

**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	)	Case No. 2022-00190
Costs, and Related Cost Recovery Mechanisms	)	

**RESPONSES AND COMMENTS OF KENTUCKY POWER COMPANY**

The Public Service Commission of Kentucky (“Commission”) initiated this administrative proceeding on November 2, 2022 to investigate the fuel adjustment clause (“FAC”), purchased power cost recovery, current and future fuel and power price volatility, and related cost recovery mechanisms. Following a stakeholder process involving Kentucky’s electric generator utilities, including Kentucky Power Company (“Kentucky Power” or the “Company”) and other intervenors, the Commission issued an order on March 10, 2026 (“Order”) requesting comments on proposed changes to 807 KAR 5:056 (the “FAC Regulation”).<sup>1</sup>

Although the proposed changes to the FAC Regulation identified in the Order attempt to reduce volatility in the application of the FAC, existing tools already allow the Company to reduce volatility for customers. First, the ability of utilities to seek authority to spread recovery of extraordinary fuel costs over an extended period of time, confirmed by Senate Bill 172, provides the utilities with the best tool for managing FAC volatility for customers while mitigating financial risk from delayed recovery of prudently incurred costs. The financial analysis teams at the utilities are in the best position to understand this balance and should be given the discretion to choose when to apply for extended recovery. Additionally, the Company’s Average Monthly Payment Plan (“AMP Plan”) allows customers to pay an average amount each month based on actual billed

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<sup>1</sup> Order at 2.

amounts (current month and preceding 11 months), subject to annual true ups, and also mitigates bill volatility.

Each utility is in the best position to determine which of the proposed changes to the FAC Regulation work best for its customers and operations. Because of this, Kentucky Power recommends that the FAC Regulation should not be amended for its operations, as the flexibility to reduce FAC volatility already exists.

## **I. TOPICS FOR COMMENT**

The Commission sought comments on the following topics:

1. A proposal to change the frequency of adjusting the fuel adjustment clause (“FAC”) factor from monthly to quarterly.<sup>2</sup>

2. A proposal to change the frequency of the Commission’s review of a utility’s application of the FAC, and resetting of the utility base FAC factor, from every six months to annually.<sup>3</sup>

3. Proposals to change the formula used to calculate the FAC factor. The Commission required generators to calculate what the FAC factor for 2024 and 2025 would have been had each of the proposed changes been in place.<sup>4</sup>

4. How the FAC Regulation, and other Commission rules or policies, could be amended to allow for recovery of financial hedges.<sup>5</sup>

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<sup>2</sup> *Id.*

<sup>3</sup> *Id.*

<sup>4</sup> *Id.* at 2-5.

<sup>5</sup> *Id.* at 5-6.

5. Whether and, if so, how the FAC Regulation should be amended to establish procedures for a utility to request to extend the period of recovery of FAC-eligible costs pursuant to Senate Bill 172.<sup>6</sup>

6. Whether regulatory accounting would be beneficial for executing Senate Bill 172 and, if so, what limits may be put on the use of regulatory accounting for large expenses.<sup>7</sup>

7. Suggested changes to the FAC Regulation and Commission policies that can address the regulatory lag for distribution cooperatives and the potential recurring under-recovery of FAC expenses.<sup>8</sup> This request is not applicable to Kentucky Power.

## II. RESPONSES AND COMMENTS

Kentucky Power appreciates the opportunity to provide comments in response to the Commission's Order. The Company has thoughtfully considered each of the proposed changes to the FAC Regulation proposed by the Commission and prepared the historical analyses requested by the Commission to calculate the FAC factor for 2024 and 2025 using the changes to the FAC factor formula proposed in the Order. The analyses are included as **EXHIBIT 1** to the Company's responses.

### A. **The Proposed Changes to the FAC Regulation Increase Financial Risk to the Utilities Without Meaningfully Reducing Volatility.**

The Commission's proposed changes to the FAC Regulation are comprised of proposed changes to the formula used to calculate the FAC factor and changes to the schedule relating to the operation of the FAC. Kentucky Power's comments in response are provided below.

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<sup>6</sup> *Id.* at 7-8.

<sup>7</sup> *Id.*

<sup>8</sup> *Id.* at 8-9.

1. The Proposed Changes to the FAC Factor Formula May Negatively Impact the Utility’s Financial Health.

Under the existing FAC Regulation, the FAC factor is calculated using the following formula:

$$\textit{Adjustment Factor} = \frac{F(m)}{S(m)} - \frac{F(b)}{S(b)}$$

“Where F(b) is the cost of fuel in the base period, F(m) is the cost of fuel in the current period, S(b) is sales in the base period, and S(m) is sales in the current period.”<sup>9</sup> The Commission requested comments on the following proposed changes to this formula.

