

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE TARIFF FILING OF GRAYSON RURAL)
ELECTRIC COOPERATIVE CORPORATION) CASE NO. 93-317
TO UPDATE ITS UNDERGROUND COST)
DIFFERENTIAL RATE)

O R D E R

Pursuant to 807 KAR 5:041, Section 21, on July 26, 1993, Grayson Rural Electric Cooperative Corporation ("Grayson") filed its annual update to its underground cost differential tariff. The proposed tariff was suspended on September 1, 1993. Additional information was requested by Orders dated October 21, 1993 and December 17, 1993 and was duly filed by Grayson. An informal conference was held on March 21, 1994 to discuss Grayson's proposal to include indirect labor and non-labor related overheads in calculating its cost differential for underground service. Additional information was filed on April 1, 1994. On April 14, 1994, Grayson filed a letter waiving its rights to a hearing, instead relying on the facts and data already submitted.

807 KAR 5:041, Section 21, contains the Commission's regulations pertaining to underground electric distribution systems for new residential customers. This regulation requires the utility to file its policy with respect to underground service and further requires that payments made by applicants for underground service shall not be more than the estimated average cost differential between aerial and underground services.

Grayson computed its cost differential by identifying direct labor and material costs from selected work orders. It then applied an administrative cost factor of 178 percent to labor costs, resulting in a cost differential of \$4.18 per foot. Further review revealed that many of the administrative expenses would not appear to increase when a customer selected underground service, such as indirect labor and meeting expenses. Nevertheless, the cost allocation method selected by Grayson resulted in the assessment of considerably more administrative costs to underground construction compared to aerial.¹ Grayson was afforded several opportunities to demonstrate that there was a cost justified basis for assessing more of these costs to underground construction. In its April 1, 1994 response to questions arising from the informal conference, Grayson indicated that it assumes there is a direct relationship between direct costs and indirect labor; however, they were unable to demonstrate the relationship. The relationship between direct labor and general administrative overheads, such as office utility bills and meeting expenses, was not addressed.

The underground cost differential is very similar to "Special Charges" which are defined in 807 KAR 5:006, Section 8, as ". . . non-recurring charges to recover customer-specific costs incurred which would otherwise result in monetary loss to the utility or increased rates to other customers to whom no benefits accrue from

¹ Cost support, page 51 and 52. Administrative cost allocated to aerial is \$3.57 per foot (\$6359.41/1782 feet). Administrative cost allocated to underground is \$6.07 per foot (\$2833.05/467 feet).

the service provided." Section 2 of the regulation goes on to state that special charges ". . . shall relate directly to the service performed or action taken and shall yield only enough revenue to pay the expenses incurred in rendering the service." Therefore, the Commission finds that the underground cost differential should only include those costs that would actually increase if a customer selects underground service. Administrative expenses that are fixed and common to both underground and aerial construction will not result in increased rates to customers with aerial services, and should not be included in the underground cost differential.

Grayson's proposed tariff filing² identifies several overheads which do bear a direct relationship to labor, such as Workers' Compensation insurance and Federal Insurance Contributions Act taxes. As these expenses vary directly with labor, the Commission finds that their inclusion in the cost differential is appropriate. Grayson identifies the total of these labor-related overheads to be \$0.485195 per dollar. Application of this factor results in an underground cost differential³ of \$2.32.

² First Revised Sheet 48.

³ Cost differential calculated from data on Sheets 48, 51, and 52 of the proposed tariff filing, as follows:

Underground	=	(\$360.35 + 1.458315 (\$1591.60))/467'
	=	\$5.74/ft.
Aerial	=	(\$886.99 + 1.458315 (\$3572.70))/1782'
	=	\$3.42/ft.
Cost Differential	=	\$5.74/ft. - \$3.42/ft. = \$2.32/ft.

IT IS THEREFORE ORDERED that:

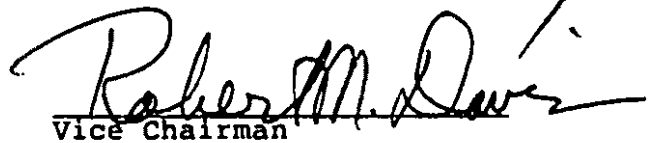
1. Grayson's proposed underground cost differential tariff filed on July 26, 1993 be and it hereby is disapproved.

2. Grayson shall refile its underground cost differential tariff to reflect a cost differential of \$2.32 within 20 days of the date of this Order.

Done at Frankfort, Kentucky, this 12th day of May, 1994.

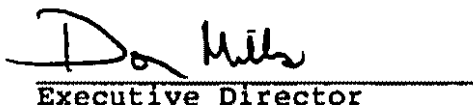
PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director