

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC EXAMINATION OF THE)
APPLICATION OF THE FUEL ADJUSTMENT) CASE NO.
CLAUSE OF DUKE ENERGY KENTUCKY, INC.) 2019-00006
FROM NOVEMBER 1, 2016 THROUGH OCTOBER)
31, 2018)

O R D E R

Pursuant to 807 KAR 5:056, the Commission, on February 11, 2019, established this case to review and evaluate the operation of the Fuel Adjustment Clause (FAC) of Duke Energy Kentucky, Inc., (Duke Kentucky) for the period from November 1, 2016, through October 31, 2018, and to determine the amount of fuel costs that should be included in its base rates.

In establishing this review, the Commission ordered Duke Kentucky to submit certain information concerning its fuel procurement, fuel usage, and the operation of its FAC. Duke Kentucky submitted this information on February 25, 2019, and filed responses to Commission Staff's second data requests on March 21, 2019. A public hearing was held on April 16, 2019. On May 17, 2019, Duke Kentucky filed its responses to the Commission's post-hearing data request. There are no intervenors in this proceeding.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that during the period under review, Duke Kentucky has complied with the provisions of 807 KAR 5:056. The Commission further finds no evidence of improper calculation or improper fuel procurement practices for the last six

months of the period under review, known as the period from May 1, 2018, to October 31, 2018.

Base Fuel Cost

Duke Kentucky is proposing to decrease the amount of fuel costs included in base rates and proposes that the month of October 2018 and a base fuel cost of \$0.023241 be used as the base period for the purpose of arriving at the base fuel cost and the kilowatt-hour (kWh) sales components of its FAC¹. Given that Duke Kentucky's current base fuel cost is \$0.023837 per kWh, the proposal would result in a decrease of \$0.000596 per kWh. Duke Kentucky states that the projected fuel costs for 2019 and 2020 are slightly higher than the actual fuel rate based on the October 2018 expense month.² Duke Kentucky provided the inputs utilized in its model to forecast the fuel and purchase power expense used in its FAC.³ Based upon its review, Duke Kentucky concluded that the October 2018 fuel cost represents the level of fuel costs going forward.

The Commission must determine whether the proposed base period cost per kWh is representative of the level of fuel cost currently being experienced by Duke Kentucky when establishing the appropriate level of base fuel cost to be included in Duke Kentucky's rates. An analysis of Duke Kentucky's monthly fuel clause filings shows that the fuel cost billed for the two-year review period ranged from a low of \$0.020090 per kWh in March 2017 to a high of \$0.036555 per kWh in May 2018, with an average cost billed for the period of \$0.025946 per kWh. Given the average fuel cost for the review

¹ Duke Kentucky last made a change to the fuel cost included in base rates in Case No. 2017-00005, *Electronic Examination of The Application of The Fuel Adjustment Clause of Duke Energy Kentucky, Inc. From November 1, 2014, Through October 31, 2016* (Ky. PSC July 31, 2017).

² Direct Testimony of Theodore H. Czupik Jr., Page 3.

³ Duke Kentucky's response to Commission Staff's Post-Hearing Data Request, Item 1.

period and the projected fuel costs for 2019 and 2020 are higher than the requested fuel rate base amount, the Commission finds that a \$0.000596 per kWh decrease in the base fuel cost to be inappropriate at this time. Based upon its review, the Commission finds that Duke Kentucky's proposed base fuel rate of \$0.023241 per kWh should be denied and Duke Kentucky should instead maintain its current base fuel rate at \$0.023837 per kWh.

GreenHat Default

As a member of PJM Interconnection, LLC, (PJM) Duke Kentucky has been subjected to the costs associated with GreenHat Energy, LLC, (GreenHat) upon its June 21, 2018, default in the PJM Financial Transmission Rights (FTR) auction market. At the time of the default, GreenHat had open FTR positions extending through the 2020/2021 Planning Year. Due to the size of the impact from the default, PJM began a liquidation protocol allocating costs associated with the default to its stakeholders, including Duke Kentucky.

Duke Kentucky has been applying charges in its monthly FAC rates related to the liquidated GreenHat positions since July 2018. The total charges related to the GreenHat default, billed to Duke Kentucky through PJM billing line item 1999, accrued during the two-year review period is \$111,239.52⁴. Duke Kentucky states that all costs related to the GreenHat default cannot be isolated to one PJM Billing Line Item; instead, GreenHat's

⁴ Duke Kentucky's response to Commission Staff's Post-Hearing Request for Information, Item 4. Duke Kentucky had previously provided this information in a response to Commission Staff's First Request for Information, Item 33. However, the invoiced amount of \$37,000.21 for July 2018 was incorrect and did not match the 1999 Billing Line Item listed in Duke Kentucky's September 18, 2018, supplemental filing for the July 2018 FAC rate.

