COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ORDER APPROVING CERTAIN ACCOUNTING TREATMENT FOR AND AUTHORIZING RECOVERY OF COAL CONTRACT TERMINATION COSTS	)	CASE NO. 96-089

O R D E R

IT IS ORDERED that Louisville Gas and Electric Company ("LG&E") shall file an original and 10 copies of the following information with this Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the person who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. The response to this request is due no later than May 10, 1996.

1. Provide the accounting entries LG&E made to record the January 30, 1996 payment to Andalex.

2. The new coal supply agreement with Peabody CoalSales Company ("Peabody") states in Section 1.1 that a prior agreement, dated January 1, 1994, was terminated on December 31, 1995.

a. Provide a general description of the purpose and terms of that prior agreement.

b. Provide all details of the termination of that prior agreement including any costs or obligations incurred by LG&E.

3. Exhibit 5 of the Application shows the savings from a buyout of the Andalex contract.

a. Why did the savings analysis use an Andalex FOB Mine Price which reflected a quality premium, instead of the contract base price? Include any analysis prepared by LG&E which supported the use of the higher mine price in this analysis.

b. Recompute the savings analysis using the base contract Andalex FOB Mine Price.

4. Provide a schedule showing the following information for each month that coal was purchased under the Andalex contract: the quantity purchased; the base contract FOB Mine Price; any quality premiums or discounts levied; other premiums or discounts; transportation costs; and the final delivery price of the coal. All prices are to be expressed in $/MMBTU.

5. In Exhibit 5, the present value factor used to analyze the buyout savings was 9.89 percent, the weighted average cost of capital authorized in Case No. 90-158.[1]

a. Provide a schedule that compares LG&E's current capital structure, in dollars and percentages, to the levels authorized in Case No. 90-158.

[1] Case No. 90-158, Adjustment of Gas and Electric Rates of Louisville Gas and Electric Company, final Order dated December 21, 1990.

b. Provide a schedule that compares LG&E's current costs of preferred stock, short-term debt, and long-term debt with the levels authorized in Case No. 90-158.

c. Explain why it is reasonable to use LG&E's 1990 weighted average cost of capital as the 1996 present value factor.

6. The present value revenue requirements analysis assumed amortization of the buyout cost would begin in March 1996, although the Application was filed on March 11, 1996. Since LG&E's previous coal contract buyout case, Case No. 89-030,[2] took over four months to process, explain why LG&E assumed amortization of the buyout cost would begin in March 1996.

7. Provide a revised present value revenue requirements analysis of the buyout that reflects all the following changes:

a. The Andalex FOB Mine Price equal to the 1996 base contract price without quality premiums.

b. The present value factor revised to reflect the current capital structure and the current costs of preferred stock, short-term debt, and long-term debt.

c. Amortization to begin in July 1996 and run through December 1996.

8. The Andalex contract was to run through December 31, 1999, but now the Peabody agreement will run through that date.

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[2] Case No. 89-030, Application of Louisville Gas and Electric Company for an Order Approving Certain Accounting Treatment of Amounts Paid for Coal Contract Termination. Copy of final Order filed as Application Exhibit 6.

LG&E's application indicates that the Peabody agreement will replace the Andalex contract.

a. Given these facts, why shouldn't the buyout cost be amortized through December 1999 instead of December 1996?

b. Did LG&E perform any analysis of the buyout reflecting the original term of the Andalex contract and the current term of the Peabody agreement? If yes, provide copies of the analysis. If no, explain why not.

9. Under the Andalex contract, the guaranteed monthly weighted average maximum sulfur content was 2.7 lbs./MMBTU. The same maximum under the Peabody agreement is 2.95 lbs./MMBTU. It takes 794,521 tons of Peabody coal to generate the same BTU/lb. that 750,000 tons of Andalex coal generated.

a. Would LG&E agree that it could incur higher scrubbing costs when using the Peabody coal than it might have incurred using an equivalent amount of Andalex coal? If no, explain why not.

b. In analyzing the coal buyout, did LG&E take into consideration the possibility that the replacement coal could result in higher scrubbing costs? If yes, provide copies of the analysis. If no, explain why this was not considered.

c. Would LG&E agree that additional scrubbing costs should have been included in the savings analysis and the present value revenue requirements analysis, assuming those costs could be quantified? If no, explain why not.

Done at Frankfort, Kentucky, this 25th day of April, 1996.

ATTEST:

Executive Director

PUBLIC SERVICE COMMISSION

For the Commission