

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER)	
COOPERATIVE, INC. FOR AN ORDER APPROVING)	CASE NO.
THE ESTABLISHMENT OF A REGULATORY ASSET)	2015-00302
FOR THE UNDEPRECIATED BALANCE OF THE)	
WILLIAM C. DALE GENERATION STATION)	

ORDER

On September 2, 2015, East Kentucky Power Cooperative, Inc. ("EKPC") filed an application seeking authorization to establish a regulatory asset for the undepreciated plant in service balance of the William C. Dale Generation Station ("Dale Station") due to EKPC's decision to cease all generation activities at the Dale Station. The decision to cease all generation activities arises because EKPC has determined it will be unable to economically comply with the requirements of the federally mandated Mercury and Air Toxics Standards ("MATS") rule, which became effective on April 16, 2015.

There are no intervenors in this proceeding. EKPC responded to two rounds of requests for information from Commission Staff. The matter now stands submitted to the Commission for a decision based on the evidentiary record.

BACKGROUND

Dale Station consists of four units totaling 200 megawatts ("MW"). Units 1 and 2 are each rated at 25 MW and were commissioned in 1954. Units 3 and 4 are each rated at 75 MW and were commissioned in 1957 and 1960, respectively. EKPC has decommissioned Units 1 and 2 and plans to partially disassemble them for the sale of

any marketable parts to prospective buyers. EKPC's initial plan for Units 3 and 4 was to condition the units for indefinite storage on April 15, 2015. However, at the request of PJM Interconnection, LLC, EKPC sought and received a one-year extension of the MATS compliance deadline for Units 3 and 4. After April 15, 2016, EKPC plans to condition Units 3 and 4 for indefinite storage, as originally intended. EKPC stated that Units 3 and 4 will remain viable for repowering or for other uses by EKPC. The transmission facilities at the location will remain active.¹

Regardless of the one-year extension of the MATS compliance deadline, EKPC will be retiring Dale Station early, as it will not be fully depreciated until June 2019 at current depreciation rates. Accounting requirements dictate that EKPC remove the Dale Station assets from utility plant in service when retirement becomes probable or likely to occur, which would result in EKPC's recording a loss on its books for 2015. Such a result would reduce EKPC's margins and equity, unless deferral of the loss from the retirement is allowed by the Commission through the establishment of a regulatory asset for the undepreciated balance.²

EKPC accounts for the Dale Station units as one asset on its books. As of June 30, 2015, the Dale Station utility plant in service, excluding land and transmission facilities, was \$94,691,298, with accumulated depreciation of \$91,011,407, resulting in a net book value of \$3,679,891.³ EKPC is requesting to establish a regulatory asset in

¹ Application at 3.

² *Id.*

³ *Id.* at 4.

the amount of \$3,218,506,⁴ which is the projected net book value of all Dale Station assets, excluding land and transmission facilities, as of December 31, 2015. EKPC proposes to amortize the regulatory asset at the same rate as the current depreciation expense, which would result in the regulatory asset's being fully amortized by June 2019. The monthly amortization expense would be \$76,898 over 42 months, and EKPC is requesting that for accounting purposes, the amortization of the regulatory asset begin after December 31, 2015. EKPC states that the unamortized regulatory asset balance and the amortization expense would be adjusted to reflect the sale proceeds and respective disassembly costs of any marketable parts from Units 1 and 2.⁵

EKPC generally recovers the costs associated with Dale Station through base rates, as they were included in the test year in EKPC's last base rate case, Case No. 2010-00167.⁶ The exceptions are two projects included in EKPC's approved environmental compliance plan whose expenses are recovered through the environmental surcharge. The two projects are Project 5, Low Nitrogen Oxide Burners at Dale Units 1 and 2, and Project 10, Dale Continuous Monitoring Equipment. As these two projects were included as part of EKPC's environmental compliance plan and associated cost recovery via the environmental surcharge in Case No. 2010-00167, they were excluded from base rates. The projected net book value of Projects 5 and 10 as of December 31, 2015, is \$749,484, which is included in the total net book value of

⁴ *Id.* at 5.

⁵ *Id.* at 6.

⁶ Case No. 2010-00167, *Application of East Kentucky Power Cooperative, Inc. for General Adjustment of Electric Rates* (Ky. PSC Jan. 14, 2011).

\$3,218,506, as mentioned previously.⁷ EKPC proposes that the net book value of Projects 5 and 10 be reclassified as a regulatory asset in the environmental surcharge mechanism, and earn a return. In addition, EKPC proposes that it be allowed to recover through the environmental surcharge amortization expense equivalent to the current monthly depreciation expense of \$17,845 per month, and any applicable property tax and insurance expense that may be incurred for Projects 5 and 10.⁸

DISCUSSION

Pursuant to KRS 278.220, the Commission has adopted a uniform system of accounts for EKPC which was issued by the United States Department of Agriculture, Rural Utilities Service ("RUS").⁹ The RUS Uniform System of Accounts ("USoA") requires that RUS borrowers follow the accounting requirements for plant abandonments set forth in Financial Accounting Standards Board Accounting Standards Codification ("ASC") Topic 980-360.¹⁰ ASC Topic 980-360-35 states that when abandonment becomes probable, the remaining cost of the abandoned plant shall be removed from plant in service. A determination must be made whether recovery of the allowed cost is likely to be provided with a full or partial return on the investment. Further, the determination shall be made based on the facts and circumstances of the

⁷ Application at 6.

⁸ *Id.* Since filing the application, EKPC determined that it will not incur property tax expense on the Dale Station assets included in the regulatory asset. See also EKPC's response to Commission Staff's First Request for Information, Item 3.c.

⁹ Codified as 7 CFR Section 1767.15. The current version of the RUS system of accounts became effective May 27, 2008 and is also published and referenced as RUS Bulletin 1767B-1.

¹⁰ Application at 3.

specific abandonment and past practices and current policies of the regulatory jurisdiction. The RUS USoA states the new asset shall be recorded as a regulatory asset in Account 182.2, Unrecovered Plant and Regulatory Study Costs.

The Commission has previously approved regulatory assets for EKPC and other jurisdictional utilities. Such approval has been granted when a utility has incurred (a) an extraordinary, nonrecurring expense which could not have reasonably been anticipated or included in the utility's planning; (b) an expense resulting from a statutory or administrative directive; (c) an expense in relation to an industry-sponsored initiative; or (d) an extraordinary or nonrecurring expense that over time will result in a saving that fully offsets the cost.¹¹ EKPC believes its request to establish regulatory assets for the undepreciated balance of the Dale Station assets is consistent with the second scenario listed above, as the retirement of Dale Station results from its inability to meet MATS compliance requirements, and the accounting requirements of RUS USoA and ASC Topic 980-360-35.¹²

The Commission has reviewed EKPC's proposed treatment of the undepreciated balance of the Dale Station assets and agrees that EKPC is in conformity with all applicable accounting principles and KRS 278.220 as it pertains to the Dale Station assets. However, the costs of Projects 5 and 10 are currently being recovered through EKPC's environmental surcharge mechanism. The environmental surcharge statute,

¹¹ Case No. 2008-00436, *The Application of East Kentucky Power Cooperative, Inc. for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to Certain Replacement Power Costs Resulting from Generation Forced Outages* (Ky. PSC Dec. 23, 2008), Final Order at 4. See also Case No. 2010-00449, *Application of East Kentucky Power Cooperative, Inc. for an Order Approving the Establishment of a Regulatory Asset for the Amount Expended on Its Smith 1 Generating Unit* (Ky. PSC Feb. 28, 2011), Final Order at 7.

¹² Application at 7.

KRS 278.183, was enacted to encourage the use of Kentucky coal by allowing utilities to recover by surcharge the cost of facilities installed to comply with environmental regulations for coal combustion wastes and by-products generated from burning coal to produce energy. Because EKPC will no longer be producing energy from coal at the Dale Station, the environmental facilities that constitute Projects 5 and 10 cannot be considered “facilities utilized for production of energy from coal,” as required by KRS 278.183(1) for inclusion in EKPC’s environmental surcharge.¹³ For this reason, EKPC should not be allowed to continue to recover the costs of Projects 5 and 10 through the environmental surcharge mechanism.

Accordingly, the Commission finds that EKPC should establish two regulatory asset accounts. EKPC should establish a regulatory asset account for all Dale Station assets, excluding Projects 5 and 10, based on the respective net book values of each group of assets at December 31, 2015. EKPC should remove Projects 5 and 10 from the environmental surcharge and establish a regulatory asset for Projects 5 and 10 based on their net book values at December 31, 2015. In addition, EKPC should be allowed to record insurance expense incurred on Projects 5 and 10 as part of the regulatory asset. Considering the relatively minimal impact of this regulatory asset on ratepayers, EKPC should be allowed to record a monthly return, calculated in the same

¹³ The instant matter is distinguishable from our approval of EKPC’s request to recover the cost of closing the Dale Station ash ponds and the construction of a landfill at the Smith Station through EKPC’s environmental surcharge mechanism in Case No. 2014-00252, *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* (Ky. PSC Mar. 6, 2015). As stated in Case No. 2014-00252, the Smith Landfill project served as a means by which EKPC would be able to dispose of the coal ash currently stored at the Dale Station ash ponds in a more permanent manner and be in compliance with governing state and federal regulations. In contrast, the instant matter does not involve a proposed project aimed at compliance with environmental requirements, but rather the retirement of a generating asset driven by an environmental regulation.

manner as in EKPC's environmental surcharge mechanism, on the unamortized balance of Projects 5 and 10, including the insurance costs incurred. The regulatory asset for Projects 5 and 10 should be deferred for potential recovery in EKPC's next base rate case. The Commission notes that the authorization of a regulatory asset is not an assurance that these costs will be recovered in rates. A decision on rate recovery will be made only after fully examining the reasonableness of these costs in the context of a future rate case.

IT IS THEREFORE ORDERED that:

1. EKPC is authorized to establish a regulatory asset as described herein for the undepreciated balance of the Dale Station assets, excluding Projects 5 and 10, which are currently recovered through EKPC's environmental surcharge.

2. EKPC shall amortize the regulatory asset authorized in Ordering paragraph 1 over 42 months after December 31, 2015, as proposed in its application.

3. EKPC shall establish a separate regulatory asset for Projects 5 and 10 as described herein, which shall be deferred and considered for recovery in EKPC's next base rate case.

4. EKPC shall be allowed to record a return, calculated in the same manner as in EKPC's environmental surcharge mechanism, on the unamortized balance of Projects 5 and 10 and the accumulated insurance costs incurred.

5. The regulatory assets approved herein are for accounting purposes only.

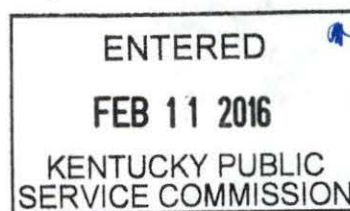
6. EKPC shall remove Projects 5 and 10 from its environmental surcharge mechanism effective with the date of this Order.

7. EKPC shall file annually an updated report related to Projects 5 and 10, including the balance of the regulatory asset as of December 31, 2015, and the carrying cost and insurance cost incurred after 2015. Carrying charges are to be calculated on the prior-month ending balance beginning with the December 31, 2015 ending balance of the regulatory asset. The report should show by month the beginning balance, the monthly carrying costs, the total monthly costs incurred by account, and the monthly ending balance. The report shall be submitted at the same time EKPC files its annual report with the Commission beginning in 2017.

8. EKPC shall, within 14 days of the date of this Order, file with the Commission the accounting entries made on its books to effectuate the creation of the regulatory assets.

9. Any document filed in the future pursuant to ordering paragraphs 7 and 8 herein shall reference this case number and shall be retained in the utility's general correspondence file.

By the Commission



ATTEST:



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