

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

|   |   |            |
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| AN EXAMINATION BY THE PUBLIC SERVICE    | ) |            |
| COMMISSION OF THE ENVIRONMENTAL         | ) |            |
| SURCHARGE MECHANISM OF BIG RIVERS       | ) |            |
| ELECTRIC CORPORATION FOR THE TWO-YEAR   | ) | CASE NO.   |
| BILLING PERIOD ENDING JULY 31, 2013 AND | ) | 2013-00347 |
| THE PASS THROUGH MECHANISM OF ITS       | ) |            |
| THREE MEMBER DISTRIBUTION               | ) |            |
| COOPERATIVES                            | ) |            |

ORDER

On October 3, 2013, 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, 2011, through July 31, 2013. This billing period reflects the environmental compliance costs incurred by Big Rivers from June 1, 2011, through May 31, 2013.

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, Kenergy 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 October 3, 2013 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, 2011, through August 31, 2013, for all retail customers, except large commercial and industrial customers with dedicated delivery points. For those customers with dedicated delivery points, which for this review period included 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, 2011, through July 31, 2013.

The Commission included a procedural schedule in the October 3, 2013 Order that provided for discovery, the filing of prepared testimony, intervenor testimony and discovery on intervenor testimony. Big Rivers filed prepared direct testimony and responded to Commission Staff's request for information. On February 17, 2014, Big Rivers gave notice that it and the Member Cooperatives believe that this case may be submitted for adjudication based on the existing record without a public hearing. Based

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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).

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.

### RATE OF RETURN

The Commission has approved two environmental compliance plans for Big Rivers. Big Rivers' environmental compliance plan approved by the Commission in Case No. 2007-00460,<sup>4</sup> ("the 2007 Plan") consists of programs and costs associated with controlling sulfur dioxide, nitrogen oxide, and sulfur trioxide.<sup>5</sup> The 2007 Plan included only operating and maintenance ("O&M") costs.<sup>6</sup> Since Big Rivers' 2007 environmental compliance plan does not include any capital projects or investments in utility plant, it does not recover a return on projects through the environmental surcharge.

On October 1, 2012, in Case No. 2012-00063,<sup>7</sup> the Commission approved certain additions to the 2007 Plan relating to the Mercury and Air Toxics Standards rule (the "2012 Plan").<sup>8</sup> The additions involved installing activated carbon injection and dry sorbent injection systems and emission control monitors at Big Rivers' Coleman, Wilson, and Green generating stations; and installing emission control monitors at

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<sup>4</sup> Case No. 2007-00460, The Application of Big Rivers Electric Corporation for Approval of Environmental Compliance Plan and Environmental Surcharge Tariff, (Ky. PSC June 25, 2008).

<sup>5</sup> Direct Testimony of Nicholas R. Castlen ("Castlen Testimony"), p. 5.

<sup>6</sup> *Id.*, at p. 6.

<sup>7</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, October 1, 2012).

<sup>8</sup> Castlen Testimony, p. 5.

Henderson Municipal Power & Light's Station Two generation station.<sup>9</sup> The 2012 Plan includes both the capital and O&M costs associated with these projects, as well as recovery of Big Rivers' actual costs incurred in Case No. 2012-00063 amortized over three years.<sup>10</sup> Big Rivers' environmental surcharge mechanism allows Big Rivers to recover costs related to the 2007 Plan (which includes only O&M costs) and the 2012 Plan, less proceeds from by-product and emission allowance sales, plus or minus an ongoing cumulative over- or under-recovery adjustment.<sup>11</sup>

For the period under review in this proceeding, Big Rivers did not recover any capital costs through its environmental surcharge mechanism, but stated that construction began during September 2013 on the 2012 Plan. Since this review period does not include capital projects or investment in utility plant, Big Rivers has not proposed a rate of return as part of this current two-year review.

#### SURCHARGE ADJUSTMENT

The October 3, 2013 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 no over- or under-recovery of its environmental costs. The Commission has reviewed and finds reasonable Big Rivers' calculation of its environmental surcharge costs since there was no over- or under-recovery for the review period covered in this proceeding,

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<sup>9</sup> *Id.*, at p. 6.

<sup>10</sup> *Id.*

<sup>11</sup> *Id.*, at pp. 6-7.

the Commission finds no need for any subsequent adjustments of Big Rivers' environmental costs as a result of this 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' respective surcharge pass-through calculations since there were no over- and under-recoveries for the review period covered in this proceeding, and the Commission 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. At the time of this filing, Big Rivers stated that it was in the process of preparing new tariffs to reflect rates approved in Case No. 2012-00535<sup>12</sup> on October 29, 2013, and refunding certain amounts pursuant to that order. Since Big Rivers also has another rate case pending before the Commission (Case No. 2013-00199<sup>13</sup>), its rates and tariffs will likely change again. Big Rivers stated that its rates and tariffs could also change on rehearing or appeal of the order in Case No. 2012-00535. Big Rivers believes incorporating environmental surcharge amounts into base rates at this time would unnecessarily complicate both cases.

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<sup>12</sup> Case No. 2012-00535, Application of Big Rivers Electric Corporation for an Adjustment of Rates, (Ky. PSC Oct. 29, 2013).

<sup>13</sup> Case No. 2013-00199, Application of Big Rivers Electric Corporation for a General Adjustment in Rates Supported by Fully Forecasted Test Period, Filed June 28, 2013.

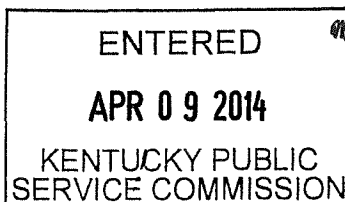
The environmental surcharge statute directs the Commission to incorporate surcharge amounts found just and reasonable in the utility's existing base rates, but only "to the extent appropriate." The Commission has reviewed and finds reasonable Big Rivers' recommendation not to roll in environmental surcharge 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, 2011, through July 31, 2013, 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, 2011, through July 31, 2013, 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, 2011, through August 31, 2013, for all other customers, are approved.

By the Commission



ATTEST:

  
Executive Director

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