COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER COOPERATIVE, INC. FOR APPROVAL OF AN ENVIRONMENTAL COMPLIANCE PLAN AND AUTHORITY TO IMPLEMENT AN ENVIRONMENTAL SURCHARGE	)))))	CASE NO. 2004-00321

COMMISSION STAFF'S THIRD DATA REQUEST
TO EAST KENTUCKY POWER COOPERATIVE, INC.

Pursuant to Administrative Regulation 807 KAR 5:001, Commission Staff requests that East Kentucky Power Cooperative, Inc. ("East Kentucky") file the original and 7 copies of the following information with the Commission with a copy to all parties of record. The information requested herein is due December 23, 2004. Each copy of the information requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure its legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

1. Refer to the Commission Staff's Second Data Request dated November 19, 2004 ("Staff's Second Request"), Item 2(a). East Kentucky contends that Kentucky Utilities Company ("KU") has been allowed to recover costs of emission allowances for

non-coal generating units through its environmental surcharge. East Kentucky states the basis of this understanding "is from a review of KU's monthly environmental surcharge filings and the orders from several environmental surcharge proceedings, as well as through discussion with the current KU regulatory staff."

a. Attached to this data request is KU's ES Form 2.30, the October 2004 expense month inventory of SO_2 emission allowances. Specifically identify which SO_2 emission allowances included in this inventory are associated with non-coal generating units.

b. Provide specific citations to Commission Orders relating to KU's environmental surcharge that permit the inclusion of non-coal generating unit emission allowances to be included for recovery in KU's environmental surcharge.

c. Identify the current KU regulatory staff with whom East Kentucky discussed the treatment of emission allowances associated with both coal generating units and non-coal generating units. Indicate when these discussions were held and provide a summary of each discussion.

d. In referencing KU's environmental surcharge cost recovery of emission allowances related to non-coal generating units, is East Kentucky referring to SO_2 emission allowances or NOx emission allowances? Explain the response.

2. Refer to the Staff's Second Request, Item 4.

a. The response to Item 4(a) did not answer the question. East Kentucky was asked to explain why it had not previously sought the Commission's approval of the depreciation rates proposed in the environmental surcharge application. The letter provided simply states that East Kentucky was implementing the changes in

the depreciation rates, and makes no request of the Commission to approve those proposed rates. Provide the originally requested information.

b. The response to Item 4(c)(4) did not answer the question. East Kentucky was asked whether its 1998 depreciation study had been approved in a previous Commission proceeding. East Kentucky's response only states the depreciation study was submitted to the Commission. Explain in detail why East Kentucky did not submit an application seeking Commission approval of the depreciation rates included in the 1998 depreciation study.

c. The response to Item 4(e) states in part that East Kentucky follows generally accepted accounting principles in decisions on capitalizing versus expensing and that it is subject to an annual audit by an independent accounting firm.

(1) During the last five annual audits, did the independent accounting firm specifically examine East Kentucky's capitalizing versus expensing policies? Explain the response.

(2) During the last five annual audits, did the independent accounting firm's audit report discuss East Kentucky's capitalizing versus expensing policies? If yes, provide excerpts from the applicable annual audit reports.

d. The response to Item 4(g) did not answer the question. East Kentucky was asked if it was seeking the Commission's approval of the depreciation rates used to determine the depreciation expense in this proceeding. East Kentucky states it is seeking Commission approval of its environmental compliance plan and the environmental surcharge tariff utilizing these depreciation rates. Provide the originally requested information.

3. Refer to the Staff's Second Request, Item 6.

a. Provide the source of the July 2004 estimated SO_2 emission allowance price of $500 and the "current" spot price of over $700 per allowance. Include copies of documentation supporting these prices.

b. Provide the spot market clearing price from the Environmental Protection Agency's annual SO_2 emission allowance auction held in March 2004.

c. As of the date of the response to this request, has East Kentucky actually purchased any of the SO_2 emission allowances it will need for 2004 compliance? If yes, provide the price per ton, the quantity, the total cost, and the seller of the allowances.

d. Was East Kentucky aware that in the other authorized environmental surcharge mechanisms, the Commission has only permitted the recovery of actual costs and expenses, rather than estimated amounts? Explain the response.

