COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

REQUEST OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR MODIFICATION AND EXTENSION OF ITS GAS SUPPLY COST PERFORMANCE-BASED RATE-MAKING MECHANISM	) CASE NO. 2009-00550

<u>ORDER</u>

On December 30, 2009, Louisville Gas and Electric Company ("LG&E") applied to extend and modify its existing gas cost performance-based rate-making ("PBR") mechanism. The Commission approved the current PBR mechanism in Case No. 2005-00031 for a five-year period expiring October 31, 2010.[1] The program benchmarks LG&E's gas costs against three components: (1) the Gas Acquisition Index Factor ("GAIF") which benchmarks actual commodity costs against prices published by <u>Inside FERC's Gas Market Report</u> for monthly purchases, <u>Natural Gas Week</u> for weekly purchases, and <u>Gas Daily</u> for daily purchases, and benchmarks supply reservation fees against LG&E's average reservation fees from the previous two years; (2) the Transportation Index Factor which benchmarks LG&E's pipeline transportation costs against the Federal Energy Regulatory Commission ("FERC")-approved

[1] Case No. 2005-00031, Modification to Louisville Gas and Electric Company's Gas Supply Clause to Incorporate an Experimental Performance-Based Ratemaking Mechanism (Ky. PSC May 27, 2005). LG&E's PBR was first approved in Case No. 1997-00171, Modifications to Louisville Gas and Electric Company's Gas Supply Clause to Incorporate an Experimental Performance-Based Rate-making Mechanism (Ky. PSC Sept. 30, 1997).

transportation rates of Texas Gas Transmission ("Texas Gas") and Tennessee Gas Pipeline Company ("Tennessee Gas"); and (3) the Off-System Sales Index Factor which benchmarks sales of gas, transportation, and storage services against LG&E's out-of-pocket costs to make such sales.

Variances between LG&E's actual costs and the benchmarks are shared between shareholders and ratepayers on a sliding scale consisting of two bands. The first band covers variances from the benchmark ranging from 0 to 4.5 percent and is shared 75:25 between ratepayers and shareholders in favor of the ratepayers. The second band covers variances greater than 4.5 percent and is shared 50:50. During the period covered by years five through eight of the mechanism (PBR years 2002 through 2005), LG&E achieved total savings of $39,352,761, with customers retaining $28,947,018 and LG&E retaining $10,405,743. During the period covered by the current mechanism (PBR years 2006 through 2009[2]), LG&E achieved total savings of $45,722,302, with customers retaining $33,165,427 and LG&E retaining $12,556,875.

LG&E responded to one data request from Commission Staff. There are no intervenors in this proceeding. The case now stands submitted for decision.

ISSUES

LG&E proposes to modify the current PBR mechanism as of November 1, 2010 by adding a new Supply Area Index ("SAI") to the GAIF component of the mechanism. This will reflect the availability of a new interstate pipeline, Rockies Express Pipeline LLC, through an interconnect with Texas Gas, which will add a fifth SAI in addition to

[2] PBR years 2006 through 2009 cover the time period November 1, 2005 through October 31, 2009, the first four years of the current five-year term.

the two Texas Gas SAIs and the two Tennessee Gas SAIs. LG&E proposes to calculate the new SAI in the same manner as existing SAIs, using price postings reflective of deliveries at the hub at Lebanon, Ohio. LG&E filed revised tariffs including the new SAI and its calculation, as well as tariff revisions to reflect current terminology used by price-reporting publications. LG&E is proposing no change to price data to be used in the mechanism, nor is it proposing any change to the sharing mechanism or any other aspect of the PBR mechanism.

ANALYSIS

LG&E has been able to demonstrate that it has pursued more aggressive gas purchasing measures as a result of the PBR mechanism. As a result of the PBR, LG&E has developed, pursued, and managed creative supply arrangements, increased risk-taking, and negotiated intensively to improve cost performance and maintain reliability. For all three PBR components, LG&E experienced net savings during the first four years of the five-year extension. LG&E has provided evidence sufficient to show that it has been successful in outperforming benchmarks and lowering cost, to the benefit of its customers as well as its shareholders.

SUMMARY

The Commission, based on the evidence of record and being otherwise sufficiently advised, finds that:

1. Modifying the PBR mechanism as LG&E has proposed, to include an additional SAI in its GAIF component beginning November 1, 2010, is reasonable and should be approved.

2. The additional tariff revisions to reflect terminology currently used by price-reporting publications is reasonable and should be approved.

3. LG&E's PBR mechanism, with the modifications proposed herein, including all the previously ordered reporting requirements, should be approved for five years, beginning November 1, 2010 and ending October 31, 2015.

IT IS THEREFORE ORDERED that:

1. LG&E's proposal to modify its current PBR and associated tariff sheets is approved as filed to be effective November 1, 2010.

2. LG&E's current PBR mechanism shall continue until October 31, 2010, and that mechanism as modified herein shall be effective from November 1, 2010 through October 31, 2015.

3. Within 60 days of the end of the fourth year of the five-year extension, LG&E shall file an evaluation report on the results of the PBR for the first four years of the extension period. This report shall be considered in any proceeding established to continue, modify, or terminate the PBR mechanism.

4. LG&E shall file quarterly reports of its activity under the extended PBR in the same manner as it has done during the previous PBR period.

5. Within 20 days of the date of this Order, LG&E shall file its revised tariff with this Commission setting out the revisions to its PBR tariff approved herein, reflecting a November 1, 2010 effective date and that they were approved pursuant to this Order.

6. All documents filed in the future pursuant to ordering paragraphs 3 and 4 herein shall reference this case number and shall be retained in the utility's general correspondence file.

By the Commission

ENTERED
APR 3 0 2010
KENTUCKY PUBLIC SERVICE COMMISSION

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