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February 7, 2018

Via Hand-Delivery

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

RECEIVED

FEB 7 2018

PUBLIC SERVICE
COMMISSION

Re: PSC Case No. 2018-00027

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 an original and eight (8) copies of EKPC's Response to Commission Staff's First Request for Information propounded January 31, 2018. Please return a file-stamped copy of this filing to my office

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

Very truly yours,



David S. Samford

Enclosures

FILED

FEB 7 2018

PUBLIC SERVICE
COMMISSION

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

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER)	
COOPERATIVE, INC. FOR AN ORDER APPROVING THE)	
ESTABLISHMENT OF A REGULATORY ASSET FOR)	CASE NO.
THE DEPRECIATION AND ACCRETION EXPENSES)	2018-00027
ASSOCIATED WITH THE SMITH STATION LANDFILL)	
ASSET RETIREMENT OBLIGATIONS)	

**RESPONSES TO COMMISSION STAFF'S FIRST REQUEST FOR
INFORMATION TO EAST KENTUCKY POWER COOPERATIVE, INC.
DATED JANUARY 31, 2018**

RECEIVED

FEB 7 2018

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF EAST KENTUCKY)
POWER COOPERATIVE, INC. FOR AN ORDER)
APPROVING THE ESTABLISHMENT OF A) CASE NO. 2018-00027
REGULATORY ASSET FOR THE DEPRECIATION)
AND ACCRETION EXPENSES ASSOCIATED WITH)
THE SMITH STATION LANDFILL ASSET)
RETIREMENT OBLIGATIONS)

CERTIFICATE

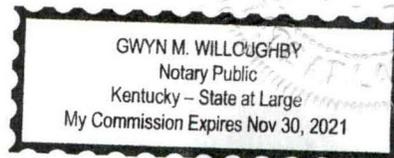
STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Michelle K. Carpenter, 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 First Request for Information in the above-referenced case dated January 31, 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.

Michelle K. Carpenter

Subscribed and sworn before me on this 7th day of February 2018.

Gwyn M. Willoughby #590567
Notary Public



EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2018-00027

RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION DATED 01/31/18

REQUEST 1

RESPONSIBLE PARTY: Michelle K. Carpenter

Request 1. Cite the regulatory requirements for coal ash impoundments that require EKPC to establish an asset retirement obligation ("ARO") for the Smith Station Landfill in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 410-20.

Response 1. Regulatory requirements related to the closure and post-closure of ash impoundments include the United States Environmental Protection Agency's (EPA) Final Rule on Coal Combustion Residuals (CCR), which became effective October 14, 2015, and Kentucky Special Waste Landfill regulations 401 KAR 45:110 Section 5(8). The CCR Rule has more stringent closure requirements and requires post-closure care for a period of 30 years. State regulations only require post-closure care for a period of 5 years. The cost estimates used to calculate the asset retirement obligations for the Smith Station Landfill meet the requirements of both the CCR Rule and 401 KAR 45:110.

EAST KENTUCKY POWER COOPERATIVE, INC.

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RESPONSE TO INFORMATION REQUEST

**COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION DATED 01/31/18
REQUEST 2**

RESPONSIBLE PARTY: Michelle K. Carpenter

Request 2. Refer to the Application, paragraph 7, which states, "The Smith Station Landfill was first included in EKPC's AROs for coal ash impoundments as of December 31, 2016, which is shortly after it began receiving ash from the Dale Station."

Request 2a. Provide the amount of the ARO established for the Smith Station Landfill.

Response 2a. AROs totaling \$1,153,244 were recorded for the Smith Station Landfill as of December 31, 2016. However, revisions were made to the cost estimates subsequent to year-end and accordingly, the total was revised to \$1,193,220 in January 2017.

Request 2b. Provide a detailed explanation of the components that make up the Smith Station Landfill ARO liability.

Response 2b. EKPC maintains AROs for both the closure and post-closure of the Smith Station Landfill. The closure component includes the capping, drainage, grading, and revegetation

of the site to meet the requirements of the CCR Rule and 401 KAR 45:110. The current cost estimate, adjusted for an inflation rate of 2.5%, is expected to be just over \$2.6 million as of June 30, 2049. The present value of expected cash flows using the credit-adjusted risk-free rate of 4.61% for the life of the asset was \$612,960 on January 1, 2017.

The 30-year post-closure component primarily includes groundwater and surface water monitoring, leachate management, erosion control and inspections to meet the requirements of the CCR Rule and 401 KAR 45:110. The current cost estimate, adjusted for an inflation rate of 2.5%, is expected to be just over \$4.8 million as of December 31, 2079. The present value of expected cash flows using the credit-adjusted risk-free rate of 4.61% for the life of the asset was \$580,260 on January 1, 2017.

Request 2c. Provide the journal entry to record the Smith Station Landfill ARO on EKPC's books.

Response 2c. The entries required to record the Smith Station Landfill ARO on EKPC's books are summarized below.

Account 317001—Asset Retirement Costs-Ash	\$612,960
Account 317002—Asset Retirement Costs-Ash Post Closure	\$580,260
Account 230003—Asset Retirement Obligation-Ash	\$612,960
Account 23004—Asset Retirement Obligation Post Closure	\$580,260
To record Smith Landfill closure and post-closure AROs	

EAST KENTUCKY POWER COOPERATIVE, INC.

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RESPONSE TO INFORMATION REQUEST

**COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION DATED 01/31/18
REQUEST 3**

RESPONSIBLE PARTY: Michelle K. Carpenter

Request 3. Refer to the Application, paragraph 10, which states, "The asset retirement cost is to be depreciated over the useful life of the related asset that gives rise to the obligation." Provide the useful life used to depreciate the Smith Station Landfill asset-retirement costs, and explain how the useful life was determined.

Response 3. Generally, the ARO settlement date is assumed to be the expected life of the related asset unless other information is available. In the case of the Smith Station Landfill, it was constructed not only to store the ash from the now retired Dale Station, but it was also designed with excess capacity to serve as an emergency storage facility for ash from EKPC's other coal-fired units. Therefore, the closure portion of the ARO for the Smith Station Landfill is currently being depreciated until June 2049, which is consistent with the depreciable life of EKPC's most recently constructed coal-fired unit, Spurlock Unit 4. The CCR Rule requires post-closure care for a period of 30 years. Therefore, the post-closure ARO is being depreciated through 2079.

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2018-00027

RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION DATED 01/31/18

REQUEST 4

RESPONSIBLE PARTY: Michelle K. Carpenter

Request 4. Refer to the Application, paragraph 10, which states, "The utility shall monitor measurement changes of the AROs on a timely basis." Explain EKPC's practice for the evaluation of changes in the Smith Station Landfill ARO.

Response 4. EKPC annually reviews environmental regulations, cost estimates and assumptions used in ARO calculations to determine any needed revisions. Such revisions are generally recorded as part of year-end closing activities.

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2018-00027

RESPONSE TO INFORMATION REQUEST

**COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION DATED 01/31/18
REQUEST 5**

RESPONSIBLE PARTY: Michelle K. Carpenter

Request 5. Refer to the Application, paragraph 11.

Request 5a. Provide the calculation of the depreciation expense of \$28,071.

Response 5a. Depreciation expense was calculated by dividing the ARO liability balance for each ARO component as described in Response 2b. on January 1, 2017 by the expected number of years until the settlement of the ARO. See calculations below:

Closure: $\$612,960/32.5 \text{ years} = \$18,860$

Post-Closure: $\$580,260/63 \text{ years} = \$9,211$

Request 5b. Provide the calculation of the accretion expense of \$55,007. Explain any interest or discount rate used and why it is the appropriate rate to be used to determine accretion expense.

Response 5b. Accretion expense was calculated by multiplying the ARO liability balance for each ARO component as described in Response 2b. on January 1, 2017 by the estimated credit-adjusted risk-free rate of 4.61%. This rate was based upon 30-year Treasury yield curve rate of 3.06% on December 31, 2016, adjusted for EKPC's anticipated credit spread. Treasuries are generally believed to be the most risk-free instrument and thereby, EKPC believes this rate provides a reasonable basis for our calculations. See calculations below:

$$\text{Closure: } \$612,960 \times 4.61\% = 28,257$$

$$\text{Post-Closure: } \$580,260 \times 4.61\% = 26,750$$

EAST KENTUCKY POWER COOPERATIVE, INC.

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RESPONSE TO INFORMATION REQUEST

**COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION DATED 01/31/18
REQUEST 6**

RESPONSIBLE PARTY: Michelle K. Carpenter

Request 6. Refer to the Application, paragraph 12, which states, "EKPC believes that the actual ARO settlement costs will be recoverable in rates or through the Environmental Surcharge mechanism when the costs are finalized." Given that the Smith Station Landfill costs are currently recovered through the Environmental Surcharge mechanism, explain why EKPC would recover the ARO settlement costs through base rates.

Response 6. EKPC is currently only recovering the cost of constructing the Smith Station Landfill through the Environmental Surcharge. EKPC has no recovery mechanism in place related to Smith Station's ARO closure and post-closure costs. EKPC believes that such costs should be recoverable in the future through either the Environmental Surcharge or base rates. EKPC will request recovery in a separate case after both mechanisms and their related impacts to EKPC's Owner-Member Cooperatives have been evaluated.

