

COMMONWEALTH OF KENTUCKY  
BEFORE THE ENERGY REGULATORY COMMISSION

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In the Matter of

AN ADJUSTMENT OF ELECTRIC RATES )  
OF THE UNION LIGHT, HEAT & POWER ) CASE NO. 7675  
COMPANY )

F I N A L O R D E R

On November 30, 1979, the Union Light, Heat and Power Company (Union Light) filed a notice of intent to adjust its electric rates and charges to produce an annual increase in revenues of \$5,458,650. Union Light proposed that the rates become effective on February 19, 1980, the date the increase in the cost of electricity purchased from its supplier, Cincinnati Gas & Electric Company (C.G. & E.), was to become effective pursuant to an interim order of the Federal Energy Regulatory Commission (FERC).

In order to determine the reasonableness of the proposed rates, the Commission, by Order dated December 6, 1979, set a public hearing to be held January 8, 1980. A subsequent hearing in this matter was held February 11, 1980.

Parties intervening in this matter included the Attorney General's Division of Consumer Intervention; Interlake Inc.; the City of Covington; Michele Geraci, a member of the Covington Neighborhood's Action Coalition; and Complainants/Movants Clara Mills, et al (represented by the Office of Kentucky Legal Service Programs and Northern Kentucky Legal Aid Society).

The first of two Interim Orders was issued and effective February 19, 1980, which authorized Union Light to charge the increased rates, subject to refund with interest; the sole purpose being to permit Union Light to recover the increase in wholesale electric power purchased from C.G. & E.

Following an order of the FERC dated May 2, 1980, which tentatively approved a settlement agreement for C.G. & E., the Energy Regulatory Commission of Kentucky issued its second Interim Order in this matter. The C.G. & E. settlement reduced the annual impact on Union Light's purchased power costs by \$2,039,680 to \$3,418,970, and was effective retroactively by refund to February 19, 1980. The Kentucky Commission's Order of June 12, 1980 approved Union Light's revised set of rates which reflected the reduction in purchased power costs and further required that Union Light should submit a plan of refund to its customers following its receipt of the refund from its supplier, C.G. & E. In its final decision issued June 12, 1980, the FERC affirmed its position of May 2, 1980 which as previously stated granted C.G. & E. the settlement rate increase.

#### REFUND

As was ordered, Union Light submitted a refund plan which was filed June 25, 1980. The plan as submitted made provision to refund the excess amounts collected from Union Light's customers for service rendered during the period February 19, 1980, the date the settlement rates were retroactively effective, through June 12, 1980, the date this Commission approved Union Light's revised rates. The Commission approves the plan as proposed with respect to the refunding of the principle amounts and the method of refund. However, the Commission finds that Union Light's proposals regarding interest payments and the length of time necessary for completion of the refund are not acceptable.

The Applicant proposed to apply interest to the principle amount of refunds in a manner which reflected a customer's refund as two distinct portions identified by time. Thus, Applicant proposed to apply a 15.39% interest rate to charges received for service rendered on and after February 19, 1980 through May 23, 1980, from the date of collection of these charges until the date of the refund. The basis or underlying purpose for using this time frame is to reflect the interest applicable to overcharges arising from C.G. & E. actions.

Secondly, the Applicant proposed to apply an 8% interest rate to charges received for service rendered on and after May 24, 1980 through June 11, 1980, from the date of collection of these charges until the date of the refund. The underlying purpose for using this time frame is to reflect the interest applicable to the portion of overcharges directly attributable to the inherent delay or time lag in C.G. & E.'s actions and the Kentucky Commission's Interim Order establishing the reduction or settlement rates.

The 15.39% interest rate is the rate of interest that C.G. & E. refunded to Union Light Heat & Power. As such the Commission approves this rate for charges received for service rendered on and after February 19, 1980 through May 23, 1980, from the date of collection through the date of the refund as proposed by the Applicant.

The 8% interest rate is the rate Union Light erroneously cited as the rate the Commission was required to use under KRS 360.040. The law cited here applies to judgements for damages and is not applicable to this Commission which has quasi-legislative capacity in ratemaking matters. The Commission, therefore, finds that a more equitable interest rate for charges received for service rendered on and after May 24, 1980 through June 11, 1980 is 10% in that it strikes a reasonable balance between the interests of ratepayers and the utilities under current market conditions.

Moreover, as a part of its plan, Union Light proposed to complete the refund within ninety (90) days of the Commission's approval of a refund method. Under KRS 278.190 (4), the utility is required to complete a refund within sixty (60) days and, therefore, it is ordered that Union Light shall make and complete said refund within that time.

#### RATE DESIGN

Within its rate classifications, Union Light has a "declining block" rate structure. This type of structure reflects a rate-making concept which is that the large users of electricity within a classification are entitled to a volume or quantity discount on energy usage above a specific point. With Union Light's proposal to apply a

flat percentage increase in rates to pass-through the increase in purchased power costs from C.G. & E., this same relationship was preserved. This means that indirectly Union Light proposed that the large users of energy within a classification were entitled to a discount on this increase from C.G. & E. while the low users should pay more than the increased cost in electricity on a per unit basis.

As energy costs the same per unit for the last unit produced as the first and this entire increase is related to energy or purchased power, the Commission found in its Interim Order of February 19, 1980, that the pass-through should be applied on a per unit basis rather than the percentage basis originally proposed. The Commission finds that this method of applying the increase encourages energy conservation on the part of the consuming public and is, therefore, in the public interest. Moreover, adoption of this methodology is consistent with the newly-enacted federal standards regarding rate design as contained in the National Energy Act of 1978. For these reasons, the Commission hereby reaffirms its original finding that Union Light's present increase should be applied to its customers on a per unit basis as opposed to a percentage basis.

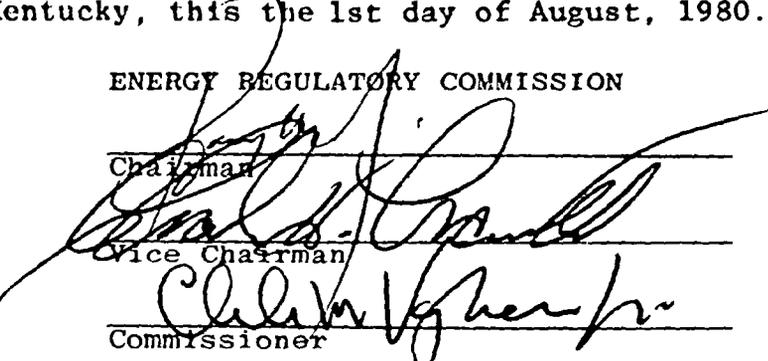
IT IS THEREFORE ORDERED, that the rates and charges set out in Appendix "A" to the Interim Order dated June 12, 1980, effective on and after February 19, 1980, are hereby approved as the final rates in this matter.

IT IS FURTHER ORDERED, that Union Light be and it hereby is directed to complete the refund directed herein within sixty (60) days of the issue date of the revised rates.

IT IS FURTHER ORDERED, that Union Light be and it hereby is directed to file with the Commission within thirty (30) days of the completion of the refund authorized herein a Certificate of Compliance stating that all refunds have been made and the amounts refunded by rate schedule.

Done at Frankfort, Kentucky, this the 1st day of August, 1980.

ENERGY REGULATORY COMMISSION

  
Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary