

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RIDER AMRP OF THE)	CASE NO.
UNION LIGHT, HEAT AND POWER COMPANY)	2002-00107

O R D E R

On March 27, 2002, The Union Light, Heat and Power Company (ULH&P)¹ filed an application to establish its Accelerated Mains Replacement Program (AMRP) Rider. The AMRP Rider Mechanism was approved by the Commission in its January 31, 2002 Order in Case No. 2001-00092.² The present application is the first AMRP Rider filing by ULH&P under the approved mechanism.

In Case No. 2001-00092, the Commission determined that the AMRP Rider filing would be submitted on March 31 of each year and the Commission would attempt to process the filing within 60 days. However, the Commission reserved the option of extending the review period due to the need for a hearing and the possibility of an extensive review. On April 22, 2002, the Commission issued a procedural schedule to review the AMRP filing. The schedule provided for discovery, intervenor testimony, a hearing, and extended the review period up to and including August 31, 2002.

¹ ULH&P, a wholly owned subsidiary of The Cincinnati Gas and Electric Company (CG&E), is an electric and gas utility that purchases, sells, stores, and transports natural gas in Boone, Campbell, Gallatin, Grant, Kenton, and Pendleton counties in Kentucky.

² Case No. 2001-00092, Adjustment of Gas Rates of The Union Light, Heat and Power Company.

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention (AG), requested and was granted full intervention. A hearing was held at the Commission s offices in Frankfort, Kentucky on July 9, 2002. The case now stands submitted for a decision.

In its March 27, 2002 filing, ULH&P determined the revenue requirement for its first AMRP Rider to be \$851,613. ULH&P prepared and submitted the formats showing its determination of the revenue requirement in accordance with the Commission s January 31, 2002 Order in Case No. 2001-00092. ULH&P s proposed revenue requirement is composed of the AMRP Rider calculations for the 3-month period from October 1, 2000 through December 31, 2000³ and the AMRP Rider calculations for calendar year 2001.

On May 31, 2002, the AG filed notice that he would not be filing testimony in the current proceeding. The AG renewed his previous objections to the AMRP Rider, concerning whether the Commission could grant surcharge recovery to ULH&P of the AMRP-associated costs outside a general rate case. The AG also objects to any recovery of the AMRP costs sought in this proceeding because all of the costs were incurred before ULH&P obtained a Certificate of Public Convenience and Necessity (CPCN) for the project. The AG argues that under KRS 278.020, ULH&P could not undertake the construction contemplated in the AMRP without a CPCN. The AG further reasons that ULH&P may not recover the AMRP costs in the absence of the CPCN.

³ The test period in Case No. 2001-00092 was the 12-months ending September 30, 2000. The 3-month period covers the gap between the end of the test period in that gas rate and the beginning of the first year of the AMRP.

On June 28, 2002, ULH&P filed a reply to the AG's objections. ULH&P states that the Commission has already considered and disposed of the AG's objections to the AMRP Rider in Case No. 2001-00092 and that the doctrine of *res judicata* bars the re-litigation of these objections. ULH&P disagrees with the AG's contention that ULH&P needed to have the AMRP project certificated before it could recover the costs through the AMRP Rider. ULH&P notes that until the Commission issued the January 31, 2002 Order in Case No. 2001-00092, it was not aware a CPCN would be needed for the AMRP. ULH&P argues that the AG's objection should be overruled because the fact a utility has incurred expenses prior to the issuance of a CPCN does not preclude the utility from recovering such costs through its rates.

The Commission must determine whether the AG is precluded from re-litigating the issue of whether the Commission has the authority to approve the AMRP Rider by renewing the objections that he made in Case No. 2001-00092, the proceeding in which the Commission approved the AMRP Rider. We find that he is.

Kentucky Courts have long held that *res judicata* applies to quasi-judicial acts of public, executives, or administrative officers, and boards acting in within their jurisdiction, Williamson v. Public Service Commission, Ky., 174 S.W.2d 526, 529 (1943) unless there has been a significant change of conditions or circumstances that have occurred between two successive administrative hearings. Bank of Shelbyville v. Peoples Bank of Bagdad, Ky., 551 S.W.2d 234, 236 (1977).

The doctrine of *res judicata* bars re-litigation of issues that have been litigated or should have been litigated in a prior case between the same parties. The objections

that the AG is attempting to renew in this proceeding were, as ULH&P asserts, considered and rejected by the Commission in Case No. 2001-00092.

The doctrine of *res judicata* actually encompasses two subparts, claim preclusion and issue preclusion, otherwise known as collateral estoppel. Yeoman v. Commonwealth, Ky., 983 S.W.2d 459, 464 (1998). Claim preclusion bars a party from re-litigating a previously adjudicated cause of action, and issue preclusion bars the parties from relitigating any issue actually litigated and finally decided in an earlier action. Id. at 465.

Claim preclusion requires that there be an identity of the parties, an identity of the causes of action, and a resolution of the action based on the merits. If these elements are not met, *res judicata* will not act as a bar. The Commission finds that this proceeding does not meet the requirements of claim preclusion because there is no identity of the causes of action. Newman v. Newman, Ky., 451 S.W.2d 417, 419 (1970). The previous proceeding was a general rate case wherein ULH&P requested approval of the AMRP Rider. The Commission approved the Rider and this is the first Rider application. The essential elements required for issue preclusion to act as a bar are: there is identity of issues, there is a final decision or judgment on the merits, the estopped party was given a fair opportunity to litigate the issue, and the issue in the prior action was necessary to the court's or agency's final decision. Id. at 465. See also Moore v. Commonwealth, Ky., 954 S.W.2d 317, 319 (1997). The Commission finds that these essential elements are present and that *res judicata* is applicable to, and precludes, the AG's renewed arguments on the Commission's authority to authorize the AMRP Rider.

The AG's argument that ULH&P's failure to obtain a CPCN bars it from recovering the AMRP costs is not precluded by the doctrine of *res judicata*; however, we do not find the argument persuasive. In Case No. 2000-00481,⁴ the Commission stated:

We did not state in our Order nor do we take the position that the costs of a utility facility or system improvement may be disallowed in a rate proceeding merely because of the utility's failure to obtain a Certificate for the facility or system improvement. Such action would constitute an assessment in excess of that provided in KRS 278.990(1) and would be unlawful.

Regardless of whether a utility obtains a CPCN prior to construction, it will be permitted to recover through rates only its reasonably incurred expenses. We have reviewed the reasonableness of the facilities and the associated costs of the AMRP in this proceeding.

CALCULATION OF THE AMRP RIDER

The approach used by ULH&P to determine the revenue requirement is consistent with the Commission's decision in Case No. 2001-00092. However, the Commission has identified specific items where ULH&P's calculations are not reasonable or do not reflect the proper treatment for the determination of the AMRP Rider revenue requirement. Based on our review, the Commission makes the following modifications to the AMRP Rider revenue requirement calculations:

⁴ Case No. 2000-00481, The Application of Northern Kentucky Water District (A) for Authority to Issue Parity Revenue Bonds in the Approximate Amount of \$16,545,000; and (B) A Certificate of Convenience and Necessity for the Construction of Water Main Facilities, Rehearing Order dated October 8, 2001.

Period Covered by First AMRP Rider

As noted previously, ULH&P's first AMRP Rider revenue requirement covers the 3-month period from October 1, 2000 through December 31, 2000 and calendar year 2001. ULH&P defends the inclusion of the October to December 2000 information in the revenue requirement determination by noting that this information was required by the Commission. ULH&P notes that in the Commission's March 13, 2002 Order in Case No. 2001-00092, it was requested to supplement the first AMRP Rider filing with information concerning plant, accumulated depreciation, and deferred income taxes relating to retirements and replacements occurring between September 30, 2000 and the beginning of the AMRP.⁵

In Case No. 2001-00092, ULH&P testified that it began the AMRP in 2001.⁶ In its March 13, 2002 Order in that case, the Commission stated:

The first AMRP Rider filing will cover calendar year 2001. However, the investment reflected in base rates is as of September 30, 2000. In order to avoid including in the AMRP Rider the effects of any retirements or replacements of bare steel and cast iron mains and services not a part of the AMRP, the Commission finds that supplemental information will be needed. ULH&P should supplement the first AMRP Rider filing with information concerning plant, accumulated depreciation, and deferred income taxes relating to the retirements and replacements occurring between September 30, 2000 and the beginning of the AMRP.⁷ (emphasis added)

While the Commission requested information covering the period between the end of the test period in the rate case and the beginning of the AMRP, at no time did the

⁵ Response to the Commission Staff's First Data Request dated April 30, 2002, Item 2(a).

⁶ See Case No. 2001-00092, ULH&P's Brief at 3; Torpis Direct Testimony at 10.

⁷ See Case No. 2001-00092, March 13, 2002 Order at 26.

Commission tell ULH&P that it would be allowed to include any plant additions, retirements, or replacements occurring in that period in the AMRP Rider revenue requirements determination. The effects of those additions, retirements, and replacements will be recognized in ULH&P's next general gas rate case.

Therefore, the Commission finds that only projects begun in 2001 should be included in the AMRP Rider revenue requirement determination.

Original Cost of Plant in Service

In its application, ULH&P proposed that the AMRP original cost of plant in service as of December 31, 2001 was \$5,427,147. This balance reflects additions of plastic mains and services, steel mains, and plastic customer service lines, reduced by retirements and replacements of plastic mains and services, steel mains and services, copper mains and services, and cast iron mains. While the majority of the projects were started in 2001, some projects that were started in June and October 2000 were included.

As discussed previously in this Order, the Commission has found that only projects that began in 2001 should be included in the determination of the AMRP revenue requirement. The Commission has excluded the projects that were started in 2000, both additions and retirements/replacements, and determined that the AMRP original cost of plant in service is \$5,537,419.

Accumulated Depreciation and Depreciation Expense

ULH&P proposed that the accumulated depreciation balance associated with the AMRP as of December 31, 2001 was a negative \$1,058,083.⁸ ULH&P also proposed that the depreciation expense as of December 31, 2001 for the AMRP was \$159,385.⁹ Included in the determination of the accumulated depreciation balances were adjustments due to retirements or replacements that included projects that began in October 2000. The depreciation expense of \$159,385 was determined using the new depreciation rates approved by the Commission in Case No. 2001-00092. The depreciation expense added to the accumulated depreciation balance was determined using the old depreciation rates ULH&P had in effect prior to Case No. 2001-00092.¹⁰

The AMRP Rider provides ULH&P the opportunity to earn a return on and to recover the costs of its accelerated investment in mains and services associated with its AMRP. The AMRP plant investment costs and specific operating expenses are not reflected in ULH&P's existing base rates. However, the mains and services to be retired and replaced by the AMRP, along with associated operating expenses, are reflected in ULH&P's existing base rates. In order to avoid the recovery of both the retirements/replacements and the new AMRP investments, the effect of the retirements

⁸ The negative balance occurs because the adjustments to accumulated depreciation due to retirements or replacements were larger than the depreciation expense for the current 12-month period.

⁹ Application, Determination of Annual Revenue Requirement Page 1 for December 31, 2001. The sum of the eight accounts is \$159,385, which was verified at the hearing. See Transcript of Evidence (T.E.), July 9, 2002, at 9.

¹⁰ T.E., July 9, 2002, at 10. The depreciation expense added to the accumulated depreciation balance was \$171,307. See Application, Determination of Annual Revenue Requirement Page 5 for December 31, 2001.

and replacements are to be netted against the new investments. ULH&P's treatment of new AMRP utility plant investments and corresponding retirements and replacements appears to have been done properly. This is not the case concerning the calculation of depreciation expense.

ULH&P's utilization of two sets of depreciation rates in the AMRP Rider revenue requirement determination is unreasonable. ULH&P has offered no justification for reflecting the old depreciation rates in the accumulated depreciation balance while using the new depreciation rates to calculate the depreciation expense recognized in the revenue requirement. The same depreciation rates should be used to calculate the depreciation expense. In Case No. 2001-00092, the Commission recognized the impact of the new depreciation rates by reducing the level of accumulated depreciation used to determine the jurisdictional gas rate base and included a level of depreciation expense in the revenue requirement based on the new depreciation rates. The Commission finds that it is appropriate and reasonable to follow the same approach in the calculation of the AMRP Rider revenue requirement.

In addition, the 2001 depreciation expense for the AMRP does not correspond to the types of utility plant additions documented for the AMRP. During 2001, ULH&P added plastic mains, steel mains, plastic services, and plastic customer service lines.¹¹ The depreciation expense shown in 2001¹² for plastic and steel mains is not comparable with the level of new plant additions. ULH&P showed no depreciation expense for the

¹¹ Application, Determination of Annual Revenue Requirement Page 3 for December 31, 2001.

¹² Application, Determination of Annual Revenue Requirement Page 5 for December 31, 2001, column titled Depreciation Expense for Current 12 Months.

new plastic services and plastic customer service lines. The majority of the 2001 depreciation expense relates to cast iron/copper mains and services, which were not added in conjunction with the AMRP.

The Commission has recalculated the depreciation expense to be utilized in the AMRP Rider revenue requirement, using the new depreciation rates approved in Case No. 2001-00092 and the completed AMRP plant additions for 2001. The Commission finds it is appropriate to recognize the first year depreciation expense on the AMRP plant additions completed in 2001. The Commission has determined that the depreciation expense to be included in the AMRP Rider revenue requirement calculations is \$100,410.

The Commission's recalculation of the depreciation expense does not include any reductions in depreciation expense for utility plant retired or replaced as a result of the AMRP. Due to the problems encountered with ULH&P's original calculations, this offsetting amount could not reasonably be calculated. However, such an offset will be included in subsequent AMRP Rider filings.

The Commission has also recalculated the accumulated depreciation balance to be utilized in the AMRP Rider revenue requirement. The accumulated depreciation balance reflects the Commission's recalculated depreciation expense for the 2001 AMRP activity reduced by the adjustments due to retirements and replacements related to 2001 projects.¹³ As previously discussed in this Order, only 2001 projects are eligible

¹³ As filed by ULH&P, the accumulated depreciation had a beginning balance. See Application, Determination of Annual Revenue Requirement Page 5 for December 31, 2001. However, since 2001 was the first year of the AMRP, there should not have been a beginning accumulated depreciation balance associated with the AMRP plant investments.

for inclusion in the AMRP Rider revenue requirement. Based on these considerations, the Commission finds that the accumulated depreciation balance is a negative \$827,435.

Deferred Income Taxes Associated with Referenced Plant in Service

ULH&P proposed to include \$85,260¹⁴ in deferred income taxes in the rate base for AMRP purposes. The determination of this balance for deferred income taxes was consistent with the other components of ULH&P's AMRP Rider filing, reflecting the inclusion of the 2000 projects and the corresponding depreciation expense. However, the Commission's decision to exclude the 2000 projects from the AMRP Rider revenue requirement and the recalculation of the depreciation expense would have an impact on the appropriate level of deferred income taxes. The record does not contain the information necessary to make a reasonable determination of the amount that should be utilized for deferred income taxes. Therefore, for purposes of the first AMRP Rider revenue requirement calculation, the Commission finds it is reasonable not to include an amount for deferred income taxes. In subsequent ARMP Rider filings, ULH&P should continue to include a reasonable amount for deferred income taxes.

Account No. 887 Maintenance Expense

ULH&P proposed to include a reduction of \$65,412 in operating expenses as part of the AMRP Rider revenue requirements. This reduction in Account No. 887 Maintenance Expense reflects the reduction of certain operating expenses associated

¹⁴ Application, Determination of Annual Revenue Requirement Page 1 for December 31, 2001. The \$85,260 reflects the sum of a negative \$1,549 associated with investment tax credits and a positive \$86,809 associated with liberalized depreciation.

with the implementation of the AMRP. ULH&P filed detailed workpapers supporting the determination of the \$65,412 proposed reduction. The Commission has reviewed these workpapers and finds that the proposed reduction is reasonable and should be included in the determination of the AMRP Rider revenue requirement.

