

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF GAS AND ELECTRIC RATES	)	
OF THE UNION LIGHT, HEAT AND POWER	)	CASE NO. 90-041
COMPANY	)	

O R D E R

On October 22, 1990, The Union Light, Heat and Power Company ("ULH&P"), the Attorney General's office, Utility and Rate Intervention Division ("AG"), and the Office of Kentucky Legal Services Program on behalf of Brenda Freeman ("KLS") individually filed petitions requesting rehearing of the Commission's October 2, 1990 Order granting ULH&P an increase in annual gas and electric revenues of \$12,245,979. Having reviewed each of the petitions, as well as the evidence of record, the Commission makes the following findings with respect to each of the issues raised in the petitions.

Post Test Year Plant In Service

ULH&P contends that the Commission erred in accepting post test-period changes to capital structure and financing cost without also accepting post test-period additions to plant in service. The Commission finds no merit in this argument. Changes in the mix of financing and financing costs relate to the overall increase or decrease in cost of capital to be applied to the rate base. Therefore, adjustments to capital structure and financing costs are similar to other known and measurable changes in the

"price" of goods and services used in ULH&P's business. Changes in price, when known and measurable and within a relatively short period after the test period, are routinely accepted for rate-making purposes to reflect the most current cost of doing business. For example, the Commission adjusted wages and the state income tax rate in this case and increased post test-period salary levels of employees and state income tax expense. However, a post test-year change in the rate base distorts its relationship with test-year revenue and expenses, resulting in a distortion between rate base and earnings. This distortion can be eliminated only if revenues and expenses are adjusted to the same date as the post test-year rate base. ULH&P did not make the adjustments to other elements of cost and revenue consistent with its post test-period adjustment to plant. The Commission held capital, rate base, and revenues and expenses to the end of test-period levels, matching all components. The establishment of a proper capital structure is a separate and distinct issue from the determination of a proper level of plant in service.

ULH&P further states that there is no evidence to demonstrate that its revenues and expenses would be significantly different had they been updated to coincide with the June 30, 1990 post test-year plant additions. ULH&P notes that its revenues and expenses have been adjusted by the Commission's Order to reflect known and measurable changes. None of this, however, negates the Commission's concern over matching all components in a rate case. To achieve a proper match with post test-year plant additions, all revenues and expenses would have to be updated to reflect the

balances as of June 30, 1990, not just adjusted for known and measurable price changes.

There is no inconsistency in the update to capital structure, financing costs, and the denial of post test-period plant additions. Moreover, the Commission has not changed its position with regard to the matching of costs and revenues.

#### Propane Inventory

ULH&P and the AG request rehearing on the Commission's treatment of propane inventory. ULH&P contends that the Commission erred when it excluded 64 percent of the propane inventory from its rate base calculation, but did not make a similar exclusion of the income ULH&P receives from its parent, the Cincinnati Gas and Electric Company ("CG&E"), for CG&E's portion of the propane inventory. ULH&P further states that it is improper to recognize the income associated with the propane inventory and at the same time remove the cost of this inventory from consideration in establishing rates in this case. ULH&P asks the Commission to either restore the excluded propane inventory to rate base or remove the test-year revenues received from CG&E associated with the propane inventory.

The AG's petition argues that he has shown that ULH&P maintained excessive levels of propane inventory; therefore, the AG's reduction should be accepted by the Commission. The Commission believes that rehearing is warranted on this issue. ULH&P should file prepared testimony fully detailing the propane transactions involving CG&E. The testimony should include a full analysis of the revenues, expenses, and rate of return charged for

the test year, as well as the need for the levels of propane inventory maintained during the test year.

#### Gas Stored Underground

ULH&P contends that the Commission erred when it removed from ULH&P's rate base amounts associated with gas stored underground. ULH&P states that it only recently acquired the ability to obtain underground gas storage, and could only provide one month of actual balance for underground gas storage within its test year balances. ULH&P also states that the amount it included in its rate base calculations was based on Columbia Gas Transmission Corporation's ("Columbia") "Global Settlement," Columbia's tariffs, and the use of a 13-month balance for gas stored underground. ULH&P asks the Commission to either restore its proposed underground gas storage of \$604,116 back to rate base or include the test-year-end balance of \$1,453,200.

In its application for rehearing, ULH&P has identified the very facts which led to the Commission's original decision. The 13-month balance of gas stored underground was based primarily on estimated injections and withdrawals of gas. Until the existence of the "Global Settlement" ULH&P had no underground gas storage capability; therefore, ULH&P had no historical data available to evaluate the reasonableness of its estimated injections and withdrawals. There was only one month in the test year which contained a balance for gas stored underground.

In the October 2, 1990 Order, the Commission determined that ULH&P had not provided the evidence necessary for an evaluation of the reasonableness of the estimated underground gas storage

balances. The Commission also does not believe it would be appropriate to include an amount which represents only one month's balance of underground gas storage in rate base. The information included in the application for rehearing has not resolved any of the Commission's original concerns.

#### Office Renovation Expense

ULH&P states that the Commission erred when it reduced the test-year expenses by the office renovation expense of \$52,143. ULH&P claims that the Commission's basis for this adjustment was that these costs should have been capitalized rather than expensed. Given this basis, ULH&P claims that the Commission should have reflected this capitalization in ULH&P's rate base and allowed depreciation on the capitalized costs.

As the Commission stated in the October 2, 1990 Order, ULH&P expensed \$52,143 in office renovation expenses during the test year. Thus, ULH&P has already recovered these costs from ratepayers in the test year. ULH&P was unable to show that these costs would be of a recurring nature. Contrary to ULH&P's claim, the Commission did not find that these expenses should have been capitalized. The Commission merely made the observation that capitalization appeared to be appropriate for these costs.

The Commission excluded the renovation expenses for rate-making purposes because ULH&P did not demonstrate that these would be recurring expenses. Since ULH&P had already recovered these expenses from ratepayers, it would not be appropriate to now go back and capitalize or allow depreciation on these expenses.

### Rate Case Expenses

ULH&P states that the Commission erred in requiring that the rate case expenses be amortized over a three-year period. ULH&P indicates that in all likelihood it will be back before the Commission seeking rate relief within the next 12 months due to CG&E bringing into service the Zimmer generating station during 1991. ULH&P asks that the Commission not require the amortization of the rate case expenses.

The Commission finds no basis for ULH&P's position on this issue. Simply because ULH&P may be back for rate relief within a year does not constitute adequate justification for the recovery of the rate case expenses in one year. As was stated in the October 2, 1990 Order, the Commission does not believe it is reasonable for ULH&P to recover the costs of this rate case every year that the rates established in the case are in effect.

### Overtime Pay

The AG asks that the Commission reconsider its decision to reject the AG's adjustment to ULH&P's overtime pay. The AG states that the Commission acknowledged a problem with ULH&P's overtime but in rejecting his proposed adjustment of \$611,401 to overtime pay, the Commission has shifted the burden of proof to the AG.

The Commission found that the AG's proposed adjustment was not adequately supported. The AG's proposed adjustment was based solely on a comparison of the test year dollars of overtime to the two previous years' dollar levels. The October 2, 1990 Order noted that the AG had not performed an analysis of the hours worked and the overtime pay rates. Furthermore, the Order found

that ULH&P had fully justified its test-year level of overtime pay. The Commission made no finding of any problem with ULH&P's overtime levels. Rather, a trend was observed and notice given that this issue would be revisited in ULH&P's next rate case. To state, as the AG does, that the test-year expense level differs from prior years without having discerned the reasons for the difference does not constitute adequate support for an adjustment to the test year. The AG's petition only restates his original position without presenting any information that was not previously considered in evaluating his proposed adjustment.

#### Rental Expenses

The AG asks that the Commission reconsider its decision to reject his proposed adjustment to rental expenses in the amount of \$578,199. Because the Commission rejected the proposed adjustment on the basis that it had not been adequately supported by the AG, the AG again has claimed that the Commission has shifted the burden of proof to the AG.

As stated in the October 2, 1990 Order and the AG's petition, the Commission rejected the AG's proposed adjustment to rental expenses because the AG did not provide adequate support to show that the 1988 level of expenses were the reasonable level of expenses. The AG also failed to provide any justification for the assumptions included in the proposed rental expense adjustment. The Commission did not shift the burden of proof - it just found that ULH&P's rental expense was reasonable and should be accepted for rate-making purposes.

However, our reexamination of the financial information concerning the rental expenses recorded by ULH&P warrants rehearing on this issue. ULH&P should file prepared testimony fully detailing its rental expense transactions with CG&E. The testimony should include a full analysis of the test year rental expenses, with supporting documentation explaining why the test year expenses increased over those incurred during 1988. This testimony should specifically address those rental charges involving Account No. 931 - 1, Buildings and Grounds; Account No. 931 - 8, Data Processing Operations Equipment; Account No. 931 - 20, Rents - Other CG&E Co. Charges; Account No. 589 - 4, Rents - Property CG&E Co. Charges; and Account No. 589 - 5, Rents - Stores CG&E Co. Charges.

#### Allocation Factors

The AG asks the Commission to allow rehearing on all the allocation factors used to allocate costs between ULH&P and CG&E, or reject all allocated costs included in the rate case. The AG states that there is no indication that the Commission examined the allocation factors, reviewed the expenses allocated from CG&E to ULH&P, or determined the reasonableness of the allocations made.

The Commission stated in the October 2, 1990 Order that it was accepting ULH&P's test-year allocation factors as proposed rather than the updated 1990 allocation factors. Further, the Commission noted that ULH&P should use the most current allocation factors in its next general rate case. While the Commission did examine the allocation factors, review the expense allocations,

and determine that the allocations were reasonable, this part of the Commission's investigation was not specifically discussed in the Order because no party challenged the test-year allocation factors. The Commission will not reject the test-year allocations.

#### Cost-of-Service Study

The AG urges the Commission to consider his evidence and then reconsider its Order. The AG maintains that the Commission improperly rejected his evidence because he did not file a complete cost-of-service study. The AG states that "due process at a minimum" requires that his evidence be considered.

The AG's evidence criticized two allocation procedures used in ULH&P's gas cost-of-service study: (1) the use of an administrative and general allocation factor to allocate general, intangible, and common plant; and (2) the use of a weighted customer allocation factor to allocate customer services, information, and sales expenses.

The Commission found that ULH&P's gas cost-of-service study followed generally accepted industry standards and was consistent with the studies it filed in previous rate cases. Further, the Commission stated that the AG had failed to demonstrate that ULH&P's allocation methodologies are unreasonable and in need of modification. All evidence, including that submitted by the AG, was considered in arriving at that decision. Contrary to the AG's assertion, the absence of a completed cost-of-service study, while a factor in the Commission's decision, was not an overriding consideration in the formulation of that decision. The AG's

evidence, in and of itself, failed to convince the Commission that ULH&P's cost-of-service procedures were incorrect or inappropriate.

The AG's petition presents no new information that has not previously been considered in evaluating the reasonableness of ULH&P's cost-of-service study.

#### Fuel Synchronization

ULH&P claims the Commission erred in making a fuel synchronization adjustment to eliminate, for rate-making purposes, the difference between fuel adjustment clause ("FAC") revenues and FAC purchased power expenses. ULH&P contends no adjustment is necessary since the FAC is fully recovering. As an alternative to eliminating the synchronization adjustment, ULH&P requests that the Commission modify its adjustment to reflect the two-month billing lag for FAC recoveries.

The Commission found ULH&P's FAC to be fully recovering and also recognized the two-month billing lag for FAC recovery. Because of the two-month lag, an exact match of FAC revenues and expenses is unlikely during any reporting period. However, with a fully recovering FAC, ULH&P is assured, over time, of recovering all FAC expenses through its fuel clause. With full recovery through the FAC assured, there is no basis for including the over- or under-recovery of the test year FAC expenses in the rate-making process for the purpose of setting base rates. With this true-up mechanism in place, an adjustment is necessary to ensure that fuel cost recovery does not impact rates set in a non-fuel cost rate proceeding.

### Standby Service

ULH&P maintains that the Commission's determination of an appropriate charge for standby service was in error. ULH&P argues that the Commission erred in determining that standby service can be provided on an interruptible basis for human needs and other firm load customers. ULH&P requests that the Commission modify its Order to provide for both interruptible and firm standby service rates.

The Commission did not assume that standby service could be provided to firm customers on an interruptible basis; however, it was our belief that as ULH&P's pipeline demand costs are allocated equally to all sales volumes, its pipeline costs for standby service could be allocated equally for all standby volumes. The proposal of differing rates for firm and interruptible standby service is an issue warranting further analysis by the Commission. Rehearing will be granted for the purpose of obtaining additional information and determining whether any modification to ULH&P's standby tariff is necessary. ULH&P should file testimony supporting its proposal for firm and interruptible standby service. This filing should include a detailed analysis of the price, availability, and limitations ULH&P proposes for standby service and any proposed revisions in the standby service tariff previously approved in this proceeding.

### Rate OL - Outdoor Lighting Service

ULH&P requests that the Commission revise the rate approved for the 50,000 lumen floodlighting fixture on the outdoor lighting ("OL") rate schedule. ULH&P states that in converting its

lighting rates from energy charges to fixed charges it erred in calculating the proposed rate of \$4.51. The approved rate of \$4.44 per light represents a decrease of 46 percent from the previous equivalent rate of \$8.25. ULH&P calculated an increased rate, based upon the increase granted for the remaining lighting rates, of \$8.59. As an alternative to the increased rate, ULH&P requests that it be allowed a rate equal to its previous equivalent rate of \$8.25.

The Commission will grant rehearing to determine the exact nature of the error made in calculating ULH&P's proposed rate. ULH&P should file testimony detailing the calculation and the suggested correction of the erroneous rate along with the resulting revenue impact.

#### Revenue Normalization - Gas

The AG requests reconsideration of its proposed adjustment for revenues generated by ULH&P for transportation services provided to Columbia for deliveries to CG&E. The AG argues that the Commission's grounds for rejecting the adjustments effectively shifted the burden of proof to the AG. The AG contends it made a showing that the test year was abnormal and not reflective of typical operating conditions and that this showing shifts the burden of proof back to ULH&P.

The Commission found that ULH&P fully demonstrated the reasonableness of the test-year transportation services for Columbia. The Commission further found that the AG's adjustments were not adequately supported and did not demonstrate that the test year was abnormal. Such a finding does not shift the burden

of proof. It merely points out that the AG has to do more than cite some difference between the test year and prior years and thereby proclaim the test year to be abnormal. The purpose of adjustments is to produce a test year that is representative of current operating conditions, not to declare that the test year is abnormal or different from the prior years without having discerned the reasons for the differences.

The AG's petition merely restates its original position without presenting any information that was not previously considered in evaluating its adjustments.

#### Purchased Power Expense

The AG requests reconsideration on its proposed adjustments to purchased power expense related to the cold weather experienced in December 1989, the final month of the test year. The AG contends that the impact of the cold weather on ULH&P's purchased power expense should be adjusted to a normal level based on the purchases in December 1988.

The Commission's Order stated that the test year was reviewed and found to be reasonable and representative of normal operating conditions. The Order also noted that December 1989 was colder than normal, but that the AG made no evaluation of December 1988 for use as a benchmark for comparing December 1989. Neither did the AG offer any evidence that one cold month resulted in an abnormal or distorted test year. The AG made no showing that the test year as a whole was not reasonable or representative of normal conditions and has made no such showing in its petition.

### Late Payment Charges

The AG and KLS request reconsideration of the Commission's decision to allow ULH&P to continue charging a 5 percent late payment fee on delinquent accounts. The AG contends that the Commission applied the wrong standard in finding that the intervenors had failed to meet their burden of proof to show the unreasonableness of the late payment charge. KLS argues that ULH&P did not show that the late payment fee accomplishes its purpose of inducing prompt payment of bills. KLS contends that the fee results in low-income households subsidizing other residential customers that can choose whether or not to pay their bills on time.

The Commission is not persuaded to grant rehearing on this issue. ULH&P did not propose any change to its late payment charge in this proceeding. The AG and KLS proposed modification or elimination of the existing charge which had previously been found to be reasonable and approved by the Commission. The AG and KLS, as proponents of this adjustment, had the burden of showing that the existing late payment charge was unreasonable. The evidence presented failed to demonstrate that ULH&P's late payment charge does not serve as an incentive for timely payments. KLS's arguments merely restate its original position and fail to demonstrate that a fixed percentage charge applicable to all residential customers is discriminatory or results in any subsidization by low-income customers.

The petitioners present no new information that had not previously been considered.

### Energy Assurance Program

KLS requests that the Commission reconsider its decision to reject KLS's proposed Energy Assurance Program ("EAP"). KLS argues that the EAP would not violate Kentucky Statutes KRS 278.160 and KRS 278.170. KLS contends that the primary issue is whether the EAP represents the least cost approach to providing service to low-income customers. KLS requests that the Commission implement a limited pilot EAP, similar to a plan recently approved by the Pennsylvania Public Utility Commission in order to test the program on a company-specific basis.

The Commission fully recognizes the devastating impact that high utility bills can have on low-income residential customers. KLS's proposal appears to be a possible remedy for this ill. The Commission is not unmindful that its authority is limited by KRS Chapter 278. However, the concept of a pilot program to be implemented on a test basis may merit further consideration. Given that ULH&P's parent company, CG&E, already has in effect a similar type of program in Ohio, the Commission will grant rehearing on this issue for the purpose of obtaining further information on the subject of a pilot program and the results of the program administered by CG&E. KLS should file testimony and evidence detailing the proposed EAP pilot program and how it might be implemented for ULH&P.

### Discovery Issues

The AG seeks rehearing on numerous discovery issues that arise, not from the Commission's October 2, 1990 Order, but from prior Orders dated June 8, 1990 and July 9, 1990. Each of these

prior Orders had previously been subject to a request for reconsideration by the AG and those reconsiderations were ruled on by Orders dated July 9, 1990 and August 11, 1990. These discovery issues are not now the proper subject of a request for rehearing.

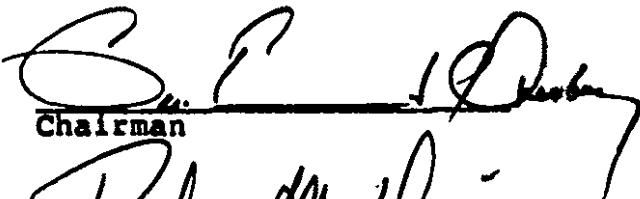
IT IS THEREFORE ORDERED that:

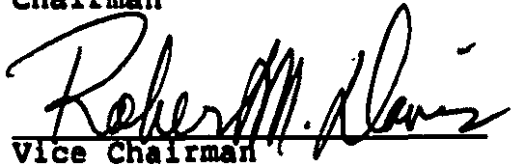
1. Rehearing be and it hereby is granted on the issues of propane inventory, rental expenses, standby service, Rate OL-Outdoor Lighting Service, and Energy Assurance Program, and denied on all other issues.

2. Prepared direct testimony on the rehearing issues shall be filed by December 20, 1990 and prepared response testimony shall be filed by January 15, 1991.

Done at Frankfort, Kentucky, this 12th day of November, 1990.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

  
Executive Director