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

On March 10, 1989, the Commission issued an Order requiring Louisville Gas and Electric Company ("LG&E") to submit certain information. Pursuant to that Order, the Commission now requests additional information pertaining to this case.

IT IS ORDERED that LG&E shall file the original and 12 copies of the following information with this Commission with copies to all parties of record on or before April 21, 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 April 21, 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. Provide copies of the legal authorities cited in LG&E's response to Item 4 of the first Information Request.

2. In its response to Item 6 of the first Information Request, LG&E suggests that its application should be considered as a request for waiver or deviation from the FAC regulation if [illegible]ission were not to consider the contract buy out cost as a cost of fuel or chargeable to Account 151. In the absence of any express provisions in Commission Regulation 807 KAR 5:056 permitting the Commission to deviate from its provisions, what legal authority exists for granting such a waiver or deviation?

3. In its response to Item 8 of the first Information Request, LG&E has provided support for the argument that the $17.5 million payment to Peabody should be characterized as a prepayment for coal. Provide a detailed explanation of why the $17.5 million payment was not recorded in Account No. 165, Prepayments, instead of in Account No. 186, Miscellaneous Deferred Debits.

4. In the response to Item 9(b) of the first Information Request, the description of Account No. 186, Miscellaneous Deferred Debits, is quoted from the Uniform System of Accounts. Emphasis was added to the phrase ". . . and items the proper final disposition of which is uncertain." Provide a detailed explanation of what uncertainty exists in the proper final disposition of the $17.5 million transaction.

5. Item 10(b) of the first Information Request asked the following: "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." While the response explained what the purpose of the quality price adjustments was, the answer provided was not responsive to the request. Provide any sensitivity analysis or studies that you have performed showing what impact the quality price adjustments may have on LG&E's cost saving analysis. If no studies were performed, explain why not.

6. Exhibit 11(c)(1) of the first Information Request is a schedule of coal purchases forecasted for 1989 and 1990, relating to the base case and buy out scenarios. Explain how the monthly Peabody purchases were determined for both scenarios. Include all supporting calculations and workpapers.

7. In the response to Item 13(b), page 2 of 2, of the first Information Request are the calculations for the weighted average cost of other coal purchases for the base case scenario. Provide the following information:

a. Explain why the purchased tons in 1989 were 51,000 tons over the amount used in LG&E's analysis.

b. Explain why the purchased tons in 1990 were 3,000 tons over the amount used in LG&E's analysis.

c. The response states that the other purchases price ". . . includes the expected price adjustments for coal quality." Explain the adjustments applied to each price, the reasons for the adjustment, and the calculations of the listed prices after adjustment. Include all supporting workpapers.

d. Explain if the tons listed for Suppliers A through E were the maximum amounts each were willing to supply under the conditions existing in the base case scenario. Explain how each supplier's contribution to the anticipated purchase mix was determined.

e. Explain in detail what the following statement refers to: "The Company does not consider the $72,000 slightly difference to be significant."

8. In the response to Item 13(c), page 2 of 3, of the first Information Request are the calculations for the weighted average cost of other coal purchases for the buy out scenario. Provide the following information:

a. Explain if the tons listed for Suppliers A through E were the maximum amounts each were willing to supply under the conditions existing in the buy out scenario. Explain how each supplier's contribution to the anticipated purchase mix was determined.

b. As in the base case scenario, the response states that the other purchases price ". . . includes the expected price adjustments for coal quality." Explain the adjustment applied to each price, the reason for the adjustment, and the calculations of the listed prices after adjustment. Include all supporting workpapers.

c. Explain the reasons for assuming that, for the February 15, 1989 Peabody contract, 50 percent of the coal would be from the River Queen mine and 50 percent from the Moorman mine.

9. Provide a recalculation of the buy out scenario shown in Item 13(c), page 2 of 3, for the anticipated purchase mix and weighted average cost, using the following assumptions:

a. The actual Peabody contract amount of 928,000 tons in 1989 and 75 percent of the coal supplied from River Queen and 25 percent from Moorman.

b. The actual Peabody contract amount of 928,000 tons in 1989 and 75 percent of the coal supplied from Moorman and 25 percent from River Queen.

The recalculation is to be shown for 1989 and 1990.

10. In the response to Item 14(a) of the first Information Request, the following statement is made, ". . . projected escalations, which would have increased these savings, were not factored into the calculations." Explain the basis for this conclusion concerning the impact of price escalations. Include all studies or analysis performed which support the conclusion.

11. Concerning the response to Item 14(b) of the first Information Request, explain in detail why the projected escalation of 4 percent was based only on discussions with Peabody and did not utilize other industry analysis or publications. Also explain why an escalation factor was discussed when it was not a factor used in the analysis.

12. Explain in detail why the discount rate used in the present value analysis was the overall cost of capital approved in LG&E's last rate case, considering the fact that the test year in that case ended August 31, 1987.

13. In its application, LG&E proposed to amortize the total $17.5 million payment over a 21-month period. This would result in a monthly amortization of $833,333. However, this method does not reflect the fact that $9.0 million of the total $17.5 million will not actually be paid until January 31, 1990. Provide a detailed explanation of why the proposed method is preferable to one which would amortize the $8.5 million for 21 months and the $9.0 million for a period from January to December 1990.

Done at Frankfort, Kentucky, this 7th day of April, 1989.

PUBLIC SERVICE COMMISSION

For the Commission

ATTEST:

Executive Director