

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) CASE NO.
POWER COOPERATIVE, INC. FROM NOVEMBER 1,) 2014-00451
2012 THROUGH OCTOBER 31, 2014)

ORDER

Pursuant to 807 KAR 5:056, the Commission, on February 5, 2015, established this case to review and evaluate the operation of the Fuel Adjustment Clause ("FAC") of East Kentucky Power Cooperative, Inc. ("East Kentucky") for the period from November 1, 2012, through October 31, 2014, and to determine the amount of fuel costs that should be transferred in, or out of, its base rates to re-establish its FAC factor.

In establishing this review, the Commission ordered East Kentucky to submit certain information concerning its fuel procurement, fuel usage, and the operation of its FAC. East Kentucky submitted this information on February 25, 2015, and filed responses to a second request for information on March 25, 2015. A public hearing was held on April 7, 2015,

and East Kentucky filed a post-hearing data response to questions asked at the hearing on April 14, 2015. There are no intervenors in this case.¹

Base Fuel Cost

East Kentucky proposes that no change be made to its current base fuel cost, which is 30.14 mills per kilowatt hour (“kWh”) based on the month of June 2010. East Kentucky proposes that, based on its review of past, current, and projected fuel costs, the current base fuel cost of 30.14 mills per kWh should remain unchanged. East Kentucky, which became a member of PJM Interconnection, Inc. (“PJM”) on June 1, 2013, states that 17 months of membership are included in the current two-year review period, but that none of the 17 months can be considered a representative month for the following reasons: 1) the months of January through August of 2014 reflect months in which the FAC factor was capped in order to spread over several months the additional purchased power costs associated with a polar vortex; 2) in Case No. 2014-00226, the Commission disallowed for FAC recovery approximately \$8.5 million of power purchases in excess of East Kentucky's highest-cost generating unit available to be dispatched; and 3) in that same Order, the

¹ On April 8, 2015, Grayson Rural Electric Cooperative Corporation (“Grayson”) filed an objection and motion to strike certain responses filed by East Kentucky in this proceeding; however, Grayson never formally requested intervention. As Grayson is not a party to the case, and has not sought to intervene, we will deny its motion and objection, and Grayson's documents will be treated as public comments for the purpose of this proceeding. It should be noted that on May 26, 2015 in East Kentucky's last six-month FAC review proceeding, Case No. 2014-00226, *An Examination of the Application of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from November 1, 2013 through April 30, 2014* (Ky. PSC July 10, 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 requested that Grayson be permitted to withdraw as an intervenor in that proceeding. The joint motion further requested that any outstanding motions or other materials Grayson has filed in that proceeding be denied as moot or held for naught.

Commission stated its intent to examine the PJM Billing Codes being included in the FAC calculation.² For these reasons, East Kentucky does not consider any of the 17 months to be representative.

East Kentucky considered the remaining seven months of the review period to be possible representative months in determining the base fuel cost. Based on an analysis of those seven months, East Kentucky states that the average total FAC was 3.085 cents per kWh, which is within 2.5 percent of its current base fuel cost of 3.014 cents per kWh. Therefore, East Kentucky proposes no change to its base fuel cost.

In establishing the appropriate level of base fuel cost to be included in East Kentucky's rates, the Commission must determine whether the proposed base-period cost per kWh is representative of the level of fuel cost currently being experienced by East Kentucky. The Commission's review of generation mix, generation unit outages, and generation unit availability discloses that the month of June 2010 is a reasonably representative generation month for East Kentucky. The analysis of East Kentucky's monthly fuel clause filings showed that the fuel cost calculated for the two-year review period ranged from a low of 26.83 mills per kWh to a high of 56.45 mills per kWh, with an average cost calculated for the period of 34.93 mills per kWh. In order to spread the high cost of purchased power during the polar vortex of early 2014 over several months, East Kentucky capped the FAC factor at \$.0009 per kWh for the months of January and February 2014 and at \$.0025 per kWh for the months of March 2014 through August 2014. Because of this capping, the calculated fuel costs for some months were inflated due to a

² Because East Kentucky has referred to amounts billed to it by PJM as "PJM billing codes" throughout the majority of this proceeding rather than "PJM Billing Line Items," the term used in this Order will be "PJM Billing Codes", but that term is meant to be interchangeable with "PJM Billing Line Item" as used in the same two-year review proceedings of the other jurisdictional electric utilities that are members of PJM.

large under-recovery's being carried forward and reflected in fuel costs. In addition, as previously discussed, the Commission disallowed for recovery of approximately \$8.5 million of purchased power costs in Case No. 2014-00226. Based upon its review, the Commission finds that the base-period fuel cost of 30.14 mills per kWh should remain in effect.

Purchased-Power Costs

On July 10, 2015, the Commission reaffirmed its January 30, 2015 Order in Case No. 2014-00226 in which it disallowed for recovery through the FAC East Kentucky's power purchases in excess of its highest-cost unit for the period January 1, 2014, through April 30, 2014.³ In the instant proceeding, East Kentucky stated that the amount of power purchases recovered through the FAC in excess of its highest-cost unit during the period May 1, 2014, through October 31, 2014, was \$970,442.⁴ Therefore, with this Order, the Commission will require East Kentucky to refund this amount to its member cooperatives.

PJM Billing Codes

In its January 30, 2015 Order in Case No. 2014-00226, the Commission stated that, in the next FAC review proceeding covering the two-year period November 1, 2012, through October 31, 2014, it would examine the issue of regional transmission organization ("RTO") billing codes and the appropriateness of their inclusion in the FAC calculation for those utilities that are RTO members. As a result, in the instant proceeding, East Kentucky has filed testimony and responses to discovery on the issue.

³ Prior to January 2014, East Kentucky limited its recovery of power purchases to its highest-cost unit available to be dispatched.

⁴ Response to February 5, 2015 Request for Information, Item 41.

East Kentucky states that it currently includes the following PJM Billing Codes in the calculation of its FAC:

- 1200 – Day-ahead Spot Market Energy
- 1205 – Balancing Spot Market Energy
- 1210 – Day-ahead Transmission Congestion
- 2210 – Transmission Congestion Credit
- 1215 – Balancing Transmission Congestion
- 2217 – Planning Period Excess Congestion Credit
- 1218 – Planning Period Congestion Uplift
- 2218 – Planning Period Congestion Uplift Credit
- 1220 – Day-ahead Transmission Losses
- 2220 – Transmission Losses Credit
- 1225 – Balancing Transmission Losses
- 1230 – Inadvertent Interchange
- 1245 – Pre-emergency and Emergency Load Response Charge
- 2245 – Emergency Load Response Credit
- 1250 – Meter Error Correction
- 1420 – Load Reconciliation for Transmission Losses
- 2420 – Load Reconciliation for Transmission Losses
- 1260 – Emergency Energy
- 2260 – Emergency Energy Credit
- 1375 – Balancing Operating Reserve
- 2375 – Balancing Operating Reserve Credit

East Kentucky states that utility accounting in PJM is significantly more granular than that of a utility that operates outside of an organized market. According to East Kentucky, this increased granularity is due to: 1) the presence of different types of participants in the market; 2) the use of Locational Marginal Pricing for dispatch; and 3) a two-settlement process with an energy market that day-ahead matches load requirements with generation and demand resources and balances the actual needs in real-time.⁵ East Kentucky states that the fuel to operate as its own balancing authority was embedded in the cost of fuel to serve its load prior to joining PJM and that “[t]he cost of fuel to manage a balancing authority is where much of the increased granularity in the PJM codes occur.”⁶ East Kentucky claims that prior to joining PJM, when operating as its own balancing authority, it was responsible for operating reserves, load following, load/generation balancing, ancillary services, losses, re-dispatch for reliability constraints /transmission issues, and emergency energy. East Kentucky asserts that all of these responsibilities required fuel to be expended.⁷ East Kentucky states that it compares the definition of the PJM codes against its previous operations and, if a code describes a function that East Kentucky provided, and East Kentucky determines that there is nexus between providing that function and the combustion of fuel, the cost code is considered fuel driven and included in the FAC calculation.⁸ East Kentucky states that PJM was helpful in determining which billing codes include fuel expense and asked PJM to review the explanations it was providing to the

⁵ Direct Testimony of Julia J. Tucker, P.E. (“Tucker Testimony”) at 2-3.

⁶ Tucker Testimony at 7.

⁷ Response to Commission Staff’s Second Request for Information (“Staff’s Second Request”), Item 2.6.

⁸ Tucker Testimony at 9.

Commission in the table submitted with its testimony which lists the PJM Billing Codes included by East Kentucky in its FAC.⁹ According to East Kentucky, PJM agreed that the codes included were reasonable.¹⁰ East Kentucky claims that the PJM codes included in the FAC calculations are all reflective of fuel costs.¹¹ East Kentucky states that it continues to evaluate PJM Billing Codes of applicability in the FAC.¹²

The Commission notes that, when determining fuel costs in excess of its highest-cost unit, 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) that are recorded in the “Net Energy Cost-Economy Purchases” section of the monthly FAC filing. All of the other PJM codes included by East Kentucky are included in the “Company Generation” section of the monthly filing and identified as “PJM Day Ahead and Balancing.”¹³

East Kentucky has not had a general rate proceeding since it became a member of PJM; therefore, PJM Billing Codes (charges and credits) are not currently reflected in base rates. Based on the testimony of East Kentucky that the amounts being included in its FAC are reflective of fuel costs that were recovered through the FAC when East Kentucky was acting as its own balancing authority prior to joining PJM, the Commission will authorize East Kentucky to include these PJM Billing Codes in its FAC calculation with the

⁹ *Id.*, and Response to Staff’s Second Request for Information (“Staff’s Second Request”), Item 3.a.

¹⁰ Response to Staff’s Second Request, Item 3.b.

¹¹ Tucker Testimony at 8.

¹² *Id.* at 5.

¹³ Response to the Post-Hearing Data Request, Item 6.

modifications discussed below and with FAC recovery limitation of power purchases (PJM Billing Codes 1200 and 1205) to East Kentucky's highest-cost generation unit available to be dispatched during the expense month.

PJM Billing Codes 1245 and 2245

During discovery and at the hearing in this proceeding, East Kentucky was questioned about PJM Billing Codes 1245 – Pre-Emergency and Emergency Load Response Charge and 2245 – Emergency Load Response Credit. An e-mail from PJM to East Kentucky filed in this proceeding reflects that PJM questioned those codes as well.¹⁴ East Kentucky testified at the hearing that PJM was questioning the definition included in the exhibit, but not the billing code's inclusion in the exhibit.¹⁵ In response to a request for information, East Kentucky confirmed that PJM Billing Code 1245 is not a charge for actual fuel burned or energy provided by East Kentucky but is a charge based on the cost of fuel that would have been burned if generation were available to serve that load during high-load periods if demand response were not initiated.¹⁶ Code 2245 is the responding credit for code 1245. Given the description of these PJM Billing Codes, the Commission does not believe it is appropriate to include them in the FAC calculation and, with this Order, will

¹⁴ Response to Item 3.b. of Staff's Second Request, page 4 of 4.

¹⁵ April 7, 2015 Hearing at 10:43:23.

¹⁶ Response to Item 4.c. of Staff's Second Request.

require East Kentucky to refund \$83,167.76 to its member cooperatives for the two-year review period.¹⁷

PJM Billing Codes 1375 and 2375

In Case No. 2014-00226, it was noted that, when calculating its FAC, East Kentucky began including PJM Billing Codes 1375 and 2375 in January 2014 and not from the time it joined PJM, which was June 1, 2013.¹⁸ Because East Kentucky did not include these codes in the calculation of the FAC from June 2013 through December 2013, East Kentucky was asked to provide the effect it would have had on the FAC calculation if the codes had been included. The response provided by East Kentucky shows that the FAC calculation would have been lower by \$522,754.¹⁹ As previously discussed, the Commission is granting authorization for East Kentucky to include these codes in the calculation of the FAC. As a result, with this Order, the Commission will direct East Kentucky to refund \$522,754 to customers to reflect the effect of the codes being included from the time East Kentucky became a member of PJM.

PJM Billing Codes 1370 and 2370

During discovery in this proceeding, East Kentucky was asked about PJM Billing Code 2370, Day-ahead Operating Reserve Credit, and why it was not included in the calculation of the FAC. East Kentucky stated that, upon consideration, it should have included PJM Billing Code 2370 as well as 1370 in the calculation of the FAC because they are the corresponding Day-Ahead Operating Reserve credits and charges to the Balancing

¹⁷ Response to Item 7 of the Post-Hearing Data Request.

¹⁸ Case No. 2014-00226, Response to Commission Staff's August 13, 2014 Request for Information, Item 26.c.

¹⁹ Case No. 2014-00226, Response to Staff's Second Request, Item 7.a.

Operating credits and charges that are currently included in the calculation. According to East Kentucky, PJM Billing Code 2370 is “[t]o ensure adequate operating reserve and for spot market support, pool-scheduled generation and demand resources and that operate as requested by PJM are guaranteed to fully recover their daily offer amounts.”²⁰ PJM Billing Code 1370, Day-ahead Operating Reserve Charges, is the corresponding charge code. East Kentucky states that, if PJM Billing Codes 2370 and 1370 had been included for the two-year period, fuel expenses would have been greater by \$2,264,707.35.²¹ Based on the record, it appears reasonable to allow East Kentucky to include these PJM Billing Codes in the calculation of its FAC and to collect \$2,264,707.35 for the two-year period.

Netting the \$2,264,707.35 with the refunds of \$83,167.76, \$522,754, and \$970,442 discussed previously, East Kentucky should be allowed to collect a total of \$688,343.59. Therefore, with this Order, the Commission will allow East Kentucky to collect \$114,723.93 each month for six months through its FAC.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that:

1. Outside of the issues addressed in previous Commission Orders for the two-year review period, East Kentucky has complied with the provisions of 807 KAR 5:056.
2. The month of June 2010 should be used as East Kentucky’s base period.
3. East Kentucky’s current base-period fuel cost of 30.14 mills per kWh should remain in effect.

²⁰ Response to Staff’s Second Request, Item 4.a.

²¹ Response to Staff’s Second Request, Item 4.b

4. The continued use of the base fuel cost of 30.14 mills per kWh requires no transfer to or from East Kentucky's base rates.

5. The PJM Billing Codes included by East Kentucky in its FAC calculation should be approved as modified herein, subject to the limitation of power purchase recovery to East Kentucky's highest-cost generation unit available to be dispatched during the expense month.

6. East Kentucky should make no change to the PJM Billing Codes included in the calculation of its FAC without Commission authorization.

7. Beginning with its first FAC filing following the date of this Order, East Kentucky should be authorized to collect \$114,723.93 through its FAC each month for six months for a total of \$688,343.59.

IT IS THEREFORE ORDERED that:

1. Outside of the issues addressed in previous Commission Orders for the two-year review period, the charges and credits applied by East Kentucky through the FAC for the period November 1, 2012, to October 31, 2014, are approved.

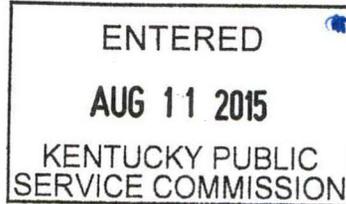
2. East Kentucky's continued use of the existing base fuel cost of 30.14 mills per kWh is approved.

3. The PJM Billing Codes included by East Kentucky in its FAC calculation are approved as modified herein, subject to the limitation of power purchase recovery to East Kentucky's highest-cost generation unit available to be dispatched during the expense month.

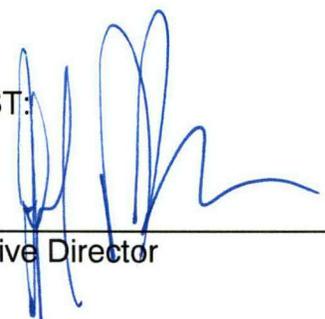
4. East Kentucky shall make no change to the PJM Billing Codes included in the calculation of its FAC without Commission authorization.

5. Beginning with its first FAC filing following the date of this Order, East Kentucky shall be authorized to collect \$114,723.93 through its FAC each month for six months for a total of \$688,343.59.

By the Commission



ATTEST:



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