

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

GENERAL ADJUSTMENT IN)
ELECTRIC AND GAS RATES)
OF THE LOUISVILLE GAS) CASE NO. 8616
AND ELECTRIC COMPANY)

O R D E R

On March 22, 1983, the Louisville Gas and Electric Company ("LG&E") filed a petition for rehearing on six issues discussed in the Commission's Order entered March 2, 1983. On April 1, 1983, the Office of the Attorney General ("AG"), an intervenor in this proceeding, filed a response in opposition to granting a rehearing.

The first issue raised by LG&E is the Commission's partial denial of the labor adjustment. LG&E alleges that the denial was based upon erroneous assumptions which it did not have an opportunity to refute. It offers to present evidence on the circumstances surrounding the negotiation of its labor contract. The Commission is of the opinion that a rehearing should be granted on this issue to afford LG&E an opportunity to present additional relevant evidence.

The second issue raised is the level of coal inventory. LG&E offers to present evidence of its efforts to manage its coal inventory and to steadily reduce the inventory level. Because

the level of coal inventory has a substantial impact on revenue, a rehearing should be granted to receive additional evidence on the appropriate level of inventory.

The third issue for rehearing is the term and conditions respecting the employment of a consultant. LG&E makes several objections to the portion of the Order calling for a consultant's study. The first of these objections is that no provision has been made for the recovery of the costs of the study from the ratepayers. The AG replies that it is only fair for the stockholders to bear the cost of such a study, because the ratepayers have been bearing the costs which have resulted from the lack of adequate load forecasting. Since the load forecasting study will inure to LG&E's ratepayers, the cost to LG&E for this study will be fully recoverable through rates from its consumers. The Commission is of the opinion that the cost of the study will have a de minimus effect on LG&E's operations. If LG&E is awarded additional revenues upon rehearing, the cost of the study will be included. Otherwise, it will be allowed as a rate-making expense in LG&E's next rate case.

LG&E also raises the issue of coordination with Case No. 8666, State Wide Planning for the Efficient Provision of Electric Generation and Transmission Facilities. While the Commission was considering how to proceed in Case No. 8666, this case and two other major electric rate cases, Case No. 8624, rate case of Kentucky Utilities Company, and Case No. 8648, rate case of East Kentucky Power Cooperative, were pending before the Commission. In all three cases there was considerable discussion of the

quality of the load forecasts and system planning operations. It was determined that there would be economies to be gained by using the consultant in Case No. 8666 in this case to do additional analysis of the financial impacts of changes in construction schedules and implementation of conservation programs as an alternative to construction and in Cases No. 8624 and No. 8648. Thus, this study and the studies ordered in the other two cases are to be incorporated into the study in Case No. 8666.

LG&E's concerns in this area require further consideration and the Commission will, accordingly, grant rehearing on this issue. Before the Commission conducts the rehearing on this issue, there will be a conference among representatives of LG&E, Kentucky Utilities, East Kentucky Power and all other parties in Case No. 8666. Before this conference, the Commission will issue an Order explaining the procedures for the consultant's studies. The Commission is confident that all of LG&E's concerns will be answered at the conference. However, LG&E will have 10 days after the conference to reassert any complaints it may still have. If this is done, the Commission will then proceed to hear additional evidence on this issue.

The fourth issue raised by LG&E is that its proposed adjustment for sulfur dioxide removal systems ("SDRS") expenses associated with Mill Creek No. 4 was too low instead of too high. LG&E stated that for the first 8 months subsequent to the test year its SDRS expenses increased by \$2,847,000 as compared to its proposed 12-month test year adjustment of \$2,982,000. LG&E

argues that such an increase in 8 months indicates the conservative nature of its proposed adjustment. The Commission's decision to disallow \$1,349,000 of LG&E's proposed adjustment was not based on a comparison of test year expenses with post test year expenses, and it will not reconsider this adjustment for such a comparison. It is inappropriate for rate-making purposes to adjust an historic test year for post test year expenses. Such a practice violates the Commission's rate-making policy.

Further, although LG&E proposed an adjustment for SDRS expenses associated with the operation of Mill Creek No. 4, it has not addressed its failure to adjust for other revenues and expenses, nor the level of generation which was the basis for the proposed adjustment. The request for rehearing does not offer any evidence relevant to refute the Commission's decision. Therefore, rehearing on this issue is denied.

