

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|---|---|------------|
| A REVIEW OF THE RATE UNBUNDLING STUDIES |) | |
| FILED BY LOUISVILLE GAS AND ELECTRIC |) | CASE NO. |
| COMPANY AND KENTUCKY UTILITIES COMPANY |) | 2001-00333 |

O R D E R

This matter comes before the Commission as a result of the July 26, 2001 filing by Louisville Gas and Electric Company and Kentucky Utilities Company (LG&E and KU) of their informational rate unbundling studies pursuant to the Commission's January 7, 2000 Orders in Case Nos. 98-426 and 98-474 and its Orders of April 21 and July 2, 2001 in Case No. 2000-528.¹ Intervenors in this proceeding are the Attorney General of the Commonwealth of Kentucky, Kentucky Industrial Utility Customers (KIUC), and Metro Human Needs Alliance and People Organized and Working for Energy Reform. The parties were afforded an opportunity to conduct discovery and to request either an informal conference or a formal hearing to pursue any issues they believed warranted further analysis. Discovery was conducted, but the Commission received no request for any further proceedings. This matter now stands submitted for decision.

¹ Case No. 98-426, Application of Louisville Gas and Electric Company for Approval of an Alternative Method of Regulation of its Rates and Services; Case No. 98-474, Application of Kentucky Utilities Company for Approval of an Alternative Method of Regulation of its Rates and Services; Case No. 2000-528, Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for an Order Suspending the Requirement to File a Rate Unbundling Study.

BACKGROUND

In our January 7, 2000 Orders in Case Nos. 98-426 and 98-474, we found that issues related to opening retail electric markets to competition were becoming more evident in various types of cases brought before the Commission. We also found that, while such issues were taking on greater importance, there was little evidence that retail electric competition was imminent in Kentucky. Therefore, we concluded that now was an appropriate opportunity to consider some of the issues relating to competition prior to the time when either federal or state legislative action might require a review of these matters in an adversarial forum in a limited amount of time. Specifically, we identified the unbundling of electric rates, i.e., the separation of rates into their functional components of generation, transmission, and distribution, as providing useful information and directed LG&E and KU to file such studies.

The rate unbundling studies submitted by LG&E and KU were prepared using financial data for calendar year 1999 and were based on class cost-of-service studies performed using a Base-Intermediate-Peak (BIP) allocation methodology for production costs, which both LG&E and KU have previously used in general rate case applications. Although the class cost-of-service studies reallocation of costs indicated a need to change rate levels for many customer classes, each customer class's overall rate of return was maintained at its actual earned rate of return for calendar year 1999. This approach indicated a need to shift rates within customer classes but causes no shifts or changes in revenue responsibility between customer classes.

KIUC submitted comments on the rate studies noting that it believes that the BIP methodology may lead to the misallocation of fixed costs. Noting that the unbundling

studies were submitted for informational purposes only, KIUC stated that if this were a contested proceeding it might choose to challenge the cost-of-service studies and rate unbundling studies on the grounds that they were unreasonable.

DISCUSSION

The Commission has reviewed the unbundling studies filed by LG&E and KU. As noted by KIUC, the unbundling studies were filed for informational purposes only and the Commission does not intend to modify any existing rates based on the studies. Hence, discovery was somewhat limited and no party disputed whether the unbundling studies produce results that accurately reflect the appropriate use of the various allocation methodologies utilized in the supporting cost-of-service studies. The Commission finds that, based on the direction we provided to LG&E and KU in Case Nos. 98-426 and 98-474, the rate unbundling studies reasonably reflect the separation, or unbundling, of LG&E's and KU's rates, utilizing the allocation methodologies that were employed in the supporting cost-of-service studies. However, we make no finding or conclusion on the appropriateness or reasonableness of the allocation methodologies employed by LG&E and KU, and we express no preference for those methodologies over other allocation methodologies.

CONCLUSION

The Commission, based on the evidence of record and being otherwise sufficiently advised, finds that:

1. LG&E and KU have complied with the requirements set forth in the January 7, 2000 Orders in Case Nos. 98-426 and 98-474 that they prepare and file informational rate unbundling studies.

2. The rate unbundling studies filed by LG&E and KU produce results that reasonably reflect their respective costs, by customer class and within customer classes, based on the methodologies they employed to allocate their respective costs of providing electric service. However, no findings are being made on the appropriateness or reasonableness of the allocation methodologies employed therein.

IT IS THEREFORE ORDERED that the rate unbundling studies filed by LG&E and KU are accepted and this case shall be closed and removed from the Commission's docket.

Done at Frankfort, Kentucky, this 25th day of February, 2002.

By the Commission

ATTEST:


Executive Director