

**Goss  
Samford**

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March 20, 2017

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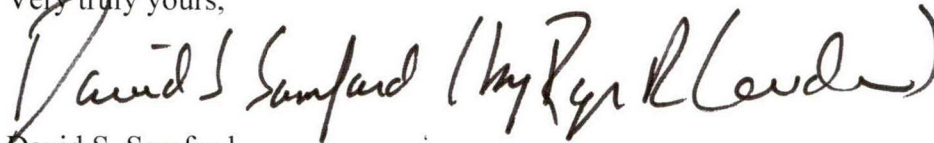
Ms. Talina R. Mathews, Ph.D.  
Executive Director  
Kentucky Public Service Commission  
P.O. Box 615  
211 Sower Boulevard  
Frankfort, KY 40602

Re: PSC Case No. 2017-00002

Dear Dr. Mathews:

Please find enclosed for filing with the Commission in the above-referenced case an original and eight copies of the responses of East Kentucky Power Cooperative, Inc. ("EKPC"), to the Second Request for Information to the Commission's Order dated March 6, 2016.

Very truly yours,



David S. Samford

Enclosures

**COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

<b>AN EXAMINATION OF THE APPLICATION</b>	)	
<b>OF THE FUEL ADJUSTMENT CLAUSE OF</b>	)	
<b>EAST KENTUCKY POWER COOPERATIVE,</b>	)	<b>CASE NO.</b>
<b>INC, FROM NOVEMBER 1, 2014 THROUGH</b>	)	<b>2017-00002</b>
<b>OCTOBER 31, 2016</b>	)	

**RESPONSES TO COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION  
TO EAST KENTUCKY POWER COOPERATIVE, INC.**

**DATED MARCH 6, 2017**

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

AN EXAMINATION OF THE APPLICATION )  
OF THE FUEL ADJUSTMENT CLAUSE OF ) CASE NO.  
EAST KENTUCKY POWER COOPERATIVE, ) 2017-00002  
INC. FROM NOVEMBER 1, 2014 THROUGH )  
OCTOBER 31, 2016 )

CERTIFICATE

STATE OF KENTUCKY )  
 )  
COUNTY OF CLARK )

Michelle K. Carpenter, being duly sworn, states that she has supervised the preparation of the responses of East Kentucky Power Cooperative, Inc. to the Public Service Commission Staff's Second Request for Information in the Appendix in the above-referenced case dated March 6, 2017, and that the matters and things set forth therein are true and accurate to the best of her knowledge, information and belief, formed after reasonable inquiry.

*Michelle K. Carpenter*

Subscribed and sworn before me on this 20 day of March 2017.

*Jeannie M. Jones*  
Notary Public



COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

AN EXAMINATION OF THE APPLICATION	)	
OF THE FUEL ADJUSTMENT CLAUSE OF	)	CASE NO.
EAST KENTUCKY POWER COOPERATIVE,	)	2017-00002
INC. FROM NOVEMBER 1, 2014 THROUGH	)	
OCTOBER 31, 2016	)	

CERTIFICATE

STATE OF KENTUCKY )  
 )  
 COUNTY OF CLARK )

Craig A. Johnson, being duly sworn, states that he has supervised the preparation of the responses of East Kentucky Power Cooperative, Inc. to the Public Service Commission Staff's Second Request for Information in the above-referenced case dated March 6, 2017, and that the matters and things set forth therein are true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.

*Craig A. Johnson*  
 \_\_\_\_\_

Subscribed and sworn before me on this 20 day of March 2017.

*Jeannie M. Jones*  
 \_\_\_\_\_  
 Notary Public



COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

AN EXAMINATION OF THE APPLICATION )  
OF THE FUEL ADJUSTMENT CLAUSE OF ) CASE NO.  
EAST KENTUCKY POWER COOPERATIVE, ) 2017-00002  
INC. FROM NOVEMBER 1, 2014 THROUGH )  
OCTOBER 31, 2016 )

CERTIFICATE

STATE OF KENTUCKY )  
 )  
COUNTY OF CLARK )

Isaac S. Scott, being duly sworn, states that he has supervised the preparation of the responses of East Kentucky Power Cooperative, Inc. to the Public Service Commission Staff's Second Request for Information in the above-referenced case dated March 6, 2017, and that the matters and things set forth therein are true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.

