COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN ADJUSTMENT OF ELECTRIC RATES OF THE UNION LIGHT, HEAT AND POWER COMPANY	)))	CASE NO. 8509

O R D E R

PROCEDURAL BACKGROUND

On May 24, 1982, The Union Light, Heat and Power Company ("ULH&P") filed notice with this Commission of its intention to adjust its rates and charges for electric service to provide additional revenues of $17.2 million in two phases. The Commission suspended the proposed Phase II rates and charges for a period of 5 months beyond the time when they would otherwise go into effect.

Phase I of the increase, $11.96 million, was requested to directly offset the first phase purchased power increase from ULH&P's parent and supplier, Cincinnati Gas and Electric Company ("CG&E"). Phase II, $5.2 million, was requested to offset the second phase purchased power increase of $3.3 million as well as increases in ULH&P's other operating expenses and to provide the opportunity to earn its requested return on net investment in utility operations.

CG&E filed its application with the Federal Energy Regulatory Commission ("FERC") on April 14, 1982, wherein it sought to increase its wholesale electric rates in two phases. The FERC allowed the first phase increase to go into effect June 15, 1982, subject to refund. This action increased ULH&P's purchased power cost $11.96 million on an annual basis. Accordingly, in its Order of June 21, 1982, the Commission allowed ULH&P to increase its rates as proposed, subject to refund, to recover the $11.96 million increased purchased power cost from CG&E.

The FERC suspended CG&E's second phase request for 5 months. A settlement conference regarding CG&E's request was held in the FERC's offices in Washington, D.C., on July 13, 1982. This Commission formally intervened and participated in the settlement negotiations. As a result of the settlement process the FERC has tentatively agreed to accept only the first phase of CG&E's requested wholesale purchased power rate increase and to dismiss the second phase request of $3.3 million. Under the terms of the tentative settlement agreement CG&E's first phase wholesale purchased power rates are to remain in effect for 1 year after the date of agreement.

A public meeting was held on July 7, 1982, in the Covington Holmes High School in Covington, Kentucky. A public hearing was held in the Commission's offices in Frankfort, Kentucky, on September 16, 1982. Parties intervening included the Attorney

General's Consumer Protection Division ("AG"), the City of Covington ("Covington") and Newport Steel Corporation ("Newport Steel").

Briefs were filed with the Commission by October 12, 1982, and all information requested has been submitted.

This Order addresses Phase II of ULH&P's increase and its request for a purchased power adjustment clause and an interruptible service rider. The rates and charges established herein produce an increase in annual revenues of $1,870,000 under Phase II and a total increase in annual revenues of $13,830,000 under both Phase I and Phase II.

ANALYSIS AND DETERMINATION

TEST PERIOD

ULH&P proposed and the Commission has accepted the 12-month period ending December 31, 1981, as the test period in this case.

NET INVESTMENT

ULH&P proposed a Kentucky jurisdictional net investment rate base of $54,457,299.(1) The rate base has been accepted as proposed with the following exceptions:

Cash Working Capital

ULH&P proposed a minimum cash working capital requirement of $1,248,588.(2) The allowance was composed of 1/8 of adjusted annual operation and maintenance expenses less the cost of purchased power. This allowance has been reduced by $14,497 to reflect adjustments made by the Commission to ULH&P's annual operation and maintenance expenses, resulting in a cash working requirement of $1,234,091.

Accumulated Deferred Taxes

The Commission has reduced ULH&P's accumulated deferred taxes by $16,264 from $4,309,975(3) to $4,293,711. This adjustment is made to recognize the Commission's amortization of excess deferred taxes addressed in a later part of this Order and is consistent with the adjustment the Commission made to bring depreciation expense and depreciation reserve to an end-of-period level.

