

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.	)	2014-00226
FROM NOVEMBER 1, 2013 THROUGH APRIL	)	
30, 2014	)	

ORDER

Pursuant to 807 KAR 5:056, the Commission established this case on August 13, 2014, 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, 2014. On January 30, 2015, the Commission issued an Order ("January 30, 2015 Order") which, among other things, disallowed certain purchased-power costs amounting to \$8,538,787 that the Commission determined were in excess of East Kentucky's own highest-cost generating unit available to be dispatched to serve native load during the reporting expense month. The Commission directed East Kentucky to refund to customers, through the FAC, \$2,134,696.75 each month for four months.

On February 19, 2015, East Kentucky filed a petition for rehearing ("Petition"). On March 3, 2015, Grayson Rural Electric Cooperative Corporation ("Grayson"), an intervenor in this matter, filed a response objecting to East Kentucky's Petition and requesting that it be denied. On March 6, 2015, the Commission granted East Kentucky's Petition to allow for further evaluation of the issues presented. On May 26,

2015, East Kentucky and Grayson filed a joint motion stating that they had reached a settlement that resolves various issues between the two parties and requesting that Grayson be permitted to withdraw as an intervenor in this proceeding. The joint motion further requests that any outstanding motions or other materials Grayson has filed in this proceeding be denied as moot or held for naught.<sup>1</sup> The Commission will grant the relief requested by the joint motion.

In its Petition, East Kentucky argues that the Commission's Order: misapplied 807 KAR 5:056 (the "FAC regulation"); was internally inconsistent; did not address arguments made by East Kentucky in its post-hearing brief; and created multiple unintended consequences. With this Order, the Commission reaffirms its decision that East Kentucky's power purchases are limited for recovery through the FAC and addresses each of East Kentucky's arguments below.

#### Interpretation of the FAC Regulation

In its Petition, East Kentucky relies upon 807 KAR 5:056, Section 1(3)(c), which provides that fuel costs recoverable under the FAC include the most recent actual monthly cost of:

[t]he 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, all such kinds of energy being purchased by the buyer to substitute for its own higher cost energy. . . .

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<sup>1</sup> The outstanding motions or other filings that Grayson has submitted in this matter include: a Response to Petition for Rehearing submitted on March 3, 2015; a Response to East Kentucky's request for an informal conference submitted on April 2, 2015; and a Notice of Filing submitted on April 8, 2015.

East Kentucky states that 807 KAR 5:056, Section 1(3)(c), includes “economy energy purchases” as a category of net energy costs of energy purchases made on an economic dispatch basis, but argues that the terms “net energy cost of energy purchases purchased on an economic dispatch basis,” as used in the FAC regulation, and “economy energy purchases,” as that term is defined by the Commission in Case No. 2000-00496-B,<sup>2</sup> are not identical. East Kentucky states that the Commission did not address this argument in its January 30, 2015 Order.

While East Kentucky focuses its argument on the differentiation between the two terms, the Commission notes that this differentiation is irrelevant when the focus is placed on the meaning of the term “economic dispatch basis” as used in the FAC regulation. Arguing that 807 KAR 5:056, Section 1(3)(c), permits recovery of energy purchases via the FAC if such purchases are based upon an “economic dispatch basis,” EKPC contends that the energy purchases it makes in the PJM Interconnection, Inc. (“PJM”) Day-Ahead and Real-Time Energy Markets must be eligible for FAC recovery because PJM operates its Energy Markets on a security-constrained economic dispatch basis.<sup>3</sup> East Kentucky points out that since it became a fully integrated member of PJM in 2013, its participation in PJM’s Energy Markets renders its situation to be outside the scope of how the Commission has traditionally defined the terms “economy energy purchases” and “non-economy energy purchases” because EKPC now has to fully rely

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<sup>2</sup> Case No. 2000-00496-B, *An Examination of the Application of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from May 1, 2001 to October 31, 2001* (Ky. PSC May 2, 2002), Order at 4. The Commission defined “economy energy purchases” that are recoverable through an electric utility’s FAC as purchases that an electric utility makes to serve native load, that displace 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.

<sup>3</sup> Petition at 5 and 8.

on the PJM Energy Markets on a daily basis as it sells all of its energy into the PJM Market and purchases all of its energy from the PJM Market.<sup>4</sup>

The Commission finds no merit in East Kentucky's assertion that the term "economic dispatch basis" is a reference to the seller's, i.e., PJM's, "economic dispatch basis." The term "economic dispatch basis," as used in 807 KAR 5:056, Section 1(3)(c), is a reference to the purchaser's, i.e., East Kentucky's, economic dispatch and not the seller's. It is only reasonable that the FAC regulation refers to the purchaser's economic dispatch, as a seller's economic dispatch of generation it owns or controls has no relation to the highest cost of energy that a purchasing utility could produce from its own generation. Although East Kentucky avers that it sells and procures all of its energy into and from the PJM Energy Markets, the sale by East Kentucky of its energy into the PJM Energy Markets is based upon a bid and the value of that bid is generally reflective of East Kentucky's marginal cost to produce that energy. Therefore, regardless of the fact that PJM dispatches all of the generation within its footprint on a security-constrained economic dispatch basis, East Kentucky's ability to recover its net energy cost of energy purchases is limited through the FAC, because the FAC regulation allows for recovery of only those purchases when such energy is purchased on the basis of an economic dispatch of East Kentucky's generation. The fact that East Kentucky is now a member of PJM does not justify a new interpretation of the FAC regulation. The FAC regulation limits a utility's monthly recovery of fuel cost associated with economy purchases to those costs that are no higher than the costs the utility would have incurred if the energy were generated by its highest-cost generating unit. So while East Kentucky argues that power purchases "must be eligible for FAC

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<sup>4</sup> Petition at 5.

recovery because PJM operates its Energy Markets on a security-constrained economic dispatch basis,”<sup>5</sup> its argument is based on an erroneous interpretation of “economic dispatch basis.” It is clear and irrefutable that for years the Commission has interpreted the “economic dispatch basis” referred to in the FAC regulation as being East Kentucky’s economic dispatch of its own generation, not the economic dispatch of generation owned or controlled by PJM or any other seller to East Kentucky. It is the economic dispatch of East Kentucky’s generation, not the economic dispatch of a seller to East Kentucky, that establishes the highest cost of energy for purposes of cost recovery under the FAC.

Internal Consistency of the Commission’s January 30, 2015 Order

East Kentucky characterizes the Commission’s language as inconsistent and inaccurate in the January 30, 2015 Order, which states that the FAC regulation “was never meant to allow the utility to recover 100 percent of fuel costs incurred on a monthly basis, as evidenced by the restrictions set out in the regulation.” East Kentucky argues that the restrictions in the FAC regulation apply only to forced outage substitutions, capacity and demand charges, and energy purchases on a non-economic basis, and that none of those limitations are at issue in this proceeding. Rather than disproving the Commission’s statement, East Kentucky’s listing of three restrictions set forth in the FAC regulation proves its accuracy. When East Kentucky, or any other electric generating utility, purchases energy at a price that exceeds the cost of its highest-cost generating unit, the purchase is not made on the basis of the purchaser’s economic dispatch and, under the FAC regulation, cost recovery is limited. Under the provisions of the FAC regulation, those purchases made at a cost above the highest-

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<sup>5</sup> Petition at 5

cost unit in East Kentucky's economic dispatch are by definition uneconomic and are therefore at issue in this proceeding.

East Kentucky also argues that the language at issue is contradicted by two previous Orders of the Commission. In Case No. 2004-00430, the Commission stated that the FAC is "a means for [an electric] utility to recover from its customers its current fuel expense through an automatic rate adjustment without the necessity for a full regulatory rate proceeding."<sup>6</sup> But as East Kentucky itself now acknowledges, the FAC regulation does not allow for the monthly recovery of fuel costs associated with forced outage substitutions, capacity and demand charges, and energy purchases on a non-economic basis. Thus, the quoted statement from Case No. 2004-00430 is certainly true in the context of a general description of the FAC regulation, but there are clear limits under the FAC regulation as to the costs that can be recovered as a "current fuel expense." Under East Kentucky's reading of the quoted statement in Case No. 2004-00430, the Commission would be powerless to enforce the provision of 807 KAR 5:056, Section 1(11), which requires "a utility to charge off and amortize, by means of a temporary decrease of rates, any adjustment [the Commission] finds unjustified due to improper calculation or application of the charge or improper fuel procurement practices."

East Kentucky also relied on the following language in that same Order in Case No. 2004-00430 for the proposition that all actual fuel costs are recoverable through the FAC:

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<sup>6</sup> Case No. 2004-00430, *East Kentucky Power Cooperative's Request for a Declaratory Ruling on the Application of Administrative Regulation 807 KAR 5:056 to Its Proposed Treatment of Non-Economy Energy Purchases* (Ky. PSC Feb. 7, 2005), Order at 2.

The regulation prescribes a strict procedure for accounting and reporting fuel costs and requires the reporting of all fuel costs. It does not allow any discretion to a utility to ignore or underreport such costs that are otherwise considered a “fuel cost” or to use other than actual costs. The regulation makes no exceptions and provides for no variations or deviations from the stated reporting methodology.<sup>7</sup>

In Case No. 2004-00430, East Kentucky was requesting to report the cost of non-economy energy purchases as \$0 in its FAC when made at times when all available East Kentucky generating capacity was serving native load. Therefore, East Kentucky was requesting to underreport fuel costs that otherwise would have been recoverable through the FAC. That is not the case here. In this proceeding, East Kentucky is, in fact, requesting the opposite. It is requesting that it be allowed to report 100 percent of all purchased-power costs for non-economy energy purchases in its FAC when the Commission has previously ruled the portion in excess of its highest-cost unit to be unrecoverable through the FAC.

East Kentucky further argues that the Commission’s statement is inconsistent with 807 KAR 5:056, Section 1(3)(b), which states that “[t]he actual identifiable fossil and nuclear fuel costs associated with energy purchased for reasons other than identified in paragraph (c) of this subsection, but excluding the cost of fuel related to purchases to substitute for the forced outages” are includable for recovery through the FAC. East Kentucky contends that if the energy purchases from PJM are not recoverable under Section 1(3)(c) of the FAC regulation, they would be recoverable

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<sup>7</sup> *Id.* at 5.

under Section 1(3)(b) of the FAC regulation “because there is no dispute that PJM Energy Market costs are fuel costs.”<sup>8</sup>

While Section 1(3)(c) of the FAC regulation permits the inclusion of economy energy purchases in the cost of fuel for FAC purposes when such energy is purchased on an economic dispatch basis, Section 1(3)(b) of the FAC regulation permits the recovery of “actual identifiable fossil fuel costs associated with energy purchased” in non-economy transactions. In a prior East Kentucky fuel case, Case No. 2000-00496-B, the Commission stated that “[n]on-economy energy purchases are purchases’ made to serve native load that have an energy cost greater than the avoided variable cost of the utility’s highest cost generating unit available to serve native load during that FAC expense month.”<sup>9</sup>

In East Kentucky’s fuel case, Case No. 2004-00430,<sup>10</sup> the Commission modified its definition of “non-economy energy purchases,” stating that:

[t]he definition of “non-economy energy purchases” set forth in our Order in Case No. 2000-00496-B too narrowly construes 807 KAR 5:056 and conflicts with the regulation. A more accurate definition of non-economy energy purchases recognizes that the energy costs thereof may be greater or less than the variable cost of the highest cost generating unit available to serve native load.<sup>11</sup>

In its May 2, 2002 Order in Case No. 2000-00496-B, the Commission addressed the recovery of “non-economy energy purchases,” stating that:

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<sup>8</sup> Petition at 7.

<sup>9</sup> Case No. 2000-00496-B, *East Kentucky Power Cooperative, Inc.* (Ky. PSC May 2, 2002), Order at 4.

<sup>10</sup> Case No. 2004-00430, *East Kentucky Power Cooperative, Inc.* (Ky. PSC Mar. 21, 2005), Order at 6.

<sup>11</sup> *Id.* at 6.



[w]e interpret Administrative Regulation 807 KAR 5:056 as permitting an electric utility to recover through its FAC only the lower of the actual energy cost of the non-economy purchased energy or the fuel cost of its highest cost generating unit available to be dispatched to serve native load during the reporting expense month. Costs for non-economy energy purchases that are not recoverable through an electric utility's FAC are considered "non-FAC expenses" and, if reasonably incurred, are otherwise eligible for recovery through base rates.<sup>12</sup>

As stated in the Commission's January 30, 2015 Order in this proceeding, although the Commission modified the definition of "non-economy energy purchases" in Case No. 2004-00430 to recognize "that the energy costs thereof may be greater or less than the variable cost of the highest cost generating unit available to serve native load,"<sup>13</sup> it did not modify the limitation in the FAC regulation that restricts a utility's FAC recovery to "only the lower of the actual energy cost of the non-economy purchased energy or the fuel cost of its highest cost generating unit available to be dispatched to serve native load during the reporting expense month."<sup>14</sup> In its Petition, East Kentucky acknowledges that the restrictions on recovery set forth in 807 KAR 5:056, Sections 1(3)(b) and (c), include energy purchases made on a non-economic basis.<sup>15</sup>

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<sup>12</sup> Case No. 2000-00496-B, *East Kentucky Power Cooperative, Inc.* (Ky. PSC May 2, 2002), Order at 5.

<sup>13</sup> Case No. 2004-00430, *East Kentucky Power Cooperative, Inc.* (Ky. PSC Mar. 21, 2005), Order at 6.

<sup>14</sup> Case No. 2000-00496-B, *East Kentucky Power Cooperative, Inc.* (Ky. PSC May 2, 2002), Order at 5. [Emphasis added]

<sup>15</sup> Petition at 5-6.

## PJM Billing Codes

East Kentucky states that the Commission has deferred for consideration in East Kentucky's pending two-year FAC review proceeding, Case No. 2014-00451,<sup>16</sup> the applicability of various PJM billing codes until its two-year FAC review proceeding is complete and that, by ignoring the applicability of 807 KAR 5:056, Section 1(3)(b), the Commission has "excluded significant sums from FAC recovery without determining which of the costs billed to EKPC by PJM are fuel related."<sup>17</sup> The Commission finds no merit in this argument. The Commission has not ignored the applicability of Section 1(3)(b) of the FAC regulation. In addition, the Commission notes that the power purchases to which East Kentucky is comparing the costs of its highest-cost unit are those associated with PJM billing codes 1200 and 1205 (Day-Ahead Spot Market Energy and Balancing Spot Market Energy, respectively) which are shown in the "Net Energy Cost-Economy Purchases" section of the monthly FAC filing.<sup>18</sup> To the extent that the Commission finds that any of the other PJM codes<sup>19</sup> are appropriate or not appropriate for inclusion in the FAC calculation, it would not affect the calculation of the \$8,538,787 disallowed in this proceeding.

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<sup>16</sup> Case No. 2014-00451, *An Examination of the Application of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from November 1, 2012 through October 31, 2014* (filed Feb. 5, 2015).

<sup>17</sup> Petition at 7.

<sup>18</sup> See the response to the Post-Hearing Data Request, Item 6, in Case No. 2014-00451, *East Kentucky Power Cooperative, Inc.* (filed Apr. 14, 2015).

