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 POWER COMPANY	)	CASE NO. 8373

AND

In the Matter of:

APPLICATION OF THE UNION LIGHT, HEAT AND POWER COMPANY FOR AN ORDER AUTHORIZING THE ABANDONMENT OF THE EAGLE CREEK AQUIFER AND RELATED FACILITIES AND AMORTIZATION OF THE UNDEPRECIATED COSTS	)	CASE NO. 8419

AND

In the Matter of:

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

O R D E R

PROCEDURAL BACKGROUND

On October 23, 1981, Union Light, Heat and Power Company ("ULH&P) filed notice with this Commission of its intention to adjust its rates and charges for gas service rendered after November 12, 1981. ULH&P, which provides gas service to approximately 60,500 customers in Northern Kentucky, requested a general rate increase of approximately $6.5 million annually, an adjustment of 10.8 percent based on normal operating conditions and purchased gas costs effective September 1, 1981. ULH&P cited increasing operating costs and fixed charge requirements and the necessity to provide an adequate return to its security holders as reasons for the requested rate adjustment. In addition, ULH&P proposed a revision to its purchased gas cost adjustment clause in an effort to establish a uniform gas cost adjustment applicable to all customers. The Commission has allowed additional revenues of $4,297,934 in this order.

In order to determine the reasonableness of the request, the Commission in an order entered November 23, 1981, suspended the proposed rates for a period of 5 months after the effective date of November 12, 1981. The Commission held a public hearing November 30, 1981, in its offices in Frankfort, Kentucky, for the purpose of receiving ULH&P's direct testimony.

The following parties of interest were allowed to intervene in this matter: the Consumer Protection Division of the Attorney General's Office ("AG"), Newport Steel Corporation, Inc., ("Newport"), the City of Covington, Low-income Residential Intervenors ("LIRC"), the Office of Kentucky Legal Services, and various others in cooperation with those mentioned.

The Commission held a hearing in the public meeting room of the City/County Building in Covington, Kentucky, on February 8, 1982, for the purpose of receiving public comment and testimony. Additional hearings were held March 2 and 3, 1982, for cross-examination of witnesses and presentation of rebuttal testimony.

The Commission wishes to stress to ULH&P that in future cases, barring unforeseen circumstances, all witnesses presenting testimony in the case should be available for cross-examination on all scheduled hearing days.

On December 21, 1981, UPH&P filed an application, Case No. 8419, wherein it proposed to abandon its existing underground reservoir, known as the Eagle Creek Aquifer, along with certain related facilities for the storage of natural gas. ULH&P, moreover, requested authority to amortize the undepreciated cost of the aquifer, including stored gas volumes determined to be non-recoverable, plus the cost of abandonment less any salvage value realized over a 60-month period. The Commission, in an order dated January 19, 1982, consolidated Case Nos. 8373 and 8419 for all purposes, finding that issues in Case No. 8419 should be considered in conjunction with the rate adjustment requested.

On February 26, 1982, ULH&P in Case No. 8469 filed an application wherein it proposed a bad check charge for electric bills identical to the proposal for gas in Case No. 8373. The Commission has consolidated that case herein.

ULH&P responded to numerous requests for information from intervening parties and the Commission. Briefs from parties of interest were filed with the Commission by March 24, 1982, and the entire record is now considered complete for final determination by the Commission.

ULH&P operates as a public utility in various municipalities and unincorporated areas of Kenton, Campbell, Boone, Grant and Gallatin counties of Kentucky and is engaged in the provision of gas and electric service. ULH&P is a subsidiary of Cincinnati Gas and Electric Company ("CG&E"), which owns approximately 99.9 percent of its outstanding capital stock. ULH&P's wholesale gas supply is purchased from Columbia Gas Transmission, Inc.

COMMENTARY

In the public meeting in this case, which the Commission conducted in Covington on February 8, 1982, speaker after speaker carried the same message to the Commission: The customers of ULH&P simply cannot afford to pay higher rates for gas service. Indeed, many of them cannot pay their bills at current rates. Covington City Commissioner Irvin Callery told the Commission that:

> . . .the deregulation of natural gas prices, and the frequent use of the Fuel Adjustment Clause will create such a financial impact on all of us that the Great Depression of the 1930's will seem like a picnic.

And he continued:

> I ask the Public Service Commission to reject entirely this rate increase. We've been asked frequently to conserve energy . . .This can only be accomplished by denying this current rate increase.

June Hedger told the Commission that: "There are many people * * * (who) can't afford their rent today, and they can't afford their utilities, . . ." and Syd Terrell argued that:

> I think the time has come that, if we're going to tell children that they're going to have to go hungry, we're going to tell senior citizens that

> they're going to have to make a choice between buying medicine or buying food or staying warm, that it's time that these utility companies and these big corporations, they're going to have to make sacrifices and cut back, too. We can't expect the little people to do all of the giving up, and, you know, why not start here and now with this utility company?

Clarence Robinson told the Commission: ". . .I can't understand the increase and the asking for increases in prices when I am on a fixed income, and I am constantly getting cut in my general income," and he continued:

> . . .I'm here to ask that the Public Service Commission, instead of trying to give these people an increase, I would much rather see them try and stop the increase so that maybe, through some way, that my income can meet some of the payments which the gas and electric company is always asking me for.

Covington City Commissioner Tom Beehan told the Commission: ". . .there are hard times and times that need to be considered by you and by the utility," and wondered why ULH&P does not offer a meaningful insulation program.

Father Robert Vater recounted the experience of a family with whose circumstance he was familiar -- a family of five children, in which the father had been unemployed for a year and a half, and whose unemployment compensation had run out, and who owed ULH&P $800. And Father Vater assured the Commission that that family's experience was anything but unique.

When the Reverend Henry Poyntz addressed the Commission, he admitted that: ". . .I stand before you in a state of controlled anger. . . ." And he continued: "I think this is the time for you to show some courage by simply saying no to this particular request on the part of the power company." And in his conclusion Reverend Poyntz told the Commission: ". . .as men and women, who are moral, who are concerned, who say they're listening tonight, you must take definite, positive and certain action. . . ."

* * *

The Commission needs to respond to Reverend Poyntz, and to Father Vater, and to Commissioners Beehan and Callery, and to Ms. Terrell and Ms. Hedger -- and to the many others who spoke in Covington on February 8; to the perhaps 200 present who did not speak; and to the thousands of customers of ULH&P who did not attend, a very high percentage of whom are feeling the ravages of inflation, and many of whom are the victims of unemployment as well.

But the Commission needs to do more than respond to the comments of those customers of ULH&P who spoke at the public meeting on February 8. The Commission needs to recall and reaffirm a portion of its order of May 15, 1981, in Case No. 8045, the first major rate case which it decided. Under the heading "Company Management," and after making it clear that though the discussion made frequent reference to the company whose rate case was being decided, the message was intended for <u>all</u> the utilities regulated by the Commission, that order stated:

* * *

The Commission expects this same attitude toward controlling costs by the utilities it regulates. General should take prompt and effective action to assure itself and this Commission that it will make all efforts to earn the rate of return allowed. Methods of expense control should be employed which will allow management to know in advance the revenues and expenditures associated with new or expanded services in order to maintain a continuing surveillance of the impact of management's actions on its ability to achieve its allowed rate of return. Forecasts of revenues, expenses and sales upon which decisions are based should be conservative and take into consideration the reduction in the rate of demand for services by consumers so that shortfalls in expected revenues from new or expanded services will be appropriate rarely as an explanation for shortfalls in the rate of return. If earnings erosion occurs and General cites price increases in purchases, services, or labor as reasons for such erosion, <u>a showing should be made to the Commission that General has sought as far as possible to acquire at lower unit prices from the same or alternate sources equally useful materials, services or labor. Such showing should clearly demonstrate that waste and duplication are not significant and that the cost of providing service is indeed justified.</u>

Thus, this Commission expects General to react promptly and efficiently to counteract rises in either operating or construction costs. The Commission does not intend to usurp management prerogatives, but <u>General's management must prove to the satisfaction of the Commission that appropriate management decisions are being made on a continuing basis and that rate increase requests are not a substitute for action required to control costs.</u> Control of costs can only be achieved before and not after expenditures are made and must be an integral part of the decision-making process. This Commission does not intend that General restrict its efforts to meet the reasonable service needs of its ratepaying consumers. Rather, the Commission expects General to devote, to efforts to control its costs, the same diligence it would devote to this effort were it operating in a competitive environment, in order that its consumers receive the service they require at the lowest possible cost commensurate with a justifiable return to its shareholders. The Commission is confident that General's management can achieve that goal. (Emphasis supplied.)

More recently, on March 1, 1982, the Commission issued the following statement:(1)

> With unemployment at 11.5 percent of the working force in Kentucky, with labor unions being asked for givebacks, with federal assistance programs being reduced, and with many persons still struggling with the payment of record heating bills, this is no time for conducting utility businesses as usual. In the public interest, in the long-range best interests of shareholders and members, and in the showing of an enlightened sensitivity to the financial plight of thousands of consumers, this is a time for a showing of restraint in seeking rate increases. We call upon the Kentucky utility companies to exercise this self-restraint during this critical period in Kentucky's economic history. At the present time it is not enough to say that a utility cannot earn its allowed rate of return when otherwise operating in the black.
>
> Each company receives complaints concerning the level of rates it charges, but we at the Commission receive complaints concerning the level of rates charged by all utilities throughout the Commonwealth. State legislators have asked us to explain the measures we have taken to hold down, rate increases; and the list of complaints includes commercial and industrial users and organizations representing consumers. The volume of complaints is substantially greater - and the tone of many substantially different - than they were a year ago when we first took office. Now complaints simply asking us to keep in mind fixed or low income status are in the minority. In blunt language, the complainants are beginning increasingly to demand action to discourage or stop the increases. Among their milder recommendations are suggestions for management audits, resignations of Commissioners, a freeze on all increases for one year, and the abolition of automatic fuel adjustment clauses.

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(1) A copy was sent to ULH&P on March 9, 1982.

Unless steps are taken by the management of the utility companies to tighten up their operations; to initiate cost-cutting or cost-deferral measures; and to reduce the upward pressure on rates, more vigorous and numerous consumer complaints most assuredly will occur. In the order in the first major rate case decided by this Commission, we had the following to say: "The Governor of the Commonwealth, when faced with expenditures in excess of expected revenues, has not sought tax increases every five or six months. Instead, difficult decisions have been made as to where expenditures could be reduced without eliminating essential government services. The Commission expects this same attitude toward controlling costs by the utilities it regulates." In our order we made clear that we were not limiting those remarks to the company in question, and today we want to repeat that charge to all of the utilities we regulate.

They simply must find ways to cut costs; defer requests for higher rates; and slow the rate increases in utility bills. In undertaking its difficult work the Commission is required by statute to balance the needs of companies and consumers. We believe that the utility companies also have a duty to strike a similar balance between their own needs and the financial plight of their customers.

However, the Commission is not free to decide rate cases as it pleases. First, it must observe legislative directives. In KRS 278.030(1) mandatory language is used to state that:

> Every utility shall receive fair, just and reasonable rates for services rendered.

And in the following paragraph (KRS 278.030(2)), the word "shall" is also used in specifying:

> Every utility shall furnish adequate, efficient and reasonable service.

Note that in both instances the word "every" is used. The Commission has not been granted authority to make any exception.

Commission orders are also subject to judicial review. The United States Supreme Court summarized the regulatory standard to be observed in Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), as follows:

> The rate-making process . . . involves a balancing of the investor and consumer interests . . . From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock . . . . by that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.

The Commission was reversed by the Franklin Circuit Court on December 30, 1981, in Continental Telephone Company of Kentucky, wherein the court observed:

> Although the Commission, presumptively a body of experts, is entitled to great deference from the Courts in the ratemaking process . . . its powers over utilities' rates are not unlimited . . . and even its most profound "beliefs" must be based upon findings supported by substantial evidence having the quality to induce conviction.

In balancing the interests of ULH&P and its customers, as it must, the Commission finds that substantial evidence supports the conclusion that under the circumstances rates substantially less than those requested by ULH&P will be fair, just and reasonable and will permit ULH&P to furnish adequate, efficient and reasonable service to its customers.

ANALYSIS AND DETERMINATION

TEST PERIOD

ULH&P proposed and the Commission has accepted the 12-month period ending June 30, 1981, as the test period to be used in determining the reasonableness of the proposed rates.

Net Investment

ULH&P proposed a Kentucky jurisdictional net investment rate base devoted to gas operations of $35,623,504[2] which is net of its proposed adjustments to record the abandonment of the Eagle Creek Aquifer. The rate base has been accepted as proposed with the following exceptions:

Cash Working Capital

ULH&P proposed that minimum cash working capital requirements of $3,173,837 be included in its net investment rate base. The allowance was composed of 1/7 of adjusted annual operation and maintenance expenses and 1/24 of adjusted annual purchased gas expense and was based on a "lead-lag" study performed by ULH&P. This study was limited because it was primarily based on the lag between the provision of service, payment to gas suppliers, and the receipt of payment from its customers. The Commission is of the opinion that an appropriate cash working capital allowance can be determined either by the simplified and

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(2) ULH&P Exhibit No. 17, page 1 of 2.

recognized standard formula or by a comprehensive and time-consuming lead-lag study in which all aspects of cash requirements are analyzed. Since ULH&P's proposed study only encompassed one aspect of its cash requirements, the Commission is of the opinion that it is inappropriate to use the study in this instance.

