

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC)
CORPORATION FOR AN ORDER APPROVING FUEL) CASE NO.
ADJUSTMENT CLAUSE PASS THROUGH OF THE) 90-055
DELTA MINING CORP. ARBITRATION AWARD)

O R D E R

On March 9, 1990, Big Rivers Electric Corporation ("Big Rivers") filed an application requesting authority to collect through its fuel adjustment clause ("FAC") an arbitration award entered against Big Rivers and approval of its proposed method of accounting for the award. By a decision dated November 16, 1989, an arbitration panel ruled that Delta Mining Corp. ("Delta") was entitled to recover \$2,582,177.40 from Big Rivers. The arbitration award arose from a demand by Delta for fuel price adjustments under the Surface Mining Control and Reclamation Act ("SMCRA") pursuant to Contract No. 354 between Big Rivers and Fisher Holding Company, Inc. ("Fisher"). Delta is the successor in interest of Fisher.

Big Rivers' coal supply contract with Fisher commenced in February 1977 and expired in December 1986. Fisher first presented its demand for fuel price adjustments to Big Rivers in June 1987. The price adjustments were rejected by Big Rivers and subsequently submitted to arbitration.

Big Rivers recorded the arbitration award of \$2,582,177.40 as a charge to its fuel inventory in December 1989. On December 27, 1989, the Commission received a letter from Big Rivers stating that the award would be collected through its FAC starting with February 1990 bills for January 1990 service. The full amount of the arbitration award was subsequently paid by Big Rivers on March 1, 1990.

Based on the evidence of record and being advised, the Commission hereby finds that the arbitration award is properly classified as a fuel cost for inclusion in Big Rivers' FAC. However, Big Rivers' accounting for this transaction was improper and Commission approval should have been received prior to commencing collection through the FAC. Big Rivers accounted for this transaction as if the coal contract was still in effect and that the award, as a litigated adjustment to the invoice price of fuel, may automatically be collected through the FAC. This is clearly not the case since the coal contract with Fisher expired over three years ago.

In its application, Big Rivers referenced Case No. 10214,¹ wherein the Commission authorized Kentucky Utilities Company to recover coal contract buy-out cost through its FAC. A similar coal contract buy-out cost received Commission approval in Case

¹ Case No. 10214, Application of Kentucky Utilities Company for an Order Approving Certain Accounting Treatment of Amounts Paid for Coal Contract Release, Interim Order dated October 7, 1988.

No. 89-030.² In both of these cases, the Commission determined that the recovery of cost not specifically addressed in the FAC regulation, 807 KAR 5:056, must be determined after review of a formal application. These two cases clearly indicate that the Commission did not establish any precedent for these type of costs to be automatically passed through the FAC.

In both Case Nos. 10214 and 89-030, a deferred debit was established in Account No. 186, Miscellaneous Deferred Debits, with equal amount amortized to Account No. 151, Fuel Stock. Thus, recovery through the FAC was possible and at the same time relatively easy to track through the accounting system. If Big Rivers' contract with Fisher had still been in effect, the accounting approach it used may have been reasonable. However, since the contract had terminated, the Commission finds that the arbitration award should have been recorded in Account No. 186, and Big Rivers should have proposed to amortize equal amounts of the award to Account No. 151. As to Big Rivers' concern that the arbitration award would be a "current" cost only if booked at the time the award was rendered, the transaction can be accounted for by a debit entry to Account No. 186 and a corresponding credit entry to Account No. 242, Miscellaneous Current and Accrued Liabilities.

² Case No. 89-030, Application of Louisville Gas and Electric Company for an Order Approving Certain Accounting Treatment of Amounts Paid for Coal Contract Termination, Final Order dated June 29, 1989.

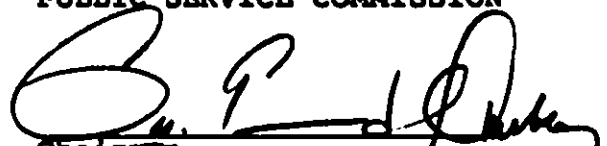
The Commission further finds that it was not appropriate for Big Rivers to begin recovering this fuel cost before the cost was actually paid, or to begin such recovery without the prior approval of the Commission. In Case No. 89-030, the Commission found that the recovery should reflect the period when the payments were actually made. Big Rivers began to recover the cost in February 1990, although the award was not actually paid until March 1, 1990.

This Order will serve as notice to Big Rivers, as well as all other electric utilities, that there can be no FAC recovery of any cost not specifically provided for in the FAC regulation until an application for such recovery has been approved by the Commission. Prior to Commission approval, the cost is to be recorded in Account No. 186. In recognition of the difficulty for Big Rivers to reverse the accounting entries previously recorded, the Commission will not require Big Rivers to reverse those entries. In this case only, Big Rivers will be authorized to recover the arbitration award in the manner it has already implemented. However, starting with the first monthly FAC report filed with the Commission after August 1, 1990, Big Rivers should separately identify the amount of the arbitration award recovered through its FAC in that month. The special reporting will continue until the full amount of the award has been recovered.


IT IS THEREFORE ORDERED that Big Rivers' application for authorization to recover through its FAC the remaining cost of the arbitration award be and it hereby is granted.

Done at Frankfort, Kentucky, this 20th day of July, 1990.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director