

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 SIX-)	CASE NO.
MONTH BILLING PERIOD ENDING DECEMBER)	2016-00144
31, 2015 AND THE PASS THROUGH MECHANISM)	
FOR ITS SIXTEEN MEMBER DISTRIBUTION)	
COOPERATIVES)	

ORDER

On April 14, 2016, 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, 2015, to December 31, 2015. 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. The April 14, 2016 Order also

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).

initiated a six-month review of the 16 EKPC Member Cooperatives' pass-through mechanism² as billed to their retail member customers for the six-month period August 1, 2015, to January 31, 2016.³

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 June 6, 2016, EKPC filed a motion stating that EKPC and the Member Cooperatives believe the case record is complete and that this case may be submitted for decision on the current record without a hearing.

SURCHARGE ADJUSTMENT

EKPC determined that it had a net under-recovery of \$249,182⁴ for the period under review due to reporting errors in operating and maintenance ("O&M") expenses. Because the errors impact the 12-month O&M average and working capital calculations, the errors carried over to the expense months of December 2015 through February

² 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).

³ The Settlement Agreements approved in Case Nos. 2004-00321 and 2004-00372 allow 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 November 2015 are billed to the Member Cooperatives in the months of July 2015 through December 2015, with these same costs passed through to the member customers on their bills for August 2015 through January 2016.

⁴ EKPC's Response to Commission Staff's First Request for Information ("Staff's First Request"), Item 1 at 2.

2016, which are outside of the review period. For the expense months of June 2015 through November 2015, EKPC experienced an under-recovery of \$249,182.⁵ The Commission has reviewed and finds reasonable EKPC's calculation of its net under-recovery of \$249,182 for the review period covered in this proceeding. The Commission also finds reasonable EKPC's proposal to include the under-recovery as an adjustment on Line 11 of ES Form 1.1 of the monthly environmental surcharge filing in the first two billing months following the date of this Order.

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 return as of the end of each six-month review period and request Commission approval of the updated average cost of debt.⁶

EKPC calculated a weighted average cost of debt as of November 30, 2015, of 4.027 percent. EKPC determined the rate of return using the TIER factor of 1.50 authorized in Case No. 2011-00032.⁷ Utilizing these components, EKPC calculated an updated rate of return as of November 30, 2015, of 6.041 percent. EKPC proposed that

⁵ *Id.* at 5.

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

⁷ 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).

an overall rate of return of 6.041 percent be used starting with the first month following the final Order in this case.⁸

In Case No. 2015-00302,⁹ EKPC requested approval for a regulatory asset for the undepreciated balance of its William C. Dale Generating Station (“Dale Station”) assets that were being retired early, which included two projects that were being recovered through the environmental surcharge mechanism. In determining the above rate of return, EKPC’s calculation included Project 5, Dale Low Nitrogen Oxide Burners, and Project 10, Dale Continuous Monitoring Equipment. In the Commission’s Order in Case No. 2015-00302, EKPC was directed to remove these two projects from the environmental surcharge 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. EKPC stated that it did not adjust the calculation of the weighted average debt cost and the rate of return because as of November 30, 2015, the Commission had not issued its decision in Case No. 2015-00302. The Commission has removed Projects 5 and 10, with a combined net book value of \$767,329, from the rate of return calculation per the Commission’s order in Case No. 2015-00302. Because of the manner in which the weighted average cost of debt is calculated, and because the net book value of Projects 5 and 10 represent just over 0.1 percent, removing the two projects from the calculation does not change EKPC’s proposed rate of return, and thus there is no impact to the ratepayers.

⁸ EKPC’s Response to Staff’s First Request, Item 5 at 2.

⁹ Case No. 2015-00302, *Application of East Kentucky Power Cooperative, Inc. for an Order Approving the Establishment of a Regulatory Asset for the Undepreciated Balance of the William C. Dale Generating Station* (Ky. PSC Feb. 11, 2016).

The Commission has reviewed and finds reasonable EKPC's determination of the updated rate of return of 6.041 percent, reflecting the updated weighted average cost of debt of 4.027 percent and a 1.50 TIER factor. The Commission finds that EKPC should use a rate of return of 6.041 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 ten of the Member Cooperatives having over-recoveries and six 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. 2015-00281.¹⁰ 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

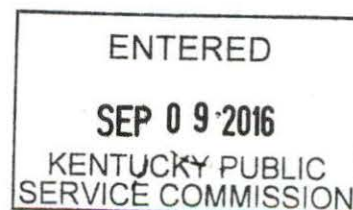
¹⁰ Case No. 2015-00281, *An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of East Kentucky Power Cooperative, Inc. for the Six-Month Billing Periods Ending June 30, 2014 and December 31, 2014, for the Two-Year Billing Period Ending June 30, 2015, and the Pass Through Mechanism for Its Sixteen Member Distribution Cooperatives* (Ky. PSC Apr. 8, 2016).

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

IT IS THEREFORE ORDERED that:

1. The amounts billed by EKPC through its environmental surcharge for the period July 1, 2015, to December 31, 2015, are approved.
2. Beginning in the first full-billing month following the date of this Order, EKPC shall increase its jurisdictional environmental revenue requirement by \$124,591 per month for two months.
3. EKPC shall use a rate of return of 6.041 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:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2016-00144 DATED **SEP 09 2016**

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	\$18,506	\$3,084	\$0.20
Clark Energy Cooperative	\$46,951	\$7,825	\$0.24
Farmers RECC	\$13,549	\$2,258	\$0.07
Fleming-Mason Energy Cooperative	\$155,149	\$25,858	\$0.84
Grayson RECC	\$53,761	\$8,960	\$0.53
Inter-County Energy Cooperative	\$73,947	\$12,325	\$0.37
Licking Valley RECC	\$45,707	\$7,618	\$0.41
Nolin RECC	\$69,207	\$11,534	\$0.25
Owen Electric Cooperative	\$516,028	\$86,005	\$0.59
Taylor County RECC	\$32,055	\$5,343	\$0.16
	<u>Total Amount of Under Recovery</u>	<u>Monthly Amount To Be Collected</u>	<u>Monthly Bill Impact</u>
Blue Grass Energy Cooperative	\$86,013	\$14,336	\$0.17
Cumberland Valley Electric	\$755	\$126	\$0.00
Jackson Energy Cooperative	\$257,313	\$42,886	\$0.66
Salt River Energy Cooperative	\$3,869	\$645	\$0.01
Shelby Energy Cooperative	\$57,076	\$9,513	\$0.41
South Kentucky RECC	\$157,458	\$26,243	\$0.29

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

*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

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

*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