

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN ADJUSTMENT OF GAS RATES)
OF THE UNION LIGHT, HEAT AND) CASE NO. 9029
POWER COMPANY)

O R D E R

On May 4, 1984, The Union Light, Heat and Power Company ("ULH&P") filed notice with the Commission requesting to increase its rates and charges for gas service. The Commission issued its Order in this case on October 24, 1984. On November 13, 1984, ULH&P filed its petition for rehearing with the Commission requesting reconsideration of certain issues in the Commission's Order. Also, on November 13, 1984, Newport Steel Corporation ("Newport Steel") filed a motion to intervene and be made a party out of time to this proceeding. Therein, Newport Steel protested the increase in ULH&P's Transportation Service rate. In order to allow Newport Steel an opportunity to properly address this issue, the Commission will grant the motion to intervene and will permit Newport Steel to present evidence on this issue on rehearing. On November 19, 1984, the Consumer Protection Division in the Office of the Attorney General ("AG") filed its response to ULH&P's petition for rehearing wherein it urged that the petition be denied.

ULH&P'S PETITION FOR REHEARING

ULH&P contested the Commission's Order on the following issues: adjustments to Construction Work in Progress ("CWIP") and Allowance for Funds Used During Construction ("AFUDC"), expenses associated with the Residential Conservation Service ("RCS") program, debt charges, and the approved Transportation Service rate.

AFUDC/CWIP

ULH&P contends that the Commission erred by increasing AFUDC by \$22,329 without increasing year-end CWIP by an equal amount. ULH&P maintains that if it had capitalized a greater amount of AFUDC during the test year, its year-end CWIP balance would have been greater. The Commission does not dispute such a statement; however, such a statement is not relevant to the Commission's rate-making treatment of AFUDC.

The Commission uses year-end rate base and capitalization in its normal rate-making process as a means of setting rates for a prospective period of time. Accordingly, the Commission's adjustment to AFUDC is a prospective adjustment, not a retroactive adjustment as ULH&P contends. Furthermore, to increase CWIP as ULH&P proposes would result in ratepayers paying for plant that is not yet used and useful in providing service. Therefore, the Commission denies rehearing on this matter.

RCS Expenses

ULH&P claims the Commission was unfair in denying the recovery of the test-year expense incurred for its RCS program, even though the level of expense was extraordinary and non-

recurring in nature. While ULH&P concedes that the test year level of expense will not be incurred in the future, it seeks to include an amortization adjustment for that expense level in current rates. ULH&P states that such an adjustment would be consistent with the adjustment approved by the Commission in Case No. 8373 for ULH&P's curb box inspection program.¹

In regard to Case No. 8373, the Commission submits that its action in approving the adjustment for the curb box program is not binding to this or any other issue. However, in consideration of the unusual aspects of this particular expense, the Commission finds it appropriate to grant rehearing on this issue and to permit ULH&P to file any additional testimony on this issue within 30 days from the date of this Order.

Debt Charges

ULH&P contends that the Commission's imputation of interest for income tax purposes, using the consolidated capital structure of its parent, Cincinnati Gas and Electric Company ("CG&E"), improperly penalizes ULH&P for being a subsidiary company. ULH&P argues that the Commission should utilize CG&E's consolidated capital structure for determining ULH&P's cost of capital, but the Commission should use ULH&P's capital structure for calculating interest and tax expense.

¹ Case No. 8373, An Adjustment of Gas Rates of the Union Light, Heat and Power Company, Order issued May 25, 1982.

The Commission finds no reasonable basis for ULH&P's argument. The Commission would be guilty of improper and inconsistent rate-making if it allowed ULH&P to choose different capital structures for different purposes. Equity and consistency require that the Commission apply but one capital structure in the rate-making process. At the recommendation of ULH&P and the AG, the Commission utilized CG&E's consolidated capital structure consisting of 36 percent common equity, 11.8 percent preferred stock and 52.2 percent debt and then determined a 15.5 percent return on equity to be fair, just and reasonable. Now ULH&P implies that the Commission's award of 15.5 percent already reflects ULH&P's more conservative capital structure and, that if the Commission had consistently used ULH&P's capital structure, consisting of approximately 50 percent debt and 50 percent common equity, interest expense would be reduced but the return on equity would be unaffected. The award of 15.5 percent on common equity reflects CG&E's consolidated capital structure and ULH&P's risk associated with its relationship to CG&E. Were the Commission to consistently apply ULH&P's capital structure, it is highly probable that the return on equity would be less, all other considerations remaining unchanged.

Therefore, the Commission continues to be of the opinion that it is proper and necessary to consistently apply one capital structure in the rate-making process for ULH&P, and, in this instance, it should be the consolidated capital structure of CG&E. The request for rehearing on this issue is denied.

Transportation Service Tariff

In its petition for rehearing, ULH&P stated that the Commission had erred in fixing the Transportation Service rate at 76 cents per Mcf rather than the cost of service rate of 60 cents per Mcf. The Commission has previously entered an Order which placed a stay on the 76 cents per Mcf rate set in its October 24, 1984, Order. The Commission is of the opinion that it is appropriate to grant ULH&P rehearing on this issue and to permit ULH&P to file any further testimony, within 30 days from the date of this Order, in support of its position that the Transportation Service rate should be lowered.

Since the Commission has herein granted rehearing to Newport Steel on this same issue, the Commission will also allow Newport Steel to file testimony on this issue within 30 days.

SUMMARY

Based upon the issues presented in the petition for rehearing and the evidence of record and being advised, the Commission hereby finds that:

1. A rehearing should be granted on the issue of the appropriate adjustment for expenses associated with the RCS program.
2. A rehearing should be granted on the issue of the Transportation Service Tariff.
3. All other issues presented in ULH&P's petition for rehearing should be denied.
4. A subsequent Order will set a hearing date and further define the rehearing process.

5. The Commission's Order of October 24, 1984, requires no modification at this time pending the outcome of the rehearing.

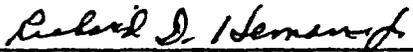
IT IS THEREFORE ORDERED that ULH&P is granted rehearing on the issues of the appropriate adjustment for expenses associated with the RCS program and the Transportation Service rate of 76 cents per Mcf as stated in the Commission's Order of October 24, 1984, and that ULH&P shall file any additional testimony it deems appropriate on these issues within 30 days from the date of this Order.

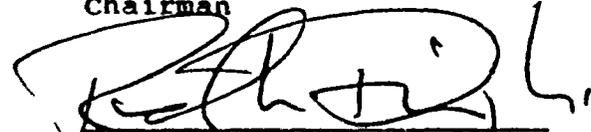
IT IS FURTHER ORDERED that Newport Steel shall be granted intervention and participation in the rehearing on the Transportation Service rate as set out in the Commission's Order of October 24, 1984, and shall present any testimony on this issue within 30 days from the date of this Order.

IT IS FURTHER ORDERED that all other issues presented in ULH&P's petition for rehearing be and they hereby are denied.

Done at Frankfort, Kentucky, this 3rd day of December, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary