

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF ELECTRIC RATES OF )  
LOUISVILLE GAS AND ELECTRIC COMPANY TO )  
IMPLEMENT A 25 PERCENT DISALLOWANCE OF ) CASE NO. 10320  
TRIMBLE COUNTY UNIT NO. 1 )

O R D E R

The Commission, on its own Motion, hereby initiates this investigation of Louisville Gas and Electric Company's ("LG&E's") electric rates for the purpose of implementing its recent decision to disallow 25 percent of LG&E's cost of its Trimble County Unit No. 1 ("Trimble County").<sup>1</sup> LG&E is currently collecting, subject to refund, \$11.4 million on an annual basis pending the outcome of this investigation.<sup>2</sup> During this investigation the Commission intends to review and evaluate various rate-making alternatives and determine the current and future effect on LG&E's electric rates due to a 25 percent disallowance of Trimble County.

The implementation of a partial cost disallowance raises many issues relating to the appropriate rate-making treatment as well as accounting treatment for Trimble County. Issues such as the

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<sup>1</sup> Case No. 9934, A Formal Review of the Current Status of Trimble County No. 1, Order issued July 1, 1988.

<sup>2</sup> Case No. 10064, Adjustment of Gas and Electric Rates of Louisville Gas and Electric Company, Order issued July 1, 1988.

dollar amount of the disallowance, allocations of costs and revenues associated with Trimble County, and the impact on rate base and capital must be considered. While many of these issues were mentioned in Case Nos. 9934 and 10064, a complete record was not established on the adjustment to total revenue requirements associated with the 25 percent disallowance. In Case No. 9934, it was suggested that a disallowance could be affected through a rate-making mechanism that would impute revenues associated with the disallowed portion of the plant. Some have suggested establishing a generating subsidiary. Since there may be other viable alternatives to a direct cost reduction or a sale of a 25 percent share of Trimble County, the Commission finds that all parties should have an opportunity to present such alternatives. The issues mentioned herein are not intended to be all inclusive. The Commission is open to considering all options with regard to determining the effect on revenue requirements of the 25 percent disallowance. This proceeding will provide a forum in which these and other issues can be thoroughly explored. A complete record should be established in this case to enable the Commission to make an informed decision on the rate-making effects of the cost disallowance.

To facilitate the rate-making process, the Commission will utilize the adjusted test year found reasonable in Case No. 10064 as the test period in this proceeding. In determining the current revenue requirements impact of the disallowance, adjustments should be made to reflect the disallowance of 25 percent of Trimble County based on the level of construction work in progress

at the test year ended August 31, 1987, and the adjusted rate base, capital and operating revenues and expenses contained in the Order of July 1, 1988 in Case No. 10064. Consideration should also be given to how the disallowance should be determined in future rate proceedings both while the plant is under construction as well as upon completion of construction.

The Commission anticipates that all parties that were involved in Case Nos. 9934 and 10064 will present evidence in this proceeding. Therefore, all parties in the two proceedings will be deemed parties herein. To facilitate the establishment of a procedural schedule for processing this case, and to discuss the scope of this proceeding as well as focusing the issues, an informal conference should be scheduled for August 2, 1988 at 9:00 a.m., Eastern Daylight Time, at the Commission's offices in Frankfort, Kentucky.

IT IS THEREFORE ORDERED that:

1. This investigation be established, pursuant to the final Order in Case No. 10064, to determine the revenue requirements adjustments necessary to reflect the disallowance of 25 percent of Trimble County in LG&E's electric rates.

2. All parties to Case Nos. 9934 and 10064 are hereby made parties of record in this proceeding.

3. An informal conference is hereby scheduled for August 2, 1988 at 9:00 a.m., Eastern Daylight Time, to consider a procedural schedule, to discuss the scope and to consider focusing the issues to facilitate the processing of this case.

Done at Frankfort, Kentucky, this 19th day of July, 1988.

**PUBLIC SERVICE COMMISSION**

Richard D. Hamanoff  
Chairman

Robert M. Lewis  
Vice Chairman

James H. Wilhoit  
Commissioner

**ATTEST:**

Executive Director