Goss • Samford PLLC
Attorneys at Law

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PUBLIC SERVICE COMMISSION

October 10, 2014

VIA HAND DELIVERY

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
P.O. Box 615
211 Sower Boulevard
Frankfort, KY 40602

Re: PSC Case No. 2014-00226

Dear Mr. Derouen:

Please find enclosed for filing with the Commission in the above-referenced case an original and eight copies of the responses of East Kentucky Power Cooperative, Inc. ("EKPC"), to the Staff's Second Request for Information dated September 26, 2014. Also included are an original and eight copies of EKPC's responses to the Initial Request for Information from Grayson Rural Electric Cooperative Corporation dated September 26, 2014.

Very truly yours,

David S. Samford

Enclosures

RECEIVED

OCT 10 2014

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION OF THE APPLICATION OF THE FUEL ADJUSTMENT CLAUSE OF EAST KENTUCKY POWER COOPERATIVE, INC. INC. FROM NOVEMBER 1, 2013 THROUGH APRIL 30, 2014	)))))	**CASE NO. 2014-00226**

RESPONSES TO COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION TO EAST KENTUCKY POWER COOPERATIVE, INC. DATED SEPTEMBER 26, 2014

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

AN EXAMINATION OF THE APPLICATION OF THE FUEL ADJUSTMENT CLAUSE OF EAST KENTUCKY POWER COOPERATIVE, INC. INC. FROM NOVEMBER 1, 2013 THROUGH APRIL 30, 2014	)))))	CASE NO. 2014-00226

CERTIFICATE

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Julia J. Tucker, being duly sworn, states that she has supervised the preparation of the responses of East Kentucky Power Cooperative, Inc. to the Commission Staff's Second Request for Information in the above-referenced case dated September 26, 2014, and that the matters and things set forth therein are true and accurate to the best of her knowledge, information and belief, formed after reasonable inquiry.

Julia J. Tucker

Subscribed and sworn before me on this 10th day of October 2014.

Gwyn M. Willoughby
Notary Public #500144

GWYN M. WILLOUGHBY
Notary Public
State at Large
Kentucky
My Commission Expires Nov 30, 2017

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2014-00226
FUEL ADJUSTMENT CLAUSE
RESPONSE TO SECOND REQUEST FOR INFORMATION

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 09/26/14
REQUEST 1
RESPONSIBLE PARTY: Julia J. Tucker

Request 1. Refer to the response to Item 26.a. of the Commission's August 13, 2014 Request for Information ("August 13, 2014 Request").

Request 1a. State whether PJM Interconnection, Inc. ("PJM") requested or directed that the Dale units be winterized. If not, state whether and when, if applicable, PJM was made aware that the Dale units were winterized.

Response 1a. No. PJM did not direct EKPC to winterize Dale Station. On January 2, 2014, the notification time for start-up was adjusted to reflect the time needed to make the plant fully available for dispatch. This change in notification time was the direction to PJM that plant condition had changed. The updated notification time was still within PJM operations criteria.

Request 1b. Identify and describe the benefits of winterizing the units.

Response 1b. For the past few years, prior to each winter peak season, EKPC compares the cost to operate Dale Station to the expected market prices. This comparison provides a cost / benefit basis for EKPC to determine if it should expect the Dale units to dispatch within the market or not. If the units are expected to operate economically for a significant portion of the season, then EKPC would plan to keep a unit on line and operating during cold temperatures to keep the plant from freezing. The heat for the plant is dependent on at least one unit running. If the market prices do not support the economic operation of the plant, then EKPC has to decide if it is better to keep a unit operating to provide heat or to winterize the plant to keep from having to uneconomically operate a unit. EKPC evaluated the winter season operational expectations last Fall and determined that it was more cost effective to winterize the Dale Station than to keep a unit running for heat.

Request 1c. Identify and describe the disadvantages of winterizing the units.

Response 1c. The disadvantage to winterizing the Dale units is the extended time it takes to bring the unit on line for operations and the risk of equipment freezing even after the winterization steps are implemented.

Request 1d. Given that East Kentucky is a winter peaking system, explain why the Dale units were winterized the winter prior to East Kentucky's joining PJM.

Response 1d. EKPC evaluated its expected winter season operations and compared all options it had to supply its system energy requirements. Based upon normal winter conditions, EKPC believed it was substantially more economic to winterize Dale station and depend on the gas units and/or the market to provide system power than to keep one unit operating continuously to provide heat to the station. This strategy proved to be an economic advantage for EKPC during the winter of 2012/2013.

Request 1e. State whether East Kentucky has ever winterized any of its other generating units. If so, identify the units and the reasons they were winterized.

Response 1e. EKPC has never winterized any of its other generating units. Dale Station's age and cost structure created the opportunity to take advantage of more economic alternatives. No other EKPC plants have similar characteristics. Dale Station was winterized in both 2012/2013 and 2013/2014 winter peak seasons. The 2012/2013 winterization process was successful and no equipment sustained damage from freezing. The extreme weather during January 2014 produced a different result, even though the same winterization process had been implemented.

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2014-00226

FUEL ADJUSTMENT CLAUSE

RESPONSE TO SECOND REQUEST FOR INFORMATION

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 09/26/14

REQUEST 2

RESPONSIBLE PARTY: Julia J. Tucker

Request 2. Refer to the response to Item 26.b.(1) of the August 13, 2014 Request, page 3 of 8, which states that East Kentucky makes only "economy purchases." Refer also to page 4 of the Commission's May 2, 2002 Order in Case No. 2000-00496-B1 which states:

> We view "economy energy purchases" that are recoverable through an electric utility's FAC as purchases that an electric utility makes to serve native load, that displaces its higher cost of generation, and that have an energy cost less than the avoided variable generation cost of the utility's highest cost generating unit available to serve native load during that FAC expense month. [Emphasis added]

Explain how power purchases that have an energy cost greater than the avoided variable generation cost of the utility's highest-cost generating unit available to serve native load comport with this Commission description of "economy purchases."

Response 2. On June 1, 2013, EKPC became a Load Serving Entity ("LSE") within PJM. EKPC is required to purchase enough capacity from the PJM Reliability Pricing Model ("RPM") auction and/or supply enough capacity via the Fixed Resource Requirement ("FRR") model to ensure that EKPC's forecasted load plus required reserves can be reliably supplied from the PJM energy market. EKPC's participation in this process provides EKPC the right to depend on all of PJM's capacity. Therefore, EKPC's highest cost generating unit available to serve native load is no longer only its self-owned generation, but is now the highest cost generation that was sold into the PJM RPM auction. Demand Response ("DR") is part of the RPM auction and is generally the highest cost generation. PJM is balancing EKPC's load and generation and is determining the most economic combination of resources to reliably serve load.

If EKPC has a generator that is available and not being dispatched, then PJM has determined that it is more economical to run a different combination of units to reliably meet load requirements than to run the EKPC generator. It could be due to start-up costs, locational transmission flow issues, minimum run times or other reasons that the generator was not dispatched to operate. However, the total costs should be less than they would have been if the EKPC generator had been started. Therefore, as long as EKPC is purchasing from PJM and PJM is dispatching all of its resources in an economic manner, then EKPC is making economy purchases at all times.

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2014-00226
FUEL ADJUSTMENT CLAUSE
RESPONSE TO SECOND REQUEST FOR INFORMATION

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 09/26/14
REQUEST 3
RESPONSIBLE PARTY: Julia J. Tucker

Request 3. Refer to the response to Item 26.b.(2) of the August 13, 2014 Request, page 5 of 8, which states, "Moreover, if the dicta in the Commission's Order in Case No. 2000-00496-B were to be applied in the PJM context, it would quite likely undermine the very purpose of the FAC regulation, which is to minimize fuel cost volatility for ratepayers."

Request 3a. Explain the basis for East Kentucky's statement that "the very purpose of the FAC regulation... is to minimize fuel cost volatility for ratepayers."

Response 3a. The following statements are contained in the Commission's "The Fuel Adjustment Clause: Frequently Asked Questions" document, which is available on the Commission's website.

What is the Fuel Adjustment Clause? The FAC is a mechanism that permits jurisdictional utilities to regularly adjust the price of electricity to reflect fluctuations in the cost of fuel, or purchased power, used to supply that electricity.

Why is the FAC necessary? Fuel costs make up a significant portion of the cost of generating electricity. Fuel prices can fluctuate widely over relatively short periods, as can the price of purchased power. The FAC allows utilities to reflect those fluctuations in their electric rate without having to request changes in their base rates. Without the FAC, utilities would likely be required to file for more frequent adjustment in their base rates, and the changes in base rates would be greater.

EKPC perceives the statement underlined above to indicate that the purpose of the FAC is to reduce cost volatility to ratepayers by reducing the frequency of base rate adjustments and the magnitude of the base rate adjustments.

Request 3b. Explain how the Fuel Adjustment Clause ("FAC") regulation minimizes fuel cost volatility for ratepayers.

<u>Response 3b.</u> The FAC allows a mechanism for ratepayers to pay actual fuel costs on a timely basis as opposed to a subjectively derived estimation of costs developed in a base rate mechanism. As underlined in the statement above, the FAC reduces the frequency and magnitude of base rate adjustments.

<u>Request 3c.</u> State whether East Kentucky informed the Commission in Case No. 2012-00169, or in any other case, of a concern with applying "the dicta in the Commission's Order in 2000-00496-B" in the PJM context. If not, explain why East Kentucky did not so inform the Commission.

<u>Response 3c.</u> Subsection (3)(c) of the Fuel Adjust Clause regulation states "The net energy cost of energy purchases, exclusive of capacity or demand charges (irrespective of the designation assigned to such transaction) when such energy is purchased on an economic dispatch basis." EKPC believes its energy purchases through the PJM dispatch meets this definition and sees no conflict with the regulation.

On page 12 of the Commission's Order in Case No. 2012-00169, the last paragraph states: "As described in the Supplemental Report, CRA estimated $40 million in trade benefits over the study period. In general, this is the benefit of being able to sell excess generation into the PJM Market, taking into account the production costs associated with that generation as well as the benefit associated with being able to buy needed generation or generation that is less expensive than EKPC can generate at any given time." Based on this statement in the Order, EKPC perceived that the Commission fully understood the ramifications of including the fuel costs (a portion of production costs) for energy purchased in PJM to serve its native load. The statement also includes reference to "being able to buy needed generation", which would indicate that the Commission understood that EKPC would not be supplying all of its native load energy requirements from self-owned generation.

EKPC did make the Commission aware that it would take time to identify all of the changes that would need to be made to EKPC's FAC calculations during an Informal Conference held on August 23, 2013 at the Commission's office building. During the Informal Conference, EKPC discussed individual PJM charge codes and described how EKPC's determination of whether or not those codes should be allowed in the FAC were made. EKPC stated in that meeting that the determination of appropriate costs to be included would continue to be a "work in progress" as it gained more experience with the PJM charge codes.

Request 3d. Explain whether East Kentucky believes that the FAC regulation should be applied to utilities that are members of regional transmission organizations ("RTO") in a manner other than how it is applied to those that are not members of an RTO.

Response 3d. EKPC believes the FAC regulation should be applied consistently to all utilities regardless of whether they are members of regional transmission organizations or not. However, operating conditions and generating resources should be recognized as being made available to reliably and economically serve the utility's native load within an RTO and not require that the utility continue to maintain its own stand-alone generation resources as it had to do when not a member of an RTO. Otherwise, significant RTO membership value is diminished. EKPC reported in a letter report to Jeff Derouen on May 31, 2014 that its ratepayers had realized over $14 million in trade benefits by operating within PJM from June 1, 2013 through March 31, 2014. These trade benefits were realized by participating in the PJM Day Ahead and Real Time Balancing energy markets, and these benefits flow directly through to the ratepayers by virtue of lower fuel costs than would have been realized by not operating within the RTO construct.

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2014-00226
FUEL ADJUSTMENT CLAUSE
RESPONSE TO SECOND REQUEST FOR INFORMATION

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 09/26/14
REQUEST 4
RESPONSIBLE PARTY: Julia J. Tucker

Request 4. Refer to the response to Item 26.b.(3) of the August 13, 2014 Request. East Kentucky was requested to provide, for each month beginning November 2012 through April 2014, the amount of market power purchases included in the calculation of the FAC that were made in order to meet demand when all available East Kentucky generation was operating. East Kentucky responded that it purchases 100 percent of its load from PJM and "there were no times that the load exceeded the amount of generation available from PJM." Provide the information requested for power purchases that were made when East Kentucky's demand was in excess of the power produced from East Kentucky's generating units.

