COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND	)
ELECTRIC COMPANY FOR APPROVAL OF	) CASE NO. 98-426
AN ALTERNATIVE METHOD OF REGULATION	)
OF ITS RATES AND SERVICES	)

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES COMPANY	)
FOR APPROVAL OF AN ALTERNATIVE METHOD	) CASE NO. 98-474
OF REGULATION OF ITS RATES AND SERVICES	)

O R D E R

By Order dated April 13, 1999, the Commission granted Louisville Gas and Electric Company (LG&E) and Kentucky Utilities Company (KU) authority to amend their respective applications for approval of an alternative method of regulation. The amendments supplemented the original applications by adding additional ratepayer benefits and proposing an effective date of July 1, 1999. In granting the amendments, the Commission suspended for one day LG&E s and KU s proposed Performance-Based Rate tariffs and allowed them to become effective on July 2, 1999 subject to further change. In compliance with the Commission s April 13, 1999 Order, LG&E and KU filed on June 2, 1999 their respective tariffs to implement their amended applications.

Kentucky Industrial Utility Customers (KIUC) filed objections to the compliance filings, raising the same three issues in each case. The first is a concern that the merger dispatch fuel savings, which was a ratepayer benefit established upon merger of

LG&E s and KU s respective holding companies, will be lost under the Performance-Based Rate. LG&E and KU filed responses indicating that ratepayers will still receive the savings, but the existing two month delay in receipt will stretch to six months under the Performance-Based Rate.

The second issue raised by KIUC is a request for clarification that eliminating the fuel adjustment clause (FAC), and rolling into base rates the fuel costs now recovered under the FAC, will not render moot the Commission s ability to prospectively disallow fuel costs in the still pending FAC cases. In their responses, LG&E and KU assert that any prospective fuel disallowance by the Commission in the pending FAC cases will not impact the baseline cost of fuel purchased which is used in the fuel index calculation under the Performance-Based Rate.

The final issue raised by KIUC is for clarification of the methodology to be used by LG&E and KU for recovery of fuel expenses incurred in May 1999 and June 1999, and whether recovery will be sought from ratepayers by continuing to bill their respective FACs during July 1999 and August 1999. In their responses, LG&E and KU state that only fuel expenses incurred prior to July 2, 1999 will be recovered under their FAC, and that the proposed transition from the FAC to the Performance-Based Rate is consistent with past Commission practice.

KIUC and LG&E and KU have filed two additional rounds of responses to each others responses. KIUC has now dropped its request for clarification regarding the fuel cost incurred in May 1999 and June 1999, but maintains that Commission action is still needed to address its first two issues.

Based on the objections and the responses, and being sufficiently advised, the Commission finds that none of the issues raised by KIUC challenge the June 2, 1999 tariff filings by LG&E and KU as not conforming to the Commission s April 13, 1999 Order. Rather, the issues raised by KIUC go to the merits and reasonableness of the contents of the tariffs, which are issues that the Commission has not yet adjudicated. Since LG&E s and KU s respective tariff filings on June 2, 1999 appear to be in compliance with our April 13, 1999 Order, and the tariffs are being implemented subject to future change, KIUC s objections should be overruled without prejudice to its right to pursue these issues at the hearing scheduled on August 31, 1999.

IT IS THEREFORE ORDERED that KIUC s objections to the June 2, 1999 tariff filings of LG&E and KU are overruled without prejudice.

Done at Frankfort, Kentucky, this 2nd day of July, 1999.

By the Commission

ATTEST:

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Executive Director