COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

COMMENTS OF EAST KENTUCKY POWER COOPERATIVE, INC. AND ITS SIXTEEN OWNER-MEMBERS

Comes now East Kentucky Power Cooperative, Inc. ("EKPC") and its sixteen Owner-Member Distribution Cooperatives ("Owner-Members"), by and through the undersigned counsel, pursuant to the Kentucky Public Service Commission's ("Commission" or "PSC") March 24, 2026 Order and for its comments regarding the Commission's August 13, 2026 Order respectfully states as follows:

The Commission opened this investigation into the Fuel Adjustment Clause ("FAC") on November 2, 2022.[1] EKPC and its Owner-Members filed joint comments on December 5, 2022,[2] and reply comments on December 20, 2022.[3] The Commission entered an Order on March 10, 2026 requiring the utilities that are a party to the case to file comments regarding changes to the FAC calculation methodology and review period, the impact of Senate Bill 172[4], and the potential

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[1] Order (November 2, 2022).

[2] Comments of EKPC and its Sixteen Owner-Members (filed Dec. 5, 2022).

[3] Reply Comments (filed Dec. 20, 2022).

[4] 26 RS SB 172/GA.

need to establish regulatory assets to spread out recovery of eligible expenses.[5] EKPC and its Owner-Members filed joint comments on May 11, 2026.[6] The Commission issued an additional Order on August 13, 2026, asking for additional comments on a potential implementation of a revised calculation to the FAC.[7] EKPC and its Owner-Members now make the following comments on the topics set forth in the Commission's Order:

The purchase of fuels and wholesale power is generally the greatest operating expense for a utility and the FAC regulation, 807 KAR 5:056, plays a pivotal role in assuring that utilities are able to provide service to customers at fair, just and reasonable rates. EKPC and its Owner-Members appreciate the Commission opening an investigation to address these important issues.

In the August 13, 2026 Order, the Commission noted four areas to consider regarding the FAC. First, the Commission invited 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. Second, regarding Senate Bill 172[8], the Commission requested additional comments on: whether the utilities believe a regulation change is necessary; the need for any further regulation amendments; the above-mentioned proposed amendment, and implementation of any plan to request an extended recovery period for FAC expense. Third, the Commission seeks comments regarding implementing a "stagnant rate" methodology which would consist of tracking, but not adjusting, the FAC rate for 12 months. Lastly, the Commission solicited further comments on how utilities would request a

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[5] Order (March 10, 2026) (amended by Order dated March 12, 2026).

[6] EKPC Comments (filed May 11, 2026).

[7] Order (August 13, 2026).

[8] 26 RS SB 172/GA.

regulatory asset, the time at which the request would be made, and the anticipated time that the Commission would decide the request.

Annual Review

As noted in EKPC's May 11, 2026 Comments, currently, the FAC is reviewed by the Commission on a roughly six-month and two-year schedule. EKPC and its Owner-Members agree that transitioning to an annual review would reduce customer volatility and allow for more frequent adjustments of base fuel rates. This would further reduce the impact of the monthly FAC on average customer bills. Coupled with the reduced volatility from the proposed changes to FAC calculation methodology, if the base rate were set using a period with the updated calculation, volatility would decrease.

EKPC and its Owner-Members prefer the Commission open its administrative review yearly in January and implement new FAC rates annually during shoulder months (March through May) so the rate impacts on EKPCs Owner-Members are minimal.

Senate Bill 172

As noted in EKPCs May 11, 2026 Comments, EKPC and its Owner-Members do not believe a change to the regulation is necessary. However, if the Commission decides that a change to the regulation is necessary for notice requirements, then EKPC and its Owner-Members agree with Louisville Gas & Electric and Kentucky Utilities' ("LG&E/KU") May 11, 2026 which included its proposed edits to the FAC regulation[9]. In particular, EKPC and its Owner-Members believe the suggested edit that the utility should provide written notice for the current period that the utility wishes to defer costs for recovery is reasonable. EKPC used similar language in its May 11, 2026 Comments as well. EKPC stated that it "would provide notice to the Commission that it

[9] LG&E/KU Comment, Page 16 – 25 (filed May 11, 2026)

would book those costs as a regulatory asset or liability for that month" during its monthly filings. This method would create a real time update and assist in spreading the volatility of the surcharge.

In the event the Commission denies the request for a regulatory asset, EKPC and its Owner-Members would request the Commission immediately grant the recovery in the monthly filings to reduce the real time FAC volatility and request the Commission include language that it still can review those costs during the annual review. This methodology will allow EKPC and its Owner-Members the flexibility to enact Senate Bill 172 and reduce volatility in real time while allowing the Commission to ensure utilities are charging fair, just and reasonable rates during the review period.

In addition to the changes proposed by KU/LG&E, EKPC and its Owner-Members believe that adding language, similar to language found in 807 KAR 5:006 Section 28, regarding the Commission's ability to grant a deviation to the regulation for good cause shown, would be a prudent addition to the regulation. This would allow utilities to seek individual deviations when necessary to the FAC regulation without changing the regulation, which would impact all electric utilities. Any deviation would still be subject to the statutory fair, just and reasonable standard.

Stagnant Rate Option

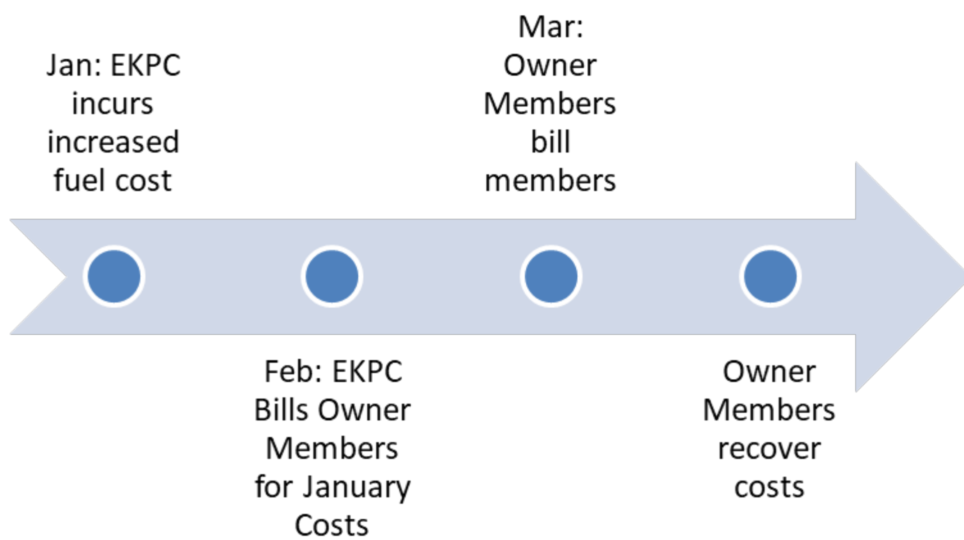
Regarding the stagnant rate option presented by the Commission, EKPC and its Owner-Members requests that the Commission **not** move forward with this option. In its March 10, 2026 Order, the Commission put forth alternative methodologies for calculating the monthly FAC factor. The first uses a twelve-month rolling average of fuel costs for the immediate twelve months prior to the current period and a two-year average of quarterly sales. Now, in its August 13, 2026 Order, the Commission presents a stagnant rate option where the FAC rate would not be changed for 12 months but would continue to be tracked and any over/under recoveries from the previous months would be held by the utilities to be trued-up the following year. This methodology resembles the methodology already in effect within the FAC mechanism. Currently, during two-year reviews, each utility resets its "base rate" within the FAC, which is already a "stagnant rate," to be charged within the FAC until the next two-year review case is opened. In the two-year proceedings a utility then has the option to change the base rate or leave it as-is. The "stagnant rate" methodology allows utilities to only charge the base rate amount during a year and book any amounts over/under the base rate amount against each other which can be ineffective and inefficient.

While EKPC and its Owner-Members appreciate the Commission's additional proposed methodology for the FAC, EKPC cannot stress enough that this method will ***not*** work for EKPC's Owner-Members and their end-use members. This methodology might work for an Investor-Owned Utility ("IOU"); however, for a cooperative, the stagnant rate would cause serious financial harm. EKPC's Owner-Members do not have sufficient cash flow to be able to hold any over/under amounts from FAC recovery for consecutive months. For example, if one of EKPC's Owner-Members had an under-recovery for multiple months, especially during the winter months, then the under-recovery could exceed several millions of dollars. This would cause serious financial harm to the Owner-Members. The margins for EKPC's Owner-Members are small. Many propose rate adjustments of only $2 million or $3 million in increased revenue when filing rate cases.[10]

EKPCs Owner-Members historically have significant FAC under recoveries during the winter months due to the volatility of fuel costs, the amounts that they recover from their end-use members, and the lag between EKPC's FAC rate and the rates the Owner-Members charge their

[10] PSC Case No. 2016-00169, Application of Cumberland Valley Electric, Inc. For A General Adjustment of Rates (Ky. PSC Jun. 23, 2016); PSC Case No. 2018-00129, Application of Inter-County Energy Cooperative Corporation For A General Adjustment of Rates (Ky. PSC Jul. 27, 2018); PSC Case No. 2023-00223, Electronic Application of Fleming-Mason Energy Cooperative, Inc. For A General Adjustment of Rates (Ky. PSC Aug. 28, 2023)

end-use members. For perspective, when EKPC bills its Owner-Members in February based on January usage, its Owner-Members do not recover any costs for the January usage until their March billing. For simplicity, there is a two-month recovery lag for the Owner-Members. When Kentucky experienced significantly cold weather in January 2026, EKPC spread costs over multiple months to reduce volatility. EKPC's Owner-Members still carried a significant under-recovery because in January they were billing their members based on November's usage but their wholesale bills from EKPC included those winter storm costs. Below is a diagram illustrating an example collection timeline for EKPC and its Owner Members.



