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. FROM NOVEMBER 1, 2013 THROUGH APRIL 30, 2014	)))))	CASE NO. 2014-00226

ORDER

Pursuant to 807 KAR 5:056, Section 1(11), IT IS HEREBY ORDERED that:

1. East Kentucky Power Cooperative, Inc. ("East Kentucky") shall appear in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, on November 12, 2014, at 10:00 a.m., Eastern Standard Time, to submit itself to examination on the application of its Fuel Adjustment Clause ("FAC") from November 1, 2013, through April 30, 2014. Neither opening statements nor summaries of pre-filed testimony will be permitted.

2. Not less than seven days and no more than 21 days prior to the scheduled hearing, East Kentucky shall publish in a newspaper of general circulation in each area in which it serves notice of the purpose, time, place, and date of the scheduled hearing.

3. East Kentucky shall file with the Commission no later than November 7, 2014, proof of publication of its notice for the hearing.

4. The official record of the proceeding shall be by video only.

5. a. The information requested in Appendix A to this Order is due not later than 14 days from the date of this Order. Responses to requests for information shall be appropriately bound, tabbed and indexed and shall include the name of the witness responsible for responding to the questions related to the information provided, with copies to all parties of record and an original and ten copies to the Commission.

b. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

c. A party shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

d. For any request to which a party refuses to furnish all or part of the requested information, that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

6. Any party who wishes to file testimony in this proceeding or to request information from East Kentucky may petition the Commission for a procedural schedule.

7. Any request for intervention must be filed by September 8, 2014.

8. A person who submits a motion to intervene after September 8, 2014, and, upon a showing of good cause, is granted full intervention shall accept and abide by the existing procedural schedule.

9. All documents that East Kentucky filed with the Commission during the period under review pursuant to 807 KAR 5:056, Section 1(7) and (9), are incorporated by reference into the record of this proceeding.

By the Commission

ENTERED
AUG 13 2014
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2014-00226 DATED AUG 13 2014

1. For the period from November 1, 2013, through April 30, 2014, list each vendor from whom coal was purchased and the quantities and the nature of each purchase (i.e., spot or contract). For the period under review in total, provide the percentage of purchases that were spot versus contract. For contract purchases, state whether the contract has been filed with the Commission. If no, explain why it has not been filed.

2. For the period from November 1, 2013, through April 30, 2014, list each vendor from whom natural gas was purchased for generation and the quantities and the nature of each purchase (i.e., spot or contract). For contract purchases, state whether the contract has been filed with the Commission. If no, explain why it has not been filed.

3. State whether East Kentucky engages in hedging activities for its coal or natural gas purchases used for generation. If yes, describe the hedging activities in detail.

4. For each generating station or unit for which a separate coal pile is maintained, state, for the period from November 1, 2013, through April 30, 2014, the actual amount of coal burned in tons, the actual amount of coal deliveries in tons, the total kWh generated, and the actual capacity factor at which the plant operated.

5. List all firm power commitments for East Kentucky from November 1, 2013, through April 30, 2014, for (a) purchases and (b) sales. This list shall identify the

electric utility, the amount of commitment in MW, and the purpose of the commitment (i.e., peaking, emergency).

6. Provide a monthly billing summary of sales to all electric utilities for the period November 1, 2013, through April 30, 2014.

7. List East Kentucky's scheduled, actual, and forced outages from November 1, 2013, through April 30, 2014.

8. List all existing fuel contracts categorized as long-term (i.e., one year or more in length). Provide the following information for each contract:

a. Supplier's name and address;

b. Name and location of production facility;

c. Date when contract was executed;

d. Duration of contract;

e. Date(s) of each contract revision, modification, or amendment;

f. Annual tonnage requirements;

g. Actual annual tonnage received since the contract's inception;

h. Percentage of annual requirements received during the contract's term;

i. Base price in dollars per ton;

j. Total amount of price escalations to date in dollars per ton; and

k. Current price paid for coal under the contract in dollars per ton (i + j).

9. a. State whether East Kentucky regularly compares the price of its coal purchases to those paid by other electric utilities.

b. If yes, state:

(1) How East Kentucky's prices compare with those of other utilities for the review period. Include all prices used in the comparison in cents per MMbtu.

(2) The utilities that are included in this comparison and their locations.

10. State the percentage of East Kentucky's coal, as of the date of this Order, that is delivered by:

a. Rail;

b. Truck; or

c. Barge.

11. a. State East Kentucky's coal inventory level in tons and in number of days' supply as of April 30, 2014. Provide this information by generating station and in the aggregate.

b. Describe the criteria used to determine number of days' supply.

c. Compare East Kentucky's coal inventory as of April 30, 2014, to its inventory target for that date for each plant and for total inventory.

d. If actual coal inventory exceeds inventory target by ten days' supply, state the reasons for excessive inventory.

e. (1) State whether East Kentucky expects any significant changes in its current coal inventory target within the next 12 months.

(2) If yes, state the expected change and the reasons for this change.

12. a. State whether East Kentucky has audited any of its coal contracts during the period from November 1, 2013, through April 30, 2014.

b. If yes, for each audited contract:

(1) Identify the contract;

(2) Identify the auditor;

(3) State the results of the audit; and

(4) Describe the actions that East Kentucky took as a result of the audit.

13. a. State whether East Kentucky has received any customer complaints regarding its FAC during the period from November 1, 2013, through April 30, 2014.

b. If yes, for each complaint, state:

(1) The nature of the complaint; and

(2) East Kentucky's response.

14. a. State whether East Kentucky is currently involved in any litigation with its current or former coal suppliers.

b. If yes, for each litigation:

(1) Identify the coal supplier;

(2) Identify the coal contract involved;

(3) State the potential liability or recovery to East Kentucky;

(4) List the issues presented; and

(5) Provide a copy of the complaint or other legal pleading that initiated the litigation and any answers or counterclaims. If a copy has previously been

filed with the Commission, provide the date on which it was filed and the case in which it was filed.

c. State the current status of all litigation with coal suppliers.

15. a. During the period from November 1, 2013, through April 30, 2014, have there been any changes to East Kentucky's written policies and procedures regarding its fuel procurement?

b. If yes:

(1) Describe the changes;

(2) Provide the written policies and procedures as changed;

(3) State the date(s) the changes were made; and

(4) Explain why the changes were made.

c. If no, provide the date East Kentucky's current fuel procurement policies and procedures were last changed, when they were last provided to the Commission, and identify the proceeding in which they were provided.

16. a. State whether East Kentucky is aware of any violations of its policies and procedures regarding fuel procurement that occurred prior to or during the period from November 1, 2013, through April 30, 2014.

b. If yes, for each violation:

(1) Describe the violation;

(2) Describe the action(s) that East Kentucky took upon discovering the violation; and

(3) Identify the person(s) who committed the violation.

17. Identify and explain the reasons for all changes in the organizational structure and personnel of the departments or divisions that are responsible for East Kentucky's fuel procurement activities that occurred during the period from November 1, 2013, through April 30, 2014.

18. a. Identify all changes that East Kentucky has made during the period under review to its maintenance and operation practices that also affect fuel usage at East Kentucky's generation facilities.

b. Describe the impact of these changes on East Kentucky's fuel usage.

19. List each written coal-supply solicitation issued during the period from November 1, 2013, through April 30, 2014.

a. For each solicitation, provide the date of the solicitation, the type of solicitation (contract or spot), the quantities solicited, a general description of the quality of coal solicited, the time period over which deliveries were requested, and the generating unit(s) for which the coal was intended.

b. For each solicitation, state the number of vendors to whom the solicitation was sent, the number of vendors who responded, and the selected vendor. Provide the bid tabulation sheet or corresponding document that ranked the proposals. (This document should identify all vendors who made offers.) State the reasons for each selection. For each lowest-cost bid not selected, explain why the bid was not selected.

