

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN INVESTIGATION OF THE PURCHASED)
POWER COSTS OF KENTUCKY POWER COMPANY) CASE NO. 9325

O R D E R

By Order entered April 22, 1985, the Commission initiated this investigation to determine whether Kentucky Power Company's ("KPC's") inclusion in its fuel adjustment clause ("FAC") of fuel cost associated with its purchase of Rockport unit power is in violation of the Commission's Order entered December 4, 1984, in Case No. 9061, "General Adjustment in Electric Rates of Kentucky Power Company." An evidentiary hearing was held on May 6, 1985. By Order entered July 29, 1985, the Commission found that KPC's collection of Rockport fuel through its FAC was in violation of the Commission's Order in Case No. 9061. A further hearing was held on August 14, 1985, to determine the appropriate methodology for calculating customer refunds.

At the May 6, 1985, hearing, Mr. Coulter Boyle, Executive Assistant of Accounting, Rates and Finance of Kentucky Power, presented exhibits to show what the fuel costs to Kentucky Power would have been had it purchased power from the American Electric Power ("AEP") pool as opposed to purchasing it pursuant to the unit power agreement. The exhibits showed that for the months of

December 1984 through March 1985, if Rockport energy were repriced at the average pool price for each month, total fuel costs would be \$756,358 less than costs incurred. The Commission directed Kentucky Power to continue to file similar exhibits on a monthly basis. These filings show that for the months of December 1984 through August 1985 total fuel costs as repriced would be \$429,636 less than fuel costs as incurred. Beginning in June 1985 Kentucky Power also filed revised schedules repricing Rockport fuel based on a revised methodology. The revised schedules show that for the months of December 1984 through August 1985 total fuel costs as repriced would be \$64,202 less than fuel costs as incurred.

At the August 14, 1985, hearing, Mr. Boyle presented testimony on the two methodologies of repricing Rockport fuel costs. Mr. Boyle explained the difference between the original and the revised methodologies and testified that they were both based on the assumption there were no changes in the economic dispatch of the generating units on the AEP System.

Both the original and the revised methodologies substitute average AEP pool cost for the Rockport cost for energy used internally by Kentucky Power and substitute Big Sandy fuel cost for the weighted average of Big Sandy and Rockport fuel costs for Kentucky Power deliveries to the AEP pool. The methodologies vary in the treatment of the difference between the total Rockport fuel cost per kilowatt-hour and KPC's recovery rate per kilowatt-hour on Rockport energy allocated to off-system sales. This difference is due to minimum load and start-up costs for

Rockport, assigning costs incrementally, and differences between theoretical and actual heat rate curves. Mr. Boyle stated that these factors would be present regardless of which unit was used for off-system sales.

The original methodology assigns all Rockport fuel cost not recovered through off-system sales to Rockport energy used internally by KPC. This is the same methodology utilized by KPC in charging its retail customers for Rockport fuel through its FAC. The Rockport energy used internally is then repriced to determine the amount of over- or under-recovery of fuel cost. Application of this methodology can be illustrated by reviewing KPC's original repricing exhibit for June, 1985.¹ The exhibit indicates that KPC's Rockport fuel cost was \$2,158,041, of which \$2,029,542 was recovered through off-system sales. The unrecovered portion, \$128,497, was assigned to KPC's internal use and charged through its FAC.²

The revised methodology assigns the same fuel cost per KWH to all Rockport purchases in a month, irrespective of whether the energy is sold off-system or used internally. For the month of June, 1985, the revised methodology starts with \$2,158,041 of Rockport fuel cost and assigns \$2,090,467 to off-system sales³, even though KPC recovered only \$2,029,542 of fuel cost from those sales. The unrecovered fuel portion of these off-system sales,

¹ Exhibit CRB 5, p. 8, attached hereto as Appendix A.

² Transcript of Evidence, August 14, 1985, pp. 57-60.

³ Exhibit CRB 4, p. 8, attached hereto as Appendix B.

\$60,925, was paid for by KPC's retail customers through the FAC but is not included in the calculation for repricing. The revised methodology reprices only \$67,547 of Rockport fuel cost assigned to energy used internally.⁴

KPC witness Boyle agreed that the original methodology repriced the actual cost of Rockport fuel passed through KPC's FAC. However, he argued that a lesser cost should be repriced because there will always be an underrecovery of fuel cost on off-system sales irrespective of the source of the energy. The Commission finds this argument to be inconsistent with the basic premise upon which KPC has presented both methodologies, i.e., no change in the dispatch of the AEP system. Under this premise, the off-system sales would still be made from Rockport but someone other than KPC would be financially responsible for any underrecovery of Rockport fuel cost. The Commission finds that, although the underrecovery of fuel cost may be an inherent condition of off-system sales, if KPC had not entered into the Rockport unit power agreement, KPC would not be responsible for absorbing the unrecovered fuel cost.

Based on the findings herein, the Commission further finds that:

1. KPC's original proposal for repricing Rockport fuel cost accurately reflects a repricing of all Rockport fuel cost passed through KPC's FAC.

⁴ The sum of \$67,547 of Rockport fuel cost assigned to energy used by KPC internally and \$60,925 of Rockport fuel cost unrecovered from off-system sales equals \$128,472, the Rockport fuel cost to be repriced under the original methodology.

2. KPC's revised proposal for repricing Rockport fuel cost does not accurately reflect the fuel costs properly assignable to retail ratepayers if KPC had not entered into the Rockport unit power agreement.

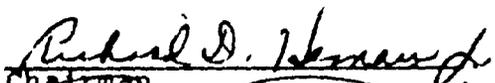
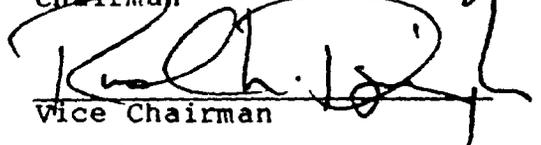
IT IS THEREFORE ORDERED that all Rockport unit power fuel cost incurred by KPC after October 1, 1985, shall be repriced monthly pursuant to KPC's original repricing methodology and exhibits evidencing the repricing shall be filed monthly with the Commission.

IT IS FURTHER ORDERED that for all FAC billings commencing on and after January 1, 1986, KPC shall include no Rockport unit power fuel cost in excess of the fuel cost as repriced utilizing the original methodology.

IT IS FURTHER ORDERED that the amount of Rockport fuel cost passed through KPC's FAC for the period December 1984 through September 1985 shall be repriced utilizing the original methodology and refunds of the difference shall be made by KPC through its FAC billings for December 1985.

Done at Frankfort, Kentucky, this 31st day of October, 1985.

PUBLIC SERVICE COMMISSION


Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary

KENTUCKY POWER COMPANY
 COMPARISON OF FUEL COSTS FOR INTERNAL ENERGY REQUIREMENT
 AS INCURRED AND WITH ROCKPORT UNIT #1 REPLICED

Line No.	Sources of Energy	As Incurred			Rockport Replicated			Difference		
		MWH (1)	KWH (2)	Fuel Dollars (3)	MWH (4)	KWH (5)	Fuel Dollars (6)	MWH (7)	KWH (8)	Fuel Dollars (9)
1	Own Generation	390,483	15,573	6,080,906	390,483	15,573	6,080,906	-	-	-
2	Unit Power Purchase:									
3	Internal	2,372	54,172	128,497	-	-	-	2,372	54,172	128,497
4	System Sales	73,380	27,658	2,029,544	73,380	27,658	2,029,544	-	-	-
5	Sub-Total (Lines 1+3+4)	466,235	17,671	8,238,947	463,863	17,485	8,110,450	2,372	54,172	128,497
6	Other Purchases:									
7	Primary and Economy	22,682	17,799	403,900	25,064	17,799	446,114	(2,372)	17,799	(42,214)
8	Other (Pass-through)	24,475	15,194	371,870	24,475	15,194	371,870	-	-	-
9	Sub-Total (Lines 7+8)	47,157	16,447	775,770	49,539	16,512	817,984	(2,372)	17,799	(42,214)
10	Identified Sources (Lines 5+9)	513,402	17,559	9,014,717	513,402	17,391	8,928,434	-	N/A	86,283
<u>Off System Allocation of Sources</u>										
11	Primary and Economy	76,609	17,671	1,353,758	76,609	15,573	1,193,032	-	N/A	160,726
12	Allocated to AEP Deliveries:									
13	From Unit Power Purchase	73,380	27,658	2,029,542	73,380	27,658	2,029,542	-	-	-
14	From Own Generation	(45,455)	14,322	(651,014)	(45,455)	14,322	(651,014)	-	-	-
15	From Other Purchases	24,084	15,440	371,868	24,084	15,440	371,868	-	-	-
16	Sub-Total (Lines 11+13+14+15)	128,618	24,135	3,104,154	128,618	22,885	2,943,628	-	N/A	160,726
17	Identified for Net Internal Energy Requirements	384,784	15,361	5,910,563	384,784	15,554	5,985,006	-	N/A	(74,443)

NOTES: Line 4 equals Line 13

KENTUCKY POWER COMPANY
 COMPARISON OF FUEL COSTS FOR INTERNAL ENERGY REQUIREMENT
 AS INCURRED AND WITH ROCKPORT UNIT #1 REPLICED

REVISED

MONTH OF JUNE 1985

Line No.	Sources of Energy	As Incurred			Rockport Replicated			Difference		
		MWH (1)	KWH (2)	Fuel Dollars (3)	MWH (4)	KWH (5)	Fuel Dollars (6)	MWH (7)	KWH (8)	Fuel Dollars (9)
1	Dam Generation	390,483	15,573	6,080,906	390,483	15,573	6,080,906	-0-	-0-	-0-
2	Unit Power Purchase:									
3	Internal	2,372	28,488	67,574	-0-	-0-	-0-	2,372	28,488	67,574
4	System Sales	73,380	28,488	2,090,467	73,380	28,488	2,090,467	-0-	-0-	-0-
5	Sub-Total (Lines 1+3+4)	466,235	17,671	8,238,947	463,863	17,616	8,171,373	2,372	28,488	67,574
6	Other Purchases:									
7	Primary and Economy	22,692	17,799	403,900	25,064	17,799	446,114	(2,372)	17,799	(42,214)
8	Other (Pass-through)	24,475	15,194	371,870	24,475	15,194	371,870	-0-	-0-	-0-
9	Sub-Total (Lines 7+8)	47,167	16,447	775,770	49,539	16,512	817,984	(2,372)	17,799	(42,214)
10	Identified Sources (Lines 5+9)	513,402	17,559	9,014,717	513,402	17,509	8,989,357	-0-	R/A	25,360
<u>Off System Allocation of Sources</u>										
11	Primary and Economy	76,609	17,671	1,353,750	76,609	15,573	1,193,032	-0-	R/A	160,726
12	Allocated to AEP Deliveries:									
13	From Unit Power Purchase	73,380	27,658	2,029,542	73,380	27,658	2,029,542	-0-	-0-	-0-
14	From Dam Generation	(45,455)	14,322	(651,014)	(45,455)	14,322	(651,014)	-0-	-0-	-0-
15	From Other Purchases	24,084	15,440	371,868	24,084	15,440	371,868	-0-	-0-	-0-
16	Sub-Total (Lines 11+13+14+15)	128,618	26,135	3,104,154	128,618	22,885	2,943,428	-0-	R/A	160,726
17	Identified for Net Internal Energy Requirements	384,784	15,361	5,910,563	384,784	15,213	6,045,929	-0-	R/A	(135,366)

NOTES: Line 4 equals Line 13