

May 28, 2015

Ronald M. Sullivan
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RECEIVED

MAY 29 2015

PUBLIC SERVICE
COMMISSION

Via Federal Express

Jeff Derouen
Executive Director
Public Service Commission
211 Sower Boulevard, P.O. Box 615
Frankfort, Kentucky 40602-0615

Re: *In the Matter of: An Examination of the Application of the Fuel Adjustment Clause of Big Rivers Electric Corporation from November 1, 2013 through April 30, 2014*
Case No. 2014-00230; and

In the Matter of: An Examination of the Application of the Fuel Adjustment Clause of Big Rivers Electric Corporation from November 1, 2012 through October 31, 2014
Case No. 2014-00455

Dear Mr. Derouen:

Enclosed for filing in the above-referenced matter are an original and ten (10) copies of Big Rivers Electric Corporation's Motion for Leave to File Stipulation and Recommendation and Supporting Testimony, along with an original and ten (10) copies of the testimony. The Stipulation and Recommendation is an exhibit to the testimony. Please note that the testimony is on behalf of Big Rivers only, and the intervenors have not reviewed and therefore do not endorse it. I certify that on this date, a copy of this letter, a copy of the motion, and a copy of the testimony, including the Stipulation and Recommendation, were served on each of the persons listed on the attached service list by first-class mail.

Sincerely,



Tyson Kamuf
Counsel for Big Rivers Electric Corporation

Telephone (270) 926-4000
Telecopier (270) 683-6694

TAK/lm
Enclosures

100 St. Ann Building
PO Box 727
Owensboro, Kentucky
42302-0727

cc: Lindsay Barron
DeAnna Speed
Service List

Service List
PSC Case No. 2014-00230
PSC Case. No. 2014-00455

Michael L. Kurtz, Esq.
Kurt J. Boehm, Esq.
Jody Kyler Cohn, Esq.
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1 COMMONWEALTH OF KENTUCKY
2 BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

MAY 29 2015

PUBLIC SERVICE
COMMISSION

3
4
5 In the Matter of:

6
7 AN EXAMINATION OF THE APPLICATION)
8 OF THE FUEL ADJUSTMENT CLAUSE OF)
9 BIG RIVERS ELECTRIC CORPORATION) Case No. 2014-00230
10 FROM NOVEMBER 1, 2013 THROUGH)
11 APRIL 30, 2014)

12
13
14 AN EXAMINATION OF THE APPLICATION)
15 OF THE FUEL ADJUSTMENT CLAUSE OF)
16 BIG RIVERS ELECTRIC CORPORATION) Case No. 2014-00455
17 FROM NOVEMBER 1, 2012 THROUGH)
18 OCTOBER 31, 2014)

19
20
21 **MOTION OF BIG RIVERS ELECTRIC CORPORATION FOR LEAVE TO FILE**
22 **STIPULATION AND RECOMMENDATION AND SUPPORTING TESTIMONY**
23

24 Big Rivers Electric Corporation (“Big Rivers”) hereby moves the Kentucky Public
25 Service Commission (the “Commission”) for leave to file (i) a Stipulation and Recommendation
26 agreement among the parties (the “Stipulation”), and (ii) the Direct Testimony of Lindsay N.
27 Barron. In support of this motion, Big Rivers states as follows.

28 Big Rivers and the two intervenors to these consolidated proceedings, the Office of the
29 Attorney General (the “AG”) and Kentucky Industrial Utility Customers, Inc. (“KIUC”), have
30 had a number of discussions in an effort to resolve these proceedings. The product of those
31 negotiations is the unanimous Stipulation agreement attached to Ms. Barron’s testimony, which
32 is filed with this motion. Ms. Barron’s testimony describes and supports the reasonableness of
33 the Stipulation. Big Rivers desires to submit the Stipulation and supporting testimony into the
34 record of these proceedings for the Commission’s consideration and approval.

1 WHEREFORE, Big Rivers respectfully requests that the Commission enter an order
2 granting Big Rivers leave to file the testimony and Stipulation filed with this motion.

3 On this the 28th day of May, 2015.

4 Respectfully submitted,

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7 

8 _____
9 James M. Miller
10 Tyson Kamuf
11 SULLIVAN, MOUNTJOY, STAINBACK
12 & MILLER, P.S.C.
13 100 St. Ann Street
14 P. O. Box 727
15 Owensboro, Kentucky 42302-0727
16 Phone: (270) 926-4000
17 Facsimile: (270) 683-6694
18 jmiller@smsmlaw.com
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20 *Counsel for Big Rivers Electric Corporation*

21
22
23
24 **Certificate of Service**

25
26 I certify that a true and accurate copy of the foregoing was served by first class mail or by
27 overnight courier upon the persons listed on the accompanying service list, on or before the date
28 the foregoing is filed with the Kentucky Public Service Commission.

29
30 On this the 28th day of May, 2015,

31
32
33 

34 _____
Counsel for Big Rivers Electric Corporation

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

AN EXAMINATION OF THE APPLICATION)
OF THE FUEL ADJUSTMENT CLAUSE OF)
BIG RIVERS ELECTRIC CORPORATION) Case No. 2014-00230
FROM NOVEMBER 1, 2013 THROUGH)
APRIL 30, 2014)

AN EXAMINATION OF THE APPLICATION)
OF THE FUEL ADJUSTMENT CLAUSE OF)
BIG RIVERS ELECTRIC CORPORATION) Case No. 2014-00455
FROM NOVEMBER 1, 2012 THROUGH)
OCTOBER 31, 2014)

DIRECT TESTIMONY

OF

LINDSAY N. BARRON
CHIEF FINANCIAL OFFICER

ON BEHALF OF

BIG RIVERS ELECTRIC CORPORATION

FILED: May 29, 2015

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2
3
4
**DIRECT TESTIMONY
OF
LINDSAY N. BARRON**

5 **Q. Please state your name, business address, and position.**

6 A. My name is Lindsay N. Barron. I am employed by Big Rivers Electric Corporation
7 (“Big Rivers”), 201 Third Street, Henderson, Kentucky 42420, as its Chief Financial
8 Officer.

9 **Q. Please describe your job responsibilities.**

10 A. I am responsible for the oversight and management of the budgeting, accounting,
11 finance, rates, strategic planning, and risk management functions for Big Rivers. I
12 report directly to the Chief Executive Officer.

13 **Q. Briefly describe your education and work experience.**

14 A. I first joined Big Rivers in October 1998 in the Accounting Department. I held various
15 roles in Accounting/Purchasing before transitioning to Power Supply in March of 2003
16 as Economic Analyst/Market Coordinator. I joined Vectren Corporation as an Energy
17 Market Analyst in 2005 and served as Manager, Market Research & Analysis for
18 Vectren from December 2006 to August 2010. I returned to Big Rivers as Director of
19 Risk Management & Strategic Planning in September 2010, and was named Managing
20 Director, Energy Services in June 2012. I was named Vice President, Energy Service
21 in February 2013. I assumed my current role in October 2014. I am a Certified Public
22 Accountant and earned a Master of Business Administration degree and a Bachelor of
23 Science in Accounting from the University of Southern Indiana.

24 **Q. Have you previously testified before the Kentucky Public Service Commission**
25 **(“Commission”)?**

1 A. Yes. I have testified before the Commission on a number of occasions, including in
2 Big Rivers' last two general rate cases (Case Nos. 2012-00535 and 2013-00199), in
3 Case No. 2014-00134, and in previous fuel adjustment clause ("FAC") review
4 proceedings.

5 **Q. What is the purpose of your testimony?**

6 A. The purpose of my testimony is to sponsor and support the Stipulation and
7 Recommendation agreement among the parties to these consolidated proceedings (the
8 "Stipulation"). The Stipulation is attached as an exhibit to my testimony.

9 **Q. Please describe the procedural background of these cases.**

10 A. The Commission instituted Case No. 2014-00230, a six-month review of Big Rivers
11 FAC, on August 13, 2014. The Commission granted Kentucky Industrial Utility
12 Customers, Inc.'s ("KIUC's") motion to intervene, and a hearing was held in that case
13 on November 12, 2014. The Commission delayed issuing a decision in that case at the
14 request of the parties to allow the parties an opportunity to negotiate a potential
15 settlement.

16 On February 5, 2015, the Commission instituted Case No. 2014-00455, a two-
17 year review of Big Rivers' FAC. The Commission consolidated Case Nos. 2014-00230
18 and 2014-00455 and made KIUC a party to Case No. 2014-00455 by order dated
19 February 19, 2015. The Commission granted the Office of the Attorney General's
20 ("AG's") request to intervene in the consolidated proceedings on April 8, 2015.

21 On May 21, 2015, the Commission granted the parties' request in the
22 consolidated proceedings to suspend the remaining items on the procedural schedule

1 while the parties finalized a settlement. A hearing is scheduled in this matter for June
2 2, 2015.

3 **Q. Have the parties finalized a settlement of the consolidated proceedings?**

4 A. Yes. The negotiations involved numerous phone and email communications among the
5 parties' counsel and two conference calls among representatives of the parties. These
6 negotiations resulted in a settlement of the consolidated proceedings. That settlement is
7 set forth in the Stipulation attached to this testimony.

8 **Q. Please describe the Stipulation.**

9 A. Big Rivers currently utilizes system average fuel costs when allocating fuel costs to off-
10 system sales for purposes of calculating FAC charges. The AG and KIUC have taken
11 the positions that Big Rivers should be required to stack its resources when allocating
12 fuel costs between native load sales and off-system sales.

13 Big Rivers continues to believe that its current methodology is reasonable and
14 that requiring Big Rivers to change to a stacking methodology outside of a general rate
15 case is unreasonable. Nevertheless, Big Rivers is in a position to allocate, and desires
16 to allocate, some margins to its Members.

17 In the Stipulation, Big Rivers offers to provide up to 15 monthly credits to its
18 Members through the FAC, and to propose switching to a stacking methodology in its
19 next base rate proceeding, which is expected to be filed in the first quarter of 2016. Big
20 Rivers' obligation to provide the monthly credits will cease earlier than the 15th credit
21 if, prior to then, Big Rivers switches or is ordered to switch to a stacked cost
22 methodology, the rates proposed in the next base rate case go into effect, or the
23 Commission orders a refund based on Big Rivers' FAC methodology. The intervenors

1 agree to forgo any challenge to Big Rivers' FAC methodology, although that obligation
2 ceases if Big Rivers has not switched to a stacked costs methodology by November 1,
3 2016 (the anticipated effective date of the rates in Big Rivers' next base rate case).

4 **Q. Why are there provisions that could terminate Big Rivers' obligation prior to the**
5 **15th credit?**

6 A. Those provisions are primarily designed to prevent a double dip, i.e., Big Rivers would
7 not have to continue to provide the monthly credit in the event the Commission decides
8 that Big Rivers should be required to switch to a stacking methodology outside of a
9 general rate case.

10 **Q. Is the Stipulation subject to the approval of the Commission and the Rural**
11 **Utilities Service?**

12 A. Yes.

13 **Q. What are your conclusions and recommendations to the Commission in these**
14 **proceedings?**

15 A. The Stipulation is a fair, just, and reasonable resolution to the issues in these
16 consolidated proceedings and it provides an opportunity for Big Rivers to flow margins
17 to its Members. I request that the Commission approve the Stipulation without change
18 or conditions and approve the operation of Big Rivers' FAC during the periods under
19 review.

20 **Q. Does this conclude your testimony?**

21 A. Yes.

STIPULATION AND RECOMMENDATION

This Stipulation and Recommendation (“*Stipulation*”) is entered into this 26th day of May, 2015, by and between Big Rivers Electric Corporation (“*Big Rivers*”), the Office of the Attorney General (“*AG*”), and Kentucky Industrial Utility Customers, Inc. (“*KIUC*”)(collectively, the “*Signatory Parties*”) in the proceedings involving Big Rivers that are the subject of this Stipulation, as set forth below:

WITNESSETH:

WHEREAS, pursuant to 807 KAR 5:056, the Kentucky Public Service Commission (“*Commission*”) established Case No. 2014-00230 to review and evaluate the reasonableness of the application of Big Rivers’ fuel adjustment clause (“*FAC*”) for the six-month period that ended on April 30, 2014, and the Commission established Case No. 2014-00455 to review and evaluate the reasonableness of the application of Big Rivers’ FAC for the two-year period that ended on October 31, 2014, and consolidated it with Case No. 2014-00230;

WHEREAS, the Commission has granted the AG and KIUC full intervention in these proceedings;

WHEREAS, the AG and KIUC have raised issues relating to Big Rivers’ FAC practices during the periods under review;

WHEREAS, the Signatory Parties have reviewed the issues raised in Case Nos. 2014-00230 and 2014-00455, and the Signatory Parties have reached a settlement of the case, including the issues raised therein, as embodied in this Stipulation;

WHEREAS, Big Rivers believes its current FAC methodology and practices are reasonable, but desires to allocate certain margins to its three distribution cooperative members (the “*Members*”);

WHEREAS, Big Rivers expects to file an application for a general adjustment in rates during the first quarter of 2016 (the “*2016 Rate Case*”), in which Big Rivers will propose, among other things, to change its FAC calculation methodology to “stack” its generating units for purposes of allocating fuel costs between native load and off-system sales, allocating the highest fuel costs to off-system sales, with the rates proposed in that proceeding to become effective on or about November 1, 2016;

WHEREAS, the Signatory Parties desire to settle issues pending before the Commission in the above-referenced proceedings;

WHEREAS, the adoption of this Stipulation will reduce the resources required of the Commission to finalize these proceedings and eliminate the need for the Signatory Parties potentially to expend significant resources litigating these proceedings;

WHEREAS, the Signatory Parties agree that this Stipulation, viewed in its entirety, is a fair, just, and reasonable resolution of all of the issues in the above-referenced proceedings; and

WHEREAS, it is the position of the Signatory Parties that this Stipulation is supported by sufficient and adequate data and information and should be approved by the Commission.

WHEREAS, this Stipulation shall not be deemed to constitute an admission by any Signatory Party to this Stipulation that any computation, formula, allegation, assertion or contention made by any other Signatory Party in these proceedings is true or

valid. Nothing in this Stipulation shall be used or construed for any purpose to imply, suggest, or otherwise indicate that the results produced through the compromise reflected herein represent fully the objectives of the Stipulation.

NOW, THEREFORE, for and in consideration of the premises and terms and conditions set forth herein, the Signatory Parties stipulate and recommend as follows:

1. Big Rivers will credit \$311,111.11 (the "FAC Credit") each month through its FAC to its Members beginning on the wholesale invoices issued for August 2015 consumption. The FAC Credits shall cease upon the first to occur of the following:

- (a) The date of the fifteenth FAC Credit;
- (b) The effective date of new rates to be set in Big Rivers' next base rate case;
- (c) The date the methodology Big Rivers uses to allocate fuel costs to off-system sales for purposes of calculating FAC charges is changed from a system average cost methodology to a stacked-cost methodology; and
- (d) The date, if any, the Commission orders a refund of amounts collected through Big Rivers' FAC on the basis of the methodology Big Rivers uses to allocate fuel costs to off-system sales.

Any cessation of FAC Credits under (b), (c), and (d) shall take effect beginning with the month in which that change is effective.

2. In Big Rivers next base rate case, which it expects to file in the first quarter of 2016, Big Rivers shall propose, among other things, to change its FAC

calculation methodology to “stack” its generating units for purposes of allocating fuel costs between native load and off-system sales, allocating the highest fuel costs to off-system sales.

3. The AG and KIUC each agree not to contest, seek a change in, or oppose the manner in which Big Rivers allocates FAC costs between native load and off-system sales in any Commission proceeding initiated prior to November 1, 2016, or for any FAC review period prior to November 1, 2016, but shall not be prohibited in any respect from: (a) raising issues related to the manner in which Big Rivers allocates FAC costs between native load and off-system sales in FAC proceedings initiated by Commission order after November 1, 2016, for review periods after November 1, 2016, if Big Rivers has not changed its FAC calculation methodology to an hourly stacked-cost methodology; or (b) contesting the appropriateness of the changes proposed by Big Rivers to its FAC calculation methodology in the 2016 Rate Case or in any other proceeding initiated after November 1, 2016.

4. The Signatory Parties agree that the foregoing stipulations and agreements represent a fair, just, and reasonable resolution of the issues addressed herein, and request that the Commission approve the Stipulation.

5. The Signatory Parties agree that, following the execution of this Stipulation, they will cause the Stipulation to be filed with the Commission together with a request that the Commission consider and approve the Stipulation. The Signatory Parties agree that this Stipulation is subject to the acceptance of and approval by the Commission and the Rural Utilities Service (“RUS”), and they agree to act in good faith and to use their best efforts to seek the Commission’s acceptance and approval of this

Stipulation. If the Commission approves this Stipulation without modification, the Signatory Parties each waive any right to appeal or to file an action seeking review of or to seek reconsideration of any order of the Commission issued in accordance with this Stipulation.

6. Upon execution of this Stipulation, Big Rivers will promptly seek all required RUS review and approvals.

7. The Signatory Parties agree that if the Commission or RUS does not accept and approve this Stipulation in its entirety and unchanged, or if the Commission or RUS imposes conditions on its acceptance and approval that are unacceptable to Big Rivers, then:

(a) This Stipulation shall be void and withdrawn by the Signatory Parties hereto from any further consideration by the Commission, and none of the Signatory Parties shall be bound by any of the provisions herein, provided that none of the Signatory Parties is precluded from advocating any position contained in this Stipulation; and

(b) Neither the terms of the Stipulation nor any matters raised during the negotiations of this Stipulation shall be binding on any of the Signatory Parties or be construed against any of the Signatory Parties.

8. Subsequent to obtaining all required Commission and RUS review and approvals, Big Rivers shall cause the tariff amendments attached hereto as Exhibit A to be filed with the Commission. The Signatory Parties recommend that the Commission allow the tariff amendments to become effective without suspension or change.

9. The Signatory Parties hereto agree that this Stipulation shall inure to the benefit of and be binding upon the Signatory Parties hereto, their successors, and assigns.

10. The Signatory Parties hereto agree that this Stipulation constitutes the complete agreement and understanding among the Signatory Parties hereto, and any and all oral statements, representations or agreements made prior hereto or contemporaneously herewith shall be null and void and shall be deemed to have been merged into this Stipulation.

11. The Signatory Parties hereto agree that, for purposes of this Stipulation only, the terms of this Stipulation are based upon the independent analyses of the Signatory Parties, reflect a fair, just, and reasonable resolution of the issues herein, and are the product of compromise and negotiation.

12. The Stipulation shall not have any precedential value in this or any other jurisdiction.

13. Counsel for KIUC hereto warrants that he or she has informed, advised, and consulted with the KIUC members participating in these proceedings in regard to the contents and the significance of this Stipulation, and based upon the foregoing, is authorized to execute this Stipulation on behalf of those clients. The other Signatory Parties hereto warrant that they have informed, advised, and consulted with their respective clients in regard to the contents and the significance of this Stipulation, and based upon the foregoing, are authorized to execute this Stipulation on behalf of those clients.

14. The Signatory Parties agree that this Stipulation being a product of negotiation among all Signatory Parties, no provision of this Stipulation shall be strictly construed in favor of or against any party.

15. The Signatory Parties hereto agree that this Stipulation may be executed in multiple counterparts.

The Attorney General of Kentucky, by and through
his Office of the Rate Intervention Division

By: 

Kentucky Industrial Utility Customers, Inc.

By: _____

Big Rivers Electric Corporation

By: _____

14. The Signatory Parties agree that this Stipulation being a product of negotiation among all Signatory Parties, no provision of this Stipulation shall be strictly construed in favor of or against any party.

15. The Signatory Parties hereto agree that this Stipulation may be executed in multiple counterparts.

The Attorney General of Kentucky, by and through
his Office of the Rate Intervention Division

By: Mill P. Hunt

Kentucky Industrial Utility Customers, Inc.

By: _____

Big Rivers Electric Corporation

By: _____

14. The Signatory Parties agree that this Stipulation being a product of negotiation among all Signatory Parties, no provision of this Stipulation shall be strictly construed in favor of or against any party.

15. The Signatory Parties hereto agree that this Stipulation may be executed in multiple counterparts.

The Attorney General of Kentucky, by and through
his Office of the Rate Intervention Division

By: _____

Kentucky Industrial Utility Customers, Inc.

By: _____

Big Rivers Electric Corporation

By: Robert W. Beatty _____

FAC - Fuel Adjustment Clause

Applicability:

To all Big Rivers' Members.

Availability:

The Fuel Adjustment Clause ("FAC") is a mandatory rider to all wholesale sales by Big Rivers to its Members, including Base Energy sales to the Smelters under the Smelter Agreements but excluding Supplemental and Back-Up Energy sales to the Smelters under those two Agreements.

Rate:

The FAC shall provide for periodic adjustment per kWh of sales when the unit cost of fuel [F(m)/S(m)] is above or below the base unit cost of \$0.020932 per kWh [F(b)/S(b)]. The current monthly charges shall be increased or decreased by the product of the kWh furnished during the current month and the FAC factor for the preceding month where the FAC factor is defined below:

$$\text{FAC Factor} = \frac{F(m)}{S(m)} - \frac{F(b)}{S(b)}$$

Where "F" is the expense of fossil fuel in the base (b) and current (m) periods; and S is sales in the base (b) and current (m) periods as defined in 807 KAR 5:056, all defined below:

Definitions:

Please see Section 4 for definitions common to all tariffs.

(1) Fuel cost (F) shall be the most recent actual monthly cost of:

- (a) Fossil fuel consumed in the utility's own plants, and the utility's share of fossil and nuclear fuel consumed in jointly owned or leased plants, plus the cost of fuel which would have been used in plants suffering forced generation or transmission outages, but less the cost of fuel related to substitute generation, plus
- (b) The actual identifiable fossil and nuclear fuel costs associated with energy purchased for reasons other than identified in paragraph (c) below, but excluding the cost of fuel related to purchases to substitute the forced outages, plus
- (c) The net energy cost of energy purchases, exclusive of capacity or demand charges (irrespective of the designation assigned to such transaction) when such energy is purchased on an economic dispatch basis and exclusive of energy purchases directly related to Supplemental and Back-Up Energy sales to the Smelters. Included therein may be such costs as the charges for economy energy purchased and the charges as a result of scheduled outages, also such kinds of energy being purchased by the buyer to substitute for its own higher cost energy; ~~and less~~
- (d) The cost of fossil fuel, as denoted in (1)(a) above, recovered through inter-system sales including the fuel costs related to economy energy sales and other energy sold on an economic dispatch basis; ~~and less~~
- (e) A monthly credit of \$311,111.11 for each month from the August 2015 service month, through the October 2016 service month, except that if Big Rivers' FAC methodology is changed to a

stacking methodology prior to November 1, 2016, or if Big Rivers is ordered to refund amounts collected through its FAC based on its allocation methodology prior to November 1, 2016, the monthly credit shall be zero. In all other months, the monthly credit shall be zero.

All fuel costs shall be based on weighted average inventory costing.

- (2) Forced outages are all non-scheduled losses of generation or transmission which require substitute power for a continuous period in excess of six (6) hours. Where forced outages are not a result of faulty equipment, faulty manufacture, faulty design, faulty installations, faulty operation, or faulty maintenance, but are Acts of God, riot, insurrection or acts of public enemy, the utility may, upon proper showing, with the approval of the Commission, include the fuel cost of substitute energy in the adjustment.
- (3) Sales (S) shall be kWh sold, excluding inter-system sales and Supplemental and Back-Up Energy sales to the Smelters. Where for any reason, billed system sales cannot be coordinated with fuel costs for the billing period, sales may be equated to the sum of:
 - (i) generation, *plus*
 - (ii) purchases, *plus*
 - (iii) interchange in, *less*
 - (iv) energy associated with pumped storage operations, *less*
 - (v) inter-system sales referred to in subsection (1)(d) above, *less*
 - (vi) total system losses.

Utility-used energy shall not be excluded in the determination of sales (S).

- (4) The cost of fossil fuel shall include no items other than the invoice price of fuel less any cash or other discounts. The invoice price of fuel includes the cost of the fuel itself and necessary charges for transportation of the fuel from the point of acquisition to the unloading point, as listed in Account 151 of the FERC Uniform System of Accounts for Public Utilities and Licenses.
- (5) Current (m) period shall be the second month preceding the month in which the FAC factor is billed.