

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE TARIFF FILING OF LOUISVILLE)	
GAS AND ELECTRIC COMPANY TO REVISE)	
THE SMALL POWER PRODUCTION AND CO-)	CASE NO. 95-239
GENERATION PURCHASE RATE SCHEDULES)	
SPPC-I & II)	

O R D E R

On May 2, 1995, Louisville Gas and Electric Company ("LG&E") filed revisions to its Small Power Production and Cogeneration Purchase Rate Schedules SPPC-I & II. These rate schedules provide the rates and conditions of service for LG&E's purchase of energy and capacity from small power production or cogeneration facilities known as qualifying facilities ("QFs"). The proposed tariff revisions were suspended on May 31, 1995 to allow the Commission an opportunity to review thoroughly the proposed modifications to Schedules SPPC-I & II.

LG&E's proposed tariff revisions are a result of increasing competition in the off-system power market, in which LG&E and other utilities purchase wholesale electricity from utility and non-utility sources. LG&E contends that increased competition and abundant power purchase opportunities benefit customers by deferring the construction of new generating facilities.

In order to make its existing method of pricing purchases from QFs more responsive to the changing wholesale market, LG&E proposes tariff revisions including a reduction of QF contract terms under Schedules SPPC-I & II from twenty years to five years and a new methodology for calculating the energy and capacity purchase rates under Schedule SPPC-II. The new pricing methodology includes

hourly pricing for purchases of power delivered from QFs and a determination of avoided capacity costs based on the wholesale market value of power. LG&E contends that its avoided costs are no longer represented by the deferral savings on new generation capacity but by the purchase price of power available in the wholesale market.

LG&E's proposed tariff modifications represent a significant shift in the manner in which avoided capacity costs and QF purchase rates have traditionally been calculated in Kentucky. Nevertheless, the increasingly competitive market for off-system power and the growing trend among utilities to incorporate wholesale power purchases in their long-range resource plans justifies such actions. In a more competitive wholesale power market, the pricing of power purchases from non-utility sources such as QFs must be consistent with that of inter-utility power purchases. Such equitable treatment of competitive resources is necessary in order for utilities to make reasonable and economic power procurement decisions.

IT IS THEREFORE ORDERED that LG&E's proposed tariff revisions to Schedules SPCC-I & II be and are hereby approved.

Done at Frankfort, Kentucky, this 30th day of October, 1995.

ATTEST:

Don Mills
Executive Director

PUBLIC SERVICE COMMISSION

B. E. I. Duck
Chairman

Robert M. Davis
Vice Chairman

Linda K. Breathitt
Commissioner