

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)	CASE NO.
TWO-YEAR BILLING PERIOD ENDING)	2009-00317
JUNE 30, 2009, AND THE PASS THROUGH)	
MECHANISM FOR ITS SIXTEEN MEMBER)	
DISTRIBUTION COOPERATIVES)	

O R D E R

On March 17, 2005, the Commission approved East Kentucky Power Cooperative, Inc.'s ("East Kentucky") environmental surcharge application and established a surcharge mechanism.¹ The Commission also approved a mechanism to pass through the environmental surcharge to East Kentucky's 16 member distribution cooperatives.² Pursuant to KRS 278.183(3), the Commission must review and evaluate the past operations of the environmental surcharge at two-year intervals. After hearing, the Commission must disallow improper expenses and, to the extent

¹ Case No. 2004-00321, Application of East Kentucky Power Cooperative, Inc. for Approval of an Environmental Compliance Plan and Authority to Implement an Environmental Surcharge (Ky. PSC Mar. 17, 2005).

² Case No. 2004-00372, Application of Big Sandy RECC, Blue Grass Energy Cooperative Corporation, Clark Energy Cooperative, Cumberland Valley Electric, Farmers RECC, Fleming-Mason Energy, Grayson RECC, Inter-County Energy Cooperative, Jackson Energy Cooperative, Licking Valley RECC, Nolin RECC, Owen Electric Cooperative, Salt River Electric, Shelby Energy Cooperative, South Kentucky RECC and Taylor County RECC for Authority to Pass Through the Environmental Surcharge of East Kentucky Power Cooperative, Inc. (Ky. PSC Mar. 17, 2005).

appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility. Therefore, the Commission hereby initiates the two-year review of the surcharge as billed from July 1, 2007 through June 30, 2009 to the member distribution cooperatives. The Commission also initiates the corresponding review of the pass through mechanism as billed from August 1, 2007 through July 31, 2009 to retail member customers.³

To facilitate this review, a procedural schedule is set forth in Appendix A, attached hereto and incorporated herein. In accordance with that schedule, East Kentucky is to file prepared direct testimony: (a) in support of the reasonableness of the application of its environmental surcharge mechanism during the time period under review; (b) on a proposal to roll-in its environmental surcharge into existing base rates; and (c) in support of the reasonableness of the application of the pass through mechanism during the time period under review. In addition, East Kentucky is to file its response to the information requested in Appendix B, attached hereto and incorporated herein.

³ The Settlement Agreement approved in Case Nos. 2004-00321 and 2004-00372 allows the member distribution cooperatives to pass through the environmental surcharge to their customers at approximately the same time that East Kentucky bills the environmental surcharge to the member distribution cooperatives, thus avoiding a billing lag for the member distribution cooperatives. Therefore, the costs incurred in the months of June 2007 through May 2009 are billed to the member distribution cooperatives in the months of July 2007 through June 2009, with these same costs passed through to the member customers on the bills for August 2007 through July 2009.

Since the approval of its original environmental compliance plan and surcharge mechanism, East Kentucky has sought and been granted one amendment to its original compliance plan and surcharge mechanism.⁴

IT IS HEREBY ORDERED that:

1. The procedural schedule set forth in Appendix A, attached hereto and incorporated herein, shall be followed in this proceeding.

2. East Kentucky shall appear at the Commission's offices, on the date set forth in Appendix A, to submit itself to examination on the application of its environmental surcharge as billed to its member distribution cooperatives from July 1, 2007 through June 30, 2009. East Kentucky shall also submit itself to examination on the application of the pass through mechanism as billed to the distribution cooperatives' member customers from August 1, 2007 through July 31, 2009. At the public hearing, there shall be no opening statements or summaries of testimony.

3. East Kentucky shall, by the date set forth in Appendix A, file its prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism and the application of the pass through mechanism during the period under review.

4. Any party filing testimony shall file an original and ten copies.

5. a. The information requested herein is due on or before September 24, 2009. Responses to requests for information shall be appropriately bound, tabbed

⁴ Case No. 2008-00115, Application of East Kentucky Power Cooperative, Inc. for Approval of an Amendment to Its Environmental Compliance Plan and Environmental Surcharge (Ky. PSC Sept. 29, 2008).

and indexed and shall include the name of the witness responsible for responding to the questions related to the information provided, with copies to all parties of record and seven copies to the Commission.

b. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

c. Any party shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

d. For any request to which a party fails or refuses to furnish all or part of the requested information, that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

6. Within seven days of the Commission's granting intervention to a party, East Kentucky shall provide the party with a copy of its monthly environmental surcharge reports as filed with the Commission for the review period.

7. East Kentucky's monthly environmental surcharge reports and supporting data for the review period shall be incorporated by reference into the record of this case.

8. The case records of Case Nos. 2004-00321, 2004-00372, 2007-00378, 2008-00115 and 2009-00039⁵ shall be incorporated by reference in the record of this case.