20. List each oral coal-supply solicitation issued during the period from November 1, 2013, through April 30, 2014.

a. For each solicitation, state why the solicitation was not written, the date(s) of the solicitation, the quantities solicited, a general description of the quality of coal solicited, the time period over which deliveries were requested, and the generating unit(s) for which the coal was intended.

b. For each solicitation, identify all vendors solicited and the vendor selected. Provide the tabulation sheet or other document that ranks the proposals. (This document should identify all vendors who made offers.) State the reasons for each selection. For each lowest-cost bid not selected, explain why the bid was not selected.

21. a. List all intersystem sales during the period under review in which East Kentucky used a third party's transmission system.

b. For each sale listed above:

(1) Describe how East Kentucky addressed, for FAC reporting purposes, the cost of fuel expended to cover any line losses incurred to transmit its power across the third party's transmission system; and

(2) State the line-loss factor used for each transaction and describe how that line-loss factor was determined.

22. Describe each change that East Kentucky made to its methodology for calculating intersystem sales line losses during the period under review.

23. State whether, during the period under review, East Kentucky has solicited bids for coal with the restriction that it was not mined through strip mining or mountaintop removal. If yes, explain the reasons for the restriction on the solicitation, the quantity in tons and price per ton of the coal purchased as a result of this

solicitation, and the difference between the price of this coal and the price it could have obtained for the coal if the solicitation had not been restricted.

24. Provide a detailed discussion of any specific generation efficiency improvements East Kentucky has undertaken during the period under review.

25. East Kentucky met with Commission Staff on February 14, 2014, to discuss unusually high purchase power costs for January 2014 and its proposal to cap the FAC for January in order to defer recovery of the purchases over the remaining months of 2014. East Kentucky made the proposal in order to mitigate the effect of the purchases on its member cooperatives' bills and therefore, on the retail customers of the member cooperatives. Since January 2014, East Kentucky has capped its FAC, initially at $.0009 per kWh and then, beginning with the March expense month, increasing the cap to $.0025 per kWh. State whether East Kentucky believes it will be able to recover the purchase power costs over the remaining months of 2014 and provide supporting calculations to that effect.

26. Refer to the Memorandum filed on February 18, 2014, with East Kentucky's monthly FAC filing (attached as Appendix B to this Order).

a. Refer to the first paragraph on page 1, specifically, the sentence which states, "All available EKPC generating assets were running during these new peak times." Explain what is meant by "available EKPC generating assets" in the sentence. If not all of East Kentucky's generation was available during the new peak times, identify the generating units that were not available and explain why the units were not available.

b. Refer to first full paragraph on page 3 which states that "EKPC believes that the costs for the additional purchases of energy from PJM are includable for recovery through the FAC."

(1) State whether East Kentucky believes the market power purchases made to meet demand when all available generation is operating would be defined as "economy purchases." If yes, explain how the purchases would meet the definition of "economy purchases." If no, state whether East Kentucky would agree that the purchases would be defined as "non-economy purchases."

(2) Refer to page 5 (first full paragraph) of the Commission's May 2, 2002 Order in Case No. 2000-00496-B which states:

> We 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.

The Order, also on page 5, goes on to state:

> In reaching our interpretation, we are mindful of EKPC's concerns regarding power purchases made under emergency circumstances. We recognize that in such circumstances wholesale power market prices may significantly exceed the fuel cost of EKPC's highest cost generating unit available to serve native load. In those circumstances, EKPC may apply to the Commission for immediate rate recovery of those costs.

In light of the above language contained in the 2000-00496-B Order, explain why East Kentucky believes the entire cost of the additional purchases of energy from PJM Interconnection, Inc. ("PJM") are includable for recovery through the FAC.

(3) For each month beginning November 2012 through April 2014, provide the amount of market power purchases that was included in the calculation of the FAC that were made in order to meet demand when all available East Kentucky generation was operating.

(4) For each month beginning November 2012 through April 2014, provide the amount of market power purchases 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.

c. Refer to the first full paragraph on page 3.

(1) Provide the expense month in which East Kentucky began including purchases reported in PJM codes 1375 and 2375 in the calculation of the FAC.

(2) Explain why, as stated in the referenced paragraph, East Kentucky did not initially intend to include these two codes in its FAC calculation.

(3) By month, provide the effect it would have had on the calculation of the FAC if purchases reported in PJM codes 1375 and 2375 had been included in the calculation since East Kentucky became a member of PJM.

27. Refer to East Kentucky's monthly FAC filing for the expense month of April 2014. The Fuel Inventory Schedule for the Smith Generating Station shows 2.9 million gallons of oil at a cost of $3.8 million. The inventory balance did not change during the

period under review. Identify the units for which the oil was purchased, explain why the balance has not changed, and provide East Kentucky's plans for the oil.

28. Explain how purchase power costs are accounted for in the calculation of the FAC when East Kentucky Power experiences a <u>planned</u> generation outage and purchases power to meet load (i.e., is the entire amount of the purchase power recorded in the calculation or is there a limit as to the amount recorded?). If there is a limit, explain the basis for the limitation and how it is calculated. If there is no limit, explain the basis for including 100 percent of the purchase power costs.

29. If East Kentucky is familiar with the term "no load costs," provide a definition of the term and responses to the following:

a. If all or a portion of these costs are recovered through the FAC, explain how these costs are calculated and allocated between native-load sales and off-system sales each hour.

b. By month and generating unit, provide the amount of "no load costs" that have been allocated each to native-load customers and off-system sales from November 1, 2012, through April 30, 2014.

30. State whether East Kentucky outsources coal handling or whether coal handling is performed by East Kentucky employees and explain how coal-handling costs are accounted for in the calculation of the FAC.

31. State whether all long-term fuel transportation contracts have been filed with the Commission. If any contracts have not been filed, provide a copy.

32. For each generating station:

a. State how often coal-pile surveys are undertaken;

b. Explain how any resulting adjustment affects fuel costs in the calculation of the FAC;

c. Provide the costs of performing a coal-pile survey at each of the generating stations and explain how the costs are accounted for; and

d. Provide a copy of all internal accounting policies related to coal-pile survey adjustments and the date the policies were last revised.

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2014-00226 DATED AUG 13 2014

MEMORANDUM

RECEIVED

FEB 18 2014

PUBLIC SERVICE
COMMISSION

TO: Public Service Commission
Division of Financial Analysis
Daryl Newby, Director
Chris Whelan, Rate Analyst

FROM: East Kentucky Power Cooperative, Inc. ("EKPC")
Mike McNalley, Executive VP and CFO
Patrick Woods, Director, Regulatory and Compliance Services
Isaac S. Scott, Pricing Manager

DATE: February 18, 2014

RE: January 2014 Fuel Costs

As a result of the exceptionally cold weather experienced in January 2014, EKPC set two new total system peaks during the month. A peak of 3,401 MW was set on January 6th and a peak of 3,425 MW was set on January 29th. These new peaks exceeded the former record peak, set in 2009, by approximately 250 MW. In addition to the two new peaks, EKPC experienced 23 hours during January where the demand was above the 2009 peak. All available EKPC generating assets were running during these new peak times. Because of our membership in PJM, EKPC was able to purchase power in the market to meet this demand. Without these purchases, EKPC would have been forced to initiate curtailments of load in the magnitude of approximately 450 MW.

The January 2014 cold weather was the first significant event EKPC has experienced since joining PJM. Because of the purchases needed to meet our native load, EKPC has incurred additional costs from PJM. These costs have primarily been related to two PJM billing codes: Code 1375 – Balancing Operating Reserves (Balancing Charges) and Code 2375 – Balancing Operating Reserves (Balancing Credits). In addition, EKPC has incurred charges for the additional energy purchased from the PJM market to meet native load requirements beyond that provided by EKPC's own generating assets.

As defined by PJM, the costs included in Code 1375 are the total daily costs of operating reserve in the balancing market related to resources identified as Credits for Deviations and is allocated based on regional shares of real time locational deviations from the day-ahead scheduled quantities of (1) cleared generation offers (only for generating units not following PJM dispatch instructions and not assessed deviations based on their real time desired MWh); (2) cleared incremental offers and purchase transactions; and (3) cleared demand bids, decrement bids, and sale transactions.

PJM defines the costs included in Code 2375 as the daily credits for specified operating period segments provided to eligible pool-scheduled generators, demand response, and import transactions in real time for any portion of their offer amount in excess of (1) scheduled MWh times day-ahead bus LMP; (2) MWh deviation from day-ahead schedule times real time bus LMP; (3) any day-ahead operating reserve credits; (4) any day-ahead scheduling reserve market revenues in excess of offer plus opportunity cost; (5) any synchronized reserve market revenues in excess of offer plus opportunity, energy use, and startup costs; (6) any non-synchronized reserve market revenues in excess of opportunity costs and (7) any applicable reactive services credits. Cancellation credits are based on actual costs submitted to PJM Market Settlements. Credits for lost opportunity costs are also provided to generators reduced or suspended by PJM for reliability purposes.

EKPC has been examining the eligibility of including the net cost of energy purchases and the PJM billing codes for recovery through its fuel adjustment clause ("FAC"). EKPC has been reviewing the nature of the costs included in the two billing codes; the provisions of 807 KAR 5:056, the FAC regulation; and the Commission's May 2, 2002 Order in Case No. 2000-00496-B concerning the treatment of non-economy energy purchases.

EKPC's review of 807 KAR 5:056 has centered on the definition of what constitutes a fuel cost that can be recovered through the FAC, specifically Section 1(3)(b) and 1(3)(c):

> (b) The 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; plus
>
> (c) 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, all such kinds of energy being purchased by the buyer to ***substitute*** for its own higher cost energy . . . (emphasis added)

In the Order in Case No. 2000-00496-B, the Commission interpreted the FAC regulation 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. The Commission defined non-economy energy purchases as 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. In its March 21, 2005 Order in Case No. 2004-00430, the Commission revised the definition of non-economy energy purchases to recognize that the energy costs of such purchases may be greater or less than the variable cost of the highest cost generating unit available to serve native load.

It appears that 807 KAR 5:056, Section 1(3)(c) – economy energy purchases – and the Commission's interpretation concerning non-economy energy purchases in Case No. 2000-00496-B are both based on a scenario where the utility has the option of running its own generation or purchasing energy to meet its native load. This substitution scenario is not what EKPC faced in January 2014 when the new peaks and the 23 hours of demand higher than the former peak were experienced. All available EKPC generation was running but was not enough to cover the demands for the native load. The purchases through PJM were in addition to, not a substitute for, the generation from all of EKPC's available generation. The situation was one of purchase versus curtailment, not purchase versus run our own generation.

Based on this review, EKPC believes that the costs for the additional purchases of energy from PJM are includable for recovery through the FAC. The cost for the actual purchase of energy from PJM appear to be allowable under 807 KAR 5:056, Section 1(3)(b), as this was not a situation of substituting EKPC generation for market purchases or related to scheduled outages. Concerning the PJM billing codes 1375 and 2375, EKPC had previously indicated to the Commission Staff that initially it was not going to include these codes in its FAC calculations, but that EKPC was continuing to review and evaluate the nature and operation of these billing codes. The peak demand events in January 2014 have affected EKPC's previous evaluation of these billing codes. The Balancing Operating Reserve billing codes reflect the charges and credits resulting from generators in PJM being called upon to bring units on to provide energy beyond the levels having already cleared the market. EKPC was a purchaser of this additional generation in order to meet our native load requirements during the peak periods in January 2014 and it is reasonable that the net of billing codes 1375 and 2375 should be included in the FAC for recovery.

As a further consideration, it would be reasonable to expect that during the summer months, EKPC may be called upon by PJM to bring units on to meet energy needs for other PJM members who are experiencing high summer demands. It would appear logical to expect in those situations EKPC could wind up with a net credit position when looking at codes 1375 and 2375. Consistent with the position expressed above, that net credit would also be included in EKPC's FAC calculations.

Anthony S Campbell
President & CEO
East Kentucky Power Cooperative, Inc.
4775 Lexington Road
P. O. Box 707
Winchester, KY 40392-0707