COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF GAS AND ELECTRIC RATES OF LOUISVILLE GAS AND ELECTRIC COMPANY	) CASE NO. 90-158

O R D E R

On January 10, 1991, Louisville Gas and Electric Company ("LG&E"); the Attorney General, by and through his Utility and Rate Intervention Division ("AG"); Jefferson County, Kentucky ("Jefferson"); and the Metro Human Needs Alliance, Inc. ("MHNA") filed petitions for rehearing of certain issues arising from the Commission's December 21, 1990 Order authorizing LG&E a general increase in gas and electric rates. A petition for rehearing was also filed by the Kentucky Cable Television Association, Inc. ("KCTA"). Based on the petitions, and the responses thereto, the Commission makes the following findings.

Trimble County Post-Test-Year Plant Additions

LG&E contends that the Commission's decision to not allow the inclusion of the post-test-year Construction Work in Progress ("CWIP") additions for the Trimble County Unit 1 Generating Station ("Trimble County") ignores applicable precedent, the

Settlement Agreement approved in Case No. 10320,[1] and the mandate to permit LG&E to earn a reasonable return on its investment serving the ratepayers. LG&E stated that the Commission had approved, without modification, the Settlement Agreement, and could not now include the dictum announced in Case No. 10481[2] concerning the rate-making treatment for post-test-year plant additions. LG&E argues that by not allowing any of the post-test-year additions, the Commission's Order is in direct contradiction with the terms of the Settlement Agreement. LG&E further states that the known and measurable costs of Trimble County were available through October 31, 1990, and LG&E should have received full recovery of and on that level of investment.

LG&E's arguments are little more than a repetition of those set forth in its post-hearing brief. As stated in the December 21, 1990 Order, the Commission was not then persuaded by LG&E's argument, nor are we now. The fact that the Settlement Agreement was signed 11 days before the Commission issued its Order in Case No. 10481 is of no particular significance. The Settlement Agreement did not become binding and enforceable until approved by

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1 Case No. 10320, An Investigation of Electric Rates of Louisville Gas and Electric Company to Implement a 25 Percent Disallowance of Trimble County Unit No. 1, Order dated October 2, 1989.

2 Case No. 10481, Notice of Adjustment of the Rates of Kentucky-American Water Company Effective on February 2, 1989, Order dated August 22, 1989.

the Commission on October 2, 1989. In Case No. 10481, the Commission put all utilities under its jurisdiction on notice that, if a historic test period was used, adjustments for post test-period plant additions should not be requested unless all revenues, expenses, rate base, and capital items have been updated to the same period as the plant additions.[3] This rate-making policy was announced before the Settlement Agreement was approved, and long before this rate case was filed. In determining that this rate-making policy is applicable and controlling, the Commission has not modified the Settlement Agreement approved in Case No. 10320. To do as LG&E suggests would require the Commission to ignore established case precedents. This we are unable to do. Further, as previously stated, there is no language in the October 2, 1989 Order approving the Settlement Agreement that allows LG&E to disregard this policy.

The Commission's decision concerning the post-test-year CWIP took into consideration applicable Commission Orders. The decision is not in conflict with the Settlement Agreement, Article IX. LG&E was allowed full recovery of and on 75 percent of its test-year investment in Trimble County. The Settlement Agreement did not state the date the investment in Trimble County would be determined. LG&E apparently assumed the post test-year date of December 31, 1990, while the Commission, following applicable rate-making policy, used test-year-end, April 30, 1990. It was,

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3 Id., page 5.

of course, LG&E that chose the test year to utilize in this rate case. The Commission denies rehearing on this issue.

Depreciation, Property Taxes, and Accumulated Deferred Income Taxes on Trimble County

The AG, Jefferson, and MHNA objected to the inclusion of the first year depreciation expense on Trimble County as well as allowing an adjustment to property taxes for Trimble County. The intervenors argued that the Commission has allowed LG&E a significant, unprecedented benefit that violates the matching principle applicable to rate-making. The AG and MHNA further argued that if the Commission allows such depreciation and property taxes, an adjustment should be made to accumulated deferred income taxes relating to the depreciation allowed.

As the Commission acknowledged in its December 21, 1990 Order, Trimble County represents a significant addition to LG&E's utility plant in service. In this rate case, the Commission had to consider the fact that Trimble County would be commercialized prior to the expiration of the rate suspension period. The impending commercialization was a known and measurable event that was properly recognized for rate-making purposes. At the same time, the Commission was obligated to follow established precedent for post-test-year plant additions.

In its application, LG&E proposed three adjustments relating to the commercialization of Trimble County: first year depreciation expense, property taxes, and the amortization of investment tax credits ("ITCs"). LG&E had calculated each adjustment on the basis of its estimated investment in Trimble

County as of December 31, 1990. The Commission allowed all three adjustments in the December 21, 1990 Order, but calculated them based on LG&E's actual investment in Trimble County as of test-year end. By this rate-making treatment, the Commission has consistently adhered to the matching principle. The intervenors' arguments on this issue are, in fact, inconsistent because no objection was raised to reducing revenue requirements by the amortization of ITCs.

The Commission understands the intervenors' argument that an adjustment to the accumulated deferred income taxes should have been made because of the inclusion in rates of depreciation expense on Trimble County. However, the intervenors were on notice of LG&E's request to recover that depreciation and no intervenor raised the issue of the accumulated deferred income taxes, prior to petitioning for rehearing. Further, nowhere in the record is located the information necessary for such an adjustment.

The Commission's treatment of Trimble County first year depreciation and property tax expenses recognized the effects of the commercialization of Trimble County. We believe this rate-making treatment to be fair and reasonable. It allows LG&E an opportunity to recover legitimate expenses associated with its actual investment as of the end of the test year. Rehearing on the Trimble County depreciation, property taxes, and the accumulated deferred income taxes is denied.

The Commission notes that the AG alleges that depreciation expense and property taxes were allowed on LG&E's CWIP balance as of April 30, 1990. This is not true. These expenses were calculated on only the Trimble County CWIP, and not to other electric or gas CWIP.

Adjustments to Capitalization Related to Trimble County

The AG and MHNA contend that if the Commission allows the first year depreciation expense on Trimble County and makes a corresponding adjustment to accumulated depreciation to determine net original cost rate base, then an adjustment should also be made to LG&E's capitalization to maintain a proper match between rate base and capitalization. The AG also argues that the Commission should have deducted the 25 percent Trimble County disallowance totally from common equity, rather than allocating it on a pro rata basis to all components of the capital structure. The AG claimed that this treatment would be consistent with the provisions of the Settlement Agreement approved in Case No. 10320.

The adjustments now suggested by the AG and MHNA were not made in this rate case or any prior LG&E rate case. Neither intervenor proposed a full reconciliation of rate base to capitalization. However, the Commission recognizes that, on the surface, making adjustments to rate base without corresponding adjustments to capitalization may appear to be inconsistent. Therefore, rehearing will be granted to consider both the need to make the adjustments to capitalization proposed by the AG and MHNA, as well as the appropriateness of adjusting the accumulated depreciation.

The AG and MHNA should file testimony discussing the need to adjust a utility's capitalization to reflect a test-year adjustment to depreciation expense that is included in the accumulated depreciation used to determine rate base. The testimony should also discuss whether the accumulated depreciation used in the determination of rate base should be adjusted to reflect the adjustment to test-year depreciation expense.

Concerning the AG's position on deducting the 25 percent Trimble County disallowance from common equity, nothing new has been offered to support this position. The Commission notes the AG tries to support his argument with the very Settlement Agreement that he has challenged in court. The Commission normally allocates adjustments to capitalization, which are not specifically related to a component of capitalization, on the pro rata basis. The AG has failed to present any evidence to demonstrate that Trimble County was financed exclusively with equity capital. Therefore, the Commission denies rehearing on this issue.

In addition to addressing this issue in his application for rehearing, the AG filed a motion for a nunc pro tunc order to reflect the requested relief retroactively to January 1, 1991. The AG argues that the adjustments to capital for accumulated depreciation and the deferred income taxes are "more in the nature of clerical matters than rehearing issues."[4] A nunc pro tunc order can only be utilized to correct errors or omissions that

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4 Motion to Modify, Amend or Correct Order Nunc Pro Tunc, filed January 10, 1991, pages 2 and 3.

appear on the face of an order. Clearly, these are substantive issues not addressed in the December 21, 1990 Order. There being no basis for a nunc pro tunc Order, the AG's motion is denied.

