

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION AND REVIEW OF)
LOUISVILLE GAS AND ELECTRIC)
COMPANY'S CAPACITY EXPANSION) CASE NO. 9243
STUDY AND THE NEED FOR TRIMBLE)
COUNTY UNIT NO. 1)

O R D E R

PROCEDURAL BACKGROUND

On October 14, 1985, the Commission issued an Order requiring Louisville Gas and Electric Company ("LG&E") to delay the completion of Trimble County Unit No. 1 for at least 3 years. On November 4, 1985, LG&E filed a petition for rehearing seeking authorization to continue construction on Trimble County Unit No. 1 to achieve a 1989 start-up date or, alternatively, to plan its construction on a completion date not later than 1991. LG&E also requested that it be allowed to submit a detailed action plan, as required in the October 14, 1985, Order, within 60 days of the date of a final Order on rehearing.

Also, on November 12, 1985, LG&E filed an application for financing in Case No. 9460, The Application of Louisville Gas And Electric Company For An Order Authorizing The Issue of Securities And The Assumption Of Obligations. The financing was in connection with the construction of pollution control facilities at the Trimble County generating plant. LG&E's application stated

that the proposed financing is conditioned upon the Commission's establishment of a date certain for LG&E's completion of the Trimble County generating plant. In a January 3, 1986, Order in the financing case, the Commission ordered that LG&E's financing application be continued generally until the issue of a completion date for Trimble County Unit No. 1 is resolved.

On November 25, 1985, the Commission issued an Order granting LG&E's request for rehearing on the issue of its need for a date certain to use in planning its construction of Trimble County Unit No. 1 and to obtain tax-exempt financing. All parties were given until January 6, 1986, to file comments on the appropriateness of establishing a date certain for the completion of Trimble County Unit No. 1 construction.

By January 6, 1986, the Commission had received comments from LG&E, the Attorney General's Utility and Rate Intervention Division ("AG"), and the Consumer Advocacy Groups ("CAG"). The Kentucky Industrial Utility Customers ("KIUC") filed comments on January 20, 1986, after the Commission had granted two motions for extension for KIUC.

Summary Of Comments

All of the intervenors were opposed to the granting of a date certain to LG&E for completion of Trimble County Unit No. 1. KIUC's position was that there were "no changed conditions which should cause the Commission to set a date certain as called for by LG&E." (Comments of KIUC, page 3.) CAG's comments were that the requests for a date certain and approval for the sale of bonds be denied and that the Commission "move ahead as quickly as possible

with an investigation of statewide electric needs to determine if there is a need for Trimble County." (Comments of CAG, page 3.) The AG's position was that the Trimble County unit is not needed and therefore neither a date certain should be granted nor should the approval for the financing. The AG further argued that granting a date certain would be tantamount to approving the unit and to do so "would represent an abdication of Commission responsibility to review the Unit after its completion and prior to inclusion in the Company's rate base in order to insure that it represents a prudent and useful facility." (Comments of AG, page 10.)

LG&E raised three points in its comments. The first point was that the uncertainty resulting from the lack of a specific date for planning Trimble County's completion will increase construction costs to the detriment of LG&E's ratepayers. To support this point, LG&E discussed its concerns related to work force planning, existing contracts, deterioration of equipment, increased costs of materials and labor, and environmental and regulatory changes. LG&E's second point was that a December 1990, completion date is necessary to take advantage of tax benefits as proposed in pending tax legislation. LG&E's third point was that a completion date of December 1990, is a good compromise to balance LG&E's allegiance to its ratepayers and the Commission's broader constituency which includes all of Kentucky's ratepayers.

Commission Concerns

Two of the issues raised in the comments of the parties have particularly concerned the Commission. On the one hand are LG&E's comments pointing out a very practical need for a date certain for internal use in planning and budgeting, and for external use in reporting projected construction and financial information. On the other hand is the AG's argument that granting a date certain is tantamount to granting approval for Trimble County Unit No. 1 and would foreclose the Commission from future review and rate-base treatment of the facility.

Findings

After careful consideration, the Commission finds that the granting of a date certain for the purposes set forth herein would not obviate the Commission's responsibility to continually monitor the need for Trimble County nor would it represent an abdication of the Commission's duty to review the Unit, should it be completed, to determine whether it is a used and useful facility and that all or some portion of it should be included in the rate base. In fact, the Commission finds that a continual monitoring and regular review of the need for Trimble County is warranted.

LG&E indicated in its comments that the Commission should take administrative notice that circumstances change and that such changes could affect the need and timing of Trimble County. LG&E identified examples of changed circumstances that could affect the need and timing of Trimble County. For instance, LG&E pointed out that since the Commission's Order of October 14, 1985, Toyota has announced its decision to locate in Georgetown, Kentucky. As a

result the statewide demand for power may increase as Toyota and the related support industries locate in Kentucky. In its January 6, 1986, comments LG&E noted that proposed tax reform bills should be considered. The Commission is aware that tax legislation continues to be proposed and debated by Congress. Also LG&E pointed to the apparent success of Big Rivers Electric Corporation to sell some of the Wilson capacity. Unfortunately, the Big Rivers' sales have not materialized as planned.

To further illustrate that circumstances change, the Commission takes administrative notice of three other recent pieces of information. First, LG&E's peak demand in 1985 was reported in LG&E's Annual Report 1985 on page 1 as 1,812 megawatts. This compares to a base forecast of 1,879 megawatts, high forecast of 1,909 megawatts and low forecast of 1,859 megawatts as presented in Exhibit 22 of LG&E's Load Forecast prepared by Stone and Webster. Second, LG&E is in the midst of a major scrubber rehabilitation program on several of its generating units. As described on page 6 of LG&E's Annual Report 1985, this program is "intended to improve both the efficiency and the availability for service of the scrubbers." Third, Kentucky Utilities Company has recently announced the cancellation of a planned 600 megawatt unit in Hancock County. These are just three other examples of changes that could either decrease or increase the need for and timing of Trimble County Unit No. 1.

Further, the Commission intends to immediately establish a case docket for the purpose of investigating and implementing the statewide planning alternatives discussed in the Order entered

October 14, 1985, in this proceeding. The Order stated at page 22, "Once Trimble County is completed, the alternatives to develop a more comprehensive, statewide view of planned electric capacity additions will be severely limited and the opportunities to realize any of the associated benefits will be foregone. Thus, the Commission will take advantage of this period of delay to investigate planning alternatives from a statewide perspective." In its Petition for Rehearing filed November 4, 1985, LG&E acknowledged the potential benefit of the Commission's plan, when it stated at page 22, "With the additional time available to us, we can search for solutions to common problems and then commit ourselves to implementing those solutions." The results of the statewide planning study should also be considered in evaluating the need and timing for Trimble County Unit No. 1.

Accordingly, the Commission finds that it must continue to monitor and review the Trimble County situation given the constant changes in circumstances which will affect this power plant. LG&E should file a detailed action plan for implementing the delay. Also, LG&E shall continue to file monthly reports to the Commission detailing the activity at the site. In addition, these reports should include information concerning any changes in circumstance that might affect the in-service date in Trimble County Unit No. 1, including, but not limited to, budget revisions, scrubber improvements, load forecasts, and results from the statewide planning study. When appropriate, updated printouts from the Electric Generation Expansion Analysis System ("EGEAS") should be included. Also the Commission finds that in

approximately one year a docket should be initiated by the Commission to allow for a formal review of the current status of the Trimble County plant.

Further, the Commission affirms the finding in its October 14, 1985, Order that the completion of Trimble County Unit No. 1 should be delayed at least 3 years to July 1991. However, the Commission also recognizes LG&E's need for a date certain to use for planning, budgeting and reporting purposes, and therefore the Commission finds that the date of July 1991, is appropriate for these purposes. The Commission also places LG&E on notice that this date does not preclude further review or regulatory rate-base treatment of Trimble County Unit No. 1.

ORDERS

IT IS THEREFORE ORDERED that the Order entered October 14, 1985, is modified to the extent that LG&E shall delay the completion of Trimble County Unit No. 1 until at least July 1991, and shall use the July 1991, date for planning, budgeting and reporting purposes.

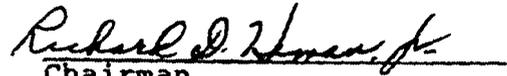
IT IS FURTHER ORDERED that LG&E shall provide within 60 days of the date of this Order a detailed action plan in response to the Commission's directive that the construction of Trimble County Unit No. 1 be delayed.

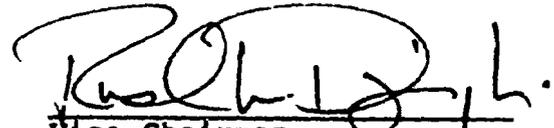
IT IS FURTHER ORDERED that LG&E shall continue to file monthly reports detailing the activity at the Trimble County site. The report shall include information concerning any changes in circumstance that might affect the in-service date in Trimble County Unit No. 1. These changes should include, but not be limited to, budget revisions, scrubber improvements, load

forecasts, and results from the statewide planning study. When appropriate, updated printouts from the EGEAS program should be included.

Done at Frankfort, Kentucky, this 2nd day of June, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary