

COMMONWEALTH OF KENTUCKY
BEFORE THE ENERGY REGULATORY COMMISSION

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In the Matter of:

NOTICE OF BIG RIVERS ELECTRIC CORPORATION)
PURSUANT TO KRS 278.180, 278.190 AND RELATED)
STATUTES AND 807 KAR 1:010, SECTION 9, AND)
RELATED SECTIONS, AND 807 KAR 2:020, SECTION)
5 THROUGH 8, AND RELATED SECTIONS, THAT ON) CASE NO. 7380
APRIL 16, 1979, IT WILL (1) CHANGE ITS RATES)
FOR ELECTRIC SERVICE; (2) REVISE ITS FUEL)
ADJUSTMENT CLAUSE; AND (3) REVISE ITS PUR-)
CHASED POWER ADJUSTMENT CLAUSE)

ORDER ON REHEARING

On March 26, 1979, Big Rivers Electric Corporation (hereinafter Big Rivers or Applicant) filed an Application with the predecessor Public Service Commission requesting authority to increase its basic wholesale rates to its member distribution cooperatives by approximately \$17,981,271 annually; an increase of 17.1 percent based on 1978 KWH sales. Applicant further requested that its base factor in the fuel adjustment clause and its purchased power adjustment clause, approved in PSC Case No. 7190, be revised to reflect more current and anticipated operating conditions with the addition of a new generation plant, Green Unit No. 1. Applicant initially requested that the proposed rates become effective April 16, 1979, but stated further in the Application that the increase in rates be synchronized with the commercialization (operation) of Green Unit No. 1, a new generating facility.

On December 1, 1979, the Commission issued its order in this matter granting Big Rivers an increase in annual revenue of approximately \$12,650,000. The increase was effective the date of the Order and was based upon the date of commercialization of Big Rivers new generating Unit, Green No. 1.

Thereafter, on December 20, 1979, Big Rivers filed a motion for rehearing pursuant to KRS 278.400 and KAR 50:005.4(10). On January 8, 1980, the Commission granted the application for rehearing and scheduled the matter for public hearing on January 30, 1980.

The purpose of the rehearing was to allow applicant to provide further evidence of the allegations in its petition concerning the Commission's order of December 1, 1980.

Based on the evidence of record, the Commission is of the opinion and finds as follows:

(1) In the application for rehearing Big Rivers contended that "...the Order excludes certain interest costs which should be included, includes certain interest costs which should be excluded in calculation of Big Rivers' expenses and margin and disallows \$2,272,960 of interest costs which should be allowed."

Based upon the additional information provided on rehearing in this matter the Commission maintains its original position that the adjustment to interest on long-term debt should reflect the annualization of long-term debt outstanding at the end of the test period as well as the additional long-term debt to be secured prior to commercialization of the Green Unit No. 1. However, the Commission concurs with applicant in that the pro forma interest expense should reflect the actual test year interest on the debt associated with the Panama Mine long-term debt, the interest on interim financing and the interest expense associated with the financing of the new computer system.

The Commission will further adjust the pro forma gross interest expense downward by \$194,792 to reflect the retirement of the long-term debt, which generated this interest expense.

The net effect of these adjustments will increase the gross interest on long-term debt by \$470,078.

Big Rivers did not propose to adjust interest during construction in its original application and consequently the Commission did not adjust Interest During Construction in its order of December 1, 1979. Utilizing the additional information supplied on rehearing, the Commission has determined that an adjustment should be made to reduce interest during construction by \$1,613,826. The original filing of Big Rivers did not contain enough information to properly determine the pro forma interest during construction which resulted in an understatement of the net interest on Long-Term debt.

(2) In view of the Commission's decision to reduce Big Rivers' proposed adjustment to maintenance expense for the Green Unit No. 1, Big Rivers proposed an alternative adjustment to increase the projected maintenance costs by \$813,600. The Commission has determined that it will make no further adjustment to reflect the projected maintenance costs of this unit. Although there is some merit to the approach used to project this expense the actual costs are extremely speculative. Theoretically, the operation of a new generation unit should require to some extent less maintenance. However, it is a recognized fact that the actual maintenance could exceed projections in the initial months of operation due to mechanical failure during the breaking in or shakedown process. Alternative approaches to the historical cost basis approach were available to application but were not presented in this matter. Therefore, the Commission's original decision will be affirmed herein.

(3) At the time the Order was issued in this matter Big Rivers' adjustment to Accounts Receivable taxes was merely an estimate based on a projected level of Accounts Receivable at a future date. The Commission felt that this adjustment was too speculative and denied the adjustment in the Order. The Commission will affirm its original decision and make no further adjustment to tax expense.

(4) During the rehearing applicant stated a correction to its original testimony concerning the cost of professional services in connection with its attempt to secure a bond rating for the sale of pollution control bonds. The correction reflected that Big Rivers had actually expended approximately \$107,000 in associated costs rather than the \$190,000 originally stated. Therefore, the Commission will adjust the test year by the revised amount of \$107,000.

(5) Based upon the aforesaid findings, Big Rivers adjusted Test Year Net Income as set out in the original order on page 8 would reflect a net loss of \$20,342,905.

(6) The Commission is of the opinion that the Times Interest Earned Ratio of 1.2 allowed in the original order is adequate to maintain applicant's mortgage requirements. In order to achieve this level of earnings based on the historical test period Applicant should be allowed Net Income of \$4,851,505 which will require an increase based on the adjusted test year of approximately \$16,275,000. The rates set out in Appendix "A" are designed to provide sufficient revenue when applied to projected annual sales to produce gross annual revenue from sales of approximately \$135,858,000. The amount of increase granted in this order is approximately \$3,625,000 in excess of the amount granted in the original order in this matter.

Based upon the additional revenue granted herein Applicant's rate of return on Net Investment would be 6.69%.

IT IS THEREFORE ORDERED, that the rates set out in Appendix "A" of the Commission's Order dated December 1, 1979, are hereby set aside.

IT IS FURTHER ORDERED, that the rates set out in Appendix "A" attached hereto and made a part hereof are approved for service rendered on and after the date of this Order.

IT IS FURTHER ORDERED, that Big Rivers Electric Corporation shall file within thirty (30) days of the date of this Order its revised tariff sheets setting out the rates and charges approved herein.

Done at Frankfort, Kentucky, this 4th day of June, 1980.

ENERGY REGULATORY COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE ENERGY REGULATORY
COMMISSION IN CASE NO. 7380 DATED JUNE 4, 1980.

The following rates and charges are prescribed for the customers in the area served by Big Rivers Electric Corporation. 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 date of this Order.

RATE SCHEDULE:

A. Monthly Delivery Point Rate:

- (1) Demand Charge of:
All KW of billing demand at \$4.10 per kilowatt
- (2) Plus an energy charge of:
 - (a) All KWH per month at 13.075 mills per KWH plus an additional charge of .322 mills per KWH for the specific purpose of amortizing the ten-year loan from the Louisville Bank for Cooperatives, this additional .322 mills per KWH to continue until the said debt is paid. The total energy charge will be 13.397 mills per KWH until such debt is paid and 13.075 mills thereafter.

B. Fuel Clause:

The energy charge shall be increased or decreased by a fuel adjustment factor as follows:

$$\frac{F}{S} = .009826$$

- (1) The fuel clause shall provide for periodic adjustment per KWH of sales equal to the difference between the fuel costs per KWH sale in the base period and in the current period according to the following formula:

$$\text{Adjustment Factor} = \frac{F(m)}{S(m)} - \frac{F(b)}{S(b)}$$

Where F is the expense of fossil fuel in the base (b) and current (m) periods; and S is sales in the base (b) and current (m) periods, all defined below:

- (2) FB/SB shall be so determined that on the effective date of the Commission's approval of the utility's application of the formula, the resultant adjustment will be equal to zero (0).
- (3) Fuel costs (F) shall be the most recent actual monthly cost of:
 - (a) Fossil Fuel consumed in the utility's own plants, and the utility's share of fossil and nuclear fuel consumed in jointly owned or leased plants, plus the cost of fuel which would have been used in plants suffering forced generation and/or transmission outages, but less the cost of fuel related to substitute generation, plus

B. Fuel Clause: (Cont'd)

- (3) (b) The actual identifiable fossil and nuclear fuel costs associated with energy purchased for reasons other than identified in paragraph (c) below, but excluding the cost of fuel related to purchases to substitute the forced outages, plus
- (c) The net energy cost of energy purchases, exclusive of capacity or demand charges (irrespective of the designation assigned to such transaction) when such energy is purchased on an economic dispatch basis. Included therein may be such costs as the charges for economy energy purchases and the charges as a result of scheduled outage, all such kinds of energy being purchased by the buyer to substitute for its own higher cost energy; and less
- (d) The cost of fossil fuel recovered through inter-system sales including the fuel costs related to economy energy sales and other energy sold on an economic dispatch basis.
- (e) All fuel costs shall be based on weighted average inventory costing.
- (4) Forced outages are all nonscheduled losses of generation or transmission which require (purchase of) substitute power for a continuous period in excess of six (6) hours. Where forced outages are not as a result of faulty equipment, faulty manufacture, faulty design, faulty installations, faulty operation, or faulty maintenance, but are Acts of God, riot, insurrection or acts of the public enemy, then the utility may, upon proper showing, with the approval of the Commission, include the fuel cost of substitute energy in the adjustment.
- (5) Sales (S) shall be all KWH's sold, excluding inter-system sales. Where, for any reason, billed system sales cannot be coordinated with fuel costs for the billing period, sales may be equated to the sum of (i) generation, (ii) purchases, (iii) interchange in, less (iv) energy associated with pumped storage operations, less (v) inter-system sales referred to in subsection (3) (d) above, less (vi) total system losses. Utility-used energy shall not be excluded in the determination of sales (S).
- (6) The cost of fossil fuel shall include no items other than the invoice price of fuel less any cash or other discounts. The invoice price of fuel includes the cost of the fuel itself and necessary charges for transportation of the fuel from the point of acquisition to the unloading point, as listed in account 151 of FERC Uniform System of Accounts for Public Utilities and Licensees.

To facilitate the prompt mailing of bills, the fuel adjustment amount for any billing month shall be the product of the "Adjustment Factor" for the preceding month as defined above and the kilowatt hours consumed by the Member in the preceding month.

C. Purchase Power Clause:

The energy charge shall be increased or decreased by a purchase power adjustment factor as follows:

$$\frac{PP}{S} = .000254$$

C. Purchase Power Clause: (Cont'd)

- (1) Where PP is the dollar cost of purchased power excluding HMP&L Station II less the cost of purchased power devoted to inter-system sales and less the cost of purchased power included in F of the fuel adjustment clause.
- (2) Where S shall be all KWH's sold, excluding inter-system sales. Where, for any reason, billed system sales cannot be coordinated with fuel costs for the billing period, sales may be equated to the sum of (i) generation, (ii) purchases, (iii) interchange in, less (iv) energy associated with pumped storage operations, less, (v) inter-system sales referred to in subsection (3) (d) above, less (vi) total system losses. Utility-used energy shall not be excluded in the determination of sales (S).

To facilitate the prompt mailing of bills, the purchased power adjustment amount for any billing month shall be the product of the "Adjustment Factor" for the preceding month as defined above and the kilowatt hours consumed by the Member in the preceding month.

MINIMUM BILL:

The minimum monthly bill shall not be less than \$4.10 per kilowatt of Billing Demand.