

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 PERIODS ENDING	)	2012-00534
JANUARY 31, 2012 AND JULY 31, 2012 AND THE	)	
PASS THROUGH MECHANISM OF ITS THREE	)	
MEMBER DISTRIBUTION COOPERATIVES	)	

ORDER

On December 13, 2012, the Commission initiated a six-month review of Big Rivers Electric Corporation's ("Big Rivers") environmental surcharge<sup>1</sup> as billed to its member distribution cooperatives ("Member Cooperatives")<sup>2</sup> for the six-month billing periods from August 1, 2011 through January 31, 2012, and from February 1, 2012 through July 31, 2012. These billing periods reflect the environmental compliance costs incurred by Big Rivers from June 1, 2011 through November 30, 2011, and from December 1, 2011 through May 31, 2012.

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

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<sup>1</sup> 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 Jun. 25, 2008).

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

just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to KRS 278.183(1).

The December 13, 2012 Order also initiated a six-month review of the three Big Rivers Member Cooperatives pass-through mechanisms.<sup>3</sup> This review for the Member Cooperatives covers their billings from September 1, 2011 through February 28, 2012, and from March 1, 2012 through August 31, 2012 for all retail customers except the large commercial and industrial customers with dedicated delivery points as billed from August 1, 2011 through January 31, 2012, and from February 1, 2012 through July 31, 2012. For those customers with dedicated delivery points, there is no billing lag.<sup>4</sup> Meade County Rural Electric Cooperative Corporation has no dedicated delivery point customers.<sup>5</sup>

The Commission included a procedural schedule in the December 13, 2012 Order that provided for discovery, the filing of prepared testimony, an informal conference and intervenor testimony. Big Rivers filed prepared direct testimony and responded to Commission Staff's request for information. On February 13, 2013, Big Rivers and Commission Staff ("Staff") participated in an informal conference. On April 8, 2013, Big Rivers filed a statement indicating that it and each of its three member

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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> Direct Testimony of Nicholas R. Castlen, p. 4, filed January 16, 2013.

<sup>5</sup> Response to Commission Staff's Initial Request for Information Dated December 13, 2012, Response to Item 3, page 3 of 3, filed January 16, 2013.

distribution cooperatives – Jackson Purchase Energy Corporation, Kenergy Corp., and Meade County Rural Electric Cooperative Corporation – believes that a hearing is not necessary in this matter 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.

### COMPLIANCE PLAN

Big Rivers' environmental compliance plan approved by the Commission in Case No. 2007-00460,<sup>6</sup> ("the 2007 Plan") consists of programs and associated costs dealing with the control of sulfur dioxide (SO<sub>2</sub>), nitrogen oxide (NO<sub>x</sub>), and sulfur trioxide (SO<sub>3</sub>).<sup>7</sup> The 2007 Plan included only operating and maintenance ("O&M") costs.<sup>8</sup> In the October 1, 2012 Order issued by the Commission in Case No. 2012-00063,<sup>9</sup> the Commission approved certain additions to the 2007 Plan relating to the Mercury and Air Toxics Standards rule.<sup>10</sup> The additions (the "2012 Plan") involved installing activated carbon injection and dry sorbent injection systems and emission control monitors at the Big Rivers Coleman, Wilson, and Green generating stations; and installing emission control monitors at Henderson Municipal Power & Light's Station Two generation

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<sup>6</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>7</sup> Direct Testimony of Nicholas R. Castlen, pp. 4-5.

<sup>8</sup> *Id.*, at p. 5.

<sup>9</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, October 1, 2012).

<sup>10</sup> Direct Testimony of Nicholas R. Castlen, p. 5.

station.<sup>11</sup> The 2012 Plan includes both the capital and O&M associated with the projects, as well as recovery of Big Rivers' actual costs incurred in Case No. 2012-00063 (amortized over three years).<sup>12</sup> 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, less proceeds from by-product and emission allowance sales, plus or minus an ongoing cumulative over- or under-recovery adjustment.<sup>13</sup> While Big Rivers is not requesting recovery of any capital costs through the environmental surcharge mechanism in this review period, it has indicated that it will begin recovering capital costs associated with the 2012 Plan, consistent with the approvals granted in Case No. 2012-00063, once construction on the approved projects begin.<sup>14</sup> Big Rivers has stated that construction for projects approved in the 2012 Plan is expected to begin in 2013.<sup>15</sup> For the current periods under review, Big Rivers does not recover any capital costs through its environmental surcharge mechanism. Since the compliance plan does not include capital projects or investment in utility plant, Big Rivers has not proposed a revised rate of return as part of this current six-month review.

#### SURCHARGE ADJUSTMENT

The December 13, 2012 Order initiating this case indicated that, since over- or under-recoveries of allowable environmental compliance costs may have occurred during the periods under review, the Commission would entertain proposals to adopt

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<sup>11</sup> *Id.*, at pp. 5-6. The Castlen testimony refers to Henderson Municipal Power & Light's Station Two generation station as "Henderson Municipal Henderson & Light's Station Two" generation station.

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

<sup>13</sup> *Id.*, at p. 6.

<sup>14</sup> *Id.*, at p. 8.

<sup>15</sup> *Id.*

one adjustment factor to net all over- or under-recoveries. Big Rivers is not requesting any additional over- or under-recovery of its environmental costs. Big Rivers states that the normal over/under recovery carry-forward element of its environmental surcharge mechanism is operating as intended.<sup>16</sup> The Commission has reviewed Big Rivers' filing and finds reasonable its calculation for the review periods covered in this proceeding and further finds no need for any adjustments of Big Rivers' recovery of its environmental costs as a result of its review.

#### RETAIL PASS-THROUGH MECHANISM

None of the Member Cooperatives are 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' calculations of their respective over- or under-recoveries for the review periods covered in this proceeding and further finds no need for any adjustments of the Member Cooperatives' recovery of their respective pass-through amounts as a result of this review.

IT IS THEREFORE ORDERED that:

1. The amounts billed by Big Rivers through its environmental surcharge for the period August 1, 2011 through January 31, 2012, and for the period February 1, 2012 through July 31, 2012 are approved.

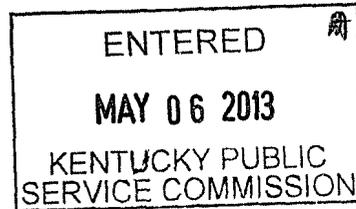
2. The amounts billed by Jackson Purchase and Kenergy through their respective environmental surcharge pass-through mechanisms for the period August 1, 2011 through January 31, 2012, and for the period February 1, 2012 through July 31, 2012 for all customers with dedicated delivery points are approved. The amounts billed by the Member Cooperatives through their respective environmental surcharge

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<sup>16</sup> *Id.*

pass-through mechanisms for the period September 1, 2011 through February 28, 2012, and for the period March 1, 2012 through August 31, 2012 for their retail customers are approved.

By the Commission



ATTEST:

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Executive Director

Case No. 2012-00534

Burns E Mercer  
President & CEO  
Meade County R.E.C.C.  
P. O. Box 489  
Brandenburg, KY 40108-0489

G. Kelly Nuckols  
President & CEO  
Jackson Purchase Energy Corporation  
2900 Irvin Cobb Drive  
P. O. Box 4030  
Paducah, KY 42002-4030

Billie J Richert  
Vice President Accounting, Rates & CFO  
Big Rivers Electric Corporation  
201 Third Street  
Henderson, KY 42419-0024

Gregory Starheim  
President & CEO  
Kenergy Corp.  
P. O. Box 18  
Henderson, KY 42419