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PUBLIC SERVICE
COMMISSION

November 7, 2016

Dr. Talina R. Mathews, Ph.D.
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

Re: PSC Case No. 2016-00335

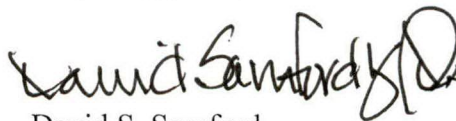
Dear Dr. Mathews:

Please find enclosed for filing with the Commission in the above-referenced case, an original and eight redacted copies of the responses of East Kentucky Power Cooperative, Inc., ("EKPC") to the Commission's Appendix B First Information Requests, contained in the Commission's Order dated October 12, 2016, and the Prepared Testimony of Isaac S. Scott on behalf of EKPC. Documents contained in this filing are also being filed on behalf of EKPC's member systems.

Also enclosed are an original and eight copies of EKPC's Motion for Confidential Treatment of Information ("Motion"). One unredacted copy of the designated confidential portions of these responses, which are the subject of the Motion, is enclosed.

Please return a file-stamped copy to my office.

Very truly yours,



David S. Samford

Enclosures

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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)
JUNE 30, 2016, AND THE PASS THROUGH)
MECHANISM FOR ITS SIXTEEN MEMBER)
DISTRIBUTION COOPERATIVES)**

PSC CASE NO. 2016-00335

MOTION FOR CONFIDENTIAL TREATMENT

Comes now East Kentucky Power Cooperative, Inc. (“EKPC”), by and through counsel, pursuant to KRS 61.878, 807 KAR 5:001, Section 13 and other applicable law, and for its Motion requesting that the Kentucky Public Service Commission (“Commission”) afford confidential treatment to data request number 8b of the Commission’s data requests issued on October 12, 2016, in the above-captioned proceeding, respectfully states as follows:

1. This case was initiated by the Commission in order to complete its six-month review of EKPC’s environmental surcharge as billed from January 1, 2016, to June 30, 2016, to its Member distribution companies. This proceeding was also initiated by the Commission to review the pass-through mechanism as billed from February 28, 2016, to July 31, 2016, to retail member customers.

2. On October 12, 2016, the Commission issued data requests to EKPC, which included request 8b related to the invoices EKPC sent to its Members during a twelve month

period, which includes the six-month review period. Contemporaneous with the filing of this Motion, EKPC is tendering information responsive to this request.

3. The response to this request provides confidential customer information that is commercially sensitive and proprietary regarding EKPC's largest industrial customers. The response includes names of industrial customers, the substations that serve these customers and the billing information for these customers.

4. The above-described information (the "Confidential Information") that is included in EKPC's response to the foregoing data request is proprietary and commercially sensitive information that is retained by EKPC and each relevant Member on a "need-to-know" basis and that is not publicly available. If disclosed, the Confidential Information could give competitors an unfair advantage by knowing the largest customers' demand and billing information. Also, if disclosed, the Confidential Information would possibly have an effect on economic development in the service territories since this information describes the usage of the largest industrial customers on EKPC's system. Other states' economic development officials, who are charged with attracting investment and new jobs to their jurisdictions (despite generally higher electricity costs), would be eager to know specific details of large industrial customers' energy requirements. This information would be readily discernable from the Member invoices if the names of the specific substations are not afforded confidential treatment. Moreover, even though not all substations on the EKPC system are directly correlated with a large industrial customer, the redaction of only those substation names which are associated with a large customer would provide sufficient information for competitors and other states' economic development officials to decipher the specific large industrial customers whose names would be redacted.

5. The Kentucky Open Records Act exempts the Confidential Information from public disclosure. *See* KRS 61.878(1)(c). As set forth above, disclosure of the Confidential Information would permit an unfair advantage to third parties and potentially cause EKPC to lose load – which would be detrimental to interests of its Members and, ultimately, their retail customers. Moreover, the Kentucky Supreme Court has stated, “information concerning the inner workings of a corporation is ‘generally accepted as confidential or proprietary.’” *Hoy v. Kentucky Industrial Revitalization Authority*, 907 S.W.2d 766, 768 (Ky. 1995). The information derived from the response to the foregoing request would clearly relate to EKPC’s largest industrial customers, their demand and billing information. Because the Confidential Information is critical to EKPC’s effective execution of business decisions and strategy, it satisfies both the statutory and common law standards for affording confidential treatment. Indeed, the Commission previously afforded confidential treatment to identical information in Case No. 2014-00051.¹

6. EKPC does not object to limited disclosure of the Confidential Information described herein, pursuant to an acceptable confidentiality and nondisclosure agreement, to any intervenors with a legitimate interest in reviewing the same for the sole purpose of participating in this case.

7. In accordance with the provisions of 807 KAR 5:001, Section 13(2), EKPC is filing one un-redacted copy of its response to Request No. 8b separately under seal. The public version of EKPC’s filing notes that these responses have been submitted to the Commission under seal in redacted form.

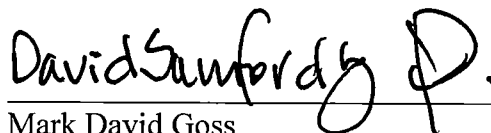
¹ *See In the Matter of an Examination by the Public Service Commission of the Environmental Surcharge Mechanism of East Kentucky Power Cooperative, Inc. for the Six-Month Billing Period Ending December 31, 2013 and the Pass Through Mechanism for its Sixteen Member Distribution Cooperatives*, Order, Case No. 2014-00051 (Ky. P.S.C. Sept. 2, 2015)

8. In accordance with the provisions of 807 KAR 5:001, Section 13(3), EKPC respectfully requests that the Confidential Information be withheld from public disclosure for a period of ten years. This will assure that the Confidential Information – if disclosed after that time – will no longer be commercially sensitive so as to likely impair the interests of EKPC if publicly disclosed.

WHEREFORE, on the basis of the foregoing, EKPC respectfully requests the Commission to enter an Order granting this Motion and to so afford such protection from public disclosure to the un-redacted copy of the referenced response, which is filed herewith under seal, for a period of ten years from the date of entry of such an Order.

This 7th day of November 2016.

Respectfully submitted,

A handwritten signature in black ink that reads "David Samford" followed by a stylized initial "D." The signature is written over a horizontal line.

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Counsel for East Kentucky Power Cooperative, Inc.

CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the foregoing was deposited in the custody and care of the U.S. Mail, postage prepaid, on this the 7th day of November 2016, addressed to the following:

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Counsel for East Kentucky Power Cooperative, Inc.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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 JUNE 30, 2015 AND THE PASS THROUGH)
MECHANISM FOR ITS SIXTEEN MEMBER)
DISTRIBUTION COOPERATIVES)**

**CASE NO.
2016-00335**

**DIRECT TESTIMONY OF ISAAC S. SCOTT
ON BEHALF OF EAST KENTUCKY POWER COOPERATIVE, INC.**

Filed: November 7, 2016

1 **Q. Please state your name, business address, and occupation.**

2 A. My name is Isaac S. Scott and my business address is East Kentucky Power Cooperative,
3 Inc. ("EKPC"), 4775 Lexington Road, Winchester, Kentucky 40391. I am the Manager of
4 Pricing for EKPC.

5 **Q. Please state your education and professional experience.**

6 A. I received a B.S. degree in Accounting, with distinction, from the University of Kentucky
7 in 1979. After graduation I was employed by the Kentucky Auditor of Public Accounts,
8 where I performed audits of numerous state agencies. In December 1985, I transferred to
9 the Kentucky Public Service Commission ("Commission") as a public utilities financial
10 analyst, concentrating on the electric and natural gas industries. In August 2001, I became
11 manager of the Electric and Gas Revenue Requirements Branch in the Division of Financial
12 Analysis at the Commission. In this position, I supervised the preparation of revenue
13 requirement determinations for electric and natural gas utilities as well as determined the
14 revenue requirements for the major electric and natural gas utilities in Kentucky. I retired
15 from the Commission effective August 1, 2008. In November 2008, I became the Manager
16 of Pricing at EKPC.

17 **Q. Please provide a brief description of your duties at EKPC.**

18 A. As Manager of Pricing, I am responsible for rate-making activities which include designing
19 and developing wholesale and retail electric rates and developing pricing concepts and
20 methodologies. I report directly to the Director of Regulatory and Compliance Services.

21 **Q. What is the purpose of your testimony in this proceeding?**

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

- 1 • Describe how EKPC and its Member Cooperatives have applied the environmental
2 surcharge mechanism and the pass through mechanism in a reasonable manner during
3 the period under review;
- 4 • Propose updating the rate of return used in the environmental surcharge calculation;
- 5 • Describe whether EKPC has considered billing its environmental costs as a direct
6 amount based on the monthly wholesale sales to each Member Cooperative or why it
7 has not been considered, along with related issues. This testimony was required by the
8 Commission’s October 12, 2016 opening this review; and
- 9 • Describe a possible alternative to address the Member Cooperatives’ continued
10 concerns over the volatility in EKPC’s monthly environmental surcharge factor.

11 **Q. Is EKPC preparing testimony and responding to data requests on behalf of its**
12 **Member Cooperatives?**

13 A. Pursuant to the Commission’s October 12, 2016 Order, EKPC is preparing testimony on
14 behalf of each Member Cooperative. The Member Cooperatives are: Big Sandy Rural
15 Electric Cooperative Corporation (“RECC”), Blue Grass Energy Cooperative Corporation,
16 Clark Energy Cooperative, Inc., Cumberland Valley Electric, Inc., Farmers RECC,
17 Fleming-Mason Energy Cooperative, Grayson RECC, Inter-County Energy Cooperative
18 Corporation, Jackson Energy Cooperative, Licking Valley RECC, Nolin RECC, Owen
19 Electric Cooperative, Salt River Electric Cooperative Corporation, Shelby Energy
20 Cooperative, Inc., South Kentucky RECC, and Taylor County RECC. EKPC is also
21 providing Response 2 to the Commission Staff’s First Request for Information (“Staff’s
22 First Request”).

23 **Q. Have other EKPC representatives provided responses to Commission Staff’s First**
24 **Request for Information in this proceeding?**

1 A. Yes. Mark Horn, Manager of Fuel and Emissions, has provided emission allowance
2 information in Response 3 to the Staff's First Request. Thomas Stachnik, Treasurer and
3 Director of Finance, has provided the debt and average interest rate information in
4 Responses 5 and 6 to the Staff's First Request.

5 **Q. Previous Commission Orders required EKPC to incorporate certain provisions into**
6 **the calculation of the monthly environmental surcharge factors. Please comment on**
7 **how EKPC has addressed the most significant aspects of these Orders during the**
8 **periods under review.**

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

11 • **Compliance Plan Projects**

12 As of the end of the six-month review period, EKPC has 14 projects in its
13 Environmental Compliance Plan. These projects were approved by the Commission in
14 Case Nos. 2004-00321,¹ 2008-00115,² 2010-00083,³ 2013-00259,⁴ and 2014-00252.⁵

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

² See *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*, Order, Case No. 2008-00115, (Ky. P.S.C., Sep. 29, 2008).

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

⁴ See *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*, Order, Case No. 2013-00259, (Ky. P.S.C., Feb. 20, 2014).

⁵ See *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*, Order, Case No. 2014-00252, (Ky. P.S.C., Mar. 6, 2015).

1 During the current review period, the Commission issued its Order in Case No. 2015-
2 00302.⁶ In its application in that case, EKPC requested to establish a regulatory asset
3 for the undepreciated balance of its William C. Dale Generating Station assets that were
4 being retired early. As part of the approval of the regulatory asset, the Commission
5 required EKPC to remove Project 5, Dale Low Nitrogen Oxide Burners, and Project
6 10, Dale Continuous Monitoring Equipment, from the environmental surcharge. The
7 removal of these two projects was reflected in EKPC's monthly surcharge report filed
8 on February 19, 2016 and all subsequent reports. The monthly environmental
9 surcharge reports, incorporated by reference in this case, show the capital costs for the
10 remaining projects.

11 • **Base/Current Method**

12 The surcharge mechanism, as shown in EKPC's Rate ES – Environmental Surcharge,
13 reflects the base/current method through the formula $MESF = CESF - BESF$.⁷ As
14 shown in Response 1 to the Staff's First Request, EKPC's BESF is 0%.

15 • **Actual Emission Allowance Expense**

16 EKPC included only actual sulfur dioxide ("SO₂") and nitrogen oxide ("NO_x")
17 emission allowance expense in the monthly filings.

18 • **Return on Emission Allowance Inventory and Limestone Inventory**

⁶ See *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*, Order, Case No. 2015-00302, (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.

⁷ MESF is the Monthly Environmental Surcharge Factor; CESF is the Current Environmental Surcharge Factor; and BESF is the Base Environmental Surcharge Factor.

1 EKPC has included a return on all environmental surcharge assets, including emission
2 allowances purchased for current and vintage years. This is addressed in Response 3
3 to the Staff's First Request. EKPC has also included a return on its limestone inventory.
4 EKPC's emission allowance inventories for SO₂ and NO_x reflect operations under the
5 Cross-State Air Pollution Rules ("CSAPR") along with a continuation of the Acid Rain
6 program. There were no changes in the emission allowance programs until January 1,
7 2015, when the CSAPR rules began for SO₂, seasonal or ozone NO_x, and annual NO_x.
8 The previous SO₂ allowance balances and dollars continue forward into the future since
9 these are related to the Acid Rain program. The previous NO_x allowance balances and
10 dollars which were associated with the previous Clean Air Interstate Rule for ozone
11 and annual NO_x were eliminated. Under CSAPR, SO₂ and NO_x allowances are
12 awarded annually with no carry-forward of unused balances from prior programs or
13 rules. The allowances allocated to EKPC by the Environmental Protection Agency
14 under CSAPR have a dollar value of \$0, which is consistent with the valuation afforded
15 EPA allocated allowances under prior programs.

16 EKPC's SO₂ inventory as of the end of the review period reflects the allowances from
17 the Acid Rain program. The NO_x inventory as of the end of the review period has a \$0
18 balance as all the allowances were issued under CSAPR.

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

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

23 • **Rate of Return**

1 Two rates of return were in effect during the periods under review. For the expense
2 months of December 2015 through February 2016 the rate of return was 6.063%, which
3 was approved by the Commission in Case No. 2014-00051.⁸ For the expense months
4 of March 2016 through May 2016 the rate of return was 6.045%, which was approved
5 by the Commission in Case No. 2015-00281.⁹ In each case, the Commission approved
6 EKPC's request to incorporate a Times Interest Earned Ratio ("TIER") of 1.50 in the
7 determination of the rate of return.

8 EKPC's rate of return on environmental compliance rate base is determined by
9 multiplying the weighted average debt cost for the debt issuances directly related to
10 projects in the approved compliance plan times a stated TIER. The rate of return on
11 the environmental compliance rate base is updated to reflect current average debt cost
12 at the conclusion of the six-month and two-year surcharge reviews.¹⁰ The use of debt
13 costs is based on the fact that all of EKPC's environmental compliance investments are
14 financed with long-term debt.¹¹ The use of a 1.50 TIER was first approved by the
15 Commission in Case No. 2011-00032.¹² This rate-making methodology is different

⁸ See *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 Period Ending December 31, 2013 and the Pass-Through Mechanism for Its Sixteen Member Distribution Cooperatives*, Order, Case No. 2014-00051, (Ky. P.S.C., Aug. 25, 2015).

⁹ See *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, Revised Responses to Commission Staff's First Request for Information to East Kentucky Power Cooperative, Inc. dated August 31, 2015 filed April 5, 2016.

¹⁰ 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.

¹¹ 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.

¹² See *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, 2010; and the Pass-*

1 from that employed by investor-owned utilities. The rate of return for the
2 environmental compliance rate base for investor-owned utilities reflects a weighted
3 average cost of capital approach. The weighted average cost of capital reflects the
4 blended interest rates for the investor-owned utility's long-term and short-term debt
5 and a return on the common equity. The weighted average cost of capital is then
6 "grossed up" for income taxes. Consequently, the rate of return for the investor-owned
7 utilities is higher than the rate of return proposed by or authorized for EKPC.¹³

8 When determining a reasonable TIER for the environmental surcharge rate of return,
9 consideration first must be given to the Debt Service Coverage Ratio ("DSC"), which
10 is EKPC's critical financial metric. This metric evaluates our ability to service
11 principal and interest payments and thus is more relevant to lenders than TIER, which
12 only considers interest payment. The two metrics can be related in that the margin
13 required to achieve an acceptable DSC implies a TIER level.

14 EKPC's target annual DSC range is set forth in Board Policy 203, which states, "The
15 Debt Service Coverage Ratio (DSC) is a financial measurement of EKPC's ability to
16 repay its long-term debt and is computed as depreciation plus interest on long-term debt
17 plus net margins divided by interest on long-term debt plus principal payments. EKPC
18 shall strive to maintain an average DSC of at least 1.15 – 1.35 for two of every three

Through Mechanism for Its Sixteen Member Distribution Cooperatives, Order, Case No. 2011-00032, (Ky. P.S.C., Aug. 2, 2011). EKPC requested authority to use the 1.50 TIER as it was consistent with the TIER authorized by the Commission in EKPC's last base rate case, Case No. 2010-00167. The Commission found the request reasonable and approved the use of the 1.50 TIER.

¹³ See *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 April 30, 2016*, Order, Case No. 2016-00214 (Ky. P.S.C., Oct. 25, 2016). 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 10.54%.

1 successive years and not less than a DSC of 1.10 in any given year. DSC above 1.20
2 is preferred.”

3 Further, the credit rating agencies, Fitch Ratings (“Fitch”) and Standard & Poor’s
4 (“S&P”), both prefer high DSC ratios to support our A- Stable credit ratings, which in
5 turn result in lower cost of borrowings. In their report on EKPC last year, Fitch had set
6 a DSC of 1.25 as a threshold which would support our upgrade to A-. The median DSC
7 for A- rated Generation and Transmission Cooperatives as of Fitch’s June 13, 2016
8 Public Power Peer Study was 1.43. S&P does not publish medians for ratings because
9 their ratings are based on several factors. However, S&P has repeatedly praised
10 EKPC’s DSC ratio being at or above 1.25 in their reports on EKPC which affirm our
11 A- rating. Moody’s, who does not rate EKPC, targets a DSC of 1.2 – 1.4 for “A” rated
12 companies.

13 Based on the Board Policy and Rating Agency input, EKPC management targets a DSC
14 ratio of 1.30 each year. This target recognizes that the DSC will vary each year as its
15 components vary (for example, mild weather would result in lower margin and a lower
16 DSC) and thus allows for some decline without crossing the 1.25 threshold discussed
17 above. An actual DSC below this level, and forecasted to remain low, would be a
18 primary indicator of the need for a base rate increase.

19 For the year ended December 31, 2015, EKPC’s DSC was 1.26. The components and
20 the corresponding margins and implied TIER are:

1. Depreciation	\$95,163,880
2. Interest Expense	\$113,258,537
3. Net Margins	\$49,289,615
4 Principal Payments	\$90,648,813
DSC Ratio (1 + 2 + 3) / (2 + 4)	1.26
To achieve a DSC of 1.30, margins would have needed to be	\$56,700,000
Implied TIER corresponding to DSC of 1.30 ((Interest + Margins) / Interest)	1.50

1 Note that because interest expense and depreciation change from year to year, the
2 relationship between DSC and TIER is not locked in but should be recalculated. That
3 is, a DSC of 1.30 will not always imply a TIER of 1.50. Because DSC is the critical
4 metric, but not the only metric, for credit evaluation and financial performance, EKPC
5 will strive to maintain the DSC near target and adjust the TIER accordingly over time.
6 Based upon the foregoing, EKPC proposes no change to the TIER component of the
7 rate of return in this proceeding. EKPC is proposing a rate of return of 6.059% in this
8 proceeding, as shown in Response 5 to the Staff's First Request. EKPC's proposed
9 rate of return is consistent with the Settlement Agreement approved in Case No. 2004-
10 00321, which provided that the rate of return on compliance-related capital
11 expenditures would be updated to reflect current average debt cost as of the end of each
12 six-month review period. The Commission clarified in its March 21, 2014 Order in
13 Case No. 2013-00324 that the expense month should constitute the end of an
14 environmental surcharge review period.

15 • **Operation and Maintenance ("O&M") Expenses**

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

1 **Q. Were the environmental-related amounts included in the monthly surcharge**
2 **calculation based on booked costs?**

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

6 **Q. Did EKPC incur any over- or under-recoveries during the period under review?**

7 A. Yes. However, as shown in Response 1 to the Staff's First Request, EKPC applied its May
8 2016 under-recovery to the June 2016 expense month, which was billed in July 2016. Thus,
9 from the normal operation of the surcharge mechanism, no adjustment is needed in this
10 proceeding to collect any under-recovery from the Member Cooperatives.

11 As EKPC discussed in its revised responses to the Commission Staff's First Request for
12 Information in Case No. 2015-00281, EKPC identified an error in certain O&M expenses
13 reported in the monthly filings which does require correction. During a review of the O&M
14 expenses included in the February 2016 environmental surcharge filing, EKPC became
15 aware that there were errors in the amounts that had been reported in the previous month's
16 surcharge filing. EKPC determined it was reasonable to review O&M expenses allowable
17 for inclusion in the environmental surcharge for the expense months corresponding to
18 revenues billed during 2015. This review revealed similar errors occurred in reported
19 O&M expenses beginning with the December 2014 expense month and continuing through
20 the February 2016 expense month.

21 **Q. Has EKPC determined the reason(s) for these errors?**

22 A. EKPC has determined that simple human error in retrieving information was the reason
23 these errors occurred. As a result, EKPC personnel have examined the processes for
24 compiling surcharge eligible O&M expenses and have standardized and finalized the

1 criteria for the queries to recognize the necessary operating unit, department, budget,
2 and project identifiers. EKPC believes these actions will improve the process and ensure
3 the completeness and accuracy of the surcharge eligible O&M expenses.

4 **Q. You stated these errors were originally noted in Case No. 2015-00281. How were**
5 **these errors addressed by the Commission in the final Order in that case?**

6 A. In its April 8, 2016 final Order, the Commission authorized EKPC to collect an under-
7 recovery of \$391,155 over the first two billing months following the date of that Order.
8 This under-recovery reflected the effects of the identified errors through the end of the May
9 2015 expense month.

10 **Q. How were these errors addressed in the next surcharge review case?**

11 A. In Case No. 2016-00144,¹⁴ EKPC determined that it had experienced an under-recovery of
12 \$249,182. In its September 9, 2016 final Order, the Commission found EKPC's
13 determination of the under-recovery to be reasonable and authorized the collection of this
14 under-recovery over the first two billing months following the date of that Order. The
15 under-recovery reflected the effects of the identified errors through the end of the
16 November 2015 expense month.

17 **Q. What is the amount of the adjustment EKPC proposes to make in this proceeding to**
18 **correct the noted errors?**

19 A. Reflecting the Commission's decision in Case No. 2015-00281 and as shown in the
20 response to Request 1, for the review period ending May 31, 2016, EKPC has determined
21 it experienced a net over-recovery of \$343,125.

¹⁴ See *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, 2015 and the Pass Through Mechanism for Its Sixteen Member Distribution Cooperatives*, Order, Case No. 2016-00144, (Ky. P.S.C., Sep. 9, 2016).

1 As discussed previously, EKPC determined that these errors impacted the expense months
2 of December 2014 through February 2016. The Commission's decision in Case No. 2015-
3 00281 addressed the net under-recovery covering the expense months of December 2014
4 through May 2015. The net under-recovery determined in Case No. 2016-00144 covered
5 the expense months of June through November 2015. The remaining effect of these errors
6 covering the expense months of December 2015 through February 2016 are being
7 addressed in this surcharge review proceeding.

8 **Q. How did EKPC deal with the remaining months in the 12-month average O&M**
9 **schedule reported on ES Form 2.4 impacted by the identified errors in O&M expenses**
10 **for the expense month filings after the February 2016 expense month?**

11 A. EKPC described the actions it took to address this issue in my direct testimony in Case No.
12 2016-00144. As I stated in my previous direct testimony, EKPC's surcharge mechanism
13 utilizes a 12-month average of O&M expenses. Absent correction, errors existing in the
14 current expense month would continue to impact the monthly surcharge calculations for
15 the following 11 months.¹⁵ Without a correction to the O&M expenses reported on ES
16 Form 2.4, the effects of the errors identified in the June 2015 through February 2016
17 expense months would impact monthly surcharge calculations through January 2017.
18 Therefore, beginning with the March 2016 expense month, EKPC included the corrected
19 O&M expense totals on ES Form 2.4, which resolved the errors in subsequent months.¹⁶
20 No further corrections were required to address this issue.

¹⁵ Errors in the O&M expenses reported on ES Form 2.4 impact the determination of the average monthly O&M expense included in the surcharge calculations and the determination of the cash working capital component of the environmental surcharge compliance rate base.

¹⁶ EKPC included and noted this correction to ES Form 2.4 in the March 2016 expense month surcharge filing, which was submitted to the Commission on April 20, 2016.

1 **Q. How does EKPC propose to handle the net over-recovery in its surcharge**
2 **mechanism?**

3 A. EKPC would like to return the net over-recovery in a timely manner, but believes it needs
4 to balance this desire by considering the impact the net over-recovery would have on its
5 Member Cooperatives and their customers. Therefore, EKPC proposes to include the total
6 net over-recovery of \$343,125 as an adjustment on Line 11 of ES Form 1.1 in the first two
7 months after the Commission's Order in this proceeding, with the adjustment for the first
8 month being \$171,562 and the adjustment for the second month being \$171,563.

9 **Q. Previous Commission Orders also required EKPC's Member Cooperatives to**
10 **incorporate certain provisions into the calculation of the monthly pass-through**
11 **factors. Please comment on how the Member Cooperatives have addressed the most**
12 **significant aspects of these Orders during the periods under review.**

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

19 **Q. Did the Member Cooperatives incur any over- or under-recoveries during the review**
20 **period?**

21 A. Yes. The over- or under-recovery amounts for each Member Cooperative are shown in
22 Response 2 to the Staff's First Request. The determination of the over- or under-recovery
23 amounts has been prepared utilizing the revised methodology approved by the Commission
24 in Case No. 2015-00281.

1 **Q. How will the Member Cooperatives reflect recovery of these over- or under-recovery**
2 **amounts?**

3 A. As approved in the Commission's November 5, 2010 Order in Case No. 2010-00021,¹⁷ the
4 Member Cooperatives propose that the over- or under-recovery amounts be amortized over
5 a period of six months beginning in the first month after the Commission's Order in this
6 proceeding.

7 **Q. Has EKPC updated the rate of return to be used prospectively?**

8 A. Yes. As previously discussed, EKPC proposes an updated rate of return of 6.059%. This
9 updated rate of return reflects an average debt cost as of May 31, 2016 of 4.039% and a
10 TIER of 1.50. The determination of the average debt cost as of May 31, 2016 is shown in
11 Response 5 to the Staff's First Request. EKPC notes that its weighted average debt cost in
12 the four previous cases and as reported in this case are relatively constant, fluctuating no
13 more than 0.30% between cases. While this is due in part to a favorable interest rate
14 environment, EKPC's ability to build equity is also a major contributor to this trend.

15 **Q. When does EKPC propose to apply the updated rate of return in its surcharge**
16 **calculations?**

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

19 **Q. Does EKPC have a request concerning the timing of the issuance of the final Order**
20 **in this surcharge review proceeding?**

¹⁷ See *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*, Order, Case No. 2010-00021, (Ky. P.S.C., Nov. 5, 2010).

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

5 **Q. In its October 12, 2016 Order the Commission directed that EKPC file prepared**
6 **testimony explaining: a) whether it has considered billing its environmental costs as**
7 **a direct amount based on the monthly wholesale sales to each Member Cooperative**
8 **or, otherwise, why it has not been considered; b) whether the direct billing of its**
9 **monthly environmental costs would eliminate the current over-/under-recovery**
10 **amounts that occur from billing environmental costs based on a factor to its Member**
11 **Cooperatives; and c) whether billing a direct amount for its environmental costs**
12 **would result in more timely recovery of EKPC’s environmental costs. Would you**
13 **address the first question concerning billing the environmental costs as a direct**
14 **amount?**

15 A. Yes. EKPC understands the suggestion of a “direct amount” to mean that after determining
16 its total monthly environmental costs the total is then assigned to the Member Cooperatives
17 based on the monthly wholesale sales. The assignment is based on the percentage the
18 monthly wholesale sales to an individual Member Cooperative represents of the total
19 monthly wholesale sales. A rate is not determined and applied to the wholesale sales
20 billing. There is no recognition of the customer mix (residential, commercial, industrial)
21 or the load characteristics of each Member Cooperative.¹⁸

¹⁸ Each of the 16 Member Cooperatives has its own unique mix of residential, commercial, and industrial customers. In addition, the load characteristics of the customers and how those customers react or respond to weather and economic conditions vary between the Member Cooperatives. A cost allocation methodology like the direct amount approach which is based on the relative position of one Member Cooperative’s monthly wholesale sales to the total monthly wholesale sales lessens the recognition of the unique customer characteristics of the 16 Member Cooperatives.

1 To my knowledge EKPC has never considered billing its environmental costs as a direct
2 amount based on the monthly wholesale sales to each Member Cooperative. As to why
3 this approach has never been considered, I would suggest that neither the language of the
4 environmental surcharge statute nor the history of the environmental surcharge would
5 support such an approach. Although I am not an attorney, the plain and ordinary meaning
6 of the words used in KRS 278.183 suggest that a rate mechanism, and not a direct amount
7 billing concept, are what the General Assembly had in mind when establishing the
8 environmental surcharge. The first sentence of KRS 278.183(2) states “Recovery of costs
9 pursuant to subsection (1) of this section that are not already included in existing rates shall
10 be *by environmental surcharge to existing rates imposed as a positive or negative*
11 *adjustment to customer bills* in the second month following the month in which costs are
12 incurred.” (emphasis added) It is my understanding that the phrase “surcharge to existing
13 rates” requires a rate mechanism rather than the direct billing of an amount. The use of a
14 rate mechanism will assign costs based on the characteristics of the customer rather than
15 the relative position of the Member Cooperative under the direct amount approach.
16 Further, as stated in KRS 278.183(2), within six months of the submittal of a compliance
17 plan the Commission shall conduct a hearing to “(a) [c]onsider and approve the plan and
18 *rate surcharge* if the commission finds the plan and *rate surcharge* reasonable and cost-
19 effective for compliance with the applicable environmental requirements set forth in
20 subsection (1) of this section.” (emphasis added) The statute seems to require a rate
21 mechanism rather than the direct billing of an amount.

1 In addition, it should also be noted that none of the utilities seeking Commission approval
2 for an environmental surcharge have ever proposed the direct billing of the surcharge
3 amount, but instead all requested a rate mechanism.¹⁹

4 Further, as the Commission has stated, the environmental surcharge statute was modeled
5 after the Commission's fuel adjustment clause ("FAC") regulation.²⁰ The FAC has been
6 in operation for over 30 years and it utilizes a rate mechanism rather than the direct billing
7 of any differences between the actual fuel costs incurred for a period and the level of fuel
8 costs incorporated into base rates. Finally, over the course of my more than thirty (30)
9 years of professional experience in the fields of utility regulation and rate design, I know
10 that surcharges are normally billed to customers utilizing rate mechanisms rather than as
11 an amount being directly billed. For example, the investor-owned utilities have been
12 approved to utilize rate mechanisms for various other surcharges including Demand Side
13 Management, Home Energy Assistance, and Accelerated Main Replacement programs. I
14 am unaware of any electric utility surcharge in effect in Kentucky that relies upon a direct
15 billing methodology.

¹⁹ See *In the Matter of the Application of Kentucky Utilities Company to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with Environmental Requirements for Coal Combustion Wastes and By-Products*, Order, Case No. 1993-00465, (Ky. P.S.C. Jul. 19, 1994); See *In the Matter of Application of Big Rivers Electric Corporation to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with Environmental Requirements of the Clean Air Act*, Order, Case No. 1994-00032, (Ky. P.S.C. Aug. 31, 1994); See *In the Matter of the Application of Louisville Gas and Electric Company for Approval of Compliance Plan and to Assess a Surcharge Pursuant to KRS 278.183 to Recover Costs of Compliance with Environmental Requirements for Coal Combustion Wastes and By-Products*, Order, Case No. 1994-00332, (Ky. P.S.C. Apr. 6, 1995); See *In the Matter of Application of Kentucky Power Company d/b/a American Electric Power to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with the Clean Air Act and Those Environmental Requirements Which Apply to Coal Combustion Waste and By-Products*, Order, Case No. 1996-00489, (Ky. P.S.C. May 27, 1997); See *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*, Order, Case No. 2004-00321, (Ky. P.S.C. Mar. 17, 2005); and See *In the Matter of the Application of Big Rivers Electric Corporation for Approval of Environmental Compliance Plan and Environmental Surcharge Tariff*, Order, Case No. 2007-00460, (Ky. P.S.C. Jun. 25, 2008).

²⁰ See Case No. 2014-00051, Order at 8, Note 16 (Ky. P.S.C. Aug. 25, 2015).

1 **Q. Would you now address the second question concerning whether the billing of**
2 **EKPC’s environmental costs as a direct amount would eliminate the current over-**
3 **/under-recovery amounts resulting from utilizing a surcharge factor?**

4 A. Yes. The current over-/under-recovery occurring from billing the environmental costs
5 using a factor primarily reflects a timing difference. EKPC’s surcharge factor is calculated
6 by dividing the monthly environmental costs incurred by EKPC by the 12-month average
7 Member Cooperatives’ revenues. Since the 12-month average Member Cooperatives’
8 revenues used to calculate the surcharge factor will not match the Member Cooperatives’
9 revenues for the specific invoice billing period the surcharge factor is applied to, an over-
10 or under-recovery will exist. As I understand the suggestion of billing a direct amount,
11 that approach would eliminate the over-/under-recovery as currently experienced. This is
12 due to the fact that under the direct billed approach the environmental costs are assigned
13 based on the relative position of the Member Cooperative’s monthly wholesale sales to the
14 total wholesale sales for the month, rather than applying a surcharge factor based on
15 average revenues.

16 However, I have concerns about following a direct billed approach to assign EKPC’s
17 environmental costs to its Member Cooperatives. As I have already stated, I believe the
18 surcharge statute indicates a rate mechanism should be utilized. But I also do not believe
19 the direct bill approach represents a reasonable methodology to assign environmental costs
20 from a cost-of-service basis. The reference to “monthly wholesale sales” sounds simple
21 and straightforward. But it is unclear whether these sales are referring to kW demand sales,
22 kWh energy sales, demand revenues, energy revenues, or a combination of the demand and
23 energy revenues. EKPC’s environmental costs reflect both demand related and energy
24 related costs and the cost assignment approach should recognize and reflect this fact. In

1 addition, as I have previously stated, the direct billed approach does not reflect the unique
2 customer mix or load characteristics of the 16 Member Cooperatives. The methodology
3 utilized to assign EKPC's environmental costs must be fair, just, and reasonable. As I
4 understand the suggested direct bill approach, the apparent simplicity of the approach fails
5 to recognize basic cost-of-service rate design concepts and would result in the assignment
6 of EKPC's environmental costs in a manner that is not fair, just, or reasonable.

7 Finally, I believe that billing EKPC's environmental costs as a direct amount based on the
8 monthly wholesale sales to each Member Cooperative would still result in some over-
9 /under-recoveries. The wholesale sales to the Member Cooperatives significantly fluctuate
10 from month to month. Basing the environmental cost assignment on the relative position
11 of a Member Cooperative's wholesale sales to the total monthly wholesale sales would
12 result in bill volatility. As I discuss elsewhere in my testimony, bill volatility is a serious
13 concern of the Member Cooperatives. I can think of no modification to the direct bill
14 approach, for example averaging or levelizing the cost assignment, that could lessen the
15 volatility without creating a new over-/under-recovery situation.

16 **Q. Would you address the third question concerning whether billing a direct amount for**
17 **EKPC's environmental costs would result in more timely recovery of those**
18 **environmental costs?**

19 A. Yes. Billing a direct amount for EKPC's environmental costs would not result in more
20 timely recovery of those environmental costs. Under the current surcharge factor approach,
21 the environmental costs incurred in a specific expense month are billed to the Member
22 Cooperatives in the following month. Billing a direct amount for those costs could not
23 occur any sooner.

1 Concerning the over-/under-recovery of EKPC's environmental costs, this recovery is
2 included in the surcharge factor calculations in the month following the original billing of
3 the environmental costs. As I have previously discussed, a direct billing approach would
4 likely eliminate the over-/under-recovery currently experienced when utilizing a surcharge
5 factor. Thus, if the over-/under-recovery currently experienced were eliminated, those
6 recoveries in effect would be refunded or collected sooner under the direct billing
7 approach.

8 However, I should point out that the majority of EKPC's monthly environmental costs are
9 the actual costs and not the monthly over-/under-recovery. So for the majority of EKPC's
10 monthly environmental costs, the direct billing approach would not result in more timely
11 recovery of those costs. As I have already discussed, due to the significant fluctuations in
12 the monthly wholesale sales to the Member Cooperatives, the direct billing approach would
13 introduce another form of bill volatility for the Member Cooperatives. When considering
14 alternatives like the direct billing approach, I believe EKPC has to take into consideration
15 the impacts on its Member Cooperatives as well as itself. While I have not modeled the
16 effects, I do not believe the slightly improved collection or refund of EKPC's over-/under-
17 recoveries using the direct billing approach is a reasonable trade-off for the introduction of
18 another form of bill volatility for the Member Cooperatives.

19 **Q. As a final topic for your testimony, does EKPC propose any changes to its surcharge**
20 **mechanism?**

21 A. Yes, EKPC would like to suggest a possible solution to address the continued volatility
22 concerns its Member Cooperatives have had with the EKPC surcharge factor. EKPC
23 would like to make a discussion of this solution part of the November 9, 2016 informal
24 conference scheduled in this proceeding.

1 **Q. Would you describe the volatility in EKPC's surcharge factor that has caused the**
2 **Member Cooperatives' concerns?**

3 A. EKPC's surcharge factor reflects the net monthly revenue requirement divided by the
4 average 12-month Member Cooperative system revenues. The net monthly revenue
5 requirement in turn is composed of two parts: the monthly surcharge revenue requirement
6 and a true-up adjustment. The true-up adjustment allows for the collection or refunding of
7 the wholesale monthly over- or under-recovery of the surcharge from the previous month.
8 The monthly surcharge revenue requirement has remained relatively stable over the past
9 few years. However, the true-up adjustment has fluctuated, sometimes significantly over
10 the same time period. The result has been EKPC monthly environmental surcharge factors
11 which can move several percentage points from month to month. This volatility is also
12 reflected in the corresponding monthly pass-through surcharge factors for the Member
13 Cooperatives.

14 **Q. Would you provide some background concerning the Member Cooperatives'**
15 **volatility concerns?**

16 A. The Member Cooperatives have expressed concerns about the volatility of EKPC's
17 surcharge factor for several years. Since 2014 EKPC and the Member Cooperatives have
18 been involved in discussions trying to develop a resolution of these concerns. EKPC also
19 made the Commission and its Staff aware there were volatility issues during the course of
20 two previous surcharge review proceedings.²¹ The primary focus during those review cases
21 was on the volatility the Member Cooperatives experienced from the methodology
22 followed in the six-month review cases to determine the over- or under-recovery of the

²¹ See Case No. 2014-00051, Scott Supplemental Testimony filed June 30, 2014 and Case No. 2015-00281, Scott Supplemental Testimony filed January 28, 2016.

1 Member Cooperatives' surcharge pass-through. EKPC and its Member Cooperatives
2 appreciated the willingness of the Commission and its Staff to consider and adopt a change
3 in methodology which resolved that particular volatility issue. However, there still
4 remained the issue of the volatility in EKPC's surcharge factor that is billed to the Member
5 Cooperatives. EKPC and its Member Cooperatives have explored several alternative
6 approaches to try and lessen the surcharge factor volatility and modeled alternatives which
7 appeared to provide a reasonable solution.

8 **Q. Would you describe the approach that EKPC and its Member Cooperatives have**
9 **determined to be a reasonable solution?**

10 A. EKPC and its Member Cooperatives have concluded that a "flat rate" approach would
11 better address the volatility concerns. Under the flat rate approach, EKPC's surcharge
12 factor would be established at the beginning of a year and remain unchanged until the
13 following year. The flat rate approach continues the use of the percentage of revenue
14 methodology in the billing of EKPC's environmental surcharge. EKPC's surcharge factor
15 would be calculated by dividing the budgeted surcharge revenue requirement, adjusted for
16 the previous year's annual net surcharge over- or under-recovery, by the budgeted revenues
17 subject to the surcharge for the same year. The budgeted surcharge revenue requirement
18 would reflect only those projects that have been approved by the Commission as part of
19 EKPC's environmental compliance plan. The flat rate surcharge factor would be calculated
20 in conjunction with the filing of EKPC's January expense month filing and EKPC would
21 submit the calculations along with that monthly filing. During the applicable periodic
22 environmental surcharge review case, the Commission would be able to review the
23 determination of the flat rate surcharge factor.

1 Each month EKPC would calculate the actual surcharge revenue requirement in order to
2 determine the monthly over- or under-recovery, which would be stated as a net amount at
3 the end of the year. This monthly calculation of the surcharge revenue requirement would
4 be filed with the Commission along with the Member Cooperatives' pass-through
5 surcharge factor as is done currently. If new environmental compliance projects were
6 authorized for surcharge recovery during the year or utility plant associated with existing
7 compliance projects were retired during the year, these adjustments would be reflected in
8 the monthly determination of the actual surcharge revenue requirement and the monthly
9 over- or under-recovery. There would be no adjustment of the flat rate surcharge factor
10 when new compliance projects were included or utility plant retired. The new compliance
11 projects or plant retirements would be reflected in the flat rate determined in the next year.

12 **Q. Would there be any changes in the way the Member Cooperatives' pass-through**
13 **surcharge factor is determined?**

14 A. No. The Member Cooperatives' monthly pass-through surcharge factor would be
15 calculated in the same way as it is currently. The only change would be that the calculation
16 of the pass-through surcharge factors would reflect a constant EKPC surcharge factor,
17 rather than one that fluctuated from month to month.

18 **Q. Would you explain how EKPC would handle the annual net over- or under-recovery**
19 **under the flat rate approach?**

20 A. During the year EKPC would calculate the monthly over- or under- recovery of its
21 surcharge. The over- or under-recovery would reflect the difference between the actual
22 monthly revenue requirement and the dollars billed using the flat rate approach. At the end
23 of the year EKPC would determine the annual net over- or under-recovery of its

1 environmental surcharge. This amount would then be included in the determination of the
2 flat rate surcharge factor applicable in the following year.

3 **Q. Would the adoption of the flat rate approach require any changes to EKPC's Rate**
4 **ES – Environmental Surcharge tariff?**

5 A. Yes, the Rate ES tariff would need the following modifications:

- 6 • The definition of CESF, the Current Environmental Surcharge Factor, would need to
7 be changed to reflect the use of the flat rate approach, stating the factor is determined
8 based on budgeted surcharge revenue requirement, adjusted for the previous year's
9 annual net over- or under- recovery amount, divided by the budgeted revenues subject
10 to the surcharge for the same year.
- 11 • The definition of E(m) would need to be changed to reflect that the calculation is done
12 monthly to determine the monthly over- or under-recovery of the surcharge, rather than
13 being the basis for the monthly surcharge factor. In addition, the one-month true-up
14 adjustment included in over- or under-recovery portion of the formula would need to
15 be removed.
- 16 • References in the tariff to the calculation of a current monthly surcharge factor would
17 need to be deleted. This revision is needed because it will not be necessary to calculate
18 a current surcharge factor. The over- or under-recovery calculation will compare billed
19 surcharge revenues with the actual surcharge revenue requirement.

20 **Q. Are changes to the Environmental Surcharge tariff sheets for each of the Member**
21 **Cooperatives required?**

22 A. The adoption of the flat rate approach will require no changes to the Member Cooperative
23 tariffs as the determination of the pass-through surcharge factor is unchanged.

1 **Q.** Does this conclude your testimony?

2 **A.** Yes it does.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In re the Matter of:

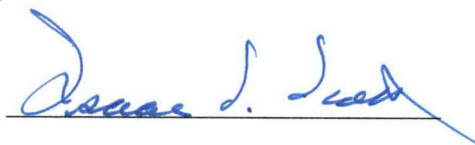
AN EXAMINATION BY THE PUBLIC SERVICE)
COMMISSION OF THE ENVIRONMENTAL)
SURCHARGE MECHANISM OF EAST KENTUCKY)
POWER COOPERATIVE, INC. FOR THE SIX-)
MONTH BILLING PERIOD ENDING)
JUNE 3, 2016 AND THE PASS THROUGH)
MECHANISM FOR ITS SIXTEEN MEMBER)
DISTRIBUTION COOPERATIVES)

CASE NO.
2016-00335

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STATE OF KENTUCKY)
)
COUNTY OF CLARK)

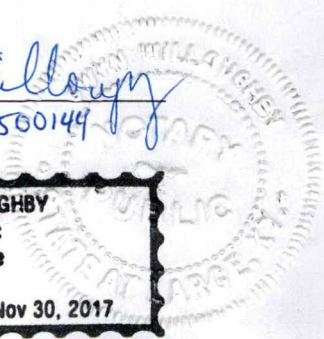
Isaac S. Scott, being duly sworn, states that he has read the foregoing prepared testimony and that he would respond in the same manner to the questions if so asked upon taking the stand and that the matters and things set forth therein are true and correct, to the best of his knowledge, information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



Subscribed and sworn before me on this 7th day of November, 2016.

Gwyn M. Willoughby
Notary Public #560149

GWYN M. WILLOUGHBY
Notary Public
State at Large
Kentucky
My Commission Expires Nov 30, 2017



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

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)
JUNE 30, 2016 AND THE PASS THROUGH)
MECHANISM FOR ITS SIXTEEN MEMBER)
DISTRIBUTION COOPERATIVES)**

**CASE NO.
2016-00335**

**RESPONSES TO COMMISSION STAFF'S FIRST REQUEST FOR
INFORMATION TO EAST KENTUCKY POWER COOPERATIVE, INC.
DATED OCTOBER 12, 2016**

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2016-00335

PUBLIC SERVICE COMMISSION REQUEST DATED 10/12/16

East Kentucky Power Cooperative, Inc. ("EKPC") hereby submits responses to the information requests contained in Appendix B to the Order of the Public Service Commission ("PSC") in this case dated October 12, 2016. Each response with its associated supportive reference materials is individually tabbed.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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)
JUNE 3, 2016 AND THE PASS THROUGH)
MECHANISM FOR ITS SIXTEEN MEMBER)
DISTRIBUTION COOPERATIVES)

CASE NO.
2016-00335

CERTIFICATE

STATE OF KENTUCKY)
COUNTY OF CLARK)

Mark Horn, being duly sworn, states that he has supervised the preparation of the responses of East Kentucky Power Cooperative, Inc. to the Public Service Commission Staff's Requests for Information contained in Appendix B in the above-referenced case dated October 12, 2016, 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.

Mark Horn

Subscribed and sworn before me on this 7th day of November, 2016.

Gwyn M. Willoughby
Notary Public #500144



COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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)
JUNE 3, 2016 AND THE PASS THROUGH)
MECHANISM FOR ITS SIXTEEN MEMBER)
DISTRIBUTION COOPERATIVES)

CASE NO.
2016-00335

CERTIFICATE

STATE OF KENTUCKY)
COUNTY OF CLARK)

Thomas J. Stachnik, being duly sworn, states that he has supervised the preparation of the responses of East Kentucky Power Cooperative, Inc. to the Public Service Commission Staff's Requests for Information contained in Appendix B in the above-referenced case dated October 12, 2016, 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.

Thomas J. Stachnik

Subscribed and sworn before me on this 7th day of November, 2016.

GWYN M. WILLOUGHBY
Notary Public
State at Large
Kentucky
My Commission Expires Nov 30, 2017

Gwyn M. Willoughby
Notary Public #500144

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2016-00335
ENVIRONMENTAL SURCHARGE MECHANISM
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION DATED 10/12/16
REQUEST 1

RESPONSIBLE PARTY: **Isaac S. Scott**

Request 1. This question is addressed to EKPC. Prepare a summary schedule showing the calculation of E(m) and the surcharge factor for the expense months covered by the applicable billing periods. Form 1.1 can be used as a model for this summary. Include the expense months for the two expense months subsequent to the billing period in order to show the over- and under-recovery adjustments for the months included for the billing period. Include a calculation of any additional over- or under-recovery amount EKPC believes needs to be recognized for the six-month review. Provide the schedule and all supporting calculations and documentation in Excel spreadsheet format with all cells and formulas intact and unprotected.

Response 1. Please see pages 3 through 5 of this response and the Request 1 files included on the attached CD. Page 3 of 5 shows the calculation of E(m) as originally filed. Page 4 of 5 shows the calculation of a corrected E(m). Page 5 of 5 shows a summary spreadsheet showing the total proposed adjustment for the periods under review. The Request 1 files

included on the attached CD contain the Excel spreadsheet format with formulas intact and unprotected and all rows and columns fully accessible for these pages as well as all supporting calculation spreadsheets.

As discussed in Mr. Scott's direct testimony, EKPC is proposing a net over-recovery adjustment of \$343,125 to be reflected in the first two month's surcharge filings after the Commission's decision in this review.

East Kentucky Power Cooperative, Inc. Environmental Surcharge Report
 Calculation of Current Month Environmental Surcharge Factor (CESF)
 and (Over)/Under Recovery Calculation (AS FILED)

Line	Description	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16
1	E(m) = RORB + OE - BAS									
2	Rate Base	\$724,825,062	\$722,218,051	\$720,138,372	\$719,979,541	\$716,963,938	\$714,290,748	\$711,623,240	\$709,086,364	\$706,390,759
3	Rate Base / 12	\$60,402,088	\$60,184,838	\$60,011,531	\$59,998,295	\$59,746,995	\$59,524,229	\$59,301,937	\$59,090,530	\$58,865,897
4	Rate of Return	= 6.063%	6.063%	6.063%	6.063%	6.045%	6.045%	6.045%	6.045%	6.045%
5	Return on Rate Base (RORB)	+ \$3,662,179	\$3,649,007	\$3,638,499	\$3,637,697	\$3,611,706	\$3,598,240	\$3,584,802	\$3,572,023	\$3,558,443
6	Operating Expenses (OE)	+ \$5,303,735	\$6,187,310	\$5,754,902	\$5,927,220	\$5,793,144	\$5,882,313	\$5,932,565	\$6,289,208	\$6,035,091
7	By-Product and Emission Allowance Sales (BAS)	- \$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
8	Sub-Total E(m)	\$8,965,913	\$9,836,317	\$9,393,401	\$9,564,917	\$9,404,849	\$9,480,552	\$9,517,367	\$9,861,231	\$9,593,534
8a	Prior Periods Adjustments									
9	Member System Allocation Ratio for the Month (Form 3.0)	98.19%	98.19%	98.27%	98.74%	98.84%	98.87%	99.00%	98.93%	99.17%
10	Subtotal E(m) = Subtotal E(m) x Member System Allocation Ratio	\$8,803,630	\$9,658,279	\$9,230,895	\$9,444,399	\$9,295,753	\$9,373,422	\$9,422,194	\$9,755,716	\$9,513,908
11	Adjustment for (Over)/Under Recovery, as applicable	\$0	\$0	\$0	\$0	\$195,578	\$195,577	\$0	\$0	\$0
12a	E(m) = Subtotal E(m) plus (Over)/Under Recovery	\$8,803,630	\$9,658,279	\$9,230,895	\$9,444,399	\$9,491,331	\$9,568,999	\$9,422,194	\$9,755,716	\$9,513,908
12b	1-month true up adjustment	\$2,650,791	\$1,376,076	\$317,747	(\$3,061,786)	(\$1,280,759)	\$555,185	\$1,518,492	\$1,505,440	(\$12,960)
12c	E(m)= Ln 12a + Ln 12 b	\$11,454,421	\$11,034,355	\$9,548,642	\$6,382,613	\$8,210,572	\$10,124,184	\$10,940,686	\$11,261,156	\$9,500,948
13	R(m) = Average Monthly Wholesale Revenue for the 12 Months Ending with the Current Expense Month (Form 3.0)	\$60,910,915	\$59,971,069	\$59,673,859	\$58,440,811	\$57,434,137	\$57,564,157	\$57,621,256	\$57,451,580	\$57,572,249
14	CESF: Line 12 c / Line 13 E(m) / R(m); as a % of Revenue	18.81%	18.40%	16.00%	10.92%	14.30%	17.59%	18.99%	19.60%	16.50%
15	BESF	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
16	MESF	18.81%	18.40%	16.00%	10.92%	14.30%	17.59%	18.99%	19.60%	16.50%
17	Authorized Recovery Amount: Line 13 x Line 16	\$11,454,421	\$11,034,355	\$9,548,642	\$6,382,613	\$8,210,572	\$10,124,184	\$10,940,686	\$11,261,156	\$9,500,948
18	Environmental Surcharge Revenues Billed	\$10,099,527	\$11,136,674	\$14,096,141	\$10,829,401	\$5,827,428	\$6,692,080	\$8,618,744	\$10,953,646	\$12,698,928
19	Monthly (Over)/Under = Previous Month Line 17 Minus Current Month Line 18	\$1,376,076	\$317,747	(\$3,061,786)	(\$1,280,759)	\$555,185	\$1,518,492	\$1,505,440	(\$12,960)	(\$1,437,772)

East Kentucky Power Cooperative, Inc. Environmental Surcharge Report
 Calculation of Current Month Environmental Surcharge Factor (CESF)
 and (Over)/Under Recovery Calculation (CORRECTED 05-16)

Line	Description	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16
1	E(m) = RORB + OE - BAS									
2	Rate Base	\$724,568,381	\$721,742,520	\$720,077,605	\$719,774,971	\$716,963,938	\$714,290,748	\$711,623,240	\$709,086,364	\$706,390,759
3	Rate Base / 12	\$60,380,698	\$60,145,210	\$60,006,467	\$59,981,248	\$59,746,995	\$59,524,229	\$59,301,937	\$59,090,530	\$58,865,897
4	Rate of Return	= 6.063%	6.063%	6.063%	6.063%	6.045%	6.045%	6.045%	6.045%	6.045%
5	Return on Rate Base (RORB)	+ \$3,660,882	\$3,646,604	\$3,638,192	\$3,636,663	\$3,611,706	\$3,598,240	\$3,584,802	\$3,572,023	\$3,558,443
6	Operating Expenses (OE)	+ \$5,132,615	\$5,870,289	\$5,714,390	\$5,790,840	\$5,793,144	\$5,882,313	\$5,932,565	\$6,289,208	\$6,035,091
7	By-Product and Emission Allowance Sales (BAS)	- \$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
8	Sub-Total E(m)	\$8,793,496	\$9,516,893	\$9,352,582	\$9,427,503	\$9,404,849	\$9,480,552	\$9,517,367	\$9,861,231	\$9,593,534
8a	Prior Periods Adjustments									
9	Member System Allocation Ratio for the Month (Form 3.0)	98.19%	98.19%	98.27%	98.74%	98.84%	98.87%	99.00%	98.93%	99.17%
10	Subtotal E(m) = Subtotal E(m) x Member System Allocation Ratio	\$8,634,334	\$9,344,637	\$9,190,782	\$9,308,717	\$9,295,753	\$9,373,422	\$9,422,194	\$9,755,716	\$9,513,908
11	Adjustment for (Over)/Under Recovery, as applicable	\$0	\$0	\$0	\$0	\$195,578	\$195,577	\$0	\$0	\$0
12a	E(m) = Subtotal E(m) plus (Over)/Under Recovery	\$8,634,334	\$9,344,637	\$9,190,782	\$9,308,717	\$9,491,331	\$9,568,999	\$9,422,194	\$9,755,716	\$9,513,908
12b	1-month true up adjustment	\$2,671,696	\$1,394,829	\$339,611	(\$2,956,090)	(\$1,280,759)	\$555,185	\$1,518,492	\$1,505,440	(\$12,960)
12c	E(m)= Ln 12a + Ln 12 b	\$11,306,030	\$10,739,466	\$9,530,393	\$6,352,627	\$8,210,572	\$10,124,184	\$10,940,686	\$11,261,156	\$9,500,948
13	R(m) = Average Monthly Wholesale Revenue for the 12 Months Ending with the Current Expense Month (Form 3.0)	\$60,910,915	\$59,971,069	\$59,673,859	\$58,440,811	\$57,434,137	\$57,564,157	\$57,621,256	\$57,451,580	\$57,572,249
14	CESF: Line 12 c / Line 13 E(m) / R(m); as a % of Revenue	18.56%	17.91%	15.97%	10.87%	14.30%	17.59%	18.99%	19.60%	16.50%
15	BESF	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
16	MESF	18.56%	17.91%	15.97%	10.87%	14.30%	17.59%	18.99%	19.60%	16.50%
17	Authorized Recovery Amount: Line 13 x Line 16	\$11,306,030	\$10,739,466	\$9,530,393	\$6,352,627	\$8,210,572	\$10,124,184	\$10,940,686	\$11,261,156	\$9,500,948
18	Environmental Surcharge Revenues Billed	\$10,060,527	\$10,966,419	\$13,695,556	\$10,789,821	\$5,827,428	\$6,692,080	\$8,618,744	\$10,953,646	\$12,698,928
19	Monthly (Over)/Under = Previous Month Line 17 Minus Current Month Line 18	\$1,394,829	\$339,611	(\$2,956,090)	(\$1,259,428)	\$555,185	\$1,518,492	\$1,505,440	(\$12,960)	(\$1,437,772)

**East Kentucky Power Cooperative, Inc. Environmental Surcharge Report
Calculation of Current Month Environmental Surcharge Factor (CESF)
and (Over)/Under Recovery Calculation
Summary of Net Revenue Requirement E(m)**

Source: Line 12c (As Filed and Corrected)

Expense Month	As Filed	Corrected	Difference	Cumulative Difference	Remarks
Nov-15	\$11,454,421	\$11,306,030	(\$148,390)	\$249,182	Prior Period Adjustment
Dec-15	\$11,034,355	\$10,739,466	(\$294,889)	(\$294,889)	
Jan-16	\$9,548,642	\$9,530,393	(\$18,249)	(\$313,138)	
Feb-16	\$6,382,613	\$6,352,627	(\$29,986)	(\$343,125)	
Mar-16	\$8,210,572	\$8,210,572	\$0	(\$343,125)	
Apr-16	\$10,124,184	\$10,124,184	(\$0)	(\$343,125)	
May-16	\$10,940,686	\$10,940,686	\$0	(\$343,125)	
Jun-16	\$11,261,156	\$11,261,156	(\$0)	(\$0)	Post Review Period
Jul-16	\$9,500,948	\$9,500,948	\$0	(\$0)	Post Review Period
Total Proposed Adjustment			<u>(\$343,125)</u>		

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2016-00335
ENVIRONMENTAL SURCHARGE MECHANISM
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION DATED 10/12/16
REQUEST 2

RESPONSIBLE PARTY: Isaac S. Scott

Request 2. This question is addressed to EKPC and the Member Cooperatives. For each of the 16 Member Cooperatives, prepare a summary schedule showing the Member Cooperative's pass-through revenue requirement for the months corresponding with the six-month review. Include a calculation of any additional over- or under-recovery amount the distribution cooperative believes needs to be recognized for the six-month review. Provide the schedule and all supporting calculations and documentation in Excel spreadsheet format with all cells and formulas intact and unprotected.

Response 2. Please see the enclosed CD for each Member Cooperatives' schedule and calculation of over- or under-recovery for the current review period. EKPC is providing the requested schedules on behalf of each of its Member Cooperatives. The calculations follow the revised methodology approved by the Commission in Case No. 2015-00281. All of the Member Cooperatives have indicated to EKPC that they are proposing 6-month amortization periods for the respective over- or under-recoveries.

EKPC would point out that for the Member Cooperatives amortizing the over- or under-recovery authorized in Case No. 2014-00051 over a six-month period, Line 8a of the schedules for many of those Member Cooperatives show a small dollar amount remaining to be amortized. This is not surprising as most of the total over- or under-recoveries authorized by the Commission when divided by six months did not produce even monthly dollar amounts. These small rounding differences appear in the schedules because when EKPC prepared the monthly pass-through calculations it entered the monthly amortization stated in Appendix A to the Commission's August 25, 2015 Order in Case No. 2014-00051. Farmers Rural Electric Cooperative Corporation ("Farmers") and Owen Electric Cooperative ("Owen") were authorized to use a 12-month amortization for Case No. 2014-00051.

EKPC notes that these rounding differences are reflected in the cumulative six-month over- or under-recovery as shown on Line 9 and the monthly recovery shown on Line 10. EKPC proposes that the over- or under-recoveries shown on Lines 9 and 10 be accepted and the amortization from Case No. 2014-00051 be considered completed and closed. For Farmers and Owen, EKPC proposes that any rounding differences from the Case No. 2014-00051 amortization be processed in the same manner during the next six-month surcharge review.

Concerning the amortization of the over- or under-recoveries authorized in the Commission's April 8, 2016 Order in Case No. 2015-00281, a similar situation will occur when these schedules are prepared in the next six-month surcharge review. When including this amortization in the monthly surcharge pass-through calculations, EKPC entered the monthly amortization amounts as shown in Appendix A of the April 8, 2016 Order. For the Member

Cooperatives amortizing the Case No. 2015-00281 over- or under-recovery for a six-month period, the last amortization month was reflected in the monthly surcharge pass-through factors EKPC filed with the Commission on September 20, 2016. EKPC would propose that in the next six-month surcharge review that any rounding differences in the amortization be processed in the same manner as suggested for Case No. 2014-00051.

Owen was authorized to use a 12-month amortization for Case No. 2015-00281. As of the date these responses are being filed, the Owen amortization for this case has not been completed. EKPC proposes that any rounding differences from the 12-month amortization from Case No. 2015-00281 for Owen be processed in a similar manner as discussed below for the Case No. 2016-00144 amortization.

Concerning the amortization of the over- or under-recoveries authorized in the Commission's September 9, 2016 Order in Case No. 2016-00144, as of the date these responses are being filed the amortization has not been completed. When the last month of the six-month amortization period is to be reflected in the monthly surcharge pass-through calculations, EKPC will compare the five previous monthly amortization amounts with the total amortization ordered by the Commission and adjust the sixth month amount to resolve any rounding issues. EKPC proposes to follow this approach for all subsequent amortization periods.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2016-00335
ENVIRONMENTAL SURCHARGE MECHANISM
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION DATED 10/12/16
REQUEST 3

RESPONSIBLE PARTY: Mark Horn

Request 3. This question is addressed to EKPC. Refer to Form 2.3, Inventory and Expense of Emission Allowances, for each of the expense months covered by the applicable billing period.

a. For the sulfur dioxide ("SO₂") emission allowance inventory, explain the reason(s) for all purchases of allowances reported during these expense months.

b. For the nitrogen oxide ("NO_x") emission allowance inventory, explain the reason(s) for all purchases of allowances reported during these expense months.

c. Explain how the purchases of allowances in the expense months covered by the applicable billing periods comply with EKPC's emissions allowance strategy plan.

Response 3a-c. (a) No SO₂ purchases were made during the period of December 1, 2015, through May 31, 2016.

(b) No NO_x purchases were made during the period of December 1, 2015, through May 31, 2016.

(c) No purchases of allowances were made in the expense months covered by the applicable billing periods.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2016-00335
ENVIRONMENTAL SURCHARGE MECHANISM
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION DATED 10/12/16
REQUEST 4

RESPONSIBLE PARTY: Isaac S. Scott

Request 4. This question is addressed to EKPC. Refer to Form 2.5, Operating and Maintenance Expenses, for each of the expense months covered by the applicable billing period. For each of the expense account numbers listed on this schedule, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.

Response 4. Please see pages 2 through 11 of this response. Also please note that this analysis reflects the corrected Form 2.5 amounts rather than the as filed Form 2.5 amounts. The corrected Form 2.5 pages are included in the spreadsheets provided on the CD in the response to Request 1.

East Kentucky Power Cooperative, Inc.
 Environmental Surcharge Operating and Expense Month over Month Analysis
 For the Expense Period January 2016 - July 2016

501010 - SP03	Fuel Coal Gilbert	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
400-2610	Expense Dollars	\$ 88,956	\$ 98,599	\$ 111,216	\$ 102,929	\$ 116,222	\$ 6,305	\$ 118,335	\$ 81,416
	Expense Dollars Change		\$ 9,643	\$ 12,617	\$ (8,287)	\$ 13,293	\$ (109,916)	\$ 112,030	\$ (36,919)
	Percent Change		0.00%	12.80%	-7.45%	12.91%	-94.57%	1776.79%	-31.20%

Monthly expense changes are due to increases or decreases in contractor payments for ash removal.

501010 - SP04	Fuel Coal Spurlock 4	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
	Expense Dollars	\$ 88,956	\$ 111,186	\$ 115,692	\$ 63,217	\$ 863	\$ 110,556	\$ 123,176	\$ 116,768
	Expense Dollars Change		\$ 22,230	\$ 4,506	\$ (52,475)	\$ (62,354)	\$ 109,693	\$ 12,620	\$ (6,408)
	Percent Change		24.99%	4.05%	-45.36%	-98.64%	12714.48%	11.42%	-5.20%

Monthly expense changes are due to increases or decreases in contractor payments for ash removal.

501010 - CPxx	Fuel Coal Cooper (Unit 2 AQCS)	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
	Expense Dollars	\$ -	\$ 58,210	\$ 56,071	\$ 28,813	\$ 49,017	\$ 38,959	\$ 43,507	\$ 41,915
	Expense Dollars Change		\$ 58,210	\$ (2,139)	\$ (27,258)	\$ 20,204	\$ (10,058)	\$ 4,548	\$ (1,592)
	Percent Change		0.00%	-3.67%	-48.61%	70.12%	-20.52%	11.67%	-3.66%

Monthly expense changes are due to increases or decreases in contractor payments for ash removal.

512000 - CPxx	Mtc of Cooper (Unit 2 AQCS)	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
	Expense Dollars	\$ 78,162	\$ 27,202	\$ 37,418	\$ 4,821	\$ 13,288	\$ 15,696	\$ 5,555	\$ 24,622
	Expense Dollars Change		\$ (50,960)	\$ 10,216	\$ (32,596)	\$ 8,467	\$ 2,408	\$ (10,141)	\$ 19,067
	Percent Change		-65.20%	37.56%	-87.12%	175.62%	18.12%	-64.61%	343.25%

Project 03350 is Bag House, Dry Scrub, SNCR & SCR, Project 03351 is Ammonia Handling System and Project 03520 is Common Scrubber Maintenance

January16-

Project 03350- Contractor payments increased \$5.8k, EKPC Payroll & Benefits decreased \$5k, Materials decreased \$1.1k, Accruals increased \$1.7k

Project 03351- Contractor payments increased \$5.6k, EKPC Payroll & Benefits decreased \$0.3k, Accruals increased \$1.4k

Adjustment to accruals to match actual resulted in a decrease of \$59.0K.

February16-

Project 03350- Contractor payments decreased \$7.1k, EKPC Payroll & Benefits increased \$0.2k, Materials increased \$0.8k,

Project 03351- Contractor payments decreased \$2.6k, EKPC Payroll & Benefits increased \$5.7k, Materials increased \$5.9k,

Adjustment to accruals to match actual resulted in an increase of \$7.3K.

March16-

Project 03350- Contractor payments increased \$2k, EKPC Payroll & Benefits decreased \$1.1k, Materials decreased \$1.3k,

Project 03351- Contractor payments decreased \$3k, EKPC Payroll & Benefits decreased \$4.3k, Materials decreased \$5.8k,

Adjustment to accruals to match actual resulted in a decrease of \$19.1K.

East Kentucky Power Cooperative, Inc.
Environmental Surcharge Operating and Expense Month over Month Analysis
For the Expense Period January 2016 - July 2016

April 16-
 Project 03521- Contractor payments decreased \$2.2k, Materials increased \$2.2k, Accruals increased \$4.3k
 Project 03351- Materials decreased \$0.1k, Accruals increased \$3.8k
 Adjustment to accruals to match actual resulted in an increase of \$0.5K.

May 16-
 Project 03521- Contractor payments increased \$1.7k, Materials decreased \$2k, Accruals increased \$6k
 Project 03351- Materials increased \$0.3k, Accruals decreased \$3.3k
 Adjustment to accruals to match actual resulted in a decrease of \$0.3K.

June 16-
 Project 03521- Contractor payments decreased \$1.9k, Materials decreased \$0.6k, Accruals decreased \$11.3k
 Project 03351- Contractor payments increased \$0.2k, Materials increased \$3.6k, Accruals increased \$3.7k
 Adjustment to accruals to match actual resulted in a decrease of \$3.8K.

512000 - SP01	Mtce of Boiler Plant Spurlock 1	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
	Expense Dollars	\$ 26,521	\$ 15,144	\$ 23,087	\$ 2,756	\$ 47,862	\$ 10,817	\$ 8,854	\$ 12,241
	Expense Dollars Change		\$ (11,377)	\$ 7,944	\$ (20,332)	\$ 45,107	\$ (37,045)	\$ (1,964)	\$ 3,387
	Percent Change		-42.90%	52.46%	-88.06%	1636.74%	-77.40%	-18.15%	38.25%

Project 03330 is for the Spurlock 1 Electrostatic Precipitator and Project 03501 is for Spurlock 1 SCR maintenance.

January 16-
 Project 03330- Contractor payments increased \$32.1k, EKPC Payroll & Benefits increased \$1.2k, Materials increased \$1.2k, Accruals increased \$1.9k
 Project 03501- Contractor payments decreased \$43k, EKPC Payroll & Benefits increased \$3.8k, Materials increased \$0.2k, Accruals increased \$0.9k
 Adjustment to accruals to match actual resulted in a decrease of \$9.7K.

February 16-
 Project 03330- Contractor payments increased \$0.3k, EKPC Payroll & Benefits decreased \$0.6k, Materials decreased \$1.2k,
 Project 03501- Contractor payments increased \$9.3k, EKPC Payroll & Benefits increased \$0.8k, Materials decreased \$0.8k,

March 16-
 Project 03330- Contractor payments decreased \$0.5k, EKPC Payroll & Benefits increased \$0.5k,
 Project 03501- Contractor payments decreased \$13.2k, EKPC Payroll & Benefits decreased \$9.6k,
 Adjustment to accruals to match actual resulted in an increase of \$2.5K.

April 16-
 Project 03330- Contractor payments increased \$0.8k, EKPC Payroll & Benefits increased \$0.1k,
 Project 03501- Contractor payments increased \$13.5k, EKPC Payroll & Benefits increased \$20.4k, Materials increased \$13.7k,
 Adjustment to accruals to match actual resulted in a decrease of \$3.4K.

May 16-
 Project 03330- Contractor payments increased \$4.9k, EKPC Payroll & Benefits increased \$2k,
 Project 03501- Contractor payments decreased \$11.8k, EKPC Payroll & Benefits decreased \$18.3k, Materials decreased \$13.7k,

East Kentucky Power Cooperative, Inc.
Environmental Surcharge Operating and Expense Month over Month Analysis
For the Expense Period January 2016 - July 2016

June16-

Project 03330- Contractor payments decreased \$6k, EKPC Payroll & Benefits decreased \$1.7k,
 Project 03501- Contractor payments increased \$0.7k, EKPC Payroll & Benefits increased \$4.4k,
 Adjustment to accruals to match actual resulted in an increase of \$0.6K.

512000 - SP02	Mtce of Boiler Plant Spurlock 2	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
	Expense Dollars	\$ 272,458	\$ 10,698	\$ 3,968	\$ 39,949	\$ 26,171	\$ 5,722	\$ 5,350	\$ 19,040
	Expense Dollars Change		\$ (261,760)	\$ (6,731)	\$ 35,981	\$ (13,778)	\$ (20,449)	\$ (372)	\$ 13,690
	Percent Change		-96.07%	-62.91%	906.83%	-34.49%	-78.14%	-6.51%	255.91%

Project 03330 is for the Spurlock 2 Electrostatic Precipitator and Project 03501 is for Spurlock 2 SCR maintenance.

January16-

Project 03330- Contractor payments decreased \$15.5k, EKPC Payroll & Benefits decreased \$4k, Materials decreased \$3.6k, Accruals increased \$2.3k
 Project 03501- Contractor payments decreased \$264k, EKPC Payroll & Benefits increased \$1.5k, Materials increased \$0.7k, Accruals increased \$1k
 Adjustment to accruals to match actual resulted in an increase of \$19.8K.

February16-

Project 03330- Contractor payments decreased \$28.1k, EKPC Payroll & Benefits decreased \$2.5k, Materials decreased \$0.1k,
 Project 03501- Contractor payments decreased \$4.4k, EKPC Payroll & Benefits decreased \$3.2k, Materials increased \$0.8k,
 Adjustment to accruals to match actual resulted in an increase of \$30.8K.

March16-

Project 03330- Contractor payments increased \$16.8k, EKPC Payroll & Benefits increased \$7.1k, Materials increased \$4.8k,
 Project 03501- Contractor payments decreased \$5.5k, EKPC Payroll & Benefits decreased \$0.9k, Materials decreased \$0.8k,
 Adjustment to accruals to match actual resulted in an increase of \$14.5K.

April16-

Project 03330- Contractor payments decreased \$23.1k, EKPC Payroll & Benefits decreased \$1.9k, Materials decreased \$3.6k,
 Project 03501- Contractor payments increased \$18.8k, EKPC Payroll & Benefits increased \$1k, Materials decreased \$0.5k,
 Adjustment to accruals to match actual resulted in a decrease of \$4.5K.

May16-

Project 03330- Contractor payments increased \$0.4k, EKPC Payroll & Benefits decreased \$4.3k, Materials increased \$0.2k,
 Project 03501- Contractor payments decreased \$13.6k, EKPC Payroll & Benefits decreased \$2.7k, Materials decreased \$0.3k,
 Adjustment to accruals to match actual resulted in a decrease of \$3.1K.

512000 - SP03	Maintenance of Boiler Plant Gilbert	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
	Expense Dollars	188,730	64,534	110,237	350,760	961,933	1,776,057	238,814	153,878
	Expense Dollars Change		(124,196)	45,703	240,523	611,173	814,125	(1,537,243)	(84,936)
	Percent Change		-65.81%	70.82%	218.19%	174.24%	84.63%	-86.55%	-35.57%

Project 03206 is for Spurlock 3 Boiler Pollution Control equipment and Project 03350 is for Spurlock 3 Bag House, SNCR and FDA equipment.

East Kentucky Power Cooperative, Inc.
Environmental Surcharge Operating and Expense Month over Month Analysis
For the Expense Period January 2016 - July 2016

January16-

Project 03206- Contractor payments decreased \$238.8k, EKPC Payroll & Benefits decreased \$13k, Materials decreased \$5.1k, Accruals increased \$13.1k
 Project 03350- Contractor payments increased \$2k, EKPC Payroll & Benefits decreased \$1.6k, Materials decreased \$7.3k, Accruals increased \$6.3k
 Adjustment to accruals to match actual resulted in an increase of \$119.6K.

February16-

Project 03206- Contractor payments increased \$7.1k, EKPC Payroll & Benefits increased \$16k, Materials increased \$6.4k,
 Project 03350- Contractor payments increased \$10k, EKPC Payroll & Benefits increased \$5.4k, Materials increased \$0.9k,

March16-

Project 03206- Contractor payments increased \$183.2k, EKPC Payroll & Benefits decreased \$8.5k, Materials increased \$62.9k,
 Project 03350- Contractor payments increased \$0.9k, EKPC Payroll & Benefits decreased \$0.9k, Materials decreased \$0.7k,
 Adjustment to accruals to match actual resulted in an increase of \$3.6K.

April16-

Project 03206- Contractor payments increased \$275.6k, EKPC Payroll & Benefits increased \$13.8k, Materials decreased \$35.6k, Accruals increased \$313.9k
 Project 03350- Contractor payments increased \$45.1k, EKPC Payroll & Benefits decreased \$1.8k, Materials increased \$3.7k,
 Adjustment to accruals to match actual resulted in a decrease of \$3.5K.

May16-

Project 03206- Contractor payments increased \$967.2k, EKPC Payroll & Benefits increased \$99.6k, Materials decreased \$6.1k, Accruals decreased \$627.9k
 Project 03350- Contractor payments increased \$315.3k, EKPC Payroll & Benefits increased \$20.7k, Materials increased \$20k, Accruals increased \$25.4k

June16-

Project 03206- Contractor payments decreased \$1353.7k, EKPC Payroll & Benefits decreased \$130.7k, Materials increased \$28.7k, Accruals increased \$313.9k
 Project 03350- Contractor payments decreased \$307k, EKPC Payroll & Benefits decreased \$17.7k, Materials decreased \$20.6k, Accruals decreased \$50.7k
 Adjustment to accruals to match actual resulted in an increase of \$0.6K.

512000 - SP04	Maintenance of Boiler Plant Spurlock 4	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
	Expense Dollars	157,421	119,102	118,930	1,393,239	1,453,790	33,486	99,316	73,486
	Expense Dollars Change		(38,318)	(172)	1,274,310	60,550	(1,420,304)	65,830	(25,829)
	Percent Change		-24.34%	-0.14%	1071.48%	4.35%	-97.70%	196.59%	-26.01%

Project 03206 is for Spurlock 4 Boiler Pollution Control equipment and Project 03350 is for Spurlock 4 Bag House, SNCR and FDA equipment.

January16-

Project 03206- Contractor payments decreased \$133.7k, EKPC Payroll & Benefits decreased \$9.2k, Materials increased \$86k, Accruals increased \$10k
 Project 03350- Contractor payments decreased \$3.2k, EKPC Payroll & Benefits decreased \$2k, Materials increased \$22.8k, Accruals increased \$6.2k
 Adjustment to accruals to match actual resulted in a decrease of \$15.2K.

February16-

Project 03206- Contractor payments increased \$30.8k, EKPC Payroll & Benefits decreased \$8.9k, Materials decreased \$18.6k,
 Project 03350- Contractor payments increased \$14.9k, EKPC Payroll & Benefits decreased \$3.1k, Materials decreased \$15.2k,

East Kentucky Power Cooperative, Inc.
Environmental Surcharge Operating and Expense Month over Month Analysis
For the Expense Period January 2016 - July 2016

March16-

Project 03206- Contractor payments increased \$1077.4k, EKPC Payroll & Benefits increased \$22.6k, Materials increased \$88.8k,
 Project 03350- Contractor payments increased \$62.8k, EKPC Payroll & Benefits increased \$13.2k, Materials increased \$8.3k,
 Adjustment to accruals to match actual resulted in an increase of \$1.2K.

May16-

Project 03206- Contractor payments decreased \$850.8k, EKPC Payroll & Benefits decreased \$139.1k, Materials decreased \$29.6k,
 Project 03350- Contractor payments decreased \$298.7k, EKPC Payroll & Benefits decreased \$90.7k, Materials decreased \$11.3k,

June16-

Project 03206- Contractor payments increased \$4.1k, EKPC Payroll & Benefits increased \$22.4k,
 Project 03350- Contractor payments increased \$14.2k, EKPC Payroll & Benefits increased \$23.1k, Materials increased \$1.4k,
 Adjustment to accruals to match actual resulted in an increase of \$0.6K.

512000 - SP21	Mtce of Boiler Plant Scrubber 1	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
	Expense Dollars	\$ 75,098	\$ 105,090	\$ 179,390	\$ 107,214	\$ 197,635	\$ (46,712)	\$ 83,815	\$ 226,994
	Expense Dollars Change		\$ 29,992	\$ 74,300	\$ (72,176)	\$ 90,422	\$ (244,347)	\$ 130,527	\$ 143,179
	Percent Change		39.94%	70.70%	-40.23%	84.34%	-123.64%	-279.43%	170.83%

January16-

Project 03521- Contractor payments decreased \$33.2k, EKPC Payroll & Benefits decreased \$0.5k, Materials increased \$14.1k, Accruals increased \$3.2k
 Adjustment to accruals to match actual resulted in an increase of \$46.4K.

February16-

Project 03521- Contractor payments increased \$43.1k, EKPC Payroll & Benefits increased \$7.8k, Materials decreased \$5.9k,
 Adjustment to accruals to match actual resulted in an increase of \$29.3K.

March 16-

Project 03521- Contractor payments decreased \$37.4k, EKPC Payroll & Benefits decreased \$3k, Materials decreased \$1.5k,
 Adjustment to accruals to match actual resulted in a decrease of \$30.3K.

April16-

Project 03521- Contractor payments decreased \$26.4k, EKPC Payroll & Benefits decreased \$2.9k, Materials increased \$8.4k, Accruals increased \$114.8k
 Adjustment to accruals to match actual resulted in a decrease of \$3.5K.

May16-

Project 03521- Contractor payments increased \$29k, EKPC Payroll & Benefits increased \$6.6k, Materials decreased \$14.2k, Accruals decreased \$229.6k
 Adjustment to accruals to match actual resulted in a decrease of \$36.1K.

June16-

Project 03521- Contractor payments decreased \$19.9k, EKPC Payroll & Benefits decreased \$11.2k, Materials increased \$27.5k, Accruals increased \$114.8k
 Adjustment to accruals to match actual resulted in an increase of \$19.3K.

East Kentucky Power Cooperative, Inc.
Environmental Surcharge Operating and Expense Month over Month Analysis
For the Expense Period January 2016 - July 2016

512000 - SP22	Mtce of Boiler Plant Scrubber 2	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
	Expense Dollars	\$ 384,361	\$ 169,505	\$ 82,685	\$ 220,360	\$ 106,322	\$ 241,236	\$ 254,302	\$ 143,596
	Expense Dollars Change		\$ (214,856)	\$ (86,820)	\$ 137,675	\$ (114,038)	\$ 134,914	\$ 13,066	\$ (110,706)
	Percent Change		-55.90%	-51.22%	166.51%	-51.75%	126.89%	5.42%	-43.53%

January16-

Project 03521- Contractor payments decreased \$161.8k, EKPC Payroll & Benefits decreased \$4.4k, Materials decreased \$26k, Accruals decreased \$10.8k
Adjustment to accruals to match actual resulted in a decrease of \$11.9K.

February16-

Project 03521- Contractor payments decreased \$42.3k, EKPC Payroll & Benefits decreased \$2.7k, Materials decreased \$71.8k, Accruals increased \$30k

March16-

Project 03521- Contractor payments increased \$43.4k, EKPC Payroll & Benefits increased \$4.7k, Materials increased \$42.7k, Accruals decreased \$15k
Adjustment to accruals to match actual resulted in an increase of \$61.9K.

April16-

Project 03521- Contractor payments decreased \$123.2k, EKPC Payroll & Benefits increased \$1.2k, Materials increased \$8.2k,
Adjustment to accruals to match actual resulted in a decrease of \$0.2K.

May16-

Project 03521- Contractor payments increased \$199.2k, EKPC Payroll & Benefits decreased \$10.8k, Materials decreased \$8.9k,
Adjustment to accruals to match actual resulted in a decrease of \$44.6K.

June16-

Project 03521- Contractor payments decreased \$82.3k, EKPC Payroll & Benefits increased \$9.4k, Materials increased \$53.5k,
Adjustment to accruals to match actual resulted in an increase of \$32.5K.

East Kentucky Power Cooperative, Inc.
 Environmental Surcharge Operating and Expense Month over Month Analysis
 For the Expense Period January 2016 - July 2016

Air Permit Fees

50621	Misc Stm Pwr Env - Dale	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
	Expense Dollars	\$ 13,975	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Expense Dollars Change		\$ (13,975)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Percent Change		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
50631	Misc Stm Pwr Env - Cooper	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
	Expense Dollars	\$ 417,003	\$ 120	\$ (6,440)	\$ 20,425	\$ 8,552	\$ -	\$ -	\$ 209
	Expense Dollars Change		\$ (416,883)	\$ (6,560)	\$ 26,865	\$ (11,874)	\$ (8,552)	\$ -	\$ 209
	Percent Change		-99.97%	-5444.84%	-417.16%	-58.13%	0.00%	0.00%	0.00%
50645	Misc Stm Pwr Env - Spurlock	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
	Expense Dollars	\$ 644,400	\$ 1,612	\$ (12,800)	\$ 34,670	\$ 63,915	\$ 31,296	\$ 26,500	\$ 24,431
	Expense Dollars Change		\$ (642,788)	\$ (14,412)	\$ 47,470	\$ 29,245	\$ (32,619)	\$ (4,796)	\$ (2,069)
	Percent Change		-99.75%	-894.04%	-370.86%	84.35%	-51.03%	-15.32%	-7.81%

Air permit fees paid for Dale, Cooper and Spurlock for calendar 2016 emissions.

Operating Expense- Ammonia

506001 - CPxx	Misc Stm Pwr Exp - Cooper	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
	Expense Dollars	\$ -	\$ 37,454	\$ 25,190	\$ 6,978	\$ 3,684	\$ (3,684)	\$ (15,210)	\$ -
	Expense Dollars Change		\$ 37,454	\$ (12,264)	\$ (18,212)	\$ (3,294)	\$ (7,368)	\$ (11,526)	\$ 15,210
	Percent Change		0.00%	-32.74%	-72.30%	-47.20%	-200.00%	312.86%	-100.00%

The monthly change in expense is due to the increase or decrease in payments for Ammonia receipts.

Operating Expense- Ammonia

506001 - CP22	Misc Stm Pwr Exp - Cooper Unit #2 AQCS	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
	Expense Dollars	\$ 409,138	\$ 359,979	\$ 318,469	\$ 200,390	\$ 56,283	\$ 35,766	\$ 52,140	\$ 364,090
	Expense Dollars Change		\$ (49,159)	\$ (41,510)	\$ (118,079)	\$ (144,107)	\$ (20,517)	\$ 16,373	\$ 311,950
	Percent Change		-12.02%	-11.53%	-37.08%	-71.91%	-36.45%	45.78%	598.30%

The monthly change in expense is due to the increase or decrease in payments for Ammonia receipts.

Operating Expense- Ammonia

506001 - SP01	Misc Stm Pwr Exp - Spurlock 1	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
	Expense Dollars	\$ 102,574	\$ 12,219	\$ 10,058	\$ -	\$ 68,811	\$ 51,079	\$ 57,699	\$ 71,755
	Expense Dollars Change		\$ (90,355)	\$ (2,161)	\$ (10,058)	\$ 68,811	\$ (17,733)	\$ 6,620	\$ 14,056
	Percent Change		-88.09%	-17.69%	-100.00%	0.00%	-25.77%	12.96%	24.36%

The monthly change in expense is due to the increase or decrease in payments for Ammonia receipts.

East Kentucky Power Cooperative, Inc.
Environmental Surcharge Operating and Expense Month over Month Analysis
For the Expense Period January 2016 - July 2016

506001 - SP02	Misc Steam Power Exp - Spurlock 2	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
	Expense Dollars	\$ 76,394	\$ -	\$ -	\$ -	\$ 36,742	\$ 37,300	\$ 39,557	\$ 45,672
	Expense Dollars Change		\$ (76,394)	\$ -	\$ -	\$ 36,742	\$ 557	\$ 2,257	\$ 6,115
	Percent Change		-100.00%	0.00%	0.00%	0.00%	1.52%	6.05%	15.46%

The monthly change in expense is due to the increase or decrease in payments for Ammonia receipts.

Operating Expense- Ammonia and Limestone

506001 - SP03	Misc Steam Power Expense- Gilbert	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
	Ammonia Expense	\$ 38,198	\$ 0	\$ 0	\$ 32,610	\$ 21,608	\$ 8,341	\$ 24,036	\$ 22,234
	Limestone Expense	\$ 222,194	\$ 265,220	\$ 251,627	\$ 274,637	\$ 232,660	\$ 111,742	\$ 339,455	\$ 283,847
	Limestone Tons Used	18,689	21,608	20,069	21,768	18,522	8,921	27,045	22,506
	Total Expense Dollars	\$ 260,391	\$ 265,220	\$ 251,627	\$ 307,247	\$ 254,268	\$ 120,083	\$ 363,491	\$ 306,080
	Expense Dollars Change		\$ 4,829	\$ (13,593)	\$ 55,619	\$ (52,979)	\$ (134,185)	\$ 243,408	\$ (57,411)
	Percent Change		1.85%	-5.13%	22.10%	-17.24%	-52.77%	202.70%	-15.79%

Limestone is stockpiled throughout the year and taken from the stockpile for usage. There may be slight variances in the cost according to fluctuations in contract prices and freight cost per shipment of limestone.

March- Limestone expenses increased by \$23k and Ammonia expenses increased by \$32.6k

April- Limestone expenses decreased by \$42k and Ammonia expenses decreased by \$11k

May- Limestone expenses decreased by \$120.9k and Ammonia expenses decreased by \$13.3k

June- Limestone expenses increased by \$227.7k and Ammonia expenses increased by \$15.7k

Operating Expense- Limestone and Magnesium

506001 - SP21	Misc Stm Pwr Exp- Spurlock 1	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
	Magnesium Expense	\$ 10,866	\$ 43,604	\$ 4,917	\$ 21,879	\$ 13,476	\$ 30,450	\$ 28,315	\$ 32,269
	Limestone Expense	\$ 29,201	\$ 50,904	\$ 68,465	\$ 94,140	\$ 85,457	\$ 65,743	\$ 82,469	\$ 79,406
	Limestone Tons Used	2,383	4,537	6,823	9,639	8,849	6,829	8,554	8,269
	Expense Dollars	\$ 40,067	\$ 94,508	\$ 73,383	\$ 116,019	\$ 98,933	\$ 96,193	\$ 110,784	\$ 111,675
	Expense Dollars Change		\$ 54,441	\$ (21,125)	\$ 42,636	\$ (17,086)	\$ (2,740)	\$ 14,591	\$ 891
	Percent Change		135.87%	-22.35%	58.10%	-14.73%	-2.77%	15.17%	0.80%

Limestone is stockpiled throughout the year and taken from the stockpile for usage. There may be slight variances in the cost according to fluctuations in contract prices and freight cost per shipment of limestone.

East Kentucky Power Cooperative, Inc.
Environmental Surcharge Operating and Expense Month over Month Analysis
For the Expense Period January 2016 - July 2016

January- Limestone expenses increased by \$21.7k and Magnesium expenses increased by \$32.7k

February- Limestone expenses increased by \$17.6k and Magnesium expenses decreased by \$38.7k

March- Limestone expenses increased by \$25.7k and Magnesium expenses increased by \$17k

April- Limestone expenses decreased by \$8.7k and Magnesium expenses decreased by \$8.4k

June- Limestone expenses increased by \$16.7k and Magnesium expenses decreased by \$2.1k

Operating Expense-Limestone and Magnesium

506001 - SP22	Misc Stm Pwr Exp- Spurlock 2	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
	Magnesium Expense	\$ 162,364	\$ 95,296	\$ 71,541	\$ 131,920	\$ 109,478	\$ 97,615	\$ 77,063	\$ 101,319
	Limestone Expense	\$ 142,570	\$ 170,417	\$ 152,391	\$ 115,060	\$ 118,013	\$ 122,094	\$ 140,420	\$ 135,205
	Limestone Tons Used	11,636	15,188	15,188	11,782	12,220	12,682	14,565	14,080
	Expense Dollars	\$ 304,934	\$ 265,713	\$ 223,932	\$ 246,980	\$ 227,490	\$ 219,709	\$ 217,483	\$ 236,523
	Expense Dollars Change		\$ (39,221)	\$ (41,782)	\$ 23,048	\$ (19,489)	\$ (7,782)	\$ (2,225)	\$ 19,040
	Percent Change		-12.86%	-15.72%	10.29%	-7.89%	-3.42%	-1.01%	8.75%

Limestone is stockpiled throughout the year and taken from the stockpile for usage. There may be slight variances in the cost according to fluctuations in contract prices and freight cost per shipment of limestone.

January- Limestone expenses increased by \$27.8k and Magnesium expenses decreased by \$67.1k

February- Limestone expenses decreased by \$18k and Magnesium expenses decreased by \$23.8k

March- Limestone expenses decreased by \$37.3k and Magnesium expenses increased by \$60.4k

Operating Expense- Ammonia and Limestone

506001 - SP04	Misc Stm Pwr Exp- Spurlock 4	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
	Ammonia Expense	\$ 45,834	\$ (145)	\$ 0	\$ 23,039	\$ 7,131	\$ 29,464	\$ 17,576	\$ 29,933
	Limestone Expense	\$ 310,480	\$ 398,662	\$ 339,221	\$ 114,563	\$ 83,981	\$ 367,496	\$ 345,915	\$ 348,696
	Limestone Tons Used	25,748	32,547	27,055	9,047	6,694	29,326	27,560	27,659
	Expense Dollars	\$ 356,315	\$ 398,517	\$ 339,221	\$ 137,602	\$ 91,112	\$ 396,959	\$ 363,491	\$ 378,629
	Expense Dollars Change		\$ 42,202	\$ (59,296)	\$ (201,619)	\$ (46,490)	\$ 305,847	\$ (33,468)	\$ 15,138
	Percent Change		11.84%	-14.88%	-59.44%	-33.79%	335.68%	-8.43%	4.16%

East Kentucky Power Cooperative, Inc.
Environmental Surcharge Operating and Expense Month over Month Analysis
For the Expense Period January 2016 - July 2016

Limestone is stockpiled throughout the year and taken from the stockpile for usage. There may be slight variances in the cost according to fluctuations in contract prices and freight cost per shipment of limestone.

January- Limestone expenses increased by \$88.2k and Ammonia expenses decreased by \$58.5k
Adjustment to accruals to match actual resulted in an increase of \$12.5K.

February- Limestone expenses decreased by \$59.4k and Ammonia expenses increased by \$0.1k

March- Limestone expenses decreased by \$224.7k and Ammonia expenses increased by \$23k
Unit Outage from 03/12/16-03/31/16

April- Limestone expenses decreased by \$30.6k and Ammonia expenses decreased by \$15.9k
Unit Outage from 04/01/16- 04/22/16

May- Limestone expenses increased by \$283.5k and Ammonia expenses increased by \$22.3k

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2016-00335
ENVIRONMENTAL SURCHARGE MECHANISM
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION DATED 10/12/16
REQUEST 5

RESPONSIBLE PARTY: Thomas J. Stachnik

Request 5. This question is addressed to EKPC. The Settlement Agreement approved in Case No. 2004-00321 provides that EKPC's rate of return on compliance-related capital expenditures will be updated to reflect current average debt cost at the conclusion of the surcharge review period. Provide the following information as of May 31, 2016:

- a. The debt issuances directly related to projects in the approved compliance plan and corresponding outstanding balances of each debt issuance.
- b. The debt cost for each debt issuance directly related to the projects in the approved compliance plan.
- c. EKPC's calculation of the weighted average debt cost and the rate of return resulting from multiplying the weighted average debt cost by a 1.50 Times Interest Earned Ratio ("TIER"). Include all supporting calculations showing how the weighted average debt cost was determined.
- d. Provide all supporting calculations and documentation in Excel spreadsheet format with formulas intact and unprotected.

Responses 5a-d. Please see the response to Request 5 on the attached CD. EKPC is proposing a weighted average cost of debt of 4.039% based on the debt cost for each debt issuance directly related to the projects in the environmental compliance plan as of May 31, 2016. Using a weighted average cost of debt and a TIER of 1.50 produces a rate of return on the environmental compliance related capital expenditures of 6.059%.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2016-00335
ENVIRONMENTAL SURCHARGE MECHANISM
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION DATED 10/12/16
REQUEST 6

RESPONSIBLE PARTY: **Thomas J. Stachnik**

Request 6. This question is addressed to EKPC. Provide the percentage of EKPC's debt issuances directly related to projects in the approved compliance plan that has a variable interest rate as of the May 2016 expense month.

Response 6. The percentage as of May 2016 expense month is 0%. The debt issuances directly related to projects in the approved compliance plan are at a fixed interest rate.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2016-00335
ENVIRONMENTAL SURCHARGE MECHANISM
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION DATED 10/12/16
REQUEST 8

RESPONSIBLE PARTY: **Isaac S. Scott**

Request 8. This question is addressed to EKPC.

a. Explain in detail the process by which EKPC bills the environmental surcharge to the Member Cooperatives and records the amounts. Include in your response when invoices are issued and the manner in which they are delivered to the Member Cooperatives.

b. Provide complete copies of EKPC's invoices to each Member Cooperative for the period July 2015 through June 2016.

Response 8a. EKPC reads its meters at the end of each calendar month. The meter data is gathered and organized by Member Cooperatives and substation. The amount of environmental surcharge billed to Member Cooperatives is determined by applying the monthly environmental surcharge factor to the sum of the amounts billed for demand, energy, meter point, substation charges, fuel adjustment clause, and interruptible customer buy through activity, if applicable. Environmental surcharge credits related to direct load control and generator credits are separately displayed on the invoice to arrive at the net amount billed.

Invoices are sent to the Member Cooperatives via electronic mail by the fourth business day of the month.

EKPC records the billed environmental surcharge in Account 447 – Sales/Resale-RUS Borrower Member Cooperative. Budget code 8559 is used to further distinguish environmental surcharge activity within the account.

Response 8b. EKPC's invoices to each Member Cooperative for the period July 2015 through June 2016 are included on the attached CD, which is subject to a motion for confidential treatment. The invoices are organized by billing month with each Member Cooperative listed in alphabetical order.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2016-00335
ENVIRONMENTAL SURCHARGE MECHANISM
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION DATED 10/12/16
REQUEST 10

RESPONSIBLE PARTY: Isaac S. Scott
FOR THE OBJECTION: Counsel for EKPC

Request 10. This question is addressed to EKPC. Refer to the monthly environmental surcharge reports for the period July 2015 through June 2016, and the Member Cooperatives' responses to Commission Staffs First Request for Information ("Staffs First Request").

a. Provide a reconciliation between the amounts provided in EKPC's monthly environmental surcharge reports, Form 3.0, Column 4, and the total amount reported by the Member Cooperatives in their response to Staffs First Request, Item 2, in the column labelled "EKPC Invoice Month Recorded Member's Books."

b. Provide a reconciliation between the amounts determined in EKPC's monthly filings, Form 3.0, Column 6, and the total amounts reported by the Member Cooperatives in Column 6 on the Pass Through Mechanism Report, included in EKPC's monthly environmental surcharge reports.

c. Provide all schedules and supporting calculations and documentation in Excel spreadsheet format with all cells and formulas intact and unprotected.

Response 10a-c. EKPC objects to this Request to the extent that it requires EKPC to create business records in order to fully address the Request. KRS Chapter 278 does not require a regulated utility to create business records. EKPC also objects to the extent that the Request is vague. The current six-month review period covers the billing months of January through June 2016, which corresponds to the December 2015 through May 2016 expense months. The Request asks for information from July 2015 through June 2016, and is unclear whether billing month or expense month is intended. Moreover, the Request seeks information outside the review period and not in the context of a two-year review case. However, without waiving said objections, EKPC has created business records, treating the request as being for expense months, for the sole purpose of responding to this Request. Please see the responses to Request 10a-c on the attached CD.