

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

GENERAL ADJUSTMENT IN ELECTRIC)
AND GAS RATES OF LOUISVILLE GAS) CASE NO. 8924
AND ELECTRIC COMPANY)

O R D E R

On June 5, 1984, the Attorney General's Office ("AG") and the Office of Kentucky Legal Services Programs, Inc., ("Residential Intervenors") filed petitions requesting rehearing with respect to certain issues adjudicated in the Commission's Order entered May 16, 1984. The AG's petition requests rehearing on the issues of construction work in progress ("CWIP") for the Trimble County generating plant, expense level for the Energy Systems Research Group's consulting report, the Federal Energy Regulatory Commission ("FERC") hydro license fee and the test year fuel adjustment clause revenues. The Residential Intervenors' petition requests rehearing solely on the issue of CWIP for Trimble County.

On June 8, 1984, the Louisville Gas and Electric Company ("LG&E") filed a response in opposition to both petitions for rehearing. On June 11, 1984, Airco Carbide, A Division of BOC Group, Inc., ("Airco") filed a petition to join in the AG's request for rehearing and on June 13, 1984, the City of Louis-

ville and Jefferson County ("Louisville") filed a response in support of both petitions for rehearing.

The major issue raised in the petitions for rehearing was the major issue in this case: The current regulatory treatment of allowing LG&E to receive a cash return on all CWIP expenditures for the Trimble County generating plant. Both the AG and Residential Intervenors argue that since various intervenors' testimony supported the disallowance of a cash return on a portion of CWIP, although different portions on different theoretical bases, the Commission erred in not changing the present CWIP policy. The record in this case fully supports the Commission's decision to allow LG&E to continue receiving a cash return on CWIP at this time given the present uncertainties. Once the future of this plant is determined, the issue will need to be reexamined in light of the situation as it then exists. Changing the treatment at this point would be premature, and would exacerbate the situation if the plant were to be significantly deferred or cancelled.

LG&E's electric rates are lower now, due to the current CWIP policy, than if Allowance for Funds Used During Construction ("AFUDC") had been accrued on prior construction projects. These lower rates result from a lower rate base, lower return requirement and lower depreciation expense. A cash return on CWIP also benefits ratepayers through lower financing costs due to improved financial ratios and reduction in risk as perceived by the investment community.

LG&E contends that the Commission's use of a historic test year for rate-making purposes has resulted in a real loss to LG&E through the inability to earn any return on CWIP expenditures between the test years in rate cases. If AFUDC were accrued, this would include a return on all such investment which would be added to the cost of the plant, thereby increasing the amount of investment. The Commission's decision allows a current return on the test year balance at the time of a rate case, effective with a decision in that case several months later.

This policy has also resulted in frequent regulatory review of those expenditures and the underlying construction projects. It would appear that this frequent scrutiny has prompted LG&E to undertake the review it is presently conducting on its need for the Trimble County generating plant and the construction timetable. The Commission expects this review to be completed within a reasonable time. When completed, it will be analyzed in both Case No. 8666, An Investigation into Alternative Load Forecasting Methods and Planning Considerations for the Efficient Provision of Electric Generation and Transmission Facilities, and the Commission's next review of LG&E's rates (either upon LG&E's application, a customer's complaint or the Commission's investigation). LG&E is put on notice that although it is the Commission's present policy to allow a cash return on Trimble County CWIP, that policy will be reviewed and reevaluated in each succeeding rate review.

The second issue raised in the AG's petition for rehearing is the expense level allowed for recovery of the cost of the con-

sultant report prepared by Energy Systems Research Group, Inc. The AG claims that the Commission has made a "minor calculation error" amounting to \$3,482. Upon review of the financial exhibits, the Commission finds that a mathematical error was made and resulted in a \$3,482 overstatement of this expense item. However, since the rates granted in this case were designed to produce approximately \$670 million, it is not possible to reduce the rates by the amount of this error.

The AG's third issue for rehearing is an allegation that the Commission's provision for LG&E's recovery of a federal hydro license fee amounts to retroactive rate-making and is therefore illegal. After carefully reviewing the arguments on this issue, the Commission affirms its opinion that the hydro license fee is neither a past loss or past expense, but is a contingent liability which will become an expense when it is known and measurable.

The fourth issue for rehearing is the Commission's decision not to adopt the AG's proposed fuel cost synchronization adjustment. The proposed adjustment, presented by Dr. Mark S. Gerber, is designed to "zero out" fuel revenues and fuel expenses in rate cases. The AG alleges that the failure to adopt this adjustment results in fuel revenue "bonuses" and indicates that the Commission has abandoned its intent to investigate this issue.

The Commission does not find Dr. Gerber's testimony to be either clear or persuasive. As stated in the Commission's Order entered May 16, 1984, Dr. Gerber did not consider the level of test period fuel adjustment clause ("FAC") expenses in the cal-

ulation of his adjustment, did not perform a comprehensive analysis to determine the cause of the over-recovery of FAC expenses and admitted that no adjustment would produce the same results as the adjustment he recommended. Furthermore, Dr. Gerber acknowledged that his recommended solution to the problem was not the only acceptable solution. Dr. Gerber's testimony does not provide a sufficient basis to support a change in the Commission's present FAC policy.

The AG's allegation that the Commission has abandoned its intention to investigate this issue is unfounded. The Commission's Order entered May 16, 1984, states that, "an adjustment of this type is not necessary at this time." (Emphasis added.) The Commission has investigated this issue in every electric rate case following Case No. 8648, Adjustment of Rates for Wholesale Electric Power to Member Cooperatives of East Kentucky Power Cooperative, Inc., as it stated it would, and the Commission intends to continue to investigate this issue in future rate proceedings.

The Commission notes that the crux of Dr. Gerber's argument deals with the FAC roll-in methodology utilized by the Commission and not the fuel cost synchronization issue. The roll-in methodology should be and is addressed in FAC proceedings. The roll-in methodology utilized by the Commission was determined in Case No. 8056, An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of Louisville Gas and Electric Company pursuant to 807 KAR 5:056E, Sections 1(11) and (12). In that case the Commission did not accept the AG's pro-

posed roll-in methodology which was similar to the roll-in methodology proposed in this rate case. Furthermore, the Commission disagrees with the AG's contentions that the approved roll-in methodology results in "bonuses" to the electric companies.

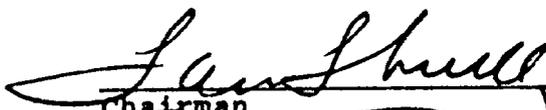
The Commission will accept a fuel cost synchronization adjustment when substantial evidence is presented to support its adoption.

Based on the AG's and Residential Intervenors' petitions for rehearing, Airco's and Louisville's petitions in support thereof, LG&E's response in opposition thereto, the evidence of record and being advised, the Commission is of the opinion and hereby finds that the petitions for rehearing failed to present any evidence or arguments to merit the granting of a rehearing.

IT IS THEREFORE ORDERED that the petitions for rehearing be and they hereby are denied and the Commission's Order entered May 16, 1984, be and it hereby is affirmed.

Done at Frankfort, Kentucky, this 25th day of June, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary