

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION



In the Matter of:

AN EXAMINATION BY THE PUBLIC)
SERVICE COMMISSION OF THE)
APPLICATION OF THE FUEL ADJUST-)
MENT CLAUSE OF EAST KENTUCKY POWER) CASE NO. 9731
COOPERATIVE CORPORATION FROM)
NOVEMBER 1, 1984, TO)
OCTOBER 31, 1986)

O R D E R

Pursuant to 807 KAR 5:056, Sections 1 (11) and 1 (12), the Public Service Commission ("Commission") issued its Order on December 8, 1986, scheduling a hearing to review the operation of the fuel adjustment clause of East Kentucky Power Cooperative Corporation ("East Kentucky") for the past 2 years and to determine the amount of fuel cost that should be transferred (rolled in) to the base rates in order to reestablish the fuel clause charge in accordance with 807 KAR 5:056, Section 1 (2).

In response to the Commission's requests for information, East Kentucky proposed to use July 1985 as the base period (test month) for the purpose of arriving at the base fuel cost [F(b)] and the KWH sales [S(b)] components of the fuel adjustment clause. The base fuel cost proposed by East Kentucky was 13.28 mills per KWH. East Kentucky provided all requested information, and following proper notice, a hearing was held on February 11, 1987.

The sole intervenor in this case was the Utility and Rate Intervention Division of the Attorney General's Office ("AG").

The AG did not offer testimony, and on cross-examination did not challenge the level of actual fuel cost included in East Kentucky's monthly fuel filings, or the proposed base fuel cost of 13.28 mills per KWH.

In establishing the appropriate level of base fuel cost to be included in East Kentucky's rates, the Commission must determine whether the proposed base period fuel cost per KWH is representative of the level of fuel cost currently being experienced by East Kentucky. The Commission's review of generation mix, unit outages and unit availability disclosed that July 1985 was a reasonably representative generation month for East Kentucky. The Commission's analysis of East Kentucky's monthly fuel clause filings shows that the actual fuel cost incurred for the 2-year period ended October 31, 1986, ranged from a low of 10.96 mills per KWH in September 1986 to a high of 17.00 mills per KWH in April 1985, with an average fuel cost for the 2-year period of 13.29 mills per KWH. Although the staff analysis shows East Kentucky's fuel costs for the last 12 months of the period under review to be below their requested fuel base, East Kentucky's testimony points out the abnormally high off-system sales in 1986, resulting in more usage of cheaper spot-market coal. These sales, particularly to TVA, are expected to decline sharply in 1987 and the following years. They also point out that the expiration of the United Mine Workers contract early in 1988 has the potential to raise coal prices. Based on the above, it appears East Kentucky's requested base fuel cost is reasonable. Therefore, the

Commission is of the opinion that East Kentucky has complied with 807 KAR 5:056, and that the base period fuel cost of 13.28 mills per KWH should be approved.

East Kentucky has one billing cycle and the service period for that cycle covers the calendar month. East Kentucky bills its distribution co-ops for the cost of providing service for the month, which includes the base period fuel costs contained in the base rates, during the first week of the following month. If the Commission approved East Kentucky's proposed base fuel cost of 13.28 mills per KWH for service rendered on and after May 1, East Kentucky would bill its customers for May service in June at the base fuel cost after roll-in of 13.28 mills per KWH. Furthermore, bills for April service billed in May would be based on the base fuel cost before roll-in of 14.74 mills per KWH.

The Commission, having considered the evidence of record and being advised, finds that:

1. East Kentucky has complied in all material respects with the provisions of 807 KAR 5:056.
2. The test month of July 1985 should be used as East Kentucky's base period in this proceeding.
3. East Kentucky's proposed base period fuel cost of 13.28 mills per KWH should be approved.
4. The establishment of a base fuel cost of 13.28 mills per KWH requires a transfer (roll-in) of (1.46) mills per KWH from the fuel adjustment clause rate to East Kentucky's base rates and can best be accomplished by a uniform reduction in all energy rates.

5. The revised rates and charges in Appendix A are designed to reflect the transfer (roll-in) to base rates of the differential between the old base fuel cost of 14.74 mills per KWH and the new base fuel cost of 13.28 mills per KWH.

6. The rates in Appendix A should be approved for bills rendered on and after May 1, 1987.

7. The fuel adjustment clause rate for April to be billed in May should be computed using the base fuel cost prior to roll-in of 14.74 mills per KWH.

8. The fuel adjustment clause for May usage and the succeeding months should be computed using the base fuel cost after roll-in of 13.28 mills per KWH approved herein.

IT IS THEREFORE ORDERED that:

1. The charges and credits applied by East Kentucky through the fuel adjustment clause for the period November 1, 1984, through October 31, 1986, be and they hereby are approved.

2. East Kentucky's proposed base period fuel cost of 13.28 mills per KWH be and it hereby is approved.

3. The rates in Appendix A be and they hereby are approved for service rendered by East Kentucky on and after May 1, 1987.

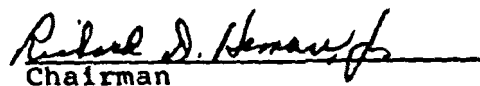
4. The fuel adjustment clause rate for April to be billed in May will be computed using the base fuel cost prior to roll-in of 14.74 mills per KWH.

5. The fuel adjustment clause for May usage and the succeeding months will be computed using the base fuel cost after roll-in of 13.28 mills per KWH.

6. Within 30 days from the date of this Order East Kentucky shall file with the Commission its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 28th day of April, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9731 DATED 4/28/87

The following rates and charges are prescribed for the customers in the area served by East Kentucky Power Cooperative, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

Wholesale Power Rate Schedule

Monthly Rate - Per Load Center

Load Center Charge:

\$1,069 per Month

Demand Charge:

\$7.82 per KW of Billing Demand

Energy Charge:

All KWH \$.02422 per KWH

Minimum Monthly Charge:

The minimum monthly charge under the above rate shall not be less than \$1,069.

Wholesale Power Rate Schedule C

PART I

Monthly Rate

Demand Charge:

\$5.39 per KW of Billing Demand

Energy Charge:

\$.02422 per KWH

PART II

Monthly Rate

Demand Rate:

\$7.82 per KW of Billing Demand

Energy Rate:

\$.02422 per KWH

PART III

Monthly Rate

Load Center Charge:

\$1,069 per Month

Minimum Monthly Charge

The minimum monthly charge shall not be less than \$1,069 per load center.