

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RIDER AMRP OF THE)	CASE NO.
UNION LIGHT, HEAT AND POWER COMPANY)	2003-00103

O R D E R

On March 31, 2003, The Union Light, Heat and Power Company (UHL&P)¹ filed its application to revise its Accelerated Mains Replacement Program (AMRP) Rider. The AMRP Rider Mechanism was approved by the Commission in its January 31, 2002 Order in Case No. 2001-00092.² The present application is the second AMRP Rider filing by ULH&P under the approved mechanism. The AMRP Rider filing covers AMRP activity for calendar year 2002.

In Case No. 2001-00092, the Commission determined that the AMRP Rider filing would be submitted on March 31 of each year and the Commission would attempt to process the filing within 60 days. However, the Commission reserved the option of extending the review period due to the need for a hearing and the possibility of an extensive review. In the present application, ULH&P proposed that its AMRP Rider should become effective for bills rendered on and after June 2, 2003. On May 12, 2003, the Commission issued a procedural schedule to review the AMRP filing. The schedule

¹ ULH&P, a wholly owned subsidiary of The Cincinnati Gas and Electric Company, is an electric and gas utility that purchases, sells, stores, and transports natural gas in Boone, Campbell, Gallatin, Grant, Kenton, and Pendleton counties in Kentucky.

² Case No. 2001-00092, Adjustment of Gas Rates of The Union Light, Heat and Power Company.

provided for discovery, intervenor testimony, a hearing, and extended the review period up to and including August 31, 2003.

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention (AG), requested and was granted full intervention. A hearing was held at the Commission s offices in Frankfort, Kentucky on July 22, 2003. The case now stands submitted for a decision.

In its March 31, 2003 filing, ULH&P determined the revenue requirement for its second AMRP Rider to be \$2,902,721. ULH&P prepared and submitted the formats showing its determination of the revenue requirement in accordance with the Commission s Order of August 30, 2002 in Case No. 2002-00107.³ ULH&P s proposed revenue requirement is composed of the AMRP Rider calculations for calendar year 2002.

AMRP RIDER ISSUES

Work Orders Eligible for Recovery through the AMRP Rider

Included in the annual filing formats is a schedule identified as AMRP Form 2.0 Plant in Service Added Through AMRP. The information on AMRP Form 2.0 shows, by work order number, the mains, services, meter relocations, and customer service lines eligible for inclusion and recovery through the AMRP Rider. Using work order numbers, ULH&P is to indicate on AMRP Form 2.0 the Percentage Complete for each

³ Case No. 2002-00107, An Adjustment of Rider AMRP of The Union Light, Heat and Power Company. The original annual filing formats were prescribed in the Commission s January 31, 2002 Order in Case No. 2001-00092. The Commission revised the annual filing formats as part of its decision in the first AMRP Rider proceeding.

project and the current 12 month and cumulative costs for the AMRP Rider. All of the work orders listed for calendar year 2002 indicated a 100 percent completion.

However, when the listing of 100 percent completed work orders for calendar year 2002 was compared with the listing for calendar year 2001, several work orders identified as 100 percent completed in 2001 reappeared on the listing of 100 percent completed work orders for 2002. The three work orders that had been examined as part of the rehearing in Case No. 2002-00107 were also listed in both calendar years.⁴ ULH&P was asked to explain why expenditures had been claimed in 2002 for work orders that ULH&P reported as being 100 percent complete in Case No. 2002-00107.

ULH&P explained that it had interpreted the Percentage Complete column on AMRP Form 2.0 to mean the percentage of installed gas main that is used and useful,⁵ not an indication of whether the total work for a given project was 100 percent complete. ULH&P stated that in the construction process it is normal for additional expenditures to be recorded after a main or service becomes used and useful. Additional expenditures would include site restoration costs, additional tie-ins to the existing system, and the

⁴ In its August 30, 2002 Order in Case No. 2002-00107, the Commission had excluded from inclusion in the first AMRP Rider the costs associated with three work orders, due to the fact the three work orders had not been identified as 100 percent complete by ULH&P. ULH&P's AMRP Rider mechanism does not provide for the inclusion of Construction Work in Progress (CWIP). During rehearing, ULH&P demonstrated that the costs identified for the three work orders had been transferred from CWIP to Completed Construction Not Classified at December 31, 2001. Because of this transfer, the projects were eligible for depreciation to begin. In its November 21, 2002 Order on rehearing, the Commission included the costs associated with the three work orders in the calculation of the revenue requirement for the first AMRP Rider.

⁵ ULH&P defines used and useful as meaning the main has gas flowing through it and at least one customer has been connected to it. See Transcript of Evidence ("T.E. "), July 22, 2003, at 18.

transfer of customer service lines from the existing main to the new main. ULH&P also noted that adjustments to the recorded expenditures relating to billing lags from contractors and returns of materials to inventory could occur several months after the asset was considered used and useful.⁶ ULH&P further explained that when the plant is considered in service and used and useful, the accounting system transfers the costs for that plant from CWIP to Completed Construction Not Classified.⁷

The Commission has considered ULH&P's explanations and has determined that the work order expenditures listed in both calendar years 2001 and 2002 reflect eligible expenditures for inclusion in the AMRP Rider. The Commission further finds that ULH&P's explanations concerning the operation of its work order and accounting system are reasonable. ULH&P determined that certain expenditures for a series of work orders were complete in 2001, but that it experienced further costs in 2002 that are eligible for inclusion in the second AMRP Rider. The projects identified by the various work orders are not submitted for inclusion in the AMRP Rider calculations until the accounting system has transferred the costs from CWIP to Completed Construction Not Classified. The Commission accepted this accounting treatment in Case No. 2002-00107⁸ and nothing has been submitted in this proceeding to change that determination.

⁶ Response to the Commission Staff's First Data Request dated May 21, 2003, Item 3(a) and 3(b).

⁷ T.E., July 22, 2003, at 21-22.

⁸ See Case No. 2002-00107, November 21, 2002 Order at 2.

As a result of the examination of this issue, the Commission has concluded that AMRP Form 2.0 should be revised. Appendix B to this Order contains the revised AMRP Form 2.0 that should be used for subsequent annual AMRP filings.

Recovery of Plant Investments

During the public hearing, the AG raised the possibility that ULH&P may be recovering costs associated with existing main while at the same time recovering costs associated with new mains replaced under the AMRP. ULH&P replied that while the existing main may still be serving customers during the transition over to the new main, for accounting purposes, the existing main has been retired and no additional costs are recorded for the existing main. ULH&P stated that this retirement in the accounting system takes place at the end of the calendar year to avoid any doubling up of the costs. ULH&P also noted that it was not recovering the calendar year 2002 AMRP costs until the Commission ruled on the application in the present case.⁹

The Commission has considered the explanations offered by ULH&P and has determined that ULH&P has taken reasonable steps to avoid the double recovery of costs for retired mains and new mains installed under the AMRP.

Calculation of the AMRP Rider

Using the approach prescribed in Case No. 2001-00092, ULH&P calculated the revenue requirement to be recovered through the second AMRP Rider to be \$2,902,721.¹⁰ The Commission has reviewed ULH&P's calculations and finds that the

⁹ T.E., July 22, 2003, at 37-40.

¹⁰ AMRP Form 1.0.

revenue requirement as calculated is reasonable and should be approved for the second AMRP Rider.

ALLOCATION OF REVENUE REQUIREMENT

ULH&P proposed to allocate its proposed \$2,902,721 AMRP Rider revenue requirement using a percentage of revenue approach reflecting the base revenues from Case No. 2001-00092. The AMRP Rider rates for Rate RS Residential Service and Rate GS General Service would be a per customer charge. The AMRP Rider rates for Rate FT-L Firm Transportation Service and Rate IT Interruptible Service would be a volumetric charge. This was the same approach ULH&P proposed in the first AMRP Rider application, and both are consistent with the Commission's decision in Case No. 2001-00092.

The Commission finds that the allocation approach proposed by ULH&P is reasonable and that it should be approved for the second AMRP Rider. The rates are shown in Appendix A to this Order. As was noted in Case No. 2002-00107, the AMRP Rider is to be separately disclosed on customers' bills.¹¹

OTHER ISSUES

AG Objection

The AG appealed the Commission's decisions in Case Nos. 2001-00092 and 2002-00107, which authorized the AMRP Rider and established the first AMRP Rider revenue requirement and surcharge, to the Franklin Circuit Court. At the public hearing in this proceeding, the AG renewed his objection to the proceeding as a whole on the grounds he had raised previously. In lieu of briefing the matter, ULH&P and the AG

¹¹ See Case No. 2002-00107, August 30, 2002 Order at 13.

agreed to acknowledge orally that each party was incorporating into this record the same objections and legal arguments that both parties have raised in the prior AMRP proceedings.¹²

The Commission finds that no evidence has been provided to warrant a change in our previous decision concerning our authority to establish the AMRP mechanism or to prevent us from reviewing and approving this second AMRP Rider.

Subject to Refund

At the public hearing, the AG indicated his support for a continuation of the AMRP Rider being collected subject to refund.¹³ Other than renewing its previous arguments, ULH&P did not specifically address this issue.

In the Commission's October 7, 2002 Order in Case No. 2002-00107, the Commission granted limited rehearing on the subject to refund provision of the August 30, 2002 Order. The Commission clarified the August 30, 2002 Order simply to require ULH&P to maintain its records in such a manner that ULH&P, the Commission, or any of ULH&P's customers will be able to determine the amounts to be refunded and to whom in the event the Court rules that the Commission lacked the requisite authority to approve the AMRP Rider.¹⁴ As noted previously, the outcome of the AG's appeal before the Franklin Circuit Court is uncertain. Therefore, the Commission finds that it is reasonable to continue the record-keeping requirement established in the previous AMRP Rider case.

¹² T.E., July 22, 2003, at 40-42.

¹³ T.E., July 22, 2003, at 40-41.

¹⁴ See Case No. 2002-00107, October 7, 2002 Order at 2.

Effective Date

In its March 31, 2003 application, ULH&P proposed that its revised AMRP Rider become effective for bills rendered on and after June 2, 2003. The Commission's May 12, 2003 Order extended the review period for the second AMRP Rider and suspended the proposed rates until August 31, 2003. In Case No. 2002-00107, the Commission rejected ULH&P's request to make the first AMRP Rider effective for bills rendered on and after a specific date.¹⁵ The Commission has previously found that the AMRP Rider should be effective for service rendered on and after a specific date, and nothing has been presented in this proceeding to alter that finding. Therefore, the Commission finds that the rates found reasonable herein should be effective for service rendered on and after August 31, 2003.

IT IS THEREFORE ORDERED that:

1. The rates proposed by ULH&P, set forth in Appendix A, are the fair, just, and reasonable rates for ULH&P to charge under the AMRP Rider for service rendered on and after August 31, 2003, and are hereby approved.
2. ULH&P shall, within 20 days of the date of this Order, file its revised Rider AMRP tariff sheets setting forth the rates approved herein.
3. ULH&P shall continue to maintain its records relating to all AMRP Rider revenues collected in the same manner approved by the Commission in its Order of October 7, 2002 in Case No. 2002-00107.

¹⁵ See Case No. 2002-00107, August 30, 2002 Order at 13.

4. ULH&P shall include in its annual AMRP Rider filing the revised AMRP Form 2.0, set forth in Appendix B hereto, in lieu of the AMRP Form 2.0 authorized in Case No. 2002-00107.

5. ULH&P shall separately disclose on customers bills the AMRP Rider approved herein.

Done at Frankfort, Kentucky, this 25th day of August, 2003.

By the Commission

ATTEST:


Executive Director

Case No. 2003-00103

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2003-00103 DATED August 25, 2003

The following rates and charges are prescribed for the customers in the area served by The 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 effective date of this Order.

RIDER AMRP
ACCELERATED MAIN REPLACEMENT PROGRAM RIDER

Rate RS, Residential Service	\$2.103 / month
Rate GS, General Service	\$9.162 / month
Rate DGS, Distributed Generation Service	\$0.00 / month
Rate FT-L, Firm Transmission Service Large	\$0.0149 / CCF
Rate IT, Interruptible Transportation Service	\$0.0061 / CCF
Rate SSIT, Spark Spread Interruptible Transportation Service	\$0.0000 / CCF

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2003-00103 DATED August 25, 2003

AMRP RIDER ANNUAL FILING REPORTS

Appendix C of the Commission's August 30, 2002 and November 21, 2002 Orders in Case No. 2002-00107 contained the Annual Filing Reports to be submitted by ULH&P in future years. The Commission has found that one of the schedules, AMRP Form 2.0, needs to be revised. ULH&P will use the revised AMRP Form 2.0 when making its Annual AMRP Rider Filing. ULH&P will not modify any filing format without prior consent of the Commission Staff.

**THE UNION LIGHT, HEAT AND POWER COMPANY
ANNUAL AMRP RIDER FILING
For the 12 Months Ending {Date}
Plant in Service Added Through AMRP**

Project Identifier (Work Order Reference # or Contract Reference)	Date Project Started	Estimated Total Cost of Work Order or Contract	Costs for Current 12 Months	Cumulative Total Project Costs
Mains Plastic (List Separately)				
Mains Steel (List Separately)				
Services Plastic (List Separately)				
Meter Relocations (List Separately)				
Customer Service Lines (List Separately)				
Totals				

All projects and/or jobs performed in association with AMRP will be included in this schedule. Each project or job will be identified by its Work Order Reference Number or a Contract Reference. ULH&P will maintain supporting documentation to support any cost shown on this schedule. Additional pages may be required for this supporting schedule.

CWIP = Construction Work in Progress; CCNC = Completed Construction Not Classified