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May 19, 2011

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PUBLIC SERVICE
COMMISSION

Mr. Jeff Derouen
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

Re: PSC Case No. 2011-00032

Dear Mr. Derouen:

Please find enclosed for filing with the Commission in the above-referenced case, an original and five copies of the responses of East Kentucky Power Cooperative, Inc., (“EKPC”) to the Commission’s Supplemental Information Requests dated May 4, 2011. All documents contained in this filing are also being filed on behalf of EKPC’s member systems.

Very truly yours,



Mark David Goss
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 PERIOD ENDING)
DECEMBER 31, 2010 AND THE PASS-THROUGH)
MECHANISM FOR ITS SIXTEEN MEMBER)
DISTRIBUTION COOPERATIVES)**

**CASE NO.
2011-00032**

**RESPONSES TO COMMISSION STAFF'S
SUPPLEMENTAL INFORMATION REQUEST
TO EAST KENTUCKY POWER COOPERATIVE, INC.**

DATED MAY 4, 2011

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)
DECEMBER 31, 2010 AND THE PASS-THROUGH)
MECHANISM FOR ITS SIXTEEN MEMBER)
DISTRIBUTION COOPERATIVES)

CASE NO.
2011-00032

CERTIFICATE

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Ann F. Wood, being duly sworn, states that she has supervised the preparation of the responses of East Kentucky Power Cooperative, Inc. to the Public Service Commission Staff's Supplemental Information Request in the above-referenced case dated May 4, 2011, and that the matters and things set forth therein are true and accurate to the best of her knowledge, information and belief, formed after reasonable inquiry.

Ann F. Wood

Subscribed and sworn before me on this 19 day of May, 2011.

Greg M. Wilkey
Notary Public

MY COMMISSION EXPIRES NOVEMBER 30, 2013
NOTARY ID #409352

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2011-00032
ENVIRONMENTAL SURCHARGE
SUPPLEMENTAL INFORMATION REQUEST RESPONSE

**COMMISSION STAFF'S SUPPLEMENTAL INFORMATION REQUEST DATED
05/04/11**

REQUEST 1

RESPONSIBLE PARTY: Ann F. Wood

COMPANY: East Kentucky Power Cooperative, Inc.

Request 1. Refer to the response to Staff's First Information Request, specifically, page 7, lines 8-9 of Ann Wood's Testimony. The testimony indicates that EKPC is requesting to increase its Times Interest Earned Ratio ("TIER") to 1.5, as the TIER authorized by the Commission's Order approving the settlement reached in Case No. 2010-00167, for its rate of return calculation on compliance-related capital expenditures. In previous settlements, EKPC had specified the TIER to be used for environmental compliance-related capital expenditures, specifically in Case Nos. 2008-00115 and 2008-00409. Explain why EKPC did not include a similar provision in the settlement in Case No. 2010-00167, stating that the approved 1.5 TIER would be used for its rate of return on environmental compliance-related capital expenditures.

Response 1. When EKPC first instituted the environmental surcharge mechanism in 2005, it used a 1.15 TIER. In the Application filed in Case No. 2006-00472, EKPC sought a 1.35 TIER. In the December 5, 2007 final Order in Case No. 2006-00472, the Commission found that EKPC's use of a 1.35 TIER was reasonable. During that proceeding, EKPC did not request a corresponding increase in TIER to 1.35 for environmental surcharge purposes. Instead, EKPC requested the TIER increase in its first environmental surcharge compliance plan amendment (Case No. 2008-00115) proceeding.

In the Application filed in Case No. 2008-00409, EKPC sought a 1.45 TIER. The Settlement Agreement reached in this proceeding did not include a specific TIER in support of the agreed-upon revenue increase. Therefore, EKPC included a provision in the Settlement Agreement that allowed EKPC to maintain its use of a 1.35 TIER for environmental surcharge purposes.

In the Application filed in Case No. 2010-00167, EKPC sought a 1.50 TIER. During the settlement discussions in Case No. 2010-00167, EKPC discussed internally whether or not to bring to these discussions the possibility of increasing its environmental surcharge-related TIER to 1.50. Because of other issues impacting the settlement, namely the matters surrounding EKPC's cancellation of its J.K. Smith Unit 1 and corresponding regulatory asset request, EKPC did not bring the environmental surcharge TIER discussion into settlement negotiations. Rather, EKPC made a conscious decision to request the increase in TIER to 1.50, for environmental surcharge purposes, in its next environmental surcharge proceeding. In its January 14, 2011 Order in this proceeding, the Commission found a 1.50 TIER reasonable in light of the findings in the Liberty report.

Case No. 2011-00032, is the first environmental surcharge proceeding where EKPC could request to increase the TIER to 1.50 for environmental surcharge purposes.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2011-00032
ENVIRONMENTAL SURCHARGE
SUPPLEMENTAL INFORMATION REQUEST RESPONSE

**COMMISSION STAFF'S SUPPLEMENTAL INFORMATION REQUEST DATED
05/04/11**

REQUEST 2

RESPONSIBLE PARTY: Ann F. Wood

COMPANY: East Kentucky Power Cooperative, Inc.