Therefore, in conformity with the Commission's past policy, cash working capital has been reduced by $2,241,075 to reflect the allowance of a 45-day portion or 1/8 of adjusted operation and maintenance expenses less purchased gas expense.

Accumulated Reserve For Depreciation

The accumulated reserve for depreciation has been increased to reflect ULH&P's pro forma depreciation expense adjustment of $56,568.[3] Additionally, ULH&P's proposed abandonment of Eagle Creek Aquifer decreases depreciation expense by $31,451.[4] Thus, the accumulated reserve for depreciation has been increased by a net amount of $25,117.

Investment Tax Credits

ULH&P reported 3 percent Investment Tax Credits ("pre-JDIC") applicable to gas operations of $218,913.[5] Of this amount, $14,538[6] was applicable to gas operations devoted to other than Kentucky customers. Thus, the Commission has adjusted

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(3) ULH&P Exhibit No. 4, page 4 of 6, Item 9.
(4) ULH&P Exhibit No. 17, page 1 of 2.
(5) Response to Item 5K and L of staff request no. 1, page 2 of 2.
(6) Response to Item 1 of information requested during cross-examination.

ULH&P's proposed rate base to include the difference of $204,375 applicable to Kentucky jurisdictional gas operations.

Abandonment of Eagle Creek Aquifer

ULH&P proposed a reduction to its rate base of $1,231,017[7] in connection with its abandonment of the Eagle Creek Aquifer. ULH&P stated that it was necessary to abandon the Eagle Creek Aquifer because of its uneconomical costs from lost gas due to unfavorable geologic conditions. ULH&P reduced plant in service by $1,614,151 and its accumulated provision for depreciation by $484,541.[8] In its response to item 3 of the information requested during cross-examination ULH&P provided a worksheet showing the amounts to be retired (abandoned) as of June 30, 1981, the end of the test period in the rate case. This response showed plant in service decreasing $1,611,944 and the accumulated provision for depreciation decreasing $469,011. This worksheet is well-documented and reflects test period results. Therefore, the Commission has adjusted the rate base to reflect the differences in the amounts shown on the worksheet and ULH&P's original proposal of $2,207 to plant and $15,530 to depreciation, a net reduction to the rate base of $13,323.

Unsuccessful Exploration and Development Cost

The Commission is of the opinion that the cost associated with the unsuccessful development of a gas well drilled during

(7) ULH&P Exhibit No. 17, page 1 of 2.
(8) Difference between ULH&P Exhibit 1 and ULH&P Exhibit 1 Revised.

the mid-1970's is of no benefit to ULH&P's ratepayers and should be excluded from the rate base. After a review of Account No. 2338 and its associated accumulated provision for depreciation, the Commission finds the net plant associated with the unsuccessful exploration to be $4,214[9] with an annual accrual for amortization of $28,656.[10] Since the annual accrual exceeds the unamortized balance, the Commission has reduced the net investment rate base by $4,214.

Prepayments

ULH&P proposed to include the end of period level of prepayments applicable to gas operations totaling $3,613,327[11] in its rate base. The Commission has increased prepayments by $837,079 to $4,450,406 based on a 13-month average for the test period which the Commission has found appropriate for working capital included in the rate base.

Based on the above adjustments, the Commission finds the appropriate Kentucky jurisdictional net investment rate base devoted to gas operations to be as follows:

Gas Plant In Service	$ 42,979,380
Construction Work In Progress	328,883
Cash Working Capital	932,762
Materials and Supplies	397,105
Prepayments	4,450,406
Subtotal	$ 49,088,536

(9) Difference between response to Items 4 and 8 of staff request no. 1.
(10) ULH&P Exhibit No. 1, page 2 of 26.
(11) ULH&P Exhibit No. 5, page 9 of 9.

Less:

Accumulated Provision For Depreciation	$ 13,287,370
Customer Advances For Construction	195,960
Accumulated Deferred Taxes	1,428,352
3 percent Investment Tax Credits	204,375
Subtotal	$ 15,116,057
Net Investment Rate Base	$ 33,972,479

Capital

At June 30, 1981, ULH&P had investor-supplied capital of $80,395,793.[12] In December 1981 ULH&P issued additional capital of $10 million, $1.4 million of which was used to replace long-term investor-supplied capital which was included in capital at the end of the test period.

The Commission has analyzed the level of investor-supplied capital plus job development investment tax credit ("JDIC") necessary to support a given level of net investment in utility operations. While the terms of trade payables representing a cost-free source of capital to ULH&P have remained constant, the collection period of receivables has increased substantially because of the recession. From this analysis the Commission has determined that the level of investor-supplied capital at the end of the test period is not indicative of the current requirements to support the test period investment in utility operations.

(12) ULH&P Exhibit A, page 5 of 6.

Therefore, the Commission has increased the capital base by $8.6 million. This adjustment reflects ULH&P's current capital requirements in light of increased working capital needs, thus making total capitalization for combined operations $88,995,793.

ULH&P's Kentucky jurisdictional portion of total capital devoted to gas operations, based on the ratio of the gas operations rate base to the total company operations rate base, is 37.06 percent as determined in Appendix B. This ratio was determined following entries reflecting the abandonment of the Eagle Creek Aquifer on both total company and gas valuations. Moreover, to reflect the abandonment, total company capitalization has been reduced by $1,361,080 to $87,634,713. Therefore, total capital assigned to the Kentucky jurisdiction is $32,477,425.(13)

The Commission has increased this $32,477,425 by the portion of JDIC applicable to gas operations or $1,471,565.(14) JDIC has been allocated to the capital components based on their relative weights to total capital excluding JDIC. This method is consistent with Internal Revenue Service regulations and in further calculation assigns the overall cost of capital to JDIC. Therefore, ULH&P's total capitalization devoted to Kentucky jurisdictional gas operations is $33,948,990.

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(13) $87,634,712 X .3706 = $32,477,424.
(14) Response to Item 5K and L of staff request no. 1, page 2 of 2.

Reproduction Cost

ULH&P presented a gas reproduction cost less depreciation rate base of $99,146,238.[15] The Commission has considered this valuation method and others as prescribed by KRS 278.290. It is the Commission's opinion, however, that consistent with the findings in ULH&P's previous proceedings, net original cost, net investment, and capital valuation methods are still the most prudent, efficient, and economical measures of reasonable rate of return valuation.

REVENUES AND EXPENSES

ULH&P's net operating income from gas operations for the test period ended June 30, 1981, was $942,171.[16] In order to reflect current operating conditions for Kentucky jurisdictional gas operations, ULH&P proposed numerous adjustments to revenues and expenses resulting in an adjusted test period net operating income of $820,310.[17] The Commission finds the appropriate level of net operating income from normal gas operations to be $1,527,579.

In its analysis of the gas operations, the Commission finds ULH&P's proposed adjustments to be generally proper and has accepted them as proposed, with the following exceptions:

(15) ULH&P Exhibit No. 5, page 1 of 9.
(16) ULH&P Exhibit No. 4, page 1 of 6.
(17) ULH&P Exhibit No. 17, page 1 of 2.

Gas Cost Adjustment ("GCA")

ULH&P proposed to normalize its gas revenues and expenses for purchased gas cost escalations approved by the Commission in GCA Case No. 7268-X. The Commission has adjusted revenues and expenses by $3,435,273 and $3,436,719, respectively, to reflect the most recent purchased gas adjustment approved in Case No. 7268-DD.

Temperature Adjustment

ULH&P adjusted its sales and purchases volumes of natural gas to reflect an anticipated reduction below test period volumes because it estimated that the test year was colder than past winter heating seasons. The period ULH&P chose to determine "average" temperature was the 30-year period of 1941-1970 or a period ending over a decade prior to the test period.

Several of the intervening parties objected to the adjustment on the grounds that it was neither known nor measurable, that changes in weather patterns made the average inappropriate since it was based on outdated data and that the 30-year period did not produce more accurate statistical results than did a shorter period.

Estimating gas volumes based on weather fluctuations is not an exact science. However, the Commission agrees with the intervenors that outdated data provide a less reasonable estimation and should be updated to reflect the 30-year average period of 1951-1980. The Commission obtained the heating degree days as measured by the U.S. Weather Bureau at the Greater Cincinnati

Airport for this 1951-1980 period and has, therefore, adjusted ULH&P's revenues and expenses for natural gas to reflect a net increase in income of $142,282,[18] based on the methodology employed in exhibits filed by ULH&P.[19] The basis for the adjustment is an expected future reduction in the test period heating degree days of 5,493 to the approximate 30-year average of 5,199.

Wage Adjustment

ULH&P proposed an adjustment to normalize wages for wage increases occurring during and subsequent to the test period. Intervenors questioned ULH&P as to the amount of overtime experienced during the test period, particularly the month of May which was used by ULH&P to allocate wages between its gas and electric operations. The Commission is of the opinion that the amount of overtime is not excessive based on historical data from ULH&P's operations and on comparisons with other gas utilities under the Commission's jurisdiction. Moreover, the Commission finds that ULH&P's proposed wage adjustment in its entirety is reasonable both in the amount of increase and as it reflects known and measurable wage changes.

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(18) Based on sales of 13,036,124 Mcf and purchases of 13,088,983 Mcf.

(19) Response to staff request no. 2, Item 4 and response to staff request no. 1, Item 10, Adjustment No. 1.

Public Service Commission Maintenance Tax

ULH&P proposed to adjust the Public Service Commission maintenance tax to reflect its proposed changes to operating revenues. The Commission has further adjusted the maintenance tax by $3,887[20] to reflect revenue adjustments made by the Commission.

Curb Box Program

ULH&P proposed to normalize its abnormally high test period operating expenses of $879,873[21] associated with a location and maintenance program of its curb boxes by reducing the test period level to $150,000 for the next 3 years and amortizing the difference over a 3-year period, a net reduction of $486,582. In its order in Case No. 8133 dated February 20, 1981, the Commission encouraged ULH&P to accelerate its curb box survey program. The curb box program has been in effect since 1976. The Commission is of the opinion that, because of its encouragement, much of the program was completed earlier than expected. Therefore, the Commission has adjusted the test period level of curb box expense to reflect the average cost incurred to date of $1,567,624 plus estimated costs for the next 3 years of $450,000 over the 8 1/2-year period of the total project. This results in an additional reduction of $155,923 from ULH&P's proposed level.

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(20) $4,281,843 X .09078 percent = $3,887.
(21) Response to Item 10 adjustment no. 4 of staff request no. 1.

Injuries and Damages

ULH&P proposed to normalize injuries and damages expense based on an average of its actual experience for a 10-year period (July 1971 through June 1981). This resulted in a reduction of $469,751.[22] During this period, ULH&P had expenditures for a personal injury settlement of $200,000 in 1977 and of $500,000 associated with a gas explosion at the Simon Kenton High School during the test period. The Commission is of the opinion that the above-mentioned unusual and nonrecurring items should not be borne by the ratepayers. These expenditures are the results of unforeseeable and extraordinary circumstances which should properly be reflected in long-range risk expectations of stockholders. Thus, expenses have been reduced by $70,000.

Allowance For Funds Used During Construction

ULH&P provided the Commission a statement that $101,139[23] of its total balance of $428,228 included in construction work in progress ("CWIP") was eligible for capitalization of funds used during construction ("AFUDC"). Since the Commission excluded $99,345 of CWIP devoted to other than Kentucky customers, it has likewise reduced the amount of CWIP eligible for AFUDC. Thus, the Kentucky jurisdictional portion of CWIP is $77,676.

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(22) Response to Item 10, adjustment no. 6 of staff request no. 1.
(23) Response to Item 2 of information requested during cross-examination.

The Commission is of the opinion that the appropriate AFUDC rate is the overall cost of capital found reasonable herein; this prevents the ratepayer from providing a cash return on plant not used and useful and therefore matches cost and benefit. Thus, the Commission has increased ULH&P's proposed net operating income to reflect AFUDC of $8,482 and the amount charged to AFUDC during the test period of $3,776[24] for a total addition to AFUDC of $12,258.

Institutional Advertising

For rate-making purposes the Commission has disallowed gas operating expenses of $7,701[25] for institutional advertising incurred during the test period, as required by 807 KAR 5:016E, Section 4.

Donations

The Commission has rejected ULH&P's proposal to include donations of $16,598 in operating expenses. It is the Commission's opinion that, consistent with past Commission policy, these costs should be borne by ULH&P's stockholders.

Depreciation and Amortization Expense

ULH&P proposed to include $28,656[26] in operating expenses for annual depreciation associated with the unsuccessful

(24) Notice Exhibit 6.
(25) Response to Item 21b of staff request no. 1.
(26) ULH&P Exhibit No. 1, page 2 of 26.

development of a gas well. As discussed in an earlier section of this order, the annual expense accrual exceeded the unamortized balance in unsuccessful exploration cost. Unsuccessful exploration was moreover determined to be of no benefit to ULH&P's ratepayers. The Commission is of the opinion that the inclusion of $28,656 for annual depreciation is therefore both inappropriate and nonrecurring and has excluded this amount from operating expenses.

