COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION OF THE APPLICATION OF THE FUEL ADJUSTMENT CLAUSE OF BIG RIVERS ELECTRIC CORPORATION FROM NOVEMBER 1, 2016 THROUGH APRIL 30, 2017	))))	CASE NO. 2017-00287

ORDER

Pursuant to 807 KAR 5:056, the Commission established this case on August 30, 2017, to review and evaluate the operation of the Fuel Adjustment Clause ("FAC") of Big Rivers Electric Corporation ("Big Rivers") for the six-month period that ended on April 30, 2017. On September 7, 2017, Kentucky Industrial Utility Customers, Inc. ("KIUC") filed a motion to intervene in this matter, and the motion was granted by a September 21, 2017 Order. As part of this review, Big Rivers responded to two requests for information from the Commission and to one request for information from KIUC. The Commission held a formal hearing in this matter on October 16, 2017. Big Rivers and KIUC filed briefs on November 14, 2017, and November 15, 2017, respectively.[1]

Fuel Cost Allocation Methodology

In KIUC's Direct Testimony of Lane Kollen ("Kollen Testimony"), KIUC contends that Big Rivers' allocation of its fuel expense between native load and off-system sales customers using the system-average methodology is unreasonable from January 2017,

[1] KIUC filed an original brief on November 14, 2017, and filed an amended brief on November 15, 2017.

through April 2017.[2] KIUC believes that the lowest fuel costs should be allocated to Big Rivers' native load customers because native load customers pay 100 percent of the allowed fixed investment and non-fuel operating costs of Big Rivers' generating units.[3] KIUC argues that the system-average methodology allocates an unreasonably high fuel expense to Big Rivers' native load customers. KIUC recommends that Big Rivers be required to allocate fuel costs between native load customers and off-system sales using a methodology in which all generation is economically stacked from the lowest to the highest in each hour, with the lowest fuel expenses allocated to native load customers and the remaining fuel expense allocated to off-system sales each hour. KIUC requests that the Commission require Big Rivers to refund $770,174 in fuel costs that it claims were excessive and improperly allocated and collected through the FAC from January 1, 2017, through April 30, 2017.[4]

Big Rivers states that it has used some form of the system-average methodology since the 1980s, that its methodology has been accepted by the Commission, and that the methodology has resulted in reasonable FAC charges compared to other Kentucky utilities.[5] Big Rivers argues that forcing a change in methodologies outside of a base rate case would be unreasonable and could harm its Members. Big Rivers states that if the Commission were to force Big Rivers to make such a change outside of a base rate case, it would violate the matching principle and Big Rivers would have no choice but to

[2] Big Rivers' customers received credits through the FAC for the other two months of the six-month review period which is discussed later in this Order.

[3] Brief of KIUC at 2.

[4] *Id*. at 16.

[5] Post-Hearing Brief of Big Rivers at 2-3.

file for emergency rate relief.[6]

Based on a review of the record and being otherwise sufficiently advised, the Commission finds that this issue was previously raised in Case No. 2014-00455.[7] However, in that case, Big Rivers and KIUC entered into a Stipulation and Recommendation ("Stipulation") in which Big Rivers agreed to provide up to 15 monthly credits to its customers through the FAC in the amount of $311,111.11 each month. The Stipulation provided that the credits would end with the expense month of December 2016, and that Big Rivers expected to file its next base rate case in the first quarter of 2016, with new rates effective on or about November 1, 2016. Big Rivers also agreed in that Stipulation to propose, in its next base rate proceeding, a change in its FAC calculation methodology to one in which it stacks its generating units for purposes of allocating fuel costs, allocating the highest fuel costs to off-system sales.

The Commission now finds that while we have previously accepted Big Rivers' use of the system-average methodology and its use has not been unreasonable, the adoption of a stacking methodology will better reflect the allocation of future fuel costs between native load customers and off-system sales. Ideally, the adoption of a new methodology for allocating fuel costs should occur within a base rate proceeding, since the system-average methodology was used to calculate both Big Rivers' current base rates and the off-system sales revenues included as an offset to native load customers' current base rates. All else being equal, increasing fuel expense for off-system sales will lower the margins from off-system sales and, therefore, require higher base rates.

[6] *Id.* at 9-11.

[7] Case No. 2014-00455, *An Examination of the Application of the Fuel Adjustment Clause of Big Rivers Electric Corporation from November 1, 2012 through October 31, 2014* (Ky. PSC July 27, 2015).

Thus, changing the methodology to calculate fuel costs outside of a base rate case will create a matching issue since Big Rivers did include a certain level of off-system sales margins in its revenue requirement in its last rate case, Case No. 2013-00199.[8]

However, the Commission notes that in the Stipulation approved in Case No. 2014-00455, Big Rivers agreed to change its fuel cost allocation methodology to a stacking method in its next rate case, which at that time, Big Rivers expected to file in the first quarter of 2016. That base rate case has not yet been filed. The Commission stated in its Final Order in Case No. 2014-00455:

> The Commission appreciates the parties [sic] efforts in entering into the Stipulation and supports Big Rivers' commitment to credit customers $4.67 million through the FAC[9] and to change its fuel-cost allocation methodology to a stacking methodology in its next general base rate proceeding.

The Commission's acceptance of that Stipulation was based in part on the expectation that Big Rivers would file a rate case in the first quarter of 2016 to reflect the change in fuel cost allocation methodology. Based on our findings herein that the fuel cost allocation methodology should be changed prospectively, there now needs to be a time schedule for Big Rivers to propose that change. Therefore, Big Rivers should propose a change to its fuel cost allocation method in the earlier of its next base rate case or its next two-year FAC review case, which the Commission anticipates to open in January 2019. If Big Rivers chooses to implement the stacking methodology as part of its next two-year FAC review case, it should be prepared to implement that methodology by the conclusion of that case. Furthermore, the opening order in that case will require Big

[8] Case No. 2013-00199, *Application of Big Rivers Electric Corporation for a General Adjustment in Rates Supported by a Fully Forecasted Test Period* (Ky. PSC Apr. 25, 2014).

Rivers to: submit testimony on the matter; propose revised rates to reflect the impact of changing the methodology; and provide notice of the revised rates to its customers.

As previously stated, KIUC states that Big Rivers should be required to refund those fuel costs, with interest, which KIUC deems excessive due to the use of the system-average methodology. Big Rivers argues that the Commission has found the system-average methodology to be reasonable, and that refunds should not be required. Big Rivers states that in Case No. 2013-00199, its previous base rate case, to which KIUC was an intervening party, the Commission found the rates to be reasonable, and those rates were developed based on the system-average methodology. The Commission agrees with Big Rivers. Because the Commission has not found Big Rivers' methodology to be unreasonable and has not previously ordered Big Rivers to change its methodology, Big Rivers was charging the proper rates as set forth in its filed tariff. Therefore, the Commission finds that a refund of fuel costs based on a different fuel cost allocation methodology is not warranted and should not be required.

Current Rates and Charges

A review of Big Rivers' monthly FAC filings shows that the fuel cost billed for the period under review ranged from a low of $.019894 per kWh in November 2016, to a high of $.022657 per kWh in February 2017, with a six-month average of $.021613 per kWh.

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

IT IS THEREFORE ORDERED that:

1. The charges and credits billed by Big Rivers through its FAC for the period November 1, 2016, through April 30, 2017, are approved.

2. KIUC's request that Big Rivers refund fuel costs is denied.

3. Big River shall propose a change in its fuel cost allocation methodology to a least-cost stacking method, in the earlier of its next base rate case or its next two-year FAC review, which is anticipated to be opened in January 2019.

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By the Commission

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FEB 02 2018

KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

For Executive Director

Case No. 2017-00287

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