COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION OF THE APPLICATION OF THE FUEL ADJUSTMENT CLAUSE OF LOUISVILLE GAS AND ELECTRIC COMPANY FROM MAY 1,1997 TO OCTOBER 31, 1997	)	CASE NO. 96-524-B

O R D E R

Pursuant to Administrative Regulation 807 KAR 5:056, Section 1, the Commission, on December 11, 1997, established this case to review and evaluate the operation of the fuel adjustment clause (FAC) of Louisville Gas and Electric Company (LG&E) for the 6 months ended October 31, 1997. As part of this review, the Commission directed LG&E to submit certain information concerning its compliance with Administrative Regulation 807 KAR 5:056. On February 19, 1998, the Commission held a public hearing in this matter.[1] At this hearing, the following persons testified: Larry Feltner, LG&E Rate and Regulatory Coordinator; Greg Winter, LG&E Director of Corporate Accounting; Bill Gilbert, LG&E Fuels Administration Manager; and Rick Melloan, LG&E Director of Central Engineering and Construction Management.

Having considered the evidence of record and taking administrative notice of the Commission s Order of this day in Case No. 96-524,[2] the Commission finds that LG&E

[1] The Attorney General, through his Office for Rate Intervention, intervened in this proceeding but did not appear at the public hearing in this matter.

[2] Case No. 96-524, An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of Louisville Gas and Electric Company from November 1, 1994 to October 31, 1996.

improperly calculated its FAC charge for the review period. In calculating its cost of fuel for each month within the review period, LG&E failed to include in the cost of fossil fuel recovered through intersystem sales the cost of fuel associated with line losses[3] incurred to make such sales. In Case No. 96-524, the Commission found that this failure led to an overstatement of LG&E s fuel costs.[4] To make an intersystem sale, an electric utility must generate not only the energy sold to a purchaser, but additional

---

[3] Line losses are [t]he amount of power or commodity lost between the utility s generating facilities or production source and the customers premises or any two intermediate points in the utility system. <u>See</u> Public Utilities Reports, Inc., <u>P.U.R. Glossary for Utility Management</u> 83 (1992). Some power is lost when transmitting the energy from the place of generation to consumption usually in the form of heat. For example, to sell 100 kW of electricity, a utility may generate 103 kW to sell 100 kW. The 3 additional kW represent line losses incurred when transmitting the electricity.

[4] A review of the formula used to calculate LG&E s FAC Charge clearly demonstrates the effect of LG&E s failure. The FAC Charge is determined by the following formula:

$$\textbf{Adjustment Factor} \quad \frac{\textbf{Monthly Fuel Costs}}{\textbf{Monthly Sales}} - \frac{\textbf{Base Fuel Costs}}{\textbf{Base Sales}}$$

Under this methodology a base cost of fuel is established. This base cost is expressed in terms of cents or mills per kWh. The base cost is then subtracted from the monthly cost to determine the monthly adjustment factor. This factor, which is also expressed in terms of cents or mills per kWh, is multiplied by the customer s usage to determine the customer s monthly FAC charge. The charge, which may be positive or negative, appears as a separate line item on the customer s bill.

Monthly Fuel Costs is expressed as follows:

$$\textbf{Fuel Costs (\$)} \quad \begin{array}{c} \textbf{Fuel Consumed in Utility s Own Plants} \\ + \\ \textbf{Fuel Cost of Purchased Power} \\ + \\ \textbf{Energy Cost of Power Purchased on Economic Dispatch} \\ - \\ \textbf{Cost of Fossil Fuel Recovered Through Intersystem Sales} \end{array}$$

By failing to include in the cost of fossil fuel recovered through intersystem sales the cost of fuel associated with intersystem sales line losses, LG&E increased its monthly fuel costs and thus increased the adjustment factor.

energy to cover energy losses incurred to transmit the sales amount across the utility s transmission system. When making an intersystem sale, therefore, the electric utility recovers not only the cost of fuel to produce the sales amount of energy, but also the cost of fuel to produce the energy lost in transmission of the sales amount.

Based upon a 3 percent line loss for intersystem sales, which the Commission determined in Case No. 96-524 as the appropriate line loss for LG&E s FAC charge calculations, the Commission finds that LG&E understated its cost of fossil fuel recovered through intersystem sales by $651,200[5] and thus overstated its monthly fuel costs for the review period by that amount. The Commission finds no evidence of any other improper calculation or application of LG&E s FAC charge or of any improper fuel procurement practices.

IT IS THEREFORE ORDERED that:

1. Upon filing its first monthly fuel adjustment after entry of this Order, LG&E shall, in calculating its monthly fuel cost, reduce actual monthly fuel cost by $651,200 to reflect unreported fossil fuel costs recovered through intersystem sales during the review period.

2. This case is closed and shall be removed from the Commission s docket.

5

Month	**Reported Recovered Intersystem Fuel Cost ($)**	**Unreported Recovered Intersystem Fuel Cost ($)**
May 1997	3,023,140	90,694
June 1997	3,586,957	107,609
July 1997	2,836,834	85,105
August 1997	2,593,568	77,807
September 1997	4,100,732	123,022
October 1997	5,565,437	166,963
TOTAL		651,200

Done at Frankfort, Kentucky, this 9th day of February, 1999.

By the Commission

ATTEST:

____
Executive Director