



June 14, 2006

Ms. Elizabeth O'Donnell
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

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PUBLIC SERVICE
COMMISSION

RE: PSC Case No. 2006-00131

Dear Ms. O'Donnell:

Please find enclosed for filing with the Commission in the above-referenced case, an original and six copies of the response of East Kentucky Power Cooperative, Inc., ("EKPC") to the Commission Staff's Second Data Request dated June 7, 2006.

Very truly yours,



Charles A. Lile
Senior Corporate Counsel

Enclosures

Cc: Parties of Record

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)
DECEMBER 31, 2005 AND THE PASS THROUGH)
MECHANISM FOR ITS SIXTEEN MEMBER)
DISTRIBUTION COOPERATIVES)**

**CASE NO.
2006-00131**

**EAST KENTUCKY POWER COOPERATIVE, INC.
AND ITS MEMBER SYSTEMS
PSC CASE NO. 2006-00131
COMMISSION STAFF'S SECOND DATA REQUEST DATED 06/07/06**

East Kentucky Power Cooperative, Inc. (EKPC) and its Member Systems hereby submits the response to the Commission Staff's Second Data Request in this case dated June 7, 2006.

The Member Systems are:

Big Sandy Rural Electric Cooperative Corporation
Blue Grass Energy Cooperative Corporation
Clark Energy Cooperative, Inc.
Cumberland Valley Electric
Farmers Rural Electric Cooperative Corporation
Fleming-Mason Energy Cooperative
Grayson Rural Electric Cooperative Corporation
Inter-County Energy Cooperative Corporation
Jackson Energy Cooperative
Licking Valley Rural Electric Cooperative Corporation
Nolin Rural Electric Cooperative Corporation
Owen Electric Cooperative
Salt River Electric Cooperative Corporation
Shelby Energy Cooperative, Inc.
South Kentucky Rural Electric Cooperative Corporation
Taylor County Rural Electric Cooperative Corporation

ITEM 1

**EAST KENTUCKY POWER COOPERATIVE, INC.
AND ITS MEMBER SYSTEMS
PSC CASE NO. 2006-00131
RESPONSE TO SECOND DATA REQUEST**

COMMISSION STAFF'S SECOND DATA REQUEST DATED 06/07/06

REQUEST 1

RESPONSIBLE PERSON: Ann F. Wood/William A. Bosta

COMPANY: East Kentucky Power Cooperative, Inc. and its
Member Systems

Request 1. Refer to the response to the Staff's First Data Request dated April 25, 2006, Item 2. Explain in detail why a change in the accounting method at Inter-County Energy Cooperative Corporation is adequate justification for deferring the recognition of the current review period under-recovery of \$250,992 until the conclusion of the second 6-month review period. Include in this response a discussion of the change in the accounting method.

Response 1. In January 2006, Inter-County changed its accounting method for the environmental surcharge by deferring the environmental surcharge portion of the wholesale bill from EKPC. The purpose of this change was to better match the timing of the wholesale environmental surcharge billing to the retail environmental surcharge billing. Inter-County discussed this change with its external auditor, who concurred with the change.

The change in accounting methodology and subsequent deferral of implementing a large under-recovery is justifiable for several reasons.

- 1) The change in accounting methodology will allow Inter-County to minimize the over/under recovery amount charged to the Member at the end of the second six-month period. As shown in the response to Staff's First Data Request, Item 2, Attachment 1, Page 4 of 8, the \$250,992 under-recovery at the end of the first six months declined to \$17,886 by the billing month of February 2006 as a result of the change in accounting methodology.
- 2) Inter-County would prefer to avoid implementing the \$250,992 under-recovery as it would increase Members' electricity bills at a time when fuel and energy prices remain high by historic standards. Amortizing the \$250,992 over six months would result in an increase in Inter-County's monthly revenue requirement of \$41,832. Adding this to the November 2005 expense month revenue requirement, for example, would increase the surcharge factor to 9.10% from the 7.55% surcharge factor filed for that expense month. This would be a significant increase in the surcharge factor to Inter-County's Members, particularly for those Members with fixed or limited incomes.
- 3) Inter-County is willing to absorb the carrying cost on the \$250,992 under-recovery. At an estimated 6% annual cost of money, this equates to about \$15,000 if recovery is deferred for a year. Inter-County would prefer to absorb such carrying cost rather than increase the environmental surcharge factor to its Members.

For these reasons, EKPC, on behalf of Inter-County, respectfully requests that the Commission defer implementation of any over/under recovery amount until the conclusion of the second six-month environmental surcharge review period.