- Changing F(m) from the cost of fuel in the prior month to the rolling twelve-month average cost of fuel and S(m) from the sales in the prior month to the two-year average sales in the months in the period<sup>10</sup> (“Option 1”).
- Changing F(m) from the cost of fuel in the prior month to the rolling twelve-month average cost of fuel and S(m) from the sales in the prior month to projected sales for the upcoming three months (“Option 2”).
- Changing F(m) from the cost of fuel in the prior month to the rolling twelve-month average cost of fuel and S(m) from the sales in the prior month to the rolling twelve-month average sales (“Option 3”).
- Keeping F(m) as the cost of fuel in the prior month and changing S(m) from the sales in the prior month to a three-year historical average sales (“Option 4”).

The Commission required that each utility use the proposed changes to calculate what their FAC factor would have been in each scenario for 2024 and 2025.

Exhibit 1 shows the results of the required analyses. The Summary Tab of Exhibit 1 includes a line chart that compares what Kentucky Power’s FAC factor would have been for 2024 and 2025 for each of the four FAC factor formula options proposed by the Commission along with

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<sup>9</sup> 807 KAR 5:056, Section 1(1).

<sup>10</sup> The Commission has proposed to transition from a monthly update of the FAC factor to a quarterly update. The Company’s response to this proposal is provided in Section II.A.2.

what the FAC factor was under the current formula. This chart shows that the changes to the FAC factor formula for Options 1– 3 resulted in less month-to-month volatility. However, as shown in column “AH” “Customer or (Company) Carried Amount” of the “Rate Calc” tab for each of Option 1 through 3 on Exhibit 1, there is a significant variance from average to actuals that does not appear to be recoverable within either of the two current true-up situations. This variance will result in either an over-recovery of costs and the Company holding money it would otherwise credit to customers or an under-recovery of fuel costs that increases over time and threatens the economic health of the utility.

If the Commission were to implement any change to the FAC factor formula that uses a 12-month average, the Commission should also provide clear and detailed guidance on how the Company would ultimately true-up the averages in the monthly FAC rate to actuals. Without such a true-up, an under- or over-recovered balance will exist.

Utilizing the 12-month averages in Options 1 through 3, the Company could potentially carry deferred fuel balances over \$20 million, with seemingly no ability to true up those amounts.<sup>11</sup> If the Commission were to incorporate a true-up to actuals under those options, the volatility in the FAC would remain as can be seen in Exhibit 1, Tabs “1a. Injected O.U through 1a. Page 4” where the Company modeled monthly true-ups to actuals. If the Commission were to extend the true-up period, the Company would expect to see large “step” increases or decreases in the period where the true-up is included.

Additionally, the proposed changes to the FAC Regulation seek only to address volatility in the FAC factor. The FAC factor is only part of what drives customer FAC charges, the other is customer usage. This means that in historically higher usage months like January, the amount of

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<sup>11</sup> See *Exhibit 1*, Tab “Rate Calc” for Options 1-3, Column “AH” “Customer or (Company) Carried Amount.”

the FAC surcharge on a customer's bill is higher because both the FAC factor and customer usage are historically higher in the winter. In shoulder months like April, where both the FAC factor and customer usage are historically lower, the FAC surcharge on customer bills is historically lower. Thus, even with a change in the FAC factor formula that reduces its volatility, there is no guarantee that the actual FAC surcharge will be less volatile because the charge itself also relies on customer usage.

The Company already has programs available to address the overall customer bill volatility such as the AMP Plan. As can be seen on Exhibit 1, tab "AMP Chart," the Company's AMP Plan not only levelizes FAC impacts on a customer bill, but also levels the total bill a customer receives. Thus, considering the potential implications of delayed recovery of prudently incurred costs, the existing ability to delay and spread recovery of extraordinary fuel costs over a longer time confirmed by the passage of SB 172, and the Company's existing programs designed to reduce volatility in customers' bills, Kentucky Power recommends the Commission allow the Company to continue to use the current FAC methodology.

2. The Proposed Change to an Annual Review of the FAC is Acceptable if the FAC Factor Continues to be Updated Monthly.

The Commission proposes two changes to the FAC Regulation regarding the schedule associated with the operation of the FAC. First, the Commission proposes to change the frequency by which utilities will update the FAC factor from monthly to quarterly. Second, the Commission proposes to replace the current six-month review of the operation of the FAC with an annual review. Under this proposal the base FAC factor would be adjusted during the annual review instead of every six months.

