

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

2024 JUL 26 A 10: 16

APPLICATION OF

KENTUCKY UTILITIES COMPANY
d/b/a OLD DOMINION POWER COMPANY

CASE NO. PUR-2024-00026

To revise its fuel factor pursuant to
§ 56-249.6 of the Code of Virginia

REPORT OF BRYAN D. STOGDALE, HEARING EXAMINER

July 26, 2024

In its Application, Kentucky Utilities Company ("KU") d/b/a Old Dominion Power Company ("KU/ODP" or "Company") requested approval from the State Corporation Commission ("Commission") to decrease its levelized fuel factor ("Fuel Factor") by 0.953¢ per kilowatt-hour ("kWh") from 3.534¢ per kWh to 2.581¢ per kWh, effective for service rendered on and after April 1, 2024. The Application's proposed decrease has been in effect on an interim basis since April 1, 2024. After investigating the Application, Commission Staff ("Staff") determined that, once the Company's fuel recovery balance and the calculation of the Fuel Factor were updated, the Company's Fuel Factor should be revised to 2.641¢ per kWh. Staff recommended the revised Fuel Factor be effective for service rendered on and after the earliest practical date. The Company accepted Staff's recommended revised Fuel Factor of 2.641¢ per kWh. Based on the record, I recommend the Commission approve the uncontested Fuel Factor of 2.641¢ per kWh for the Company effective for service rendered on and after September 1, 2024, which is the earliest practical date from the Company's perspective.

HISTORY OF THE CASE

On February 20, 2024, the Company filed with the Commission, pursuant to § 56-249.6 of the Code of Virginia ("Code"), an application proposing to decrease the Company's Fuel Factor by 0.953¢ per kWh to 2.581¢ per kWh, effective for service rendered on and after April 1, 2024 ("Application").¹ According to the Company, the proposed Fuel Factor represents a decrease of \$9.53 per month (or 6.53%) for a residential customer using 1,000 kWh per month.² In addition, the Company filed a Motion for Protective Order in accordance with 5 VAC 5-20-170 of the Commission's Rules of Practice and Procedure, 5 VAC 5-20-10 *et seq.* ("Rules of Practice").

On March 13, 2024, the Commission entered an Order Establishing 2024-2025 Fuel Factor Proceeding ("Procedural Order"), which among other things: docketed the Company's Application; established a procedural schedule; required the Company to provide public notice of its Application; directed Staff to investigate, and file testimony on, the Application; scheduled a public witness hearing and an evidentiary hearing for July 16, 2024; authorized the proposed Fuel Factor to take effect for service rendered on and after April 1, 2024, on an interim basis and

¹ Ex. 2 (Application) at 1, 5.

² *Id.*

subject to modification by further order of the Commission; and assigned the case to a Hearing Examiner to conduct all further proceedings in this matter on behalf of the Commission and file a final report.

On March 14, 2024, a Hearing Examiner's Protective Ruling was entered to facilitate the handling of confidential information and to permit the development of all issues in this proceeding.

On March 22, 2024, the Company filed its tariff to place its proposed Fuel Factor of 2.581¢ per kWh into effect on an interim basis for service rendered on and after April 1, 2024.³

On May 15, 2024, the Company filed its Proof of Service and Notice.⁴

No notices of participation were filed in this proceeding.

On June 20, 2024, Staff filed its direct testimony.

On July 3, 2024, the Company filed a letter advising the Commission that it would not be filing any rebuttal testimony.⁵ The Company accepted the recommendation contained in the prefiled Staff testimony of a revised Fuel Factor of 2.641¢ per kWh with the service rendered on and after the earliest practical date.

The evidentiary hearing was convened as scheduled on July 16, 2024, via Microsoft Teams. The Company appeared by its counsel Kendrick R. Riggs, Esquire, and Mary Ellen Wimberly, Esquire, with the law firm of Stoll Keenon Ogden, PLLC. Staff appeared by its counsel C. Austin Skeens, Esquire, and Simeon Brown, Esquire.

SUMMARY OF THE RECORD

Written Comments

No written comments were submitted in this proceeding.

Public Witnesses

No member of the public offered public witness testimony.

KU/ODP Direct Testimony

The Company presented the testimony of four witnesses: **Andrea M. Fackler**, Manager, Revenue Requirement/Cost of Service for Louisville Gas and Electric Company ("LG&E") and KU Services Company; **Delbert D. Billiter**, Director, Coal Supply and By-Product Marketing for LG&E and KU Services Company; **Charles R. Schram**, Director, Power Supply for LG&E

³ Ex. 9 (Tariff).

⁴ Ex. 1 (Proof of Service and Notice).

⁵ Ex. 8 (Rebuttal Letter).

and KU Services Company; and **Stuart A. Wilson**, Director, Energy Planning, Analysis, and Forecasting for LG&E and KU Services Company.

In her direct testimony, **Ms. Fackler** presented an overview of the testimony of the Company's witnesses in this case, addressed the current fuel expense recovery position, and presented the Fuel Factor to be effective for service rendered on and after April 1, 2024.⁶

Ms. Fackler sponsored two exhibits with her direct testimony:

- Exhibit AMF-1 provides the monthly forecasted Fuel Monitoring System reports for the period April 2024 through March 2025.
- Exhibit AMF-2 is a presentation of the bill impacts for sample residential, commercial, and industrial customers.⁷

In addition, Ms. Fackler sponsored nine exhibits to the Application:

- Exhibit I presents KU's forecasted fuel expense and forecasted sources adjusted for transmission losses and forecasted off-system sales ("OSS"), providing total KU net sources at the transmission level.
- Exhibit II presents KU/ODP's forecasted Virginia load at the Commission jurisdictional level, the Virginia share of KU fuel expense, and KU/ODP's forecasted recovery position assuming the Fuel Factor remains unchanged through March 2025.
- Exhibit III presents KU/ODP's forecasted Virginia load at the Commission jurisdictional level, the Virginia share of KU fuel expense, and KU/ODP's forecasted recovery position assuming the proposed Fuel Factor is approved for service rendered on and after April 1, 2024.
- Exhibit IV presents the calculation of the proposed Fuel Factor.
- Exhibit V presents a map of KU/ODP's service territory in Virginia.
- Supplemental Exhibit A presents forecasted and actual fuel expense for the period April 2019 through March 2025 with the current fuel year actuals using the period January through December 2023 as a proxy because actual data was only available through December 2023 when the Application was filed. Supplemental Exhibit A also provides forecasted and actual fuel expense for calendar years 2019 through 2023 and forecasted fuel expense for calendar year 2024.
- Supplemental Exhibit B presents forecasted and actual fuel expense, generation output, equivalent availability and capacity factors, heat rates, equivalent forced outage rates, dependable capacity ratings, and average dispatch cost by generating unit on a fuel year basis for the period April 2019 through March 2025. Actual data was only available through December 2023 when the Application was filed. Supplemental Exhibit B-1 provides the same data but on a calendar year basis for the period 2019 through 2023.

⁶ Ex. 3 (Fackler Direct) at 2.

⁷ *Id.* at 3-4.

- Supplemental Exhibit B-1 presents the information provided in Supplemental Exhibit B on a calendar year basis.
- Supplemental Exhibit C presents forecasted and actual fuel consumption, heat content in MBTU, average heat content of the primary fuel and fuel expense in cents per MBTU by generating unit on a fuel year basis for the period April 2019 through March 2025. Actual data was only available through December 2023 when the Application was filed.⁸

Ms. Fackler confirmed the exhibits to, and testimony in support of, the Company's Application contain the information required by the Commission's regulation 20 VAC 5-204-80, *Fuel Factor filings*.⁹

Ms. Fackler testified that the Company reported an over-recovery position of \$41,313 as of December 31, 2023, for its Commission-jurisdictional customers. Such amount is the net recovery position and is comprised of (i) the remaining under-recovery amount of \$1,172,587 from the 2022-2023 fuel year that KU/ODP is collecting through the current Fuel Factor and (ii) the over-recovery amount of \$1,213,900 the Company has experienced thus far in the current fuel year (April through December 2023). Ms. Fackler explained the Company's current over-recovery position is primarily the result of lower than forecasted actual fuel expenses. The Company did experience a decrease in jurisdictional sales; however, the decrease in sales was less than the decrease experienced in actual fuel costs compared to the forecast. Ms. Fackler provided a table showing that actual total fuel expenses, by month, for 2023 were 13.83% lower than forecasted.¹⁰

Ms. Fackler confirmed that KU/ODP's Fuel Factor reflects only the information associated with the service to the Company's Commission-jurisdictional customers. She further explained that KU forecasts energy sales for KU/ODP on a rate schedule basis. KU adjusts its KU/ODP forecasts to reflect jurisdictional sales using a ratio of actual jurisdictional sales to total sales subject to the Fuel Factor using historical data.¹¹

Ms. Fackler explained KU's actual fuel expense, before the reduction for fuel related to OSS, for the 2023 calendar year was approximately \$77.3 million (13.7%) less than the forecasted expense for the April 2023 through March 2024 fuel year. The variance is primarily the result of lower actual kWh generated by natural gas units compared to forecast and lower natural gas prices, which decreased the cost of generation from natural gas-fired units on a kWh basis by 17.7% compared to the forecast. In total, actual fuel expense on a unit cost basis (\$/kWh), before the reduction for OSS, was 7.2% lower than the forecasted per unit cost. Ms. Fackler further noted that (i) total coal expense on a kWh basis was slightly higher compared to forecast; (ii) natural gas expense on a kWh basis was lower than forecast due primarily to lower natural gas-fired generation and lower natural gas prices; and (iii) purchased

⁸ *Id.* at 4-5.

⁹ *Id.* at 6.

¹⁰ *Id.* at 6-7.

¹¹ *Id.* at 8.

power expense on a kWh basis was lower due to the relative economics of the purchases made. Ms. Fackler provided tables summarizing the Company's fuel cost price-volume analysis.¹²

Based on the foregoing, the Company's Application proposed a Fuel Factor of 2.581¢ per kWh. The proposed Fuel Factor results in a decrease of \$9.53 per month (6.35%) in the monthly bill (excluding Local Utility Tax) for a residential customer using 1,000 kWh. Exhibit AMF-2 presents the impact of the proposed Fuel Factor on sample residential, commercial, and industrial customers. Ms. Fackler stated that, using the current Fuel Factor through the end of March 2024, the Company projects that its current over-recovery position will increase to \$1,407,289 by the end of March 2024.¹³

Based on the evidence, Ms. Fackler recommended that the Commission approve the Application's proposed Fuel Factor of 2.581¢ per kWh for service rendered on and after April 1, 2024.¹⁴

In his testimony, **Mr. Billiter** presented KU's coal price and volume forecast for the fuel year April 2024 through March 2025 ("2024/2025 Fuel Year"), explained the market conditions contributing to coal prices, and reviewed the price forecast methodology used to develop the fuel forecast in this case.¹⁵

Mr. Billiter sponsored two exhibits with his testimony:

- Exhibit DB-1: KU Annual Coal Purchases, 2019 – 2023 Actual and 2024 Coal Forecast updated January 8, 2024.
- Exhibit DB-2: Utility Overall Coal Price Comparison, November 2022 – October 2023.¹⁶

Mr. Billiter compared the Company's 2024 coal price forecast with 2023 actual coal prices. The Company's 2024 forecast of overall system average coal price is 3.1% higher than the 2023 actual price. The Company anticipates prices to increase at the E.W. Brown Station and remain nearly the same at the Ghent and Trimble County Stations in 2024. The 2024 coal price forecast for the E.W. Brown Station is 31.7% higher than the 2023 actual coal price. The increase is due to the expiration of a contract negotiated in early 2021 in a depressed market being replaced with a contract at market priced coal in 2024. The 2024 coal price forecast for the Ghent Station is 0.3% higher than the 2023 actual coal price. The 2024 coal price forecast for the Trimble County Station reflects a 0.2% increase compared to the 2023 actual coal price. Mr. Billiter testified that the Company has enough coal under contract for 2024 to meet its needs for each of the generation stations. As shown in Supplemental Exhibit A to the Application, the coal expense forecast on a \$/kWh basis for the 2024/2025 Fuel Year is forecasted to increase 3.64% over the actual coal expense for calendar year 2023.¹⁷

¹² *Id.* at 8-10.

¹³ *Id.* at 10-11.

¹⁴ *Id.* at 12.

¹⁵ Ex. 4 (Billiter Direct) at 1.

¹⁶ *Id.*

¹⁷ *Id.* at 2-3.

Mr. Billiter described the current conditions in the coal market. He explained that, since 2020, the coal market has experienced increased demand, tight supply, and record high prices, triggered primarily by higher natural gas prices making more coal-fired generation competitive. In 2023, the coal market experienced a major correction. Coal demand at U.S. coal-fired generating units decreased, driven primarily by mild weather, low natural gas prices, and coal-fired unit retirements. Mr. Billiter explained that these circumstances resulted in a significant drop in U.S. coal prices from the record levels during the summer of 2022. He further testified that export prices have fallen from record levels achieved in 2022, driven primarily by reduced demand in Europe. He noted that, according to the U.S. Energy Information Administration's *Short-Term Energy Outlook* released January 9, 2024, U.S. coal production is expected to drop by 16% in 2024 and decline an additional 12% in 2025 due to an anticipated decline in U.S. coal consumption.¹⁸

Mr. Billiter noted that KU's long-term contracts to secure its coal needs provided protection from the high coal market prices experienced during late 2021 and 2022. As the market has retreated, KU has negotiated new contracts. The prices for these contracts, while higher than prices before 2021, are significantly lower than the record prices during 2022. Mr. Billiter explained KU was impacted to a lesser degree by high coal prices from November 2022 through October 2023. KU's coal prices during this period, on a cents/one million British Thermal Units ("MMBtu") basis, are significantly below the mid-range (fourth lowest of 19 utilities surveyed) of other similar electric utilities in the region on an overall price comparison which includes high-, medium-, and low-sulfur coal. Based on current market conditions, Mr. Billiter opined that the prices KU pays for coal are reasonable. He also noted that recent (early 2023) decreases in natural gas prices are expected to make natural gas-fired generation more competitive than coal-fired generation in the forecast period. He does not expect closures of coal mines and reduction in coal production to lead to coal shortages for KU.¹⁹

Mr. Billiter explained the Company monitors delivery performance of its fuel vendors and fuel burn to maintain adequate fuel inventory. The Company continually monitors contract requirements against actual deliveries and regularly checks the weight and quality of coal delivered. The Company regularly communicates with its vendors to identify any potential problems in meeting agreed-upon delivery schedules. The Company had one coal contract rejected in the fall of 2021, after White Stallion Energy filed for bankruptcy. This contract would have supplied KU with 50,000 tons of coal per month through July 2024. The Company noted that higher coal prices over the past three years have increased revenues for coal suppliers and improved their financial position. Thus, KU does not anticipate additional bankruptcies for its suppliers at this time.²⁰

Mr. Billiter confirmed the Company does not anticipate any changes to its basic coal procurement practices or its coal procurement business strategy. He believes the Company's procurement practices are flexible enough to respond effectively to changes in market conditions. He briefly noted the pricing characteristics of KU's coal contracts: 80% fixed price

¹⁸ *Id.* at 3-5.

¹⁹ *Id.* at 5-7 and DB-2.

²⁰ *Id.* at 7-8.

(known prices for the life of the contract) and 20% partially or limited indexed price (known price for a portion of the total price and the balance is adjusted per indices). The Company has a six-year objective for having coal under contract, with 98% to 102% under contract for the upcoming year and 0 to 30% under contract six years out.²¹

Mr. Billiter described the Company's coal price forecast methodology, which is essentially the same forecast methodology used in the past as updated and improved over time. The Company typically uses the coal price forecast from its most recent Business Plan when revising its Fuel Factor. The coal price forecast finalized in August 2023 was used for preparing the Fuel Factor in the instant Application.²²

Mr. Billiter noted that Company witness Wilson developed the natural gas price forecast for this case and Company witness Schram discussed the Company's business strategy for procuring natural gas.²³

Mr. Billiter explained that the Company continues to procure fuel oil on the spot market because it is not used as a major production fuel. For that reason, it is difficult to forecast the amount of fuel oil needed during the year. He affirmed that the Company procures enough fuel oil to maintain desired inventory levels at each plant. The Company uses the New York Mercantile Exchange forward price to estimate fuel oil costs.²⁴

Based on the evidence presented in his testimony, Mr. Billiter opined that the Company's coal forecast provides a reasonable estimate of its expected fuel prices and satisfies the Commission's minimum standards for fuel cost projections.²⁵

In his testimony, **Mr. Schram** reviewed the Company's business strategy and process for the procurement of natural gas as a fuel source to generate electricity.²⁶

Mr. Schram described the five objectives for the Company's fuel procurement strategy for electric generation: (i) mitigate major risk elements; (ii) coordinate coal and natural gas procurement; (iii) demonstrate prudent procurement practices; (iv) align fuel procurement with the annual business planning process; and (v) include management oversight. The strategy establishes guidelines for key metrics related to fuel procurement activities, risk elements, and fuel transportation. He explained that KU purchases natural gas for peaking generation on an "as-needed" basis.²⁷

Mr. Schram stated that natural gas is transported to KU's Cane Run 7 natural gas combined cycle unit via interstate pipeline systems. KU procures its natural gas supplies on a forward basis and does not utilize any financial instruments to hedge natural gas prices. He confirmed the Company's natural gas procurement guidelines have not changed since the 2023

²¹ *Id.* at 8-10.

²² *Id.* at 11-12.

²³ *Id.* at 12.

²⁴ *Id.* at 12-13.

²⁵ *Id.* at 13-14.

²⁶ Ex. 5 (Schram Direct) at 2.

²⁷ *Id.* at 3-4.

Fuel Factor Case.²⁸ The Company uses a three-year planning horizon to procure natural gas, with 40% to 60% of the forecasted amount under contract for the current year (Year 1) and 0 to 20% of the forecasted amount under contract in Year 3.²⁹

Lastly, Mr. Schram opined that the Company's business strategy for the procurement of natural gas as a fuel source to generate electricity is reasonable and appropriately supports the Company's fuel requirements and fuel cost projections presented in this case.³⁰

In his testimony, **Mr. Wilson** addressed three general points. First, he reviewed the electric sales forecasting methodology for both KU as a company and KU/ODP's operations in Virginia and presented summary results of the 2023 Load Forecast for KU and KU/ODP, which were used in determining the Fuel Factor in this case. Second, he addressed actual and forecasted prices for natural gas and the methodology used by KU in developing projections for natural gas prices. Third, he reviewed unit generating performance based on the units' equivalent availability factor ("EAF") and equivalent forced outage rate ("EFOR"). Lastly, he discussed purchase power contracts and the forecasting and modeling of generation supply.³¹

Mr. Wilson sponsored seven exhibits with his testimony:

