

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. 92-493
UTILITIES COMPANY FROM NOVEMBER 1,)
1990 TO OCTOBER 31, 1992)

INTERIM ORDER

Pursuant to Commission Regulation 807 KAR 5:056, the Commission on December 4, 1992 established this case to review and evaluate the operation of the Fuel Adjustment Clause ("FAC") of Kentucky Utilities Company ("KU") for the 2 years ended October 31, 1992, and to determine the amount of fuel cost that should be transferred (rolled-in) to its base rates to reestablish its FAC charge.

As part of its review, the Commission ordered KU to submit certain information concerning its fuel procurement, its fuel usage, and the operation of its FAC. KU submitted this information on December 21, 1992. A public hearing was held in this case on February 18, 1993 at which Gerhard Halmberger, Robert Hewett, Wayne Lucas, and Michael Robinson, KU officials, testified.

KU proposed that the month of August 1992 be used by the Commission 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 its FAC. It further proposed that its base fuel cost be changed to 12.97 mills per KWH, the actual fuel cost for the

proposed base period. KU's current base fuel cost is 14.79 mills per KWH.

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 cost per KWH is representative of the level of fuel cost currently being experienced by KU. The Commission's review of generation mix, generation unit outages, and generation unit availability discloses that the month of August 1992 is a reasonably representative generation month for KU. The analysis of KU's monthly fuel clause filings showed that the actual fuel cost incurred for the 2-year period in question ranged from a low of 12.23 mills per KWH in October 1992 to a high of 14.92 mills per KWH in November 1990, with an average cost for the period of 13.40 mills per KWH. Based upon this review, the Commission finds that the proposed base period fuel cost of 12.97 mills per KWH should be approved.

In implementing a new base period fuel cost, the Commission recognizes that cycle billing creates the potential for underrecovery of fuel costs. KU bills its customers on a daily cycle basis. Customers are billed only after service is received. The average KU customer has a billing period which straddles 2 calendar months. As a result, the customer's monthly bill is partially for usage in the current calendar month and partially for usage in the prior calendar month. As the change in the base period fuel cost will occur during the billing period, not at its beginning, KU faces the prospect of assessing its customers a fuel

adjustment charge based on an incorrect base period fuel cost for a portion of the billing period.

This problem is compounded by the lag in billing customers for the FAC rate. Each customer incurs a FAC charge with every billing period. Because of the time required to calculate the precise charge for that billing period, however, the charge incurred is not actually billed until two billing periods later.¹

The Commission has faced this problem in prior cases² and has found that, while no precise solution exists, a reasonable solution is to average the base period fuel cost prior to and after roll-in in computing the fuel adjustment charge for the billing period in which the new base period fuel cost (after roll-in) becomes

¹ Consider the following example: The new base period fuel cost is established as 12.97 mills per KWH effective for service rendered on and after July 1, 1993. Assume the actual fuel costs for May and June 1993 are 14.19 and 15.19 mills per KWH, respectively. Since half of May sales are billed in May and the other half is billed in June, the base fuel cost of 14.79 mills per KWH would apply to both months. Thus, the applicable fuel adjustment charge for May would be <.6> mills per KWH (14.19 - 14.79) and would be recoverable from customers beginning with the first cycle billed in July 1993. The recovery of June fuel costs would not be as easily computed since that half of the sales billed in June would be subject to the old base fuel cost of 14.79 mills per KWH and the other half would be subject to the new base fuel cost of 12.97 mills per KWH.

² See, e.g., Case No. 8056, An Examination By The Public Service Commission Of The Application Of The Fuel Adjustment Clause Of Louisville Gas And Electric Company Pursuant To 807 KAR 5:056E, Sections 1(11) and (12).

effective.³ The use of this procedure in the case at bar, the Commission believes, will eliminate any material impact on KU and its customers from the roll-in of the fuel cost to base rates.

