FAC : FAQ

The Fuel Adjustment Clause: Frequently Asked Questions

What is the Fuel Adjustment Clause?
The Fuel Adjustment Clause (FAC) allows utilities to recover costs for fuel to run power plants, and also pays for power that is purchased from other companies to meet demand. It is not for the cost of gasoline for utility trucks.

Why is the FAC necessary?
Fuel costs are a large part of the cost of electricity. Power plant fuel prices (coal, fuel oil and natural gas), and the cost of purchased power can vary greatly over short periods. The FAC allows utilities to reflect those costs in their electric rates without requesting changes in their base rates. Without the FAC, utilities would need to file for more frequent and greater adjustments in their base rates.

How does purchased power affect the FAC?
Purchased power generally costs about three times more than a utility generating its own electricity.

Do utilities earn a profit on the FAC?
No. The FAC simply reflects the costs of fuel and purchased power on a dollar-for-dollar basis.

How is the FAC amount determined?
The FAC is measured against a baseline fuel cost that is part of a utility's base rates. If the utility's monthly fuel costs are above the baseline, the FAC appears as a per-kilowatt-hour surcharge. If fuel costs fall below the baseline, the FAC appears as a per-kilowatt-hour credit.

How often does the FAC change?
The FAC changes monthly to reflect the fuel costs incurred two months earlier.

Why doesn't the FAC drop right away when the cost of coal declines?
Utilities purchase coal months before it is used and maintain a one-to-two month supply. So the price of coal being burned to generate power in any given month is usually not the current price of coal. To insure a reliable supply, utilities purchase much of their coal under contract. Contract prices may not correspond to the current market price. In fact, it usually takes several months for changes in coal (and other fuel prices) to be reflected in the FAC.

Does the Kentucky Public Service Commission (PSC) review the FAC amounts for each utility?
Yes. The monthly FAC filings are reviewed for accuracy and a more detailed review is conducted every six months. Following the six-month review, the PSC may disallow earlier charges if it finds improper calculations or improper fuel procurement practices, and may order rate decreases. A final review occurs at two-year intervals and results in a resetting of the baseline fuel cost if necessary.

How does the PSC know if the FAC accurately reflects fuel costs for a utility?
Utilities are required to document all of their fuel costs and submit fuel purchase contracts and other materials to the PSC. Based on that information, the PSC decides if a utility has done everything it can do to keep fuel costs low while maintaining a reliable fuel supply.

Can the public access FAC information?
Yes. Most of the documents provided to the PSC become public record. The utilities' monthly FAC reports can be viewed on the PSC web site. The six-month and two-year FAC reviews are open to the public, and members of the public may submit comments.

What is our power supplier doing to control FAC costs?
East Kentucky Power brought a new clean-coal generating unit on line in April 2009. This unit, which generates 278 megawatts, will decrease the amount of power purchases. In addition, East Kentucky plans to build another clean-coal generating unit as soon as the government issues the necessary permits.

How can co-op members help control FAC costs?
Contact their cooperative about the energy efficiency programs they offer and go to www.simplesavings.coop for low cost, no cost do-it-yourself ideas.

Kentucky's Touchstone Energy Cooperatives

www.simplesavings.coop