

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 TWO-	)	CASE NO.
YEAR BILLING PERIOD ENDING JUNE 30, 2017	)	2017-00326
AND THE PASS THROUGH MECHANISM FOR ITS	)	
SIXTEEN MEMBER DISTRIBUTION COOPERATIVES	)	

ORDER

On August 31, 2017, the Commission initiated a two-year review of East Kentucky Power Cooperative, Inc.'s ("EKPC") environmental surcharge<sup>1</sup>, as billed to its member distribution cooperatives ("Member Cooperatives"), for the two-year period of July 1, 2015, to June 30, 2017. Pursuant to KRS 278.183(3) the Commission must: review, at six-month intervals, the past operations of the environmental surcharge; disallow any surcharge amounts that are found not to be just and reasonable; and reconcile past surcharges with actual costs recoverable. At two-year intervals, the Commission must review and evaluate the past operations of the environmental surcharge, disallow improper expenses and, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

For purposes of this review, the Commission has examined EKPC's monthly environmental surcharges for the six-month billing period ending June 30, 2017, which is the last six-month billing period of the two-year billing period ending June 30, 2017,

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<sup>1</sup> 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).

and for the two-year billing period ending June 30, 2017. The three previous six-month billing periods of this two-year period were reviewed in Case Nos. 2016-00144, 2016-00335, and 2017-00071.<sup>2</sup>

The August 31, 2017 Order also initiated a two-year review of the 16 EKPC Member Cooperatives' pass-through mechanism<sup>3</sup> as billed to their retail member customers for the two-year period July 1, 2015, to June 30, 2017.<sup>4</sup>

The Commission issued a procedural schedule that provided for two rounds of discovery, the filing of prepared testimony, and intervenor testimony. EKPC filed prepared direct testimony and responded to one request for information. The Member Cooperatives responded to one round of discovery. There were no parties requesting intervenor status to this proceeding. On November 30, 2017, EKPC filed a motion stating that EKPC and the Member Cooperatives believed the case record is complete and this case may be submitted for decision on the current record without a hearing.

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<sup>2</sup> Case No. 2016-00144, *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, 2015 and the Pass Through Mechanism for Its Sixteen Member Distribution Cooperatives* (Ky. PSC Sept. 9, 2016); Case No. 2016-00335, *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 June 30, 2016, and the Pass Through Mechanism for Its Sixteen Member Distribution Cooperatives* (Ky. PSC May 11, 2017); and Case No. 2017-00071, *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, 2016, and the Pass-Through Mechanism of Its Sixteen Member Distribution Cooperatives* (Ky. PSC July 7, 2017).

<sup>3</sup> Case No. 2004-00372, *Application of Big Sandy RECC, Blue Grass Energy Cooperative Corporation, Clark Energy Cooperative, Cumberland Valley Electric, Inc., Farmers RECC, Fleming-Mason Energy Cooperative, Inc., Grayson RECC, Inter-County Energy Cooperative Corporation, Jackson Energy Cooperative Corporation, Licking Valley RECC, Nolin RECC, Owen Electric Cooperative, Inc., Salt River Electric Cooperative Corporation, Shelby Energy Cooperative, Inc., South Kentucky RECC and Taylor County RECC for Authority to Pass Through the Environmental Surcharge of East Kentucky Power Cooperative, Inc.* (Ky. PSC Mar. 17, 2005).

<sup>4</sup> The Settlement Agreement approved in Case Nos. 2004-00321 and 2004-00372 allows the Member Cooperatives to pass through the environmental surcharge to their customers at approximately the same time EKPC bills the environmental surcharge to the Member Cooperatives, thus avoiding a billing lag for the Member Cooperatives. Therefore, the costs incurred from June 2015 through May 2017 are billed to the Member Cooperatives for the months of July 2015 through June 2017, with these same costs passed through to the member customers on their bills in August 2015 through July 2017.

## SURCHARGE ADJUSTMENT

EKPC determined that it had no adjustments to its environmental costs for the period under review.<sup>5</sup> The Commission has reviewed and finds reasonable EKPC's calculation of no additional over- or under-recovery for the review period covered in this proceeding and finds no need for any subsequent adjustments to EKPC's environmental costs as a result of its review.

## RATE OF RETURN

The Settlement Agreement approved in Case No. 2004-00321 provided that the rate of return would be based on a weighted average debt cost of the debt issuances directly related to the projects in EKPC's compliance plan, multiplied by a Times Interest Earned Ratio ("TIER") factor. The Settlement Agreement further provided that EKPC update the rate of return as of the end of each six-month review period, and request Commission approval of the updated average cost of debt.<sup>6</sup>

EKPC calculated a weighted average cost of debt as of May 31, 2017, of 4.050 percent. EKPC utilized the TIER factor of 1.50 authorized in Case No. 2011-00032.<sup>7</sup> Utilizing these components, EKPC calculated an updated rate of return as of May 31, 2017, of 6.075 percent. EKPC proposed that an overall rate of return of 6.075 percent be used starting with the first month following the final Order in this case.<sup>8</sup>

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<sup>5</sup> EKPC's Response to Commission Staff's First Request for Information ("Staff's First Request"), Item 1.

