COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF ADJUSTMENT OF RATES OF COLUMBIA GAS OF KENTUCKY, INC.) CASE NO. 9554

O R D E R

By its Order of November 11, 1986, in this case, the Commission adopted for rate-making purposes the Joint Stipulation agreed to by the parties of record. The Joint Stipulation provided that two future adjustments be made to the rates of Columbia Gas of Kentucky, Inc. ("Columbia"). The Joint Stipulation required an adjustment for the additional costs of construction to serve Toyota Motor Manufacturing, U.S.A. ("Toyota") and required an adjustment to reflect certain changes in the Federal Tax Reform Act of 1986 ("Tax Reform Act").

On April 30, 1987, Columbia filed testimony supporting the adjustments to annual revenues for these items to be effective July 1, 1987. The adjustment for the Toyota construction increased Columbia's annual revenue requirements by $522,608. The adjustment to reflect the Tax Reform Act reduced Columbia's annual revenue requirements by $1,405,528. The combined effect is to reduce Columbia's annual revenue requirements by $882,920.

Motions to intervene were filed by the Utility and Rate Intervention Division of the Office of the Attorney General;

Utility Rate Cutters of Kentucky, Inc.; and Kentucky Industrial Utility Customers. All motions to intervene were granted by the Commission. The intervenors raised the issues of excess deferred taxes and rate design.

EXCESS DEFERRED TAXES

A reduction in the corporate tax rates results in an excess or surplus deferred tax reserve, since deferred taxes resulting from depreciation-related and non-depreciation-related tax timing differences were provided by ratepayers at a higher tax rate than the rate at which they will be flowed back.

On January 1, 1979, the federal corporate income tax rate decreased from 48 to 46 percent. Utilities, in general, flowed back deferred taxes at the new statutory tax rate, which resulted in an excess provision for deferred taxes. The Commission recognized the existence of these excess deferred taxes and in subsequent rate proceedings required that the excess be returned to the ratepayer over a 5-year amortization period.

The change in tax rates under the Tax Reform Act from 46 percent to 34 percent creates a substantial excess provision for deferred taxes. The Tax Reform Act requires that deferred taxes related to depreciation timing differences be flowed back no faster than under the "average-rate assumption method." Under this method an average rate is calculated and, as timing differences reverse, the accumulated deferred taxes are credited to income at the average rate, reducing the excess deferred taxes to zero over the remaining life of the property. Moreover, the Tax Reform Act provides that if a regulatory commission requires a more rapid reduction of the excess provision for deferred taxes, book depreciation must be used for tax purposes. The Tax Reform Act does not, however, have specific provisions for the excess deferred taxes that are not related to depreciation. Therefore, the excess deferred taxes have been generally characterized as "protected" (depreciation-related) and "unprotected" (not related to depreciation).

The Commission recognizes the existence of the excess deferred taxes and is of the opinion that these taxes provided by ratepayers in previous years should be returned in an equitable manner. However, the various options for returning these benefits could not be fully explored at this time. Therefore, the issue regarding accelerated amortization of excess deferred taxes will be considered in future general rate proceedings.

RATE DESIGN

The Commission suggested that the reduction in revenue resulting from the Tax Reform Act could be spread to consumers by a uniform reduction to all Mcf charges. Columbia has filed rates designed to flow through the revenue requirement reduction on a uniform Mcf basis. This method is equitable and achieves the intent of the Commission to conform with the rate design approved in the last rate case.

JOINT STIPULATION

Woodrow Burchett, Director of Rates for Columbia, testified that the determination of the reduction related to the Tax Reform Act was done in accordance with the agreements reached in settlement negotiations. As of the date of this Order, no parties of the Joint Stipulation have submitted evidence contrary to Columbia's adjustments. The Commission must conclude that all parties of record are in agreement with the adjustments as defined by the terms and conditions of the Joint Stipulation. Therefore, the Commission has decreased Columbia's rates and charges by $882,920 annually.

SUMMARY

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

1. This case should be reopened to determine if this filing to reflect the Tax Reform Act is consistent with the Joint Stipulation.

2. The rates and charges in Appendix A are the fair, just, and reasonable rates and charges to be charged by Columbia on and after July 1, 1987.

3. The approval of the rate reduction in this matter is not a commitment to future rate-making treatment of any specific issue.

IT IS THEREFORE ORDERED that:

1. This case is reopened for the purpose of determining if this filing to reflect the effects of the Tax Reform Act is consistent with the Joint Stipulation.

2. The rates and charges in Appendix A are approved for service rendered on and after July 1, 1987.

3. Within 30 days of the date of this Order, Columbia shall file with this Commission its revised tariff sheets setting out the rates and charges approved herein.

Done at Frankfort, Kentucky, this 25th day of June, 1987.

PUBLIC SERVICE COMMISSION

Richard D. Heman, Jr.
Chairman

Vice Chairman

George N. Williams, Jr.
Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 9554 DATED June 25, 1987.

The following rates and charges are prescribed for the customers served by Columbia Gas of Kentucky, Inc. 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.

CURRENTLY EFFECTIVE BILLING RATES

	Base Rate Charge $	Gas Cost Adjustment 1/ $	Total Billing Rate $
RATE SCHEDULE GS			
Customer Charge:			
Residential	4.00		4.00
Commercial or Industrial	10.00		10.00
Volumetric:			
First 2 Mcf/Month	1.2652	3.9303	5.1955
Next 48 Mcf/Month	1.2352	3.9303	5.1655
Next 150 Mcf/Month	1.2052	3.9303	5.1355
All Over 200 Mcf/Month	1.1752	3.9303	5.1055
RATE SCHEDULE FI			
Customer Charge:	100.00		100.00
Customer Demand Charge: Demand Charge times Firm Mcf Volume in Customer Service Agreement		6.8458	6.8458
Commodity Charge-All Volume	0.3942	3.9303	4.3245

RATE SCHEDULE IS

Customer Charge:	100.00		100.00
Commodity Charge	0.3942	3.9303	4.3245

RATE SCHEDULE IUS

For all Volumes Delivered each Month	0.0912	3.9303	4.0215

1/ The Gas Cost Recovery Rate, as shown, is an adjustment per Mcf determined in accordance with the "Semi-Annual Gas Cost Adjustment Clause" as set forth on Sheets 80 through 83 of this tariff. The Gas Cost Adjustment is detailed in the Appendix to the Order of the Public Service Commission in Case No. 9554 dated November 14, 1986.

RATE SCHEDULE GS

Base Rate

Commodity Charge:

First	2 Mcf per month	@ $1.2652 per Mcf
Next	48 Mcf per month	@ $1.2352 per Mcf
Next	150 Mcf per month	@ $1.2052 per Mcf
All Over	200 Mcf per month	@ $1.1752 per Mcf

RATE SCHEDULE FI - FIRM AND INTERRUPTIBLE GAS SERVICE

Base Rate

Commodity Charge:

$0.3942 per Mcf of all daily firm and interruptible volumes of gas delivered hereunder each billing month.

RATE SCHEDULE IS - INTERRUPTIBLE GAS SERVICE

Base Rate

Commodity Charge:

$0.3942 per Mcf of all volumes of gas delivered hereunder each billing month.

RATE SCHEDULE IUS - INTRASTATE UTILITY SERVICE

Base Rate

For all gas delivered each month $.0912 per Mcf.

Minimum Monthly Charge

The Maximum Daily Volume specified in the Sales Agreement multiplied by $.0912 plus applicable gas cost.

RATE SCHEDULE DS - DELIVERY SCHEDULE

Rate

$0.3712 per Mcf for all gas delivered each billing month.

When a customer can demonstrate to the Company that a lower rate is necessary to meet competition from an alternate energy supplier, Columbia may transport gas at a rate lower than $0.3712 per Mcf. Columbia may also, after receiving prior approval from the Kentucky Public Service Commission, transport gas at a rate lower than $0.3712 per Mcf where the customer has demonstrated that its only alternative would be a shutdown or relocation of facilities or that the lower rate is necessary to expand facilities.

Columbia may also transport gas to a customer at a rate greater than $0.3712 per Mcf is such rate remains competitive with the price of energy from alternate energy suppliers. In no event shall the transportation rate exceed 61.5¢ per Mcf.