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**

JOINT RESPONSE OF BIG RIVERS ELECTRIC CORPORATION, JACKSON PURCHASE ENERGY CORPORATION, KENERGY CORP., AND MEADE COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION

Big Rivers Electric Corporation ("*Big Rivers*"), by counsel, and on behalf of itself and its three member distribution cooperatives, Jackson Purchase Energy Corporation ("*Jackson Purchase*"), Kenergy Corp. ("*Kenergy*"), and Meade County Rural Electric Cooperative Corporation ("*Meade County RECC*") (collectively, the "*Members*"), respectfully submits this joint response to the Public Service Commission's (the "*Commission*") Order dated March 10, 2026 ("*March 10th Order*"), which directs each electric generator utility to file responses to several proposed changes to 807 KAR 5:056, the FAC Regulation and other topics for comments.[1]

I. INTRODUCTION

This proceeding arises from the Commission's ongoing examination of the Fuel Adjustment Clause ("FAC") regulation, 807 KAR 5:056, and related cost

[1] March 10th Order at p. 10.

recovery mechanisms. The Commission initiated this administrative investigation by Order dated November 2, 2022, which directed Kentucky's jurisdictional electric generators to file comments addressing the operation, effectiveness, and potential reform of the FAC regulation. In response to that Order, Big Rivers and its Members, Louisville Gas and Electric Company and Kentucky Utilities Company, Kentucky Power Company, East Kentucky Power Cooperative, Inc., Duke Energy Kentucky, Inc., and numerous intervenors—including the Office of the Attorney General, Kentucky Industrial Utility Customers, Inc., and consumer and environmental advocacy organizations—filed initial comments and replies.

On December 5, 2022, Big Rivers, on behalf of itself and its Members, filed joint comments in response to the November 2, 2022, Order. In those comments, Big Rivers described its role as a generation and transmission cooperative, underscored the necessity of timely recovery of prudently incurred fuel and purchased power costs, and explained that the existing FAC mechanism has functioned as intended. Big Rivers explained that fuel cost volatility reflects underlying market conditions rather than any structural flaw in the FAC, which functions as a transparent, dollar-for-dollar recovery mechanism for actual fuel costs without providing a return to the utility.

Big Rivers further cautioned against mandatory changes that would defer recovery of actual fuel costs, such as rolling averages or other smoothing mechanisms, noting that fuel and purchased power costs comprise a substantial portion of total expenses and that delayed recovery could adversely affect liquidity

and financial stability. At the same time, Big Rivers recognized the Commission's longstanding practice of allowing, on a case-specific basis, the temporary spreading of unusually high FAC charges to mitigate customer bill impacts. Big Rivers concluded that no changes to the FAC regulation were warranted at that time but encouraged the Commission to employ a collaborative process if it chose to consider proposals advanced by other parties.

Other responding parties provided comments grounded in their respective operational, market, and ratemaking experiences under the FAC. These comments discussed fuel-cost volatility, review processes, and potential adjustments to cost-recovery mechanisms, with some utilities expressing support for the current framework and others identifying areas where additional flexibility might be warranted. The record reflects a range of views on whether changes to the FAC regulation are necessary.

More recently the Commission issued its Order dated March 10, 2026, identifying specific proposed changes to 807 KAR 5:056 and directing the filing of responses addressing those proposals and other related topics. Accordingly, Big Rivers and its Members submit the following responses solely to address the specific proposed changes identified by the Commission in its March 10th Order, and do not revisit broader issues. These responses are offered to assist the Commission's review and simultaneously highlight that the proposed changes involve complex considerations across utilities with differing operational structures, ownership models, generation portfolios, and market participation. Those considerations

warrant careful evaluation to ensure any resulting changes are fair, consistent, and administrable within the FAC framework.

Big Rivers further notes that the Commission's March 10th Order reflects an interest not only in modifying calculation mechanics, but also in identifying a potential alternative FAC formula that may be incorporated into regulation as an option. Big Rivers' comments therefore address not only whether the Commission's proposed formula changes when applied to historical data reduce volatility, but also whether they comport with foundational FAC principles, including timely recovery, matching of revenues and expenses, financial integrity, and administrative feasibility.

