

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. 92-490-B
ELECTRIC CORPORATION FROM MAY 1, 1993)
TO OCTOBER 31, 1993)

O R D E R

Pursuant to 807 KAR 5:056, on December 27, 1993 the Commission established this case to review and evaluate the operation of the fuel adjustment clause ("FAC") of Big Rivers Electric Corporation ("Big Rivers") for the six months ended October 31, 1993. To facilitate that review Big Rivers submitted certain information concerning its compliance with the regulation. Kentucky Industrial Utility Customers intervened and a public hearing was held on February 17, 1994.

In Case No. 90-360-C¹ the Commission determined, among other things, that Big Rivers had incurred unreasonable costs for coal purchased under Contract 527 with Green River Coal Company ("GRCC").² Those unreasonable costs related to Big Rivers' decisions to enter Amendment No. 1 and the Andalex Substitution Agreement. Given that Contract 527, Amendment No. 1, and the

¹ Case No. 90-360-C, An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of Big Rivers Electric Corporation from November 1, 1991 to April 30, 1992.

² Order dated July 21, 1994, pages 12-17.

Andalex Substitution Agreement remain in effect, the Commission's decision in Case No. 90-360-C will have an ongoing impact until the contract is either modified or terminated.

During the period under review Big Rivers purchased 483,965 tons of coal from GRCC. Based on the methodology established in Case No. 90-360-C, the Commission has determined that Big Rivers incurred \$938,892 in unreasonable costs during the review period as a result of Amendment No. 1.³ This amount reflects the impact of the revised productivity index of 2.86 applicable to Contract 527 for calendar year 1993.

Big Rivers also incurred unreasonable costs related to the Andalex Substitution Agreement. The Commission has previously determined that, as a result of the change in mining method provision in Contract 527, Big Rivers incurred unreasonable costs equal to one-half of the savings experienced by GRCC under the substitution. Using the methodology of Case No. 90-360-C, the Commission finds that \$2,231,079 in unreasonable costs were incurred during the review period as a result of the Substitution Agreement.⁴

The combined effect of Amendment No. 1 and the Andalex Substitution Agreement is a total unreasonable cost of \$3,169,971

³ 483,965 tons x \$1.94 per ton = \$938,892. The difference of \$1.94 per ton for calendar year 1993 was established in Case No. 90-360-C. See Appendix B to the Commission's Order dated July 21, 1994.

⁴ 483,965 tons x \$4.61 per ton which is the impact of the Andalex Substitution Agreement. See Appendix A for calculation of the \$4.61 per ton.

for the six months ended October 31, 1993. The jurisdictional portion of the total is calculated using the ratio of jurisdictional fuel costs to total fuel costs. For the period under review Big Rivers reported jurisdictional fuel costs of \$55,193,546 and total fuel costs of \$75,056,411.⁵ The ratio is 73.5 percent resulting in \$2,329,929 in unreasonable costs allocated to jurisdictional sales.

Pursuant to 807 KAR 5:056 the Commission may require a utility to charge off and amortize unreasonable costs by means of a temporary decrease in rates. In Case No. 90-360-C Big Rivers was required to charge off and amortize \$10.8 million in unreasonable costs, with interest, over a one-year period beginning in August 1994. In this proceeding, to ensure that customers' monies are returned expeditiously over a period of time commensurate with the period during which the costs were incurred, Big Rivers should charge off and amortize the unreasonable costs of \$2,329,929, with interest,⁶ over a period of six months beginning in September 1994. Big Rivers should amortize and charge off the \$2,329,929 via a monthly credit of \$388,321, plus one-sixth of the total interest, to the fuel cost calculation contained in its FAC report. This

⁵ Per Big Rivers' monthly FAC reports filed with the Commission.

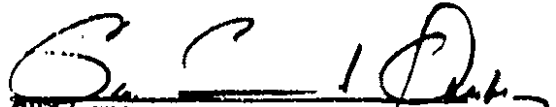
⁶ Interest should be based on the average of the Three-Month Commercial Paper Rate as reported in the Federal Reserve Bulletin and the Federal Reserve Statistical Release for the period May 1, 1993 to October 31, 1993. In all other respects the method of calculating interest should be that prescribed in Case No. 90-360-C.

will be in addition to the monthly credit required by our Order in Case No. 90-360-C.

Based on the record and the findings set forth herein, the Commission HEREBY ORDERS that the total amount of unreasonable costs incurred by Big Rivers during the period under review applicable to jurisdictional sales is \$2,329,929. Beginning with the month of September 1994 and continuing each month thereafter for the following five months, Big Rivers shall credit \$388,321 plus interest to the jurisdictional fuel cost included in its FAC report as filed with the Commission.

Done at Frankfort, Kentucky, this 9th day of August, 1994.

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. 92-490-B DATED AUGUST 9, 1994

IMPACT OF THE ANDALEX SUBSTITUTION AGREEMENT FOR THE SIX MONTHS
ENDED OCTOBER 31, 1993 WHICH REFLECTS IMPACT OF AMENDMENT NO. 1

GRCC base price	\$31.40
Less:	
Impact of Amendment No. 1	<u>1.94</u>
Adjusted Price	\$29.46
Adjusted Price per Amendment No.1	\$29.46
Less:	
Andalex Price to GRCC	<u>20.25</u>
Potential savings per change-in-mining method provision of Contract 527	\$ 9.21
50% allocable to Big Rivers	4.61