

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,)	CASE NO.
INC. FOR THE TWO-YEAR EXPENSE PERIOD)	2019-00380
ENDING MAY 31, 2019, AND THE PASS-)	
THROUGH MECHANISM OF ITS SIXTEEN)	
MEMBER DISTRIBUTION COOPERATIVES)	

ORDER

On November 15, 2019, the Commission initiated a two-year review of East Kentucky Power Cooperative, Inc.'s (EKPC) environmental surcharge,¹ as billed to its member distribution cooperatives (Member Cooperatives), for the two-year expense period of June 1, 2017, to May 31, 2019, 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 the environmental surcharge at six-month intervals and shall, by temporary adjustment of the surcharge, disallow any surcharge amounts that are found not to be just and

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).

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 expense period ending May 31, 2019, which is the last six-month expense period of the two-year expense period ending May 31, 2019, and for the two-year expense period ending May 31, 2019. The three previous six-month expense periods of this two-year period were reviewed in Case Nos. 2018-00075, 2018-00306, and 2019-00171.³

The November 15, 2019 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 round of discovery. There were no parties requesting intervenor status to this proceeding. On March 16, 2020, EKPC filed a motion stating that EKPC and the Member Cooperatives believed the case record is complete and this case may be submitted for a decision on the current record without a hearing.

³ Case No. 2018-00075, *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, 2017 and the Pass Through Mechanism for Its Sixteen Member Distribution Cooperatives* (Ky. PSC July 23, 2018); Case No. 2018-00306, *An Electronic Examination by the Public Service Commission of the Environmental Surcharge Mechanism of East Kentucky Power Cooperative, Inc. for the Six-Month Expense Period Ending May 31, 2018, and the Pass Through Mechanism for Its Sixteen Member Distribution Cooperatives* (Ky. PSC Jan. 29, 2019); and Case No. 2019-00171, *An Electronic Examination by the Public Service Commission of the Environmental Surcharge Mechanism of East Kentucky Power Cooperative, Inc. for the Six-Month Expense Period Ending November 30, 2018, and the Pass Through Mechanism for Its Sixteen Member Distribution Cooperatives* (Ky. PSC Sept. 4, 2019).

SURCHARGE ADJUSTMENT

EKPC determined that it had no adjustments to its environmental costs for the period under review.⁴ 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 period, and request Commission approval of the updated average cost of debt.⁵

EKPC calculated a weighted average cost of debt as of May 31, 2019, of 3.983 percent.⁶ EKPC utilized a TIER factor of 1.50 authorized in Case No. 2011-00032.⁷ Utilizing these components, EKPC proposed that an overall rate of return of 5.975 percent be used starting with the first month following the final Order in this case.⁸

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

⁵ Case No. 2004-00321, *East Kentucky Power Cooperative, Inc.* (Ky. PSC Mar. 17, 2005), Order, Appendix A at 3.

⁶ EKPC's Response to Staff's First Request, Item 5.

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 the Sixteen Member Distribution Cooperatives* (Ky. PSC Aug. 2, 2011).

⁸ Direct Testimony of Isaac S. Scott (Scott Testimony) at 13.

The Commission has reviewed, and finds reasonable, EKPC's determination of the updated rate of return of 5.975 percent, reflecting the updated weighted average cost of debt of 3.983 percent and a 1.50 TIER factor. The Commission finds that EKPC should use a rate of return of 5.975 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 eight of the Member Cooperatives having over-recoveries and eight having under-recoveries. The Member Cooperatives' over- or under-recoveries were determined utilizing the revised calculation methodology approved in Case No. 2015-00281.⁹ 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- 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

⁹ 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).

residential customer's monthly bill for each respective Member Cooperative is also 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.¹⁰ 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. 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.¹¹ The Commission has reviewed and finds reasonable EKPC's recommendation not to roll environmental surcharge amounts into base rates at the present time.

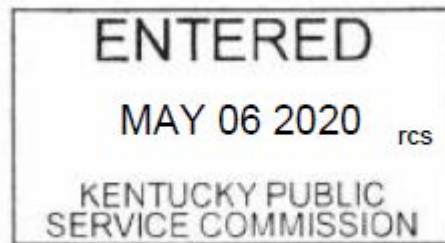
¹⁰ Scott Testimony at 14–15.

¹¹ Scott Testimony at 16–17.

IT IS THEREFORE ORDERED that:

1. EKPC's request to submit the 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 expense period June 1, 2017, to May 31, 2019, are approved.
3. EKPC shall use a rate of return of 5.975 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.
5. This case is closed and removed from the Commission's Docket.

By the Commission



ATTEST:

A handwritten signature in blue ink, consisting of stylized initials and a surname, positioned above a horizontal line.

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2019-00380 DATED MAY 06 2020

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.

	Total Amount of Over- Recovery	Monthly Amount To Be Returned	Monthly Bill Impact
Big Sandy RECC	\$ 2,996	\$ 499	\$ 0.02
Blue Grass Energy Cooperative	\$ 99,851	\$ 16,642	\$ 0.21
Cumberland Valley Electric	\$ 8,743	\$ 1,457	\$ 0.06
Farmers RECC	\$ 4,049	\$ 675	\$ 0.01
Inter-County Energy Cooperative Corp.	\$ 31,821	\$ 5,303	\$ 0.17
Salt River Cooperative Corp.	\$ 15,196	\$ 2,533	\$ 0.03
Shelby Energy Cooperative	\$ 3,282	\$ 547	\$ 0.01
South Kentucky RECC	\$ 88,425	\$ 14,737	\$ 0.16
	Total Amount of Under- Recovery	Monthly Amount To Be Collected	Monthly Bill Impact
Clark Energy Cooperative	\$ 50,380	\$ 8,397	\$ 0.25
Fleming-Mason Energy Cooperative	\$ 105,416	\$ 17,569	\$ 0.55
Grayson RECC	\$ 4,723	\$ 787	\$ 0.04
Jackson Energy Cooperative	\$ 32,399	\$ 5,400	\$ 0.09

Licking Valley RECC	\$	6,981	\$	1,163	\$	0.05
Nolin RECC	\$	14,683	\$	2,447	\$	0.05
Owen Electric Coop	\$	152,311	\$	25,385	\$	0.33
Taylor County RECC	\$	28,109	\$	4,685	\$	0.13

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