

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INQUIRY INTO KENTUCKY'S PRESENT)
AND FUTURE ELECTRIC NEEDS AND THE) ADM. CASE NO. 308
ALTERNATIVES FOR MEETING THOSE NEEDS)

O R D E R

In recent orders the Commission has indicated its intention to establish a docket to review and analyze options available for meeting the state's electricity needs. The Commission identified the following options for review:

. . .targeted conservation, aggressive load management, additional bilateral exchanges among the state's utility companies, marketing the state's generating capacity to other regions of the country, joint ownership of generating capacity, installing alternative types of capacity, refurbishing older generating units, and establishing a centrally dispatched pooling arrangement.¹

These, as well as other reasonable options, related to both supply and demand, will be the subject of the statewide planning inquiry that is being established by this order. They will be reviewed and evaluated on a company-specific basis and from a statewide perspective. The Commission believes this inquiry is an appropriate means to assure ratepayers that all reasonable alternatives for the provision of a reliable, low-cost supply of electricity

¹ Case No. 9243, an Investigation and Review of Louisville Gas and Electric Company's Capacity Expansion Study and the Need for Trimble County Unit No. 1, Order entered October 14, 1985, page 23.

are being carefully considered. This investigation will move regulation in Kentucky away from dealing with resource planning issues retroactively and forward to addressing these issues on a prospective and regular basis.

Kentucky's electric utilities have traditionally concerned themselves with meeting the needs of their separate service areas. But given the enormous cost of building new power plants and the uncertainties of a changing economy, the time has come to explore a more cooperative approach in which the utilities work together to meet the needs of the entire state.

The Commission is undertaking this investigation because it strongly believes that a statewide strategy may generate significant long-term savings for ratepayers, utility companies, and their stockholders. These savings occur through improved long-range planning and a better use of the current abundance in Kentucky of electric generating capacity. A thorough review and evaluation of options available to the utilities to meet future demands for electricity would allow the Commission to assure ratepayers that the least-cost alternatives are being pursued.

The Commission has two fundamental objectives in this inquiry. First, to examine all reasonable planning options and determine which of them might be cost-effective in Kentucky. Secondly, to develop a regulation that provides for the regular review of resource planning issues.

Although electric rates in Kentucky are relatively low when compared with other regions, two important questions remain. First, are rates as low as they can be? Secondly, are the

electric utilities making appropriate plans to keep rates as low as possible? This second question is particularly pertinent in light of the uncertainty surrounding the future of the electric industry. Many analysts predict that the industry will become much more competitive in the coming years. Greater competition could result from reduced prices of alternative forms of energy, improved cogeneration technology, and an opening up of access to transmission systems. Thus it is vital for the utilities, the Commission, and other interested parties to work together to understand this changing environment and determine which options will continue to provide the ratepayers of Kentucky with a reliable, low-cost supply of electricity.

The Commission believes that everyone benefits from an inquiry such as this. Ratepayers--from the retired person on a fixed income to the largest industrial customer--benefit from reasonable rates. The utility companies and their stockholders benefit, since they are much more likely to avoid the large cash outlays, expensive financing, and other risks associated with construction of generating plants that prove unnecessary. When a new power plant is clearly needed, a regular statewide planning process should assist in adding this new capacity in a less divisive and adversarial atmosphere. The coal industry benefits because more efficient electric utilities generating less expensive power have a marketing edge beyond the borders of Kentucky, and increase the opportunities for exporting coal by wire.

This investigation will explore the opportunities for expanding Kentucky's role as a bulk power supplier to other parts

of the country. This would better use the utilities' investment in generating capacity and benefit consumers by spreading the utilities' fixed costs over a larger base. Low electric rates contribute to a healthy economic climate in which existing businesses thrive and new jobs are attracted.

During the course of this investigation, the Commission may require the services of a consultant to provide it with independent advice and analysis. The consultant could also assist the Commission in drafting a regulation that establishes a regular review of load forecasts and construction plans in a changing environment. This regulation will allow interested parties to provide advice and comment on the utilities' forecasting and planning efforts. As the investigation proceeds, the Commission will also seek suggestions from the utilities and other interested parties on possible improvements in the transmission system and methods for systematically upgrading the operation of existing power plants. In the event that a consultant is needed, the reasonable cost of the consultant will be charged to the affected utilities to be recovered as a cost of service in future rate cases.

The Commission believes that for this investigation to be most productive it should be carried out in as constructive and cooperative a spirit as possible. To encourage this spirit of cooperation the Commission will not immediately establish a rigid procedural schedule. Instead, the Commission intends to meet with all affected utilities and interested parties to discuss this

inquiry and the procedural steps that will be necessary to carry it out.

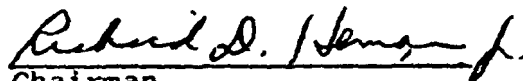
IT IS THEREFORE ORDERED that:

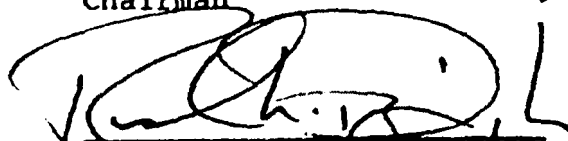
1. An inquiry into the present and future electric needs of Kentucky and the alternatives for meeting those needs be and is hereby established. All electric utilities shall be parties to this proceeding. Other interested parties may intervene and participate.

2. If the services of a consultant are required, then the reasonable cost of consulting services required during this inquiry will be charged to the affected utilities to be recovered as a cost of service in future rate cases.

Done at Frankfort, Kentucky, this 9th day of October, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director