

Rural Electric Cooperative Corporation

A Touchstone Energy® Cooperative 

December 12, 2016

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DEC 14 2016

Public Service
Commission

MS TALINA MATTHEWS
EXECUTIVE DIRECTOR
PUBLIC SERVICE COMMISSION
PO BOX 615
FRANKFORT KY 40602

RE: PSC CASE NO. 2016-00335

Dear Ms. Matthews:

Please find enclosed an original and eight (8) copies of the responses of Nolin RECC as requested in the above referenced case dated November 30, 2016. Also enclosed is supplemental information regarding our Special Contracts and Rate B customers for your review.

If you have any questions please call me at 270.765.6153.

Sincerely,

A handwritten signature in cursive script that reads "Michael L. Miller".

Michael L. Miller
President & CEO

afc

Enclosures

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Commonwealth of Kentucky
Before the Public Service Commission

Case No. 2016-00335

VERIFICATION

I verify, state and affirm that the testimony filed with this verification and for which I am listed as a witness is true and correct to the best of my knowledge, information and belief formed after a reasonable inquiry.

Mechonda O'Brien

Mechonda O'Brien, Regulatory Accounting Manager

State of Kentucky

County of Hardin

The foregoing was signed, acknowledged and sworn to before me by Mechonda O'Brien, this 12th day of December, 2016.

Allison S. Coffey

Notary Public

My Commission Expires:

August 29, 2020

**NOLIN RURAL ELECTRIC COOPERATIVE CORPORATION
PSC CASE NO. 2016-00335
RESPONSE TO COMMISSION STAFF'S SECOND REQUEST**

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Request 3.

- a. Provide the accounting methodology (i.e., cash or accrual) utilized by your particular Member Cooperative.
- b. Explain whether the accounting methodology utilized by your particular Member Cooperative could exacerbate the possible impact to cash flow and margins caused by volatility in the environmental surcharge.

Response:

- a. Nolin RECC utilizes an accrual based accounting methodology.
- b. The accrual based accounting methodology used by Nolin RECC does not exacerbate the volatility of the environmental surcharge.

**NOLIN RURAL ELECTRIC COOPERATIVE CORPORATION
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Request 4.

For your particular Member Cooperative, provide the following information as it relates to the environmental surcharge calculated for EKPC's December 2015 expense month, as billed to the Member Cooperatives in February 2016 for January 2016 usage:

- a. The month in which the Member Cooperative records the amount billed in February 2016 as an expense;
- b. The month in which the retail customer's usage will be subject to the Member Cooperative's pass-through factor calculated from EKPC's December 2015 expense month;
- c. The month in which the Member Cooperative bills its retail customers the pass-through factor calculated from EKPC's December 2015 expense month;
- d. The month in which the Member Cooperative records as revenue the amounts billed in the month indicated in part c. above.

Response:

- a. Nolin RECC records the amount billed February 1, 2016 from EKPC which was based on January's usage as January 2016 Purchased Power Expense.
- b. The month in which the retail customer's usage will be subject to Nolin RECC's pass-through factor calculated from EKPC's December 2015 expense month is January 2016.
- c. The month in which Nolin RECC bills its retail customers the pass-through factor calculated from EKPC's December 2015 expense month is February 2016.
- d. The month in which Nolin RECC records as revenue the amounts billed from part c is January 2016.

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**NOLIN RURAL ELECTRIC COOPERATIVE CORPORATION
PSC CASE NO. 2016-00335**

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During Nolin RECC's rate analysis for Case No. 2016-00367, it was recognized that the environmental surcharge pass-through mechanism methodology is not being fairly administered to all rate classes. Under the current method, the monthly environmental surcharge factor charged by the wholesale supplier, East Kentucky Power, is recalculated each month based upon retail revenues. This recalculation normally reduces the retail factor. Nolin has two industrial loads that are directly billed by EKP as a special contract or on East Kentucky Power's Rate B. The retail environmental surcharge allows these customers to pay an amount less than EKP charges at the wholesale level; therefore, the other retail classes are subsidizing a portion of these industrial customers' environmental surcharge. Attached is a spreadsheet and supporting documentation that evidence the subsidization of the environmental surcharge to special contract and Rate B members since July 2015 to present. Presently, Nolin RECC does not have any members on rate C; however, the same environmental surcharge subsidization would exist with this rate class.

It is Nolin RECC's request that its industrial customers that are on special contracts or on Rate B or C, pay the wholesale environmental surcharge rate, thus eliminating the subsidization. This would enable Nolin RECC to charge its special contract and Rate B and C members exactly what Nolin RECC is billed by EKP. Nolin RECC is asking the Commission to consider this billing methodology as allowed for Owen and Fleming-Mason in Case No. 2009-00039.


**NOLIN RURAL ELECTRIC COOPERATIVE CORPORATION
PSC CASE NO. 2016-00335**

**NOLIN RURAL ELECTRIC COOPERATIVE CORPORATION
ANALYSIS OF INDUSTRIAL CUSTOMERS UNDER RECOVERY OF ENVIRONMENTAL SURCHARGE
SPECIAL CONTRACTS & RATE B CUSTOMERS
JULY 2015 - OCTOBER 2016**

	Special Contract (AGC)			Rate B - Flint Ink		
	EKP Billed	Customer Billed	Under Recovery	EKP Billed	Customer Billed	Under Recovery
Jul-15	\$ 96,900	\$ 75,969	\$ (20,931)	\$ 36,067	\$ 30,894	\$ (5,173)
Aug-15	\$ 86,882	\$ 68,953	\$ (17,929)	\$ 31,449	\$ 27,699	\$ (3,750)
Sep-15	\$ 87,573	\$ 59,894	\$ (27,679)	\$ 31,102	\$ 22,812	\$ (8,290)
Oct-15	\$ 91,992	\$ 63,572	\$ (28,420)	\$ 32,223	\$ 24,125	\$ (8,098)
Nov-15	\$ 95,304	\$ 66,257	\$ (29,047)	\$ 36,647	\$ 26,524	\$ (10,123)
Dec-15	\$ 95,420	\$ 65,638	\$ (29,782)	\$ 36,705	\$ 26,520	\$ (10,185)
Jan-16	\$ 92,390	\$ 63,729	\$ (28,661)	\$ 34,415	\$ 26,420	\$ (7,995)
Feb-16	\$ 82,276	\$ 56,006	\$ (26,270)	\$ 28,925	\$ 20,601	\$ (8,324)
Mar-16	\$ 55,824	\$ 42,961	\$ (12,863)	\$ 19,802	\$ 17,312	\$ (2,490)
Apr-16	\$ 68,839	\$ 51,093	\$ (17,746)	\$ 24,924	\$ 19,727	\$ (5,197)
May-16	\$ 86,574	\$ 65,422	\$ (21,152)	\$ 31,713	\$ 24,936	\$ (6,777)
Jun-16	\$ 94,009	\$ 71,422	\$ (22,587)	\$ 30,067	\$ 23,773	\$ (6,294)
Jul-16	\$ 91,536	\$ 69,303	\$ (22,233)	\$ 38,871	\$ 30,607	\$ (8,264)
Aug-16	\$ 83,317	\$ 62,217	\$ (21,100)	\$ 32,788	\$ 26,642	\$ (6,146)
Sep-16	\$ 73,682	\$ 53,879	\$ (19,803)	\$ 27,054	\$ 21,401	\$ (5,653)
Oct-16	<u>\$ 76,646</u>	<u>\$ 58,875</u>	<u>\$ (17,771)</u>	<u>\$ 27,951</u>	<u>\$ 23,225</u>	<u>\$ (4,726)</u>
Totals	\$ 1,359,164	\$ 995,190	\$ (363,974)	\$ 500,703	\$ 393,219	\$ (107,484)



Rural Electric Cooperative Corporation

A Touchstone Energy' Cooperative 

December 12, 2016

ATTN DAN HOEPPNER
CDR PIGMENTS
FLINT GROUP SITE # 150
305 RING RD
ELIZABETHTOWN KY 42701-9318

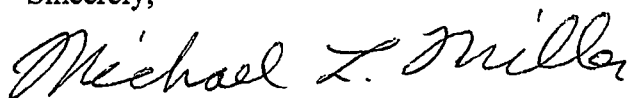
Dear Dan,

Please be advised that the method in which the Environmental Surcharge (ES) is currently being applied by East Kentucky Power and Nolin RECC on certain industrial loads is being examined by the Public Service Commission (PSC). Specifically, the "B" rate for CDR is included in this review. In some instances, industrial customers on special contracts and "B" rates pay less ES at the retail level than the wholesale level. As a result, certain retail classes are paying a larger portion of the surcharge, thus subsidizing the industrial customers. If the Commission rules this is not equitable, a new method will be used to more fairly apply the ES.

As a review, the ES is a mechanism to recoup costs incurred while meeting EPA regulations on power plant emissions. Such costs include the purchase, maintenance and operation of expensive equipment like scrubbers to "clean" coal used in the production of power. State regulators ensure that only proper expenses are extracted in the ES. Future pollution control equipment and climate legislation mandates will be a driver of future ES costs.

We will continue to update you as developments occur. Please feel free to contact us if you have questions about this issue.

Sincerely,




Michael L. Miller
President and CEO

cc: Vince Heuser
Billy Pait



Rural Electric Cooperative Corporation

A Touchstone Energy "Cooperative" 

December 12, 2016

ATTN BARRY BORDERS
AGC AUTOMOTIVE AMERICAS
PO BOX 5000
ELIZABETHTOWN KY 42702-5000

Dear Barry,

Please be advised that the method in which the Environmental Surcharge (ES) is currently being applied by East Kentucky Power and Nolin RECC on certain industrial loads is being examined by the Public Service Commission (PSC). Specifically, the special contract rate for AGC is included in this review. In some instances, industrial customers on special contracts and "B" rates pay less ES at the retail level than the wholesale level. As a result, certain retail classes are paying a larger portion of the surcharge, thus subsidizing the industrial customers. If the Commission rules this is not equitable, a new method will be used to more fairly apply the ES.

As a review, the ES is a mechanism to recoup costs incurred while meeting EPA regulations on power plant emissions. Such costs include the purchase, maintenance and operation of expensive equipment like scrubbers to "clean" coal used in the production of power. State regulators ensure that only proper expenses are extracted in the ES. Future pollution control equipment and climate legislation mandates will be a driver of future ES costs.

We will continue to update you as developments occur. Please feel free to contact us if you have questions about this issue.

Sincerely,

A handwritten signature in cursive script that reads "Michael L. Miller".

Michael L. Miller
President and CEO

cc: Vince Heuser
Billy Pait