

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE)	
COMMISSION OF THE APPLICATION OF THE)	
FUEL ADJUSTMENT CLAUSE OF LOUISVILLE)	CASE NO. 90-364
GAS AND ELECTRIC COMPANY FROM)	
NOVEMBER 1, 1988 TO OCTOBER 31, 1990)	

O R D E R

Pursuant to Commission Regulation 807 KAR 5:056, the Commission on November 30, 1990 established this case to review and evaluate the operation of the Fuel Adjustment Clause ("FAC") of Louisville Gas and Electric Company ("LG&E") for the 2 years ending October 31, 1990, and to determine the amount of fuel cost that should be transferred (rolled-in) to its base rates to reestablish its fuel adjustment clause charge.

As part of its review, the Commission ordered LG&E to submit certain information concerning, inter alia, its fuel procurement, its fuel usage, and the operation of its FAC. LG&E submitted this information on December 21, 1990. A public hearing was held in this case on February 21, 1991, at which Marty Blake, Kevin Cardwell, Chris Hermann, Steve Seelye and Greg Winter, LG&E officials, testified.

LG&E proposed that the month of September 1990 be used by the Commission as the base period (test month) for the purpose of arriving at the base fuel cost [F(b)] and the KWH sales [S(b)] components of its FAC. It further proposed that its base fuel

cost be changed to 13.19 mills per KWH, the actual fuel cost for the proposed base period. LG&E's current base fuel cost is 14.22 mills per KWH.

In establishing the appropriate level of base fuel cost to be included in LG&E's rates, the Commission must determine whether the proposed base period fuel cost per KWH is representative of the level of fuel cost currently being experienced by LG&E. The Commission's review of generation mix, generation unit outages, and generation unit availability discloses that the month of September 1990 is a reasonably representative generation month for LG&E. Our analysis of LG&E's monthly fuel clause filings shows that the actual fuel cost incurred for the 2-year period in question ranges from a low of 11.97 mills per KWH in November 1989 to a high of 14.64 mills per KWH in December 1988 with an average cost for the period of 12.95 mills per KWH. Based upon this review, the Commission finds that LG&E has complied with Commission Regulation 807 KAR 5:056 and that the proposed base period fuel cost of 13.19 mills per KWH should be approved.

In implementing a new base period fuel cost, the Commission recognizes that the potential for underrecovery of fuel costs exists. LG&E bills its customers on a daily cycle basis. Customers are billed only after service is received. The average LG&E customer has a billing period which straddles 2 calendar months. As a result, the customer's monthly bill is partially for usage in the current calendar month and partially for usage in the prior calendar month. As the change in the base period fuel cost will occur during the billing period, not at its beginning, LG&E

faces the prospect of assessing its customers a fuel adjustment charge based on an incorrect base period fuel cost for a portion of the billing period.

This problem is compounded by the lag in billing customers for the FAC rate. Each customer incurs a FAC charge with every billing period. Because of the time required to calculate the precise charge for that billing period, however, the charge incurred is not actually billed until two billing periods later.¹

The Commission has faced this problem in prior cases,² and has found that, while no precise solution exists, a reasonable solution is to average the base period fuel cost prior to and after roll-in in computing the fuel adjustment charge for the billing period in which the new base period fuel cost (after

¹ Consider the following example: The new base period fuel cost is established as 13.19 mills per KWH effective for service rendered on and after July 1, 1991. Assume the actual fuel costs for May and June 1991 are 14.19 and 15.19 mills per KWH respectively. Since half of May sales are billed in May and the other half is billed in June, the base fuel cost of 14.22 mills per KWH would apply to both months. Thus the applicable fuel adjustment charge for May would be <.03> mills per KWH (14.19 - 14.22) and would be recoverable from customers beginning with the first cycle billed July 1991. The recovery of June fuel costs would not be as easily computed since that half of the sales billed in June would be subject to the old base fuel cost of 14.22 mills per KWH and the other half would be subject to the new base fuel cost of 13.19 mills per KWH.

² See, e.g., 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).

roll-in) becomes effective.³ The use of this procedure in the case at bar, the Commission believes, will eliminate any material impact on LG&E and its customers from the roll-in of the fuel cost to base rates.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that:

1. LG&E has complied in all material respects with the provisions of 807 KAR 5:056.

2. The test month of September 1990 should be used as LG&E's base period for this review.

3. LG&E's proposed base period fuel cost of 13.19 mills per KWH should be approved.

4. The establishment of a base fuel cost of 13.19 mills per KWH requires a transfer (roll-in) of <1.03> mills per KWH from the FAC rate to LG&E's base rates and can best be accomplished by a uniform reduction to all energy charges.

5. The rates and charges in Appendix A reflect the transfer (roll-in) to base rates of the differential between the current base fuel cost of 14.22 mills per KWH and the proposed fuel cost of 13.19 mills per KWH.

³ Applying this method to the example presented in note 1, the base fuel cost for June would be the average of the base fuel cost after roll-in of 13.19 mills per KWH and the base fuel cost before roll-in of 14.22, or 13.71. Thus the fuel adjustment charge for June would be 1.48 mills per KWH (15.19 - 13.71) and would be recovered from the customers beginning with the first cycle billed in August.

6. The rates in Appendix A, attached hereto and incorporated herein, are fair, just, and reasonable and should be approved for service rendered on and after July 1, 1991.

7. The FAC rate for May 1991, which will be billed in July 1991, should be computed using the base fuel cost prior to roll-in of 14.22 mills per KWH.

8. The FAC rate for June 1991, which will be billed in August 1991, should be computed using a base fuel cost of 13.71 mills per KWH, the average of the base fuel costs prior to and after roll-in.

9. The FAC rate for July 1991 and succeeding months should be computed using the base fuel cost of 13.19 mills per KWH.

IT IS THEREFORE ORDERED that:

1. The charges collected by LG&E through the FAC for the period November 1, 1988 through October 31, 1990 be and they hereby are approved.

2. LG&E's proposed base period fuel cost of 13.19 mills per KWH be and it hereby is approved.

3. The rates in Appendix A are fair, just, and reasonable and are approved for service rendered by LG&E on and after July 1, 1991.

4. The current base rate of 14.22 mills per KWH shall be used to compute the FAC rate for May 1991.

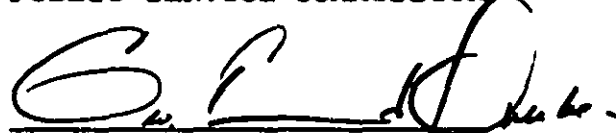
5. The average base fuel cost of 13.71 mills per KWH shall be used to compute the FAC rate for June 1991.

6. The base fuel cost of 13.19 mills per KWH shall be used to compute the FAC rate for July 1991 and succeeding months.

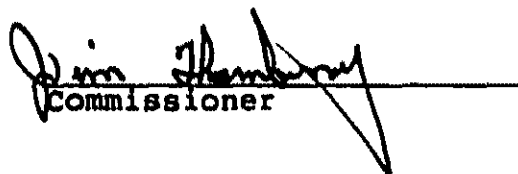
7. Within 30 days from the date of this Order, LG&E shall file with the Commission its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 3rd day of April, 1991.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 90-364 DATED 4/03/91

The following rates and charges are prescribed for the customers in the area served by Louisville Gas and Electric Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

ELECTRIC SERVICE

RESIDENTIAL RATE (RATE SCHEDULE R)

RATE:

Winter Rate: (Applicable during 8 monthly billing periods of October through May)

First 600 kilowatt-hours per month	5.801¢ per KWH
Additional kilowatt-hours per month	4.480¢ per KWH

Summer Rate: (Applicable during 4 monthly billing periods of June through September)

First 600 kilowatt-hours per month	6.299¢ per KWH
Additional kilowatt-hours per month	6.450¢ per KWH

WATER HEATING RATE (RATE SCHEDULE WH)

RATE: 4.235¢ per kilowatt-hour

GENERAL SERVICE RATE* (RATE SCHEDULE GS)

RATE:

Winter Rate: (Applicable during 8 monthly billing periods of October through May)

All kilowatt-hours per month	6.213¢ per KWH
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Summer Rate: (Applicable during 4 monthly billing periods of June through September)

All kilowatt-hours per month	6.998¢ per KWH
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SPECIAL RATE FOR ELECTRIC SPACE HEATING SERVICE
RATE SCHEDULE GS

RATE:

For all consumption recorded on the separate meter during the heating season the rate shall be 4.465¢ per kilowatt-hour.

LARGE COMMERCIAL RATE
(RATE SCHEDULE LC)

RATE:

Energy Charge:

All kilowatt-hours per month 3.036¢

LARGE COMMERCIAL TIME-OF-DAY RATE

RATE:

Energy Charge: 3.036¢ per KWH

INDUSTRIAL POWER
(RATE SCHEDULE LP)

RATE:

Energy Charge:

All kilowatt-hours per month 2.611¢ per KWH

INDUSTRIAL POWER TIME-OF-DAY RATE
(RATE SCHEDULE LP-TOD)

RATE:

Energy Charge: 2.605¢ per KWH

OUTDOOR LIGHTING SERVICE
(RATE SCHEDULE OL)

RATES:

<u>Type of Unit</u>	<u>Rate Per Month Per Unit</u>	
	<u>Installed Prior to January 1, 1991</u>	<u>Installed After December 31, 1990</u>
<u>Overhead Service</u>		
<u>Mercury Vapor</u>		
100 Watt	\$ 6.88	\$ -0-
175 Watt	7.76	9.16
250 Watt	8.77	10.22
400 Watt	10.64	12.21
1000 Watt	19.31	21.94
<u>High Pressure Sodium Vapor</u>		
100 Watt	\$ 7.64	\$ 7.64
150 Watt	9.76	9.76
250 Watt	11.51	11.51
400 Watt	12.09	12.09
<u>Underground Service</u>		
<u>Mercury Vapor</u>		
100 Watt - Top Mounted	\$12.02	\$12.77
175 Watt - Top Mounted	12.76	13.74
<u>High Pressure Sodium Vapor</u>		
70 Watt - Top Mounted	\$10.71	\$10.71
100 Watt - Top Mounted	14.14	14.14
150 Watt	19.25	19.25
250 Watt	22.06	22.06
400 Watt	24.23	24.23

PUBLIC STREET LIGHTING SERVICE
(RATE SCHEDULE PSL)

RATES:

<u>Type of Unit</u>	<u>Rate Per Month Per Unit</u>	
	<u>Installed Prior to January 1, 1991</u>	<u>Installed After December 31, 1990</u>
<u>Overhead Service</u>		
<u>Mercury Vapor</u>		
100 Watt	\$ 6.18	\$ -
175 Watt	7.21	8.98
250 Watt	8.18	10.05
400 Watt	9.74	12.04
400 Watt (underground pole)	14.14	-
1000 Watt	18.00	21.69
<u>High Pressure Sodium Vapor</u>		
100 Watt	\$ 7.39	\$ 7.39
150 Watt	8.83	8.83
250 Watt	10.55	10.55
400 Watt	10.92	10.92
<u>Underground Service</u>		
<u>Mercury Vapor</u>		
100 Watt - Top Mounted	\$10.12	\$12.51
175 Watt - Top Mounted	11.05	13.56
175 Watt	15.01	21.40
250 Watt	16.02	22.47
400 Watt	18.80	24.46
400 Watt on State of Ky. Pole	11.05	-
<u>High Pressure Sodium Vapor</u>		
70 Watt - Top Mounted	\$10.71	\$10.71
100 Watt - Top Mounted	11.12	11.12
150 Watt	19.24	19.24
250 Watt	20.39	20.39
250 Watt on State of Ky. Pole	10.37	-
400 Watt	21.78	21.78
<u>Incandescent</u>		
1500 Lumen	\$ 8.26	\$ -
6000 Lumen	10.80	-

STREET LIGHTING ENERGY RATE
(RATE SCHEDULE SLE)

RATE:

3.869¢ per kilowatt-hour

TRAFFIC LIGHTING ENERGY RATE
(RATE SCHEDULE TLE)

RATE:

4.887¢ per kilowatt-hour

SPECIAL CONTRACT FOR ELECTRIC SERVICE
CARBIDE SPECIAL CONTRACT

Energy Charge
All KWH

1.843¢ per KWH

SPECIAL CONTRACT FOR ELECTRIC SERVICE
E. I. DUPONT DE NEMOURS SPECIAL CONTRACT

Energy Charge

1.909¢ per KWH

SPECIAL CONTRACT FOR ELECTRIC SERVICE
FORT KNOX SPECIAL CONTRACT

Energy Charge: All KWH per month

2.502¢ per KWH

SPECIAL CONTRACT FOR ELECTRIC SERVICE
LOUISVILLE WATER COMPANY SPECIAL CONTRACT

Energy Charge

2.035¢ per KWH