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

<u>RESPONSES AND COMMENTS OF KENTUCKY POWER COMPANY</u>

Kentucky Power Company ("Kentucky Power" or the "Company") provides the following comments in response to the Public Service Commission of Kentucky's ("Commission") order dated August 13, 2026.[1] Kentucky Power reiterates its position, stated in its May 11, 2026 comments, that tools already exist to reduce volatility for customers in the application of the fuel adjustment clause ("FAC'). 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 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

[1] Order at 2.

recommends that the FAC Regulation should not be amended for its operations, as the flexibility to reduce FAC volatility already exists.

I. 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 issues raised by the Commission and has prepared the following comments.

A. <u>Annual Review of the Application of the FAC Would be Beneficial If the Transition From the Current Schedule is Managed Properly.</u>

The Commission asked for comments on transitioning from the current six-month and two-year review cycles to an annual review:

> The Commission seeks 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. In its responses, the utilities should assume that the FAC factor will be updated monthly. Further, the Commission solicits comments on whether utilities should select their own review periods, which would result in the Commission opening the annual review proceeding at different times, depending on the timing of each individual utility's requested review period.[2]

As discussed during its May 11, 2026 comments, Kentucky Power is not opposed to transitioning from the current six-month and two-year FAC review cycles to an annual review if the utilities retain the ability to update the FAC factor monthly. Delays in the recovery of prudently incurred costs can put a strain on the financial health of utilities and can result in larger increases when those costs are eventually recovered or, conversely, result in the Company owing customers significant amounts if the FAC factor exceeds actuals.

In addition to the requirement that utilities retain the ability to update the FAC factor monthly, Kentucky Power proposes that, if the FAC review is transitioned to an annual review, the annual review period should not cover periods that have already been reviewed. As for the

[2] Order at 3.

suggestion that the utilities select their own review periods, Kentucky Power proposes that the Commission adopt, at least for Kentucky Power, a calendar year review period. A calendar year review period would line up with the Company's budgeting and outage planning cycles. The Company understands that the first calendar year review period may be longer or shorter than twelve months until the full transition to the new schedule is complete.[3]

B. Any Regulatory Change to Implement Senate Bill 172 Must Account for the Real-World Implications of the Process.

The Commission also seeks comment on whether regulatory changes are necessary to implement Senate Bill 172:

> Regarding extending the FAC recovery period, the Commission solicits further comments on whether the utilities believe a regulation change is necessary, any further proposed regulation amendments, comments on the above-mentioned proposed amendment, and how the utilities would plan to request an extended recovery period. In the response, utilities should include whether notice would be sufficient or if an order approving would be required. Additionally, the Commission seeks comments pertaining to the denial of such requests, and whether, if only notice is required, when the utilities would expect the denial to occur (e.g. before the next month's filing or during the review process whether that be six-month/two-year or the proposed annual review).[4]

Kentucky Power reiterates its position that changes to the FAC regulations are not necessary to implement Senate Bill 172. That said, to the extent that regulatory changes are made, Kentucky Power agrees with the proposed changes to 807 KAR 5:056, Section 2(4) proposed by LG&E with the following changes:

> The monthly fuel adjustment shall be filed with the commission no later than ten (10) days before it is scheduled to go into effect, along with
> (a) all the necessary supporting data to justify the amount of the adjustment; and
> (b) written notice to the commission concerning the amount of fuel and net energy costs in the current period the utility elects to defer for recovery in future periods.

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[3] For example, if the last six-month review prior to the transition to a calendar year review was for a six-month period ending April 30, 2027, the Company suggests that the first "annual" review only include the period from May 1, 2027 through December 31, 2027 before transitioning to the calendar year review period on January 1, 2028. Similarly, if the last six month review was for the period ending October 31, 2027, the Company suggests that the first "annual" review include the period from November 1, 2027 through December 31, 2028 before transitioning to the calendar year review period on January 1, 2029.

[4] Order at 4-5.

> If the Commission does not provide the utility with written notice by the date that is two business days prior to the date that the monthly fuel adjustment is scheduled to go into effect that it is denying the deferral of fuel and net energy costs in the current period for future recovery, the utility will be authorized to defer fuel and net energy costs for future recovery as described in the utility's notice.

This change minimizes the administrative burden on all involved entities to effectuate Senate Bill 172's goals of reducing FAC volatility but gives the utility sufficient time to recalculate and implement the FAC factor if the Commission were to determine that the identified deferral was not appropriate.

The Commission also sought comment on how utilities would request a regulatory asset if necessary to implement Senate Bill 172:

> The Commission solicits further comments on how utilities would request a regulatory asset, the time at which the request would be made, and the anticipated time that the Commission would decide the request.[5]

Again, the Company reiterates that no regulatory changes are necessary to implement Senate Bill 172. However, if the regulations are changed as described above, the Commission's lack of objection to the request to defer for later recovery would authorize the establishment of the regulatory asset sought in the utility's notice to the Commission.

C. Utilizing an Annual FAC Factor Has Potential to Result in Material Step Increases or Decreases in the FAC Factor.

The Commission seeks comments regarding a change from a monthly FAC factor to an annual FAC factor:

> The Commission solicits comments regarding a fifth option, referred to as the "stagnant rate" option, which would consist of tracking, but not adjusting, the FAC factor monthly, and charging a constant FAC factor for 12 months. Conceptually, it would function similarly to budget billing. In this hypothetical, utilities would still report the monthly fuel costs and sales on customers' bills, and at the end of the 12-month annual review, a true-up would occur, the results of which would be carried forward into the next 12-month period. The Commission seeks comments on how utilities would propose that the FAC factor be selected for the 12-month period as well as the concerns that utilities might have

[5] Order at 6.

> used this approach. Above, the Commission requested comments on the timeline of annual reviews considering a monthly FAC factor, but, for this hypothetical, utilities should also specifically comment on the optimal time period to begin the annual review if a constant FAC factor is applied.[6]

Kentucky Power recommends not changing the monthly FAC factor to an annual one. The annual factor with the true-up proposed by the Commission has the potential to create stair-step increases or decreases for customers.

To demonstrate this potential, Kentucky Power conducted a historical analysis where it established an annual FAC rate for the March 2023 to February 2024 billing period based on the previous twelve months' total fuel cost and total sales.[7] It then determined how the annual rates would have changed for the March 2024 to February 2025 billing period, the March 2025 to February 2026 period, and then for the March 2026 to February 2027 period. Instead of a one-time true up payment in the first new annual billing period, as is done in the Company's budget billing program, the Company included the cumulative over or under recovered amount at the end of the prior year in the revenue requirement for the next year. The results show a decrease in the annual FAC rate of 162.7% after the first year and a subsequent increase of 150.2% after the second.

In addition to the significant stair-step changes in the annual FAC factor, the use of an annual factor, with the over or under mechanism described above results in a two-year lag in the recovery of costs. Fuel costs prudently incurred in 2024 would not be fully recovered until 2026. A monthly FAC factor more closely aligns cost recovery of prudently incurred costs with the customers that use them. Similarly, a monthly FAC factor prevents a utility from carrying potentially large fuel cost assets or liabilities on their books for extended periods. For example,

[6] Order at 5-6.
[7] This analysis is provided as **EXHIBIT 1**.

the Company's historical analysis shows that the annual FAC rate for billing period March 2023 to February 2024, based on the average actual fuel costs for expense months January 2022 to December 2022, would have over-collected fuel costs from customers by approximately $124 million. Conversely, this annual rate methodology would have resulted in the Company carrying over $40 million in unrecovered fuel costs on multiple occasions during the March 2025 to February 2026 and March 2026 to February 2027 billing periods. Importantly, a monthly FAC factor allows customers to more quickly see the benefits of periods when FAC-eligible costs are lower than in prior months. An annual FAC factor creates more problems than it solves and should not be adopted by the Commission.

II. CONCLUSION

As Kentucky Power has stated consistently, the confirmation provided by Senate Bill 172 that utilities may seek and the Commission may grant the authority to extend the period for recovery of FAC-eligible costs combined with existing programs such as the Company's AMP Plan provides the best vehicle for addressing the impact of unusually high FAC-eligible cost months. These tools mitigate volatility for customers while providing for the near concurrent recovery of prudently-incurred costs which is important for utilities to maintain their financial health. The best way to meet the legislative intent of Senate Bill 172 is simply to allow utilities to follow the language and extend the period for recovery of extraordinary costs in order to reduce volatility for consumers and encourage stability in rates. The Commission should not convert the well-established and well-understood monthly FAC factor to an annual one. To the extent that it enacts regulatory changes to implement Senate Bill 172 or to transition to annual FAC reviews, Kentucky Power respectfully requests that it do so in accordance with the Company's comments.

Respectfully submitted,

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