

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| AN EXAMINATION OF THE APPLICATION OF |) | |
| THE FUEL ADJUSTMENT CLAUSE OF EAST |) | CASE NO. |
| KENTUCKY POWER COOPERATIVE, INC. |) | 2016-00002 |
| FROM MAY 1, 2015 THROUGH OCTOBER 31, |) | |
| 2015 |) | |

ORDER

Pursuant to 807 KAR 5:056, the Commission established this case on February 5, 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 October 31, 2015. As part of this review, East Kentucky responded to three requests for information and the Commission held a formal hearing in this matter on April 7, 2016. On April 21, 2016, East Kentucky filed its responses to requests made at the hearing. East Kentucky filed a post-hearing brief on May 5, 2016.

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 25.68 mills in September 2015 to a high of 27.76 mills in May 2015, with a six-month average of 26.75 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).

Highest-Cost Unit Calculation Methodology

In FAC Orders issued in May 2002,² the Commission stated as follows:

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.

In FAC Orders issued in 2015,³ the Commission affirmed its 2002 decision that recovery through the FAC of non-economy power purchases is limited to a utility's own highest-cost generating unit available for dispatch during the month. During this review period, the Commission examined the methodologies used by the six jurisdictional generators in calculating their highest-cost units. East Kentucky uses its J.K. Smith units 1, 2, and 3 as its highest-cost units.⁴ These units are identical natural gas combustion turbine units, each having a capacity of 110 MW.⁵ For the highest-cost unit calculation, East Kentucky assumes a minimum load level of operation and uses the highest cost paid for natural gas at the Smith station during the month. The minimum

² Case Nos. 2000-00495-B, *An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of American Electric Power Company from May 1, 2001 to October 31, 2001* (Ky. PSC May 2, 2002), Final Order at 5; and Case No. 2000-00496-B, *An Examination by the Public Service Commission 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), Final Order at 5.

³ See 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); and Case No. 2014-00229, *An Examination of the Application of the Fuel Adjustment Clause of Duke Energy Kentucky from November 1, 2013 Through April 30, 2014* (Ky. PSC July 10, 2015).

⁴ East Kentucky's response to Commission Staff's Second Request for Information, Item 2.

⁵ East Kentucky's response to Commission Staff's Third Request for Information, Items 3.e., 3.f., and 3.g.

load level of the 110-MW units is 50 MW.⁶ The heat rate used in the calculation is 16,034 btu/kWh.⁷ The \$/MWh rate produced by the calculation for the review period ranged from \$43.29 to \$51.79.⁸

East Kentucky filed a brief in this matter in which it stated that the Commission should not impose a new “one size fits all” approach or impose an alternative methodology to its current methodology. East Kentucky argues that it has used the current methodology since 2013 without it being determined as unreasonable by the Commission. Therefore, East Kentucky requests that the Commission find that its methodology remains reasonable.

Having reviewed East Kentucky's calculation and the calculation results, the Commission finds the calculation to be reasonable in that it produces a reasonable result.

PJM Interconnection, Inc. (“PJM”) Billing Codes

The Commission discovered during a previous East Kentucky FAC review proceeding in Case No. 2014-00451,⁹ that PJM Billing Codes 1245 – Pre-Emergency and Emergency Load Response Charge, and 2245 – Emergency Load Response Credit, were being included in the calculation of East Kentucky's FAC.¹⁰ The Commission determined in that proceeding that the inclusion of these two billing codes

⁶ *Id.*

⁷ *Id.*, Item 3.b.

⁸ *Id.*

⁹ 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* (Ky. PSC Aug. 11, 2015).

¹⁰ PJM is the regional transmission organization of which East Kentucky is a member.

in the FAC calculation was not appropriate and required East Kentucky to make refunds to its member cooperatives for the two-year review period. Because of the timing of that Order, East Kentucky was questioned about the inclusion of these billing codes in the FAC calculation for the six months of this review period and responded that \$1,794.70 was included for recovery through the FAC for PJM Billing Codes 1245 and 2245.¹¹

In its August 11, 2015 Order in Case No. 2014-00451, the Commission authorized East Kentucky to include PJM Billing Codes 1370 – Day-Ahead Operating Reserve Charges, and 2370 – Day-Ahead Operating Reserve Credits, in the calculation of its FAC. For the current review period, East Kentucky states that a total of \$155,650.25 for PJM Billing Codes 1370 and 2370 was not included for recovery through the FAC during the period under review.¹² Therefore, the Commission finds that East Kentucky should be allowed to collect \$155,650.25 for PJM Billing Codes 1370 and 2370 for the review period. Netting the \$155,650.25 with the disallowed amount of \$1,794.70 for PJM Billing Codes 1245 and 2245, the Commission finds that East Kentucky should be allowed to collect a total of \$153,855.55 with its first FAC filing subsequent to the date of this Order.

Coal District Numbers

During the course of this proceeding, the Commission sought information regarding the coal district numbers used by East Kentucky and the other generators when identifying the source of coal purchases in their monthly FAC backup filings. The coal district numbers used by East Kentucky differ from those used by the Mine Safety

¹¹ Response to the Commission's February 5, 2016 Request for Information, Item 26.

¹² *Id.*, Item 27.

and Health Administration (“MSHA”). East Kentucky stated that it is using the coal district numbers that were provided by the Federal Energy Regulatory Commission (“FERC”) when East Kentucky was required to file the Form 423 with FERC. The Form 423 was replaced in 2008 with the U. S. Energy Information Administration Form 923, which does not require a coal district number. At the hearing in this matter, East Kentucky stated that it was not aware of any reason why the MSHA coal district numbers should not be used in its monthly FAC backup filings. The Commission finds that East Kentucky should begin using the MSHA coal district numbers when identifying the source of its coal purchases in its monthly FAC backup filings.

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 outside of the adjustment for PJM Billing Codes discussed herein.

IT IS THEREFORE ORDERED that:

1. With the PJM Billing Code adjustment addressed in ordering paragraph 2 below, the charges and credits billed by East Kentucky through its FAC for the period May 1, 2015, through October 31, 2015, are approved.

2. With its first FAC filing made subsequent to the date of this Order, East Kentucky shall be authorized to collect a total of \$153,855.55 through its FAC.

3. Beginning with the first FAC backup file submitted subsequent to the date of this Order, East Kentucky shall use the MSHA coal district numbers when identifying the source of its coal purchases.

By the Commission

ENTERED
JUL 07 2016
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



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