

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 ADJUSTMENT CLAUSE OF BIG RIVERS) CASE NO. 94-458-C
ELECTRIC CORPORATION FROM NOVEMBER 1,)
1995 TO APRIL 30, 1996)

O R D E R

This case involves a review of the operation of the fuel adjustment clause ("FAC") of Big Rivers Electric Corporation ("Big Rivers") for the six-month period ending April 30, 1996.¹ Based upon its review, the Commission finds that Big Rivers (1) properly determined the fuel costs charged to its native load customers; (2) incorrectly calculated and applied prospective disallowances of fuel charges incurred under Contract No. 527; and (3) charged \$326,757 of unreasonable fuel costs to its native load customers during the review period because of its incorrect calculations.²

¹ Commission Regulation 807 KAR 5:056, Section 1(11), requires the Commission to conduct public hearings on a utility's past fuel adjustments at six (6) month intervals. It further requires the Commission will order a utility to charge off and amortize, by means of a temporary decrease of rates, any adjustments it funds unjustified due to improper calculation or application of the charge or improper fuel procurement practices.

² Kentucky Industrial Utility Customers intervened in this proceeding. On August 22, 1996, the Commission held a public hearing in this matter.

Calculation and Allocation of Prospective Disallowances

In Case No. 94-458, the Commission found that Big Rivers' methodology for calculating prospective fuel cost disallowances³ failed to comply with 807 KAR 5:056 and ordered Big Rivers to change its methodology for calculating such disallowances beginning with its February 1996 FAC report. Since Big Rivers has only calculated the prospective disallowance for its fuel costs properly since February 1996, its fuel costs for this review period are affected. Applying the proper methodology to fuel costs incurred in the review period, as Appendix A shows, yields the conclusion that Big Rivers assessed unreasonable fuel costs of \$326,757 to its native load customers.

Pursuant to 807 KAR 5:056, the Commission may require a utility to charge off and amortize unreasonable costs by means of a temporary decrease in rates. To ensure the return of the unreasonable costs over a period time commensurate with the period during which the costs were incurred, the Commission finds that Big Rivers should charge off and amortize the unreasonable costs of \$326,757, with interest,⁴ over a period of three months beginning with its FAC report for the expense month of November 1996.

³ In Case No. 90-360-C, the Commission found that the current price which Big Rivers pays for coal received under Contract No. 527 "is unreasonable because of Amendment No. 1 to the contract and the 'Andalex Substitution Agreement'." Order of July 21, 1994 at 36. It ordered that Big Rivers, when calculating its fuel cost for recovery through the FAC, reduce the price of Contract No. 527 coal to reflect cost disallowances for Amendment No. 1 and the Andalex Substitution Agreement. Id.

⁴ Interest should be based on the average of the Three-Month Commercial Paper Rate as reported in the Federal Reserve bulletin and the Federal Reserve Statistical Release for the period November 1, 1995 to January 31, 1996. In all other respects, the calculation of interest should follow the method prescribed in Case No. 90-360-C.

Big Rivers should amortize and charge off the \$326,757 via a monthly credit of \$108,919 plus one-third of the total interest to the fuel cost calculation contained in its FAC report. This credit is in addition to the monthly credit which the Commission ordered in Case Nos. 94-458-A and 94-458-B.

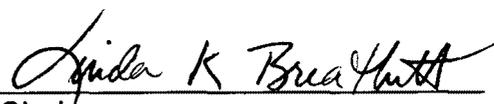
Summary

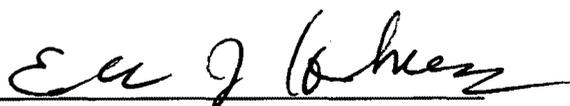
Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that during the review period Big Rivers passed through its FAC to its jurisdictional customers unreasonable fuel charges of \$326,757.

IT IS THEREFORE ORDERED that, beginning with the month of November 1996 and continuing for the following two months, Big Rivers shall credit \$108,919 plus interest to the jurisdictional fuel costs included in its FAC report as filed with the Commission.

Done at Frankfort, Kentucky, this 16th day of October, 1996.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE
NO. 94-458-C DATED OCTOBER 16, 1996.

IMPACT OF IMPLEMENTING THE PROSPECTIVE DISALLOWANCE ORDERED FOR COAL PURCHASED UNDER CONTRACT 527 BY ADJUSTING THE COST OF PURCHASES MADE UNDER CONTRACT 527 AND REFLECTING THE ADJUSTMENTS MONTHLY IN THE WILSON INVENTORY

NOVEMBER 1995 - Total Amount of Prospective Disallowance per Big Rivers' FAC Report = \$444,999
Jurisdictional Component = \$323,514

Wilson Inventory -- NOVEMBER 1995 -- Per Big Rivers' Back-up Report

	<u>TONS</u>	<u>AMOUNT</u>	<u>PER TON</u>
Beginning Inventory	201,264	7,155,959	\$35.5550
Purchases (As Recorded)	87,453	3,065,890	35.0576
Sub-total (As Recorded)	288,717	10,221,849	35.4043
Less: Amount Burned	77,364	2,739,023	35.4043
Ending Inventory	211,353	7,482,826	35.4043

Contract 527 Disallowance Per Weighted Average Inventory Method

	<u>TONS</u>	<u>AMOUNT</u>	<u>PER TON</u>
Beginning Inventory	201,264	6,076,403 ¹	\$30.1912
Purchases (Adj)	87,453	2,620,891 ²	29.9691
Sub-total (Adj)	288,717	8,697,294	30.1239
Amount Burned (Adj)	77,364	2,330,505	30.1239
Ending Inventory (Adj)	211,353	6,366,789	30.1239

Impact on FAC Calculation (dollars)

Amount Burned as Reported by BREC	\$2,739,023
Less: Adjusted Amount Burned	<u>2,330,505</u>
Change in the Amount Burned	\$ (408,518)
Less: Jurisdictional Disallowance Reported by BREC	<u>323,514</u>
Increase (Decrease) in Fuel Cost	\$ (85,004)

¹ Reflects the impact of the August 1994 through October 1995 inventory adjustments.

² Reflects the total November disallowance of \$444,999.

DECEMBER 1995 - Total Amount of Prospective Disallowance Per Big Rivers' FAC Report = \$307,645
Jurisdictional Component = \$214,736

Wilson Inventory - December Per Big Rivers' Back-up Report

	<u>TONS</u>	<u>AMOUNT</u>	<u>PER TON</u>
Beginning Inventory	211,353	7,482,826	\$35.4043
Purchases (As Recorded)	52,689	1,844,878	35.0145
Adjustments	32,553	(559,116)	
Sub-total (As Recorded)	296,595	8,768,588	29.5641
Less: Amount Burned	59,141	1,748,462	29.5641
Ending Inventory	237,454	7,020,125	29.5641

Contract 527 Disallowance Per Weighted Average Inventory Method

	<u>TONS</u>	<u>AMOUNT</u>	<u>PER TON</u>
Beginning Inventory	211,353	6,366,789 ³	\$30.1239
Purchases (Adj)	52,689	1,537,233 ⁴	29.1756
Adjustments	32,553	(559,116)	
Sub-total (Adj)	296,595	7,344,906	24.7641
Amount Burned (Adj)	59,141	1,464,573	24.7641
Ending Inventory (Adj)	237,454	5,880,333	24.7641

Impact on FAC Calculation (dollars)

Amount Burned as Reported by BREC	\$ 1,748,462
Less: Adjusted Amount Burned	<u>1,464,573</u>
Change in the Amount Burned	\$ (283,889)
Less: Jurisdictional Disallowance Reported by BREC	<u>214,736</u>
Increase (Decrease) in Fuel Cost	\$ (69,153)

³ Reflects the impact of the August 1994 through November 1995 inventory adjustments.

⁴ Reflects total December disallowance of \$307,645.

JANUARY 1996 - Total Amount of Prospective Disallowance Per Big Rivers' FAC Report = \$576,894
 Jurisdictional Component = \$421,710

Wilson Inventory - January 1996 - Per Big Rivers' Back-up Report

	<u>TONS</u>	<u>AMOUNT</u>	<u>PER TON</u>
Beginning Inventory	237,454	\$7,020,125	\$29.5641
Purchases (As Recorded)	107,148	3,686,313	34.4040
Sub-total (As Recorded)	344,602	10,706,439	31.0690
Less: Amount Burned	119,303	3,706,609	31.0690
Ending Inventory	225,299	6,999,830	31.0690

Contract 527 Disallowance Per Weighted Average Inventory Method

	<u>TONS</u>	<u>AMOUNT</u>	<u>PER TON</u>
Beginning Inventory	237,454	\$5,880,333 ⁵	\$24.7641
Purchases (Adj)	107,148	3,109,419 ⁶	29.0199
Sub-total (Adj)	344,602	8,989,752	26.0873
Amount Burned (Adj)	119,303	3,112,299	26.0873
Ending Inventory (Adj)	225,299	5,877,453	26.0873

Impact on FAC Calculation (dollars)

Amount Burned as Reported by BREC	\$3,706,609
Less: Adjusted Amount Burned	<u>3,112,299</u>
Change in the Amount Burned	\$ (594,310)
Less: Jurisdictional Disallowance Reported by BREC	<u>421,710</u>
Increase (Decrease) in Fuel Cost	\$ (172,600)

⁵ Reflects the impact of the August 1994 through December 1995 inventory adjustments.

⁶ Reflects the total January disallowance of \$576,894.