

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| AN EXAMINATION BY THE PUBLIC SERVICE |) | |
| COMMISSION OF THE ENVIRONMENTAL |) | |
| SURCHARGE MECHANISM OF BIG RIVERS |) | |
| ELECTRIC CORPORATION FOR THE |) | Case No. |
| SIX-MONTH BILLING PERIOD ENDING |) | 2016-00368 |
| JULY 31, 2016 AND THE PASS THROUGH |) | |
| MECHANISM OF ITS THREE MEMBER |) | |
| DISTRIBUTION COOPERATIVES |) | |

ORDER

On November 15, 2016, the Commission initiated a six-month review of Big Rivers Electric Corporation's ("Big Rivers") environmental surcharge¹ as billed to its member distribution cooperatives ("Member Cooperatives")² for the six-month billing period from February 1, 2016, through July 31, 2016. The billing period reflects the environmental compliance costs incurred by Big Rivers from December 1, 2015, through May 31, 2016.

Pursuant to KRS 278.183(3), at six-month intervals, the Commission must review the past operations of the environmental surcharge. The Commission may, by temporary adjustment in the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to KRS 278.183(1).

¹ The Commission authorized Big Rivers to implement an environmental surcharge in Case No. 2007-00460, *The Application of Big Rivers Electric Corporation for Approval of Environmental Compliance Plan and Environmental Surcharge Tariff* (Ky. PSC June 25, 2008).

² The three Big Rivers Member Cooperatives are Meade County Rural Electric Cooperative Corporation ("Meade County"), Kenergy Corp. ("Kenergy"), and Jackson Purchase Energy Corporation ("Jackson Purchase").

The November 15, 2016 Order also initiated a six-month review of the three Big Rivers Member Cooperatives' pass-through mechanisms.³ This review for the Member Cooperatives covers their billings from March 1, 2016, through August 31, 2016, for all retail customers except the large commercial and industrial customers with dedicated delivery points as billed from February 1, 2016, through July 31, 2016. For those customers with dedicated delivery points, there is no billing lag.⁴ Of the three Member Cooperatives, only Meade County does not have any dedicated delivery point customers.⁵

The Commission established a procedural schedule in the November 15, 2016 Order initiating this review that provided for discovery, the filing of prepared testimony, and intervenor testimony. Big Rivers filed prepared direct testimony and responded to three Commission Staff requests for information. On March 7, 2017, Big Rivers filed a statement indicating that it and each of its three Member Cooperatives believe that a hearing is not necessary in this matter and that the matter may be submitted for adjudication based on the existing record. Based on the absence of intervenors and

³ The three Member Cooperatives were authorized to implement a pass-through mechanism in separate cases: Case No. 2007-00470, *Application of Meade County Rural Electric Cooperative Corporation for Approval of Retail Tariff Riders, Revised Tariffs and New Tariff, and for Approval of Amendment of Wholesale Agreement* (Ky. PSC Dec. 12, 2008); Case No. 2008-00009, *Application of Kenergy Corp. for Approval of Retail Tariff Riders and Revised Tariffs, Approval of Smelter Agreements, and Approval of Amendment to Wholesale Agreement* (Ky. PSC Dec. 12, 2008); and Case No. 2008-00010, *The Application of Jackson Purchase Energy Corporation for Approval of Retail Tariff Riders, Revised Tariffs, New Tariff, and Amendment of Wholesale Agreement* (Ky. PSC Dec. 12, 2008).

⁴ The Commission's Orders in Case Nos. 2007-00470, 2008-00009, and 2008-00010 allow the Member Cooperatives to pass through the environmental surcharge to all their retail customers, except large commercial and industrial customers with dedicated delivery points, on a one-month lag. Therefore, the costs Big Rivers incurred from December 2015 through May 2016 are billed to the Member Cooperatives in the months of February 2016 through July 2016, with these same costs passed through to the member's retail customers on the bills for March 2016 through August 2016. Those customers with dedicated delivery points are billed without the one-month lag necessary for the retail customers; therefore, their billing period covers the same time period as Big Rivers'.

