COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE COMMISSSION OF THE APPLICATION OF THE FUEL ADJUSTMENT CLAUSE OF LOUISVILLE GAS AND ELECTRIC COMPANY PURSUANT TO 807 KAR 5:056E, SECTIONS 1(11) AND (12)	)	CASE NO. 8056

O R D E R

Pursuant to 807 KAR 5:056E, Sections 1(11) and (12), and following proper notice, a hearing was held on January 27, 1981, to review the operation of the standard fuel adjustment clause; to determine the amount of fuel cost that should be transferred (rolled-in) to the base rates of the Applicant; and to re-establish the fuel adjustment clause charge.

In response to the Commission's request for information, the Applicant filed data showing by month, for the period November 1978 through November 1980, the price paid for coal, freight costs, unit availability, unit performance, and the cost per kwh of net generation. In response to the request, the Applicant stated its intent to use October of 1980 as the test month or base period for purposes of arriving at the base fuel cost (F(b)) and kwh sales (S(b)), the components of the standard fuel adjustment clause. The base fuel cost requested using data for the month of November 1980 was 12.35 mills per kwh, which is the same level of fuel cost currently included in the Applicant's base rates.

In establishing the level of base fuel cost to be included in the Applicant's rates, the Commission must determine whether the base period fuel cost per net kwh generated is normal or representative of the level of fuel cost actually being experienced by the Applicant. The Commission's review of data filed by the Applicant discloses that the cost of net generation for July, August, September and October of 1980 was 12.07; 12.45; 12.27 and 12.33 mills per kwh, respectively. Further, the

Commission's analysis of the Applicant's fuel clause filings discloses that actual fuel cost for the six months ending December 1980 ranged from a low of 12.29 mills per kwh in November 1980 to a high of 12.91 mills in August of 1980.

One other issue requires discussion at this point. In its Order in Case No. 8058 the Commission discussed in detail Kentucky Power's position that transfer of fuel cost to the base rates will result in Kentucky Power not being able to bill all of the increase in fuel cost for the two months immediately preceding the first month the new base fuel cost is billed. The Commission concluded, among other things, that there was some merit to Kentucky Power's position and provided in that Order what it believes is a reasonable solution to the problem.

In this instance the Applicant, like Kentucky Power, bills its customers on a cycle basis daily. However, the Applicant has proposed to leave its base fuel cost of 12.35 mills unchanged. Since the problem raised by Kentucky Power occurs only when the base fuel cost is changed, the Applicant will not experience any unrecovered fuel cost from the Order issued in this case. For purposes of future reference the Commission will include at this point the example used in Case No. 8058.

For this example, three assumptions are made. First, it is assumed that the Commission approves a base fuel cost of 14.33 mills effective for bills rendered on and after April 1, 1981. Second, it is assumed that the former base fuel cost prior to roll-in was 12.05. And third, it is assumed that the actual fuel cost for February and March of 1981 is 15.11 and 14.52 mills, respectively. Since one-half of February sales would be billed in February and the other one-half in March, the base fuel cost of 12.05 would apply to both. Thus, for February usage the applicable fuel adjustment clause rate would be 3.06 mills (15.11 less 12.05) and would be recovered from customers beginning with the first cycle billed in April of 1981.

Recovery of the March fuel cost is not as easily computed since one-half of the sales billed in March would be subject to the base fuel cost of 12.05 and the other one-half billed in April would be subject to the new base fuel cost of 14.33. While a precise calculation cannot be made, it is the view of the Commission that a reasonable solution to this problem is to average the sum of the base fuel cost prior to roll-in of 12.05 mills and of the base fuel cost after the roll-in of 14.33 mills, which results in a figure of 13.19 mills. Thus, the fuel adjustment clause rate applicable to March usage would be 1.33 mills (14.52 less 13.19) and would be recovered from customers beginning with the first cycle billing in May of 1981. The Commission believes that the use of this procedure will eliminate any material impact on the company or its customers due to roll-in of the fuel cost to the base rates.

The Commission, after review of the evidence of record and being advised, FINDS:

(1) That the Applicant has complied in all material respects with the provisions of 807 KAR 5:056E, Uniform Fuel Adjustment Clause.

(2) That the test month of October, 1980 should be used as the base period in this proceeding.

(3) That the Applicant's requested base fuel cost of 12.35 mills is the same base fuel cost currently included in the Applicant's base rates.

IT IS THEREFORE ORDERED that the Applicant's requested base fuel cost is herein established at 12.35 mills per kwh.

IT IS FURTHER ORDERED that base rates included in the Applicant's tariffs currently on file with the Commission shall remain unchanged as a result of the Commission's Order in this case.

Done at Frankfort, Kentucky, this 13th day of March, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Volz
Chairman

Katherine Randall
Vice Chairman

Denis Carrigan
Commissioner

ATTEST:

Secretary