Isaac S. Scott

Subscribed and sworn before me on this 20 day of March 2017.

Jeannie M. Jones  
Notary Public





COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

AN EXAMINATION OF THE APPLICATION )  
 OF THE FUEL ADJUSTMENT CLAUSE OF ) CASE NO.  
 EAST KENTUCKY POWER COOPERATIVE, ) 2017-00002  
 INC. FROM NOVEMBER 1, 2014 THROUGH )  
 OCTOBER 31, 2016 )

CERTIFICATE

STATE OF KENTUCKY )  
 )  
 COUNTY OF CLARK )

Julia J. Tucker, being duly sworn, states that she has supervised the preparation of the responses of East Kentucky Power Cooperative, Inc. to the Public Service Commission Staff's Second Request for Information in the above-referenced case dated March 6, 2017, and that the matters and things set forth therein are true and accurate to the best of her knowledge, information and belief, formed after reasonable inquiry.

*Julia J. Tucker*  
 \_\_\_\_\_

Subscribed and sworn before me on this 20 day of March 2017.

*Jeannie M. Jones*  
 \_\_\_\_\_  
 Notary Public



**EAST KENTUCKY POWER COOPERATIVE, INC.**

**PSC CASE NO. 2017-00002**

**COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 03/06/17**

East Kentucky Power Cooperative, Inc. ("EKPC") hereby submits responses to the Second Request for Information of Public Service Commission ("PSC") in this case dated March 6, 2017. Each response with its associated supportive reference materials is individually tabbed.

**EAST KENTUCKY POWER COOPERATIVE, INC.**

**PSC CASE NO. 2017-00002**

**FUEL ADJUSTMENT CLAUSE**

**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 03/06/17**

**REQUEST 1**

**RESPONSIBLE PARTY: Julia J. Tucker**

**Request 1.** Refer to the Direct Testimony of Julia J. Tucker, page 2, lines 7-10.

Provide the steps East Kentucky has taken, or will take, to meet Capacity Performance rules.

**Response 1.** East Kentucky is prepared to meet Capacity Performance rules by continuing its existing practices of good production maintenance plans and established fuel procurement policies. East Kentucky has a well-established production plant maintenance program that has resulted in stable operations and commercial availability statistics well within industry norms. These plans are documented in East Kentucky's Integrated Resource Plan filings. East Kentucky's established fuel procurement policies are well documented in the Fuel Adjustment Clause records.



**EAST KENTUCKY POWER COOPERATIVE, INC.**

**PSC CASE NO. 2017-00002**

**FUEL ADJUSTMENT CLAUSE**

**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 03/06/17  
REQUEST 2**

**RESPONSIBLE PARTY: Isaac S. Scott**

**Request 2.** Refer to the Direct Testimony of Isaac S. Scott ("Scott Testimony"), page 5, lines 15-21.

- a. State whether the two-month lag exists with direct-served customers.
- b. State whether the direct-served customers are charged at East Kentucky tariffed rates or at member cooperative retail rates.

**Response 2.a.** East Kentucky does not classify or refer to any of its Member Cooperative retail customers as "direct-served". However, four industrial customers of the Member Cooperatives are located next to the substations that provide service. Given the location, there is no line loss experienced and the industrial customer is billed the East Kentucky FAC factor rather than the applicable Member Cooperative's FAC factor. Consequently, the two-month lag would not exist for these customers. East Kentucky has confirmed with the applicable Member Cooperatives that there is no two-month lag for these four industrial customers.

**Response 2.b.** The rates for service for each of the four industrial customers are covered by special contracts that have been approved by the Commission. A summary of each special contract is below:

- International Paper Company (formerly Inland Container Company)(“International”) and Fleming-Mason Energy Cooperative (“Fleming-Mason”). Electric service is covered by a special contract dated November 12, 1990. Fleming-Mason is permitted to include a per kWh adder to the East Kentucky bill for electric service. Steam service is covered by a special contract dated November 12, 1990 and Amendment No. 1 dated August 22, 2013. Fleming-Mason bills International the exact amounts East Kentucky bills Fleming-Mason for steam service.
- Wausau Paper Towel & Tissue, LLC (“Wausau”) and Blue Grass Energy Cooperative Corporation (“Blue Grass”). The special contract is dated August 1, 2012 and provides that Blue Grass bills Wausau under Blue Grass’ Large Industrial Rate – Schedule G1.
- Nucor Steel Gallatin, LLC (formerly Gallatin Steel Company)(“Nucor”) and Owen Electric Cooperative (“Owen”). The special contract is dated April 30, 2013 and a letter amendment dated September 6, 2016 and provides for interruptible service. Owen is permitted to include distribution charges per kWh and per kW per month to the amounts East Kentucky bills Owen for service to Nucor.
- AGC Automotive Americas (“AGC”) and Nolin Rural Electric Cooperative Corporation (“Nolin”). The special contract is dated October 19, 2015 and provides for interruptible

service. The special contract specifies the demand charge, energy charge, and customer charge Nolin bills AGC.

For all four industrial customers, East Kentucky bills the respective Member Cooperative and the Member Cooperative in turn bills the industrial customer. East Kentucky does not issue bills directly to these industrial customers.

**EAST KENTUCKY POWER COOPERATIVE, INC.**

**PSC CASE NO. 2017-00002**

**FUEL ADJUSTMENT CLAUSE**

**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 03/06/17  
REQUEST 3**

**RESPONSIBLE PARTY: Isaac S. Scott**

**Request 3.** Refer to the Scott Testimony, page 7.

a. Refer to lines 5-9. State whether it is East Kentucky's understanding that all sixteen cooperatives are in agreement that there is a two-month lag and support East Kentucky's proposed solution of delaying the effective date of any change in the member cooperatives' rates for two months.

b. Refer to lines 15-16. Confirm that all energy rates would change with a change in the base fuel cost.

**Response 3.a-b.** East Kentucky understands that all sixteen Member Cooperatives are in agreement that there is a two-month lag and support the proposed solution of delaying the effective date of any change in the Member Cooperatives' rates for two months.

East Kentucky confirms that all energy rates would change with a change in the base fuel cost. The intent of the statement at lines 15-16 was to convey that the change in the energy rates was only related to a change in the base fuel cost.

**EAST KENTUCKY POWER COOPERATIVE, INC.**

**PSC CASE NO. 2017-00002**

**FUEL ADJUSTMENT CLAUSE**

**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 03/06/17  
REQUEST 4**

**RESPONSIBLE PARTY: Isaac S. Scott**

**Request 4.** Refer to East Kentucky's response to the Commission's February 6, 2017 Request for Information ("February 6, 2017 Request"), Item 1.

a. Refer to page 2 of 6. Explain why the " . . . Member Systems generally are not in favor of reestablishing the base fuel cost at this time."

b. Refer to page 4 of 6, the second paragraph. This paragraph discusses expected increases and decreases in the cost of coal, natural gas, and power purchases in 2017 and 2018. Refer also to page 5 of 6, the last paragraph which states that " ... East Kentucky took the expected changes in the cost of coal, natural gas, and market purchases and estimated average fuel costs using the budgeted resource and generation mixes for 2017 and 2018."

(1) Provide the estimated average fuel cost per kWh for the year 2017.

(2) Provide the estimated average fuel cost per kWh for the year 2018.

c. Refer to pages 4-5 of 6, which show that May 2015 had more power purchases than is expected in 2017 and 2018, and Spurlock Unit 4 was only .58 percent of the generation mix. Refer also to the East Kentucky's response to the February 6, 2017 Request, Item 3, page 2 of 3, which states that May generally has lower loads because of scheduled maintenance outages. Given these dissimilarities, explain why East Kentucky believes May 2015 to be representative.

**Response 4.a.** The Member Cooperatives have concerns about how a reestablishment of the base fuel cost at this time will be received and understood by their customers. East Kentucky and Member Cooperatives have experienced FAC credits for approximately two years now. If the base fuel cost is reduced, the Member Cooperatives anticipate that their customers will not understand why the FAC credits have declined or become FAC charges. If the net monthly bill for a Member Cooperative's customer has not changed over several months, trying to explain why the FAC credits have declined could be difficult. The Member Cooperatives are also concerned that if expectations concerning long-term fuel price trends are accurate and fuel costs begin rising, East Kentucky's base fuel cost may have to be increased at the next two-year review, which could result in a reversal of a reduction in the base fuel cost in this proceeding. The Member Cooperatives are also concerned that the lag issue will not be fully resolved. Finally, it is generally agreed that customers of the Member Cooperatives prefer seeing FAC credits rather than FAC charges on their monthly bills.

**Response 4.b.** The estimated average fuel cost per kWh for the year 2017 is \$0.02723 per kWh. The estimated average fuel cost per kWh for the year 2018 is \$0.02834 per kWh.

**Response 4.c.** As discussed in the response to Request 1 of the February 6, 2017 Request, East Kentucky considered three factors when selecting the representative month: a) the expected cost for coal, natural gas, and market purchases; b) the expected resource mixes for 2017 and 2018; and c) the expected generation mixes for 2017 and 2018. During the analysis it became apparent that neither the resource mix or the generation mix results would provide a clear indication of which month would be representative. East Kentucky evaluated all three factors simultaneously, with slightly more emphasis placed on the expected cost factor, given the resource mix and generation mix results.

East Kentucky reviewed 11 months from the period November 2014 through October 2016 as possible representative months. The resource mix for each of the 11 months, Budget 2017, and Budget 2018 is shown on page 5 of 7. The generation mix for each of the 11 months, Budget 2017, and Budget 2018 is shown on page 6 of 7. As discussed in the response to Request 1 of the February 6, 2017 Request, page 5 of 6, East Kentucky eliminated from consideration five months where the actual FAC was lower than \$0.02603 per kWh, which was the average FAC for the 11 months under consideration. The eliminated months are highlighted on pages 5 and 6 of 7.

Page 7 of 7 is a table comparing the remaining six months in the following areas: resource mix; generation mix summary; coal versus gas-fired generation;



Spurlock generation; and fuel costs. After considering all these variables, East Kentucky believes that May 2015 is a reasonable choice for the representative month because:

- The actual generation mix for Cooper and the combustion turbines (“CT”) and landfill gas generation were the closest to the expected 2017 and 2018 Budget levels;
- The actual coal-fired generation (Cooper and Spurlock combined) was closest to the levels expected in the 2017 and 2018 Budget; and
- The actual fuel cost of \$0.02776 per kWh was not only between the estimated levels for 2017 and 2018, but nearly at the middle of the range ( $\$0.02723 + \$0.02834 = \$0.05557 \div 2 = \$0.02779$ ).

While preparing this response, East Kentucky discovered that the generation mixes for Budget 2017 and Budget 2018 as shown in the response to Request 1 of the February 6, 2017 Request, page 5 of 6, were reversed. East Kentucky would note that this unintended oversight does not affect the analysis to determine the representative month.

FAC	Resource Mix		
	Period	Generation	Purchases
\$0.02740	June 2015	63.53%	36.47%
\$0.02934	November 2014	70.05%	29.95%
\$0.02776	May 2015	70.36%	29.63%
\$0.02324	March 2016	70.65%	29.35%
\$0.02444	October 2016	73.95%	26.05%
\$0.02683	December 2014	75.07%	24.93%
	<b>Budget 2018</b>	<b>76.27%</b>	<b>23.73%</b>
\$0.02378	May 2016	77.19%	22.81%
\$0.02386	April 2016	77.51%	22.48%
\$0.02559	September 2016	80.81%	19.19%
	<b>Budget 2017</b>	<b>82.28%</b>	<b>17.72%</b>
\$0.02631	August 2016	83.78%	16.22%
\$0.02638	July 2016	89.30%	10.70%

The average actual FAC factor for the 11 months is \$0.02603 / kWh. Given the expected costs for coal, natural gas, and market purchases, those months with a FAC below the average were eliminated from consideration (highlighted on table).

