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 January 4, 1982, the Commission entered an Order approving an increase in rates for Louisville Gas and Electric Company ("LG&E"). As a part of its Order, the Commission set a hearing for April 13, 1982, to allow LG&E and other interested parties an opportunity to present testimony regarding profits on sales of gas from storage. The hearing was held as scheduled, with the Consumer Protection Division of the Attorney General's Office present.

DISCUSSION

The Commission's Order dated January 4, 1982, described the method by which profits on LG&E's sales of gas from storage were earned and the purpose of the Commission's inquiry, as follows:

> 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 Natural gas is injected into storage when purchased and withdrawn from storage as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 Therefore, a lag exists between the date natural gas is injected into storage and the date it is withdrawn and sold to consumers.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 LG&E assigns to gas withdrawn from storage the cost of all gas injected into storage, while charging its customers the rates in effect at the time the gas is withdrawn from storage which includes its most recently approved PGA.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of the full amount of the increased cost of purchased gas, LG&E is recovering more than the average cost of gas withdrawn from storage.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.1/

LG&E's witness, Mr. Randall J. Walker, in his testimony before the Commission, agreed that the cost of gas withdrawn from storage would generally be lower than either the cost of purchases or the overall gas supply cost.2/ However, he stated that LG&E's rates already accounted for this situation. He argued that LG&E's purchased gas adjustment clause mechanism only tracks increases in gas costs and that the gas cost component of the base rates reflected the lower cost of gas

---

1/ PSC Order of January 4, 1982, pages 16-17.

2/ Transcript of Evidence, April 13, 1982, page 6.

withdrawn from storage in the test year of the preceding rate case.[3] He concluded that gas costs could be over- or under-recovered in any given 12-month period and calculated an $800,000 lag in recovery for the 12-month period ended September 30, 1981.[4]

Mr. Walker further testified that LG&E had not been achieving excessive earnings on its gas department net cost rate base. He stated that the rate of return on gas rate base had never exceeded 8.05 percent in any calendar year and had dropped to 4.56 percent for the 12 months ended February 28, 1982.[5] The Commission granted a rate of return on net original cost rate base of 10.13 percent in its Order dated January 4, 1982.

The evidence establishes that LG&E has the potential to over-recover the cost of gas withdrawn from storage. However, LG&E has not achieved a rate of return above that granted by this Commission in its Order of January 4, 1982. Therefore, the Commission is of the opinion that LG&E should not be required to refund any profits on sales of gas from storage. The Commission will instead require LG&E to continue to maintain a record of those profits and will further continue to monitor LG&E's returns to determine any excessive earnings which, if found, could necessitate a refund.

3/ Transcript of Evidence, April 13, 1982, pages 8 and 22.

4/ Transcript of Evidence, April 13, 1982, page 13.

5/ Walker prefiled testimony, page 9.

FINDINGS AND ORDER

The Commission, after consideration of the evidence of record and being advised, finds that:

(1) LG&E has not achieved excessive earnings on its gas operations and should not be required to refund any profits on sales of gas from storage.

(2) LG&E has the potential to over-recover the cost of gas withdrawn from storage.

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

IT IS FURTHER ORDERED that this case be and it hereby i. dismissed without prejudice to open a new case regarding the profits on sales of gas from storage should LG&E's jurisdictional earnings warrant.

Done at Frankfort, Kentucky, this 13th day of August, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Volz
Chairman

Katherine Randall
Vice Chairman

Commissioner

ATTEST:

Secretary