

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION OF THE APPLICATION OF)	
THE FUEL ADJUSTMENT CLAUSE OF BIG)	CASE NO.
RIVERS ELECTRIC CORPORATION FROM MAY)	2016-00006
1, 2015 THROUGH OCTOBER 31, 2015)	

ORDER

Pursuant to 807 KAR 5:056, the Commission established this case on February 5, 2016, 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 October 31, 2015. As part of this review, Big Rivers responded to three requests for information and the Commission held a formal hearing in this matter on April 7, 2016. On April 21, 2016, Big Rivers filed its response to requests made at the hearing.

The Commission has previously established Big Rivers’ base fuel cost as 20.932 mills per kWh.¹ A review of Big Rivers’ monthly FAC filings shows that the fuel cost billed for the period under review ranged from a low of 20.43 mills in October 2015 to a high of 23.56 mills in September 2015, with a six-month average of 22.04 mills.

¹ Case No. 2010-00495, *An Examination of the Application of the Fuel Adjustment Clause of Big Rivers Electric Corporation from July 17, 2009 Through October 31, 2010* (Ky. PSC May 31, 2011).

Highest-Cost Unit Calculation Methodology

In FAC Orders issued in May 2002,² the Commission stated as follows:

We interpret Administrative Regulation 807 KAR 5:056 as permitting an electric utility to recover through its FAC only the lower of the actual energy cost of the non-economy purchased energy or the fuel cost of its highest cost generating unit available to be dispatched to serve native load during the reporting expense month. Costs for non-economy energy purchases that are not recoverable through an electric utility's FAC are considered "non-FAC expenses" and, if reasonably incurred, are otherwise eligible for recovery through base rates.

In FAC Orders issued in 2015,³ the Commission affirmed its 2002 decision that recovery through the FAC of non-economy power purchases is limited to a utility's own highest-cost generating unit available for dispatch during the month. During this review period, the Commission examined the methodologies used by the six jurisdictional generators in calculating their highest-cost units. Big Rivers uses its 65-MW Reid combustion turbine ("CT") as its highest-cost unit.⁴ For the months in which the unit operates, the rate is calculated by dividing the total fuel costs by the net MWh generation during the month. For the months in which the unit does not operate, Big Rivers calculates the rate by assuming the unit operated at maximum load and uses the

² Case No. 2000-00495-B, *An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of American Electric Power Company from May 1, 2001 to October 31, 2001* (Ky. PSC May 2, 2002), Final Order at 5; and Case No. 2000-00496-B, *An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from May 1, 2001 to October 31, 2001* (Ky. PSC May 2, 2002), Final Order at 5.

³ See Case No. 2014-00226, *An Examination of the Application of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from November 1, 2013 Through April 30, 2014* (Ky. PSC July 10, 2015); and Case No. 2014-00229, *An Examination of the Application of the Fuel Adjustment Clause of Duke Energy Kentucky from November 1, 2013 Through April 30, 2014* (Ky. PSC July 10, 2015).

⁴ Big Rivers' response to Commission Staff's Second Request for Information, Item 2.

lowest daily natural gas price from ACES Power Marketing during the month.⁵ The \$/MWh rate produced by the calculation for the review period ranged from \$28.14 to \$106.74.⁶

The Commission has reviewed Big Rivers' calculation and the calculation results. Given that, when the Reid CT operates, Big Rivers uses the actual fuel costs of generation, and when the unit does not operate, Big Rivers calculates its highest-cost unit using the maximum (or most efficient) load level at which the unit can operate and the lowest gas price during the month, the Commission finds Big Rivers' calculation to be reasonable and accepts the calculation methodology and results as being reasonable.

Coal District Numbers

During the course of this proceeding, the Commission sought information regarding the coal district numbers used by Big Rivers and the other generators when identifying the source of coal purchases in their monthly FAC backup filings. The coal district numbers used by Big Rivers during the review period differed from those used by the Mine Safety and Health Administration ("MSHA"). Big Rivers stated that it was utilizing coal district numbers it obtained from the MSHA Data Retrieval System in 2009 but that, upon further review during this proceeding, it discovered the coal district numbers it was using were different from those used by MSHA. Big Rivers stated that, going forward, it would assure FAC backup filings would reflect MSHA coal district numbers. The Commission finds that the MSHA coal district numbers should be used

⁵ Big Rivers' response to Commission Staff's Third Information Request, Item 6.

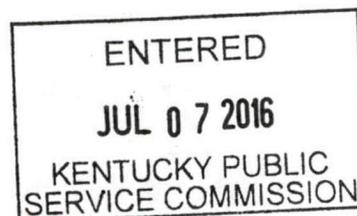
⁶ Big Rivers' response to Commission Staff's Second Request for Information, Item 2. The rate of \$28.14 was calculated for the month of October 2015 using the Henderson Municipal Power and Light Station Two unit because the Reid CT was not available.

when identifying the source of coal purchases in the FAC backup filings. The Commission also notes that, subsequent to the hearing in this matter, Big Rivers began using the MSHA coal district numbers in its monthly FAC backup filings.

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 the charges and credits billed by Big Rivers through its FAC for the period May 1, 2015, through October 31, 2015, are approved.

By the Commission



ATTEST:


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