COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

GENERAL ADJUSTMENT IN ELECTRIC AND GAS RATES OF LOUISVILLE GAS AND ELECTRIC COMPANY	))))	CASE NO. 8284

O R D E R

On July 10, 1981, Louisville Gas and Electric Company ("LG&E") filed an application with this Commission requesting authority to increase its gas and electric rates and charges for service rendered on and after August 1, 1981. The proposed rates and charges would increase annual gas revenues by $6.5 million, an increase of 3.7 percent, and annual electric revenues by $50.1 million, an increase of 16.5 percent. These increases represent a total increase in annual operating revenue of $56.6 million, or 11.8 percent, based on normalized test year sales.

On July 13, 1981, the Commission ordered the proposed rate increase suspended for a 5-month period, until January 1, 1982, in order to conduct public hearings and investigation into the reasonableness of the proposed rate increase. The first hearing was held on August 5, 1981, in the Commission's offices at Frankfort, Kentucky. Additional hearings for the purpose of cross-examination of LG&E's witnesses and the witnesses of the intervenors were conducted on November 4 and 12, 1981. A hearing to receive public comment and testimony was conducted on October 14, 1981, in the Aldermanic Chambers of the Board of Alderman in the City Hall at Louisville, Kentucky.

Motions to intervene were filed by the Division of Consumer Protection in the Department of Law ("Attorney General"), the Department of Defense of the United States, the City of Louisville, Kentucky and Jefferson County ("Louisville"), Airco Carbide, a division of Airco, Inc., ("Airco"), and E. I. duPont deNemoris and Company ("duPont"), and sustained by the Commission.

All briefs were filed by December 4, 1981, and the matter is now before the Commission for final determination.

COMMENTARY

LG&E is a privately-owned electric and gas utility which distributes and sells electricity to approximately 296,000 consumers in Jefferson County, and in portions of Bullitt, Hardin, Henry, Meade, Oldham, Shelby and Trimble Counties; and gas to approximately 233,000 customers in Jefferson County and portions of Bullitt, Green, Hardin, Hart, Henry, Larue, Marion, Meade, Metcalfe, Nelson, Oldham, Shelby, Trimble and Washington Counties.

TEST PERIOD

The Commission has accepted the 12-month test period ending April 30, 1981, for the purpose of determining the reasonableness of the proposed rates. In utilizing the historical test period the Commission has included adjustments found to be known and measurable to reflect more current operating conditions.

VALUATION

LG&E presented the net original cost, capital structure, and reproduction cost as the valuation methods in this case. The Commission has given due consideration to these and other elements of value in determining the reasonableness of the proposed rates and charges. As in the past, the Commission has given limited consideration to the proposed reproduction cost.

Net Original Cost

LG&E proposed in Wilkerson Exhibit 8 a total company net original cost rate base of $952,508,061 as of April 30, 1981. The proposed rate base was basically determined in accordance with the Commission's decision in LG&E's last rate case. In a variation from the past policy of the Commission, LG&E proposed to deduct the total gas supply expenses in its determination of cash working capital. The Commission has consistently allowed only the purchased gas expenses and expense associated with deliveries and withdrawals of stored gas as the appropriate gas supply expense deductions. We have further adjusted the allowance for working capital to recognize the pro forma adjustments to operation and maintenance expenses. All other elements of the net original cost rate base have been accepted as proposed by LG&E.

The net original cost rate base devoted to gas and electric operations is determined by the Commission to be as follows:

	Total Company	Electric	Gas
Total Utility Plant	$1,253,916,799	$1,114,789,461	$139,127,338
Add:			
Materials & Supplies	$ 63,766,327	$ 62,291,712	$ 1,474,615
Gas Stored Underground	24,054,773	-0-	24,054,773
Prepayments	1,182,329	1,005,499	176,830
Cash Working Capital	25,066,375	22,292,795	2,773,580
Sub-Total	$ 114,069,804	$ 85,590,006	$ 28,479,798
Less:			
Reserve for Depreciation	$ 318,188,969	$ 267,242,979	$ 50,945,990
Customer Advances	1,825,120	926,458	898,662
Accumulated Deferred Taxes	90,329,600	78,411,200	11,918,400
Investment Tax Credit (3%)	2,824,510	2,122,961	701,549
Sub-Total	$ 413,168,199	$ 348,703,598	$ 64,464,601
Net Original Cost Rate Base	$ 954,818,404	$ 851,675,869	$103,142,535

Capital Structure

The Commission has determined LG&E's capital structure at the end of the test period to be as follows:

	Amount	Percent
Bonds	$425,603,915	46.49
Other Debt	11,204,025	1.22
Preferred Stock	125,371,584	13.69
Common Stock	353,377,363	38.60
Total	$915,556,887	100.00

In determining the capital structure the Commission has accepted the adjustments proposed by LG&E to reflect the sale of common stock and pollution control bonds and the retirement of notes payable. The Job Development Investment Credit ("JDIC") of $61,395,490 has been allocated to each component on the basis of the ratio of each component to total capital excluding JDIC. The Commission is of the opinion that this treatment is entirely consistent with the requirement of IRS that JDIC receive the same overall return allowed on common equity, debt and preferred stock.

Reproduction Cost

LG&E presented the reproduction cost rate base in Wilkerson Exhibit 9. In determining the reproduction cost rate base LG&E estimated the value of utility plant in service, plant held for future use and construction work in progress at the end of the test year and applied the same additions and deductions as proposed in the net original cost rate base. The resulting reproduction cost is $1,973,973,503 which includes electric facilities of $1,687,347,259 and gas facilities of $286,626,244.

REVENUES AND EXPENSES

Through Mr. Wilkerson's exhibits and testimony, LG&E proposed several pro forma adjustments to reflect more current and anticipated operating conditions. The Commission is of the opinion that the proposed adjustments are generally proper and acceptable for rate-making purposes with the following modifications:

LG&E proposed an adjustment to reflect increases in salaries, wages, and other labor costs that occurred during the test year or were scheduled to occur prior to the end of the 5-month suspension period. In calculating the wage increase scheduled to occur in November 1981, LG&E estimated the increase at 10 percent, the minimum increase allowed under the current labor contract. The actual wage increase which became effective November 9, 1981, was 10.8 percent based on the change in the Consumer Price Index from September 1980 to September 1981. Therefore, the Commission has increased the proposed labor adjustment by $277,300 to reflect the actual wage increase of 10.8 percent.

Within its wage adjustment, LG&E included $21,132 to reflect increases in shift pay for its Sunday work shift. In calculating the adjustment, LG&E erroneously capitalized a portion of the total increase when in fact no construction work is performed on Sundays and all labor costs incurred on Sundays are charged to expense. Therefore, the adjustment has been increased by $4,126 to reflect the charging of the entire increase to expense.

The Commission has made an adjustment of $19,493 to reflect increases in employees' group life insurance costs and social security taxes. These costs have increased as a result of the November 1981 wage increase of 10.8 percent. All labor adjustments have been allocated to the electric and gas departments on a 75 percent/25 percent basis as LG&E proposed.

LG&E proposed adjustments to revenue and expense for both electric and gas operations to normalize for abnormal weather conditions occurring during the test year. In accordance with past policy the Commission has accepted the adjustment as proposed by LG&E to recognize abnormal gas sales during the test year.

The proposed adjustment to electric revenue and expense for weather normalization would reduce operating income by $8,361,086. This adjustment is based on the assumption that electric sales were approximately 314.7 million KWH greater during the test year due to the hotter than normal summer of 1980. LG&E witness Thurman testified that "In terms of cooling degree days,...the test year was 42 percent hotter than normal."

In calculating the adjustment Mr. Thurman determined the cooling degree days for the months of April through November based on a mean temperature of 65 degrees. The normal cooling degree days based on the weather bureau's 1970, 30-year average for Louisville was 1268, as compared to the 1773 cooling degree days during the test year. To determine the KWH excess Mr. Thurman isolated four rate classes which were considered to have a significant air conditioning component and determined the KWH per degree day for air conditioning using a base load of May 1980. The excess KWH sales were then converted to revenue and expense by applying the average revenue per KWH for each customer class to the excess KWH and the incremental cost per KWH based on average fuel cost during the period of degree day excess and .05 cents/ KWH estimated incremental maintenance.

The ultimate objective of an adjustment of this nature is to project in a reasonable manner a normal level of sales on which to base the rates of the utility. The Commission is of the opinion that weather is one factor to be considered in normalizing sales but that this factor should not be considered alone. In adjusting sales for abnormal weather only, LG&E failed to recognize other factors such as customer usage patterns, abnormal industrial sales, normal growth in customer usage, and/or the effects of conservation. Moreover, LG&E did not adequately support all of the assumptions used to make the adjustment. There was no support for the selection of the month used to determine the base non-cooling load nor the use of the somewhat outdated 30-year average normal degree days. LG&E also did not consider the effects of conservation on usage for air conditioning in establishing the 65 degree mean. Furthermore, in determining the dollar amount of the revenue and expense adjustments LG&E did not justify the use of the average revenue per KWH to adjust revenue and the average fuel cost to adjust expense. Each of these factors could materially affect the adjustment.

Historical and current KWH sales data do not support the adjustment proposed by LG&E. The actual test year KWH sales of 7,800 million KWH were only slightly greater than calendar years 1978 and 1979 in which reported sales were 7,796 and 7,795 million KWH, respectively. KWH sales for the 12 months ending October 1981 were 95 million KWH less than the test year actual sales.

The Commission has carefully considered the adjustment to normalize sales for abnormally hot weather. From the above analysis it is clear that the effect of this adjustment is to make the annual level of KWH sales abnormally low during the test year. As pointed out previously, the annual KWH sales for the calendar years ended December 31, 1978, and 1979, and for the 12 months ended October 31, 1981, do not in any way suggest that test year KWH should be reduced by 314.7 million KWH. While the Commission agrees in principle with adjustments that make the test year more representative of current operating conditions, it is clear in this instance that the adjustment results in an artificially low level of KWH sales. This result may have been caused by LG&E's unsupported assumptions referred to above or its failure to consider other factors that affect KWH sales. For the above reasons the Commission rejects the weather normalization adjustment proposed by LG&E for its electric operations.

The proposed adjustment for increased costs associated with controlling sulfur dioxide emissions from coal-fired generating plants has been modified to exclude a portion of the cost of solid waste disposal at LG&E's Mill Creek generating units 1 and 2 and Cane Run units 4 and 5. In calculating the cost for the Cane Run units LG&E included a variable cost component of 85 percent but failed to include a variable cost component in its calculation of the cost for the Mill Creek units. The Commission, based on the evidence of record, is of opinion that an 85 percent variable component should be included in the cost calculation for the Mill Creek units. The result of this inclusion is to reduce the proposed adjustment by $459,682.

LG&E included an adjustment of $1 million to cover additional costs related to the Residential Conservation Services Program, if implemented by the Commission, or "some alternative type of consumer conservation effort," if allowed by the Commission.[1/] On cross-examination, LG&E witness Wilkerson agreed that

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1/ Transcript of Evidence, Volume I, November 4, 1981, page 15.

the program is in a "state of flux" and that "costs associated with [it] are unknown." 2/ Although Mr. Wilkerson maintained that the alternative consumer conservation effort could "be developed in a rather rapid fashion," he doubted that the plan was "a formalized printed program" which could be related to any specific costs. 3/ While the Commission is committed to conservation efforts of all kinds, it cannot allow adjustments which are speculative and unsubstantiated by the evidence of record. The Commission endorses LG&E's conservation goal and will look forward to learning its method of implementing that goal.

To reflect an increase in the annual provision for uncollectible accounts LG&E proposed an adjustment of $510,000. While it is apparent that an increase is necessary, the Commission is of the opinion that the proposed increase is excessive. LG&E's most recent historical data support a provision for uncollectibles falling within a range of .45 to .50 percent of gross revenue. We find no evidence that the percentage of uncollectibles will increase beyond this historical level. Therefore, the proposed adjustment has been reduced by $180,000 to $330,000.

The Commission has increased LG&E's proposed adjustment to reflect increased postage rates. LG&E proposed an adjustment of $119,414 to reflect the increase effective March 27, 1981. The

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2/ Transcript of Evidence, Volume II, November 4, 1981, pages 102-103.

3/ Ibid., pages 103-104; Transcript of Evidence, Volume I, November 12, 1981, page 17.

Commission has increased this by $96,070 to reflect the increase in postage rates effective November 1, 1981.

During the test year LG&E incurred $1,579,959 in expenses related to the employee strike that occurred during March 1981. LG&E proposed to amortize the expense over a 3-year period for rate-making purposes based on the length of the current labor contract. The Commission is of the opinion and finds that this expense is both unusual and extraordinary and cannot be reasonably expected to recur. Therefore, LG&E's pro forma expenses have been adjusted to eliminate all strike-related expenses that were incurred during the test year.

The Commission has reduced LG&E's test year operating expenses by $11,250 to move the contribution to the Louisville Development Committee below the line for rate-making purposes. There being no evidence of tangible benefits to the ratepayers from this expense, the Commission is of the opinion that these costs should be borne by the stockholder rather than the ratepayer.

The Commission has reduced test year operating expenses by $20,232 to eliminate for rate-making purposes a portion of the fee paid by LG&E to its expert witness on rate of return, Dr. Eugene Brigham. The Commission, based on the evidence of record, is of the opinion that the fee is excessive and that only $15,000 should be borne by the ratepayer.

LG&E's proposed adjustment to annualize revenues and expenses to reflect year-end electric customers was calculated using normalized sales volumes, which reflected LG&E's proposed weather normalization adjustment. Inasmuch as the weather normalization adjustment has not been accepted, the Commission has calculated the adjustment using actual sales volumes from the test year. Using actual test year sales, the Commission has increased LG&E's adjustment to operating income before taxes from $1,281,337 to $1,308,792, an increase of $27,455.

The Commission has increased the proposed adjustment to interest expense by $1,990,414. In making this adjustment, the Commission has applied the embedded cost rates applicable to long-term bonds and other debt to the respective capital structure components allowed herein. The interest adjustment was used in computing the combined state and federal income tax.

After applying the combined state and federal income tax rate of 49.24 percent to the accepted pro forma adjustments, we find that combined operating income should be increased by $4,658,192 to $79,361,768.

The adjusted net operating income is as follows:

	Gas	Electric	Total
Operating Revenues	$170,674,722	$294,727,554	$465,402,276
Operating Expenses	161,436,053	229,262,647	390,698,700
Pro Forma Adjustments	(1,194,854)	5,853,046	4,658,192
Net Operating Income as Adjusted	$ 8,043,815	$ 71,317,953	$ 79,361,768

RATE OF RETURN

LG&E proposed to use the actual capital structure as of the end of the test year adjusted for known and measurable changes to calculate rate of return. Dr. Carl Weaver, witness for the Attorney General, also used an adjusted end-of-test-year capital structure. His proposed capital structure differed in that he did not reassign the discount and expense on preferred stock from the common stock account. Mr. Pat Loconto, witness for Louisville, used the actual capital structure as of July 31, 1981, adjusted for known and measurable changes. Dr. Weaver's and Mr. Loconto's recommended capital structures were not significantly different from LG&E's proposal.