II. RESPONSES TO THE COMMISSION'S MARCH 10th Order

The Commission's March 10th Order addresses two related but distinct categories of issues. First, the Order directs generators to apply specified proposed changes to the FAC formula and calculate resulting FAC factors for designated historical periods to assess the practical effects of those proposals. Second, the Order solicits comments on a broader set of potential amendments to the FAC regulation, including implementation of Senate Bill 172 and other mechanisms intended to address fuel-cost volatility, for which the Commission has not requested specific calculations.

Big Rivers organizes its responses below consistent with that structure. Section A addresses the proposed FAC formula changes for which the Commission

has requested application or calculation. Section B addresses other proposals and policy considerations identified in the Order.

A. Proposed Changes to the FAC Adjustment Factor

As an initial matter, Big Rivers notes that the primary driver of FAC volatility is not the frequency of calculation, but the inherent volatility of fuel and purchased-power costs combined with the statutorily required over-/under-recovery mechanism. Any modification to the FAC formula that does not account for the treatment and timing of over- and under-recoveries may shift, rather than reduce, volatility.

1. FAC Factor Adjusted Quarterly Rather than Monthly

Amending the FAC factor from a monthly to a quarterly adjustment enhances predictability and reduces short-term billing fluctuations. However, this change does not eliminate volatility; it redistributes volatility across fewer, larger adjustment periods. The practical impact of quarterly adjustments is therefore closely tied to how over- and under-recoveries are tracked and amortized, particularly during periods of rapid fuel-price escalation or decline. The primary impact of this change involves aligning the 'true-up' or over-/under-recovery mechanism with this new quarterly schedule.

2. Timing of Commission Review

The Commission seeks comments on revising the review of the application of the FAC, as well as re-setting the base FAC factor, from the current six-month and two-year reviews to an annual review.

Transitioning the FAC review from the current six-month and two-year cycles to an annual review will streamline the Commission's oversight process. This adjustment would be expected to reduce the volume of cases while enabling utilities to reset the base FAC factor in a timelier manner, thereby mitigating the need for large, volatile adjustments when resetting the FAC Base Rate.

Annual review also better aligns Commission oversight with quarterly FAC adjustments and may reduce regulatory lag associated with base FAC resets. However, Big Rivers emphasizes that annual review should not impede interim recovery of prudently incurred costs, particularly where extraordinary market conditions exist.

3. Proposed Formula Changes to Monthly Fuel Costs (F(m)) and Sales (S(m)) Calculations

The Commission proposes redefining the FAC fuel cost component, F(m), to reflect a rolling twelve-month actual average rather than most-recent monthly costs. In its initial comments, Big Rivers acknowledged that averaging mechanisms may reduce short-term volatility; however, it cautioned that rolling averages defer recovery of actual fuel expenses and may exacerbate cash-flow pressures during periods of rising costs.

Exhibit 1 attached to this Response shows Big Rivers' calculated FAC adjustment factors for 2024 and 2025, applying the Commission's proposed revisions. As shown in Exhibit 1, averaging inputs alone may reduce month-to-month

variability but can materially increase quarter-to-quarter volatility through the operation of the FAC over-/under-recovery mechanism.

Exhibit 1 illustrates Big Rivers' "As Filed" FAC factors from January 2024 thru December 2025 compared to the two proposed formula changes, one using F(m) = Rolling Twelve Month Average and S(m) = Two Year Average of Two "like" Quarters, and the other using F(m) = Rolling Twelve Month Average and S(m) = Projected upcoming Three Months Sales.

While these proposed changes stabilize the FAC factor within the quarter, they do so by pushing volatility into the over-/under-recovery mechanism, resulting in larger true-ups and increasing quarter-to-quarter volatility rather than a net reduction in volatility over time. This results in increased volatility between quarters, driven by the over-/under-recovery mechanism. These changes could cause unintended adverse impacts on the utility's financial position. FAC-related charges billed to Members should, to the extent practicable, be aligned with the FAC-related costs incurred to serve those Members. Proper matching revenues and expenses would help mitigate the potential for margin erosion that may otherwise occur due to such timing differences.

After evaluating multiple approaches, Big Rivers proposes the alternative method shown in Exhibit 2 to this Response as a feasible option that more directly aligns with the Commission's policy goal of reducing FAC volatility while preserving core FAC principles, including transparent cost recovery and reasonable alignment between costs incurred and revenues collected.

