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June 2, 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

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 Informal Conference Memorandum Response of East Kentucky Power Cooperative, Inc. ("EKPC"). 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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JUN 02 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

EAST KENTUCKY POWER COOPERATIVE, INC.'S RESPONSE TO INFORMAL CONFERENCE MEMORANDUM

Comes now East Kentucky Power Cooperative, Inc. ("EKPC"), by counsel, and, in response to the alternative discussed at the May 23, 2017 telephonic informal conference, provides the following information, respectfully stating as follows:

During the May 23, 2017 informal conference, the Commission Staff suggested that the lag issue raised by EKPC in this case may not be a result of the Commission approving a simultaneous change in base rates for EKPC and its Owner-Member Cooperatives ("Owner Member") but rather a result of certain language that has been included in the final Orders applicable to EKPC when a change is made to the base fuel rate. The Commission Staff noted that for many years, the final Orders have approved a change in the base fuel rate effective for service rendered on and after a specific date and then approved the use of the new base fuel rate in the calculation of the FAC for service rendered on and after that same specific date. The Commission

Staff noted that in Case No. 2010-00491,[1] EKPC's last FAC case where there was a change in the base fuel rate, the Commission's finding paragraphs 6 and 7 stated:

> 6. The rates in the Appendix to this Order are fair, just and reasonable and should be approved for service rendered on and after June 1, 2011.
>
> 7. For service rendered on and after June 1, 2011, East Kentucky shall use an FAC rate based upon a base fuel cost of 30.14 mills per kWh.

As an alternative option to the Owner-Member lag issue raised in the current proceeding, Commission Staff suggested the lag issue would be resolved if the FAC month was changed. Using the previous Order as an example, the suggestion would be that finding paragraph 7 should have read "for service rendered on and after July 1, 2011..." In the course of the informal conference, the Commission Staff asked EKPC to examine whether this option would be a workable solution.

EKPC would like to thank the Commission Staff for its consideration of possible solutions to the Owner-Member lag issue. However, after reviewing and considering the Commission Staff's suggestion, EKPC believes that changing the FAC expense month will not resolve the lag issue. As was expressed in EKPC's testimony, the FAC amount coupled with the energy rate should result in billing customers the actual fuel costs for a given month, whether the customer is the Owner-Member or the End-Use Retail Member ("retail member"). In order to do that, both the energy rate and the FAC amount must reflect the same base fuel costs. Unfortunately, EKPC's analysis indicates that the Commission Staff's alternative option would not accomplish this match.

As directed in the 2011 Order, the first billing month reflecting the new base fuel cost in the energy rates was the July 2011 billing. For the FAC calculations, the Order indicated the FAC

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[1] *See In the Matter of An Examination of the Application of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from November 1, 2008 Through October 31, 2010*, Order, Case No. 2010-00491, (Ky. P.S.C. May 31, 2011).

expense month would be May 2011 and the billing month to reflect this FAC calculation would also be the July 2011 billing. Thus, the energy rate and FAC rate utilized in the July 2011 billing would reflect the same base fuel cost. While the May 2011 expense month predates the effective date of the change in the base fuel cost, the resulting FAC rate applied to bills conforms to the directive "for service rendered on and after June 1, 2011", in other words, the July 2011 billing.

As EKPC understands the Commission Staff's suggestion, "for service rendered on and after July 1, 2011" would indicate the FAC expense month to be June 2011. The June 2011 FAC expense month would be reflected in the August 2011 billing month. Consequently, in the July 2011 billing by EKPC to its Owner Members, the energy rate would have reflected the new base fuel cost while the FAC calculation would have reflected the old base fuel cost. It would not be until the August 2011 billing when the energy rate and FAC calculations would have reflected the same base fuel cost.

Carrying the analysis further to the Owner Members' billing to their retail members, EKPC believes the suggested alternative would relieve a portion of the Owner Members' lag issue, but not all of it. Currently when the base fuel cost is reestablished, the "mismatch" between the base fuel in the Owner Members' energy rates and the base fuel reflected in the FAC rate is for two months. Based on EKPC's review and understanding, the alternative suggestion would only mitigate one month of the current two month lag. In effect, what had been a problem for only the Owner Members would now be a problem shared by both EKPC and the Owner Members. Each would experience a billing month where the applicable energy rates were based on the new base fuel cost and the FAC rate would be based on the old base fuel cost.

EKPC has also reviewed prior Commission FAC Orders for the investor-owned utilities and notes that the Commission Staff's suggestion in this case is similar to the approach followed for the investor-owned utilities. However, the investor-owned utility FAC Orders make the new energy rates effective on a bills rendered basis and the FAC expense month to reflect the new base fuel cost is designated. For example, the Commission's May 31, 2011 Order in Case No. 2010-00492[2] directed that the rates in the Order were effective with Kentucky Utilities Company's ("KU") first billing cycle for July 2011. The Order further directed that the July 2011 expense month was to be the first month where the new base fuel cost of 26.68 mills per kWh was to be utilized.

The approach that has apparently worked for the investor-owned utilities does not appear to be a reasonable solution for the lag issue for EKPC and its Owner Members. In the 2011 Orders, for example, EKPC's and KU's new energy rates were effective at the same time, for service rendered on and after June 1, 2011, which equates to the first billing cycle for July 2011. However, if the July expense month were designated as the first month to reflect the new base fuel cost for EKPC, it would mean the resulting FAC rate would not be reflected in billings until September 2011. While this approach would probably eliminate the lag issue for the Owner Members, it would result in two months for EKPC where the energy rate and corresponding FAC rate did not reflect the same base fuel cost. The lag issue in effect would be shifted totally to EKPC.

Based upon the foregoing, EKPC continues to believe that the resolution to the existing lag problem described in the testimony of Mr. Isaac Scott continues to be the best solution to mitigating this rate issue. EKPC appreciates the Commission Staff's attention to this issue and its diligence in seeking to find an appropriate resolution.

This 2nd day of June, 2017.

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[2] *See In the Matter of An Examination of the Application of the Fuel Adjustment Clause of Kentucky Utilities Company from November 1, 2008 Through October 31, 2010*, Order, Case No. 2010-00492, (Ky. P.S.C. May 31, 2011).

Respectfully submitted,

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