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2018-00027

RESPONSE TO INFORMATION REQUEST

**COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION DATED 01/31/18
REQUEST 7**

RESPONSIBLE PARTY: Michelle K. Carpenter

Request 7. Refer to the Application, paragraph 12, which states, "EKPC is also requesting that all subsequent ARO-related depreciation and accretion expenses associated with the Smith Station Landfill ARO be recorded as a regulatory asset." Provide a schedule by month and year showing all expected future amounts for ARO-related depreciation and accretion expenses related to the Smith Station Landfill.

Response 7. A summary of annual depreciation and accretion expenses has been provided on pages 2 and 3 of this response. Please note that all annual amounts will be recorded proportionately over twelve months.

Summary of Smith Station Landfill Depreciation and Accretion by Year

	Annual Depreciation			Annual Accretion			Total Depreciation and Accretion
	Closure	Post-Closure	Total	Closure	Post-Closure	Total	
2017	18,860.30	9,210.48	28,070.78	28,257.45	26,750.02	55,007.47	83,078.25
2018	18,860.30	9,210.48	28,070.78	29,560.11	27,983.14	57,543.25	85,614.03
2019	18,860.30	9,210.48	28,070.78	30,922.84	29,273.20	60,196.04	88,266.82
2020	18,860.30	9,210.48	28,070.78	32,348.38	30,622.67	62,971.05	91,041.83
2021	18,860.30	9,210.48	28,070.78	33,839.64	32,034.37	65,874.01	93,944.79
2022	18,860.30	9,210.48	28,070.78	35,399.65	33,511.15	68,910.80	96,981.58
2023	18,860.30	9,210.48	28,070.78	37,031.57	35,056.04	72,087.61	100,158.39
2024	18,860.30	9,210.48	28,070.78	38,738.73	36,672.14	75,410.87	103,481.65
2025	18,860.30	9,210.48	28,070.78	40,524.58	38,362.69	78,887.27	106,958.05
2026	18,860.30	9,210.48	28,070.78	42,392.76	40,131.25	82,524.01	110,594.79
2027	18,860.30	9,210.48	28,070.78	44,347.07	41,981.25	86,328.32	114,399.10
2028	18,860.30	9,210.48	28,070.78	46,391.47	43,916.59	90,308.06	118,378.84
2029	18,860.30	9,210.48	28,070.78	48,530.12	45,941.17	94,471.29	122,542.07
2030	18,860.30	9,210.48	28,070.78	50,767.36	48,059.06	98,826.42	126,897.20
2031	18,860.30	9,210.48	28,070.78	53,107.73	50,274.58	103,382.31	131,453.09
2032	18,860.30	9,210.48	28,070.78	55,556.00	52,592.24	108,148.24	136,219.02
2033	18,860.30	9,210.48	28,070.78	58,117.13	55,016.74	113,133.87	141,204.65
2034	18,860.30	9,210.48	28,070.78	60,796.33	57,553.01	118,349.34	146,420.12
2035	18,860.30	9,210.48	28,070.78	63,599.04	60,206.21	123,805.25	151,876.03
2036	18,860.30	9,210.48	28,070.78	66,530.95	62,981.69	129,512.64	157,583.42
2037	18,860.30	9,210.48	28,070.78	69,598.03	65,885.17	135,483.20	163,553.98
2038	18,860.30	9,210.48	28,070.78	72,806.50	68,922.46	141,728.96	169,799.74
2039	18,860.30	9,210.48	28,070.78	76,162.88	72,099.79	148,262.67	176,333.45
2040	18,860.30	9,210.48	28,070.78	79,673.99	75,423.59	155,097.58	183,168.36
2041	18,860.30	9,210.48	28,070.78	83,346.96	78,900.64	162,247.60	190,318.38
2042	18,860.30	9,210.48	28,070.78	87,189.26	82,537.93	169,727.19	197,797.97
2043	18,860.30	9,210.48	28,070.78	91,208.68	86,342.92	177,551.60	205,622.38
2044	18,860.30	9,210.48	28,070.78	95,413.40	90,323.36	185,736.76	213,807.54
2045	18,860.30	9,210.48	28,070.78	99,811.96	94,487.27	194,299.23	222,370.01
2046	18,860.30	9,210.48	28,070.78	104,413.29	98,843.11	203,256.40	231,327.18
2047	18,860.30	9,210.48	28,070.78	109,226.74	103,399.78	212,626.52	240,697.30
2048	18,860.30	9,210.48	28,070.78	114,262.09	108,166.52	222,428.61	250,499.39
2049	9,430.18	9,210.48	18,640.66	59,273.49	113,152.99	172,426.48	191,067.14
2050	-	9,210.48	9,210.48	-	118,371.62	118,371.62	127,582.10
2051	-	9,210.48	9,210.48	-	115,385.16	115,385.16	124,595.64
2052	-	9,210.48	9,210.48	-	112,054.76	112,054.76	121,265.24
2053	-	9,210.48	9,210.48	-	108,354.09	108,354.09	117,564.57
2054	-	9,210.48	9,210.48	-	104,257.91	104,257.91	113,468.39
2055	-	9,210.48	9,210.48	-	99,751.39	99,751.39	108,961.87
2056	-	9,210.48	9,210.48	-	99,077.37	99,077.37	108,287.85
2057	-	9,210.48	9,210.48	-	98,235.01	98,235.01	107,445.49
2058	-	9,210.48	9,210.48	-	97,223.49	97,223.49	106,433.97
2059	-	9,210.48	9,210.48	-	96,032.88	96,032.88	105,243.36
2060	-	9,210.48	9,210.48	-	94,634.17	94,634.17	103,844.65
2061	-	9,210.48	9,210.48	-	93,036.93	93,036.93	102,247.41
2062	-	9,210.48	9,210.48	-	91,210.30	91,210.30	100,420.78
2063	-	9,210.48	9,210.48	-	89,147.64	89,147.64	98,358.12
2064	-	9,210.48	9,210.48	-	86,832.66	86,832.66	96,043.14
2065	-	9,210.48	9,210.48	-	84,248.67	84,248.67	93,459.15
2066	-	9,210.48	9,210.48	-	81,377.59	81,377.59	90,588.07
2067	-	9,210.48	9,210.48	-	78,210.76	78,210.76	87,421.24
2068	-	9,210.48	9,210.48	-	74,729.78	74,729.78	83,940.26
2069	-	9,210.48	9,210.48	-	70,903.31	70,903.31	80,113.79
2070	-	9,210.48	9,210.48	-	66,720.65	66,720.65	75,931.13

Summary of Smith Station Landfill Depreciation and Accretion by Year

	Annual Depreciation			Annual Accretion			Total Depreciation and Accretion
	Closure	Post-Closure	Total	Closure	Post-Closure	Total	
2071	-	9,210.48	9,210.48	-	62,158.38	62,158.38	71,368.86
2072	-	9,210.48	9,210.48	-	57,193.64	57,193.64	66,404.12
2073	-	9,210.48	9,210.48	-	51,815.03	51,815.03	61,025.51
2074	-	9,210.48	9,210.48	-	45,970.42	45,970.42	55,180.90
2075	-	9,210.48	9,210.48	-	39,671.76	39,671.76	48,882.24
2076	-	9,210.48	9,210.48	-	32,850.51	32,850.51	42,060.99
2077	-	9,210.48	9,210.48	-	25,518.69	25,518.69	34,729.17
2078	-	9,210.48	9,210.48	-	17,599.55	17,599.55	26,810.03
2079	-	9,210.24	9,210.24	-	9,107.14	9,107.14	18,317.38
	612,959.78	580,260.00	1,193,219.78	2,039,146.18	4,289,086.00	6,328,232.18	7,521,451.96

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2018-00027

RESPONSE TO INFORMATION REQUEST

**COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION DATED 01/31/18
REQUEST 8**

RESPONSIBLE PARTY: Michelle K. Carpenter

Request 8. Refer to the Application, paragraph 13, where EKPC states that it is requesting the regulatory asset treatment for accounting purposes only. Explain whether EKPC is also seeking approval to establish the offsetting regulatory liability as part of this proceeding.

Response 8. EKPC depreciation rates used the assumption of net zero salvage, which implies that cost of removal will not exceed the salvage value of the asset. Therefore, there is no cost of removal component of accumulated depreciation that would need to be recorded as a regulatory liability.

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2018-00027

RESPONSE TO INFORMATION REQUEST

**COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION DATED 01/31/18
REQUEST 9**

RESPONSIBLE PARTY: Michelle K. Carpenter

Request 9. Identity and describe any factors that could impact the regulatory asset treatment proposed by EKPC in this case.

Response 9. There are no known factors that could impact the regulatory asset treatment of the accretion and depreciation associated with the Smith Station Landfill AROs at this time. However, given the timing of EKPC's annual audit and associated regulatory filings, along with the additional burden required to re-open EKPC's 2017 books to adjust accretion and depreciation by \$83,078, EKPC respectfully requests that the Commission authorize EKPC to record a credit to expense and a debit to the regulatory asset account in the amount of \$83,078 in 2018 to bring the regulatory asset account balance up to the amount requested for December 31, 2017 given this amount is immaterial to both the 2017 and 2018 financial statements.

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2018-00027

RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION DATED 01/31/18

REQUEST 10

RESPONSIBLE PARTY: Michelle K. Carpenter

Request 10. State whether EKPC proposes any periodic reporting for the Smith Station Landfill ARO regulatory asset.

Response 10. In accordance with the Commission's Order in Case No. 2014-00432, EKPC files, in conjunction with its annual report, an annual summary of ARO activity for all AROs granted regulatory asset treatment of accretion and depreciation. EKPC believes it would be appropriate to include the Smith Station Landfill ARO in this report.