

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 |) | CASE NO. |
| THE SIX-MONTH BILLING PERIOD ENDING |) | 2013-00140 |
| DECEMBER 31, 2012 AND THE PASS |) | |
| THROUGH MECHANISM FOR ITS SIXTEEN |) | |
| MEMBER DISTRIBUTION COOPERATIVES |) | |

ORDER

On May 14, 2013, the Commission initiated a six-month review of East Kentucky Power Cooperative, Inc.'s ("EKPC") environmental surcharge¹ as billed to its member distribution cooperatives ("Member Cooperatives") for the six-month period of July 1, 2012 to December 31, 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 pursuant to KRS 278.183(1).

The May 14, 2013 Order also initiated a six-month review of the 16 EKPC Member Cooperatives' pass-through mechanism² as billed to their retail member

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).

² Case No. 2004-00372, Application of Big Sandy RECC, Blue Grass Energy Cooperative Corporation, Clark Energy Cooperative, Cumberland Valley Electric, Farmers RECC, Fleming-Mason Energy, Grayson RECC, Inter-County Energy Cooperative, Jackson Energy Cooperative, Licking Valley RECC, Nolin RECC, Owen Electric Cooperative, Salt River Electric Cooperative Corporation, Shelby Energy Cooperative, 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)

customers for the six-month period August 1, 2012 to January 31, 2013.³

The Commission issued a procedural schedule that provided for discovery, the filing of prepared testimony and intervenor testimony. EKPC filed prepared direct testimony and responded to a request for information. The Member Cooperatives responded to a request for information. There were no parties requesting intervenor status to this proceeding. On May 23, 2013, EKPC filed a motion on behalf of itself and the Member Cooperatives requesting an amendment of the procedural schedule, which was granted May 31, 2013. On August 23, 2013, EKPC filed a motion for submission for adjudication on the existing case record without a hearing. In its motion, EKPC stated that it was also filing the motion on behalf of each of its 16 Member Cooperatives. In support of its motion, EKPC states that it and its Member Cooperatives believe the case record is complete, and since there are no intervenors, this case may be submitted for decision based on the current record without a hearing.

SURCHARGE ADJUSTMENT

The May 14, 2013 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

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 2012 through November 2012 are billed to the Member Distribution Cooperatives in the months of July 2012 through December 2012, with these same costs passed through to the member customers on the bills for August 2012 through January 2013.

no adjustments to its environmental costs for the period under review.⁴ The Commission has reviewed and finds reasonable EKPC's calculation of any 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 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 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.⁵

EKPC updated the weighted average cost of debt as of December 31, 2012 and determined the rate of return, utilizing a TIER factor of 1.50, which was authorized in Case No. 2011-00032.⁶ Utilizing these components, EKPC proposes an overall rate of return of 6.086 percent to be used starting with the first month following the Final Order in this case.⁷

⁴ Responses to Commission Staff's First Request for Information to East Kentucky Power Cooperative, Inc., Direct Testimony of Isaac S. Scott on Behalf of East Kentucky Power Cooperative, Inc., p. 6, filed June 14, 2013.

⁵ Case No. 2004-00321, March 17, 2005 Order, Appendix A, at 3.

⁶ 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).

⁷ Responses to the Commission Staff's First Request for Information dated May 14, 2013, Response to Item 5, page 7 of 10, filed June 14, 2013.

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 6.086 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 eight of the Member Cooperatives having over-recoveries and eight of the Member Cooperatives having under-recoveries.⁸ EKPC stated that the Member Cooperatives proposed that the over-recovery amounts or under-recovery amounts be amortized over a period of six months beginning in the first month after the Commission's Order in this proceeding.⁹

The Commission has reviewed and finds reasonable each of the Member Cooperatives' calculations of their respective over-recoveries and under-recoveries for the review period covered in this proceeding. The Commission finds reasonable the Member Cooperatives' proposals to amortize their respective accumulated over- or under-recovery amounts over a period of six months beginning in the first month after the Commission's 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

⁸ *Id.*, at Response to Item No. 2.

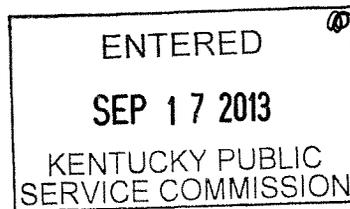
⁹ Scott Testimony, p. 7.

over- or under-recovery on an average residential customer's monthly bill for each respective Member Cooperative is also indicated.

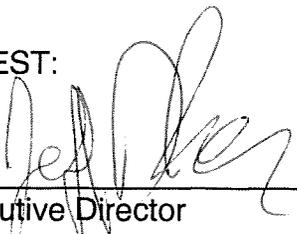
IT IS THEREFORE ORDERED that:

1. The amounts billed by EKPC through its environmental surcharge for the period July 1, 2012 to December 31, 2012 are approved.
2. EKPC shall use a rate of return of 6.086 percent in all monthly environmental surcharge filings subsequent to the date of this Order.
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.

By the Commission



ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2013-00140 DATED **SEP 17 2013**

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 | \$25,665 | \$4,278 | \$0.26 |
| Clark Energy Cooperative | \$5,610 | \$935 | \$0.02 |
| Fleming-Mason Energy Coop | \$249,832 | \$41,639 | \$1.33 |
| Grayson RECC | \$36,087 | \$6,015 | \$0.34 |
| Inter-County Energy Coop | \$12,367 | \$2,061 | \$0.10 |
| Jackson Energy Cooperative | \$24,892 | \$4,149 | \$0.07 |
| Licking Valley RECC | \$3,106 | \$518 | \$0.03 |
| Owen Electric Cooperative | \$51,738 | \$8,623 | \$0.14 |

| | <u>Total Amount of Under Recovery</u> | <u>Monthly Amount To Be Collected</u> | <u>Monthly Bill Impact</u> |
|-------------------------------|---|---|--------------------------------|
| Blue Grass Energy Cooperative | \$333,071 | \$55,512 | \$0.76 |
| Cumberland Valley Electric | \$84,550 | \$14,092 | \$0.43 |
| Farmers RECC | \$88,467 | \$14,745 | \$0.44 |
| Nolin RECC | \$66,259 | \$11,043 | \$0.24 |
| Salt River Energy Cooperative | \$150,490 | \$25,082 | \$0.38 |
| Shelby Energy Cooperative | \$70,110 | \$11,685 | \$0.47 |
| South Kentucky RECC | \$169,367 | \$28,228 | \$0.30 |
| Taylor County RECC | \$29,864 | \$4,977 | \$0.22 |

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