Response 4. One of the major economic benefits of joining an RTO is no longer depending on just the utility's generating units. Participating in a larger organization provides significant benefits by making additional resources available to a small utility with limited resources. The data shown below is the amount of power purchases made to serve EKPC's native load, as reported monthly in the FAC reports, over and above what EKPC generated from its own units. The ability to make these purchases on an economic basis is of great value to EKPC and its members.

November	2012	5,571,801
December	2012	4,251,027
January	2013	6,660,940
February	2013	6,387,247
March	2013	7,983,805
April	2013	7,780,584
May	2013	6,398,921
June	2013	6,403,739
July	2013	4,764,924
August	2013	7,785,069
September	2013	6,774,710
October	2013	5,875,785
November	2013	18,350,975
December	2013	13,326,076
January	2014	27,716,929
February	2014	5,934,884
March	2014	9,730,298
April	2014	6,124,929

EAST KENTUCKY POWER COOPERATIVE, INC.

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RESPONSE TO SECOND REQUEST FOR INFORMATION

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 09/26/14
REQUEST 5
RESPONSIBLE PARTY: Julia J. Tucker

Request 5. Refer to the response to Item 26.b.(4) of the August 13, 2014 Request. East Kentucky was requested to provide, for each month beginning November 2012 through April 2014, the amount of market power purchases that would have been included in the calculation of the FAC if recovery of those purchases had been limited to the cost of East Kentucky's highest-cost generating unit available. East Kentucky stated, Emergency Demand Response receives the highest dollar amount paid by PJM to serve load at that time, therefore, the energy charges from PJM to EKPC already reflect the highest cost generation unit available for EKPC to serve its load. There is no additional calculation."

Request 5a. Given that response, explain what the amounts shown in the response represent.

Response 5a. The amounts shown in the response represented the cost of purchases that would have been excluded from the FAC if the highest cost unit methodology had been used. These amounts are shown in the "Difference" column in response b. below.

Request 5b. If the amounts provided in the response do not reflect, for each month beginning November 2012 through April 2014, the amount of market power purchases that would have been included in the calculation of the FAC if recovery of chose purchases had been limited to the cost of East Kentucky's highest-cost generating unit available, provide the information requested.

Response 5b. The summary listed on page three of this response represents the purchases included in the FAC from November 2012 through April 2014, along with a computation of FAC includable purchases using the highest cost unit methodology for that same timeframe. The "Difference" column represents purchases that would have been excluded from the FAC calculation using the highest cost methodology. Please be advised that EKPC used the highest cost unit methodology through December 2013. However, even though EKPC has provided the data as requested, we do not believe that ignoring all of the other generation available to EKPC via the RTO is appropriate.

		Purchases Included in FAC	FAC Purchases Using Highest Cost Methodology	Difference
November	2012	5,571,801	5,571,801	
December	2012	4,251,027	4,251,027	
January	2013	6,660,940	6,660,940	
February	2013	6,387,247	6,387,247	
March	2013	7,983,805	7,983,805	
April	2013	7,780,584	7,780,584	
May	2013	6,398,921	6,398,921	
June	2013	6,403,739	6,403,739	
July	2013	4,764,924	4,764,924	
August	2013	7,785,069	7,785,069	
September	2013	6,774,710	6,774,710	
October	2013	5,875,785	5,875,785	
November	2013	18,350,975	18,350,975	
December	2013	13,326,076	13,326,076	
January	2014	27,716,929	20,027,570	7,689,359
February	2014	5,934,884	5,705,770	229,114
March	2014	9,730,298	9,135,571	594,727
April	2014	6,124,929	6,099,342	25,587
		157,822,643	**149,283,856**	**8,538,787**

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2014-00226
FUEL ADJUSTMENT CLAUSE
RESPONSE TO SECOND REQUEST FOR INFORMATION

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 09/26/14
REQUEST 6
RESPONSIBLE PARTY: Julia J. Tucker

Request 6. Refer to the response to Item 26.c.(2) of the August 13, 2014 Request. State whether the entire amounts billed (or credited) in PJM codes 1375 and 2375 are included in the FAC calculation, or only a portion are included.

Response 6. All of the amounts billed (or credited) in PJM codes 1375 and 2375 are included in the FAC calculation.

EAST KENTUCKY POWER COOPERATIVE, INC.

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COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 09/26/14
REQUEST 7
RESPONSIBLE PARTY: Julia J. Tucker

Request 7. Refer to the response to Item 26.c.(3) of the August 13, 2014 Request, page 8 of 8.

Request 7a. Confirm that the table shows that had East Kentucky included PJM codes 1375 and 2375 in the calculation of the FAC for the June 2013 through December 2013 expense months, East Kentucky would have credited an additional $522,754 to its member cooperatives. If this cannot be confirmed, explain what the table shows.

Response 7a. Yes.

Request 7b. State whether East Kentucky believes that $522,754 should be credited to fuel costs in the calculation of a future FAC in order to achieve consistency in the type of codes that are included in the FAC calculation. If not, explain why.

Response 7b. If the Commission agrees that it is appropriate to recover the costs included in these charge codes through the FAC, then yes, EKPC agrees that it should credit this value in a future FAC to be consistent in its accounting practices.

EAST KENTUCKY POWER COOPERATIVE, INC.

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COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 09/26/14
REQUEST 8
RESPONSIBLE PARTY: Julia J. Tucker

Request 8. Refer to the response to Item 28 of the August 13, 2014 Request.

Request 8a. For each month beginning November 2012 through April 2014, provide the amount of market power purchases in excess of the power produced from East Kentucky's generating units that was included in the calculation of the FAC that were made during a planned outage.

Response 8a. Subsection (3)(c) of the Fuel Adjust Clause regulation states "The net energy cost of energy purchases, exclusive of capacity or demand charges (irrespective of the designation assigned to such transaction) when such energy is purchased on an economic dispatch basis. Included therein may be such costs as the charges for economy energy purchases and the charges as a result of scheduled outage,

……." EKPC has never separately accounted for the replacement energy during planned outages since those are recoverable through the regulation. Any value provided in response to this request would be an estimated value. EKPC knows when specific units were not available due to planned maintenance, but it does not know if or how that unit would have been dispatched had it been fully available.

Request 8b. For each month beginning November 2012 through April 2014, provide the amount of market power purchases in excess of the power produced from East Kentucky's generating units that would have been included in the calculation of the FAC if recovery of those purchases through the FAC had been limited to the cost of East Kentucky's highest-cost generating unit available.

Response 8b. See Response 5b.

Request 8c. East Kentucky states on page 2 that "EKPC is always utilizing what is deemed to be the most economic dispatch of resources regardless of whether or not it is owned generation or energy supplied from the market. EKPC's self-owned highest cost generation is no longer the measure to be utilized for this calculation." Has the Commission, through issuance of an Order, determined that East Kentucky's owned, highest-cost generation unit would no longer be used as the measure for this calculation?

If so, provide the case number and date of the order. If not, explain the basis for East Kentucky's conclusion that its owned generation is no longer the measure to be used.

Response 8c. One of the major economic benefits of joining an RTO is no longer depending on just the utility's generating units. Participating in a larger organization provides significant benefits by making additional resources available to a small utility with limited resources. EKPC's participation in the PJM capacity market provides EKPC the right to depend on all of PJM's capacity. Therefore, EKPC's highest cost generating unit available to serve native load is no longer only its self-owned generation, but is now the highest cost generation that was sold into the PJM RPM auction. Demand Response ("DR") is part of the RPM auction and is generally the highest cost generation. PJM is balancing EKPC's load and generation and is determining the most economic combination of resources to reliably serve load. EKPC supplied a report to the Commission, via a transmittal to Jeff Derouen on May 31, 2014, which showed that EKPC's ratepayers had realized a value of over $14 million in trade benefits through March 31, 2014. Trade benefits occur because EKPC economically purchases energy from the PJM market and economically sells generation into the PJM market. EKPC ratepayers would not have realized this value if EKPC continued to only consider its self-owned generation as the only resources available to serve EKPC native load or had remained a stand-alone balancing authority. EKPC believes that dispatching in this manner and recovering costs via the FAC are in compliance with the regulation. As stated previously, Subsection (3)(c) of the Fuel Adjust Clause regulation states "The net energy cost of energy purchases, exclusive of capacity or demand charges (irrespective of the designation assigned to such transaction) when such energy is purchased on an economic dispatch basis." PJM is economically dispatching its units, of which EKPC's units are a portion thereof, and EKPC is buying energy based on this economic dispatch methodology to serve its native load. EKPC perceives this methodology to be consistent with the FAC regulation.