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January 31, 2017

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JAN 31 2017

PUBLIC SERVICE
COMMISSION

VIA HAND DELIVERY

Ms. Talina Mathews, Ph.D.
Executive Director
Kentucky Public Service Commission
P.O. Box 615
211 Sower Boulevard
Frankfort, KY 40602

Re: IN THE MATTER OF AN EXAMINATION OF THE APPLICATION
OF THE FUEL ADJUSTMENT CLAUSE OF EAST KENTUCKY
POWER COOPERATIVE, INC. FROM NOVEMBER 1, 2015
THROUGH APRIL 30, 2016
Case No. 2016-00231 – *Application for Rehearing; Motion to Schedule IC*

Dear Dr. Mathews:

Please find enclosed and accept for filing in the above-styled matter on behalf of East Kentucky Power Cooperative, Inc. ("EKPC"), an original and ten (10) copies of EKPC's Application for Rehearing and an original and ten (10) copies of EKPC's Motion to Schedule an Informal Conference.

Please return a file-stamped copy of both the Application and the Motion to me, and please do not hesitate to contact me with any questions or concerns.

Respectfully,



David S. Samford

Enclosures

COMMONWEALTH OF KENTUCKY

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BEFORE THE PUBLIC SERVICE COMMISSION JAN 31 2017

IN THE MATTER OF:

PUBLIC SERVICE
COMMISSION

AN EXAMINATION OF THE APPLICATION)
OF THE FUEL ADJUSTMENT CLAUSE OF)
EAST KENTUCKY POWER COOPERATIVE,)
INC. FROM NOVEMBER 1, 2015 THROUGH)
APRIL 30, 2016)

CASE NO. 2016-00231

APPLICATION FOR REHEARING

Comes now East Kentucky Power Cooperative, Inc. ("EKPC"), by counsel, pursuant to KRS 278.400 and other applicable law, and for its Application requesting that the Commission grant rehearing of its Order entered herein on January 11, 2017 (the "Order"), respectfully states as follows:

Introduction

Pursuant to 807 KAR 5:056, the Commission established this case on August 12, 2016, to review and evaluate the operation of EKPC's Fuel Adjustment Clause ("FAC") during the six-month period that ended April 30, 2016. Following multiple requests for information and a hearing held November 9, 2016, the Commission entered its Order approving the charges and credits billed through EKPC's FAC during the period under review. Importantly, the Order also addressed "which costs should be used as the substitute cost of power during a forced outage," and specifically held that, "[w]hen 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.”¹ It is that particular portion of the Order that EKPC requests be reviewed and modified.

Discussion

As the Commission is aware, EKPC is a full participant in the capacity and energy markets operated by the regional transmission organization (“RTO”) PJM Interconnection, LLC (“PJM”).² As a member of PJM, EKPC offers all of its available generation to PJM and purchases its expected or actual energy needs from the PJM energy markets.

PJM operates its markets on a security constrained economic dispatch basis, and it generally dispatches its members’ generation assets only when they are the most economic units available. EKPC models its generation assets to consider economics, environmental compliance and plant reliability, and then self-schedules its base load units consistent with its forecasting. Operation in this manner mitigates risks and provides EKPC’s load a hedge against unexpected price deviations in the day-ahead and real-time PJM markets. Fundamentally, EKPC’s processes and participation in the PJM energy markets allow EKPC to serve its load with the most economic energy available.

During a forced outage, one or more of EKPC’s generation assets that is otherwise sufficiently economical to produce and sell energy into PJM is unable to do so. PJM’s security constrained economic dispatch determines which generation assets in its footprint are the most economic and will not cause transmission overloads if called upon to replace the energy lost as a consequence of EKPC’s forced outage. In some instances, PJM may call upon generation owned

¹ Order, p. 3.

² See *In the Matter of the Application of East Kentucky Power Cooperative, Inc. to transfer Function Control of Certain Transmission Facilities to PJM Interconnection, LLC*, Order, Case No. 2012-00169 (Ky. P.S.C. Dec. 20, 2012).

by third parties to replace the EKPC generation that is unavailable due to a forced outage. In other instances, PJM may call upon other available generation owned by EKPC. The decision on what unit(s) are dispatched in the event EKPC experiences a forced outage is made in the sole discretion of PJM and EKPC has no ability to control or influence that decision.³ Indeed, the fact that the PJM energy market is managed on a security constrained economic dispatch basis is one of the principle benefits of being a member of PJM and ensures that EKPC will purchase from PJM the most economic energy available (whether it is generated by EKPC or not) and will do so at the prevailing PJM market price.

Importantly, the netting process EKPC uses between load and generations accounts assigns EKPC load the lowest cost energy. Again, this fact is supported by the security constrained economic dispatch principles upon which PJM's energy market is founded. While energy accounting and dispatch are more complex in PJM, this process allows the most economic generation in the fleet of generation participating in the PJM market to serve load.

Unlike a utility that is its own balancing authority and not part of an regional transmission organization such as PJM, EKPC satisfies its power needs with the most economic purchases from PJM regardless of whether its own generation fleet is producing energy. When a forced outage occurs and an EKPC generation asset that would otherwise be economically dispatched by PJM is not operational, the cost of the power EKPC uses to serve its load is a function of – and equivalent to – the PJM market price, not the costs of any particular non-dispatched EKPC generation asset available to provide power to the PJM system.

³ Notably, should EKPC attempt to operate in a manner inconsistent with the PJM tariff/PJM directives (*e.g.*, by running a unit not called upon by PJM, and thus disregarding economic dispatch protocols), EKPC is subject to substantial charges/penalties.

With the foregoing in mind, the directive set forth in the Commission's Order that, "[w]hen 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," is inconsistent with the realities of the manner in which PJM operates its energy market. EKPC agrees with the Commission that, "[t]he substitute cost of power should reflect the cost of the power that replaced the unit forced out of service," however, the prevailing market price for power in PJM will *always* be the best determinant of "the cost of power that replaced the unit forced out of service."⁴ EKPC noted in a response to a data request that it only would use its own generation to replace power lost due to a forced outage "if it is the most economic choice."⁵

As set forth above, what constitutes the most economic choice is wholly within the province of PJM's judgment using security constrained economic dispatch principles, not EKPC's sole discretion. Put simply, the power used to serve EKPC's load is always purchased from PJM at the prevailing PJM market price. This is true whether EKPC's generating units are producing power, sitting idle, down for repairs, or otherwise. The fact remains that the PJM market price, which necessarily reflects the economic dispatch of all available generation, is (in the case of a forced outage) "the cost of the power that replaced the unit forced out of service."⁶ To require EKPC to look to its own costs of generation when such generation is called upon by PJM as a

⁴ The situation is different for a stand-alone utility that does not operate in an RTO environment. In that case, the Commission's directive would very likely result in the correct outcome, as the cost to such a utility to generate substitute power is, in fact, the cost it pays for power to "replace[] the unit forced out of service" (*i.e.*, continue to serve its load). In contrast, EKPC's cost to continue to serve its load during a forced outage is based exclusively on the prevailing PJM market price. As has happened in other recent FAC proceedings, the question raised by the Commission herein underscores the fact that the FAC regulation, which predates RTOs and the modern bulk electric wholesale market, is not well-suited to the realities of the marketplace.

⁵ See EKPC Response to Commission's Third Set of Information Requests, Response No. 2 (filed Oct. 21, 2016).

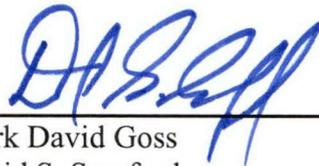
⁶ *Id.*

result of a forced outage is to ignore the fundamental changes that have occurred to the way wholesale electricity is sold and acquired under an RTO construct. For these reasons, EKPC requests that the Commission reconsider its Order and delete the directive quoted above from said Order.

WHEREFORE, on the basis of the foregoing, EKPC respectfully requests that this Application be granted and the Commission reconsider and amend its Order.

This 31st day of January, 2017.

Respectfully submitted,



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