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Michael J. Schmitt
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Vice Chairman

June 26, 2017

PARTIES OF RECORD

RE: Informal Conference for
Case No. 2017-00002

Enclosed is a memorandum that has been filed in the record of the above-referenced case. Any comments regarding the content of this memorandum should be submitted to the Commission within five days of receipt of this letter. Questions regarding this memorandum should be directed to Chris Whelan at (502) 782-2644.

Sincerely,

A handwritten signature in blue ink that reads "Talina R. Mathews".

Talina R. Mathews
Executive Director

Enclosure

INTRA-AGENCY MEMORANDUM
KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File

FROM: Chris Whelan, ^{new} Financial Analysis

DATE: June 26, 2017

RE: Case No. 2017-00002
An Examination of the Application of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from November 1, 2014 through October 31, 2016

On June 22, 2017, Commission Staff ("Staff") held an informal conference ("IC") with East Kentucky Power Cooperative, Inc. ("East Kentucky"). Staff's notice of the IC was issued on June 22, 2017. Commission Staff requested the IC to continue to discuss East Kentucky's proposal to address a timing issue in the event a change in East Kentucky's base fuel rate is required by the Commission.

Staff noted that, at the May 23, 2017 IC, it suggested a change in the implementation date of a new base fuel rate in the calculation of the fuel adjustment clause ("FAC") factor as referenced in paragraph 7 of the May 31, 2011 final order in Case No. 2010-00491.¹ Staff stated that, upon further review, it would suggest a slight change to that language. Again using paragraph 7 of the May 31, 2011 final Order as an example, Staff suggested the following:

Beginning with the expense month of June 2011, East Kentucky should use an FAC rate based upon a base fuel cost of 30.14 mills per kWh.

Staff noted that although it is suggesting a change in the wording presented at the May 23, 2017 IC, the effect under each is the same (i.e., both statements would result in the new base fuel rate being used when calculating the FAC billing factor for the June 2011 expense month to be billed in August 2011 for July service).

Staff offered for discussion a hypothetical scenario in which the base fuel cost was \$.0300 per kWh and fuel costs were actually \$.0400 per kWh for May of any year and a base fuel rate of \$.035 was approved for service rendered on and after June 1 of that year. In that scenario, if the change is implemented "for service rendered on and

¹ Case No. 2010-00491, *An Examination of the Application of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from November 1, 2008 through October 31, 2010* (Ky. PSC May 31, 2011).

after June 1," the new base fuel rate would be used in calculating the FAC factor for the May expense month billed in July and would result in a FAC factor of \$.005 (\$.040-.035). However, as the lower base fuel was billed to customers for May service, it may be more appropriate to use the lower base fuel when calculating the FAC factor for May, resulting in a FAC of \$.010 (\$.040-.030) per kWh using the old base fuel rate. Staff stated that there is a two month lag inherent in the FAC mechanism and while the lag cannot be eliminated, it may be better managed by keeping the same two month lag when the base fuel rate changes.

East Kentucky stated its belief that, as originally written, the May 31, 2011 Order did not harm East Kentucky but that for two months its member cooperatives were unable to recover their full fuel costs.

East Kentucky stated that there are four options available to the Commission as follows:

1. No change to East Kentucky base fuel rate is required.
2. If a change in base fuel rate is required, delay the effective date for the new base rates for the member cooperatives by two months, as described in the Direct Testimony of Isaac Scott filed in this proceeding.
3. If a change in base fuel rate is required, use the language similar to that used in the May 31, 2011 Order.
4. If a change in base fuel rate is required, use the language similar to that suggested by Staff as set forth above.

East Kentucky stated that its first preference is option 1 followed by its second preference of option 2. East Kentucky also stated that it would poll its member cooperatives and inform Staff of their preference by June 30, 2017.

There being nothing further to discuss, the meeting was adjourned.

Attachment: Sign-In Sheet

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

SIGN IN SHEET FOR JUNE 22, 2017 INFORMAL CONFERENCE

<u>NAME</u>	<u>PARTY</u>
J.E.B. Pinney	PSC - OGC
Chris Whelan	PSC - FA
Matthew Baer	PSC - FA
Patrick Woods	EKPC
James J. Skala	EKPC
David Samford	Goss Samford - EKPC
RICHARD RAFF	PSC - LEGAL

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