Electric Power Research Institute ("EPRI") Dues

LG&E objected to the exclusion of dues for EPRI membership, stating that future benefits from research were difficult to measure. LG&E contends that since the majority of the benefits realized from EPRI membership related to reduced fuel expenses, those benefits would flow through the fuel adjustment clause or through lower rate increases resulting from avoided future costs, and therefore a rate case offset was not needed. Finally, LG&E stated that the Commission's decision on the EPRI dues sends the message to utilities in Kentucky that they should not spend money today for future benefits.

LG&E's arguments indicate that it may not understand why the EPRI dues were excluded in this rate case. In order for LG&E to recover the costs of membership dues for organizations such as EPRI, the savings or benefits must be reflected in the same rate case as the costs. In this instance neither the EPRI dues nor the associated benefits were incurred in the test year. LG&E stated that the benefits of EPRI membership would exceed the costs. Under these circumstances, excluding both the benefits and the costs should have a revenue neutral impact. The opportunity to participate in research and development is an essential part of the operation of an utility; however, in the rate-making process costs and savings should be reflected to provide proper matching.

The Commission denied the recovery of EPRI dues only for this proceeding because benefits had not been factored in.

In future rate cases, when the benefits or costs savings resulting from membership in organizations like EPRI have been demonstrated, the Commission will consider allowing the recovery of such membership dues.

Downsizing Costs

LG&E seeks rehearing of the denial of its proposed 3-year amortization of its test-year downsizing costs. LG&E states that this action will discourage utilities in Kentucky from expending resources today in order to secure future benefits for ratepayers. LG&E disagrees with the Commission's finding that the test-year expenses for downsizing have already been recovered from ratepayers. LG&E states that it is customary regulatory treatment to permit recovery of legitimate non-recurring expenses by amortizing such expenses over a time period roughly equal to the time between rate cases. LG&E cited its coal contract buyout case as an example of allowing recovery of upfront costs incurred to produce greater reduce future cost savings.

The Commission believes that the issue of downsizing costs merits further consideration. LG&E should file testimony concerning the reasonableness of both the test year amounts incurred and the proposed 3-year amortization period. The testimony should include supporting documentation to show the expected annual future cash outlays related to the test year downsizing and breakdown the test-year amount of $9,486,550 between actual expenditures and amounts accrued for the separation allowance payments, enhanced early retirement benefits, post-retirement health care provisions, and the gain on the purchase of retired employees' annuities.

Legal Expenses

LG&E disagreed with the Commission's exclusion of $294,676 in legal expenses from its total professional services expenses. LG&E stated that the exclusion followed no standard and was arbitrary. LG&E claimed it had adequately described the legal charges, and those invoices that were edited under the attorney-client privilege reflected the methodology used by the Green River Electric Corporation in Case No. 90-152.[5] LG&E stated that it was never put on notice that additional information on the charges was required; however, if such notice had been given, any information needed for determining rate-making treatment could have been provided.

Of the total exclusion of $294,676, the charges relating to the edited invoices totaled $42,785. The Commission has reviewed the documentation for these charges, the level of documentation accepted in Case No. 90-152, and the October 18, 1990 Order addressing the AG's objection to these invoices. Based on this review, the Commission finds that these charges have been sufficiently identified within the constraints of the

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5 Case No. 90-152, Green River Electric Corporation's Notice of Increase in Rates for Retail Electric Service, Order dated December 21, 1990.

attorney-client privilege. Therefore, the Commission finds that LG&E's revenues should be increased by $42,785.

The remaining portion of the excluded legal services charges relate to Commission proceedings which have been terminated. The Commission finds these terminated cases to be non-recurring in nature and, consequently, the legal charges are also non-recurring and should be excluded for rate-making purposes. LG&E did not propose to recover the costs of this rate case through rates. To raise such costs for the first time on rehearing is improper. LG&E has not shown that the costs of this rate case would be comparable with the costs of the excluded proceedings. The Commission believes its original decision on these charges is appropriate.

Storm Damage Expenses

LG&E, the AG, and Jefferson raised questions about the adjustment to storm damage expense. LG&E stated that it could not follow the Commission's reasoning for using a 10-year inflation adjusted average, that there was no apparent justification for changing from the 5-year average used in Case No. 10064, and that it only had notice of the 5-year method. LG&E also asked for a clarification of the calculation used for the adjustment. The AG states that extraordinarily high storm damage amounts have been built into rates, giving LG&E a windfall. Jefferson states that the Commission should adjust the 1987 storm damage figure to remove the extraordinary expenses incurred in that year and recompute the adjustment.

The Commission finds that the arguments on this issue justify further consideration. Attached to this Order as Appendix B is a schedule showing the derivation of the adjustment granted in the December 21, 1990 Order.

Office Supplies and Expenses

The AG and Jefferson requested rehearing on the charges recorded in Account No. 921, Office Supplies and Expenses. The AG stated that the Commission has concluded, without proof, that several charges questioned by the AG have not been included in the test-year expenses. The AG stated that just because expenses were "zeroed out" doesn't remove them from test-year expenses. Jefferson states it is not aware of testimony which indicates there was a periodic zeroing out of Account No. 921 charges and that these expenditures should be re-examined.

The paper copies of the transactions recorded in Account No. 921 were provided by LG&E in its December 3, 1990 response to a hearing request made by the AG on November 19, 1990. In ordering LG&E to provide the information, the Commission informed the AG that he ". . . will not have the opportunity to cross examine but you can argue from the information that you glean from that information."[6] As shown in that response, the "zeroed out" expenses related to Account No. 3-921.

Based on a review of this information, the Commission believes it is appropriate to grant rehearing on this issue, to

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6 Transcript of Evidence, Volume IV, November 19, 1990, pages 215 and 216.

the extend of the accounting treatment for the charges recorded in Account No. 3-921 and the reasonableness of those charges for rate-making purposes. LG&E shall file testimony explaining the reasons for the zeroing out practice and identify where all test-year expenses recorded in "zeroed out" accounts were recorded.

Reconciliation of Net Operating Income Allowed

The AG stated that he could not reconcile the test-year actual net operating income stated on page 17 of the December 21, 1990 Order with the Commission adjusted net operating income stated on page 44 of the Order. The AG asked that the Commission review its figures for accuracy.

The Commission has reviewed the Order and determined that at page 44, the stated increase of $6,639,060 to net operating income is incorrect. The correct amount of increase to the net operating income is $8,702,924. Attached to this Order as Appendix C is a detailed reconciliation of the test-year actual net operating income to the Commission adjusted net operating income. As shown on Appendix C, total operating revenue adjustments of $15,341,984 were added to net operating income, and total operating expense adjustments of $6,639,060 were deducted from net operating income. The net of these two figures is the net increase to net operating income of $8,702,924.

Revenue Requirements

Based on the Commission's decision to allow an additional $42,785 in legal expenses, the Commission has recalculated the additional revenue required by LG&E. A breakdown between electric and gas operations of the revised operating income and the increase in revenue allowed is as follows:

Net Operating Income Found Reasonable	$120,854,243	$13,141,627	$133,995,870
Adjusted Net Operating Income	117,532,520	12,818,527	130,351,047
Net Operating Income Deficiency	3,321,723	323,100	3,644,823
Gross Up Revenue Factor for Taxes (1.00-.32445)	.60555	.60555	.60555
Additional Revenue Required	$ 5,485,464	$ 533,565	$ 6,019,029

The additional revenue granted will provide a rate of return on the net original cost rate base of 9.52 percent and an overall return on total capitalization of 9.89 percent. The rates and charges in Appendix A are designed to produce gross operating revenues, based on the adjusted test year and the legal expenses allowed herein, of $691,703,942. These operating revenues include $507,874,345 in electric revenues and $183,829,597 in gas revenues.

Return on Equity

The AG, MHNA, and Jefferson have asked that the Commission rehear its decision to allow LG&E a return on equity of 12.5 percent. The AG argued that although it proposed that the upper end of the range of the return on equity should be 12.5 percent, that recommendation was made assuming that no additional costs associated with Trimble County would be included in rates. Jefferson's argument is that the return is too high given the recent drop in interest rates initiated by the Federal Reserve to spur the economy. MHNA claimed that since the Commission allowed LG&E rate recovery of a significant portion of the Trimble County costs, the authorized return on equity should have been 12 percent, the lower end of the AG's range.

Contrary to the AG's argument, a review of the AG's rate of return recommendation reveals no assumptions regarding the rate recovery of Trimble County costs. Despite the fact that LG&E had requested rate recovery of all Trimble County costs through December 31, 1990, the AG's recommended return on equity of 12.0 to 12.5 percent was not conditioned on the Commission's rejection of LG&E's request. The basis for the AG's equity recommendation, a DCF analysis of LG&E and selected comparable utilities, merely noted Trimble County's impending completion and commercial operation. While the Commission did include test-year Trimble County costs in rates, all post test-year costs were excluded and the electric rate increase ultimately authorized was $5.45 million of the $31 million requested. Furthermore, the Commission's selection of a 12.5 percent return on equity was based on an analysis of <u>all</u> the financial testimony. The fact that the return selected was the same as the upper end of the AG's recommendation was merely a coincidence.

