

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

|                                      |   |            |
|--------------------------------------|---|------------|
| APPLICATION OF EAST KENTUCKY POWER   | ) |            |
| COOPERATIVE, INC. FOR APPROVAL OF AN | ) |            |
| ENVIRONMENTAL COMPLIANCE PLAN AND    | ) | CASE NO.   |
| AUTHORITY TO IMPLEMENT AN            | ) | 2004-00321 |
| ENVIRONMENTAL SURCHARGE              | ) |            |

COMMISSION STAFF'S FIRST DATA REQUEST  
TO EAST KENTUCKY POWER COOPERATIVE, INC.

Pursuant to Administrative Regulation 807 KAR 5:001, Commission Staff requests that East Kentucky Power Cooperative, Inc. ("East Kentucky") file the original and 7 copies of the following information with the Commission with a copy to all parties of record. The information requested herein is due November 4, 2004. Each copy of the information requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure its legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

1. Refer to page 3 of the Application. East Kentucky states its belief that, pursuant to KRS 278.183, it is entitled to recover costs associated with qualifying Clean Air Act and coal waste and by-product disposal compliance at its coal-fire generating

units and costs associated with Clean Air Act compliance at its gas-fired combustion turbine units. Explain in detail the basis for East Kentucky's belief that it can include the costs associated with Clean Air Act compliance at its gas-fired combustion turbine units. Describe the research East Kentucky conducted when it was formulating this belief. Include copies of any documents that support East Kentucky's position.

2. Concerning KRS 278.183:

a. Does East Kentucky agree that the title of this statute is "Surcharge to recover costs of compliance with environmental requirements for coal combustion wastes and by-products; environmental compliance plan, review and adjustment"?

b. If yes to part (a), explain how East Kentucky could conclude that environmental compliance costs associated with gas-fired turbines would be eligible for inclusion in an environmental surcharge.

3. As part of its research concerning what environmental compliance projects could be included in its proposed environmental surcharge,

a. Did East Kentucky review the decision in *Kentucky Industrial Utility Customers, Inc. v. Kentucky Utilities Co.*, 983 S.W.2d 493 (Ky. 1998)?

b. Would East Kentucky agree that this Kentucky Supreme Court decision repeatedly refers to the use of coal for electric generation? Explain the response.

4. Refer to the Direct Testimony of David G. Eames ("Eames Testimony"), page 5. Mr. Eames states that East Kentucky's proposed treatment of compliance projects that replaced existing equipment is consistent with the approach adopted by the Commission in other environmental surcharge cases. Since KRS 278.183 became

effective on July 14, 1992, the Commission has approved environmental surcharges for four utilities.

a. Identify to which utility's environmental surcharge approach Mr. Eames refers.

b. Did East Kentucky review the Commission's decisions in all of the previous environmental surcharge cases when it prepared its proposal? Explain the response.

5. Refer to the Direct Testimony of Robert E. Hughes ("Hughes Testimony"), page 3, lines 16-25. This testimony appears to indicate that all of the projects listed in Eames Exhibit 1 have received a Certificate of Public Convenience and Necessity ("CPCN") except Project No. 2. Is this a correct interpretation of this testimony?

a. If so, explain why no CPCN is necessary for Project No. 2.

b. If not, identify projects that have received a CPCN and the corresponding case number and if a CPCN was not necessary for a particular project, explain why.

6. Refer to the Hughes Testimony, page 8. Mr. Hughes states that East Kentucky has been able to delay the construction of the Selective Catalytic Reduction ("SCR") facilities at Cooper Unit 2. The Cooper Unit 2 SCR was granted a CPCN in Case No. 2000-00340.<sup>1</sup>

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<sup>1</sup> Case No. 2000-00340, The Application of East Kentucky Power Cooperative, Inc. for a Certificate of Public Convenience and Necessity for the Construction of Selective Catalytic Reduction Nitrogen Oxide Control Facilities in Mason and Pulaski Counties, Kentucky.

a. Describe what work has been undertaken by East Kentucky relative to the Cooper Unit 2 SCR. Include in this description whether East Kentucky has started any site work.

b. Given the provisions of KRS 278.020(1), does East Kentucky believe the CPCN for the Cooper Unit 2 SCR is still in force? Explain the response.

7. Refer to the Direct Testimony of Craig A. Johnson, page 6. Mr. Johnson states the Gilbert unit will produce approximately 405,000 tons of fly ash, bed ash, and scrubber particles.

a. Are there any markets available for these by-products? Explain the response.

b. Has East Kentucky considered selling these by-products rather than disposing of them into landfills? Explain the response.

8. Refer to the Direct Testimony of Ann F. Wood (“Wood Testimony”), pages 3 and 4. East Kentucky proposes to subtract the estimated net book value of the Spurlock Unit 1 precipitator, preheaters, and fans as of December 31, 1993, the test year in Case No. 1994-00336,<sup>2</sup> from the net book value of the new precipitator, preheaters, and fans as of March 31, 2005.

a. Explain in detail why the actual book values of the precipitator, preheaters, and fans as of December 31, 1993 are not available.

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<sup>2</sup> Case No. 1994-00336, Application of East Kentucky Power Cooperative, Inc. to Adjust Electric Rates.

b. Provide the original cost and accumulated depreciation associated with the Spurlock Unit 1 precipitator, preheaters, and fans as of December 31, 1993 that were replaced by Project No. 2.

c. Would Ms. Wood agree that this proposed treatment of replacements reflects an “incremental” approach rather than a “base-current” approach for East Kentucky’s environmental surcharge? Explain the response.

d. Provide the actual expense levels for the following items associated with the replaced Spurlock Unit 1 precipitator, preheaters, and fans for the 12-month period ending December 31, 1993. If the information is not available, explain in detail why East Kentucky cannot provide the information.

- (1) Depreciation expense.
- (2) Property tax expense.
- (3) Insurance expense.
- (4) Operation expenses (list by account number).
- (5) Maintenance expenses (list by account number).

9. Refer to the Wood Testimony, page 4. Concerning the depreciation rates to be used for environmental compliance facilities:

a. Have the depreciation rates used in this filing been approved in a previous Commission proceeding?

- (1) If so, identify the case number.
- (2) If not, provide a copy of the depreciation study used to derive the rates used in this filing.

b. When determining the depreciation rates for the environmental compliance facilities, did East Kentucky consult with other utilities in the region with similar facilities? Explain the response.

10. Refer to the Wood Testimony, pages 4 and 5. Assume for purposes of this question that the environmental equipment for the Gilbert unit, Project No. 1, are included as part of the Commission's approved compliance plan for East Kentucky. Further assume that the Gilbert unit does not become operational until July 2005. Given these assumptions, explain in detail how East Kentucky would propose to incorporate the costs for Project No. 1 in its environmental surcharge until the Gilbert unit became operational.

11. Refer to the Wood Testimony, page 5. Ms. Wood states that East Kentucky does not plan to have balances in the following accounts as of March 31, 2005: construction work in progress, spare parts inventory, limestone inventory, and a nitrogen oxide ("NOx") emission allowance inventory related to pollution control activities. Ms. Wood also states that East Kentucky is requesting that it be permitted to include these accounts in its proposed environmental surcharge. Given this request, does East Kentucky understand and agree that balances for these accounts can only be included in the environmental surcharge if they are associated with the compliance projects included in the Commission-approved environmental compliance plan? Explain the response.

12. Refer to the Wood Testimony, page 5. Concerning East Kentucky's inventories of sulfur dioxide ("SO<sub>2</sub>") and NOx emission allowances:

a. Provide a schedule of East Kentucky's SO<sub>2</sub> emission allowance inventory. The schedule should include the following information:

(1) The number of SO<sub>2</sub> emission allowances received from the Environmental Protection Agency ("EPA") by vintage year from 1995 to 2004.

(2) The number of SO<sub>2</sub> emission allowances that are expected to be received from EPA for vintage years 2005 through 2032.

(3) The number of SO<sub>2</sub> emission allowances purchased or acquired by East Kentucky by year from 1995 through September 2004. Include the purchase price or transaction cost for each year's acquisition.

(4) The number of SO<sub>2</sub> emission allowances used, sold, or otherwise disposed of by East Kentucky by year from 1995 through September 2004. Separate the allowances used by East Kentucky from those sold or disposed. Include the selling price or transaction cost of each year's sale or disposal.

(5) The weighted average cost of East Kentucky's SO<sub>2</sub> emission allowance inventory as of September 30, 2004. Include all calculations and assumptions used to determine the weighted average cost.

b. Provide a schedule of East Kentucky's NO<sub>x</sub> emission allowance inventory. The schedule should include the following information:

(1) The number of NO<sub>x</sub> emission allowances received from the EPA by vintage year from 2002 through 2006. Show separately the regular NO<sub>x</sub> emission allowances from the Early Reduction Credits ("ERCs").

(2) The number of NOx emission allowances purchased or acquired by East Kentucky by year from 2002 through September 2004. Include the purchase price or transaction cost of each year's acquisition.

(3) The number of NOx emission allowances used, sold, or otherwise disposed of by East Kentucky by year from 2002 through September 2004. Separate the allowances used by East Kentucky from those sold or disposed of, as well as between regular NOx allowances and ERCs. Include the selling price or transaction cost of each year's sale or disposal.

(4) The weighted average cost of East Kentucky's NOx emission allowance inventory as of September 30, 2004. Include all calculations and assumptions used to determine the weighted average cost.

c. Has East Kentucky developed a management strategy for acquisition and use of its SO<sub>2</sub> emission allowances and NOx emission allowances?

(1) If yes, provide copies of the management strategy or provide a narrative discussing the strategy.

(2) If no, explain why East Kentucky has not developed such a management strategy.

13. Refer to the Wood Testimony, pages 6 and 7. Concerning the recovery of operation and maintenance ("O&M") expenses associated with environmental compliance activities and its air permit fees:

a. Explain in detail why East Kentucky is proposing to calculate a current average monthly O&M expense and a current average monthly air permit fee,



rather than using the current actual monthly O&M expense and current actual monthly air permit fees.

b. Ms. Wood proposes to compare the average current month's O&M expense to the total O&M expense for each account or code as booked in calendar year 1993, divided by 12. Will the O&M accounts or codes used to form this baseline be the entire balance in 1993 of the particular accounts and codes, or will the amounts be restricted to those O&M expenses associated with the Spurlock Unit 1 precipitator, preheaters, and fans that have been replaced? Explain the response.

c. If the 1993 baseline of O&M expenses will not be restricted to O&M expenses associated with the Spurlock Unit 1 precipitator, preheaters, and fans, explain in detail why it is reasonable to assume the entire change in the balance in the particular O&M expense accounts and codes is solely related to the environmental compliance activities outlined in the proposed environmental compliance plan.

14. Refer to the Wood Testimony, Wood Exhibit 1. Provide a schedule similar to those included in this exhibit for Project No. 1.

15. Refer to the Wood Testimony, Wood Exhibit 2.

a. Explain why the expenses associated with Project No. 1 have been excluded from this exhibit.

b. Provide a revised Wood Exhibit 2 that includes the estimated expenses associated with Project No. 1.

16. Refer to the Direct Testimony of Frank J. Oliva ("Oliva Testimony"), pages 4 through 6.

a. Explain how East Kentucky determined a reasonable rate of return on its environmental investments was reflected by multiplying its average cost of long-term debt by a Times Interest Earned Ratio ("TIER") of 1.15X.

b. On page 4 of the Oliva Testimony is the statement that East Kentucky is requesting approval to establish an environmental surcharge tariff that would produce a TIER of 1.15X. Explain how the environmental surcharge tariff could produce a TIER when there is no interest on long-term debt included in the surcharge mechanism.

c. Using East Kentucky's estimated investment in environmental compliance facilities and the estimated O&M expense for March 2005, provide the calculations that show that a 5.635 percent rate of return on rate base will result in a 1.15X TIER. Include all workpapers and assumptions used to support these calculations.

d. On page 5 of the Oliva Testimony is the statement that East Kentucky proposes to update its average cost of debt at six-month intervals.

(1) Is East Kentucky proposing to revise its rate of return on rate base upon its own action every six months? Explain the response.

(2) Was East Kentucky aware that in the other authorized environmental surcharges approved by the Commission, the rate of return on rate base is not changed until the conclusion of a six-month or two-year surcharge review?

(3) If East Kentucky is proposing to change its rate of return on rate base upon its own action, explain in detail why East Kentucky should be treated differently than the other utilities that have been authorized an environmental surcharge.

17. Using the formats attached to this data request, provide the following financial information for East Kentucky.

- a. The Net Operating Income (“NOI”) and TIER for the 12 months ending July 31, 2004.
- b. The NOI that results if the TIER for the 12 months ending July 31, 2004 is 1.15X.
- c. The Rate Base as of July 31, 2004.
- d. The Rate of Return on Rate Base reflecting the NOI achieved for the 12 months ending July 31, 2004.
- e. The Rate of Return on Rate Base reflecting the NOI resulting from a 1.15X TIER.

18. Refer to the Direct Testimony of William A. Bosta (“Bosta Testimony”), page 4. Mr. Bosta states that East Kentucky’s surcharge will include a component for a surcharge factor included in base rates, the Base Period Environmental Surcharge Factor (“BESF”). Mr. Bosta states that the BESF will be zero until there is a roll-in of the surcharge into base rates during a two-year review.

