

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE TARIFF FILING OF LOUISVILLE GAS AND)	
ELECTRIC COMPANY TO OFFER EXCESS OR)	CASE NO. 95-276
NONSTANDARD SERVICE TO ITS ELECTRIC AND)	
GAS CUSTOMERS)	

O R D E R

On May 24, 1995, Louisville Gas and Electric Company ("LG&E") filed proposed gas and electric tariffs to establish an optional monthly charge for customers who request nonstandard or excess service facilities. The purpose of the tariffs is to offer customers a financial alternative to the payment of a one-time contribution for the particular facilities that they select to satisfy their operational needs.

By Order dated June 22, 1995, the Commission suspended the proposed tariffs pending further investigation. That investigation included a request for additional information by Order dated September 13, 1995, and an informal conference held on October 10, 1995.

In response to issues raised in the Commission's September 13, 1995 Order, and at the informal conference, LG&E revised its proposed tariffs. A second informal conference was held on October 19, 1995 for the purpose of discussing LG&E's revised tariffs. The most significant tariff revisions proposed by LG&E include: (1) a narrower, more specific definition of excess facilities; (2) language which specifically excludes electric line extensions and

gas main extensions from the scope of the tariffs; and (3) establishing two rate formulas, one for the fixed term recovery of the investment in facilities and the other for the perpetual recovery of operating expenses. Under each formula, the rate will be multiplied by the actual investment in facilities to calculate the customers' monthly charge.

LG&E has designated the rate for the recovery of the investment in facilities as a "Capital Recovery Charge." It includes depreciation expense discounted to reflect the fixed term and a return based on LG&E's most recent rate of return as authorized by the Commission. In the event the authorized return subsequently changes, LG&E will revise the Capital Recovery Charge. The Operating Expense rate will be paid by all customers requesting excess facilities irrespective of whether such facilities are paid for up front or over a fixed term. This rate provides for the recovery of property taxes, insurance and maintenance expenses.

LG&E indicated that the proposed tariffs will require special terms and conditions to ensure its complete recovery of the costs of the excess or nonstandard facilities and to maintain equity between customers who choose such facilities and those who do not. LG&E proposed to maintain separate accounting for all investments, revenues, and expenses associated with the proposed tariffs to ensure proper cost allocation. LG&E stated that all costs of excess or nonstandard facilities will be fully supported by only those customers selecting such facilities, with no detriment to other customers.

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that the revised tariffs, as described above, are generally acceptable. However, despite the narrower, more specific definition included therein, the tariffs could be applied to facilities that are not truly optional to the customer¹ or in circumstances not envisioned at the present time. For these reasons the second sentence in the definitions of the electric tariff should be modified to provide that, "Applications of excess facilities include, and are limited to . . ." For the gas tariff this sentence should be modified to read "Applications of excess facilities include, and are limited to, duplicate or check meters." With these changes to the tariffs, they are acceptable.²

The investigation of these tariffs has included LG&E's proposed accounting for the transactions that will occur thereunder. In instances where a customer chooses to make a one-time contribution, LG&E intends to treat the payment as a contribution-in-aid-of-construction ("CIAC"). This mirrors its historic accounting treatment for customers' requests for nonstandard or excess facilities. However, when the customer elects to pay a monthly facilities charge over a term of years,

¹ This concern is highlighted by the fact that LG&E originally intended the tariffs to apply to electric line extensions and gas main extensions.

² LG&E should also change the last sentence of Item 5 under Special Terms and Conditions to refer to ". . . the manner prescribed under Item 4."

LG&E maintains that the transaction does not constitute a contribution and the amounts received over time should be recorded monthly as revenue. In support of this accounting treatment, LG&E cited similar accounting treatment utilized by utilities in other jurisdictions as well as statements from its own accounting staff.

Considering the financial substance of the transaction under the proposed tariff, the accounting treatment utilized by other utilities in other jurisdictions, and the statements by LG&E's accounting staff, the Commission concludes that LG&E will receive a CIAC whether the payment is an up-front lump-sum or a monthly charge over time. In either instance, the utility installs nonstandard facilities and recovers the cost from the customer. The period of time over which the cost is recovered has no relationship to the life of the facilities and changing the timing of the cash flow does not change the substance of the transaction.

The Commission believes that the concept of substance over form requires LG&E to account for each transaction arising under the tariff as a CIAC and a Miscellaneous Deferred Debit at the time the customer signs a contract under the tariff. To reflect this accounting treatment, the first sentence under the heading Excess Facilities Charge in both the gas and electric tariffs should be modified to provide that: "The customer shall pay for excess facilities through a contribution in aid of construction, which may take the form of a one-time payment or a fixed term Capital Recovery Charge based on the installed cost of the facilities."

IT IS THEREFORE ORDERED that:

1. LG&E's revised tariffs, as modified herein, are hereby approved for service rendered on and after the date of this Order.
2. LG&E shall maintain separate accounting records for the transactions that occur under the tariffs, as described in its application.
3. LG&E shall account for each transaction occurring under the tariff as a CIAC and a Miscellaneous Deferred Debit at the time the customer signs a contract under the tariff.
4. Within 30 days of the date of this Order, LG&E shall file, pursuant to 807 KAR 5:011, Section 2, four copies of the electric and gas tariffs approved herein.

Done at Frankfort, Kentucky, this 21st day of November, 1995.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director