

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC INVESTIGATION OF THE FUEL	)	
ADJUSTMENT CLAUSE REGULATION 807 KAR	)	CASE NO.
5:056, PURCHASED POWER COSTS, AND	)	2022-00190
RELATED COST RECOVERY MECHANISMS	)	

O R D E R

The Commission, on November 2, 2022, established this proceeding to examine, *inter alia*, “the fuel adjustment clause, purchased power cost recovery, current and future fuel and power price volatility, and related cost recovery mechanisms.”¹ In the opening Order for the proceeding, the Commission posed several questions regarding the Fuel Adjustment Clause (FAC) regulation and other fuel and power-related issues, and required all electric generator utilities to respond to those questions. The following entities requested and were granted intervention and filed responses: the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General); Kentucky Industrial Utility Customers, Inc. (KIUC); Kentuckians for the Commonwealth (KFTC); Mountain Association (MA); Metropolitan Housing Coalition (MHC); and Earth Tools, Inc. (ETI). The Kentucky Office of Energy Policy (OEP) and Kentucky Solar Industries Association, Inc (KYSEIA), also filed responses in this proceeding.

¹ Order (Ky. PSC Nov. 2, 2022) at 1.

The Commission received numerous comments in response to the questions posted in the November 2, 2022 Order. The Commission reviewed those responses and then, in its March 10, 2026 Order, sought comments on proposed changes to 807 KAR 5:056.² The following parties submitted responses: the Attorney General;³ Big Rivers Electric Corporation (BREC) and its Member-Owners;⁴ Kentucky Utilities Company (KU) and Louisville Gas and Electric Company (LG&E) (collectively, LG&E/KU);⁵ East Kentucky Power Cooperative, Inc. (EKPC);⁶ KFTC, MA, MHC, and ETI (collectively, Joint Intervenors);⁷ Kentucky Power Company (Kentucky Power);⁸ and Duke Energy Kentucky, Inc. (Duke Kentucky).⁹

The Commission, having reviewed the comments in the record, finds that the parties should file additional responses. The Commission, therefore, seeks comments on proposed changes to 807 KAR 5:056 as discussed below:

Annual Review

As discussed in the Commission's March 10, 2026 Order, the Commission is considering reviewing the application of the FAC and resetting the base FAC factor

² Order (Ky. PSC Mar. 10, 2026).

³ Comments of the Attorney General (Attorney General's Response) (filed May 11, 2026).

⁴ Joint Response of BREC and its Member-Owners (BREC's Response) (filed May 11, 2026).

⁵ Joint Response of KU and LG&E (LG&E/KU's Response) (filed May 11, 2026).

⁶ EKPC's Comments (EKPC's Response) (filed May 11, 2026).

⁷ Joint Intervenor's Comments (JI's Response) (filed May 11, 2026).

⁸ Responses and Comments of Kentucky Power (Kentucky Power's Responses) (filed May 11, 2026).

⁹ DEK Comments to Commission Staff's March 2026 Order (Duke Kentucky's Response) (filed May 11, 2026).

annually instead of every six months, culminating in a two-year review.¹⁰ Of the responses received, there were no objections to an annual review, but the Commission notes that Kentucky Power stated that annual reviews would only be beneficial if the utilities retained the ability to update the FAC factor monthly instead of the proposed quarterly adjustments.¹¹

The Commission seeks comments regarding implementation of an annual review process, including but not limited to, the optimal time period of the annual review and the best time to transition from the current review period to the annual review process. In its responses, the utilities should assume that the FAC factor will be updated monthly. Further, the Commission solicits comments on whether utilities should select their own review periods, which would result in the Commission opening the annual review proceeding at different times, depending on the timing of each individual utility's requested review period.

Procedural Aspect of Senate Bill 172

In the March 10, 2026 Order, the Commission sought comments on whether, and if so, how, the FAC regulations should be amended to establish procedures for a utility to propose a plan to extend the recovery period of the FAC-eligible costs and implement Senate Bill 172 (SB 172).¹² Some utilities commented that a change in the regulation is not needed to implement SB 172, while others, like Duke Kentucky and LG&E/KU,

¹⁰ March 10, 2026 Order at 2.

¹¹ Kentucky Power's Response at 7.

¹² March 10, 2026 Order at 7. *See also* 26 RS SB 172/GA.

presented proposed redlined changes to the regulation. Specifically, Duke Kentucky presented the following proposed redlined version to 807 KAR 5:056, Section 2(4):

The monthly fuel adjustment shall be filed with the commission no later than ten (10) days before it is scheduled to go into effect, along with all the necessary supporting data to justify the amount of the adjustment. If the utility wishes to extend the period for recovery of some amount of fuel costs, the utility shall include the rationale for such extension in its supporting data. The utility will be permitted to defer any costs not included in the immediate monthly adjustment unless the Commission orders otherwise.¹³

LG&E/KU also presented a redlined version of 807 KAR 5:056, Section 2(4) to include:

The monthly fuel adjustment shall be filed with the commission no later than ten (10) days before it is scheduled to go into effect, along with
(a) all the necessary supporting data to justify the amount of the adjustment; and
(b) written notice to the commission concerning the amount of fuel and net energy costs in the current period the utility elects to defer for recovery in future periods.¹⁴

Regarding extending the FAC recovery period, the Commission solicits further comments on whether the utilities believe a regulation change is necessary, any further proposed regulation amendments, comments on the above-mentioned proposed amendment, and how the utilities would plan to request an extended recovery period. In the response, utilities should include whether notice would be sufficient or if an order approving would be required. Additionally, the Commission seeks comments pertaining to the denial of such requests, and whether, if only notice is required, when the utilities

¹³ Duke Kentucky's Response, Attachment 1 at 2.

¹⁴ LG&E/KU's Response, Exhibit E at 2.

would expect the denial to occur (e.g. before the next month's filing or during the review process whether that be six-month/two-year or the proposed annual review).

Set Annual FAC Rate

In response to the March 10, 2026 Order, the utilities presented four different options to calculate the adjustment factor for the FAC to determine what, if any, changes could be made to the FAC to protect customers against volatility of significant increases in fuel and power prices. Overall, the responses did not show a material difference for the majority of utilities within any of the four options in the models presented. In fact, many of the utilities asserted that a change in the regulation is not necessary to protect customers against price volatility since SB 172 became effective on February 19, 2026.¹⁵

The Commission solicits comments regarding a fifth option, referred to as the "stagnant rate" option, which would consist of tracking, but not adjusting, the FAC factor monthly, and charging a constant FAC factor for 12 months. Conceptually, it would function similarly to budget billing. In this hypothetical, utilities would still report the monthly fuel costs and sales on customers' bills, and at the end of the 12-month annual review, a true-up would occur, the results of which would be carried forward into the next 12-month period. The Commission seeks comments on how utilities would propose that the FAC factor be selected for the 12-month period as well as the concerns that utilities might have used this approach. Above, the Commission requested comments on the timeline of annual reviews considering a monthly FAC factor, but, for this hypothetical,

¹⁵ See Kentucky Power's Response at 1; LG&E/KU's Response at 2; Duke Kentucky's Response at 7.

utilities should also specifically comment on the optimal time period to begin the annual review if a constant FAC factor is applied.

Regulatory Asset

In the March 10, 2026 Order, the Commission sought comments on whether regulatory accounting would be beneficial to executing SB 172, and if it is helpful, what limitations may be put on the use of regulatory accounting for large FAC expenses.¹⁶ Kentucky Power asserted that no regulation changes were necessary,¹⁷ while Duke Kentucky and LG&E/KU presented redlined versions of proposed regulation changes. Duke Kentucky suggested that 807 KAR 5:056, Section 1(3) could state: “(3) Fuel costs (F) shall be the most recent actual monthly cost, based on weighted average inventory costing, adjusted for any current or prior period deferrals...” to account for a regulatory asset request.¹⁸ LG&E/KU proposed that 807 KAR 5:056, Section 1(3) should include “(d) The amount of fuel and net energy cost deferred from one or more prior periods to be recovered in the current period.”¹⁹

The Commission solicits further comments on how utilities would request a regulatory asset, the time at which the request would be made, and the anticipated time that the Commission would decide the request.

¹⁶ March 10, 2026 Order at 8.

¹⁷ Kentucky Power’s Response at 8.

¹⁸ Duke Kentucky’s Response, Attachment 1 at 1.

¹⁹ LG&E/KU’s Response, Exhibit E at 1.

Informal Conference

The Commission finds that an informal conference should be held in this matter to discuss the responses and proposed changes to 807 KAR 5:056. The informal conference will be held on October 12, 2026, at 11 a.m. Eastern Daylight Time to take place in person at the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky. A meeting agenda will be filed into the case record of this proceeding at least two weeks prior to the scheduled conference.

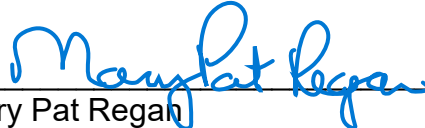
IT IS THEREFORE ORDERED that:

1. Kentucky Power, EKPC, LG&E, KU, BREC, and Duke Kentucky shall file responses to the Commission's proposed changes to the FAC adjustment factor and other topics for comment within 30 days of the date of service of this Order.
2. All other comments and responses to proposals raised herein shall be filed within 30 days of the date of service of this Order.
3. An in-person informal conference shall be held on October 12, 2026, at 11 a.m. Eastern Daylight Time at the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky.

Entered on this 13th day of August, 2026.

PUBLIC SERVICE COMMISSION



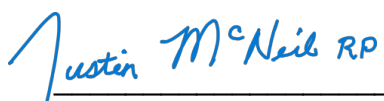
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Case No. 2022-00190

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