

CINCINNATI GAS & ELECTRIC COMPANY  
CASE NO. 95-656-GA-AIR

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SUMMARY OF  
THE COMMISSION'S OPINION AND ORDER OF DECEMBER 12, 1996  
IN THE CINCINNATI GAS & ELECTRIC COMPANY'S GAS RATE CASE  
CASE NO. 95-656-GA-AIR

On January 8, 1996, The Cincinnati Gas & Electric Company (CG&E or company) filed an application to increase by \$30,603,875 the rates that it charges for gas service to its jurisdictional customers.

The Commission has determined that CG&E is entitled to an increase of \$9,260,703, which represents an overall increase of 2.48 percent over current operating revenues. For residential customers, the increase amounts to approximately 2.36 percent. CG&E's commercial and industrial general service rates would increase by approximately 2.31 percent. For interruptible transportation customers, rates would increase by approximately 5.41 percent.

In its opinion and order, the Commission established an overall rate of return of 9.67 percent, including a return on equity of 11.96 percent. In establishing this return on equity, which is at the top of the staff's recommended range, the Commission took into account, among other things, the company's efforts to reduce costs and increase operating efficiency, the company's proposal to initiate gas transportation programs for smaller customers, including residential customers, and CG&E's prompt response in dealing with customer service complaints raised at the local public hearings.

In the opinion and order, the Commission adopted the staff's recommendation to reduce the amount of the company's request for rate base inclusion of costs associated with the computer database customer service system, due to significant delays and cost overruns. The Commission also reduced CG&E's working capital proposal to zero, based on the staff's recommendation. The Commission directed the company to work with independent gas marketers to develop mutually acceptable tariff arrangements for providing alternative gas supply choices for small customers, including residential. With respect to service complaints raised during the local hearings, the Commission directed the company to implement the proposals contained in a company report regarding these issues, and directed the Commission's staff to monitor CG&E's progress in achieving the goals outlined in the company's report.

This summary was prepared to provide a brief statement of the Commission's action. It is not part of the Commission's decision and does not supersede the full text of the Commission's opinion and order.

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The )  
Cincinnati Gas & Electric Company for an )  
Increase in Its Rates for Gas Service to All )

Case No. 95-656-GA-AIR

OPINION AND ORDER

The Commission, coming now to consider the application of The Cincinnati Gas & Electric Company to increase rates and charges pursuant to Section 4909.18, Revised Code, the Staff Report of Investigation, the exhibits and testimony introduced into evidence, having appointed its attorney examiner to conduct the public evidentiary hearings and to certify the record directly to the Commission, and being fully advised of the facts and issues, hereby issues its opinion and order.

APPEARANCES:

James B. Gainer and G. James Van Heyde, Cinergy Corporation, and Jeffrey A. Gollomp, on behalf of The Cincinnati Gas & Electric Company, 139 East Fourth Street, Cincinnati, Ohio 45202.

Betty D. Montgomery, Attorney General of the State of Ohio, by Duane W. Luckey, Section Chief, Anne L. Hammerstein, Gerald Rocco, and Paul A. Colbert, Assistant Attorneys General, 180 East Broad Street, Columbus, Ohio 43215-3793, on behalf of the staff of the Public Utilities Commission of Ohio.

Robert S. Tongren, Consumers' Counsel, by Werner L. Margard, III, Evelyn Robinson-McGriff, and Thomas O'Brien, Assistant Consumers' Counsel, 77 South High Street, Columbus, Ohio 43266-0550, on behalf of the residential customers of The Cincinnati Gas & Electric Company.

Bell, Royer & Sanders Co., L.P.A., by Langdon D. Bell, 33 South Grant Avenue, Columbus, Ohio 43215, on behalf of Avon Products Company, Bayer Corporation, Cincinnati Milacron Company, Ford Motor Company, The Greater Cincinnati Hospital Council, W.R. Grace Company, Henkel Corporation, Hillshire Farm & Kahn's, Morton International, The Procter & Gamble Company, Senco Products, Inc., Sun Chemical Corporation, and Occidental Chemical Corporation (collectively Cincinnati Energy Consumers).

Chester, Willcox & Saxbe, by John W. Bentine, 17 South High Street, Suite 900, Columbus, Ohio 43215, on behalf of the Ohio Council of Retail Merchants.

Fay D. Dupuis, City Solicitor, and Richard Ganulin, Assistant City Solicitor, 801 Plum Street, Cincinnati, Ohio 45202, on behalf of the city of Cincinnati.

Vorys, Sater, Seymour and Pease, by M. Howard Petricoff, 52 East Gay Street, P.O. Box 1008, Columbus, Ohio 43216-1008, on behalf of Enron Capital & Trade Resources Corporation.

Boehm, Kurtz & Lowery, by David F. Boehm, 2110 CBLD Building, 36 East Seventh Street, Cincinnati, Ohio 45202, on behalf of AK Steel Company.

Vorys, Sater, Seymour and Pease, by Sheldon A. Taft, 52 East Gay Street, P.O. Box 1008, Columbus, Ohio 43216-1008, on behalf of GE Aircraft Engines.

Bricker & Eckler, by Sally W. Bloomfield, 100 South Third Street, Columbus, Ohio 43215-4291, on behalf of Miami Valley Resources, Inc.

Denis E. George, Vice President and General Manager, Stand Energy Corporation, 1077 Celestial Street, Cincinnati, Ohio 45202.

Hahn Loeser & Parks, by Maureen R. Grady and Janine L. Migden, 10 West Broad Street, Columbus, Ohio 43215-3420, on behalf of the Southwestern Ohio Intervention Coalition.

Aronoff, Rosen & Hunt, by Richard A. Paolo, 1600 Star Bank Center, 425 Walnut Street, Cincinnati, Ohio 45202, on behalf of the Home Builders Association of Greater Cincinnati and the Ohio Valley Development Council.

Peggy J. Banczak, Vice President and General Counsel, Enserch Energy Services, Inc., 1301 Fannin Street, Suite 2300, Houston, Texas 77002.

## HISTORY OF THE PROCEEDING:

The Cincinnati Gas & Electric Company (CG&E, company, or applicant) is an Ohio corporation which renders gas or electric service to customers in ten counties in southwestern Ohio. CG&E provides gas service to approximately 357,000 in eight counties. CG&E is a public utility and a natural gas company within the definitions of Sections 4905.02 and 4905.03(A)(6), Revised Code, and, as such, is subject to the jurisdiction of this Commission pursuant to Sections 4905.04, 4905.05, and 4905.06, Revised Code. CG&E is a subsidiary of Cinergy Corporation (Cinergy) pursuant to the 1994 merger of CG&E and PSI Resources, Inc. CG&E's present rates and charges for gas service were established by order of this Commission in Cincinnati Gas & Electric Co., Case No. 92-1463-GA-AIR (August 26, 1993).

On November 9, 1995, the applicant filed a notice of intent for an increase in rates for gas service pursuant to Section 4909.18, Revised Code. The Commission approved, by entry dated December 14, 1995, the requested test period beginning July 1, 1995 and

ending June 30, 1996, with a date certain of September 30, 1995. The company's application to increase gas rates was filed on January 8, 1996 along with the standard filing requirements. By entry issued February 15, 1996, the Commission accepted the application for filing as of January 8, 1996.

In accordance with the provisions of Section 4909.19, Revised Code, the staff of the Commission conducted an investigation of the matters set forth in the application and the related filings. A written report of the staff's investigation was filed on July 12, 1996 and was served as provided by law. Objections to the Staff Report of Investigation (Staff Report or Staff Ex. 1) were filed by the company and by intervenors Office of the Ohio Consumers' Counsel (OCC); Cincinnati Energy Consumers (CEC); the city of Cincinnati (City); Southwestern Ohio Intervention Coalition (SOIC); the Home Builders Association of Greater Cincinnati and Ohio Valley Development Council (Home Builders); Stand Energy Corporation (Stand); Miami Valley Resources, Inc. (Miami Valley); GE Aircraft Engines (GE); Enron Capital & Trade Resources (Enron); and AK Steel Company (AK Steel). Intervenors Ohio Council of Retail Merchants (OCRM) and Enserch Energy Services filed no objections. Stand, Miami Valley, and Enron jointly sponsored testimony as the Independent Marketers Group (IMG or independent marketers). CEC and OCRM filed joint briefs.

Pursuant to entry dated July 15, 1996, the public hearing in this proceeding commenced on August 26, 1996, at the offices of the Commission, 180 East Broad Street, Columbus, Ohio. The Columbus hearing concluded on October 8, 1996. Pursuant to entry dated September 9, 1996, local sessions of the hearing were conducted on September 26, 1996 in Cincinnati and Fairfield, Ohio. The purpose of the local hearings was to provide members of the public affected by this application the opportunity to present statements concerning the proposed rate increase. Notice of the application and of the local public hearings were published by the company in accordance with Sections 4909.19 and 4903.083, Revised Code. Posthearing briefs and replies were submitted on October 21 and October 28, 1996. In the July 15, 1996 entry, the parties were instructed to address their objections to the Staff Report in their initial briefs. Any objection that was not discussed was to be deemed withdrawn. The attorney examiner has certified the recorded transcript of the proceeding and the exhibits admitted into evidence to the Commission for its consideration.

## COMMISSION REVIEW AND DISCUSSION:

Case No. 95-656-GA-AIR is before the Commission upon the application of CG&E pursuant to Section 4909.18, Revised Code, for authority to increase rates and charges for gas service to jurisdictional customers. The company alleges that its existing gas base rates are insufficient to provide it reasonable compensation for the service rendered. CG&E seeks Commission approval of base rate schedules which would yield \$30,603,875 in additional gross annual base rate revenue, which represents an increase of 8.92 percent over current operating revenue (Staff Ex. 1, Sched. A-1).

## RATE BASE

Customer Service System

In 1978, and again in 1983, CG&E's management undertook an investigation of the costs and benefits of replacing its existing customer billing system and customer information service order system, which had been in place for approximately 20 years. Both studies showed benefits outweighing costs for replacement of the system and it was determined by the company that a new customer service system (CSS) was necessary to support CG&E's customer service obligations into the future. In June 1987, the CSS project commenced development with an initial target date for implementation of July 1990. In late 1989, the target date was revised to July 1991 due to software design and development requirements. The project was expensed by CG&E through the end of 1989 at a cost of \$17.7 million (Staff Ex. 1, at 75-77).

In early 1990, the company requested, and received, approval to capitalize CSS expenses with projected costs of \$24 million and tangible benefits of \$13.5 million. Cincinnati Gas & Electric Co., Case No. 90-277-GE-AAM (April 5, 1990). Delays in the project were experienced in late 1990 and, by July 1991, with project costs already having exceeded the \$24 million budget (Co. Ex. 37, RAL-6), CG&E's management terminated internal development of the CSS project and retained two outside consultants, Andersen Consulting (Andersen) and Computer Science Corporation (CSC), to evaluate the viability of completing the project (Id. at 77). Both consultants recommended completion and, in October 1991, the company hired CSC to complete the CSS for a flat fee of \$14,875,000 (plus a contingency maximum of \$1.25 million). The project was finally completed in July 1993 at a total cost of \$80 million, with a capitalized cost of \$62.3 million. CG&E is now seeking recovery of the gas operation's allocable portion of the costs (Id.).

Based on the company's missed deadlines and cost overruns, the staff concluded that CG&E mismanaged the CSS project. Staff witness Rack testified that, in addition to missing deadlines and exceeding costs, CG&E mismanaged the CSS project by failing to sign contractors to contracts with specified deadlines, by choosing a customized DB2 system without adequate investigation, by investing in a system where costs exceeded tangible benefits, and by failing to maintain an adequate audit trail with regard to costs and deadlines (Staff Ex. 1, at 81; Staff Ex. 12, at 3). Mr. Rack stated that, at the time of their respective reviews of the CSS project, both Andersen and CSC found the CSS to be approximately 50 percent complete. Based on that estimate, the staff determined that the cost-to-go should represent 50 percent of the total cost of the CSS. Accordingly, the staff recommended that recovery of CSS expenses be based on the amount paid to CSC for completing the remaining 50 percent of the project (\$14.875 million x 2 = \$29.75 million). Based on the staff's analysis, the Ohio jurisdictional share of the CSS project would be \$25.677 million, of which \$9.348 million would be allocable to CG&E's gas operations for purposes of calculating the revenue requirement in this case (Staff Ex. 1, at 81-82; Staff Ex. 12, at 7).

OCC, CEC, and the City objected to the staff's allowance of any costs associated with the CSS project based on their allegations that CG&E mismanaged the project. These intervenors argue that no CSS costs should be recognized in this case because the company failed to justify any amount of the costs as being prudently incurred. According to OCC, the staff's doubling of the CSC contract amount gives undue recognition to costs incurred prior to retention of CSC, which costs were not shown by the company to be reasonable. OCC also contends that, if the Commission adopts the staff's recommendation, the amortization period for the CSS should be 15 years, rather than the 10 years proposed by the staff, to recognize the expected useful life of the system .

The company contends that the development of its customer service system was reasonably and prudently managed. Company witness Dick testified that the decision to use DB2 technology was reasonable at the time because it provided CG&E with greater flexibility to enhance the system rather than having to replace the system within a few years (Co. Ex. 15, at 4-6). Mr. Dick also stated that the custom system developed by the company was comparable to those being installed by other major utilities at the time, due to the lack of commercially available software packages (Id. at 6). Mr. Dick indicated that customer information systems (CIS) similar to CG&E's CSS have normally taken six to eight years (750 to 1,000 work years) to complete. Because CG&E's system was implemented in six years, with approximately 600 work years, Mr. Dick concluded that the CSS project was completed in a reasonable period of time. He stated that the \$80 million cost of the project was well with the \$75 to \$100 million range of other custom CIS projects with which he was familiar (Id. at 6-7).

CG&E also argues that no legal basis exists for disallowing the CSS costs proposed by the staff. The company claims that, despite arguments raised by the staff and OCC,

Section 4909.154, Revised Code, does not permit the Commission to disallow inclusion of used and useful plant (the CSS) in rate base. Section 4909.154, Revised Code, states:

In fixing just, reasonable, and compensatory rates, joint rates, tolls, classifications, charges, or rentals to be observed and charged for services by any public utility, the public utilities commission shall consider the management policies, practices, and organization of the public utility. The commission shall require such public utility to supply information regarding its management policies, practices, and organization.

If the commission finds after a hearing that the management policies, practices, or organization of the public utility are inadequate, inefficient, or improper, the commission may recommend management policies, management practices, or an organizational structure to the public utility.

In any event, the public utilities shall not allow such operating and maintenance expenses of a public utility as are incurred by the utility through management policies or administrative practices that the commission considers imprudent.

The company argues that the Commission may disallow only operating and maintenance (O&M) expenses under this provision, and then only to the extent that the Commission finds that the company's management practices were imprudent. CG&E contends that the staff made no finding of imprudence but, instead, found only that the company had "mismanaged" the CSS project (Staff Ex. 1, at 81; Staff Ex. 12, at 7; Tr. XV, 49-54). Accordingly, CG&E claims that the record in this proceeding does not support a finding of management imprudence and the Commission must, therefore, reject the staff's proposed exclusion of a portion of the CSS costs.

We disagree with CG&E's argument that the record does not support a finding that at least part of the costs incurred for developing the CSS should be disallowed. The staff's investigation, as described in the Staff Report and Mr. Rack's testimony, clearly indicates that the company's continued unsuccessful efforts to complete the CSS project with in-house personnel contributed significantly to delays and cost overruns. For example, the company originally projected an implementation date of July 1990 but, due to software and other problems, the completion date was revised to July 1991 (Staff Ex. 1, at 76). During 1991, additional software development problems occurred. The CSS project leaders were representing to CG&E's management as late as June 1991 that the project was only two months behind schedule and should be completed by September 1991. By July 1991, it became apparent that the entire project needed to be reevaluated. CG&E's management was then forced to retain outside consultants to evaluate the CSS and, in November 1991, hired CSC to finish the project. The CSS was finally implemented in July 1993, three years after the original due date for the project (Id. at 75-76; Staff Ex. 12, at 3).

In addition, the delays in CSS development caused substantial cost overruns for the project. As described by the staff, CG&E budgeted \$24 million (capitalized) for the project in the 1990 AAM filing (on top of the \$17 million previously expensed from 1987). By December 1991, the capitalized costs had already exceeded \$34 million, causing the company to revise its capitalized budget for CSS to more than \$52 million (Co. Ex. 37, Sched. RAL-6). Moreover, the company's final report on the CSS in February 1995 identified tangible benefits of \$2 million for the first year of operation. Amortized over 10 years, the tangible benefits would be valued at only \$20 million (Staff Ex. 1, at 77; Staff Ex. 12, at 5-6). Comparing the total capitalized cost of \$62.3 million to the quantified benefits is a further indicator that the company's decision making was unreasonable.

CG&E argues that Section 4909.154, Revised Code, does not permit the Commission to disallow from rate base any portion of capital assets. The company claims that the statute grants the Commission authority only to disallow imprudently incurred O&M expenditures. CG&E cites our recent Centerior decision to support its contention that the Commission has recognized the distinction between capital costs and O&M cost disallowances. Toledo Edison Co. and Cleveland Electric Illuminating Co., Case No. 95-299-EL-AIR, et al. (April 11, 1996) (hereinafter referred to as Centerior). CG&E's reliance on the Centerior decision is misplaced. Although the Commission cited to its authority to disallow imprudently incurred O&M expenses, the opinion and order also indicated that Section 4909.154, Revised Code, does not require us to find that "imprudent costs must be

included in rate base". Id. at 43. Rather, as was pointed out in the Centerior order, the Commission's authority to disallow imprudent assets has long been recognized as an inherent component of the used and useful criteria embodied in Section 4909.15, Revised Code, was a recognized principle when Section 4909.154, Revised Code, was enacted, and is consistent with long-standing precedent of this Commission and of commissions throughout the country. See, e.g., Investigation of Perry Nuclear Power Plant, Case No. 85-521-EL-COI (January 12, 1988); Duquesne Light Company v. Barasch, 488 U.S. 299 (1989).

Given the evidence of record, we must determine the appropriate allowance for the costs incurred for the CSS project. OCC proposes a total disallowance of the CSS costs while the staff recommends a partial disallowance based on the fixed contract amount for CSC to complete the project. No party disputes that the CSS has been operating since July 1993 and, as such, we do not believe that OCC's position is a reasonable remedy. We believe that the staff's recommendation reasonably quantifies an appropriate allowance for the costs incurred for the CSS. The staff's doubling of the CSC contract (\$14.875 million x 2 = \$29.750 million) recognizes that the project was estimated to have been 50 percent completed at the time CSC took over the project in November 1991 (Staff Ex. 1, at 81). Although the company claims that the project was more than 50 percent complete at that time (Co. Ex. 15, at 8-9), Andersen Consulting offered its opinion in October 1991 that "approximately 50% of work has been completed to date" (OCC Ex. 14, at 21). We concur with the staff that, based on this independent assessment of the status of the project, it was reasonable to use the fixed fee portion of the CSC contract as the basis for estimating the proper allowance for the entire project. Accordingly, we will adopt the staff's recommendation to allow the Ohio gas jurisdictional portion of the project costs (\$9.348 million) in rate base in this proceeding. We reject OCC's argument for a 15-year amortization. As the staff pointed out, the time period for amortization of the CSS was established by Commission entry and is reasonable compared to other computer systems (Staff Ex. 6, at 21). Therefore, we believe the staff's 10-year amortization is appropriate.

When the Commission determines prudence it presumes that the decisions of the utility are prudent under the circumstances existing at the time the decision was made. Hindsight is not a factor in determining prudence, however, a prudence determination is made in a retrospective factual inquiry. Perry, Case No. 85-521-EL-COI (January 12, 1988) at 10-11. The facts in this case present the Commission with such a factual inquiry. The Commission finds that CG&E failed to sustain its burden of showing that \$62.3 million should be found to be part of the reasonable original cost of the CSS asset. Based on the evidence of record in this proceeding, the Commission finds that \$32.55 million of the cost of CSS is not reasonable under Sections 4909.05(E) and 4909.15, Revised Code. Because these costs are not eligible for rate base recognition in this case, the regulatory accounts and records of CG&E should be restated to reflect the appropriate value of the CSS asset. As previously noted, the reasonable original cost of CSS jurisdictional to the company's gas operation is \$9.348 million.

As discussed above, lengthy delays contributed significantly to the cost overruns experienced in developing the CSS. As detailed in the Staff Report and staff testimony, CG&E invested in a system where costs greatly exceeded benefits (Staff Ex. 1, at 77-81; Staff Ex. 12). Given the factors described above, it is unreasonable to expect that significant portion of the CSS costs would be recoverable from ratepayers. Moreover, as indicated by the staff, the company identified only \$20 million in tangible benefits associated with the CSS project (Id. at 79). Accordingly, the staff's recommendation to allow \$29.75 million (\$9.348 million for the Ohio jurisdictional gas portion of the project) as an estimate of the reasonable cost of the CSS is appropriate.

#### Working Capital

As set forth in the Staff Report, working capital is generally defined as the average amount of capital provided by investors in the company, over and above investments in plant and other rate base items, to bridge the gap between the time expenditures are required to provide service and the time collections are received for the service (Staff Ex. 1, at 7). Section 4909.15(A)(1), Revised Code, provides in relevant part that the Commission shall determine:

The valuation as of the date certain of the property of the public utility used and useful in rendering the public utility service for which rates are to be fixed and determined. The valuation so determined shall be the total value as set forth in division (J) of Section 4909.05 of the Revised Code, and a reasonable allowance

for materials and supplies and cash working capital, as determined by the public utilities commission.

Consistent with prior cases, the staff calculated its total working capital recommendation based on a formula consisting of several components. The formula contains a revenue lag and an expense lag based on ratios derived from a lead/lag study, an

allowance for gas enricher liquids, an allowance for materials and supplies, an allowance for gas stored underground, and an allowance for Percentage of Income Payment Plan (PIPP) uncollectibles (Staff Ex. 1, at 7 and Sched. B-5). The cash component of the staff's formula was derived from the lead/lag study submitted by the company in a prior gas rate case (90-390-GA-AIR). Based on application of this formula, the staff found a negative working capital requirement of \$9,784,739 (Id.). In accordance with prior Commission orders and Ohio Supreme Court precedent, the staff recommended a zero working capital allowance. See, *Cincinnati Gas & Electric Co. v. Pub. Util. Comm.*, 67 Ohio St. 3d 517 (1993); *Consumers' Counsel v. Pub Util. Comm.*, 32 Ohio St. 3d 263 (1987); *Cincinnati Bell Telephone Co.*, Case No. 84-1272-TP-AIR (October 29, 1985).

Although the company objected to the staff's zero working capital recommendation, it did not raise the issue on brief. No other party opposed the staff's working capital recommendation. The company did argue on brief that the staff's calculation of revenue lag days was understated because it failed to consider the effect of cycle-billing (Co. Ex. 23, at 2). Staff witness Kotting disagreed with the company's contention. He indicated that, although CG&E may close its books on a monthly calendar basis, expenses are incurred continuously (Staff Ex. 6, at 7-8). We agree with the staff that expenses are incurred on a continual basis and there is no reason to recognize an additional 15 days lag for revenue related to cycle-billing. Accordingly, we will adopt the staff's calculation of zero working capital for purposes of this proceeding.

#### Outstanding Customer Refunds

OCC contends that rate base should be offset by noninvestor supplied funds related to outstanding customer refunds. OCC witness Hines stated that a 13 month average balance in the company's Account 253.56 (\$87,746) should be used to reduce CG&E's rate base because such funds represent cash available for use by the company that is not supplied by shareholders (OCC Ex. 1, at 3-4). Staff witness Kotting testified that Account 253.56 is, in effect, a holding account which tracks customer refund checks that have been sent but have not yet cleared the bank (Staff Ex. 6, at 22). Mr. Kotting indicated that the staff does not usually attempt to capture check clearing lags due to the difficulty in estimating the effect of such lags on both the revenue and expense sides (Id.).

We agree with the staff that no adjustment should be made for customer refunds that have been sent but have not cleared the bank. As noted by Mr. Kotting, these funds represent checks that have been written and are not available for investment by the company (Id. at 23). OCC's objection is overruled.

#### Sale of Accounts Receivable

In February 1996, Cinergy entered into an agreement to sell \$237 million of accounts receivable, thus accelerating CG&E's collection of its accounts receivable. The staff excluded the portion of these sales attributable to the company's gas revenues from the calculation of the working capital allowance (Staff Ex. 1, at 8). OCC and the City objected to the staff's calculation of the gas allocation ratio used to determine the adjustment for the accounts receivable sale by CG&E (OCC Ex. 1, at 5-6; City Ex. 9, at 15-17). According to OCC witness Hines and City witness Hixon, the staff inadvertently used only a portion of gas revenues in allocating the accounts receivable sale (Id.). Staff witness Kotting agreed that the gas allocation ratio should have been calculated by dividing the total gas operating revenues by the sum of the total gas and electric operating revenues, resulting in a ratio of .1940 (Staff Ex. 6, at 23; Revised Sched. B-5.1). Although this adjustment would further increase the negative working capital calculation, it would have no revenue effect given the staff's zero working capital recommendation. Use of the .1940 allocation ratio would, however, slightly lower the expense adjustment shown on Staff Schedule C-3.19 (by approximately \$364,000).

In his rebuttal testimony, company witness Lonneman claimed that the .1940 percent ratio was inappropriate because not all of the accounts receivable are included in the accounts receivable subject to sales. Mr. Lonneman testified that PIPP revenue, sales to

other utilities, interdepartmental sales, interdepartmental rents, and other revenues are not included (Co. Ex. 37, at 9). The company proposes that the Commission use a ratio of .2213 for purposes of calculating the accounts receivable sale (Id., RAL-7).

Although we recognize Mr. Lonneman's assertions in his rebuttal testimony, we agree with the staff that the appropriate ratio for purposes of this case is .1940 percent. Having reviewed the accounts receivable sales agreement (Co. Ex. 39), it is unclear from that document exactly what accounts receivable are not subject to sale. Even Mr. Lonneman was not familiar with the specifics of the agreement but relied primarily on the representations of other company employees (Tr. XXV, 196-197). We do not believe that CG&E has adequately explained which types of accounts are excluded from the agreement and what specific costs are associated with those exclusions. The company did not sustain its burden of proof on this issue and we will, therefore, adopt the staff's revised recommendation as set forth in Mr. Kotting's testimony and Revised Schedules B-5.1 and C-3.19.

#### Deferred Taxes

##### Workforce Reduction Costs

In the Staff Report, the staff included a deferred tax balance related to workforce reduction costs (Staff Ex. 1, at 134). The staff agreed with an objection raised by CG&E that, because the staff excluded costs associated with the workforce reduction, the deferred taxes for that item must also be removed (Staff Ex. 5, at 6; Co. Ex. 23, at 19). The staff's revised position to eliminate the workforce reduction deferred taxes is reasonable and will be adopted.

##### Truck Stock

CG&E objected to the staff's elimination of \$76,213 in deferred income taxes related to truck stock. The company claims that inclusion of deferred taxes for inventory on its service trucks is appropriate because the company was required to inventory the supplies on its trucks and a current expense item was disallowed for income tax purposes (Co. Ex. 23, at 18).

The staff eliminated the tax because there was no current reconciling item on Schedule C-4.1 and the Commission has not authorized the item for normalization (Staff Ex. 5, at 6). Staff witness Street stated that since the truck stock deferred income tax balance meets neither of these requirements, and based on the staff's exclusion from rate base of this item in CG&E's last gas rate case (92-1463-GA-AIR), the deferred taxes were properly eliminated (Id.).

As the company points out on brief, it is simply a matter of timing that no reconciling item was included on Schedule C-4.1. Because service truck inventory is relatively stable, a "Schedule M" reconciling adjustment would not be created each year and the creation of such a schedule is unnecessary. Moreover, we agree with the company's argument that it has previously received permission to normalize its tax book timing difference and there is no requirement that each timing difference be authorized before normalization can be utilized. CG&E's objection on this issue is sustained and the truck stock deferred tax removed by the staff should, therefore, be added back to the company's rate base for purposes of this proceeding.

##### Deferred Pension Cost

The City objected to the staff's failure to eliminate from Schedule B-6 of the Staff Report the deferred income tax balance related to deferred pension costs in Account 190-40 (City Ex. 9, at 4-5). City witness Hixon claims that the staff simply accepted the company's date certain balance for Account 190-40 and included a \$3,516,334 rate base addition on Schedule B-6 for this amount. According to Ms. Hixon, the \$3,516,334 rate base addition for this account should be eliminated because the company and the staff

have not reflected a rate base deduction for the accrued pension liability related to deferred taxes in Account 190-40, and the company did not provide the amount of this balance that was allocable to gas operations (Id.).

The staff responded that the deferred income tax balance on Schedule B-6 of the Staff Report associated with deferred pension cost is a net balance of pension contributions (which is a deduction for tax purposes) and accrued pension expense (which is a book expense). Staff witness Street testified that the deferred tax balance was normalized and, in this case, the net balance resulted in an addition to rate base because accrued pension expense was greater than pension contributions (Staff Ex. 5, at 6-7).

We agree with the staff that the normalized net balance of the accrued pension expense and pension contributions was properly treated as an addition to rate base. There is no evidence that suggests this item was not properly considered by the staff, other than the City's allegation that the company failed to provide through discovery a requested allocation of gas operations. The City's objection on this issue is overruled.

#### PIPP Uncollectibles

The City also objected to the staff's elimination of accumulated deferred income taxes related to PIPP uncollectibles (on Schedule B-6) while, at the same time, recognizing deferred PIPP uncollectibles as an addition to rate base on Schedule B-5 (City Ex. 9, at 5). City witness Hixon stated that, since PIPP uncollectibles were included in the determination of working capital on Schedule B-5, deferred taxes consistent with that PIPP uncollectibles balance should be reflected as a deduction to rate base (Id.).

Staff witness Hess testified that it was the staff's objective to provide the company an opportunity to recover PIPP uncollectible costs not included in CG&E's current PIPP surcharge rider (Staff Ex. 9, at 2). Mr. Hess indicated that, if a certain fund is to be deduct from rate base, it must be contributed from a noninvestor source, it must be constant with reasonable certainty, and must be available for investment. According to Mr. Hess, the staff has not, historically, recognized the tax advantage that would create the tax deferred credit balance offset to the deferred expense and he could not, therefore, assume that it is a noninvestor source of funds (Id. at 3; Tr. XIII, 141). Mr. Hess concluded that, because the deferred tax credit is a noninvestor source, he does not believe that the deferred PIPP allowance in working capital should be net of tax (Id.).

We agree with the staff's treatment of the deferred tax associated with PIPP uncollectibles. As noted by Mr. Hess, the staff did adjust test year operating revenues on Schedule 3.1 in calculating uncollectible and Ohio gross receipts tax expenses on PIPP surcharge revenues (Id. at 2). The entire adjusted operating revenue amount was used by the staff for calculating these amounts and the PIPP surcharge revenues were offset to remove any remaining effects on the revenue requirement (Id. at 3). As Mr. Hess points out, using this amount to further reduce gross receipts taxable revenue, as advocated by the City, would deny the company any opportunity to recover gross receipts taxes on PIPP surcharge revenues. For these reasons, the City's objection is overruled.

#### Customer Service System

CG&E objected to the staff's reduction to rate base of \$3,730,425 for deferred income taxes related to the company's CSS. Company witness Lonneman stated that the staff improperly used the total deferred tax amount associated with the CSS as a rate base reduction (Co. Ex. 23, at 9). Mr. Lonneman claims that the reduction to rate base should, instead, be only \$45,260 to recognize that CG&E was deducting deferred tax balances for income tax purposes during the period of time the CSS was being developed (Id.).

Staff witness Street agreed that the staff had erred by reducing rate base by the amount contained in the Staff Report. However, Mr. Street disagreed with Mr. Lonneman's revised calculation of the appropriate rate base reduction for CSS deferred taxes (Staff Ex. 5, at 3-4). According to Mr. Street, the proper rate base reduction should be \$1,369,836 in order to reflect deferred taxes associated only with the portion of the costs paid to CSC for completing the project (Id.).

We agree with the staff's revision of this item. Consistent with our decision to limit inclusion in rate base of only a portion of the CSS costs, the deferred taxes associated with CSS should be reduced proportionally. As indicated by staff witness Street, the \$45,260 amount advocated by Mr. Lonneman would only be appropriate if CSS were treated as a first-time normalization (Staff Ex. 5, at 4). Since the CSS is a plant addition, a first-time normalization would not be appropriate because additions and retirements are continually occurring. The staff's revised recommendation for treatment of CSS deferred taxes, as set

forth in staff witness Street's testimony, shall be adopted.

#### Rate Base Summary:

Consistent with the foregoing discussion, the Commission finds the jurisdictional rate base, as of the date certain of September 30, 1995, to be as follows:

#### Jurisdictional Rate Base (000's Omitted)

Plant In Service	\$566,910
Less: Depreciation Reserve	(159,421)
Net Plant In Service	\$407,489

Plus: CWIP	0
Working Capital	0
Less: Other Items	42,673

Jurisdictional Rate Base	\$364,816
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#### OPERATING INCOME

#### Transportation Revenues

The company points out on brief that the staff agreed with company witness Lonneman that transportation rates used on Schedule C-3.4 of the Staff Report were incorrect (Co. Ex. 23, at 11). Staff witness Shehata conceded that the AK Steel rate is actually \$.24 Mcf and the Ford contract rate is \$.23 Mcf (Staff Ex. 7, at 3-4). Mr. Shehata made an adjustment to test year revenues consistent with these corrections (Id.). The staff's revised transportation revenues shall be adopted.

#### Union Light Heat & Power

CG&E provides transportation service for two other public utilities, Oxford Natural Gas Company (Oxford) and Union Light Heat & Power (ULH&P). Oxford is an Ohio local distribution company (LDC) while ULH&P is a subsidiary of CG&E that operates in Kentucky (Staff Ex. 1, at 39). The staff is concerned that CG&E's customers not contribute to the cost of serving other LDCs' customers. The staff points out that the Oxford contract with CG&E was revised in 1994 (Case No. 94-796-GA-AEC) but the ULH&P arrangement has remained unchanged since CG&E's last rate case (Id. at 40). The staff indicates that CG&E's customers are contributing to the support of service provided to ULH&P because revenue earned by CG&E is recorded as revenue while charges assessed by ULH&P are included in the GCR calculation. The staff recommends that, following the issuance of this order, CG&E be required to credit the GCR on a quarterly basis with the difference between the rate charged by ULH&P and that charged by CG&E to ULH&P (\$0.0393 MCF) until new interchange agreements are negotiated in accordance with the staff's policy (Id.).

OCC supports the staff's recommendation to require a quarterly credit to the GCR. According to OCC witness Yankel, CG&E's failure to make an adjustment violates the stipulation in its last rate case wherein the signatory parties agreed that the company and the staff would work to explore a reasonable means of treating revenues and costs associated with the CG&E/ULH&P transportation arrangements (OCC Ex. 5, at 33). See, Cincinnati Gas & Electric Co., Case No. 92-1463-GA-AIR, et al. (August 26, 1993), Stipulation at 4. OCC argues that, while it supports the staff's recommendation, the appropriate calculation of the differential between the rate charged by ULH&P and the rate charged to ULH&P should be based on the company's current firm transportation rate (OCC Ex. 5, at 36).

CG&E contends that the Commission is preempted from adopting the staff's recommendation because the rates charged for transportation between CG&E and ULH&P have been approved by the Federal Energy Regulatory Commission (FERC). Cincinnati Gas & Electric Co., 31 FERC 62,384 (1985); Union Light Heat & Power Co. and Columbia Gas Transmission Corp., 47 FPC 325 (1972). According to the company, the staff's recommendation would illegally "trap" costs by preventing the wholesaler (ULH&P) from recovering the costs authorized by the FERC-approved rate. CG&E argues that such trapping of costs is prohibited under United States Supreme Court precedent. Mississippi Power & Light Co. v. Mississippi, 487 U.S. 354 (1988), citing Nantahala Power & Light Co. v. Thornburg, 476 U.S. 953 (1986). In addition, the company claims that the staff has failed to

recognize the difference in types of service rendered by CG&E to ULH&P. Company witness Lonneman testified that the service provided by CG&E to ULH&P is "displacement service" - where "an actual flow of gas does not take place but a 'paper' flow occurs" - compared to the full service provided by the company to its own transportation customers (Co. Ex. 37, at 5). The company argues that the ULH&P rate to CG&E is a FERC-approved cost of service rate based upon specific facilities used for providing the service. The company contends, therefore, that any change in these interutility rates must be approved by the FERC and the Commission is preempted from adopting the staff's recommendation.

We agree with the staff that a revenue adjustment is appropriate in this case to recognize the differential between the rate for service provided pursuant to the CG&E/ULH&P transportation arrangements. As pointed out by OCC, the company failed to actively pursue a resolution of this issue pursuant to the stipulation in the company's last rate case. The stipulation in that case specifically provided that the company and staff would "meet promptly" to, among other things, develop a "reasonable and appropriate Ohio ratemaking treatment of the costs incurred and revenues received by the Company for transportation service rendered to The Union Light, Heat and Power Company". Cincinnati Gas & Electric Co., supra, Stipulation at 4. The Commission's adoption of this stipulation more than three years ago contemplated that an equitable solution would be achieved to a problem that even the company agreed needed to be addressed. Despite this provision in the stipulation, no subsequent agreement was reached. Staff witness Eggleton stated that, when he was contacted more than a year ago by the company, he recommended to Mr. Moeller that the CG&E/ULH&P rate be renegotiated to eliminate the subsidy by CG&E (Tr. XXIII, 61). Mr. Eggleton testified that the company, instead, proceeded to renew the agreement with a rate based on a cost of service calculated in 1983 (Id. at 61-62).

We do not believe that preemption is an issue since we are not changing the FERC-approved rate but merely protecting Ohio jurisdictional ratepayers from the effects of the FERC rate that results in a subsidization of ULH&P. Such state ratemaking authority is clearly permissible and not preempted by the Natural Gas Act. The company's argument cites cases involving the Federal Power Act and ignores the exemption for wholesale transactions of this kind that is explicitly stated in the Natural Gas Act. 15 U.S.C. §717(c). CG&E is a natural gas company under the Commission's jurisdiction. Sections 4905.02, 4905.03(A)(6), 4905.04, 4905.05, and 4905.06, Revised Code. By virtue of the arrangements between CG&E and ULH&P, CG&E receives gas from ULH&P for the use of its retail customers in the state of Ohio. The subsidy created by the CG&E/ULH&P transportation arrangements is a matter of local concern and, thus, is within the jurisdiction of the Commission. Given these circumstances, the United States Supreme Court has recognized that where Congress has explicitly excepted wholesale transactions from regulation by FERC, the states have the right to address issues related to these transactions. Nantahala Power and Light Co. v. Thornburg, 476 U.S. 953, 966 (1986). The Natural Gas Act clearly contemplates state ratemaking authority to protect consumers notwithstanding FERC jurisdiction.

We also believe that, under the terms of the stipulation, CG&E had a duty to negotiate in good faith with respect to resolving this issue and its failure to do so gives us no choice but to impose a reasonable remedy for reconciling the discrepancy recognized in the last rate case. We have considered OCC's proposed adjustment that the differential should be based on the company's current FT rate. Based on the record evidence, however, we believe the staff's recommendation fairly eliminates the differential between the rate for service provided by CG&E to ULH&P with the rate for service provided to CG&E by ULH&P. As explained in the Staff Report, a revenue adjustment of \$188,385 results from its recommendation. In addition, the company should begin to credit the GCR on a quarterly basis consistent with the staff's recommendation, until the agreements are renegotiated in accordance with the policy set forth in the Staff Report.

#### Forecasted Revenues and Customer Numbers

OCC argued that the staff erred by using CG&E's 1995 long-term forecast report (LTFR) as the basis for determining test year base revenues because the data contained in the LTFR was based on 1993 revenues and was, therefore, stale and inaccurate (OCC Ex. 5, at 6). OCC witness Yankel also claims that the 1995 LTFR understates the actual number of residential customers during the test year, thus reducing test year revenues attributable to CG&E's gas operations (Id. at 11-12).

Staff witness Shehata testified that the staff utilized the gas volumes and customer numbers contained in the 1995 LTFR for the forecasted nine months of the test year

(October 1995 through June 1996) because the report represented the latest known informational filing, the LTFR served as the basis for the company's 1996 operating budget, and the LTFR had been approved by the Commission in April 1996 (Staff Ex. 7, at 4-5). Cincinnati Gas & Electric Co., Case No. 95-118-GA-FOR, et al. (April 4, 1996). Although Mr. Shehata expressed reservations with OCC's proposal to use actual amounts (due to his concern that actual figures would not accurately reflect weather normalization), the staff accepted OCC's recommendation with modifications that excluded gas cost revenue, eliminated non-GCR recovery purchased gas cost revenues for interdepartmental and interruptible transportation (IT) customers, and weather normalized the data (Id. at 6-7).

The staff disagreed with OCC's proposal to increase base revenues to reflect "known" numbers of residential customers. Mr. Shehata stated that OCC's proposed adjustment is based on historic trends to estimate the number of customers, with a percentage customer increase used to calculate increased revenues (Id. at 8-9). Therefore, the staff contends that OCC's proposed revenues are not truly known (Id.).

We agree with the staff that base revenue levels advocated by Mr. Yankel must be modified to reflect weather normalization (OCC Ex. 5, at 15-17; Staff Ex. 7, at 7-9). We believe the revenue figures set forth in Mr. Shehata's testimony properly recognize the normalized volumes and should be used as the basis for determining the revenues in this proceeding. We also agree with the staff that OCC's proposal to adjust residential customer levels should be rejected. As staff witness Shehata points out, OCC's is an estimate based on trends and, as such, the revenues resulting from OCC's analysis are not truly "known", as OCC contends. OCC's objections are overruled.

#### Deferred Merger and Early Retirement Costs

CG&E objected to the staff's exclusion from test year expenses the amortization of deferred merger costs. The company argues that this is its first rate case since the merger with PSI, and the formation of Cinergy, in which CG&E has had an opportunity to recover expenses associated with achieving cost savings flowing from the merger. Company witness Lonneman quantified test year benefits (primarily from labor savings) to CG&E's gas operations at \$3,228,000 (Co. Ex. 22, at 21). Mr. Lonneman indicated that the costs (with a three-year amortization) for implementing an early retirement package and other merger expenses were \$2,022,917 (Id. at 22). The company claims that the order on remand in CG&E's Case No. 91-410-EL-AIR specifically recognized that the merger-related costs were recoverable if the amortization period did not extend past January 1, 1999. Cincinnati Gas & Electric Co., Case No. 91-410-EL-AIR, Order on Remand (April 14, 1994). In that case, the Commission approved a stipulation which permitted CG&E to retain all non-fuel savings resulting from the merger until 1999. The company was permitted, pursuant to the terms of the stipulation, to amortize costs, "for accounting purposes", related to accomplishing the merger over a five-year period, but not past January 1, 1999 (Id. at 2). The company argues that, although the stipulation provides for amortization of the costs for accounting purposes, denial of rate recognition in this case would constitute an abuse of discretion because the company would not have another opportunity to seek recovery of these costs in rates.

The staff claims that the order on remand cited by the company addressed only electric rate issues. Staff witness Kotting stated that the stipulation in that case does not authorize recovery of the merger cost deferrals in any rate proceeding. He pointed out that amortization period runs for the same period as the "stay out" period for electric rate increases, thus evidencing an intent to tie the deferrals only to the electric rates. Mr. Kotti indicated his belief that, as stated in the stipulation, the merger costs were intended to be offset by savings in electric operations gained through the merger (Staff Ex. 6, at 12). Mr. Kotting further testified that CG&E's attempt to include costs associated with the company's early retirement program as merger costs fails to recognize that CG&E initiated a former early retirement program prior to the merger and the company has failed to show that such costs should properly be included as merger-related (Id. at 13-14).

The City supports the staff's exclusion of early retirement and merger costs in this proceeding. City witness Effron testified that, in addition to the reasons cited by the staff, neither the early retirement nor the merger-cost deferrals were approved by the Commission (City Ex. 8, at 5). Mr. Effron stated that the "transaction costs" (investment banking fees, legal fees, consultant fees) relate solely to the change in ownership of CG&E, not to the operations of the operating company and, as such, should be treated as shareholder costs. According to Mr. Effron, other merger costs incurred to achieve savings should, in theory, be recoverable by the company, but only to the extent that those costs have not been offset

by savings prior to the time that savings are reflected in the determination of rates (Id. at 6-7).

We agree with the staff and the City that the merger and early retirement costs should not be included as test year expenses in this case. We agree with the City's view that costs incurred by CG&E to effect merger-related savings should only be recoverable to the extent that such costs have not already been offset by savings realized as a result of the merger two years ago. As illustrated in Mr. Effron's testimony, the company is seeking to amortize \$4.3 million over three years for merger and early retirement expenses, and is claiming annual savings of \$3.1 million (City Ex. 8, at 9-10). Therefore, in the two years since the merger, the total savings (not reflected in current rates) are in excess of \$6 million while the deferred costs are only \$4.3 million. Since the merger and early retirement costs have been more than offset by the cumulative claimed savings, the staff properly excluded recognition of those costs in this case.

#### Wage Expense

CG&E objected to several aspects of the staff's wage expense recommendation. The company claimed that the staff erred by failing to use the latest wage rates, excluding lump-sum incentive pay, eliminating (through allocation) a portion of the expenses related to the service company which is contained in the overall allocation percentage, and by failing to use a proper allocation percentage and allocation methodology.

Staff witness Kotting agreed with the company's objections except for the use of the specific individual group allocation percentage (Staff Ex. 6, at 15-16). Mr. Kotting stated that the staff used a single O&M ratio for all labor categories due to concerns with the individual ratios contained in the company's application. He indicated the staff's concern with the company's proposed O&M ratios being substantially higher than ratios during 1990 through 1995. Because of these questions, the staff used an O&M ratio calculated from CG&E's 1995 FERC Form 2. According to Mr. Kotting, the staff's calculated O&M ratio of 16.69 percent is very close to the average ratio for the period of 1990 through 1995 (Id. at 16). Mr. Kotting also agreed with an objection raised by the City regarding wage annualization based on the actual number of employees as of June 1996 (City Ex. 9, at 6; Staff Ex. 6, at 18).

OCC raises the argument on brief that the company improperly included in wage expense \$463,161 related to incentive compensation plans (OCC Brief at 61). According to OCC, the staff recommended disallowance of these costs in the Staff Report but retracted that position and proposed inclusion through Mr. Kotting's testimony (Staff Ex. 6, at 15). OCC argues that the objectionable incentive payment plans are tied to earnings per share goals and, as such, the costs of the incentive plans should be borne by shareholders rather than ratepayers.

CG&E contends that the staff never considered a disallowance of any employee compensation. The company claims that incentive compensation is related to the cost of rendering utility service, even if part of the compensation is measured through an earnings per share goal (Co. Reply Brief, at 11-12). CG&E asserts that its wages and salaries must be competitive with compensation offered by other companies in the industry in order to attract qualified applicants (Co. Ex. 7, at 1,113-1,114). The company maintains that its ability to attract qualified employees is evidenced by its reduced operating costs and improved productivity.

Of the changes from the Staff Report proposed by Mr. Kotting, only two issues remain in dispute: CG&E's claim that specific group allocations are more appropriate than a single wage ratio and OCC's argument that incentive compensation tied to earnings per share should be excluded from O&M expenses.

OCC contends that the Cinergy Annual Incentive Plan and the Cinergy Performance Share Plan provide certain company executives with additional compensation based on Cinergy's earnings per share performance. OCC argues that incentive pay linked to company earnings relate to profitability that inures to the benefit of shareholders and, as such, shareholders rather than ratepayers should pay for incentive compensation tied to increased profits (OCC Brief at 61). We disagree with OCC's objection. There is no record evidence which suggests that the employee incentive compensation plans cited by OCC are inappropriate test year wage expenses. As noted in CG&E's application, the wages and salaries offered to company employees are intended to provide competitive compensation in order to attract qualified personnel (Co. Ex. 7, at 1,113). OCC presented no evidence that such costs were not reasonably part of CG&E's overall operating costs. Given the record

produced in this case, we agree with the staff's inclusion of the incentive compensation plans. Although we have agreed with the staff's inclusion of these expenses, pursuant to Section 4909.154, Revised Code, we recommend that the company work to more closely tie such incentives to the performance of employees' specific operational areas. This would more clearly benefit ratepayers and motivate employees to provide superior service in their respective areas. We understand that this may involve certain matters related to the company's agreements with its unions and that it is an evolutionary process. We direct the staff to review this issue with the company in the future so as to determine whether progress has been made in this area, in order that ratepayers can realize tangible benefits from incentive compensation plans which are narrowly targeted to specific work areas and job performance. In future rate applications, the company will have the burden of demonstrating that incentive compensation plans tend to improve operating results and are not encouraging management merely to request more frequent and larger rate increases.

With respect to the wage ratio, we agree with the staff that the single ratio more accurately reflects the proper allocation for this case. As Mr. Kotting points out (Staff Ex. 6 at 16), individual ratios are preferable, but only if such ratios properly reflect costs. Given that the individual ratios proposed by the company were not based on the actual corporate budgets, and because the proposed ratios are significantly higher than the average O&M ratio over the past five years, we believe the staff's 16.69 percent ratio is reasonable and should be adopted.

#### Benefits Expense

The City raised an objection to the staff's recommended 19.75 percent employee benefits ratio. City witness Hixon testified that, since 1991, CG&E's ratio of gas employee benefits to total employee benefits has been only slightly higher than the ratio of gas O&M labor to total labor dollars (City Ex. 9, at 7-8). However, Ms. Hixon stated that the company's test year benefit ratio is much higher than its test year O&M labor ratio. Ms. Hixon recommends, therefore, that the Commission reduce the benefits ratio to 16.87 percent to reflect the relationship between the ratios for benefits and labor (Id. at 9-10).

The staff argues that the total benefits expense during the test year is reasonable. Staff witness Kotting indicated that a number of factors may have affected the test year benefits ratio (Staff Ex. 6, at 19). Mr. Kotting stated that the increase in test year benefits expense was attributable to increases in employee insurance and hospitalization costs, increases in savings incentive plan and deferred compensation incentive plan payments, and inclusion of fringe benefits allocated from PSI (Id.). Mr. Kotting noted that the first two of these expenses are, for the most part, beyond the company's control and the inclusion of fringe benefits from PSI are due to the merger.

We agree with the staff's recommendation regarding the appropriate benefits to be applied in this case. As pointed out by staff witness Kotting, the test year increases in benefits expense are due primarily to increased costs that are difficult to control. Moreover, a comparison of 1995 actual benefits expenses shows that test year expenses were lower than actually incurred in 1995 (Staff Ex. 6, at 19-20). We believe the staff has reasonably concluded that a benefits ratio of 19.75 percent is appropriate in this case. Accordingly, the City's objection is overruled.

#### Accounts 874 and 894 Expense

City witness Hixon testified that the test year level of expenses for Account 874 (Operation - Mains and Services) and Account 894 (Maintenance - Other) should be reduced. Ms. Hixon claims that, in accordance with discovery responses provided by CG&E, expenses for Account 874 were reduced due to a renegotiated One Call locating contract and the company not using a corrosion contractor that was budgeted for 1996. For Account 894, the company indicated that small tools costs and the microwave radio system were no longer allocated to this account (City Ex. 9, at 10-12).

Staff witness Smith testified that expenses associated with the renegotiated One Call contract should be reflected on an annualized basis in test year expenses and that a normal annual level of expense for corrosion contractor services should also be recognized in test year expenses. With respect to Account 894, Ms. Smith stated that it was the staff's understanding that expenses related to small tools and the microwave radio system had been allocated to a different account in gas operations (Staff Ex. 3, at 4-5).

Although the City contends that adjustments should be made based on reallocation

of certain expenses from these accounts, staff witness Smith indicated her understanding that the costs had been allocated to other areas but were still properly includable as test year expenses. The City conducted no cross-examination of Ms. Smith on this issue and her testimony was not rebutted by any other witness. Based on the evidence of record, we believe the staff's recommendation should be adopted.

#### Voluntary Workforce Reduction Plan

In the Staff Report, the staff recognized that CG&E had initiated a voluntary workforce reduction plan (VWRP) which would have the effect of reducing the company's labor levels. Due to the timing of the Staff Report, however, the effects of the VWRP were then unknown (Staff Ex. 1, at 13).

In his supplemental testimony, company witness Lonneman provided additional details of the plan. Mr. Lonneman stated that 420 Cinergy employees, 136 of whom are CG&E employees, had accepted the VWRP offer (Co. Ex. 23, at 13-15). In order to properly match annualized labor expense with the workforce reduction costs, the staff amortized the one-time VWRP costs over five years and performed additional calculations to achieve the portion of the VWRP costs that are applicable to test year labor figures (Staff Ex. 6, at 17-18). The company accepted the staff's adjustment of the VWRP costs and proposes that staff witness Kotting's recommendation be adopted (Co. Brief, at 11).

We believe the staff's adjustment to the company's proposed VWRP expenses, as agreed to by CG&E, is a reasonable means of matching the reduced labor expenses with the one-time VWRP costs. Given that no dispute remains regarding this issue, the staff's recommendation will be adopted.

#### Rate Case Amortization Expense

The staff initially recommended that CG&E's estimated \$250,000 rate case expense be amortized over a three-year period (Staff Ex. 1, at 14-15; Sched. C-3.15). CG&E objected to the staff's three-year amortization based on the company's assertion that it intends to file a rate case in 1997 to unbundle gas service pursuant to House Bill 476 (H.B. 476). Company witness Lonneman asserted that a one-year amortization of rate case expense would be more appropriate (Co. Ex. 23, at 16). On October 18, 1996, CG&E late-filed an itemized report claiming total rate case expenses of \$331,909 (Co. Ex. 40).

Staff witness Smith, relying on Mr. Lonneman's representation that CG&E intends to file a rate case in 1997, changed the staff's position and agreed with the company that rate case expense should be amortized over one year (Staff Ex. 3, at 2). Ms. Smith conceded that she did no independent analysis of when the rates associated with a H.B. 476 filing may be placed into effect (Tr. IX, 13). Although she indicated some familiarity with H.B. 476, she did not know when Commission rules would be placed into effect or whether a comment period would be required (Id.).

We do not agree with the staff's revised position on this issue. Prior to this case, CG&E last filed gas rate cases in 1992 and 1990. Based on this frequency, it is reasonable to amortize rate case expense over three years. We do not believe the company's stated intent to file a H.B. 476 case sometime during 1997 is sufficient justification for reducing the amortization period to one year. Accordingly, the rate case expenses set forth in CG&E's late-filed exhibit (\$331,909) shall be amortized over three years.

#### Supervisory Expenses

OCC objected to the staff's inclusion of supervisory expenses contained in CG&E's Account 911 consistent with the staff's elimination of related sales and advertising expenses charged to Accounts 912 and 913. Staff witness Smith agreed with OCC's objection that the Account 911 supervisory expenses should be excluded (Staff Ex. 3, at 5). No party disputed the staff's adjustment and we agree that the revised staff position on this issue should be adopted.

#### Sale of Accounts Receivable Expense

The City and OCC objected to the Staff Report's allocation ratio of gas accounts receivable sales fee (Staff Ex. 1, Sched. C-3.19). Staff witness Kotting agreed with the objections and presented revised calculations for both working capital and expenses (Staff Ex. 6, at 20; Revised Schedules. B-5.1 and C-3.19). Consistent with the discussion of this issue

contained in the rate base section, above, we agree with the staff's revised calculations of the allocation ratio associated with gas accounts receivable sales. The revised schedules attached to Mr. Kotting's testimony should, therefore, be adopted for both the working capital and expense items of this issue.

#### Uncollectible Account Expense

CG&E objected to the staff's exclusion of the company's write-off of pre-PIPP arrearages (\$1,041,000) from its calculation of uncollectibles, without a corresponding recommendation that the company be permitted to increase its PIPP surcharge to recover these costs. Company witness Lonneman testified that, if CG&E's recovery of this amount through base rates is discontinued, the company should be permitted to include an additional \$0.0172 per MCF in its PIPP surcharge (Co. Ex. 23, at 16-17).

Staff witness Kotting stated it is the staff's expectation that these costs will be recovered through the PIPP surcharge, as is the case for other companies (Staff Ex. 6, at 18; Tr. XIII, 49-51). In response to the staff's position on this issue, CG&E submitted, on October 21, 1996, an application to adjust the PIPP Rider (Case No. 96-1120-GE-PIP). The company requests that the application be approved and made effective on the same date as the Commission's order in this case (Co. Brief, at 7).

The entry addressing the company's application in Case No. 96-1120-GE-PIP will be issued subsequent to this case in order to permit additional time for the staff to review the application. As indicated by entry issued December 6, 1996, the company's application was suspended from automatic approval to permit CG&E and the staff additional time to negotiate an acceptable agreement regarding the company's application. Cincinnati Gas & Electric Co., Case No. 96-1120-GE-PIP (December 6, 1996).

#### Marketing Expenses

The City objected to the staff's failure to exclude marketing expenses from cost of service charged to Accounts 907 and 908. City witness Hixon testified that, although the staff had properly excluded marketing expenses from Accounts 912 and 913, several sub-accounts of Accounts 907 and 908 (which are related to "Customer Service and Informational Expense") also included costs related to selling gas which should not be included for ratemaking purposes (City Ex. 9, at 13-15). Ms. Hixon stated that the company had not demonstrated that the marketing expenses included in Accounts 907 and 908 were properly includable in cost of service. Ms. Hixon recommended that \$2,175,808 be eliminated from the company's cost of service in this case (Id. at 15).

Staff witness Smith testified that the staff had reviewed CG&E's accounting practices for Accounts 907 and 908 and found the company's practices to be in compliance with FERC classifications (Staff Ex. 3, at 3; Tr. IX, 20-21). Ms. Smith indicated that Account 907 included expenses related to general direction and supervision of customer service activities, the object of which is to encourage safe, efficient, and economical use of the company's service. She stated that FERC specifies that Account 908 should include costs of labor and materials for providing instructions or assistance to customers to promote safe, efficient, and economical use of the utility's service (Id.). Ms. Smith indicated that, based on the staff's review of CG&E's description of costs included in these accounts, she believed the expenses were properly includable for ratemaking purposes (Id. at 4).

Based on the evidence of record, we agree with the staff that these expenses are properly included in cost of service. Although FERC account classifications are not binding on the Commission, they are instructive in this instance for ascertaining the types of expenses that may be considered appropriate for inclusion in Accounts 907 and 908. Moreover, the staff did not simply rely on the company's representations but also reviewed two months of expenses allocated to these accounts during the test year (Tr. IX, 22). We believe the staff's review and recommendation concerning the marketing costs contained in Accounts 907 and 908 was appropriate and should be adopted. Accordingly, the City's objection is overruled.

#### Ohio Excise Tax Expense

CG&E objected to the staff's calculation of Ohio excise taxes as set forth on Schedule C-3.13 of the Staff Report. Company witness Lonneman testified that the staff had apparently inadvertently used 3.3 percent as the percentage of interdepartmental revenues included on that schedule (Co. Ex. 23, at 18). Staff witness Shehata agreed with the

company's objection, noting that the tax effect of the interdepartmental revenue was overstated due to a mathematical error and the correct percentage should be .33 percent (Staff Ex. 7, at 4). We agree with the staff's amendment to Schedule C-3.13 to reflect a correction of the mathematical error contained in the Staff Report.

CG&E currently recovers Ohio excise tax assessments as a component of its rate base cost of service. In this case, the company has proposed several alternatives for recovering its excise tax expenses, including recovery of the tax through the GCR mechanism (Co. Ex. 22, at 10). Company witness Lonneman suggested that, due to concerns with the lawfulness of GCR recovery, the company recommended that the excise tax recovery could, instead, be accomplished as a surcharge on the commodity portion of base rates or as a base rate rider (similar to the PIPP rider) that could be "trued-up" through periodic proceedings (Id. at 10-11). The company contends that recovery of the excise tax outside of base rates is important to recognize fluctuations in the tax as gas sales rise and fall (Id.).

Although staff witness Crossin conceded that the company's base rider proposal would be similar to the current PIPP rider, he indicated that the staff was concerned with the lawfulness of any automatic adjustments other than for GCR costs (Staff Ex. 18, at 5; Tr. XXIV, 97-99). City witness Effron testified that all of the proposals should be rejected by the Commission. Mr. Effron stated that the company has offered no compelling reason why the Ohio excise tax should be treated any differently than other expenses included in base rate cost of service. According to Mr. Effron, adoption of CG&E's proposal would represent "an unwarranted and unnecessary extension of expenses subject to true-up for over or under recovery" (City Ex. 8, at 11-14).

We share the company's concern that changes in the GCR rate, from that level used when rates are established in a rate case, may cause the company to over or under recover the excise tax for which it is responsible. For example, when the GCR rate goes above the level used for setting base rates the company may recover less than its tax liability and, conversely, when the GCR rate falls below the level used for setting rates, the company would recover more than its excise tax liability. The excise taxes included in rates allows recovery of only the amount required on the GCR that is used when base rates are set. In an era of movement towards more widespread gas transportation and unbundling, it is reasonable to distinguish the excise tax as part of the unbundling process. Such an adjustment will better match expenses associated with gas transportation service and help mitigate over or under collection of gross receipts tax revenues in base rates. We wish to point out that we have undertaken similar action for other LDCs with respect to transportation rates. Although there are a number of complex issues associated with undertaking such an adjustment outside of a rate case, a rate case clearly provides a vehicle for such an adjustment.

In order to reconcile what is essentially a revenue neutral problem, we believe that CG&E should be entitled to collect an excise tax rider on bills rendered to its customers. The rider should be a specific percent applied to the net bill. This rider should not include any finance charges or other financial device accompanying the calculation of the billing. The company is directed to provide the Accounts & Audits staff with an annual report, beginning on March 1, 1997, that shows the amount of the excise tax recovered, the amount of the tax that would have been recovered without the rider, and the actual tax liability incurred. To enhance customer understanding, the company is directed to explain in its customer notice that this is not a new charge but, instead, represents an unbundling of an amount that was previously included in rates. The notice should further explain that the unbundling of the excise tax is intended to reconcile the company's tax liability and, at the same time, identify for customers part of what makes up the entirety of the customer's bill.

#### Ohio Gross Receipts Tax Expense

The City contends that the staff's calculation of CG&E's gross receipts tax failed to account for uncollectible revenues from PIPP customers. City witness Hixon testified that Schedule C-3.13 of the Staff Report does not recognize that a portion of the uncollectible revenues will be billed to PIPP customers. Ms. Hixon claims that, since the staff used the amount of PIPP rider revenue as the amount for test year PIPP uncollectible expense, this same amount should be used to further reduce the amount of taxable revenue for purposes of determining the company's gross receipts tax (City Ex. 9, at 17-19).

As discussed above in the PIPP Uncollectibles section, we agree with staff witness Hess that the staff properly treated the uncollectible revenue related to PIPP customers. Mr. Hess indicated that the staff initially adjusted test year operating revenues on Schedule

C-3.1 to include PIPP surcharge revenues (Staff Ex. 9, at 2-3). The entire adjusted operating revenue amount was then used as the basis for calculating these expenses, offset by the inclusion of an amount identical to the surcharge revenues as an expense, in order to remove any remaining effects on the revenue requirement (Id.). As was noted above, further using this amount to reduce gross receipts tax, as advocated by the City, would deny the company any opportunity to recover gross receipts taxes on PIPP surcharge revenues. For these reasons, the City's objection on this issue is overruled.

#### Cinergy Service Company Expense

CEC objected to the staff's failure to exclude from cost of service all charges to CG&E from Cinergy Services, Inc. (CSI) during the test year, where CG&E failed to demonstrate a defined cost savings or other benefit accruing to CG&E customers. The staff indicated that its investigation focused only on affirming that no cost increase occurred as a result of the CG&E/CSI arrangement (Staff Ex. 6, at 3-4). Staff witness Kotting stated that the staff found no indication that the arrangement with CSI increased costs to the applicant (Id.). Staff witness Buckley added that the staff was reluctant to exclude the CSI charges because CG&E was not required to demonstrate, at the time the application was filed, that cost savings had resulted from the formation of the service company (Staff Ex. 8, at 5). CEC did not pursue this issue on brief and, based on the record evidence, we agree with the staff that the CSI service costs should not be excluded from cost of service in this case.

#### Weatherization Funding

CG&E proposed to continue funding low income weatherization projects at its test year budget level of \$1,382,623. The company's actual test year expenses for weatherization were \$1,126,244. The staff supported the company's proposal and recommended that CG&E's low income weatherization budget of approximately \$1.3 million be maintained "to offset possible federal cutbacks of these programs" (Staff Ex. 1, at 99).

SOIC proposed that CG&E's low income weatherization budget should be expanded by an additional \$1 million to fill the funding gap left by recent federal budget cuts. SOIC witness Tenhundfeld testified that these weatherization funds should be channeled to the Home Weatherization Assistance Program (HWAP), for which he is the Director (SOIC Ex. 1, at 3). Mr. Tenhundfeld stated that HWAP is a federally funded program that provides energy efficiency and conservation services for low income housing. HWAP also repairs unsafe conditions in low income housing, such as faulty furnaces, water heaters, and wiring, before weatherization is undertaken (Id. at 4-6). Mr. Tenhundfeld cited to a recent study of Ohio HWAP, which showed energy savings of \$194 per year based on an investment of \$1,867 per residence. He stated that a new study commissioned by the Ohio Office of Energy Efficiency showed substantial savings per unit weatherized (Id. at 8-9). SOIC witness Robinson, the President of the Cincinnati-Hamilton County Community Action Agency, also testified in support of additional CG&E funding for low income weatherization projects. Ms. Robinson claimed that, due to federal budget cuts of approximately 35 percent, 400 or more homes in the CG&E service area would not receive weatherization (SOIC Ex. 2, at 2-3).

Staff witness Goins testified that the \$1.3 million test year budget is a reasonable amount to spend on an ongoing basis. She opposed additional out of test year expenses based on cutbacks in federal funding. However, Ms. Goins supported SOIC's position that weatherization funds should go to programs that comply with HWAP guidelines (Staff Ex. 14, at 3). CG&E points out that SOIC's witnesses were not willing to suggest how the additional \$1 million should be funded and that SOIC's proposal would directly benefit the agencies headed by the SOIC witnesses to the exclusion of any other contractors (Tr. XXI, 59-65).

Given the undisputed evidence that federal funding cuts for weatherization have now been implemented, we are extremely concerned with the plight of such programs. As indicated by the SOIC witnesses, as well as a number of witnesses at the local public hearings, cuts in weatherization programs have an especially adverse impact on low income customers who can least afford high utility bills. The Commission clearly has authority, pursuant to Section 4905.70, Revised Code, to initiate programs that will promote and encourage energy conservation. We believe that an additional \$700,000 per year, for a total commitment of approximately \$2 million, is a reasonable amount for CG&E to invest in low income weatherization programs. This additional \$700,000 should be treated as an expense item and spread over all customer classes consistent with the allocation of the revenue requirement adopted herein. In addition, we direct CG&E TO bid-out these additional

weatherization funds for purposes of determining the most cost-effective service providers. SOIC's objection on this issue is, therefore, sustained to the extent described herein.

#### Delta Revenue/Transportation Volumes

During the test year, CG&E had two special contracts in place for delivery of gas service. One contract is with Ford and the other with AK Steel (formerly Armco). The staff considers the Ford contract to be an economic development agreement while the AK Steel contract has been characterized by the staff as a competitive response (Tr. XXVI, 10-12). The distinction between the two types of contracts is normally relevant for purposes of allocating responsibility for the revenue shortfall, or "delta revenue" (the difference between the revenues received by the company under the special contract and the revenues that would have been received under the otherwise applicable tariff rates) (Staff Ex. 17, at 5).

According to staff witness Maag, an economic development arrangement offers benefits to the company and ratepayers by attracting or retaining new or additional incremental revenue that would be lost without the special contract (Tr. XXVI, 14-15). Mr. Maag also described secondary benefits from economic development contracts such as increased jobs, potentially increased taxes, and other business opportunities associated with retaining or increasing load (Id.). For economic development contracts in electric cases, the staff has traditionally recommended a 50/50 sharing of identified delta revenues between the company and customers (Staff Ex. 17, at 6). The delta revenues associated with competitive response contracts have typically been considered the responsibility of the company because of the lack of secondary benefits flowing to ratepayers (Tr. XXVI, 16).

In this case, the staff determined total delta revenues of approximately \$6.9 million associated with the AK Steel and Ford contracts. The staff recommends in this case that its policy of treating delta revenues in gas and electric cases differently be maintained. Staff witness Maag stated that, in electric cases, delta revenue has been treated as an adjustment to the revenue requirement (a so-called Schedule A-1 adjustment). In gas cases, however, the staff has recommended that an adjustment be made to the revenue assigned to the class from which the delta revenue was derived (Staff Ex. 20, at 3-4). This historical difference between the two treatments is based on the staff's experience of a greater number of gas cases being settled, wherein the utility and customers have tended to reach an agreement on the sharing of delta revenue. Mr. Maag indicated that the staff's gas policy tends to give companies an incentive for renegotiating special contracts in order to capture some or all of the delta revenue. At the same time, there are generally fewer gas rate schedules than electric tariff schedules, making it easier to identify the otherwise applicable rate for purposes of determining the delta revenue. For these reasons, the staff recommends continuation of the differing treatment of delta revenues between gas and electric cases (Id. at 5). The net result of the staff's primary recommendation is that the IT class would be responsible for approximately \$2.8 million of the delta revenue and the company would not recover the remaining \$4.2 million through rates. OCC claims that the company should be responsible for the entire delta revenue because the company entered into the special contracts at its own risk (See, OCC Ex. 5A).

CEC and AK Steel contend that all customers benefit from the special contracts because they allow recovery of some of the system fixed costs from customers that would otherwise leave the system and provide no contribution to fixed costs. CEC witness Chalfant testified that retention of the special contract load benefits the entire system and the delta revenues, however they are calculated, should be spread across all classes of customers (CEC Ex. 5, at 18-19).

CG&E's position is that the delta revenue should be fully recovered through rates from all customer classes because all customers benefit from the retention of the special contract load on the system. Company witness Ginn indicated that, if the company is not allowed the opportunity to recover the delta revenues associated with the AK Steel contract, CG&E will invoke its right to cancel the contract. Mr. Lonneman also stated that the company would cancel the AK Steel contract if the delta revenues associated with that contract are imputed to CG&E (Co. Ex. 18, at 8; Co. Ex. 37, at 2-4).

The staff also provided an "A-1" revenue requirement calculation, consistent with past treatment in electric rate cases. Staff witness Eggleton testified that, as described above, economic development delta revenues are split evenly between the company and customers and competitive response delta revenues are borne entirely by the company (Staff Ex. 17, at 6). Under this treatment, the staff includes all delta revenues, whether economic development or competitive response, as an adjustment to test year revenues.

The delta revenues are, therefore, included in the calculation of adjusted operating revenues, thus reducing the overall revenue requirement calculated on the staff's Schedule A-1. The recommended increase is then allocated among the respective classes based on the class billing determinants, including those of the special contracts. Thus, all customers benefit from the reduced revenue requirement associated with the delta revenues and share the burden from 50 percent of the economic development delta revenues (Id. at 7).

In the staff's A-1 adjustment, AK Steel volumes were established at 22,800,000 MCF and Ford throughput was calculated at 700,000 MCF (Id.). Applying the difference between the IT tariff rate and the AK Steel \$0.24 MCF contract rate between the tariff rate and the \$0.23 Ford contract rate, to their respective volumes, the staff determined the A-1 delta revenue to be almost \$7 million. Mr. Eggleton concluded that, based on an examination of the revenue requirement for the IT class, virtually no increase would be recommended for that class absent the company's flexing of rates for the two special contract customers (Id. at 8).

CG&E objected to the staff's use of 22,800,000 MCF for calculating test year revenues associated with the AK Steel contract. The company claimed that the volumes utilized by the staff do not reflect test year volumes and are speculative as to future transportation volumes for AK Steel (Co. Ex. 23, at 10-11). Actual test year special contract volumes were only 17,984,600 MCF (Tr. XII, 45). The staff contends that, beginning in November 1995, AK Steel gas volumes increased dramatically and actual usage was verified by the staff through March 1996 (Staff Ex. 7, at 2-3). Based on the staff's analysis, Mr. Shehata recommended that an annualized 22,800,000 MCF volume be used for purposes of determining test year delta revenues for AK Steel (Id.).

We believe that, in this case, the delta revenues associated with the AK Steel and Ford contracts should be treated consistent with prior Commission decisions in electric rate cases. The staff's recommendation to treat the AK Steel agreement as a competitive response, and the Ford contract as an economic development agreement, is the most appropriate treatment under the facts and circumstances presented in this case. We disagree, however, with the staff's proposal to increase the AK Steel volumes to 22,800,000 MCF for purposes of determining the delta revenue. As indicated in the company's filing, and through testimony, the actual test year special contract volumes were less than 18,000,000 MCF (Co. Ex. 2, Sched. E-4.2; Tr. XII, 45). Moreover, even the test year volumes appear to be an anomaly which is not adequately explained on the record.

The record indicates that, in CG&E's last rate case, the special contract volumes were only 9,882,320 MCF (Tr. XII, 46; Tr. XXVI, 45). The record is unclear, however, as to what caused the volumes to substantially increase from the levels experienced in prior years. There is no evidence that the increase was due to any significant increase in manufacturing output by AK Steel in recent years. Although Mr. Ginn suggested that part of the increase may have been due to a conversion to gas of one of AK Steel's facilities, the magnitude of the increase was not adequately explained during the course of the hearings (Tr. VI, 90). Because of the unusual circumstances surrounding this extremely large increase in the AK Steel volumes, we do not believe that the staff's recommended volumes or the test year volumes reported by the company can be relied upon with confidence. We will, therefore, apply the A-1 delta revenue calculation in this case to the approximately 9.9 million MCF reported in CG&E's last rate case, for purposes of determining the revenue requirement in this case. We believe that rates should be based upon a reasonable and predictable revenue stream and that use of the special contract volumes reported in the last case more accurately reflects a reasonable level. We wish to emphasize that our treatment of this issue is based on the lack of an adequate explanation on the record concerning the substantial volume increase for AK Steel, the uniqueness of this customer relative to the entire CG&E system, and the overall lack of record evidence on this issue. Accordingly, the revenue requirement calculated in this case will be determined based on the findings discussed above.

#### Operating Income Summary

Consistent with the foregoing discussion, the Commission finds that CG&E's gas jurisdictional adjusted operating income for the 12 months ending June 30, 1996, the test period in this proceeding, to be as set forth in the following schedule:

Adjusted Operating Income  
(000's Omitted)

Operating Revenues	\$382,330
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Operating Expenses	
Operation and Maintenance	272,607
Depreciation	16,157
Taxes Other Than Income Tax	45,507
Income Taxes	12,781
Total Operating Expenses	\$347,052
Net Operating Income	\$35,278

#### PROPOSED INCREASE

A comparison of jurisdictional operating revenues of \$382,330 with allowable jurisdictional expenses of \$347,052 indicates that, under its present rates, the applicant realized net operating income for its gas operations of \$35,278 based on adjusted test year operations. Applying this dollar return to the jurisdictional rate base of \$364,816, results in a rate of return under present rates of 8.11 percent. This rate of return is below that recommended as reasonable by any of the witnesses testifying on the subject and, accordingly, the Commission concludes that the company's present rates for gas service are insufficient to provide it reasonable compensation for the service rendered customers affected by the application.

Under the rates proposed by the applicant, additional annual gas revenues of \$26,706,393 would have been realized based on the analysis of test year operations accepted herein. On a pro forma basis, which assumes necessary revenues and expense adjustments calculated in a manner consistent with that analysis, the proposed increase would yield additional net jurisdictional income of \$16,405,298, resulting in net operating income of \$45,994,389. Applying this dollar return to the jurisdictional rate base results in a rate of return of 12.61 percent. This rate of return exceeds that recommended as reasonable by any of the witnesses testifying on the subject. Thus, the Commission finds that, although existing rates for gas service are inadequate, the rates proposed in the application would produce revenue which exceeds that recommended as reasonable by any of the expert witnesses. Further analysis is required to establish a reasonable earnings opportunity for the company.

#### RATE OF RETURN

The company, the staff, and OCC all submitted specific rate of return recommendations in this case (Co. Ex. 12; Staff Ex. 1, at 18-22; OCC Ex. 3). In its application, CG&E requested an authorized return on common equity of 12.5 percent, producing an overall cost of capital of 9.93 percent (Co. Ex. 2, Sched. D-1, at 1). Company witness Morin testified that a return on common equity in the range of 12.0 to 12.5 percent, resulting in an overall rate of return of 9.70 to 9.93 percent, was reasonable for CG&E (Co. Ex. 12, at 12). The staff initially recommended a range for return on common equity of 10.74 to 11.76 percent, with an overall return of 9.13 to 9.60 percent (Staff Ex. 1, at 21). In his testimony, staff witness Chaney increased the staff's recommendation by 20 basis points, to a return on common equity range of 10.94 to 11.96 percent (Staff Ex. 10, at 8). OCC witness Pultz presented a rate of return analysis which proposed a return on equity range of 9.82 to 11.05 percent (OCC Ex. 3, at 3).

Each of the rate of return witnesses performed various analyses to achieve their recommendations. For example, company witness Morin performed several discounted cash flow (DCF) calculations, as well as an analysis using Comparable, Earnings, Risk Premium, and Capital Asset Pricing Model (CAPM) methodologies (Co. Ex. 12, at 3, 26). These analyses indicated return on equity results of between 10.5 percent to 13.0 percent, with a midpoint of 11.75 percent. Mr. Morin stated that he would place less weight on the DCF results, based on his view that historically-based measures of risk reflect a downward bias that does not properly recognize increasing risks in the energy utility industry (Id. at 54-55). According to Mr. Morin, the authorized return on equity should be established near the top of the range of his cost of equity studies in order to fully recognize increased risks in the gas industry, to recognize CG&E's weaker capital structure relative to the gas industry average, and due to the relatively small size of CG&E's gas operations (Id.).

On brief, CG&E argues that, because the top of the staff's range and the bottom of Mr. Morin's range differ by only four basis points, the Commission should adopt the top of the staff's range (Co. Brief, at 12-16) given the Commission's historical propensity for

adopting the staff's rate of return recommendations. In support of its argument, the company cites to a number of factors and accomplishments. First, CG&E notes the increased risks it faces, in general terms and due to its size. The company also points to the management practices and policies section of its application (Co. Exs. 4-8) where CG&E touts its efforts to increase customer service and operating efficiency while reducing operating costs. The company cites to its efforts to settle this rate case informally, to its community involvement and support for charitable causes, and cost containment efforts (such as decreased gas costs and labor expense reductions). Based on these factors, CG&E urges adoption of the top of the staff's range (11.96 percent).

The staff's rate of return analysis consisted of a DCF calculation which considered various analysts' growth estimates, a \$1.72 dividend, and the average Cinergy stock price from May 1995 to April 1996 (Staff Ex. 1, at 20). Staff witness Chaney updated the stock price and growth estimates through the end of August in his filed testimony. As indicated above, Mr. Chaney increased the staff's recommendation by 20 basis points over the Staff Report. Mr. Chaney indicated that the updated recommendation was necessary to recognize increases in the CAPM and a 19 basis point increase in Value Line earnings estimates for its gas and electric industry group (Staff Ex. 10, at 7-8). Including issuance cost adjustments, the staff recommends that a 10.94 to 11.96 percent return on common equity range be adopted (Id.).

OCC witness Pultz determined a return on equity range of 9.82 to 11.05 percent based on a company-specific DCF analysis and corroborating comparable group and combination company DCF studies, as well as a CAPM and other risk premium analyses (OCC Ex. 3). Mr. Pultz prepared a number of company-specific DCF calculations using various growth projections and stock prices. He indicated his opinion that the DCF analyses employing the IBES growth rate (10.85 percent) and the projected B x R (10.21 percent) produce the most reliable results because of the large number of analysts' estimates used by IBES and the B x R capture of sustainable growth (Id. at 36). Mr. Pultz also conducted a DCF using Value Line growth projections. This analysis produced results of 9.66 percent using 12 month average stock prices and 9.41 percent using 6 month average prices (Id. at 37). Based on these company-specific DCF analyses, Mr. Pultz believes that a return on equity of 9.6 to 10.8 percent, exclusive of flotation costs, is reasonable (Id.).

In addition to his Cinergy-specific DCF studies, Mr. Pultz performed DCF analyses on the same group of gas companies used by company witness Morin. This study produced DCF results of 9.75 to 10.25 percent, exclusive of flotation costs (Id. at 39). He also performed a DCF analysis of the group of combination utilities used by Mr. Morin which resulted in a cost of equity of 9.5 to 10.0 percent, exclusive of flotation costs (Id. at 41). According to Mr. Pultz, these comparable group comparisons support his calculation of a company-specific DCF for Cinergy of 9.6 to 10.8 percent. After applying the staff's issuance cost adjustment of 1.02276 percent, Mr. Pultz recommends a cost of equity range of 9.82 to 11.05 percent (Id. at 45).

After reviewing the rate of return analyses, testimony, and arguments presented by the parties, we conclude that the staff's recommended return on common equity range fairly represents CG&E's cost of capital. Although the staff relied primarily on its company-specific analysis, it conducted a CAPM review, as well as comparable company DCF calculations, to test the reasonableness of the principal DCF study. These additional studies confirmed the overall reasonableness of the staff's recommendation. Moreover, the company has agreed with, and urges acceptance of, the top of the staff's range. The upper end of OCC's recommendation falls within the lower part of the staff's range. Indeed, OCC argues on brief that the Commission should select a point in the lower half of the staff's range.

Given the arguments expressed by the company and OCC that the appropriate return on equity for CG&E falls somewhere between the top of the range and the lower half of the range, we believe that no real dispute remains that adoption of the staff's range is appropriate in this case. Having adopted the staff's range as a reasonable estimation of CG&E's required return on common equity, we must next determine a specific point within that range. The company argues that the top of the range is appropriate based on the risks it faces relative to other larger LDCs. CG&E also cites accomplishments such as efforts to improve customer service and operating efficiency, cost reductions, and the company's support for community and charitable causes.

On the other hand, we are mindful of a number of concerns expressed at the local public hearings regarding customer service issues (See, Local Public Hearing section, *infra*).

Witnesses at the Cincinnati hearing described poor treatment by CG&E's customer service representatives and suggested that the company should increase training for service representatives to alleviate these problems (Cincinnati Tr. at 65-66, 77). In fact, CG&E was directed to submit a report to deal with the problems pointed out during the local hearings and, in the report filed October 28, 1996, the company set forth a number of proposed improvements to its customer service policies and practices. As indicated below, in the Local Public Hearings section of the order, we have commended CG&E for its prompt response in filing this report and committing to improving its service.

Having considered all of the factors relevant to the company's performance, we believe that a point at the top of the staff's recommended range should be adopted. The selection of this point in the staff's range recognizes CG&E's efforts to cut costs and improve performance in addition to giving consideration to the shortfalls in customer service cited by customers and recognized by the company in its report. The company's quick and specific response to the problems cited by certain customers indicates CG&E's intent to seriously deal with the situation. The adoption of this point in the range also gives some recognition to the increasingly competitive environment in which the company must operate and is consistent with our expectation that the company move aggressively to offer more customer choice to small commercial and residential customers (See, discussion below on Firm Transportation Tariffs). We believe that setting CG&E's rate of return at the top of the range will provide an incentive for the company to continue to work with independent marketers to develop commercially viable transportation programs, as indicated in our discussion in the Rates and Tariffs section below and is consistent with our perception of the company's willingness to pilot additional Ohio customer choice options.

Applying a cost of equity capital of 11.96 percent to the equity component of the capital structure approved herein produces an overall cost of capital of 9.67 percent. The Commission is of the opinion that a rate of return of 9.67 percent is sufficient to provide CG&E reasonable compensation for the gas service rendered to customers affected by this proceeding.

#### AUTHORIZED INCREASE

A rate of return of 9.67 percent applied to CG&E's gas operations jurisdictional rate base of \$364,816,495 results in an allowable return of \$35,277,755. Certain expenses must be adjusted if the gross revenues authorized are to produce this dollar return. These adjustments, which have been calculated in a manner consistent with the analysis of accounts accepted herein, result in an increase in federal income taxes of \$3,063,145 and in state excise tax of \$33,672. Adding the approved dollar return to the adjusted allowable expenses of \$347,051,762 produces a finding that the applicant is entitled to place rates in effect which will generate \$382,329,550 in total gross annual operating revenue. This represents an increase of \$9,260,703 over the total revenues which would be realized under the applicant's present rate schedules, an increase of 2.48 percent.

#### RATES AND TARIFFS

As part of its investigation, the staff reviewed the various rate schedules and provisions governing terms and conditions of service set out in the applicant's proposed tariffs (Co. Ex. 2). The resulting staff recommendations (Staff Ex. 1, at 23-73) drew a number of objections. The issues raised are discussed below.

#### Main Extension Policy

The Home Builders/OVDC raise three issues related to CG&E's proposal in this case to amend its existing tariffs regarding the extension of gas mains (Co. Rider X). First, the Home Builders/OVDC claim that the company's proposal to limit the reimbursement period to six years, for developers installing gas mains to a new subdivision, unfairly benefits the company by prematurely cutting off reimbursement to the developers. Home Builders/OVDC witness Schoettelkotte testified that developers are faced with extensive upfront costs for bringing gas into a subdivision that are not refunded by CG&E until individual lots are developed and established with gas service. He stated that, since the developers are essentially installing CG&E's facilities and providing it customers, the period of reimbursement should be extended to ten years (Home Builders/OVDC Ex. 1, at 7).

The second issue raised by the Home Builders/OVDC relates to the failure in the

proposed Rider X to provide compensation to a developer who initially pays for a main extension which is subsequently tapped into by a developer of a later subdivision. Mr. Schoettelkotte stated that, under the company's proposal, the second developer is not required to reimburse the first developer for costs incurred even though the second developer benefits from the original main extension (Id. at 7-9).

The third issue pursued by the Home Builders/OVDC is that CG&E's joint trench policy unfairly benefits the company to the detriment of developers. Since its inception in the early 1990s, the joint trench program allowed for installation of all utility lines in

a common trench, without cost to the developers, if the developers agreed to run conduits under streets prior to construction to avoid having to later cut across streets when individual lots are developed (Id. at 13-15). The company's proposed Rider X would require developers to pay a deposit of the entire upfront cost for the joint trench.

CG&E contends that the Commission should approve its proposed Rider X. The company argues that the proposed tariff does not change the existing language with respect to the first two issues raised by the Home Builders/OVDC. With respect to the joint trench issue, CG&E claims that the proposed tariff simply requires the same deposit for all extensions regardless of the construction method used. The company maintains that charging deposits for main extensions is consistent with the concept that costs for such activities should be recovered from the cost causer. CG&E argues that developers can recover main extension costs through the price of the lot sold and that developers admit they earn a sizable profit on their developments (Tr. XXI, 18, 37).

Staff witness Crossin testified at hearing that the staff recommends CG&E's current main extension policy be continued until such time as the Commission implements generic rules on main extension policies (Tr. XXII, 32-38). Mr. Crossin stated that the staff believes the status quo should be maintained with respect to main extensions until new regulations are placed into effect (Id. at 37).

We agree with the staff's recommendation to maintain CG&E's current main extension policies until the Commission addresses rules and regulations pertaining to such extensions through a generic proceeding. For the first two issues raised by the Home Builders/OVDC, the existing Rider X contains the same language as the tariff proposed by CG&E in this case. Thus, given our intention to consider thoroughly the issues associated with main extensions in the near future, it is reasonable to delay any decision on the objections raised by the Home Builders/OVDC. Regarding the joint trench issue, we agree with the Home Builders/OVDC that, until we have considered the arguments raised within the context of a generic proceeding, the status quo should be maintained. Accordingly, since CG&E's tariff does not mention how joint trench costs are to be treated, and since the company's policy from the inception of the program has been not to charge developers for such deposits (where developers agree to provide underground conduits for ease of access), the company should maintain its policy of not assessing up-front customer deposits from developers. This decision should not be construed as an indication of how the Commission may ultimately decide to treat such costs but is intended to reflect our desire to maintain the status quo until all main extension issues have been fully considered in a generic proceeding.

#### Revenue Sharing for Capacity Release and Off-System Sales

CG&E proposed a gas cost recovery rider (Rider GCR) that would allocate to the company a share of the net revenues derived from the company's efforts in capacity release and off-system sales activities. Currently, these net revenues are credited fully to GCR customers. In the Staff Report, and through testimony, the staff recommended that CG&E's proposed Rider GCR be rejected based on Commission policy that directs such revenues be credited to the GCR (Staff Ex. 1, at 46-47; Staff Ex. 17, at 29-30).

The company argues that its efforts to market temporarily unneeded interstate pipeline capacity should be recognized by allowing CG&E to retain some of the revenues. CG&E claims that performance-based incentive mechanisms have been approved in other parts of the country (Co. Ex. 13, at 16-18) and the Ohio Commission should do the same in order to be considered a "forward-looking jurisdiction" (Co. Brief at 36). Company witness Moeller stated that the Commission has already approved a capacity release sharing mechanism for another Ohio LDC, albeit through a stipulated case (Co. Ex. 14, at 1). The company contends that the Commission should afford CG&E consistent treatment by

approving the proposed revenue sharing mechanisms.

We agree with the company to the extent that its proposal merits further consideration. We recognize that, under H.B. 476, the type of programs suggested by CG&E could be considered. Consistent with the intent of H.B. 476, we agree that the company should be permitted an opportunity to retain some amount of revenues associated with capacity release and off-system sales. However, the record is not sufficiently developed in this case for us to grant the company's request.

#### Cost of Service

As part of the standard filing requirements accompanying its application, CG&E submitted three separate interclass cost of service (COS) studies. The first study, which the company is proposing be used in this proceeding, is based on throughput with a credit for the IT class (Co. Ex. 2, Sched. E-3.2A). The other two COS studies are based on an "average/excess" methodology (Sched. E-3.2B) and "straight throughput", without the interruptible credit (Sched. E-3.2C). Widely varying class revenue responsibility results are realized by applying these COS methods. For example, the residential class would benefit from allocations based on total throughput while large industrial customers would be assigned less revenue responsibility if the average/excess methodology were adopted (Id.).

CG&E witness Lonneman testified that the company's throughput with an interruptible credit was designed to recognize costs of moving gas from the city gate to customers while also recognizing the avoided cost benefits associated with having interruptible customers on the system (Co. Ex. 22, at 32-33). Company witness Ziegler indicated that, based on his analysis of a model designed to assign a value to the interruptible load on CG&E's system, the company estimates a cost of \$34 million to construct mains that would enable CG&E to serve all interruptible load on a firm basis (Co. Ex. 20, at 6). According to Mr. Lonneman, this avoided cost benefit was credited 70 percent to interruptible customers and 30 percent to firm sales customers to recognize the benefits that interruptible load provides to the system (Co. Ex. 22, at 33-34). Special contract revenue was credited to all classes in recognition of the fixed cost contributions of the special contract customers who may have otherwise left the system (Co. Ex. 2, Sched. E-3.2A, at 2-3).

The staff's cost of service analysis was the subject of extensive debate. As presented in the Staff Report, the staff presented a throughput study, although it intended to propose an average and excess methodology (Staff Ex. 1, at 39; Tr. XX, 73). Staff witness Eggleton corrected this error in his testimony (Staff Ex. 17, at 4) and staff witness Crossin supplied supporting documentation regarding the staff's revised COS analysis (Staff Ex. 18). At hearing, Mr. Crossin offered revisions to the COS study (Staff Ex. 18A; Tr. XXII, 8) and later provided additional changes to the staff's proposed COS study to correct an error he noticed during cross-examination (Staff Ex. 18B; Tr. XXIV, 41-44). The staff's recommendation would assign virtually none of the \$9.25 million (midpoint of staff range) increase to the residential class, while the IT class would be allocated the bulk of the increase (Staff Ex. 18B).

CEC/OCRM advocates use of the company's average/excess COS study for purposes of assigning interclass revenue responsibility. CEC witness Chalfant stated that average/excess is an allocation methodology that is based on the excess of estimated class peak day demands over average demands (CEC Ex. 5, at 20). He indicated that this allocator is a reasonable method because it recognizes that interruptible customers have no call on peak day demand. Mr. Chalfant explained that, in his opinion, the only costs actually incurred by an LDC to provide interruptible transportation service are variable costs associated with transporting the customers' gas. He agreed, however, that it was reasonable for transportation customers to provide some contribution to fixed costs, as long as the contribution was not so great as to fail to recognize the inferiority of interruptible compared to firm service (Id.). Mr. Chalfant recommends that class revenue be moved to class cost of service which, for the IT class would result in a reduction from \$0.537 MCF to \$0.33 MCF while increasing other classes to their respective cost of service levels (Id. at 28).

Having reviewed each of the COS proposals presented for our consideration, we do not believe that the interclass revenue responsibility established in this case should be based on any of the proposed methodologies. With respect to CG&E's throughput with an IT credit proposal, the throughput methodology does not properly recognize cost causative characteristics of providing service. Allocation of costs based solely on volumetric factors is unreasonable because such a methodology does not consider the fixed costs associated with system operation. Fixed costs such as investment in mains, depreciation, property taxes,

and some maintenance expenses are not fully recognized by the throughput method of cost allocation and throughput must, therefore, be rejected. Although the company attempts to salvage the throughput method with its proposed

interruptible credit, its proposal remains flawed. As noted by Mr. Chalfant, the company's calculation of a \$34 million value for all interruptible load fails to fully recognize the diminished quality of IT service (relative to firm sales service), fails to give due consideration to gas supply benefits provided to the system (by enabling CG&E to use stored capacity to avoid buying higher-priced spot market gas during peak periods), and by failing to recognize that assigning a value to providing firm service may be irrelevant for some large transportation customers who may leave the system rather than pay firm service rates (CEC Ex. 5, at 9-10).

We are equally concerned with some of the results advocated by CEC. Although we believe that IT service is, to some extent, a lesser quality service than firm service, we do not agree with Mr. Chalfant's proposal that the company's average and excess (A&E) cost of service is appropriate in this case. Mr. Chalfant's recommendation fails to recognize that some IT customers actually took gas during periods of interruption (Tr. XX, 16; Staff Ex. 17, at 24), thus contributing to system peak. Indeed, the record is clear that some IT customers used company-owned peak-shaving propane supplies during periods of interruption (Id.). Thus, it is appropriate that some portion of the excess component of the A&E be allocated to IT customers, contrary to Mr. Chalfant's suggestion. As is the case with the company's proposed throughput cost of service study, we do not believe that the COS advocated by CEC is sufficiently reliable for us to rely upon for purposes of establishing rates in this case.