Additionally, it would be increasingly difficult to "forecast" FAC costs for an entire year and only charge one rate given that EKPC is a cooperative. EKPC has higher fuel costs during the winter months and lower costs during the summer months because EKPC is a winter peaking utility. Therefore, EKPC tends to charge a higher FAC rate during the winter months and then offer a credit during the summer months. However, with the stagnant rate option, if EKPC were to set the FAC rate too low during the winter months, then it would carry a significant under-recovery as would its Owner-Members. If EKPC were to set the rates too high in order to protect itself and its Owner-Members during the winter-months then the rates during the summer months would be too high.

As EKPC noted in its May 11, 2026 Comments, "a one size method does not fit all utilities when discussing the FAC formula on a going forward basis."[11] EKPC, as a cooperative, does not operate in the same manner as an IOU. EKPC strives to provide the safe and reliable service its Owner-Members and their end-use members are entitled to while also remaining affordable. As a cooperative, EKPC is very sensitive to the impact the cost of fuel and purchased power will have on its Owner-Members. EKPC will continue to recommend that the Commission grant flexibility to each utility for the FAC method that best fits its operational needs. EKPC reiterates from its May 11, 2026 Comments that a 12-month rolling average would be the best methodology for its operational needs and would virtually eliminate a serious lag between EKPC and its Owner-Members, eliminate the need for a large true-up for the next billing period, and eliminate excessive FAC volatility.

In the event that the Commission elects to move forward with the stagnant rate option, EKPC and its Owner-Members request the Commission review the FAC rate at the beginning of the year (January or February) with rates to be effective in March. EKPC and its Owner-Members believe Senate Bill 172 grants EKPC and its Owner-Members the flexibility to address any volatility by extending the period for recovery of fuel costs, however, EKPC and its Owner-Members would also need to be granted **significant** flexibility by the Commission regarding how the Commission treats under-recoveries, including interim recoveries. This is because, as discussed in detail above, it would be unreasonable to ask cooperatives to "carry forward" several

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[11] EKPC Comments, page 15 (filed May 11, 2026).

millions of dollars of under-recoveries, especially considering the expense is not their own. EKPC and its Owner-Members would request, in the event of any under-recovery in any given month for itself and its Owner-Members, that they either be granted the ability to recover those under-recoveries immediately in the following month or they be granted flexibility to decide on how they want to recover the under-recoveries so that it does not cause them financial harm.

Regulatory Asset

Regarding deferral accounting, EKPC and its Owner-Members agree with Kentucky Power, Duke Energy Kentucky, and LG&E/KU. While EKPC and its Owner-Members believe Senate Bill 172 is sufficient as written and no regulation changes are necessary, in the event the Commission amends the regulation, EKPC and its Owner-Members agree that a utility requests deferral accounting treatment for fuel costs, then the statue should be amended to allow any "current or prior period deferrals." EKPC and its Owner-Members believe that the Commission should take no longer than 30 days to either grant or deny the request. Expedited treatment of these costs and including this language would continue to grant the utilities enough flexibility to address volatility properly. However, as noted in EKPC's May 11, 2026 Comments, if the Commission were to switch to a rolling 12-month average, then the likeliness of requesting a regulatory asset would be significantly reduced considering the mechanism itself would address any need for deferral accounting.

Hedging

In the Commission's March 10, 2026 Order, it sought comments on how the FAC regulation, and other Commission rules or policies, could be amended to allow for the recovery of financial hedges. In the Commission's August 13, 2026 Order, it did not address any additional comments on how the regulation could be amended to include hedging. EKPC reiterates its May

11, 2026 Comments regarding hedging which stated that amending the FAC regulation to include financial hedges as a cost of fuel will benefit customers by limiting fuel cost volatility.[12]

Respectfully submitted,

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[12] EKPC Comments, page 13 (filed May 11, 2026).

CERTIFICATE OF SERVICE

This is to certify that the foregoing electronic filing was transmitted to the Commission on September 11, 2026, and that there are no parties that the Commission has excused from participation by electronic means in this proceeding. Pursuant to prior Commission Orders, no paper copies of this filing will be made.

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