LG&E proposed to use the embedded cost rates at the end of the test year of 6.97 percent for first mortgage bonds, 15.05 percent for trust demand notes, and 8.09 percent for preferred stock. It proposed to use the effective interest rate of 11.125 percent for the pollution control bond issue.[4/] Dr. Weaver recommended cost rates of 7.4 percent for long-term debt, 11.9 percent for short-term debt and 8.0 percent for preferred stock. Mr. Loconto recommended cost rates of 7.20 percent for long-term debt, 15.40 percent for short-term debt, and 8.09 percent for preferred stock. Having considered all testimony and current costs and trends, the Commission is of the opinion that LG&E's proposed cost rates for debt and preferred stock are reasonable and should be accepted.

4/ Revised Wilkerson Exhibit 5.

LG&E requested a return on common equity capital of 16.94 percent. Its witness, Dr. Eugene Brigham, estimated the cost of common equity in the range of 16.3 to 17.1 percent. Dr. Weaver estimated the cost of common equity at 14.5 to 15.5 percent. Mr. Loconto determined a cost rate for common equity of 16.0 percent using a comparable earnings analysis and 15.55 percent using a discounted cash flow analysis. All three witnesses recommended allowing a rate of return slightly higher than the cost of common equity. Dr. Brigham recommended a rate of return .6 percentage points higher than the cost of common equity. Dr. Weaver increased the cost of common equity by .9 percentage points and Mr. Loconto adjusted his discounted cash flow estimate by .65 percentage points. These witnesses agreed that to the extent earnings affect stock prices, a rate of return higher than the cost of common equity will tend to produce a market price higher than book value, and that this higher market price was desirable to allow for market price fluctuations, market pressure, and flotation costs on new issues of common stock.

The Commission is of the opinion that a return on common equity of 14.5 to 16.0 percent is fair, just and reasonable. A return on equity in this range would not only allow LG&E to attract capital at reasonable costs to insure continued service and provide for necessary expansion to meet future requirements, but also would result in the lowest possible cost to the ratepayer. Considering current economic conditions and LG&E's financing requirements, the Commission finds that a return on common equity of 15.5 percent will adequately meet the above objectives.

The Commission is not convinced that allowing a rate of return greater than the cost of common equity is appropriate. However, to the extent that an allowance for market pressure and flotation costs is necessary, the Commission is of the opinion that the 15.5 percent rate of return allowed provides an adequate margin over the lower end of the range found fair, just and reasonable.

The overall cost of capital in this case is 10.56 percent, which provides a rate of return on net investment of 10.13 percent.

The Commission has determined that LG&E needs additional annual operating income of $17,330,687 to produce a rate of return on common equity of 15.5 percent based on the adjusted historical test year. After the provision for state and federal income taxes of $16,811,722 there is an overall revenue deficiency of $34,142,409 which is the amount of additional revenue granted herein. The net operating income required to allow LG&E the opportunity to pay its operating expenses and fixed costs and have a reasonable amount for equity growth is $96,692,455. A breakdown of the required operating income and the increase allowed herein between the gas and electric operation is as follows:

	Total	Electric	Gas
Net Operating Income found reasonable	$96,692,455	$86,249,670	$10,442,785
Adjusted Net Operating Income	$79,361,768	$71,317,953	$ 8,043,815
Net Operating Income deficiency	$17,330,687	$14,931,717	$ 2,398,970
Additional Revenue required	$34,142,409	$29,416,306	$ 4,726,103

The additional revenue granted herein will provide a rate of return on the net original cost established herein of 10.13 percent and an overall return on total capitalization of 10.56 percent.

The rates and charges in Appendix A are designed to produce gross operating revenue, based on the adjusted test, year of $562,591,565 including other operating revenue of $4,450,258. This level of operating revenue includes $350,010,643 in electric revenue and $212,580,922 in gas revenue. The gas rates also include $31,834,699 from the additional purchased gas adjustments ("PGA") approved since LG&E's last general rate increase.

OTHER ISSUES

Profits on Sales from Storage

LG&E maintains an inventory of natural gas stored underground in order to meet peak usage during its winter heating season. Natural gas is injected into storage when purchased and withdrawn from storage as needed to meet consumers' usage requirements. Therefore, a lag exists between the date natural gas is injected into storage and the date it is withdrawn and sold to consumers.

LG&E assigns to gas withdrawn from storage the cost of all gas injected into storage, while charging its customers the rates in effect at the time the gas is withdrawn from storage which includes its most recently approved PGA. Since the PGA is designed to allow the recovery of the full amount of the increased cost of purchased gas, LG&E is recovering more than the average cost of gas withdrawn from storage.

As the cost of natural gas continues to increase, it is apparent to the Commission that the cost of gas sold from storage will be lower than the cost per Mcf included in LG&E's base rates. The Commission concludes, therefore, that a hearing should be held to determine the extent of this over-recovery and whether LG&E should be required to refund to its customers profits on sales from storage.

The Commission is of the opinion that LG&E should be required to calculate profits on sales of gas from storage and accumulate said amounts in Account 253, Other Deferred Credits, beginning with sales occurring on October 1, 1981. We further find that a hearing should be conducted to allow LG&E and other interested parties to present testimony regarding profits on sales from storage.

