

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE FILING ADJUSTMENT) CASE NO.
OF BLUEGRASS GAS SALES, INC.) 2011-00364

ORDER

Pursuant to 807 KAR 5:076, Bluegrass Gas Sales, Inc. ("Bluegrass") applied for an adjustment of rates for natural gas service. By this Order, the Commission approves rates that will produce additional base rate revenues of \$98,201, or a 39.5 percent increase over Bluegrass's normalized base rate revenues of \$248,374.

Bluegrass, a gas distribution company providing service in Allen, Barren, Hart, Metcalfe, Logan, and Ohio counties, owns and operates facilities that supply natural gas to approximately 660 customers. The last adjustment to increase its base rates for natural gas service occurred in January 1999.¹

Bluegrass's application was considered filed with the Commission on September 26, 2011. It proposed rates that would produce additional revenues from natural gas sales of \$113,904, an increase of 45.9 percent over its normalized base rate revenues.

On June 14, 2012, Commission Staff ("Staff") issued a report of its findings and recommendations regarding Bluegrass's proposed base rate increase and operations for its test period ended December 31, 2010.

¹ Case No. 1998-00305, In the Matter of the Alternative Rate Filing for Bluegrass Gas Sales, Inc. (Ky. PSC Jan. 7, 1999).

Staff found, based on test-period operations, that Bluegrass required total base rate revenues of \$346,575 to meet its reasonable operating expenses and provide for reasonable equity growth. Staff further found that, to reach this level of revenues, Bluegrass required a rate increase to generate additional revenues of \$98,201, or a 39.5 percent increase, over Bluegrass's normalized base rate revenues of \$248,374.

Bluegrass responded to the findings and recommendations contained in Staff's report on June 29, 2012. In its response, Bluegrass stated that it had no objections to the Staff's findings and recommendations. It further stated that, in accordance with the Staff's recommendation, it would be filing a signed affidavit within 90 days of the date of this Order confirming that the pay increases recommended by Staff for Bluegrass's employees had been implemented. Bluegrass submitted a supplemental response on July 10, 2012, wherein it waived its right to a hearing and requested that this matter be submitted for decision based on the existing record. Accordingly, pursuant to the Commission's Order of June 14, 2012, this matter now stands submitted for decision.

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The findings and recommendations contained in the Staff's report are supported by the evidence of record, are reasonable, and should be accepted.
2. The calendar year ending December 31, 2010 should be used as the test period to determine the reasonableness of Bluegrass's existing and proposed rates.
3. Based upon its pro forma test period operations, Bluegrass's annual base rate revenues are \$248,374.

4. Based upon its pro forma test-period operations, Bluegrass's total operating expenses, after adjusting for reasonable known and measurable changes, are \$296,567 (including the employee pay increases recommended by Staff).

5. In addition to its operating expenses, Bluegrass has pro forma interest expense on long-term debt of \$15,200.

6. An operating ratio of 0.88 will permit Bluegrass to meet its reasonable operating expenses, service its debt and provide for fair and reasonable equity growth and should be used to determine Bluegrass's total revenue requirement (exclusive of gas cost recovery).

7. Applying an operating ratio of 0.88 to Bluegrass's pro forma operating expenses and adding its pro forma interest expense on long-term debt produces a total revenue requirement (exclusive of gas cost recovery) of \$352,208. After eliminating other sources of revenue, Bluegrass will require base rate revenues of \$346,575, or \$98,201 more in revenues than its current rates produce.

8. Bluegrass's proposed rates will produce base rate revenues from natural gas sales in excess of \$346,575.

9. The rates set forth in Appendix A to this Order reflect Bluegrass's most current gas cost rate and will produce the required base rate revenues and should be approved for service rendered after the pay increases Staff has recommended for Bluegrass's employees have been implemented.

10. The rates set forth in Appendix B to this Order reflect Bluegrass's most current gas cost rate and will produce the required base rate revenues, less the amount

associated with the pay increases recommended by Staff, and should be approved for service rendered on and after the date of this Order.

IT IS THEREFORE ORDERED that:

1. The findings and recommendations contained in the Commission Staff's report are adopted and incorporated by reference into this Order as if fully set out herein.

2. Bluegrass's proposed rates are denied.

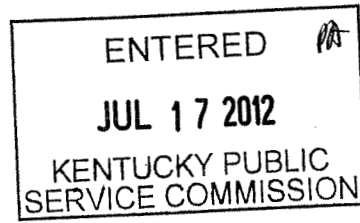
3. The rates set forth in Appendix A to this Order reflect Bluegrass's most current gas cost rate and are approved for natural gas service rendered by Bluegrass after the employee pay increases recommended by Staff have been implemented.

4. The rates set forth in Appendix B to this Order reflect Bluegrass's most current gas cost rate and are approved for service rendered on and after the date of this Order.

5. Within 20 days of the date of this Order, Bluegrass shall file its revised tariffs with the Commission setting forth the rates approved for service rendered on and after the date of this Order.

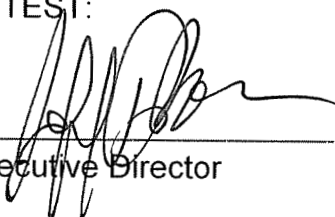
6. This case shall remain on the Commission's docket pending the receipt of Bluegrass's signed affidavit stating that the pay increases approved herein for its employees have been implemented.

By the Commission



Commissioner Breathitt is abstaining from this proceeding.

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2011-00364 DATED JUL 17 2012

The following rates and charges are prescribed for the customers served by Bluegrass Gas Sales, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

BASE GAS RATES

<u>RATE CLASSIFICATION</u>	<u>BASE RATE</u>
Customer Charge	\$ 10.00
Per Mcf Charge	\$ 5.1416

GAS COST RATE EFFECTIVE JULY 1, 2012

Per Mcf Charge	\$ 3.2874
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APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2011-00364 DATED JUL 17 2012

The following rates and charges are prescribed for the customers served by Bluegrass Gas Sales, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

BASE GAS RATES

RATE CLASSIFICATION

BASE RATE

Customer Charge

\$ 10.00

Per Mcf Charge

\$ 4.9708

GAS COST RATE EFFECTIVE JULY 1, 2012

Per Mcf Charge

\$ 3.2874

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