

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE	)	
COMMISSION OF THE ENVIRONMENTAL	)	CASE NO.
SURCHARGE MECHANISM OF BIG RIVERS	)	2012-00262
ELECTRIC CORPORATION FOR THE	)	
TWO-YEAR BILLING PERIOD ENDING	)	
JULY 31, 2011	)	

ORDER

On July 2, 2012, the Commission initiated a two-year review of Big Rivers Electric Corporation's ("Big Rivers") environmental surcharge<sup>1</sup> as billed to its member distribution cooperatives ("Member Cooperatives")<sup>2</sup> for the two-year billing period August 1, 2009 through July 31, 2011. This billing period reflects the environmental compliance costs incurred by Big Rivers from June 1, 2009 through May 31, 2011.

Pursuant to KRS 278.183(3), at six-month intervals, the Commission must review the past operations of the environmental surcharge. The Commission may, by temporary adjustment in the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to KRS 278.183(1). At two-year intervals, the Commission must review and evaluate the past operations of the environmental surcharge, disallow improper

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<sup>1</sup> Big Rivers was authorized to implement an environmental surcharge in Case No. 2007-00460, The Application of Big Rivers Electric Corporation for Approval of Environmental Compliance Plan and Environmental Surcharge Tariff (Ky. PSC Jun. 25, 2008).

<sup>2</sup> The three Big Rivers distribution cooperatives are Meade County Rural Electric Cooperative Corporation, Kenegy Corp., and Jackson Purchase Energy Corporation.

expenses and, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

The July 2, 2012 Order also initiated a two-year review of the three Big Rivers Member Cooperatives pass-through mechanisms.<sup>3</sup> This two-year review for the Member Cooperatives covers their billings from September 1, 2009 through August 31, 2011 for all retail customers, except large commercial and industrial customers with dedicated delivery points. For those customers with dedicated delivery points, which include the two aluminum smelters served by Kenergy Corp., the environmental surcharge bills are rendered without the one-month lag necessary for all other retail customers. Thus, for the dedicated delivery customers, their bills cover the same billing months as does Big Rivers', which is August 1, 2009 through July 31, 2011.

The Commission included a procedural schedule in the July 2, 2012 Order that provided for discovery, the filing of prepared testimony, and an informal technical conference. Big Rivers filed prepared direct testimony and responded to Commission Staff's requests for information. On August 7, 2012, Big Rivers and Commission Staff ("Staff") participated in an informal technical conference to discuss the issues in the case. During the conference, Staff requested further information, which Big Rivers submitted on August 17, 2012. On August 22, 2012, Commission staff issued a Second Request for Information; and on August 31, 2012, Big Rivers filed its Response to

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<sup>3</sup> The three Member Cooperatives were authorized to implement a pass-through mechanism in separate cases: Case No. 2007-00470, Application of Meade County Rural Electric Cooperative Corporation for Approval of Retail Tariff Riders, Revised Tariffs and New Tariff, and for Approval of Amendment of Wholesale Agreement (Ky. PSC Dec. 12, 2008); Case No. 2008-00009, Application of Kenergy Corp. for Approval of Retail Tariff Riders and Revised Tariffs, Approval of Smelter Agreements, and Approval of Amendment to Wholesale Agreement (Ky. PSC Dec. 12, 2008); and Case No. 2008-00010, The Application of Jackson Purchase Energy Corporation for Approval of Retail Tariff Riders, Revised Tariffs, New Tariff, and Amendment of Wholesale Agreement (Ky. PSC Dec. 12, 2008).

Commission Staff's Second Request for Information dated August 22, 2012. On October 19, 2012, Big Rivers<sup>4</sup> requested that this case be submitted for adjudication based on the existing record without a public hearing. Based on the absence of intervenors and finding good cause, the Commission will grant Big Rivers' request and decide this case on the evidence of record without a hearing.

#### COMPLIANCE PLAN

The approved environmental compliance plan of Big Rivers consists of programs and associated costs dealing with the control of sulfur dioxide, nitrogen oxide, and sulfur trioxide. Big Rivers is authorized to recover certain variable operating expenses associated with the compliance programs. Big Rivers' compliance plan does not include any capital projects or investments in utility plant to comply with the requirements of federal, state or local environmental statutes or regulations; consequently, it does not recover a return on such projects or utility plant through its environmental surcharge mechanism. Since the compliance plan does not include capital projects or investment in utility plant, Big Rivers has also not proposed a revised rate of return as part of this current two-year review.

#### SURCHARGE ADJUSTMENT

The July 2, 2012 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 adjustment factor to net all over- or under-recoveries. Big Rivers determined that it had

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<sup>4</sup> The October 19, 2012 letter stated that Big Rivers and "each of its three Member Distribution Cooperatives (Jackson Purchase Energy Corporation, Kenergy Corp., and Meade County Rural Electric Cooperative Corporation) believe that a hearing is not necessary in the above referenced matter and that the matter may be submitted for adjudication based on the existing record."

no over- or under-recovery of its environmental costs. The Commission has reviewed and finds reasonable Big Rivers' calculation of any over- or under-recovery for the review period covered in this proceeding and finds no need for any subsequent adjustments of Big Rivers' environmental costs as a result of its review.

#### RETAIL PASS-THROUGH MECHANISM

Each of the Member Cooperatives determined it had no over- or under-recovery under its surcharge pass-through mechanism. The Commission has reviewed and finds reasonable each of the Member Cooperatives' calculations of their respective over- and under-recoveries for the review period covered in this proceeding and finds no need for any subsequent adjustments of the Member Cooperatives' pass-through amounts as a result of this review.

#### SURCHARGE ROLL-IN

Big Rivers proposes not to incorporate, or "roll-in," any of its environmental surcharge amounts into its existing base rates. Big Rivers filed its 2012 environmental compliance plan in Case No 2012-00063<sup>5</sup> in which it proposed revisions to its environmental surcharge tariff and the methodology for allocating costs under the tariff. Big Rivers stated in the current proceeding that it believes that an environmental surcharge amount should not be incorporated in base rates until the Commission has ruled on those proposed revisions.<sup>6</sup>

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<sup>5</sup> Case No. 2012-00063, Application of Big Rivers Electric Corporation for Approval of its 2012 Environmental Compliance Plan, for Approval of its Amended Environmental Cost Recovery Surcharge Tariff, for Certificates of Public Convenience and Necessity, and for Authority to Establish a Regulatory Account (Ky. PSC Oct. 1, 2012).

<sup>6</sup> Response to Commission Staff's Initial Request for Information, Item 4(a), filed July 18, 2012.

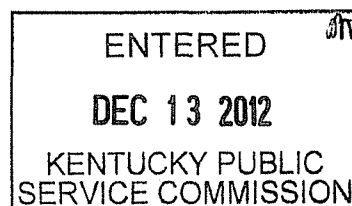
The environmental surcharge statute directs the Commission to incorporate surcharge amounts found just and reasonable in the utility's existing base rates, but only "to the extent appropriate." The Commission has reviewed and finds reasonable Big Rivers' recommendation not to roll-in environmental surcharge amounts at the present time.

IT IS THEREFORE ORDERED that:

1. The amounts billed by Big Rivers through its environmental surcharge for the period August 1, 2009 through July 31, 2011 are approved.

2. The amounts billed by each of the Member Cooperatives through their respective environmental surcharge pass-through mechanisms for the period August 1, 2009 through July 31, 2011 for all customers with dedicated delivery points are approved; and the amounts billed by each of the Member Cooperatives through their respective environmental surcharge pass-through mechanisms for the periods September 1, 2009 through August 31, 2011 for all other customers, are approved.

By the Commission



ATTEST

  
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Executive Director

Case No. 2012-00262

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