

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-C
ELECTRIC CORPORATION FROM NOVEMBER 1,)
1993 TO APRIL 30, 1994)

O R D E R

Pursuant to 807 KAR 5:056, on August 1, 1994 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 April 30, 1994. 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 August 30, 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

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.

Agreement.³ Given that Contract 527, Amendment No. 1, and the Andalex Substitution Agreement remained in effect during the period under review in this proceeding, the Commission's decision in Case No. 90-360-C affects the decision in this proceeding.

During the period under review Big Rivers purchased 469,774 tons of coal from GRCC. Based on the methodology established in Case No. 90-360-C, the Commission has determined that Big Rivers incurred \$1,000,538 in unreasonable costs during the review period as a result of Amendment No. 1.⁴ This amount reflects the impact of the revised productivity indices of 2.86 and 3.05 applicable to Contract 527 for calendar years 1993 and 1994, respectively.

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

³ Additional unreasonable costs were disallowed in Case No. 92-490-B, An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of Big Rivers Electric Corporation from May 1, 1993 to October 31, 1993, Order dated August 9, 1994.

⁴ 191,096 tons x \$1.94 per ton = \$370,726. 191,096 tons were purchased in November and December 1993 when the per ton difference was \$1.94. 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.

278,678 tons x \$2.26 per ton = \$629,812. 278,678 tons were purchased from January through April 1994 when the per ton difference was \$2.26. The difference of \$2.26 per ton is calculated in Appendix A to this Order.

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 \$2,118,283 in unreasonable costs were incurred during the review period as a result of the Substitution Agreement.⁵

The combined effect of Amendment No. 1 and the Andalex Substitution Agreement is a total unreasonable cost of \$3,118,821 for the six months ended April 30, 1994. 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 \$52,439,499 and total fuel costs of \$70,154,211.⁶ The ratio is 74.7 percent resulting in \$2,329,759 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 the Commission required Big Rivers to charge off and amortize \$10.8 million in

⁵ 191,096 tons x \$4.61 per ton equals \$880,953. This is the impact of the Andalex Substitution Agreement for November and December 1993. See Appendix A of the Commission's August 9, Order in Case No. 92-490-C for the calculation of the \$4.61 per ton.

278,678 tons x \$4.44 per ton equals \$ 1,237,330. This is the impact of the Andalex Substitution Agreement for January through April 1994. See Appendix A to this Order for the calculation of the \$4.44 per ton.

⁶ Per Big Rivers' monthly FAC reports filed with the Commission.

unreasonable costs, with interest, over a one-year period beginning in August 1994. In Case No. 92-490-B it required Big Rivers to charge off and amortize \$2.3 million in unreasonable costs, with interest, over a six-month period beginning in September 1994.

To ensure the return of unreasonable fuel charges over a period of time commensurate with the period of their collection, the Commission finds that Big Rivers should charge off and amortize the unreasonable costs of \$2,329,759, with interest,⁷ over a period of six months beginning immediately.

Big Rivers should amortize and charge off the \$2,329,759 found unreasonable herein via a monthly credit of \$388,293, plus one-sixth of the total interest, to the fuel cost calculation contained in its FAC report beginning immediately with the resulting amortization period running from November 1994 through April 1995.

IT IS HEREBY ORDERED that beginning with the month of November 1994 and continuing each month thereafter for the following five months, Big Rivers shall credit \$388,293 plus interest to the jurisdictional fuel cost included in its FAC report as filed with the Commission.

⁷ 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 November 1, 1993 to April 30, 1994. In all other respects the method of calculating interest should be that prescribed in Case No. 90-360-C.

Done at Frankfort, Kentucky, this 1st day of November, 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-C DATED NOVEMBER 1, 1994

CALCULATION OF THE IMPACT OF AMENDMENT NO. 1 AND THE ANDALEX SUBSTITUTION AGREEMENT FOR THE SIX MONTHS ENDED APRIL 30, 1994

November and December 1993

191,096 tons were purchased under Contract 527--per Big Rivers' back-up reports. Impacts of Amendment No. 1 (\$1.94 per ton) and the Andalex Substitution Agreement (\$4.61 per ton) were determined in Case Nos. 90-360-C and 92-490-B.

191,096	191,096
X 1.94	X 4.61
<u>\$370,726</u>	<u>\$880,953</u>

January through April 1994

278,678 tons were purchased under Contract 527--per Big Rivers' back-up reports. Other components of calculations are taken from price revision worksheets for Contract 527. The impacts of Amendment No. 1 (\$2.26 per ton) and the Andalex Substitution Agreement (\$4.44 per ton) are calculated as follows:

Amendment No. 1

Current Productivity Index	3.05
Base Index	1.46
Current/Base Ratio	2.09
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Base Period Production	2.45
Multiply by Current/Base Ratio	2.09
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Revised Productivity	5.12
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Revised Labor Cost (man hour)	\$35.25077
Revised Ins. and Pension Cost (man hour)	4.99885
Total Cost (man hour)	<u>\$40.24962</u>
Divide by Revised Productivity	5.12
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Revised Total Cost per ton	\$ 7.8613
Less: Total Cost per ton as billed	10.1178
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Reduction in Total Cost per ton	\$ 2.2565
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Rounded Amount	\$2.26

Andalex Substitution Agreement

Green River Coal base price	\$31.40
Less: Impact of Amendment No. 1	2.26
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Adjusted Price	\$29.14
Less: Andalex price to Big Rivers	20.25
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Potential savings from change-in-mining method provision of Contract 527	\$ 8.89
50 percent allocable to Big Rivers	\$ 4.44
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Unreasonable Cost Calculation

278,678	278,678
X 2.26	X 4.44
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\$629,812	\$1,237,330

Total Unreasonable Cost under Amendment No.1

1993----\$ 370,726
<u>1994----\$ 629,812</u>
Total--\$1,000,538

Total Unreasonable Cost under Andalex Substitution Agreement

1993----\$ 880,953
<u>1994----\$1,237,330</u>
Total---\$2,118,283