COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DUKE ENERGY KENTUCKY, INC. FOR PROPOSED ACCOUNTING AND FUEL ADJUSTMENT CLAUSE TREATMENT AND FOR DECLARATORY RULING	)))))	CASE NO. 2021-00459

O R D E R

On December 10, 2021, Duke Energy Kentucky, Inc. (Duke Kentucky) filed an application requesting the Commission grant approval establishing a regulatory asset and reasonable amortization period of ten months for the recovery of the increased purchased power expense resulting from the planned maintenance outage at East Bend Generating Station (East Bend). Duke Kentucky stated the full replacement power expense incurred by the planned outage of East Bend would otherwise be passed through its monthly Fuel Adjustment Clause (FAC) rate for the January 2022 billing to customers. Duke Kentucky further requests that the Commission grant the approval on an expedited basis, on or before December 20, 2021, when the FAC rate report for January 2022 is due to be filed with the Commission[1].

BACKGROUND

Pursuant to 807 KAR 5:056, Duke Kentucky files with the Commission monthly FAC rates for a periodic adjustment per Kilowatt Hour (kWh) which allows for recovery of

[1] 807 KAR 5:056, Section 2(4) requires the monthly fuel adjustments to be filed with the Commission no later than ten days before it is scheduled to go into effect.

fuel costs subjected to later review by the Commission. Commission regulation 807 KAR 5:056, Section 3, additionally provides that the Commission shall conduct a formal review of a utility's past fuel adjustments and within that review may make any adjustments the Commission finds unjustified due to improper calculation or application of the charge or improper fuel procurement practices. Upon discovery of imprudent fuel procurement practices the Commission may disallow the recovery and order a refund of the imprudent costs back to Duke Kentucky's customers.

DISCUSSION

In its application, Duke Kentucky stated that its East Bend Unit entered into a planned maintenance outage on September 10, 2021, that was scheduled to end on November 21, 2021, but was extended due to vendor performance issues and COVID-related resource and supply chain constraints but is anticipated to return to service on December 15, 2021.[2] East Bend is a 600-megawatt (MW) coal-fired base-load unit.[3] Pursuant to 807 KAR 5:056, Duke Kentucky incurred replacement power costs through the PJM Interconnection LLC (PJM) market to meet Duke Kentucky's customer load and demand needs. The market prices for replacement power has risen substantially higher than Duke Kentucky had previously anticipated.[4] Duke Kentucky is proposing to defer $13 million of replacement power expense, purchased during the December expense month, with amortization over a period of ten months through the monthly FAC rate. Duke Kentucky stated that without the deferral and amortization the proposed FAC rate for the

[2] Application at 3, paragraph 6.

[3] *See* Application, Case No. 2021-00245, *Electronic 2021 Integrated Resource Plan Of Duke Energy Kentucky, Inc.* (filed June 21, 2021), at 3 and 36.

[4] Application at 4, paragraph 8.

January 2022 billing would be increased to $0.039735 per kWh, and assuming a residential monthly usage of 1,000 kWh, the proposed FAC rate would result in an approximate $39.74 charge to the customer's bill for January 2022. Duke Kentucky stated that if the Commission approves the amortization over the ten-month period then the proposed FAC rate for January 2022 would be closer to $0.000721 per kWh or an approximate addition of $0.72 to a residential customer's bill.

Duke Kentucky requests approval to establish a regulatory asset pursuant to KRS 278.030(1), KRS 278.040(2), and KRS 278.220 for the purchased power expense resulting from the planned maintenance outage at East Bend and amortize the amount over ten months.[5] The Commission has historically approved regulatory assets where a utility has incurred (1) an extraordinary, nonrecurring expense, which could not have reasonably been anticipated or included in the utility's planning; (2) an expense resulting from a statutory or administrative directive; (3) an expense in relation to an industry sponsored initiative; or (4) an extraordinary or nonrecurring expense that over time will result in a saving that fully offsets the cost.[6] Duke Kentucky stated that the high cost of purchased power constitutes an extraordinary, nonrecurring expense that could not have reasonably been anticipated or included in the utility's planning, as Duke Kentucky does not have control over the PJM market prices or the supply chain constraints the necessitated the extension in East Bend's planned outage.

[5] Application at 4, paragraph 8.

[6] Case No. 2008-00436, *The Application of East Kentucky Power Cooperative, Inc. for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to Certain Replacement Power Costs Resulting from Generation Forced Outages* (Ky. PSC Dec. 23, 2008), Order at 4.

The Commission finds that Duke Kentucky's request to establish a regulatory asset is unsupported by sufficient evidence that the purchased power meets the criteria for a regulatory asset, the short period in which Duke Kentucky requests the Commission issue an Order does not allow for discovery on this issue, and the request to establish a regulatory asset should be denied. The Commission's decision to not grant the requested regulatory asset is not a finding regarding the reasonableness of any of Duke Kentucky's fuel procurement or purchased power practices at this time. The Commission will conduct a full review of the amount related to the planned outage of East Bend in the proper FAC review proceeding. The Commission notes that Duke Kentucky should be prepared to supply testimony and supplemental documentation of the East Bend outage and replacement power purchased when the Commission initiates the FAC proceeding to review the period of November 1, 2021, through April 30, 2022.

The Commission does however find that Duke Kentucky spreading out the costs of the purchased power through its FAC would be beneficial to Duke Kentucky's customers as to avoid a significant bill increase during the winter period when usage for heating purposes would be higher. The Commission further finds that Duke Kentucky spreading out the costs for a ten-month period through the FAC will not inhibit or otherwise constrain the Commission from conducting a thorough review of the purchased power. The Commission notes that in the past it has allowed utilities who have experienced an extraordinary expense month due to power purchases to cap the monthly FAC factor and recover the costs of the extraordinary expense month over several months.[7]

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[7] *See*, Case No. 2014-00226, *An Examination of the Application of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from November 1, 2013 Through April 30, 2014*, (PSC Ky. Jan. 30, 2015). In this case East Kentucky Power Cooperative, Inc. (EKPC) incurred extraordinary expenses for power purchases during a polar vortex in January 2014. EKPC, seeking to avoid a significant increase to

IT IS THEREFORE ORDERED that:

1. Duke Kentucky may bill the cost of power purchases for the expense month of December 2021 over more than one billing month. .

2. Duke Kentucky's request for authorization to establish a regulatory asset for the deferral of replacement purchased power related to the extension of the planned outage of East Bend and to amortize the regulatory asset is denied.

3. Duke Kentucky must file notice in this case of when East Bend returns to service. If East Bend was not returned to service on the anticipated date of December 15, 2021, Duke Kentucky must include a detailed statement as to why the unit was not returned to service at time provided in the application.

4. This case is closed and removed from the Commission's Docket.

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the customers of EKPC's member distribution cooperatives in the February 2014 billing month, capped the FAC factor for several months, recovering the extraordinary expenses through EKPC's FAC for the remainder of the year.

By the Commission

ENTERED

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KENTUCKY PUBLIC
SERVICE COMMISSION

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