

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)	

ORDER

Pursuant to 807 KAR 5:056, the Commission established this case on August 12, 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 April 30, 2016. On January 11, 2017, the Commission issued an Order ("Final Order") which, among other things, clarified which costs should be used as the substitute cost of power during a forced outage. On January 31, 2017, East Kentucky filed a petition for rehearing ("Petition") and requested an informal conference be scheduled. An informal conference was held on February 8, 2017.

DISCUSSION

In its Final Order the Commission stated:

The Commission became aware during this proceeding that East Kentucky uses purchased power as the substitute cost of generation during a forced outage, even if it uses its own generation to substitute for the lost generation.¹ The Commission believes this methodology to be in error and believes it must now clarify which costs should be used as the substitute cost of power during a forced outage. The

¹ East Kentucky's response to Commission Staff's Third Request for Information, Item 2, and November 9, 2016 Hearing at 9:22:39.

substitute cost of power should reflect the cost of the power that replaced the unit forced out of service If the utility increased its own generation to substitute for the lost generation, then the cost of the generation is the substitute cost.²

The Commission also ordered 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.” The directive in the Final Order was based in large part on East Kentucky’s statement that when it experiences a forced outage, rather than purchasing market power, it “has the option to bring another unit online or ramp up a unit, if it is the most economic choice.”³

In its Petition, East Kentucky states that it is the decision of its regional transmission operator, PJM Interconnection, LLC (“PJM”), on which units to dispatch when East Kentucky experiences a forced outage. East Kentucky states that PJM may dispatch generation units owned by third parties or generation owned by East Kentucky. At the February 8, 2017 informal conference, it was discussed that East Kentucky’s response to Staff’s Third Request did not clearly address how a forced outage is addressed by East Kentucky and PJM. East Kentucky stated it would provide a revised response, which was filed on February 10, 2017.

In its revised response, East Kentucky states that “[w]hen East Kentucky loses a unit due to a forced outage, PJM redispatches its entire system to cover the lost generation in a manner consistent with PJM’s reliability constrained economic dispatch

² Final Order at 2.

³ Response to Commission’s Staff’s Third Request for Information (“Staff’s Third Request”), Item 2.

principles.”⁴ While reaffirming the accuracy of its original response to Staff’s Third Request, Item 2, that it could bring one of its units on line in the event of a forced outage, East Kentucky now states that it is unable to think of an example when such would be the most economic choice for East Kentucky to make and for it to do so without regard to instructions from PJM. If the next-least-cost unit on the PJM system were to be an East Kentucky unit, PJM would dispatch that unit. Thus, in the event of a forced outage, East Kentucky’s cost of power is at all times a function of, and equivalent to, the PJM market price, not the incremental cost of East Kentucky’s next available generating unit.

Based on East Kentucky’s revised response, the Commission now finds that the situation upon which the language of the Final Order was premised is not a situation that would be likely to occur. Although the Commission reaffirms its finding that if a utility increases its own generation to substitute for the lost generation, then the cost of the generation is the substitute cost, the language in the Final Order, including the directive in its ordering paragraph No. 2, should not be interpreted to apply to situations in which East Kentucky follows the directives of PJM with regards to substitute generation to replace lost generation.

IT IS THEREFORE ORDERED that:

1. East Kentucky’s request for rehearing is granted to the limited extent that our January 11, 2017 Final Order is clarified to state that when following the directive of PJM in response to a forced outage, East Kentucky’s FAC shall reflect the PJM market price as the substitute cost of power.

2. This case is closed and is removed from the Commission’s docket.

⁴ Revised Response to Staff’s Third Request, Item 2, at 1.

By the Commission

ENTERED
FEB 20 2017
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

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