COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ORDER APPROVING CERTAIN ACCOUNTING TREATMENT OF AMOUNTS PAID FOR COAL CONTRACT TERMINATION	)))))	CASE NO. 89-030

O R D E R

IT IS ORDERED that Louisville Gas and Electric Company ("LG&E") shall file an original and 12 copies of the following information with this Commission with copies to all parties of record on or before March 24, 1989. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed; for example, Item 1 (a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible.

The information requested herein is due no later than March 24, 1989. If the information cannot be provided by this date, LG&E should submit a motion for an extension of time stating the reason a delay is necessary and include a date by which it will be furnished. Such motion will be considered by the Commission.

1. Page 4, paragraph 6, of the application includes a reference to the numerous and extremely complex issues raised in

the audit of the Peabody Development Company ("Peabody") contract price escalations, issues which ultimately led to the termination of the contract. Provide a detailed description of these issues and the Company's best estimate of the potential cost to LG&E had these issues been decided in Peabody's favor.

2. Provide a detailed explanation of why LG&E chose to negotiate a settlement in this matter and the basis for the settlement amount of $17.5 million.

3. Provide a listing and description of the mine closure costs referenced in paragraph 11 of the application and state the amount that LG&E may have been obligated to pay.

4. Provide a listing of all legal authorities, aside from Kentucky PSC Case Nos. 8921[1] and 10214[2], which hold that the cost of the buyout of a fuel supply contract may be considered a fuel cost chargeable to Account 151 of the Federal Energy Regulatory Commission's ("FERC") Uniform System of Accounts. This listing should include decisions of both state and federal regulatory commissions.

5. Provide a listing of all legal authorities, aside from Kentucky PSC Case Nos. 8921 and 10214, which hold that the cost of the buyout of a fuel supply contract is a fuel cost and should be

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1 Case No. 8921, Application of Big Rivers Electric Corporation for an Order Approving Certain Accounting Treatment for Amounts Paid For Coal Contract Amendment.

2 Case No. 10214, Application of Kentucky Utilities Company for an Order Approving Certain Accounting Treatment of Amounts Paid for Coal Contract Release.

permitted to pass through a utility's fuel adjustment clause. This listing should include decisions of both state and federal regulatory commissions.

6. In Kentucky Utilities and Nevada Power Company, 45 FERC P 61,409, FERC stated:

> Buyout costs are payments to vendors in consideration for not purchasing fuel required by contract. As such, buyout costs are the very antithesis of the cost of fuel consumed. Accordingly, waiver of the fuel cost regulations is required whenever a utility seeks to recover buyout costs in the fuel clause regardless of the accounting treatment which may be permitted.

Should the Commission adopt a similar position? Explain your response. If this Commission were to adopt a similar position, is it LG&E's position that a waiver of or deviation from Commission Regulation 807 KAR 5:056 could be granted to permit costs not considered fuel costs or chargeable to Account 151 of FERC's Uniform System of Accounts to be passed through an electric utility's fuel adjustment clause? Please explain.

7. If the Commission approves LG&E's application, is it correct that the amortization of the $17.5 million is to be completed by December 31, 1990, regardless of when the approval is granted?

8. Provide a detailed explanation of how the amortization of the $17.5 million payment constitutes an item includable in Account No. 151, Fuel Stock. The explanation should be in conformity with the description of Account No. 151 found in the Uniform System of Accounts.

9. On page 8 of the application, LG&E indicates that it proposes to establish a deferred debit for the $17.5 million payment.

a. Provide all the appropriate accounting entries for the transactions related to the $17.5 million payment.

b. Provide a detailed explanation as to why the entire $17.5 million should be initially recorded as a deferred debit when $8.5 million was paid February 1, 1989 and $9.0 million will be paid January 31, 1990.

c. Explain what reporting disclosures LG&E will be required to make concerning this transaction in its 1989 Financial Statements in order to be in conformity with generally accepted accounting principles.

10. Exhibit C of the application contains the new coal supply agreement between LG&E and Peabody. Section 6, page 9, deals with the price of the coal.

a. Provide a listing of all taxes and fees currently included in the $27.45 per ton and $27.82 per ton coal prices.

b. Section 6.3 discusses various quality price adjustments. Explain what studies or analysis LG&E has undertaken to determine the impact on its cost savings analysis if one or more of the quality price adjustments were invoked on a consistent basis.

11. Exhibit D of the application contains the analysis of the savings expected from the Peabody contract buy out. Concerning the tons of coal to be purchased:

a. Explain how the forecasted purchases for 1989 and 1990 were determined. Include all studies and analysis which support the figures.

b. For the period of 1984 through 1988, provide the total actual purchases of coal from all sources.

c. For the 1989 and 1990 total forecasted purchases, provide a breakdown of the annual totals into monthly purchases.

12. From Exhibit D of the application, concerning the Peabody coal prices:

a. Provide the calculations which produced the contract price of $28.07. Include the actual December 1988 prices for underground and surface-mined coal.

b. The Peabody contract price and base price are based on a weighted average methodology which assumes that 50 percent of the Peabody coal purchases are from surface mining and 50 percent from underground mining. Provide a detailed explanation of the basis for the 50-50 assumption. The explanation should include an analysis of the actual purchase mix for previous years and any studies or documentation which support the use of a 50-50 mix for future purchases.

13. From Exhibit D of the application, concerning the Other Purchases Coal Prices:

a. Provide a detailed explanation of why the Other Purchases Price for the Base Case is different from the Other Purchases Price for the Buy Out Scenario. Include the impact of the factors such as quantity, quality, and sources of coal in the explanation.

b. Provide the calculations which produced the Other Purchases Price for the Base Case of $20.04 and $20.25. Include a thorough explanation of the allocated price mix used in the calculations.

c. Provide the calculations which produced the Other Purchases Price for the Buy Out Scenario of $19.34 and $18.89. Include a thorough explanation of the allocated price mix used and what was meant by the reference to "prices are based on recently received long-term coal quotations."

14. From Exhibit D of the application, concerning the assumptions used in the analysis:

a. Explain why LG&E did not factor in price escalations in the Base Case or the Buy Out Scenario.

b. Provide a detailed explanation of how LG&E arrived at an estimated price escalation of 4 percent. Include any studies, analysis, or documentation which supports the 4 percent estimate.

15. a. Explain why LG&E did not submit a present value analysis of the coal contract buy out.

b. Prepare a present value analysis of the coal contract buy out. The analysis should be prepared on a monthly basis. The determination of a discount rate should be adequately explained and the calculation of the discount rate presented. All inputs used should be identified and assumptions involving escalation factors, prices, coal source mix, and amortization expenses should be fully explained and adequately documented. LG&E should explain its reasons for choosing the particular number of months used in the present value analysis.

Done at Frankfort, Kentucky, this 10th day of March, 1989.

PUBLIC SERVICE COMMISSION

For the Commission

ATTEST:

Executive Director