We are also concerned with the COS recommendation put forth by the staff. The staff's modified proposal is flawed in several respects. Despite the staff's correction of the Staff Report's throughput COS study to an average and excess methodology, the revenue responsibility actually increased for the transportation class (Staff Ex. 1, at 39; Staff Ex. 17). Moreover, although the staff's revised COS analysis showed a revenue deficiency from the residential class, the staff recommends decreasing revenue responsibility for residential customers (Staff Exs. 17A, 18A, 18B). Several other anomalies are evident in the staff's COS proposal. First, the staff's study indicates that more than \$50 million in mains should be allocated to the IT class alone, with almost \$30 million being allocated to AK Steel (Staff Ex. 18B, at 2; Tr. XXIII, 17). As was clearly established during the hearings, AK Steel could likely construct a direct connection to interstate pipelines for approximately \$10 million, and CG&E has identified (on a direct assignment basis only) under \$500,000 of mains that could be retired if AK Steel left the system (Co. Ex. 37, at 3; Tr. VI, 81).

Another questionable result in the staff's COS analysis is the allocation of more than \$5 million to the IT class for administrative and general (A&G) costs. Although the IT class is comprised of approximately 180 customers, the staff assigned more than half of the total O&M costs allocated to the class solely for A&G expenses (Co. Ex. 37, at 6). Compared to the residential class (with more than 300,000 customers), where only 7 percent of O&M costs are attributable to A&G expense, the anomalous results of the staff's COS recommendation are apparent. It is evident that the staff's analysis for A&G expense clearly contains a throughput-based bias for an allocator that is not affected significantly by volumetric factors. Given these significant concerns with the staff's COS recommendation, we cannot accept the staff's revenue responsibility proposal in this case.

Having rejected the studies which serve as the basis for the company's, CEC's, and the staff's proposed revenue distribution, the Commission finds that, with the exception of the services otherwise discussed herein, revenue responsibility should be established by assigning the base rate increase authorized on a uniform percentage basis to all jurisdictional classes. This procedure is consistent with several previous decisions of the Commission in which adequate cost data has not been presented upon which to allocate revenue responsibility among various classes of service. See, e.g., GTE North Incorporated, 87-1307-TP-AIR, et al. (October 28, 1988), at 50; Ohio Bell Telephone Co., Case No. 83-300-TP-AIR (January 32, 1984), at 69; Dayton Power & Light Co., Case No. 81-21-EL-AIR (February 3, 1982), at 40. The decision to require uniform increases across customer classes is certainly not our preference, but rather is the result of having a record which justifies no other outcome. GTE North, supra. This uniform increase on base rate revenue should be calculated excluding the contract revenue since they were treated specifically under the delta revenue section above.

As a final matter, we agree with the staff's recommendation that CG&E should

undertake a definitive load study for purposes of cost allocation, rate design, and operational management (Staff Ex. 1, at 72). The load study should incorporate improved gas demand forecasts and customer usage profiles. However, rather than the two year recommendation suggested by the staff, we direct the company to immediately commence the load research to further evaluate consumption by different customer classes and determine class maximum demand for the purpose of setting rates for respective customer classes and for gas supply planning purposes. We expect the data developed from the company's load research studies to be utilized in any subsequent rate cases filed by CG&E, for cost of service purposes.

#### Transportation Tariffs

##### Interruptible Transportation (Rate IT)

CG&E proposed a declining two-block rate of \$0.90 for the first 100,000 CCF/month and \$0.70 for all additional volumes taken under the IT rate, based on the full \$30 million rate increase requested (Staff Ex. 2, Sched. E-1, at 23). The current IT rate is \$0.537. The company also proposed to reduce the \$625 per month customer charge to \$525 (Id.). The staff, based on its \$9.25 million increase recommendation, proposed a declining two-block rate of \$0.925 for the first 10,000 MCF and \$0.733 per MCF thereafter, with a reduced customer charge of \$285 per month (Staff Ex. 18B). As indicated above, the rates established in this case were derived from application of a percentage increase to all classes. Accordingly, the IT rate is set consistent with that discussion.

The company also proposed to continue the "competitive flexibility" portion of Rate IT, with some clarifying language. This provision of Rate IT permits the company to flex rates, for competitive purposes, within a band of \$0.30 per MCF and the implicit ceiling of the current \$0.537 rate (Co. Ex. 2, Sched. E-1, at 24; E-2, at 16). Staff witness Eggleton recommended that the floor of this rate be increased to \$0.47 based on the staff's conclusion that the variable cost of IT service is \$0.26 per MCF (Staff Ex. 17, at 31). We agree with the company that the flex band floor should remain at the current \$0.30 per MCF with a ceiling set at the IT rate established herein. The staff has provided no justification why the floor should be raised to \$0.47, especially considering its own IT variable cost of service conclusion of \$0.26 per MCF.

With respect to CG&E's attempt to limit future access to IT service, we disagree with the company's proposal. The company is proposing to grandfather existing IT customers but limit future participation in IT service to customers located in areas of the system which CG&E has determined to be constrained (Co. Ex. 17, at 21-22). The company argues that IT service should only be offered where it provides a benefit to the system, such as locations where a realistic chance of interruption during peak periods could occur. Company witness Schnitzer explained that there should be a nexus between the size of the discount offered and the value provided to the system (Co. Ex. 21, at 2-6). Mr. Ziegler testified that the company could use its planning model for system improvements to identify where IT customers would be most valuable (Co. Ex. 20, at 3-6). Staff witness Eggleton recommended that the company's proposal should be rejected based on his belief that CG&E's system is not constrained. He stated that IT service should be offered to all qualified customers (Staff Ex. 17, at 14-15). Mr. Eggleton indicated that system improvements performed in 1994 and 1995, as well as decreases in average residential customer consumption, caused the staff to conclude that no constraints currently exist on the CG&E system (Id.).

Although we do not necessarily disagree that the IT rate should be based on avoided cost, in light of the fact that we have rejected all of the cost of service studies proffered in this case, we will defer ruling on the company's proposal to close the IT rate until CG&E's next rate case, where we expect to have more reliable cost of service results which can be used to test the reasonableness of the company's proposal. Simply put, there are too many outstanding questions raised by CG&E's proposal for the Commission to approve it in this proceeding. The company should, therefore, continue to provide IT service to qualified IT service applicants on a nondiscriminatory basis until such time as the Commission has an opportunity to review the proposal in conjunction with reliable cost of service data.

#### Balancing, Pooling, and Trading Services

Under CG&E's current tariffs, transportation customers have an incentive to deliver

to CG&E's city gate all of their expected demand and some amount of excess (Tr. III, 86-87). This incentive exists because underdeliveries are, in effect, cashed out immediately while overdeliveries are permitted to stay on the system for 60 days without penalty. The policy reasons for encouraging demand/plus deliveries arose during the late 1970s when gas shortages were occurring (Id. at 88). In the post FERC Order 636 era, however, the overdelivery of gas to the LDC may have a cost associated with it to the extent LDCs incur costs for storage from interstate pipelines. As described by company witness Moeller, the LDC becomes the gate clearer for deliveries made by shippers to the city gate because the interstate pipelines that deliver the gas have no way to know what volumes are consumed by which transportation customers behind the city gate (Id. at 111-116).

In order to attempt to assign gate clearing costs to the cost causers, CG&E proposed the implementation of several unbundled IT services in order for transportation customers to manage their deliveries and consumption. The principal offering proposed by the company is an interruptible balancing service (IBS) that would be elected by IT customers by default when they fail to balance gas used with gas delivered on a daily basis. The wider the disparity between gas delivered and gas used the greater the balancing charges that would be imposed by CG&E (Co. Ex. 17, at 23). The company envisions IT customers pooling and trading daily imbalances in order to avoid incurring excessive charges under the IBS tariff (Id.).

IT customers, and especially independent gas marketers, view the IBS proposal as a harsh penalty. IMG witness Menninger testified that any IBS charges imposed on shippers should be based solely on "harmful imbalances" (imbalances that cause the LDC system to incur costs). Mr. Menninger indicated that although a shipper imbalance may cause no cost to the LDC (such as where the imbalance was included within a pipeline tolerance or where other customers were out of balance in an opposite direction), CG&E's proposal does not recognize a tolerance zone or time period for the customer to correct any imbalances (IMG Ex. 1, at 5-9). The marketers propose the adoption of balancing services similar to those offered by Columbia Gas of Ohio, in which the customer can buy a zone of tolerance in which to achieve monthly balancing (Id. at 11).

In response to concerns expressed during the hearing, company witness Ginn presented a modified IBS proposal in rebuttal testimony. Mr. Ginn stated that the company's revised proposal, in which rates were reduced from those originally proposed within tolerance zones, was offered in recognition of the nonharmful imbalance theory advanced by Mr. Menninger (Co. Ex. 35, at 7-8, WAG-1). The modified proposal would also give customers 4 days in which to make trades in order to achieve daily balancing (Id.). The independent marketers argue that the company's modified offer still is not cost based, does not provide sufficient customer choice, and would be an administrative nightmare to implement (IMG Brief at 5).

The marketers also contend that the company's proposed \$10 fee for each trade made between shippers has no cost basis because CG&E incurs no costs when such trades are made and, as such, the company would simply net excess revenue from the trading fees. The independent marketers recommend that both the original and modified IBS proposals be rejected by the Commission and that an appropriate daily imbalance fee should be tied to the firm storage service rates paid by CG&E to Columbia Transmission (IMG Ex. 1, at 10). The marketers urge the Commission to reject the proposed IBS tariff and direct the company to develop a new IT balancing service that assesses fees only on harmful imbalances.

We agree with the independent marketers that CG&E should attempt to redesign its proposed IBS tariff. In order to enhance customer acceptance, it is crucial that CG&E involve interested parties in the process of developing a workable balancing tariff. We direct the company to work with the independent marketers, and other interested entities, to create an acceptable tariff and to submit the proposed tariff to the Commission within 60 days of the date of this order. The proposed tariff application should provide for daily and monthly balancing service that recognizes actual costs and makes a meaningful contribution to the fixed costs of the company's interstate pipeline balancing service, including transportation to and from storage. The IBS tariff should also permit customers to purchase variable levels of balancing (i.e. 5, 10, or 15 percent) and should contain overrun charges or a ratchet provision in the event a customer exceeds its reservation. Such a rate should recognize that the service being offered is interruptible, in the event that firm service customers need the capacity to meet load demands. Rates for 100 percent load factor situations may be appropriate, as well as daily and monthly cash-out provisions. The tariff filing should also contain a discussion of, and justification for, separate fees for trading and

pooling services. Based on the record before us, we simply do not have sufficient information to approve an IBS rate and tariff in this case. In addition to the rates and terms of the IBS tariff, the affected parties will need to work out various operational terms and conditions of the service.

#### Firm Transportation Services

In September 1994, CG&E implemented a firm transportation (FT) program for small volume, nonresidential customers. In this case, the company proposes several changes to the FT program such as developing a more user-friendly electronic bulletin board and allowing suppliers to begin replacing company-assigned capacity with their own capacity (Co. Ex. 17, at 16-19). CG&E also proposed an experimental residential firm transportation (RFT) program to begin to allow residential customers some choice in gas supply sources. The RFT program would be implemented initially for three years with 8,000 to 12,000 customers participating. The program would be structured to operate under the same supply management system as the existing FT program (Id.).

In response to the RFT proposal, the Staff Report set forth a number of "guiding principles" that should be followed in establishing transportation services for residential customers. These principles include ideas such as: open access service should be economically efficient and reliable; customers should have a number of competitive choices; pilot programs should be sufficiently large as to attract qualified marketers and brokers; a code of conduct should be adopted to address internal and affiliated marketing companies; brokers should meet basic qualification criteria; and traditional bundled services should remain available (Staff Ex. 1, at 53-54). Through testimony, staff witness Eggleton expressed concern with the company's pricing and structure of the FT and RFT programs which he claimed "appear to doom these services to failure" (Staff Ex. 17, at 12-13). Mr. Eggleton indicated that the staff recommends the Commission open a Commission-Ordered Investigation (COI) to address the problems the staff sees with CG&E's small transportation programs (Id.).

The IMG also raised a number of concerns it sees with both the existing FT program and the proposed RFT program. Although the marketers agree with the opportunity for customer choice, Mr. Menninger identified problems with the FT program that have caused it to plateau at approximately 700 customers and offer little incentive for marketers to pursue new customers (IMG Ex. 1, at 12). Mr. Menninger indicated that there is very little opportunity for marketers to provide savings to end-use customers because the marketers must pay the same transport and storage costs that the company incurs (Id.). According to the marketers, the only difference in the base rate paid by GCR customers and the rate paid by the FT/RFT customers would be the gross receipts tax on the gas commodity portion of the bill. However, even this saving would be more than offset by local sales taxes that would be assessed on the commodity sales (Tr. VIII, 153-154). The independent marketers are also concerned that they are confined to the same gas procurement areas as the company. Mr. Menninger stated that marketers should be free to shop the national market for gas supplies and to use interstate pipelines of their choosing (IMG Ex. 1, at 13). Additional areas of concern are assessment by CG&E of a \$0.05 per MCF pooling fee and expenses associated with informing residential customers of the availability of the RFT program.

The independent marketers claim that the solution to most of the problems is to allow marketers to bring gas to the city gate in any manner available. The only remaining issues would then be \$0.05 pooling assessment (which the marketers claim should be dropped) and a balancing fee (which the marketers argue should be cost-based). As a possible solution to the company's concerns with stranded costs/capacity if "open sourcing" were permitted (Tr. VIII, 171), IMG witness Menninger suggested that a stranded cost surcharge could be assessed by service class, so that residential customers with very limited competitive access would only pay the surcharge based on stranded costs from the residential class (IMG Ex. 1, at 15-16). The marketers point out on brief that the critical problem of getting a small transportation program off the ground lies with CG&E's upstream pipeline contracts (IMG Brief at 20-21). The company is unwilling to let any of these contracts expire until there is a solid contract with marketers to replace the capacity and the marketers are unwilling to enter into such contracts until there is an open and viable program in place. The marketers recommend, therefore, that the Commission reject the FT and RFT tariffs and require the company to file (by no later than the 1997-1998 heating season) a revised and commercially viable RFT tariff. The independent marketers also request that the company be ordered to submit a revised FT tariff, that includes open sourcing, within 60 days from the issuance of the order.

As the gas industry enters an era of increasing competitiveness, it is imperative that LDCs begin to provide customers, both large and small, with opportunities to take advantage of gas supply choices. We commend CG&E for bringing forth a proposal that would begin to provide smaller customers, including residential customers, with the opportunity to take part in the competitive arena. However, we are concerned with the limitations contained in the company's proposal that appear to hinder the availability of realistic competition in the CG&E service area. These factors include the lack of opportunity for marketers to find cost cutting alternatives to the source management currently offered under the FT tariff.

We believe that open sourcing is an important factor to consider in developing a viable firm transportation program for small customers. We direct CG&E to file, within 90 days of the issuance of this order, modified FT and RFT tariffs that include development of open sourcing options for marketers. The applications attached to this filing should include a proposed solution of how the company intends to address issues raised by the marketers such as how to make these transportation programs commercially viable, how to deal with potentially stranded costs (if any), and whether a pooling assessment is necessary or justified. The company should include marketers, and other interested parties, in discussions related to the development of the revised tariff proposal.

#### Residential Customer Charge

CG&E's current customer charge for residential (RS) customers is \$5.50 per month. In this case, the company proposed to increase the customer charge to \$10.00. The staff initially recommended that the customer charge be increased to \$7.00 per month (Staff Ex. 1, at 45). Staff witness Crossin reduced the staff's recommendation to \$5.50 through his testimony and subsequent cost of service model runs. The staff indicated that its recommendation was not based on an attempt to identify dollar for dollar recovery of actual costs but was a reasonable estimate of the costs incurred in providing service (Staff Ex. 18, at 8; Attach. A, Table 5). On brief, the company argued that the staff's original recommendation (\$7.00) should be adopted (Co. Reply Brief at 16-17).

We agree with the staff's revised recommendation that the residential customer charge should be maintained at its current level of \$5.50 per month. We heard a great deal of testimony at the local hearings regarding the detrimental impact that an increase in the customer charge would have on low income customers (See, Cincinnati Tr., 29-30, 54, 61, 93). We believe that it is appropriate in this case to keep the customer charge at its current level in order to minimize rate shock that would otherwise be experienced by residential customers. Our decision is consistent with past cases where we have identified the principles of gradualism and rate continuity as important factors to be considered in setting rates.

#### MANAGEMENT AND OPERATIONS REVIEW

##### Affiliate Transactions

As part of the 1994 agreement between Cinergy Services, Inc. (CSI) and CG&E, CSI renders a monthly statement which reflects billing information for costs charged for that month. Company witness Winger stated that CSI costs are billed to CG&E as part of the monthly closing process and entries are recorded in the company's general ledgers to reflect receivables and payables. Mr. Winger indicated that management reports are kept that provide supporting documentation for the charges in order to satisfy the terms of the service agreement between CSI and CG&E (Co. Ex. 11, at 1-2).

Staff witness Buckley testified that the staff interpreted the 1994 agreement to require that an itemized bill be sent by CSI prior to payment for services being made. CG&E claims that requiring that a bill be sent creates an unnecessary administrative burden. The staff believes, however, that having a bill from CSI would enable CG&E the opportunity to question charges from CSI to ensure that CG&E is not paying for services that are unjustified (Staff Ex. 8, at 2-3).

We disagree with the staff that physically rendering a bill would provide ratepayers with any additional protection from unwarranted costs. The company indicated that itemized entries are recorded to reflect charges and payments and that supporting documentation is provided in support of CSI's charges. There is no evidence that the staff found any of the charges made by CSI to be improper or that CG&E does not have the

ability to question charges made by CSI under the terms of the agreement. We agree with the company that requiring CSI to physically render a copy of a monthly bill would constitute a redundant exercise that would not further the goal of insuring that charges are properly assessed.

#### Benefit Verification System

Staff witness Buckley also indicated that the staff was concerned that CSI's goals, as a non-regulated subsidiary of Cinergy, could conflict with the Commission's goals to set fair and reasonable rates. In order to protect ratepayer interests, the staff recommends that CG&E be required to file with the staff estimated annual savings from the formation of CSI by function or account and to implement a benefit verification system for nonrecurring services. Mr. Buckley stated that the benefit verification would enable CG&E and regulators to assess whether products and services are being provided in a cost-effective manner (Staff Ex. 8, at 3-4). Mr. Buckley indicated that a similar verification system is already in place for Ameritech and Ohio American Water Company (Id.).

CG&E opposes the staff's recommendation, arguing that it imposes an unnecessary burden on the company. The company claims that the staff and the Commission already have the authority to examine all books and records of CSI, as well as access to the books, records, employees of Cinergy, CG&E, and all affiliates and subsidiaries (Tr. XIII, 129).

On this issue, we agree with the staff that a benefit verification system would be useful. Although the Commission may have the authority to examine affiliate books and records, for audit purposes the availability of itemized benefits accruing from the merger operations would be extremely useful to the staff. Moreover, a benefit verification system could assist CG&E in evaluating areas where CSI's services could be improved. We do not believe that implementation of such a procedure would be unduly burdensome to the company and we direct CG&E to develop and submit to the staff, within 60 days of the issuance of this order, a benefit verification system consistent with the staff's recommendation.

#### Automated Meter Reading

In the Staff Report, the staff recommended that the Commission order CG&E to commence installation of approximately 580,000 automated meter reading (AMR) devices by the end of 1997 and to submit progress and cost reports to the Commission every six months until the AMR project is completed (Staff Ex. 1, at 88-89). Staff witness Hicks testified that CG&E has been studying AMR systems for four years but the company has yet to commit to implementation of the devices. According to Mr. Hicks, AMR systems use radio or telephones to read meters, thus reducing labor costs by eliminating the need to physically read meters (Staff Ex. 11, at 4).

CG&E opposes the staff's directive due to high installation costs and the ongoing development of new technologies. Company witness Tilton stated that, in May 1996, Cinergy's reengineering team recommended installation of an AMR system with a three-year plan to achieve 75 percent penetration of electric and gas meters in Ohio, Indiana, and Kentucky. Mr. Tilton testified that this recommendation was rejected by senior management as too expensive. Based on a price of \$75 per meter for hardware and installation, the company projected a cost of \$118 million resulting in a pay back period of almost six years (Co. Ex. 19, at 3-5). Mr. Tilton indicated that the company considered three years to be an optimal pay back period for such capital investments (Tr.

IV, 24). The company believes that the useful life of current AMR technology is approximately five years, which would not warrant the investment of \$118 million. Mr. Tilton claimed that the type of technology recommended by the staff is not in use in any of the four AMR systems in the country and that deployment of such technology at this time could hinder implementation in the near future of digital gateway technologies (Co. Ex. 19, at 7-8). Accordingly, CG&E requests additional time to study the most cost-effective means of AMR deployment.

OCC also opposes the staff's recommendation. OCC witness Williams testified that the company should be given the opportunity to develop fully its business plan concerning AMR before being required to begin implementation (OCC Ex. 2, at 7). Mr. Williams stated that CG&E should be given until March 1997 to submit a report on its ongoing study of this issue. OCC recommends that the company update its 1994 cost/benefit analysis,

investigate emerging technologies, and examine the cost implications of leasing rather than purchasing equipment (Id.).

We agree with the company and OCC that the staff's recommendation on this issue is premature. Although we understand the staff's desire to move the company towards more efficient metering capabilities, we are concerned with the cost impact of the staff's proposal. The company notes that the burgeoning state of meter technology may make a temporary delay the most prudent economic choice for ratepayers and the company alike. Moreover, there is no evidence that the lack of immediate AMR implementation will substantially impact the adequacy of service for CG&E's customers. We believe that CG&E should continue its ongoing study of the relative costs and benefits of various types of AMR systems, including the most recent technology available. The company should look not only at labor cost savings but should also review the benefits to overall customer service that may result from deployment of AMR technology. CG&E should submit its initial report within 90 days of the date of the issuance of this order.

#### FAS 106 Funding

In 1993, the Commission issued a finding and order in the generic investigation of Financial Accounting Standard (FAS) No. 106, concerning policies with respect to accounting and ratemaking treatment for Other Post-Employment Employee Benefits (OPEB) such as health and life insurance. Investigation into the Financial Impact of FASB Statement No. 106, Case No. 92-1751-AU-ORD (February 25, 1993). In that order, the Commission stated that it expected utilities to provide OPEB at the lowest possible cost to ratepayers but decisions made by companies as to internal or external funding of OPEB costs would be reviewed in subsequent rate cases (Id. at 15-16).

In this case, CG&E has proposed to continue internal funding of its FAS 106 liability. Internal funding was approved by the Commission in CG&E's last several rate cases (Case Nos. 90-390-GA-AIR, 91-410-EL-AIR, 92-1463-GA-AIR, and 92-1464-EL-AIR). Funding internally allows the company to use the funds for any purpose because the FAS 106 funds are not separated from other funds (Staff Ex. 1, at 91). The staff indicated that FAS 106 funding is in a class with pensions and nuclear decommissioning which, by law, are required to be funded externally. According to the Staff Report, this is the first case in which a company has determined internal funding to be "least cost". The staff expressed concerns about noncash factors such as security, potential manipulation of the funds, and ability to pay future benefits. Accordingly, the staff recommends that the company reconsider its decision to fund FAS 106 internally (Id. at 92-93).

CG&E argues that an outside actuarial study performed by Chicago Consulting Actuaries confirms that its internal funding mechanism is the least cost means of compliance with FAS 106. Company witness Terry testified that this study showed that ratepayers will benefit from lower costs by continuing internal funding. In addition, Mr. Terry stated that CG&E's funding study considered issues such as security and manipulative effects (Co. Ex. 9, at 3-5). Mr. Terry concluded that the staff's noncash concerns were not valid and that, for CG&E, internal funding is clearly the least cost means of compliance (Id.).

Although we understand the staff's concerns, we do not believe the evidence supports a conclusion that CG&E should, at this time, undertake external funding of FAS 106. The Staff Report shows that external funding could be as much as \$19 million more expensive than the internal funding proposed by the company in this case (Staff Ex. 1, at 94). Moreover, the noncash concerns raised by the staff were addressed by the company through testimony which indicated that the issues raised by the staff had been considered. Our acceptance of CG&E's internal funding methodology in this case should not be construed as an unequivocal endorsement of the company's current practice or as an indication of what funding mechanism may be appropriate for other utilities. Rather, we believe that the evidence presented in this proceeding supports a finding that internal FAS 106 funding is least cost for CG&E at this time. The company should continue to monitor and evaluate the relative benefits of both means of OPEB funding on an ongoing basis and should report its findings in its next rate case.

#### Manpower Planning Process

In the Staff Report, the staff recommended that CG&E perform a manpower planning process to determine staffing requirements for the company's gas procurement section (Staff Ex. 1, at 73). The company objected to the staff's recommendation, citing a

stipulation negotiated and approved in CG&E's 1995 GCR case. Cincinnati Gas & Electric Co., Case No. 95-218-GA-GCR (April 4, 1996). In that case, the management/performance auditor recommended that CG&E institute a formal manpower planning process to determine the appropriateness of the gas supply section's organizational structure. In the stipulation adopted by the Commission, it was agreed that this recommendation would be reviewed by the auditors in the company's 1997 GCR proceeding (Id.). Through testimony, the staff withdrew its recommendation on this issue and agreed that the GCR stipulation should be considered controlling (Staff Ex. 17, at 34-35). We agree that the issue has been adequately addressed in the GCR proceeding and we will review the auditor's findings in CG&E's 1997 GCR case.

#### LOCAL PUBLIC HEARINGS

As indicated above, the Commission held two separate local public hearings in the CG&E service territory on September 26, 1996. The morning session was held in downtown Cincinnati and conducted by Chairman Glazer and Commissioner Fergus. The evening session was conducted in Fairfield, Ohio by Commissioner Fanelly. At the Cincinnati hearing, 23 witnesses gave sworn statements. In Fairfield, three witnesses gave sworn testimony and one witness made an unsworn statement.

During the course of the local hearings, witnesses expressed a number of concerns with respect to the amount of the proposed increase, various tariff proposals, and issues related to CG&E's customer service. Cincinnati City Council members Tillery, Portune, and Cooper testified regarding the impact of utility rate increases on low income customers and the need to keep any increase granted in this case as low as possible (Cincinnati Tr. at 23-31). Several other witnesses, representing hospitals and other businesses in the Cincinnati area, stated concern with the additional burden that a gas rate increase would place on their ability to compete in competitive markets (Id. at 33-53, 71-74). Some of these witnesses also indicated that the company's proposed unbundled balancing services would make it more expensive for their companies to transport gas on the CG&E system (Id.). Residential and low income customers and advocates expressed concern with proposed increases in the customer charge and reconnection charge, as well as the ongoing ability of customers to pay any additional gas rate increases (Id. at 54-64, 67-69, 78-94; Ex. 1). Witnesses at the Fairfield hearing also testified concerning the difficulties facing low income customers, especially those customers on PIPP (Fairfield Tr., 8-12). Two witnesses also stated their concerns with respect to federal funding cuts for low income weatherization programs (Id. at 13-21).

Another issue raised at the local hearings relates to problems faced by customers in dealing with CG&E's customer service representatives. One witness stated that she experienced a negative attitude from the company's service representatives (Cincinnati Tr., 65-66). Another witness also complained about the attitude of the service representatives when trying to make payment arrangements (Id. at 77). In response to concerns expressed by CG&E's customers, Chairman Glazer directed CG&E to file a report in this case concerning actions being taken by the company with respect to customer service representative training, cultural diversity issues, the level of supervisor monitoring, and name tags for service representatives (Id. at 66-67).

In response to this directive, CG&E submitted, on October 28, 1996, a report on customer service issues (Report). The Report states that CG&E's president, William Grealis, assigned a team to evaluate customer service issues. This team engaged a consultant, AT&T Solutions, to assist in their evaluation (Report at 1-2). CG&E also invited a number of consumer advocacy organizations, as well as members of OCC and the Commission's staff, to a discussion of customer service issues. As a result of these discussions, CG&E identified the following concerns, and proposed solutions to address the issues raised during the discussions:

(1) Confusion About Where to Pay Bills - CG&E proposes to implement a communication program to inform customers of locations where bills can be paid, inform customers by phone and maps that the 4th & Main office has relocated to Central Parkway, and post signs with directions to the night deposit box on Central Parkway;

(2) Lack of Information Regarding Status of Bills and Payment Options - The company proposes to reevaluate credit/collection policies, sponsor working sessions to better communicate about

the PIPP program and other payment options, and place materials regarding payment options in waiting areas of business offices;

(3) Professional Courtesy of Customer Service Representatives - CG&E proposes to develop standards for front line employees and supervisors, provide cultural diversity sensitivity training for representatives, train supervisors to coach representatives, and train service representatives to make personal introductions and give their names when answering the telephone;

(4) Sensitivity to Low Income Customer Financial Situations - The company proposes to meet periodically with consumer advocate representatives, channel information from these meetings into training curriculum, collaborate with social service agencies, and provide the Hamilton County Department of Human Services with employee office space at the Central Parkway location;

(5) Customer Feedback Regarding Business Encounters with CG&E - The company proposes to institute a pilot feedback program, host customer focus groups with residential and low income customers, and increase feedback surveys from twice a year to monthly (Report at 3-5).

In addition to these specific proposals, CG&E indicates that it plans to pursue, on a long-term basis, a new customer service model that will emphasize customer service needs, maintain dialogue with customers, seek feedback regarding customer service experiences by surveys and interviews, implement training for service representatives and supervisors, and develop empowerment of a customer service team (Id. at 6). CG&E will also adopt principles for customer service including courtesy and respect for customers, fairness, clarity, accessibility, and responsiveness. Finally, the report states that Cinergy is committed to establishing and maintaining customer service excellence and providing value for each customer on a long term basis (Id. at 7).

As indicated above, several witnesses described instances where the company's customer service representatives were not responsive to customer needs. The Commission is concerned with issues related to service provided by CG&E to its customers and we take the testimony heard at these hearings very seriously. To its credit, CG&E promptly responded to the Commission's request to report on ways to address the types of concerns raised by customers during the hearings. The company's report listed a number of proposed improvements for training its customer service representatives and supervisors, and for communicating better with its customers. We believe that CG&E's report addresses the concerns raised during the hearing and in the meeting held subsequent to the hearing with consumer advocates and the Commission's staff. We expect CG&E to follow through with the recommendations described in the report and to discuss with customers and advocates on a regular, ongoing basis, how the company is fulfilling its commitments. It is imperative that CG&E improve service to its customers and that it treat all customers with respect and dignity in attempting to resolve billing and payment problems faced by low income customers. In order to help ensure that CG&E's efforts are successful, we direct the company to report to the Commission's Consumer Services staff twice per year, beginning no later than March 1, 1997, on the company's success in meeting the goals set forth in its October 28, 1996 report. We also direct the Consumer Services staff to maintain an ongoing dialogue with CG&E to monitor the company's efforts in improving its service to customers.

## CONSUMER SERVICES

### Stipulation and Recommendation

Many of the consumer service tariff issues raised by the staff and OCC were resolved pursuant to a stipulation that was submitted by the company, the staff, and OCC on October 21, 1996. Each of the provisions of the stipulation are discussed below in the order in which they appear in the agreement.

#### 1. Sensitivity Training

In order to maintain positive customer relations, CG&E agreed to have its customer

service representatives attend a seminar called "Achieving Extraordinary Customer Relations". The company also agreed to monitor customer service representatives contacts with customers and periodically evaluate the effectiveness of its customer service training programs.

## 2. Final Meter Reading Information

The staff raised an issue concerning the failure of customer service representatives to adequately inform customers regarding their options on final meter readings (Staff Ex. 1, at 99). The company's tariff was amended to satisfy the staff's concerns and a script for customer service representatives (Attachment B-1) is attached to the stipulation. This script requires service representatives to advise customers that they have the right to have the company make the final reading or to provide the reading themselves by telephone or by mailing a company-provided card filled out by the customer.

## 3. Initiation of Service and Estimated Final Bills

The staff raised issues regarding customers being informed of their options with respect to initiating service and estimated final bills (Staff Ex. 1, at 99-100). Regarding service initiation requests, CG&E revised its tariff and agreed to a revised script for service representatives answering questions with respect to initial meter readings (Attachment C-1). The revised script informs customers that they have the right to have the company perform an initial meter reading or to perform a reading themselves and inform the company by mail or telephone.

Where an estimated final bill is followed by an estimated new service read, and either customer questions the billing, the company will review the customer's charges and attempt to come to a reasonable agreement regarding the billed amount.

## 4. Late Payment Charges

The staff recommended revisions to CG&E's proposed tariff regarding late payment charges (Staff Ex. 1, at 100). Pursuant to the staff's request, the company agreed that the 1.5 percent late payment charge would not be applied to PIPP customers or those customers being backbilled in accordance with Section 4933.28, Revised Code, and would not be applied to unpaid balances on budget billing plans or deferred payment plans, except where those plans are not timely paid. Upon request, residential customers will not be assessed a late payment charge where there has been only one late payment within a 12-month period. The company agreed to provide notice of these tariff changes, by bill insert, no less than once per year.

## 5. Meter Testing

With respect to charges assessed by the company for customer-requested meter testing, CG&E may charge the customer for the costs of the test if the meter is found to be accurate (not more than three percent fast or slow). However, the company agreed not to charge customers for the first meter test in any 12-month period.

## 6. Transfer of Past Due Accounts

The staff recommended that CG&E revise its tariff regarding transfer of past due accounts (Staff Ex. 1, at 101-103). The company agreed to revise its tariffs to make minor language changes suggested by the staff regarding the company's ability to transfer unpaid balances to another account for which the customer is responsible. The transfer would be limited, however, to unpaid balances to accounts for like service (i.e. electric to electric and gas to gas).

## 7. Maintenance of Service Lines

The staff made recommendations regarding language changes for CG&E's tariff explaining customer responsibility for service lines (Staff Ex. 1, at 104-105). The company agreed that the words "repair" and "replacement" would be substituted for "maintain" in describing the customer's responsibilities with respect to lines located on the customer's side of the point of delivery. The company also agreed to add the staff's recommended language concerning federal and state pipeline safety laws.

## 8. Returned Check Charge

In response to an objection raised by OCC, the company agreed to add language to its returned check charge tariff. The additional language would require CG&E to cancel its \$13.50 returned check charge, upon customer request, if the check was returned due to a bank error.

9. Reconnection of Service Charge

Pursuant to the staff's recommendation, the company agreed to reduce its proposed reconnection of service charge from \$25 to \$17 (Staff Ex. 1, at 30-31). The staff recommended that the company's proposal to increase its combination gas and electric reconnection charge, from \$22 to \$31, be rejected because it would create an inconsistency with CG&E's current electric tariff which provides for a \$22 combination charge. In the stipulation, the parties agreed that the company would increase the combination reconnection charge to \$25 for both its gas and electric tariffs.

10. Charge for Customer Information

CG&E had initially proposed a \$25 processing fee for each nontraditional customer-specific request for information, such as load profile data. The staff recommended that the proposal be rejected on the basis that the company had failed to show that such requests had historically imposed unreasonable costs on the company (Staff Ex. 1, at 31-32). Pursuant to the terms of the stipulation, the parties agreed that the company would withdraw its proposed tariff and would, instead, amend existing tariff Sheet No. 24.5. This amendment requires CG&E to provide, upon request, up to 25 months of customer-specific billing information with requests beyond 25 months billed at the company's cost of providing the information.

11. Budget Billing Criteria

OCC opposed the company's proposal to allow consideration of any past due amount, including past due amounts for electric service, in determining whether to offer budget billing to customers. CG&E agreed to withdraw the proposed language pursuant to the terms of the stipulation.

12. Disconnection Avoidance

OCC also opposed CG&E's proposal to assess a field collection charge where a company employee, whose original purpose was to disconnect service, provided a means to the customer for avoiding disconnection. The company agreed to withdraw this proposed language in return for OCC's withdrawal of its objection.

13. Field Collection Charge

OCC raised issues concerning the company's proposed charges for collection in the field by company employees. CG&E agreed that such a charge would not be imposed when service to a customer is actually disconnected and OCC agreed to withdraw its objections on the subject.

14. Notice of Charges

OCC objected to the lack of notice to customers for various charges. The company agreed to include notice to customers of the field collection charge and applicable reconnection charges in the company's notice of disconnection to customers. OCC agreed to withdraw its objection.

The stipulation and recommendation submitted by the signatory parties on October 21, 1996 is unopposed and resolves the majority of consumer service tariff issues raised in this proceeding. Rule 4901-1-30, Ohio Administrative Code (O.A.C.), provides for the submission of stipulations such as the one presented in this case. Although not

binding on the Commission, stipulations are entitled to careful consideration, particularly when the agreement is unopposed and is sponsored by parties representing a wide range of interests. See, Cincinnati Gas & Electric Co., Case No. 82-485-EL-AIR (March 30, 1983);

Cincinnati Gas & Electric Co., Case No. 92-1463-GA-AIR, et al. (August 26, 1993). See also, Cleveland Electric Illuminating Co., Case No. 88-170-EL-AIR (January 31, 1989). The Ohio Supreme Court has also held that stipulations between parties can be accorded substantial weight by the Commission. Akron v. Pub. Util. Comm., 55 Ohio St. 2d 155 (1978); Consumers' Counsel v. Pub. Util. Comm., 64 Ohio St. 3d 123 (1992). Although we give substantial weight to an unopposed settlement, our primary concern is whether the stipulation is in the public interest.

The standard of review for considering the reasonableness of a stipulation has been discussed in a number of prior Commission proceedings. See, e.g., Cincinnati Gas & Electric Co., Case No. 92-1463-GA-AIR, supra; East Ohio Gas Co., Case No. 93-2006-GA-AIR (November 3, 1994); Columbia Gas of Ohio, Case No. 94-987-GA-AIR (September 29, 1994). In considering the reasonableness of a stipulation in the cases cited above, and others, the Commission has used the following criteria:

- (1) Is the settlement a product of serious bargaining among capable, knowledgeable parties?
- (2) Does the settlement, as a package, benefit ratepayers and the public interest?
- (3) Does the settlement package violate any important regulatory principle or practice?

Based on our three-pronged standard of review, we find that the first criterion is clearly met. Counsel for the signatory parties have been involved in numerous cases before the Commission and the level of detail contained in the various tariff revisions evidences that the agreement was the product of serious negotiation. The second criterion is also met by the stipulation. The agreement benefits ratepayers and the public interest by numerous protections negotiated by the parties. For example, the agreement requires ongoing customer service representative training and review, meter reading and notice provisions, late payment charge protections, and reductions from the originally proposed charges for items such as reconnection and field collection fees. Finally, the stipulation satisfies the third criterion. The agreement does not violate any important regulatory principles and, indeed, furthers sound regulatory practices in the form of negotiated compromise of contested issues. This is especially impressive given the diversity of interests represented in this proceeding.

Our review of the stipulation and recommendation indicates that it is in the public interest and represents a reasonable disposition of the tariff issues addressed in the agreement. We will, therefore, adopt the stipulation to the extent and for the reasons set forth herein.

#### Access to Premises Charges

In the Staff Report, the staff recommended that a paragraph be deleted from CG&E's current tariff regarding company access to customer premises. The tariff provision at issue provides that, in situations where judicial redress is necessary to secure access to a customer's premises, the company may collect from customers a charge covering the company's expenses in securing access, including court costs and attorney fees. The staff argues that it is inappropriate for the company's tariffs to include a provision that would permit the company to recover attorney fees and court costs because these costs are more appropriately addressed by the legislature or left to the discretion of the trial court (Staff E 1, at 101; Staff Ex. 13, at 2).

We agree with the staff that the tariff provision authorizing collection of court costs and attorney fees should be deleted. Although this provision has apparently been in effect for some time, we do not believe it is appropriate for the company to be authorized, by tariff, to collect court costs and attorney fees through a customer's utility bills. To the extent that such charges are deemed proper by a civil court, CG&E may effect collection of the court-authorized fees by means other than through inclusion on the company's utility bills.

#### Disconnection Notice to Tenants

Section 4933.12(C), Revised Code, prohibits a gas utility company from disconnecting service to a residential customer during the winter heating season (November 15 to April 15) unless the customer's account is more than 30 days in arrears and where the occupant of

the premises is a tenant whose landlord is responsible for payment for the gas service, unless "the company has, five days previously, notified the occupant of its intent to discontinue service to him". Rule 4901:1-18-05, O.A.C., provides additional notice requirements where a landlord is responsible for payment of gas or electric bills. In addition to a 14-day notice to the landlord, the utility company must "make a good faith effort by mail or otherwise to provide individually to the customer, and to each unit of a multi-unit dwelling (i.e., the tenant who receives master-metered service), a ten-day notice of the pending service disconnection" (Id.). This notice must be placed in a conspicuous place in multi-unit dwellings and the requirement is in effect throughout the year.

In the Staff Report, the staff recommended that CG&E be required to add language to its disconnection tariff that would require the company to provide 10 days notice to tenants in master-metered buildings in situations where the landlord has requested disconnection of service (irrespective of payment arrearages) (Staff Ex. 1, at 105-106). Staff witness Colosimo stated that the staff's concern is for tenants who live in a master-metered building with an absentee landlord who may request that service be disconnected (Staff Ex. 16, at 2).

CG&E objects to the staff's recommendation as overly burdensome. The company argues that Section 4933.12, Revised Code, indicates the Ohio General Assembly's intent to limit notice to tenants to five days, and only during the winter heating season. The company claims that the Commission is without jurisdiction to impose additional notice requirements.

We disagree with CG&E's limited view of the Commission's jurisdiction in this area. Although Section 4933.12, Revised Code, provides for some minimum protection of tenants' right to notice before disconnection, our administrative rules clearly set forth additional requirements. As noted above, the company is already required to provide ten days notice to tenants in master-metered dwellings (in addition to the 14 days notice to the landlord) in situations where payments are in arrears. We believe the staff's recommendation in this case offers an equivalent protection to such tenants where a landlord of a master-metered building requests, for whatever reason, that service be disconnected. The staff's recommended tariff provision does not add any additional burden to the company beyond what is already intended by the Commission's disconnect rules. The staff's recommendation should, therefore, be adopted.

#### Fraud and Theft Policy

OCC raised an objection to the Staff Report suggesting that the company should be directed to implement a process to ensure that customers suspected of fraud or theft have an opportunity to present evidence on their behalf before the company makes a final determination (OCC Objection 31). Although the staff pointed to a similar concern, that CG&E's customer service representatives "seem to prejudge customers suspected of fraudulent practices before obtaining the facts" (Staff Ex. 1, at 98), the staff recommended training for service representatives to eliminate this problem. As discussed above, the stipulation entered into by the signatory parties, including OCC, provides for service representative training and ongoing monitoring of those efforts. OCC presented no testimony or evidence in support of its objection and, as such, there is no basis in the record for determining the merits of OCC's issue.

However, this does not mean that we are not concerned with the issue raised by OCC and, as indicated in our directive concerning customer service issues discussed above, we are requiring CG&E service representatives to undergo training to become more sensitive to customer needs. We expect that our directive will also apply to service representative actions towards customers accused of fraud or theft of service. In the event our Consumer Services staff becomes aware of a pattern of abuse in this regard, we expect the staff to take appropriate action and bring any such abuses to our attention. The company may still take appropriate action when health and safety concerns are raised by alleged fraud or theft of service.

#### PIPP Arrearage Forgiveness

SOIC has proposed that CG&E be directed to implement a PIPP arrearage forgiveness program that would reduce PIPP arrearages for weatherization program participants by up to \$5 for every \$1 saved (SOIC Ex. 1, at 13). SOIC witness Tenhundfeld stated that this type of program would provide PIPP customers with more motivation to increase energy savings if the customers believed that the arrearages were being reduced (Id.). He conceded, however, that the PIPP customer's payments would not be reduced under his

proposal, only the arrearages (Tr. XXI, 54). Mr. Tenhundfeld also admitted that he did not know how much his recommendation would cost or how it would be funded (Id. at 78).

CG&E opposes SOIC's arrearage forgiveness proposal. The company claims that the program has not been sufficiently developed by SOIC and the lack of details about how the program would be operated and funded do not allow the Commission to approve the plan in this case. Moreover, the company joins the staff (Staff Ex. 14, at 4) in its argument that the Commission's generic investigation into PIPP precludes the type of adjustments advocated by SOIC. PIPP Investigation, Case No. 88-1115-GE-PIP, et al. (December 2, 1993). In that case, the Commission approved a stipulation that provided, among other things, that the terms of the PIPP agreement were to remain in place for four years (until December 1997) (Id. at 20-21). The company and the staff contend that adoption of SOIC's proposal would violate the four year moratorium on changes to the PIPP program approved in that case.

Although we recognize the theoretical merits of SOIC's plan to attempt to reduce PIPP arrearages, the details of the proposal are simply not sufficiently developed for us to approve it in this case. As was highlighted during cross-examination of SOIC's witness, the proposal would not reduce actual payments made by the weatherization participants, thus mitigating the motivational effects that would encourage PIPP customers to aggressively increase energy conservation. Further, we are concerned with the lack of detail concerning how the program would be funded. There are simply too many unknown factors with respect to SOIC's recommendation for the Commission to accept the arrearage forgiveness proposal in this case. Given our decision not to accept SOIC's proposal, we need not decide whether it would violate the stipulation in the 1993 generic case.

#### EFFECTIVE DATE

The Commission's general practice is to require that applicant utilities notify customers of any rate increase authorized prior to the effective date of the new tariffs, and to delay the effective date in order that customer notification can be accomplished. However, in instances where the Commission has not acted upon a rate application within 275 days of the date of the filing, and where the applicant has not invoked the provisions of Section 4909.42, Revised Code, to attempt to place proposed rates in effect subject to refund, the Commission normally establishes the effective date of the new tariffs as the date they are approved by entry, so as not to penalize the company for its forbearance. In this case, the 275 day period has expired. Thus, the Commission finds that, on a bills rendered basis, the effective date of the tariffs filed pursuant to this opinion and order shall be the date the company submits four complete, printed copies of its tariffs, pursuant to the entry approving the form of the new tariffs. The company is authorized to effect the new rates for consumption and pipeline services on a bills rendered basis following the approval of the company's tariffs. For miscellaneous and ancillary services, the company is authorized to effect the new rates on a service rendered basis. CG&E shall notify its affected customers of the increase in rates authorized herein by means of inserts or attachments to its billings, by special mailing, or by a combination of those methods. The company shall submit copies of its proposed customer notice for the Commission's review at the time the new tariffs are filed for approval.

#### FINDINGS OF FACT:

- (1) The value of all of the applicant's property used and useful for the rendition of gas service to the jurisdictional customers affected by this proceeding, determined in accordance with Sections 4909.05 and 4909.15, Revised Code, as of the date certain of September 30, 1995, is not less than \$364,816,495.
- (2) For the 12-month period ending June 30, 1996, the test period in this proceeding, the revenues, expenses, and net operating income realized by the applicant under its present rate schedules were \$382,329,550, \$347,051,762, and \$35,277,788, respectively.
- (3) The net annual compensation of \$335,277,788 represents a rate of return of 8.11 percent on the jurisdictional rate base of \$364,816,495.

- (4) A rate of return of 8.11 percent is insufficient to provide the applicant reasonable compensation for the service rendered to customers affected by the application.
- (5) A rate of return of 9.67 is fair and reasonable under the circumstances presented by this case and is sufficient to provide the company just compensation and return on the value of its property used and useful in furnishing gas service to its customers.
- (6) A rate of return of 9.67 percent applied to the rate base of \$364,816,495 will result in net operating income of \$35,277,755.
- (7) The allowable annual expenses of the company for purposes of this proceeding are \$347,051,762.
- (8) The allowable gross annual revenue to which the applicant is entitled for purposes of this proceeding is \$382,329,550.
- (9) The applicant's present tariffs should be withdrawn and canceled and the applicant should submit new tariffs consistent in all respects with the discussion and findings set forth above.

CONCLUSIONS OF LAW:

- (1) The application in this case was filed pursuant to, and this Commission has jurisdiction thereof, under the provisions of Sections 4909.17, 4909.118, and 4909.19, Revised Code. Further, the applicant has complied with the requirements of those statutes.
- (2) A staff investigation was conducted and a report duly filed and mailed, and public hearings have been held in this case, the written notice of which complied with the requirements of Sections 4909.19 and 4903.083, Revised Code.
- (3) The existing rates and charges as set forth in the tariffs governing gas service to customers affected by this application are insufficient to provide the applicant with adequate net annual compensation and return on its property used and useful in the rendition of gas service.
- (4) A rate of return of 9.67 percent is fair and reasonable under the circumstances of this case and is sufficient to provide the applicant just compensation and return on its property used and useful in the rendition of gas service to its customers.
- (5) The applicant should be authorized to cancel and withdraw its present tariffs governing service to customers affected by this application and to file tariffs consistent in all respects with the discussion and findings set forth above.

ORDER:

It is, therefore,

ORDERED, That the application of Cincinnati Gas & Electric Company for authority to increase its rates and charges for gas service is granted to the extent provided in this opinion and order. It is, further,

ORDERED, That the applicant is authorized to cancel and withdraw its present tariffs governing gas service to customers affected by this application and to file new tariffs consistent with the discussion and findings set forth above. Upon receipt of four complete copies of tariffs conforming to this opinion and order, the Commission will review and approve those tariffs by entry. It is, further,

ORDERED, That the effective date of the new tariffs shall be the date the company

files four complete, final copies of its tariffs pursuant to the entry approving the form of the new tariffs. The rates contained in the new tariffs shall be applicable to all bills rendered, except for miscellaneous and ancillary charges, on or after the effective date. It is, further,

ORDERED, That the company shall immediately commence notification to its affected customers of the increase in rates authorized herein by insert or attachment to its billings, by special mailing, or by a combination of these methods. The company shall submit a proposed form of notice to the Commission when it files its tariffs for approval. The Commission will review the notice and, if it finds the notice to be proper, will approve the notice by entry. It is, further,

ORDERED, That the applicant comply with all Commission directives set forth in this opinion and order. It is, further,

ORDERED, That nothing in this opinion and order shall be binding upon this Commission in any subsequent investigation or proceeding involving the justness or reasonableness of any rate, charge, rule or regulation. It is, further,

ORDERED, That all objections and motions not specifically discussed in this opinion and order, or rendered moot thereby, are overruled and denied. It is, further,

ORDERED, That a copy of this opinion and order be served upon all parties of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO

\_\_\_\_\_  
Craig A. Glazer, Chairman

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Jolynn Barry Butler

\_\_\_\_\_  
Richard M. Fanelly

\_\_\_\_\_  
Ronda Hartman Fergus

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David W. Johnson

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The company is not seeking recovery of the \$17.7 million expensed prior to its capitaliz 1990 AAM case (90-277-GE-AAM).

OCC also argues that the Commission should fashion a remedy to prohibit PSI from using t providing a credit to CG&E's ratepayers. Staff witness Kotting explained that, although the sta with OCC in principle, there is no certainty that PSI will adopt the CSS (Staff Ex. 6, at 24). the staff that PSI's intention regarding use of the CSS is, at this time, speculative and does n Commission a reasonable means of allocating CSS costs. However, in the event PSI adopts CG&E's we expect CG&E to inform the Commission's staff of such an occurrence.

We note that in CG&E's 1991 electric rate case the Commission clearly indicated that the zero/negative working capital would be addressed in future cases. Cincinnati Gas & Electric Co. 91-410-EL-AIR (May 12, 1992), at 38. Indeed, we specifically stated that all jurisdictional uti as the staff and intervenors, were put on notice that the Commission "may wish to review the iss appropriate treatment of negative working capital in a future case" (Id.). Despite this clear s our desire to review the issue of negative working capital, no party, including OCC, presented o or testimony with respect to this issue. As a result, we have no choice but to adopt the staff' capital recommendation. However, as we will reiterate once again from our order in Case No. 91-AIR, we may wish to reconsider in the future the appropriateness of a zero working capital recommendation in light of a negative working capital calculation. Accordingly, we direct all m jurisdictional utilities which file future rate increase applications to address the policy rat opposed to legal arguments to be made on brief) behind their working capital positions through p testimony.

We note that, at the public hearing in Cincinnati, a number of comments were made regard \$6 million investment in renaming Riverfront Stadium (See, e.g., Cincinnati Tr., 10, 18, 24, 30)

verified to our satisfaction that the costs associated with renaming the stadium were borne sole shareholders, not ratepayers.

We note that, on November 8, 1996, AK Steel filed a motion to strike pages 10 through 13 reply brief wherein the staff argued that, for delta revenue purposes, the "Armco contract" is not lawful because AK Steel had not sought the Commission's approval as Armco's successor in interest contract. AK Steel argues that the staff never raised this issue during the course of the hearing time prior to the reply brief. We agree with AK Steel that the staff's arguments should have been at all, prior to the reply brief stage of the proceedings. Accordingly the staff's arguments should not be considered by the Commission.

In a competitive response situation, the customer is usually not threatening to physical territory but intends to take service from another supplier (See, Tr. XXVI, 17-18).

The staff's calculation is based on application of the current \$0.537/MCF IT tariff rate annual volume of 22.8 million for AK Steel resulting in tariff charges of \$12.25 million. After actual AK Steel revenues of \$5.4 million, the staff derived a delta revenue amount of \$6,779,100 using the same methodology, Ford delta revenues of \$222,400 were calculated for a total delta revenue resulting in \$6,890,300 (Staff Ex. 17, at 7-8; OCC Ex. 5A).

Although we agree with the staff's analysis in this case, we direct the staff in future more detailed analysis of any changes to its recommendation, with reliance on criteria in addition to Line projected changes.

We wish to make clear, also, that granting CG&E a rate of return at the top of the staff's our expectation that CG&E will make every effort to retain AK Steel as a customer at least to the termination of the contract at the end of 1998. In the event CG&E invokes its contractual right under the AK Steel contract and impose the higher tariff rate, thereby driving AK Steel off the system, we give serious consideration in future rate case filings by CG&E to adjusting the authorized rate of return significantly downward. We believe that it is a prudent management decision for CG&E to try to retain AK Steel as a customer and the company's failure to continue to honor the contract price, until the end of the current contract, may well be considered by this Commission to be an imprudent management decision, as noted by staff witness Maag's testimony. Beyond the contract term, the Commission should reconsider how this customer is treated for ratemaking purposes, including the potential for all AK Steel revenues and plant associated with AK Steel. We do not believe, however, that company witness Lonneman's dedicated facilities allocation sufficiently recognizes all of the costs this customer incurs on the CG&E system.

For the capacity release revenues, the company proposes to retain 20 percent of the first million dollars, 30 percent of the second million dollars, 40 percent of the third million dollars, and all net revenues above \$3 million. The balance of the revenues would continue to be credited to the customers (Co. Ex. 13, at 14-15). For off-system sales, CG&E proposes that all net revenues, first million dollars, would be shared equally by the company and GCR customers (Id. at 16).

A&G costs are comprised of administrative and general salaries, office supplies and administrative expenses, outside services employed, property insurance, injuries and damages, employee benefits, franchise requirements, regulatory commission expenses, duplicate charges, general advertising expenses, miscellaneous general expenses, and maintenance of equipment and rents (Tr. Ex. 18).

Open sourcing is the ability of suppliers (marketers) to bring gas into the company's system from any source available, rather than being limited to the capacity assignments specified by the company (Co. Ex. 17, at 19; Tr. VIII, 165-168).

We also believe it is appropriate to maintain the customer charge for each customer class due to our concern with the cost of service information presented in this case. This does not mean, however, that the Commission is satisfied that all of the customer charges are at appropriate levels, especially those applied to transportation service. The Commission is very interested in addressing these issues in the next rate case.

As a final matter in the management and operations review section, we note that we have concerns with the company's accounting for its mains between high and low pressure, and between distribution and transmission, to be inadequate. Given the critical nature of these issues for purposes of attaining accurate service information, we direct the company to submit a plan to the staff, within 120 days of the hearing, to reflect the segregation and identification of these costs through Uniform System of Accounts sub

Enron and Miami Valley Resources signed the stipulation only with respect to paragraph 1

charges for customer information (see discussion below). SOIC did not sign the agreement but in by letter filed October 22, 1996 that it did not oppose adoption of the stipulation. SOIC's let however, that it believes the negotiated \$17 reconnection charge should be reduced or waived for income customers.

In order to amend its electric tariff, the company has attached to the stipulation an AT make the electric tariff consistent with the proposed \$25 combination reconnection fee in the ga

We note that paragraph 9 of the stipulation calls for the Commission to accept and appro application attached to the agreement for purposes of providing a consistent reconnection charge CG&E's gas and electric operations. Although we agree, in principle, that the combined \$25 reco charge is reasonable, we are concerned that approval of an increase in the combination reconnect charge for electric customers, through an ATA case, could be construed as an application for an rates. We decline, therefore, to approve the company's request for an increase in the combinati nection charge for gas or electric.

We note that the company failed to discuss in its brief the Commission's administrative disconnection, which have been in place for a number of years.