

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)	2010-00319
JUNE 30, 2010; AND THE PASS-THROUGH)	
MECHANISM FOR ITS SIXTEEN MEMBER)	
DISTRIBUTION COOPERATIVES)	

O R D E R

On September 7, 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 January 1, 2010 to June 30, 2010. Pursuant to KRS 278.183(3), the Commission must review, at six-month intervals, the past operations of the environmental surcharge. 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 September 7, 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 February 1, 2010 to July 31, 2010.²

The Commission issued a procedural schedule on September 7, 2010 that provided for discovery, the filing of prepared testimony, an informal conference and a public hearing. EKPC filed its response to requests for information and appeared at an informal conference on November 4, 2010. There were no parties requesting intervenor status to this proceeding. In its response to the Commission's Order of December 10, 2010, 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 September 7, 2010 Order initiating this case indicated that, since over- or under-recoveries of allowable environmental compliance costs may have occurred during the period under review, the Commission would entertain proposals to adopt one

² The Commission approved a settlement agreement in Case Nos. 2004-00321 and 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), which allowed the Member Cooperatives to pass through the environmental surcharge to their customers at approximately the same time as EKPC bills the environmental surcharge to the Member Cooperatives, thus avoiding a billing lag for the member distribution cooperatives. The costs incurred in the months of December 2009 through May 2010 are billed to the Member Cooperatives in the months of January 2010 through June 2010, with these same costs passed through to the member customers on the bills for February 2010 through July 2010.

adjustment factor to net all over- or under-recoveries. EKPC determined that it had no adjustments to its environmental costs. The Commission has reviewed and finds reasonable EKPC's calculation of any over- or under-recovery for the review period covered in this proceeding and finds no need for any subsequent adjustments of EKPC's environmental costs as a result of its review.

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. That settlement agreement further provided that EKPC update the return at the end of each six-month review period and request Commission approval of the updated average cost of debt.³

EKPC updated the weighted average cost of debt as of May 31, 2010 and determined the rate of return, utilizing a TIER factor of 1.35, which was authorized in Case No. 2008-00409.⁴ Utilizing these components, EKPC proposed an overall rate of return of 6.109 percent to be used starting with the first month following the final Order in this case.⁵

The Commission has reviewed and finds reasonable EKPC's determination of the updated rate of return, which reflects the updated weighted average cost of debt

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

⁴ Case No. 2008-00409, General Adjustment of Electric Rates of East Kentucky Power Cooperative, Inc. (Ky. PSC Mar. 31, 2009).

⁵ Response to the Commission Staff's First Data Request dated October 7, 2010, Item 6, page 2 of 2.

and a 1.35 TIER factor. EKPC should use a rate of return of 6.109 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

In Case No. 2009-00039,⁶ the Commission 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. Each of the Member Cooperatives determined that it had no adjustments to its over- or under-recovery for its surcharge pass-through mechanism and there are no cumulative over- or under-recoveries to consider in this proceeding. The Commission has reviewed and finds reasonable the Member Cooperatives’ calculation of the surcharge pass-through mechanism for the review period covered in this proceeding and finds no need for any subsequent adjustments as a result of its review.

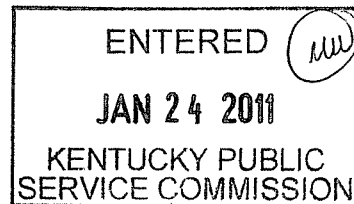
IT IS THEREFORE ORDERED that:

1. The amounts billed by EKPC through its environmental surcharge for the period January 1, 2010 through June 30, 2010 are approved.

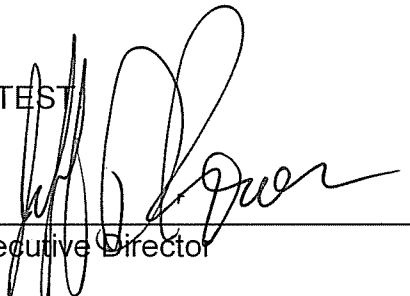
⁶ Case No. 2009-00039, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of East Kentucky Power Cooperative, Inc. for the Six-Month Billing Periods Ending December 31, 2007; June 30, 2008; and December 31, 2008; and the Pass-Through Mechanism for Its Sixteen Member Distribution Cooperatives (Ky. PSC Nov. 30, 2009).

2. EKPC shall use a rate of return of 6.109 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.

By the Commission



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