Abandonment of Eagle Creek Aquifer

ULH&P proposed to amortize the abandonment of its Eagle Creek Aquifer over a 5-year period. This proposal results in an annual amortization of $375,348.(27) Further ULH&P proposed to eliminate its test period operating expenses of $154,822 associated with operation of the aquifer. ULH&P offered no explanation as to the reasonableness of the period of the proposed amortization. In determining a proper amortization period, the Commission considered the undepreciated balance, operating expenses and the ultimate effect on the ratepayers and stockholders. As discussed in an earlier section of this order, a net adjustment of $13,323 was made to the proposed abandonment of the Eagle Creek Aquifer. Correspondingly, this same adjustment has been made to the total loss expected from the abandonment of $1,876,731 resulting in an adjusted amount of $1,890,054. The

(27) ULH&P Exhibit No. 17, page 1 of 2.

Commission is of the opinion that an amortization period of 12 years is reasonable in that it will allow ULH&P to recover its costs and will not adversely affect the ratepayers. This results in an annual amortization of $157,504, a reduction of $217,844 from ULH&P's proposed level.

Many of the costs associated with the abandonment, specifically salvage values and gas recovery, were not known and other costs were estimated. The Commission, therefore, will review actual costs of the abandonment of the Eagle Creek Aquifer during ULH&P's next general gas rate proceeding and amortize any adjustment found appropriate over the remainder of the original 12-year period. Any adjustment shall be the result of differences between actual costs and the amounts shown in Appendix C.

Interest Charges

The Commission finds interest charges applicable to gas operations for the test period to be $1,066,728.[28] Further, the Commission finds that of this amount, $171,656[29] is applicable to facilities devoted to other than Kentucky customers. Thus, the net interest charges applicable to Kentucky jurisdictional gas operations for the test period are $895,072. The Commission, using CG&E's capital structure and weighted embedded costs of debt, has determined interest charges for rate-making purposes to be $1,653,316, an increase of $758,244.

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(28) Response to Item 16a(7) of staff request no. 1.
(29) Response to Item 10 of the information requested during cross-examination.

Income Taxes

The net effect of the Commission adjustments to revenues and expenses is a decrease in net income of $124,573 before income taxes. Applying the composite rate of 49.24 percent for federal and state income taxes to this amount results in decreased taxes of $61,340.

Economic Recovery Tax Act

In 1981 the Economic Recovery Tax Act ("ERTA") became law. Under ERTA a utility is required to normalize the tax timing differences resulting from all differences between book depreciation and tax depreciation. ULH&P has consistently followed, and this Commission has consistently recognized, full normalization of the differences between book and tax depreciation in determining ULH&P's cost of service in past rate cases as well as in this case. Therefore, ULH&P meets the requirements of ERTA.

The Commission finds that ULH&P's adjusted test period operations are as follows:

	As Adjusted By ULH&P	Commission Adjustments	Commission Adjusted
Operating Revenues	$60,541,082	$4,294,101	$64,835,183
Operating Expenses	59,720,772	3,586,832	63,307,604
Net Operating Income	$ 820,310	$ 707,269	$ 1,527,579

RATE OF RETURN

ULH&P's witness, Mr. James R. Mosley, and the City of Covington's witness, Professor William E. Jackson, III, both proposed to use the consolidated capital structure of CG&E to determine a fair rate of return for ULH&P. ULH&P is virtually a wholly-owned subsidiary of CG&E, and ULH&P does not publicly sell its common stock. Furthermore, the officers of ULH&P are the same as those of CG&E. Therefore, the Commission is of the opinion that the consolidated capital structure of CG&E should be used to determine a fair rate of return for ULH&P.

Mr. Mosley proposed to use the adjusted consolidated capital structure of CG&E as of December 31, 1981.[30] This capital structure includes adjustments for bond issuances and retirements, stock issuances, and changes in commercial paper since the end of the test year. The AG opposed the use of this adjusted capital structure on the basis that it extends the test year without consideration of other revenue and expense changes. The Commission is of the opinion that the proposed adjusted capital structure is reasonable except for the amount of commercial paper included therein. CG&E's outstanding commercial paper balance as of December 31, 1981, was $51,102,000 at an annual cost rate of 12.09 percent. CG&E's average commercial paper balance for the test year was $19,616,480. The Commission is of the opinion that the test year average commercial paper balance should be used to determine the consolidated capital structure of CG&E.

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(30) Mosley's testimony, ULH&P Exhibit No. 18.

Mr. Mosley proposed an embedded cost of debt of 9.429 percent.[31] After adjusting the amount of commercial paper in CG&E's consolidated capital strucure to $19,616,480, and applying an annual cost rate of 15 percent,[32] the embedded cost of debt becomes 9.366 percent. The embedded cost of preferred stock is 9.001 percent.[33] LIRC proposed the use of ULH&P's actual cost rate on debt to reflect ULH&P's AA bond rating. The Commission is of the opinion that the December 31 adjusted consolidated capital structure of 52 percent debt, 13.4 percent perferred stock, and 34.6 percent common equity and the embedded costs of 9.366 percent for debt and 9.001 percent for preferred stock are reasonable and should be adopted for the purpose of determining the cost of capital in this case. The Commission has determined that using this capital structure and cost rates reflects ULH&P's current capital costs and does not result in a mismatching of revenues and expenses.

CG&E is engaged in four lines of business: (1) electric generation, (2) electric transmission, (3) electric distribution, and (4) gas distribution. Significant risk differences exist between these lines of business. For example, at least two factors make CG&E's gas distribution business less risky than its

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(31) Mosley's testimony, ULH&P Exhibit No. 18.

(32) Approximate average interest rate on 90-day commercial paper over the past 12 months ended February 1981, Federal Reserve Statistical Release.

(33) Response to item 12 of staff request no. 2, page 4.

electric operations. First, a large amount of external financing is required for electric construction. This was one reason given by Standard and Poor's rating agency for down-rating CG&E bonds and preferred stock. Only 7 percent of CG&E's 1981 construction budget was for gas facilities. Second, CG&E owns 40 percent of the Zimmer Nuclear Power Station. The risks associated with the construction and operations of a nuclear power plant are not applicable to gas distribution. In this case, the Commission is concerned with setting rates for gas distribution service. Thus, the Commission must consider the risks associated with gas distribution. Gas stockholders bear the risk of unusual and non-recurring injuries and damages expenses. However, the GCA clause permits the recovery of nearly all purchased gas cost. Therefore, the Commission concludes that a gas distribution utility is less risky than electric operations, and the rate of return for gas distribution should reflect this risk difference.

Mr. Mosley proposed a rate of return on common equity of 17.9 percent to 18.7 percent.[34] Professor Jackson proposed a rate of return on common equity of 15.2 percent to 15.9 percent.[35] Both witnesses used discounted cash flow and comparable earnings analyses to estimate the cost of equity capital. Neither Mr. Mosley nor Professor Jackson made any adjustment for risk differences between gas distribution and electric operations. The LIRC recommended that the Commission use Professor Jackson's

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(34) Mosley's prefiled testimony, page 12, line 24.
(35) Jackson's prefiled testimony, page 27, line 11.

range of returns on common equity for consolidated CG&E adjusted downward to reflect the lower risk of investment in ULH&P. The AG recommended that the Commission use the lower end of Mr. Jackson's range of returns on common equity for consolidated CG&E as a maximum.

In summary the Commission concludes that the testimony of both Mr. Mosely and Professor Jackson contains a serious defect in that both witnesses failed to recognize that a gas distribution operation has lower risk than an electric utility engaged in generation and transmission of electric power.

Based on the foregoing analysis the Commission concludes that the business risk to ULH&P's stockholders has not increased significantly since 1979. The GCA has eliminated all risk associated with any increase in purchased gas costs. However, under current economic conditions ULH&P's financial risk has increased. Therefore, the Commission concludes that some upward adjustment in the allowed return on equity must be made over the 12 percent return allowed in 1979. Thus, the Commission concludes that a range of returns on common equity of 14 percent to 15.5 percent is fair, just and reasonable.

In fixing ULH&P's revenue requirements the Commission believes that consideration must be given to the economic circumstances faced by ULH&P's customers. However, its customers must realize that the law requires and equity demands that ULH&P be given rates which will allow it to earn a reasonable return on equity and provide reasonable service. The Commission concludes that both the interest of the customer and that of ULH&P's stockholders can best be served by basing the required increase in revenue on a 14 percent return on equity, the bottom of the range. Moreover, the Commission is of the opinion that if ULH&P implements cost cutting measures it can achieve a return on equity in excess of 14 percent, and that 15.5 percent, the top of the range, is attainable if management is responsive to current economic conditions.

Thus, the overall weighted cost of capital in this case is 10.92 percent. This cost of capital produces a rate of return on ULH&P's net investment rate base of 10.91 percent which the Commission concludes is the fair, just and reasonable return.

REVENUE REQUIREMENTS

The required net operating income, based on the rate of return found fair, just and reasonable of 10.91 percent is approximately $3,707,230. To achieve this level of operating income, ULH&P is entitled to increase it rates and charges to produce additional revenues on an annual basis of $4,297,934 including an adjustment of $3,901 to reflect additional Public Service Commission maintenance taxes determined as follows:

Adjusted Net Operating Income	$ 1,527,579
Reasonable Net Operating Income	$ 3,707,230
Deficiency	$ 2,179,651
Deficiency Adjusted For Income Taxes and PSC taxes	$ 4,297,934

Rate Design

ULH&P proposed several changes in rate structure including changing rate GS from a 5-step declining block to a customer charge plus a flat rate, eliminating rate F, adding a bad check charge and grandfathering the air conditioning riders.

None of the intervenors opposed the bad check charge or grandfathering the air conditioning riders. The Commission is of the opinion that both changes are reasonable and should be approved, and the tariff establishing a bad check charge for electric service in Case No. 8469 should be approved.

ULH&P proposed to eliminate rate F since no customers were currently being served on that schedule. Interlake Steel had been the only customer on rate F. After Interlake Steel closed its plant, Newport took over its operation. Newport is currently served on rate GS "in accordance with an executed service agreement."(36) Newport opposed the elimination of rate F, arguing that ULH&P should be required to provide a detailed cost of service study before eliminating tariff schedules. The Commission is not convinced that a cost of service study is always necessary to justify eliminating a tariff schedule, especially when no customers are being served on the schedule. However, in this case, the Commission is of the opinion that rate F should not be eliminated. Newport has expressed an interest in retaining the option of being served on rate F. In the absence of

(36) Marshall's prefiled testimony, page 19.

more substantial evidence the Commission is of the opinion that this option should be maintained.

ULH&P proposed a flat rate and customer charge for rate GS to simplify the rate structure and identify the major components of customer and commodity costs. Both the AG and the LIRC opposed the customer charge in the absence of a cost of service study which justified it. Under the current declining block rate structure, customer service expenses such as meter reading, bill preparation and revenue collection are recovered in the early steps of the declining blocks. Currently, a customer's bill for the first 6 Mcf used in a month is $2.43 more than the charge for the next 6 Mcf used in a month. The minimum charge is currently $3.65 per month. The proposed customer charges of $3.00 for residential and $4.00 for non-residential service with a flat rate per Mcf does not appear unreasonable in comparison. In the Commission's opinion a simplified rate structure is in the consumer's best interest. Therefore, the Commission accepts ULH&P's proposed design for rate GS.

Revenue Allocation

ULH&P proposed an overall rate increase of 10.8 percent of total revenues, to be allocated on existing base revenues, which do not include gas cost adjustment clause revenues. This results in increases of 18.1 percent of base rates for both rates GS and OP. The AG objected on the basis that this results in a larger overall increase of 11.1 percent for rate GS versus 10.2 percent for rate OP. Newport also objected on the basis that when calculated on base rates with all gas cost removed this results in a larger increase of 83.5 percent for rate OP versus 60.2 percent for rate GS. Although both intervenors' positions have some merit, the Commission is of the opinion that ULH&P's allocation method is a fair and reasonable intermediate position and should be used in this case.

Gas Cost Adjustment Clause

ULH&P proposed a revision of its GCA. The revised GCA provides for a uniform adjustment to be applied to all customers and for quarterly filings. The revision was proposed to reduce the administrative burden of the current GCA filings.

Newport opposed the revised GCA on the basis that a portion of the wholesale demand charge would be allocated to rate OP. None of this charge is currently allocated to rate OP. ULH&P noted that the demand portion of total gas purchase costs is minimal and that the off-peak rate net of gas costs is lower than the GS rate. At the time of filing in this case the GCA for firm use was only 2 cents per Mcf higher than the GCA for off-peak use.

The AG opposed the revised GCA on the basis that the quarterly adjustments would be based on expected gas costs and that ULH&P could place a rate increase into effect for bills rendered on and after the effective date of the increase rather than for service rendered on and after the effective date. ULH&P's witness, Mr. Marshall, testified that the expected gas cost component of the GCA would be calculated using either wholesale rates currently in effect at the time a quarterly report is filed with the Commission or wholesale rates pending before the FERC to be effective by the beginning of the calendar quarter.[37] Marshall further testified that ULH&P's major wholesale price increases occur on September 1 and March 1, and that rates reflecting these increases do not go into effect until October 1 and April 1.[38] The Commission is of the opinion that the revised GCA of ULH&P, in Appendix D, should be accepted and should be implemented on July 1, 1982.

SUMMARY

The Commission having considered the evidence of record and being advised, is of the opinion and finds that:

(1) The rates proposed by ULH&P would produce revenues in excess of the revenues found reasonable herein and should be denied upon application of KRS 278.030.

(2) The rates and charges in Appendix A will produce gross annual operating revenues of approximately $69,120,859 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) The Eagle Creek Aquifer has experienced uncorrectable migration of gas due to unfavorable geologic conditions.

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(37) Transcript of Evidence, Volume III, March 3, 1982, page 52.
(38) Transcript of Evidence, Volume III, March 3, 1982, page 156.

(4) Continued operation of the Eagle Creek Aquifer would be uneconomical.

(5) ULH&P should be allowed to amortize the unrecovered portion of its capital investment in the Eagle Creek Aquifer and related costs for abandonment because conditions which necessitate the abandonment were beyond its control .

IT IS THEREFORE ORDERED that the rates proposed by ULH&P in its application be and they hereby are denied upon application of KRS 278.030.

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 April 12, 1982.

IT IS FURTHER ORDERED that ULH&P be and it hereby is authorized to abandon its existing underground reservoir, known as the Eagle Creek Aquifer, and certain related facilities for the storage of natural gas.

IT IS FURTHER ORDERED that ULH&P be and it hereby is authorized to charge the unrecovered portion of its capital investment and costs of abandonment in the Eagle Creek Aquifer and related facilities which are to be abandoned to Account 182, Extraordinary Property Losses, and to amortize the unrecovered portion above the line for accounting purposes in equal amounts over 12 years by charges to Account 407.1, Amortization of Property Losses.

IT IS FURTHER ORDERED that ULH&P shall file with its next general gas rate application the actual costs resulting from the abandonment of the Eagle Creek Aquifer and that any variance from Appendix C shall appropriately be amortized over the remainder of the 12-year period.

IT IS FURTHER ORDERED that ULH&P shall file with this Commission at least 30 days prior to July 1, 1982, its revised tariff sheets on the Gas Cost Adjustment Clause in Appendix D.

IT IS FURTHER ORDERED that ULH&P shall file with this Commission at least 30 days prior to July 1, 1982, its first quarterly report containing gas cost recovery rates to become effective July 1, 1982.

IT IS FURTHER ORDERED that ULH&P shall file with this Commission at least 30 days prior to July 1, 1982, its revised tariff sheets setting out the revised base rate, the GCA rate and total rate to be effective July 1, 1982.

IT IS FURTHER ORDERED that ULH&P shall file with this Commission, within 30 days of the date of this order, its revised tariff sheets setting out the rates and charges approved herein.

Done at Frankfort, Kentucky, this 16th day of April, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Volz
Chairman

Katherine Randall
Vice Chairman

William Carrigan
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NOS. 8373,8419 and 8469 DATED APRIL 16, 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 April 12, 1982.

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

	Base Rate		Gas Cost Adjustment		Temporary Refund Adjustment		Total Rate	
All gas used	52.15¢	plus	0.00¢	minus	0.00¢	equals	52.15¢	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.

Minimum Bill: The minimum monthly charge shall be the customer charge as stated above.

When bills are rendered less frequently than monthly the time related units such as cubic feet blocks, minimum or other charges, will be billed in accordance with the number of billing months in the meter reading interval.

RIDER R-ACS-1

SUMMER AIR CONDITIONING SERVICE

APPLICABILITY

Applicable to residential customers for gas service for the operation of absorption type Summer Air Conditioning equipment during the period extending from the customer's meter reading occurring between May 15 and June 15, inclusive, to the customer's meter reading occurring between September 15 and October 15, inclusive, provided customer's building or premise is air conditioned by the utilization of gas as the principal energy supply. The above dates are subject to change by the Company upon 30 days notice. This rider is available only to customers to whom service was supplied in accordance with its terms on November 12, 1981, at the premise served on that date, and to such customers as can show to the satisfaction of the Company that prior to November 12, 1981, they had contracted for the purchase or installation, or both, of absorption type summer air conditioning equipment for a particular premise.

NET MONTHLY BILL

Computed in accordance with the following charges:

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

All additional gas used will be billed at:

47.99¢ 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.

Minimum: The minimum as stated in the applicable standard rate, Rate GS, General Service.

RIDER G-ACS-1

SUMMER AIR CONDITIONING SERVICE

APPLICABILITY

Applicable to commercial and industrial customers for gas service for the operation of absorption type Summer Air Conditioning equipment during the period extending from the customer's meter reading occuring between May 15 and June 15, inclusive, to the customer's meter reading occurring between September 15 and October 15, inclusive, provided customer's building or premise is air conditioned by the utlization of gas as the principal energy supply. The above dates are subject to change by the Company upon 30 days notice. This rider is available only to customers to whom service was supplied in accordance with its terms on November 12, 1981, at the premise served on that date, and to such customers as can show to the satisfaction of the Company that prior to November 12, 1981, they had contracted for the purchase or installation, or both, of absorption type summer air conditioning equipment for a particular premise.

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 47.99¢ 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.

Minimum: The minimum as stated in the applicable standard rate, Rate GS, General Service.

RATE F

Special Contract - Firm Use

NET MONTHLY BILL

Computed in accordance with the following charges:

	Base Rate		Gas Cost Adjustment		Temporary Refund Adjustment		Total Rate
All gas used	49.13¢	plus	0.00	minus	0.00	equals	49.13¢ 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.

Minimum: Twenty-five percent of the cost of the customer's firm use of gas as defined in the Service Agreement, or $1,950 whichever is larger, for 7 months following the initial meter reading taken on or after April 1, of any year.

For the future application of this Gas Cost Adjustment clause the base rate for firm gas is $4.183 per Mcf.

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:

	Base Rate		Gas Cost Adjustment		Total Rate	
All Consumption	45.84¢	plus	0.00¢	equals	45.84¢	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.

Minimum: Twenty-five percent of the cost of the customer's firm use of gas as defined in the Service Agreement, or the cost of 1,000 MCF, as determined by provision (2) of the "NET MONTHLY BILL" including the "GAS COST ADJUSTMENT" provision, whichever is larger, for 7 months following the initial meter reading taken on or after April 1, of any year.

For the future application of this Gas Cost Adjustment clause the base rate for off peak gas is $3.853 per MCF.

BAD CHECK CHARGE

APPLICABILITY

Applicable to all customers in the Company's gas service area.

CHARGE

The Company may charge and collect a fee of $5.00 to cover the cost of handling an unsecured check, where a customer tenders in payment of an account a check which upon deposit by the Company is returned as unpaid by the bank for any reason.

SERVICE REGULATIONS

The supplying of, and billing for, service and all conditions applying thereto, are subject to the jurisdiction of the Kentucky Public Service Commission, and to Company's Service Regulations currently in effect, as filed with the Kentucky Public Service Commission, as provided by law.