participation in the PJM forward-looking FTR auctions has impacted other PJM billing line items that have already been charged or credited to the customer.⁵ While the Commission notes that FTR costs are associated with the cost of generation, the Commission finds that Duke Kentucky should not utilize the FAC to pass through the costs of the GreenHat default under Billing Line Item 1999 as the Item code is not listed in Duke Kentucky's FAC tariff for acceptable fuel-related costs charged to the Company by PJM. The Commission's Order in Case No. 2017-00321 states the following:

Rider FAC, Fuel Adjustment Clause. Duke Kentucky is proposing to include additional PJM Interconnection, LLC ("PJM") Billing Line Items for recovery through its FAC. Duke Kentucky's proposal is the same, with respect to the PJM billing line items, as was made by Kentucky Power in its recent base-rate proceeding and approved by the Commission. There were no objections to this tariff change from the intervenors. The Commission will approve Duke Kentucky's proposal with the requirement that Duke Kentucky list each of the PJM billing line items that will flow through the FAC in its compliance tariff.⁶

While Duke Kentucky's FAC Tariff includes the language "*including but not limited to*" in relation to allowable PJM Billing Line Items, that does not allow Duke Kentucky to make assumptions on which items are passed through the FAC rate without first gaining Commission approval. Duke Kentucky should stop including the charges associated with PJM Billing Line Item 1999 in its monthly FAC rate filings beginning with the expense month for February 2020. Duke Kentucky should credit back to the customer an amount equal to the \$111,239.52 charged under PJM Billing Line Item 1999 for the period under review. In order to lower the volatility that might result from crediting the charge at once,

⁵ *Id.*

⁶ Case No. 2017-00321, *Electronic Application of Duke Energy Kentucky, Inc. For: 1) An Adjustment of The Electric Rates; 2) Approval Of An Environmental Compliance Plan And Surcharge Mechanism; 3) Approval Of New Tariffs; 4) Approval Of Accounting Practices To Establish Regulatory Assets And Liabilities; And 5) All Other Required Approvals And Relief* (Apr. 18, 2018) at 50.

Duke Kentucky should spread out the credit across three months. Beginning with the expense month for February 2020, Duke Kentucky should credit an amount equal to \$37,079.84 for three months until May 2020.

Should Duke Kentucky want to recover fuel-related costs such as the GreenHat default costs that are not passed through the FAC tariff via listed PJM billing line Items, it has a number of options such as seeking recovery through base rates in a base rate case or requesting to update its FAC Tariff in a base rate case.

IT IS THEREFORE ORDERED that:

1. Duke Kentucky's proposed base fuel cost of \$0.023241 per kWh is denied.
2. Duke Kentucky shall continue to use the base fuel cost of \$0.023837 per kWh.
3. The charges and credits applied by Duke Kentucky through the FAC for the period from November 1, 2016, through October 31, 2018, except for costs related to the Green Hat default, are approved.
4. Beginning with the expense month for February 2020, Duke Kentucky should credit an amount equal to \$37,079.84 for three months until May 2020.
5. Duke Kentucky shall file with the Commission, within 20 days of the date of entry of this Order, the original and an electronic version of the information requested in the Appendix to this Order.
6. a. Responses to requests for information in paper medium shall be appropriately bound, tabbed, and indexed. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked.

Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

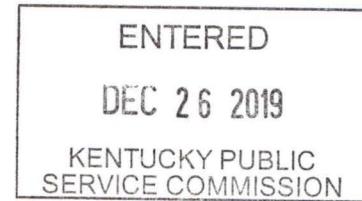
b. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

c. Duke Kentucky shall make timely amendment to any prior response if they obtain information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Duke Kentucky fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for their failure to completely and precisely respond.

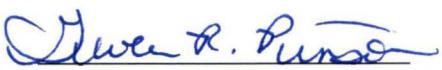
d. Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations. When filing a paper containing personal information, Duke Kentucky shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

7. This case is closed and removed from the Commission's docket.

By the Commission



ATTEST:


Oliver R. Pinson
Executive Director

Case No. 2019-00006

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2019-00006 DATED DEC 26 2019

1. Provide the charges associated with the GreenHat default in PJM Billing Line Item 1999a that Duke Kentucky passed through the FAC for each expense month beginning with November 2018 to the present.

*Kristen Ryan
Senior Paralegal
Duke Energy Kentucky, Inc.
139 East Fourth Street
Cincinnati, OH 45201

*Duke Energy Kentucky, Inc.
139 East Fourth Street
Cincinnati, OH 45202

*Rocco O D'Ascenzo
Duke Energy Kentucky, Inc.
139 East Fourth Street
Cincinnati, OH 45201