Jefferson correctly notes that interest rates have dropped since the hearing and even since the Order was issued. However, such changes in economic conditions are not relevant to this proceeding. The evidence that may be considered on rehearing is expressly limited by KRS 278.400 to "additional evidence that could not with reasonable diligence have been offered on the former hearing." This standard encompasses only such evidence in existence at the time of the hearing. The interest rate changes noted by Jefferson constitute evidence not in existence at the time of the hearing.

Fuel Cost Recovery

LG&E requests the Commission to reverse its decision to disallow LG&E's test year under-recovery of fuel costs in the amount of $1,737,240. LG&E claims the Commission's finding that the current fuel adjustment clause ("FAC") mechanism is fully recovering is in error and is not supported by the evidence of record.

In support of its request, LG&E cites the following information in evidence:

1. LG&E's test year under-recovery of fuel costs was $1,737,240;

2. When fully synchronized to reflect the two-month lag between fuel cost incurrence and fuel cost recovery, the test year under-recovery was $1,489,908;

3. When fully synchronized and adjusted to reflect the new over- and under-recovery mechanism approved in Administrative Case No. 309,[7] the test year under-recovery was $1,030,926;

4. For the period from January 1979 through April 1990, LG&E's fuel cost was $1,265,435,253 and its fuel cost recovery was $1,260,282,308 resulting in an under-recovery of $5,192,945;

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7 Administrative Case No. 309, An Investigation of the Fuel Adjustment Clause Regulation 807 KAR 5:056, Order dated December 18, 1989 and Order dated April 16, 1990.

5. Adjusted to reflect the new over- and under-recovery mechanism, LG&E's fuel cost recoveries for the period from January 1979 through April 1990 would be $1,261,258,335 resulting in an under-recovery of $4,176,918.

LG&E contends that the new FAC mechanism is not fully recovering as it does not track the entire over- or under-recovery of a given month for inclusion in the fuel cost calculations of a later month. LG&E also argues that the Commission erred by excluding the under-recovery from the determination of revenue requirements while also rejecting the proposal by Kentucky Industrial Utility Customers ("KIUC") that fuel costs be recovered solely through the operation of the fuel clause.

LG&E's petition offers no evidence not previously considered by the Commission. Further, the petition ignores certain evidence which supports the Commission's finding that although the FAC is not fully synchronized and does not produce an exact match of fuel costs and fuel recoveries in a 12-month reporting period, it is fully recovering, meaning that, over time, all allowable fuel costs will be recovered. This evidence shows that:

1. Of the eleven calendar years from 1979 through 1989, there were seven years with under-recoveries and four years with over-recoveries, with the largest under-recovery of $2.4 million occurring in 1981 and the largest over-recovery of $2.5 million occurring in 1983.

2. The period from January 1979 through April 1990, when fully synchronized to reflect the two-month lag between cost incurrence, beginning in November 1978, and cost recovery,

commencing in January 1979, includes fuel costs of $1,260,114,499 and fuel cost recoveries of $1,260,282,308 for an over-recovery of $167,809.

3. When fully synchronized, the period originally filed by LG&E, beginning in January 1979 and going through December 1989, includes fuel costs of $1,223,535,095 and fuel cost recoveries of $1,223,922,518 for an over-recovery of $387,423.

Clearly, LG&E's over- and under-recoveries vary each year. However, when synchronized to reflect the 2-month lag, these variances tend to balance themselves out over time.

The evidence also shows that for the test year, and for nine of the calendar years from 1979 through 1989, the number of kilowatt hours ("KWH") LG&E used to calculate FAC rates exceeded the actual KWH sales to which the FAC rates were applied. For the test year, LG&E's calculated KWH sales were 9,120,702,000 while actual KWH sales were only 9,056,011,000, for a difference of .71 percent. For the period from November 1978 through April 1990, LG&E's calculated KWH sales were 93,303,483,000 while actual KWH sales were only 93,003,687,000, for a difference of .32 percent. A review of LG&E's over- and under-recovery data shows that it has consistently used a higher level of KWH to calculate FAC rates than the level of KWH sales to which the FAC rates were ultimately applied. This difference is the apparent cause of the mismatch LG&E experiences between fully synchronized fuel costs and fuel cost recoveries in the short run, as was experienced in the test year.

This difference also pertains to the question of whether the new FAC mechanism is fully recovering since it only recovers the difference that results from applying the FAC rate to calculated KWH sales and applying it to actual KWH sales. LG&E argues that the FAC mechanism is not fully recovering because it tracks only the fuel cost portion recovered through the FAC rate, not the portion recovered through base rates. However, base rates do not change from month to month, as does the FAC rate. Consequently, there should be practically no over- or under-recovery of base rate fuel costs so long as LG&E's calculated KWH sales closely track actual KWH sales. Since base rates do not change monthly, the new FAC mechanism has only to track the recoveries generated through the FAC rate to be fully recovering.

LG&E has misinterpreted the rationale for our rejection of the KIUC proposal. The Commission rejected KIUC's recommendation that all fuel costs be removed from base rates and shown as a separate fuel charge in LG&E's tariffs. Fuel costs are already recovered solely through the operation of the fuel clause, either through the fuel component included in base rates or through the FAC rate which tracks the month-to-month variances from the base rates.

Our Order found the current FAC, with its over- and under-recovery mechanism, to be fully recovering, and therefore, found no basis for including the over- or under-recovery of a given test year in the determination of revenue requirements in a general (non-fuel) rate proceeding. The evidence demonstrates the need for LG&E to internally review its process for calculating the KWH sales used to arrive at its monthly FAC rates.

Late Payment Charges

LG&E, the AG, Jefferson, and MHNA all seek rehearing on the decision to require a partial payment be first credited to a customer's current balance when the payment is sufficient to also reduce the past due balance. The Order provided that when a customer with a past due balance makes a payment sufficient to cover the current month's bill, plus the greater of $10.00 or 5 percent of the outstanding past due balance, LG&E must first credit the payment to the current bill with the remainder credited to the past due balance.

LG&E states that calculating 5 percent of the outstanding balance for all past due accounts would be administratively cumbersome and difficult to implement. LG&E requests that the provision be modified to eliminate the requirement of paying at least 5 percent of the outstanding balance.

The AG, Jefferson, and MHNA all contend that the provision should be simplified to be more easily understood by the customers to whom it is applicable. Jefferson and MHNA request that the 5 percent requirement be eliminated leaving the $10.00 payment toward the past due balance as the only prerequisite for first crediting the payment to the current month's bill. MHNA also requests that the Commission inform all jurisdictional utilities of this decision and advise those utilities that their imposition of late payment charges should be in accord with this decision.

The Commission finds sufficient justification to eliminate the requirement to pay at least 5 percent of the outstanding past due balance. The provision should be modified to require only the payment of $10.00 toward the past due balance as a prerequisite for LG&E crediting the current month's bill prior to crediting the past due balance. In response to MHNA's request, the Commission notes that this decision was based on this record, relates only to LG&E, and is not applicable to the other utilities under our jurisdiction.

Pole Attachments

KCTA requests, in light of the decision to include an allocation of distribution tree trimming expenses in the calculation of cable television pole attachment rates, Commission recognition of LG&E's concomitant obligation to clear the trees along the distribution rights-of-way down to the level of the cable television facilities. KCTA states that it accepts the accuracy of LG&E's representations that this degree of trimming, or clearing, has been LG&E's past practice.

The Commission believes this request warrants no rehearing. The pole attachment rates properly included an allocation of all distribution tree trimming expense because such tree trimming provides a benefit to the cable television operators. Clearly, if LG&E does not in the future clear its rights-of-way down to the cable television facilities, the Commission will entertain a request to modify the pole attachment rates accordingly.

Electric Rates - Winter Rate Design

Jefferson, the AG, and MHNA request rehearing of the decision to allow LG&E to retain a residential winter declining block rate structure. Jefferson contends that the Commission erred in stating that declining block winter rates reduce peak demand, improve system load factor, and lower system costs. Jefferson argues that there is no evidence in the record that supports this conclusion. The AG opines that reconsideration should be given due to the conservation implications of eliminating the declining block rate. MHNA maintains that rates which encourage electric space heating may exacerbate secondary peak problems without significantly improving system load factor. MHNA opines that LG&E has various needs for winter capacity which argue for a rate structure at least approaching a flat rate.

