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June 27, 2017

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PUBLIC SERVICE
COMMISSION

VIA USPS
Ms. Talina R. Mathews, Ph.D.
Executive Director
Kentucky Public Service Commission
P.O. Box 615
211 Sower Boulevard
Frankfort, Kentucky 40602

Re: *In the Matter of an Examination of the Application of the Fuel Adjustment Clause of East Kentucky Power cooperative, Inc. from November 1, 2014 through October 31, 2016* - **PSC Case No. 2017-00002**

Dear Dr. Mathews:

Please find enclosed and accept for filing in the above-styled matter on behalf of East Kentucky Power Cooperative, Inc. ("EKPC"), an original and ten (10) copies of EKPC's *Comments Following June 22, 2017 Informal Conference*.

I appreciate your assistance with this matter, and please do not hesitate to contact me with any questions or concerns.

Respectfully,

Mark David Goss

Enclosures

COMMONWEALTH OF KENTUCKY

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JUN 28 2017

PUBLIC SERVICE COMMISSION

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. FROM NOVEMBER 1, 2014 THROUGH OCTOBER 31, 2016	)))))	CASE NO. 2017-00002

EAST KENTUCKY POWER COOPERATIVE, INC.'S COMMENTS FOLLOWING JUNE 22, 2017 INFORMAL CONFERENCE

Comes now East Kentucky Power Cooperative, Inc. ("EKPC"), by counsel, and hereby provides its comments to the various options discussed at the Informal Conference held in this matter on June 22, 2017, to address issues pertaining to billing lag in the implementation of the Fuel Adjustment Clause ("FAC").

During the June 22, 2017 Informal Conference, Commission Staff again suggested that the lag issue raised by EKPC in this case may not be a result of the Commission approving a simultaneous change in base rates for EKPC and its Owner-Member Cooperatives ("Owner Members") but instead a result of language that has been included in the EKPC final Orders when a change is made to the base fuel rate. Commission Staff noted that for many years, the final Orders have approved a change in the base fuel rate effective for service rendered on and after a specific date and then approved the use of the new base fuel rate in the calculation of the FAC for service rendered on and after that same specific date.

During the discussion Commission Staff expressed its belief that the lag issue would be resolved if the FAC expense month was changed. It was suggested that language in the final Order should designate the first FAC expense month reflecting the new base fuel rate rather than following a "service rendered" approach. For example, if the new base fuel rate in the energy rate were effective for service on and after July 1, 2017, then the first FAC expense month reflecting the new base fuel rate would be the expense month of July 2017.

In evaluating this alternative, EKPC returns to the basic assumptions it has expressed throughout this proceeding concerning the lag issue. As was expressed in EKPC's testimony, the FAC amount coupled with the energy rate should result in billing customers the actual fuel costs for a given month, whether the customer is the Owner Member or the End-Use Retail Member. In order to do that, both the energy rate and the FAC amount must reflect the same base fuel costs. With this foundation, EKPC would like to offer the following illustration to help explain why it does not believe the alternative approach is a reasonable solution.

EKPC's June 2017 billing to its Owner Members reflected the following information:

1. kWh Sales to Members subject to FAC – May 2017 Service	918,204,107
2. Current Fuel Cost per kWh – April 2017 Expense Month	$0.02482
3. Base Fuel Cost per kWh	$0.03014
4. FAC – April 2017 Expense Month (line 2 – line 3)	($0.00532)
5. Base Fuel Cost through Energy Rate (line 1 x line 3)	$27,674,672
6. FAC (line 1 x line 4)	($4,884,846)
7. Net Base Fuel billed to Members in June 2017	$22,789,826

Assume that the Commission determined that EKPC's base fuel cost should be reestablished at $0.02776 per kWh. The effective date is for service rendered on and after May 1, 2017. Lastly, consistent with previous Commission Orders, for service rendered on and after May 1, 2017 the FAC rate would be based on a base fuel cost of $0.02776 per kWh, which means the April 2017 expense month for FAC purposes. The June 2017 billing to Members would reflect the following:

1. kWh Sales to Members subject to FAC – May 2017 Service	918,204,107
2. Current Fuel Cost per kWh – April 2017 Expense Month	$0.02482
3. New Base Fuel Cost per kWh	$0.02776
4. FAC – April 2017 Expense Month (line 2 – line 3)	($0.00294)
5. Base Fuel Cost through Energy Rate (line 1 x line 3)	$25,489,346
6. FAC (line 1 x line 4)	($2,699,520)
7. Net Base Fuel billed to Members in June 2017	$22,789,826

To illustrate Commission Staff's suggestion as EKPC understands it, assume the same information as above, but that May 2017 would be the first FAC expense month. The June 2017 billing to Members would reflect the following:

1. kWh Sales to Members subject to FAC – May 2017 Service	918,204,107
2. Current Fuel Cost per kWh – April 2017 Expense Month	$0.02482
3.a. New Base Fuel Cost per kWh	$0.02776
3.b. Old Base Fuel Cost per kWh	$0.03014
4. FAC – April 2017 Expense Month (line 2 – line 3.b.)	($0.00532)
5. Base Fuel Cost through Energy Rate (line 1 x line 3.a.)	$25,489,346
6. FAC (line 1 x line 4)	($4,884,846)
7. Net Base Fuel billed to Members in June 2017	$20,604,500
8. Fuel Cost Unrecovered ($22,789,826 – line 7)	$2,185,326

In the above calculations, the FAC would be reflecting the previous base fuel cost, since the expense month is April 2017 and the new base fuel cost is not to be reflected until the May 2017 expense month. In this illustration, EKPC believes it would not recover $2,185,326 in fuel costs. Further, EKPC would not be able recover this amount in a subsequent monthly true-up adjustment because the true-up adjustment focuses on the difference in the kWh billed, not the FAC rate. Consequently, EKPC does not believe the alternative approach suggested by Commission Staff is a reasonable solution to the lag issue that was raised in this proceeding.

EKPC also would note that had there been an increase in the base fuel cost, these illustrations would have shown EKPC over-collecting its fuel costs, with no means to return the over-collection to its Owner Members.

As was noted during the discussions at the June 22, 2017 informal conference, there appear to be four alternatives currently available to address the lag issue raised by EKPC:

1. No adjustment to the current base fuel cost.
2. Approve the solution proposed by EKPC in its testimony.
3. Maintain the status quo and change nothing.
4. Approve the alternative approach suggested by Commission Staff.

As indicated in its testimony, EKPC's first and preferred choice would be the first alternative, even though this alternative only solves the lag issue for this proceeding. EKPC's next preferred choice would be the second alternative, for the reasons it has presented. Given the efforts by EKPC and Commission Staff to try and address the lag issue during this proceeding, the third alternative really accomplishes nothing and should not be considered. EKPC again appreciates the efforts of Commission Staff to try and resolve the lag issue. However, EKPC does not believe the fourth alternative is a reasonable solution as it would result in EKPC's inability to recover all of its fuel costs in the "transition" month when the energy rates reflect one base fuel cost and the FAC calculations are based on a different base fuel cost. A majority of EKPC's Owner Members agree with EKPC's two preferred alternatives for the reasons stated in the testimony and these comments.

WHEREFORE, EKPC respectfully requests that the Commission consider and implement these comments in arriving at a final decision on this issue.

This 27th day of June, 2017.

Respectfully submitted,

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