COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC EXAMINATION OF THE APPLICATION OF THE FUEL ADJUSTMENT CLAUSE OF DUKE ENERGY KENTUCKY, INC. FROM NOVEMBER 1, 2015 THROUGH APRIL 30, 2016	))))	CASE NO. 2016-00234

ORDER

Pursuant to 807 KAR 5:056, the Commission established this case on August 12, 2016, to review and evaluate the operation of the Fuel Adjustment Clause ("FAC") of Duke Energy Kentucky, Inc. ("Duke Kentucky") for the six-month period that ended on April 30, 2016. As part of this review, Duke Kentucky responded to three requests for information and the Commission held a formal hearing in this matter on November 9, 2016. On November 23, 2016, Duke Kentucky filed its response to data requests made at the hearing.

The Commission has previously established Duke Kentucky's base fuel cost as 29.117 mills per kWh.[1] A review of Duke Kentucky's monthly FAC filings shows that the fuel cost billed for the six-month period under review ranged from a low of 23.607 mills in November 2015 to a high of 30.794 mills in April 2016, with a six-month average of 26.873 mills.

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[1] Case No. 2014-00454, *An Examination of the Application of the Fuel Adjustment Clause of Duke Energy Kentucky, Inc. from November 1, 2012 Through October 31, 2014* (Ky. PSC Aug. 11, 2015).

Load Miscalculation

In March 2015, Duke Kentucky became aware of a PJM Interconnection, LLC ("PJM") load miscalculation related to its Longbranch delivery point.[2] At that time, the Commission was conducting a review of Duke Kentucky's FAC for the two-year period ending October 31, 2014.[3] Duke Kentucky informed Commission Staff of the issue in December 2015, and stated that correcting for the error would affect both Duke Kentucky's FAC and Profit Sharing Mechanism ("PSM"). Because the two-year FAC review period ending October 31, 2014, was closed, no adjustments were made to the FAC for months that fell within that two-year review period. However, Duke Kentucky made adjustments to the FAC for the months of November and December 2015 and to its PSM for the entire period beginning June 2013.[4]

In November 2015, Duke Kentucky received the first resettlement related to the load miscalculation.[5] In discovery and during the hearing in this proceeding, Duke Kentucky was asked whether it would issue refunds to customers for the erroneous PJM billings related to the load miscalculation that were credited to it subsequent to the closing of the two-year review period–an amount totaling approximately $4 million. Duke Kentucky initially proposed to refund one-half of the amount to customers through the FAC over a three-month period. However, Duke Kentucky later revised its proposal

[2] Duke Kentucky's response to the August 12, 2016 Information Request ("August 12, 2016 Request"), Item 32, and Commission Staff's Post-Hearing Information Request ("Post-Hearing Request"), Item 5, p. 1.

[3] Case No. 2014-00454, *An Examination of the Application of the Fuel Adjustment Clause of Duke Energy Kentucky, Inc. from November 1, 2012 through October 31, 2014* (Ky. PSC Aug. 11, 2015)

[4] Duke Kentucky's response to the August 12, 2016 Request, Item 32, pgs. 3-4.

[5] Duke Kentucky's response to the Post-Hearing Information Request, Item 5, p. 4.

to refund, over a six-month period, the entire net remaining amount related to the load miscalculation not yet refunded to customers. Duke Kentucky has stated that amount to be $4,103,263.[6] The Commission commends Duke Kentucky for revising its proposal to make its customers whole and finds that the proposal should be approved.

Substitute Cost of Power During Forced Outage

The Commission became aware during the processing of the six-month review cases for the jurisdictional generators that it may not be clear to the utilities what power costs should be used in determining the substitute cost of power during a forced outage. The substitute cost of power should reflect the cost of the power that replaced the unit forced out of service. For example, if power was purchased to replace the lost generation, then the cost of the power purchases is the substitute cost. If the utility increased its own generation to substitute for the lost generation, then the cost of the generation is the substitute cost. If power was purchased and the utility generated additional power from other units to replace the lost generation, then the substitute cost is equal to the total of the power purchases and the fuel costs of the additional generation.

The Commission also became aware that some utilities are calculating the substitute generation costs using the average cost of all other units operating during the forced outage period, rather than using the cost of a specific unit or units. The Commission finds this methodology to be acceptable when it is problematic and overly burdensome to determine the specific unit(s) affected by a forced outage and the extent to which each unit is affected.

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[6] *Id.*, Items 2 and 4.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds no evidence of improper calculation or application of Duke Kentucky's FAC charges or improper fuel procurement practices.

IT IS THEREFORE ORDERED that:

1. The charges and credits billed by Duke Kentucky through its FAC for the period November 1, 2015, through April 30, 2016, are approved.

2. Duke Kentucky's proposal to refund to customers a net amount of $4,103,263 over six months is approved.

3. Beginning with its first FAC filing made subsequent to the date of this Order, and continuing for a total of six consecutive months, Duke Kentucky shall include a monthly credit of $683,877.16 to refund to customers a total of $4,103,263.

By the Commission

ENTERED
JAN 11 2017
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

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