

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 KENTUCKY) CASE NO. 9173
UTILITIES COMPANY FROM)
NOVEMBER 1, 1982, TO OCTOBER 31,))
1984)

ORDER ON REHEARING

On May 16, 1985, the Commission issued an Interim Order in this proceeding which, among other things, denied the request of Kentucky Utilities Company ("KU") pursuant to 807 KAR 5:056, Section 1(4), to recover through its fuel adjustment clause ("FAC") approximately \$2.2 million additional fuel expense for substitute generation necessitated by a forced outage at its Ghent Unit No. 1 from August 10 to October 17, 1984. The Commission's denial was based on a finding that the forced outage was a result of either faulty equipment or faulty operation. KU filed a timely request for rehearing alleging that 1) there was insufficient proof to support the Commission's decision and 2) the Commission misread and misapplied its FAC regulation covering forced outages. Rehearing was granted and KU submitted prefiled testimony of Mr. Ronald L. Whitmer, Director of Production and Generation Construction for KU. A hearing upon notice was held on August 27, 1985, at the Commission's offices in Frankfort,

Kentucky, for the purpose of conducting cross-examination. The sole intervenor was the Attorney General's Office, Division of Consumer Protection.

The forced outage at Ghent Unit No. 1 occurred when several pieces of plastic were picked up by the plant service water pumps and became lodged in the backwash mechanism of the water strainers. This cut off the unit's supply of service water, necessitating a shutdown of the unit under load. During that shutdown, a check valve in a steam line failed to properly close, permitting the backflow of low temperature steam vapor into the turbine and causing extensive damage.

KU readily admits that the turbine damage and subsequent outage was a result of the check valve not fully closing. However, it argues that the damage was not a result of faulty operation or faulty equipment because KU follows a rigorous maintenance program and equipment failures of this nature are inherent in the highly complex components comprising a generating plant. In fact, KU testified that in a survey of 58 utilities, 28 had experienced similar incidents of turbine damage within the past 10 years.

KU further argues that the Commission has misread and misapplied its FAC regulation in denying KU's energy cost recovery when KU's operation and maintenance at the generating plant was prudent and proper. KU claims that cost recovery must be permitted in the absence of fault on the utility's behalf.

Based on the evidence of record and being advised, the Commission is of the opinion and hereby finds that the forced

outage at Ghent Unit No. 1 was caused by a check valve not fully closing. This failure of the check valve clearly constitutes "faulty equipment," as that phrase is used in 807 KAR 5:056, Section 1(4), for purposes of denying cost recovery under the FAC. The FAC regulation allows cost recovery only when the forced outage is a result of an Act of God, insurrection or acts of the public enemy. The record is devoid of any evidence to support a finding that the forced outage was a result of one of these enumerated events.

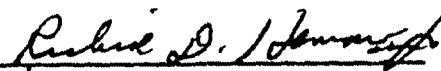
The Commission further finds that its FAC regulation was enacted to afford electric utilities an expedited method for cost recovery of specified fuel-related expenses. By choosing to adopt such a clause, a utility is able to recover any changes in the specified fuel expenses on a monthly basis without the requirement of filing a rate case. The FAC was not intended to be a vehicle for a utility to charge its ratepayers for changes in any and all fuel-related expenses. Consequently, the FAC represents a balancing of interests between the utility's need to promptly recover changes in fuel expenses and the ratepayers' need to be protected from paying any fuel expense not specifically authorized by the FAC. Since generating units are under the exclusive operation and control of the utility, the FAC severely limits the conditions under which a utility can recover substitute energy costs. None of those conditions have been met in this case. The high frequency of check valve failures, as evidenced by KU's survey of other utilities, forecloses any finding that such a failure can qualify as an Act of God.

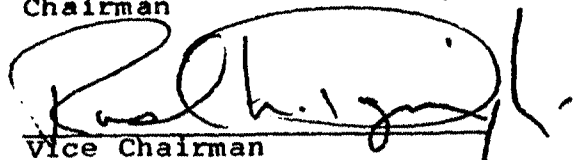
Therefore KU's request to recover the cost of substitute energy is denied.


IT IS THEREFORE ORDERED that KU's request upon rehearing to recover through its FAC the cost of substitute energy be and it hereby is denied and the Commission's Interim Order entered May 16, 1985, be and it hereby is affirmed.

Done at Frankfort, Kentucky, this 11th day of October, 1985.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary