COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ELECTRONIC EXAMINATION BY THE	)	
PUBLIC SERVICE COMMISSION OF THE	)	
ENVIROMENTAL SURCHARGE MECHANISM	)	
OF EAST KENTUCKY POWER COOPERATIVE,	)	**CASE NO.**
INC. FOR THE SIXTH-MONTH EXPENSE PERIOD	)	**2026-00070**
ENDING NOVEMBER 30, 2025, AND THE PASS-	)	
THROUGH MECHANISM OF ITS SIXTEEN	)	
MEMBER DISTRIBUTION COOPERATIVES	)	

DIRECT TESTIMONY OF CHRISTIAN EVERLY

ON BEHALF OF EAST KENTUCKY POWER COOPERATIVE, INC.

Filed: May 15, 2026

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AFFIDAVIT

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Christian Everly, being duly sworn, states that he has read the foregoing prepared testimony and that he would respond in the same manner to the questions if so asked upon taking the stand and that the matter and things set forth therein are true and correct, to the best of his knowledge, information and belief.

Christian Everly

Christian Everly

Subscribed and sworn before me on this 14th day of May, 2026.

TERRI K. COMBS
Notary Public
Commonwealth of Kentucky
Commission Number KYNP17358
My Commission Expires Dec 20, 2028

Terri K. Combs

Notary Public

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Christian Everly and my business address is East Kentucky Power Cooperative, Inc. ("EKPC"), 4775 Lexington Road, Winchester, Kentucky 40391. I am a Rates and Regulatory Analyst for EKPC.

Q. PLEASE STATE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

A. I received a Bachelor of Business Administration degree in Business Management from Eastern Kentucky University in 2021. Prior to joining EKPC, I worked for the Kentucky Public Service Commission ("Commission") from March 2022 to February 2025 in various financial positions including Public Utilities Analyst and Rate Design Manager. I have been employed by EKPC in my current position since February 2025.

Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR DUTIES AT EKPC.

A. As a Rates and Regulatory Analyst, I am responsible for assisting in rate-making activities which include designing and developing wholesale and retail electric rates, developing pricing concepts and methodologies, and assisting in filings to the Commission. I report to the Director of Regulatory and Compliance Services.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to address the following topics:

- Describe how EKPC and its Owner-Members applied the environmental surcharge mechanism and the pass-through mechanism in a reasonable manner during the period under review;
- Propose updating the rate of return used in the environmental surcharge calculation;
- Discuss EKPC and its Owner-Members' position concerning a roll-in of the environmental surcharge into EKPC's wholesale base rates; and

- Propose a change to the Base Environmental Surcharge Factor ("BESF") to reflect the retirement of assets recovered through base rates as a result of environmental compliance plan projects going into service.

Q. ARE YOU SPONSORING ANY EXHIBITS TO YOUR TESTIMONY?

A. Yes. I am sponsoring *Exhibit JCE-1 – BESF Calculation.xlsx*.

Q. IS EKPC PREPARING TESTIMONY AND RESPONDING TO DATA REQUESTS ON BEHALF OF ITS OWNER MEMBERS?

A. Pursuant to the Commission's March 5, 2025 Order, EKPC is preparing testimony on behalf of each Owner-Member. The Owner-Members are: Big Sandy Rural Electric Cooperative Corporation, Blue Grass Energy Cooperative Corporation, Clark Energy Cooperative, Inc., Cumberland Valley Electric, Inc., Farmers Rural Electric Cooperative Corporation, Fleming-Mason Energy Cooperative, Grayson Rural Electric Cooperative Corporation, Inter-County Energy Cooperative Corporation, Jackson Energy Cooperative, Licking Valley RECC, Nolin Rural Electric Cooperative Corporation, Owen Electric Cooperative, Salt River Electric Cooperative Corporation, Shelby Energy Cooperative, Inc., South Kentucky Rural Electric Cooperative Corporation, and Taylor County Rural Electric Cooperative Corporation. EKPC is also providing Response 2 to the Commission Staff's First Request for Information ("Staff's First Request") on behalf of its sixteen Owner-Members.

Q. HAVE OTHER EKPC REPRESENTATIVES PROVIDED RESPONSES TO COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION IN THIS PROCEEDING?

A. Yes. Mark Horn, Director of Fuel and Emissions, provided emission allowance information in Response 3 to the Staff's First Request. Thomas Stachnik, Vice President

– Finance and Treasurer, provided the debt and average interest rate information in Response 5 to the Staff's First Request.

Q. WOULD YOU IDENTIFY THE SIX-MONTH REVIEW PERIOD INCLUDED IN THIS PROCEEDING?

A. The Commission's April 23, 2026 Order identified the six-month review period as being the expense months ending November 30, 2025.

Q. PREVIOUS COMMISSION ORDERS REQUIRED EKPC TO INCORPORATE CERTAIN PROVISIONS INTO THE CALCULATION OF THE MONTHLY ENVIRONMENTAL SURCHARGE FACTORS. PLEASE COMMENT ON HOW EKPC ADDRESSED THE MOST SIGNIFICANT ASPECTS OF THESE ORDERS DURING THE PERIODS UNDER REVIEW.

A. A brief description of each component of the environmental surcharge calculation, applied consistently with Commission Orders, is discussed below.

- **Compliance Plan Projects**

  At the end of the 6-month review period, EKPC initially had 40 projects in its Environmental Compliance Plan. These projects were approved by the Commission in

Case Nos. 2004-00321,[1] 2008-00115,[2] 2010-00083,[3] 2013-00259,[4] 2014-00252,[5] 2017-00376,[6] 2018-00270,[7] 2023-00177,[8] and 2024-00109[9]. In conjunction with the establishment of a regulatory asset for the undepreciated balance of the William C. Dale Generating Station assets that were being retired early, EKPC was required in Case No. 2015-00302[10] to remove Project 5, Dale Low Nitrogen Oxide Burners, and Project 10, Dale Continuous Monitoring Equipment, from the environmental

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[1] *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*, Case No. 2004-00321, Order (Ky. P.S.C., Mar. 17, 2005).

[2] *In the Matter of the Application of East Kentucky Power Cooperative, Inc. for Approval of an Amendment to Its Environmental Compliance Plan and Environmental Surcharge*, Case No. 2008-00115, Order (Ky. P.S.C., Sep. 29, 2008).

[3] *In the Matter of Application of East Kentucky Power Cooperative, Inc. for Approval of an Amendment to Its Environmental Compliance Plan and Environmental Surcharge*, Case No. 2010-00083, Order (Ky. P.S.C., Sep. 24, 2010).

[4] *In the Matter of Application of East Kentucky Power Cooperative, Inc. for a Certificate of Public Convenience and Necessity for Alteration of Certain Equipment at the Cooper Station and Approval of a Compliance Plan Amendment for Environmental Surcharge Cost Recovery*, Case No. 2013-00259, Order (Ky. P.S.C., Feb. 20, 2014).

[5] *In the Matter of Application of East Kentucky Power Cooperative, Inc. for a Certificate of Public Convenience and Necessity for construction of an Ash Landfill at J.K. Smith Station, the Removal of Impounded Ash from William C. Dale Station for Transport to J.K. Smith and Approval of a Compliance Plan Amendment for Environmental Surcharge Recovery*, Case No. 2014-00252, Order (Ky. P.S.C., Mar. 6, 2015).

[6] *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*, Case No. 2017-00376, Order (Ky. P.S.C., May 18, 2018).

[7] *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, and for the Issuance of a Certificate of Public Convenience and Necessity*, Case No. 2018-00270, Order (Ky. P.S.C., Apr. 1, 2019).

[8] *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, and for the Issuance of a Certificate of Public Convenience and Necessity*, Case No. 2023-00177, Order (Ky. P.S.C., Jan. 11, 2024).

[9] *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, and for the Issuance of a Certificate of Public Convenience and Necessity*, Case No. 2024-00109, Order (Ky. P.S.C., Nov. 22, 2024).

[10] *In the Matter of Application of East Kentucky Power Cooperative, Inc. for an Order Approving the Establishment of a Regulatory Asset for the Undepreciated Balance of the William C. Dale Generating Station*, Case No. 2015-00302, Order (Ky. P.S.C. Feb. 11, 2016). Projects 5 and 10 were originally approved as part of EKPC's environmental compliance plan and eligible for surcharge recovery in Case No. 2008-00115.

surcharge. The monthly environmental surcharge reports, incorporated by reference in this case, show the capital costs for the remaining projects.

- **Base/Current Method**

The surcharge mechanism, as shown in EKPC's Rate ES – Environmental Surcharge, reflects the base/current method through the formula MESF = CESF – BESF.[11] As described later in my testimony, EKPC is proposing a change to the BESF from 0.34% to 0.27%.

- **Actual Emission Allowance Expense**

EKPC included only actual sulfur dioxide ("SO_2") and nitrogen oxide ("NO_x") emission allowance expense in the monthly filings.

- **Return on Emission Allowance Inventory and Limestone Inventory**

EKPC included a return on all environmental surcharge assets, including emission allowances. Any purchase of allowances during the review period is addressed in Response 3 to the Staff's First Request. EKPC also included a return on its limestone inventory.

EKPC's emission allowance inventories for SO_2 and NO_x reflect operations under the Cross-State Air Pollution Rules ("CSAPR") along with a continuation of the Acid Rain program. Under CSAPR, SO_2 and NO_x allowances are awarded annually with carry-forward of unused balances from prior years. The allowances allocated to EKPC by the Environmental Protection Agency ("EPA") under CSAPR have a dollar value of $0, which is consistent with the valuation afforded EPA allocated allowances under prior programs. EKPC's SO_2 inventory as of the end of the review period reflects the

[11] MESF is the Monthly Environmental Surcharge Factor; CESF is the Current Environmental Surcharge Factor; and BESF is the Base Environmental Surcharge Factor.

allowances remaining from the Acid Rain program. The NO_x inventory as of the end of the review period has a $0 balance as all the allowances were issued under CSAPR.

- **Return on Construction Work in Progress ("CWIP"), Net of Allowance for Funds Used During Construction**

As approved in Case No. 2008-00115, EKPC included a return on CWIP during the period under review.

- **Rate of Return**

For the expense months ending November 2025, the rate of return was 6.474%, which was approved by the Commission in Case No. 2025-00013.

EKPC's rate of return on environmental compliance rate base is determined by multiplying the weighted average debt cost for the debt issuances directly related to projects in the approved compliance plan times a stated TIER.[12] The rate of return on the environmental compliance rate base is updated to reflect the current average debt cost at the conclusion of the six-month and two-year surcharge reviews.[13] The use of debt costs is based on the fact that all of EKPC's environmental compliance investments are financed with long-term debt.[14] The use of a 1.50 TIER was authorized in Case No. 2025-00013.[15] This rate-making methodology is different from

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[12] As a result of the settlement agreement in Case No. 2021-00103, EKPC's rate of return on environmental compliance rate base also includes a cost of debt component for construction work in progress included in the environmental compliance rate base. The interest rate of EKPC's credit facility is used to determine this portion of the cost of debt.

[13] The determination of the rate of return was a provision in the settlement agreement filed in Case No. 2004-00321, which the Commission approved in ordering paragraph 4 of the March 17, 2005 Order authorizing an environmental surcharge for EKPC.

[14] Many of EKPC's environmental compliance investments are initially funded through existing general funds or short-term debt; however, these forms of financing are later replaced by long-term debt.

[15] *An Electronic Examination By The Public Service Commission Of The Environmental Surcharge Mechanism Of East Kentucky Power Cooperative, Inc. For The Sixth-Month Expense Periods Ending May 31, 2022, November 30, 2022, November 30, 2023, May 31, 2024, And November 30, 2024, The Two-Year Expense Period Ending May 31,*

that employed by investor-owned utilities. The rate of return for the environmental compliance rate base for investor-owned utilities reflects a weighted average cost of capital approach. The weighted average cost of capital reflects the blended interest rates for the investor-owned utilities' long-term and short-term debt and a return on the common equity. The weighted average cost of capital is then "grossed up" for income taxes. Consequently, the rate of return for the investor-owned utilities is higher than the rate of return proposed by or authorized for EKPC.[16]

As discussed in the Direct Testimony of Thomas J. Stachnik in Case No. 2025-00208, EKPC targets a TIER of 1.50 in order to achieve several financial objectives including financial ratios that meet covenants in various EKPC debt agreements and maintaining financial metrics that support strong credit ratings.[17]

EKPC's Indenture and current Credit Facility covenants target a 1.1 "Margins for Interest" Ratio, which approximates TIER. In order to achieve this each year, a somewhat higher TIER must be targeted to allow for fluctuations. The rating agencies look more closely at Debt Service Coverage Ratio ("DSC"), which evaluates EKPC's ability to service principal and interest payments and thus is more relevant to lenders than TIER which only considers interest payments. EKPC's Board Policy 203 states that, "The Debt Service Coverage Ratio (DSC) is a financial measurement of EKPC's ability to repay its long-term debt and is computed as depreciation plus interest on long-

2023, And The Pass-Through Mechanism Of Its Sixteen Member Distribution Cooperatives, Case No. 2025-00013, Order (Ky. P.S.C., July 28,2025).

[16] *In the Matter of Electronic Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company for the Six-Month Billing Period Ending October 31, 2019*, Case No. 2020-00170, Order (Ky. P.S.C., May 20, 2021). Utilizing the weighted average cost of capital approach with a gross up for income taxes, the Commission authorized a rate of return for the Kentucky Utilities Company of 8.86% for its pre-2020 compliance plan projects and 8.48% for its 2020 compliance plan projects.

[17] *Electronic Application of East Kentucky Power Cooperative, Inc. for a General Adjustment of Rates, Approval of Depreciation Study, Amortization of Certain Regulatory Assets, and other General Relief*, Case No. 2025-00208.

term debt plus net margins divided by interest on long-term debt plus scheduled principal payments. EKPC shall strive to maintain a DSC of at least 1.25 for each calendar year."

Fitch Ratings ("Fitch") and Standard & Poor's ("S&P"), both prefer high DSC ratios to support EKPC's BBB+ Stable and A Stable credit rating respectively, which in turn result in lower cost of borrowings. However, in Fitch's October 2024 report, Fitch reaffirmed their BBB+ rating but revised their outlook from "Stable" to "Negative" for EKPC. As further explained in Case No. 2025-00208, Fitch states that "a revision of the Negative Outlook will depend on an increase in operating cash flow through rate increases or reduced discretionary expenditures." Fitch also explains that "The Negative Outlook reflects the projected weakening in the EKPC's leverage profile over the medium to long term as the utility undergoes an expanded capex plan over the next decade." For further discussion, please refer to the Direct Testimony of Thomas J. Stachnik in Case No. 2025-00208.

Based on the Board Policy and Rating Agency input, EKPC management targets a DSC ratio of 1.35 each year. This target recognizes that the DSC will vary each year as its components vary (for example, mild weather would result in lower margins and a lower DSC) and thus allows for some decline without crossing the 1.25 threshold discussed above. EKPC's current targeted TIER results in maintaining this strong DSC ratio.

EKPC's achieved DSC and TIER[18] were as follows for calendar years 2021 through 2025:

[18] DSC is calculated by dividing the sum of depreciation, interest expense, and net margins by the sum of interest expense and principal payments. TIER is calculated by dividing the sum of interest expense and net margins by interest expense.

Calendar Year Ending	DSC	TIER
December 31, 2021	1.38	1.12
December 31, 2022	1.54	1.40
December 31, 2023	1.31	1.17
December 31, 2024	1.31	1.06
December 31, 2025	1.31	1.34
Five-Year Averages	1.37	1.22

EKPC is proposing a rate of return of 6.50% in this proceeding, as shown in Response 5 to the Staff's First Request. EKPC's proposed rate of return is consistent with the Settlement Agreement approved in Case No. 2004-00321, which provided that the rate of return on compliance-related capital expenditures would be updated to reflect current average debt cost as of the end of each six-month review period.

- **Operation and Maintenance ("O&M") Expenses**

  EKPC continued to use a 12-month rolling average for O&M expenses associated with the compliance plan projects. For those instances where the change in the level of O&M expenses exceeded 10 percent, EKPC provided an explanation. These explanations are provided in Response 4 to the Staff's First Request.

Q. WERE THE ENVIRONMENTAL-RELATED AMOUNTS INCLUDED IN THE MONTHLY SURCHARGE CALCULATION BASED ON BOOKED COSTS?

A. Yes. EKPC continues to use the amounts booked for the various cost categories included in the surcharge calculation and these costs were actual costs and incurred in a prudent manner.

Q. DID EKPC INCUR ANY OVER- OR UNDER-RECOVERIES DURING THE PERIOD UNDER REVIEW?

A. Yes, please see EKPC's Response to the Staff's First Request, Request 1.

Q. PREVIOUS COMMISSION ORDERS ALSO REQUIRED EKPC'S OWNER-MEMBERS TO INCORPORATE CERTAIN PROVISIONS INTO THE

CALCULATION OF THE MONTHLY PASS-THROUGH FACTORS. PLEASE COMMENT ON HOW THE OWNER-MEMBERS ADDRESSED THE MOST SIGNIFICANT ASPECTS OF THESE ORDERS DURING THE PERIODS UNDER REVIEW.

A. Under the pass-through mechanism, the environmental surcharge factors computed for retail customers were billed by EKPC's Owner-Members at approximately the same time as EKPC billed the Owner-Members at wholesale. The calculation of the monthly factors for each Owner-Member was provided in the monthly reports filed with the Commission. EKPC and the Owner-Members adhered to these and all other requirements and provisions of the Commission's Orders for the periods under review.

Q. DID THE OWNER-MEMBERS INCUR ANY OVER- OR UNDER-RECOVERIES DURING THE REVIEW PERIOD?

A. Yes. The over- or under-recovery amounts for each Owner-Member are shown in EKPC's Response to the Staff's First Request, Request 2. The determination of the over- or under-recovery amounts has been prepared utilizing the revised methodology approved by the Commission in Case No. 2015-00281.[19]

Request 2 directs EKPC and the Owner-Members to prepare a summary schedule showing the Owner-Member's pass-through revenue requirement for the months corresponding with the six-month review. The schedule covers the six-month review period that has yet to be reviewed and contains the determination of the over- or under-recovery for the current

[19] *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 Billing Periods Ending June 30, 2014 and December 31, 2014, Two-Year Billing Period Ending June 30, 2015, and the Pass Through Mechanism for Its Sixteen Member Distribution Cooperatives*, Case No. 2015-00281, Order (Ky. P.S.C., Apr. 8, 2016).

review period. EKPC believes this approach accomplished the desired review of each Owner-Member's revenue requirement during the previous review period.

Q. HOW WILL THE OWNER-MEMBERS REFLECT RECOVERY OF THESE OVER- OR UNDER-RECOVERY AMOUNTS?

A. As approved in the Commission's November 5, 2010 Order in Case No. 2010-00021,[20] all sixteen of the Owner-Members propose that the over- or under-recovery amounts be amortized over a period of six months beginning in the first month after the Commission's Order in this proceeding.

Q. HAS EKPC UPDATED THE RATE OF RETURN TO BE USED PROSPECTIVELY?

A. Yes. As previously discussed, EKPC proposes an updated rate of return of 6.5%. This updated rate of return reflects an average debt cost as of November 30, 2025 of 4.333% and a TIER of 1.50. The determination of the average debt cost as of November 30, 2025 is shown in Response 5 to the Staff's First Request.

Q. WHEN DOES EKPC PROPOSE TO APPLY THE UPDATED RATE OF RETURN IN ITS SURCHARGE CALCULATIONS?

A. EKPC proposes to use the updated rate of return in the surcharge calculations in the first month following the Commission's final Order in this proceeding.

Q. DOES EKPC BELIEVE THAT ITS ENVIRONMENTAL SURCHARGE SHOULD BE ROLLED INTO ITS WHOLESALE BASE RATES?

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[20] *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 Billing Period Ending December 31, 2009 and the Pass-Through Mechanism for Its Sixteen Member Distribution Cooperatives*, Case No. 2010-00021, Order (Ky. P.S.C., Nov. 5, 2010).

A. No, EKPC does not believe it is appropriate at this time to roll its environmental surcharge into its wholesale base rates.

Q. WOULD YOU EXPLAIN THE REASONS IN SUPPORT OF EKPC'S POSITION?

A. Yes. EKPC would initially note that whether or not there are amounts of environmental costs incorporated into wholesale base rates, the effect on EKPC, the Owner-Members, and the retail ratepayer is that the total environmental revenue requirement should remain the same. In addition, EKPC believes there are several reasons why a roll-in of the environmental surcharge is not appropriate at this time.

First, like the environmental surcharge mechanisms approved for Kentucky Utilities Company, Louisville Gas and Electric Company, Kentucky Power Company, Duke Energy Kentucky, and Big Rivers Electric Corporation, the environmental costs included in EKPC's revenue requirement represent both investment costs and energy costs. As a general matter, investment costs are usually reflected in demand charges while energy costs are reflected in the energy charge. Because both investment costs and energy costs make up the environmental costs, a roll-in of the surcharge into base rates is more complicated than the roll-in performed in a two-year fuel adjustment clause proceeding. In the two-year fuel adjustment clause proceeding, only energy costs are rolled into the energy charge of base rates. If EKPC is required to roll-in its environmental surcharge into its wholesale base rates, it believes the roll-in will have to be allocated to both the demand and energy charges. Therefore, a cost-of-service study would likely assign the components of the environmental compliance rate base to both demand and energy and would need to be completed for EKPC and all of its Owner-Members as well.

Ideally, such an allocation should be performed utilizing a cost-of-service study. However, there has not been any time in this review proceeding for EKPC to undertake a cost-of-service study that would provide a reasonable allocation of an environmental surcharge roll-in into demand and energy related components. The belief that a cost-of-service study should be the basis for allocating a surcharge roll-in between demand and energy rate components is the primary reason why EKPC believes a roll-in of environmental costs should occur at the time of a wholesale base rate case proceeding. Including a roll-in as part of a wholesale base rate case would allow for the allocation of environmental costs in a manner consistent with other costs through the utilization of a cost-of-service study. EKPC notes that the Commission accepted the argument that a surcharge roll-in should be undertaken as part of a base rate case in previous environmental surcharge reviews.[21] The second reason concerns how the change in the wholesale base rates would be reflected in the Owner-Member's retail base rates. When the Commission approved the environmental surcharge mechanism for EKPC and the corresponding pass-through mechanism for the Owner-Members, there was no discussion of how or when retail base rates would be adjusted to reflect the change in the wholesale base rates resulting from the surcharge roll-in. Clearly any adjustment to the retail base rates should be accomplished

[21] *In the Matter of an Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Power Company for the Six-Month Billing Periods Ending June 30, 2006 and December 31, 2006, and for the Two-Year Billing Period Ending June 30,* 2007, Case No. 2007-00381, Order p. 6 (Ky. P.S.C., Aug. 19, 2008); *In the Matter of an Examination by the Public Service Commission of the Environmental Surcharge Mechanism of East Kentucky Power Cooperative, Inc. for the Two-Year Billing Period Ending June 30, 2009 and the Pass-Through Mechanism for Its Sixteen Member Distribution Cooperatives*, Case No. 2009-00317, Order p. 5 (Ky. P.S.C., Jan. 28, 2010); *In the Matter of an Examination by the Public Service Commission of the Environmental Surcharge Mechanism of East Kentucky Power Cooperative, Inc. for the Two-Year Billing Period Ending June 30, 2011, for the Six-Month Billing Periods Ending December 31, 2011 and June 30, 2012, and the Pass-Through Mechanism for Its Sixteen Member Distribution Cooperatives*, Case No. 2012-00486, Order p. 5-6 (Ky. P.S.C., Aug. 2, 2013); *In the Matter of an Examination by the Public Service Commission of the Environmental Surcharge Mechanism of East Kentucky Power Cooperative, Inc. for the Two-Year Billing Period Ending June 30, 2013 and the Pass Through Mechanism for Its Sixteen Member Distribution* Cooperatives, Case No. 2013-00324, Order p. 6 (Ky. P.S.C., Mar. 21, 2014); also see *An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of East Kentucky Power Cooperative, Inc. for the Six-Month Billing Periods Ending June 30, 2014 and December 31, 2014, for the Two-Year Billing Period Ending June 30, 2015, and the Pass Through Mechanism for its Sixteen Member Distribution Cooperatives*, Case No. 2015-00281, Order, p.9 (Ky. P.S.C., April 8, 2016); and *An Electronic Examination by the Public Service Commission of the Environmental Surcharge Mechanism of East Kentucky Power Cooperative, Inc. for the Two-Year Expense Period Ending May 31, 2019, and the Pass-Through Mechanism of its Sixteen Member Distribution Cooperatives*, Case No. 2019-00380, Order, p. 5 (Ky. P.S.C. May 6, 2020).

in the same proceeding as the roll-in to wholesale base rates and both changes in the base rates become effective at the same time. If a surcharge roll-in was required as part of the two-year review case, EKPC believes the necessary adjustments to the retail base rates need to correspond as closely as possible to the change in the wholesale base rates. The change in the wholesale demand-related base rates should be reflected in the corresponding retail customer charges and demand base rates. The change in the wholesale energy-related base rates should be reflected in the corresponding retail energy base rates. However, as a surcharge roll-in during the two-year review to the wholesale base rates would not be cost-of-service based, neither would the corresponding adjustment to the retail base rates be cost-of-service based.

As with a roll-in to its wholesale base rates, EKPC believes that the corresponding adjustment to retail base rates should be performed in conjunction with a base rate proceeding and not as part of any surcharge review. The amount of the roll-in each Owner-Member receives as a result of the change in wholesale base rates would be cost-of-service based. The Owner-Member indicated a general agreement with this concept during a rate design project EKPC undertook approximately 13 years ago.

While EKPC and its Owner-Members consistently argued that the appropriate proceeding to roll-in the surcharge into base rates was during a base rate case, EKPC did not propose a surcharge roll-in during its last base rate case, Case No. 2025-00208. EKPC did have a cost-of-service study available to allocate its environmental costs, but the Owner-Members utilized the "flow-through" process available under KRS 278.455. That statute requires the increase in wholesale rates and tariffs must be allocated to each class and within each tariff on a proportional basis that will result in no change in the rate design currently in effect for the Owner-Member. Thus, EKPC's allocation of its environmental costs would have been based on a cost-of-service study while the Owner-Member's share of the EKPC increase in revenues would have been allocated in total on a proportional basis. The Owner-Members would not have been able to make corresponding changes in their retail rates that reflected EKPC's allocation of its environmental costs to demand and energy.[22] A final reason is related to the disclosure of the cost of environmental compliance to retail customers. EKPC's currently approved environmental compliance plan during the review period contains 40 projects and the monthly surcharge filings reflect the investment costs and operating expenses associated with those projects. The monthly cost of environmental compliance will be known to EKPC even if there is a roll-in of the surcharge revenue requirement into wholesale base rates. As there to date has been no roll-in of the environmental surcharge into base rates, the Owner-Member's monthly surcharge pass-through factors serve as a means to disclose to the retail customer the cost of environmental compliance for the approved projects. However, if there were a roll-in, a significant portion of the EKPC monthly surcharge factor would be collected through wholesale base rates and the corresponding Owner-Member's monthly surcharge pass-through factors would be reduced. The monthly surcharge pass-through factors would no longer easily disclose to retail customers the full cost of environmental compliance for the approved projects. Many of the Owner-Members believe it is important that retail customers be aware of the full cost of environmental compliance for the approved projects and the impact this compliance cost has on the monthly retail bill. Consequently, until an acceptable method can be developed to facilitate transparency with regard to full cost of environmental compliance, EKPC and

[22] *Electronic Application of East Kentucky Power Cooperative, Inc. for a General Adjustment of Rates, Approval of Depreciation Study, Amortization of Certain Regulatory Assets, and Other General Relief*, Case No. 2021-00103, Application Exhibit 13, Direct Testimony of Isaac S. Scott, at 11, and EKPC's Response to the Commission Staff's Second Request for Information, Request 13a and 13b.

the Owner-Members believe roll-in should not be undertaken as part of any surcharge review proceeding.

Q. IS EKPC AWARE OF ANY PROBLEMS OR CONCERNS THE OWNER-MEMBERS MAY HAVE WITH THE SURCHARGE PASS-THROUGH MECHANISM?

A. No.

Q. YOU PREVIOUSLY STATED THAT EKPC'S SURCHARGE MECHANISM REFLECTS THE BASE/CURRENT METHOD. THE RATE ES TARIFF CURRENTLY REFLECTS A BESF OF 0.34%. WOULD YOU EXPLAIN WHY EKPC IS PROPOSING A NEW BESF VALUE?

A. Under the base/current method, the BESF reflects the investment in utility plant and associated operating costs for environmental compliance assets being recovered through base rates that have been replaced or retired early due to the deployment of new environmental compliance assets whose costs are recovered through the environmental surcharge. A BESF of zero indicates there are no investments in utility plant or associated operating costs for environmental compliance assets being recovered through base rates. Primarily due to the environmental compliance plan amendment approved in Case No. 2017-00376, Project 16 – CCR/ELG Rule, EKPC added new investments in utility plant which retired or replaced utility plant already being recovered in base rates.

Previously, as a result of those new investments, EKPC reclassified a dozen employees to be identified specifically with the CCR/ELG work previously the expensed portion of those employees' salaries, payroll taxes, and benefits were recovered through base rates. However, as further outlined in Exhibit JCE-1, majority of Project 16 has been fully retired from base rates since December 2021. Therefore, EKPC has reduced the overall BESF for that project to reflect the total project cost and to reflect that those twelve employees who were reclassed to those projects are no longer working on those fully retired projects.

Lastly, as outlined in Exhibit JCE-1, EKPC has provided updated financials for the remaining projects that were approved in Case No. 2023-00177. During the time of calculating the BESF, EKPC had completed a base rate case and these projects were not removed from base rates due to EKPC filing a 2023 test year and the final Order for Case No. 2023-00177 being issued in 2024. Therefore, EKPC has reflected those financials in the calculation of the BESF.

Q. DOES EKPC HAVE A REQUEST CONCERNING THE TIMING OF THE ISSUANCE OF THE FINAL ORDER IN THIS SURCHARGE REVIEW PROCEEDING?

A. Yes. EKPC is requesting that the Commission issue its final Order in this case either within the first 10 days of the month or after the 21^{st} day of the month. This is due to the processing procedure for the monthly surcharge factor filing and the critical processing period between the 11^{th} and 20^{th} of the month.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.