4. Refer to the Staff's Second Request, Item 9(a). East Kentucky states its belief that it is necessary to mitigate fluctuations in the calculation of the environmental surcharge factor for the benefit of its member systems and the member systems' retail customers. Using the information contained in the Direct Testimony of William A. Bosta, Bosta Exhibit 4, page 2 of 2, line 14, provide a schedule showing East Kentucky's estimate of the monthly operation and maintenance ("O&M") expense for the first full year of the environmental surcharge. Based on this schedule, calculate the following items:

a. The estimated monthly fluctuation in O&M expense.

b. The estimated monthly impact of the O&M expense fluctuation on the environmental surcharge billed to each of the member systems.

c. The estimated monthly impact the fluctuation in the environmental surcharge would have on the pass through billed by the member system to the average retail customer.

5. Refer to the Staff's Second Request, Item 9(b). In its response, East Kentucky states, "While not directly tied to one of the nine projects outlined in Eames Exhibit 1, those incremental O&M costs are considered part of EKPC's Compliance Plan." Explain the basis for East Kentucky's conclusion and explain in detail how O&M costs that are not directly tied to the projects contained in the proposed environmental compliance plan can be considered part of that proposed environmental compliance plan.

6. Refer to the Staff's Second Request, Item 10. East Kentucky's response failed to explain why the listed expenses were appropriate for surcharge recovery. Provide the originally requested information.

7. Refer to the Staff's Second Request, Item 16(d). East Kentucky states that minimizing the fluctuation of the monthly environmental surcharge on its customers is more significant than the timing of the cost recovery. Provide the basis for this opinion.

8. Refer to the Staff's Second Request, Item 18(a). East Kentucky has proposed that it file the member systems' monthly environmental surcharge factors rather than the individual member systems filing their respective monthly surcharge

factors. Explain in detail how each individual member system would approve the proposed factor prior to the actual filing.

9. Refer to Gallatin Steel Company's First Data Request dated November 19, 2004, Item 3, the attachment to the response.

a. Explain why East Kentucky used a rate of return on rate base of 7.58 percent, when the Commission in Case No. 1994-00336[1] stated that the revenue reduction based upon a 1.15X Times Interest Earned Ratio would result in a rate of return on rate base of 8.41 percent.[2]

b. Recalculate the response to Item 3 using a rate of return on rate base of 8.41 percent.

Beth O'Donnell
Executive Director
Public Service Commission
P. O. Box 615
Frankfort, KY 40602

DATED December 10, 2004

cc: All Parties

[1] Case No. 1994-00336, Application of East Kentucky Power Cooperative, Inc. to Adjust Electric Rates, final Order dated July 25, 1995.

[2] Id. at 21.

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ATTACHMENT TO STAFF'S THIRD DATA REQUEST
TO EAST KENTUCKY POWER COOPERATIVE, INC.

Kentucky Utilities Company
Environmental Surcharge Report
ES Form 2.30
Inventory of Emission Allowances
For the Expense Month of October 2004

KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARG E REPORT
Inventory of Emission Allowances

For the Expense Month of October 2004

Vintage Year	Prior Month Allowances	Current Month Allowances	Allowance Inventory in Base Rates	Prior Month Allowance Inventory Balance	Current Month Allowance Inventory Balance	Comments and Explanations
Current Year	129,356	118,968	$ 69,415	$ 4,720,270	$ 4,341,212	
2005		83,343				
2006		83,343				
2007		83,343				
2008		83,343				
2009		83,343				
2010		77,535				
2011		77,535				
2012		77,535				
2013		77,535				
2014		77,535				
2015		77,535				
2016		77,535				
2017		77,535				
2018		77,535				
2019		77,535				
2020		77,535				
2021		77,535				
2022		77,535				
2023		77,535				
2024 - 2033		775,350				

In the "Comments and Explanation" Column, describe any allowance inventory adjustment other than the assignment of allowances by EPA. Inventory adjustments include, but are not limited to, purchases, allowances acquired as part of other purchases, and the sale of allowances.

Determiniation of Monthly Usage -- Current Year Vintage

Monthly Allowance Expense ([current month usage] * $36.49)	$	379,058.12
12 Monthly Ended September 30, 2003 Allowance Expense In Base Rates	$	58,345.76
One Twelfth (1/12) of 12 Months Ended September 30, 2003 Allowance Expense In Base Ra	$	4,862.15
Monthly Expense Included in ECR formula	$	374,195.97