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 UTILITIES COMPANY FROM NOVEMBER 1, 1998 TO APRIL 30, 1999	)))))	CASE NO. 98-564-A

and

AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION OF THE APPLICATION OF THE FUEL ADJUSTMENT CLAUSE OF KENTUCKY UTILITIES COMPANY FROM MAY 1, 1999 TO OCTOBER 31, 1999	)))))	CASE NO. 98-564-B

O R D E R

Pursuant to Administrative Regulation 807 KAR 5:056, Section 1(11), the Commission on June 23, 1999 established Case No. 98-564-A to review and evaluate the operation of the fuel adjustment clause ("FAC") of Kentucky Utilities Company ("KU") for the 6-month period ended April 30, 1999. On September 27, 1999, the Commission on KU's motion established a separate proceeding to examine KU's fuel expenses for the expense months of May and June 1999 and consolidated that proceeding with Case No. 98-564-A.[1] As part of this review, the Commission directed

[1] On July 2, 1999, certain revisions to KU's filed rate schedules became effective subject to future change. Among these revisions were the establishment of an Electric Performance-Based Rate and the termination of the utility's FAC. KU's FAC remains in operation for the sole purpose of allowing recovery of fuel expenses incurred prior to July 2, 1999 and subject to final disposition under Administrative Regulation 807 KAR 5:056. See Case No. 98-474, Application of Kentucky Utilities Company for Approval of an Alternative Method of Regulation of its Rates and Services (April 13, 1999).

KU to submit certain information concerning its compliance with Administrative Regulation 807 KAR 5:056. On October 1, 1999, the Commission held a public hearing in this matter.[2]

COST OF FUEL RECOVERED FROM INTERSYSTEM SALES

In Case No. 96-523,[3] the Commission found that Administrative Regulation 807 KAR 5:056 requires an electric utility, when calculating the "cost of fuel recovered from intersystem sales" component of its cost of fuel, to include the cost of fuel associated with line losses which it incurred to make an intersystem sale. We further found that a line loss of one percent was the appropriate loss factor for KU to use to determine the cost of fuel associated with line losses.[4]

With the exception of the expense month of June 1999, KU calculated the "cost of fuel recovered from intersystem sales" by determining the cost of fuel necessary to generate the quantity of energy delivered and without any consideration of line losses incurred to deliver that fuel. Based upon our findings in Case No. 96-523, we find that KU incorrectly calculated its "cost of fuel recovered from intersystem sales" and that, as a result of this incorrect calculation overstated its cost of fuel for the periods under

[2] A Kentucky Industrial Utility Customers and the Attorney General were permitted to intervene in this proceeding and appeared, through counsel, at the public hearing in this matter. At this hearing, the following persons testified: Daniel Becher, KU's Director of Electric System Operations; Lonnie Bellar, KU's Manager of Generation Systems Planning; William A. Bosta, KU's Director of Regulatory Management; Gerhard Haimberger, KU's Director of Fuels Management; and Rick Melloan, KU's Director of Generation Services.

[3] Case No. 96-523, An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of Kentucky Utilities Company from November 1, 1994 To October 31, 1996 (Aug. 30, 1999).

[4] Id. at 8.

review by $253,340. The Commission's calculations are set forth in Table I. In accordance with our finding in Case No. 96-523, we have excluded from our calculations any energy transfers between KU and the Louisville Gas and Electric Company during the review periods.[5]

TABLE I

Unreported Cost of Fuel Recovered From Inter-System Sales		
Month	**Reported Recovered Intersystem Fuel Cost ($)**	**Unreported Recovered Intersystem Fuel Cost ($)**
November 1998	2,756,777	27,568
December 1998	4,055,077	40,551
January 1999	4,280,908	42,809
February 1999	3,149,212	31,492
March 1999	3,675,890	36,759
April 1999	4,271,061	42,711
May 1999	3,145,044	31,450
June 1999	6,442,760	0
TOTAL	31,776,729	253,340

TOTAL SYSTEM LOSSES

In Case No. 96-523, the Commission held that Administrative Regulation 807 KAR 5:056, Section 1(5), permitted the use of actual line losses only to calculate the FAC sales component losses and that KU's methodology to calculate system losses was contrary to this regulation.[6] During the period under review, KU's use of this methodology[7] to calculate "sales" resulted in KU's reported system losses

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[5] Id. at 11.

[6] Case No. 96-523, Order of July 15, 1999 at 19-21.

[7] For a description of this methodology, see id. at 16-17.

exceeding actual total system losses for seven of the eight reporting months.[8] The Commission finds that KU's failure to use actual total system losses to calculate the sales component resulted in improper FAC charges of $1,648,027. We derived this amount by replacing KU's reported retail line loss with the overall system line loss, which is reported in KU's monthly FAC report. The overcharges for each month of the eight-month period ending July 1, 1999 are shown in Table II below.

TABLE II

Month	Disallowance From Recalculation of Form A Line Loss Schedule
November 1998	$172,349
December 1998	107,373
January 1999	219,050
February 1999	278,609
March 1999	354,708
April 1999	354,618
May 1999	303,889
June 1999	(142,569)
TOTAL	$1,648,027

SUMMARY

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

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Month	KU's Reported Retail FAC Loss Level (KWH)	Total System Line Loss (KWH)	Difference
November 1998	91,587,163	79,459,200	12,127,963
December 1998	93,920,693	84,037,966	9,882,727
January 1999	116,711,792	93,938,244	22,773,548
February 1999	103,004,460	81,004,720	21,999,740
March 1999	118,012,682	91,198,651	26,814,031
April 1999	108,651,848	79,460,574	29,191,274
May 1999	94,203,650	73,214,586	20,989,064
June 1999	87,109,182	87,109,182	0
TOTAL	813,201,470	669,423,123	143,778,347

1. When calculating the "cost of fuel recovered from intersystem sales," Administrative Regulation 807 KAR 5:056 requires an electric utility to include the cost of fuel associated with line losses which it incurred to make an intersystem sale.

2. During the review period, KU failed to include the cost of fuel associated with line losses which it incurred to make an intersystem sale when calculating the "cost of fuel recovered from intersystem sales."

3. As a result of its failure to correctly calculate the "cost of fuel recovered from intersystem sales," KU overstated its fuel costs for the period under review by $253,340.

4. When calculating the "sales" component of its monthly FAC charge, KU did not use actual total system losses. As a result, it understated its sales and overcollected $1,648,027 from its retail customers through its FAC for the period under review.

5. The record reveals no evidence of any other improper calculation or application of KU's FAC charge or of any improper fuel procurement practices.

IT IS THEREFORE ORDERED that, upon the filing of its first monthly fuel adjustment after entry of this Order and for each of the following three months, KU shall, in calculating its monthly fuel cost, reduce actual monthly fuel cost by $475,342 to reflect unreported fossil fuel costs recovered through intersystem sales during the review periods and the overrecovery of fuel costs resulting from its miscalculation of "sales."

Done at Frankfort, Kentucky, this 12th day of January, 2000.

By the Commission

ATTEST:

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Executive Director