<sup>6</sup> Case No. 2004-00321, *East Kentucky Power Cooperative, Inc.* (Ky. PSC Mar. 17, 2005), Order, Appendix A at 3.

<sup>7</sup> Case No. 2011-00032, *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, 2010; and the Pass-Through Mechanism for Its Sixteen Member Distribution Cooperatives* (Ky. PSC Aug. 2, 2011).

<sup>8</sup> Direct Testimony of Isaac S. Scott at 13.

The Commission has reviewed, and finds reasonable, EKPC's determination of the updated rate of return of 6.075 percent, reflecting the updated weighted average cost of debt of 4.050 percent and a 1.50 TIER factor. The Commission finds that EKPC should use a rate of return of 6.075 percent for all environmental surcharge monthly filings submitted after the date of this Order.

#### RETAIL PASS-THROUGH MECHANISM

Each of the Member Cooperatives determined an over- or under-recovery for its surcharge pass-through mechanism, with nine of the Member Cooperatives having over-recoveries and seven of the Member Cooperatives having under-recoveries. The Member Cooperatives' over- or under-recoveries were determined utilizing the revised calculation methodology approved in Case No. 2015-00281.<sup>9</sup> EKPC stated that the Member Cooperatives proposed that the over-recoveries be refunded to, or the under-recoveries be collected from, ratepayers as an adjustment to the retail pass-through factor for each month in the six-month period following the Commission's Order in this proceeding. The Commission has reviewed, and finds reasonable, each of the Member Cooperatives' calculations of their respective over-recoveries and under-recoveries for the review periods covered in this proceeding. The Commission finds reasonable the Member Cooperatives' proposals to amortize their respective accumulated over- or under-recovery amounts in each of the first six billing months following the final Order in this proceeding. A schedule of the over- or under-recovery for each Member Cooperative and the related monthly adjustments are shown in the Appendix to this

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<sup>9</sup> Case No. 2015-00281, *An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of East Kentucky Power Cooperative, Inc. for the Six-Month Billing Periods Ending June 30, 2014 and December 31, 2014, for the Two-Year Billing Period Ending June 30, 2015 and the Pass Through Mechanism for Its Sixteen Member Distribution Cooperatives* (Ky. PSC Apr. 8, 2016).

Order. The impact of the over or under-recovery on an average residential customer's monthly bill for each respective Member Cooperative also is indicated.

#### SURCHARGE ROLL-IN

The environmental surcharge statute directs the Commission to incorporate surcharge amounts found just and reasonable into the utility's existing base rates, but only "to the extent appropriate." EKPC proposes not to incorporate, or "roll in," any of its environmental surcharge amounts into its existing base rates in this proceeding. EKPC states that it believes a roll-in of environmental costs should be allocated between demand and energy rate components based on a cost-of-service study, and should occur during a wholesale base-rate-case proceeding. As with a roll-in to its wholesale base rates, EKPC believes that the corresponding adjustment to retail base rates should be performed in conjunction with a base-rate proceeding.<sup>10</sup> Further, EKPC states that several of its Member Cooperatives believe it is important that retail customers be aware of the full cost of environmental compliance and the impact on their monthly bills. EKPC states that performing a roll-in would not provide full disclosure of environmental compliance costs on retail customers' bills, as a significant portion of such costs would be collected in base rates.<sup>11</sup> The Commission has reviewed and finds reasonable EKPC's recommendation not to roll environmental surcharge amounts into base rates at the present time.

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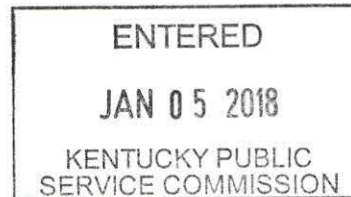
<sup>10</sup> Scott Testimony at 14–15.

<sup>11</sup> Scott Testimony at 16–17.

IT IS THEREFORE ORDERED that:

1. EKPC's request to submit this case for a decision on the existing evidence of record without a hearing is granted.
2. The amounts billed by EKPC through its environmental surcharge for the period July 1, 2015, to June 30, 2017, are approved.
3. EKPC shall use a rate of return of 6.075 percent in all monthly environmental surcharge filings subsequent to the date of this Order.
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 respective pass-through mechanism in each of the first six months following the date of this order, as discussed herein.

By the Commission



ATTEST:

  
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Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2017-00326 DATED **JAN 05 2018**

Member Cooperatives' Adjustments 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 first six months after the date of this Order.

	<u>Total Amount of Over-Recovery</u>	<u>Monthly Amount To Be Returned</u>	<u>Monthly Bill Impact</u>
Big Sandy RECC	\$ 921	\$ 154	\$ 0.01
Blue Grass Energy Cooperative	\$ 188,871	\$ 31,479	\$ 0.38
Cumberland Valley Electric	\$ 105,030	\$ 17,505	\$ 0.58
Farmers RECC	\$ 13,549	\$ 2,258	\$ 0.10
Jackson Energy Cooperative	\$ 6,420	\$ 1,070	\$ 0.02
Licking Valley RECC	\$ 24,540	\$ 4,090	\$ 0.19
Salt River Cooperative Corp.	\$ 32,662	\$ 5,444	\$ 0.07
Shelby Energy Cooperative	\$ 41,754	\$ 6,959	\$ 0.23
South Kentucky RECC	\$ 205,728	\$ 34,288	\$ 0.35
	<u>Under-Recovery</u>	<u>To Be Collected</u>	<u>Bill Impact</u>
Clark Energy Cooperative	\$ 61,310	\$ 10,218	\$ 0.31
Fleming-Mason Energy Cooperative	\$ 191,141	\$ 31,857	\$ 1.01
Grayson RECC	\$ 3,904	\$ 651	\$ 0.04
Inter-County Energy Cooperative Corp.	\$ 52,185	\$ 8,698	\$ 0.27
Nolin RECC	\$ 3,188	\$ 531	\$ 0.01
Owen Electric Cooperative	\$ 104,745	\$ 17,458	\$ 0.12
Taylor County RECC	\$ 10,013	\$ 1,669	\$ 0.05

\*Big Sandy R.E.C.C.  
Big Sandy R.E.C.C.  
504 11th Street  
Paintsville, KY 41240-1422

\*Blue Grass Energy Cooperative Corp.  
Blue Grass Energy Cooperative Corp.  
1201 Lexington Road  
P. O. Box 990  
Nicholasville, KY 40340-0990

\*Licking Valley R.E.C.C.  
Licking Valley R.E.C.C.  
P. O. Box 605  
271 Main Street  
West Liberty, KY 41472

\*Taylor County R.E.C.C.  
Taylor County R.E.C.C.  
625 West Main Street  
P. O. Box 100  
Campbellsville, KY 42719

\*Clark Energy Cooperative, Inc.  
Clark Energy Cooperative, Inc.  
2640 Ironworks Road  
P. O. Box 748  
Winchester, KY 40392-0748

\*Owen Electric Cooperative, Inc.  
Owen Electric Cooperative, Inc.  
8205 Highway 127 North  
P. O. Box 400  
Owenton, KY 40359

\*Farmers R.E.C.C.  
Farmers R.E.C.C.  
504 South Broadway  
P. O. Box 1298  
Glasgow, KY 42141-1298

\*Cumberland Valley Electric, Inc.  
Cumberland Valley Electric, Inc.  
Highway 25E  
P. O. Box 440  
Gray, KY 40734

\*Shelby Energy Cooperative, Inc.  
Shelby Energy Cooperative, Inc.  
620 Old Finchville Road  
Shelbyville, KY 40065

\*Fleming-Mason Energy Cooperative, In  
Fleming-Mason Energy Cooperative, Inc.  
1449 Elizaville Road  
P. O. Box 328  
Flemingsburg, KY 41041

\*East Kentucky Power Cooperative, Inc.  
4775 Lexington Road  
P. O. Box 707  
Winchester, KY 40392-0707

\*Grayson R.E.C.C.  
Grayson R.E.C.C.  
109 Bagby Park  
Grayson, KY 41143

\*Nolin R.E.C.C.  
Nolin R.E.C.C.  
411 Ring Road  
Elizabethtown, KY 42701-6767

\*East Kentucky Power Cooperative, Inc  
East Kentucky Power Cooperative, Inc.  
4775 Lexington Road  
P. O. Box 707  
Winchester, KY 40392-0707

\*South Kentucky R.E.C.C.  
South Kentucky R.E.C.C.  
925-929 N Main Street  
P. O. Box 910  
Somerset, KY 42502-0910

\*Inter-County Energy Cooperative Corp  
Inter-County Energy Cooperative Corporation  
1009 Hustonville Road  
P. O. Box 87  
Danville, KY 40423-0087

\*Salt River Electric Cooperative Corp  
Salt River Electric Cooperative Corp.  
111 West Brashear Avenue  
P. O. Box 609  
Bardstown, KY 40004

\*Jackson Energy Cooperative Corporati  
Jackson Energy Cooperative Corporation  
115 Jackson Energy Lane  
McKee, KY 40447