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 NOVEMBER 1, 1996 TO OCTOBER 31, 1998	)	CASE NO. 98-565

O R D E R

Pursuant to Administrative Regulation 807 KAR 5:056, Section 1(12), the Commission on December 1, 1998 established this case to review and evaluate the operation of the fuel adjustment clause ("FAC") of the Louisville Gas and Electric Company ("LG&E") for the 24-month period ended October 31, 1998.[1] 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 10, 1999, the Commission held a public hearing in this matter.[2] Finding errors in LG&E's calculation of its FAC charge, we direct LG&E to charge off and amortize, by means of a temporary decrease of rates, $319,914 improperly collected through its FAC during the period under review.

[1] This proceeding is also conducted pursuant to Administrative Regulation 807 KAR 5:056, Section 1(11), to review the six-month period ended October 31, 1998.

[2] Kentucky Industrial Utility Customers was permitted to intervene in this proceeding and appeared, through counsel, at the public hearing in this matter. At this hearing, the following persons testified: Daniel Becher, LG&E's Director of Electric System Operations; Lonnie Bellar, LG&E's Manager of Generation Systems Planning; Larry Feltner, LG&E's Rate and Regulatory Coordinator; Bill Gilbert, LG&E's Fuel Administration Manager; Rick Melloan, LG&E's Director of Generation Services; and Michael J. Spurlock, LG&E's Director of Accounting and Reporting.

In Case No. 96-524,[3] the Commission found that Administrative Regulation 807 KAR 5:056 requires an electric utility, when calculating the "cost of fuel recovered from intersystem sales" component of its cost of fuel, to include the cost of fuel associated with line losses that it incurred to make an intersystem sale. We subsequently found that a line loss of one percent was the appropriate loss factor for LG&E to use to determine the cost of fuel associated with line losses.[4]

In calculating its cost of fuel sales for the six-month period ending October 31, 1998, LG&E excluded from the "cost of fossil fuel recovered through intersystem sales" the cost of fuel associated with line losses[5] incurred to make such sales. This exclusion led to an overstatement of LG&E's fuel costs. "To make an intersystem sale, an electric utility must generate not only the energy sold to a purchaser, but additional energy to cover energy losses incurred to transmit the sold 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 sold amount of energy, but also the cost of fuel to produce the energy lost in transmission of the sold amount."[6]

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[3] Case No. 96-524, An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of the Louisville Gas and Electric Company from November 1, 1994 to October 31, 1996 (Feb. 9, 1999).

[4] Case No. 96-524-A, An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of the Louisville Gas and Electric Company from November 1, 1996 to April 30, 1997 (Dec. 2, 1999) at 15.

[5] 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." See Public Utilities Reports, Inc., P.U.R. Glossary for Utility Management 83 (1992). Some power is lost, usually in the form of heat, when transmitting the energy from the place of generation to consumption. For example, to sell 100 KW of electricity, a utility may generate 103 KW to sell 100 KW. The three additional KW represent line losses incurred when transmitting the electricity.

[6] Case No. 96-524-A, Order of Dec. 2, 1999 at 4.

Applying a one percent line loss, the Commission finds that LG&E understated its "cost of fossil fuel recovered through intersystem sales" by $270,067 for the six-month period ending October 31, 1998 and thus overstated its fuel costs by that amount. The Commission's calculations are shown in Table I.

During the six-month period ending October 31, 1998, LG&E on 44 occasions sold power off-system that required the use of a third party's transmission system. On each of these occasions, LG&E assigned its retail ratepayers fuel costs incurred to transmit this energy over the third party's system.[7] The Commission finds that these costs, which total $5,008, should be deducted from LG&E's cost of fuel for that six-month period.[8]

The Commission further finds that LG&E failed to correctly account for the cost of fuel associated with line losses to transmit power generated at its Trimble County Plant and belonging to Illinois Municipal Electric Agency ("IMEA") and Indiana Municipal Power Agency ("IMPA"). "For FAC reporting purposes, LG&E excludes fuel costs associated with the generation of IMEA and IMPA power. It first determines the total Trimble County generation attributable to IMEA and IMPA by applying a factor of 1.0033 to the energy delivered to these utilities. It then divides this amount by the total Trimble County generation to determine the percentage of fuel costs excluded from the total of fuel consumed in Trimble County."[9] In Case No. 96-524-A, we determined that a line

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[7] See LG&E's Response to the Commission's Order of December 6, 1999, Item 3.

[8] See Case No. 96-524-A, Order of Dec. 2, 1999 at 11 ("To the extent that LG&E must supply energy losses that occur while transmitting energy through a third party system for the purpose of an intersystem sale, it should reduce its cost of fuel to ensure that native load ratepayers do not subsidize LG&E's intersystem sales.").

[9] Id.

loss factor of one percent should be used to calculate the losses incurred to transmit Trimble County power to IMEA and IMPA.[10] Table II shows LG&E incorrectly included $44,839 of fuel costs associated with its generation and transmission of power to IMEA and IMPA in “fossil fuel consumed in the utility's own plants.” We find that LG&E’s cost of fuel should be reduced by this amount.

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. When calculating the “cost of fuel recovered from intersystem sales,” Administrative Regulation 807 KAR 5:056 requires an electric utility to include the cost of fuel associated with line losses that it incurred to make an intersystem sale.

2. For the six-month period ending October 31, 1998, LG&E failed to include the cost of fuel associated with line losses that it incurred to make an intersystem sale when calculating the “cost of fuel recovered from intersystem sales.”

3. As a result of its failure to correctly calculate the “cost of fuel recovered from intersystem sales,” LG&E overstated its fuel costs for the six-month period ending October 31, 1998 by $270,067.

4. LG&E further overstated its fuel costs by $5,008 by failing to include fuel costs attributable to the transmission of its power over third party systems in the “cost of fuel recovered from intersystem sales.”

5. LG&E’s use of a .33 percent line loss factor, instead of a one percent line loss factor, to determine the cost of fuel used to generate and transmit Trimble County power to IMEA and IMPA resulted in an overstatement of $44,839 in its cost of fossil fuel consumed in its own plants.

[10] Id. at 12.

6. The record reveals no evidence of any other improper calculation or application of LG&E's FAC charge or of any improper fuel procurement practices.

7. LG&E's proposed retention of its current base period fuel cost of 12.57 mills per KWH is reasonable and should be accepted.

. 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 $319,914 to reflect the overrecovery of fuel costs resulting from its unreported fossil fuel costs recovered through intersystem sales during the six-month period ending October 31, 1998.

2. LG&E's current base period fuel cost of 12.57 mills per KWH is retained.

Done at Frankfort, Kentucky, this 16th day of February, 2000.

By the Commission

ATTEST:

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Executive Director

TABLE I

Month	Reported Recovered Intersystem Fuel Cost ($)*	Unreported Recovered Intersystem Fuel Cost ($)**
May 1998	5,332,110	53,321
June 1998	4,646,238	46,462
July 1998	5,598,529	55,985
August 1998	4,166,869	41,669
September 1998	3,418,518	34,185
October 1998	3,844,497	38,445
Total	27,006,761	270,067

*This amount does not include internal economy sales to Kentucky Utilities Company. See Case No. 96-523, An Examination by the Public Service Commission of the Fuel Adjustment Clause of Kentucky Utilities Company from November 1, 1994 to October 31, 1996 (Aug. 30, 1999) at 11.

**This amount is obtained by multiplying reported line loss for intersystem sales (.01) by reported recovered intersystem fuel cost.

TABLE II

(1) Month	(2) Scheduled Generation (MWH)[1]	(3) Total Generation Attributable to IMPA & IMEA (MWH)[2]	(4) Trimble County Net Generation (MWH)[3]	(5) Ratio of Total Generation Attributable to IMPA & IMEA[4]	(6) Total Reported Fuel Cost for Trimble County[5]	(7) Corrected Fuel Cost for Non-Jurisdictional Trimble County Generation[6]	(8) Reported Fuel Cos Non-Jurisdictiona Trimble County Generation
May 1998	83,323	84,156	307,476	0.2737	$2,771,030	$758,431	$753,388
June 1998	80,569	81,375	295,116	0.2757	$2,807,687	$774,186	$755,502
July 1998	92,159	93,081	340,491	0.2734	$3,174,114	$867,713	$861,962
August 1998	87,654	88,531	329,898	0.2684	$2,962,050	$794,888	$789,623
September 1998	83,640	84,476	314,827	0.2683	$2,775,957	$744,863	$739,903
October 1998	84,010	84,850	314,029	0.2702	$2,749,612	$742,941	$737,803
TOTAL							

NOTES:

1. Source: LG&E's Response to the Commission's Order of December 6, 1999, Item 1.
2. Scheduled Generation X 1.01 = Total Generation Attributable to IMPA and IMEA.
3. Source: LG&E's Monthly FAC Fuel Inventory Schedule.
4. Column 3 / Column 4 = Ratio of Total Generation Attributable to IMPA & IMEA.
5. Source: LG&E's Monthly FAC Fuel Inventory Schedule.
6. Column 5 X Column 6 = Corrected Fuel Cost For Non-jurisdictional Trimble County Generation.