

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

GENERAL ADJUSTMENT OF )  
ELECTRIC RATES OF ) CASE NO. 8177  
KENTUCKY UTILITIES COMPANY )

INTERIM ORDER

On March 23, 1981, Kentucky Utilities Company ("Company") filed an application with this Commission seeking authority to increase its rates for service on and after April 13, 1981. The proposed rates would produce approximately \$39,250,000 on an annual basis, an increase of 12.4%. The Company also filed a motion pursuant to KRS 278.190(2) for an interim increase of approximately \$29,200,000 on an annual basis, an increase of 9.2%.

On March 31, 1981, the Commission issued its Order suspending the proposed permanent rate increase for a period of five months on and after April 13, 1981, and the interim rate increase until the matter could be heard and decided. The hearing with respect to the proposed interim rates was held on April 28, 1981, at the Commission's offices in Frankfort, Kentucky.

Witnesses presented by the Company at that hearing were W. B. Bechanan, President; John Newton, Senior Vice President; J. W. Bradley, Vice President; Howard C. Mount, Vice President, Duff and Phelps, Inc.; Fred Davis, Controller; J. W. Tipton, Director of Engineering Special Projects; Robert M. Hewett, Assistant Rate Engineer; and Dr. Charles F. Haywood, Professor of Finance of College of Business and Economics at the University of Kentucky.

The Company witnesses testified among other things that earnings for the 12 months ending March 31, 1981, were inadequate to maintain the Company's credit; that the current dividend was \$2.12 per share as compared to earnings of \$1.69 per share; that earnings per share were flat during this period and had increased 16¢ per share over the most recent four-year period; that the fixed charge coverage ratio was 2.21 for this period; that its stock is currently being traded at about two-thirds of book value; that Standard and Poor's Corporation lowered the Company's mortgage bond rating to A+ from AA in March; that the Company's bond rating is in imminent danger of being lowered by Moody's Investors Service; and that downgrading results in increased financing costs to be borne by the consumer.

These witnesses further testified that because of inadequate revenues, the Company has been forced to defer construction and maintenance projects; that these deferrals have reduced the adequacy and reliability of the service rendered by the Company; and that additional and continued deferrals will result in further deterioration of the quality of service.

These witnesses also testified that without interim rate relief the Company's earnings will continue to decline; that the Company's forecast, adjusted for first-quarter results, shows earnings per share at \$1.53 for the year ended September 1981; and that the Company's current financial condition is particularly critical because of the 1.5 million shares of common stock scheduled for sale on May 5 and the \$25 million bond issue planned in June.

### Summary

The Commission finds that an emergency exists and that the Company's credit or operations will be materially impaired unless an interim increase is granted prior to the expiration of the five-month suspension period, pursuant to KRS 278.190.

Based on the testimony adduced at the hearing and the record in this proceeding, and none of the intervenors having requested permission to file testimony, the Commission finds the Company should be granted an interim rate increase of \$13,000,000 on an annual basis, which should restore the Company approximately to the financial condition it was anticipated it would be in at this time when the last rate increase was granted. The Commission further finds this increase should be subject to refund pending final determination of the Company's request for permanent rate relief.

IT IS THEREFORE ORDERED that Kentucky Utilities Company is hereby authorized to place into effect a surcharge of .163¢ per kwh applied to all rate schedules to which the fuel adjustment clause applies, for service rendered on and after May 1, 1981.

IT IS FURTHER ORDERED that the revenue from this surcharge shall be collected subject to refund.

IT IS FURTHER ORDERED that the Company shall maintain its records in such manner as will enable it, or the Commission or any of its customers, to determine the amounts to be refunded and to whom due in the event a refund is ordered by the Commission.

IT IS FURTHER ORDERED that the interim rates and charges proposed by the Company are hereby denied.

IT IS FURTHER ORDERED that the Company shall furnish the Commission within five days after the date of this Order a revised tariff sheet setting out the surcharge approved herein which shall be applied as a separate item on customer bills.

Done at Frankfort, Kentucky, this 1st day of May, 1981.

PUBLIC SERVICE COMMISSION

Martin M. Vohy  
Chairman

Katherine Randall  
Vice Chairman

Don Hargan  
Commissioner

ATTEST:

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Secretary