

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 EAST) CASE NO. 94-459-B
KENTUCKY POWER COOPERATIVE, INC. FROM)
MAY 1, 1995 TO OCTOBER 31, 1995)

O R D E R

Pursuant to Commission Regulation 807 KAR 5:056, the Commission, on December 20, 1995, established this case to review and evaluate the operation of the fuel adjustment clause ("FAC") of East Kentucky Power Cooperative, Inc. ("East Kentucky") for the six months ended October 31, 1995.

As part of this review, East Kentucky, pursuant to Commission Order, submitted certain information concerning its compliance with Commission Regulation 807 KAR 5:056. The Commission held a public hearing on February 22, 1996.

The Commission has previously established East Kentucky's base fuel cost at 12.71 mills per Kwh.¹ A review of East Kentucky's monthly fuel clause filings shows that the actual fuel cost incurred for the six-month review period ranged from 12.16 mills in July 1996 to 12.91 mills in August 1995. East Kentucky's average fuel cost for the review period was 12.47 mills.

¹ Case No. 94-459, An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. From November 1, 1992 to October 31, 1994 (April 5, 1995).

The Commission is concerned about the replacement power costs that East Kentucky incurred because of the non-availability of its new gas combustion turbines. In March 1993, the Commission granted East Kentucky a Certificate of Public Convenience and Necessity to construct three 100-MW gas combustion turbines to meet its peak energy demands.² East Kentucky expected construction to be completed by mid-1995. On May 12, 1995, ABB Power Generation, the turbine's manufacturer, notified East Kentucky to cease all operation and testing of these turbines.

ABB Power Generation's action came after a fourth-stage blade broke free during testing of its newly installed combustion turbine at Kentucky Utilities Company's E.W. Brown Station. ABB Power Generation identified the root cause of the problem as fatigue failure in a high-stress point on the blades' trailing edge. It subsequently modified its production process and redesigned the turbine blades. It is currently installing replacement blades in its manufactured units.

As a result of ABB Power Generation's notice, East Kentucky was forced to purchase replacement power during the review period.³ Because of the combustion turbines' nonavailability, East Kentucky

² Case No. 92-112, The Application of East Kentucky Power Cooperative, Inc. for a Certificate of Public Convenience and Necessity, and a Certificate of Environmental Compatibility for the Construction of 300 MW (Nominal) of Combustion Turbine Peaking Capacity and Related Transmission Facilities in Clark and Madison Counties in Kentucky (Mar. 11, 1993).

³ East Kentucky's Response to Commission Staff's Question Concerning Cost of Replacement Power for Combustion Turbines (Filed Mar. 8, 1996).

incurred additional power costs of \$2,731,630. East Kentucky passed approximately \$1,215,127 (the net energy costs incurred above the cost had the combustion turbines generated the energy) to its ratepayers through its FAC.

Given the circumstances surrounding the combustion turbines' non-availability, it is unclear whether East Kentucky's actions are consistent with the FAC Regulation. See 807 KAR 5:056, Section 1(4). Since East Kentucky is currently seeking reimbursement of these costs from ABB Power Generation and has stated that any reimbursement will be passed on to its ratepayers,⁴ the Commission will permit East Kentucky for the time being to pass these fuel charges through its FAC. The Commission, however, expressly withholds ruling on these charges' reasonableness and lawfulness until the next biennial review of East Kentucky's FAC.⁵ Furthermore, it expects East Kentucky to keep the Commission fully apprised of the progress of negotiations with ABB Power Generation.⁶

⁴ Transcript at 10 - 11.

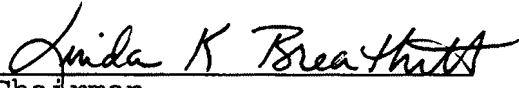
⁵ Commission Regulation 807 KAR 5:056, Section 1(12), requires the Commission to review and evaluate the operation of an electric utility's FAC every two years and to disallow any improper expense. The next biennial review is scheduled for February 1997. If at the conclusion of that review, the Commission determines that the fuel charges in question may not lawfully pass through East Kentucky's FAC, it will order East Kentucky to charge off and amortize those charges by means of a temporary decrease of rates.

⁶ The Commission places East Kentucky on notice that the progress of these negotiations will be a subject of information requests in future FAC review proceedings.


IT IS THEREFORE ORDERED that the charges and credits billed by East Kentucky through its FAC for the period May 1, 1995 to October 31, 1995 are approved.

Done at Frankfort, Kentucky, this 23rd day of May, 1996.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director