

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) CASE NO. 2006-00508
POWER COOPERATIVE, INC. FROM NOVEMBER 1,)
2004 TO OCTOBER 31, 2006)

O R D E R

Pursuant to Administrative Regulation 807 KAR 5:056, the Commission, on December 18, 2006, established this case to review and evaluate the operation of the fuel adjustment clause (“FAC”) of East Kentucky Power Cooperative, Inc. (“East Kentucky”) for the 2-year period ended October 31, 2006, and to determine the amount of fuel cost that should be transferred (rolled-in) to its base rates to re-establish its FAC charge.

In establishing this review, the Commission ordered East Kentucky to submit certain information concerning its fuel procurement, fuel usage, and the operation of its FAC. East Kentucky submitted this information on January 22, 2007 and filed supplemental information in response to a Commission staff data request on February 23, 2007. A public hearing was held on March 14, 2007. Gallatin Steel Company (“Gallatin Steel”) has been granted intervenor status in this case.

In its April 1, 2007 Order in Case No. 2006-00472,¹ the Commission authorized a \$19.0 million interim rate increase for East Kentucky. On April 11, 2007, East Kentucky filed its revised tariffs reflecting the interim rate increase authorized by the Commission’s April 1, 2007 Order. In its June 13, 2007 data request, Commission Staff requested that

¹ Case No. 2006-00472, General Adjustment of Electric Rates of East Kentucky Power Cooperative, Inc.

East Kentucky provide revised tariffs that reflect the effect of its proposed FAC roll-in upon the interim rates authorized by the Commission's April 1, 2007 Order.

East Kentucky proposed that the month of March 2006 be used by the Commission as the base period (test month) for the purpose of arriving at the base fuel cost [F(b)] and the kWh sales [S(b)] components of its FAC. It further proposed that its base fuel cost be changed to 26.38 mills per kWh, the fuel cost for the proposed base period. East Kentucky's current base fuel cost is 20.25 mills per kWh.

In establishing the appropriate level of base fuel cost to be included in East Kentucky's rates, the Commission must determine whether the proposed base period cost per kWh is representative of the level of fuel cost currently being experienced by East Kentucky. The Commission's review of generation mix, generation unit outages, and generation unit availability discloses that the month of March 2006 is a reasonably representative generation month of East Kentucky. The analysis of East Kentucky's monthly fuel clause filings showed that the actual fuel cost incurred for the 2-year review period ranged from a low of 21.90 mills per kWh in May 2005 to a high of 33.34 mills per kWh in December 2005, with an average cost for the period of 26.44 mills per kWh. Based upon this review, the Commission finds that East Kentucky has complied with Administrative Regulation 807 KAR 5:056 and that the proposed base period fuel cost of 26.38 mills per kWh should be approved.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that:

1. East Kentucky has complied with the provisions of Administrative Regulation 807 KAR 5:056.

2. The test month of March 2006 should be used as East Kentucky's base period for this review.

3. East Kentucky's proposed base period fuel cost of 26.38 mills per kWh should be approved.

4. The establishment of a base fuel cost of 26.38 mills per kWh requires a transfer (roll-in) of 6.13 mills per kWh from the FAC rate to East Kentucky's current base rates and can best be accomplished by a uniform increase in all energy rates.

5. The rates in Appendix A are designed to reflect the transfer (roll-in) to base rates of the differential between the old base fuel cost of 20.25 mills and the new base fuel cost of 26.38 mills per kWh.

6. The rates in Appendix A are fair, just and reasonable and should be approved for service rendered on and after August 1, 2007.

7. For service rendered on and after August 1, 2007, East Kentucky should use an FAC rate based upon a base fuel cost of 26.38 mills per kWh.

IT IS THEREFORE ORDERED that:

1. The charges and credits applied by East Kentucky through the FAC for the period from November 1, 2004 to October 31, 2006 are approved.

2. East Kentucky's proposed base fuel cost of 26.38 mills per kWh is approved.

3. The rates in Appendix A are approved for service rendered on and after August 1, 2007.

4. For service rendered on and after August 1, 2007, East Kentucky shall use an FAC rate based upon a base fuel cost of 26.38 mills per kWh.

5. Within 20 days of the date of this Order, East Kentucky shall file with the Commission its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 25th day of July, 2007.

By the Commission

ATTEST:

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the end, positioned above a solid horizontal line.

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2006-000508 DATED JULY 25, 2007

The following rates and charges are prescribed for the customers in the area served by East Kentucky Power Cooperative, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

SCHEDULE A

Monthly Rate Per Load Center

Energy Charge per kWh: \$.033455

SCHEDULE B

Energy Charge per kWh: \$.033455

SCHEDULE C

Energy Charge per kWh: \$.033455

SCHEDULE E

Energy Charge per kWh:
Option 1 On-Peak \$.035406
Option 1 Off-Peak \$.034904
Option 2 On-Peak \$.042470
Option 2 Off-Peak \$.034904

SCHEDULE G

Energy Charge per kWh: \$.031690