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 KENTCKY POWER COOPERATIVE, INC.

Comes now East Kentucky Power Cooperative, Inc. (EKPC), by and through the undersigned counsel, pursuant to the Kentucky Public Service Commission's ("Commission") March 10, 2026 and March 24, 2026 Orders and for its comments respectfully states as follows:

The Commission opened an investigation regarding the Fuel Adjustment Clause ("FAC") on November 2, 2022.[1] EKPC and its Owner-Member Distribution Cooperatives 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 allowing parties to make additional comments on the issues presented.[4] EKPC now makes the following comments on the Commission's Order.

EKPC appreciates the Commission addressing the issues raised in Senate Resolution 316 from the 2022 Regular Session of the Kentucky General Assembly. The purchase of fuels and wholesale power is generally the greatest expense for a utility and the FAC regulation, 807 KAR 5:056, plays a pivotal role in assuring that utilities can provide service to customers at a fair, just and reasonable rate.

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

In the March 10, 2026 Order, the Commission noted three areas of consideration regarding the FAC: first, the Commission stated there was the potential for the FAC to be adjusted on a quarterly basis rather than the current monthly basis; second, the Commission addressed the possibility of shifting from six-month and two-year review schedules in which a utility may reset the base FAC factor; third, the Commission addressed potential updates to the method used to calculate the FAC, proposed two formulas, and addressed formulas proposed by Duke Energy Kentucky, Inc. ("Duke Energy Kentucky") and Kentucky Power Company ("Kentucky Power").

FAC Calculation Frequency

Currently, 807 KAR 5:0056, Section 1 requires the FAC to be calculated on a monthly basis using "the cost of fuel in the current period" and "sales in the current period." The Commission's proposal of moving to a quarterly adjustment would address the issue of overall customer volatility. EKPC notes even with the calculation methodology discussed below, it naturally results in a more significant change on the quarter than the change in a month-to-month change.

Review Period

Currently, the FAC is reviewed by the Commission on a roughly six-month and two-year schedule. The Commission proposed moving lengthening those review periods. EKPC agrees lengthening these periods would also serve to reduce customer volatility because more frequent adjustments reduce the impact of the monthly FAC on average overall 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 be further reduced.

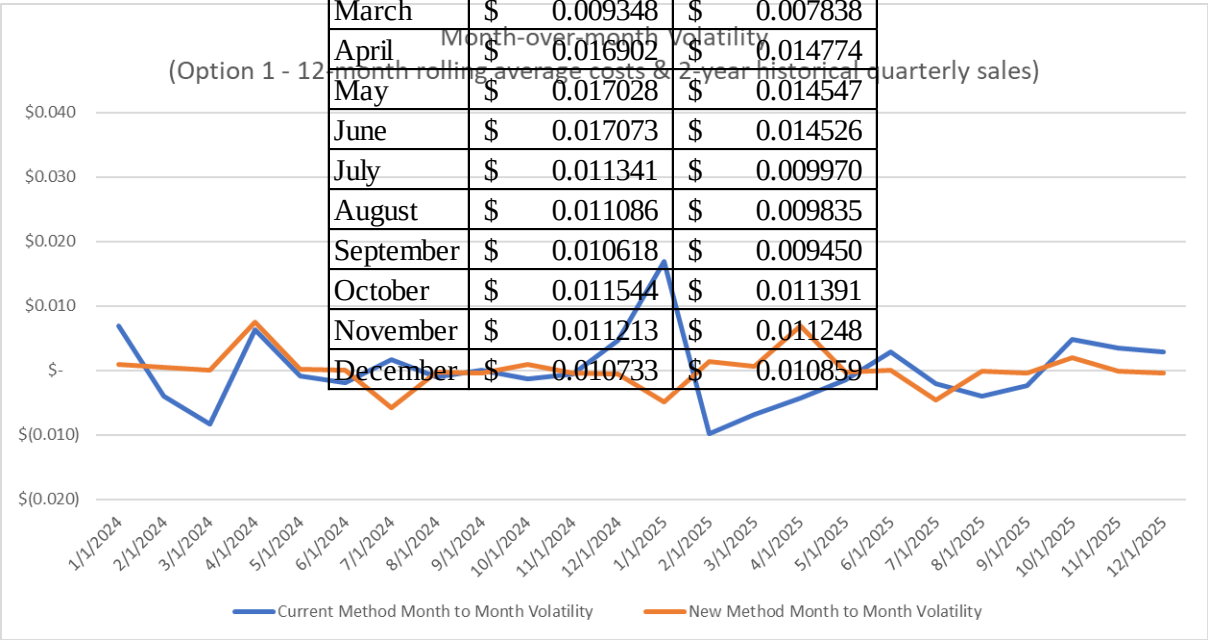
FAC Calculation Methodology

Twelve-Month Average Costs / Two-Year Average Quarterly Sales

In its Order, the Commission put forth two alternative methodologies for calculating the monthly FAC factor. The first uses a twelve-month rolling average of fuel costs of the immediate twelve months prior to the current period and a two-year average of quarterly sales. For example, the "period sales" used to calculate the FAC for January would be the average sales in January, February, and March of each of the past two years.

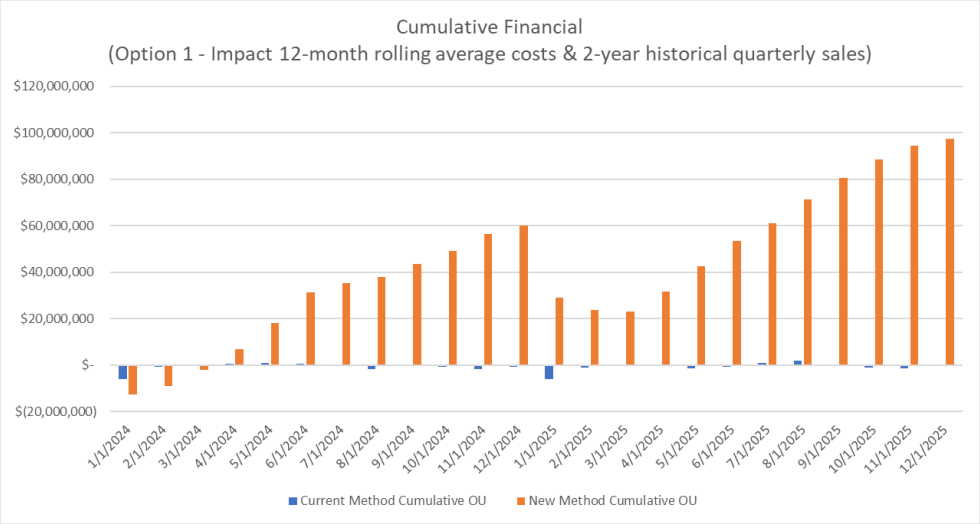
EKPC performed analysis of their 2024 and 2025 FAC calculations using the proposed methodology which results in monthly FAC factors shown in the table below:

	2024	2025
January	$ 0.008911	$ 0.005856
February	$ 0.009336	$ 0.007241
March	$ 0.009348	$ 0.007838
April	$ 0.016902	$ 0.014774
May	$ 0.017028	$ 0.014547
June	$ 0.017073	$ 0.014526
July	$ 0.011341	$ 0.009970
August	$ 0.011086	$ 0.009835
September	$ 0.010618	$ 0.009450
October	$ 0.011544	$ 0.011391
November	$ 0.011213	$ 0.011248
December	$ 0.010733	$ 0.010859



Additionally, EKPC's analysis found that the method did serve to reduce factor volatility from current levels, shown below in a graph of month-over-month volatility in 2024 and 2025:

EKPC notes that due to constantly fluctuating fuel costs, the current analysis would suggest it would have been routinely over collected in the 2024 and 2025 periods with the methodology outline above. Note that the graph below illustrates a rolling balance.



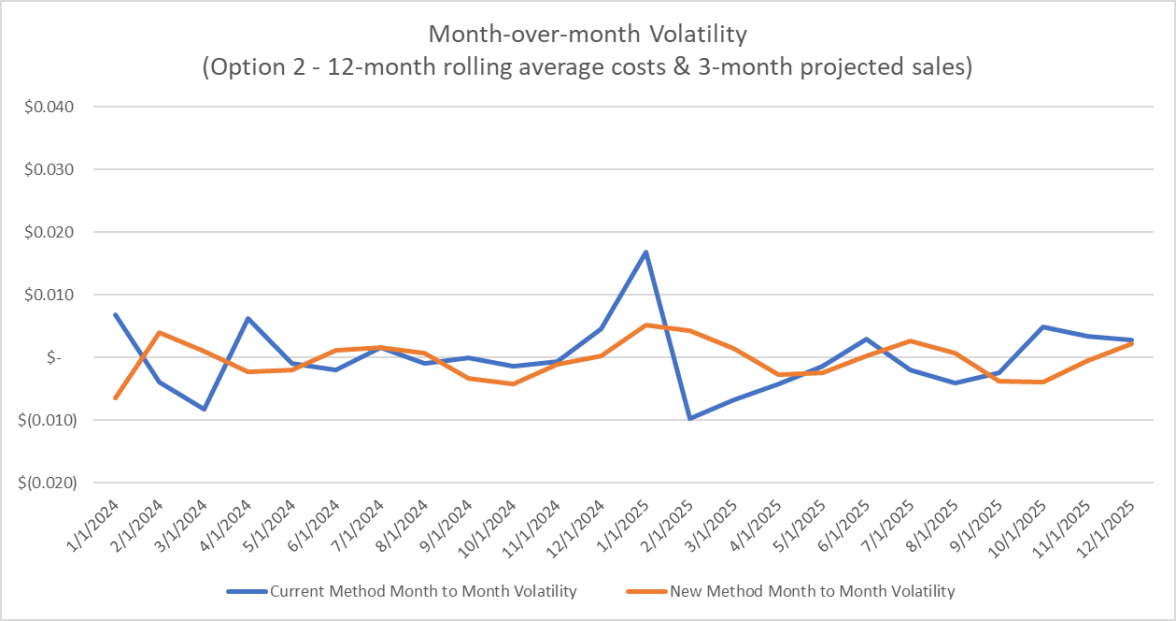
Twelve-Month Average Costs / Three-Month Projected Sales

The Commission's second method uses the same twelve-month rolling average fuel costs discussed above but then opts for the use of a three-month average of projected sales based on current EKPC budget forecasted sales.

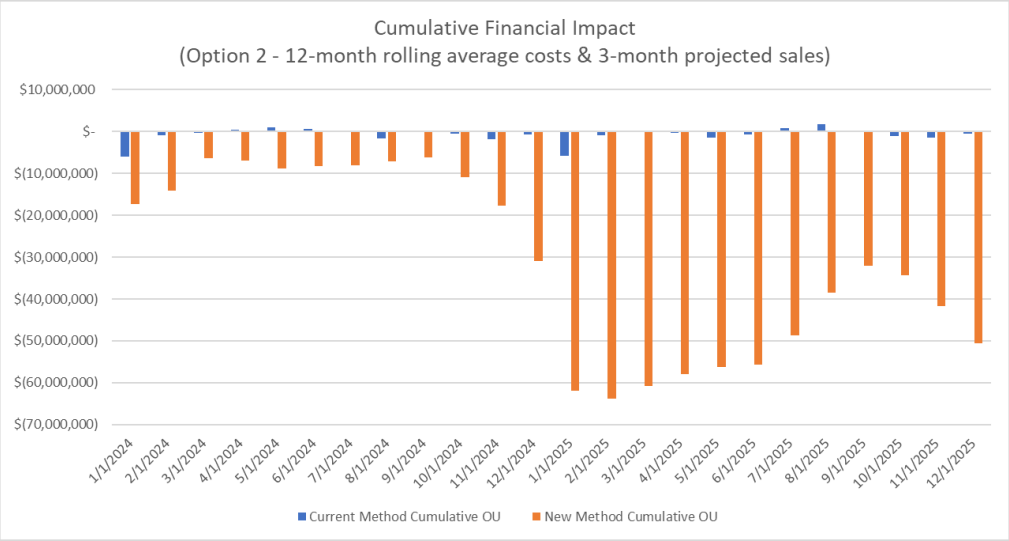
EKPC performed an analysis of their 2024 and 2025 FAC calculations using the second proposed methodology which results in monthly FAC factors shown in the table below:

	2024	2025
January	$0.004985	$0.005913
February	$0.008914	$0.010258
March	$0.009976	$0.011696
April	$0.007651	$0.008959
May	$0.005648	$0.006550
June	$0.006820	$0.006822
July	$0.008389	$0.009431
August	$0.009063	$0.010124
September	$0.005815	$0.006335
October	$0.001579	$0.002396
November	$0.000491	$0.001912
December	$0.000778	$0.004056

Additionally, EKPC's analysis found that the method did partially serve to reduce factor volatility from current levels, though not to as significant a degree as other potential options, shown below:



EKPC notes that due to constantly fluctuating fuel costs, the current analysis would suggest it would have been significantly under collected in the 2024 and 2025 periods with the methodology outline above.



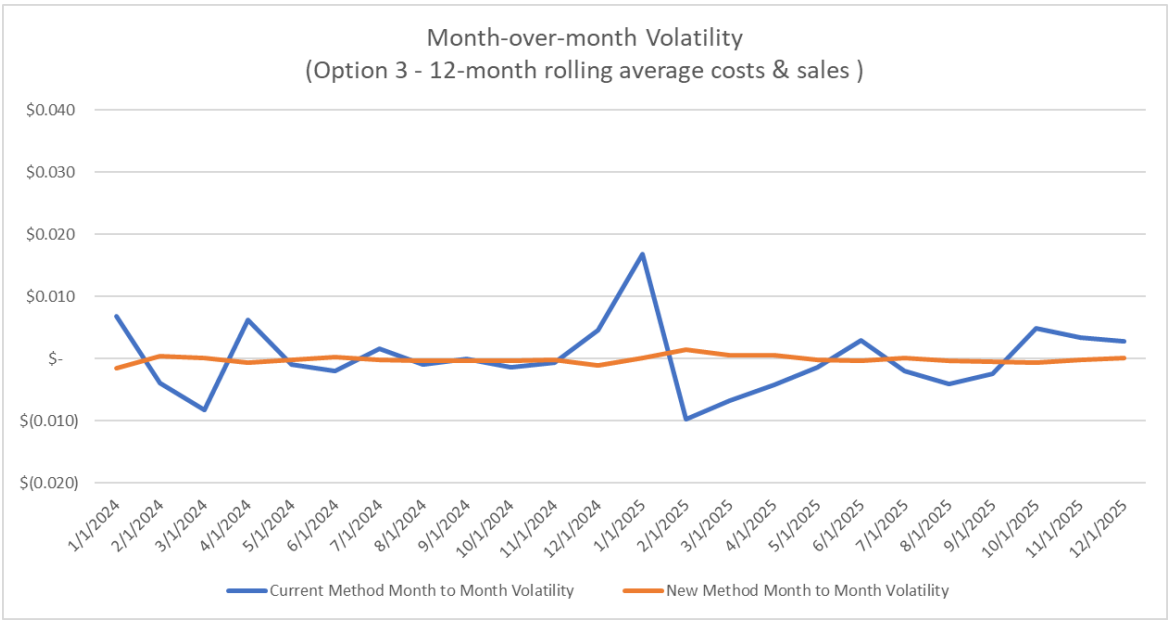
Twelve-Month Average Costs / Twelve-Month Average Sales

The Commission also addressed methods proposed by Duke Energy Kentucky and Kentucky Power.

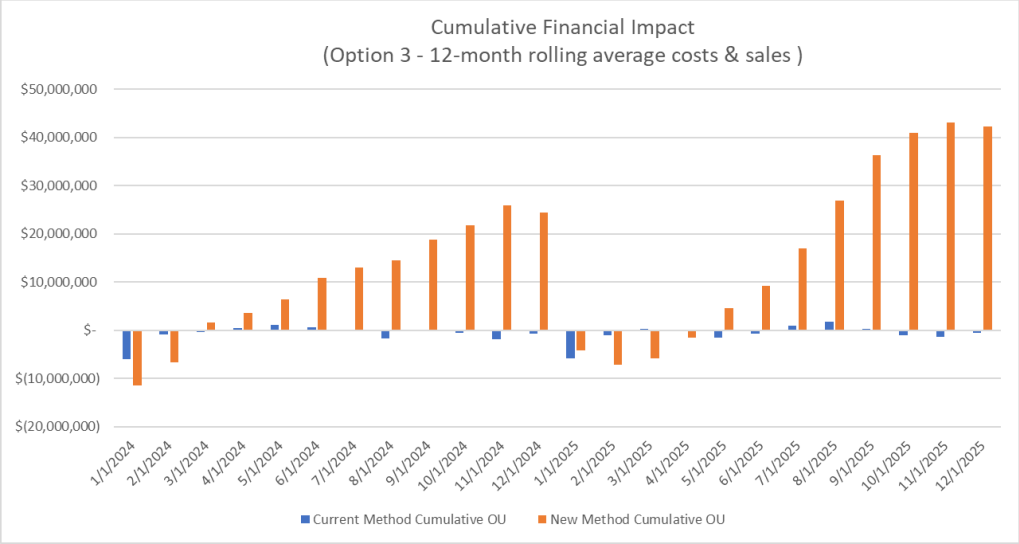
The first of which, put forward by Duke Energy Kentucky, proposes to utilize the same twelve-month rolling average for the fuels costs but expands the sales to use the same calculation. EKPC performed analysis of their 2024 and 2025 FAC calculations using the proposed methodology which results in monthly FAC factors shown in the table below:

	2024	2025
January	$0.009998	$0.007896
February	$0.010421	$0.009335
March	$0.010571	$0.009871
April	$0.009987	$0.010436
May	$0.009815	$0.010220
June	$0.010049	$0.009959
July	$0.009942	$0.010034
August	$0.009616	$0.009761
September	$0.009283	$0.009272
October	$0.008963	$0.008663
November	$0.008773	$0.008507
December	$0.007747	$0.008648

Of the methods analyzed, EKPC found Duke Energy Kentucky's method most adequately addresses monthly FAC factor volatility. The use of historical rolling averages for both components of the calculation results in an FAC that sees only small deviations month to month and avoids swings from particularly high or low factors month to month depending on weather, market conditions, and other factors contributing to the cost of fuel and sales, shown below:



Additionally, the Duke Energy Kentucky method results in the most reasonable net over or under collection of the methods analyzed. The overcollection in the warmer months effectively builds a reserve that is then depleted, netting to zero, once the cold-weather months arrive.

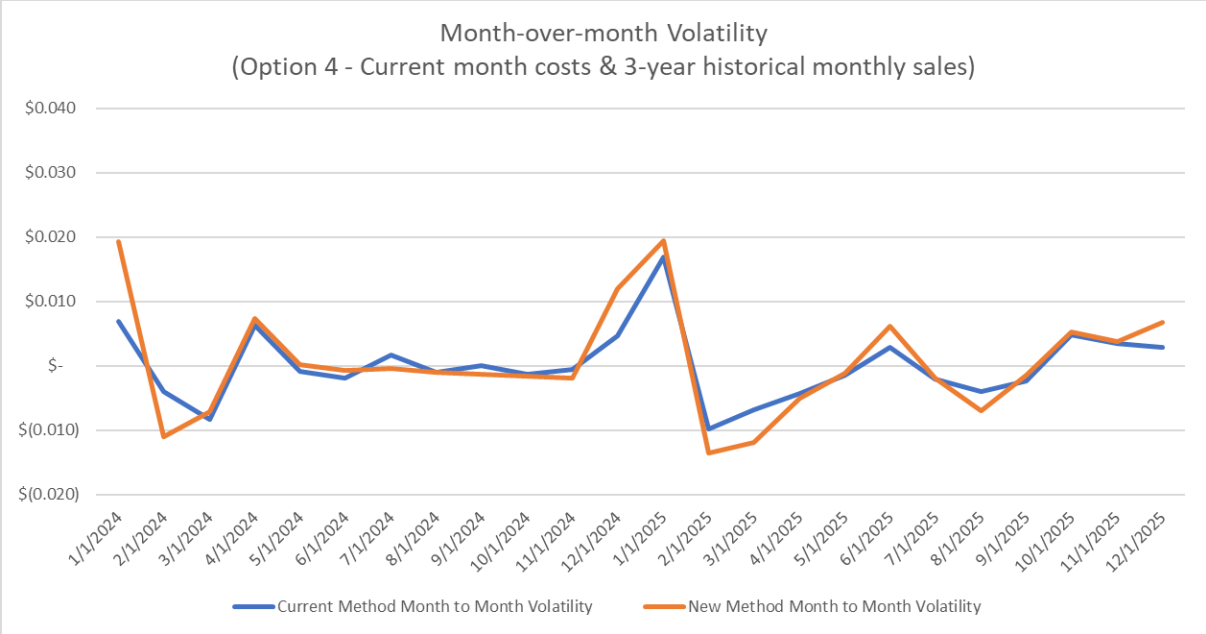


Three-Year Historical Average Sales

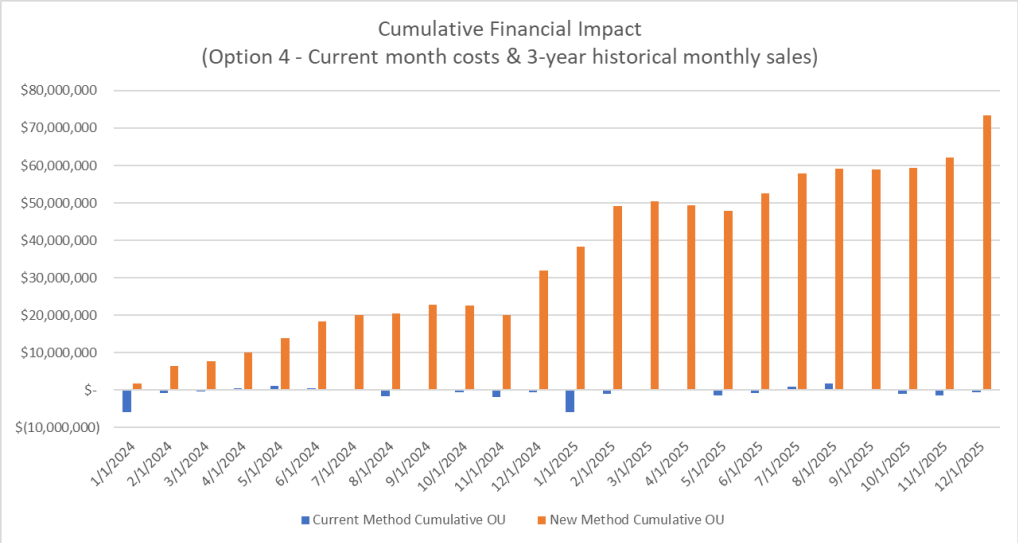
The final methodology put forward by Kentucky Power proposes to make no adjustments to monthly fuel cost considerations but utilize a three-year historical average of sales in the calculation of the factor. EKPC performed analysis of their 2024 and 2025 FAC calculations using the proposed methodology which results in monthly FAC factors shown in the table below:

	2024	2025
January	$0.021318	$ 0.035307
February	$0.010316	$ 0.021793
March	$0.003226	$ 0.009956
April	$0.010535	$ 0.004867
May	$0.010684	$ 0.003719
June	$0.010004	$ 0.009955
July	$0.009562	$ 0.008063
August	$0.008571	$ 0.001167
September	$0.007315	$(0.000240)
October	$0.005742	$ 0.004984
November	$0.003793	$ 0.008831
December	$0.015846	$ 0.015658

EKPC's analysis found this method did not materially reduce factor volatility, and in some cases increased volatility from current levels given EKPC's historical fuel cost and sales profile, shown below:



Additionally, EKPC notes this method results in routine overcollection that does not reverse or net to zero during the periods analyzed.



