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May 22, 2017

VIA FEDERAL EXPRESS

Dr. Talina R. Mathews
Public Service Commission
211 Sower Boulevard, P.O. Box 615
Frankfort, Kentucky 40602-0615

RECEIVED

MAY 23 2017

PUBLIC SERVICE
COMMISSION

Re: *In the Matter of: an Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Big Rivers Electric Corporation for the Six-Month Billing Period Ending July 31, 2016 and the Pass Through Mechanism of its Three Member Distribution Cooperatives, PSC Case No. 2016-00368*

Dear Dr. Mathews:

Enclosed for filing in the above-referenced matter are an original and seven (7) copies of Big Rivers Electric Corporation's responses to the Public Service Commission Staff's Third Request for Information in the above-referenced matter. I certify that on this date, a copy of this letter and a copy of the responses were served on all parties of record by first class mail.

Sincerely,

Tyson Kamuf


Enclosures

cc: DeAnna Speed
Dennis L. Cannon
Jeff Hohn
Marty Littrel

BIG RIVERS ELECTRIC CORPORATION
AN EXAMINATION
BY THE PUBLIC SERVICE COMMISSION
OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF BIG
RIVERS ELECTRIC CORPORATION FOR THE
SIX-MONTH BILLING PERIOD ENDING
JULY 31, 2016 AND THE PASS THROUGH MECHANISM
OF ITS THREE MEMBER DISTRIBUTION COOPERATIVES
CASE NO. 2016-00368

VERIFICATION

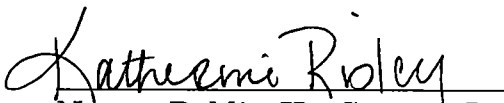
I, Nicholas R. (Nick) Castlen, verify, state, and affirm that I prepared or supervised the preparation of my responses to data requests filed with this Verification, and that those responses are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.



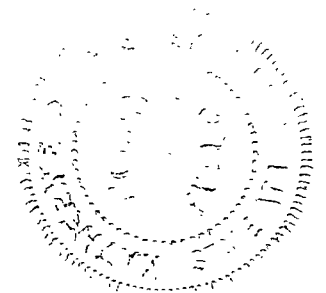
Nicholas R. (Nick) Castlen

COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)

SUBSCRIBED AND SWORN TO before me by Nicholas R. (Nick) Castlen
on this the 16th day of May, 2017.



Notary Public, Ky. State at Large
My Commission Expires 10-31-2020



ORIGINAL



Your Touchstone Energy® Cooperative 

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

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 PERIOD ENDING)	2016-00368
JULY 31, 2016)	
AND THE PASS THROUGH MECHANISM)	
OF ITS THREE MEMBER DISTRIBUTION)	
COOPERATIVES)	

**Responses to Commission Staff's
Third Request for Information
dated May 11, 2017**

FILED: May 23, 2017

ORIGINAL

BIG RIVERS ELECTRIC CORPORATION

**AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION
OF THE ENVIRONMENTAL SURCHARGE MECHANISM
OF BIG RIVERS ELECTRIC CORPORATION
FOR THE SIX-MONTH BILLING PERIOD ENDING JULY 31, 2016
AND THE PASS THROUGH MECHANISM
OF ITS THREE MEMBER DISTRIBUTION COOPERATIVES
CASE NO. 2016-00368**

**Response to Commission Staff's
Third Request for Information
dated May 11, 2017**

May 23, 2017

1 **Item 1)** *Refer to page 13 of the Direct Testimony of Nicholas R. Castlen*
2 *("Castlen Testimony"), Big Rivers' response to Commission question (a) in*
3 *the last paragraph regarding why Big Rivers has not considered direct*
4 *billing of environmental costs. The Castlen Testimony states: "KRS 278.183*
5 *states that the recovery of environmental costs 'not already included in*
6 *existing rates shall be by environmental surcharge to existing rates*
7 *imposed as a positive or negative adjustment to customer bills in the second*
8 *month following the month in which costs are incurred.' Based on my*
9 *interpretation of KRS 278.183, the direct billing of monthly environmental*
10 *costs based on the wholesale sales to each Member Cooperative during that*
11 *same month would not satisfy this requirement." Explain in detail why Mr.*
12 *Castlen believes direct billing of environmental costs would not satisfy the*
13 *requirements of KRS 278.183.*

14
15 **Response)** The Commission's November 15, 2016, Order initiating this case did
16 not provide specific details on the actual mechanics of the direct billing approach to
17 which it referred. Big Rivers understood the direct billing approach, as referred to
18 by the Commission, to involve billing each month's actual environmental costs
19 directly to Big Rivers' Member Cooperatives based on each Member Cooperative's
20 usage during that same month, without the use of a billing factor (i.e. rate
21 surcharge).

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1 The environmental surcharge statute, KRS 278.183(2)(a), states that the
2 Commission shall “consider and approve the plan and rate surcharge if the
3 commission finds the plan and rate surcharge reasonable and cost-effective”
4 (emphasis added). Based on Big Rivers’ interpretation of this language in KRS
5 278.183, the recovery of costs through the environmental surcharge shall be
6 through a rate surcharge (i.e. billing factor). As a result, a direct billing approach
7 for Big Rivers’ environmental costs, which is not billed as a rate surcharge or factor,
8 would not be in compliance with KRS 278.183.

9

10 **Witness)** Nicholas R. Castlen

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May 23, 2017

1 **Item 2) *Refer to the response to Commission Staff's Second Request for***
2 ***Information, Item 1.b., which stated that "Big Rivers assumed direct billing***
3 ***to mean that each month Big Rivers would bill its monthly environmental***
4 ***costs as a direct amount based on the monthly wholesale sales to each***
5 ***Member Cooperative during that same month." It was not the Commission's***
6 ***intent that the environmental costs for a given expense month should***
7 ***necessarily be allocated based on the wholesale revenues for the same***
8 ***month, or that implementing a direct billing approach would necessitate a***
9 ***change or delay in the billing routine of Big Rivers as was noted in the***
10 ***response. Under Big Rivers' current methodology, January expenses and***
11 ***revenues are used to calculate an environmental surcharge factor that is***
12 ***applied to February usage billed in March; under the direct billing***
13 ***approach, January expenses and revenues would be used to calculate a***
14 ***dollar amount of environmental costs for the February service month to be***
15 ***billed in March. The Commission was suggesting an alternative approach***
16 ***for consideration to eliminate over/under-recovery amounts and potentially***
17 ***mitigate volatility in Big Rivers' monthly environmental surcharge factors.***
18 ***Given this, describe whether Big Rivers and its Member Cooperatives would***
19 ***change their position on a direct billing methodology.***
20

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1 **Response)** Without knowing the specific mechanics of the alternative direct
2 billing approach suggested by the Commission, Big Rivers and its Member
3 Cooperatives cannot reasonably evaluate the potential impacts of such a change
4 with any certainty. The detailed mechanics of the proposed approach require more
5 thorough development and evaluation.

6 However, Big Rivers and its Member Cooperatives believe their current
7 environmental surcharge mechanism is operating effectively and provides for
8 timely recovery of Big Rivers' environmental costs in a fair, just, and reasonable
9 manner, in accordance with the environmental surcharge statute (KRS 278.183).
10 Additionally, Big Rivers and its Member Cooperatives do not believe the over-
11 /under-recovery mechanism associated with their current environmental surcharge
12 factor results in significantly higher volatility in Big Rivers' monthly environmental
13 surcharge factor than would the direct billing methodology described in the
14 Commission Staff's request. The time, effort, and cost associated with making
15 changes to existing billing processes/systems should be offset by the expected
16 benefits, which are not evident to Big Rivers and its Member Cooperatives in this
17 instance. For these reasons, Big Rivers and its Member Cooperatives maintain
18 their original position that no changes to their existing environmental surcharge
19 mechanism should be made at this time.

20
21 **Witness)** Nicholas R. Castlen