



LICKING VALLEY
RURAL ELECTRIC COOPERATIVE CORPORATION
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(606) 743-3179



November 01, 2016

Executive Director
Kentucky Public Service Commission
PO Box 615
Frankfort KY 40602-0615

RE: Case No. 2016-00335
Environmental Surcharge

To Whom It May Concern:

Enclosed are the original and eight (8) copies of Licking Valley Rural Electric Cooperative Corporation's response to the above referenced case number in the Commission Staff's First Request for Information dated October 21, 2016 in the above referenced case.

Kerry K. Howard is witness to all responses.

Sincerely

Kerry K. Howard
General Manager/CEO
khoward@lvrecc.com
Fax-606-743-7775

RECEIVED

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PUBLIC SERVICE
COMMISSION

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Exhibit 1. Verification

Exhibit 2. Response to Order Page 2, third paragraph

Exhibit 3. Response to Order Page 3, first paragraph

Exhibit 4. Question 2

Exhibit 5. Question 7

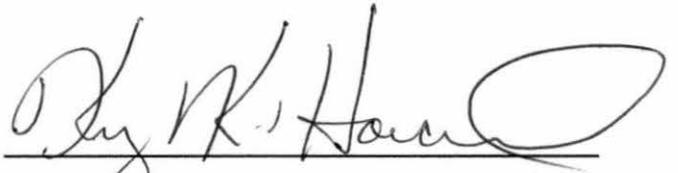
Exhibit 6. Question 9

Exhibit 7. Question 12

Exhibit 8. Question 13

VERIFICATION

The undersigned hereby verifies that the statements and information set forth in the foregoing application are true and correct to the best of my knowledge and belief.



Kerry K. Howard, General Manager/CEO
Licking Valley Rural Electric
Cooperative Corporation

STATE OF KENTUCKY

COUNTY OF Morgan

The foregoing was signed, acknowledged and sworn to before me by **KERRY K. HOWARD, General Manager and CEO of Licking Valley RECC**, this 31st day of October 2016.

My commission expires

05/29/2020



Notary Public, State of Kentucky at Large

556518

(seal)

EKPC Testimony – Responding to Order Page 2, third paragraph

Q. In its October 12, 2016 Order the Commission directed that EKPC file prepared testimony explaining: a) whether it has considered billing its environmental costs as a direct amount based on the monthly wholesale sales to each Member Cooperative or, otherwise, why it has not been considered; b) whether the direct billing of its monthly environmental costs would eliminate the current over-/under-recovery amounts that occur from billing environmental costs based on a factor to its Member Cooperatives; and c) whether billing a direct amount for its environmental costs would result in more timely recovery of EKPC’s environmental costs. Would you address the first question concerning billing the environmental costs as a direct amount?

A. Yes. EKPC understands the suggestion of a “direct amount” to mean that after determining its total monthly environmental costs the total is then assigned to the Member Cooperatives based on the monthly wholesale sales. The assignment is based on the percentage the monthly wholesale sales to an individual Member Cooperative represents of the total monthly wholesale sales. A rate is not determined and applied to the wholesale sales billing. There is no recognition of the customer mix (residential, commercial, industrial) or the load characteristics of each Member Cooperative.¹

To my knowledge EKPC has never considered billing its environmental costs as a direct amount based on the monthly wholesale sales to each Member Cooperative. As to why this approach has never been considered, I would suggest that neither the language of the

¹ Each of the 16 Member Cooperatives has its own unique mix of residential, commercial, and industrial customers. In addition, the load characteristics of the customers and how those customers react or respond to weather and economic conditions vary between the Member Cooperatives. A cost allocation methodology like the direct amount approach which is based on the relative position of one Member Cooperative’s monthly wholesale sales to the total monthly wholesale sales lessens the recognition of the unique customer characteristics of the 16 Member Cooperatives.

environmental surcharge statute nor the history of the environmental surcharge would support such an approach. Although I am not an attorney, the plain and ordinary meaning of the words used in KRS 278.183 suggest that a rate mechanism, and not a direct amount billing concept, are what the General Assembly had in mind when establishing the environmental surcharge. The first sentence of KRS 278.183(2) 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) It is my understanding that the phrase “surcharge to existing rates” requires a rate mechanism rather than the direct billing of an amount. The use of a rate mechanism will assign costs based on the characteristics of the customer rather than the relative position of the Member Cooperative under the direct amount approach. Further, as stated in KRS 278.183(2), within six months of the submittal of a compliance plan the Commission shall conduct a hearing to “(a) [c]onsider and approve the plan and *rate surcharge* if the commission finds the plan and *rate surcharge* reasonable and cost-effective for compliance with the applicable environmental requirements set forth in subsection (1) of this section.” (emphasis added) The statute seems to require a rate mechanism rather than the direct billing of an amount.

In addition, it should also be noted that none of the utilities seeking Commission approval for an environmental surcharge have ever proposed the direct billing of the surcharge amount, but instead all requested a rate mechanism.²

² See *In the Matter of the Application of Kentucky Utilities Company to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with Environmental Requirements for Coal Combustion Wastes and By-Products*,

Further, as the Commission has stated, the environmental surcharge statute was modeled after the Commission's fuel adjustment clause ("FAC") regulation.³ The FAC has been in operation for over 30 years and it utilizes a rate mechanism rather than the direct billing of any differences between the actual fuel costs incurred for a period and the level of fuel costs incorporated into base rates. Finally, over the course of my more than thirty (30) years of professional experience in the fields of utility regulation and rate design, I know that surcharges are normally billed to customers utilizing rate mechanisms rather than as an amount being directly billed. For example, the investor-owned utilities have been approved to utilize rate mechanisms for various other surcharges including Demand Side Management, Home Energy Assistance, and Accelerated Main Replacement programs. I am unaware of any electric utility surcharge in effect in Kentucky that relies upon a direct billing methodology.

Q. Would you now address the second question concerning whether the billing of EKPC's environmental costs as a direct amount would eliminate the current over-/under-recovery amounts resulting from utilizing a surcharge factor?

A. Yes. The current over-/under-recovery occurring from billing the environmental costs using a factor primarily reflects a timing difference. EKPC's surcharge factor is

Order, Case No. 1993-00465, (Ky. P.S.C. Jul. 19, 1994); *See In the Matter of Application of Big Rivers Electric Corporation to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with Environmental Requirements of the Clean Air Act*, Order, Case No. 1994-00032, (Ky. P.S.C. Aug. 31, 1994); *See In the Matter of the Application of Louisville Gas and Electric Company for Approval of Compliance Plan and to Assess a Surcharge Pursuant to KRS 278.183 to Recover Costs of Compliance with Environmental Requirements for Coal Combustion Wastes and By-Products*, Order, Case No. 1994-00332, (Ky. P.S.C. Apr. 6, 1995); *See In the Matter of Application of Kentucky Power Company d/b/a American Electric Power to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with the Clean Air Act and Those Environmental Requirements Which Apply to Coal Combustion Waste and By-Products*, Order, Case No. 1996-00489, (Ky. P.S.C. May 27, 1997); *See 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*, Order, Case No. 2004-00321, (Ky. P.S.C. Mar. 17, 2005); and *See In the Matter of the Application of Big Rivers Electric Corporation for Approval of Environmental Compliance Plan and Environmental Surcharge Tariff*, Order, Case No. 2007-00460, (Ky. P.S.C. Jun. 25, 2008).

³ See Case No. 2014-00051, Order at 8, footnote 16 (Ky. P.S.C. Aug. 25, 2015).

calculated by dividing the monthly environmental costs incurred by EKPC by the 12-month average Member Cooperatives' revenues. Since the 12-month average Member Cooperatives' revenues used to calculate the surcharge factor will not match the Member Cooperatives' revenues for the specific invoice billing period the surcharge factor is applied to, an over- or under-recovery will exist. As I understand the suggestion of billing a direct amount, that approach would eliminate the over-/under-recovery as currently experienced. This is due to the fact that under the direct billed approach the environmental costs are assigned based on the relative position of the Member Cooperative's monthly wholesale sales to the total wholesale sales for the month, rather than applying a surcharge factor based on average revenues.

However, I have concerns about following a direct billed approach to assign EKPC's environmental costs to its Member Cooperatives. As I have already stated, I believe the surcharge statute indicates a rate mechanism should be utilized. But I also do not believe the direct bill approach represents a reasonable methodology to assign environmental costs from a cost-of-service basis. The reference to "monthly wholesale sales" sounds simple and straightforward. But it is unclear whether these sales are referring to kW demand sales, kWh energy sales, demand revenues, energy revenues, or a combination of the demand and energy revenues. EKPC's environmental costs reflect both demand related and energy related costs and the cost assignment approach should recognize and reflect this fact. In addition, as I have previously stated, the direct billed approach does not reflect the unique customer mix or load characteristics of the 16 Member Cooperatives. The methodology utilized to assign EKPC's environmental costs must be fair, just, and reasonable. As I understand the suggested direct bill approach, the

apparently simplicity of the approach fails to recognize basic cost-of-service rate design concepts and would result in the assignment of EKPC's environmental costs in a manner that is not fair, just, or reasonable.

Finally, I believe that billing EKPC's environmental costs as a direct amount based on the monthly wholesale sales to each Member Cooperative would still result in some over-/under-recoveries. The wholesale sales to the Member Cooperatives significantly fluctuate from month to month. Basing the environmental cost assignment on the relative position of a Member Cooperative's wholesale sales to the total monthly wholesale sales would result in bill volatility. As I discuss elsewhere in my testimony, bill volatility is a serious concern of the Member Cooperatives. I can think of no modification to the direct bill approach, for example averaging or levelizing the cost assignment, that could lessen the volatility without creating a new over-/under-recovery situation.

Q. Would you address the third question concerning whether billing a direct amount for EKPC's environmental costs would result in more timely recovery of those environmental costs?

A. Yes. Billing a direct amount for EKPC's environmental costs would not result in more timely recovery of those environmental costs. Under the current surcharge factor approach, the environmental costs incurred in a specific expense month are billed to the Member Cooperatives in the following month. Billing a direct amount for those costs could not occur any sooner.

Concerning the over-/under-recovery of EKPC's environmental costs, this recovery is included in the surcharge factor calculations in the month following the original billing of the environmental costs. As I have previously discussed, a direct billing approach would

likely eliminate the over-/under-recovery currently experienced when utilizing a surcharge factor. Thus, if the over-/under-recovery currently experienced were eliminated, those recoveries in effect would be refunded or collected sooner under the direct billing approach.

However, I should point out that the majority of EKPC's monthly environmental costs are the actual costs and not the monthly over-/under-recovery. So for the majority of EKPC's monthly environmental costs, the direct billing approach would not result in more timely recovery of those costs. As I have already discussed, due to the significant fluctuations in the monthly wholesale sales to the Member Cooperatives, the direct billing approach would introduce another form of bill volatility for the Member Cooperatives. When considering alternatives like the direct billing approach, I believe EKPC has to take into consideration the impacts on its Member Cooperatives as well as itself. While I have not modeled the effects, I do not believe the slightly improved collection or refund of EKPC's over-/under-recoveries using the direct billing approach is a reasonable trade-off for the introduction of another form of bill volatility for the Member Cooperatives.

Suggested Draft Testimony – Responding to October 12, 2016 Order Page 3, first paragraph

Q. In its October 12, 2016 Order the Commission directed that each Member Cooperative file prepared testimony explaining: a) whether it has considered being billed a direct amount for environmental costs based on its monthly purchased power costs or, otherwise, why it has not been considered; b) whether a direct charge for environmental costs would lessen or eliminate the over-/under-recovery amounts that occur from being billed amounts calculated from an environmental surcharge factor; and c) whether being billed a direct amount for environmental costs would cause the environmental surcharge billings to its member customers to be less volatile and result in more timely recovery of environmental costs. Would you address the first question concerning billing the environmental costs as a direct amount?

A. Licking Valley Rural Electric Cooperative Corporation (*Licking Valley RECC*) has never considered being billed its environmental costs as a direct amount based on its monthly purchased power costs and has not discussed this concept with EKPC. As to why this approach has never been considered, *Licking Valley RECC* believed that the language of the environmental surcharge statute and the history of the environmental surcharge would not support such an approach. As stated in the direct testimony of Isaac S. Scott on behalf of EKPC, the environmental surcharge statute specifically mentions the approval of a “rate surcharge”. *Licking Valley RECC* also notes that the environmental surcharge statute was modeled after the Commission’s fuel adjustment clause (“FAC”) regulation.¹

¹ See *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 Period Ending December 31, 2013 and the Pass-Through Mechanism for Its Sixteen Member Distribution Cooperatives*, Order at 8, footnote 16, Case No. 2014-00051, (Ky. P.S.C., Aug. 25, 2015).

The FAC utilizes a rate mechanism rather than the direct billing of any differences between the actual fuel costs incurred for a period and the level of fuel costs incorporated into base rates. Finally, *Licking Valley RECC* was further aware that all of the environmental surcharges proposed and approved by the Commission utilized rate mechanisms rather than a direct billing approach.

Q. Would you address the second question concerning whether a direct charge for environmental costs would lessen or eliminate the over-/under-recovery amounts that occur from being billed amounts calculated from an environmental surcharge factor?

A. Yes. EKPC's surcharge factor is calculated by dividing the monthly environmental costs incurred by EKPC by the 12-month average Member Cooperatives' revenues. Since the 12-month average Member Cooperatives' revenues used to calculate the surcharge factor will not match the Member Cooperatives' revenues for the specific invoice billing period the surcharge factor is applied to, an over- or under-recovery will exist. As *Licking Valley RECC* understands the suggestion of billing a direct amount for environmental costs based on the monthly purchased power costs, it would appear that approach would eliminate the over-/under-recovery as currently experienced.

However, *Licking Valley RECC* would note that its monthly power bills from EKPC fluctuate month to month, often significantly, due to load characteristics and customer mix. Assigning environmental costs to the Member Cooperatives based on monthly power bills which fluctuate significantly would result in bill volatility. *Licking Valley RECC* along with the other Member Cooperatives have had and continue to have serious concerns about bill volatility. Bill volatility can have significant impacts on the Member

Cooperatives' monthly margins and in turn the financial measures such as the Times Interest Earned Ratio ("TIER"). While over time *Licking Valley RECC* would recover the EKPC-billed environmental costs from its members, timing lags especially at the end of the fiscal year could distort annual margins and TIER. To address the bill volatility, *Licking Valley RECC* and the other Member Cooperatives would seek some modification to the direct bill approach to lessen the volatility. Modifications, like using average monthly power bills as the basis for the assignment of the environmental costs, would result in a new form of over-/under-recovery.

Q. Would you address the third question concerning whether being billed a direct amount for environmental costs would cause the environmental surcharge billings to the Member Cooperatives' member customer to be less volatile and result in more timely recovery of environmental costs?

A. Yes. As noted previously, Licking Valley RECC's monthly power bills from EKPC fluctuate, sometimes by significant amounts. Each of the Member Cooperatives experience this fluctuation. Assigning EKPC's environmental costs based on the Member Cooperatives' monthly power bills would likely result in fluctuations in the amount of environmental costs assigned to any one Member Cooperative, which would then have to be recovered from the member customers. Thus, *Licking Valley RECC* believes that rather than lessen volatility, this approach would simply replace the volatility that comes with the surcharge factor approach with volatility resulting from assigning environmental costs recovery on fluctuating monthly power bills.

The utilization of a direct billing approach would not result in more timely recovery of environmental costs from *Licking Valley RECC's* member customers. Once *Licking*

Valley RECC was billed a particular month's environmental costs, it would in turn bill its member customers the appropriate share of those costs in conjunction with the appropriate billing cycle. This process would be no different than the current arrangement.

Question 2. This question is addressed to EKPC and the Member Cooperatives. For each of the 16 Member Cooperatives, prepare a summary schedule showing the Member Cooperative's pass-through revenue requirement for the months corresponding with the six-month review. Include a calculation of any additional over- or under-recovery amount the distribution cooperative believes needs to be recognized for the six-month review. Provide the schedule and all supporting calculations and documentation in Excel spreadsheet format with all cells and formulas intact and unprotected.

Response 2. Please see EKPC's response to the Commission Staff's first data request dated October 12, 2016.

Question 7. This question is addressed to each of the 16 Member Cooperatives. For your particular Member Cooperative, provide the actual average residential customer's monthly usage for the 12 months ended May 31, 2106. Based on this usage amount, provide the dollar impact any over- or under – recovery will have on the average residential customer's monthly bill for the requested recovery period.

Response: See Exhibit 5; Pages 2 - 5

Licking Valley RECC
PSC Case No. 2016-00335
Residential

| Month | Year | Consumers | KWH Sold |
|---------------|------|-----------|-------------|
| June | 2015 | 16189 | 14,294,462 |
| July | 2015 | 16248 | 16,464,343 |
| August | 2015 | 16237 | 14,378,576 |
| September | 2015 | 16224 | 10,635,523 |
| October | 2015 | 16198 | 12,568,898 |
| November | 2015 | 16221 | 16,120,476 |
| December | 2015 | 16207 | 18,000,723 |
| January | 2016 | 16224 | 24,124,292 |
| February | 2016 | 16217 | 17,432,461 |
| March | 2016 | 16212 | 13,769,229 |
| April | 2016 | 16206 | 11,577,375 |
| May | 2016 | 16196 | 12,014,284 |
| Totals | | 194579 | 181,380,642 |
| Averages | | 16215 | 15,115,054 |
| Average Usage | | | 932 |

Actual Average Residential Bill:

12-Month Average Residential KWH usage as of May 31, 2016 932

| | |
|---------------------------------|-------|
| Energy @ 0.09355 | 87.19 |
| Customer Charge | 9.32 |
| Fuel Adjustment @(-.00824) | -7.68 |
| Environmental Surcharge @ .1123 | 9.98 |
| Total | 98.80 |

| | |
|-----------------------------------|-------|
| Energy @ 0.09355 | 87.19 |
| Customer Charge | 9.32 |
| Fuel Adjustment @(-.00824) | -7.68 |
| Environmental Surcharge @ .0.1094 | 9.72 |
| Total | 98.55 |

Dollar Impact on Average Residential Bill -0.26

East Kentucky Power Cooperative, Inc. - Distribution Cooperatives
Pass Through Mechanism Report for Licking Valley RECC

For the Month Ending September 2016

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9)* | (10) | (11) | (12) | (13) | (14) | (15) |
|--------------------------------|-------------|-------------|---------------------|--|----------------------------|--|---|------------------------------------|---------------------------------------|--|--|-----------------------------------|--|---|--|
| Surcharge Factor Expense Month | EKPC CESF % | EKPC BESF % | EKPC MESF % | EKPC Monthly Revenues from Sales to Licking Valley | On-peak Revenue Adjustment | EKPC Net Monthly Sales to Licking Valley | EKPC 12-months Ended Average Monthly Revenue from Sales to Licking Valley | Licking Valley Revenue Requirement | Amortization of (Over)/Under Recovery | Licking Valley Net Revenue Requirement | Licking Valley Total Monthly Retail Revenues | On-Peak Retail Revenue Adjustment | Licking Valley Net Monthly Retail Revenues | 12-months ended Avg. Retail Revenues, Net | Licking Valley Pass Through Mechanism Factor |
| | | | Col. (1) - Col. (2) | | | Col. (4) - Col. (5) | | Col (3) x Col (7) | | Col (8) + Col (9) | | | Col. (11) - Col. (12) | | Col (10) / Col (14) |
| Oct-14 | 15.57% | 0.00% | 15.57% | \$ 1,104,948 | | \$ 1,104,948 | \$ 1,503,149 | \$ 234,040 | \$ - | \$ 234,040 | \$ 1,987,835 | | \$ 1,987,835 | \$ 2,239,948 | 10.46% |
| Nov-14 | 16.95% | 0.00% | 16.95% | \$ 1,582,443 | | \$ 1,582,443 | \$ 1,507,988 | \$ 255,604 | \$ - | \$ 255,604 | \$ 2,551,853 | | \$ 2,551,853 | \$ 2,250,852 | 11.41% |
| Dec-14 | 13.88% | 0.00% | 13.88% | \$ 1,631,248 | | \$ 1,631,248 | \$ 1,497,394 | \$ 207,838 | \$ - | \$ 207,838 | \$ 2,794,099 | | \$ 2,794,099 | \$ 2,244,364 | 9.23% |
| Jan-15 | 13.67% | 0.00% | 13.67% | \$ 1,879,903 | | \$ 1,879,903 | \$ 1,468,123 | \$ 200,692 | \$ - | \$ 200,692 | \$ 2,748,085 | | \$ 2,748,085 | \$ 2,197,651 | 8.94% |
| Feb-15 | 11.49% | 0.00% | 11.49% | \$ 1,994,259 | | \$ 1,994,259 | \$ 1,483,176 | \$ 170,417 | \$ - | \$ 170,417 | \$ 2,719,528 | | \$ 2,719,528 | \$ 2,220,714 | 7.75% |
| Mar-15 | 10.90% | 0.00% | 10.90% | \$ 1,480,069 | | \$ 1,480,069 | \$ 1,465,609 | \$ 159,751 | \$ - | \$ 159,751 | \$ 1,896,768 | | \$ 1,896,768 | \$ 2,195,221 | 7.19% |
| Apr-15 | 14.44% | 0.00% | 14.44% | \$ 998,760 | | \$ 998,760 | \$ 1,446,719 | \$ 208,906 | \$ - | \$ 208,906 | \$ 1,636,504 | | \$ 1,636,504 | \$ 2,186,395 | 9.52% |
| May-15 | 18.09% | 0.00% | 18.09% | \$ 1,041,644 | | \$ 1,041,644 | \$ 1,431,353 | \$ 258,932 | \$ - | \$ 258,932 | \$ 1,733,361 | | \$ 1,733,361 | \$ 2,165,057 | 11.84% |
| Jun-15 | 18.44% | 0.00% | 18.44% | \$ 1,260,035 | | \$ 1,260,035 | \$ 1,418,768 | \$ 261,621 | \$ - | \$ 261,621 | \$ 1,781,594 | | \$ 1,781,594 | \$ 2,139,856 | 12.08% |
| Jul-15 | 15.91% | 0.00% | 15.91% | \$ 1,376,996 | | \$ 1,376,996 | \$ 1,415,372 | \$ 225,186 | \$ - | \$ 225,186 | \$ 2,180,772 | | \$ 2,180,772 | \$ 2,144,154 | 10.52% |
| Aug-15 | 16.25% | 0.00% | 16.25% | \$ 1,280,555 | | \$ 1,280,555 | \$ 1,403,818 | \$ 228,120 | \$ (15,564) | \$ 212,556 | \$ 1,963,598 | | \$ 1,963,598 | \$ 2,138,547 | 9.91% |
| Sep-15 | 17.07% | 0.00% | 17.07% | \$ 1,132,023 | | \$ 1,132,023 | \$ 1,396,907 | \$ 238,452 | \$ (15,564) | \$ 222,888 | \$ 1,554,710 | | \$ 1,554,710 | \$ 2,129,059 | 10.42% |
| Oct-15 | 18.51% | 0.00% | 18.51% | \$ 1,054,697 | | \$ 1,054,697 | \$ 1,392,719 | \$ 257,792 | \$ (15,564) | \$ 242,228 | \$ 1,719,870 | | \$ 1,719,870 | \$ 2,106,729 | 11.38% |
| Nov-15 | 18.81% | 0.00% | 18.81% | \$ 1,239,847 | | \$ 1,239,847 | \$ 1,364,170 | \$ 256,600 | \$ (15,564) | \$ 241,036 | \$ 1,996,306 | | \$ 1,996,306 | \$ 2,060,433 | 11.44% |
| Dec-15 | 18.40% | 0.00% | 18.40% | \$ 1,324,005 | | \$ 1,324,005 | \$ 1,338,566 | \$ 246,296 | \$ (15,564) | \$ 230,732 | \$ 2,213,722 | | \$ 2,213,722 | \$ 2,012,068 | 11.20% |
| Jan-16 | 16.00% | 0.00% | 16.00% | \$ 1,789,024 | | \$ 1,789,024 | \$ 1,330,993 | \$ 212,959 | \$ (15,564) | \$ 197,395 | \$ 2,869,722 | | \$ 2,869,722 | \$ 2,022,205 | 9.81% |
| Feb-16 | 10.92% | 0.00% | 10.92% | \$ 1,508,313 | | \$ 1,508,313 | \$ 1,290,497 | \$ 140,922 | \$ - | \$ 140,922 | \$ 2,148,491 | | \$ 2,148,491 | \$ 1,974,618 | 6.97% |
| Mar-16 | 14.30% | 0.00% | 14.30% | \$ 1,155,318 | | \$ 1,155,318 | \$ 1,263,435 | \$ 180,671 | \$ (951) | \$ 179,720 | \$ 1,847,147 | | \$ 1,847,147 | \$ 1,970,483 | 9.10% |
| Apr-16 | 17.59% | 0.00% | 17.59% | \$ 992,250 | | \$ 992,250 | \$ 1,262,892 | \$ 222,143 | \$ (951) | \$ 221,192 | \$ 1,574,317 | | \$ 1,574,317 | \$ 1,965,301 | 11.23% |
| May-16 | 18.99% | 0.00% | 18.99% | \$ 1,016,726 | | \$ 1,016,726 | \$ 1,260,816 | \$ 239,429 | \$ (951) | \$ 238,478 | \$ 1,592,777 | | \$ 1,592,777 | \$ 1,953,586 | 12.13% |
| Jun-16 | 19.60% | 0.00% | 19.60% | \$ 1,199,347 | | \$ 1,199,347 | \$ 1,255,758 | \$ 246,129 | \$ (951) | \$ 245,178 | \$ 1,865,315 | | \$ 1,865,315 | \$ 1,960,562 | 12.55% |
| Jul-16 | 16.50% | 0.00% | 16.50% | \$ 1,401,359 | | \$ 1,401,359 | \$ 1,257,789 | \$ 207,535 | \$ (951) | \$ 206,584 | \$ 2,199,066 | | \$ 2,199,066 | \$ 1,962,087 | 10.54% |
| Aug-16 | 14.29% | 0.00% | 14.29% | \$ 1,434,698 | | \$ 1,434,698 | \$ 1,270,634 | \$ 181,574 | \$ (8,569) | \$ 173,005 | \$ 2,098,242 | | \$ 2,098,242 | \$ 1,973,307 | 8.82% |
| Sep-16 | 14.76% | 0.00% | 14.76% | \$ 1,191,028 | | \$ 1,191,028 | \$ 1,275,551 | \$ 188,271 | \$ (7,618) | \$ 180,653 | | | | | 9.15% |