FAC	Period	Generation Mix						Generation Mix Summary		
		Cooper	Spurlock 1	Spurlock 2	Gilbert	Spurlock 4	CT & Landfills	Cooper	Spurlock	CT & Landfills
\$0.02378	May 2016	0.50%	21.18%	41.45%	7.46%	26.30%	3.13%	0.50%	96.39%	3.13%
\$0.02386	April 2016	0.63%	28.14%	39.88%	19.55%	5.65%	6.18%	0.63%	93.22%	6.18%
\$0.02444	October 2016	1.79%	16.29%	28.61%	21.55%	30.13%	1.64%	1.79%	96.58%	1.64%
\$0.02324	March 2016	2.63%	26.28%	34.28%	25.72%	8.25%	2.88%	2.63%	94.53%	2.88%
\$0.02683	December 2014	4.05%	16.54%	37.02%	21.37%	19.87%	1.06%	4.05%	94.80%	1.06%
\$0.02559	September 2016	4.54%	18.18%	31.79%	21.04%	22.28%	2.19%	4.54%	93.29%	2.19%
	<b>Budget 2017</b>	<b>8.32%</b>	<b>16.62%</b>	<b>30.17%</b>	<b>17.21%</b>	<b>18.86%</b>	<b>8.28%</b>	<b>8.32%</b>	<b>82.86%</b>	<b>8.28%</b>
	<b>Budget 2018</b>	<b>8.32%</b>	<b>16.50%</b>	<b>32.47%</b>	<b>16.55%</b>	<b>18.01%</b>	<b>8.15%</b>	<b>8.32%</b>	<b>83.53%</b>	<b>8.15%</b>
\$0.02776	May 2015	11.28%	14.43%	42.57%	23.31%	0.58%	7.87%	11.28%	80.89%	7.87%
\$0.02638	July 2016	12.74%	19.20%	32.34%	13.01%	17.11%	5.62%	12.74%	81.66%	5.62%
\$0.02740	June 2015	13.87%	23.87%	13.85%	24.39%	18.06%	5.98%	13.87%	80.17%	5.98%
\$0.02631	August 2016	15.22%	20.90%	28.77%	11.87%	19.13%	4.12%	15.22%	80.67%	4.12%
\$0.02934	November 2014	15.86%	21.10%	18.75%	19.92%	22.75%	1.66%	15.86%	82.52%	1.66%

The average actual FAC factor for the 11 months is \$0.02603 / kWh.

Given the expected costs for coal, natural gas, and market purchases, those months with a FAC below the average were eliminated from consideration (highlighted on table).

Month	Resource Mix	Generation Mix Summary	Coal vs. Gas-Fired Generation	Spurlock Generation	Fuel Costs
December 2014	Closest to Budget 2018 level	Low Cooper level; highest Spurlock level; lowest CT/Landfill levels;	Highest coal-fired generation	Spurlock 1 within Budget ranges; Spurlock 2 & Gilbert were higher; Spurlock 4 was close	Costs were below estimated levels for 2017 and 2018
August 2016	Closest to Budget 2017 level	Nearly double Cooper level; low Spurlock level; nearly half CT/Landfill level	Third highest coal-fired generation	Spurlock 1 was higher than Budget; Spurlock 2 & Gilbert were lower; Spurlock 4 was close	Costs were below estimated levels for 2017 and 2018
November 2014	Second lowest generation and second highest purchases	Nearly double Cooper level; closest Spurlock; second lowest CT/Landfill level	Second highest coal-fired generation	Spurlock 1, 4 & Gilbert were higher than Budget; Spurlock 2 was lower	Costs were above estimated levels for 2017 and 2018
July 2016	Highest generation and lowest purchases	Higher Cooper level; close on Spurlock; lower CT/Landfill level	Fourth highest coal-fired generation	Spurlock 1 was higher than Budget; Spurlock 2 was within ranges; Gilbert was lower; Spurlock 4 was close	Costs were below estimated levels for 2017 and 2018
June 2015	Lowest generation and highest purchases	Higher Cooper level; lower on Spurlock; lower CT/Landfill level	Second closest coal-fired generation to Budget levels	Spurlock 1 & Gilbert were higher than Budget; Spurlock 2 was lower; Spurlock 4 was within ranges	Costs were between estimated levels for 2017 and 2018, low end
May 2015	Third lowest generation and third highest purchases	Closest to Cooper level; lower on Spurlock; closest to CT/Landfill level	Closest coal-fired generation to Budget levels	Spurlock 1 was lower than Budget; Spurlock 2 & Gilbert were higher; Spurlock 4 much lower	Costs were between estimated levels for 2017 and 2018, near middle of range

Note: Coal-fired generation reflects the combined totals for the Cooper and Spurlock units.

**EAST KENTUCKY POWER COOPERATIVE, INC.**

**PSC CASE NO. 2017-00002**

**FUEL ADJUSTMENT CLAUSE**

**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 03/06/17  
REQUEST 5**

**RESPONSIBLE PARTY: Michelle K. Carpenter**

**Request 5.** Refer to East Kentucky' response to the February 6, 2017 Request, Item 41, pages 1-2. State whether the PJM Interconnection, LLC ("PJM") prior period adjustments referenced in the response and related to the two-year review period are flowed through the fuel adjustment clause prior to the closing of the two-year review cases.

**Response 5.** All PJM prior period adjustments for allowable billing codes are flowed through the FAC in the month invoiced by PJM. The February 2017 PJM invoice included a credit adjustment of \$36,909 for the October 2016 meter reading error referenced as outstanding in the response to Item 41. This adjustment was included in the February 2017 FAC calculation, which will be filed on or before March 20, 2017. Therefore, all PJM prior period adjustments reported in the response to Item 41 will have been effectively flowed through the FAC prior to the closing of the two-year review proceedings.

In an effort to continue to inform the Commission of significant ongoing PJM prior period adjustments occurring before the completion of the two-year review, it should

be noted that East Kentucky also received a prior period balancing operating reserve credit adjustment of \$195,960 related to September 2013 on the February 2017 PJM invoice. On February 1, 2017 FERC issued an order requiring a defendant to pay disgorgement to PJM to resolve an investigation to determine if the defendant violated FERC's Anti-Manipulation Rule in September 2013. FERC also ordered PJM to allocate the disgorged funds for the benefit of PJM customers. East Kentucky was not notified of the allocation until after the responses to Item 41 were prepared. This credit adjustment was included in the February 2017 FAC calculation and thus, will have been effectively flowed through the FAC prior to the closing of the two year-review proceedings.

**EAST KENTUCKY POWER COOPERATIVE, INC.**

**PSC CASE NO. 2017-00002**

**FUEL ADJUSTMENT CLAUSE**

**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 03/06/17**

**REQUEST 6**

**RESPONSIBLE PARTY:            Craig A. Johnson**

**Request 6.**            Refer to East Kentucky's response to the February 6, 2017 Request, Item 42, page 2 of 2. Confirm that East Kentucky classifies an outage meeting the definition of "Maintenance Outage" as a scheduled outage.

**Response 6.**            East Kentucky confirms that it classifies a PJM-defined Maintenance Outage as a scheduled outage.



**EAST KENTUCKY POWER COOPERATIVE, INC.**  
**PSC CASE NO. 2017-00002**  
**FUEL ADJUSTMENT CLAUSE**  
**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 03/06/17**  
**REQUEST 7**

**RESPONSIBLE PARTY:**           **Julia J. Tucker**

**Request 7.**           State whether East Kentucky engaged in virtual transactions in PJM during the two-year review period. If yes, explain 1) how the transactions were accounted for; and 2) the effect the transactions had on the calculation of the fuel adjustment clause, if any.

**Response 7.**           No, East Kentucky has not engaged in virtual transactions in PJM.