Electric Department

BAD CHECK CHARGE

APPLICABILITY

Applicable to all customers in the Company's electric service area.

CHARGE

The Company may charge and collect a fee of $5.00 to cover the cost of handling an unsecured check, where a customer tenders in payment of an account a check which upon deposit by the Company is returned as unpaid by the bank for any reason.

SERVICE REGULATIONS

The supplying of, and billing for, service and all conditions applying thereto, are subject to the jurisdiction of the Kentucky Public Service Commission, and to Company's Service Regulations currently in effect, as filed with the Kentucky Public Service Commission, as provided by law.

APPENDIX B

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NOS. 8373, 8419, and 8469 DATED APRIL 16, 1982.

The net investment rate base of Union Light, Heat and Power Company's combined and gas operations at June 30, 1981, is as follows:

	Company	Gas
Gas Plant In Service	$126,213,478	$42,979,380
Construction Work In Progress	2,524,333	328,883
Cash Working Capital	2,135,506	1,040,199
Materials and Supplies	2,044,558	397,105
Prepayments	4,503,119	4,450,406
Subtotal	$137,420,994	$49,195,973
Less:		
Accumulated Provision For Depreciation	$ 39,166,852	$13,258,039
Customer Advances For Construction	198,857	195,960
Accumulated Deferred Taxes	5,526,294	1,428,352
3 % Investment Tax Credits	481,522	204,375
Subtotal	$ 45,373,525	$15,086,726
Net Investment Rate Base	$ 92,047,469	$34,109,247

Ratio of Kentucky jurisdictional gas operations to total operations: 37.06%

Note: Cash working capital was determined by taking 1/8 of actual operation and maintenance expenses less energy charges for the test period.

APPENDIX C

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NOS. 8419, 8373, and 8469 DATED APRIL 16, 1982.

The annual amortization from the abandoment of the Eagle Creek Aquifer was determined as follows based on its net investment at June 30, 1981, and estimated costs of abandoment:

Utility Plant In Service	$ 1,611,944
Gas Stored Underground-Non current	115,270
Gas Stored Underground-Current	$ 103,214
Subtotal	$ 1,830,428
Less: Accumulated Provision For Depreciation	$ 469,011
Accumulated Deferred Taxes	13,863
Subtotal	$ 482,874
Plus: Estimated Cost of Abandoment	$ 542,500
Total Investment Transferred to A/C 182	$ 1,890,054
Period of Amortization	12 years
Annual Amortization	$ 157,504

APPENDIX D

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NOS. 8373, 8419 and 8469 DATED APRIL 16, 1982

GAS COST ADJUSTMENT CLAUSE

APPLICABILITY

The charge to each customer for the cost of gas shall be the appropriate Gas Cost Recovery Rate applied to the customer's monthly consumption. This charge is applicable to all Company sales that are under jurisdiction of the Kentucky Public Service Commission (Commission).

DETERMINATION OF GCRE AND GCRN

The Company shall file a quarterly report with the Commission which shall contain updated gas cost recovery rates (GCRE, GCRN) and shall be filed at least thirty (30) days prior to the beginning of each calendar quarter. The GCRE and GCRN shall become effective for billing with the final meter readings of the first billing cycle of each calendar quarter. The gas cost recovery rates are comprised of:

(1) The expected gas cost component (EGC) on a dollar per MCF basis, rounded to the nearest 0.1 cent, which represents the average cost of gas supplies including propane.

(2) The supplier refund adjustment (RA) on a dollar

per MCF basis, rounded to the nearest 0.1 cent, which reflects refunds received during the reporting period plus interest at six (6) percent per annum; except that portion of refunds applicable to the period prior to January 1, 1980, which is ultimately determined to be payable for sales to non-exempt industrial customers, which shall be paid in a lump-sum as approved by the Commission. Prior refund amounts not distributed or amounts over-distributed shall be added to, if under-distributed, or subtracted from, if over-distributed, the refunds received, after application of interest, during the reporting period.

(3) The balancing adjustment (BA) on a dollar per MCF basis, rounded to the nearest 0.1 cent, which compensates for any previous over- or under-collections of gas cost by the Company through operation of the gas cost recovery procedure.

(4) The incremental pricing credit component (IPC) on a dollar per MCF basis, rounded to the nearest 0.1 cent, which distributes to exempt customers the monies collected by the Company from non-exempt customers under provisions of the Natural Gas Policy Act of 1978 (NGPA).

(5) The incremental pricing surcharge (IPS) on a dollar per MCF basis, rounded to the nearest 0.1

cent, not included in the determination of the GCRE, which provides for compliance with the provisions of the NGPA applying to non-exempt customers.

BILLING

The gas cost recovery rate to be applied to bills of exempt customers shall equal the sum of the following components:

$$GCRE = EGC + RA + BA + IPC$$

The gas cost recovery rate to be applied to bills of non-exempt customers shall equal the sum of the following components:

$$GCRN = EGC + RA + BA + IPC + IPS$$

DEFINITIONS

For the purpose of this tariff:

(A) "Average Cost" means the cost of gas supplies, including associated transportation and storage charges, and propane which results from the application of suppliers' rates currently in effect, or reasonably expected to be in effect during the calendar quarter, on purchased volumes during the 12-month period; ending with the reporting period, divided by the corresponding sales volume.

(B) "GCR" means the sum of the expected gas cost component plus the supplier refund adjustment plus the balancing adjustment; i.e., GCR = EGC + RA + BA.

(C) "GCRE" means the quarterly updated gas cost recovery rate applicable to the monthly consumption of exempt customers.

(D) "GCRN" means the monthly updated gas cost recovery rate applicable to the monthly consumption of non-exempt customers.

(E) "IPS" means the incremental pricing surcharge rate, on a dollar per MCF basis, rounded to the nearest 0.1 cent, for each non-exempt customer which shall be the difference between (1) the total cost of customer's non-exempt purchases at the Company's effective base rate and (2) the total cost of an equivalent amount of alternate fuel at the alternative fuel price ceiling, divided by the customer's total non-exempt purchases.

(F) "Exempt Customer" has the meaning set forth by the Federal Energy Regulatory Commission in accordance with Title II of the Natural Gas Policy Act.

(G) "Non-exempt Customer" has the meaning set forth by the Federal Energy Regulatory Commission with Title II of the Natural Gas Policy Act.

(H) "Calendar Quarters" means each of the four three-month periods of (1) January, February, and March; (2) April, May, and June; (3) July, August, and September; (4) October, November, and December.

(I) "Reporting Period" means the three (3) month accounting period that ended approximately 55 days prior to the filing date of the updated gas cost recovery rates.