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Daniel E. Logsdon Jr.
Commissioner

February 9, 2017

PARTIES OF RECORD

RE: Informal Conference for
Case No. 2016-00231

Enclosed is a memorandum that has been filed in the record of the above-referenced case. Any comments regarding the content of this memorandum should be submitted to the Commission within seven days of receipt of this letter. Questions regarding this memorandum should be directed to Chris Whelan at (502) 782-2644.

Sincerely,

A handwritten signature in blue ink that reads "Talina R. Mathews".

Talina R. Mathews
Executive Director

Enclosure

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File

FROM: Chris Whelan, ^{MCW} Financial Analysis

DATE: February 8, 2017

RE: Case No. 2016-00231
An Examination of the Application of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from November 1, 2015 through April 30, 2016

On February 8, 2017, Commission Staff ("Staff") held an informal conference ("IC") with East Kentucky Power Cooperative, Inc. ("East Kentucky"). Staff's notice of the IC was issued on February 6, 2017. East Kentucky requested the IC when it filed an Application for Rehearing in this proceeding on January 31, 2017.

During the IC, EKPC made a presentation related to the PJM Interconnection, LLC market. (See attached). The presentation included a discussion of different scenarios in which East Kentucky would experience a forced outage and how the substitute cost of power would be calculated. Staff explained that the language in the January 11, 2017 order in this proceeding stating that "[I]f the utility increased its own generation to substitute for the lost generation, then the cost of the generation is the substitute cost" was based on East Kentucky's response to Commission Staff's Third Request for Information, Item 2. After further discussion, it was determined that East Kentucky's response to that information request was not clear. East Kentucky stated that it would provide a revised response to the information request by February 10, 2017.

There being nothing further to discuss, the meeting was adjourned.

Attachments: Sign-In Sheet
East Kentucky Presentation

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.) 2016-00231
FROM NOVEMBER 1, 2015 THROUGH APRIL)
30, 2016)

Sign-in Sheet for February 8, 2017 Informal Conference

NAME

REPRESENTING

J.E.B. Pinney

Public Service Commission - OGC

RICHARD RAFF

PSC - LEGAL

David Crews

EKPC

Patrick Woods

EKPC

Isaac Scott

EKPC

Michelle Carpenter

EKPC

David Samford

Goss Samford - EKPC

Julie Tucker

EKPC

John Park

PSC Legal

Matthew Boer

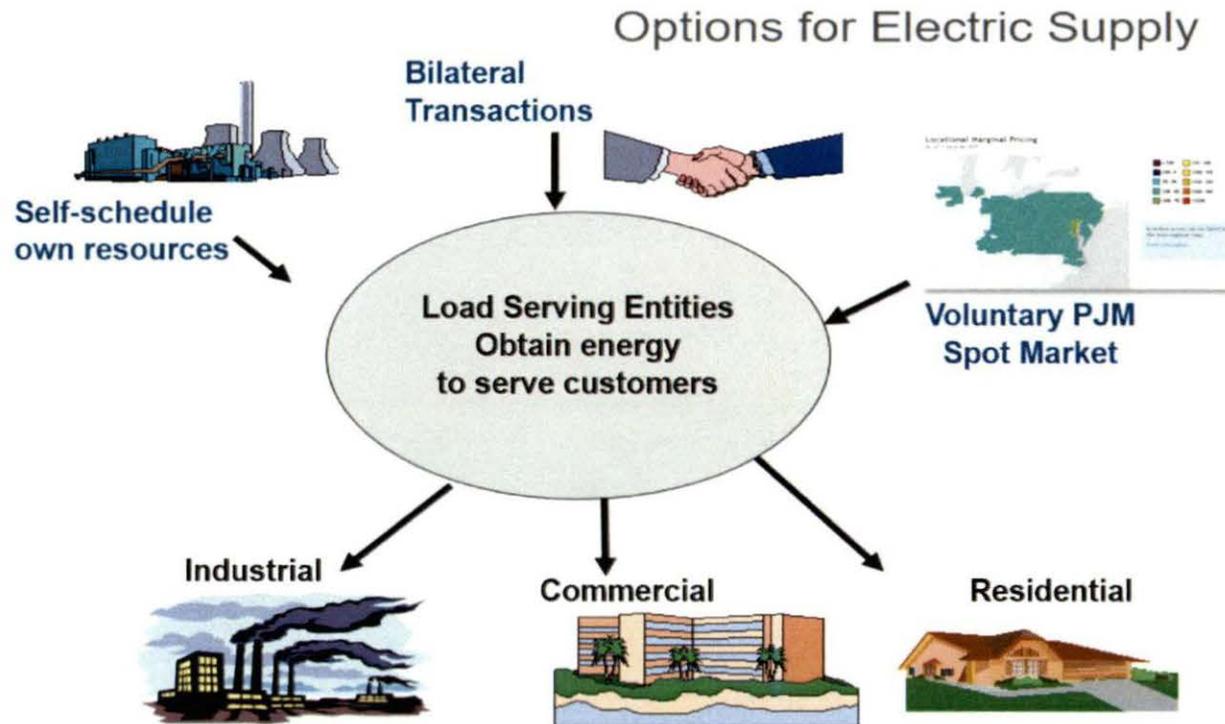
PSC - FA

Chris Whelan

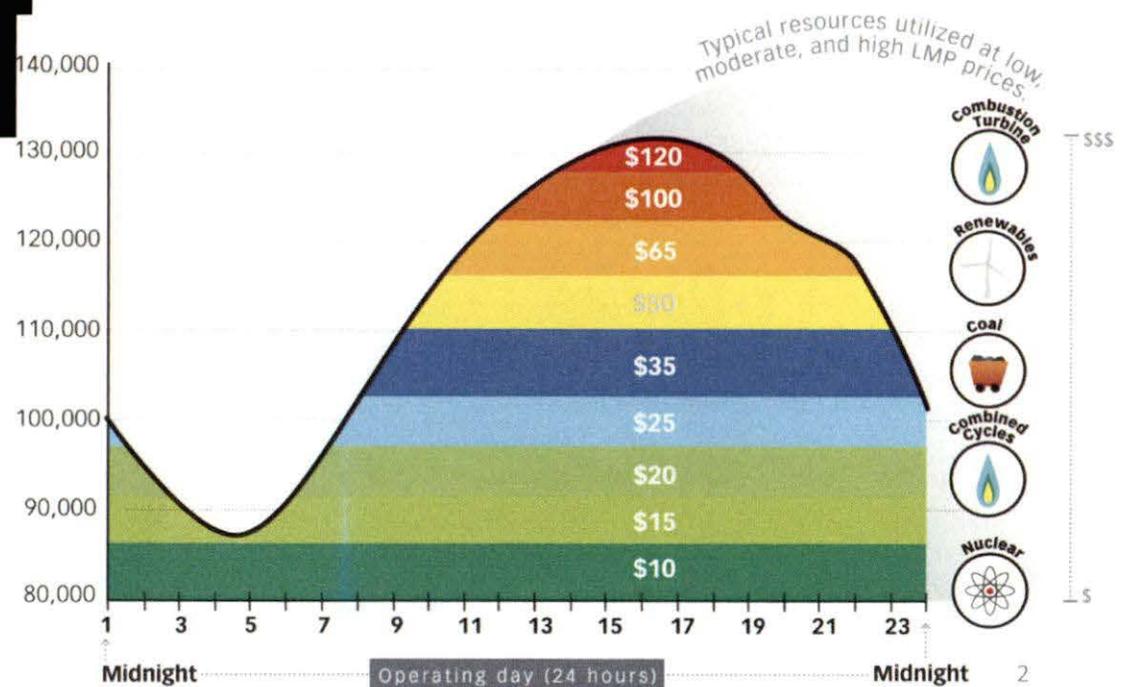
PSC - FA

PJM Market Design Philosophy

- Market prices reflect actual operating conditions

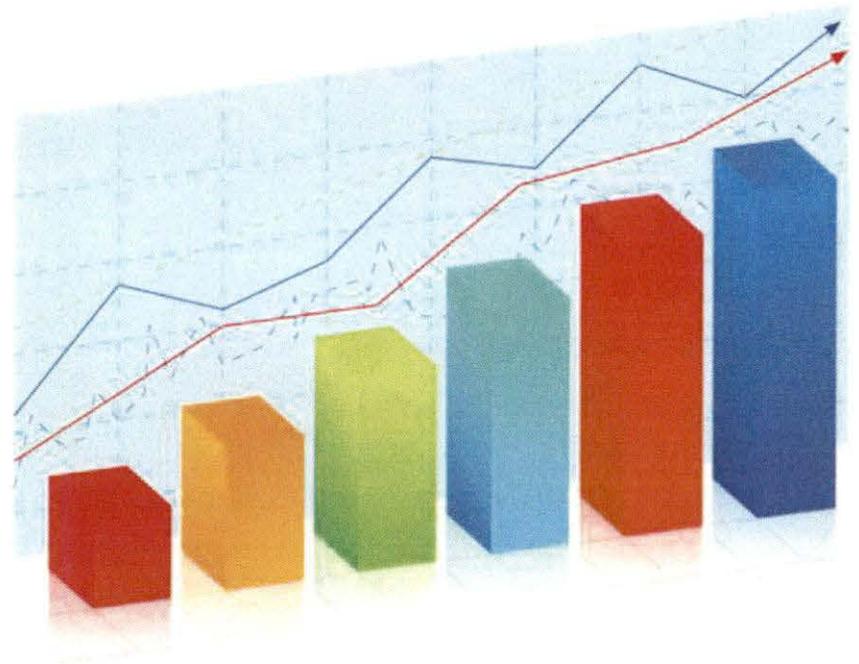


Generation Dispatch Operations



Economic Generation Control

- Purpose is to ensure that the least cost generation is used to satisfy demand
- Enables power system to follow load as it moves from valley, to peak, to valley over a 24-hour period
- Adjustments are allocated to generating units to optimize economy



Costs Considered in Economic Dispatch

- Fuel
- Variable Operations and Maintenance
- Start up costs
- Emission allowance costs
- Imbalance penalties
- Congestion

Locational Marginal Pricing Rationale

- Provides price signals that give market participants incentive to take actions that are consistent with reliable power system operations

Dispatch Example 1

Load = 490 MW

G1 has 400 MW available @ \$25/MWh

G2 has 200 MW available @ \$35/MWh

G3 has 200 MW available @ \$50/MWh (EKPC)

G4 has 200 MW available @ \$30/MWh (EKPC)

Generates at 400 MW

Generates at 0 MW

Generates at 0 MW

Generates at 90 MW

Market Price = \$30/MWh

G4 trips due to Forced Outage and EKPC follows PJM dispatch:

Load = 490 MW

G1 has 400 MW available @ \$25/MWh

G2 has 200 MW available @ \$35/MWh

G3 has 200 MW available @ \$50/MWh (EKPC)

G4 has 0 MW available @ \$30/MWh (EKPC)

Generates at 400 MW

Generates at 90 MW

Generates at 0 MW

Generates at 0 MW

Market Price = \$35/MWh
EKPC buys energy cheaper
from the market than what it
could generate

Dispatch Example 2

Load = 490 MW

G1 has 400 MW available @ \$25/MWh

G2 has 200 MW available @ \$35/MWh

G3 has 200 MW available @ \$50/MWh (EKPC)

G4 has 200 MW available @ \$30/MWh (EKPC)

Generates at 400 MW

Generates at 0 MW

Generates at 0 MW

Generates at 90 MW

Market Price = \$30/MWh

G4 trips due to Forced Outage and EKPC forces its unit to come on to supply lost generation:

Load = 490 MW

G1 has 400 MW available @ \$25/MWh

G2 has 200 MW available @ \$35/MWh

G3 has 200 MW available @ \$50/MWh (EKPC)

G4 has 0 MW available @ \$30/MWh (EKPC)

Generates at 400 MW

Generates at 0 MW

Generates at 90 MW

Generates at 0 MW

Market Price = \$35/MWh

EKPC burns fuel for higher cost than what market could have supplied at; EKPC could not recover higher cost through FAC

Dispatch Example 3

Load = 490 MW

G1 has 400 MW available @ \$25/MWh

G2 has 200 MW available @ \$75/MWh

G3 has 200 MW available @ \$50/MWh (EKPC)

G4 has 200 MW available @ \$30/MWh (EKPC)

Generates at 400 MW

Generates at 0 MW

Generates at 0 MW

Generates at 90 MW

Market Price = \$30/MWh

G4 trips due to Forced Outage and EKPC follows PJM dispatch:

Load = 490 MW

G1 has 400 MW available @ \$25/MWh

G2 has 200 MW available @ \$75/MWh

G3 has 200 MW available @ \$50/MWh (EKPC)

G4 has 0 MW available @ \$30/MWh (EKPC)

Generates at 400 MW

Generates at 0 MW

Generates at 90 MW

Generates at 0 MW

Market Price = \$50/MWh

EKPC generation is the least cost option to cover the lost generation and market price reflects EKPC cost

*David S Samford
Goss Samford, PLLC
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