

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. 96-524-A
GAS AND ELECTRIC COMPANY FROM)
NOVEMBER 1, 1996 TO APRIL 30, 1997)

O R D E R

Pursuant to Administrative Regulation 807 KAR 5:056, Section 1, the Commission, on July 14, 1997, 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 6 months ended April 30, 1997. As part of this review, the Commission directed LG&E to submit certain information concerning its compliance with Administrative Regulation 807 KAR 5:056. On October 16, 1997, the Commission held a public hearing in this matter.¹ At this hearing, the following persons testified: Larry Feltner, LG&E Rate and Regulatory Coordinator; Greg Winter, LG&E Director of Corporate Accounting; Bill Gilbert, LG&E Fuels Administration Manager; and Rick Melloan, LG&E Director of Central Engineering and Construction Management.

Having considered the evidence of record and taking administrative notice of the Commission s Order of this day in Case No. 96-524,² the Commission finds that LG&E

¹ The Attorney General, through his Office for Rate Intervention, and Kentucky Industrial Utility Customers were permitted to intervene in this proceeding. Both appeared, through counsel, at the public hearing in this matter.

² Case No. 96-524, An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of Louisville Gas and Electric Company from November 1, 1994 to October 31, 1996.

improperly calculated its FAC charge for the review period. In calculating its cost of fuel for each month within the review period, LG&E failed to include in the cost of fossil fuel recovered through intersystem sales the cost of fuel associated with line losses³ incurred to make such sales. In Case No. 96-524, the Commission found that this failure led to an overstatement of LG&E's fuel costs.⁴ To make an intersystem sale, an electric utility must generate not only the energy sold to a purchaser, but additional

³ Line losses are [t]he amount of power or commodity lost between the utility's generating facilities or production source and the customer's premises or any two intermediate points in the utility system. See Public Utilities Reports, Inc., P.U.R. Glossary for Utility Management 83 (1992). Some power is lost when transmitting the energy from the place of generation to consumption usually in the form of heat. For example, to sell 100 kW of electricity, a utility may generate 103 kW to sell 100 kW. The 3 additional kW represent line losses incurred when transmitting the electricity.

⁴ A review of the formula used to calculate LG&E's FAC Charge clearly demonstrates the effect of LG&E's failure. The FAC Charge is determined by the following formula:

$$\text{Adjustment Factor} = \frac{\text{Monthly Fuel Costs}}{\text{Monthly Sales}} - \frac{\text{Base Fuel Costs}}{\text{Base Sales}}$$

Under this methodology a base cost of fuel is established. This base cost is expressed in terms of cents or mills per kWh. The base cost is then subtracted from the monthly cost to determine the monthly adjustment factor. This factor, which is also expressed in terms of cents or mills per kWh, is multiplied by the customer's usage to determine the customer's monthly FAC charge. The charge, which may be positive or negative, appears as a separate line item on the customer's bill.

Monthly Fuel Costs is expressed as follows:

$$\begin{array}{r} \text{Fuel Costs} \\ (\$) \end{array} \quad \begin{array}{r} \text{Fuel Consumed in Utility's Own Plants} \\ + \\ \text{Fuel Cost of Purchased Power} \\ + \\ \text{Energy Cost of Power Purchased on Economic Dispatch} \\ - \\ \text{Cost of Fossil Fuel Recovered Through Intersystem Sales} \end{array}$$

By failing to include in the cost of fossil fuel recovered through intersystem sales the cost of fuel associated with intersystem sales line losses, LG&E increased its monthly fuel costs and thus increased the adjustment factor.

energy to cover energy losses incurred to transmit the sales amount across the utility's transmission system. When making an intersystem sale, therefore, the electric utility recovers not only the cost of fuel to produce the sales amount of energy, but also the cost of fuel to produce the energy lost in transmission of the sales amount.

Based upon a 3 percent line loss for intersystem sales, which the Commission determined in Case No. 96-524 as the appropriate line loss for LG&E's FAC charge calculations, the Commission finds that LG&E understated its cost of fossil fuel recovered through intersystem sales by \$422,230⁵ and thus overstated its monthly fuel costs for the review period by that amount. The Commission finds no evidence of any other improper calculation or application of LG&E's FAC charge or of any improper fuel procurement practices.

IT IS THEREFORE ORDERED that:

1. Upon filing its first monthly fuel adjustment after entry of this Order, LG&E shall, in calculating its monthly fuel cost, reduce actual monthly fuel cost by \$422,230 to reflect unreported fossil fuel costs recovered through intersystem sales during the review period.
2. This case is closed and shall be removed from the Commission's docket.

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Month	Reported Recovered Intersystem Fuel Cost (\$)	Unreported Recovered Intersystem Fuel Cost (\$)
November 1996	3,614,864	108,446
December 1996	2,944,303	88,329
January 1997	1,637,695	49,131
February 1997	1,815,989	54,480
March 1997	1,345,492	40,365
April 1997	2,715,985	81,480
TOTAL		422,230

Done at Frankfort, Kentucky, this 9th day of February, 1999.

By the Commission

ATTEST:

Executive Director