

ATTORNEYS AT LAW | PLLC

David S. Samford
david@gosssamfordlaw.com
(859) 368-7740

February 16, 2018

Via Hand-Delivery

Ms. Gwen Pinson
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

RECEIVED

FEB 16 2018

PUBLIC SERVICE
COMMISSION

Re: PSC Case No. 2017-00376

Dear Ms. Pinson:

On behalf of East Kentucky Power Cooperative, Inc. ("EKPC"), please find enclosed for filing in the record of the above-referenced case one (1) redacted original and six (6) redacted copies of EKPC's Response to Commission Staff's Second Request for Information propounded February 2, 2018. Also enclosed in a separate sealed envelope marked confidential is one (1) copy of the Response with certain confidential information highlighted. In addition, please find enclosed one (1) original and six (6) copies of EKPC's Motion for Confidential Treatment.

Also enclosed are an original and six (6) copies of EKPC's responses to the Attorney General's Request for Information dated February 2, 2018.

Please do not hesitate to contact me if you have any questions or concerns.

Very truly yours,

A handwritten signature in black ink that reads "David S. Samford (by Kyle Linder)".

David S. Samford

Enclosures

cc: Parties of Record

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE APPLICATION OF EAST KENTUCKY)	
POWER COOPERATIVE, INC. FOR APPROVAL)	
TO AMEND ITS ENVIRONMENTAL)	
COMPLIANCE PLAN AND RECOVER COSTS)	CASE NO. 2017-00376
PURSUANT TO ITS ENVIRONMENTAL)	
SURCHARGE, SETTLEMENT OF CERTAIN)	
ASSET RETIREMENT OBLIGATIONS AND)	
ISSUANCE OF A CERTIFICATE OF PUBLIC)	
CONVENIENCE AND NECESSITY AND)	
OTHER RELIEF)	

MOTION FOR CONFIDENTIAL TREATMENT

Comes now East Kentucky Power Cooperative, Inc. ("EKPC"), by and through counsel, pursuant to KRS 61.878, 807 KAR 5:001, Section 13 and other applicable law, and for its Motion requesting that the Kentucky Public Service Commission ("Commission") afford confidential treatment to information contained in an exhibit to Commission Staff's Second Request for Information No. 4 filed in the above-captioned proceeding, respectfully states as follows:

1. In its Application, EKPC requests the Commission to enter an Order: approving EKPC's proposed amendment of its Environmental Compliance Plan ("Compliance Plan"); granting authority to recover the costs associated with said Compliance Plan amendment through its existing environmental surcharge; issuing a Certificate of Public Convenience and Necessity ("CPCN") for the facilities associated with said Compliance Plan amendment; and allowing the settlement of certain Asset Retirement Obligations and regulatory asset.

2. In Response to Commission Staff's Second Request for Information Response No. 4 is a revised Exhibit RH-1. The original version of Exhibit RH-1 was attached to Robin Hayes' testimony which was submitted with the Application in this case. Exhibit RH-1 is a summary of the economic analysis performed on behalf of EKPC. Exhibit RH-1 contains a detailed economic analysis of the present value of the CCR/ELG Project which is the subject of the proposed Compliance Plan amendment as well as a second option closely evaluated by EKPC that involved the conversion of the Spurlock Station Unit 1 and Unit 2 to natural gas.

3. A Motion for Confidential Treatment for Exhibit RH-1 was submitted with the Application on November 20, 2017, and is still pending with the Commission.

4. Exhibit RH-1 is being tendered in redacted form in the public version of EKPC's filing and in an un-redacted form filed under seal herewith. This document is hereinafter referred to as the "Confidential Information."

5. The Confidential Information contains extensive information that describes the contains sensitive economic data for EKPC. This information is commercially sensitive and proprietary.

6. The Confidential Information is retained by EKPC on a "need-to-know" basis and is not publicly available. The disclosure of the Confidential Information would give potential bidders and contractors a tremendous competitive advantage in seeking to secure the work called for in the CCR/ELG Project Scoping Report. These advantages would likely translate into higher project costs for EKPC and, by extension, detrimentally higher rates for EKPC's owner-members. Thus, disclosure of the Confidential Information would be highly prejudicial to EKPC, EKPC's owner-members and those owner-members' retail members.

7. The Kentucky Open Records Act exempts the Confidential Information from public disclosure. *See* KRS 61.878(1)(c),(m). As set forth above, disclosure of the Confidential Information would permit an unfair advantage to third parties. Moreover, the Kentucky Supreme Court has stated, “information concerning the inner workings of a corporation is ‘generally accepted as confidential or proprietary.’” *Hoy v. Kentucky Industrial Revitalization Authority*, 907 S.W.2d 766, 768 (Ky. 1995). Because the Confidential Information is critical to EKPC’s effective execution of business decisions and strategy, it satisfies both the statutory and common law standards for being afforded confidential treatment.

8. EKPC does not object to limited disclosure of the Confidential Information, pursuant to an acceptable confidentiality and nondisclosure agreement, to the Attorney General or any other intervenors with a legitimate interest in reviewing the same for the sole purpose of participating in this case.

9. In accordance with the provisions of 807 KAR 5:001, Section 13(2), EKPC is filing one copy of the Confidential Information separately under seal. Confidential treatment is sought for the entirety of the economic analysis attached as Exhibit RH-1 in response to Request for Information No. 4.

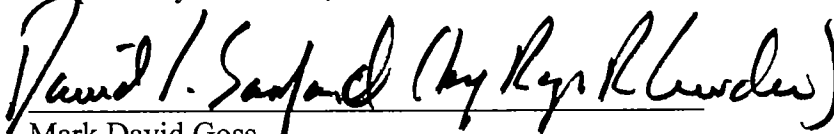
10. In accordance with the provisions of 807 KAR 5:001, Section 13(3), EKPC respectfully requests that the Confidential Information be indefinitely withheld from public disclosure. This will assure that the Confidential Information will be less likely to include information that continues to be commercially sensitive or critical energy infrastructure information so as to impair the interests of EKPC if publicly disclosed.

WHEREFORE, on the basis of the foregoing, EKPC respectfully requests the Commission to enter an Order granting this Motion for Confidential Treatment and to so afford such protection

from public disclosure to the un-redacted copies of Confidential Information, which is filed herewith under seal, for an indefinite period of time.

This _____ day of February, 2018.

Respectfully submitted,



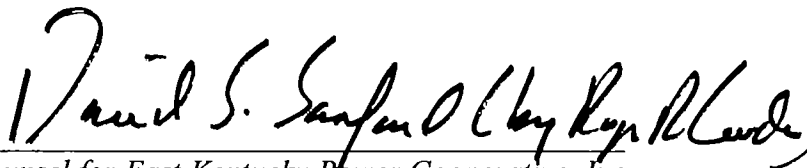
Mark David Goss
David S. Samford
GOSS SAMFORD, PLLC
2365 Harrodsburg Road, Suite B325
Lexington, KY 40504
(859) 368-7740
mdgoss@gosssamfordlaw.com
david@gosssamfordlaw.com

Counsel for East Kentucky Power Cooperative, Inc.

CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the foregoing document has been served by depositing same into the custody and care of the U.S. Postal Service, postage pre-paid, on this 16th day of February 2018, addressed to the following:

Rebecca W. Goodman
Larry Cook
Kent Chandler
Office of the Attorney General
Office of Rate Intervention
700 Capitol Ave., Suite 20
Frankfort, KY 40601-8204



Counsel for East Kentucky Power Cooperative, Inc.

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER)	
COOPERATIVE, INC. FOR APPROVAL TO)	
AMEND ITS ENVIRONMENTAL COMPLIANCE)	CASE NO.
PLAN AND RECOVER COSTS PURSUANT TO)	2017-00376
ITS ENVIRONMENTAL SURCHARGE,)	
SETTLEMENT OF CERTAIN ASSET)	
RETIREMENT OBLIGATIONS AND ISSUANCE)	
OF A CERTIFICATE OF PUBLIC)	
CONVENIENCE AND NECESSITY AND OTHER)	
RELIEF)	

**RESPONSES TO COMMISSION STAFF'S SECOND REQUEST FOR
INFORMATION TO EAST KENTUCKY POWER COOPERATIVE, INC.
DATED FEBRUARY 2, 2018**

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION


In the Matter of:

APPLICATION OF EAST KENTUCKY POWER)	
COOPERATIVE, INC. FOR APPROVAL TO)	
AMEND ITS ENVIRONMENTAL COMPLIANCE)	CASE NO.
PLAN AND RECOVER COSTS PURSUANT TO)	2017-00376
ITS ENVIRONMENTAL SURCHARGE,)	
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RETIREMENT OBLIGATIONS AND ISSUANCE)	
OF A CERTIFICATE OF PUBLIC)	
CONVENIENCE AND NECESSITY AND OTHER)	
RELIEF)	

CERTIFICATE

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

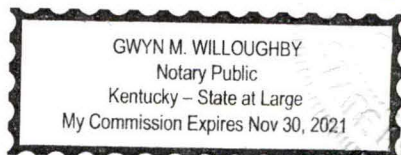
Robin Hayes, being duly sworn, states that she has supervised the preparation of the responses of East Kentucky Power Cooperative, Inc. to the Public Service Commission Staff's Second Request for Information in the above-referenced case dated February 2, 2018, and that the matters and things set forth therein are true and accurate to the best of her knowledge, information and belief, formed after reasonable inquiry.



Subscribed and sworn before me on this 16th day of February 2018.



Notary Public #590567



COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER)	
COOPERATIVE, INC. FOR APPROVAL TO)	
AMEND ITS ENVIRONMENTAL COMPLIANCE)	CASE NO.
PLAN AND RECOVER COSTS PURSUANT TO)	2017-00376
ITS ENVIRONMENTAL SURCHARGE,)	
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OF A CERTIFICATE OF PUBLIC)	
CONVENIENCE AND NECESSITY AND OTHER)	
RELIEF)	

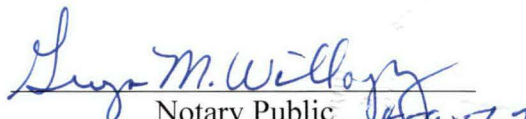
CERTIFICATE

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Craig A. Johnson, 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's Second Request for Information in the above-referenced case dated February 2, 2018, 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.



Subscribed and sworn before me on this 16th day of February 2018.


Notary Public #550567

GWYN M. WILLOUGHBY
Notary Public
Kentucky – State at Large
My Commission Expires Nov 30, 2021

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**APPLICATION OF EAST KENTUCKY POWER
COOPERATIVE, INC. FOR APPROVAL TO
AMEND ITS ENVIRONMENTAL COMPLIANCE
PLAN AND RECOVER COSTS PURSUANT TO
ITS ENVIRONMENTAL SURCHARGE,
SETTLEMENT OF CERTAIN ASSET
RETIREMENT OBLIGATIONS AND ISSUANCE
OF A CERTIFICATE OF PUBLIC
CONVENIENCE AND NECESSITY AND OTHER
RELIEF**

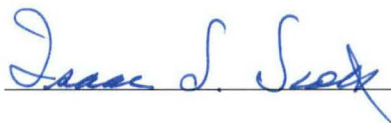
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CASE NO.
2017-00376

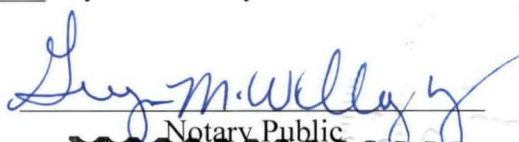
CERTIFICATE

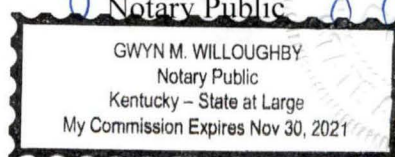
**STATE OF KENTUCKY)
)
COUNTY OF CLARK)**

Isaac S. Scott, 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's Second Request for Information in the above-referenced case dated February 2, 2018, 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.



Subscribed and sworn before me on this 16th day of February 2018.





EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2017-00376

RESPONSE TO INFORMATION REQUEST

**COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 02/02/18
REQUEST 1**

RESPONSIBLE PARTY: Isaac S. Scott

Request 1. Refer to the Direct Testimony of Isaac S. Scott ("Scott Testimony"), page 8.

Request 1a. Confirm that EKPC's books reflect an Asset Retirement Obligation ("ARO") for the Spurlock ash pond of \$41.8 million.

Response 1a. EKPC's ARO calculation for the Spurlock ash pond was updated on December 31, 2017 to include the most recent cost estimate of \$41.8 million. The ARO balance at December 31, 2017 was \$35.2 million. This balance is scheduled to accrete to \$41.8 million by December 31, 2024.

Request 1b. Provide a detailed analysis of the cost items included in the \$41.8 million ARO for the Spurlock ash pond

Response 1b. Please refer to pages 4 through 7 of 7 in this response for the cost estimate prepared by Burns & McDonnell.

Request 1c. Provide sample journal entries of the transactions to record ash pond closure activities.

Response 1c. The Spurlock ash pond closure will be tracked with a unique project number. Any costs incurred on the project will reduce the ARO liability balance. See entry below.

Account 2300003—Asset Retirement Obligation-Ash \$XXXXXX

Account 232100—Accounts Payable \$XXXXXX

To record closure costs incurred at month-end

Request 1d. Provide the current balance of the regulatory asset established in Case No. 2014-004321 for the Spurlock ash pond ARO depreciation and accretion expense.

Response 1d. The balance of the regulatory asset for the Spurlock ash pond at December 31, 2017 was \$8,791,290.

Request 1e. Provide the estimated balance of the regulatory asset at the time closure activities will have been completed, and a breakdown of the components making up the balance.

Response 1e. The regulatory asset balance is estimated to be \$41.8 million at December 31, 2024. The components comprising this balance include depreciation of \$32,965,739 and accretion of \$8,834,261.

Request 1f. Provide the amortization rate EKPC proposes to use when it begins to amortize the regulatory asset for accretion and depreciation expense associated with the Spurlock ARO. Explain how this rate was determined.

Response 1f. EKPC proposes to recover the closure costs as incurred through the monthly environmental surcharge. Accordingly, in each month of recovery, the regulatory asset will be reduced by the amount recovered in the surcharge and an equivalent amount will be recognized as expense, thus matching revenues and expenses, which ultimately results in a zero margin impact.

Request 1g. Explain how EKPC proposes to recover the amortization of the regulatory asset.

Response 1g. Please see response 1f. above.



October 27, 2017

Ms. Mary Jane Warner, P.E.
Director, Production Engineering & Construction
East Kentucky Power Cooperative
4775 Lexington Road
Winchester, KY 40391

Subject: Spurlock Station Ash Pond Closure Option 6 Asset Retirement Obligation (ARO) Estimate

Dear Ms. Warner:

INTRODUCTION

EKPC requested that Burns & McDonnell (BMcD) develop a budgetary level cost estimate for the closure by removal of CCR from the Spurlock Station Ash Pond. The costs for closure by removal of CCR were prepared by BMcD by applying unit pricing provided by contractor's budgetary bids received in the summer of 2016 to the assumed ponded CCR volume of 1,750,000 cubic yards of material. BMcD incorporated unit prices that were provided via budgetary bids by regional civil contractors, specifically for the Spurlock Ash Pond closure work.

BUDGETARY COSTS

The costs for closure by removal of the Ash Pond assume CCR and other ponded solids would be dewatered and excavated out of the pond and hauled to the Spurlock landfill. Per the final CCR Rule, the existing subsurface or impacted materials would need to be removed as well. The bottom of the Spurlock Ash Pond was constructed of existing in-situ materials, so a formal clay liner does not exist. For the purposes of this estimate, BMcD assumed an additional one foot of impacted material would be excavated from the impoundment and hauled to the landfill in addition to the CCR material. Upon completion of the CCR and impacted material removal, a portion of the existing impoundment area (approximately 45 acres) would receive either a soil media treatment or topsoil from an on-site borrow area and would be seeded. The remaining portion of the pond would be developed into a new, lined 17-acre water mass balance (WMB) pond. Costs for developing the WMB pond are not included in this estimate.

The contractors provided budgetary costs assuming that solids dewatering can be achieved through the mechanical means of double-handling, creating ditches, and/or using a disc to dry out the material. Pricing for removing CCR material from the Ash Pond and hauling it to the landfill was also included in contractor's budgetary bids. Based on the construction phasing as discussed with EKPC, a temporary water treatment system will likely not be required for this closure option as the western 45-acres would be used for water treatment. Construction of the WMB pond will occur prior to closing by removal of the western portion of the Ash Pond which will allow water in the WMB pond footprint to be pumped to the western portion of Ash Pond during construction, prior to discharge. Once the WMB pond has been constructed, water collected in the western portion of the Ash Pond will be treated using mechanical means or if additional treatment is needed an option price for 12 months of temporary water treatment equipment rental has been provided to EKPC separately. For the purposes of this budgetary estimate,



contractor's unit pricing was levelized between the two lowest bidders and these rates used for each line item's quantity.

Based on input from EKPC, the storage capacity of the existing landfill, with the addition of Peg's Hill expansion, has adequate storage capacity for the inclusion of the relocated material from the Ash Pond closure. Therefore, no costs have been provided for modifications to the existing landfill to provide capacity for the Ash Pond closure project.

GROUNDWATER MONITORING

Per the CCR Rule, existing CCR landfills and surface impoundments will need to be retrofitted with groundwater monitoring networks and have eight samples taken from each well no later than October 17, 2017. These initial samples need to include results for constituents listed in Appendices III and IV of the CCR Rule. The results must be compiled using one of the statistical analysis methods identified in the CCR Rule, which will then be used to prepare the first annual groundwater monitoring report for publication by January 31, 2018. The Ash Pond will continue operating as an active impoundment, where groundwater will be monitored on a semiannual basis for the life of the unit. Since EKPC is planning to pursue closure by removal of CCR, groundwater monitoring will not be required for 30 years post-closure; instead, EKPC will be required to demonstrate that the CCR material has been removed and that groundwater monitoring concentrations are within the groundwater protection standard, which could take an estimated 2 to 3 years. Because of the Ash Pond's regulatory status, a complete groundwater monitoring network has been installed around the perimeter of the impoundment. Costs for this groundwater monitoring system and demonstration of impacts to groundwater following CCR removal have not been estimated in this memo.

CONTRACTING APPROACH

The contracting plan BMcD has developed for this project is a single subcontract approach. This approach is based on a general contractor executing the removal of CCR material, dewatering, hauling, placement of topsoil, and development of the WMB pond. The contractor may subcontract and coordinate specialty items of the scope including, but not limited to, clearing and grubbing, erosion control, and installation of piping, electrical cables, and pumps for the new pump structure at the WMB pond.

BMcD recommends the project be contracted as a lump sum agreement with adjustment unit pricing. The basis for payment would be per actual quantities, as determined by in-place surveys. The contractor will perform work to the grades indicated, and if the actual material quantities differ from what is expected the contract price would be adjusted using the previously established unit prices.

SCHEDULE

The anticipated closure schedule for the Spurlock Station Ash Pond includes events starting from project development and permit application through completion of closure of the Ash Pond by removal of CCR material. Major milestones are included in Table 1 such as permitting, engineering, subcontracting, and construction.



Table 1: Project Milestones

<u>Activities</u>	<u>Date</u>
Permitting Activities	January 2019
Engineering Notice to Proceed	January 2019
Award Ash Pond Closure Contract	December 2019
Start Ash Pond Closure Construction	January 2020
WMB Pond Construction Complete	December 2021
Complete Ash Pond Closure	November 2024

SUMMARY

Included in Table 2 are quantities, unit pricing, and budgetary level costs for closure by removal of CCR material. Unit rates were leveled between the two lowest quotes which included escalation to reflect construction occurring from 2020 to 2024. Costs for developing the WMB pond have been separated from those tied to the pond closure effort and are not included in Table 2. Since these were budgetary bids, an estimate accuracy contingency of 10% was included for project scope definition. Indirect costs such as engineering, construction management, Owner's costs, and Owner's contingency are included in this estimate.

Table 2: Estimated Budgetary Costs for Closure through Removal of CCR material

Construction Activities	Qty	Unit	Unit Price	2022 Cost
Mobilization/Demobilization	1	LS	\$1,004,500	\$1,010,000
Dewatering	1	LS	\$700,000	\$700,000
Pond Solids Excavation & Hauling to Spurlack Landfill	1,750,000	CY	\$17.80	\$31,150,000
Over-Excavation of Existing Pond Bottom & Hauling to Landfill	111,207	CY	\$17.80	\$1,980,000
Repair Perimeter Road with 6" Crushed Rock	906	CY	\$60.00	\$60,000
Topsoil - 6" Depth from Onsite	13,054	CY	\$12.13	\$160,000
Soil Media Spray (Used on Bottom instead of Topsoil)	40	AC	\$4,000.00	\$170,000
Seeding	51	AC	\$4,100.00	\$210,000
Paint Filter Testing (Prior to Hauling Material to Landfill)	1,861,207	CY	\$0.21	\$400,000
Maintenance of Haul Road (once per construction season) - 3"	1,423	CY	\$60.00	\$90,000
Subtotal Direct Costs				\$35,930,000
Subtotal Indirect Costs				\$2,070,000
Estimate Accuracy Contingency, 10%				\$3,800,000
Total Cost				\$41,800,000

*Costs in table are budgetary pricing based on bids received from Contractors. Costs have been rounded, but this does not imply a level of accuracy.

** Costs include indirect costs (engineering, construction management, Owner's costs, etc.).

***Unit pricing (from bidders) includes escalation.

REVISIONS FROM PREVIOUS ARO UPDATE

EKPC has chosen to build a new, lined WMB pond in the eastern (plant south) portion of the Ash Pond after removing ash and impacted material in that area. The WMB pond surface will cover approximately



17 acres of the Ash Pond footprint and will require a new berm to be installed to isolate the area, as well as a new pump structure, associated piping, and electrical equipment. Construction of the WMB pond will occur prior to closing by removal the western portion of the Ash Pond to allow EKPC the ability to continuously sluice non-CCR flows throughout the project and to provide schedule relief in dewatering solids from the western portion of the Ash Pond. Contractor pricing and schedule were provided to accommodate the project phasing described and have been updated for this report. The pricing included in Table 2 reflects costs for closing the pond only; it does not include costs for construction of the new WMB pond.

Other changes to the costs provided are as follows:

- Contractor direct costs such as mobilization, demobilization, dewatering, and road maintenance have been prorated for Ash Pond closure only. These same Contractor direct costs that are associated with the WMB development have been prorated out of the ARO.
- Costs have been updated to include the use of a soil media spray in the pond bottom, rather than importing topsoil for this area in the portion of the pond constructed with the proposed WMB pond.
- As noted above, costs for rented water treatment equipment have not been included. Construction of the WMB pond will occur prior to closing by removal the western portion of the Ash Pond which will allow water in the WMB pond footprint to be pumped to the western portion of Ash Pond during construction, rather than discharged. Once the WMB pond has been constructed, water collected in the western portion of the Ash Pond will be treated using mechanical means or if additional treatment is needed an option price for 12 months of temporary water treatment equipment rental has been provided to EKPC separately.
- Indirect costs have been included in this estimate.
- Schedule updates are included based on discussions with EKPC and final project planning.

Please feel free to contact me at 816-363-7223, if you have any questions with this evaluation.

Sincerely,

Dallen Kroger, P.E.
Senior Civil Engineer

cc: Brad Young
Sam Yoder
Taylor Robertson

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2017-00376

RESPONSE TO INFORMATION REQUEST

**COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 02/02/18
REQUEST 2**

RESPONSIBLE PARTY: Isaac S. Scott

Request 2. Refer to the Scott Testimony, Exhibit ISS-3.

Request 2a. Explain why these environmental control assets are recovered through EKPC's base rates instead of the Environmental Surcharge Mechanism.

Response 2a. Pursuant to KRS 278.183(1) and (2), EKPC can only recover the cost of environmental control assets through the environmental surcharge mechanism that have been included in its Commission-approved environmental compliance plan. None of the environmental control assets included in the determination of the Base Environmental Surcharge Factor shown in Exhibit ISS-3 were included by EKPC in either its original environmental compliance plan approved in 2005 or the four subsequent amendments to the environmental compliance plan.

Thirty-one of the 33 assets listed on Exhibit ISS-3 are associated with Spurlock Units 1 and 2. EKPC has reviewed the in-service dates for these assets and determined that 29 of the 31 assets went into service between 1980 and 1983. Consequently, these assets pre-date the effective date of KRS 278.183 and the only cost recovery option available would have

been through base rates. Further, EKPC understands that environmental expenditures incurred prior to the effective date of KRS 278.183 are not eligible for recovery through the surcharge. Of the remaining two Spurlock Units 1 and 2 assets, one asset went into service in 2000 and the other asset went into service in 2002. When EKPC filed its original environmental compliance plan, the focus was on incorporating assets that either had been recently completed, were under construction, or would be constructed in the near future. These two assets would have not been considered for inclusion. Lastly, the lone Spurlock Units 3 and 4 assets were not considered part of the environmental compliance plan projects approved by the Commission in 2005 and 2008.

Request 2b. Explain why the retirement of plant assets recovered through base rates would impact EKPC's Environmental Surcharge Mechanism.

Response 2b. KRS 278.183(2) requires that the recovery of environmental compliance costs through the environmental surcharge cannot already be recovered through existing base rates; in other words, avoid the double recovery of costs. To comply with this requirement, EKPC's environmental surcharge mechanism is based on the base/current approach. When the Commission approved EKPC's initial environmental compliance plan and surcharge mechanism, it stated:

The base/current approach calculates the revenue requirements for a current period, which reflects recoverable compliance costs for the current expense month, and for a base period, which reflects corresponding environmental costs already included in base rates. The calculation of the base period revenue requirement usually is where the impact of retirements and replacements resulting from the projects approved in the compliance plan are recognized. The current period and base

period revenue requirements are each divided by the appropriate level of revenues to determine the current period and base period surcharge factors. The net difference between the two factors is the environmental surcharge factor billed to customers.¹

The Commission has adopted the base/current approach in the surcharge mechanisms authorized for other utilities, with the impact of retirements and replacements resulting from the projects approved in the compliance plan being recognized in the base period revenue requirement calculation.²

¹ 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, p. 5 (Ky. P.S.C., Mar. 17, 2005).

² See *In the Matter of Application of Kentucky Power Company for Approval of an Amended Compliance Plan for Purposes of Recovering Additional Costs of Pollution Control Facilities and to Amend Its Environmental Cost Recovery Surcharge Tariff*, Order, Case No. 2005-00068, p. 5 (Ky. P.S.C., Sep. 7, 2005); *In the Matter of The Application of Kentucky Utilities Company for a Certificate of Public Convenience and Necessity to Construct Flue Gas Desulfurization Systems and Approval of Its 2004 Compliance Plan for Recovery by Environmental Surcharge*, Order, Case No. 2004-00426, p. 6 (Ky. P.S.C., Jun 20, 2005); *In the Matter of An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company for the Six-Month Billing Periods Ending April 30, 2000, October 31, 2000, October 31, 2001, and April 30, 2002 and for the Two-Year Billing Period Ending April 30, 2001*, Order, Case No. 2002-00193, (Ky. P.S.C., Oct. 22, 2002).

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2017-00376

RESPONSE TO INFORMATION REQUEST

**COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 02/02/18
REQUEST 3**

RESPONSIBLE PARTY: Craig A. Johnson

Request 3. Refer to the Direct Testimony of Craig A. Johnson, pages 7-10, regarding the alternatives evaluated by EKPC. Provide the estimated net book value of stranded assets for each alternative.

Response 3. The estimated net book value of stranded assets as of December 31, 2022 contemplated in converting Spurlock Units 1 and 2 to gas was \$79.9 million. Both of the other alternatives, construction of a 600 MW combined-cycle unit and the 800 MW market purchase of capacity and energy, would require the retirement of Spurlock Units 1 and 2 in their entirety. A detailed economic analysis was not performed for these options because these options did not make it past the screening level. However, EKPC believes the net book value of the stranded assets in a scenario where Spurlock Units 1 and 2 are retired would exceed \$460 million as of December 31, 2022.

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2017-00376

RESPONSE TO INFORMATION REQUEST

**COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 02/02/18
REQUEST 4**

RESPONSIBLE PARTY: Robin Hayes

Request 4. Refer to the Direct Testimony of Robin Hayes and confidential Exhibit RH

1. On page 1 of Exhibit RH-1, an amount was shown on line 68 for year 2025. Confirm that EKPC intended to include this amount as shown and provide the reason.

Request 4a. If not confirmed, provide a corrected CCR-ELG Coal Compliance Alternative present value analysis.

Response 4a. The amount shown on line 68 for year 2025 was inadvertently included. See attached revised CCR-ELG Coal Compliance Alternative present value analysis, which is subject to a motion for confidential treatment.

Request 4b. If confirmed, explain why this same methodology was not applied to the CCR-ELG Gas Conversion Alternative analysis on page 2 of Exhibit RH-1, line 87 for year 2024.

Response 4b. N/A

REVISED PRESENT VALUE ANALYSIS OF CCR-ELG ALTERNATIVES

Subject to Motion for Confidential Treatment