Request 2. Provide the dollar impact on the average residential customer's monthly bill if the TIER is increased to 1.5.

Response 2. If the TIER is increased from 1.35 to 1.50, the estimated dollar impact on the average residential customer's monthly bill is \$0.75. EKPC recalculated its January through March 2011 wholesale factors using a 1.50 TIER. EKPC considered changes to its over/under recoveries and environmental surcharge revenues when performing this recalculation. After EKPC determined its wholesale factor change, it then recalculated each member distribution cooperative's pass-through factor. Using the 2010 average member system residential invoice as a basis for comparison, which was sourced from the RUS Form 7s, EKPC proportioned the difference between the factors as filed versus the factors with a 1.50 TIER to determine the increase. This proportional calculation was performed on January through March 2011. The difference between the recalculated average invoice for the three months and the 2010 average invoice was \$0.75.

EKPC also calculated hypothetical residential bills for several member distribution cooperatives using the filed pass-through factor and the recalculated pass-through factor. The increase in these hypothetical residential bills supported the average change of \$0.75.

EKPC's analysis is provided on page 3 of this response.

Environmental Surcharge Rates

Expense Month	Jan-11		Feb-11		Mar-11		Average Invoice w 1.5 Tier			Avg	Impact of 1.5 Tier A-B
	As Filed	with 1.5 Tier	As Filed	with 1.5 Tier	As Filed	with 1.5 Tier	Jan-11	Feb-11	Mar-11	Jan-Mar	
East KY Rate	5.47%	7.10%	6.45%	7.10%	11.59%	12.15%				A	
Pass-Through											
Big Sandy	4.48%	4.91%	4.42%	4.86%	8.04%	8.43%	\$ 134.72	\$ 135.29	\$ 134.65	\$ 134.89	\$ 0.72
Blue Grass	4.65%	5.10%	4.57%	5.02%	8.15%	8.55%	\$ 135.83	\$ 136.42	\$ 135.75	\$ 136.00	\$ 0.75
Clark	4.21%	4.62%	4.20%	4.62%	7.50%	7.86%	\$ 120.64	\$ 121.13	\$ 120.57	\$ 120.78	\$ 0.61
Cumberland Valley	4.85%	5.32%	4.75%	5.22%	8.60%	9.01%	\$ 122.35	\$ 122.89	\$ 122.26	\$ 122.50	\$ 0.70
Farmers	4.51%	4.95%	4.45%	4.89%	8.03%	8.42%	\$ 122.15	\$ 122.67	\$ 122.08	\$ 122.30	\$ 0.66
Fleming-Mason	-4.75%	-3.77%	3.85%	3.85%	12.22%	13.10%	\$ 135.70	\$ 135.70	\$ 135.37	\$ 135.59	\$ 1.27
Grayson	3.96%	4.35%	3.94%	4.33%	7.11%	7.43%	\$ 131.49	\$ 131.98	\$ 131.39	\$ 131.62	\$ 0.62
Inter-County	4.36%	4.78%	4.27%	4.70%	7.60%	7.97%	\$ 133.74	\$ 134.29	\$ 133.66	\$ 133.89	\$ 0.69
Jackson	4.16%	4.56%	4.09%	4.50%	7.42%	7.78%	\$ 143.75	\$ 144.32	\$ 143.68	\$ 143.92	\$ 0.72
Licking Valley	4.25%	4.66%	4.13%	4.55%	7.55%	7.92%	\$ 114.25	\$ 114.71	\$ 114.19	\$ 114.38	\$ 0.58
Nolin	4.77%	5.23%	4.66%	5.12%	8.46%	8.87%	\$ 131.98	\$ 132.56	\$ 131.90	\$ 132.14	\$ 0.74
Owen	-1.42%	-0.67%	4.15%	4.92%	10.11%	10.78%	\$ 118.30	\$ 119.18	\$ 118.12	\$ 118.54	\$ 1.13
Salt River	5.38%	5.86%	4.90%	5.39%	8.97%	9.40%	\$ 124.74	\$ 125.32	\$ 124.66	\$ 124.90	\$ 0.73
Shelby	4.93%	5.41%	4.84%	5.32%	8.67%	9.09%	\$ 132.03	\$ 132.64	\$ 131.94	\$ 132.20	\$ 0.77
South Kentucky	4.72%	5.18%	4.66%	5.13%	8.22%	8.61%	\$ 113.92	\$ 114.43	\$ 113.83	\$ 114.06	\$ 0.64
Taylor County	4.86%	5.34%	4.80%	5.28%	8.71%	9.13%	\$ 107.34	\$ 107.83	\$ 107.26	\$ 107.48	\$ 0.63
Average Residential	3.62%	4.11%	4.42%	4.86%	8.46%	8.90%	\$ 126.43	\$ 126.96	\$ 126.33	\$ 126.57	\$ 0.75
(Avg Rate - not weighted)											0.59%