

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF BEREA)
COLLEGE ELECTRIC UTILITY, A) CASE NO. 8297
DEPARTMENT OF BEREA COLLEGE)

O R D E R

On February 1, 1982, the Commission issued its Order granting the Berea College Electric Utility ("Berea") approximately \$42,598 in additional revenues on an annual basis. Case No. 8296, in which the Commission granted Berea \$875,279 in additional revenues necessitated by a Federal Energy Regulatory Commission allowance of a rate increase to Berea's wholesale supplier, Kentucky Utilities Company ("K.U."), was incorporated by reference. On February 19, 1982, the City of Berea ("City") filed a petition for rehearing based upon three issues which it alleges the Commission failed to fully consider in its Order of February 1, 1982. On February 24, 1982, Berea filed a response in opposition to the granting of a petition for rehearing.

The Commission has conducted a detailed review of the record and is of the opinion that the three issues raised by the City were considered in its Order of February 1, 1982,

but that these issues may not have been addressed in sufficient detail. In an effort to resolve any misinterpretation of the Commission's Order of February 1, 1982, a thorough discussion of the issues raised by the City will be presented in this Order.

The first issue raised by the City is an allegation that the Commission's authorization of increased rates for street lighting is arbitrary and unreasonable. The City relies upon the cost analysis presented in its brief which is based upon the depreciation of the cost of a street light and pole and the energy charge to Berea from K.U. The City's cost analysis was rejected because it failed to include an allocation of the following items:

1. The facilities charge of K.U. to Berea.
2. Berea's expenses for maintenance, administration and interest.
3. Depreciation for the plant facilities other than street lights and poles.
4. K.U.'s demand charge.

In addition, the calculation presented in the City's brief utilized an incorrect energy charge of 1.39 cents per KWH from K.U. The correct energy charge from K.U. is 2.09 cents per KWH. (Berea Exhibit 5, p. 10.) The Commission is of the opinion that the total cost of Berea's distribution system should be considered in determining increased rates for street lighting.

The second issue raised by the City is the Commission's acceptance of an administrative charge as a ratemaking expense. Berea's test year administrative charge of \$36,626 represented an allocation of administrative expenses that are jointly shared by Berea and the other departments of Berea College. Berea's calculation was based upon the 1981 budgeted expenses for all administrative items less purchased power costs of \$1,300,000. Since no evidence was presented to justify the exclusion of only \$1,300,000 for purchased power, the Commission excluded the 1981 budgeted purchased power costs of \$1,746,800. This resulted in a reduction of the administrative charge from \$36,626 in the test year to \$19,282 for ratemaking purposes.

The Commission is of the opinion that the method used to calculate the administrative charge is reasonable. Berea did not incur any income tax expense during the test year nor was any projected to be incurred. This is because Berea's administrative expense is higher for tax purposes than for ratemaking purposes. This tax benefit is passed through to Berea's ratepayers.

The third issue presented by the City is the Commission's authorization of an increase in demand charge to \$5.00 per KW for industrial and large commercial users -- class 4. The City's argument on this issue indicates a possible misunderstanding of the Commission's Order of February 1, 1982.

In Case No. 8296, Berea proposed interim rates designed to recover the additional wholesale power costs from K.U. The proposed interim rates were in the form of an energy adder increase per KWH and were designed to recover both the increased wholesale energy charges and demand charges. The interim rates were placed into effect until a final order was issued in this case.

Berea proposed to increase the demand charge from \$1.90 to \$5.00 per KW for class 4 customers. Since Berea is paying a wholesale demand charge of \$7.09 per KW to K.U., the Commission accepted the proposed class 4 demand charge as reasonable. The Commission also accepted Berea's other proposed changes within the industrial rate classes, i.e., the customer charge and reduction in rate block steps. Berea also proposed to reallocate its total revenue requirements on the basis of a non-coincidental peak demand study. The Commission found the study to be unreasonable and unacceptable for reallocating total revenue requirements, but the study did indicate the existence of inequities among rate classes. The Commission found Berea's study to be a reasonable basis for allocating the additional revenue granted in this case and Case No. 8296.

Based upon the above analysis of the issues presented by the City, and being fully advised, the Commission is of the opinion and finds that:

1. The petition for rehearing filed by the City should be denied, and the Commission's Order of February 1, 1982, should be affirmed.

IT IS THEREFORE ORDERED that the Commission's Order of February 1, 1982, be and it hereby is affirmed.

Done at Frankfort, Kentucky, this 11th day of March, 1982.

PUBLIC SERVICE COMMISSION

Marlin W. York
Chairman

Katherine Randall
Vice Chairman

Don Carson
Commissioner

ATTEST:

Secretary