Recap

Using the approach prescribed in Case No. 2001-00092 and reflecting the decisions discussed herein, the Commission has determined that the AMRP Rider revenue requirement is \$791,461. The Commission finds this revenue requirement to be the reasonable level for the first AMRP Rider. Appendix B to this Order contains the Commission's calculation of the AMRP Rider revenue requirement.

ALLOCATION OF REVENUE REQUIREMENT

ULH&P proposed to allocate its proposed \$851,613 AMRP Rider revenue requirement using a percentage of revenue approach reflecting the base revenues from Case No. 2001-00092. The AMRP Rider rates for Rate RS Residential Service and Rate GS General Service would be a per customer charge. The AMRP Rider rates for Rate FT-L Firm Transportation Service and Rate IT Interruptible Service would be a volumetric charge. ULH&P's proposal for the four rate schedules is consistent with the Commission's decision in Case No. 2001-00092.

The Commission finds the allocation approach proposed by ULH&P to be reasonable, and has utilized that approach in determining rates reflecting the \$791,461 revenue requirement found reasonable herein. Those rates are shown in Appendix A to

this Order. The Commission reminds ULH&P that the AMRP Rider is to be separately disclosed on customers bills.¹⁵

OTHER ISSUES

Effective Date

ULH&P proposed that its AMRP Rider become effective for bills rendered on and after May 31, 2002, its first billing cycle for June 2002. The Commission's April 22, 2002 Order extending the review period for this first AMRP Rider addressed the May 31, 2002 proposed date. Further, ULH&P's proposal to make the AMRP Rider effective for bills rendered immediately after the date of the Commission's Order is unreasonable. ULH&P's approach would result in the AMRP Rider being applied to bills for service prior to the date the AMRP Rider became effective. The Commission finds that the AMRP Rider approved herein should be effective for service rendered, not bills rendered. Therefore, the Commission finds that the rates found reasonable herein should be effective for service rendered on and after August 31, 2002.

Subject to Refund

The AG has appealed the Commission's decision in Case No. 2001-00092 authorizing the AMRP Rider to the Franklin Circuit Court. The outcome of that appeal is not known at this time. Sound public policy requires that the Commission recognize the uncertainties that exist during the appeal process. Therefore, the Commission finds it reasonable to and will require all AMRP Rider revenues collected from the date of this Order be subject to refund.

¹⁵ Case No. 2001-00092, January 31, 2002 Order at 78.

Progress Reports

In its January 31, 2002 Order in Case No. 2001-00092, the Commission determined that certain periodic information relating to the construction under the AMRP would be required.¹⁶ The periodic information includes the submission of 3-month progress reports for each AMRP project, with the filing dates dependent upon the starting date of each project. In its AMRP Rider application, ULH&P requests that this requirement be modified and that it be allowed to file the 3-month progress reports at the end of each calendar quarter. In support of its request, ULH&P notes that it expects to have 25 active AMRP projects during 2002. Under the current requirements, ULH&P will be required to file up to 25 reports quarterly at various dates throughout the reporting period. ULH&P believes this requirement represents an increase in administrative effort and expense to both it and the Commission.¹⁷

The Commission finds ULH&P's request to be reasonable. It was not the intent of the Commission to make the monitoring of the AMRP burdensome. The fact that each AMRP project could start on a different date, with that date determining the filing deadlines for the 3-month progress reports, would result in additional administrative effort and expense for both ULH&P and the Commission. ULH&P has indicated that it will provide all the information previously required with these quarterly filings, so the Commission's need for information on the AMRP progress should be met.

¹⁶ Id., Appendix G.

¹⁷ Response to the Commission Staff's First Data Request dated April 30, 2002, Item 8.

The Commission believes that it is necessary to clarify how many copies of these progress reports should be filed. We find that an original and 3 copies of these quarterly progress reports should be adequate for the Commission's needs.

Securing AMRP Contractors

All the AMRP work performed during 2001 was awarded to contractors using competitive bidding procedures.¹⁸ In order for ULH&P to ensure that it had sufficient resources for the 2002 AMRP projects, ULH&P negotiated the prices with contractors based on average prices.¹⁹ Throughout this proceeding, ULH&P has been questioned extensively about the approaches it used to award AMRP projects to contractors. At the public hearing, ULH&P stated that as all the 2001 work had been secured using competitive bids this was not an issue for the period covered by the first AMRP Rider filing. ULH&P agreed that the issue of using competitive bidding or negotiation was an issue for the AMRP projects in 2002 and future years. ULH&P suggested that an informal conference be scheduled with the AG and the Commission Staff to discuss the merits of competitive bidding versus negotiation for work in future years.²⁰

The Commission believes that, due to the nature of the issues associated with competitive bidding versus negotiation, ULH&P's suggestion of an informal conference is appropriate. ULH&P should submit to the AG and the Commission Staff potential dates for this informal conference by October 1, 2002.

¹⁸ T. E., July 9, 2002, at 72.

¹⁹ Id. at 51 and 74. The average prices took into consideration the bids received for the 2001 AMRP projects.

²⁰ Id. at 75-76.

Annual AMRP Rider Filing Formats

The Commission prescribed the annual AMRP Rider filing formats as part of its January 31, 2002 Order in Case No. 2001-00092. In its application, ULH&P requested permission to modify pages 4 and 5 of the formats to clearly show how certain values were determined for the AMRP Rider revenue requirement determination. ULH&P also requested a deviation from Administrative Regulation 807 KAR 5:001, Section 8(2), that it be allowed to file an original and 3 copies of its application, due to the voluminous construction information that would be part of the application.

The Commission has reviewed these requests and finds that both are reasonable and should be granted. In addition, after reviewing this first AMRP Rider filing, the Commission has determined that certain modifications to the formats are warranted. The identification of the formats has been revised for easier reference. A new format has been included to better document the determination of the current period depreciation expense. The revised formats are included in Appendix C of this Order, and should be used in all subsequent AMRP Rider filings.

In its first annual AMRP Rider filing, ULH&P included extensive documentation concerning the AMRP projects undertaken in Ohio by CG&E. The Commission believes it is unnecessary for the Ohio project information to be filed as part of the Kentucky annual AMRP Rider filings. ULH&P should be prepared in future annual filings to make the Ohio AMRP project information available if needed, and only include the Ohio information in the annual filing if it directly corresponds to an AMRP project included in the Kentucky filing.

SUMMARY

The Commission, after consideration of all matters of record and being otherwise sufficiently advised, finds that:

1. The rates set forth in Appendix A are the fair, just, and reasonable rates for ULH&P to charge under the AMRP Rider for service rendered on and after August 31, 2002.

2. The rates proposed by ULH&P would produce revenue in excess of that found reasonable herein and should be denied.

3. The requested change to the submission dates for the 3-month AMRP progress reports, as prescribed in the Commission's January 31, 2002 Order in Case No. 2001-00092, is reasonable and should be granted.

4. The requested deviation from Administrative Regulation 807 KAR 5:001, Section 8(2), concerning the number of copies of future annual AMRP Rider filings is reasonable and should be granted.

IT IS THEREFORE ORDERED that:

1. The rates in Appendix A are approved for service rendered on and after August 31, 2002.

2. The rates proposed by ULH&P are denied.

3. ULH&P shall, within 20 days of the date of this Order, file its revised Rider AMRP tariff sheets setting for the rates approved herein.

4. All AMRP Rider revenues collected from the date of this Order shall be subject to refund, pending the final determination of the Commission's Orders in Case No. 2001-00092. ULH&P shall maintain its records in such manner as will enable it, the

Commission, or any of its customers, to determine the amounts to be refunded and to whom due in the event a refund is ordered by the Commission.

5. The 3-month AMRP progress reports shall be filed with the Commission at the end of each quarter ending March 31, June 30, September 30, and December 31 for all AMRP projects currently in progress or completed during that quarter. On these dates ULH&P shall file an original and 3 copies of the progress report.

6. An informal conference with the AG and Commission Staff shall be scheduled to discuss issues associated with competitive bidding versus negotiation of AMRP contract work, as discussed in this Order.

7. ULH&P shall file the annual AMRP Rider filing formats as set forth in Appendix C hereto in lieu of the formats authorized in Case No. 2001-00092.

8. ULH&P shall separately disclose on customers bills the AMRP Rider approved herein.

Done at Frankfort, Kentucky, this 30th day of August, 2002.

By the Commission

ATTEST:

W. H. Fowler
Deputy Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2002-00107 DATED August 30, 2002

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

RIDER AMRP
ACCELERATED MAIN REPLACEMENT PROGRAM RIDER

Rate RS, Residential Service	\$0.57 / month
Rate GS, General Service	\$2.50 / month
Rate DGS, Distributed Generation Service	\$0.00 / month
Rate FT-L, Firm Transmission Service Large	\$0.0041 / CCF
Rate IT, Interruptible Transportation Service	\$0.0017 / CCF
Rate SSIT, Spark Spread Interruptible Transportation Service	\$0.0000 / CCF

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2002-00107 DATED August 30, 2002

AMRP Rider Revenue Requirement

	<u>Investment Reflected in Base Rates</u>	<u>AMRP for 12-Months Ending 12/31/01</u>	<u>Cumulative AMRP to Date</u>
Return on Investment:			
Original Cost of Plant in Service			
Mains Cast Iron/Copper	4,142,000	(479,200)	(479,200)
Mains Steel	58,473,000	2,361,919	2,361,919
Mains Plastic	29,133,000	2,629,492	2,629,492
Services Cast Iron/Copper	3,059,000	(34,927)	(34,927)
Services Steel	3,388,000	(28,680)	(28,680)
Services Plastic	36,599,000	719,595	719,595
Meter Relocations	0	0	0
Customer Service Lines	<u>0</u>	<u>369,220</u>	<u>369,220</u>
A. Total Original Cost of Plant in Service	<u>134,794,000</u>	<u>5,537,419</u>	<u>5,537,419</u>
Accumulated Depreciation			
Mains Cast Iron/Copper	3,558,000	(479,200)	(479,200)
Mains Steel	19,377,000	(52,495)	(52,495)
Mains Plastic	3,235,000	17,993	17,993
Services Cast Iron/Copper	3,464,000	(53,890)	(53,890)
Services Steel	2,092,000	(46,770)	(46,770)
Services Plastic	13,475,000	(226,402)	(226,402)
Meter Relocations	0	0	0
Customer Service Lines	<u>0</u>	<u>13,329</u>	<u>13,329</u>
B. Total Accumulated Depreciation	<u>45,201,000</u>	<u>(827,435)</u>	<u>(827,435)</u>
C. Deferred Income Taxes Associated with Referenced Plant in Service			
Investment Tax Credit	17,746	0	0
Liberalized Depreciation	<u>52,062</u>	<u>0</u>	<u>0</u>
Net Rate Base for AMRP Purposes (A B C)	<u>89,523,192</u>	<u>6,364,854</u>	<u>6,364,854</u>
Authorized Rate of Return, adjusted for Income Taxes	<u>11.885%</u>	<u>11.885%</u>	<u>11.885%</u>
D. Return on AMRP Related Investment	<u>10,639,831</u>	<u>756,463</u>	<u>756,463</u>
Operating Expenses:			
Depreciation Expense			
Mains Cast Iron/Copper	169,000	0	0
Mains Steel	1,696,000	4,773	4,773
Mains Plastic	862,000	47,838	47,838
Services Cast Iron/Copper	43,000	0	0
Services Steel	117,000	0	0
Services Plastic	1,321,000	34,470	34,470
Meter Relocations	0	0	0
Customer Service Lines	0	13,329	13,329
Maintenance Expense Account 887	<u>1,400,193</u>	<u>(65,412)</u>	<u>(65,412)</u>
E. Total Operating Expenses	<u>5,608,193</u>	<u>34,998</u>	<u>34,998</u>
Total Annual Revenue Requirements (D + E)	<u>16,248,024</u>	<u>791,461</u>	<u>791,461</u>

APPENDIX B (continued)

Supporting Calculations for AMRP Rider Revenue Requirement Page 1

Work Order Reference	Project Start Depreciation Date	Costs for 12 First Year Month Period	Eligible Depreciation Expense	for Rate
Mains Plastic:				
A4299	July-01	12,090	12,090	2.96%
A4447	May-01	31,395	31,395	2.96%
A4582	September-01	148,283	148,283	2.96%
A4691	February-01	1,760	1,760	2.96%
A4692	May-01	52,118	52,118	2.96%
A4693	April-01	35,667	35,667	2.96%
A4734	May-01	28,558	28,558	2.96%
A4735	May-01	36,413	36,413	2.96%
A4736	May-01	26,431	26,431	2.96%
A4737	May-01	54,265	54,265	2.96%
A4738	May-01	74,180	74,180	2.96%
A4928	July-01	37,602	37,602	2.96%
A4929	May-01	24,563	24,563	2.96%
A4931	July-01	7,623	7,623	2.96%
A5002	June-01	5,975	5,975	2.96%
A5264	April-01	43,764	43,764	2.96%
A5277	May-01	21,894	21,894	2.96%
A5468 *	June-01	389,723	0	2.96%
A5469 *	June-01	421,276	0	2.96%
A5470 *	June-01	213,104	0	2.96%
A5725	July-01	715,343	715,343	2.96%
A5838	May-01	70,771	70,771	2.96%
A6074	June-01	1,486	1,486	2.96%
A6075	June-01	120,849	120,849	2.96%
A6351	September-01	22,567	22,567	2.96%
A6401	November-01	9,110	9,110	2.96%
A6649	November-01	25,797	25,797	2.96%
A7993	November-01	<u>7,636</u>	<u>7,636</u>	2.96%
Total Mains Plastic		2,640,243	<u>1,616,140</u>	
Less Retirement/Replacements				
A7131	September-01	<u>(10,751)</u>		
Net Total Mains Plastic		<u>2,629,492</u>		

APPENDIX B (continued)

Supporting Calculations for AMRP Rider Revenue Requirement Page 2

Work Order Reference	Project Start Depreciation Date	Costs for 12 First Year Month Period	Eligible Depreciation Expense	for Rate
Mains Steel:				
A5002	June 01	164,276	164,276	2.90%
A5277	May-01	327	327	2.90%
A5468 *	June-01	589,470	0	2.90%
A5469 *	June-01	1,259,506	0	2.90%
A5470 *	June-01	<u>370,996</u>	<u>0</u>	2.90%
Total Mains Steel		2,384,575	<u>164,603</u>	

Less Retirements/Replacements					
A7131	September-01	<u>(22,656)</u>			
Net Total Mains Steel		<u>2,361,919</u>			
Services Plastic:					
A5220	June-01	449,516	449,516		3.61%
A5272	May-01	<u>505,323</u>	<u>505,323</u>		3.61%
Total Services Plastic		954,839	<u>954,839</u>		
Less Retirements/Replacements					
78052	January-01	<u>(235,244)</u>			
Net Total Services Plastic		<u>719,595</u>			
Customer Service Lines Plastic:					
A5221	June-01	232,403	232,403		3.61%
A5273	May-01	<u>136,817</u>	<u>136,817</u>		3.61%
Total Customer Service Lines Plastic		<u>369,220</u>	<u>369,220</u>		

Notes: Work Orders A5468, A5469, and A5470 were not completed as of December 31, 2001; therefore, no depreciation expense was calculated.

As there were no beginning balances for Accumulated Depreciation for AMRP projects, the first year depreciation expense plus the impact of retirements and replacements equals the ending balances for Accumulated Depreciation.

The use of the same depreciation rate for Services Plastic and Customer Service Lines Plastic is the same approach followed by ULH&P.

APPENDIX B (continued)

Other Retirements and Replacements

Supporting Calculations for AMRP Rider Revenue Requirement Page 3

<u>Work Order Reference</u>	<u>Project Start Date</u>	<u>Retire/Replace Costs for 12 Month Period</u>
Mains Cast Iron/Copper: A7131	September 01	(479,200)
Services Cast Iron/Copper: 78052	January-01	(34,927)
Services Steel: 78052	January-01	(28,680)

Notes: As there were no additions under the AMRP in these types of utility plant, only the Retirements and Replacements are included in the determination of the utility plant in service for the AMRP Rider Revenue Requirement.

In addition, as there were no beginning balances for Accumulated Depreciation for these AMRP projects related to removals, the impact of the retirements and replacements equals the ending balances for Accumulated Depreciation.

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2002-00107 DATED August 30, 2002

AMRP RIDER ANNUAL FILING REPORTS

This appendix includes the filing formats ULH&P will prepare when submitting its application for the annual adjustment to the AMRP Rider. ULH&P will not modify any filing format without prior consent of the Commission Staff.

AMRP Form 1.0	Determination of Annual Revenue Requirement
AMRP Form 1.1	Rate of Return and Overall Project Summary
AMRP Form 2.0	Plant in Service Added Through AMRP
AMRP Form 2.1	Plant in Service Retired or Removed Through AMRP
AMRP Form 3.0	Accumulated Depreciation and Depreciation Expense Through AMRP Page 1 Calculation of Accumulated Depreciation Page 2 Calculation of Depreciation Expense
AMRP Form 4.0	Customer Service Lines and Maintenance Expense Account 887

THE UNION LIGHT, HEAT AND POWER COMPANY
ANNUAL AMRP RIDER FILING
For the 12 Months Ending {Date}
Determination of Annual Revenue Requirement

	<u>Investment Reflected In Base Rates</u>	<u>AMRP for 12-Months Ending {Date}</u>	<u>Cumulative AMRP To Date</u>
<u>Return on Investment:</u>			
Original Cost of Plant in Service			
Mains Cast Iron/Copper	4,142,000		
Mains Steel	58,473,000		
Mains Plastic	29,133,000		
Services Cast Iron/Copper	3,059,000		
Services Steel	3,388,000		
Services Plastic	36,599,000		
Meter Relocations	0		
Customer Service Lines	<u>0</u>		
A. Total Original Cost of Plant in Service	<u>134,794,000</u>		
Accumulated Depreciation			
Mains Cast Iron/Copper	3,558,000		
Mains Steel	19,377,000		
Mains Plastic	3,235,000		
Services Cast Iron/Copper	3,464,000		
Services Steel	2,092,000		
Services Plastic	13,475,000		
Meter Relocations	0		
Customer Service Lines	<u>0</u>		
B. Total Accumulated Depreciation	<u>45,201,000</u>		
C. Deferred Income Taxes Associated with Referenced Plant in Service			
Investment Tax Credit	17,746		
Liberalized Depreciation	<u>52,062</u>		
Net Rate Base for AMRP Purposes (A B C)	<u>89,523,192</u>		
Authorized Rate of Return, adjusted for Income Taxes	<u>11.885%</u>	<u>11.885%</u>	<u>11.885%</u>
D. Return on AMRP Related Investment	<u>10,639,831</u>		
<u>Operating Expenses:</u>			
Depreciation Expense			
Mains Cast Iron/Copper	169,000		
Mains Steel	1,696,000		
Mains Plastic	862,000		
Services Cast Iron/Copper	43,000		
Services Steel	117,000		
Services Plastic	1,321,000		
Meter Relocations	0		
Customer Service Lines	0		
Maintenance Expense Account 887	<u>1,400,193</u>		
E. Total Operating Expenses	<u>5,608,193</u>		
Total Annual Revenue Requirements (D + E)	<u>16,248,024</u>		

Increase (Decrease) in Annual Revenue Requirements

**THE UNION LIGHT, HEAT AND POWER COMPANY
ANNUAL AMRP RIDER FILING
For the 12 Months Ending {Date}
Rate of Return and Overall Project Summary**

Calculation of Authorized Rate of Return:

	<u>% of Total Capital</u>	<u>Cost Rate Allowed</u>	<u>Weighted Aver. Cost of Capital</u>	<u>Gross-Up Factor</u>	<u>Authorized Rate of Return</u>
Long-Term Debt	26.857%	7.296%	1.959%		1.959%
Short-Term Debt	20.415%	3.545%	0.724%		0.724%
Common Equity	52.728%	11.000%	5.800%	1.586546	9.202%
Totals	100.000%		8.483%		11.885%

Overall Project Summary:

	Miles Replaced under AMRP	Total Cost of Replacement under AMRP	Percentage of Total AMRP Completed to Date
Original from Information submitted in Case No. 2001-00092	209	\$112,186,118	NA
Status of Total AMRP as of this Filing			

With each annual filing, ULH&P will prepare an Overall Project Summary. This schedule will compare information originally submitted in Case No. 2001-00092 with the current status of the AMRP as of the date of the filing.

**THE UNION LIGHT, HEAT AND POWER COMPANY
ANNUAL AMRP RIDER FILING
For the 12 Months Ending {Date}
Plant in Service Added Through AMRP**

Project Identifier (Work Order Reference # or Contract Reference)	Date Project Started	Percentage Completed	Costs for Current 12 Months	Cumulative Total Project Costs
Mains Plastic (List Separately)				
Mains Steel (List Separately)				
Services Plastic (List Separately)				
Meter Relocations (List Separately)				
Customer Service Lines (List Separately)				
Totals				

All projects and/or jobs performed in association with AMRP will be included in this schedule. Each project or job will be identified by its Work Order Reference Number or a Contract Reference. ULH&P will maintain supporting documentation to support any cost shown on this schedule. Additional pages may be required for this supporting schedule.

**THE UNION LIGHT, HEAT AND POWER COMPANY
ANNUAL AMRP RIDER FILING
For the 12 Months Ending {Date}
Plant in Service Retired or Removed Through AMRP**

Project Identifier (Retirement Work Order Reference #)	Date Project Started	Percentage Completed	Total Investment Retired or Removed	Cost of Removal on Investment Retired or Removed	Total Adjustments Due to Retired or Removed
Mains Plastic (List Separately)					
Mains Steel (List Separately)					
Mains Cast Iron (List Separately)					
Mains Copper (List Separately)					
Services Plastic (List Separately)					
Services Steel (List Separately)					
Services Copper (List Separately)					
Meter Relocations (List Separately)					
Customer Service Lines Plastic (List Separately)					
Totals					

All retirements or replacements performed in association with AMRP will be included in this schedule. Each retirement or replacement will be identified by its Retirement Work Order Reference Number. ULH&P will maintain supporting documentation to support any cost shown on this schedule. Additional pages may be required for this supporting schedule.

THE UNION LIGHT, HEAT AND POWER COMPANY
ANNUAL AMRP RIDER FILING
For the 12 Months Ending {Date}
Accumulated Depreciation and Depreciation Expense Through AMRP

Calculation of Accumulated Depreciation:

Depreciable Plant in Service	Beginning AMRP Accumulated Depreciation Balance	Net Depreciation Expense for Current 12 Months	Adjustments Due to Retirement or Replacement	Ending AMRP Accumulated Depreciation Balance
Mains Cast Iron/Copper	(479,200)			
Mains Steel	(52,495)			
Mains Plastic	17,993			
Services Cast Iron/Copper	(53,890)			
Services Steel	(46,770)			
Services Plastic	(226,402)			
Meter Relocations	0			
Customer Service Lines	13,329			
Totals	(827,435)			

The balances shown for AMRP accumulated depreciation will be shown on this schedule. The amounts shown for Net Depreciation Expense for Current 12 Months will be shown on AMRP Form 3.0, Page 2. ULH&P will maintain supporting documentation to support any cost shown on this schedule. Additional pages may be required for this supporting schedule.

**THE UNION LIGHT, HEAT AND POWER COMPANY
ANNUAL AMRP RIDER FILING
For the 12 Months Ending {Date}
Accumulated Depreciation and Depreciation Expense Through AMRP**

Calculation of Net Depreciation Expense for Current 12 Months:

Depreciable Plant in Service	Depreciable Balance	Depreciation Rate	Depreciation Expense for Current 12 Months	Adjustments to Depreciation Expense Due to Retirement or Replacement	Net Depreciation Expense for Current 12 Months
Mains Cast Iron/Copper					
Mains Steel					
Mains Plastic					
Services Cast Iron/Copper					
Services Steel					
Services Plastic					
Meter Relocations					
Customer Service Lines					
Totals					

The calculation of depreciation expense will be shown on this schedule. The Net Depreciation Expense for Current 12 Months will be carried forward to the appropriate column on AMRP Form 3.0, Page 1. ULH&P will maintain supporting documentation to support any cost shown on this schedule. Additional pages may be required for this supporting schedule.

**THE UNION LIGHT, HEAT AND POWER COMPANY
ANNUAL AMRP RIDER FILING
For the 12 Months Ending {Date}
Customer Service Lines and Maintenance Expense Account 887**

Customer Service Lines:

Project Identifier (Work Order Reference # or Contract Reference)	Date Project Started	Cost of Lines Added Due to AMRP	Cost of Lines Added Due to Normal Operations
(List Each Project Separately)			
Totals			

This schedule will reflect those customer service lines ULH&P assumes responsibility for in conjunction with AMRP and those assumed during the normal repairs, maintenance, or replacement. Only those customer service lines ULH&P assumes responsibility over in conjunction with AMRP can be included for recovery through the AMRP Rider mechanism. ULH&P will maintain documentation to support any cost shown on this schedule. Additional pages may be required for this supporting schedule.

Maintenance Expense Account 887:

In support of the amounts reported for Account 887, ULH&P will submit a detailed schedule of the identified expenses. This schedule will include, at a minimum: a document or journal reference, the name of the vendor, the date of the transaction, the cost allocated to ULH&P's gas operations, and a description of the transaction. Any expenses included in this supporting schedule resulting from an allocation of costs from CG&E or Cinergy Services will also be detailed in the manner described. ULH&P will maintain any additional supporting documentation to support any expense shown on this schedule.