Kentucky Power recommends that the Commission not change the frequency by which the FAC factor is changed from monthly to quarterly. The delay in recovery of prudently incurred

costs to operate generation resources and provide service to customers can put a strain on the financial health of a utility and, as explained above, can result in larger increases in the next quarter if the Company is trueing up the period quarter to actuals. The Company agrees that changing the frequency of FAC reviews from every six months to annually would be beneficial, but only if the utilities retain the ability to update the FAC factor monthly.

**B. Utilities Should be Allowed to Recover Financial Hedging Costs Through the FAC.**

Energy markets are susceptible to market volatility largely driven by the underlying and interrelated fuel markets, operating conditions, and has been exacerbated over the years by extreme weather disturbances. For Kentucky Power, a significant portion of the Company's load is subject to the day-to-day volatility of PJM's spot market and becomes even more magnified during times of planned outages at the Mitchell and Big Sandy plants.<sup>12</sup> Financial hedging would help mitigate the exposure to the daily market and provide customers with greater fuel cost certainty over time. Although the monthly results of a hedging plan may not result in net fuel cost savings for customers, it will reduce exposure to the fluctuations in energy markets by creating more predictable fuel costs over time. This will leave customers better positioned to budget for and manage their monthly energy bill.

The Company proposes that all Commission-approved financial power hedging program-related contract settlements (gains and losses) and related contract costs be recovered through the FAC. A gain will be realized when the contracted price of financial power is less than the realized LMP value at the time of settlement. A loss will be realized when the opposite is true. For Kentucky Power, the Company proposes that the financial power hedging program transactions will not be

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<sup>12</sup> The Company proposed a financial hedging program in Case No. 2023-00159. The Company incorporates by reference Alex E. Vaughan's Direct, Rebuttal, and Hearing Testimonies in support of the financial hedging program in that case into this response and comment.

subject to the peaking unit equivalent FAC limitation as they are forward financial contracts entered into to reduce fuel rate volatility and market exposure, not to necessarily produce the absolute lowest purchased power cost in any hour.

**C. There is No Need to Update the FAC Regulation to Implement Senate Bill 172.**

The Commission seeks comments on whether there are changes necessary to allow for utilities to take advantage of Senate Bill 172. Senate Bill 172 amended KRS 278.277 and 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.

Before the enactment of Senate Bill 172, Kentucky Power sought Commission approval to postpone the collection of higher than normal fuel costs incurred during the January 2026 Winter Storm Fern and collect those costs in equal amounts through the May, June, and July 2026 FAC factors. This proposal was designed to reduce bill volatility. The Commission granted the Company's request via order dated February 23, 2026.<sup>13</sup>

As demonstrated in Case No. 2026-00031, there is no need to update the FAC Regulation to allow utilities to seek approval from the Commission to extend the period for fuel recovery costs to reduce volatility. Nor is there a need to update the FAC Regulation to address regulatory accounting for extending the recovery of costs; however, utilities can seek regulatory accounting treatment if necessary as they can now. The Company will, if the Commission grants it authority to extend the recovery of fuel costs consistent with Senate Bill 172, note the same in the monthly FAC submittal cover letters during the months in which it is delaying cost recovery and the months

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<sup>13</sup> Order, *In the Matter of: Electronic Application of Kentucky Power Company to Reduce Fuel Adjustment Clause Billings for the March 2026 Billing Period and to Defer a Portion of Fuel Adjustment Clause Charges for Later Collection*, Case No. 2026-00031 (Ky. P.S.C. Feb. 23, 2026).

it recovers those delayed costs through the FAC. The Company recommends that the Commission simply follow the procedures used in Case No. 2026-00031.

### **III. CONCLUSION**

As detailed above, changes to the FAC Regulation and the formula by which the FAC factor is calculated can result in challenges that may impact customer bills and create financial health risks to the utilities. Therefore, the Company recommends that the Commission not change the FAC Regulation as proposed in its March 10, 2026 Order and instead allow the Company to use when appropriate the existing authority to seek approval to delay and spread out recovery of extraordinary fuel costs (confirmed by Senate Bill 172) and existing programs such as the AMP Plan to address customer bill volatility. If the Commission ultimately decides to update the FAC Regulation, the Company recommends further discussions and workshops with the Commission to work through any changes to the FAC Factor formula and resulting calculations. Finally, Kentucky Power's comments and recommendations are based on the Company's operations and are not meant to suggest that other utilities should not be able to make changes to their calculations that would benefit their customers. Accordingly, the Company does not oppose each utility having the ability to implement whichever method works best for them.

Respectfully submitted,

A handwritten signature in blue ink, appearing to be "K. J. Gish, Jr.", enclosed within a large, loopy blue oval.

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