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 UNION LIGHT, HEAT AND POWER COMPANY FROM MAY 1, 1985, TO OCTOBER 31, 1986	)	CASE NO. 9175-B

O R D E R

On April 21, 1986, Union Light, Heat and Power Company ("ULH&P") filed an application for rehearing of the Commission's Order issued on April 1, 1986, in this case. The Commission granted rehearing on the issues of the revision to ULH&P's monthly fuel adjustment clause ("FAC") to add a tracker, and the refund of an over-recovery of fuel costs, and the Commission stayed the implementation of the FAC tracker. On June 4, 1986, a hearing was held in the Commission's offices in Frankfort, Kentucky. At the hearing, ULH&P proposed a new methodology for its monthly FAC reporting. ULH&P utilized forecasted data in the new methodology even though the Commission has consistently used historical data. 807 KAR 5:056, the regulation that governs ULH&P's FAC, does not allow the Commission to approve a proposal such as ULH&P's.

ULH&P stated that due to its size and use of cycle-billing method it cannot be compared to the Rural Electric Cooperative Corporations ("RECCs") in Kentucky. The Commission has RECC distribution companies under its jurisdiction that use cycle billing and have greater sales volume than ULH&P. These RECCs administer their FACs without the pattern behavior that ULH&P encounters. The Commission does not consider size or billing methods to be an issue in this instance, as the reporting method used by the non-generating utilities is adaptable.

The FAC is a mechanism whereby the utilities have the opportunity to recover or refund those fuel costs above or below the fuel cost that has been built into their base rates, and only that cost is the cost being considered in the FAC. The "true up" of the total cost is not the object of the Commission in this proceeding. ULH&P presented an extended discussion on the FAC methodology and its accomplishments in the state of Ohio. While the Commission is always interested in other methodologies that may accomplish better operational results, at this time the FAC methodology followed in Kentucky must conform to the governing regulation, 807 KAR 5:056.

The Commission is seriously concerned with the erratic pattern of the monthly FAC charge that is being billed to the customers of ULH&P, particularly when compared to the pattern of the monthly FAC billings to ULH&P by its wholesale supplier and parent company, Cincinnati Gas and Electric Company ("CG&E"). ULH&P has constantly referred to the monthly mismatch of purchases and sales as a problem that creates the valley and peaks in its monthly FAC and claims that the addition of a tracker would only magnify the problem. The Commission agrees that there is a problem with ULH&P's FAC but the addition of a tracker would not contribute to the problem. A tracker allows a utility to pass through to its customers any over- or under-collections that may occur during the administration of the monthly FAC. In the review of ULH&P's monthly FAC adjustment, it has become evident that ULH&P is currently mismatching purchases and sales in preparation of its monthly FAC. This is not in accordance with 807 KAR 5:056, Section 1, Subsection (5), which states:

> (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).

ULH&P should immediately cease filing its monthly FAC report utilizing its past methodolgy and incorporate the following changes into its monthly filing using its current reporting form:

Line 25. F(m) ÷ S(m) (L24D ÷ L6)

L 6 should be determined as follows:

L 1 (Total Purchases) minus L 4 (Intersystem Sales) minus Total System Line Loss (L1 times L9 [12 month rolling average line loss])

The above calculation should give ULH&P a more consistent monthly FAC adjustment in comparison with the monthly FAC adjustment being billed to ULH&P by CG&E, and should level off the valleys and peaks being encountered in ULH&P's current procedure.

Additionally, ULH&P should immediately incorporate L16 over/(under) recovery into L24D of its monthly FAC report. This procedure will allow ULH&P to collect the under-recovery or to refund the over-recovery of the monthly FAC adjustment.

Futhermore, in the next 2-year FAC review hearing to be scheduled for early 1987, ULH&P should be prepared to testify on the change in reporting of its monthly FAC adjustment to agree with the other non-generating distribution companies in Kentucky, as was ordered in Case No. 9299.[1] The issues to be addressed at that hearing will include the modified FAC report as ordered herein and the desirability of changing the FAC report to more closely conform to the FAC report currently used by other distribution electric utilities which is attached hereto as Appendix A.

In its brief, ULH&P argued that a $1,026,820 transition adjustment ("TA") would be necessary to change over to the tracking mechanism. No discussion of a TA was presented by ULH&P in the FAC hearing or in its application for rehearing. In Case No. 9299, Rehearing Order dated January 28, 1986, the Commission accepted ULH&P's proposed fuel synchronization of $351,282, with the stipulation that ULH&P was to change to a fully recovering methodology as do all other non-generating electric distribution utilities under the Commission's jurisdiction. At no time since the issuance of the Rehearing Order in Case No. 9299 did ULH&P ever disagree with this stipulation.

In the proposed TA, ULH&P included the base fuel rate in the calculation. The Commission disagrees with ULH&P's TA methodology. The base fuel rate is already included in ULH&P's

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[1] An Adjustment of Electric Rates of the Union Light, Heat and Power Company.

tariffed rate schedule. Therefore, the proposed TA would allow a double collection of the base fuel charge. The FAC adjustment is intended only to provide for the collection or refund of those fuel charges above or below the base fuel charge. Additionally, as the Commission's Order is on an ongoing basis, the tracking mechanism is to be matched on the incurred basis to the collected basis from the effective date of this Order.

Over-Recovery of Fuel Costs

The Commission's Order issued April 1, 1986, required ULH&P to show cause why it should not refund to its customers an accumulated over-recovery of $881,583 of fuel cost as of February 28, 1986. ULH&P's position is that it has not over-recovered any fuel costs.

The FAC allows electric utilities to charge (or credit) their customers monthly for the cost of fuel in excess of (or in reduction to) the amount included in base rates. ULH&P argues that while its FAC revenue has exceeded its FAC cost by $881,583, its total fuel revenue (FAC plus portion in base rates) is less than its total fuel cost. This under-recovery of total fuel cost is a result of adjustments to the fuel component of base rates in prior general rate cases. ULH&P also claims that it would be improper to require the refunding of FAC revenue when the utility had never established a liability account to record the monthly over- and under-collections.

Although ULH&P's FAC did not conform to Section 1, Subsection (5), of 807 KAR 5:056, based on a comprehensive review of the FAC regulation and ULH&P's implementation thereof, the Commission finds that ULH&P's collection of FAC revenue has been in substantial compliance with the FAC regulation. The FAC regulation authorizes the monthly collection of fuel revenue based on the difference between a utility's actual fuel cost and its fuel cost included in base rates. Although the FAC revenue collected by ULH&P has exceeded its incurred FAC cost, there has been no improper calculation under the FAC. Any over-collection in the FAC component of total fuel cost was a direct consequence of not having the tracker provision to match FAC revenue to FAC cost. Under these circumstances, ULH&P should not be required to refund any amount to its customers.

After reviewing the record in this case and being advised, the Commission is of the opinion and finds that:

(1) ULH&P's proposed methodology for filing its monthly FAC adjustment report is not in compliance with 807 KAR 5:056 and should be rejected.

(2) ULH&P's current methodology used to determine the monthly FAC is not in compliance with 807 KAR 5:056, Section 1, Subsection (5), and ULH&P should immediately cease the current calculation.

(3) ULH&P should immediately incorporate into its current monthly FAC methodology the procedure outlined in this Order to agree with 807 KAR 5:056, Section 1, Subsection (5).

(4) ULH&P should immediately implement the tracker into its monthly FAC adjustment.

(5) In this case a TA would be unfair, unjust and unreasonable and should not be approved.

(6) ULH&P's over-collection of FAC revenue was a result of not having a tracker included in its FAC methodology.

IT IS THEREFORE ORDERED that:

(1) ULH&P's proposed methodology for filing its monthly FAC be and is hereby rejected.

(2) ULH&P's proposed TA be and is hereby rejected.

(3) ULH&P shall immediately incorporate the adjustment outlined herein to its current monthly FAC procedure to agree with 807 KAR 5:056, Section 1, Subsection (5).

(4) ULH&P shall immediately implement the tracker into its current FAC procedure on an ongoing basis.

(5) ULH&P be and it hereby is relieved of any liability to refund any FAC over-collections.

Done at Frankfort, Kentucky, this 6th day of November, 1986.

PUBLIC SERVICE COMMISSION

Richard D. Hemenway Jr.
Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director

MONTHLY FUEL ADJUSTMENT CLAUSE (FAC) Report

COMPANY: ______________________ POWER SUPPLIER: ______________________

Disposition of Energy (KWH) - Month of: ____________

1. Total Purchases ____________
2. Sales (Ultimate Consumer) ____________
3. Company Use ____________
4. Total Sales (L2 + L3) ____________
5. Line Loss & Unaccounted for (L1 less L4) ____________

(Over) or Under Recovery - Month of: ____________

6. Last FAC Rate Billed Consumers ____________
7. Gross KWH Billed at the Rate on L6 ____________
8. Adjustments to Billing (KWH) ____________
9. Net KWH Billed at the Rate on L6 (L7 ± L8) ____________
10. Fuel Charge (Credit) Used to Compute L6 ____________
11. FAC Revenue (Refund) Resulting from L6 (net of billing adj.) ____________
12. Total (Over) or Under Recovery (L10 less L11) ____________

Purchased Power - Month of: ____________

13. Fuel Adjustment Charge (Credit):
    A. Billed by supplier ____________
    B. (Over) Under Recovery (L12) ____________
    C. Unrecoverable - Schedule 2 ____________
    D. Recoverable Fuel Cost (L13 A+B-C) ____________
14. Number of KWH Purchased ____________
15. Supplier's FAC:
    $ per KWH (L13A ÷ 14) ____________

Line Loss

16. Last 12 Months Actual (%) - ____________
17. Last Month Used to Compute L16 ____________
18. Line Loss for Month on L17 (%) (L5 ÷ L1) ____________

Calculation of FAC Billed Consumers

19. Sales as a Percent of Purchases (100% less percentage on L16) ____________
20. Recovery Rate $ per KWH (L13D ÷ L14) ____________
21. FAC $ per KWH (L20 ÷ L19) ____________
22. FAC ¢ per KWH (L21 x 100) ____________

Line 22 reflects a Fuel Adjustment Charge (Credit) of _____¢ per KWH to be applied to bills rendered on and after

____________, 19___. Issued on: ____________, 19___.

Issued by: ____________ Title: ____________

Address: ____________ Telephone: ____________

SCHEDULE 1
TWELVE MONTH ACTUAL LINE LOSS
FOR FUEL ADJUSTMENT CHARGE COMPUTATION
FOR ______________, 198___

	(a) KWH PURCHASED	(b) KWH SOLD	(c) OFFICE USE	(d) KWH LOSSES
Previous twelve months total -				
Less: Prior year-current month total -				
Plus: Current year-current month total -				
Most Recent Twelve Month Total -				

(d)__________ ÷ (a)__________ = __________ Enter on line 16 of the current month's (FAC) Report

SCHEDULE 2
CALCULATION OF UNRECOVERABLE FUEL COST DUE TO EXCESSIVE LINE LOSS FOR THE MONTH ENDED

1. Purchases For the Month (KWH) ______________

2. Less Line Loss (10% x L1) ______________

3. Sales (L1 less L2) ______________

4. Unrecoverable Fuel Charge Per KWH:

   a. FAC Rate based on Actual Line Loss
   (Current Month's Report L15 ÷ (100% Less L16) $

   b. FAC Rate based on 10% Line Loss
   (Current Month's Report L15 ÷ 90%) __________

   c. Increment unrecoverable $______________

5. Unrecoverable Fuel Cost - (L4c x L3 enter on Line 13c of current month's FAC report) $______________

Note: This schedule is to be filed for each month that the 12 month actual Line Loss exceeds 10% and the amount billed by the supplier is a charge. This schedule is not to be filed if the amount billed by the supplier is a credit.