

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 BIG RIVERS)	
ELECTRIC CORPORATION FOR THE)	CASE NO.
TWO-YEAR BILLING PERIOD ENDING)	2015-00320
JUNE 31, 2015 AND THE PASS THROUGH)	
MECHANISM OF ITS THREE MEMBER)	
DISTRIBUTION COOPERATIVES)	

ORDER

On September 28, 2015, the Commission initiated a two-year review of Big Rivers Electric Corporation's ("Big Rivers") environmental surcharge¹ as billed to its member distribution cooperatives ("Member Cooperatives")² for the two-year billing period August 1, 2013, through July 31, 2015. This billing period reflects the environmental compliance costs incurred by Big Rivers from June 1, 2013, through May 31, 2015.

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

¹ 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 June 25, 2008).

² The three Big Rivers distribution cooperatives are Meade County Rural Electric Cooperative Corporation, Kenergy Corp., and Jackson Purchase Energy Corporation.

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.

The September 28, 2015 Order also initiated a two-year review of the three Big Rivers Member Cooperatives' pass-through mechanisms³ as billed from September 1, 2013, through August 31, 2015, to their retail member customers and August 1, 2013, to July 31, 2015, for large commercial and industrial customers with dedicated delivery points. For those customers with dedicated delivery points, the environmental surcharge bills are rendered without the one-month lag necessary for all other retail customers.

The Commission included a procedural schedule in the September 28, 2015 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 two requests for information. An informal teleconference was held on March 8, 2016, and Big Rivers responded to Commission Staff's supplemental request for information. On January 26, 2016, 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 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.

³ 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).

COMPLIANCE PLANS

The Commission has approved two environmental compliance plans for Big Rivers. Big Rivers' environmental compliance plan approved by the Commission in Case No. 2007-00460⁴ ("2007 Plan") consists of programs and costs associated with controlling sulfur dioxide, nitrogen oxide, and sulfur trioxide.⁵ The 2007 Plan included only operating and maintenance ("O&M") costs.⁶ Since Big Rivers' 2007 Plan does not include any capital projects or investments in utility plant, there is no return on projects to be recovered through the environmental surcharge.

In Case No. 2012-00063,⁷ the Commission approved certain additions to the 2007 Plan relating to the Mercury and Air Toxics Standards rule ("MATS").⁸ The additions ("2012 Plan") 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 Henderson Municipal Power & Light's Station Two generation station.⁹ The 2012 Plan includes

⁴ 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).

⁵ Direct Testimony of Nicholas R. Castlen ("Castlen Testimony") at 5.

⁶ *Id.* at 6.

⁷ 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).

⁸ Castlen Testimony at 6.

⁹ *Id.*

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.¹⁰

Because of the termination of retail power contracts by two aluminum smelters, Big Rivers planned to idle the Coleman and Wilson stations and postpone installation of the MATS compliance equipment. The Coleman station was idled in May 2014, and Big Rivers states that it will complete the MATS projects at Coleman prior to returning it to service.¹¹ Big Rivers has received extensions to April 16, 2016, for MATS compliance from the Kentucky Division of Air Quality for the Green, Reid/Henderson Municipal Power & Light's Station Two, and Wilson generating units.¹² Big Rivers has postponed idling of the Wilson station due to its success in selling energy through the end of 2016, and in selling capacity for the Midcontinent Independent System Operator, Inc. ("MISO") 2015-2016 and 2016-2017 planning years.¹³ Big Rivers has determined that Wilson may not be idled in the foreseeable future due to its favorable position in MISO. The MATS projects are necessary for Wilson to operate to support power sales for 2016 and 2017 after the MATS compliance deadline of April 16, 2016.¹⁴

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 (which includes both O&M costs and capital costs), less proceeds from by-product and

¹⁰ *Id.*

¹¹ *Id.*

¹² Case No. 2014-00323, *An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Big Rivers Electric Corporation for the Six-Month Billing Period Ending July 31, 2014 and the Pass Through Mechanism of Its Three Member Distribution Cooperatives* (filed Nov. 19, 2014), Big Rivers' Response to Commission Staff's Initial Request for Information, Item 6.b.

¹³ Big Rivers' Response to Commission Staff's First Request for Information, Item 6.

¹⁴ Big Rivers' Response to Commission Staff's Second Request for Information, Item 1.

emission allowance sales, plus or minus an ongoing cumulative over- or under-recovery adjustment.¹⁵

RATE OF RETURN

For the period under review in this proceeding, Big Rivers recovered capital costs associated with the 2012 Plan through its environmental surcharge mechanism. Big Rivers' Environmental Surcharge ("ES") Tariff provides that the rate of return on the environmental rate base is the weighted average debt cost for approved environmental compliance plan projects multiplied by a Times Interest Earned Ratio ("TIER") factor. In accordance with its ES Tariff, Big Rivers determined the weighted average cost of debt and applied a TIER of 1.24 to the weighted average cost of debt to produce the monthly rates of return for the review period. The TIER factor of 1.24 was defined in the special contracts in place for the two aluminum smelters at the time the 2012 Plan was filed for Commission approval. Since approval of the 2012 Plan, both smelters have terminated their retail power contracts with Big Rivers.¹⁶

Big Rivers' ES Tariff provides that Big Rivers' monthly environmental costs should be based on actual costs and revenues for the current expense month. Due to monthly fluctuations in interest costs, Big Rivers determines the average cost of debt for the current expense month rather than using a historical average or forecasted amount. Big Rivers states that determining the average cost of debt for the current expense month ensures that the calculation accurately reflects the environmental costs associated with that expense month. The Commission has reviewed and finds

¹⁵ Castlen Testimony at 6–7.

¹⁶ The smelters which Big Rivers served under special contracts were Alcan Primary Products Corporation and Century Aluminum of Kentucky General Partnership. Century Aluminum has since acquired the Alcan Sebree smelter.

reasonable Big Rivers' determination of the rates of return for each month of the review period.

SURCHARGE ADJUSTMENT

Big Rivers determined that it had no additional over- or under-recovery of its environmental costs for the period under review.¹⁷ 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, the Commission finds no need for any subsequent adjustments of Big Rivers' environmental costs as a result of this review.

RETAIL PASS-THROUGH MECHANISM

The three Member Cooperatives are not requesting any additional over- or under-recovery under their respective surcharge pass-through mechanisms. 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 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 states that it is not requesting any environmental surcharge amounts be incorporated into base rates, in part because of the volatility of the surcharge and ongoing changes in environmental regulations. Further, Big Rivers believes that keeping the environmental surcharge

¹⁷ Castlen Testimony at 9.

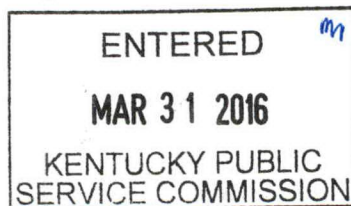
amounts separate provides better transparency for the Member Cooperatives and their end-use customers, allowing them to more clearly understand the environmental regulatory charges included in their bills.¹⁸ The environmental surcharge statute directs the Commission to incorporate surcharge amounts found 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, 2013, through July 31, 2015, 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, 2013, through July 31, 2015, 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, 2013, through August 31, 2015, for all other customers, are approved.

By the Commission



ATTEST:



Acting Executive Director

¹⁸ Big Rivers' Response to Commission Staff's Supplemental Request for Information from the Informal Teleconference on March 8, 2016, Item 1.

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