



August 20, 2004

HAND DELIVERED

Ms. Beth O'Donnell  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
P.O. Box 615  
Frankfort, Kentucky 40602      Case 2004-00401

**RECEIVED**

AUG 20 2004

PUBLIC SERVICE  
COMMISSION

Dear Ms. O'Donnell:

Please find enclosed for filing with the Commission an original and six (6) copies of proposed revisions to East Kentucky Power Cooperative's ("EKPC") Wholesale Electric Power Tariff, PSC No. 28, First Revised Sheet No. 3. Included are clean versions and redline versions of the proposed revisions. The revised tariff sheet reflects EKPC's request to add a new billing procedure section to its currently approved Fuel Adjustment Clause (FAC) mechanism. Attached also is an explanation of EKPC's reasons for proposing the tariff revisions, and a copy of the resolution of the EKPC Board of Directors authorizing the revisions.

Please contact me, Dave Eames or Bill Bosta at EKPC headquarters if you have any questions about this tariff filing.

Very truly yours,



Charles A. Lile  
Senior Corporate Counsel

**East Kentucky Power Cooperative, Inc.**  
**Proposed Billing Procedure Changes for**  
**Fuel Adjustment Clause**

EKPC's Fuel Adjustment Clause ("FAC") has risen during the last two years as a result of increased reliance on purchased power, higher purchased power costs in the wholesale market, increased coal and gas prices and significantly higher levels of load on the EKPC system. During this time period, the FAC factor has been volatile, resulting in uncertainties and difficulties in billing for our member systems.

EKPC's proposed revision establishes a billing procedure whereby the monthly FAC billings would not exceed 3 mills per kWh. In the event that the calculated FAC factor is in excess of 3 mills per kWh, EKPC would carry forward the unrecovered dollar amount associated with the calculated FAC factor. In subsequent months, if the calculated FAC factor is less than 3 mills per kWh, any unrecovered carry forward dollar amounts would be added into the calculated FAC costs for that month and recovered in that month (up to the cap of 3 mills per kWh). As a protection to EKPC, it is proposed that the cap be raised to 5 mills per kWh if the unrecovered carry forward amount exceeds \$10 million. The 5 mills per kWh cap would remain in place until the \$10 million is recovered. The attached revised tariff sheet describes this billing procedure.

EKPC is making this request in an effort to reduce the level of volatility in the FAC that has recently been experienced and to create a higher degree of certainty and stability for our member systems and their retail customers.

It is important to note that EKPC will continue to calculate the FAC factor in a manner consistent with the FAC regulations; use of the billing mechanism will simply defer recovery of FAC costs over time. EKPC does not expect to experience a significant level of carrying costs on the deferred recovery, but has incorporated a provision to increase the cap to 5 mills per kWh if the carrying cost becomes a factor

EKPC is requesting an effective date for service rendered of November 1, 2004. This is the first expense month of the new two-year FAC review period.

**FROM THE MINUTE BOOK OF PROCEEDINGS  
OF THE BOARD OF DIRECTORS OF  
EAST KENTUCKY POWER COOPERATIVE, INC.**

At a regular meeting of the Board of Directors of East Kentucky Power Cooperative, Inc. held at the Headquarters Building, 4775 Lexington Road, located in Winchester, Kentucky, on Tuesday, August 10, 2004, at 11:30 a. m., EDT, the following business was transacted:

Modification to the Fuel Adjustment Clause Billing Mechanism

After review of the applicable information, a motion was made by Fred Brown, seconded by Wade May, and, following further discussion, passed to approve the following:

**Whereas**, EKPC's Fuel Adjustment Clause (FAC) has risen during the last two years as a result of increased reliance on purchased power, higher purchased power costs in the wholesale market, increased coal and gas prices and significantly higher levels of load on the EKPC system, and the FAC factor has also been volatile, resulting in uncertainties and difficulties in budgeting;

**Whereas**, A Fuel Clause Committee (the "Committee") which was formed to review why the costs have increased and to propose an alternative that mitigates the effect on member systems, while continuing to be in compliance with the Fuel Adjustment Clause regulation, has met with the Public Service Commission Staff to discuss the matter and explore such alternatives;


**Whereas**, The Committee focused on developing a billing mechanism that would reduce the volatility in the FAC, while allowing EKPC to recover its actual allowable FAC costs over time; and

**Whereas**, The Committee has recommended a procedure whereby the monthly FAC billings would not exceed 3 mills per kWh, EKPC would carry forward the unrecovered dollar amount associated with the calculated FAC factor; and the unrecovered dollar amount would be recovered in subsequent months, as further described in the attached executive summary; now, therefore, be it:

**Resolved**, That the EKPC Board of Directors authorizes management to seek approval from the Public Service Commission for the proposed modification to the Fuel Adjustment Clause Billing Mechanism.

The foregoing is a true and exact copy of a resolution passed at a meeting called pursuant to proper notice at which a quorum was present and which now appears in the Minute Book of Proceedings of the Board of Directors of the Cooperative, and said resolution has not been rescinded or modified.

Witness my hand and seal this 10th day of August, 2004.



Sam Penn, Secretary

Corporate Seal

EAST KENTUCKY POWER COOPERATIVE, INC.

**Fuel Adjustment (con't.)**

- (d) The cost of fossil fuel recovered through inter-system sales including the fuel costs related to economy energy sales and other energy sold on an economic dispatch basis.
- (e) All fuel costs shall be based on weighted average inventory costing.
- 3. Forced outages are all non-scheduled losses of generation or transmission which require (purchase of) substitute power for a continuous period in excess of six (6) hours. Where forced outages are not as a result of faulty equipment, faulty manufacture, faulty design, faulty installations, faulty operation, or faulty maintenance, but are Acts of God, riot, insurrection or acts of public enemy, the utility may, upon proper showing, with the approval of the Commission, include the fuel cost of substitute energy in the adjustment.
- 4. Sales (S) shall be kWh sold, excluding inter-system sales. Where for any reason, billed system sales cannot be coordinated with fuel costs for the billing period, sales may be equated to the sum of (i) generation, (ii) purchases, (iii) interchange in, less (iv) energy associated with pumped storage operations, less (v) inter-system sales referred to in subsection (2)(d) above, less (vi) total system losses. Utility-used energy shall not be excluded in the determination of sales (S).
- 5. The cost of fossil fuel shall include no items other than the invoice price of fuel less any cash or other discounts. The invoice price of fuel includes the cost of the fuel itself and necessary charges for transportation of the fuel from the point of acquisition to the unloading point, as listed in Account 151 of the FERC Uniform System of Accounts for Public Utilities and Licenses.

**Billing Procedure**

N

EKPC will limit the amount of the Fuel Adjustment Rate to be charged to its members to \$0.00300 per kWh in any month. This billing procedure will not affect the amount of base unit cost of fuel approved by and pursuant to the order of the Public Service Commission. In the event that the Fuel Adjustment Rate, as calculated in accordance with Section (1) above, is higher than \$0.00300 per kWh, EKPC will defer recovery of the difference in the calculated Fuel Adjustment Rate and \$0.00300 per kWh until the next month or, if not completely recovered, in succeeding months.

In the event that the cumulative carry forward of unrecovered costs exceeds \$10,000,000, EKPC reserves the right to temporarily increase the limit to \$0.00500 per kWh until the carry forward of unrecovered cost is recovered.

DATE OF ISSUE August 20, 2004 DATE EFFECTIVE: Service rendered on and after November 1, 2004

ISSUED BY \_\_\_\_\_ TITLE President & Chief Executive Officer

EAST KENTUCKY POWER COOPERATIVE, INC.

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