- a. Does East Kentucky plan to recognize the replacement of a precipitator, preheaters, and fans at Spurlock Unit 1 in its surcharge mechanism?
- b. Explain why a return on the replaced utility plant and associated O&M expenses could not be the basis of a BESF factor at the beginning of East Kentucky’s surcharge.
- c. Would Mr. Bosta agree that, as proposed by East Kentucky, the surcharge mechanism is following an incremental approach, but would be converted to

the base-current approach when a roll-in of the surcharge into base rates occurs?  
Explain the response.

d. Explain why it would not be reasonable for East Kentucky's surcharge to utilize the base-current approach at the inception of the surcharge.

19. Refer to the Bosta Testimony, page 4. Identify what consulting fees East Kentucky plans to include in its environmental surcharge.

20. Refer to the Bosta Testimony, page 8. Mr. Bosta states that East Kentucky plans to accumulate the monthly over- or under-recoveries during the six-month period and apply them prospectively over the next six-month period.

a. Does East Kentucky intend to make this over- or under-recovery adjustment upon its own action, or would this be addressed in a six-month surcharge review proceeding? Explain the response.

b. Was East Kentucky aware that the other environmental surcharge mechanisms approved by the Commission include a two-month true-up adjustment that resolves any over- or under-recoveries associated with surcharge timing differences?

c. Explain why East Kentucky is proposing its six-month over- or under-recovery approach when other authorized environmental surcharges use a two-month true-up adjustment.

21. Refer to the Bosta Testimony, pages 9 and 10. Assume for purposes of this question that East Kentucky's environmental surcharge mechanism is approved as proposed. Further assume that the environmental surcharge revenue requirement for East Kentucky for the expense month of July 2005 is \$4,200,000 and the average monthly member system revenues for the 12 months ending July 2005 is \$48,000,000.

a. Calculate East Kentucky's Current Month Environmental Surcharge Factor for the expense month of July 2005.

b. Using the East Kentucky bill to member system data for August 2004, calculate the environmental surcharge dollars that would be recovered from each of East Kentucky's 16 member systems.

c. Indicate when the environmental surcharge for the expense month of July 2005 would appear on:

(1) The bills to the member systems.

(2) The retail customer bills from the member systems.

22. Refer to the Bosta Testimony, page 10. East Kentucky proposes that the retail environmental surcharge factor be calculated and filed at the same time as the wholesale environmental surcharge factor is filed.

a. Is East Kentucky proposing to file the retail environmental surcharge factors on behalf of its member systems? Explain the response.

b. Is it East Kentucky's belief that the retail customers of its member systems are paying an environmental surcharge or are they paying the pass through of the environmental surcharge billed to the member systems? Explain the response.

23. Provide a schedule showing for each month of the 12-month period ending July 31, 2004, the percentage of East Kentucky's total sales of energy that were made to entities other than its member systems. Show this information based on revenues and MWH sold.



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Beth O'Donnell  
Executive Director  
Public Service Commission  
P. O. Box 615  
Frankfort, KY 40602

DATED October 22, 2004

cc: All Parties

Case No. 2004-00321

| <p style="text-align: center;"><b>Case No. 2004-00321</b><br/> <b>East Kentucky Power Cooperative, Inc.</b><br/> <b>Statement of Operations – 12-Months Ending July 31, 2004</b></p> |  |        |
|--|--|--------|
| Line No.   | Item   | Amount |
| 1.   | Total Operating Revenues & Patronage Capital<br>(Lines 1 thru 3 of RUS Form 12a)                   |        |
| 2.   | Total Operation Expense<br>(Lines 5 thru 13 of RUS Form 12a)                                       |        |
| 3.   | Total Maintenance Expense<br>(Lines 15 thru 18 of RUS Form 12a)                                    |        |
| 4.   | Depreciation & Amortization Expense<br>(Line 20 of RUS Form 12a)                                   |        |
| 5.   | Taxes<br>(Line 21 of RUS Form 12a)   |        |
| 6.   | <b>Net Operating Income</b><br>[Line 1 minus (Lines 2 thru 5)]                                     |        |
| 7.   | Interest on Long-Term Debt<br>(Line 22 of RUS Form 12a)  |        |
| 8.   | Interest Charged to Construction – Credit<br>(Line 23 of RUS Form 12a)                             |        |
| 9.   | Other Interest Expense & Other Deductions<br>(Lines 24 and 25 of RUS Form 12a)                     |        |
| 10.  | Interest Income<br>(Line 28 of RUS Form 12a)   |        |
| 11.  | Allowance for Funds Used During Construction<br>(Line 29 of RUS Form 12a)                          |        |
| 12.  | Other Income & Capital Credits<br>(Lines 30 thru 33 of RUS Form 12a)                               |        |
| 13.  | Extraordinary Items<br>(Line 34 of RUS Form 12a)   |        |
| 14.  | <b>Net Patronage Capital or Margins</b><br>[Line 6 minus (Lines 7 thru 9) plus (Lines 10 thru 13)] |        |

TIER for 12-Months Ending July 31, 2004:

|  |    |
|--|----|
| Net Patronage Capital or Margins (Line 14) | \$ |
| Interest on Long-Term Debt (Line 7)        | \$ |

TIER [(Line 14 + Line 7) / Line 7] \_\_\_\_\_

Line references to RUS Form 12a relate to Section A – Statement of Operations.

| <b>Case No. 2004-00321</b><br><b>East Kentucky Power Cooperative, Inc.</b><br><b>NOI Resulting from TIER of 1.15X – 12-Months Ending July 31, 2004</b> |  |       |
|--|--|-------|
| 1.   | Interest on Long-Term Debt<br>(Format 1 – Page 1, Line 7)                      |       |
| 2.   | Target TIER  | 1.15X |
| 3.   | Multiply Line 1 by Line 2  |       |
| 4.   | Interest on Long-Term Debt, Line 1   |       |
| 5.   | Net Patronage Capital or Margins to<br>Produce a 1.15X TIER                    |       |
| 6.   | Sum of Lines 10 thru 13, Format 1 – Page 1                                     |       |
| 7.   | Subtotal, Line 5 minus Line 6  |       |
| 8.   | Sum of Lines 7 thru 9, Format 1 – Page 1                                       |       |
| 9.   | <b>Net Operating Income Resulting from TIER of 1.15X</b><br>Line 7 plus Line 8 |       |



| <p style="text-align: center;"><b>Case No. 2004-00321</b><br/> <b>East Kentucky Power Cooperative, Inc.</b><br/> <b>Rate Base – As of July 31, 2004</b></p> |  |  |
|---|--|--|
| 1.  | Utility Plant in Service<br>(Line 1 of RUS Form 12a)                           |  |
| 2.  | Construction Work in Progress<br>(Line 2 of RUS Form 12a)                      |  |
| 3.  | Total Plant in Service, Line 1 plus Line 2                                     |  |
| 4.  | Fuel Stock – 13-month average balance<br>(Line 22 of RUS Form 12a)             |  |
| 5.  | Materials and Supplies – 13-month average balance<br>(Line 23 of RUS Form 12a) |  |
| 6.  | Prepayments – 13-month average balance<br>(Line 24 of RUS Form 12a)            |  |
| 7.  | Cash Working Capital Allowance<br>(Line 15, below)                             |  |
| 8.  | Subtotal – Sum of Lines 4 thru 7   |  |
| 9.  | Accumulated Depreciation<br>(Line 4 of RUS Form 12a)                           |  |
| 10.   | <b>Rate Base</b><br>(Line 3 plus Line 8 minus Line 9)                          |  |
| Cash Working Capital Allowance Calculation  |  |  |
| 11.   | Total Operation Expense<br>(Format 1 – Page 1, Line 2)                         |  |
| 12.   | Total Maintenance Expense<br>(Format 1 – Page 1, Line 3)                       |  |
| 13.   | Purchased Power Expense  |  |
| 14.   | Total Working Capital<br>(Line 11 plus Line 12 minus Line 13)                  |  |
| 15.   | Cash Working Capital Allowance –<br>Multiply Line 14 by 12.5%                  |  |

Line references to RUS Form 12a related to Section B – Balance Sheet.

| <b>Case No. 2004-00321</b><br><b>East Kentucky Power Cooperative, Inc.</b><br><b>Determination of Rate of Return on Rate Base</b> |   |  |
|---|---|--|
| Rate of Return for the 12-Months Ending July 31, 2004   |   |  |
| 1.  | Net Operating Income<br>(Format 1 – Page 1, Line 6)       |  |
| 2.  | Rate Base<br>(Format 1 – Page 3, Line 10)                 |  |
| 3.  | Rate of Return on Rate Base<br>(Line 1 divided by Line 2) |  |
| Rate of Return Reflecting TIER of 1.15X   |   |  |
| 4.  | Net Operating Income<br>(Format 1 – Page 2, Line 9)       |  |
| 5.  | Rate Base<br>(Format 1 – Page 3, Line 10)                 |  |
| 6.  | Rate of Return on Rate Base<br>(Line 4 divided by Line 5) |  |