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April 7, 2017

VIA HAND DELIVERY

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

RECEIVED

APR 07 2017

PUBLIC SERVICE
COMMISSION

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 ten copies of the responses of East Kentucky Power Cooperative, Inc. ("EKPC"), to the Third Request for Information to the Commission's Order dated March 28, 2017. Please return a file-stamped copy to my office.

Sincerely,



David S. Samford

Enclosures

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

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APR 07 2017

PUBLIC SERVICE
COMMISSION

In the Matter of:

**AN EXAMINATION OF THE APPLICATION)
OF THE FUEL ADJUSTMENT CLAUSE OF)
EAST KENTUCKY POWER COOPERATIVE,)
INC, FROM NOVEMBER 1, 2014 THROUGH)
OCTOBER 31, 2016)**

**CASE NO.
2017-00002**

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

DATED MARCH 28, 2017

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2017-00002

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 03/28/17

East Kentucky Power Cooperative, Inc. hereby submits responses to the Third Request for Information of the Public Service Commission ("Commission") in this case dated March 28, 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 THIRD REQUEST FOR INFORMATION DATED 03/28/17
REQUEST 1**

RESPONSIBLE PARTY: Isaac S. Scott

Request 1. Refer to East Kentucky's response to Commission Staff's Second Request for Information ("Staff's Second Request"), Item 2.

a. The response states that four industrial customers are located next to the substations that provide service. State whether this statement means that the four customers are served directly from East Kentucky's transmission line.

b. Confirm that the response indicates that the two-month lag requested by East Kentucky for its member cooperatives to implement a rate change in the event of a change to East Kentucky's base rates would not apply to the four customers mentioned in the response. If this cannot be confirmed, explain.

Response 1.a. East Kentucky does not serve industrial customers directly from its transmission system. Industrial customers are served from the Member Cooperatives' distribution system. While East Kentucky owns the substations and step down transformers, the Member Cooperatives take ownership of the power and energy at the distribution level voltage

and in turn provide service to the industrial customers. East Kentucky does not directly serve any retail load.

Response 1.b. In its response to Request 2.a. of the Staff's Second Request, East Kentucky stated:

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.

Based on the previous response, East Kentucky confirms that the two-month lag requested for its Member Cooperatives would not apply to the four customers identified in that response.

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2017-00002

FUEL ADJUSTMENT CLAUSE

RESPONSE TO INFORMATION REQUEST

**COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION DATED 03/28/17
REQUEST 2**

RESPONSIBLE PARTY: Isaac S. Scott

Request 2. Refer to East Kentucky's response to Staff's Second Request, Item 4. Provide justification for not making a change in East Kentucky's base fuel cost, given that 807 KAR 5:006, Section 1 (2), states that "FB/SB shall be so determined that on the effective date of the commission's approval of the utility's application of the formula, the resultant adjustment will be equal to zero" and Section 1(12) states that "[e]very two (2) years following the initial effective date of each utility's fuel clause the commission in a public hearing will . . . to the extent appropriate reestablish the fuel clause charge in accordance with subsection (2) of this section."

Response 2. East Kentucky acknowledges the requirements of 807 KAR 5:056 and stresses it will comply with those requirements. However, East Kentucky believes it has identified reasonable concerns that bring into question whether a reestablishment of the base period fuel cost is appropriate at the present time.

As noted in the quote from 807 KAR 5:056, Section 1(12), the Commission will “to the extent appropriate” reestablish the fuel clause charge in accordance with subsection (2) of the regulation. East Kentucky contends the language in the administrative regulation provides the Commission with the discretion and flexibility to consider other factors in addition to a strict recalculation of the base period fuel cost to produce a fuel adjustment equal to zero. East Kentucky believes that the Member Cooperative concerns listed in the response to Request 4.a. of the Staff’s Second Request sufficiently explain why it is not appropriate at this time to reestablish the base period fuel cost.

East Kentucky observes that 807 KAR 5:056, Section 1(12) and KRS 278.183(3) (establishing the environmental surcharge) both contain the “to the extent appropriate” language concerning actions the Commission is to undertake during two year review cases. For the fuel adjustment clause, the Commission will, to the extent appropriate, reestablish the fuel clause charge in accordance with subsection (2). For the environmental surcharge, the Commission shall, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of each utility.

East Kentucky notes that in two previous environmental surcharge review cases for the Kentucky Power Company (“Kentucky Power”), the Commission agreed that one of the reasons not to incorporate any of Kentucky Power’s environmental surcharge into existing

rates was that whether or not there was a roll-in, ratepayers' total bills would be the same.¹ In its response to the Commission Staff's Information Request dated February 6, 2017, Request No. 1, East Kentucky stated:

Another fact that leads East Kentucky and its Member Systems to believe reestablishing the base fuel cost at this time is unnecessary as doing so does not produce a change in the total actual fuel costs billed for the month and makes no difference in the total bill. The purpose of the FAC is to ensure that each month the actual fuel costs are reflected on the monthly bills. Consequently, it really does not matter what the base fuel cost is; the corresponding FAC for that month will bring the fuel costs to the actual level for that month.

East Kentucky believes that given the similarity between the acknowledgement in Kentucky Power's previous environmental surcharge review cases and the total actual fuel costs billed by East Kentucky under the fuel adjustment clause mechanism, along with the reasons enumerated in other data responses, it is reasonable to conclude that it is not appropriate in this case to reestablish the base period fuel cost for East Kentucky.

¹ See *In the Matter of An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Power Company for the Two-Year Billing Period Ending June 30, 2009*, Order, Case No. 2009-00316, p. 3, (Ky. P.S.C. Jan. 20, 2010) and *In the Matter of An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Power Company for the Two-Year Billing Period Ending June 30, 2011*, Order, Case No. 2012-00273, p. 3, (Ky. P.S.C. Dec. 12, 2012).