

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)	CASE NO.
TWO-YEAR BILLING PERIOD ENDING)	2012-00486
JUNE 30, 2011, FOR THE SIX-MONTH BILLING)	
PERIODS ENDING DECEMBER 31, 2011 AND)	
JUNE 30, 2012, AND THE PASS-THROUGH)	
MECHANISM FOR ITS SIXTEEN MEMBER)	
DISTRIBUTION COOPERATIVES)	

ORDER

On November 16, 2012, the Commission initiated a two-year review and two six-month reviews of East Kentucky Power Cooperative, Inc.'s ("EKPC") environmental surcharge¹ as billed to its member distribution cooperatives ("Member Cooperatives") for the two-year period July 1, 2009 to June 30, 2011, and for the six-month periods of July 1, 2011 to December 31, 2011 and January 1, 2012 to June 30, 2012. 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. 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.

¹ 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).

The November 16, 2012 Order also initiated a two-year review of the 16 EKPC Member Cooperatives' pass-through mechanism² as billed to their retail member customers for the two-year period August 1, 2009 to July 31, 2011, and for the six-month periods August 1, 2011 to January 31, 2012 and February 1, 2012 to July 31, 2012.³

The Commission issued a procedural schedule that provided for discovery, the filing of prepared testimony, an informal conference, intervenor testimony and a public hearing. An amended procedural schedule was issued January 23, 2013 which removed the public hearing from the schedule. EKPC filed prepared direct testimony and responded to requests for information. The Member Cooperatives responded to two rounds of discovery. There were no parties requesting intervenor status to this proceeding. On March 25, 2013, EKPC filed a motion to amend the procedural schedule stating that EKPC and the Member Cooperatives believed the case record is

² 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)

³ The Settlement Agreement approved in Case Nos. 2004-00321 and 2004-00372 allows the member distribution cooperatives to pass through the environmental surcharge to their customers at approximately the same time as EKPC bills the environmental surcharge to the member distribution cooperatives, thus avoiding a billing lag for the member distribution cooperatives. The costs incurred in the months of June 2009 through May 2011 are billed to the member distribution cooperatives in the months of July 2009 through June 2011, with these same costs passed through to the member customers on the bills for August 2009 through July 2011. The costs incurred from June 2011 through November 2011 are billed to the member distribution cooperatives in the months of July 2011 through December 2011, with these same costs passed through to the member customers on the bills for August 2011 through January 2012. The costs incurred in the months of December 2011 through May 2012 are billed to the member distribution cooperatives in the months of January 2012 through June 2012, with these same costs passed through to the member customers on the bills for February 2012 through July 2012.

complete and further stated that this case may be submitted for decision on the current record without a hearing.

SURCHARGE ADJUSTMENT

The November 16, 2012 Order initiating this case indicated that since the period under review in this proceeding may have resulted in over- or under-recoveries of allowable environmental compliance costs, the Commission would entertain proposals to adopt one adjustment factor to net all over- or under-recoveries. EKPC determined that it had no adjustments to its environmental costs for the periods under review. The Commission has reviewed and finds reasonable EKPC's calculation of over- or under-recovery for the review period covered in this proceeding and finds no need for any subsequent adjustments of EKPC's environmental costs.

RATE OF RETURN

The Settlement Agreement approved in Case No. 2004-00321 provided that the rate of return would be based on a weighted average debt cost of the debt issuances directly related to the four 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.⁴

EKPC updated the weighted average cost of debt as of May 31, 2012 and determined the rate of return, utilizing a TIER factor of 1.50 which was authorized in

⁴ Case No. 2004-00321, March 17, 2005 Order, Appendix A, at 3.

Case No. 2011-00032.⁵ Utilizing these components, EKPC proposes an overall rate of return of 6.233 percent to be used starting with the first month following the final Order in this case.⁶

The Commission has reviewed and finds reasonable EKPC's determination of the updated rate of return which reflects the updated weighted average cost of debt and a 1.50 TIER factor. The Commission finds that EKPC should use a rate of return of 6.233 percent for all environmental surcharge monthly filings submitted after the date of this Order.

RETAIL PASS-THROUGH MECHANISM

Retail Pass-Through Adjustment

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

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. At the informal conference held January 3,

⁵ 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).

⁶ Response to the Commission Staff's First Request for Information dated November 16, 2012, Item 5, page 2 of 5.

2013, Owen Electric Cooperative, Inc. ("Owen") proposed that the over/under-recovery period be extended beyond the six-month amortization period. In responding to a subsequent data request, each Member Cooperative answered questions regarding its preferred amortization period for over/under-recovery amounts.⁷ Owen and Farmers Rural Electric Cooperative Corporation each proposed a 12-month amortization period instead of a six-month period, with the 14 remaining Member Cooperatives indicating a preference for a six-month amortization period. The Commission believes that the amortization period should be consistent for all of EKPC's Member Cooperatives. Given the majority preference for a six-month period, the Commission finds reasonable the Member Cooperatives' proposals to amortize their respective accumulated over- or under-recovery amounts in each of the first six billing 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.

SURCHARGE ROLL-IN

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." EKPC proposes not to incorporate, or "roll in," any of its environmental surcharge amounts into its existing base rates in this proceeding. EKPC

⁷ Commission Staff's Amended Second Request for Information to East Kentucky Power Cooperative, Inc.'s Sixteen Member Distribution Cooperatives, issued January 24, 2013. Member Cooperative responses to Item 1.

states that it believes a roll-in of environmental costs should be allocated between demand and energy rate components based on a cost-of-service study, and should occur during a wholesale base rate case proceeding. As with a roll-in to its wholesale base rates, EKPC believes that the corresponding adjustment to retail base rates should be performed in conjunction with a base-rate proceeding. Further, EKPC states that several of its Member Cooperatives believe it is important that retail customers be aware of the full cost of environmental compliance and the impact on their monthly bills.⁸ EKPC states that performing a roll-in would not provide full disclosure of environmental compliance costs on retail customers' bills, as a significant portion of such costs would be collected in base rates.

The Commission has reviewed and finds reasonable EKPC's recommendation not to roll environmental surcharge amounts into base rates at the present time.

OTHER ITEMS

EKPC proposes that its tariff Rate ES - Environmental Surcharge be updated to correct an oversight for the change in the TIER from 1.35 to 1.50 in accordance with the Commission's order in Case No. 2011-00032.⁹ The Commission has reviewed and finds reasonable EKPC's recommendation to update its Rate ES tariff to reflect the change in TIER from 1.35 to 1.50 as ordered in Case No. 2011-00032.

EKPC proposes changes to Forms 2.4 and 2.5 in its monthly environmental surcharge filing to reflect the current approach to reporting operating and maintenance

⁸ Direct Testimony of Isaac S. Scott on Behalf of East Kentucky Power Cooperative, Inc., filed December 13, 2012, p. 6.

⁹ Direct Testimony of Ann F. Wood on behalf of East Kentucky Power Cooperative, Inc., filed December 13, 2012, p. 7.

("O&M") expenses.¹⁰ It states that forms 2.4 and 2.5 were originally established to track the incremental accounting of the O&M costs associated with the Gilbert plant, and subsequently other projects.¹¹ EKPC states that it now receives a cash return on CWIP ("Construction Work In Progress") and begins cost recovery of the investment as the project is constructed.¹² It states that it no longer needs to distinguish projects based on incremental accounting treatment of its O&M expenses, and EKPC proposes to eliminate the separation of 12-month averages of O&M expenses currently reflected on Form 2.4.¹³ For Form 2.5, EKPC proposes to eliminate the project summary sections at the bottom of the form, as it states they are redundant and repeat information reported in the upper section of the form. EKPC states that the information in the upper section of the form reports all O&M expenses that EKPC is authorized to include in its environmental surcharge.¹⁴ The Commission has reviewed and finds reasonable EKPC's recommended changes to its ES Forms 2.4 and 2.5.

IT IS THEREFORE ORDERED that:

1. The amounts billed by EKPC through its environmental surcharge for the periods July 1, 2009 to June 30, 2011, July 1, 2011 to December 31, 2011 and January 1, 2012 to June 30, 2012 are approved.
2. EKPC shall use a rate of return of 6.233 percent in all monthly environmental surcharge filings subsequent to the date of this Order.

¹⁰ *Id.*, pp. 7-8.

¹¹ *Id.*, p. 8.

¹² *Id.*

¹³ *Id.*

¹⁴ *Id.*

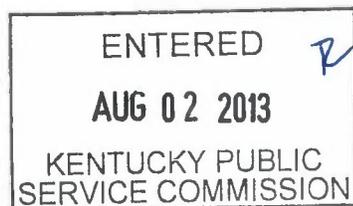
3. EKPC's Member Cooperatives shall include the applicable monthly retail pass-through adjustments, shown in the Appendix to this Order, in the determination of each Member Cooperative's respective pass-through mechanism in each of the first six months following the date of this order, as discussed herein.

4. The proposed changes to EKPC's tariff Rate ES - Environmental Surcharge to reflect the change in TIER from 1.35 to 1.50 as discussed herein, are approved.

5. The proposed changes to EKPC's environmental surcharge monthly filing Forms 2.4 and 2.5 as discussed herein are approved.

6. Within 20 days of the date of this order, EKPC shall file with the Commission, using the Commission's electronic Tariff Filing System, revised Rate ES - Environmental Surcharge tariff reflecting the changes discussed herein.

By the Commission



ATTEST:


Executive Director

Case No. 2012-00486

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00486 DATED **AUG 02 2013**

Member Cooperatives' Adjustment 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>
Blue Grass Energy Cooperative	\$1,239,110	\$206,518	\$2.69
Cumberland Valley Electric	\$519,785	\$86,631	\$2.61
Grayson RECC	\$2,927	\$488	\$0.01
Jackson Energy Cooperative	\$491,149	\$81,858	\$1.26
Salt River Energy Cooperative.	\$698,669	\$116,445	\$1.78
Shelby Energy Cooperative	\$180,054	\$30,009	\$1.14
South Kentucky RECC	\$1,730,504	\$288,417	\$3.28

	<u>Total Amount of Under Recovery</u>	<u>Monthly Amount To Be Collected</u>	<u>Monthly Bill Impact</u>
Big Sandy RECC	\$110,864	\$18,477	\$1.14
Clark Energy Cooperative	\$337,504	\$56,251	\$1.78
Farmers RECC	\$871,355	\$145,226	\$5.88
Fleming-Mason Energy Coop.	\$11,065	\$1,844	\$0.06
Inter-County Energy Cooperative	\$320,791	\$53,465	\$1.81
Licking Valley RECC	\$48,273	\$8,046	\$0.47
Nolin RECC	\$470,315	\$78,386	\$1.77
Owen Electric Cooperative	\$2,417,387	\$402,898	\$6.19
Taylor County RECC	\$292,103	\$48,684	\$2.13

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