COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION OF THE APPLICATION OF THE FUEL ADJUSTMENT CLAUSE OF LOUISVILLE GAS & ELECTRIC COMPANY FROM MAY 1, 2015 THROUGH OCTOBER 31, 2015	)))))	CASE NO. 2016-00004

ORDER

Pursuant to 807 KAR 5:056, the Commission established this case on February 5, 2016, to review and evaluate the operation of the Fuel Adjustment Clause ("FAC") of Louisville Gas and Electric Company ("LG&E") for the six-month period that ended on October 31, 2015. As part of this review, LG&E responded to three requests for information and the Commission held a formal hearing in this matter on April 7, 2016. LG&E filed its responses to requests made at the hearing on April 21, 2016, and April 25, 2016. LG&E and its sister company, Kentucky Utilities Company ("KU") (collectively, "the Companies"), filed a joint post-hearing brief on May 5, 2016.

The Commission has previously established LG&E's base fuel cost as 27.25 mills per kWh.[1] A review of LG&E's monthly FAC filings shows that the fuel cost billed for the six-month period under review ranged from a low of 25.28 mills in October 2015 to a high of 27.83 mills in May 2015, with a six-month average of 26.85 mills.

[1] Case No. 2012-00553, *An Examination of the Application of the Fuel Adjustment Clause of Louisville Gas and Electric Company from November 1, 2010 Through October 31, 2012* (Ky. PSC May 17, 2013).

Highest-Cost Unit Calculation Methodology

In FAC Orders issued in May 2002,[2] the Commission stated as follows:

> We interpret Administrative Regulation 807 KAR 5:056 as permitting an electric utility to recover through its FAC only the lower of the actual energy cost of the non-economy purchased energy or the fuel cost of its highest cost generating unit available to be dispatched to serve native load during the reporting expense month. Costs for non-economy energy purchases that are not recoverable through an electric utility's FAC are considered "non-FAC expenses" and, if reasonably incurred, are otherwise eligible for recovery through base rates.

In FAC Orders issued in 2015,[3] the Commission affirmed its 2002 decision that recovery through the FAC of non-economy power purchases is limited to a utility's own highest-cost generating unit available for dispatch during the month. During this review period, the Commission examined the methodologies used by the six jurisdictional generators in calculating their highest-cost units. For its highest-cost unit calculation, LG&E forecasts the generation cost of each unit available for dispatch each month based on a maximum load heat rate and its delivered fuel cost.[4] During the review period, LG&E's 14-MW Zorn natural gas combustion turbine was its highest-cost unit.[5]

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[2] Case No. 2000-00495-B, *An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of American Electric Power Company from May 1, 2001 to October 31, 2001* (Ky. PSC May 2, 2002), Final Order at 5; and Case No. 2000-00496-B, *An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from May 1, 2001 to October 31, 2001* (Ky. PSC May 2, 2002), Final Order at 5.

[3] *See* Case No. 2014-00226, *An Examination of the Application of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from November 1, 2013 Through April 30, 2014* (Ky. PSC July 10, 2015); and Case No. 2014-00229, *An Examination of the Application of the Fuel Adjustment Clause of Duke Energy Kentucky from November 1, 2013 Through April 30, 2014* (Ky. PSC July 10, 2015).

[4] LG&E's response to Commission Staff's Third Request for Information ("Staff's Third Request"), Item 4.a.

[5] LG&E's response to Commission Staff's Second Request for Information ("Staff's Second Request"), Item 2, and Staff's Third Request, Item 4.b.

Natural gas for the Zorn unit is supplied by the LG&E gas distribution company at a tariffed rate.[6] Using a heat rate of 18,676 btu/kWh in the calculation,[7] the $/MWh rate produced by the calculation for the review period ranged from $104.39 to $117.69.[8]

In the joint brief filed by the Companies, they argue that the Commission has consistently found that they have complied with the FAC regulation and voiced no concern about the highest cost unit calculation methodology.[9] The Companies state that "[t]he Commission is bound by its consistent and longstanding interpretation that the Companies' methodology is consistent with 807 KAR 5:056 and may not unilaterally modify or revoke that interpretation."[10] The Companies also argue that unless a prior interpretation of the FAC regulation was erroneous, the Commission cannot change its interpretation without following the administrative procedures outlined in KRS Chapter 13A.[11]

The Commission, having reviewed LG&E's calculation and the calculation results, finds that LG&E's FAC methodology is consistent with the provisions of the FAC regulation and our prior interpretations of that regulation. At this time, the Commission is not changing any interpretation of the FAC regulation, thus, LG&E's argument as to the requisite procedures for changing a regulation is moot. Given that LG&E calculates

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[6] LG&E's response to Staff's Third Request, Item 4. d.

[7] LG&E's response to Staff's Second Request, Item 2, and Staff's Third Request, Item 4.b.

[8] LG&E's response to Staff's Third Request, Item 4. b., and Supplemental Response of LG&E to Staff's Third Request, Item. 4.b.

[9] KU employs the same methodology as LG&E in calculating its highest-cost unit using data specific to its Haefling combustion turbine.

[10] Post Hearing Brief of Kentucky Utilities Company and Louisville Gas and Electric Company at 11.

[11] *Id.* at 1–2 and 12.

its highest-cost unit using the maximum (or most efficient) load level at which the Zorn unit can operate and the tariffed rate of the unit's natural gas supplier, the Commission finds LG&E's calculation to be reasonable and accepts the calculation methodology and results as being reasonable.

Coal District Numbers

During the course of this proceeding, the Commission sought information regarding the coal district numbers used by LG&E and the other generators when identifying the source of coal purchases in their monthly FAC backup filings. The coal district numbers used by LG&E differ from those used by the Mine Safety and Health Administration ("MSHA"). LG&E stated that it is using the coal district numbers that were established by the Federal Energy Regulatory Commission ("FERC") for use in the Form 423 filed with FERC. The Form 423 was replaced in 2008 with the U. S. Energy Information Administration Form 923, which does not require a coal district number. At the hearing in this matter, LG&E stated that it was not aware of any reason why the MSHA coal district numbers should not be used in its monthly FAC backup filings. The Commission finds that LG&E should begin using the MSHA coal district numbers when identifying the source of its coal purchases in its monthly FAC backup filings.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds no evidence of improper calculation or application of LG&E's FAC charges or improper fuel procurement practices.

IT IS THEREFORE ORDERED that:

1. The charges and credits billed by LG&E through its FAC for the period May 1, 2015, through October 31, 2015, are approved.

2. Beginning with the first FAC backup file submitted subsequent to the date of this Order, LG&E shall use the MSHA coal district numbers when identifying the source of its coal purchases.

By the Commission

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KENTUCKY PUBLIC
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