

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN ADJUSTMENT OF GAS RATES)
OF THE UNION LIGHT, HEAT AND) CASE NO. 8373
POWER COMPANY)

AND

APPLICATION OF THE UNION LIGHT,)
HEAT AND POWER COMPANY FOR AN)
ORDER AUTHORIZING THE ABANDON-)
MENT OF THE EAGLE CREEK AQUIFER) CASE NO. 8419
AND RELATED FACILITIES AND)
AMORTIZATION OF THE UNDEPRECI-)
ATED COSTS)

AND

AN APPLICATION OF THE UNION)
LIGHT, HEAT AND POWER COMPANY)
FOR AN ORDER APPROVING A TARIFF) CASE NO. 8469
PERTAINING TO BAD CHECKS)

ORDER DENYING REHEARING

On October 23, 1981, Union Light, Heat and Power Company ("ULH&P") filed notice with the Commission requesting to increase its rates and charges for gas service. The Commission issued its order in that case on April 16, 1982. On May 5 and 6, 1982, ULH&P, the Consumer Protection Division of the Attorney General's Office ("AG"), Newport Steel Corporation, Inc. ("Newport"), and Low-Income Residential Intervenors ("LIRC") each filed petitions for rehearing with the Commission requesting reconsideration of certain issues in the Commission's order.

ULH&P's Application for Rehearing

ULH&P disagreed with the Commission's order on the following issues: allowance for funds used during construction ("AFUDC"), injuries and damages expense, debt charges (and income tax expense on debt charges), the curb box program and rate of return. ULH&P requested that the Commission amend its order on these issues or rehear evidence relating thereto.

Regarding AFUDC, injuries and damages, and debt charges and related income tax expense, the Commission finds no merit in the arguments presented by ULH&P, finds that no amendments to its order are appropriate or reasonable and furthermore finds that elaboration herein is not necessary as the Commission's order of April 16, 1982, is based on the evidence of record and addresses these issues in sufficient detail.

While the Commission has not changed its finding that the fair, just and reasonable return on equity for ULH&P is 14 percent the Commission will answer ULH&P's allegations of error on this issue.

ULH&P argued that the 14 percent return on equity was unsupported by the evidence, discriminatory and below the current cost of debt for Cincinnati Gas and Electric Company and ULH&P, and contained no quantifiable allowance for the additional risk associated with unusual and nonrecurring injuries and damages expenses. The Commission's order of April 16, 1982, found that the testimony of both Mr. Mosley and Professor Jackson was deficient in that the risk difference between a gas distribution business and an electric generation and transmission business was

not considered. In evaluating the relative risk of the gas distribution business, the Commission considered the risk of unusual and nonrecurring injuries and damages expenses as well as other risks. These risks were discussed on pages 27 and 28 of the Commission's order of April 16, 1982. All of the risks of a gas distribution business were considered in establishing the fair, just and reasonable range of returns of 14 percent to 15.5 percent. A quantified allowance for each risk associated with a gas distribution business was not determined, nor would it have been reasonable to do so.

The weight of the evidence in a case is not dependent upon the number of expert witnesses professing a particular position, but by how convincing the testimony is. In this case the Commission found the testimony of both rate of return witnesses to be defective and unconvincing.

ULH&P cited returns on equity in several recent cases. The Commission notes that the range in this case is identical to the range found fair, just and reasonable for Columbia Gas of Kentucky in the Commission's order of December 30, 1981, in Case No. 8281 and encompasses the range of 14.25 percent to 15.25 percent found fair, just and reasonable for Western Kentucky Gas Company in the Commission's order of October 9, 1981, in Case No. 8227.

In its order on rehearing of September 4, 1981, regarding General Telephone Company, Case No. 8045, the Commission stated that it was not convinced that the cost of common equity will at every point in time exceed the current cost of long-term debt.

Further, the Commission stated that:

This Commission would ignore Hope if it were automatically to set a rate of return on equity above the yield on a single bond issue. A valid use of the risk premium methodology requires the examination of appropriate bond issues over a sufficient period of time to correct for abnormalities within that period. Furthermore, even when a risk premium analysis is validly performed, this Commission must consider all evidence on the issue of the rate of return on equity, including other methodologies, before finding any particular rate of return on equity to be fair, just and reasonable.^{1/}

ULH&P's bonds are rated Aa by Moody's Investor's Service ("Moody's"). Moody's weekly Aa utility bond yields had a range of 11.43 percent to 15.10 percent in 1980 and 13.58 percent to 17.79 percent in 1981. However, these ranges are significantly higher than those in any prior years. Further, the range of returns found fair in this case is not below even these unusually high bond yield ranges.

In basing the increase to ULH&P on the bottom of the range of 14 percent, the Commission gave full consideration to the ability of customers to pay higher rates and the ability of management to control costs under current adverse economic conditions. As these factors were discussed in detail in the order, the Commission finds that elaboration herein is not necessary.

The Commission finds no merit in the arguments presented by ULH&P regarding the rate of return on equity and affirms its order of April 16, 1982.

^{1/} General Telephone Company, Case No. 8045, Page 7 of order of October 9, 1981.

The remaining issue in ULH&P's petition concerns the Commission's adjustment to ULH&P's abnormally high test period expenses incurred in its curb box program. The Commission in this adjustment took expenses incurred since the inception of the program in 1976 and added estimated additional expenses for the next 3 years and averaged the total program cost over the expected program duration of 8½ years. ULH&P objected to this adjustment on the grounds that because the majority of the expense was incurred during the test period, the Commission's approach retroactively amortized cost over 5½ years and since ULH&P cannot apply rates retroactively, the adjustment prohibited full recovery on these costs.

ULH&P further stated that the appropriate adjustment would be to reduce the test period level of expense to the normal annual level for the next 3 years and amortize the remainder over a 3-year period, thus, permitting it to recover these expenses from its ratepayers. The Commission is of the opinion that ULH&P's approach is more reasonable in that these are legitimate and necessary expenses that benefit ULH&P's ratepayers and should therefore be borne by the ratepayer. Thus, the Commission will amend its order of April 16, 1982, to include additional revenues to ULH&P of \$156,065^{2/} as its methodology which used retroactive amortization set out in that original order did erroneously preclude recovery of curb box expenses.

^{2/} Adjusted for PSC assessment.

AG's Petition

The AG's petition stated three objections to the revision of the gas cost adjustment clause ("GCA"). First, the quarterly adjustments are based on expected gas costs. Second, the quarterly adjustments are applied to customers' bills rendered on and after the first day of the quarter rather than to gas service provided after the beginning of the quarter. These two objections were addressed in the Commission's order of April 16, 1982.

The AG's final objection was that the Commission did not make a downward adjustment to administrative expenses to reflect cost savings expected from the revised GCA. Determining the exact cost savings would be extremely difficult. The Commission in its order of April 16, 1982, stated the opinion that if ULH&P implemented cost-cutting measures it could achieve a return on equity in excess of the 14 percent granted but within the 14 percent to 15.5 percent range found fair, just and reasonable. The revised GCA is one cost-cutting measure the Commission had in mind. The AG's petition does not present any facts or arguments not previously considered by the Commission and is, therefore, denied.

Newport's Petition

Newport objected to the revised GCA on the basis that a portion of the wholesale demand charge would be allocated to the off-peak rate. Newport stated that the differential between the GCA for firm use and the GCA for off-peak use had increased by 7.1 cents since the time of filing of this case. Therefore,

Newport argued that the effect of the revised GCA on off-peak customers would not be minimal. ULH&P in its response to intervenors' petitions for rehearing stated that the demand portion of gas costs is currently \$0.327 per mcf, while the general service rate is \$0.631 per mcf higher than the off-peak rate. Considering the relatively low price for off-peak service, the relatively small increases in the demand portion of gas costs, and the administrative benefits of the revised GCA, the Commission affirms its opinion that the revised GCA should be implemented on July 1, 1982. Therefore, the petition for rehearing is denied.

LIRC Petition

The LIRC petition for rehearing maintains that the Commission violated 807 KAR 5:011, Section 6(2)(c) by approving a customer charge for general service customers without having a cost of service study to justify the charge. This allegation is without merit since ULH&P Exhibits No. 2 and 9 provide ample cost justification for the customer charge. As the Commission stated in its order of April 16, 1982, these customer-related expenses were being recovered through the early steps of the declining block rates. The imposition of a separate customer charge with a flat rate for all gas used provides a simplified rate structure which is in the customers' best interest.

Based upon the issues presented in the petitions for rehearing and the evidence of record and being advised, the Commission hereby finds that:

1. The Commission's order of April 16, 1982, should be modified to the extent that ULH&P's operating expenses associated with the curb box program should be increased by \$156,065 to allow a full recovery of these costs over a 3-year period.

2. The rates and charges in Appendix A attached hereto will produce revenues of approximately \$69,276,924 and are the fair, just and reasonable rates and charges in that they will allow ULH&P to pay its operating expenses, service its debt and provide a reasonable amount of surplus for equity growth.

3. All other issues presented in ULH&P's petition for rehearing should be denied.

4. The petitions for rehearing filed by the AG, Newport and LIRC should be denied.

5. Except for the modification noted in Findings No. 1 and 2, the Commission's order of April 16, 1982, should be affirmed.

IT IS THEREFORE ORDERED that the rates and charges approved by the Commission's order entered April 16, 1982, be and they hereby are rescinded.

IT IS FURTHER ORDERED that the Commission's order entered April 16, 1982, be and it hereby is modified in accordance with Finding No. 1.

IT IS FURTHER ORDERED that the rates and charges in Appendix A be and they hereby are approved as the fair, just and reasonable rates and charges to be charged by ULH&P for service rendered on and after May 25, 1982.

Done at Frankfort, Kentucky, this 25th day of May, 1982.

By the Commission

ATTEST:

Secretary

Done at Frankfort, Kentucky, this 25th day of May, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Voh
Chairman

Katherine Randall
Vice Chairman

Tom Carrigan
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8373, 8419, AND 8469
DATED MAY 25, 1982

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

RATE GS

GENERAL SERVICE

NET MONTHLY BILL

Computed in accordance with the following charges:

Customer Charge per month:

Residential Service	\$ 3.00
Non-Residential Service	4.00

<u>Base</u> <u>Rate</u>	<u>Gas</u> <u>Cost</u> <u>Adjustment</u>	<u>Temporary</u> <u>Refund</u> <u>Adjustment</u>	<u>Total Rate</u>
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All gas used 52.28¢ plus 0.00¢ minus 0.00¢ equals 52.28¢ per 100 cu. ft.

The "Gas Cost Adjustment" as shown above, is an adjustment per 100 cubic feet determined in accordance with "Gas Cost Adjustment" set forth on Sheet No. 9 of this tariff.

RIDER R-ACS-1

SUMMER AIR CONDITIONING SERVICE

NET MONTHLY BILL

Computed in accordance with the following charges:

First 6,000 cubic feet at the applicable standard rate,
Rate GS, General Service.

NET MONTHLY BILL (Cont'd)

All additional gas used will be billed at:
48.12¢ per 100 cubic feet.

Plus or minus an adjustment per Mcf determined in accordance with the "Gas Cost Adjustment" set forth on Sheet No. 9 of this tariff.

RIDER G-ACS-1

SUMMER AIR CONDITIONING SERVICE

NET MONTHLY BILL:

Computed in accordance with the following charges:

First 6,000 cubic feet of gas at the applicable rate, Rate GS, General Service.

Next 10,000 cubic feet of gas per ton of installed absorption type Summer Air Conditioning equipment at 48.12¢ per 100 cubic feet.

All additional cubic feet of gas at the standard applicable rate.

Plus or minus an adjustment per Mcf determined in accordance with the "Gas Cost Adjustment" set forth on Sheet No. 9 of this tariff.

RATE F

Special Contract - Firm Use

NET MONTHLY BILL

Computed in accordance with the following charges:

<u>Base</u> <u>Rate</u>	<u>Gas</u> <u>Cost</u> <u>Adjustment</u>	<u>Temporary</u> <u>Refund</u> <u>Adjustment</u>	<u>Total Rate</u>
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All gas used 49.26¢ plus 0.00 minus 0.00 equals 49.26¢ per 100 cu. ft.

Plus or minus an adjustment per Mcf determined in accordance with the "Gas Cost Adjustment" set forth on Sheet No. 9 of this tariff.

RATE OP
OFF PEAK

NET MONTHLY BILL

Computed in accordance with the following charges:

- (1) Firm Use shall be billed in accordance with Rate GS, General Service.
- (2) Off Peak Gas (i.e., Gas in excess of Firm Use) shall be billed in accordance with the following:

<u>Base</u> <u>Rate</u>	<u>Gas</u> <u>Cost</u> <u>Adjustment</u>	<u>Total Rate</u>
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All consumption 45.97¢ plus 0.00¢ equals 45.97¢ per 100 cu. ft.

Plus or minus an adjustment per Mcf determined in accordance with the "Gas Cost Adjustment" set forth on Sheet No. 15 of this tariff.