Based on the above adjustments, the Commission finds the appropriate Kentucky jurisdictional net investment rate base devoted to electric operations to be as follows:

Electric Plant In Service	$79,003,853
Construction Work In Progress	2,605,735
Cash Working Capital	1,234,091
Materials and Supplies	106,419
Prepayments	65,051
Subtotal	$83,015,149
Less:	
Accumulated Provision for Depreciation	$24,008,961
Accumulated Deferred Taxes	4,293,711
3% Investment Tax Credit	253,411
Subtotal	$28,556,083
Net Investment Rate Base	$54,459,066

The Commission has traditionally determined ULH&P's revenue requirements based on investor-supplied capital plus job development investment tax credits ("JDIC"). ULH&P is a combination utility providing both electric and gas service. ULH&P purchases electric power from its parent, CG&E, and buys gas from the Columbia Transmission System. Since ULH&P is a combination utility, its capital must be allocated between its electric and gas operations to determine the appropriate capital valuation for each type of utility service.

Two capital allocation methods have been used in ULH&P's past cases. The first method is the net plant ratio. Under this method the percentage of capital allocated to either gas or electric operations is the ratio of net gas plant or net electric plant to the total company net utility plant at the end of the test period. The net plant ratio ignores utility investment in working capital which differs between gas and electric operations and is variable over time. The second method is the net investment ratio. Under this method the percentage of capital allocated to either gas or electric operations is the ratio of net investment rate base for either the gas or electric operations to the total company net investment rate base at the end of the test period. This method gives weight to the utility's investment in working capital, but due to wide fluctuations in the volume of prepayments in comparison to changes in investor-supplied and cost-free capital, an allocation of capital on this basis can produce results which provide an improper allocation of either the gas or electric investor-supplied working capital requirements.

Therefore, the Commission is of the opinion that ULH&P's adjusted Kentucky jurisdictional rate base is a more reasonable valuation of investment to be used in reaching revenue requirements.

REVENUES AND EXPENSES

ULH&P's net operating revenues from electric operations for the test period ended December 31, 1981, were $3,911,307.(4) In order to reflect current operating conditions for Kentucky jurisdictional electric operations, ULH&P proposed numerous adjustments to revenues and expenses resulting in an adjusted test period net operating loss of $2,810,348.(5) This loss was later amended to $1,118,064(6) to reflect the effect of the tentative settlement agreement entered into by CG&E and the other parties of record with the FERC regarding ULH&P's electric operations. In its analysis of the electric operations, the Commission finds ULH&P's proposed adjustments to be generally proper and has accepted them as amended with the following exceptions:

Flow Through of CG&E Phase I Rates

The Commission in its Order of June 21, 1982, allowed ULH&P to flow through the increased cost of purchased power from CG&E. The flow-through has the effect of increasing ULH&P's operating revenues by approximately $11,964,348.(7) Therefore, the Commission has increased ULH&P's proposed gross operating revenues by this amount.

AFUDC

ULH&P proposed to include in operating revenues $121,642 of allowance for funds used during construction ("AFUDC"). As the AFUDC rate is based on the cost of capital, the Commission has applied the overall cost of capital granted herein to that portion of ULH&P's construction work in progress balance on which AFUDC is calculated. This increases the adjustment by $113,861 to $235,503.(8)

Injuries and Damages

ULH&P proposed to include in its adjusted operating expenses its test period expenses for injuries and damages. Because of the variability in injuries and damages expenses, the Commission is of the opinion that a 10-year average level of these expenses for the period 1972 through 1981 is more appropriate than the test period amount proposed. Moreover, in the determination of average injuries and damages, the Commission has excluded $515,976 of expense associated with the Beverly Hills Supper Club fire incurred during the 10-year period. The Commission is of the opinion that the above-mentioned unusual and non-recurring item should not be borne by the ratepayers. This expenditure is the result of unforseen and extraordinary circumstances which should properly be reflected in long-range risk expectations of stockholders. Thus, injuries and damages expenses have been reduced by $109,022 to $66,704.

Institutional Advertising

For rate-making purposes the Commission has disallowed $18,000(9) of expenses for institutional advertising incurred during the test period, as required by 807 KAR 5:016, Section 4, which states:

> Advertising Disallowed. (1) Advertising expenditures for political, promotional, and institutional advertising by electric or gas utilities shall not be considered as producing a material benefit to the ratepayers and, as such, those expenditures are expressly disallowed for ratemaking purposes.

Interest Expense

ULH&P proposed interest charges applicable to the Kentucky jurisdictional electric operations of $2,728,311.[10] The Commission, using ULH&P's net investment rate base and CG&E's consolidated weighted cost of debt, has determined interest charges for rate-making purposes to be $2,837,317.[11]

PSC Assessment

ULH&P proposed to increase its test period expense for its PSC assessment tax by $9,540[12] to normalize for its proposed revenue increase and to reflect the increase in the PSC assessment tax rate to .9078 mills. The Commission has further increased this expense by $11,048 to adjust for the latest increase in the assessment rate from .9078 mills to 1.0459 mills. Therefore, the Commission has determined the adjusted level of this expense to be $20,588.

Income Tax Effect of Commission Adjustments

The net effect of the Commission adjustments to revenues and expenses is an increase in taxable operating income of $11,971,316.[13] Applying the composite tax rate of 49.24 percent for state and federal income taxes to this amount results in an increased tax expense of $5,894,676.

Accelerated Recovery of Excess Tax Deferrals

The federal tax laws require regulatory commissions to normalize, for rate-making purposes, the income tax effects of differences between book and tax depreciation arising from use of accelerated depreciation for tax purposes. Thus, in the initial years of an asset's life the book tax expense for rate-making purposes is greater than the actual federal tax liability. In the later years the book tax expense is less than the actual tax liability.

The theoretical argument for providing deferred taxes is that ratepayers should be required to pay a normalized level of income tax expense through rates. The normalized level is based on the tax rate in effect at the time the deferral occurs and assumes that the tax rate will remain constant. This has not in fact occurred. The Revenue Act of 1978 effective January 1, 1979, reduced the corporate tax rate of 48 percent to 46 percent. Thus, the differences between the amount deferred at rates greater than the current 46 percent rate can be characterized as excess deferred taxes.

Based on the foregoing analysis, the Commission concludes that excess deferred taxes of ULH&P of $81,320[14] that resulted from the change in tax rates should be amortized over a 5-year period for rate-making purposes to better insure that the surplus is credited to the ratepayers who originally paid the taxes at 48 percent. Therefore, the Commission will increase ULH&P's Kentucky jurisdictional electric operations operating income by $16,264. The Commission has made a corollary adjustment to reduce ULH&P's accumulated deferred taxes to recognize 1 year's amortization of the excess deferred taxes.

The Commission notes that if the tax rate is increased in the future, equity will demand that any deficiency in the deferred tax reserve will have to be provided through rates at that time.

The Commission finds that ULH&P's adjusted test period operations are as follows:

	Actual	Adjustments	Adjusted
Operating Revenues[15]	$82,332,166	$20,153,952	$102,486,118
Operating Expenses	78,420,859	18,867,180	97,288,411
Net Operating Income	$ 3,911,307	$ 1,286,772	5,197,707

RATE OF RETURN

Capital Structure

Mr. James R. Mosley, witness for ULH&P, proposed the use of the adjusted consolidated capital structure of CG&E as of December 31, 1981.[16] Adjustments were made to reflect the sale of 3,000,000 shares of additional common equity in February 1982 and the sale of 2,000,000 shares in August 1982.[17] The adjusted capital structure also reflects the sale in March 1982 of $15,000,000 of pollution control revenue bonds, the sale in July 1982 of $100,000,000 of First Mortgage Bonds, the retirement at maturity of $20,000,000 of First Mortgage Bonds in January 1982, and the repayment of short-term commercial paper from the proceeds of long-term financing.[18] Additionally, some of the proceeds from the sale of the 2,000,000 shares of common equity in August 1982 were used to retire short-term debt.[19] The above adjustments made to CG&E's consolidated capital structure as of December 31, 1981, result in a capital structure containing 34.4 percent common equity, 12.7 percent preferred stock and 52.9 percent debt.[20] The Commission is of the opinion that this is a reasonable capital structure to use in determining a fair rate of return for ULH&P.

Cost of Debt

Mr. Mosley proposed an embedded cost of debt of 9.85 percent.[21] This cost rate reflects CG&E's December 31, 1981, embedded cost rate adjusted for subsequent bond issues.[22] The embedded cost of preferred stock to consolidated CG&E is 9 percent.[23] The Commission is of the opinion that these cost rates are reasonable and reflect ULH&P's current capital costs.

Cost of Equity

ULH&P's requested rates were based on an overall rate of return of 10.74 percent.[24] Mr. Donald I Marshall, Manager of the Rate and Economic Research Department of CG&E, stated that a 14 percent return on equity applied to CG&E's actual, consolidated end of test year capital structure and embedded cost rates of debt and preferred stock provided a 10.79 percent overall return on capital.[25] On June 7, 1982, ULH&P requested permission to stipulate the overall rate of return of 10.74 percent.[26] This stipulated return was less than the 11.15 percent rate authorized in the last electric rate case and less than the 10.92 percent authorized in the last gas rate case.[27] The Commission's Order of July 27, 1982, did not allow ULH&P to stipulate a rate of return because procedures for stipulation by the parties were not yet in place.[28] The Commission noted that its decisions must be based upon the entire record, including evidence offered by an intervenor not willing to be bound by the stipulations of other parties.[29]

Mr. Mosley stated that the cost of common equity for consolidated CG&E was within the range of 18.2 percent to 18.9 percent.[30] He developed these cost rates using a discounted cash flow analysis and a comparable earnings approach.[31] Mr. Mosley used two approaches to develop a dividend growth rate to be used in his discounted cash flow analysis. He used a 30 percent earnings retention ratio, based on a historical 20-year average, and a 16.84 percent allowed return on equity to calculate a dividend growth rate using the retention ratio times rate of return or "b x r" method.[32] However, CG&E's actual retention ratio for 1980 and 1981 was under 10 percent and the average retention ratio for the past 10 years was approximately 20 percent.[33] The 16.84 percent return on equity was granted by the Public Utilities Commission of Ohio to CG&E in its most recent rate case.[34] The most recent return on common equity granted by this Commission was 14 percent.(35) Using the Ohio Commission's return on equity and the 30 percent retention ratio produces an inflated dividend growth rate compared to a growth rate calculated using a 14 percent return on equity and a 10 percent to 20 percent retention ratio.

Mr. Mosley also developed a dividend growth rate using the Compound Growth Method. He calculated the compound growth rate of dividends from 1976 to 1981 and arrived at a growth rate of 4.92 percent.(36) However, making this calculation for any other historical period since 1972 would produce a lower growth rate.(37) Mr. Mosley's estimated cost of common equity was biased upward by an inflated dividend growth rate. Also, Mr. Mosley used $15.90 as the price of CG&E common stock in his discounted cash flow computation.(38) That was the average market price from July 1981 to June 1982.(39) The price of CG&E common stock in the October 12, 1982, Wall Street Journal was 19 3/8 per share. CG&E common stock has been trading above 18 since late August.(40)

Mr. Mosley made no adjustment for risk differences between ULH&P and CG&E. However, the Commission recognizes the risk differences between a system which distributes and transmits electric power and one which constructs and operates electric generating facilities. Therefore, the Commission is of the opinion that a range of returns on common equity of 14 percent to 15.5 percent is fair, just and reasonable. The Commission has determined that a return on equity in this range will not only allow

ULH&P to attract capital at reasonable costs to insure continued service and provide for necessary expansion to meet future requirements, but also will provide for the lowest possible cost to the ratepayer.

ULH&P stated that its aim was "to achieve Commission authorization for the dollar amount of the increase notwithstanding any adjustments made by the Commission to the original amounts submitted by Union."[41] ULH&P's proposed $1,870,025 increase over its wholesale power cost increase provides a return on equity of 14.36 percent on the adjusted test year approved herein. The Commission finds the 14.36 percent return on equity to be reasonable.

Rate of Return Summary

Applying a cost of common equity of 14.36 percent to the equity component of the capital structure approved herein, a 9 percent cost of preferred stock applied to the preferred stock component approved herein and a 9.85 percent cost of debt applied to the debt component approved herein produces a weighted cost of capital of 11.29 percent. This cost of capital produces a rate of return on ULH&P's net investment rate base of approximately 11.29 percent which the Commission concludes is fair, just and reasonable.

REVENUE REQUIREMENT

The required net operating income, based on the rate of return found fair, just and reasonable herein, is approximately $6,146,795. To achieve this level of operating income, ULH&P is entitled to increase its rates and charges to produce additional revenues on an annual basis of $1.87 million, determined as follows:

Adjusted Net Operating Income	$5,197,707
Reasonable Net Operating Income (42)	6,146,795
Deficiency	$ 949,088
Deficiency Adjusted for Income Taxes	$1,869,756

COST OF SERVICE

ULH&P submitted an embedded class cost of service study through its witness, Mr. Peter Van Curen. The study indicated considerable disparity between ULH&P's class rates of return. The rate of return ranged from a low of 1.31 percent for the RS class to a high of 36.44 percent for the DS class with the overall ULH&P rate of return shown to be 10.44 percent.

The Commission agrees with ULH&P that some of the rate classes are not contributing a reasonable share of the cost to serve them. However, ULH&P did not choose to file a time differentiated cost of service study in this proceeding. This Commission is concerned that a time differentiated study may result in substantially different class rates of return. Therefore, in future rate proceedings ULH&P shall file a time differentiated class cost of service study.

REVENUE ALLOCATION

Based on the results of the class cost of service study, ULH&P has proposed to allocate a larger portion of the increased revenues to the RS and TS classes than to the other rate classes.

The RS class would receive a greater proportion of the increased revenue than it has historically been assigned. Mr. George Gerasimou, Newport Steel's witness, proposed to allocate a greater portion of the increased revenues, than they would have historically been assigned, to the rate classes with the lowest rates of return.

The Commission finds the ULH&P proposed revenue allocation to be consistent with its guidelines delineated in Case No. 8429, Kentucky Power Company's last rate case. The Commission remains of the opinion that the relative risk associated with serving some classes of customers is greater than with others. The Commission does not agree with Newport Steel's reasoning that the annual demand ratchet compensates the utility for the increased risk associated with serving the TS class. As business cycles have varied in duration from 12 to 48 months since World War II, an annual demand ratchet cannot protect the utility from cyclical variations in economic activity. Therefore, the increased revenues should be allocated in proportions similar to those proposed by ULH&P.

INTERRUPTIBLE SERVICE RIDER

ULH&P submitted an Interruptible Service Rider ("Rider IS") to comply with the Commission's Final Order in Administrative Case 203, The Determinations with Respect to the Ratemaking Standards Identified in Section 111(d)(1)-(6) of the Public Utility Regulatory Policies Act of 1978. ULH&P's witness, Mr. Donald Marshall asked the Commission not to adopt the Rider IS until the next rate case when both an embedded and marginal cost of service study would be filed.

The Commission agrees that a marginal cost of service study will provide ULH&P the opportunity to design a rate which accounts for all cost savings resulting from service interruption. However, ULH&P has already developed a rate design based on savings from service interruption during periods of emergency energy purchases and of fuel cost savings during system peaks. Because of the potential benefits to both ULH&P and its customers from this rate design the Commission will adopt the proposed Rider IS.

The Commission notes a calculation error in developing the IS Rider rate schedule. ULH&P's calculations reflected an incorrect weighting for the cost components used in determining the demand credit. This error has been corrected.

RATE DESIGN

ULH&P had proposed that the Phase I increase be an energy adder and that the demand charge and energy charge be adjusted in the final Order in this case. None of the intervenors objected to ULH&P's methodology in determining the demand and energy charges. The Commission is of the opinion that the methodology employed by ULH&P should be accepted with the following exception:

In the DS Tariff the demand and energy charge should be adjusted to be proportional with the originally proposed Phase II charges which would reflect the demand charge of ULH&P's wholesale supplier, CG&E.

PURCHASED POWER ADJUSTMENT CLAUSE

ULH&P proposed a Purchased Power Adjustment Clause (Rider P & Rider PPA) to which the AG and Newport Steel objected. Until the Commission promulgates a regulation regarding purchased power adjustment clause, the proposed Rider P and Rider PPA of ULH&P should be denied.

FINDINGS AND ORDER

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The rates and charges in Appendix A are the fair, just and reasonable rates for ULH&P to charge its customers in rendering electric service, and are subject to refund with interest pending a final FERC Order regarding ULH&P's wholesale purchased power tariffs.

2. The Purchased Power Adjustment Clause proposed by ULH&P should be denied pending the Commission's promulgation of a regulation governing this matter.

IT IS THEREFORE ORDERED that the Union Light, Heat and Power Company be and it hereby is authorized to place into effect the rates and charges in Appendix A for service rendered on and after November 14, 1982.

IT IS FURTHER ORDERED that The Union Light, Heat and Power Company shall maintain its records in such a 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.

IT IS FURTHER ORDERED that the Purchased Power Adjustment Clause proposed by The Union Light, Heat and Power Company be and it hereby is denied.

IT IS FURTHER ORDERED that within 20 days of the date of this Order, The Union Light, Heat and Power Company shall file its tariff sheets setting forth the rates approved herein.

Done at Frankfort, Kentucky, this 15th day of November, 1982.

PUBLIC SERVICE COMMISSION

Chairman

Katherine Randall
Vice Chairman

Commissioner

ATTEST:

Secretary

FOOTNOTES

(1) ULH&P Exhibit No. 7, page 1 of 4.

(2) Ibid., page 2 of 4.

(3) Ibid., page 1 of 4 (accerlerated amortization plus liberalized depreciation).

(4) ULH&P Exhibit No. 6, page 1 of 11.

(5) Ibid.

(6) Transcript of Evidence, September 16, 1982, pages 66-69.

(7) Revised ULH&P Exhibit No. 11, page 1 of 2.

(8) Response to staff request of July 12, 1982, Item 3. ($2,085,941 x 11.29% = $235,503.)

(9) Response to staff request no. 1, Item 19A.

(10) Donald Marshall's prefiled testimony, pages 8 and 9. ($54,457,299 x 5.01% = $2,728,311.)

(11) $54,459,066 x 5.21% = $2,837,317.

(12) ULH&P Exhibit No. 6, page 10 of 11.

(13) Net of AFUDC.

(14) Response to staff request of July 12, 1982, Item 1.

(15) Operating Revenues include the allowance for AFUDC. The tax expense included in operating expenses is net of the adjustment for deferred taxes.

(16) Summary of Mosley testimony, page i.

(17) ULH&P Exhibit No. 17.

(18) Ibid.

(19) Transcript of Evidence, September 16, 1982, page 48.

(20) ULH&P Exhibit No. 17.

(21) Summary of Mosley testimony, page i.

(22) Ibid.

(23) Ibid.

(24) ULH&P Exhibit No. 13, page 2.

(25) Ibid., page 1.

(26) Correspondence from James J. Mayer, Assistant General Counsel, to Secretary Richard D. Heman, Jr., June 7, 1982.

(27) Ibid.

(28) Commission Order, Case No. 8509, July 27, 1982, page 1.

(29) Ibid., page 2.

(30) Summary of Mosley testimony, page i

(31) Mosley testimony, pages 10 and 14.

(32) Mosley schedule JRM-1, page 14, and Transcript of Evidence, September 16, 1982, page 53.

(33) Transcript of Evidence, September 16, 1982, page 53.

(34) Mosley testimony, page 12.

(35) Commission Order, Case No. 8373, April 16, 1982, page 30.

(36) Mosley schedule JRM-1, page 14.

(37) Transcript of Evidence, September 16, 1982, page 55.

(38) Mosley schedule JRM-1, page 14.

(39) Ibid.

(40) Wall Street Journal, NYSE composite transactions.

(41) Post-hearing brief of ULH&P, page 6.

(42) $54,459,066 x 11.287% = $6,146,795.

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 8509 DATED NOVEMBER 15, 1982

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 date of this Order.

RATE RS*
(RESIDENTIAL SERVICE)

Net Monthly Bill

Computed in accordance with the following charges:

	Summer	Winter
Customer Charge per month	$3.20	$3.20
First 1,000 kilowatt hours	5.12¢ per kWh	5.12¢ per kWh
All kilowatt hours over 1,000 kilowatt hours	4.83¢ per kWh	3.68¢ per kWh

The minimum charge shall be the Customer Charge as stated above.

For purposes of administration of the above charges, the summer period is defined as that period represented by the Company's billing for the four (4) revenue months of June through September. The winter period is defined as that period represented by the Company's billing for the eight (8) revenue months of January through May and October through December.

RATE DS*
(SERVICE AT DISTRIBUTION VOLTAGE)

Net Monthly Bill

Computed in accordance with the following charges (kilowatt of demand is abbreviated as kw and kilowatt hours are abbreviated as kWh):

Customer Charge per month	
Single Phase Service	$ 5.00
Single and/or Three Phase Service	10.00
Primary Voltage Service @12.5 kv or 34.5 kv	100.00

Demand Charge	
First 15 kilowatts	$ 0.00 per kw
Additional kilowatts	5.86 per kw

Energy Charge	
First 6,000 kWh	5.526¢ per kWh
Next 300 kWh/kw	3.077¢ per kWh
Additional kWh	2.525¢ per kWh

The minimum charge shall be the Customer Charge, as stated above, for single or three phase secondary voltage service and the Demand Charge for three hundred (300) kilowatts for primary voltage service customers.

METERING

The Company may meter at secondary or primary voltage as circumstances warrant. If the Company elects to meter at primary voltage, kilowatt hours registered on the Company's meter will be reduced one and one-half (1-1/2) percent for billing purposes.

If the customer furnishes primary voltage transformers and appurtenances, in accordance with the Company's specified design and maintenance criteria, the Demand Charge, as stated above, shall be reduced as follows:

Billing demand less than 1000 kW $0.50 per kw of billing demand.
Billing demand 1000 kW or greater $0.35 per kW of billing demand.

RATE TS*
(SERVICE AT TRANSMISSION VOLTAGE)

Net Monthly Bill

Computed in accordance with the following charges (kilovolt amperes are abbreviated as kVA; kilowatt hours are abbreviated as kWh):

Customer Charge per month	$500.00
Demand Charge	
All kVA	$ 4.05 per kVA

Energy Charge	
First 300 kWh/kVA	2.94¢ per kWh
Additional kWh	2.63¢ per kWh

The minimum charge shall be not less than fifty (50) percent of the highest demand charge established during the preceding eleven (11) months.

RIDER IS

INTERRUPTIBLE SERVICE RIDER

APPLICABILITY

Applicable to customers receiving service under the provisions of either Rate DS, Service at Distribution Service, or Rate TS, Service at Transmission Service. In addition, the customer is required to: (1) demonstrate to the Company's satisfaction that a minimum electric load of one thousand (1,000) kilowatts is available which may be purposefully interrupted or curtailed at the discretion of the Company; and, (2) enter into a written Service Agreement with the Company which Service Agreement shall specify among other rules and regulations, the levels of interruptible power load and firm power load.

NET MONTHLY BILL

Computed in accordance with the provisions of either Rate DS or Rate TS except there shall be an interruptible demand credit computed in accordance with one of the following provisions:

Maximum Annual Hours of Interruption	Demand Credit per kilowatt of Interruptible Load
225	$ .81
300	1.07
375	1.32
450	1.62
525	1.87
600	2.13
675	2.38

Failure by the customer to comply with each interruption order of the Company shall be considered as use of unauthorized power which shall be billed at the rate of $5.00 per kilowatt based upon the highest fifteen (15) minute demand created during the period for which the customer was notified to reduce the level of power load.

In addition, the "Net Monthly Bill" shall be computed in accordance with the provisions of the applicable tariff, either Rate DS or Rate TS, exclusive of the interruptible demand credit. Determination of compliance by the customer shall be made solely by the Company based upon the recordings of installed metering devices.

TERMS AND CONDITIONS

The interruptible demand credit may be discontinued by the Company, upon thirty (30) days written notice to the customer, in the event that the customer fails to effectuate the interruption of power during an interruptible period for two (2) consecutive billing periods.

The terms of service for the Interruptible Service Rider shall be for a minimum period of one (1) year and shall continue in effect thereafter until terminated by the Company or the customer upon ninety (90) days written notice.

The supplying and billing for service and all conditions applying thereto, are subject to the jurisdiction of the Kentucky Public Service Commission, and to Company's Service Regulations currently in effect, as filed with the Kentucky Public Service Commission.