

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)	CASE NO.
SIX-MONTH BILLING PERIOD ENDING)	2011-00032
DECEMBER 31, 2010; AND THE PASS-THROUGH)	
MECHANISM FOR ITS SIXTEEN MEMBER)	
DISTRIBUTION COOPERATIVES)	

O R D E R

On February 28, 2011, the Commission initiated a six-month review of East Kentucky Power Cooperative, Inc.'s ("EKPC") environmental surcharge¹ as billed to its member distribution cooperatives ("Member Cooperatives") for the six-month period of July 1, 2010 to December 31, 2010. Pursuant to KRS 278.183(3), the Commission must review, at six-month intervals, the past operations of the environmental surcharge. The Commission may, by temporary adjustment in the surcharge, disallow any surcharge amounts that are found not to be just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to KRS 278.183(1).

¹ EKPC's environmental surcharge was initially approved in Case No. 2004-00321, Application of East Kentucky Power Cooperative, Inc. for Approval of an Environmental Compliance Plan and Authority to Implement an Environmental Surcharge (Ky. PSC Mar. 17, 2005).

The February 28, 2011 Order also initiated a six-month review of the 16 EKPC Member Cooperatives' pass-through mechanism as billed to retail member customers for the six-month period August 1, 2010 to January 31, 2011.²

The Commission issued a procedural schedule that provided for discovery, the filing of prepared testimony, an informal conference, and a public hearing. EKPC filed prepared direct testimony and responded to requests for information. EKPC filed its response to requests for information and appeared at an informal conference on April 12, 2011. There were no parties requesting intervenor status to this proceeding. On June 20, 2011, EKPC filed a response to the Commission's June 16, 2011 Order relating to the need for a hearing in the case. EKPC stated that there were no material issues of fact that warranted a hearing in this case and that this case may be submitted for decision based on the existing record without a hearing.

SURCHARGE ADJUSTMENT

The February 28, 2011 Order initiating this case indicated that, since over- or under-recoveries of allowable environmental compliance costs may have occurred during the period under review, the Commission would entertain proposals to adopt one adjustment factor to net all over- or under-recoveries. EKPC determined that it had no adjustments to its environmental costs. The Commission has reviewed and finds

² The Settlement Agreement approved in Case Nos. 2004-00321, East Kentucky Power Company, and 2004-00372, Big Sandy RECC, et.al, allows the Member Cooperatives to pass through the environmental surcharge to their customers at approximately the same time as EKPC bills the environmental surcharge to the Member Cooperatives, thus avoiding a billing lag for the Member Cooperatives. The costs incurred in the months of May 2010 through October 2010 are billed to the Member Cooperatives in the months of July 2010 through December 2010, with these same costs passed through to the member customers on the bills for August 2010 through January 2011.

reasonable EKPC's calculation of any over- or under-recovery for the review period covered in this proceeding and finds no need for any subsequent adjustments of EKPC's environmental costs as a result of its review.

RATE OF RETURN

The settlement agreement approved in Case No. 2004-00321 provided that EKPC's rate of return would be based on a weighted average cost of the debt issuances directly related to the four projects in EKPC's compliance plan, multiplied by a Times Interest Earned Ratio ("TIER") factor. The settlement agreement further provided that EKPC update the return as of the end of each six-month review period and request Commission approval of the updated average cost of debt.³

EKPC updated the weighted average cost of debt as of October 31, 2010 and determined the rate of return. As part of this review, EKPC has requested authority to modify its TIER factor from 1.35 to 1.50, which was authorized in Case No. 2010-00167.⁴ Utilizing these components, EKPC proposed an overall rate of return of 6.786 percent to be used starting with the first month following the final Order in this case.⁵

The Commission has reviewed and finds reasonable EKPC's determination of the updated rate of return which reflects the updated weighted average cost of debt and a 1.50 TIER factor consistent with that approved in Case No. 2010-00167. EKPC

³ Case No. 2004-00321, East Kentucky Power Cooperative, Inc., March 17, 2005 Order, Appendix A, at 3.

⁴ Case No. 2010-00167, East Kentucky Power Cooperative, Inc. (Ky. PSC Jan. 14, 2011).

⁵ Response to Commission Staff's First Information Request dated March 24, 2011, Item 6, page 2 of 5.

should use a rate of return of 6.786 percent for all environmental surcharge monthly filings submitted after the date of this Order until a revised rate of return is approved by the Commission.

RETAIL PASS-THROUGH MECHANISM

Retail Pass-Through Adjustment

Each of the Member Cooperatives determined an over- or under-recovery for its surcharge pass-through mechanism, with eight of the Member Cooperatives having over-recoveries and eight having under-recoveries in the six months under review. Consistent with the Order in Case No. 2010-00021⁶, the Member Cooperatives proposed that the over-recoveries be refunded to ratepayers and under-recoveries be collected from ratepayers as an adjustment to the retail pass-through factor for each of the first six months following the Commission's Order in this proceeding.

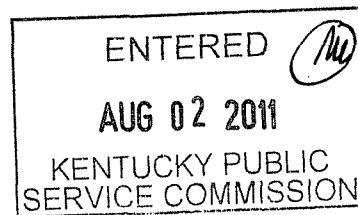
The Commission has reviewed and finds reasonable the Member Cooperatives' calculations of their respective over-recoveries and under-recoveries for the review period covered in this proceeding. In addition, the Commission finds reasonable the Member Cooperatives' proposals to adjust their respective retail pass-through factors in each of the first six billing months following the date of this Order. A schedule of the over- or under-recovery for each Member Cooperative and the related monthly adjustments is shown in the Appendix to this Order.

⁶ In Case No. 2010-00021, East Kentucky Power Cooperative, Inc., the Commission authorized the Member Cooperatives to stop the true-up method and revert back to their prior methodology of determining their over- and under-recoveries and amortizing the cumulative amount over a six-month period (Ky. PSC Nov. 5, 2010).

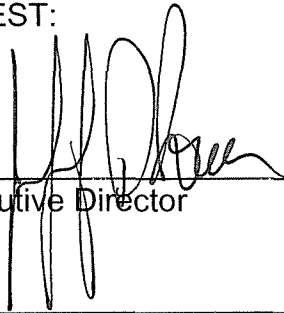
IT IS THEREFORE ORDERED that:

1. The amounts billed by EKPC through its environmental surcharge for the period July 1, 2010 through December 31, 2010 are approved.
2. EKPC is authorized to modify its TIER factor from 1.35 to 1.50 consistent with that approved in Case No. 2010-00167⁷ to be used in determining the rate of return used in all monthly environmental surcharge filings subsequent to the date of this order.
3. EKPC shall use a rate of return of 6.786 percent in all monthly environmental surcharge filings subsequent to the date of this Order until a revised rate of return is approved by the Commission.
4. EKPC's Member Cooperatives shall include the applicable monthly retail pass-through adjustments, shown in the Appendix to this Order, in the determination of each Member Cooperative's pass-through mechanism in each of the first six billing months following the date of this Order, as discussed herein.

By the Commission



ATTEST:



Executive Director

⁷ Case No. 2010-00167, East Kentucky Power Cooperative, Inc. (Ky. PSC Jan. 14, 2011).

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2011-00032 DATED **AUG 02 2011**

Member Cooperatives' Adjustment to Monthly Pass-Through Mechanism

The EKPC Member Cooperatives shall include the following monthly adjustments in the determination of the applicable pass-through factors for the six billing months following the date of this Order.

	<u>Total Amount of Over/(Under) Recovery</u>	<u>Monthly Amount To Be Returned /(Collected)</u>
Big Sandy RECC	\$ 40,811	\$ 6,802
Blue Grass Energy Cooperative Corp.	\$(1,315,474)	\$ (219,246)
Clark Energy Cooperative	\$ 189,538	\$ 31,590
Cumberland Valley Electric	\$ (543,136)	\$ (90,523)
Farmers RECC	\$ 184,825	\$ 30,804
Fleming-Mason Energy Cooperative	\$ (148,729)	\$ (24,788)
Grayson RECC	\$ (42,334)	\$ (7,056)
Inter-County Energy Cooperative Corp.	\$ 119,461	\$ 19,910
Jackson Energy Cooperative	\$ (645,121)	\$ (107,520)
Licking Valley RECC	\$ 29,530	\$ 4,922
Nolin RECC	\$ 354,620	\$ 59,103
Owen Electric Cooperative	\$ 809,353	\$ 134,892
Salt River Energy Cooperative Corp.	\$ (938,688)	\$ (156,448)
Shelby Energy Cooperative	\$ (249,902)	\$ (41,650)
South Kentucky RECC	\$ (1,560,991)	\$ (260,165)
Taylor County RECC	\$ 196,251	\$ 32,709

Anthony S Campbell
President & CEO
East Kentucky Power Cooperative, Inc.
4775 Lexington Road
P. O. Box 707
Winchester, KY 40392-0707