

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PURCHASED GAS ADJUSTMENT            )  
FILING OF THE UNION LIGHT,         )    CASE NO. 9029-Q  
HEAT AND POWER COMPANY            )

ORDER ON REHEARING

On January 17, 1989, The Union Light, Heat and Power Company ("ULH&P") applied for rehearing of the Commission's Order in this case dated December 28, 1988. Specifically, ULH&P asked that the Commission reconsider its interpretation of market conditions which would allow ULH&P to collect take-or-pay contributions from its flex transportation customers. ULH&P contends it is unreasonable to require take-or-pay recovery whenever a negotiated rate can be charged that is higher than the current rate. According to ULH&P, any intermediate rate between the rate in effect on December 28, 1988 and the TS and CF tariff transportation rates of 70 cents and 75 cents, respectively, would unfairly prevent ULH&P from recovering revenue requirements authorized by the Commission in its last rate case.

After reviewing the record in this case and being advised, the Commission is of the opinion and finds that:

1. ULH&P's petition for rehearing and reconsideration of the interpretation of market conditions allowing take-or-pay recovery from flex transportation customers should be granted.

2. ULH&P's argument that flex transportation rates in effect on December 28, 1988 are inappropriate as a benchmark is persuasive. This interpretation of "when market conditions allow" would impair ULH&P's ability to collect revenue requirements allocated to flex transportation customers; full recovery from these customers can only occur at the 70 or 75 cent level, depending on the type of transportation service rendered. When a take-or-pay recovery component is added to any level of flex rate that is less than these fully allocated rates, ULH&P will, in effect, be absorbing that portion of its take-or-pay billings. It is not the Commission's intention to require a local distribution company to absorb any part of these billings. Upon reconsideration, the Commission agrees that ULH&P's original proposal to add a take-or-pay component to flex transportation rates when the market allows it to charge the full TS or CF rates is reasonable and consistent with its treatment of other local distribution companies and should be allowed.

IT IS THEREFORE ORDERED that:

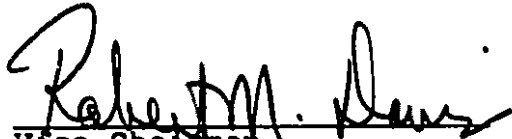
1. ULH&P's application for rehearing and reconsideration of the Commission's Order of December 28, 1988 is hereby granted.

2. The Commission's Order of December 28, 1988 is hereby clarified as follows: "market conditions" allowing take-or-pay recovery from flex transportation customers means whenever the approved tariff transportation rate for a particular customer can be charged.

Done at Frankfort, Kentucky, this 3rd day of February, 1989.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Executive Director