

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION OF THE APPLICATION OF)	
THE FUEL ADJUSTMENT CLAUSE OF EAST)	CASE NO.
KENTUCKY POWER COOPERATIVE, INC.)	2016-00231
FROM NOVEMBER 1, 2015 THROUGH APRIL)	
30, 2016)	

ORDER

Pursuant to 807 KAR 5:056, the Commission established this case on August 12, 2016, to review and evaluate the operation of the Fuel Adjustment Clause (“FAC”) of East Kentucky Power Cooperative, Inc. (“East Kentucky”) for the six-month period that ended on April 30, 2016. As part of this review, East Kentucky responded to three requests for information and the Commission held a formal hearing in this matter on November 9, 2016. On November 16, 2016, East Kentucky filed its responses to data requests made at the hearing.

The Commission has previously established East Kentucky’s base fuel cost as 30.14 mills per kWh.¹ A review of East Kentucky’s monthly FAC filings shows that the fuel cost billed for the six-month period under review ranged from a low of 23.24 mills in March 2016 to a high of 27.14 mills in November 2015, with a six-month average of 25.26 mills.

¹ Case No. 2010-00491, *An Examination of the Application of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from November 1, 2008 Through October 31, 2010* (Ky. PSC May 31, 2011).

Substitute Cost of Power During Forced Outage

The Commission became aware during this proceeding that East Kentucky uses purchased power as the substitute cost of generation during a forced outage, even if it uses its own generation to substitute for the lost generation.² The Commission believes this methodology to be in error and believes it must now clarify which costs should be used as the substitute cost of power during a forced outage. The substitute cost of power should reflect the cost of the power that replaced the unit forced out of service. For example, if power was purchased to replace the lost generation, then the cost of the power purchases is the substitute cost. If the utility increased its own generation to substitute for the lost generation, then the cost of the generation is the substitute cost. If power was purchased and the utility generated additional power from other units to replace the lost generation, then the substitute cost is equal to the total of the power purchases and the fuel costs of the additional generation. It is not appropriate for East Kentucky to use the price of market power as the substitute generation cost during a forced outage when it uses its own generation to replace the lost generation. The market price of power will not necessarily equal the fuel costs associated with using its own generation. The Commission finds that, when East Kentucky uses its own generation to substitute for power during a forced outage, it should immediately begin using the fuel costs associated with generating that power as the substitute cost of power rather than the market price of power.

The Commission also became aware that some utilities are calculating the substitute generation costs using the average cost of all other units operating during the

² East Kentucky's response to Commission Staff's Third Request for Information, Item 2, and November 9, 2016 Hearing at 9:22:39.

forced outage period, rather than using the cost of a specific unit or units. The Commission finds this methodology to be acceptable when it is problematic and overly burdensome to determine the specific unit(s) affected by a forced outage and the extent to which each unit is affected.

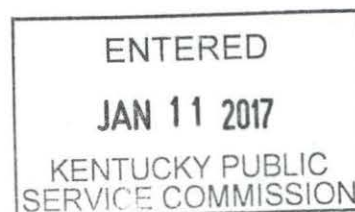
The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds no evidence of improper calculation or application of East Kentucky's FAC charges or improper fuel procurement practices, except as discussed herein as related to the substitute cost of power during a forced outage.

IT IS THEREFORE ORDERED that:

1. The charges and credits billed by East Kentucky through its FAC for the period November 1, 2015, through April 30, 2016, are approved.

2. When East Kentucky uses its own generation to substitute for power during a forced outage, it shall immediately begin using the fuel costs associated with generating that power as the substitute cost of power rather than the price of market power.

By the Commission



ATTEST:


Executive Director

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