

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC EXAMINATION BY THE PUBLIC	)	
SERVICE COMMISSION OF THE	)	
ENVIRONMENTAL SURCHARGE MECHANISM	)	
OF BIG RIVERS ELECTRIC CORPORATION FOR	)	CASE NO.
THE TWO-YEAR BILLING PERIOD ENDING JULY	)	2020-00144
31, 2019, AND THE PASS THROUGH	)	
MECHANISM OF ITS THREE MEMBER	)	
DISTRIBUTION COOPERATIVES	)	

ORDER

On May 5, 2020, the Commission initiated a review of Big Rivers Electric Corporation's (BREC) environmental surcharge as billed to its member distribution cooperatives (Member Cooperatives)<sup>1</sup> for the two-year billing period August 1, 2017, through July 31, 2019.<sup>2</sup> Pursuant to KRS 278.183(3), the Commission must review, at six-month intervals, the past operations of the environmental surcharge, disallow any surcharge amounts that are not just and reasonable, and reconcile past surcharge collections with actual costs recoverable. At two-year intervals, the Commission must review and 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.

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<sup>1</sup> The three Big Rivers distribution cooperatives are Meade County Rural Electric Cooperative Corporation, Kenergy Corp. (Kenergy), and Jackson Purchase Energy Corporation (Jackson Purchase).

<sup>2</sup> Because BREC's surcharge is billed on a one-month lag, the billing period under review reflects the environmental compliance costs incurred by BREC from June 1, 2017, through May 31, 2019.

The May 5, 2020 Order also initiated two-year reviews of the three BREC Member Cooperatives' pass-through mechanisms,<sup>3</sup> as billed from September 1, 2017, through August 31, 2019, to their retail member customers, and August 1, 2017, to July 31, 2019, for large commercial and industrial customers with dedicated delivery points.<sup>4</sup>

The May 5, 2020 Order included a procedural schedule that provided for discovery and the filing of prepared testimony and intervenor testimony. BREC filed prepared direct testimony and responded to one request for information from Commission Staff. There are no intervenors in this proceeding. On September 1, 2020, BREC gave notice that it and the Member Cooperatives believed that this case may be submitted for adjudication based on the existing record without a public hearing. Finding good cause, the Commission will grant BREC's request and decide this case on the evidence of record without a hearing.

For purposes of this review, the Commission has examined BREC's monthly environmental surcharges for the six-month billing period ended July 31, 2019, and for the two-year billing period ended July 31, 2019. The three previous six-month billing periods of this two-year period were reviewed in Case Nos. 2018-00163, 2018-00338, and 2019-00172.<sup>5</sup>

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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).

<sup>4</sup> For those customers with dedicated delivery points, the environmental surcharge bills are rendered without the one-month lag necessary for all other retail customers.

<sup>5</sup> Case No. 2018-00163, *An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Big Rivers Electric Corporation for the Six-Month Billing Period Ending January*

## SURCHARGE ADJUSTMENT

BREC is not requesting any additional over- or under-recovery of its environmental costs.<sup>6</sup> BREC states that the normal over-/under-recovery carry-forward element of its environmental surcharge mechanism is operating as intended.<sup>7</sup> The Commission has reviewed and finds reasonable BREC's calculation of its environmental surcharge costs, and further finds no need for any subsequent adjustments of BREC's environmental costs as a result of this review.

## RATE OF RETURN

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 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.<sup>8</sup> BREC determines the average cost of debt for the current expense month rather than using a historical average or forecasted

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*31, 2018, and the Pass Through Mechanism of Its Three Member Distribution Cooperatives (Ky. PSC September 24, 2018); Case No. 2018-00338, An Electronic 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, 2018, and the Pass Through Mechanism of Its Three Member Distribution Cooperatives (Ky. PSC Mar. 25, 2019); and Case No. 2019-00172, An Electronic Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Big Rivers Electric Corporation for the Six-Month Billing Period January 31, 2019, and the Pass-Through Mechanism of Its Three Member Distribution Cooperatives (Ky. PSC Oct. 25, 2019).*

<sup>6</sup> BREC's Response to Commission Staff's First Request for Information (Response to Staff's First Request) (filed June 5 2020) Item 1.

<sup>7</sup> Direct Testimony of Nicholas R. Castlen (Castlen Testimony) (filed June 5, 2020) at 10.

<sup>8</sup> Response to Staff's First Request, Item 4.

amount. 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 three Member Cooperatives are not requesting any additional over- or under-recovery under their respective surcharge pass-through mechanisms.<sup>9</sup> The Commission has reviewed and finds reasonable each of the Member Cooperatives' respective surcharge pass-through calculations and their determination that there were no additional over- or under-recoveries for the review period covered in this proceeding. 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

BREC is not proposing to incorporate any environmental surcharge amounts into its existing base rates at this time.<sup>10</sup> BREC states that it does not believe any environmental surcharge amounts need to be incorporated into its base rates in conjunction with this two-year review.<sup>11</sup> BREC states that this position aligns with the Member Cooperatives' request that the amount appearing on a customer's bill for environmental compliance charges represent the total portion of their environmental compliance charge, versus having a portion of those charges embedded in base rates.<sup>12</sup> The Member Cooperatives' position on incorporating environmental surcharge amounts in base rates is unchanged from previous two-year reviews. In Case No. 2015-00320,

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<sup>9</sup> Response to Staff's First Request, Item 2.

<sup>10</sup> Castlen Testimony at 11 and Response to Staff's First Request, Item 5(a).

<sup>11</sup> Response to Staff's First Request, Item 5(a).

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

BREC and the Member Cooperatives cited surcharge volatility, ongoing changes in environmental regulations, and transparency as reasons to not incorporate any environmental surcharge amounts into base rates.<sup>13</sup> KRS 278.183 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, BREC's recommendation not to incorporate environmental surcharge amounts into its base rates at the present time.

IT IS THEREFORE ORDERED that:

1. BREC's request to submit this case for a decision on the existing evidence of record without a hearing is granted.
2. BREC's determination that it had no additional over- or under-recovery for the review period is approved.
3. The amounts billed by BREC through its environmental surcharge for the period August 1, 2017, through July 31, 2019, are approved.
4. The amounts billed by Jackson Purchase and Kenergy through their respective environmental surcharge pass-through mechanisms for the period August 1, 2017, through July 31, 2019, for all customers with dedicated delivery points are approved.
5. The amounts billed by the three Member Cooperatives through their respective environmental surcharge pass-through mechanisms for the period September

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<sup>13</sup> Case No. 2017-00320, *An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Big Rivers Electric Corporation for the Two-Year Billing Period Ending July 31, 2015 and the Pass Through Mechanism of its Three Member Distribution Cooperatives* (Ky. PSC Mar. 31, 2016), BREC's Response to Commission Staff's Supplemental Request for Information from the Informal Teleconference on March 8, 2016, Item 1.

1, 2017, through August 31, 2019, for all other non-dedicated delivery point customers are approved.

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

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

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By the Commission



ATTEST:

  
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Deputy Executive Director

Case No. 2020-00144

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