9. The Commission does not look favorably upon motions for continuance. Accordingly, motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

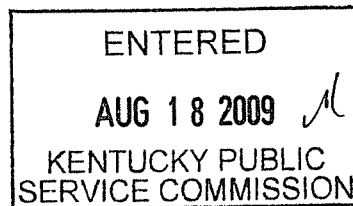
10. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

By the Commission

ATTEST:



Executive Director



⁵ Case No. 2004-00321, Application of East Kentucky Power Cooperative, Inc. for Approval of an Environmental Compliance Plan and Authority to Implement an Environmental Surcharge; Case No. 2004-00372, Application of Big Sandy RECC, Blue Grass Energy Cooperative Corporation, Clark Energy Cooperative, Cumberland Valley Electric, Farmers RECC, Fleming-Mason Energy, Grayson RECC, Inter-County Energy Cooperative, Jackson Energy Cooperative, Licking Valley RECC, Nolin RECC, Owen Electric Cooperative, Salt River Electric, Shelby Energy Cooperative, South Kentucky RECC, and Taylor County RECC for Authority to Pass Through the Environmental Surcharge of East Kentucky Power Cooperative, Inc.; Case No. 2007-00378, 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. 2008-00115, The Application of East Kentucky Power Cooperative, Inc. for Approval of an Amendment to Its Environmental Compliance Plan and Environmental Surcharge; Case No. 2009-00039, 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 December 31, 2007; June 30, 2008; and December 31, 2008; and the Pass-Through Mechanism for Its Sixteen Member Distribution Cooperatives.

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2009-00317 DATED **AUG 18 2009**

East Kentucky shall file its prepared direct testimony and responses to the information requested in Appendix B no later than..... 09/24/2009

An informal technical conference is to begin at 1:30 p.m., Eastern Daylight Time, in Conference Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky for the discussion of issues..... 10/15/2009

All additional requests for information to East Kentucky shall be filed no later than 10/29/2009

East Kentucky shall file responses to additional requests for information no later than 11/09/2009

Intervenor testimony, if any, in verified prepared form, shall be filed no later than..... 11/23/2009

All requests for information to Intervenors shall be filed no later than 12/07/2009

Intervenors shall file responses to requests for information no later than 12/17/2009

Public Hearing is to begin at 10:00 a.m., Eastern Standard Time, in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, for the purpose of cross-examination of witnesses of East Kentucky and Intervenors To be scheduled

Briefs, if any, shall be filed by To be scheduled

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2009-00317 DATED **AUG 18 2009**

DATA REQUEST TO EAST KENTUCKY POWER COOPERATIVE, INC.

1. Prepare a summary schedule showing the calculation of E(m) and the surcharge factor for the expense months covered by the billing period. Form 1.1 can be used as a model for this summary. Include the two expense months subsequent to the billing period in order to show the over- and under-recovery adjustments for the months included for the billing period. Include a calculation of any additional over- or under-recovery amount East Kentucky believes needs to be recognized for the two-year review. Include all supporting calculations and documentation for the additional over- or under-recovery.
2. For each of the 16 member distribution cooperatives, prepare a summary schedule showing the distribution cooperative's pass through revenue requirement for the months corresponding with the two-year review. 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 two-year review. Include all supporting calculations and documentation for the additional over- or under-recovery.
3. Refer to Form 2.3, Inventory and Expense of Emission Allowances, for each of the expense months covered by the billing period under review.

a. For the sulfur dioxide emission allowance inventory, explain the reason(s) for all purchases of allowances reported during these expense months.

b. For the nitrogen oxide emission allowance inventory, explain the reason(s) for all purchases of allowances reported during these expense months.

c. Explain how the purchase of allowances in the expense months covered by the billing period complies with East Kentucky's emissions allowance strategy plan.

4. Refer to Form 2.5, Operating and Maintenance Expenses, for the last six expense months covered by the billing period under review. For each of the ten expense account numbers listed on this schedule, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.

5. Provide the percentage of East Kentucky's debt issuances directly related to projects in the approved compliance plan that have a variable interest rate as of the May 2009 expense month.

6. The Settlement Agreement approved in Case No. 2004-00321 provides that East Kentucky's rate of return on compliance-related capital expenditures will be updated to reflect current average debt cost at the conclusion of the six-month surcharge review. Provide the following information as of May 31, 2009:

a. The debt issuances directly related to projects in the approved compliance plan and corresponding outstanding balances of each debt issuance.

b. The debt cost for each debt issuance directly related to the projects in the approved compliance plan.

c. East Kentucky's calculation of the weighted average debt cost and the rate of return resulting from multiplying the weighted average debt cost by a 1.35 TIER. Include all supporting calculations showing how the weighted average debt cost was determined.

7. KRS 278.183(3) provides that, during the two-year review, the Commission shall, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

a. Provide the surcharge amount that East Kentucky believes should be incorporated into its existing base rates. Include all supporting calculations, workpapers, and assumptions.

b. The surcharge factor reflects a percentage-of-revenue approach, rather than a per-kWh approach. Taking this into consideration, explain how the surcharge amount should be incorporated into East Kentucky's base rates. Include any analysis that East Kentucky believes supports its position.

c. Provide the Base Period Jurisdictional Environmental Surcharge Factor ("BESF") that reflects all environmental surcharge amounts previously incorporated into existing base rates and the amount determined in part (a). Include all supporting calculations, workpapers, and assumptions.

d. Does East Kentucky believe that modifications will be needed to either the surcharge mechanism or the monthly surcharge reports, other than a revision to BESF, as a result of incorporating additional environmental surcharge amounts into East Kentucky's existing base rates? If yes, provide a detailed explanation of the modifications and provide updated monthly surcharge reports.

8. Provide East Kentucky's position concerning the use of the "base/current" approach for the pass through mechanism.

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