

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF THE MULTI-FAMILY)	
MASTER-METERED RESIDENTIAL SERVICE)	
TARIFFS PROPOSED BY LOUISVILLE GAS)	CASE NO.
AND ELECTRIC COMPANY AND KENTUCKY)	2002-00419
UTILITIES COMPANY)	

O R D E R

On November 5, 2002, Louisville Gas and Electric Company (LG&E) and Kentucky Utilities Company (KU) filed proposed tariffs to establish a new gas rate schedule for LG&E and new electric rate schedules for both LG&E and KU, to provide Multi-Family, Master-Metered Residential Service (MMRS). On December 4, 2002, the Commission suspended the tariffs and established this docket to investigate their reasonableness. The December 4, 2002 Order also requested information to which LG&E and KU submitted responses on December 12, 2002.

Under the proposed MMRS rate schedules, multi-family dwellings that are served through a master meter would have the option to receive service under tariffs that are classified as residential, rather than continuing to be served under tariffs that are classified as commercial. There would be no changes to the rates or charges billed to these customers. This proposed change, according to LG&E and KU, is solely for the purpose of classifying the customers as residential to qualify for the exemption from the Commonwealth's 6 percent sales tax, pursuant to KRS 139.470(8). This tax

exemption is currently not applicable to these customers under their existing commercial classification.

Utilities have considerable discretion in determining customer classifications. Kentucky law provides that:

Every utility may employ in the conduct of its business suitable and reasonable classifications of its service, patrons and rates. The classifications may, in any proper case, take into account the nature of the use, the quality used, the quantity used, the time when used, the purpose for which used, and any other reasonable consideration.

KRS 278.030(3). However, this statute does not legitimize the proposed tariffs. LG&E and KU have no intent to create a residential classification for multi-family, master-metered customers.

In practice, customer classification is utilized as the basis for determining each class's cost of service. When rates are adjusted in the absence of a cost-of-service study, the Commission has historically allocated revenue increases or decreases on a proportionate share to maintain each customer class's (i.e., residential, commercial, and industrial) relative contribution. Customer classes are also the basis for determining eligibility for demand-side management programs (DSM).

In this case, however, LG&E/KU have acknowledged that they are not reclassifying customers from commercial to residential rate classes but are renaming commercial customers as residential customers for tax purposes only.¹ When

¹ LG&E/KU Response to December 4, 2002 Order, Item 7.

requested to explain the reasons for creating these new residential classifications, LG&E and KU responded as follows:

The existing commercial rates are appropriate for these customers from a rates application but because the rates are termed commercial existing law does not allow for the exemption from the sales tax. By re-naming the commercial rates as new residential classifications, the multi-family , master-metered residential customers are still properly billed from a rates standpoint but now are classified as residential for tax purposes and exempt from the sales tax.

LG&E/KU Response to December 4, 2002 Order, Item 1. With regard to cost allocation for these new residential customers, LG&E and KU stated that, From a rates standpoint, any cost-of-service cost assignment would continue including these customers with their current customer group.²

Thus, LG&E/KU intend to continue treating these customers as commercial as they have in the past, for all purposes relevant under KRS Chapter 278, including cost of service, revenue allocation, and DSM. The sole intent of the new tariffs is to qualify these customers for an exemption from the assessment of sales tax. Sales tax assessments are not within the scope of the Commission's jurisdiction under KRS Chapter 278. Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that LG&E and KU have presented no valid reason under KRS Chapter 278 to justify renaming this particular group of commercial tariffs.

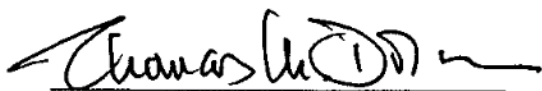
IT IS THEREFORE ORDERED that the MMRS tariffs proposed by LG&E and KU are denied.

² Id.

Done at Frankfort, Kentucky, this 19th day of March, 2003.

By the Commission

ATTEST:

A handwritten signature in black ink, appearing to read "Thomas H. (T) [unclear]", written over a horizontal line.

Executive Director