<u>Rate Design</u>

LG&E did not propose any changes in its rate design for either the electric or gas divisions. In the electric division, LG&E proposed to allocate the increase to each rate class by applying the same percentage increase as the overall increase. In the gas division, LG&E proposed to allocate to each rate class the same increase per Mcf, which results in approximately the same percentage of increase to each rate class. Mr. Maurice Brubaker, witness for Airco and duPont, testified to the methodology LG&E used to allocate the increase in the electric division to the various rate classes. Mr. Brubaker proposed that, in lieu of a cost of service study, as the requested increase was a non-fuel increase, the increase should be allocated to rate classes by the percent of non-fuel revenue produced by each rate class.

LG&E proposed an increase for both the electric and gas divisions in the charge for disconnect and reconnect service from $8 to $10. Also LG&E proposed to institute a returned check charge of $4, which would assign the additional cost associated with returned checks to those responsible.

The Commission is of the opinion that the methodology employed by LG&E in this case to allocate the revenue increase to the various rate classes and miscellaneous service charges is reasonable and should be approved.

Additionally, Airco proposed that this Commission direct LG&E to recognize in all future cost of service studies the cost savings associated with its interruptible load by assigning no capacity cost responsibility to interruptible load. In the absence of a complete review of cost of service methods, the Commission will not restrict LG&E from proposing alternate cost of service methods.

Motion for Management Audit

On November 30, 1981, Louisville filed a motion requesting that LG&E be ordered to undergo a full and complete independent management audit. On December 7, 1981, LG&E filed its response to that motion.

The motion was filed 18 days subsequent to the conclusion of evidentiary hearings and was not supported by sworn testimony. The motion discusses LG&E's inability to earn the return on common equity authorized by the Commission, but does not allege any facts to indicate that LG&E's management decisions have contributed to this problem.

The Commission is well aware of the frequency with which LG&E has increased its rates since 1974. The Commission also is aware that the inflationary cycle and high interest rates which have characterized the period especially since 1974 have had an adverse effect on the earnings of LG&E, as well as on the earnings of the electric utility industry in general. And while the general climate in which LG&E operates is beyond the company's control, this makes it all the more important that LG&E management do its absolute best in those areas over which it does have control.

The motion also discusses LG&E's inability to forecast accurately its electric load growth. LG&E witness Wright discussed the difficulties inherent in load forecasting. The Commission is aware that load forecasting can not be done with the precision that all parties -- LG&E, the Commission, and consumers -- would like, but the Commission is puzzled by LG&E's

continued forecast of annual load growth of 3.5 percent, while actual data for the period since 1974 show an annual load growth of 1.5 percent.

In its pursuit of the public interest, the Commission is not opposed to the use of management audit. The Commission wishes to point out, however, that a management audit is an unusual measure, and should be required only upon a proper showing of facts indicating specific instances of management inefficiency.

After careful review of the motion and LG&E's response, along with the substantial record of evidence in this case, the Commission can find no facts to support the claim of management inefficiency alleged in the motion. Therefore, the motion is denied.

SUMMARY

The Commission is of the opinion and finds that the rates in Appendix A are the fair, just and reasonable rates for LG&E which should produce gross annual revenue based on adjusted test year sales of approximately $562,591,565. The Commission further finds that the rates of return granted herein are fair, just and reasonable and will provide for the financial obligations of LG&E with a reasonable amount remaining for equity growth.

IT IS THEREFORE ORDERED that the rates and charges in Appendix A are fair, just and reasonable and are approved for service rendered on and after January 1, 1982.

IT IS FURTHER ORDERED that the rates proposed by LG&E are hereby denied upon application of KRS 278.030.

IT IS FURTHER ORDERED that LG&E shall file with the Commission within 30 days from the date of this Order its revised tariff sheets setting out the rates approved herein.

IT IS FURTHER ORDERED that LG&E shall maintain a record of the profits on sales of gas from storage.

IT IS FURTHER ORDERED that a hearing be and it hereby is set on April 13, 1982, at 9 o'clock a.m., Eastern Standard Time, in the Commission's offices in Frankfort, Kentucky, solely for the purpose of allowing LG&E and other interested parties an opportunity to present testimony regarding profits on sales from storage.

IT IS FURTHER ORDERED that on or before March 1, 1982, LG&E shall file with the Commission a schedule showing the number of Mcfs and breakdown of cost per Mcf of the beginning balance, additions, reductions and ending balance in stored gas for each month during the period October 1, 1980, through September 30, 1981.

IT IS FURTHER ORDERED that LG&E shall file, on or before March 1, 1982, a schedule showing the amount included in its base rates and its PGA rates to recover the cost of gas from its customers during each month for the period of October 1, 1980, through September 30, 1981.

Done at Frankfort, Kentucky, this 4th day of January 1982.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8284 DATED JANUARY 4, 1982.

The following rates and charges are prescribed for the customers in the area served by Louisville Gas and Electric Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the date of this Order.

ELECTRIC SERVICE

RESIDENTIAL SERVICE*
(RATE R)

Rate:

Customer Charge: $2.60 per meter per month.

Winter Rate: (Applicable during 8 monthly billing periods of October through May)

First 600 kilowatt-hours per month	4.837¢	per Kwh
Additional kilowatt-hours per month	3.449¢	per Kwh

Summer Rate: (Applicable during 4 monthly billing periods of June through September)

All kilowatt-hours per month	5.252¢	per Kwh

WATER HEATING RATE*
(RATE WH)

Rate: 3.738¢ per kilowatt-hour.

Minimum Bill: $1.60 per month per heater.

