



RECEIVED

NOV 20 2007

PUBLIC SERVICE
COMMISSION

November 20, 2007

HAND DELIVERED

Ms. Elizabeth O'Donnell
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

RE: PSC Case No. 2007-00378

Dear Ms. O'Donnell:

Please find enclosed for filing with the Commission in the above-referenced case, an original and seven copies of the responses of East Kentucky Power Cooperative, Inc., ("EKPC") to the Commission Staff's Second Data Request, dated November 7, 2007.

Very truly yours,

A handwritten signature in cursive script that reads 'Charles A. Lile'.

Charles A. Lile
Corporate Counsel

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 PERIODS ENDING) CASE NO. 2007-00378
 JUNE 30, 2006 AND DECEMBER 31, 2006, FOR)
 THE TWO-YEAR BILLING PERIOD ENDING)
 JUNE 30, 2007, AND THE PASS THROUGH)
 MECHANISM FOR ITS SIXTEEN MEMBER)
 DISTRIBUTION COOPERATIVES)

CERTIFICATE

STATE OF KENTUCKY)
)
 COUNTY OF CLARK)

William A. Bosta, 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 Second Data Requests in the above-referenced case dated November 7, 2007, 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.

William A. Bosta

Subscribed and sworn before me on this 16th day of November, 2007.

Regina S. Duffin
 Notary Public

My Commission expires: December 8, 2009

**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 PERIODS ENDING)
JUNE 30, 2006 AND DECEMBER 31, 2006, FOR)
THE TWO-YEAR BILLING PERIOD ENDING)
JUNE 30, 2007, AND THE PASS THROUGH)
MECHANISM FOR ITS SIXTEEN MEMBER)
DISTRIBUTION COOPERATIVES)**

**CASE NO.
2007-00378**

**RESPONSES TO COMMISSION STAFF'S SECOND DATA REQUEST
TO EAST KENTUCKY POWER COOPERATIVE, INC.
DATED NOVEMBER 7, 2007**

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2007-00378

COMMISSION STAFF'S SECOND REQUEST DATED 11/7/07

East Kentucky Power Cooperative, Inc. (EKPC) hereby submits responses to the Commission Staff's Second Data Request dated November 7, 2007. Each response with its associated supportive reference materials is individually tabbed.

EAST KENTUCKY POWER COOPERATIVE, INC.

**PSC CASE NO. 2007-00378
ENVIRONMENTAL SURCHARGE
SECOND DATA REQUEST RESPONSE**

COMMISSION STAFF'S SECOND DATA REQUEST DATED 11/07/07

REQUEST 1

RESPONSIBLE PARTY: William A. Bosta

REQUEST 1. Refer to the Prepared Testimony of William A. Bosta ("Bosta Testimony"), page 7, and the response to the September 19, 2007 Order, Appendix B, Item 1. On page 7 is the statement, "Movement to a two-month true-up adjustment would exacerbate the factor fluctuation and have a significant effect on the monthly factor." Using the data included in the response to Item 1, prepare an analysis showing the effect of a two-month true-up adjustment for each month included in the surcharge periods under review. Include all calculations, workpapers, and assumptions utilized to prepare the analysis. The analysis should present the following:

REQUEST 1a. A comparison of Kentucky jurisdictional E(m) as filed with Kentucky jurisdictional E(m) reflecting a two-month true-up adjustment.

RESPONSE 1a. Please see Attachment 1(a). Supporting workpapers and calculations are also included in the attachment. An electronic version of the supporting workpapers is also attached. Please note that the analysis begins with the month of March 2006 due to the timing of the two-month lag in the over/under recovery.

REQUEST 1b. A comparison of MESF as filed with MESF reflecting a two-month true-up adjustment.

RESPONSE 1b. Please see Attachment 1(b). As shown at the bottom of the table, the variation in the surcharge factors on an “as filed” basis is less than the variation in the surcharge factors under the “two-month true-up adjustment” approach. This is demonstrated in the statistical information shown at the bottom of the table. For example, the standard deviation on the “as filed” basis of 1.51% is less than the standard deviation of 2.57% under the “two-month true-up” approach. In addition, the variation between the minimum and maximum monthly factors is less under the “as filed” approach.

REQUEST 1c. The monthly change in the MESF as filed compared to the monthly change in the MESF reflecting a two-month true-up adjustment.

RESPONSE 1c. Please see Attachment 1(c). The table shows the month-to-month change in the surcharge factors under the two approaches. The variation in the surcharge factor change under the “as filed” basis is less than the variation in the “two-month true-up” approach. The standard deviation on the “as filed” basis of 1.27% is less than the standard deviation of 2.19% under the “two-month true-up” approach and the variation as measured by the minimum and maximum is also less under the “as filed” approach.

