

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 BIG RIVERS) CASE NO. 90-360-C
ELECTRIC CORPORATION FROM NOVEMBER 1,)
1991 TO APRIL 30, 1992)

O R D E R

IT IS ORDERED that Overland Consulting, Inc. ("Overland") shall file within 14 days of the date of this Order the original and 15 copies of the following information with the Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. If any information requested herein has been previously placed in the record, reference may be made to the specific location of said information in responding to this information request.

1. Chapter One of Overland's report to the Commission, at page 1-2, indicates that Big Rivers' fuel costs were compared to

the costs at coal-fired generating stations located within 100 miles of Henderson, Kentucky.

a. Explain the basis for using a 100-mile radius as the appropriate means of selecting comparison plants.

b. State the weight which was given to the type and source of coal in choosing the 100-mile radius.

c. State whether Overland has used a similar "proximity measure" for selecting comparison plants in any prior audit. If yes, identify the audit(s) and provide a copy of the audit report(s).

2. a. State whether Overland reviewed, compared, or relied upon any coal supply contracts other than those identified in its workpapers for any purpose in conjunction with its audit. If yes, identify these contracts.

b. Provide a detailed description of the specific use that Overland made of all contracts that it reviewed, compared, or relied upon.

c. State whether Overland considered reviewing a larger number of contracts and grouping them by vintage, type of coal, source of coal, etc. for comparison with Big Rivers' contracts. Explain why this action was not taken.

3. In Chapter Three of Overland's report, on pages 3-9 through 3-12, reference is made to sales commissions and consulting fees Green River Coal Company and E & M Coal paid to certain individuals.

a. State whether payment of sales commissions or consulting fees is common in the coal industry.

b. (1) Describe Overland's efforts to review contracts between other electric utilities and their coal suppliers.

(2) Describe Overland's efforts to determine whether those coal suppliers paid sales commissions or consulting fees on their coal contracts with those utilities.

4. In Chapter Eight of Overland's report, beginning on page 8-3, Big Rivers' use of competitive bidding on coal contracts is discussed. The discussion indicates that Big Rivers has historically relied heavily on negotiations rather than on competitive bidding.

a. State whether Big Rivers' past degree of reliance on a negotiated contract approach is unique within the electric utility. Explain why.

b. Describe the extent to which utilities within the electric utility industry today use negotiations rather than competitive bidding for fuel procurement. Describe how this compares to 10 years ago and explain the reason for any change.

5. Chapter Fourteen of Overland's report, beginning on page 14-27, includes a finding on Big Rivers' decision to enter into Amendments No. 3 and 4 to Contract No. 882 with E & M Coal. The conclusion of this finding on page 14-30 indicates that it is impossible to determine with precision what bids Big Rivers would have received if it had issued solicitations for medium sulfur and low sulfur coal prior to December 1990.

a. State whether Overland investigated bids received by other utilities for comparable coal during this same time period. If no, explain why not.

b. Provide a summary of all such bids reviewed by Overland. The summary should include, at minimum, price, quantity offered, type of coal, heat content, and sulfur content of the coal.

c. State whether Overland considered using such bid results as a surrogate for the bids Big Rivers would have received in evaluating the impact of Big Rivers' decision to extend Contract No. 882 and enter into Contract No. 905. Explain this response in detail.

6. Chapter Fifteen of Overland's report, beginning on page 15-23, includes a finding on Big Rivers' decision to resubmit Contract No. 527 with Green River Coal to the REA for approval. The conclusion of this finding on page 15-24 indicates that although Big Rivers missed an opportunity to negotiate a price reduction based on REA's initial rejection of the contract, there is no clear evidence as to the amount of the reduction that could have been negotiated.

a. State whether Overland investigated the prices being paid or bids received by other utilities for comparable coal during this same time period.

b. Provide a summary of all such price information or bid data reviewed by Overland. The summary should include, at

minimum, price, quantity, type of coal, heat content, and sulfur content of the coal.

c. State whether Overland considered using this price information and bid data, or any other market data, as a point of comparison against the Contract No. 527 price to estimate the price reductions Big Rivers might have negotiated. Explain this response in detail.

d. Provide Overland's definition of what would constitute "clear evidence" as to the amount of reduction that could have been negotiated.

e. Did Overland investigate if other generation and transmission cooperatives took similar actions and ultimately received REA approval? Identify and describe each incident. Include the name of the cooperative and the contract involved.

7. Chapter Fifteen of Overland's report, beginning on page 15-25, includes a finding on Big Rivers' missed opportunity to negotiate further price reductions under Contract No. 527 due to the substitution of coal from Andalex Resources. The conclusion of this finding on page 15-26 indicates that although Big Rivers may have missed an opportunity to negotiate a price reduction from Green River Coal under the "change in mining methods" provision of the contract, there is no clear evidence as to the amount of reduction that could have been negotiated.

a. State whether Overland investigated the prices being paid or bids received by other utilities for comparable coal during this same time period.

b. Provide a summary of all such price information or bid data reviewed by Overland. The summary should include, at minimum, price, quantity, type of coal, heat content, and sulfur content of the coal.

c. State whether Overland considered using this price information and bid data, or any other market data, as a point of comparison against the Contract No. 527 price to estimate the price reductions Big Rivers might have negotiated. Explain this response in detail.

d. Provide Overland's definition of what would constitute "clear evidence" as to the amount of reduction that could have been negotiated.

Done at Frankfort, Kentucky, this 2nd day of August, 1993.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director