

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 BIG RIVERS	)	
ELECTRIC CORPORATION FOR THE	)	CASE NO.
SIX-MONTH BILLING PERIOD ENDING	)	2014-00097
JANUARY 31, 2014 AND THE PASS THROUGH	)	
MECHANISM OF ITS THREE MEMBER	)	
DISTRIBUTION COOPERATIVES	)	

ORDER

On April 1, 2014, the Commission initiated a six-month review of Big Rivers Electric Corporation's ("Big Rivers") environmental surcharge<sup>1</sup> as billed to its member distribution cooperatives ("Member Cooperatives")<sup>2</sup> for the six-month billing period from August 1, 2013, through January 31, 2014. The billing period reflects the environmental compliance costs incurred by Big Rivers from June 1, 2013 through November 30, 2013.

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).

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<sup>1</sup> Big Rivers was authorized 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).

<sup>2</sup> The three Big Rivers distribution cooperatives are Meade County Rural Electric Cooperative Corporation ("Meade County"), Kenergy Corp. ("Kenergy"), and Jackson Purchase Energy Corporation ("Jackson Purchase").

The April 1, 2014 Order also initiated a six-month review of the three Big Rivers Member Cooperatives' pass-through mechanisms.<sup>3</sup> This review for the Member Cooperatives covers their billings from September 1, 2013, through February 28, 2014, for all retail customers except for the large commercial and industrial customers with dedicated delivery points as billed from August 1, 2013, through January 31, 2014. For those customers with dedicated delivery points, there is no billing lag.<sup>4</sup> Of the three Member Cooperatives, only Meade County does not have any dedicated delivery point customers.<sup>5</sup>

The Commission included a procedural schedule in the April 1, 2014 Order that provided for discovery, the filing of prepared testimony, and intervenor testimony. Big Rivers filed prepared direct testimony and responded to Commission Staff's request for information. On July 22, 2014, Big Rivers filed a statement indicating that it and each of its three Member Cooperatives – Jackson Purchase, Kenergy, and Meade County – 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 finding good cause, the Commission finds that this matter should be adjudicated based on the existing record.

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<sup>3</sup> 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).

<sup>4</sup> Direct Testimony of Nicholas R. Castlen ("Castlen Testimony"), p. 4 (filed Apr. 23, 2014).

<sup>5</sup> Response to Commission Staff's Initial Request for Information, Item 2, Attachment 2 of 2, lines 44-45.

## COMPLIANCE PLAN

Big Rivers' environmental compliance plan approved by the Commission in Case No. 2007-00460<sup>6</sup> ("the 2007 Plan") consists of programs and associated costs dealing with the control of sulfur dioxide ("SO<sub>2</sub>"), nitrogen oxide ("NO<sub>x</sub>"), and sulfur trioxide ("SO<sub>3</sub>").<sup>7</sup> The 2007 Plan included only operating and maintenance ("O&M") costs.<sup>8</sup> In an October 1, 2012 Order issued by the Commission in Case No. 2012-00063<sup>9</sup> ("the 2012 Plan"), the Commission approved certain additions to the 2007 Plan relating to the Mercury and Air Toxics Standards ("MATS") rule.<sup>10</sup> The additions to 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.<sup>11</sup> The 2012 Plan includes capital costs, a return on investment and O&M associated with these projects, as well as recovery of Big Rivers' actual costs incurred in Case No. 2012-00063 (amortized over three years).<sup>12</sup>

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<sup>6</sup> 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).

<sup>7</sup> Castlen Testimony, p. 5.

<sup>8</sup> *Id.* at p. 6.

<sup>9</sup> 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).

<sup>10</sup> Castlen Testimony, p. 6.

<sup>11</sup> *Id.* at p. 6.

<sup>12</sup> *Id.*

Because of the termination of retail power contracts by two aluminum smelters, Big Rivers planned to idle the Coleman and Wilson stations and postpone installation of the MATS compliance equipment. The Coleman station was idled as of May 9, 2014, and Big Rivers states that it will complete the MATS projects at Coleman prior to returning it to service.

Big Rivers has postponed the idling of the Wilson station until December 31, 2015, as it has made favorable sales of power from Wilson for the calendar year 2015. Big Rivers has conducted testing to determine if operational changes at Wilson would be sufficient to achieve MATS compliance without installing additional equipment. The test results indicated that Big Rivers could potentially comply with the MATS standards, and Big Rivers is currently evaluating its existing system to see if it is capable of meeting the requirements. Big Rivers has submitted a request for a one-year extension for MATS compliance to the Kentucky Division of Air Quality.<sup>13</sup>

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.<sup>14</sup>

#### SURCHARGE ADJUSTMENT

The April 1, 2014 Order initiating this case indicated that, since over- or under-recoveries of allowable environmental compliance costs may have occurred during the periods under review, the Commission would entertain proposals to adopt one

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<sup>13</sup> Response to Commission Staff's Second Request for Information, Item 2.

<sup>14</sup> Castlen Testimony, p. 7.

adjustment factor to net all over- or under-recoveries. 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.<sup>15</sup> 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 as a result of its review.

#### 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 had not incurred any capital costs associated with the 2012 Plan until the last two months of this review period. Accordingly Big Rivers calculated a rate of return of 6.14 percent for the expense month of October and 5.85 percent for the expense month of November 2013.

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. In accordance with its ES Tariff, Big Rivers determined the weighted average cost of debt and applied a Times Interest Earned Ratio ("TIER") of 1.24 to the weighted average cost of debt to produce the rates of return for October and November 2013. The TIER factor of 1.24 was defined in the special contracts in place for the two

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<sup>15</sup> *Id.* at p. 9.

aluminum smelters at the time the 2012 Plan was filed for Commission approval. Since approval of the 2012 Plan, both smelters have left Big Rivers' system.<sup>16</sup>

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 the months of October and November 2013.

#### RETAIL PASS-THROUGH MECHANISM

None of the Member Cooperatives are requesting any additional over- or under-recovery under their respective surcharge pass-through mechanisms. The Commission has reviewed and finds reasonable each of the Member Cooperatives' calculations of their respective over- or under-recoveries for the review periods covered in this proceeding and further finds no need for any adjustments of the Member Cooperatives' recovery of their respective pass-through amounts as a result of this review.

IT IS THEREFORE ORDERED that:

1. The amounts billed by Big Rivers through its environmental surcharge for the period August 1, 2013, through January 31, 2014, are approved.

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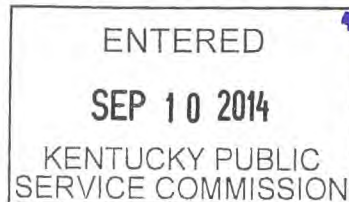
<sup>16</sup> The smelters which Big Rivers served under special contracts were Alcan Primary Products Corporation and Century Aluminum of Kentucky General Partnership.

2. The amounts billed by Jackson Purchase and Kenergy through their respective environmental surcharge pass-through mechanisms for the period August 1, 2013, through January 31, 2014, 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 September 1, 2013, through February 28, 2014, for all other non-dedicated delivery point customers are approved.

4. The rates of return determined by Big Rivers for the months of October and November 2013 are approved.

By the Commission



ATTEST:

  
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