⁵ Response to Commission Staff's First Request for Information ("Staffs First Request"), Item 2, Attachment 2 of 2, line 31.

finding good cause, the Commission finds that it should adjudicate this matter based on the existing record.

COMPLIANCE PLAN

The Commission has approved two environmental compliance plans for Big Rivers. The Big Rivers' environmental compliance plan that the Commission approved in Case No. 2007-00460,⁶ ("the 2007 Plan") consists of programs and associated costs dealing with the control of sulfur dioxide, nitrogen oxide, and sulfur trioxide.⁷ The 2007 Plan included only operating and maintenance ("O&M") costs.⁸ In an October 1, 2012 Order the Commission issued in Case No. 2012-00063⁹ ("the 2012 Plan"), the Commission approved certain additions to the 2007 Plan relating to the Mercury and Air Toxics Standards ("MATS") rule.¹⁰ The 2012 Plan involved installing activated carbon injection and dry sorbent injection systems, and emission control monitors at Big Rivers' Coleman, Wilson, and Green generating stations; and installing emission control monitors at Henderson Municipal Power & Light's Station Two generation station.¹¹ The 2012 Plan includes capital costs, a return on investment and O&M associated with

⁶ Case No. 2007-00460, *Application of Big Rivers Electric Corporation for Approval of Environmental Compliance Plan and Environmental Surcharge Tariff* (Ky. PSC June 25, 2008).

⁷ Direct Testimony of Nicholas R. Castlen ("Castlen Testimony") at 6.

⁸ *Id.* at 7.

⁹ Case No. 2012-00063, *Application of Big Rivers Electric Corporation for Approval of Its 2012 Environmental Compliance Plan, for Approval of Its Amended Environmental Cost Recovery Surcharge Tariff, for Certificates of Public Convenience and Necessity, and for Authority to Establish a Regulatory Account* (Ky. PSC Oct. 1, 2012).

¹⁰ Castlen Testimony at 7.

¹¹ *Id.*

these projects, as well as recovery of Big Rivers' actual costs incurred in Case No. 2012-00063 (amortized over three years).¹²

Because of the termination of retail power contracts by two aluminum smelters, Big Rivers idled the Coleman station in May 2014 and does not plan to proceed with the installation of the MATS compliance equipment at Coleman at this time. Big Rivers states that if it decides to return the Coleman station to service, it will be required to complete the MATS projects prior to returning it to service.¹³

Big Rivers' environmental surcharge mechanism allows Big Rivers to recover costs related to the 2007 Plan and the 2012 Plan, less proceeds from by-product and emission allowance sales, plus or minus an ongoing cumulative over- or under-recovery adjustment.¹⁴

SURCHARGE ADJUSTMENT

Big Rivers is not requesting any additional over- or under-recovery of its environmental costs. Big Rivers states that the normal over/under recovery carry-forward element of its environmental surcharge mechanism is operating as intended.¹⁵ The Commission has reviewed Big Rivers' filing and finds reasonable its calculation for the review period covered in this proceeding, and further finds no need for any adjustments of Big Rivers' recovery of its environmental costs resulting from its review.

¹² *Id.*

¹³ *Id.* at 7 and 8.

¹⁴ *Id.* at 8.

¹⁵ *Id.* at 12.

RATE OF RETURN

The Commission approved Big Rivers' 2012 Plan and Environmental Surcharge ("ES") Tariff by its Order in Case No. 2012-00063. The 2012 Plan provides that the environmental costs recoverable by Big Rivers include not only its O&M costs, but also capital costs including a return on investment. Big Rivers calculated a return on investment for each expense month of the review period.

Big Rivers' ES Tariff provides that the rate of return on the environmental rate base is the weighted average debt cost for environmental compliance plan projects approved by the Commission multiplied by a Times Interest Earned Ratio ("TIER") factor of 1.24. In accordance with its ES Tariff, Big Rivers determined the weighted average cost of debt and applied the TIER of 1.24 to the weighted average cost of debt to produce the monthly rates of return for the review period.

Big Rivers' ES Tariff provides that Big Rivers' monthly environmental costs should be based on actual costs and revenues for the current expense month. Due to monthly fluctuations in interest costs, Big Rivers determines the average cost of debt for the current expense month rather than using a historical average or forecasted amount. Big Rivers states that determining the average cost of debt for the current expense month ensures that the calculation accurately reflects the environmental costs associated with that expense month. The Commission has reviewed and finds reasonable Big Rivers' determination of the rates of return for each month of the review period.

RETAIL PASS-THROUGH MECHANISM

None of the Member Cooperatives is requesting any additional over- or under-recovery via their respective surcharge pass-through mechanisms. The Commission has reviewed and finds reasonable each of the Member Cooperatives' calculations of its respective over- or under-recoveries for the review period covered in this proceeding and further finds no need for any adjustments of the Member Cooperatives' recovery of their respective pass-through amounts resulting from this review.

SURCHARGE CALCULATION METHODOLOGY

The November 15, 2016 Order initiating this case directed Big Rivers to provide additional testimony regarding whether Big Rivers had considered billing the environmental costs as a direct amount. Under this approach, Big Rivers would divide the total costs recoverable proportionally among the Member Cooperatives based on wholesale sales. Big Rivers would assign a dollar amount to each Member Cooperative instead of applying a surcharge percentage to the Member Cooperatives' bills.

Big Rivers states that it has not considered billing a direct amount based on monthly wholesale sales to each Member Cooperative. Big Rivers argues that the environmental surcharge statute, KRS 278.183, provides that recovery of environmental costs not already included in existing rates shall be through a rate surcharge as a positive or negative adjustment to existing rates.¹⁶ Big Rivers currently calculates a monthly billing factor that it applies to the Member Cooperatives' billings to recover its monthly environmental costs. Based on its interpretation of the requirements of the environmental surcharge statute, Big Rivers believes the direct billing of monthly environmental costs based on wholesale sales to each Member Cooperative would not

¹⁶ Castlen testimony at 13.

satisfy the requirements of KRS 278.183. Big Rivers and the Member Cooperatives stated they believe the current environmental surcharge mechanism operates effectively and provides Big Rivers with timely recovery of its environmental costs as prescribed by KRS 278.183.¹⁷

Despite Big Rivers' expressed concerns, the Commission believes that, with the proper parameters, the direct billing methodology will: comply with KRS 278.183; result in more timely recovery of Big Rivers' environmental costs without the need for over- or under-recoveries; and reduce volatility in the Member Cooperatives' pass-through factors. However, the detailed mechanics of this methodology have not been fully developed, would need more evaluation to be a practicable alternative to the current methodology, and will not be considered further in this proceeding.

IT IS THEREFORE ORDERED that:

1. The amounts billed by Big Rivers through its environmental surcharge for the period February 1, 2016, through July 31, 2016, are approved.

2. The amounts billed by Jackson Purchase and Kenergy through their respective environmental surcharge pass-through mechanisms for the period February 1, 2016, through July 31, 2016, for all customers with dedicated delivery points are approved.

3. The amounts billed by the three Member Cooperatives through their respective environmental surcharge pass-through mechanisms for the period March 1,

¹⁷ Response to Commission Staff's Third Request for Information, Item 2.

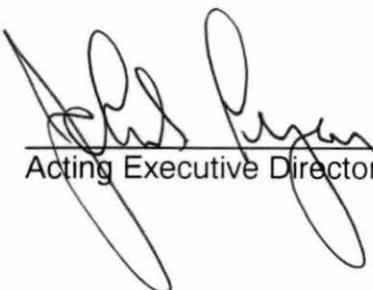
2016, through August 31, 2016, for all other non-dedicated delivery point customers are approved.

4. The rates of return determined by Big Rivers for each month of the review period are approved.

By the Commission

ENTERED
JUL 10 2017
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



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