

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.
SIX-MONTH BILLING PERIOD ENDING	)	2018-00163
JANUARY 31, 2018 AND THE PASS THROUGH	)	
MECHANISM OF ITS THREE MEMBER	)	
DISTRIBUTION COOPERATIVES	)	

ORDER

On June 13, 2018, the Commission initiated a six-month review of Big Rivers Electric Corporation's (BREC) environmental surcharge,<sup>1</sup> as billed to its member distribution cooperatives (Member Cooperatives)<sup>2</sup> for the six-month billing period from August 1, 2017, through January 31, 2018. The billing period reflects the environmental compliance costs incurred by BREC from June 1, 2017, through November 30, 2017.

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).

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<sup>1</sup> BREC 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).

<sup>2</sup> The three BREC Member Cooperatives are Meade County Rural Electric Cooperative Corporation (Meade County), Kenergy Corp. (Kenergy), and Jackson Purchase Energy Corporation (Jackson Purchase).

The June 13, 2018 Order also initiated a six-month review of the three BREC Member Cooperatives' pass-through mechanisms,<sup>3</sup> as billed from September 1, 2017, through February 28, 2018, for their retail member customers, and August 1, 2017, through January 31, 2018, 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 June 13, 2018 Order included a procedural schedule that provided for discovery, the filing of prepared testimony, intervenor testimony, and discovery upon intervenor testimony. BREC filed prepared direct testimony and responded to one round of discovery from Commission Staff. On September 4, 2018, BREC filed a statement indicating that it and each of its three Member Cooperatives believe that a public hearing was not necessary and that the matter may be submitted for adjudication based on the existing record. Based on the absence of intervenors and finding good cause, the Commission finds that this matter should be adjudicated based on the existing record without a hearing.

### COMPLIANCE PLANS

The Commission has approved two environmental compliance plans for BREC. BREC's environmental compliance plan approved by the Commission in Case No. 2007-

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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).

00460<sup>4</sup> (2007 Plan) consists of programs and associated costs dealing with the control of sulfur dioxide, nitrogen oxide, and sulfur trioxide.<sup>5</sup> The 2007 Plan included only operating and maintenance (O&M) costs.<sup>6</sup>

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 (MATS).<sup>8</sup> The additions (2012 Plan) involved installing activated carbon injection and dry sorbent injection systems and emission control monitors at BREC's Coleman, Wilson, and Green generating stations; and installing emission control monitors at Henderson Municipal Power & Light's Station Two generating station.<sup>9</sup> The 2012 Plan includes capital costs, a return on investment and O&M costs associated with these projects, as well as recovery of BREC's actual costs incurred in Case No. 2012-00063, amortized over three years.<sup>10</sup>

Because of the termination of retail power contracts by two aluminum smelters, BREC idled the Coleman station in May 2014 and does not plan to proceed with the installation of the MATS compliance equipment at Coleman at this time. BREC states

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<sup>4</sup> Case No. 2007-00460, *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) at 5.

<sup>6</sup> *Id.* at 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 Oct. 1, 2012).

<sup>8</sup> Castlen Testimony at 6.

<sup>9</sup> *Id.*

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

that if it decides to return the Coleman station to service, it will be required to complete the MATS projects prior to returning the station to service.<sup>11</sup>

BREC's environmental surcharge mechanism allows BREC to recover costs related to the 2007 Plan 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>12</sup>

#### SURCHARGE ADJUSTMENT

BREC is not requesting any additional over- or under-recovery of its environmental costs. BREC states that the normal over-/under-recovery carry-forward element of its environmental surcharge mechanism is operating as intended.<sup>13</sup> The Commission has reviewed and finds reasonable BREC's calculation of its environmental surcharge costs for the review period covered in this proceeding and further finds no need for any adjustments of BREC's recovery of its environmental costs as a result of this review.

#### RATE OF RETURN

For the period under review in this proceeding, BREC recovered capital costs associated with the 2012 Plan through its environmental surcharge mechanism. BREC's 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

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<sup>11</sup> *Id.* at 6–7

<sup>12</sup> *Id.* at 7.

<sup>13</sup> *Id.* at 9.

its ES Tariff, BREC 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. BREC's ES Tariff provides that BREC's monthly environmental costs should be based on actual costs and revenues for the current expense month. Due to monthly fluctuations in interest costs, BREC determines the average cost of debt for the current expense month rather than using a historical average or forecasted amount. BREC 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 reasonable BREC's determination of the rates of return for each month of the review period.

#### RETAIL PASS-THROUGH MECHANISM

The Member Cooperatives are not requesting any additional over- or under-recovery under their respective surcharge pass-through mechanisms.<sup>14</sup> The Commission has reviewed and finds reasonable each of the Member Cooperatives' calculations of its respective over- or under-recoveries for the review period covered in this proceeding and further finds no need for any subsequent adjustments of the Member Cooperatives' pass-through amounts as a result of this review.

IT IS THEREFORE ORDERED that:

1. The amounts billed by BREC through its environmental surcharge for the period August 1, 2017, through January 31, 2018, are approved.
2. The amounts billed by Jackson Purchase and Kenergy through their respective environmental surcharge pass-through mechanisms for the period August 1,

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<sup>14</sup> *Id.* at 9.

2017, through January 31, 2018, for all customers with dedicated delivery points are approved.

3. The amounts billed by the three Member Cooperatives through their respective environmental surcharge pass-through mechanisms for the period September 1, 2017, through February 28, 2018, for all non-dedicated delivery point customers are approved.

4. The rates of return determined by BREC for each month of the review period are approved.

5. This case is closed and removed from the Commission's docket.

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By the Commission



ATTEST:

  
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Executive Director

Case No. 2018-00163

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