

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE ADJUSTMENT OF GAS RATES OF)
THE UNION LIGHT, HEAT AND POWER) CASE NO. 9029
COMPANY)
)
AND)
)
THE IMPLEMENTATION BY THE UNION)
LIGHT, HEAT AND POWER COMPANY OF) CASE NO. 9247
A FLEXIBLE GAS TRANSPORTATION)
RATE)

O R D E R

On November 13, 1984, The Union Light, Heat and Power Company ("ULH&P") filed a petition requesting rehearing or reconsideration of certain issues addressed in the Commission's rate Order issued in Case No. 9029, on October 24, 1984. By its Order of December 3, 1984, the Commission granted a rehearing on the issues of the adjustment to expenses associated with the Residential Conservation Service ("RCS") program and the appropriate Transportation Service rate. The Commission denied rehearing on all other issues and granted the request of Newport Steel Corporation ("Newport Steel") to intervene in this proceeding.

On December 27, 1984, ULH&P filed its application in Case No. 9247. On January 4, 1985, ULH&P filed a motion requesting that the proceedings in Case No. 9029 and Case No. 9247 be consolidated, which motion was subsequently granted.

The consolidated hearing in Case No. 9029 and Case No. 9247 was held on February 19, 1985, along with a conference on the generic issue of gas transportation rates which involved all major gas utilities subject to this Commission's jurisdiction. Additional briefs were filed by the parties on March 4, 1985.

ISSUES ON REHEARING

Residential Conservation Service Program

In its Order of October 24, 1984, the Commission made adjustments to reduce ULH&P's test-year revenues and expenses associated with its RCS program. The test year (calendar year 1983) was the first year of ULH&P's RCS program; accordingly, the revenues and expenses of \$17,055 and \$119,148, respectively, were significantly greater than the amounts ULH&P had projected for future years. For rate-making purposes, the Commission reduced revenues by \$12,695 and expenses by \$90,948 to reflect the average RCS revenues and expenses projected by ULH&P for the years 1984 through 1986.

In its petition for rehearing, ULH&P claimed that it should be allowed to amortize and recover the test-year expense inasmuch as the RCS program was required pursuant to federal government mandate as well as Orders of this Commission. Mr. Richard Lonneman, a return analyst in the Rate and Economic Research Department of Cincinnati Gas & Electric Company ("CG&E"), submitted testimony and exhibits describing ULH&P's position and explaining its proposed amortization adjustment. Mr. Lonneman reiterated that ULH&P's position was based on the fact that the

RCS program was not discretionary but was required by this Commission and the federal government. However, Mr. Lonneman could not say that any and all non-recurring expenses should be amortized for rate-making purposes. Mr. Lonneman explained that certain expenses associated with the RCS program recur annually, while other expenses are incurred less frequently and, therefore, should be amortized over a 2- or 3-year period. Mr. Lonneman calculated adjustments to increase revenues by \$4,225 and expenses by \$35,249 over the amounts contained in the Commission's rate Order.

After reconsideration of this matter, the Commission is of the opinion and finds that amortization of the test-year expense as proposed by ULH&P is appropriate. While the Commission remains of the opinion that non-recurring test-year expenses should not be considered for prospective rate recovery, the Commission nevertheless recognizes the non-discretionary nature of the RCS expenditures and the fact that the program was begun in response to the Commission's Orders. Therefore, for rate-making purposes, the Commission will accept the adjustments proposed by ULH&P which increases ULH&P's revenue award by \$31,024.

Transportation Rate

In its Order of October 24, 1984, the Commission established a transportation rate of 76 cents per Mcf and stated that the Commission recognized that it may be to the advantage of ULH&P to retain a customer by negotiating a lower rate for a period of time where circumstances justify and ULH&P should submit

with justification any contract with a transportation rate less than 76 cents per Mcf to this Commission for approval.

In Case No. 9247, ULH&P proposed a flexible gas transportation rate ("flex rate") with a maximum charge of 76 cents per Mcf and a floor charge of 35 cents for the transportation rate, with ULH&P having the authority to negotiate the transportation rate within these limits as the market conditions arise. Any amounts negotiated over 50 cents per Mcf would be divided on a 60-40 percent basis, with 60 percent to flow back to the other ULH&P customers through the Purchased Gas Adjustment Clause ("P.G.A.") and ULH&P to keep 40 percent as an incentive. ULH&P recommended that if the Commission did not approve the proposed flex rate but were to adopt a fixed rate, it should be equal to ULH&P's cost of service transportation rate of 60 cents per Mcf as initially filed.

Newport Steel, in its brief, stated the transportation rate should be no greater than ULH&P's revised costs of providing transportation services of 56.8 cents per Mcf, but that it should be the same as the calculations of their witness of approximately 44 cents per Mcf.

The Commission is of the opinion that the P.G.A. is a mechanism whereby the utility can adjust its rates for the increase or decrease of the actual cost of purchased gas in a reasonable time period without the delay or expense of a rate case proceeding. The proposed flex tariff of ULH&P has nothing to do with the actual cost of gas and would be an additional cost to administer to ULH&P, its ratepayers and the Commission.

Therefore, the Commission is of the opinion that the proposed flex tariff of ULH&P should be denied.

Most of the rehearing testimony on transportation rates was devoted to examining ULH&P's cost of providing transportation services. The essence of both Newport Steel's and ULH&P's arguments is that the Commission had intended to set the transportation rate at "cost of service" and had erred in determining that 76 cents was such cost. The basic assumption underlying this argument is false. The Commission did not intend to base the transportation rate on the cost of service. Thus, discussion of what costs should or should not be included in a transportation cost of service analysis is irrelevant. The Commission intended to and did set the transportation rate at a level to minimize the effect on margins of lost sales to transportation services, a figure which varies over time. The Commission accordingly used ULH&P's estimated cost to serve off-peak customers above the cost of gas. Therefore, the Commission hereby affirms the transportation rate of 76 cents per Mcf. The Commission continues to recognize that it may be to the advantage of ULH&P and its ratepayers to retain a customer by negotiating a lower rate for a period of time where circumstances justify. The Commission now recognizes that the amount of time required by the Commission to approve a special contract for a lower transportation rate could prove a hardship to both ULH&P and its customers. Therefore, ULH&P should have the ability to negotiate a transportation rate lower than 76 cents per Mcf

without prior approval from this Commission in order to allow ULH&P to meet competition from alternate fuels. However, ULH&P shall inform the Commission each time it agrees to a lower transportation rate. In its next rate case, ULH&P must support the necessity of any transportation service it has provided at rates lower than 76 cents per Mcf. Without adequate support for lower transportation rates charged in the test year, 76 cents per Mcf will be imputed for determination of normalized revenue. The Commission will not allow flexibility to provide transportation service at a lower rate for any reason other than to meet competition from alternate fuels without prior review and consideration by the Commission on a case-by-case basis.

SUMMARY

The Commission, after consideration of the evidence of record and findings herein, HEREBY ORDERS that the revenue award granted ULH&P in Case No. 9029 is hereby increased by \$31,024.

IT IS FURTHER ORDERED that the rates in Appendix A be and they hereby are approved for service rendered by ULH&P on and after the date of this Order.

IT IS FURTHER ORDERED that the flexible gas transportation rate of ULH&P be and it hereby is denied.

IT IS FURTHER ORDERED that the transportation rate of 76 cents per Mcf be and it hereby is affirmed.

IT IS FURTHER ORDERED that ULH&P shall file its Transportation Tariff with the provision that ULH&P may, without the Commission's prior approval, transport gas at a lower rate

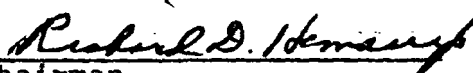
than the stated rate of 76 cents per Mcf to meet competition from alternate fuels.

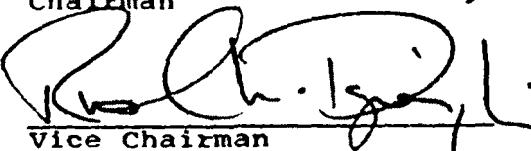
IT IS FURTHER ORDERED that all rates and charges not specifically addressed herein shall remain as established in the Commission's Order of October 24, 1984.

IT IS FURTHER ORDERED that within 30 days from the date of this Order ULH&P shall file with the Commission its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 17th day of May, 1985.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9029 DATED 5/17/85

The following rates and charges are prescribed for the customers served by 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 GS
(GENERAL SERVICE)

Customer Charge Per Month:

Residential Service	\$4.50
Non-Residential Service	\$6.00

Base Rate	Gas Cost Adjustment	Total Rate
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All gas used 14.49¢ plus 43.76¢ equals 58.25¢ per 100 cu. ft.

Minimum Bill: The minimum monthly charge shall be the customer charge as stated above.

The "Gas Cost Adjustment," as shown above, is an adjustment per 100 cubic feet as determined in PGA Case No. 9029-B.