Request 1(a)
Attachment
Page 1 of 4

EKPC Expense Month	E(m) as filed	E(m) reflecting 2-month true-up
Dec-05	\$3,004,645	\$3,004,645 *
Jan-06	\$4,123,192	\$4,123,192 *
Feb-06	\$4,555,810	\$4,555,810 *
Mar-06	\$4,723,473	\$4,091,734
Apr-06	\$4,650,991	\$4,181,903
May-06	\$5,092,557	\$5,001,477
Jun-06	\$5,418,568	\$6,227,556
Jul-06	\$6,778,764	\$7,189,722
Aug-06	\$6,564,644	\$6,768,225
Sep-06	\$5,879,438	\$5,686,449
Oct-06	\$5,192,844	\$4,656,689
Nov-06	\$4,940,973	\$6,147,378
Dec-06	\$4,312,818	\$5,046,913
Jan-07	\$4,823,120	\$5,356,106
Feb-07	\$4,743,633	\$4,071,686
Mar-07	\$4,938,093	\$3,739,327
Apr-07	\$3,741,603	\$2,074,669
May-07	\$4,799,799	\$4,231,482

*Same as filed.

Derivation of (Over)/Under Recovery Reflecting a Two-Month True-Up Adjustment

Line	Description	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06
1	E(m) = RORB + OE - BAS							
2	Rate Base	\$201,467,293	\$213,877,218	\$225,468,192	\$222,292,224	\$219,073,536	\$223,963,732	\$224,733,860
3	Rate Base / 12	\$16,788,941	\$17,823,102	\$18,789,016	\$18,524,352	\$18,256,128	\$18,663,644	\$18,727,822
4	Rate of Return	= 5.66%	5.66%	5.66%	5.66%	5.66%	5.66%	5.66%
5	Return on Rate Base (RORB)	+ \$950,254	\$1,008,788	\$1,063,458	\$1,048,478	\$1,033,297	\$1,056,362	\$1,059,995
6	Operating Expenses (OE)	+ \$2,092,733	\$3,166,597	\$3,550,487	\$3,733,817	\$3,671,803	\$4,091,274	\$4,413,859
7	By-Product and Emission Allowance Sales (BAS)	- \$0	\$0	\$0	\$0	\$0	\$0	\$0
8	Sub-Total E(m)	\$3,042,987	\$4,175,385	\$4,613,945	\$4,782,295	\$4,705,100	\$5,147,636	\$5,473,854
9	Member System Allocation Ratio for the Month (Form 3.0)	98.74%	98.75%	98.74%	98.77%	98.85%	98.93%	98.99%
10 a	Subtotal E(m) = Subtotal E(m) x Member System Allocation Ratio	\$3,004,645	\$4,123,192	\$4,555,810	\$4,723,473	\$4,650,991	\$5,092,557	\$5,418,568
10 b	Refund of Over-Recovery for 1st 6-month period	\$0	\$0	\$0	\$0	\$0	\$0	\$0
10 c	E(m) = Line 10 a + Line 10 b (as filed)	\$3,004,645	\$4,123,192	\$4,555,810	\$4,723,473	\$4,650,991	\$5,092,557	\$5,418,568
11	Adjustment for (Over)/Under Recovery, as applicable	\$0	\$0	\$0	(\$631,739)	(\$469,088)	(\$91,079)	\$808,988
12	E(m) = Subtotal E(m) plus (Over)/Under Recovery Reflecting 2-month true-up (Line 10 c + Line 11)	\$3,004,645	\$4,123,192	\$4,555,810	\$4,091,734	\$4,181,903	\$5,001,477	\$6,227,556
13	R(m) = Average Monthly Wholesale Revenue for the 12 Months Ending with the Current Expense Month (Form 3.0)	\$48,843,728	\$48,879,782	\$49,190,166	\$49,274,342	\$49,406,204	\$49,909,772	\$50,240,968
14	CESF: E(m) / R(m); as a % of Revenue	6.15%	8.44%	9.26%	8.30%	8.46%	10.02%	12.40%
15	BESF	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%
16	MESF - reflecting 2-month true-up	5.64%	7.93%	8.75%	7.79%	7.95%	9.51%	11.89%
17	Authorized Recovery Amount: Line 13 x Line 16	\$2,754,786	\$3,876,167	\$4,304,140	\$3,838,471	\$3,927,793	\$4,746,419	\$5,973,651
18	Revenues Subject to Surcharge (Form 3.0)	\$61,761,349	\$60,044,898	\$54,804,946	\$50,231,072	\$38,889,384	\$44,236,919	\$47,769,068
19	Environmental Surcharge Revenues Billed Previous Month's Ln. 16 x Current Month Ln 18	\$6,645,500	\$3,386,525	\$4,345,255	\$4,395,219	\$3,029,483	\$3,516,835	\$4,542,838
20	Monthly (Over)/Under = Previous Month Line 17 Minus Current Month Line 19	n/a	(\$631,739)	(\$469,088)	(\$91,079)	\$808,988	\$410,958	\$203,581

Line	Description	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06
1	E(m) = RORB + OE - BAS						
2	Rate Base	\$241,461,395	\$237,248,984	\$240,447,221	\$245,713,435	\$249,719,347	\$247,427,188
3	Rate Base / 12	\$20,121,783	\$19,770,749	\$20,037,268	\$20,476,120	\$20,809,946	\$20,618,932
4	Rate of Return	= 5.66%	5.66%	5.66%	5.66%	5.66%	5.66%
5	Return on Rate Base (RORB)	+	\$1,138,893	\$1,134,109	\$1,158,948	\$1,177,843	\$1,167,032
6	Operating Expenses (OE)	+	\$5,370,867	\$5,511,929	\$4,796,929	\$4,082,642	\$3,810,016
7	By-Product and Emission Allowance Sales (BAS)	-	\$0	\$0	\$0	\$0	\$0
8	Sub-Total E(m)	\$6,509,760	\$6,630,953	\$5,931,038	\$5,241,590	\$4,987,859	\$4,338,415
9	Member System Allocation Ratio for the Month (Form 3.0)	99.02%	99.00%	99.13%	99.07%	99.06%	99.41%
10 a	Subtotal E(m) = Subtotal E(m) x Member System Allocation Ratio	\$6,778,764	\$6,564,644	\$5,879,438	\$5,192,844	\$4,940,973	\$4,312,818
10 b	Refund of Over-Recovery for 1st 6-month period	\$0	\$0	\$0	\$0	\$0	\$0
10 c	E(m) = Line 10 a + Line 10 b (as filed)	\$6,778,764	\$6,564,644	\$5,879,438	\$5,192,844	\$4,940,973	\$4,312,818
11	Adjustment for (Over)/Under Recovery, as applicable	\$410,958	\$203,581	(\$192,989)	(\$536,155)	\$1,206,405	\$734,095
12	E(m) = Subtotal E(m) plus (Over)/Under Recovery Reflecting 2-month true-up (Line 10 c + Line 11)	\$7,189,722	\$6,768,225	\$5,686,449	\$4,656,689	\$6,147,378	\$5,046,913
13	R(m) = Average Monthly Wholesale Revenue for the 12 Months Ending with the Current Expense Month (Form 3.0)	\$50,339,256	\$50,511,519	\$49,813,879	\$49,751,990	\$49,316,808	\$48,747,953
14	CESF: E(m) / R(m), as a % of Revenue	14.28%	13.40%	11.42%	9.36%	12.47%	10.35%
15	BESF	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%
16	MESF - Reflecting 2-month true-up	13.77%	12.89%	10.91%	8.85%	11.96%	9.84%
17	Authorized Recovery Amount: Line 13 x Line 16	\$6,931,716	\$5,510,935	\$5,434,694	\$4,403,051	\$5,898,290	\$4,796,799
18	Revenues Subject to Surcharge (Form 3.0)	\$51,864,091	\$54,232,898	\$41,152,290	\$43,085,232	\$43,729,547	\$54,935,088
19	Environmental Surcharge Revenues Billed Previous Month's Ln. 18 x Current Month Ln 18	\$6,166,640	\$7,467,870	\$5,304,530	\$4,700,599	\$3,870,065	\$6,570,237
20	Monthly (Over)/Under = Previous Month Line 17 Minus Current Month Line 19	(\$192,989)	(\$536,155)	\$1,206,405	\$734,095	\$532,986	(\$671,946)

Derivation of (Over)/Under Recovery Reflecting a Two-Month True-Up Adjustment

Derivation of (Over)/Under Recovery Reflecting a Two-Month True-Up Adjustment

Line	Description	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07
1	E(m) = RORB + OE - BAS							
2	Rate Base	\$245,917,021	\$242,621,278	\$239,104,365	\$236,836,385	\$236,087,817	\$234,269,714	\$231,414,182
3	Rate Base / 12	\$20,493,085	\$20,218,440	\$19,925,364	\$19,736,365	\$19,673,985	\$19,522,476	\$19,284,515
4	Rate of Return	= 5.59%	5.59%	5.59%	5.59%	5.59%	5.59%	5.59%
5	Return on Rate Base (RORB)	+	\$1,145,563	\$1,113,828	\$1,103,263	\$1,099,776	\$1,091,306	\$1,078,004
6	Operating Expenses (OE)	+	\$4,149,128	\$4,087,640	\$4,311,306	\$3,114,090	\$4,335,773	\$4,618,430
7	By-Product and Emission Allowance Sales (BAS)	-	\$0	\$0	\$0	\$0	\$0	\$0
8	Sub-Total E(m)	\$5,294,691	\$5,217,851	\$5,425,134	\$4,217,353	\$5,285,585	\$5,427,079	\$5,696,434
9	Member System Allocation Ratio for the Month (Form 3.0)	99.37%	99.31%	99.10%	99.11%	99.10%	99.08%	99.09%
10 a	Subtotal E(m) = Subtotal E(m) x Member System Allocation Ratio	\$5,261,335	\$5,181,848	\$5,376,308	\$4,179,818	\$5,238,014	\$5,377,150	\$5,644,597
10 b	Refund of Over-Recovery for 1st 6-month period	(\$438,215)	(\$438,215)	(\$438,215)	(\$438,215)	(\$438,215)	(\$438,215)	\$0
10 c	E(m) = Line 10 a + Line 10 b (as filed)	\$4,823,120	\$4,743,633	\$4,938,093	\$3,741,603	\$4,799,799	\$4,938,935	\$5,644,597
11	Adjustment for (Over)/Under Recovery, as applicable	\$532,986	(\$671,946)	(\$1,198,766)	(\$1,666,934)	(\$568,317)	\$133,597	(\$194,524)
12	E(m) = Subtotal E(m) plus (Over)/Under Recovery Reflecting 2-month true-up (Line 10 c + Line 11)	\$5,356,106	\$4,071,686	\$3,739,327	\$2,074,669	\$4,231,482	\$5,072,532	\$5,450,073
13	R(m) = Average Monthly Wholesale Revenue for the 12 Months Ending with the Current Expense Month (Form 3.0)	\$48,821,756	\$49,651,179	\$50,218,717	\$51,002,409	\$52,021,546	\$52,172,474	\$52,283,314
14	CESF: E(m) / R(m); as a % of Revenue	10.97%	8.20%	7.45%	4.07%	8.13%	9.72%	10.42%
15	BESF	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%
16	MESF - reflecting 2-month true-up	10.46%	7.69%	6.94%	3.56%	7.62%	9.21%	9.91%
17	Authorized Recovery Amount: Line 13 x Line 16	\$5,106,756	\$3,818,176	\$3,485,179	\$1,815,686	\$3,964,042	\$4,805,085	\$5,181,276
18	Revenues Subject to Surcharge (Form 3.0)	\$ 60,930,533	\$ 64,758,031	\$ 57,041,522	\$ 48,293,685	\$ 56,466,564	\$ 49,580,211	\$ 53,194,171
19	Environmental Surcharge Revenues Billed Previous Month's Ln. 16 x Current Month Ln 18	\$5,995,564	\$6,773,690	\$4,388,493	\$3,351,582	\$2,010,210	\$3,778,012	\$4,899,163
20	Monthly (Over)/Under = Previous Month Line 17 Minus Current Month Line 19	(\$1,198,766)	(\$1,666,934)	(\$568,317)	\$133,597	(\$194,524)	\$186,030	(\$94,098)

EKPC Expense Month	MESF as filed*	MESF reflecting 2-month true-up	
Dec-05	5.64%	5.64%	**
Jan-06	7.93%	7.93%	**
Feb-06	8.75%	8.75%	**
Mar-06	9.08%	7.79%	
Apr-06	8.90%	7.95%	
May-06	9.69%	9.51%	
Jun-06	10.28%	11.89%	
Jul-06	12.96%	13.77%	
Aug-06	12.49%	12.89%	
Sep-06	11.29%	10.91%	
Oct-06	9.93%	8.85%	
Nov-06	9.51%	11.96%	
Dec-06	8.34%	9.84%	
Jan-07	9.37%	10.46%	
Feb-07	9.04%	7.69%	
Mar-07	9.32%	6.94%	
Apr-07	6.83%	3.56%	
May-07	8.72%	7.62%	

*Source: Staff First Request, Item 1

** As Filed.

MEAN	9.72%	9.44%
STD DEV	1.51%	2.57%
MAX	12.96%	13.77%
MIN	6.83%	3.56%
MAX-MIN	6.13%	10.21%

Request 1(c)
Attachment
Page 1 of 1

EKPC Expense Month	Month-to-Month Difference in MESF as filed	Month-to-Month Difference in MESF w/ 2-month True-up	Difference in MESF w/ 2-MO True-up Minus MESF as filed
(1)	(2)	(3)	(4)=(3)-(2)
Dec-05	n/a	n/a	n/a
Jan-06	n/a	n/a	n/a
Feb-06	n/a	n/a	n/a
Mar-06	0.33%	-0.96%	-1.29%
Apr-06	-0.18%	0.16%	0.34%
May-06	0.79%	1.56%	0.77%
Jun-06	0.59%	2.38%	1.79%
Jul-06	2.68%	1.88%	-0.80%
Aug-06	-0.47%	-0.88%	-0.41%
Sep-06	-1.20%	-1.98%	-0.78%
Oct-06	-1.36%	-2.06%	-0.70%
Nov-06	-0.42%	3.11%	3.53%
Dec-06	-1.17%	-2.12%	-0.95%
Jan-07	1.03%	0.62%	-0.41%
Feb-07	-0.33%	-2.77%	-2.44%
Mar-07	0.28%	-0.75%	-1.03%
Apr-07	-2.49%	-3.38%	-0.89%
May-07	1.89%	4.06%	2.17%

MEAN	0.00%	-0.08%	
STD DEV	1.27%	2.19%	
MAX	2.68%	4.06%	
MIN	-2.49%	-3.38%	
MAX-MIN	5.17%	7.44%	

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2007-00378

ENVIRONMENTAL SURCHARGE

SECOND DATA REQUEST RESPONSE

COMMISSION STAFF'S SECOND DATA REQUEST DATED 11/07/07

REQUEST 2

RESPONSIBLE PARTY: William A. Bosta

REQUEST 2. Refer to the Bosta Testimony, page 8.

REQUEST 2a. Indicate how many industrial customers contacted EKPC during the review periods to express the need for more certainty in the surcharge factor.

RESPONSE 2a. During the summer of 2007, representatives from EKPC's Pricing Department discussed this issue with eight industrial customers. EKPC does not have specific records of contacts with industrial customers in other periods, but the number of contacts last summer was not unusual. Representatives from EKPC's Member Systems are also in contact with industrial customers on a routine basis about a number of topics, including the environmental surcharge.

REQUEST 2b. Page 8 includes the following statement, "As a result, deferring the timing of the over recovery and then spreading the over recovery over six months has allowed EKPC to retain this money over time." Does EKPC believe this result is consistent with the purpose of the environmental surcharge? Explain the response.

RESPONSE 2b. The minimization of the fluctuation in the monthly surcharge factor is EKPC's primary reason for requesting that the current six-month recovery methodology continue to be utilized. The purpose of the surcharge is to facilitate the recovery of actual costs incurred in complying with the environmental requirements outlined in KRS278.183. Inherent in any such cost recovery mechanism are leads and lags in recovery, but over time the principle of actual cost recovery is preserved through the over/under recovery component allowed by the Commission. EKPC believes that its existing procedure is consistent with the purpose of the environmental surcharge, in that subject costs are recovered in a just and reasonable manner which reduces the effect of monthly variations in the factors, compared to the two-month true-up approach. EKPC understands that the Commission has approved similar methodologies for other jurisdictional utilities in past periods.

The discussion of the benefits of the longer retention of the over-recovery amount cited in the testimony was a response to Staff First Data Request Appendix B Data Request Item 12b, and was intended to explain that a shorter two-month adjustment period would not necessarily be more beneficial to EKPC's financial situation, in all circumstances. The smoothing effect of a longer adjustment period spreads out the recovery of any under-recovered amounts, as well, so EKPC is not advocating this methodology as a way to retain funds.

EAST KENTUCKY POWER COOPERATIVE, INC.

**PSC CASE NO. 2007-00378
ENVIRONMENTAL SURCHARGE
SECOND DATA REQUEST RESPONSE**

COMMISSION STAFF'S SECOND DATA REQUEST DATED 11/07/07

REQUEST 3

RESPONSIBLE PARTY: William A. Bosta

REQUEST 3. Refer to the Bosta Testimony, page 9. The first reason stated by EKPC for not incorporating a portion of the surcharge into existing base rates is that EKPC and its member systems have experienced several base rate changes during 2007 and avoiding a roll-in at this time would provide some stability to EKPC's rates. Would EKPC agree that if a roll-in were calculated and incorporated into base rates properly, the total bill to the member system after the roll-in would essentially be the same as before the roll-in? Explain the response.

RESPONSE 3. If calculated and rolled-in properly, EKPC agrees that the total bill to the member system after the roll-in should be approximately equal to the total bill prior to the roll-in.