Hedging

The Commission has previously recognized that the use of financial hedges can reduce natural gas price volatility for utility customers. In 2000, the Commission stated the following:

> In view of the fluctuation in wholesale natural gas prices over the past year, the Commission encourages the LDCs to consider limited hedging strategies as a means of mitigating some portion of the price risks to which consumers are subjected. As is evident from the LDCs' filings in this proceeding and the hedging proposals submitted by Western and ULH&P, LDCs have never been precluded from engaging in hedging. However, because hedging could result in prices that are above market, they have chosen not to pursue hedging strategies because of the potential that the resulting costs could be subject to disallowance as part of after-the-fact reviews by the Commission. The Commission believes LDCs should consider limited hedging strategies as a means of mitigating price risk. Such limited strategies should create little in the way of increased costs or risks for either the LDCs or their customers.[5]

EKPC agrees with the Commission and believes natural gas hedging is a crucial risk management tool providing protection against price volatility for both utilities and their customers.

[5] *An Investigation of increasing Wholesale Natural Gas Prices and the Impacts of Such Increases on the Retail Customers Served by Kentucky's Jurisdictional Natural Gas Distribution Companies*, Administrative Case No. 20000384 (Ky. PSC July 17, 2001) at 8.

The primary benefit is the mitigation of fuel price volatility caused by factors beyond utility control, such as natural disasters, weather events, and supplier failures. Since utilities cannot control market prices, hedging allows them to provide price stability to customers who would otherwise bear 100 percent of the risk from price volatility. The Commission has in the past recognized that hedging programs can bring greater fuel cost stability, though this may come with the trade-off of potentially higher costs than current market prices during certain periods.

The Commission generally permitted natural gas utilities to physically hedge natural gas purchases from 2001 – 2014. However, the Commission's acceptance for such activities waned and the utilities' hedging programs were discontinued based upon the Commission's belief that:

> …[C]ontinued low and stable gas prices could obviate the need for hedging. … While there is no guarantee that higher levels of gas prices and volatility will not recur, current projections from the United States Energy Information Administration's 2014 Annual Energy Outlook indicate prices are not expected to exceed $8.00 per Mcf through 2040 using the reference case and are not expected to exceed $8.15 per Mcf using the High Growth scenario. More importantly with regard to volatility, the trend in price increases is projected to be gradual and steady in the long run.[6]

The Commission is aware of recent storms that caused natural gas prices in excess of $8.00 per MCF. These storms plus the current uncertainty in the global economy requires the Commission to re-evaluate the need natural gas hedging. While there are increased costs to customers for hedging the programs ultimately lead to lower costs for natural gas which reduces volatility in the FAC.

For coal, EKPC has policies in place to limit supply risk and price volatility. These hedging strategies assure EKPC has access to coal in the future while also limiting the volatility of coal pricing over a future period. While the details will vary from one utility to another, all Kentucky

[6] *In the Matter of the Application of Duke Energy Kentucky, Inc. to Implement a Hedging Program to Mitigate Price Volatility in the Procurement of Natural Gas*, Order, Case No. 2015-00025, p. 4 (Ky. P.S.C. Mar. 27, 2015)

utilities have contracts in place for all of their anticipated coal supply needs that are contractually secured a year or more in advance. For future years, utilities add new coal supply contracts so the delivery years closest in time have the most supply secured, and delivery years that are farther away have fewer contracts in place. The physical hedge of a coal stockpile have the advantage of blending the pricing for coal over a period of several years, thereby minimizing the rate impact of the normal peaks and valleys of the coal market. Hedging coal purchases reduces the price volatility and utilities and customers alike have greater predictability as to future energy costs.

Natural gas is different in that it is delivered directly from an interstate pipeline at the time it is consumed. There is no ability to create a physical hedge with natural gas unlike coal. As a result, utilities must either purchase natural gas on a firm basis (similar to how coal is purchased) with contractually required delivery times or they must purchase gas when it is needed on the spot market. Purchasing natural gas on a firm basis works well if a utility can accurately predict exactly when its natural gas-fired generation assets will be called upon to produce electricity.

Unfortunately, this is rarely the case for electric utilities. Firm natural gas purchases are not well-suited to serving natural gas units that primarily serve as peaking units to meet electric load during the periods of highest demand. This means natural gas is most often purchased on the spot market to run turbines when electricity is needed instantaneously. The spot market is much more volatile and can lead to significant swings in pricing from one day to the next. Since the cost of natural gas is one of the most significant drivers of electricity prices, the volatility in the natural gas spot market contributes directly to price volatility experienced by retail electric consumers.

Financial hedging instruments provide a means to mitigate the risk of price volatility for natural gas purchases by allowing a utility to purchase rights relating to the purchase and delivery of natural gas without the transaction being tied to a specific delivery of natural gas to a particular

generating station. Financial hedging, in essence, allows the utility to diversify its portfolio and spread risk over multiple types of natural gas transactions. Financial hedging is a procurement tool that compliments a utility's ability to enter into spot market transactions to purchase natural gas. Financial hedges extend some of the same market volatility protections available in the coal market through physical hedging to natural gas purchasing in the spot market. Financial hedging is not a guarantee that a utility will always purchase natural gas at the lowest possible price, but it does assure that the overall volatility of fuel prices will be diminished over time. This leads to more predictable energy bills.

Unfortunately, the FAC regulation does not permit the recovery of financial hedges of natural gas. By limiting fuel cost recovery to natural gas that is "consumed"[7] by the utility's electric generating units or specifically attributable to power purchases, recovering the cost of financial hedges associated with reducing natural gas price volatility is prohibited. While well-intentioned, the FAC regulation prevents utilities from having the ability to use financial hedges as a tool to mitigate price volatility in the natural gas market. In periods where the natural gas market is stable over time, the absence of this tool is inconsequential. However, in periods where natural gas prices are highly volatile, the inability to use financial hedges as a tool to mitigate price volatility is much more acute. Amending the FAC regulation to include financial hedges as a cost of fuel will benefit customers by limiting fuel cost volatility.

Senate Bill 172 & Regulatory Treatment

Senate Bill 172 states that:

> In the administration of an electric utility's fuel adjustment clause and any associated tariffs, the commission may, upon the request of an electric utility, extend the period for recovery of fuel adjustment costs that are typically recoverable in order to reduce volatility for consumers and encourage stability in rates.

[7] 807 KAR 5:056, Section 1(3)(a).

EKPC believes the most logical approach to request such relief would be during monthly FAC filings with the Commission. Permitting this requesting in the monthly filings would allow EKPC to provide a real time update each month illustrating the volatility of prices that month and how it plans to book those costs for accounting purposes. EKPC would provide notice to the Commission that it would book those costs as a regulatory asset or liability for that month. The Commission would review those costs during its six-month and two-year reviews. The Commission has the authority to approve such relief under 807 KAR 5:056 Section 3(4)(a) and SB 172. This would grant EKPC an expedited approval for such accounting treatment and still retain the Commission's authority to establish fair, just and reasonable rates during the review process.

Distribution Co-ops

EKPC notes that booking extraordinary FAC costs as a regulatory asset or liability would be at a benefit to its Owner-Members, their end use customers, and EKPC. While prior Commission Orders speak to the rigidity of the process for accounting and reporting fuel expenses, the FAC regulation leaves open the door for delayed recovery of FAC expenses. EKPC did this very thing during the 2014 Polar Vortex when power purchase expenses were extraordinarily high. EKPC gains nothing from deferring cost recovery because it would not impose a carrying charge on the regulatory asset's balance. EKPC would be better-suited financially to fully recover its costs in the timeframe set forth in its FAC tariff and 807 KAR 5:056. However, EKPC recognizes it would be beneficial for the end use retail members to see a lower and more stable FAC expense. EKPC is willing to accommodate deferred cost recovery if the Commission would recognize fuel volatility as an additional basis for granting a regulatory asset. A regulatory asset would be necessary to assure the deferral was properly accounted for and amortized. Overall, the end-use

retail members would not see such a large rate swing during the monthly FAC rate, especially during peak winter and/or summer months, and could overall have a more stable bill with lesser impacts.

Method Flexibility

For each utility to remain flexible and reduce any unnecessary volatility to the end-use members, the Commission should allow each utility to choose which FAC method works best for their operational needs. EKPC does not operate the same way an investor-owned utility ("IOU") does. EKPC is a cooperative and is committed to the cooperative principles, and values the opportunity to serve its Owner-Member's end-use members. EKPC operates on a lean budget to provide the safe and reliable service its Owner-Members and their end-use members expect and deserve while remaining affordable to the customers it serves. As a cooperative, EKPC is very sensitive to the impact the cost of fuel and purchased power will have on its Owner-Members. EKPC is not indifferent when it comes to the recovery of prudently incurred fuel and purchased power costs. However, EKPC is required to account for the ramifications of the Commission's decisions when such expenditures and purchases are declared "non-economic."

Therefore, EKPC realizes a one size method does not fit all utilities when discussing the FAC formula on a going forward basis. While keeping the status quo for the FAC methodology calculation might benefit another Kentucky electric utility, it might harm EKPC or vice versa. Each of the six generating utilities unique features applicable to that utility only, whether it be utilizing estimated amounts that are trued up to actual in the subsequent month, the treatment of transactions between affiliated utilities, proxy calculations for establishing economic purchases for a utility that lacks a peaking resource, or FAC appropriate costs from membership in regional transmission organizations.

EKPC believes each utility should utilize the methodology that works best for that utility. . This promotes FAC rate flexibility necessary for each utility based on its operations and overall lowers the retail members risks of assuming extraordinary FAC costs. In this instance, EKPC would be in support of a rolling twelve-month average so that it reduces volatility to its Owner-Members and assist in reducing their end-use retail members bills as compared to keeping the FAC methodology as it is calculated now.

This the 11th day of May 2026.

Respectfully submitted,

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CERTIFICATE OF SERVICE

This is to certify that the foregoing electronic filing was transmitted to the Commission on May 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.

Heather S. Temple

Counsel for East Kentucky Power Cooperative, Inc.