Notes:

Licking Valley Total Monthly Retail Revenues in Column (11) includes demand and energy charges, customer charges, and FAC revenues. Revenues reported in Columns (4), (6), (7), (11), (13), and (14) are net of Green Power Revenues.

East Kentucky Power Cooperative, Inc. - Distribution Cooperatives
Pass Through Mechanism Report for Licking Valley RECC

For the Month Ending September 2016

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9)* | (10) | (11) | (12) | (13) | (14) | (15) |
|--------------------------------|-------------|-------------|---------------------|--|----------------------------|--|---|------------------------------------|---------------------------------------|--|--|-----------------------------------|--|---|--|
| Surcharge Factor Expense Month | EKPC CESF % | EKPC BESF % | EKPC MESF % | EKPC Monthly Revenues from Sales to Licking Valley | On-peak Revenue Adjustment | EKPC Net Monthly Sales to Licking Valley | EKPC 12-months Ended Average Monthly Revenue from Sales to Licking Valley | Licking Valley Revenue Requirement | Amortization of (Over)/Under Recovery | Licking Valley Net Revenue Requirement | Licking Valley Total Monthly Retail Revenues | On-Peak Retail Revenue Adjustment | Licking Valley Net Monthly Retail Revenues | 12-months ended Avg. Retail Revenues, Net | Licking Valley Pass Through Mechanism Factor |
| | | | Col. (1) - Col. (2) | | | Col. (4) - Col. (5) | | Col (3) x Col (7) | | Col (8) + Col (9) | | | Col. (11) - Col. (12) | | Col (10) / Col (14) |
| Oct-14 | 15.57% | 0.00% | 15.57% | \$ 1,104,948 | | \$ 1,104,948 | \$ 1,503,149 | \$ 234,040 | \$ - | \$ 234,040 | \$ 1,987,835 | | \$ 1,987,835 | \$ 2,239,948 | 10.46% |
| Nov-14 | 16.95% | 0.00% | 16.95% | \$ 1,582,443 | | \$ 1,582,443 | \$ 1,507,988 | \$ 255,604 | \$ - | \$ 255,604 | \$ 2,551,853 | | \$ 2,551,853 | \$ 2,250,852 | 11.41% |
| Dec-14 | 13.88% | 0.00% | 13.88% | \$ 1,631,248 | | \$ 1,631,248 | \$ 1,497,394 | \$ 207,838 | \$ - | \$ 207,838 | \$ 2,794,099 | | \$ 2,794,099 | \$ 2,244,364 | 9.23% |
| Jan-15 | 13.67% | 0.00% | 13.67% | \$ 1,879,903 | | \$ 1,879,903 | \$ 1,468,123 | \$ 200,692 | \$ - | \$ 200,692 | \$ 2,748,085 | | \$ 2,748,085 | \$ 2,197,651 | 8.94% |
| Feb-15 | 11.49% | 0.00% | 11.49% | \$ 1,994,259 | | \$ 1,994,259 | \$ 1,483,176 | \$ 170,417 | \$ - | \$ 170,417 | \$ 2,719,528 | | \$ 2,719,528 | \$ 2,220,714 | 7.75% |
| Mar-15 | 10.90% | 0.00% | 10.90% | \$ 1,480,069 | | \$ 1,480,069 | \$ 1,465,609 | \$ 159,751 | \$ - | \$ 159,751 | \$ 1,896,768 | | \$ 1,896,768 | \$ 2,195,221 | 7.19% |
| Apr-15 | 14.44% | 0.00% | 14.44% | \$ 998,760 | | \$ 998,760 | \$ 1,446,719 | \$ 208,906 | \$ - | \$ 208,906 | \$ 1,636,504 | | \$ 1,636,504 | \$ 2,186,395 | 9.52% |
| May-15 | 18.09% | 0.00% | 18.09% | \$ 1,041,644 | | \$ 1,041,644 | \$ 1,431,353 | \$ 258,932 | \$ - | \$ 258,932 | \$ 1,733,361 | | \$ 1,733,361 | \$ 2,165,057 | 11.84% |
| Jun-15 | 18.44% | 0.00% | 18.44% | \$ 1,260,035 | | \$ 1,260,035 | \$ 1,418,768 | \$ 261,621 | \$ - | \$ 261,621 | \$ 1,781,594 | | \$ 1,781,594 | \$ 2,139,856 | 12.08% |
| Jul-15 | 15.91% | 0.00% | 15.91% | \$ 1,376,996 | | \$ 1,376,996 | \$ 1,415,372 | \$ 225,186 | \$ - | \$ 225,186 | \$ 2,180,772 | | \$ 2,180,772 | \$ 2,144,154 | 10.52% |
| Aug-15 | 16.25% | 0.00% | 16.25% | \$ 1,280,555 | | \$ 1,280,555 | \$ 1,403,818 | \$ 228,120 | \$ (15,564) | \$ 212,556 | \$ 1,963,598 | | \$ 1,963,598 | \$ 2,138,547 | 9.91% |
| Sep-15 | 17.07% | 0.00% | 17.07% | \$ 1,132,023 | | \$ 1,132,023 | \$ 1,396,907 | \$ 238,452 | \$ (15,564) | \$ 222,888 | \$ 1,554,710 | | \$ 1,554,710 | \$ 2,129,059 | 10.42% |
| Oct-15 | 18.51% | 0.00% | 18.51% | \$ 1,054,697 | | \$ 1,054,697 | \$ 1,392,719 | \$ 257,792 | \$ (15,564) | \$ 242,228 | \$ 1,719,870 | | \$ 1,719,870 | \$ 2,106,729 | 11.38% |
| Nov-15 | 18.81% | 0.00% | 18.81% | \$ 1,239,847 | | \$ 1,239,847 | \$ 1,364,170 | \$ 256,600 | \$ (15,564) | \$ 241,036 | \$ 1,996,306 | | \$ 1,996,306 | \$ 2,060,433 | 11.44% |
| Dec-15 | 18.40% | 0.00% | 18.40% | \$ 1,324,005 | | \$ 1,324,005 | \$ 1,338,566 | \$ 246,296 | \$ (15,564) | \$ 230,732 | \$ 2,213,722 | | \$ 2,213,722 | \$ 2,012,068 | 11.20% |
| Jan-16 | 16.00% | 0.00% | 16.00% | \$ 1,789,024 | | \$ 1,789,024 | \$ 1,330,993 | \$ 212,959 | \$ (15,564) | \$ 197,395 | \$ 2,869,722 | | \$ 2,869,722 | \$ 2,022,205 | 9.81% |
| Feb-16 | 10.92% | 0.00% | 10.92% | \$ 1,508,313 | | \$ 1,508,313 | \$ 1,290,497 | \$ 140,922 | \$ - | \$ 140,922 | \$ 2,148,491 | | \$ 2,148,491 | \$ 1,974,618 | 6.97% |
| Mar-16 | 14.30% | 0.00% | 14.30% | \$ 1,155,318 | | \$ 1,155,318 | \$ 1,263,435 | \$ 180,671 | \$ (951) | \$ 179,720 | \$ 1,847,147 | | \$ 1,847,147 | \$ 1,970,483 | 9.10% |
| Apr-16 | 17.59% | 0.00% | 17.59% | \$ 992,250 | | \$ 992,250 | \$ 1,262,892 | \$ 222,143 | \$ (6,615) | \$ 215,528 | \$ 1,574,317 | | \$ 1,574,317 | \$ 1,965,301 | 10.94% |
| May-16 | 18.99% | 0.00% | 18.99% | \$ 1,016,726 | | \$ 1,016,726 | \$ 1,260,816 | \$ 239,429 | \$ (951) | \$ 238,478 | \$ 1,592,777 | | \$ 1,592,777 | \$ 1,953,586 | 12.13% |
| Jun-16 | 19.60% | 0.00% | 19.60% | \$ 1,199,347 | | \$ 1,199,347 | \$ 1,255,758 | \$ 246,129 | \$ (951) | \$ 245,178 | \$ 1,865,315 | | \$ 1,865,315 | \$ 1,960,562 | 12.55% |
| Jul-16 | 16.50% | 0.00% | 16.50% | \$ 1,401,359 | | \$ 1,401,359 | \$ 1,257,789 | \$ 207,535 | \$ (951) | \$ 206,584 | \$ 2,199,066 | | \$ 2,199,066 | \$ 1,962,087 | 10.54% |
| Aug-16 | 14.29% | 0.00% | 14.29% | \$ 1,434,698 | | \$ 1,434,698 | \$ 1,270,634 | \$ 181,574 | \$ (8,569) | \$ 173,005 | \$ 2,098,242 | | \$ 2,098,242 | \$ 1,973,307 | 8.82% |
| Sep-16 | 14.76% | 0.00% | 14.76% | \$ 1,191,028 | | \$ 1,191,028 | \$ 1,275,551 | \$ 188,271 | \$ (7,618) | \$ 180,653 | | | | | 9.15% |

Notes:

Licking Valley Total Monthly Retail Revenues in Column (11) includes demand and energy charges, customer charges, and FAC revenues. Revenues reported in Columns (4), (6), (7), (11), (13), and (14) are net of Green Power Revenues.

Question 9. This question is addressed to the Member Cooperatives. Explain in detail the process by which the environmental surcharge amounts billed by EKPC are recorded and billed to member customers. Include in the response a discussion of timing and accounting methodology.

Response: The entire power bill from East Kentucky Power Cooperative is recorded and paid. The power bill is not separated into sub accounts.

Both the power bill and revenue from sales are recorded in the same accounting month. Then those amounts are used to calculate the next month's Environmental Surcharge factor.

Question 12: This question is addressed to the Member Cooperatives. Refer to your response to Staffs First Request, Item 2.

- a.** Explain how the amounts recorded in the column labelled “EKPC Invoice Month Recorded Member’s Books” correspond with EKPC’s expense month for example, EKPC’s ,monthly report for December 2015 indicates that the December 2015 expense month would be billed beginning February 2016 for service rendered in January 2016. Explain in which month the Member Cooperative would reflect its portion of the December 2015 expense billed by EKPC.

Response 12a: The amounts recorded in the column labelled “EKPC Invoice Month Recorded Member’s Books” reported for December 2015 is the Environmental Surcharge charged to Licking Valley for the month of December 2015. That amount is used to calculate the next month’s Environmental Surcharge factor which is reflected on billing that the member would receive February 26th for usage between January 12th and February 12th. This revenue is booked as January 2016.

- b.** Explain whether the amounts reported in this column reflect only the actual amount billed by EKPC, or if the amount does or can include adjustments to the billed amount. Explain the adjustments that may be included, if any.

Response 12 b: EKPC prepares these calculations. Licking Valley provides the surcharge revenues to EKPC in Column 3. The surcharge amount in Column 2 reflects the total gross surcharge shown on EKPC’s invoice minus the Direct Load Control program surcharge credit. The Direct Load Control program provides demand credits to Members based on the involvement of Members in the Direct Load Control program. The demand credit impacts the revenues included to determine the surcharge and a separate surcharge credit is calculated. This adjustment is reflected on the invoice EKPC sends to Licking Valley.

- c.** Refer to the column labelled “Billed to Retail Consumer & Recorded on Member’s Books.” Confirm that these amounts are the actual environmental surcharge amounts billed and not environmental surcharge amounts actually collected from retail customers.

Responder 12c: These amounts are actual billed environmental surcharge amounts.



Licking Valley Rural Electric Cooperative Corp
 A Touchstone Energy® Cooperative
 PO Box 605
 West Liberty KY 41472-0605

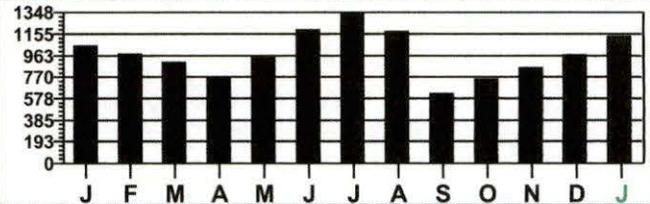
- IMPORTANT INFORMATION**
- Failure to receive a bill does : payment.
 - Outside depository is available
 - Register any question about th
 - If payment does not reach this 5% penalty will be assessed.
 - Visit our web site at www.lvrecc.com
 - Bank Draft Services Available.

NOTICE: Licking Valley RECC will not be responsible for payments applied to the wrong account when payment stub or account number is not included with payment.

Customer Service
 Monday - Friday 7:00 a.m. - 5:00 p.m.
 Local: 743-3179
 Toll Free: 1-800-596-6530
 To Pay Bill by Phone: 1-844-846-2688
www.lvrecc.com

Emergencies or Outages
 (Seven days a week - 24 hours a day)
 Local: 743-7500
 Toll Free: 1-800-709-6700

~~XXXXXXXXXX~~
~~XXXXXXXXXX~~
~~XXXXXXXXXX~~
~~XXXXXXXXXX~~



*January 2016
 Usage 01/12/2016 - 02/12/2016*

| ACCOUNT NUMBER | RATE | REFERENCE | BILL TYPE | METER NUMBER | SERVICE ADDRESS | | |
|--|----------------|------------------|------------|--------------------------------------|-----------------------|------------------------------|------------------|
| XXXXXXXXXX | 18 | HOME - 200 AMP | REGULAR | XXXXXXXXXX | XXXXXXXXXX | | |
| This statement is for kWh usage through 02/12/2016 | READING | | MULTIPLIER | KWH USAGE | FUEL ADJUSTMENT RATE | ENVIRONMENTAL SURCHARGE RATE | BILLING DATE |
| | PREVIOUS | PRESENT | | | | | |
| | 97517 | 98648 | 1.0000 | 1131 | -0.0020800 | 0.1120000 | 02/24/2016 |
| Activity Since Last Bill | | \$ Amount | | Current Bill Information | | | \$ Amount |
| PREVIOUS BALANCE | | 121.13 | | ELECTRIC SERVICE | | | 115.13 |
| PAYMENT | | -121.13 | | FUEL COST ADJUSTMENT | | | -2.50 CR |
| OTHER ADJUSTMENTS | | 0.00 | | SECURITY LIGHT | | | 10.02 |
| BALANCE PRIOR TO THIS BILLING | | 0.00 | | SCHOOL TAX | | | 4.09 |
| | | | | ENVIRONMENTAL SURCHARGE | | | 13.74 |
| Account Number: XXXXXXXXXX | | | | | | | |
| Comparisons | Days Service | kWh Used | Cost/day | CURRENT NET DUE BY 03/10/2016 | | | 140.48 |
| Current Month | 30 | 1131 | 4.68 | | | | |
| Last Month | 30 | 964 | 4.03 | | | | |
| One Year Ago | 31 | 1042 | 4.20 | | | | |
| Gross Amount Due After 03/10/2016 | | | | | | 147.50 | |

PLEASE DETACH AND RETURN BOTTOM PORTION WITH PAYMENT

- If change of Address/Phone #, check here and indicate change on back of stub.
- Donation for Winter Care Fund \$ _____

| | |
|------------------------|-----------------------|
| Account Number: | XXXXXXXXXX |
| Amount Due: | 140.48 |
| Due Date: | 03/10/2016 |
| Amount After Due Date: | 147.50 |

LICKING VALLEY RURAL
 ELECTRIC COOPERATIVE CORP
 PO BOX 605
 WEST LIBERTY KY 41472-0605



Licking Valley Rural Electric Cooperative Corporation
 Energy Billing Report
 Month Ending December 2015

U.*
 2,582,158.07+
 772.75+
 42,069.21-
 73,983.20-
 253,156.83-
 005
 2,213,721.58+

*mailed to
 Isaac Scott
 01/27/2016*

| Class Code | Accounts Billed | Kwh's Billed | Min Bills | Gross Billings | Net Billings | State Tax | County Tax | |
|----------------|-----------------|--------------|-----------|----------------|----------------|-------------|-------------|----------|
| 1 | 16,077 | 17,984,921 | 992 | \$2,088,226.05 | \$2,000,152.81 | \$28,130.66 | \$59,942.58 | |
| | | | | (772.75) | (772.75) | | | |
| 6 | 127 | 15,802 | 0 | 3,768.57 | 3,590.71 | 99.70 | 78.16 | |
| 4 | 887 | 807,698 | 126 | 87,266.61 | 79,885.22 | 4,588.70 | 2,792.69 | |
| Under 1000 KVA | 5 | 215 | 2,487,155 | 7 | 305,180.13 | 288,642.27 | 8,206.30 | 8,331.56 |
| Under 1000 KVA | 2 | 2 | 76,608 | 0 | 7,554.52 | 6,919.33 | 427.61 | 207.58 |
| Over 1000 KVA | 3 | 5 | 290,768 | 0 | 32,701.29 | 31,748.83 | 0.00 | 952.46 |
| Over 1000 KVA | 8 | 3 | 749,176 | 0 | 58,233.65 | 55,939.24 | 616.24 | 1,678.17 |

| | | | | | | | |
|----------------------|---------------|-------------------|-------------|------------------------|-----------------------|--------------------|---------------------|
| Malone Whse | | 11,102 | | | | | |
| 456.00 Other Revenue | | | | | | | |
| Ky 6% Sales Tax | | | | | \$ 42,069.21 | | |
| County Tax | | | | | \$ 73,983.20 | | |
| Total | 17,316 | 22,423,230 | 1125 | \$ 2,582,158.07 | \$2,582,158.07 | \$42,069.21 | \$ 73,983.20 |

| | |
|--------------------------------|---------------|
| Active Services | 17,289 |
| Idle Services | 5,006 |
| Total Services in Place | 22,295 |

Licking Valley Rural Electric Cooperative Corporation
Kentucky 56 Morgan
Surcharge Billing Report
Month Ending Dec-16

Pg 8 of 9
 Surcharge
 Adjustment

| Schedule | Class Code | Kwh Revenue | Demand Revenue | SYL Revenue | Fuel Adjustment 1 | Total Surcharge | Pg 8 of 9 Surcharge Adjustment | Grand Total |
|--------------------|------------|------------------------|---------------------|---------------------|-----------------------|----------------------|--------------------------------|----------------------|
| Schedule A | 1 | \$ 1,785,812.58 | \$ - | \$ 76,626.73 | \$ (69,375.81) | \$ 205,126.46 | (\$16.77) | \$ 205,109.69 |
| Schedule B | 4 | 83,967.45 | - | 2,685.06 | (3,117.63) | 9,556.39 | 0.00 | \$ 9,556.39 |
| Schedule LP | 3 | 20,686.74 | 8,925.25 | - | (1,122.37) | \$ 3,259.21 | | \$ 3,259.21 |
| Schedule LP | 5 | 183,002.21 | 73,732.59 | 2,123.89 | (9,653.01) | 28,509.13 | 0.00 | 28,509.13 |
| Schedule LPR | 8 | 43,284.92 | 9,803.63 | - | (2,891.82) | 5,742.51 | - | 5,742.51 |
| Schedule LPR | 2 | 4,833.89 | 1,670.84 | - | (295.71) | 710.31 | - | 710.31 |
| Schedule SL | 6 | - | - | 2,452.78 | (63.40) | 273.35 | (7.21) | 266.14 |
| Grand Total | | \$ 2,121,587.79 | \$ 94,132.31 | \$ 83,888.46 | \$ (86,519.75) | \$ 253,177.36 | | \$ 253,153.38 |

Revenue Multiplied by Current Surcharge Adjustment Rate of 11.44%

| | |
|--------------------|-----------|
| Sales Report Total | 253156.83 |
| Work Sheet Total | 253153.38 |
| Difference | 3.45 |

Question 13: This question is addressed to the Member Cooperatives. Refer to the Member Cooperatives Pass Through Mechanism Report in EKPC's monthly environmental surcharge report. Provide the revenue month to which the pass through factor (Column 15) calculated for the expense month will be applied.

Response : The pass through factor in Column 15 is applied to the month following the month listed in the column titled "Surcharge Factor Expense Month" . For example Sep -16 factor listed in column 15 will be billed October 2016 for usage between September 12th and October 12th and will be booked as Oct 2016 revenue.