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, 1998 TO APRIL 30, 1999	)	CASE NO. 98-565-A

O R D E R

Pursuant to Administrative Regulation 807 KAR 5:056, Section 1(11), the Commission on June 23, 1999 established Case No. 98-565-A to review and evaluate the operation of the fuel adjustment clause ("FAC") of Louisville Gas and Electric Company ("LG&E") for the 6-month period ended April 30, 1999. On September 27, 1999, the Commission on LG&E's motion established a separate proceeding[1] to examine LG&E's fuel expenses for the expense months of May and June 1999 and consolidated that proceeding with Case No. 98-565-A.[2] As part of this review, the Commission directed LG&E to submit certain information concerning its compliance with

[1] Case No. 98-565-B, An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of Louisville Gas and Electric Company from May 1, 1999 to October 31, 1999.

[2] On July 2, 1999, certain revisions to LG&E's filed rate schedules became effective subject to future change. Among these revisions were the establishment of an Electric Performance-Based Rate and the termination of the utility's FAC. LG&E's FAC remained in operation for the sole purpose of allowing recovery of fuel expenses incurred prior to July 2, 1999 and subject to final disposition under Administrative Regulation 807 KAR 5:056. See Case No. 98-426, Application of Louisville Gas and Electric Company for Approval of an Alternative Method of Regulation of its Rates and Services (April 13, 1999). On January 9, 2000, the Commission directed the reinstatement of LG&E's FAC effective March 1, 2000. Case No. 98-426, Order of January 9, 2000 at 106-107.

Administrative Regulation 807 KAR 5:056. On October 1, 1999, the Commission held a public hearing in this matter.[3]

In Case No. 96-524,[4] 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.[5]

In calculating its cost of fuel sales for the first two months of the review period, LG&E excluded from the "cost of fossil fuel recovered through intersystem sales" the cost of fuel associated with line losses[6] 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

[3] Kentucky Industrial Utility Customers and the Attorney General were permitted to intervene in this proceeding and appeared, through counsel, at the public hearing in this matter.

[4] 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).

[5] 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.

[6] 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.

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."[7] Applying a one percent line loss, the Commission finds that LG&E understated its "cost of fossil fuel recovered through intersystem sales" by $52,774 for the review periods and thus overstated its fuel costs by that amount.[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

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

[8] LG&E failed to include its recovery of the cost of fuel associated with intersystem sale line losses for the months of November and December 1998. As shown below, this resulted in unreported recovered fuel cost of $52,774. This amount is obtained by multiplying reported line loss for intersystem sales (.01) by reported recovered intersystem fuel cost. "Reported Recovered Intersystem Fuel Cost" 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.

Month	**Reported Recovered Intersystem Fuel Cost ($)**	**Unreported Recovered Intersystem Fuel Cost ($)**
November 1998	3,499,239	34,992
December 1998	1,778,247	17,782
Total	5,277,486	52,774

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 loss factor of one percent should be used to calculate the losses incurred to transmit Trimble County power to IMEA and IMPA.[10] Table I shows LG&E incorrectly included $69,400 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 8-month period ending June 30, 1999, 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 8-month period ending June 30, 1999 by $52,774.

4. 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

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[9] Id.

[10] Id. at 12.

power to IMEA and IMPA resulted in an overstatement of $69,400 in its cost of fossil fuel consumed in its own plants.

5. 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.

. IT IS THEREFORE ORDERED that 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 $122,174 to reflect the overrecovery of fuel costs resulting from its unreported fossil fuel costs recovered through intersystem sales during the 8-month period ending June 30, 1999.

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

By the Commission

ATTEST:

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Executive Director

TABLE I

(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
November 1998	79,992	80,792	298,527	0.2706	$2,594,933	$702,280.26	$697,648
December 1998	57,409	57,983	222,912	0.2601	$2,068,219	$537,978	$534,330
January 1999	85,259	86,112	323,250	0.2664	$2,897,734	$771,937	$766,827
February 1999	63,116	63,747	240,914	0.2646	$2,253,216	$596,213	$592,258
March 1999	91,087	91,998	346,104	0.2658	$3,200,997	$850,857	$845,223
April 1999	77,627	78,403	300,013	0.2613	$2,741,497	$716,443	$670,022
May 1999	91,714	92,631	345,104	0.2684	$3,210,680	$861,795	$856,096
June 1999	89,280	90,173	334,136	0.2699	$2,996,734	$808,724	$756,196
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.