

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of

ADJUSTMENT OF RATES FOR WHOLESALE)
ELECTRIC POWER TO MEMBER COOPERA-)
TIVES OF EAST KENTUCKY POWER) CASE NO. 8400
COOPERATIVE, INC.)

ORDER ON REHEARING

On June 3, 1982, the Commission issued its Order granting East Kentucky Power Cooperative, Inc., ("East Kentucky") approximately \$14.9 million in additional revenue from sales of wholesale electric power to its member distribution cooperatives. On June 18, 1982, East Kentucky filed a petition for rehearing or modification of the Commission's Order, contending that further consideration of one issue is necessary.

On June 23, 1982, the Attorney General ("AG"), through its Consumer Protection Division, filed a response in opposition to East Kentucky's petition for rehearing and its own counter petition for rehearing. In its counter petition, the AG alleged that the Commission overlooked certain costs that should have been excluded in determining East Kentucky's revenue requirements.

The issue raised by East Kentucky in its petition is that the Commission acted unlawfully and unreasonably in directing East Kentucky to discontinue paying the 4 percent employees' portion of

contributions to its retirement plan. East Kentucky contended that the regulatory powers of the Commission do not extend to the day-to-day management or operation of a utility's business affairs and that the Commission's intrusion in this instance will affect both East Kentucky and its employees adversely. East Kentucky requested that the Commission either modify its Order to delete the directive or grant its application for rehearing on the matter.

In its response to East Kentucky's petition and counter petition for rehearing, the AG maintained that East Kentucky's arguments were unpersuasive and that the Commission's action was supported by the evidence of record and within its regulatory powers.

After consideration of the arguments, the Commission has determined that the Order of June 3, 1982, should be modified to delete the directive to East Kentucky's management to discontinue paying the employees' 4 percent portion of the retirement plan; however, the Commission is still of the opinion that this expense is not proper for rate-making purposes.

As noted above, the AG questioned whether the Commission had overlooked the labor and interest costs related to East Kentucky's new energy control center in determining the necessary level of revenues. The Commission did consider the additional labor costs of the energy control center. Based on the scheduled starting dates for the new employees, the Commission accepted these costs for rate-making purposes and included them in the larger labor cost adjustments allowed in the Order.

The interest costs to which the AG referred were not overlooked in the Commission's Order. The adjustments which were allowed for interest on long-term debt and interest charged to construction reflected interest cost on total utility plant, including the energy control center, as of April 30, 1982. The interest cost related to the energy control center was treated as a component of the overall interest adjustment rather than as an individual item.

Based on the analysis of the issues presented by East Kentucky and the AG as set forth above and being advised, the Commission hereby finds that:

1. On pages 14 and 15 of our June 3, 1982, Order, the second complete paragraph under the heading "Employee Benefits" should be modified to read as follows:

The AG proposed an adjustment of \$355,021 to eliminate East Kentucky's cost for the portion of the employees' retirement benefits that was intended to be funded through employee contributions. The record reflects that East Kentucky contributes 16.2 percent of the employees' base wages for retirement, although the retirement plan requires employees to pay 4 percent of the 16.2 percent. Therefore, we have accepted the AG's proposed adjustment, modified to reflect the expense allocation of 65.21 percent cited in the preceding paragraph. This modification reduces the adjustment proposed by the AG by \$23,346 to \$331,675.

2. The third finding on page 25 of the June 3, 1982, Order should be deleted.


3. The second complete paragraph on page 26 of the June 3, 1982, Order should be deleted.

4. Except for the modifications noted in Findings 1, 2, and 3, the petitions for rehearing of East Kentucky and the AG should be denied and the Commission's Order of June 3, 1982, should be affirmed.

IT IS THEREFORE ORDERED that the Commission's Order of June 3, 1982, be and it hereby is modified in accordance with the findings herein and affirmed in all other respects.

Done at Frankfort, Kentucky, this 8th day of July, 1982.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary