



**Journal Entry Number:** J696-ksc-1022-PJ3961699

**Title:** Reclass WL LF Deferred Debit

**Period:** 10-2022

**Reversing:** No

**Retention Year:** 2047

--- JOURNAL ENTRY ---

Expnd Ending Date  
 Expnd Item Date  
 Original Trans Ref  
 Operating Unit  
 Transaction Source  
 Batch Name

\* Date 11/5/2022  
 \* Date 10/31/2022  
 \* Value Reclass WL LF Deferred Debit  
 \* List - Text Big Rivers Electric Corporation  
 \* List - Text BR Web ADI  
 \* Value J696-ksc-1022-PJ3961699

Oldest Open PA Period: 10/31/2022  
 Oldest Open GL Period: 10/31/2022

Upl Project Number * List - Text	Task Number * List - Text	Expnd Type * List - Text	Quantity * Value	Organization Name List - Text	Expenditure Comment	
AROs	DEFRD DEBIT-ARO-WL LI	0699 CORPORATE DEFAULT	(3,800,540.81)	0999 Big Rivers Electric Corporation	Reclassify Deferred Debit to Reg Asset	10-0999-18696000-0699-0000
AROs	REG ASSET-ARO-WILSON	0699 CORPORATE DEFAULT	3,800,540.81	0999 Big Rivers Electric Corporation	Reclassify Deferred Debit to Reg Asset	10-0999-18230403-0699-0000

Tip: This is not the end of the Template. Unprotect the sheet and insert as many rows as needed.

ck-should be 0 0.00

DESCRIPTION: To reclassify the deferred debit balance for the deferred accretion and depreciation expense related to the Wilson Landfill Phase II closure ARO  
as approved by both the KPSC (Case No. 2022-00201) and RUS.

PREPARED BY: Katie Cheatham *Katie Cheatham* REVIEWED BY: DeAnna Speed *ds*  
 POSTED BY: *DH* 10/26/2022 REVERSING ENTRY?: No

**Trial Balance**  
**Period : Sep-22****Balance Type Period to Date**

Account	Description	Beginning Balance	Debits	Credits	Ending Balance
18670000	DEFERRED DEBIT-HANSON SITE LEASE	126,066.10	-	460.26	125,605.84
18691000	DEFERRED DEBIT-NEBRASKA CONTRACT EXTENSION	1,175,000.00	-	-	1,175,000.00
18696000	DEFERRED DEBIT-ARO-WILSON LANDFILL PHASE II	3,753,145.38	47,395.43	-	3,800,540.81
18910000	DEFERRED DEBIT-UNAMORTIZED LOSS 2001 PCB	277,042.65	-	2,565.21	274,477.44



Rural Development

Electric Programs  
Rural Utilities Service

June 28, 2022

1400 Independence Ave SW  
Room 4133 – STOP 1560  
Washington, DC 20250

Voice: 202.720.9545

Mr. Robert Berry  
Manager  
Big Rivers Electric Corporation  
P.O. Box 24  
Henderson, Kentucky 42419-0024

Dear Mr. Berry,

In response to a letter from Mr. Paul Smith, dated April 18, 2022, we have reviewed the information submitted regarding Big Rivers Electric Corporation's (Big Rivers) expense deferral plan pertaining to compliance with the U.S. Environmental Protection Agency's (EPA) Disposal of Coal Combustion Residuals from Electric Utilities rule ("CCR Final Rule"). Big Rivers plans to establish a regulatory asset of approximately \$5.85 million relating to the disposal. The Kentucky Public Service Commission (KPSC) requires Big Rivers be granted approval from the Rural Utilities Service (RUS) before applying to the KPSC for establishment of the regulatory accounts.

Conditional approval is hereby granted for Big Rivers to establish the regulatory asset pertaining to the eventual closure of Phase II of the landfill located at its Wilson generation facility, but only for the reason of allowing Big Rivers to start the application process with the KPSC. If the KPSC does not approve the establishment of the regulatory asset, then it nullifies this RUS conditional approval, and the expenses must be recognized immediately.

Also, Big Rivers is required to return to RUS at a future date with an updated expense deferral plan with the final dollar amount, amortization period, proposed journal entries and board resolution which includes language indicating that Big Rivers plans to recover these costs through future rates.

Contact the Technical Accounting Review Branch at (202) 720-8775 if you have any questions or if we can be of any further assistance.

Sincerely,

Digitally signed by  
**VICTOR VU**  
Date: 2022.06.28 17:11:45  
-04'00'

VICTOR T. VU  
Deputy Assistant Administrator  
Office of Portfolio Management and Risk Assessment

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF BIG RIVERS	)	
ELECTRIC CORPORATION FOR AUTHORITY TO	)	CASE NO.
ESTABLISH A REGULATORY ASSET FOR	)	2022-00201
EXPENSES RELATED TO COAL COMBUSTION	)	
RESIDUALS RULE	)	

ORDER

On July 19, 2022, Big Rivers Electric Corporation (BREC) filed an application for approval of a regulatory asset to defer expenses related to the asset retirement obligation (ARO) for Phase II of the D.B. Wilson Generating Station (Wilson) coal combustion residuals (CCR) landfill. BREC requested an Order by December 2022 so that it can appropriately account for the regulatory asset in 2022. There are no intervenors in this proceeding. The matter now stands submitted to the Commission for a decision based on the evidentiary record.

BACKGROUND

On April 17, 2015, the U.S. Environmental Protection Agency published the Disposal of Coal Combustion Residuals from Electric Utilities Rule (CCR Final Rule) which regulates the storage and disposal of CCR, including the retirement of CCR impoundments such as landfills.<sup>1</sup> BREC must recognize the ARO and begin to depreciate and accrete the ARO once it is recognized. BREC did not record the ARO for Phase II when the CCR Final Rule was approved because discussions with its auditors led BREC

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<sup>1</sup> Application, paragraphs 3 and 4.

to believe that recognition was premature at that time.<sup>2</sup> Subsequent discussions with BREC's auditors led BREC to record the appropriate balance for the ARO in 2021 and to record a regulatory asset for the annual accretion and depreciation expenses for 2021.<sup>3</sup>

Phase II is expected to operate until at least 2045 and the ARO will be settled when the landfill is closed.<sup>4</sup> Without regulatory asset treatment, BREC will experience a mismatch of revenues and expenses. BREC has received RUS approval for the regulatory asset, subject to approval by the Commission.<sup>5</sup> BREC believes the actual ARO settlement costs should be recoverable through appropriate rate mechanisms in the future. However, at present, there will be a mismatch of revenues and expenses in its financial statements, because accretion and depreciation expense will be recognized monthly beginning in December 2021, even though the revenue will not be recognized until some future period.<sup>6</sup> These ARO-related expenses, therefore, reduce BREC's margins and understate its true financial performance in the short term. In contrast, when the actual ash pond closure costs are being recovered in the future, BREC's financial performance will be overstated. To avoid this outcome, BREC requests that the Commission authorize the establishment of regulatory assets for deferred depreciation and accretion expense, as discussed above.<sup>7</sup>

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<sup>2</sup> Application, paragraph 8. Phase I of the Wilson CCR landfill stopped receiving waste in 2010 and will be fully closed by 2022. It was not subject to ARO accounting for the CCR Final Rule while in service.

<sup>3</sup> Application, paragraph 8.

<sup>4</sup> Application, paragraph 4.

<sup>5</sup> Application, Exhibit 2 (filed Aug. 8, 2022).

<sup>6</sup> Application, paragraph 13.

<sup>7</sup> Application, paragraph 14.

Based on a report completed in August 2021, Phase II decommissioning will have a nominal cost of \$15.48 million, with a 2021 present value of \$5.85 million.<sup>8</sup> BREC recorded the ARO at the 2021 present value and deferred catch-up depreciation expenses of \$2.09 million and accretion expenses of \$1.29 million.<sup>9</sup> BREC projected 2022 depreciation expenses of \$1.49 million and accretion expenses of \$2.46 million.<sup>10</sup>

BREC also requests that it be allowed to record, as part of the regulatory assets requested herein, any prospective adjustments to the amounts for ARO-related depreciation and accretion expense associated with the ARO balances existing on December 31, 2021, as changes to the underlying cost estimates and timing will affect these amounts.<sup>11</sup> BREC stated this treatment will defer recognition of these ARO expenses until recovery of the actual costs is authorized by the Commission and would ultimately allow BREC to match its revenues and expenses in each accounting period.<sup>12</sup>

#### LEGAL STANDARD

KRS 278.220 sets out that the Commission may establish a uniform system of accounts (USoA) for utilities and in BREC's case, that the system of accounts shall conform as nearly as practicable to the system adopted or approved by the Rural Utilities Service (RUS). The RUS USoA states that an ARO is a liability for the legal obligation associated with the retirement of a tangible long-lived asset that the utility will settle as a result of a legal or contractual requirement. The liability must be recorded at fair market

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<sup>8</sup> Application, paragraph 11.

<sup>9</sup> Application, Exhibit 1 (filed Aug. 8, 2022) at 2.

<sup>10</sup> Application, paragraph 12.

<sup>11</sup> Application, paragraph 15.

<sup>12</sup> Application, paragraph 15.

value in the period that the liability is incurred. A corresponding and equivalent ARO asset is also recorded on the utility's books to recognize the cost of removal as an integral part of the cost of the associated tangible asset. Accretion expenses are recognized to bring the liability to the fair market value and depreciation expenses are recognized to expense the ARO asset over the life of the tangible asset.

The RUS USoA also provides for regulatory assets, or the capitalization of costs that would otherwise be expensed but for the actions of a rate regulator. It must be probable that the utility will recover approximately equal revenue through the inclusion of these costs for ratemaking purposes, with the intent to recover the previously incurred cost, not a similar future cost.

Additionally, the Commission has established parameters for expenses which qualify for regulatory asset treatment. The Commission has approved regulatory assets where a utility has incurred: (1) an extraordinary, nonrecurring expense which could not have reasonably been anticipated or included in the utility's planning; (2) an expense resulting from a statutory or administrative directive; (3) an expense in relation to an industry sponsored initiative; or (4) an extraordinary or nonrecurring expense that over time will result in a saving that fully offsets the cost.<sup>13</sup> The Commission has also established a requirement that utilities seek Commission approval before recording

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<sup>13</sup> See Case No. 2008-00436, *The Application of East Kentucky Power Cooperative, Inc. for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to Certain Replacement Power Costs Resulting From Generation Forced Outages* (Ky. PSC Dec. 23, 2008).



regulatory assets<sup>14</sup> and requirements regarding the timing for applications seeking such approval.<sup>15</sup>

### DISCUSSION AND FINDINGS

The Commission has historically approved similar requests to defer the ARO expenses to a regulatory asset. The Commission approved the establishment of regulatory assets for ARO-related depreciation and accretion expenses for Louisville Gas and Electric Company<sup>16</sup> and Kentucky Utilities Company<sup>17</sup> when those utilities adopted Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations.<sup>18</sup> East Kentucky Power Cooperative, Inc. received regulatory asset approval for the AROs for the Dale and Cooper stations' asbestos removal, ash ponds, and ash landfill<sup>19</sup> and the Smith station landfill.<sup>20</sup> Duke Energy Kentucky, Inc. received regulatory

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<sup>14</sup> Case No. 2016-00180, *Application of Kentucky Power Company for an Order Approving Accounting Practices to Establish Regulatory Assets and Liabilities Related to the Extraordinary Expenses Incurred by Kentucky Power Company in Connection with the Two 2015 Major Storm Events* (Ky. PSC Nov. 3, 2016), Order at 9.

<sup>15</sup> Case No. 2016-00180, *Application of Kentucky Power Company for an Order Approving Accounting Practices to Establish Regulatory Assets and Liabilities Related to the Extraordinary Expenses Incurred by Kentucky Power Company in Connection with the Two 2015 Major Storm Events* (Ky. PSC Dec. 12, 2016).

<sup>16</sup> Case No. 2003-00426, *Application of Louisville Gas and Electric Company for an Order Approving an Accounting Adjustment to be Included in Earnings Sharing Mechanism Calculations for 2003* (Ky. PSC Dec. 23, 2003).

<sup>17</sup> Case No. 2003-00427, *Application of Kentucky Utilities Company for an Order Approving an Accounting Adjustment to be Included in Earnings Sharing Mechanism Calculations for 2003* (Ky. PSC Dec. 23, 2003).

<sup>18</sup> Statement of Financial Accounting Standards No. 143 is now codified as ASC Topic 410.

<sup>19</sup> Case No. 2014-00432, *Application of East Kentucky Power Cooperative, Inc. for an Order Approving the Establishment of Regulatory Assets for the Depreciation and Accretion Expenses Associated with Asset Retirement Obligations* (Ky. PSC July 21, 2015).

<sup>20</sup> Case No. 2018-00027, *Application of East Kentucky Power Cooperative, Inc. for an Order Approving the Establishment of a Regulatory Asset for the Depreciation and Accretion Expenses Associated with the Smith Station Landfill Asset Retirement Obligations* (Ky. PSC Mar. 8, 2018).

asset approval for ARO for the East Bend ash pond.<sup>21</sup> BREC received regulatory asset approval for the AROs for the Green and Station Two ash ponds,<sup>22</sup> and the Coleman ash pond, if legacy ponds are added to the CCR Rule.<sup>23</sup>

The Wilson CCR landfill Phase II is required to close, subject to certain standards set by the CCR Rule, including a final cover and post-closure monitoring, and BREC must record the ARO in accordance with RUS accounting requirements. If the regulatory asset treatment is not approved, BREC will expense these costs now, including the deferred costs in 2021, without rate recovery, but the closure project will be eligible for recovery in rates in 2045. BREC's Member Rate Stability Mechanism (MRSM) returns to customers 40 percent of the annual margins in excess of a 1.30 Times Interest Earned Ratio and uses the remaining 60 percent to offset various regulatory assets. Expensing the previously deferred amounts and the ongoing monthly depreciation and accretion expenses would reduce the margins available to be returned through the MRSM. The ARO regulatory asset will be for accounting purposes only and will have no rate effect on BREC until the ARO is settled.

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<sup>21</sup> Case No. 2015-00187, *Application of Duke Energy Kentucky, Inc. for an Order Approving the Establishment of a Regulatory Asset for the Liabilities Associated with Ash Pond Asset Retirement Obligations* (Ky. PSC Dec. 15, 2015).

<sup>22</sup> Case No. 2015-00333, *Electronic Application of Big Rivers Electric Corporation for Authority to Establish Regulatory Assets for Expenses Related to the Coal Combustion Residuals Rule* (Ky. PSC Jan. 5, 2016).

<sup>23</sup> Case No. 2019-00435, *Electronic Application of Big Rivers Electric Corporation for Approval of Its 2020 Environmental Compliance Plan, Authority to Recover Costs through a Revised Environmental Surcharge and Tariff, the Issuance of a Certificate of Public Convenience and Necessity for Certain Projects, and Appropriate Accounting and Other Relief* (Ky. PSC Sept. 11, 2020).

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that BREC should be authorized to establish the proposed regulatory asset.

IT IS THEREFORE ORDERED that:

1. The accounting treatment requested by BREC to establish a regulatory asset for the income statement impacts including gains, losses, depreciation, and accretion expense related to its Wilson CCR landfill is approved for 2021 and subsequent years.

2. The regulatory asset and liability accounts established in this case are for accounting purposes only.

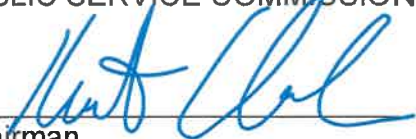
3. BREC shall, within 14 days of service of this Order, file with the Commission the accounting entries made on its books to effectuate the creation of the regulatory assets.

4. BREC shall file annually updated ARO calculations reflecting any studies, reports, or change in other assumptions for the Wilson CCR landfill ARO balances as originally recorded at December 31, 2021. The annual update shall be based upon the balances as of December 31 of each year and the updated calculations shall be submitted at the same time BREC files its annual report with the Commission.

5. Any document filed in the future pursuant to ordering paragraph 4 shall reference this case number and shall be retained in the utility's general correspondence file.

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

PUBLIC SERVICE COMMISSION

  
Chairman

\_\_\_\_\_  
Vice Chairman

  
Commissioner

ENTERED  
OCT 25 2022 rcs  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
Executive Director

Case No. 2022-00201

\*Big Rivers Electric Corporation  
201 Third Street  
P. O. Box 24  
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