

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ELECTRONIC EXAMINATION BY THE PUBLIC)	
SERVICE COMMISSION OF THE ENVIRONMENTAL)	
SURCHARGE MECHANISM OF EAST KENTUCKY)	
POWER COOPERATIVE, INC. FOR THE SIX- MONTH)	CASE NO.
EXPENSE PERIOD ENDING MAY 31, 2018, AND THE)	2018-00306
PASS-THROUGH MECHANISM FOR ITS SIXTEEN)	
MEMBER DISTRIBUTION COOPERATIVES)	

ORDER

On September 20, 2018, the Commission initiated a review of East Kentucky Power Cooperative, Inc.'s (EKPC) environmental surcharge¹ for the six-month expense period of December 1, 2017, through May 31, 2018, and the corresponding reviews of the member distribution cooperatives' (Member Cooperatives) pass-through mechanism² for the same period. Pursuant to KRS 278.183(3), the Commission must review the past operations of a utility's environmental surcharge at six-month intervals and shall, by temporary adjustment of the surcharge, disallow any surcharge amounts that are not just and reasonable and reconcile past surcharge collections with actual costs recoverable.

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).

² The pass-through mechanism was approved in 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).

The September 20, 2018 Order included 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 request for information. There were no parties requesting intervenor status to this proceeding. On December 19, 2018, 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.

SURCHARGE ADJUSTMENT

EKPC determined that it had no adjustments to its environmental costs for the period under review.³ 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 the 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

³ EKPC's Response to Commission Staff's First Request for Information (Staff's First Request), Item 1.

return as of the end of each six-month review period and request Commission approval of the updated average cost of debt.⁴

EKPC calculated a weighted average cost of debt as of May 31, 2018, of 4.021 percent. EKPC calculated an updated rate of return as of May 31, 2018, of 6.032 percent,⁵ utilizing the TIER factor of 1.50 authorized in Case No. 2011-00032.⁶ EKPC proposed an overall rate of return of 6.032 percent be used starting with the first month following the final Order in this case.⁷

The Commission has reviewed and finds reasonable EKPC's determination of the updated rate of return of 6.032 percent, reflecting the updated weighted average cost of debt of 4.021 percent and a 1.50 TIER factor. The Commission finds that EKPC should use a rate of return of 6.032 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 12 of the Member Cooperatives having over-recoveries and 4 of the Member Cooperatives having under-recoveries. The Member Cooperatives' over- or under-recoveries were determined by utilizing the revised

⁴ Case No. 2004-00321, *East Kentucky Power Cooperative, Inc.* (Ky. PSC Mar. 17, 2005), Order, Appendix A at 3.

⁵ EKPC's Response to Staff's First Request, Item 5.

⁶ 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).

⁷ Direct Testimony of Isaac S. Scott (Scott Testimony) at 12.

calculation methodology approved in Case No. 2015-00281.⁸ 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.⁹

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 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 expense period December 1, 2017, through May 31, 2018, are approved.
2. EKPC shall use a rate of return of 6.032 percent in all monthly environmental surcharge filings subsequent to the date of this Order.

⁸ 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, 2017).

⁹ EKPC's Response to Staff's First Request, Item 2.

3. 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.


4. This case is closed and removed from the Commission's docket.

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By the Commission

ENTERED
JAN 29 2019
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


For Executive Director

Case No. 2018-00306

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2018-00306 DATED **JAN 29 2019**

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	\$5,403	\$901	\$0.06
Clark Energy Cooperative	\$53,312	\$8,885	\$0.26
Cumberland Valley Electric	\$67,078	\$11,180	\$0.38
Farmers RECC	\$92,910	\$15,485	\$0.48
Fleming-Mason Energy Cooperative	\$311,223	\$51,871	\$1.64
Grayson RECC	\$109,734	\$18,289	\$0.88
Inter-County Energy Cooperative Corp.	\$73,256	\$12,209	\$0.35
Licking Valley RECC	\$86,761	\$14,460	\$0.67
Nolin RECC	\$69,207	\$11,535	\$1.35
Salt River Energy Cooperative Corp.	\$164,563	\$27,427	\$0.36
Shelby Energy Cooperative	\$141,806	\$23,634	\$0.91
Taylor County RECC	\$9,341	\$1,557	\$0.02
	<u>Total Amount of Under-Recovery</u>	<u>Monthly Amount To Be Collected</u>	<u>Monthly Bill Impact</u>
Blue Grass Energy Cooperative	\$120,527	\$20,088	\$0.25
Jackson Energy Cooperative	\$62,335	\$10,389	\$0.19
Owen Electric Cooperative	\$52,158	\$8,693	\$0.05
South Kentucky RECC	\$178,319	\$29,720	\$0.31

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

*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.
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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