While this case was pending, the Office of Chief Accountant of the Federal Energy Regulatory Commission ("FERC") issued a report on the results of its examination of KU's books and records for the period January 1, 1987 through December 31, 1990. It found that KU failed to follow proper depreciation practices for the rail cars used to transport coal to certain KU generating plants. It further found that KU had not properly accounted for the sale of these rail cars. KU has contested the report's findings and has requested a hearing before FERC.⁴ If the report's findings are correct, KU's fuel charges for the period under review may be significantly affected. Accordingly, the Commission finds that this docket should remain open until the FERC proceedings are completed and this Commission has reviewed the evidence and argument presented therein.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that:

³ Applying this method to the example presented in Note 1, the base fuel cost for June would be the average of the base fuel cost after roll-in of 12.97 mills per KWH and the base fuel cost before roll-in of 14.79, or 13.88. Thus, the fuel adjustment charge for June would be 1.31 mills per KWH (15.19 - 13.88) and would be recovered from the customers beginning with the first cycle billed in August.

⁴ Kentucky Utilities Co., OCA-DOA Docket No. FA91-65-001 (FERC).

1. The test month of August 1992 should be used as KU's base period for this review.

2. KU's proposed base period fuel cost of 12.97 mills per KWH should be approved pending a final determination in this case.

3. The establishment of a base fuel cost of 12.97 mills per KWH requires a transfer (roll-in) of <1.82> mills per KWH from the FAC rate to KU's base rates and can best be accomplished by a uniform decrease in all energy rates.

4. The rates and charges in Appendix A, which is attached hereto and incorporated herein, reflect the transfer (roll-in) to base rates of the differential between the current base fuel cost of 14.79 mills per KWH and the proposed fuel cost of 12.97 mills per KWH.

5. KU should charge, subject to refund, the rates in Appendix A for service rendered on and after July 1, 1993.

6. The FAC rate for May 1993, which will be billed in July 1993, should be computed using the base fuel cost prior to roll-in of 14.79 mills per KWH.

7. The FAC rate for June 1993, which will be billed in August 1993, should be computed using a base fuel cost of 13.88 mills per KWH, the average of the base fuel costs prior to and after roll-in.

8. The FAC rate for July 1993 and succeeding months should be computed using the base fuel cost of 12.97 mills per KWH.

9. This docket should remain open pending further order of the Commission.

IT IS THEREFORE ORDERED that:

1. KU's proposed base period fuel cost of 12.97 mills per KWH be and it hereby is approved pending a final determination in this case.

2. KU shall charge, subject to refund, the rates in Appendix A for service rendered on and after July 1, 1993.

3. The current base rate of 14.79 mills per KWH shall be used to compute the FAC rate for May 1993.

4. The average base fuel cost of 13.88 mills per KWH shall be used to compute the FAC rate for June 1993.

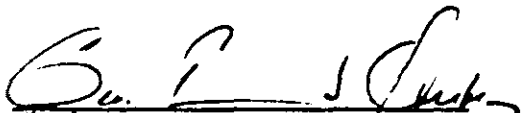
5. The base fuel cost of 12.97 mills per KWH shall be used to compute the FAC rate for July 1993 and succeeding months.

6. Within 30 days from the date of this Order, KU shall file with this Commission its revised tariff sheets setting out the rates approved herein.

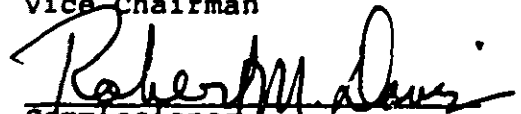
7. This docket shall remain open until further order of the Commission.

Done at Frankfort, Kentucky, this 5th day of April, 1993.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 92-493 DATED April 5, 1993

The following rates and charges are prescribed for the customers in the area served by Kentucky Utilities Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the date of this Order.

RS RESIDENTIAL
RURAL AND FARM RESIDENTIAL SERVICE

Rate:

- 4.957 cents per KWH for the first 100 KWH used per month
- 4.498 cents per KWH for the next 300 KWH used per month
- 4.087 cents per KWH for all in excess of 400 KWH used per month

FERS
FULL ELECTRIC RESIDENTIAL SERVICE

Rate:

- 4.144 cents per KWH for the first 1,000 KWH used per month
- 3.740 cents per KWH for all in excess of 1,000 KWH used per month

GS
GENERAL SERVICE

Rate:

- 6.421 cents per KWH for the first 500 KWH used per month
- 5.279 cents per KWH for the next 1,500 KWH used per month
- 4.802 cents per KWH for all in excess of 2,000 KWH used per month

CWH
COMBINATION OFF PEAK WATER HEATING

Rate:

- All energy at 2.558 cents per KWH per month

RATE 33
ELECTRIC SPACE HEATING RIDER

Rate:

For all KWH used under this schedule during each heating season
at 3.819 cents per KWH

A.E.S.
ALL ELECTRIC SCHOOL

Rate:

All KWH at 3.829 cents per KWH

IS
INTERRUPTIBLE SERVICE

Rate:

Energy Charge of 1.518 cents for all KWH used in the billing
month

LP
COMBINED LIGHTING AND POWER SERVICE

Rate:

Energy Charge of:

2.739 cents per KWH for the first 500,000 KWH used per month.

2.490 cents per KWH for the next 1,500,000 KWH used per month.

2.360 cents per KWH for all in excess of 2,000,000 KWH used
per month

LCI - TOD
LARGE COMMERCIAL/INDUSTRIAL TIME-OF-DAY RATE

Rate:

Energy Charge of 2.057 cents per KWH for all KWH used

HLF
HIGH LOAD FACTOR

Rate:

Energy Charge of 2.119 cents per KWH for all KWH used

MP
COAL MINING POWER SERVICE

Rate:

Energy Charge of:

2.746 cents per KWH for the first 500,000 KWH used per month

2.396 cents per KWH for all in excess of 500,000 KWH used per month

LMP - TOD
LARGE MINE POWER TIME-OF-DAY RATE

Rate:

Energy Charge of 1.937 cents per KWH for all KWH used

M
WATER PUMPING SERVICE

Rate:

Energy Charge of:

4.547 cents per KWH for the first 10,000 KWH used per month

3.814 cents per KWH for all in excess of 10,000 KWH used per month

ST. LT.
STREET LIGHTING SERVICE

Rate:

| <u>Incandescent System*</u> | <u>Load/Light</u> | <u>Rate Per Standard</u> | <u>Light/Month Ornamental</u> |
|-------------------------------|-------------------|--------------------------|-------------------------------|
| 1,000 Lumens (Approximately) | .102 KW/Light | \$ 2.09 | \$ 2.72 |
| 2,500 Lumens (Approximately) | .201 KW/Light | 2.50 | 3.26 |
| 4,000 Lumens (Approximately) | .327 KW/Light | 3.54 | 4.44 |
| 6,000 Lumens (Approximately) | .447 KW/Light | 4.71 | 5.72 |
| 10,000 Lumens (Approximately) | .690 KW/Light | 6.27 | 7.80 |
| <u>Mercury Vapor</u> | | | |
| 3,500 Lumens (Approximately) | .126 KW/Light | \$ 5.42 | \$ 7.71 |
| 7,000 Lumens (Approximately) | .207 KW/Light | 6.22 | 8.38 |
| 10,000 Lumens (Approximately) | .294 KW/Light | 7.12 | 9.04 |
| 20,000 Lumens (Approximately) | .453 KW/Light | 8.29 | 9.83 |
| <u>High Pressure Sodium</u> | | | |
| 4,000 Lumens (Approximately) | .060 KW/Light | \$ 4.76 | \$ 7.27 |
| 5,800 Lumens (Approximately) | .083 KW/Light | 5.15 | 7.66 |
| 9,500 Lumens (Approximately) | .117 KW/Light | 5.79 | 8.48 |
| 22,000 Lumens (Approximately) | .242 KW/Light | 8.49 | 11.18 |
| 50,000 Lumens (Approximately) | .485 KW/Light | 13.63 | 16.32 |

*NOTE: Incandescent restricted to those fixtures in service on October 12, 1982 (Except for spot Replacement)

DEC. ST. LT.
DECORATIVE STREET LIGHTING SERVICE

Rate:

High Pressure Sodium (HPS) Decorative Street Lighting

| <u>Type of Pole and Fixture</u> | <u>Lumen Output</u> | <u>Load/Light in KW</u> | <u>Monthly Rate Per Light</u> |
|---------------------------------|---------------------|-------------------------|-------------------------------|
| Acorn - Decorative | 4,000 | 0.060 | \$ 9.96 |
| Acorn - Historic | 4,000 | 0.060 | 15.64 |
| Acorn - Decorative | 5,800 | 0.083 | 10.44 |
| Acorn - Historic | 5,800 | 0.083 | 16.12 |
| Acorn - Decorative | 9,500 | 0.117 | 11.08 |
| Acorn - Historic | 9,500 | 0.117 | 16.76 |

| | | | |
|--------------|--------|-------|-------|
| Colonial | 4,000 | 0.060 | 6.54 |
| Colonial | 5,800 | 0.083 | 6.94 |
| Colonial | 9,500 | 0.117 | 7.51 |
| Contemporary | 5,800 | 0.083 | 12.04 |
| Contemporary | 9,500 | 0.117 | 14.33 |
| Contemporary | 22,000 | 0.242 | 16.54 |
| Contemporary | 50,000 | 0.485 | 21.30 |

P.O.Lt.
PRIVATE OUTDOOR LIGHTING

Rate:

| <u>Monthly Charge</u> | <u>Approximate Lumens</u> | <u>Type Light</u> | <u>KW Rating</u> |
|-----------------------|---------------------------|----------------------|------------------|
| \$ 7.16 | 7,000** | Mercury Vapor | .207 |
| 8.31 | 20,000** | Mercury Vapor | .453 |
| 4.09 | 5,800 | High Pressure Sodium | .083 |
| 4.66 | 9,500 | High Pressure Sodium | .117 |
| 8.49 | 22,000* | High Pressure Sodium | .242 |
| 13.63 | 50,000* | High Pressure Sodium | .485 |

NOTE: *Not available for urban residential home use.
**Restricted to those fixtures in service on August 20, 1990.

C.O.LT.
CUSTOMER OUTDOOR LIGHTING

Rate:

| <u>Monthly Charge</u> | <u>Lumens</u> | <u>Type Light</u> | <u>KW Rating</u> |
|-----------------------|---------------|-------------------|------------------|
| \$ 5.11* | 2,500 | Incandescent | .201 |
| 6.31** | 3,500 | Mercury Vapor | .126 |
| 7.16** | 7,000 | Mercury Vapor | .207 |

*Restricted to those fixtures in service on December 15, 1971.
**Restricted to those fixtures in service on October 12, 1982.

D/D P.O. LT.
DECORATIVE/DIRECTIONAL PRIVATE OUTDOOR LIGHTING

Rate:

| <u>Type of Pole and Fixture</u> | <u>Lumen Output</u> | <u>Load/Light in KW</u> | <u>Monthly Rate Per Light</u> |
|--|---------------------|-------------------------|-----------------------------------|
| Acorn - Decorative | 4,000 | 0.060 | \$ 9.96 |
| Acorn - Historic | 4,000 | 0.060 | 15.64 |
| Acorn - Decorative | 5,800 | 0.083 | 10.44 |
| Acorn - Historic | 5,800 | 0.083 | 16.12 |
| Acorn - Decorative | 9,500 | 0.117 | 11.08 |
| Acorn - Historic | 9,500 | 0.117 | 16.76 |
| Colonial | 4,000 | 0.060 | \$ 6.54 |
| Colonial | 5,800 | 0.083 | 6.94 |
| Colonial | 9,500 | 0.117 | 7.51 |
| Contemporary | 5,800 | 0.083 | 12.04 |
| Contemporary | 9,500 | 0.117 | 14.33 |
| Contemporary | 22,000* | 0.242 | 16.54 |
| Contemporary | 50,000* | 0.485 | 21.30 |
| <u>Directional HPS (Served Overhead)</u> | | | |
| Directional | 9,500 | 0.117 | \$ 5.66 |
| Directional | 22,000* | 0.242 | 7.97 |
| Directional | 50,000* | 0.485 | 12.05 |

NOTE: *Not available for urban residential home use.

SPECIAL CONTRACT
WEST VIRGINIA PULP AND PAPER COMPANY

Rate:

Energy Charge

1.995 cents per KWH