

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

SOUTH KENTUCKY RURAL ELECTRIC)
COOPERATIVE CORPORATION'S FILING)
OF AMENDMENT NO. 2 TO THE) CASE NO. 90-145
INDUSTRIAL POWER AGREEMENT WITH)
ASAHI MOTOR WHEEL COMPANY, INC.)

O R D E R

On May 14, 1990, South Kentucky Rural Electric Cooperative Corporation ("South Kentucky") filed Amendment No. 2 to the Industrial Power Agreement with Asahi Motor Wheel Company, Inc. ("AMW"). Pursuant to KRS 278.180(1), the Commission, by an Order dated May 24, 1990, suspended the proposed amendment for 5 months in order to conduct further proceedings to determine its reasonableness.

BACKGROUND

The amendment would reduce AMW's minimum contract demand to 1,000 KW from a present level of 7,495 KW. In addition, AMW would be reimbursed \$240,000 through a 50 percent credit on the wholesale portion of its power bills. The amount of \$240,000 represents the difference between South Kentucky's billings to AMW from November 1989 through March 1990 based on current contract demand levels and the amount AMW would have been billed based on its actual demands. In return for this credit from South Kentucky's wholesale power supplier, East Kentucky Power Cooperative, Inc. ("East Kentucky"), AMW would pay \$4,000 per

month for the 60-month term of the amendment as a contribution in aid of construction to East Kentucky for part of its investment in facilities to serve AMW.

On June 8, 1990, South Kentucky filed a motion for interim approval of the amendment subject to retroactive application of any modifications ultimately ordered by the Commission. By Order dated July 11, 1990, the Commission granted interim approval of only that portion of the amendment which reduced AMW's minimum contract demand to 1,000 KW and allowed AMW to be served on South Kentucky's LP-1 Rate Schedule, effective with bills rendered on and after July 11, 1990. The Commission conducted a hearing on the merits of the proposed amendment on August 3, 1990.

DISCUSSION

The data responses and testimony indicate that a major error was made by AMW in calculating the power consumption of its facilities. The erroneous demand calculation has become the basis for the proposed contract amendment between AMW and South Kentucky. Based on AMW's overstated demand forecast, East Kentucky constructed a substation and transmission facilities to serve the AMW load at a cost of \$357,000.

AMW had budgeted amounts for its electric expense that approximate its power cost if billed on its actual demands. However, as billed at the contract demand levels, AMW's power expense is nearly double the budgeted amount.

AMW's current demand is approximately 3,000 KW and is anticipated to increase to approximately 4,500 KW when it moves into Phase Two of its operations sometime in 1991. There is

general uncertainty as to whether AMW's load will increase beyond 4,500 to 5,000 KW at any time in the foreseeable future.

Prior to the Commission's interim approval, AMW was billed under the terms of the proposed amendment for April 1990. After the Commission's suspension of the amendment, AMW was billed under the terms of the existing contract for May 1990, but made its payment based on the terms of the proposed amendment. For April and May, AMW's billings under the existing contract should have been \$134,000 per month, for a 2-month total of \$268,000. In actuality, AMW paid \$75,000 per month, for a 2-month total of \$150,000. This is a difference of \$118,000.

FINDINGS AND ORDERS

The Commission, after consideration of the evidence of record and being otherwise sufficiently advised, finds that:

1. AMW vastly overestimated the power consumption of its facilities and, as a consequence, its demand for electricity. This error is contributing to AMW's present financial losses.

2. East Kentucky constructed a substation and transmission facilities to serve AMW's projected load at a cost of approximately \$357,000. AMW's load, at present, and for the foreseeable future, does not require the additional substation capacity constructed to serve it. Had AMW properly estimated its demand, East Kentucky would not have constructed the substation and transmission facilities.

3. The proposed reimbursement of \$240,000 to AMW would have the effect of making the lower contract demand retroactive to

November 1989. This proposal constitutes retroactive ratemaking and violates the filed rate doctrine as set out in KRS 278.160(2).

4. All billings to AMW and payments by AMW for bills rendered prior to the Commission's Order of July 11, 1990 should be based on the terms of the contract existing and in effect at that time.

5. East Kentucky, apart from any future revenues it will receive as a result of supplying the power ultimately used by AMW, should be reimbursed for its investment in facilities to serve AMW. East Kentucky has received \$240,000 in contract billings in excess of actual demand billings from November 1989 through March 1990. Upon receipt of the additional \$118,000 due from AMW for the months of April and May 1990, East Kentucky will have recouped its initial investment.

IT IS THEREFORE ORDERED that:

1. The reduction in AMW's minimum contract demand to 1,000 KW, as previously approved on an interim basis, be and it hereby is approved on a permanent basis.


2. The proposed reimbursement of \$240,000 to AMW and subsequent repayment of that amount to East Kentucky be and it hereby is denied.


3. South Kentucky and East Kentucky shall bill, and AMW shall pay, for service rendered in April and May 1990 based on the terms of Amendment No. 1 to the Industrial Power Agreement in effect when that service was rendered.

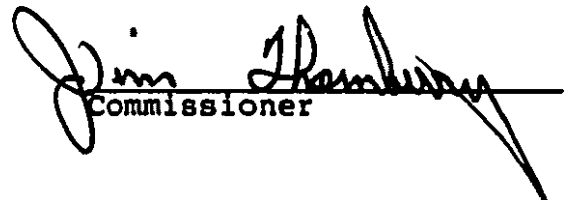
4. Within 30 days from the date of this Order, South Kentucky shall file two signed copies of a revised Amendment No. 2 to the Industrial Power Agreement with AMW which deletes paragraph 6 relating to the reimbursement procedure denied herein.

Done at Frankfort, Kentucky, this 17th day of September, 1990.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director