- Exhibit SAW-1: KU/ODP Electricity Sales Forecast Summary (July 2023).
- Exhibit SAW-2: Actual Natural Gas Prices for 2023 Compared to Forecast.
- Exhibit SAW-3: Forecasted Natural Gas Prices Year-over-Year Comparison.
- Exhibit SAW-4: Generation Unit Information.
- Exhibit SAW-5: KU Generation Units.
- Exhibit SAW-6: Planned Outage Schedule (Confidential).
- Exhibit SAW-7: Power Transaction Commitments.³²

Mr. Wilson confirmed KU's fuel cost projections meet the standards required by the Commission.³³

Mr. Wilson described KU's energy sales forecast. A detailed description of the forecasting models used is included in Exhibit SAW-1. He believes the forecasting methodology used by KU is reasonable. The same methodology has been used in the Company's previous Fuel Factor cases and Integrated Resource Plan ("IRP") cases. Mr. Wilson explained each year KU tries to improve its models. These changes are typically incremental. For the 2024 Fuel Factor, KU updated actual load and customer data, updated national and regional economic

²⁸ *Application of Kentucky Utilities Company d/b/a Old Dominion Power Company, To revise its fuel factor pursuant to § 56-249.6 of the Code of Virginia*, Case No. PUR-2023-00020 ("2023 Fuel Factor Case").

²⁹ Ex. 5 (Schram Direct) at 4-5.

³⁰ *Id.* at 5-6.

³¹ Ex. 6 (Wilson Direct) at 1-2.

³² *Id.* at 2.

³³ *Id.* at 2-3; See *Commonwealth of Virginia, ex rel. State Corporation Commission, Ex Parte, In re: Investigation for Evaluating Fuel Cost Projections of Electric Utilities*, Case No. PUE-1990-00004, 1990 S.C.C. Ann. Rep. 319, Final Order (Nov. 27, 1990).

forecasts, and updated model parameters. The energy sales forecast was completed in July 2023.³⁴

Mr. Wilson stated that the Company's total energy forecast for the forecast period (April 2024 to March 2025) is 671 gigawatt hours ("GWh"), an increase of 8 GWh or 1.2% from the prior forecast period. He explained that total weather-normalized sales have been declining at a slow, but steady rate on average since 2016. The trend in forecasted sales is flat to slightly declining and consistent with the trend in historical weather-normalized sales. Mr. Wilson testified that the sales forecast for the second half of 2023 has performed well. Weather-normalized sales for all classes except the Large Power class are within 1 GWh of the forecast. He explained that the variance for the Large Power class (-12 GWh) is primarily due to a customer filing for bankruptcy in April 2023; however, two accounts associated with this customer are expected to emerge from bankruptcy and return to pre-bankruptcy usage levels in the second quarter of 2024. Mr. Wilson concluded the Company's 2023 energy sales forecast is consistent with historical sales trends and is reasonable.³⁵

Mr. Wilson's Exhibit SAW-2 shows KU's forecast of 2023 natural gas prices at the Henry Hub compared to actual Henry Hub prices during the same period. He explained the actual 2023 price of natural gas at the Henry Hub averaged \$2.53/MMBtu, down from \$6.38/MMBtu in 2022 as well as below the forecasted actual price for 2023 of \$3.77/MMBtu. Some major influences on natural gas prices during 2023 include higher well productivity, elevated oil prices, consumption lag relative to production, mild winter weather, and summer storage injections.³⁶

For purposes of this case, KU's forecast of natural gas prices at the Henry Hub for 2024 and 2025 was developed on January 3, 2024, to reflect current forward prices in an extremely volatile natural gas market. The current natural gas price forecast averages \$3.04/MMBtu for the period April 2024 through March 2025, which is \$0.86/MMBtu lower than the previous forecast for the period April 2023 through March 2024, which averaged \$3.90/MMBtu. Regarding KU's forecasted generation mix, Mr. Wilson testified for the period April 2024 through March 2025, KU forecasts that 72.5% of the energy produced by KU will be generated by coal-fired units, 26.8% will come from KU's gas-fired units, and 0.7% will be generated by KU's hydro and solar resources. To maintain generation reliability, KU purchases firm natural gas pipeline transportation services, which are included in the forecast to reflect actual costs.³⁷

Mr. Wilson next discussed the performance of KU's generation fleet. KU's system is described in his Exhibit SAW-4 and his Exhibit SAW-5 provides photographs of KU's generation units. According to Mr. Wilson, EAF and EFOR metrics show that KU's coal-fired and combined cycle generating units continue to achieve excellent operating results. He stated that a handful of individual forced outages at such generating units did not materially affect EAF or EFOR levels during 2023. Further, nine planned outages for the coal-fired and combined cycle generating units in 2023 were successful and achieved their objective. Mr. Wilson noted

³⁴ Ex. 6 (Wilson Direct) at 3-5.

³⁵ *Id.* at 6-8.

³⁶ *Id.* at 8-9.

