COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION OF THE APPLICATION OF THE FUEL ADJUSTMENT CLAUSE OF LOUISVILLE GAS & ELECTRIC COMPANY FROM NOVEMBER 1, 2013 THROUGH APRIL 30, 2014	)))))	CASE NO. 2014-00228
AN EXAMINATION OF THE APPLICATION OF THE FUEL ADJUSTMENT CLAUSE OF LOUISVILLE GAS AND ELECTRIC COMPANY FROM NOVEMBER 1, 2012 THROUGH OCTOBER 31, 2014	)))))	CASE NO. 2014-00453

ORDER

Pursuant to 807 KAR 5:056, the Commission, on August 13, 2014, established Case No. 2014-00228 to review and evaluate the operation of the fuel adjustment clause ("FAC") of Louisville Gas and Electric Company ("LG&E") for the six-month period from November 1, 2013, through April 30, 2014.

In establishing that review, the Commission ordered LG&E to submit certain information concerning its fuel procurement, fuel usage, and the operation of its FAC. LG&E submitted this information on August 27, 2014. A public hearing was held on November 12, 2014. LG&E responded to a second Commission Staff information request on December 10, 2014. Kentucky Industrial Utility Customers, Inc. initially requested intervention in Case No. 2014-00228, but later filed a motion to withdraw its request, which was granted by the Commission.

On February 5, 2015, also pursuant to 807 KAR 5:056, the Commission established Case No. 2014-00453 to review and evaluate the operation of LG&E's FAC for the period from November 1, 2012, through October 31, 2014, and to determine the amount of fuel costs that should be transferred into or out of its base rates to re-establish its FAC factor. The two-year period includes the six-month period which ended April 30, 2014, which was still under review in Case No. 2014-00228. One of the issues under review but not yet concluded in Case No. 2014-00228 was the methodology being utilized by LG&E for allocating fuel costs between native load customers and off-system sales. Finding that LG&E's fuel-cost allocation methodology should be investigated in the two-year FAC review as well as in the six-month FAC review, the Commission issued an Order consolidating the two cases on February 19, 2015.

In establishing its review, the Commission ordered LG&E to submit certain information concerning its fuel procurement, fuel usage, and the operation of its FAC. LG&E submitted this information on February 20, 2015, and filed responses to a second request for information on March 20, 2015. An informal conference was held on March 26, 2015, and a public hearing was held on April 7, 2015. On April 21, 2015, LG&E filed a post-hearing data response to questions asked at the hearing. There are no intervenors in this proceeding.

Base Fuel Cost

LG&E's current base fuel cost is 27.25 mills per kilowatt hour ("kWh") based on the month of April 2012. LG&E proposes that, based on its review of past, current, and projected fuel costs, the current base fuel cost of 27.25 mills per kWh should remain unchanged. In addition, LG&E states that "with the changes expected to occur, in April

2015 with the commercial operation of LG&E's and KU's gas-fired combined cycle Cane Run Unit 7 and the retirement of Cane Run Units 4, 5, and 6 coal units, there will be interplay in the dispatch of the coal and natural gas units based on the pricing of natural gas."[1] LG&E claims that this interplay may initially create variance in its monthly fuel expense and that, based on this potential effect, it is reasonable to leave the base fuel cost at the current level.

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 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 April 2012 is a reasonably representative generation month of LG&E. The analysis of LG&E's monthly fuel clause filings showed that the fuel cost billed for the two-year review period ranged from a low of 26.28 mills per kWh to a high of 30.42 mills per kWh, with an average cost billed for the period of 27.90 mills per kWh. Based upon this review, the Commission finds that the proposed base period fuel cost of 27.25 mills per kWh should remain in effect.

Fuel Cost Allocation Methodology

As previously stated, one of the issues under review is the methodology being utilized by LG&E for allocating fuel costs between native load customers and off-system sales. At the March 26, 2015 Informal conference, LG&E and its sister company, Kentucky Utilities Company ("KU"), (collectively "the Companies"), made a presentation to

[1] Case No. 2014-00453, Response to Commission Staff's February 5, 2015 Request for Information, Item 1.

Commission Staff on their After-the-Fact Billing ("AFB") Process in order to explain their fuel cost allocation methodology. The Companies have used the AFB Process since their merger in 1998 and made a similar presentation explaining the AFB Process to Commission Staff in October 2001.[2]

According to the Companies, the purpose of the AFB Process is 1) to determine the amount of costs assigned to off-system sales and thus excluded from fuel cost recovery and 2) to determine fuel savings when the Companies sell power to each other.[3] For each hour, the Companies stack all sources, both generation and purchases, from lowest-cost incremental cost to highest on a megawatt-by-megawatt ("MW") basis. For each company, the lowest-cost owned generation services its own native load.[4] The Companies state that the term "Min Block" as used in the presentation refers to the quantity of generation that is automatically assigned to native load, and it is slightly less than the minimum output level of the unit. The Companies also state that, each hour, the Min Block MWs of the coal units are assigned to native load and are always less than native load. The Companies' combustion turbines do not have Min Blocks for AFB purposes.[5] The Min Blocks are stacked at the bottom and the incremental cost for each source (generation and purchases) is then stacked from lowest to highest cost on a MW-by-MW basis. The

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[2] Attachment to March 26, 2015 Informal Conference Memorandum ("IC Memo") at 2, filed March 30, 2015.

[3] IC Memo.

[4] Attachment to March 26, 2015 IC Memo at 2.

[5] IC Memo.

highest incremental costs each hour are allocated to off-system sales.[6]

In Case No. 2014-00225,[7] an FAC review proceeding for Kentucky Power Company ("Kentucky Power") for the six months ended April 30, 2014, the Commission disallowed recovery of certain fuel costs, in part, because of Kentucky Power's fuel cost allocation methodology. During that review period, Kentucky Power's reserve margin was unusually high and the Commission found that the application of Kentucky Power's fuel-cost allocation methodology under that circumstance produced an unreasonable result. Given that there are similarities between Kentucky Power's and LG&E's fuel-cost allocation methodologies, the Commission finds that LG&E's fuel-cost methodology is reasonable when LG&E's reserve margin is within a reasonable range. However, to the extent that LG&E may experience a significant increase in its reserve margin in the future, this issue could be revisited.

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

1. LG&E's fuel cost allocation methodology is reasonable and should be approved.

2. For the period under review, LG&E has complied with the provisions of 807 KAR 5:056.

3. The month of April 2012 should be used as LG&E's base period.

[6] Case No. 2014-00228, Response to Commission Staff's Second Request for Information, Item 1.

[7] Case No. 2014-00225, *An Examination of the Application of the Fuel Adjustment Clause of Kentucky Power Company from November 1, 2013 through April 30, 2014* (Ky. PSC Jan. 22, 2015).

4. LG&E's current base period fuel cost of 27.25 mills per kWh should remain in effect.

5. The continued use of the base fuel cost of 27.25 mills per kWh requires no transfer to or from LG&E's base rates.

IT IS THEREFORE ORDERED that:

1. The charges and credits applied by LG&E through the FAC for the period from November 1, 2012, through October 31, 2014, are approved.

2. LG&E's continued use of the existing base fuel cost of 27.25 mills per kWh is approved.

3. LG&E's fuel-cost allocation methodology is approved.

By the Commission

ENTERED
AUG 11 2015
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Executive Director

Case No. 2014-00228
Case No. 2014-00453

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