

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. 9733
UTILITIES COMPANY FROM NOVEMBER 1,)
1984, TO OCTOBER 31, 1986)

INTERIM ORDER

Pursuant to 807 KAR 5:056, Sections 1 (11) and 1 (12), the Public Service Commission ("Commission") issued its Order on November 12, 1986, scheduling a hearing to review the operations of the Fuel Adjustment Clause of Kentucky Utilities Company ("KU") for the period from November 1, 1984, to October 31, 1986, and to determine the amount of fuel cost that should be in the base rate in order to reestablish the Fuel Clause Charge pursuant to 807 KAR 5:056, Section 1 (2).

In response to the Commission's requests for information, KU proposed to leave its base fuel cost of 18.91 mills per KWH unchanged. In Case No. 8590,¹ the Commission selected July 1982 as the base period (test month) for the purpose of arriving at the Base Fuel Cost [F(b)] and the KWH Sales [S(b)] components of the Fuel Adjustment Clause. KU provided all requested information,

¹ An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of Kentucky Utilities Company from November 1, 1980, to October 31, 1982, dated August 12, 1983.

and following proper notice, a hearing was held on February 10, 1987.

There were two intervenors in this case, the Utility and Rate Intervention Division of the Attorney General's Office ("AG") and the Kentucky Industrial Utility Customers ("KIUC"). The AG and KIUC did not offer testimony, but on cross-examination did challenge the level of actual fuel cost included in KU's monthly fuel filings.

In establishing the appropriate level of base fuel cost to be included in KU's rates, the Commission must determine whether the proposed base period fuel cost per KWH is representative of the level of fuel cost currently being experienced by KU. The Commission's review of generation mix, unit outages and unit availability disclosed that July 1982 was a reasonable representative generation month for KU. The Commission's analysis of KU's monthly fuel clause filings shows that the actual fuel cost incurred for the 2-year period ended October 31, 1986, ranged from a low of 16.45 mills per KWH in April 1986 to a high of 20.82 mills per KWH in February 1985. The average fuel cost for the 24-month period was 18.90 mills per KWH. The Commission is of the opinion that KU has complied with 807 KAR 5:056 regarding the calculation and application of the fuel adjustment clause, and that the base period fuel cost of 18.91 mills per KWH should be approved.

Transportation of Coal to the E.W. Brown Generating Station

During the 2-year period under review, KU has made a substantial change in its method of coal delivery to the E.W. Brown

Plant, switching from approximately 80 percent delivery by rail at the beginning of the period to over 80 percent delivery by truck at present. James W. Tipton testified at the February 10 hearing, "Our decision is to get the total lowest cost for our customers and not to be held captive by the CSX or the Southern Railroad."² The Commission is aware of KU's rationale for using a high percentage of truck delivery, but is concerned about potential safety problems and possible deterioration of the roads leading to the Brown Plant. KU should work closely with its contractors to ensure that coal is being trucked safely to the Brown Plant. In addition, KU should intensify its price negotiations with the railroads for coal deliveries to the Brown Plant and, whenever cost-effective, use rail transportation. KU should report in writing to the Commission every 90 days after the issuance of this Order on any safety problems that are being experienced in trucking coal to the Brown Plant and the status of its negotiations with the railroads.

Coal Contracts

Notwithstanding KU's current litigation against South East Coal Company, the Commission has initiated its own investigation of KU's Coal Buying Practices in Case No. 9631.³ Therefore, the Commission is of the opinion that the findings with respect to KU's fuel procurement practices which would ordinarily be made at

² Hearing Transcript, February 10, 1987, page 52.

³ An Investigation Into the Fuel Procurement Practices of Kentucky Utilities Company.

this time should continue to be held in abeyance and that this Order should be an Interim Order. A Final Order will be issued upon conclusion of the Commission's review of KU's fuel procurement practices.

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

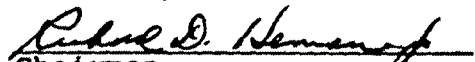
1. KU has complied with 807 KAR 5:056 regarding the calculation and application of its fuel adjustment clause.
2. No findings are made at this time with respect to the propriety of KU's fuel procurement practices and this matter should be held in abeyance until the Commission has concluded its review.
3. The test month of July 1982 should be used as KU's base period in this proceeding.
4. KU's proposed base period fuel cost of 18.91 mills per KWH should be approved.
5. The base fuel cost of 18.91 mills per KWH is the same base fuel cost currently included in KU's base rates.
6. During the 2-year period under review, KU has changed its coal transportation to the E. W. Brown Plant from predominantly rail to predominantly truck. This has created potential highway safety problems and possible deterioration of the roads leading to the Brown Plant.
7. KU should intensify its negotiations with the railroads to reduce their coal hauling rates.

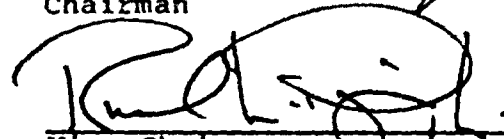
IT IS THEREFORE ORDERED that:

1. This docket shall remain open until the Commission has concluded its investigation of KU's fuel procurement practices.
2. KU's proposed base period fuel cost of 18.91 mills per KWH be and it hereby is approved.
3. The base rates included in KU's tariffs currently on file with the Commission shall remain unchanged as a result of the Commission's Order in this case.
4. KU shall intensify its negotiations with the railroads to reduce their coal hauling rates.
5. KU shall report in writing to the Commission every 90 days after the date of this Order on any safety problems that are being experienced in trucking coal to the Brown Plant and the status of its negotiations with the railroads.

Done at Frankfort, Kentucky, this 21st day of April, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director