<sup>19</sup> *Id.* All of the other PJM billing codes included by East Kentucky in the FAC calculation are shown as "PJM Day Ahead Balancing" in the "Company Generation" section of the monthly FAC filing.

### Applying the FAC Regulation Consistently

East Kentucky argues that the FAC regulation has been applied inconsistently because the Commission has allowed Kentucky Power Company (“Kentucky Power”) “to use a proxy price to establish the highest-cost generating unit available” for calculation in the FAC.<sup>20</sup> East Kentucky equates its membership in PJM to Kentucky Power’s participation in what was the American Electric Power Pool (“AEP Pool”),<sup>21</sup> and states that the Commission arrived at opposite conclusions regarding the two situations. East Kentucky contends that “[i]t is unreasonable for the Commission to hold that participation in a regional energy market clearly operated under federally-mandated economic dispatch principles is not acceptable for FAC purposes, while simultaneously allowing Kentucky Power Company to use a price proxy mechanism that is not included anywhere in the FAC regulation.”<sup>22</sup>

The Commission sees no similarity between the two situations. The Commission found Kentucky Power to be unique among the Kentucky generators in that it owned and operated only base-load coal-fired units, whereas all other generating utilities have peaking units. Kentucky Power was able to serve its native load cost-effectively without the need for peaking units due to its participation in the AEP Pool. Not allowing the proxy mechanism would have limited Kentucky Power’s recovery to a lesser portion of the cost of power purchased than other utilities that operated higher-cost gas-fired peaking generators, even if the supplier and source of supply was the same. This is

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<sup>20</sup> Petition at 7.

<sup>21</sup> It is noted that the American Electric Power Pool was terminated on December 31, 2013.

<sup>22</sup> Petition at 8.

because another jurisdictional electric utility purchasing power from the same third party as Kentucky Power would have the higher limitation for recovery of the power purchases at the higher-cost gas-fired peaking generator. Therefore, the Commission found it reasonable to allow the proxy mechanism to be used as the ceiling for recovery through the FAC. In this proceeding, East Kentucky is requesting that it be allowed to recover through the FAC purchased-power costs above the cost of its highest-cost unit available to be dispatched, which for East Kentucky is a natural gas-fired unit, because PJM operates on a security-constrained economic dispatch. The Commission finds no inconsistency in the two decisions. As previously stated, the Commission has clarified that the use of “economic dispatch basis” in the FAC regulation refers to East Kentucky’s economic dispatch and not that of PJM.

#### Incentives and Consequences

East Kentucky argues that the Commission’s January 30, 2015 Order creates uncertainty on the future decision-making for it and other jurisdictional electric utilities. East Kentucky states that “[t]he core benefit of joining PJM was EKPC’s ability to reduce capacity reserve requirements and monetize EKPC’s seasonal peak diversity from PJM as a whole,”<sup>23</sup> but that the Commission’s January 30, 2015 Order penalizes East Kentucky for not being able to directly serve its own peak load when its available assets are fully committed. According to East Kentucky, this penalty is the disallowance of expenses incurred through PJM. East Kentucky quotes the Commission’s January 30, 2015 Order, which stated that the recovery limitation would “incentivize utilities to . . .

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<sup>23</sup> *Id.* at 8.

have sufficient capacity to meet load,”<sup>24</sup> and notes that this statement contradicts East Kentucky’s primary motivation for entering into PJM. East Kentucky also points to its recently approved economic development rate (“EDR”) tariff which anticipated the situation in which it did not have to own surplus generating capacity as a prerequisite to serve new load that qualified for the EDR tariff. East Kentucky argues that, under the terms of the Commission’s January 30, 2015 Order, the energy costs associated with serving the new load under the scenario of East Kentucky not having its own surplus capacity would automatically be excluded for recovery through the FAC and therefore nullifies its incentive to pursue new economic development load. The Commission believes that East Kentucky overstates the issue and makes the assumption that, under the scenario of East Kentucky not having its own surplus generation, the cost of all energy purchased would be in excess of East Kentucky’s highest-cost unit available to be dispatched during the month. To the extent that the energy purchases are necessary to serve the new load, all amounts not in excess of the cost of East Kentucky’s highest-cost unit available to be dispatched during the month would be recoverable through the FAC.

Finally, East Kentucky argues that the Commission’s January 30, 2015 Order calls into question the value of its long-term participation in PJM. East Kentucky states that in the Final Order in Case No. 2012-00169,<sup>25</sup> it was directed to file in 2015 a mechanism for returning certain benefits from participation in the PJM Capacity Market outside of the historical capital credit payment methodology, and that it accepted that

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<sup>24</sup> January 30, 2015 Order at 8.

<sup>25</sup> Case No. 2012-00169, *Application of East Kentucky Power Cooperative, Inc. to Transfer Functional Control of Certain Transmission Facilities to PJM Interconnection, LLC* (Ky. PSC Dec. 20, 2012).

condition even though it would cause a delay in improvement of its equity ratio. East Kentucky argues that it has reduced its costs to its member cooperatives by \$14 million through the first 10 months of participation in the PJM energy markets, but that the Commission's January 30, 2015 Order requires it to pay for energy market savings out of its own margins. East Kentucky states that "[t]he short-term effect of this result is that EKPC's Members are receiving an artificially low cost for power that is comprised of participation in an economically-efficient energy market coupled with non-recovery of a significant portion of the fuel expenses that make that benefit possible."<sup>26</sup> East Kentucky states that the long-term effect will be more frequent base rate increases.

In Case No. 2012-00169, the Commission found that "the bulk of the trade benefits that EKPC expects to accrue as a member of PJM will flow back to its 16 member cooperatives and their retail customers through the Fuel Adjustment Clause."<sup>27</sup> In response to a Commission Staff information request in that proceeding, East Kentucky stated:

As a market participant, EKPC plans to bid all of its generation into the PJM market and purchase all of the energy required to serve its members systems' load from the same market. The net effect of these purchases and sales is that EKPC's energy costs are capped at the price EKPC could have generated the energy from its plants, because EKPC's capacity exceeds its demand. When the energy market is less than the cost of EKPC's generation, then the member systems' energy costs will reflect the market costs. When the energy market is more expensive than EKPC's generation costs, then the members will pay EKPC's

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<sup>26</sup> Petition at 10.

<sup>27</sup> Case No. 2012-00169, *East Kentucky Power Cooperative, Inc.* (Ky. PSC Dec. 20, 2012), Order at 20.

generation costs. Thus, EKPC's generation costs cap the exposure to market cost volatility to the member systems.

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During periods where EKPC's load exceeds its available generating capacity such as during winter months, load will pay the Day Ahead hourly price of energy for that amount, much like EKPC does today outside of PJM. Similarly, during periods of unplanned forced outages, EKPC's load will pay the applicable Day Ahead price of energy it consumes or the Real Time price for that energy when unplanned forced outages occur in Real Time. The net effect is very similar in cost impact to EKPC generating and load serving operations today since EKPC currently meets its purchased power needs through Day Ahead or Real Time purchases from PJM.<sup>28</sup>

East Kentucky became a member of PJM in June 2013 and continued to apply the limitation for recovery of power purchases under the FAC until January 2014. In this proceeding, East Kentucky now argues that because it is a member of PJM, it should be able to flow through the FAC power purchases in excess of its highest-cost unit available to be dispatched, although the removal of this limitation was not mentioned or requested by East Kentucky in Case No. 2012-00169. In fact, in that proceeding, East Kentucky indicated that, when load exceeds generation, purchases would be handled "much like EKPC does today outside of PJM."<sup>29</sup> Thus, the limitation on FAC recovery of purchased-power costs is not new; it was known and acknowledged by East Kentucky in conjunction with its decision to join PJM.

#### Other Methods of Recovery

The Commission reminded East Kentucky in the January 30, 2015 Order that "[c]osts for non-economy energy purchases that are not recoverable through an electric

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<sup>28</sup> *Id.* Response to Commission Staff's First Request of Information, Item 6.

<sup>29</sup> *Id.*

utility's FAC are considered 'non-FAC expenses' and, if reasonably incurred, are otherwise eligible for recovery through base rates."<sup>30</sup> The Commission also reminded East Kentucky that in circumstances where wholesale power market prices significantly exceeded the fuel cost of its highest-cost generating unit available to serve native load, it may apply to the Commission for immediate rate recovery of those costs. East Kentucky states that "going to such great lengths to recover costs which the Commission has already found to be reasonably incurred would seem to be unnecessary and redundant."<sup>31</sup> The Commission finds East Kentucky's argument to be flawed. The essential point missed by East Kentucky is that the Commission would not have already found the costs to have been reasonably incurred. The Commission determines reasonableness only after conducting an investigation in a formal proceeding. The FAC review proceedings are used to determine reasonableness for those costs recoverable under the FAC. For those "non-FAC" costs not recoverable under the FAC, the Commission would have to conduct a separate investigation to determine reasonableness in a non-FAC proceeding in which the utility was requesting rate recovery.

The Commission notes that, although East Kentucky is a winter-peaking utility, it "winterized" its Dale generating units prior to the winter of 2013/2014, resulting in the need for increased power purchases to meet load during extreme cold weather that could have otherwise been supplied by the Dale units. To the extent East Kentucky were to request recovery of the amount in excess of its highest-cost unit in a non-FAC

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<sup>30</sup> January 30, 2015 Order at 8; and Case No. 2000-00496-B, *East Kentucky Power Cooperative, Inc.* (Ky. PSC May 2, 2002), Order at 5.

<sup>31</sup> Petition at 10.



rate proceeding, its decision to winterize Dale would be one of numerous factors that would have to be investigated as part of the Commission's determination as to the reasonableness of such costs.

Finally, the Commission reminds East Kentucky that utilization of the FAC is not a requirement. It is an option that has been selected by East Kentucky. If East Kentucky believes that the FAC is no longer advantageous due to its membership in PJM, in its next base rate proceeding it may request to discontinue use of the cost recovery mechanism and propose to recover a reasonable amount of fuel costs through its base rates.

Having reviewed East Kentucky's Petition and being otherwise sufficiently advised, the Commission finds that its January 30, 2015 Order should be affirmed for the reasons discussed herein.

#### East Kentucky's Motion for Informal Conference

On March 27, 2015, East Kentucky filed a motion requesting that an informal conference be scheduled for the purpose of determining what additional processes and procedures would be necessary to explore the rehearing issues.

The Commission finds that there are no disputed issues of fact which would require further evidentiary proceeding, and East Kentucky's Petition fully addressed the legal issues it raised therein. For these reasons, the Commission finds that an informal conference is not needed and the motion will be denied as moot.

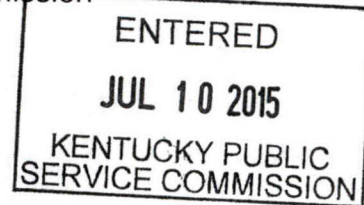
IT IS THEREFORE ORDERED that:

1. The Commission's January 30, 2015 Order in this proceeding is affirmed and East Kentucky's Petition is denied.

2. The May 26, 2015 joint motion requesting that Grayson be dismissed as a party, and requesting that any outstanding motions or materials file by Grayson be denied as moot, is granted.

3. East Kentucky's Motion for Informal Conference is denied as moot.

By the Commission



ATTEST:

A handwritten signature in blue ink, consisting of several loops and a long horizontal stroke at the end.

Executive Director

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