³⁷ *Id.* at 9-10.

that KU's large simple cycle combustion turbines also operated very well in 2023. He expects KU's generating units to perform well during the next year. Mr. Wilson also discussed KU's planned maintenance outage schedule during the forecast year and its impact on the overall operation of the generation fleet.³⁸

Mr. Wilson confirmed KU has no plans to change the operating status of any generation assets in 2024 or 2025. Aside from the potential for relatively small additions to the community solar facility available to the Company's Kentucky retail customers, KU does not have plans for additional generation supply for the forecast period.³⁹

Mr. Wilson described KU's business philosophy regarding its electric power procurement practices as "to reliably serve [KU's] native load customers through reasonable, least-cost resources."⁴⁰ He discussed the purchased power contract KU has with Ohio Valley Electric Corporation to supply 55 megawatts ("MW") of electricity; the contract KU has for must-take solar energy from a 100 MW solar facility to be built in Hardin County, Kentucky, primarily to serve two large industrial customers; a contract KU has to supply five industrial customers from the output of a 125 MW solar facility to be built in Ballard County, Kentucky; and four additional solar purchase power agreements totaling 637 MW that are anticipated to be in service between 2026 and 2028.⁴¹

Lastly, Mr. Wilson opined that, based on his experience, the methods and results of the energy, natural gas, and expense forecasts are reasonable and otherwise satisfy the criteria established by the Commission.⁴²

Staff Direct Testimony

The Staff presented the direct testimony of **Marc A. Tufaro**, a Principal Public Utility Regulation Analyst with the Commission's Division of Public Utility Regulation.

In his testimony, **Mr. Tufaro** presented Staff's conclusions and recommendations regarding the reasonableness of the Company's: (i) projected fuel recovery position as of March 31, 2024, and the resulting correction factor; (ii) forecasts of energy sales and delivered fuel prices; (iii) projected generating unit performance, purchase and interchange transactions, and net energy fuel mix and cost during the forecast period; and (iv) the proposed Fuel Factor, including the in-period factor reflecting projected Virginia jurisdictional fuel expenses and sales for the 2024/2025 Fuel Year.⁴³

In its Application, the Company proposed a Fuel Factor of 2.581¢ per kWh which represents a decrease of 0.953¢ per kWh, or approximately 26.97% from the Fuel Factor of 3.534¢ per kWh approved in the 2023 Fuel Factor Case. The proposed Fuel Factor was placed

³⁸ *Id.* at 11-13.

³⁹ *Id.* at 14.

⁴⁰ *Id.*

⁴¹ *Id.* at 14-16.

⁴² *Id.* at 18.

⁴³ Ex. 7 (Tufaro Direct) at 2.

into effect on an interim basis on April 1, 2024, and it decreased the monthly bill of a residential customer using 1,000 kWh per month by \$9.53, a decrease of approximately 6.35%. The Application's proposed Fuel Factor includes an in-period factor of 2.815¢ per kWh and a correction factor credit of 0.234¢ per kWh.⁴⁴

The in-period factor is designed to recover estimated fuel expenses for the 2024/2025 Fuel Year and is based on projected fuel expenses of \$16,951,537 and projected energy sales 602,172,488 kWh during the 2024/2025 Fuel Year. The proposed in-period factor of 2.815¢ per kWh represents a decrease of 0.162¢ per kWh, or approximately 5.44%, from the previous in-period factor of 2.977¢ per kWh.⁴⁵

The correction factor is designed to true-up any over- or under-recovery of fuel expenses from prior periods. The Company proposed to change the correction factor from the current charge of 0.557¢ per kWh to a credit of 0.234¢ per kWh. The correction factor adjustment is based on the Company's projected over-recovery balance of \$1,407,289 as of March 31, 2024. This projection was based on actual data through December 31, 2023, plus estimated fuel recoveries in the months of January, February, and March 2024. The proposed correction factor represents a decrease of 0.791¢ per kWh.⁴⁶

In response to a Staff Interrogatory, the Company provided an updated over-recovery position balance of \$1,050,723 based on actual data through March 31, 2024. Updating the Fuel Factor to reflect the actual over-recovery balance would increase the correction factor (that is, it decreases the amount of the proposed correction factor credit), which changes the Fuel Factor calculation from 2.581¢ to 2.641¢ per kWh. The impact on the monthly bill of a typical residential customer using 1,000 kWh per month would be a smaller decrease of \$8.93 (compared to a decrease of \$9.53 placed into effect on an interim basis effective April 1, 2024).⁴⁷

The Company's over-recovery position was the result of actual fuel expenses in 2023 that were lower than forecasted. According to the Company, actual fuel expenses in 2023 were 13.83% lower when compared to the fuel forecast it provided in the 2023 Fuel Factor Case.⁴⁸

Mr. Tufaro explained how the Company forecasts its energy sales and fuel prices. Staff reviewed KU/ODP's methodologies and believes the Company's methodologies generally conform to current modeling and forecasting practices. Staff believes that these methodologies and models are reasonable.⁴⁹

Mr. Tufaro discussed the Company's forecasted energy sales. Staff believes that the Company's projected energy sales increase is reasonable, given current economic conditions in the regional economy.⁵⁰

⁴⁴ *Id.* at 3.

⁴⁵ *Id.*

⁴⁶ *Id.* at 3-4.

⁴⁷ *Id.* at 4.

⁴⁸ *Id.* at 5.

⁴⁹ *Id.* at 5-8.

⁵⁰ *Id.* at 8.

Mr. Tufaro discussed the Company's delivered coal price forecast, which reflects existing contract commitments and market purchases. Staff believes that the Company's forecasts of delivered coal prices appear reasonable given current economic conditions in the regional economy and the prevailing conditions in the coal markets when the forecast was completed.⁵¹

Mr. Tufaro discussed the Company's natural gas price forecast. Staff believes that the Company's natural gas price forecast is reasonable for purposes of establishing the Fuel Factor in this case. However, Staff noted that volatility in natural gas markets continues to challenge forecasters and could result in increased forecasting error.⁵²

Mr. Tufaro described the Company's energy supply mix. The Company projects that approximately 66.77% of its net energy supply would be provided from its coal-fired generation fleet, 25.04% from gas-fired combustion turbines, and 7.69% from net purchases. The projected energy supply mix for the 2024/2025 Fuel Year is similar to the actual energy supply mix realized in calendar year 2023. The Company is forecasting an increase in the average fuel costs of its coal-fired generation units, and a decrease in the average fuel cost for its gas-fired units.⁵³

Mr. Tufaro summarized the projected performance of the Company's generation fleet. The Company forecasted that its coal-fired and combined-cycle generating plants will achieve an EAF of 83.5%, which is consistent with the actual five-year average EAF. For comparison, the Company's EAF for 2023 was 84.8%. Mr. Tufaro also noted KU/ODP's representation that most individual forced outages that occurred did not materially affect EAF or EFOR levels during 2023.⁵⁴

Mr. Tufaro described the Company's projections of power purchases and sales for the 2024/2025 Fuel Year. The Company forecasted that it would purchase approximately 2.079 million megawatt hours ("MWh") at an average cost of 2.9¢ per kWh. Approximately 89.44% of the projected wholesale purchases are from LG&E pursuant to a Power Supply System Agreement ("PSSA") at an average cost of 2.8¢ per kWh. Further, KU/ODP forecasted total OSS of 512,355 MWh at an average price of 3.2¢ per kWh. Approximately 74.79% of these OSS are projected to be allocated to LG&E through the PSSA at a forecasted average price of 2.7¢ per kWh. The Company expects OSS margins of \$2,428,806 for the forecast period.⁵⁵

In sum, Staff believes the Company has complied with the standards set by the Commission for evaluating fuel cost projections of electric utilities. Staff believes that the Company's projected Virginia jurisdictional fuel expenses and sales for the forecast period are reasonable. Therefore, Staff recommended that the Commission accept the Company's proposed forecast of energy sales and delivered fuel prices for establishing a 2024-2025 Fuel Factor. Taking the Company's updated recovery balance into consideration, Staff recommended a correction factor credit of 0.174¢ per kWh (rather than the Application's proposed credit of

⁵¹ *Id.* at 9.

⁵² *Id.* at 9-10.

⁵³ *Id.* at 11.

⁵⁴ *Id.* at 12.

⁵⁵ *Id.* at 12-13.

0.234¢ per kWh). Accordingly, Staff recommended that the Commission approve a revised Fuel Factor of 2.641¢ per kWh for service rendered on and after the earliest practical date.⁵⁶

DISCUSSION

The issue before the Commission is what level of fuel factor recovery is appropriate and reasonable based on the facts and evidence in this case.

Code of Virginia

With respect to fuel cost recovery, Code § 56-249.6 provides, among other things, as follows:

Each electric utility that purchases fuel for the generation of electricity or purchases power ... shall submit to the Commission its estimate of fuel costs, including the cost of purchased power, for the 12-month period beginning on the date prescribed by the Commission. Upon investigation of such estimates and hearings in accordance with law, the Commission shall direct each company to place in effect tariff provisions designed to recover the fuel costs determined by the Commission to be appropriate for that period, adjusted for any over-recovery or under-recovery of fuel costs previously incurred.⁵⁷

...

Energy revenues associated with off-system sales of power shall be credited against fuel factor expenses in an amount equal to the total incremental fuel factor costs incurred in the production and delivery of such sales. In addition, 75 percent of the total annual margins from off-system sales shall be credited against fuel factor expenses; however, the Commission, upon application and after notice and opportunity for hearing, may require that a smaller percentage of such margins be so credited if it finds by clear and convincing evidence that such requirement is in the public interest.⁵⁸

...

The Commission shall disallow recovery of any fuel costs that it finds without just cause to be the result of failure of the utility to make every reasonable effort to minimize fuel costs or any decision of the utility resulting in unreasonable fuel costs, giving due regard to reliability of service and the need to maintain reliable sources of supply, economical generation mix, generating experience of comparable facilities, and minimization of the total cost of providing service.⁵⁹

⁵⁶ *Id.* at 13-14.

⁵⁷ Code § 56-249.6 A 1.

⁵⁸ Code § 56-249.6 D 1.

⁵⁹ Code § 56-249.6 D 2

The Commission's approach to implementing this statute is well-established and has been described by the Commission as follows:

We further note that our approval of the fuel factor should not be construed as approval of KU/ODP's actual fuel expenses. No finding in this Order Establishing Fuel Factor is final, as this matter is continued pending the Staff's audit of actual fuel expenses and the Commission's entry of a final order addressing the Company's fuel recovery position. Should the Commission find that (1) any component of KU/ODP's actual fuel expenses or credits has been included or excluded inappropriately, or (2) KU/ODP has failed to make every reasonable effort to minimize costs or has made decisions resulting in unreasonable fuel costs, the Company's recovery position will be adjusted. This adjustment will be reflected in the recovery position at the time of KU/ODP's next fuel factor proceeding.⁶⁰

The Application

Based on the evidence in the record, I find a revised Fuel Factor of 2.641¢ per kWh, which is uncontested, meets the requirements of § 56-249.6 A 1 of the Code.⁶¹ I further find the revised Fuel Factor should be effective for service rendered on and after the earliest practical date which, at the hearing, Company counsel indicated to be September 1, 2024.⁶²

I therefore **RECOMMEND** the Commission enter an order that:

- (1) **ADOPTS** the findings in this Report;
- (2) **APPROVES** a revised Fuel Factor of 2.641¢ per kWh effective for service rendered on and after September 1, 2024; and

⁶⁰ *Application of Kentucky Utilities Company d/b/a Old Dominion Power Company, To revise its fuel factor pursuant to § 56-249.6 of the Code of Virginia*, Case No. PUR-2023-00020, 2023 S.C.C. Ann. Rep. 383, 384, Order Establishing Fuel Factor (June 14, 2023).

⁶¹ The Company's Application proposed to decrease its Fuel Factor 3.534¢ per kWh to 2.581¢ per kWh, effective for service rendered on and after April 1, 2024. KU/ODP provided notice of its revised Fuel Factor (2.581¢ per kWh) as prescribed by the Procedural Order. *See* Ex. 1 (Proof of Service and Notice). The Company and Staff have agreed to a Fuel Factor of 2.641¢ per kWh, which results in a higher revised Fuel Factor – and less of a decrease to an average customer's bill – than proposed by the Company and specified in its notice. The agreed upon Fuel Factor, however, continues to represent an overall rate decrease for KU/ODP's customers. I note that the Commission has established a fuel factor for the Company under similar circumstances. *See Application of Kentucky Utilities Company d/b/a Old Dominion Power Company, To revise its fuel factor pursuant to § 56-249.6 of the Code of Virginia*, Case No. PUE-2008-00012, Order Establishing 2008-2009 Fuel Factor (May 15, 2008).

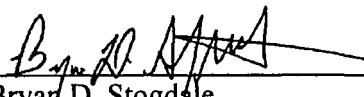
⁶² In her opening statement, Ms. Wimberly explained that a Commission order in this proceeding entered on or before August 31, 2024, would enable the Company to implement its revised Fuel Factor on September 1, 2024. KU/ODP's counsel further explained that the revised Fuel Factor is most efficiently implemented with the first billing day in its monthly billing cycle. At the time of this Report's filing, the transcript of the hearing is not yet available.

(3) *CONTINUES* this case generally, pending audit and investigation of the Company's actual fuel expenses.

COMMENTS

The parties are advised that, pursuant to Rule 5 VAC 5-20-120 C of the Commission's Rules of Practice and § 12.1-31 of the Code, any comments to this Report must be filed on or before July 31, 2024. To promote administrative efficiency, the parties are encouraged to file electronically in accordance with Rule 5 VAC 5-20-140 of the Commission's Rules of Practice. If not filed electronically, an original and fifteen (15) copies must be submitted in writing to the Clerk of the Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218. Any party filing such comments shall attach a certificate to the foot of such document certifying that copies have been served by electronic mail to all counsel of record and any such party not represented by counsel.

Respectfully submitted,


Bryan D. Stogdale
Hearing Examiner

The Clerk of the Commission is requested to send a copy of this Report to all persons on the official Service List in this matter. The Service List is available from the Clerk of the Commission, c/o Document Control Center, 1300 East Main Street, First Floor, Tyler Building, Richmond, Virginia 23219.