The fifth issue is a request for reconsideration of the Commission's adjustment to gas supply expense. LG&E argued that reducing actual gas supply expenses was illogical. The Commission is of the opinion that such an adjustment is necessary to properly match revenues and expenses. The Commission allowed as a rate-making expense the gas cost component of the proposed base rates to which Mr. Hart testified. Using this expense produces a better matching of revenues and expenses than using actual gas supply expenses. In calculating LG&E's revenue requirement the Commission sees no reason to include gas supply expenses in excess of the revenues proposed to recover those expenses.

LG&E further claims that the gas cost adjustment is flawed because it adds an expense item, gas cost component of base rates, to a revenue item, Purchased Gas Adjustment ("PGA") billings. PGA billings represent a direct pass-through of increases in gas costs. Thus, a dollar of PGA revenue relates to a dollar of increased gas cost. Therefore, including in the revenue requirement an amount of gas cost equal to the amount of PGA billings included in the adjusted revenue at present and proposed rates was necessary for a proper matching of revenues and expenses. Since LG&E has not presented any new information or arguments of merit, rehearing on the gas cost adjustment is denied.

The sixth issue raised is an allegation that "Inappropriate metaphors and failure to perceive the company's position led to the denial of other relief to which the company is entitled." As part of this allegation LG&E stated that in 1982 it lacked earnings sufficient to cover its dividend and, therefore, was not "operating in the black," as the Commission had stated in its Order at page 45. While there are accounting as well as economic interpretations of the phrase "operating in the black," the use of this terminology does not present a substantive issue. The Commission's Order allows LG&E to operate in the black, as it authorizes revenues sufficient to cover a reasonable level of expenses and provide a reasonable return on capital.

LG&E argued that the Commission's imputation of interest on JDIC debt capital is controversial and that the Commission

should follow the treatment prescribed in the ruling of the Franklin Circuit Court in the PSC of KY. v Continental Telephone Co., 82-CI-0988, case decided December 21, 1982, wherein the Court rejected the regulatory imputation of interest. The Continental order has been stayed by the Court of Appeals, and, therefore, provides no precedent. Likewise, the decision by the North Carolina Court of Appeals submitted by LG&E in support of its position provides no precedent for this Commission. The JDIC issue of imputed interest is a matter of interpretation and policy. The Commission's interpretation is explained and supported in its Order. LG&E's petition merely presents the same arguments that were previously made. Rehearing on this issue is denied.

LG&E contends that it has addressed every factor cited by the Commission when it denied the proposed electric temperature normalization adjustment in its previous case, Case No. 8284. LG&E claims it can do no more to support its adjustment without guidance from the Commission as to how it should proceed. In the past two cases the Commission has stated what it perceives to be the flaws in LG&E's methodology and the factors, other than temperature, that should be incorporated into the normalization process. Since the Commission's Order in this case sufficiently explains the basis for rejection of this adjustment, the request for rehearing is denied.

LG&E argued that the non-recurring expenditure of \$31,296 for remodeling costs should not be excluded because, although it is non-recurring, there will be another non-recurring expense to

take its place in the following year. The replacement of one non-recurring expense with another may or may not occur. The test year remodeling expense is clearly a non-recurring item, the denial of which is consistent with the Commission's established rate-making principles. Therefore, the request for rehearing on this issue is denied.

Summary of Findings

The Commission, having considered LG&E's petition, the AG's response and the evidence of record, is of the opinion and finds that:

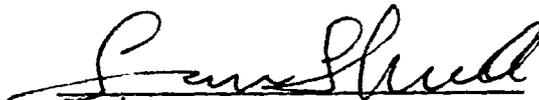
1. A rehearing should be granted on the issues of labor adjustment, coal inventory and load forecasting consultant.
2. A rehearing should be denied on the issues of SDRS expenses, gas supply costs, JDIC, electric temperature normalization and non-recurring expenses.

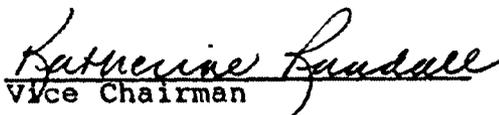
IT IS THEREFORE ORDERED that rehearing be and it hereby is granted on those issues in accordance with Finding No. 1, and a rehearing be and it hereby is denied on those issues in accordance with Finding No. 2.

IT IS THEREFORE ORDERED that a rehearing be and it hereby is scheduled on May 3, 1983, at 9:00 a.m., Eastern Daylight Time, in the Commission's offices at Frankfort, Kentucky, and that a conference regarding the consultant's study be and it hereby is scheduled on May 18, 1983, at 10:00 a.m., Eastern Daylight Time, in the Commission's offices at Frankfort, Kentucky.

Done at Frankfort, Kentucky, this 11th day of April, 1983.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary