

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. 94-458-B
ELECTRIC CORPORATION FROM MAY 1, 1995)
TO OCTOBER 31, 1995)

O R D E R

This case involves a review of the operation of the fuel adjustment clause ("FAC") of Big Rivers Electric Corporation ("Big Rivers") for the six-month period ending October 31, 1995.¹ Based upon its review, the Commission finds that Big Rivers (1) properly determined the fuel costs charged to its native load customers; (2) incorrectly calculated and applied prospective disallowances of fuel charges incurred under Contract No. 527; and (3) charged \$1,086,468 of unreasonable fuel costs to its native load customers during the review period because of its incorrect calculations.²

¹ Commission Regulation 807 KAR 5:056, Section 1(11), requires the Commission to conduct public hearings on a utility's past fuel adjustments at six (6) month intervals. It further requires the Commission will order a utility to charge off and amortize, by means of a temporary decrease of rates, any adjustments it finds unjustified due to improper calculation or application of the charge or improper fuel procurement practices.

² Kentucky Industrial Utility Customers and the Attorney General intervened in this proceeding. On April 4, 1996, the Commission held a public hearing in this matter.

Fuel Cost Determination

Kentucky Industrial Utility Customers ("KIUC") contends that Big Rivers' method of dispatch and use of incremental cost to assign fuel to non-firm off-system sales are unreasonable. Contending that the use of average cost would result in a more equitable sharing of fuel costs among all customers, KIUC proposes that Big Rivers be required to assign its system average fuel costs to all sales, both firm and non-firm.

Having previously considered and rejected KIUC's arguments in Case Nos. 94-458³ and 94-458-A⁴ and finding that no new evidence or argument has been presented in this proceeding on these issues, the Commission, for the reasons stated in its earlier Orders again rejects KIUC's proposal.

Calculation and Allocation of Prospective Disallowances

In Case No. 94-458, the Commission found that Big Rivers' methodology for calculating prospective fuel cost disallowances⁵ failed to comply with 807 KAR 5:056 and ordered Big Rivers to change its methodology for calculating such disallowances beginning with its February 1996 FAC report. Since Big Rivers has only calculated the prospective

³ Case No. 94-458, An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of Big Rivers Electric Corporation from November 1, 1992 to October 31, 1994 (March 5, 1996).

⁴ Case No. 94-458-A, An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of Big Rivers Electric Corporation from November 1, 1994 to April 30, 1995 (June 19, 1996).

⁵ In Case No. 90-360-C, the Commission found that the current price which Big Rivers pays for coal received under Contract No. 527 "is unreasonable because of Amendment No. 1 to the contract and the 'Andalex Substitution Agreement.'" Order of July 21, 1994 at 36. It ordered that Big Rivers, when calculating its fuel cost for recovery through the FAC, reduce the price of Contract No. 527 coal to reflect cost disallowances for Amendment No. 1 and the Andalex Substitution Agreement. Id.

disallowance for its fuel costs properly since February 1996, its fuel costs for this review period are affected. Applying the proper methodology to fuel costs incurred in the review period, as Appendix A shows, yields the conclusion that Big Rivers assessed unreasonable fuel costs of \$1,086,468 to its native load customers.

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. To ensure the return of the unreasonable costs over a period of time commensurate with the period during which the costs were incurred, the Commission finds that Big Rivers should charge off and amortize the unreasonable costs of \$1,086,468, with interest,⁶ over a period of six months beginning with its FAC report for the expense month of July 1996. Big Rivers should amortize and charge off the \$1,086,468 via a monthly credit of \$181,078, plus one-sixth of the total interest, to the fuel cost calculation contained in its FAC report. This credit is in addition to the monthly credit which the Commission ordered in Case No. 94-458-A.

KIUC's Request for Interim Order

KIUC requests that this case be held open pending the outcome of related civil and criminal proceedings as well as the appeal of the Commission's July 21, 1994 Order in Case No. 90-360-C. It asserts that material information on Big Rivers' fuel procurement decisions and its fuel costs may come to light during this litigation. KIUC also argues that "newly discovered evidence" concerning several of Big Rivers' long-term coal contracts

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, 1995 to October 31, 1995. In all other respects the calculation of interest should follow the method prescribed in Case No. 90-360-C.

raises questions that warrant holding this case open.⁷ Issuance of an interim decision, KIUC further contends, would not prejudice any party and would avoid the necessity for continued appeals.

KIUC repeats its arguments from earlier FAC proceedings. For the same reasons expressed in its orders in Cases No. 94-458 and 94-458-A, the Commission rejects these arguments. Moving beyond these arguments, the Commission is not convinced by KIUC's claim of "newly discovered evidence." Much of this "evidence" was known long ago and introduced in prior Commission proceedings. The Commission finds no merit to KIUC's arguments and concludes that closing this proceeding now will best serve the public interest.

Summary

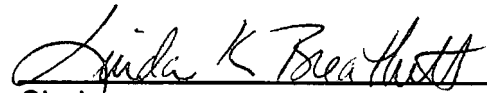
Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that during the review period Big Rivers passed through its FAC to its jurisdictional customers unreasonable fuel charges of \$1,086,468.

IT IS THEREFORE ORDERED that, beginning with the month of July 1996 and continuing for the following five months, Big Rivers shall credit \$181,078 plus interest to the jurisdictional fuel cost included in its FAC report as filed with the Commission.


⁷ KIUC's "evidence" concerns Contract 527 with Green River Coal Co., Contracts No. 528, 814, and 865 with Jim Smith Contracting Co., Inc., and Contract 246 with MAPCO.

Done at Frankfort, Kentucky, this 9th day of July, 1996.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 94-458-B DATED JULY 9, 1996.

IMPACT OF IMPLEMENTING THE PROSPECTIVE DISALLOWANCE ORDERED FOR COAL PURCHASED
UNDER CONTRACT 527 BY ADJUSTING THE COST OF PURCHASES MADE UNDER CONTRACT 527
AND REFLECTING THE ADJUSTMENTS MONTHLY IN THE WILSON INVENTORY

MAY 1995 - Total Amount of Prospective Disallowance per Big Rivers' FAC Report = \$751,640
Jurisdictional Component = \$570,495

Wilson Inventory -- MAY 1995 -- Per Big Rivers' Back-up Report

	<u>TONS</u>	<u>AMOUNT</u>	<u>PER TON</u>
Beginning Inventory	221,074	7,632,631	\$34.5253
Purchases (As Recorded)	133,531	4,760,688	35.6521
Sub-total (As Recorded)	354,605	12,393,319	34.9496
Less: Amount Burned	117,269	4,098,502	34.9496
Ending Inventory	237,336	8,294,817	34.9496

Contract 527 Disallowance Per Weighted Average Inventory Method

	<u>TONS</u>	<u>AMOUNT</u>	<u>PER TON</u>
Beginning Inventory	221,074	6,486,299 ¹	\$29.3399
Purchases (Adj)	133,531	4,009,048 ²	30.0234
Sub-total (Adj)	354,605	10,495,347	29.5973
Amount Burned (Adj)	117,269	3,470,844	29.5973
Ending Inventory (Adj)	237,336	7,024,503	29.5973

Impact on FAC Calculation (dollars)

Amount Burned as Reported by BREC	\$4,098,502
Less: Adjusted Amount Burned	<u>3,470,844</u>
Change in the Amount Burned	\$ (627,658)
Less: Jurisdictional Disallowance Reported by BREC	<u>570,495</u>
Increase (Decrease) in Fuel Cost	\$ (57,163)

¹ Reflects the impact of the August 1994 through April 1995 inventory adjustments.

² Reflects the total May disallowance of \$751,640.

JUNE 1995 - Total Amount of Prospective Disallowance Per Big Rivers' FAC Report = \$425,653
Jurisdictional Component = \$288,167

Wilson Inventory - June 1995 - Per Big Rivers' Back-up Report

	<u>TONS</u>	<u>AMOUNT</u>	<u>PER TON</u>
Beginning Inventory	237,336	8,294,817	\$34.9496
Purchases (As Recorded)	83,445	2,939,770	35.2300
Sub-total (As Recorded)	320,781	11,234,587	35.0226
Less: Amount Burned	114,985	4,027,068	35.0226
Ending Inventory	205,796	7,207,519	35.0226

Contract 527 Disallowance Per Weighted Average Inventory Method

	<u>TONS</u>	<u>AMOUNT</u>	<u>PER TON</u>
Beginning Inventory	237,336	7,024,503 ³	\$29.5973
Purchases (Adj)	83,445	2,514,117 ⁴	30.1290
Sub-total (Adj)	320,781	9,538,620	29.7356
Amount Burned (Adj)	114,985	3,419,150	29.7356
Ending Inventory (Adj)	205,796	6,119,470	29.7356

Impact on FAC Calculation (dollars)

Amount Burned as Reported by BREC	\$ 4,027,068
Less: Adjusted Amount Burned	<u>3,419,150</u>
Change in the Amount Burned	\$ (607,918)
Less: Jurisdictional Disallowance Reported by BREC	<u>288,167</u>
Increase (Decrease) in Fuel Cost	\$ (319,751)

³ Reflects the impact of the August 1994 through May 1995 inventory adjustments.

⁴ Reflects total June disallowance of \$425,613.

JULY 1995 - Total Amount of Prospective Disallowance Per Big Rivers' FAC Report = \$591,966
Jurisdictional Component = \$415,560

Wilson Inventory - July 1995 - Per Big Rivers' Back-up Report

	<u>TONS</u>	<u>AMOUNT</u>	<u>PER TON</u>
Beginning Inventory	205,796	\$7,207,519	\$35.0225
Purchases (As Recorded)	108,407	3,944,612	36.3871
Sub-total (As Recorded)	314,203	11,152,131	35.4933
Less: Amount Burned	109,330	3,880,509	35.4933
Ending Inventory	204,873	7,271,622	35.4933

Contract 527 Disallowance Per Weighted Average Inventory Method

	<u>TONS</u>	<u>AMOUNT</u>	<u>PER TON</u>
Beginning Inventory	205,796	\$6,119,470 ⁵	\$29.7356
Purchases (Adj)	108,407	3,352,646 ⁶	30.9265
Sub-total (Adj)	314,203	9,472,116	30.1465
Amount Burned (Adj)	109,330	3,295,915	30.1465
Ending Inventory (Adj)	204,873	6,176,201	30.1465

Impact on FAC Calculation (dollars)

Amount Burned as Reported by BREC	\$3,880,509
Less: Adjusted Amount Burned	<u>3,295,915</u>
Change in the Amount Burned	\$ (584,594)
Less: Jurisdictional Disallowance Reported by BREC	<u>415,560</u>
Increase (Decrease) in Fuel Cost	\$ (169,034)

⁵ Reflects the impact of the August 1994 through June 1995 inventory adjustments.

⁶ Reflects the total July disallowance of \$591,966.

AUGUST 1995 - Total Amount of Prospective Disallowance Per Big Rivers' FAC Report = \$772,335
Jurisdictional Component = \$489,660

Wilson Inventory - August 1995 - Per Big Rivers' Back-up Report

	<u>TONS</u>	<u>AMOUNT</u>	<u>PER TON</u>
Beginning Inventory	204,873	\$ 7,271,622	\$35.4933
Purchases (As Recorded)	110,143	4,055,413	36.8195
Sub-total (As Recorded)	315,016	11,327,035	35.9570
Less: Amount Burned	116,491	4,188,665	35.9570
Ending Inventory	198,525	7,138,370	35.9571

Contract 527 Disallowance Per Weighted Average Inventory Method

	<u>TONS</u>	<u>AMOUNT</u>	<u>PER TON</u>
Beginning Inventory	204,873	\$6,176,201 ⁷	\$30.1465
Purchases (Adj)	110,143	3,410,314 ⁸	30.9626
Sub-total (Adj)	315,016	9,586,515	30.4318
Amount Burned (Adj)	116,491	3,545,035	30.4318
Ending Inventory (Adj)	198,525	6,041,480	30.4318

Impact on FAC Calculation (dollars)

Amount Burned as Reported by BREC	\$4,188,665
Less: Adjusted Amount Burned	<u>3,545,035</u>
Change in the Amount Burned	\$ (643,630)
Less: Jurisdictional Disallowance Reported by BREC	<u>489,660</u>
Increase (Decrease) in Fuel Cost	\$ (153,970)

⁷ Reflects the impact of the August 1994 through July 1995 inventory adjustments.

⁸ Reflects a disallowance of \$645,099. Big Rivers' overstated the amount of the disallowance as a result of using an incorrect level for tons received from Green River Coal.

SEPTEMBER 1995 - Total Amount of Prospective Disallowance Per Big Rivers' FAC Report = \$569,371
Jurisdictional Component = \$395,144

Wilson Inventory - September 1995 - Per Big Rivers' Back-up Report

	<u>TONS</u>	<u>AMOUNT</u>	<u>PER TON</u>
Beginning Inventory	198,525	\$7,138,370	\$35.9571
Purchases (As Recorded)	112,174	3,923,788	34.9795
Sub-total (As Recorded)	310,699	11,062,158	35.6041
Less: Amount Burned	121,083	4,311,057	35.6041
Ending Inventory	189,616	6,751,101	35.6041

Contract 527 Disallowance Per Weighted Inventory Method

	<u>TONS</u>	<u>AMOUNT</u>	<u>PER TON</u>
Beginning Inventory	198,525	\$6,041,480 ⁹	\$30.4318
Purchases (Adj)	112,174	3,354,417 ¹⁰	29.9037
Sub-total (Adj)	310,699	9,395,897	30.2412
Less: Amount Burned	121,083	3,661,690	30.2412
Ending Inventory	189,616	5,734,207	30.2412

Impact on FAC Calculation (dollars)

Amount Burned as Reported by BREC	\$4,311,057
Less: Adjusted Amount Burned	<u>3,661,690</u>
Change in the Amount Burned	\$ (649,367)
Less: Jurisdictional Disallowance Reported by BREC	<u>395,144</u>
Increase (Decrease) in Fuel Cost	\$ (254,223)

⁹ Reflects the impact of August 1994 through August 1995 inventory adjustments

¹⁰ Reflects the total September disallowance of \$569,371.

OCTOBER 1995 - Total Amount of Prospective Disallowance Per Big Rivers' FAC Report = \$752,856
 Jurisdictional Component = \$557,867

Wilson Inventory - October 1995 - Per Big Rivers' Back-up Report

	<u>TONS</u>	<u>AMOUNT</u>	<u>PER TON</u>
Beginning Inventory	189,616	\$6,751,101	\$35.6041
Purchases (As Recorded)	140,329	4,980,087	35.4887
Sub-total (As Recorded)	329,945	11,731,188	35.5550
Less: Amount Burned	128,681	4,575,229	35.5550
Ending Inventory	201,264	7,155,959	35.5550

Contract 527 Disallowance Per Weighted Average Inventory Method

	<u>TONS</u>	<u>AMOUNT</u>	<u>PER TON</u>
Beginning Inventory	189,616	\$5,734,207 ¹¹	\$30.2412
Purchases (Adj)	140,329	4,227,231 ¹²	30.1237
Sub-total (Adj)	329,945	9,961,438	30.1912
Less: Amount Burned	128,681	3,885,035	30.1912
Ending Inventory	201,264	6,076,403	30.1912

Impact on FAC Calculation (dollars)

Amount Burned as Reported by BREC	\$4,575,229
Less: Adjusted Amount Burned	<u>3,885,035</u>
Change in the Amount Burned	\$ (690,194)
Less: Jurisdictional Disallowance Reported by BREC	<u>557,867</u>
Increase (Decrease) in Fuel Cost	\$ (132,327)

¹¹ Reflects the impact of the August 1994 through September 1995 inventory adjustments.

¹² Reflects the total October disallowance of \$752,856.