

-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 EAST KENTUCKY	)	
POWER COOPERATIVE, INC. FOR THE SIX-	)	CASE NO.
MONTH BILLING PERIOD ENDING DECEMBER 31, 2017,	)	2018-00075
AND THE PASS-THROUGH MECHANISM OF ITS	)	
SIXTEEN MEMBER DISTRIBUTION COOPERATIVES	)	

ORDER

On April 6, 2018, the Commission initiated a six-month review of East Kentucky Power Cooperative, Inc.'s (EKPC) environmental surcharge<sup>1</sup> as billed to its member distribution cooperatives (Member Cooperatives) for the six-month period of July 1, 2017, to December 31, 2017. 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 found not to be just and reasonable; and reconcile past surcharges with actual costs recoverable. The April 6, 2018 Order also initiated a six-month review of the 16 EKPC Member Cooperatives' pass-through mechanism<sup>2</sup> as billed

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<sup>1</sup> EKPC's environmental surcharge was initially approved in Case No. 2004-00321, *Application of East Kentucky Power Cooperative, Inc. for Approval of an Environmental Compliance Plan and Authority to Implement an Environmental Surcharge* (Ky. PSC Mar. 17, 2005).

<sup>2</sup> The pass-through mechanism was approved in Case No. 2004-00372, *Application of Big Sandy RECC, Blue Grass Energy Cooperative Corporation, Clark Energy Cooperative, Cumberland Valley Electric, Inc., Farmers RECC, Fleming-Mason Energy Cooperative, Inc., Grayson RECC, Inter-County Energy Cooperative Corporation, Jackson Energy Cooperative Corporation, Licking Valley RECC, Nolin RECC, Owen Electric Cooperative, Inc., Salt River Electric Cooperative Corporation, Shelby Energy Cooperative, Inc., South Kentucky RECC and Taylor County RECC for Authority to Pass Through the Environmental Surcharge of East Kentucky Power Cooperative, Inc.* (Ky. PSC Mar. 17, 2005).

to their retail member customers for the six-month period of July 1, 2017, to December 31, 2017.<sup>3</sup>

The Commission issued a procedural schedule that provided for two rounds of discovery, the filing of prepared testimony, and intervenor testimony. EKPC filed prepared direct testimony and responded to one request for information. The Member Cooperatives responded to one round of discovery. There were no parties requesting intervenor status to this proceeding. On June 25, 2018, EKPC filed a motion stating that EKPC and the Member Cooperatives believed the case record is complete and this case may be submitted for decision on the current record without a hearing.

#### SURCHARGE ADJUSTMENT

EKPC determined that it had no adjustments to its environmental costs for the period under review.<sup>4</sup> The Commission has reviewed and finds reasonable EKPC's calculation of no additional over- or under-recovery for the review period covered in this proceeding and finds no need for any subsequent adjustments to EKPC's environmental costs as a result of its review.

#### RATE OF RETURN

The Settlement Agreement approved in Case No. 2004-00321 provided that the rate of return would be the weighted average debt cost of the debt issuances directly

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<sup>3</sup> The Settlement Agreement approved in Case Nos. 2004-00321 and 2004-00372 allows the Member Cooperatives to pass through the environmental surcharge to their customers at approximately the same time EKPC bills the environmental surcharge to the Member Cooperatives, thus avoiding a billing lag for the Member Cooperatives. Therefore, the costs incurred from June 2017 through November 2017 are billed to the Member Cooperatives for the months of July 2017 through December 2017, with these same costs passed through to the member customers on their bills issued in August 2017 through January 2018.

<sup>4</sup> EKPC's Response to Commission Staff's First Request for Information (Response to Staff's First Request), Item 1.

related to the projects in EKPC's compliance plan, multiplied by a Times Interest Earned Ratio (TIER) factor. The Settlement Agreement further provided that EKPC update the return as of the end of each six-month review period and request Commission approval of the updated average cost of debt.<sup>5</sup>

EKPC calculated a weighted average cost of debt as of November 30, 2017, of 4.015 percent.<sup>6</sup> EKPC utilized the TIER factor of 1.50 authorized in Case No. 2011-00032.<sup>7</sup> Utilizing these components, EKPC calculated an updated rate of return as of November 30, 2017, of 6.023 percent. EKPC proposed an overall rate of return of 6.023 percent be used starting with the first month following the final Order in this case.<sup>8</sup>

The Commission has reviewed and finds reasonable EKPC's determination of the updated rate of return of 6.023 percent, reflecting the updated weighted average cost of debt of 4.015 percent and a 1.50 TIER factor. The Commission finds that EKPC should use a rate of return of 6.023 percent for all environmental surcharge monthly filings submitted after the date of this Order.

#### RETAIL PASS-THROUGH MECHANISM

Each of the Member Cooperatives determined an over- or under-recovery for its surcharge pass-through mechanism, with twelve of the Member Cooperatives having over-recoveries and four of the Member Cooperatives having under-recoveries. The

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<sup>5</sup> Case No. 2004-00321, *East Kentucky Power Cooperative, Inc.* (Ky. PSC Mar. 17, 2005), Order, Appendix A at 3.

<sup>6</sup> Response to Staff's First Request, Item 5.

<sup>7</sup> Case No. 2011-00032, *An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of East Kentucky Power Cooperative, Inc. for the Six-Month Billing Period Ending December 31, 2010; and the Pass-Through Mechanism for Its Sixteen Member Distribution Cooperatives* (Ky. PSC Aug. 2, 2011).

<sup>8</sup> Direct Testimony of Isaac S. Scott at 11.

Member Cooperatives' over- or under-recoveries were determined utilizing the revised calculation methodology approved in Case No. 2015-00281.<sup>9</sup> EKPC stated that the Member Cooperatives proposed that the over-recoveries be refunded to, or the under-recoveries be collected from, ratepayers as an adjustment to the retail pass-through factor for each month in the six-month period following the Commission's Order in this proceeding.<sup>10</sup> The Commission has reviewed and finds reasonable each of the Member Cooperatives' calculations of their respective over-recoveries and under-recoveries for the review periods covered in this proceeding. The Commission finds reasonable the Member Cooperatives' proposals to amortize their respective accumulated over- or under-recovery amounts in each of the first six months following the final Order in this proceeding. A schedule of the over- or under-recovery for each Member Cooperative and the related monthly adjustments are shown in the Appendix to this Order. The impact of the over or under-recovery on an average residential customer's monthly bill for each respective Member Cooperative is also indicated.

IT IS THEREFORE ORDERED that:

1. The amounts billed by EKPC through its environmental surcharge for the period July 1, 2017, to December 31, 2017, are approved.
2. EKPC shall use a rate of return of 6.023 percent in all monthly environmental surcharge filings subsequent to the date of this Order.

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<sup>9</sup> Case No. 2015-00281, *An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of East Kentucky Power Cooperative, Inc. for the Six-Month Billing Periods Ending June 30, 2014, and December 31, 2014, for the Two-Year Billing Period Ending June 30, 2015, and the Pass Through Mechanism for Its Sixteen Member Distribution Cooperatives* (Ky. PSC Apr. 8, 2017).

<sup>10</sup> Response to Staff's First Request, Item 2.

3. EKPC's Member Cooperatives shall include the applicable monthly retail pass-through adjustments, shown in the Appendix to this Order, in the determination of each Member Cooperative's respective pass-through mechanism in each of the first six months following the date of this order, as discussed herein.

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

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By the Commission



ATTEST:

  
Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2018-00075 DATED **JUL 23 2018**

Member Cooperatives' Adjustments to  
Monthly Pass-Through Mechanism

The EKPC Member Cooperatives shall include the following monthly adjustments in the determination of the applicable pass-through factors for the first six months after the date of this Order.

	<u>Total Amount of Over-Recovery</u>	<u>Monthly Amount To Be Returned</u>	<u>Monthly Bill Impact</u>
Big Sandy RECC	\$5,403	\$901	\$0.06
Clark Energy Cooperative	\$53,312	\$8,885	\$0.26
Cumberland Valley Electric	\$67,078	\$11,180	\$0.38
Farmers RECC	\$92,910	\$15,485	\$0.48
Fleming-Mason Energy Cooperative	\$311,223	\$51,871	\$1.64
Grayson RECC	\$109,734	\$18,289	\$0.88
Inter-County Energy Cooperative Corp.	\$73,256	\$12,209	\$0.35
Licking Valley RECC	\$86,761	\$14,460	\$0.67
Nolin RECC	\$69,207	\$11,535	\$1.35
Salt River Energy Cooperative Corp.	\$164,563	\$27,427	\$0.36
Shelby Energy Cooperative	\$141,806	\$23,634	\$0.91
Taylor County RECC	\$9,341	\$1,557	\$0.02
	<u>Total Amount of Under-Recovery</u>	<u>Monthly Amount To Be Collected</u>	<u>Monthly Bill Impact</u>
Blue Grass Energy Cooperative	\$120,527	\$20,088	\$0.25
Jackson Energy Cooperative	\$62,335	\$10,389	\$0.19
Owen Electric Cooperative	\$52,158	\$8,693	\$0.05
South Kentucky RECC	\$178,319	\$29,720	\$0.31

\*Big Sandy R.E.C.C.  
Big Sandy R.E.C.C.  
504 11th Street  
Paintsville, KY 41240

\*Blue Grass Energy Cooperative Corp.  
Blue Grass Energy Cooperative Corp.  
1201 Lexington Road  
P. O. Box 990  
Nicholasville, KY 40340-0990

\*Licking Valley R.E.C.C.  
Licking Valley R.E.C.C.  
P. O. Box 605  
271 Main Street  
West Liberty, KY 41472

\*Taylor County R.E.C.C.  
Taylor County R.E.C.C.  
625 West Main Street  
P. O. Box 100  
Campbellsville, KY 42719

\*Clark Energy Cooperative, Inc.  
Clark Energy Cooperative, Inc.  
2640 Ironworks Road  
P. O. Box 748  
Winchester, KY 40392-0748

\*Owen Electric Cooperative, Inc.  
Owen Electric Cooperative, Inc.  
8205 Highway 127 North  
P. O. Box 400  
Owenton, KY 40359

\*Farmers R.E.C.C.  
Farmers R.E.C.C.  
504 South Broadway  
P. O. Box 1298  
Glasgow, KY 42141-1298

\*Cumberland Valley Electric, Inc.  
Cumberland Valley Electric, Inc.  
Highway 25E  
P. O. Box 440  
Gray, KY 40734

\*Shelby Energy Cooperative, Inc.  
Shelby Energy Cooperative, Inc.  
620 Old Finchville Road  
Shelbyville, KY 40065

\*Fleming-Mason Energy Cooperative, In  
Fleming-Mason Energy Cooperative, Inc.  
1449 Elizaville Road  
P. O. Box 328  
Flemingsburg, KY 41041

\*East Kentucky Power Cooperative, Inc.  
4775 Lexington Road  
P. O. Box 707  
Winchester, KY 40392-0707

\*Grayson R.E.C.C.  
Grayson R.E.C.C.  
109 Bagby Park  
Grayson, KY 41143

\*Nolin R.E.C.C.  
Nolin R.E.C.C.  
411 Ring Road  
Elizabethtown, KY 42701-6767

\*East Kentucky Power Cooperative, Inc  
East Kentucky Power Cooperative, Inc.  
4775 Lexington Road  
P. O. Box 707  
Winchester, KY 40392-0707

\*South Kentucky R.E.C.C.  
South Kentucky R.E.C.C.  
925-929 N Main Street  
P. O. Box 910  
Somerset, KY 42502-0910

\*Inter-County Energy Cooperative Corp  
Inter-County Energy Cooperative Corporation  
1009 Hustonville Road  
P. O. Box 87  
Danville, KY 40423-0087

\*Salt River Electric Cooperative Corp  
Salt River Electric Cooperative Corp.  
111 West Brashear Avenue  
P. O. Box 609  
Bardstown, KY 40004

\*Jackson Energy Cooperative Corporati  
Jackson Energy Cooperative Corporation  
115 Jackson Energy Lane  
McKee, KY 40447