a times-interest-earned ratio of 1.50;

(c) OE is the Monthly Pollution Control Operating Expenses for the expense month, defined as the average of the twelve month operating and maintenance expense; depreciation expense, property taxes, insurance expense, emission allowance expense, and consulting fees.

(d) BAS is the net proceeds from By-Products and Emission Allowance Sales, and;

(e) Adjustments resulting from the amortization of amounts determined by the Commission during six-month and two-year reviews.

Total E(m) is multiplied by the Member System Allocation Ratio for the expense month to arrive at Net E(m). The Member System Allocation Ratio is based on the ratio of the 12-month total revenue from sales to Member Systems to which the Surcharge will be applied, ending with the current expense month, divided by the 12-month total revenue from sales to Member Systems and off-system sales.

The current expense month (m) shall be the second month preceding the month in which the Environmental Surcharge is billed.

The monthly over- or under-recovery amount is calculated by comparing the Net E(m) for the expense month with the corresponding billed surcharge revenues generated by applying the Monthly Billing Rate to Member Systems' bills. The calculation of the current expense month Net E(m) along with the calculation of the previous expense month over- or under-recovery amount will be filed with the Commission pursuant to KRS 278.183(3).

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