COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

ELECTRONIC TARIFF FILING OF THE EAST	)	
KENTUCKY POWER COOPERATIVE, INC.	)	CASE NO.
DISTRIBUTION COOPERATIVES TO ESTABLISH	)	2023-00135
AN EARNING MECHANISM TARIFF	)	

RESPONSES TO COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO EAST KENTUCKY POWER COOPERATIVE, INC'S DISTRIBUTION COOPERATIVES DATED JUNE 6, 2023

Filed: June 23, 2023

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

ELECTRONIC TARIFF FILING OF THE EAST KENTUCKY POWER COOPERATIVE, INC. DISTRIBUTION COOPERATIVES TO ESTABLISH AN EARNING MECHANISM TARIFF	))))	CASE NO. 2023-00135

VERIFICATION OF JOHN WOLFRAM

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF JEFFERSON)

John Wolfram, Principal, Catalyst Consulting LLC, being duly sworn, states that he has supervised the preparation of certain responses to Commission Staff's First Request for Information in the above referenced case on behalf of East Kentucky Power Cooperative Inc.'s Distribution Cooperatives, 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.

John Wolfram

The foregoing Verification was signed, acknowledged and sworn to before me this 14th day of June, 2023, by John Wolfram.

Commission expiration: ____________________

DESTINY ANN HENSON
Notary Public - State at Large
Kentucky
My Commission Expires Oct. 25, 2026
Notary ID KYNP61142

EAST KENTUCKY POWER COOPERATIVE INC. DISTRIBUTION COOPERATIVES

PSC CASE NO. 2023-00135

RESPONSE TO REQUEST FOR INFORMATION

PSC'S REQUEST FOR INFORMATION DATED 6/6/23

REQUEST 1

RESPONSIBLE PARTY: John Wolfram

Request 1. Refer to the revised tariff filed with the Motion for Leave to Modify Tariffs, unnumbered page 2.

a. Explain why the Distribution Cooperatives have proposed four different methods for calculating how the bill credit percentage will be applied to each rate schedule.

b. Explain how the Distribution Cooperatives will determine which method will be used each year.

c. When the return of excess margins is based on total revenues or usage, explain what basis the Distribution Cooperatives will use to distribute the credit of retail members who are no longer members at the time the credit is give to current retail members.

Response 1a. The distribution cooperatives proposed different approaches for calculating the bill credit in order to maintain a certain degree of flexibility on the calculation, because all retail rate classes for all sixteen distribution cooperatives are not homogeneous. Some retail rate classes have very few members, and some have a large number of members, which differs for each of the sixteen distribution cooperatives. Some of the distribution cooperative rate classes experience very little if any change in member count over time, and others do not. Some of the distribution

Cooperative rate classes have many members with comparable consumption and revenue patterns, while others have few members with disparate consumption and revenue patterns. For example, a residential class for some distribution cooperatives may have 20,000 members, most of whom use about 1,000 kWh per month with revenues of $120 per month, but a large power class might have only two members, where one uses much more power than the other and thus has much larger usage and revenue amounts than the other. Here it would be more reasonable to use customer count to allocate the bill credit for the residential class but more reasonable to use kWh or revenue to allocate the bill credit for the large power class. For other classes, members may switch rate classes and cause conclusions like this to change from year to year. The proposal basically provides the distribution cooperative a small degree of flexibility to implement the bill credit in a way that is reasonable for its particular retail rate class compositions while still adhering to the terms approved in the East Kentucky Power Cooperative, Inc. ("EKPC") rate case settlement. Without this flexibility, each distribution cooperative might have to file tariff changes any time the composition of a particular retail rate class changes in a way that would make a single proposed method less reasonable. This degree of flexibility is small because the possible bases for allocation are very limited, are set forth in the tariff, and are subject to the review and approval of the Commission when, for each year a bill credit is applicable, the distribution cooperative would file its calculations, consistent with the requirements of the rate case settlement and as included in the revised tariffs filed with the Motion for Leave to Modify Tariffs.

Furthermore, the distribution cooperatives expect that the bill credits for residential consumers will be small once they are distributed first from EKPC to the sixteen member systems and second to the retail classes of each of those distribution cooperatives and third to the individual residential member of each distribution cooperative. These are not capital credits; they are bill credits agreed to in a wholesale rate case settlement. The costs associated with administering the bill credits should not exceed the bill credits themselves, and in order to maintain a favorable cost / benefit scenario for implementation, the distribution cooperatives seek a method of managing this that allows them to keep costs low while also affording the opportunity to reasonably tailor the allocation of bill credits to the particular circumstances associated with its retail rate classes.

Response 1b. The distribution cooperatives will determine the method to be applied to each rate class each year based on the number of members in the class, the relative usage of the members in the class, and the relative revenues of the members in the class. While any of the methods could be reasonable, the distribution cooperatives will make a determination of what is most reasonable based on individual circumstances. It is likely that the distribution cooperative will not change the method used for any particular class from year to year unless the composition of that class experiences significant change.

Response 1c. The distribution cooperatives will base the bill credit on the total kWh or total revenues of the current members only. No bill credit will be determined for those who are no longer members at the time the bill credits are calculated. As a simplified example, say there were 10 members in a retail rate class during the year for which EKPC calculates the amounts, but at the time of the actual bill credit, there are only 7 members in the retail rate class. In this case, if the credit is based on customer count, each retail member would receive 1/7th of the total bill credit amount. If the credit is based on kWh, each member would receive a share of the total bill credit equal to its share of the total kWh of the 7 members. If the credit is based on revenue, each retail member would receive a share of the total bill credit equal to its share of the total revenue of the 7 members. The count, kWh, or revenue of the member no longer on the system is not considered. Another way to consider this is to think of the current member shares as grossed up to 100% while maintaining their current proportions relative to one another, such that any amounts for those who are no longer members are attributed to those who are still members, in their current relative proportions.

Since these are bill credits and not capital credits, the costs associated with returning the bill credits should not be more than the actual bill credit. The owner-members are requesting to issue the bill credit only to active members at the time the bill credit is placed on customer bills to help to ensure that the owner-members do not end up spending more on returning the bill credit, than the bill credit actually is.

EAST KENTUCKY POWER COOPERATIVE INC. DISTRIBUTION COOPERATIVES

PSC CASE NO. 2023-00135

RESPONSE TO REQUEST FOR INFORMATION

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REQUEST 2

RESPONSIBLE PARTY: John Wolfram

Request 2. Explain the issues that would be encountered in returning bill credits to retail members who are no longer members at the time the credit is given.

Response 2. Several issues make the return of bill credits to retail members who are no longer members at the time the credit is given challenging. Primarily, since the members no longer receive a bill, it would be necessary to cut a check and mail the check to these former members. This process is costly and time consuming; unless the bill credits were quite large, it is likely that the cost to cut and mail checks would outweigh the bill credits, resulting in a net cost to the distribution cooperative. Overall complexity increases significantly for cutting checks to former members. Many questions arise. Can the billing software track the amounts due to former members? Does the distribution cooperative have to revise the billing software to keep account of both current and former member amounts? How does the system track what inactive accounts cashed their check? Did it come back undeliverable? If so, do the distribution cooperatives retain the amounts? What dollar amount is too small to justify cutting these checks, given the cost to print, mail, and process? How does the distribution cooperative book and track these amounts? What is the process for accounts disconnected for non-payment, or accounts with arrears? Can the distribution cooperative apply the bill credits to arrears or bad debt? What amounts per account are too small to keep track of in the billing system? These are some procedural and accounting questions that immediately arise, and others would likely arise if the billing system changes were made and a process for providing the bill credit to former members were activated.

There are other practical issues. The distribution cooperative may not have current addresses for all of these former members. This means that checks would be returned if the distribution cooperative has an incorrect forwarding address. It raises the procedural question of what obligations the distribution cooperative has to find these members. It also raises procedural questions of what accounting and billing treatment the distribution cooperative should afford the amounts for any returned checks, lost checks, uncashed checks, or checks for former members for which no forwarding address information can be determined. All of this reasoning is based on discussions with experienced distribution cooperative finance / accounting / billing professionals and on the reasonable assumption that the bill credits will be small as noted in the response to Request 1. These are not capital credits that relate to member investment over many years; they are bill credits that are likely to relate to a very recent time frame (i.e. months) so that those who are no longer members at the time of the bill credit are expected to comprise a very small portion of the total – but the inclusion of which would introduce a much higher degree of complexity and cost.

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REQUEST 3
RESPONSIBLE PARTY: John Wolfram

Request 3. Explain in detail how the Distribution Cooperatives propose to calculate and bill any credit under the Earnings Mechanism and provide a sample calculation in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible.

Response 3. Each distribution cooperative will begin its analysis with the dollar amount of the bill credit determined by EKPC for each distribution cooperative by EKPC rate class. The distribution cooperative will then determine the total dollar amount of bill credits to be allocated to each of its retail rate classes based on percentage of revenue, for the year associated with EKPC's analysis. Then, for each member of its retail rate classes, the distribution cooperative will determine the appropriate method for allocation as described in the response to Request 1. For all active members at the time of the bill credit analysis, the distribution cooperative will determine the share of the total that each comprises, and will apply those percentages to the amount of billing credit dollars assigned to that particular retail rate class. The first file attached, *Sample EKPC for Cooperative,* is used to determine the allocation of EKPC bill credits to the retail rate classes. The second file attached, *Sample Allocation_v1*, illustrates how the distribution cooperative could

could calculate the bill credits for individual members. There are a number of ways to perform these calculations; the attached file is just one example.

The actual method of including the bill credits on member bills is not yet determined as the distribution cooperatives are working with the billing software vendors to address this implementation.

The attachments are Excel spreadsheets and are being uploaded into the Commission's electronic filing system separately.

ATTACHMENTS ARE EXCEL SPREADSHEETS AND UPLOADED SEPARATELY