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* The monthly kilowatt-hour usage shall be subject to plus or minus an adjustment per Kwh determined in accordance with the Fuel Adjustment Clause.

GENERAL SERVICE RATE*
(RATE GS)

Rate:

Customer Charge:

$3.25 per meter per month for single-phase service
$6.50 per meter per month for three-phase service

Winter Rate: (Applicable during 8 monthly billing periods of October through May)

All kilowatt-hours per month	5.419¢ per Kwh

Summer Rate: (Applicable during 4 monthly billing periods of June through September)

All kilowatt-hours per month	6.172¢ per Kwh

Minimum Bill:

The minimum bill for single-phase service shall be the customer charge.

The minimum bill for three-phase service shall be the customer charge; provided, however, in unusual circumstances where annual kilowatt-hour usage is less than 1000 times the kilowatts of capacity required, Company may charge a minimum bill of not more than 85¢ per month per kilowatt of connected load.

SPECIAL RATE FOR NON-RESIDENTIAL ELECTRIC SPACE HEATING SERVICE - RATE GS*

Rate:

For all consumption recorded on the separate meter during the heating season the rate shall be 3.738¢ per kilowatt-hour. This special rate shall be subject to the Primary Service Discount, Fuel Clause and Prompt Payment Provision as are embodied in Rate GS. During the four non-heating season months any electric usage recorded on the separate space heating meter shall be combined with metered usage for other purposes at the same location and be billed at Rate GS.

Minimum Bill:

$5.40 per month for each month of the "heating season." This minimum charge is in addition to the regular monthly minimum of Rate GS to which this rider applies.

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* The monthly kilowatt-hour usage shall be subject to plus or minus an adjustment per Kwh determined in accordance with the Fuel Adjustment Clause.

DIRECT CURRENT POWER*
(RATE DC)

Rate:

Customer Charge: $6.60 per meter per month.

All kilowatt-hours per month	5.888¢ per Kwh

Minimum Bill:

$2.38 per month per horsepower of customer's total connected direct current load but in no case less than the customer charge. Horsepower of apparatus will be based on manufacturer's rating.

OUTDOOR LIGHTING SERVICE
(RATE OL)
OVERHEAD

Rates:

Mercury Vapor	Rate Per Light Per Month
100 watt*	$ 5.35
175 watt	6.17
250 watt	7.27
400 watt	8.90
1000 watt	17.81
400 watt floodlight	8.90
1000 watt floodlight	17.81
High Pressure Sodium Vapor	
250 watt	$10.71
400 watt	12.67
400 watt floodlight	12.67

* Restricted to those units in service on 5-31-79

OUTDOOR LIGHTING SERVICE - UNDERGROUND

Rates:

Mercury Vapor	Rate Per Light Per Month
100 watt-colonial or modern design top mounted	$10.71
175 watt-colonial or modern design top mounted	$11.31
Special Wood Poles (Overhead)	$ 1.10

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* The monthly kilowatt-hour usage shall be subject to plus or minus an adjustment per Kwh determined in accordance with the Fuel Adjustment Clause.

PUBLIC STREET LIGHTING SERVICE
(RATE PSL)

Rates:

Type of Unit	Support	Rate Per Light Per Year
Overhead Service		
100 Watt Mercury Vapor (open bottom fixture)	Wood Pole	$ 45.00 (1)
175 Watt Mercury Vapor	Wood Pole	65.50
250 Watt Mercury Vapor	Wood Pole	77.50 (2)
400 Watt Mercury Vapor	Wood Pole	93.50 (2)
400 Watt Mercury Vapor	Metal Pole	161.00
400 Watt Mercury Vapor Floodlight	Wood Pole	93.50
1000 Watt Mercury Vapor	Wood Pole	197.00
1000 Watt Mercury Vapor Floodlight	Wood Pole	197.00
250 Watt High Pressure Sodium	Wood Pole	106.00
400 Watt High Pressure Sodium	Wood Pole	129.00
400 Watt High Pressure Sodium Floodlight	Wood Pole	129.00
Underground Service		
100 Watt Mercury Vapor Top Mounted		119.00
175 Watt Mercury Vapor Top Mounted		126.00
175 Watt Mercury Vapor	Metal Pole	129.00
250 Watt Mercury Vapor	Metal Pole	145.00
400 Watt Mercury Vapor	Metal Pole	161.00
400 Watt Mercury Vapor	Alum. Pole	209.00
400 Watt Mercury Vapor on State of Ky. Alum. Pole		119.00
250 Watt High Pressure Sodium Vapor	Metal Pole	193.00
250 Watt High Pressure Sodium Vapor	Alum. Pole	219.00
400 Watt High Pressure Sodium Vapor	Metal Pole	210.00
400 Watt High Pressure Sodium Vapor	Alum. Pole	235.00
250 Watt High Pressure Sodium Vapor on State of Ky. Alum. Pole		129.00 (3)
1500 Lumen Incandescent 8-1/2'	Metal Pole	58.00 (3)
6000 Lumen Incandescent	Metal Pole	112.00

(1) Restricted to those units in service on 5/31/79.
(2) Restricted to those units in service on 1/19/77.
(3) Restricted to those units in service on 3/1/67.

LARGE COMMERCIAL RATE*
(RATE LC)

Rate:

Customer Charge: $12.90 per delivery point per month.

Demand Charge:

	Secondary Distribution	Primary Distribution
Winter Rate: (Applicable during 8 monthly billing periods of October through May)		
All kilowatts of billing demand	$5.25per Kw per month	$4.08 per Kw per month
Summer Rate: (Applicable during 4 monthly billing periods of June through September)		
All kilowatts of billing demand	$7.74 per Kw per month	$6.31 per Kw per month

Energy Charge: All kilowatt-hours per month 2.742¢ per Kwh

INDUSTRIAL POWER RATE*
(RATE LP)

Rate:

Customer Charge: $32.25 per delivery point per month.

Demand Charge:	Secondary Distribution	Primary Distribution	Transmission Line
All kilowatts of billing demand	$6.51 per Kw per month	$5.06 per Kw per month	$4.20 per Kw per month

Energy Charge: All kilowatt-hours per month 2.362¢ per Kwh

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* The monthly kilowatt-hour usage shall be subject to plus or minus an adjustment per Kwh determined in accordance with the Fuel Adjustment Clause.

SPECIAL CONTRACT FOR ELECTRIC SERVICE TO AIRCO ALLOYS AND CARBIDE (AIR REDUCTION COMPANY, INC.)*

Demand Charge:

Primary Power (28,500 KW)	$ 7.57 per Kw per month
Secondary Power (Excess KW)	$ 3.79 per Kw per month

Energy Charge:

Primary & Secondary Power	1.781¢ per Kwh

SPECIAL CONTRACT FOR ELECTRIC SERVICE TO E. I. DUPONT DENEMOURS & COMPANY

Demand Charge:

All KW of billing demand	$ 7.37 per Kw per month

Energy Charge:

All KWH	1.891¢ per Kwh

SPECIAL CONTRACT FOR ELECTRIC SERVICE TO LOUISVILLE WATER COMPANY*

Demand Charge:

KW of billing demand	$ 5.23 per Kw per month

Energy Charge:

All KWH per month	1.947¢ per Kwh

SPECIAL CONTRACT FOR FORT KNOX*

Demand Charge:

Winter Rate: (Applicable during 8 monthly billing periods of October through May)

All kilowatts of billing demand	$ 4.12 per Kw per month

Summer Rate: (Applicable during 4 monthly billing periods of June through September)

All kilowatts of billing demand	$ 5.76 per Kw per month

Energy Charge: All kilowatt-hours per month 2.262¢ per Kwh

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* The monthly kilowatt-hour usage shall be subject to plus or minus an adjustment per Kwh determined in accordance with the Fuel Adjustment Clause.

STREET LIGHTING ENERGY RATE
(RATE SLE)

Rate:

4.014¢ net per kilowatt-hour

TRAFFIC LIGHTING ENERGY RATE
(RATE TLE)

Rate:

4.988¢ net per kilowatt-hour

Minimum Bill:

$1.25 net per month for each point of delivery

Supplemental or Standby Service

Applicable:

To Large Commercial Rate LC and Industrial Power Rate LP.

Availability:

Available to customers whose premises or equipment are regularly supplied with electric energy from generating facilities other than those of Company and who desire to contract with Company for reserve, breakdown, supplemental or standby service.

Rate:

Electric service actually used each month will be charged for in accordance with the provisions of the applicable rate schedule; provided, however, that the monthly bill shall in no case be less than an amount calculated at the rate of $4.25 per kilowatt applied to the Contract Demand.

Contract Demand:

Contract Demand is defined as the number of kilowatts mutually agreed upon as representing customer's maximum service requirements and contracted for by customer; provided, however, if such number of kilowatts is exceeded by a recorded demand, such recorded demand shall become the new contract demand commencing with the month in which recorded and continuing for the remaining term of the contract or until superseded by a higher recorded demand.

Special Terms and Conditions:

a. In order to protect its equipment from overload damage, Company may require customer to install at his own expense an approved shunt trip type breaker for secondary voltages and an approved automatic pole mounted disconnect for primary service. Such circuit breakers shall be under the sole control of the Company and will be set by the Company to break the connection with its service in the event customer's demand materially exceeds that contracted for.

b. Company will provide meter enclosures and furnish, place and maintain necessary suitable meters for measurement of service rendered hereunder. Customer will be responsible for installing and wiring the respective meter enclosures.

c. Customer will be required at all times to maintain a power factor of not less than 80% lagging.

d. In the event customer's use of service is intermittent or subject to violent fluctuations, the Company will require customer to install and maintain at his own expense suitable equipment to satisfactorily limit such intermittence or fluctuations.

Supplemental or Standby Service (Continued)

Special Terms and Conditions: (Continued)

e. Customer's generating equipment shall not be operated in parallel with Company's service until the manner of such operation has been approved by Company and is in compliance with Company's operating standards for system reliability and safety.

f. The minimum contract period shall be one year, but Company may require that a contract be executed for a longer initial term when deemed necessary by the size of load or special conditions.

g. Such of the Company's general rules and regulations as are not in conflict or inconsistent with the special provisions herein prescribed shall likewise apply to supplemental or standby service.

GENERAL RULES

23. Charge for Disconnecting and Reconnecting Service. A charge of $10.00 will be made to cover disconnection and reconnection of electric service when discontinued for non-payment of bills or for violation of the Company's rules and regulations, such charge is to be made before reconnection is effected. If both gas and electric services are reconnected at the same time, the total charge for both services shall be $10.00.

    Residential and general service customers may request and be granted a temporary suspension of electric service. In the event of such temporary suspension, Company will make a charge of $10.00 to cover disconnection and reconnection of electric service, such charge to be made before reconnection is effected. If both gas and electric services are reconnected at the same time, the total charge for both services shall be $10.00.

25. Charge for Returned Check. When any customer's check tendered in payment of a bill for service is returned by a bank as unpaid, the customer will be charged a fee of $4.00 to cover the cost of further processing of the account.

GAS SERVICE

GENERAL GAS
(RATE G-1)

Rate:

Customer Charge: $ 2.00 per delivery point per month.

35.762¢ per 100 cubic feet.

Minimum Bill:

The customer charge.

GENERAL GAS RATE - LARGE VOLUME SPACE HEATING
(RATE G-1A)

Rate:

Customer Charge: $ 6.65 per delivery point per month.

36.357 ¢ per 100 cubic feet.

Minimum Bill:

The customer charge.

SUMMER AIR CONDITIONING SERVICE UNDER GAS
(RATES G-1 and G-1A)

Rate:

For the "Summer Air Conditioning Consumption" determined in the manner hereinafter prescribed, the rate shall be 34.491 cents per 100 cubic feet, subject to the "Purchased Gas Adjustment" and the Prompt Payment Provision" incorporated in Rate G-1 and G-1A, as applicable. All monthly consumption other than "Summer Air Conditioning Consumption" shall be billed at the regular charges set forth in Rate G-1 or Rate G-1A.

COMMERCIAL AND INDUSTRIAL GAS
(RATE G-2)

Rate:

Customer Charge: $6.65 per delivery point per month.

35.073¢ per 100 cubic feet.

Minimum Bill:

The customer charge.

SEASONAL OFF-PEAK GAS
(RATE G-6)

Rate:

Customer Charge: $ 6.65 per delivery point per month.

34.445¢ per 100 cubic feet.

Minimum Bill:

The customer charge.

UNCOMMITTED GAS SERVICE
(RATE G-7)

Rate:

34.445¢ per 100 cubic feet.

DUAL-FUEL OFF-PEAK GAS SPACE HEATING
(RATE G-8)

Rate:

Customer Charge: $ 6.65 per delivery point per month.

35.597¢ per 100 cubic feet.

Minimum Bill:

The customer charge.

SUMMER AIR CONDITIONING SERVICE UNDER GAS
(RATE G-8)

Rate:

For consumption recorded during the aforesaid five billing periods the rate shall be 34.491 cents per 100 cubic feet, subject to the "Purchased Gas Adjustment" and to the "Prompt Payment Provision" incorporated in Rate G-8.

TRANSPORTATION OF CUSTOMER-OWNED GAS (RATE T-1)

Charges:

The charge for service under this rate schedule shall be 14.0 cents for each Mcf of gas transported. This charge may be increased or reduced by appropriate filings made in accordance with law and the rules of the Public Service Commission. In addition to such charge, if Company is required to add or modify any facilities in order to initiate or perform the services supplied hereunder, the full cost of such additions or modifications shall be paid for by the Customer.

SPECIAL CONTRACT FOR FORT KNOX

Demand Charge:

$ 1.45 per month per Mcf of billing demand.

Commodity Charge:

$3.3564 per Mcf delivered.

General Rules

Charges for Disconnecting and Reconnecting Service:

23. A charge of $10.00 will be made to cover disconnection and reconnection of gas service when discontinued for non-payment of bills or for violation of the Company's rules and regulations, such charge to be made before reconnection is effected. If both gas and electric services are reconnected at the same time, the total charge for both services shall be $10.00

    Customers under General Gas Rate G-1 may request and be granted a temporary suspension of gas service. In the event of such temporary suspension, Company will make a charge of $10.00 to cover disconnection and reconnection of gas service, such charge to be made before reconnection is effected. If both gas and electric services are reconnected at the same time, the total charge for both services shall be $10.00.

26. Charge for Returned Check. When any customer's check tendered in payment of a bill for service is returned by a bank as unpaid, the customer will be charged a fee of $4.00 to cover the cost of further processing of the account.

Purchased Gas Adjustment

Base Supplier Rate

	Demand	Commodity
Texas Gas Transmission Corporation Rate Schedule G-4	$ 3.00	272.72¢

Purchased Gas Adjustment Applicable to rate schedules approved herein 0.00¢ per 100 cu. ft. as the Base Supplier.

The purchased gas adjustment of LG & E should be adjusted to the following:

PGA corresponding to Base Supplier	0.000¢
Refund Factor effective August 1, 1981, and continuing for 12-months or until Louisville has discharged its refund obligation from Case No. 7799-C	(.378)
Refund Factor effective September 1, 1981, and continuing for 12-months or until, Louisville has discharged its refund obligation from Case No. 7799-D	(.670)
Refund Factor effective December 1, 1981, and continuing for 12-months or until Louisville has discharged its refund obligation from Case No. 7799-E	(.074)
Total Adjustment per 100 cubic feet	(1.122¢) Refund