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May 6, 2009

RECEIVED

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PUBLIC SERVICE
COMMISSION

Mr. Jeff Derouen:
Executive Director
Kentucky Public Service Commission
211 Sowder Blvd.
P.O. Box 615
Frankfort, KY 40602-0615

RE: Case No. 2009-00039

Dear Mr. Derouen:

After mailing, we recognize that some of the enclosures on the requested information concerning the examination for the environmental surcharge mechanism of East Kentucky Power, Inc became illegible during the copying process. We are re-sending this requested information so that all enclosures are legible. If you would like to replace this with the first copy you may have received please do so.

Should you have any questions or need further information, please contact our office.

Sincerely,

A handwritten signature in cursive script that reads 'Stephen Johnson'.

Stephen Johnson
South KY RECC
Vice President Finance



Allen Anderson, President & CEO

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May 4, 2009

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sowder Blvd.
P.O. Box 615
Frankfort, KY 40602-0615

RE: Case No. 2009-00039

Dear Mr. Derouen:

As per the order dated April 14, 2009, South Kentucky Rural Electric Cooperative Corporation has enclosed an original and five (5) copies of the information requested concerning the examination of the environmental surcharge mechanism of East Kentucky Power, Inc.

Should you have any questions or need further information, please contact our office.

Sincerely,

A handwritten signature in cursive script that reads 'Darrell Saunders'.

Darrell Saunders
Attorney for South KY RECC

jb
Enclosures

**SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE
CORPORATION**

PSC CASE NO. 2009-00039

**PUBLIC SERVICE COMMISSION DATA REQUEST DATED
April 14, 2009**

DATA REQUEST NO. 1

RESPONDING PERSON: Allen Anderson, President & CEO

Responses to Information Request by South Kentucky Rural Electric Corporation

Request No. 1: Has your cooperative experienced any problems in administering its environmental surcharge pass-through mechanism over the 18-month period under review in this case? If yes, explain in detail the nature of the problems and any suggested changes to cure the problems.

Response: South Kentucky (SK) has experienced some problems in administering its environmental surcharge pass-through mechanism (ES) over the 18-month period under review in this case. SK does not believe the existing methodology for allocation of the ES is fair and reasonable to all of its members. Under the current method, the monthly ES factor charged by the wholesale supplier, East Kentucky Power (EKP), is recalculated each month based upon total retail revenues. This recalculation normally reduces the retail factor down. SK has several industrial loads which are on specials contracts or on EKP's rate B and C. The retail ES allows these customers to pay a lesser amount than EKP charges at the wholesale level; therefore the other retail classes are subsidizing a portion of these industrial customers' environmental surcharge.

Request No. 2: Has your cooperative received any customer complaints regarding the environmental surcharge pass-through mechanism during the 18-month period under review in this case? If yes, state the number of complaints received, the nature of each complaint, and the service classification of each customer making a complaint.

Response: SK has received complaints concerning the ES. At present SK does not track ES complaints.

Request No. 3: Does your cooperative believe that its environmental surcharge pass-through mechanism has operated reasonably over the 18-month period under review in this case? If no, explain in detail.

Response: SK does not believe that the ES has operated reasonably over the 18-month period under review in this case. See response number 4.

Request No. 4: Does you cooperative have any recommended changes for its existing environmental surcharge pass-through mechanism? If yes, explain the nature of each change and the reasons why the change is needed.

Response: SK believes that the ES would be more equitable among rate classes if allocated based on MWh at both the wholesale and retail level rather than on revenue. SK believes that the current allocation method places an undue burden on residential membership and an even greater burden on low income residential membership while subsidizing other larger rate classes. If a rate class uses no energy they will still receive an ES charge. If a rate class has other charges included in the rate (i.e. residential security light) then both the energy and the lease of the light fixture and pole will incur an ES. If a member has a barn metered and no energy is utilized during the current billing period then that member will receive an ES. Each monthly customer charge will attract an ES charge regardless of the amount energy utilized. The fuel charge also, attracts an ES. Off system purchases of power (included in the fuel charge) will also attract an ES charge. Why? SK would have thought that off system purchase would have been subject to the same type of ES when produced at the originating G&T. It would appear that there is an ES billing inequity.

As demonstrated by EKP's response dated March 26, 2009 to the Commission's Appendix B Request No. 8 pages 1 of 33 (Attached for the Commission's and Member System's convenience) to Case No. 2009-00039 (PSC Request No. 8),- EKP's Current Method versus Alternative 1 versus Alternative 2 shows the effects of allocating the ES based on revenue versus MWh. As EKP's example shows the ES to allocate among member systems is all three scenarios is \$57,400,000 and EKP will collect the entire \$57,400,000 under all three scenarios. What is interesting is what rate classes ends up paying the ES. The Current Method as shown on Page 4 of 33 (PSC Request No. 8) indicates that a rate class is allocated an amount by EKP (revenue allocation method - Current Method) which when the member system then allocates out to its membership based on that member system's revenue the same rate class member will actually pay less than what is actually billed by EKP. SK has determined that the same inequity is resulting with the various rate classes within its member system. Additional EKP's analysis shows that the Current Method versus Alternative 2 would allocate additional ES to rate classes that consume larger amounts of MWh. This clearly shows that the ES charge should be allocated based on MWh instead of revenue. SK believes that allocating the ES based on MWh is a more equitable method of allocation. If the rate class utilizes MWh which requires environmental process to be employed then that rate class should pay

for the ES associated with their utilization and not be subsidized by another rate class. SK does believe that using a rolling twelve month average to help smooth out the ES should be continued.

In closing each rate class does have common elements one of them being the need for clean efficient electricity. As each rate class requires the generation of electricity environment components must be employed to help protect the environment from the discharge of unwanted pollutants. SK realizes that EKP must recapture these costs and SK does not question whether or not EKP should or should not recapture the environmental costs associated with producing the required energy. SK does believe that the Commission should carefully review the mechanism that allocates the ES charge to all sixteen cooperatives and then how all sixteen cooperatives allocate the ES to their respective membership.

I certify that the above responses to the requests for information are true and accurate to the best of my knowledge, information and belief formed after a reasonable inquiry.



Allen Anderson, President & CEO
South Kentucky Rural Electric Cooperative Corp.

Subscribed and sworn to before me by Allen Anderson as President & CEO of South Kentucky Rural Electric Cooperative Corporation this 4th day of May, 2009.



NOTARY PUBLIC, KY STATE AT LARGE
My Commission Expires: January 17, 2010

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the above Response to Information Request was served by US mail to all parties on the 4th day of May 2009.

Honorable James M Crawford
Attorney At Law
Crawford & Baxter
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Attorney At Law
Boehm, Kurtz & Lowery
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Honorable Marvin W. Suit
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Barry Myers
Manager
Taylor County RECC
P.O. Box 100
Campbellsville, KY 42719



Allen Anderson
South KY Rural Electric Cooperative Corporation
President/CEO

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2009-00039

ENVIRONMENTAL SURCHARGE

APPENDIX B

FIRST DATA REQUEST RESPONSE

COMMISSION STAFF'S FIRST DATA REQUEST DATED 2/23/09

REQUEST 8

RESPONSIBLE PARTY: James C. Lamb, Jr.

Request 8. In Case No. 2007-00378,⁷ the Commission ordered that EKPC and its member Cooperatives would present any changes to the retail pass-through mechanism necessary to address the revenue allocation issue during the next 6-month surcharge review cases. Provide all documentation and workpapers available for any discussions and calculations that EKPC has had with its member cooperatives regarding changes to its retail pass-through methodology.

Response 8. Please see pages 2 through 33 of this response. Pages 2 through 13 represent a PowerPoint presentation given to member system CEOs on September 9, 2008. Two alternatives were presented; EKPC has recommended Alternative 1 to any distribution member who is seeking an allocation change. Pages 14 through 33 are working papers used to support the PowerPoint presentation mentioned above.

Note that EKPC does not intend to modify its calculation of the environmental surcharge at wholesale.

⁷ Case No. 2007-00378, 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, 2006 and December 31, 2006, for the Two-Year Billing Period Ending June 30, 2007, and the Pass-Through Mechanism for Its Sixteen Member Distribution Cooperatives, final Order Dated August 1, 2008.

**East Kentucky
Power Cooperative**

***Environmental Surcharge – Status
And EK / Member System Options***

EKPC Member System CEO Meeting

September 9, 2008

Privileged And Confidential

- **PSC Case 2004-00321 established the environmental surcharge**
- **EK's approach closely followed the utilities who had previously filed for the surcharge**
- **2 Important items**
 1. This case describes the method by which environmental surcharge revenue is to be collected – in other words, EK is on the record with regards to how the surcharge is to be applied
 2. A mechanism exists whereby member systems collect environmental surcharge revenue from the retail members with a shorter billing lag process than exists with the FAC

Revenue Allocation Inequity

- **First identified by Owen**
 - The PSC approved method, determined in case 2004-00321, has produced an unusual result relating to Gallatin Steel
 - Each year, Owen is collecting approximately \$800,000 less from GSC than they are being billed by EK
 - The difference is being made up from Owen's other classes
 - This problem is exacerbated because GSC is so large relative to Owen's other retail members
- **Two member systems, in their responses to the 4 questions also mentioned the current revenue allocation as being less than desirable, and proposed an alternative method**
 - The existing method allocates the surcharge using dollars of revenue
 - Two member systems have suggested that the surcharge be allocated using MWh energy

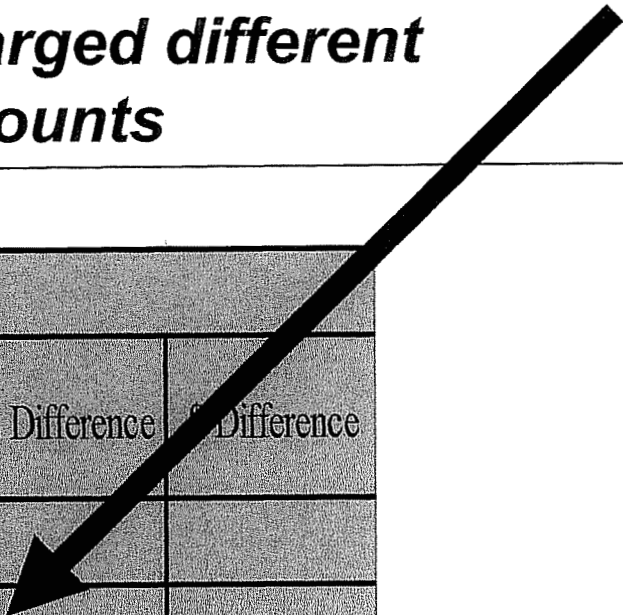
- **2007-00378**
 - 2 year review case
 - Order issued August 1
 - This case had each member system answer 4 questions relating to the environmental surcharge
 - “... the Commission finds the Member Cooperatives’ retail pass through mechanism is reasonable and should be continued in its current form. However, during EKPC’s next 6-month surcharge review case, the issue which has been identified by several of the Member Cooperatives as a revenue allocation inequity will be reviewed, and EKPC and its Member Cooperatives should be prepared to present any changes necessary to address that issue in a fair and reasonable manner”.

- **The rest of this presentation describes 2 alternative methods for collecting environmental surcharge revenue**
 - PSC approval will be needed to do either one
- **Alternative 1**
 - EK continues to develop a single percentage factor for recovery, however member systems allocate \$ by Rates B, C, E, and Special Contracts.
 - In other words, Owen charges Gallatin Steel exactly what EK charges Owen (for Gallatin Steel), Salt River charges its B & C members exactly what EK charges Salt River, etc.
- **Alternative 2**
 - Both EK and members change the allocation procedure. Instead of allocating surcharge on \$ of revenue, the allocation is made using MWh.

Summary Of Methods – 12 Months Ending September 2006

Impact to EK is the same under any method , but different classes are charged different amounts

| Total Impacts | | | |
|----------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$57,400,000 | | |
| Alternative 1 | \$57,400,000 | | |
| Alternative 2 | \$57,400,000 | | |



Summary Using A Member System W/O B, C, Or Special Contracts

East
Kentucky
Power
Cooperative

| | Big Sandy Rate E | | |
|----------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$1,300,000 | | |
| Alternative 1 | \$1,300,000 | 0.00% | \$0 |
| Alternative 2 | \$1,236,293 | -4.90% | (\$63,707) |

| Total Impacts | | | |
|----------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$1,300,000 | | |
| Alternative 1 | \$1,300,000 | | |
| Alternative 2 | \$1,236,293 | -4.90% | (\$63,707) |

Summary Using A Member System With B / C Contracts

East
Kentucky
Power
Cooperative

| | Farmers Rate E | | | Farmers Rate B, C | | |
|----------------|-------------------------|--------------|---------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$2,254,282 | | | \$245,718 | | |
| Alternative 1 | \$2,226,690 | -1.22% | (\$27,592) | \$273,310 | 11.23% | \$27,592 |
| Alternative 2 | \$2,080,513 | -7.71% | (\$173,769) | \$311,746 | 26.87% | \$66,028 |

| Total Impacts | | | |
|----------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$2,500,000 | | |
| Alternative 1 | \$2,500,000 | | |
| Alternative 2 | \$2,392,259 | -4.31% | (\$107,741) |

Summary Using A Member System With B, C, and Special Contracts

East
Kentucky
Power
Cooperative

| | Fleming-Mason Rate E | | | Fleming-Mason Rate B, C | | |
|----------------|-------------------------|--------------|---------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$2,414,386 | | | \$1,169,266 | | |
| Alternative 1 | \$2,101,046 | -12.98% | (\$313,340) | \$1,269,179 | 8.54% | \$99,913 |
| Alternative 2 | \$1,971,906 | -18.33% | (\$442,480) | \$1,274,453 | 9.00% | \$105,187 |

| | Total Impacts | | | Inland Container Including Steam | | |
|----------------|-------------------------|--------------|---------------|----------------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$5,200,000 | | | \$1,616,347 | | |
| Alternative 1 | \$5,200,000 | | | \$1,829,775 | 13.20% | \$213,428 |
| Alternative 2 | \$5,596,702 | 7.63% | \$396,702 | \$2,350,343 | 45.41% | \$733,996 |

Owen Electric

East
Kentucky
Power
Cooperative

| | Owen Rate E | | | Owen Rate B, C | | |
|----------------|-------------------------|--------------|---------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$5,418,887 | | | \$746,924 | | |
| Alternative 1 | \$4,641,513 | -14.35% | (\$777,374) | \$767,245 | 2.72% | \$20,321 |
| Alternative 2 | \$4,523,438 | -16.52% | (\$895,449) | \$963,156 | 28.95% | \$216,232 |

| | Total Impacts | | | Gallatin Steel | | |
|----------------|-------------------------|--------------|---------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$9,200,000 | | | \$3,034,189 | | |
| Alternative 1 | \$9,200,000 | | | \$3,791,242 | 24.95% | \$757,053 |
| Alternative 2 | \$10,626,666 | 15.51% | \$1,426,666 | \$5,140,072 | 69.41% | \$2,105,883 |

Summary Of Methods – 12 Months Ending September 2006

East
Kentucky
Power
Cooperative

| | Rate E | | | B, C, Specials Exc Gallatin | | |
|----------------|-------------------------|--------------|---------------|-----------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$46,736,298 | | | \$7,629,514 | | |
| Alternative 1 | \$44,975,148 | -3.77% | (\$1,761,150) | \$8,633,610 | 13.16% | \$1,004,096 |
| Alternative 2 | \$42,113,621 | -9.89% | (\$4,622,677) | \$10,146,307 | 32.99% | \$2,516,793 |

| | Total Impacts | | | Gallatin Steel | | |
|----------------|-------------------------|--------------|---------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$57,400,000 | | | \$3,034,189 | | |
| Alternative 1 | \$57,400,000 | | | \$3,791,242 | 24.95% | \$757,053 |
| Alternative 2 | \$57,400,000 | | | \$5,140,072 | 69.41% | \$2,105,883 |

Summary And Recommendation Going Forward

- **Alternative 1**
 - Fixes the Owen / GSC issue
- **Alternative 2**
 - Big Rivers has received PSC approval for this method, however they claim a special reason
 - Since the PSC has previously approved EK / members' existing method, and since EK cannot claim the special reason that Big Rivers has, approval of this alternative will mean convincing the PSC to make the change
- **Recommendation**
 - EK intends to work with Owen on Alternative 1, and will work with any other interested member systems
 - EK does not believe that Alternative 2 would survive the regulatory process

12 Months Ending 9/30/06
(EKPC's Test Year In Its Last Rate Case)

| | All Members Rate E | | | All Members Rate B, C, Special Contracts | | |
|---------------------|--------------------------|--------------|---------------|--|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$46,736,298 | | | \$10,663,703 | | |
| Flow Through Method | \$44,975,148 | -3.77% | (\$1,761,150) | \$12,424,852 | 16.52% | \$1,761,149 |
| Allocation On MWh | \$42,113,621 | -9.89% | (\$4,622,677) | \$15,286,379 | 43.35% | \$4,622,676 |
| | Big Sandy Rate E | | | Big Sandy Rate B, C, Special Contracts | | |
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$1,300,000 | | | \$0 | | |
| Flow Through Method | \$1,300,000 | 0.00% | \$0 | \$0 | | \$0 |
| Allocation On MWh | \$1,236,293 | -4.90% | (\$63,707) | \$0 | | \$0 |
| | Blue Grass Rate E | | | Blue Grass Rate B, C, Special Contracts | | |
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$5,136,531 | | | \$863,469 | | |
| Flow Through Method | \$5,011,686 | -2.43% | (\$124,845) | \$988,314 | 14.46% | \$124,845 |
| Allocation On MWh | \$4,542,873 | -11.56% | (\$593,658) | \$1,134,092 | 31.34% | \$270,623 |
| | Clark Rate E | | | Clark Rate B, C, Special Contracts | | |
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$2,200,000 | | | \$0 | | |
| Flow Through Method | \$2,200,000 | 0.00% | \$0 | \$0 | | \$0 |
| Allocation On MWh | \$2,054,534 | -6.61% | (\$145,466) | \$0 | | \$0 |
| | Cumberland Valley Rate E | | | Cumberland Valley Rate B, C, Special | | |
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$2,600,000 | | | \$0 | | |
| Flow Through Method | \$2,600,000 | 0.00% | \$0 | \$0 | | \$0 |
| Allocation On MWh | \$2,413,546 | -7.17% | (\$186,454) | \$0 | | \$0 |
| | Farmers Rate E | | | Farmers Rate B, C, Special Contracts | | |
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$2,254,282 | | | \$245,718 | | |
| Flow Through Method | \$2,226,690 | -1.22% | (\$27,592) | \$273,310 | 11.23% | \$27,592 |
| Allocation On MWh | \$2,080,513 | -7.71% | (\$173,769) | \$311,746 | 26.87% | \$66,028 |

| | Fleming-Mason Rate E | | | Fleming-Mason Rate B, C, Special | | |
|---------------------|-------------------------|--------------|---------------|---|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$2,414,386 | | | \$2,785,613 | | |
| Flow Through Method | \$2,101,046 | -12.98% | (\$313,340) | \$3,098,954 | 11.25% | \$313,341 |
| Allocation On MWh | \$1,971,906 | -18.33% | (\$442,480) | \$3,624,796 | 30.13% | \$839,183 |
| | Grayson Rate E | | | Grayson Rate B, C, Special Contracts | | |
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$1,245,946 | | | \$54,054 | | |
| Flow Through Method | \$1,231,379 | -1.17% | (\$14,567) | \$68,621 | 26.95% | \$14,567 |
| Allocation On MWh | \$1,170,421 | -6.06% | (\$75,525) | \$78,257 | 44.78% | \$24,203 |
| | Inter-County Rate E | | | Inter-County Rate B, C, Special Contracts | | |
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$2,018,594 | | | \$181,406 | | |
| Flow Through Method | \$1,989,815 | -1.43% | (\$28,779) | \$210,185 | 15.86% | \$28,779 |
| Allocation On MWh | \$1,882,591 | -6.74% | (\$136,003) | \$244,442 | 34.75% | \$63,036 |
| | Jackson Rate E | | | Jackson Rate B, C, Special Contracts | | |
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$4,541,353 | | | \$258,647 | | |
| Flow Through Method | \$4,481,530 | -1.32% | (\$59,823) | \$318,470 | 23.13% | \$59,823 |
| Allocation On MWh | \$3,968,828 | -12.61% | (\$572,525) | \$508,126 | 96.46% | \$249,479 |
| | Licking Valley Rate E | | | Licking Valley Rate B, C, Special | | |
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$1,300,000 | | | \$0 | | |
| Flow Through Method | \$1,300,000 | 0.00% | \$0 | \$0 | | \$0 |
| Allocation On MWh | \$1,269,401 | -2.35% | (\$30,599) | \$0 | | \$0 |
| | Nolin Rate E | | | Nolin Rate B, C, Special Contracts | | |
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$2,779,292 | | | \$620,709 | | |
| Flow Through Method | \$2,650,295 | -4.64% | (\$128,997) | \$749,704 | 20.78% | \$128,995 |
| Allocation On MWh | \$2,625,845 | -5.52% | (\$153,447) | \$943,273 | 51.97% | \$322,564 |
| | Owen Rate E | | | Owen Rate B, C, Special Contracts | | |
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$5,418,887 | | | \$3,781,113 | | |
| Flow Through Method | \$4,641,513 | -14.35% | (\$777,374) | \$4,558,487 | 20.56% | \$777,374 |
| Allocation On MWh | \$4,523,438 | -16.52% | (\$895,449) | \$6,103,228 | 61.41% | \$2,322,115 |

| | Salt River Rate E | | | Salt River Rate B, C, Special Contracts | | |
|---------------------|-------------------------|--------------|---------------|---|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$4,583,669 | | | \$316,331 | | |
| Flow Through Method | \$4,525,524 | -1.27% | (\$58,145) | \$374,476 | 18.38% | \$58,145 |
| Allocation On MWh | \$4,272,057 | -6.80% | (\$311,612) | \$415,671 | 31.40% | \$99,340 |

| | Shelby Rate E | | | Shelby Rate B, C, Special Contracts | | |
|---------------------|-------------------------|--------------|---------------|-------------------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$1,439,626 | | | \$660,374 | | |
| Flow Through Method | \$1,395,816 | -3.04% | (\$43,810) | \$704,184 | 6.63% | \$43,810 |
| Allocation On MWh | \$1,294,230 | -10.10% | (\$145,396) | \$824,975 | 24.93% | \$164,601 |

| | South Kentucky Rate E | | | South Kentucky Rate B, C, Special | | |
|---------------------|-------------------------|--------------|---------------|-----------------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$5,392,609 | | | \$507,391 | | |
| Flow Through Method | \$5,297,074 | -1.77% | (\$95,535) | \$602,962 | 18.84% | \$95,571 |
| Allocation On MWh | \$4,833,794 | -10.36% | (\$558,815) | \$644,864 | 27.09% | \$137,473 |

| | Taylor County Rate E | | | Taylor County Rate B, C, Special | | |
|---------------------|-------------------------|--------------|---------------|----------------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$2,111,123 | | | \$388,878 | | |
| Flow Through Method | \$2,022,780 | -4.18% | (\$88,343) | \$477,220 | 22.72% | \$88,342 |
| Allocation On MWh | \$1,973,351 | -6.53% | (\$137,772) | \$452,908 | 16.47% | \$64,030 |

| | Sum Of Member System Rate E | | | Sum Of B, C, Specials Exc Gallatin | | |
|----------------|-----------------------------|--------------|---------------|------------------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$46,736,298 | | | \$7,629,514 | | |
| Alternative 1 | \$44,975,148 | -3.77% | (\$1,761,150) | \$8,633,610 | 13.16% | \$1,004,096 |
| Alternative 2 | \$42,113,621 | -9.89% | (\$4,622,677) | \$10,146,307 | 32.99% | \$2,516,793 |

| | Total Impacts | | | Gallatin Steel | | |
|----------------|-------------------------|--------------|---------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$57,400,000 | | | \$3,034,189 | | |
| Alternative 1 | \$57,400,000 | | | \$3,791,242 | 24.95% | \$757,053 |
| Alternative 2 | \$57,400,000 | | | \$5,140,072 | 69.41% | \$2,105,883 |

Alternative 1 - EK doesn't change its allocation method, however member systems allocate \$ by B, C, E, and Special Contracts. In other words, Owen charges Gallatin Steel exactly what EK charges Owen (for Gallatin Steel).

Alternative 2 - Both EK and members change the allocation procedure. Instead of allocating surcharge on \$ of revenue, the allocation is made using MWh.

| Big Sandy Rate E | | | |
|------------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$1,300,000 | | |
| Alternative 1 | \$1,300,000 | 0.00% | \$0 |
| Alternative 2 | \$1,236,293 | -4.90% | (\$63,707) |

| Total Impacts | | | |
|----------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$1,300,000 | | |
| Alternative 1 | \$1,300,000 | | |
| Alternative 2 | \$1,236,293 | -4.90% | (\$63,707) |

Alternative 1 - EK doesn't change its allocation method, however member systems flow \$ through to B, C, E, and Special Contracts.

Alternative 2 - Both EK and members change the allocation procedure. Instead of allocating surcharge on \$ of revenue, the allocation is made using MWh.

| | Blue Grass Rate E | | | Blue Grass Rate B, C | | |
|----------------|-------------------------|--------------|---------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$5,136,531 | | | \$863,469 | | |
| Alternative 1 | \$5,011,686 | -2.43% | (\$124,845) | \$988,314 | 14.46% | \$124,845 |
| Alternative 2 | \$4,542,873 | -11.56% | (\$593,658) | \$1,134,092 | 31.34% | \$270,623 |

| Total Impacts | | | |
|----------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$6,000,000 | | |
| Alternative 1 | \$6,000,000 | | |
| Alternative 2 | \$5,676,965 | -5.38% | (\$323,035) |

Alternative 1 - EK doesn't change its allocation method, however member systems flow \$ through to B, C, E, and Special Contracts.

Alternative 2 - Both EK and members change the allocation procedure. Instead of allocating surcharge on \$ of revenue, the allocation is made using MWh.

| Clark Rate E | | | |
|----------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$2,200,000 | | |
| Alternative 1 | \$2,200,000 | 0.00% | \$0 |
| Alternative 2 | \$2,054,534 | -6.61% | (\$145,466) |

| Total Impacts | | | |
|----------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$2,200,000 | | |
| Alternative 1 | \$2,200,000 | | |
| Alternative 2 | \$2,054,534 | -6.61% | (\$145,466) |

Alternative 1 - EK doesn't change its allocation method, however member systems flow \$ through to B, C, E, and Special Contracts.

Alternative 2 - Both EK and members change the allocation procedure. Instead of allocating surcharge on \$ of revenue, the allocation is made using MWh.

| Cumberland Valley Rate E | | | |
|--------------------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$2,600,000 | | |
| Alternative 1 | \$2,600,000 | 0.00% | \$0 |
| Alternative 2 | \$2,413,546 | -7.17% | (\$186,454) |

| Total Impacts | | | |
|----------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$2,600,000 | | |
| Alternative 1 | \$2,600,000 | | |
| Alternative 2 | \$2,413,546 | -7.17% | (\$186,454) |

Alternative 1 - EK doesn't change its allocation method, however member systems flow \$ through to B, C, E, and Special Contracts.

Alternative 2 - Both EK and members change the allocation procedure. Instead of allocating surcharge on \$ of revenue, the allocation is made using MWh.

| | Farmers Rate E | | | Farmers Rate B, C | | |
|----------------|-------------------------|--------------|---------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$2,254,282 | | | \$245,718 | | |
| Alternative 1 | \$2,226,690 | -1.22% | (\$27,592) | \$273,310 | 11.23% | \$27,592 |
| Alternative 2 | \$2,080,513 | -7.71% | (\$173,769) | \$311,746 | 26.87% | \$66,028 |

| Total Impacts | | | |
|----------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$2,500,000 | | |
| Alternative 1 | \$2,500,000 | | |
| Alternative 2 | \$2,392,259 | -4.31% | (\$107,741) |

Alternative 1 - EK doesn't change its allocation method, however member systems flow \$ through to B, C, E, and Special Contracts.

Alternative 2 - Both EK and members change the allocation procedure. Instead of allocating surcharge on \$ of revenue, the allocation is made using MWh.

| | Fleming-Mason Rate E | | | Fleming-Mason Rate B, C | | |
|----------------|-------------------------|--------------|---------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$2,414,386 | | | \$1,169,266 | | |
| Alternative 1 | \$2,101,046 | -12.98% | (\$313,340) | \$1,269,179 | 8.54% | \$99,913 |
| Alternative 2 | \$1,971,906 | -18.33% | (\$442,480) | \$1,274,453 | 9.00% | \$105,187 |

| Total Impacts | | | | Inland Container Including Steam | | |
|----------------|-------------------------|--------------|---------------|----------------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$5,200,000 | | | \$1,616,347 | | |
| Alternative 1 | \$5,200,000 | | | \$1,829,775 | 13.20% | \$213,428 |
| Alternative 2 | \$5,596,702 | 7.63% | \$396,702 | \$2,350,343 | 45.41% | \$733,996 |

Alternative 1 - EK doesn't change its allocation method, however member systems flow \$ through to B, C, E, and Special Contracts. In other words, Fleming-Mason charges Inland exactly what EK charges Fleming-Mason.

Alternative 2 - Both EK and members change the allocation procedure. Instead of allocating surcharge on \$ of revenue, the allocation is made using MWh.

| | Grayson Rate E | | | Grayson Rate B / C | | |
|----------------|-------------------------|--------------|---------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$1,245,946 | | | \$54,054 | | |
| Alternative 1 | \$1,231,379 | -1.17% | (\$14,567) | \$68,621 | 26.95% | \$14,567 |
| Alternative 2 | \$1,170,421 | -6.06% | (\$75,525) | \$78,257 | 44.78% | \$24,203 |

| Total Impacts | | | |
|----------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$1,300,000 | | |
| Alternative 1 | \$1,300,000 | | |
| Alternative 2 | \$1,248,678 | -3.95% | (\$51,322) |

Alternative 1 - EK doesn't change its allocation method, however member systems flow \$ through to B, C, E, and Special Contracts.

Alternative 2 - Both EK and members change the allocation procedure. Instead of allocating surcharge on \$ of revenue, the allocation is made using MWh.

| | Inter-County Rate E | | | Inter-County Rate B / C | | |
|----------------|-------------------------|--------------|---------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$2,018,594 | | | \$181,406 | | |
| Alternative 1 | \$1,989,815 | -1.43% | (\$28,779) | \$210,185 | 15.86% | \$28,779 |
| Alternative 2 | \$1,882,591 | -6.74% | (\$136,003) | \$244,442 | 34.75% | \$63,036 |

| Total Impacts | | | |
|----------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$2,200,000 | | |
| Alternative 1 | \$2,200,000 | | |
| Alternative 2 | \$2,127,033 | -3.32% | (\$72,967) |

Alternative 1 - EK doesn't change its allocation method, however member systems flow \$ through to B, C, E, and Special Contracts.

Alternative 2 - Both EK and members change the allocation procedure. Instead of allocating surcharge on \$ of revenue, the allocation is made using MWh.

| | Jackson Rate E | | | Jackson Rate B / C | | |
|----------------|-------------------------|--------------|---------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$4,541,353 | | | \$258,647 | | |
| Alternative 1 | \$4,481,530 | -1.32% | (\$59,823) | \$318,470 | 23.13% | \$59,823 |
| Alternative 2 | \$3,968,828 | -12.61% | (\$572,525) | \$508,126 | 96.46% | \$249,479 |

| Total Impacts | | | |
|----------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$4,800,000 | | |
| Alternative 1 | \$4,800,000 | | |
| Alternative 2 | \$4,476,954 | -6.73% | (\$323,046) |

Alternative 1 - EK doesn't change its allocation method, however member systems flow \$ through to B, C, E, and Special Contracts.

Alternative 2 - Both EK and members change the allocation procedure. Instead of allocating surcharge on \$ of revenue, the allocation is made using MWh.

| Licking Valley Rate E | | | |
|-----------------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$1,300,000 | | |
| Alternative 1 | \$1,300,000 | 0.00% | \$0 |
| Alternative 2 | \$1,269,401 | -2.35% | (\$30,599) |

| Total Impacts | | | |
|----------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$1,300,000 | | |
| Alternative 1 | \$1,300,000 | | |
| Alternative 2 | \$1,269,401 | -2.35% | (\$30,599) |

Alternative 1 - EK doesn't change its allocation method, however member systems flow \$ through to B, C, E, and Special Contracts.

Alternative 2 - Both EK and members change the allocation procedure. Instead of allocating surcharge on \$ of revenue, the allocation is made using MWh.

| | Nolin Rate E | | | Nolin Rate B / C | | |
|----------------|-------------------------|--------------|---------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$2,414,386 | | | \$175,153 | | |
| Alternative 1 | \$2,101,046 | -12.98% | (\$313,340) | \$197,424 | 12.72% | \$22,271 |
| Alternative 2 | \$1,971,906 | -18.33% | (\$442,480) | \$240,024 | 37.04% | \$64,871 |

| Total Impacts | | | | AGC | | |
|----------------|-------------------------|--------------|---------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$3,034,100 | | | \$444,556 | | |
| Alternative 1 | \$2,850,750 | | | \$552,280 | 24.23% | \$107,724 |
| Alternative 2 | \$2,915,179 | -3.92% | (\$118,921) | \$703,249 | 58.19% | \$258,693 |

Alternative 1 - EK doesn't change its allocation method, however member systems flow \$ through to B, C, E, and Special Contracts.

Alternative 2 - Both EK and members change the allocation procedure. Instead of allocating surcharge on \$ of revenue, the allocation is made using MWh.

| | Owen Rate E | | | Owen Rate B, C | | |
|----------------|-------------------------|--------------|---------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$5,418,887 | | | \$746,924 | | |
| Alternative 1 | \$4,641,513 | -14.35% | (\$777,374) | \$767,245 | 2.72% | \$20,321 |
| Alternative 2 | \$4,523,438 | -16.52% | (\$895,449) | \$963,156 | 28.95% | \$216,232 |

| Total Impacts | | | | Gallatin Steel | | |
|----------------|-------------------------|--------------|---------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$9,200,000 | | | \$3,034,189 | | |
| Alternative 1 | \$9,200,000 | | | \$3,791,242 | 24.95% | \$757,053 |
| Alternative 2 | \$10,626,666 | 15.51% | \$1,426,666 | \$5,140,072 | 69.41% | \$2,105,883 |

Alternative 1 - EK doesn't change its allocation method, however member systems flow \$ through to B, C, E, and Special Contracts. In other words, Owen charges Gallatin Steel exactly what EK charges Owen (for Gallatin Steel).

Alternative 2 - Both EK and members change the allocation procedure. Instead of allocating surcharge on \$ of revenue, the allocation is made using MWh.

| | Salt River Rate E | | | Salt River Rate B / C | | |
|----------------|-------------------------|--------------|---------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$4,583,669 | | | \$316,331 | | |
| Alternative 1 | \$4,525,524 | -1.27% | (\$58,145) | \$374,476 | 18.38% | \$58,145 |
| Alternative 2 | \$4,272,057 | -6.80% | (\$311,612) | \$415,671 | 31.40% | \$99,340 |

| Total Impacts | | | |
|----------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$4,900,000 | | |
| Alternative 1 | \$4,900,000 | | |
| Alternative 2 | \$4,687,728 | -4.33% | (\$212,272) |

Alternative 1 - EK doesn't change its allocation method, however member systems flow \$ through to B, C, E, and Special Contracts.

Alternative 2 - Both EK and members change the allocation procedure. Instead of allocating surcharge on \$ of revenue, the allocation is made using MWh.

| | Shelby Rate E | | | Shelby Rate B / C | | |
|----------------|-------------------------|--------------|---------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$1,439,626 | | | \$660,374 | | |
| Alternative 1 | \$1,395,816 | -3.04% | (\$43,810) | \$704,184 | 6.63% | \$43,810 |
| Alternative 2 | \$1,294,930 | -10.05% | (\$144,696) | \$824,975 | 24.93% | \$164,601 |

| Total Impacts | | | |
|----------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$2,100,000 | | |
| Alternative 1 | \$2,100,000 | | |
| Alternative 2 | \$2,119,905 | 0.95% | \$19,905 |

Alternative 1 - EK doesn't change its allocation method, however member systems flow \$ through to B, C, E, and Special Contracts.

Alternative 2 - Both EK and members change the allocation procedure. Instead of allocating surcharge on \$ of revenue, the allocation is made using MWh.

| | South Kentucky Rate E | | | South Kentucky Rate B, C | | |
|----------------|-------------------------|--------------|---------------|--------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$5,392,609 | | | \$507,391 | | |
| Alternative 1 | \$5,297,074 | -1.77% | (\$95,535) | \$602,926 | 18.83% | \$95,535 |
| Alternative 2 | \$4,833,794 | -10.36% | (\$558,815) | \$644,864 | 27.09% | \$137,473 |

| Total Impacts | | | |
|----------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$5,900,000 | | |
| Alternative 1 | \$5,900,000 | | |
| Alternative 2 | \$5,478,658 | -7.14% | (\$421,342) |

Alternative 1 - EK doesn't change its allocation method, however member systems flow \$ through to B, C, E, and Special Contracts. In other words, Fleming-Mason charges Inland exactly what EK charges Fleming-Mason.

Alternative 2 - Both EK and members change the allocation procedure. Instead of allocating surcharge on \$ of revenue, the allocation is made using MWh.

| | Taylor County Rate E | | | Taylor County Rate B / C | | |
|----------------|-------------------------|--------------|---------------|--------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$2,111,123 | | | \$100,324 | | |
| Alternative 1 | \$2,022,780 | -4.18% | (\$88,343) | \$107,638 | 7.29% | \$7,314 |
| Alternative 2 | \$1,973,351 | -6.53% | (\$137,772) | \$129,402 | 28.98% | \$29,078 |

| | Total Impacts | | | TGP | | |
|----------------|-------------------------|--------------|---------------|-------------------------|--------------|---------------|
| | Environmental Surcharge | % Difference | \$ Difference | Environmental Surcharge | % Difference | \$ Difference |
| Current Method | \$2,500,000 | | | \$288,554 | | |
| Alternative 1 | \$2,500,000 | | | \$369,582 | 28.08% | \$81,028 |
| Alternative 2 | \$2,426,259 | -2.95% | (\$73,741) | \$323,506 | 12.11% | \$34,952 |

Alternative 1 - EK doesn't change its allocation method, however member systems flow \$ through to B, C, E, and Special Contracts.

Alternative 2 - Both EK and members change the allocation procedure. Instead of allocating surcharge on \$ of revenue, the allocation is made using MWh.