

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-C
UTILITIES COMPANY FROM)
NOVEMBER 1, 1985, TO APRIL 30,)
1986)

INTERIM ORDER

Pursuant to 807 KAR 5:056, Section 1(11), the Public Service Commission ("Commission") on May 27, 1986, ordered Kentucky Utilities Company ("KU") to provide a record of scheduled, actual and forced outages.

KU provided the data requested and also filed its monthly fuel adjustment computations for the 6-month period under review. A hearing was held on July 22, 1986, at which additional information was requested, and later supplied by KU within the allocated time limit.

The sole intervenor was the Consumer Protection Division of the Attorney General's Office ("AG"). The AG did not offer testimony, and on cross-examination did not challenge the level of actual fuel cost included in KU's monthly fuel filings.

In its Order issued on May 16, 1985, in Case No. 9173, An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of Kentucky Utilities Company from November 1, 1982, to October 31, 1984, the Commission fixed KU's

base fuel cost at 18.91 mills per KWH. A review of KU's monthly fuel clause filings shows that the actual fuel cost incurred for the 6-month period under review ranged from a low of 16.45 mills in April 1986 to a high of 20.03 mills in December 1985, with a 6-month average of 18.45 mills.

Coal Contracts

KU initiated a declaratory judgment action against River Processing, Inc., in the Circuit Court of Fayette County, Kentucky, which was subsequently settled and dismissed upon a renegotiation of the coal supply agreement. KU has also initiated litigation with South East Coal Company over its coal supply agreement, which has yet to be resolved. At present, KU does not have facilities to unload rail cars at the Ghent Plant. Coal brought in by train is trans-loaded to river barges at the Clean Coal Terminal, then delivered to the Ghent Plant. KU currently has a contract with Clean Coal which expires in February 1987. This contract requires that a minimum of 900,000 tons per year be unloaded or a penalty provision is invoked. At the current price of \$1.36 per ton, KU is committed to a minimum cost of \$1,224,000 per year to unload coal. J. W. Tipton's testimony, as shown on pages 17 through 21 of the transcript, stated that KU did not have plans to build an unloading facility at Ghent and would try to renegotiate the contract with Clean Coal at the best possible rate. The Commission addressed this issue in Case No. 7045, stating "it is, therefore, our opinion that KU should immediately begin planning for construction and operation of its own rail car

unloading facility at the Ghent Station and target for commercial operation at the end of the existing Clean Coal contract."¹ The Commission ordered "that KU not enter into an extension of its current contract with Clean Coal Terminals unless it presents to the Commission evidence that such a contract is clearly to the benefit of the rate payer." KU should study the Clean Coal situation very carefully before entering another long-term contract for coal unloading and report to the Commission--in advance--its reasons for either extending the Clean Coal contract or constructing its own coal unloading facility.

The Commission has initiated Case No. 9631, "An Investigation into the Fuel Procurement Practices of Kentucky Utilities Company." Pending resolution of that case, the findings with respect to KU's fuel procurement which would ordinarily be made at this time will be held in abeyance.

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

1. KU has complied with 807 KAR 5:056 regarding the calculation and application of its fuel adjustment clause.

2. No findings are made at this time with respect to the propriety of KU's fuel procurement practices and this matter should be held in abeyance until the Commission has concluded its review.


¹ Commission's Order, Case No. 7045, March 20, 1979.

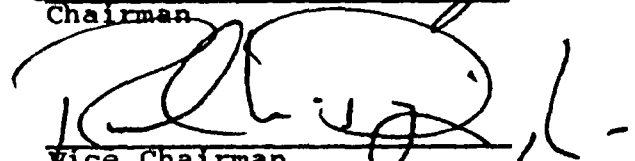
3. KU shall provide, within 30 days of the date of this Order, a detailed study analyzing the options of negotiating another contract with Clean Coal Terminal, constructing its own rail car unloading facility at the Ghent Station or utilizing other reasonable alternatives. Further, KU shall not enter into a new contract with Clean Coal for a term in excess of one year until the Commission has had an adequate opportunity to review the tendered study.

IT IS THEREFORE ORDERED that this docket shall remain open until the Commission has concluded its investigation of KU's fuel procurement practices.

Done at Frankfort, Kentucky, this 17th day of September, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director