

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)	CASE NO.
SIX-MONTH BILLING PERIOD ENDING)	2010-00021
DECEMBER 31, 2009 AND THE PASS-THROUGH)	
MECHANISM FOR ITS SIXTEEN MEMBER)	
DISTRIBUTION COOPERATIVES)	

O R D E R

On February 11, 2010, 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 July 1, 2009 through December 31, 2009. Pursuant to KRS 278.183(3), the Commission must review, at six-month intervals, the past operations of the environmental surcharge. After hearing, the Commission may, by temporary adjustment in the surcharge, disallow any surcharge amounts that are found not to be just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to KRS 278.183(1).

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).

The February 11, 2010 Order also initiated a six-month review of the 16 EKPC Member Cooperatives' pass-through mechanism as billed to retail member customers for the six-month period August 1, 2009 through January 31, 2010.²

The Commission issued a procedural schedule that provided for discovery, the filing of prepared testimony, an informal conference and a public hearing. EKPC filed prepared direct testimony and responded to requests for information. There were no parties requesting intervenor status in this proceeding. Two informal conferences were held to discuss issues arising from this proceeding. On August 5, 2010, EKPC filed a response to the Commission's August 4, 2010 Order relating to the need for a hearing in the case. EKPC stated that there were no material issues of fact that warranted a hearing in this case and that this case may be submitted for decision on the existing record without a hearing.

SURCHARGE ADJUSTMENT

The February 11, 2010 Order initiating this case indicated that, since over- or under-recoveries of allowable environmental compliance costs may have occurred

² The Settlement Agreement approved in Cases No. 2004-00321, East Kentucky Power, and No. 2004-00372, Application of Big Sandy RECC, Blue Grass Energy Cooperative Corporation, Clark Energy Cooperative, Cumberland Valley Electric, Farmers RECC, Fleming-Mason Energy, Grayson RECC, Inter-County Energy Cooperative, Jackson Energy Cooperative, Licking Valley RECC, Nolin RECC, Owen Electric Cooperative, Salt River Electric, Shelby Energy Cooperative, 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), allows the member distribution cooperatives to pass through the environmental surcharge to their customers at approximately the same time as EKPC bills the environmental surcharge to the member distribution cooperatives, thus avoiding a billing lag for the member distribution cooperatives. The costs incurred in the months of June 2009 through November 2009 are billed to the member distribution cooperatives in the months of July 2009 through December 2009, with these same costs passed through to the member customers in the bills for August 2009 through January 2010.

during the period under review, the Commission would entertain proposals to adopt one adjustment factor to net all over- or under-recoveries. EKPC determined that it had a net under-recovery of its environmental costs of \$1,045,332 during the July and August 2009 billing months.³ The Commission previously approved, in Case No. 2009-00039,⁴ a modification to EKPC's monthly environmental surcharge calculation to include a two-month "true-up" adjustment for over- and under-recoveries. EKPC began using this two-month "true-up" adjustment with the November 2009 expense month to include the September 2009 under-recovery in its environmental surcharge calculation. Therefore, July and August 2009 are the only months subject to true-up in this six-month review. EKPC proposed that it be authorized to collect the under-recovery from its Member Cooperatives by increasing the total jurisdictional environmental surcharge revenue requirement by \$522,666 per month for the first two months following the Commission's decision in this proceeding.

The Commission has reviewed and finds reasonable EKPC's calculation of a net under-recovery of \$1,045,332 for the review period covered in this proceeding. The Commission also finds reasonable EKPC's proposal to collect that under-recovery over two months, resulting in an increase of \$522,666 in the total jurisdictional environmental surcharge revenue requirement in each of the first two billing months following the date of this Order.

³ Response to the Commission Staff's First Data Request dated March 3, 2010, Item 1, page 2 of 2.

⁴ Case No. 2009-00039, 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 December 31, 2007; June 30, 2008; and December 31, 2008; and the Pass-Through Mechanism for Its Sixteen Member Distribution Cooperatives (Ky. PSC Nov. 30, 2009).

EKPC proposed that it be authorized to change from a two-month “true-up” adjustment to a one-month “true-up” adjustment at the wholesale level with respect to over- and under-recoveries. This change would allow EKPC to refund or collect any over- or under-recoveries in a more timely manner. As part of this proceeding, the Commission reviewed EKPC’s two-month “true-up” adjustment mechanism and has determined that adopting a one-month “true-up” adjustment for the calculated over- or under-recovery amount for the current environmental surcharge expense month is reasonable. In order to accomplish this change, in the first monthly expense filing after the Commission’s final Order in this proceeding, EKPC will need to reflect two months of over- or under-recoveries in its “true-up” adjustment calculation.

RATE OF RETURN

The Settlement Agreement approved in Case No. 2004-00321 provided that EKPC’s rate of return would be based on a weighted average cost of the debt issuances directly related to the four 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.⁵

EKPC updated the weighted average cost of debt as of November 30, 2009 and determined the rate of return utilizing a TIER factor of 1.35 which was authorized in Case No. 2008-00409.⁶ Utilizing these components, EKPC proposed an overall rate of

⁵ Case No. 2004-00321, March 17, 2005 Order, Appendix A, at 3.

⁶ Case No. 2008-00409, General Adjustment of Electric Rates of East Kentucky Power Cooperative, Inc. (Ky. PSC Mar. 31, 2009)

return of 6.129 percent to 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 that reflects the updated weighted average cost of debt and a 1.35 TIER factor. EKPC should use a rate of return of 6.129 percent for all environmental surcharge monthly filings submitted after the date of this Order until a revised rate of return is approved by the Commission.

RETAIL PASS-THROUGH MECHANISM

Retail Pass-Through Adjustment

Each of the Member Cooperatives determined an over- or under-recovery for its surcharge pass-through mechanism, with all 16 of the Member Cooperatives having over-recoveries for the first two billing months under review. Consistent with EKPC, the Member Cooperatives proposed that the over-recoveries be refunded to ratepayers as an adjustment to the retail pass-through factor for each of the first two months following the Commission's Order in this proceeding.

The Commission has reviewed and finds reasonable the Member Cooperatives' calculations of their respective over-recoveries and under-recoveries for the review period covered in this proceeding. In addition, the Commission finds reasonable the Member Cooperatives' proposals to adjust their respective retail pass-through factors in each of the first two billing months following the date of this Order. 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.

⁷ Response to the Commission Staff's First Data Request dated March 3, 2010, Item 6, page 2 of 2.

In Case No. 2009-00039, the Commission also authorized the Member Cooperatives to modify their monthly environmental surcharge calculation to include a two-month “true-up” adjustment for over- and under-recoveries. The Member Cooperatives began this two-month “true-up” adjustment with the December 2009 expense month to include the September 2009 under-recovery in their environmental surcharge calculation. EKPC filed testimony⁸ on behalf of the Member Cooperatives requesting that the two-month “true-up” at the retail level be eliminated effective with the date of the Commission’s final Order in this proceeding. In their responses to information requests, the Member Cooperatives indicated they were experiencing significant fluctuations in the retail over- and under-recoveries, resulting in similar fluctuations in their environmental surcharge factors. This result was not anticipated when the two-month “true-up” was proposed and has negatively impacted the Member Cooperatives’ cash flows, as well as making it difficult for them to forecast their environmental surcharge factors. EKPC and the Member Cooperatives propose that the retail level two-month “true-up” be discontinued and that the Member Cooperatives be allowed to address their over- and under-recoveries as was done prior to the final Order in Case No. 2009-00039. The prior method was to accumulate the over- and under-recoveries into a net amount as part of the six-month and two-year reviews and refund or collect that amount over six months.

The Commission has reviewed and finds reasonable EKPC’s and the Member Cooperatives’ request to discontinue the two-month “true-up” at the retail level beginning with the first monthly environmental surcharge filing after the date of the

⁸ Supplemental Testimony of Ann F. Wood, filed April 30, 2010.

Commission's final Order in this proceeding. The Commission also finds reasonable the Member Cooperatives' request to revert to the practice used prior to the change authorized in Case No. 2010-00039, which was to accumulate the over- and under-recoveries during the six-month and two-year reviews and refund or collect that amount over six months.

IT IS THEREFORE ORDERED that:

1. EKPC shall include a \$522,666 monthly increase in its jurisdictional environmental revenue requirement determined in each of the first two billing months following the date of this Order, as discussed herein.

2. EKPC shall use a rate of return of 6.129 percent in all monthly environmental surcharge filings subsequent to the date of this Order until a revised rate of return is approved by the Commission.

3. EKPC shall revise its Rate ES-Environmental Surcharge tariff from a two-month "true-up" adjustment to a one-month "true-up" adjustment at the wholesale level with regard to over- and under-recoveries. EKPC shall be allowed to implement this change by including two months of over- and under-recoveries in the first monthly environmental filing after the date of this Order.

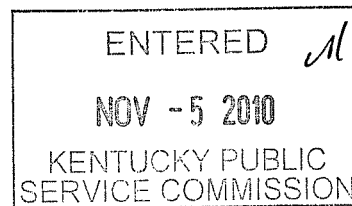
4. Within 20 days of the date of this Order, EKPC shall file its revised Rate ES-Environmental Surcharge tariff reflecting the change discussed herein.

5. 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 pass-through mechanism in each of the first two billing months following the date of this Order, as discussed herein.

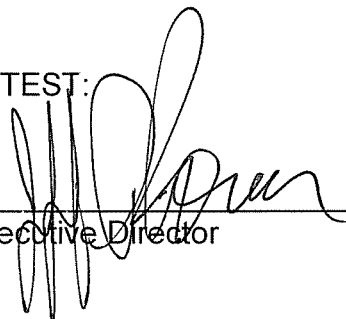
6. The 16 Member Cooperatives identified in the Appendix of this Order shall be authorized to discontinue the use of the two-month "true-up" adjustment and return to the practice that was in place prior to the final Order in Case No. 2009-00039, as discussed herein.

7. Within 20 days of the date of this Order, the 16 Member Cooperatives identified in the Appendix of this Order shall file their respective revised environmental surcharge tariffs reflecting the change to eliminate the two-month "true-up" as approved herein.

By the Commission



ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2010-00021 DATED NOV - 5 2010

Member Cooperatives' Adjustment 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 two billing months following the date of this Order.

	<u>Total Amount of Over-Recovery</u>	<u>Monthly Amount To Be Returned</u>
Big Sandy RECC	\$ 38,936	\$ 19,468
Blue Grass Energy Cooperative Corp.	\$ 109,788	\$ 54,894
Clark Energy Cooperative	\$ 33,299	\$ 16,650
Cumberland Valley Electric	\$ 34,558	\$ 17,279
Farmers RECC	\$ 81,782	\$ 40,891
Fleming-Mason Energy Cooperative	\$ 12,265	\$ 6,133
Grayson RECC	\$ 29,798	\$ 14,899
Inter-County Energy Cooperative Corp.	\$ 27,540	\$ 13,770
Jackson Energy Cooperative	\$ 79,077	\$ 39,539
Licking Valley RECC	\$ 32,443	\$ 16,222
Nolin RECC	\$ 20,229	\$ 10,115
Owen Electric Cooperative	\$ 97,378	\$ 48,689
Salt River Energy Cooperative Corp.	\$ 61,364	\$ 30,682
Shelby Energy Cooperative	\$ 26,377	\$ 13,189
South Kentucky RECC	\$ 73,044	\$ 36,522
Taylor County RECC	\$ 14,224	\$ 7,112

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