The proposed formula adjustment entails calculating both F(m) and S(m) based on a Rolling Twelve-Month Average. Under this proposal, the over-/under-recovery mechanism would be modified to accrue for the initial year, with the balance subsequently amortized in equal quarterly installments over the following year. For Big Rivers, this mechanism adjustment necessitates the use of regulatory accounting and regulatory assets, which are detailed below in Section B.

Exhibit 2 illustrates how Big Rivers' proposed method would stabilize the FAC factor within the quarter. However, since the Commission is contemplating a FAC factor formula to offer universally as an option to the existing formula, it should recognize that this method also increases the recovery period of FAC-eligible costs to the utility. The increased lag between the time that FAC-eligible costs are prudently incurred and the time that the full expense is recovered from customers could potentially subject the utility to sustained cash flow pressures. Such liquidity impacts may not be resolved through regulatory accounting as discussed below alone and may adversely affect the utility's financial flexibility, including key credit metrics and access to capital. After careful investigation into various methods that potentially would address FAC volatility, Big Rivers proposes the method shown in Exhibit 2 to this Response.

Big Rivers acknowledges that this alternative increases recovery lag relative to the current formula. For this reason, Big Rivers does not propose mandatory adoption, but rather offers this method as a potential optional alternative should the Commission determine that additional averaging mechanisms are appropriate.

B. Other Topics for Comments

1. Recovery of Financial Hedging Costs Through the FAC

The Commission seeks comments on whether recovery of financial hedging costs, including natural gas hedges, should be permitted through the FAC. Big Rivers recovers hedging for purchased power for Member-tariff load through the FAC. Net gains are included as a reduction to the cost recovered and losses are included as addition to power purchase costs recovered.

Today, Big Rivers recovers natural gas costs differently than purchased power costs, which creates dissimilar risks to Big Rivers. Allowing both physical and financial natural gas hedge costs to be recovered through the FAC, similar to power purchases, converges the cost recovery profiles of natural gas hedges and purchased power hedges. Permitting natural gas hedge costs to be recovered through the FAC may lead to more cost-effective dispatch and risk-balanced operation of Big Rivers' natural gas fired generators, thereby potentially reducing the overall power supply costs and risks to Big Rivers' members.

Big Rivers further agrees that hedging recovery should be symmetric, transparent, and subject to after-the-fact prudence review to ensure that hedging is not used for speculative purposes.

2. Implementation of Senate Bill 172 and Extension of Recovery of FAC-Eligible Costs

The Commission seeks comments on amendments to 807 KAR 5:056 to implement Senate Bill 172 and establish procedures allowing utilities to request extended recovery of FAC-eligible costs.

Big Rivers appreciates the Commission's efforts to implement Senate Bill 172 through amendments to 807 KAR 5:056 and supports providing utilities with tools to address extraordinary fuel cost volatility. As a cooperative generation and transmission ("*G&T*") utility serving member-owned distribution cooperatives, Big Rivers is directly exposed to fuel and purchased-power cost volatility and is keenly aware of the potential bill impacts on member-consumers.

At the same time, Big Rivers emphasizes that any amendments establishing procedures for extended recovery of FAC-eligible costs must remain consistent with the longstanding purpose of the FAC: the timely, dollar-for-dollar recovery of prudently incurred fuel and purchased-power costs, subject to subsequent Commission review. Kentucky law and 807 KAR 5:056 expressly recognize that fuel costs are volatile, largely outside of a utility's control, and appropriately recovered through a mechanism that allows immediate recovery with after-the-fact prudence review. The FAC is not a profit mechanism; it is a straight pass-through designed to minimize regulatory lag while preserving robust Commission oversight.

Accordingly, Big Rivers supports implementation of Senate Bill 172 to reduce FAC volatility, while keeping in mind that utilities vary significantly in power supply portfolios, financial structures, and customer composition. For cooperative G&T utilities in particular, mandatory or routine deferral of fuel cost recovery could increase working-capital needs, financing costs, and balance-sheet risk without providing commensurate long-term benefits to members.

Extended recovery considerations include the magnitude and duration of the fuel cost increase, projected bill impacts, the utility's liquidity and access to capital, and whether deferral meaningfully mitigates customer impacts or merely shifts costs across periods. This approach preserves the Commission's full authority to disallow costs that are imprudent or unreasonable, while avoiding unnecessary erosion of the FAC's core function.

Finally, Big Rivers notes that extended recovery necessarily increases the lag between expense recognition and revenue recovery, requiring the accumulation of regulatory assets. While permissible, prolonged or inflexible deferrals increase borrowing needs and interest expense, costs that are ultimately borne by cooperative members. The FAC has historically minimized these effects by closely aligning fuel expense and recovery, and any departures from that alignment should therefore be narrowly tailored and time-limited.

For these reasons, Big Rivers supports amendments to 807 KAR 5:056 that implement Senate Bill 172 in a manner that preserves timely recovery of prudently incurred fuel costs, ensures extended recovery is optional and utility-initiated, and

applies a disciplined, fact-specific reasonableness review. Importantly, Big Rivers understands Senate Bill 172 to authorize extended recovery as a discretionary tool, not a presumption that deferral is necessary or appropriate whenever fuel costs increase. The Commission's implementing regulations should therefore avoid creating expectations of automatic deferrals or extended recovery periods.

3. Use of Regulatory Accounting or Regulatory Assets for FAC-Eligible Costs

The Commission solicits comments on whether regulatory accounting would assist in executing Senate Bill 172 or mitigating FAC volatility.

The use of regulatory accounting, including Commission approval to defer and subsequently recover costs through appropriate regulatory accounts, would be necessary if changes to the FAC methodology result in increased regulatory lag compared to current practice between the incurrence of FAC-eligible costs and recognition through revenue billing. Absent such relief, changes that extend the period between cost incurrence and recovery could expose the utility to unintended erosion of net margins. To mitigate these risks, it is important that FAC-related charges billed to Members be aligned, to the extent practicable, with the FAC-related costs incurred to serve those Members. Failure to reasonably match revenues and expenses may result in sustained under-recoveries and adverse impacts to the utility's financial condition that are unrelated to prudence or operational performance.

It is important to note that while regulatory accounting can mitigate net margin risks by improving the matching of revenues and expenses, increased regulatory lag between the time FAC-eligible costs are prudently incurred on behalf of the Members and the time cash is recovered from the Members could nonetheless subject the utility to sustained cash-flow pressures. Such liquidity impacts are not resolved through regulatory accounting alone and may adversely affect the utility's financial flexibility, including key credit metrics and access to capital, if recovery is materially delayed.

4. Distribution Cooperative Regulatory Lag and Potential Under-Recoveries

The Commission seeks comments on regulatory lag affecting distribution cooperatives and potential under-recovery of FAC expenses.

Big Rivers' Members experience regulatory lag both upstream and downstream of the FAC process. Delays between when Big Rivers incurs fuel costs, when those costs are billed to the distribution cooperatives, and when the cooperatives ultimately recover those costs from their members can compound under-recoveries during volatile periods. Changes to the FAC calculation or recovery timing should therefore consider downstream impacts on distribution cooperatives to avoid shifting financial risk from generators to member-owned distribution cooperatives.

Big Rivers' Members support an option to mitigate FAC volatility and agree that Big Rivers transitioning to quarterly calculations would enhance this stabilization. Big Rivers' Members plan to maintain their established methodology for calculating the FAC factor, which is subsequently passed through to customers.

5. Option to Choose Between the Existing FAC Formula and an Amended Formula

The Commission seeks comments on whether utilities are permitted to elect between the existing FAC formula and amended formula adopted by the Commission, how that choice can be implemented.

Should the Commission adopt an amended FAC formula, Big Rivers supports providing utilities with the option to elect between the current FAC formula and any amended formula adopted by the Commission. Such an election should be made during an annual review period and remain fixed for a defined term to ensure administrative stability and regulatory certainty.

Likewise, Big Rivers requests an implementation deadline in any Final Order in this proceeding be January 1st of the following year to facilitate necessary operational and financial planning. We further propose a two-year transition period allowing utilities to select the formula that best aligns with their financial capacity. A two-year transition period would allow utilities to evaluate operational impacts while ensuring eventual consistency across the industry.

C. CONCLUSION

In summary, Big Rivers appreciates the Commission's careful examination of potential FAC reforms and its recognition of the need to balance volatility mitigation with timely and transparent cost recovery. The exhibits and discussion provided herein demonstrate that while averaging mechanisms may reduce short-term fluctuations, they introduce tradeoffs that must be carefully evaluated. Big Rivers respectfully submits its alternative proposal as one such option and stands ready to work collaboratively with the Commission and other parties to ensure that any FAC amendments remain administrable, equitable, and consistent with fundamental ratemaking principles.

Filed this 11th day of May, 2026.

Respectfully submitted,

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