None of these arguments are persuasive. The Commission did not state that winter declining block rates reduce peak demand, improve system load factors, and lower <u>system</u> costs. In the discussion of residential electric rates, we said that reduced peak demand, improved system load factor, and lower <u>unit</u> costs are beneficial to all parties and found that increased off-peak (winter) loads can produce <u>many</u> of the same benefits as reduced on-peak (summer) loads. Obviously, increased off-peak loads do not reduce peak demand; however, they can improve system load factor and reduce unit costs. These conclusions are clearly supported by the evidence of record. Conservation benefits, along with the other benefits enumerated herein, were weighed in the consideration of residential electric rate design, both summer and winter. In the final analysis, the arguments for conservation were found to be more relevant to the summer rate design issues of reducing peak demand and deferring capacity additions. The Commission also considered the fact that changing to a flat winter rate would be inconsistent with our previously stated goals of gradualism and rate continuity. MHNA's concerns regarding LG&E's winter peaks and its need for winter capacity were considered in reaching the original decision, and MHNA's petition does not raise any questions or issues that warrant reconsideration.

IT IS THEREFORE ORDERED that:

1. Rehearing be and it hereby is granted on the issues of adjusting capitalization to reflect the adjustment to accumulated depreciation, downsizing costs, storm damage expenses, and office supplies and expenses - Account No. 3-921; and further evidence shall be taken on each of these issues.

2. Rehearing be and it hereby is granted on the issue of the edited invoices for legal service in the amount of $42,785; and LG&E shall be entitled to prospective rate recovery of these expenses.

3. The rates in Appendix A, attached hereto and incorporated herein by reference, be and they hereby are approved for service rendered by LG&E on and after January 29, 1991.

4. Rehearing be and it hereby is granted on the issue of late payment charges to the extent that the Commission's December 21, 1990 Order shall be modified to require only the payment of $10 toward the past due balance as a prerequisite for LG&E

crediting the current month's bill prior to crediting the past due balance.

5. Rehearing on all other issues be and it hereby is denied.

6. Testimony in support of any rehearing issue shall be filed in verified prepared form by February 20, 1991; and response testimony shall be similarly filed by March 8, 1991.

Done at Frankfort, Kentucky, this 29th day of January, 1991.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 90-158 DATED 1/29/91

The following rates and charges are prescribed for the customers in the area served by Louisville Gas and Electric 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 effective date of this Order.

ELECTRIC SERVICE

RESIDENTIAL RATE
(RATE SCHEDULE R)

RATE:

Summer Rate: (Applicable during 4 monthly billing periods of June through September)

First 600 kilowatt-hours per month	6.402¢ per KWH
Additional kilowatt-hours per month	6.556¢ per KWH

GENERAL SERVICE RATE
(RATE SCHEDULE GS)

RATE:

Summer Rate: (Applicable during 4 monthly billing periods of June through September)

All kilowatt-hours per month	7.103¢ per KWH

LARGE COMMERCIAL RATE
(RATE SCHEDULE LC)

RATE:

Demand Charge:

	Primary Distribution
Winter Rate: (Applicable during 8 monthly billing periods of October through May)	
All kilowatts of billing demand	$5.69 per KW per month

LARGE COMMERCIAL TIME-OF-DAY RATE

RATE:

Demand Charge:
Peak Period Demand Charge
Winter Peak Period — $3.58 per KW per month

INDUSTRIAL POWER
(RATE SCHEDULE LP)

RATE:

Demand Charge:

	Primary Distribution
Summer Rate: (Applicable during 4-monthly billing periods of June through September)	
All kilowatts of billing demand	$8.89 per KW per month

INDUSTRIAL POWER TIME-OF-DAY RATE
(RATE SCHEDULE LP-TOD)

RATE:

Demand Charge:
Peak Period Demand Charge:
Summer Peak Period — $5.58 per KW per month

SPECIAL CONTRACT FOR ELECTRIC SERVICE
FORT KNOX SPECIAL CONTRACT

Demand Charge

Summer Rate:
(Applicable during 4 monthly billing periods of June through September)

All KW of Billing Demand — $8.53 per KW per month

GAS SERVICE

The Gas Supply Cost component in the following rates has been adjusted to incorporate all changes through Case No. 10064-J.

GENERAL GAS RATE
G-1

RATE:

Charge Per 100 Cubic Feet:

Distribution Cost Component	11.077¢
Gas Supply Cost Component	27.323¢
Total Charge Per 100 Cubic Feet	38.400¢

SUMMER AIR CONDITIONING SERVICE UNDER GAS RATE G-1

RATE:

Charge Per 100 Cubic Feet:

Distribution Cost Component	6.077¢
Gas Supply Cost Component	27.323¢
Total Charge Per 100 Cubic Feet	33.400¢

GAS TRANSPORTATION SERVICE/STANDBY
RATE TS

RATE:

	G-1
Distribution Charge Per Mcf	$1.1077
Pipeline Supplier's Demand Component	.2032
Total	$1.3109

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 90-158 DATED 1/29/91

The following schedule shows how the Commission's adjustment to LG&E's storm damage expense was determined:

Year	Actual Storm Damage Expense	CPI-U for Period	CPI-U Factor	Inflation Adjusted Expense
1989	$ 518,182	124.0	100.0	$ 518,182
1988	304,405	118.3	95.4	319,072
1987	3,323,062	113.6	91.6	3,627,286
1986	722,355	109.6	88.4	817,263
1985	1,670,904	107.6	86.8	1,925,577
1984	332,705	103.9	83.8	397,069
1983	488,465	99.6	80.3	608,129
1982	442,375	96.5	77.8	568,440
1981	951,913	90.9	73.3	1,298,539
1980	645,037	82.4	66.5	970,687
Totals	$9,399,403			$11,050,244

10 Year Average of Inflation Adjusted Expense	$ 1,105,024
Test-Year Actual Storm Damage Expense	$ 584,491
Increase in Storm Damage Expense Approved	$ 520,533

Notes:

1. Actual Storm Damage Expenses for the years 1980 through 1989 can be found in Fowler Exhibit 1, Schedule H and LG&E's response to Item 1 of the August 8, 1990 Data Request issued by Jefferson-Louisville-Paddlewheel Alliance.

2. The Consumer Price Index - Urban (CPI-U) can be found in Jefferson-Louisville-Paddlewheel Alliance's response to Item 11 of the Commission's Order of October 15, 1990.

3. The CPI-U Factor is computed by dividing the CPI-U for a given year by the CPI-U base year. In this calculation, the base year is 1989.

4. This schedule was computer generated. A manual recalculation of this schedule will result in differences due to truncating and rounding treatments by the computer.

5. The test year was not used as the base year in this adjustment due to the fact that the test year included eight months of 1989.

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 90-158 DATED 1/29/91

Reconciliation of Test-Year Actual Net Operating Income with Commission Adjusted Net Operating Income:

Test-Year Actual Net Operating Income		$121,674,031
ADD Operating Revenue Adjustments:		
Base Rate Changes	$ (5,202,761)	
Gas Temperature Normalization	2,324,141	
Annualized Year-End Customers	2,849,405	
Unbilled Revenues	14,513,486	
Gas Supply Revenues	(120,698,880)	
Non-Recurring Refund	2,500,005	
Transportation Charges	60,595	
Adjustment for latest PGA	118,995,993	
TOTAL Operating Revenue Adjustments		$ 15,341,984
DEDUCT Operating Expense Adjustments:		
Labor & Related Costs	(1,913,628)	
Property Taxes	931,857	
Advertising Expenses	(577,683)	
Depreciation	14,431,836	
Storm Damage Expense	520,533	
Annualized Year-End Customers	1,118,728	
Downsizing Costs	(9,486,550)	
Gas Supply Costs	(119,993,180)	
State Sales Taxes	163,000	
Steam Generation Project Expenses	(133,980)	
Non-Recurring Expenses	(256,553)	
Headwater Benefit Assessment	108,033	
Federal & State Income Taxes on Adjustments	5,643,177	
Federal & State Income Taxes - State Rate Change	549,473	
Federal & State Deferred Income Taxes - Rate Change	446,582	
Amortization of ITC	(1,507,000)	
Interest Synchronization	470,588	
Adjustment for latest PGA	118,995,993	
EEI dues	(178,779)	
Adjustment to Electric Fuel Expense	(1,737,240)	
Additional New Office Expense	(2,489)	
Legal Services*	(294,676)	
Miscellaneous Expenses	(151,507)	
Flowback Fed. Excess Deferred Tax	(162,300)	
Amortization of Management Audit	(118,560)	
Additional Holding Co. Expense	(6,612)	
Trimble Co. Marketing Expense	(156,323)	
Employer Share 401(k)	(63,680)	
TOTAL Operating Expense Adjustments		$ 6,639,060
Commission Adjusted Net Operating Income		$130,376,955

*Does not reflect amounts granted in this Order.