

Johnson County Gas
P.O. Box 447
Betsy Layne, Kentucky 41605
606-789-5481
Fax: 606-478-5266

October 24, 2012

Mr. Jeff Derouen
Executive Director
Public Service Commission
PO Box 615
Frankfort, Ky. 40602

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PUBLIC SERVICE
COMMISSION

In the matter of Alternative Rate Filing Adjustment
Application of Johnson County Gas Company

Case No. 2012-00140

Dear Mr. Derouen:

Pursuant to that certain Order of the Public Service Commission dated September 26, 2012, the following is in response to the "Commission Staff's First Request for Information to Johnson County Gas Company, Inc." dated October 10, 2012 in Case No. 2012-00140:

Question No. 1:

Refer to the Billing Analysis of Johnson County filed August 10, 2012. Explain the discrepancy between the number of bills and usage volumes shown for residential and commercial customers (3,470 residential bills with 15,165 residential sales, and 189 commercial bills with 1,151 commercial sales) compared to the average number of customers and sales volumes shown in Johnson County's 2011 Annual Report. (The Annual Report shows an average number of residential customers of 330, which should equate to 3,960 bills, and residential sales volumes of 15,517 Mcf; and an average number of commercial and industrial customers of 15, equating to 180 bills, with commercial/industrial sales volumes of 854 Mcf.)

Response to question no. 1

The 2011 PSC reports as originally filed was in error and has been amended to properly reflect the number of bills and usage volumes shown for residential and commercial customers. These numbers are now in agreement.

Question No. 2:

Many gas distribution companies regulated by the Commission have rate designs consisting of a monthly customer charge, which covers zero Mcf usage, and a single volumetric rate for all volumes purchased.

a. Explain whether Johnson County has considered or would be amenable to this type of rate design, as opposed to a minimum bill containing a charge for 2 Mcf with a lower rate for all over 2 Mcf sold.

b. If the answer to part a. of this request is yes, provide the customer charge and volumetric rate that Johnson County would propose to achieve its required revenue requirement.

c. If the answer to part a. of this request is no, explain why Johnson County believes its proposed rate design to be superior in terms of revenue collection and customer understanding.

Response to question no. 2

At existing rates, Johnson County Gas does not receive sufficient revenue to pay for the costs of its overhead. Johnson County Gas is amenable to ANY rate design that is sufficient to (a) balance the expense budget and (b) provide for payments to its creditors, all in accordance with the confirmed Chapter 11 plan. A minimum monthly charge must raise at least \$18,100 during a calendar year to replace the proposed minimum monthly charge of 1 Mcf to 2 Mcf per customer per month - reference is made to the attached "Exhibit 2" to the Disclosure Statement. If anticipated costs of operation are \$182,417 per calendar year, Johnson County Gas must recover a combination of a minimum charge plus a cost per Mcf that will pay \$182,417, PLUS five years' debt service of \$39,000 per year for the creditors in the Plan of Reorganization (which probably should be treated as a separate, line-item surcharge). The PSC can terminate the surcharge at the end of the five years.

Notwithstanding the foregoing, Johnson County Gas believes that the proposed rate design is superior AND beneficial to customers because customers are only affected during the summer months when there is little or no use of gas. Customers generally understand this minimum bill because we rarely receive questions from customers about the minimum bill. The proposed rate design of a 2 Mcf minimum bill also allows Johnson County Gas to receive additional operating revenue during the summer months when it really needs the revenue to pay for fixed costs.

Question No. 3

Explain the source of Other Gas Revenues of \$475.00 shown on ARF FORM-1 of Johnson County's August 10, 2012 filing with the Commission, which is headed "Schedule of Adjusted Operations – Gas Utility" ("ARF FORM-1"), and why Johnson County expects to receive the same level of such revenues going forward.

Response to question no. 3

This was from checks written for gas related expenditures that were written in prior years but never cleared the bank; thus, those checks were voided and shown as revenue in 2011.

Question No. 4

The evidentiary records in other Commission cases involving Johnson County' have shown that its president and sole shareholder, Mr. Bud Rife, also owns Bud Rife Construction Company, Inc., B & H Gas Company, B & S Oil and Gas Company, and that he owns a 29 percent interest in Hall, Stephens & Hall, which has been identified as a production company.

Response to question no. 4

You will find an attached list of all expenditures to all entities in which Bud Rife has an interest from 1/1/10 through 12/31/11. Neither B & H Gas Company nor Hall, Stephens, & Hall have done any business with Johnson County Gas during this period (other than the fact that B & H Gas shares the same office space and the rent).

Question No. 5

Refer to ARF Form-1. For the test year ended December 31, 2011, Other Gas Supply Expenses are listed at \$134,687, which matches the amount reported in Johnson County's 2011 Annual Report as Natural Gas City Gate Purchases. However, the amount of Gas Purchases shown on the income statement in Johnson County's 2011 tax return is less than one-half this amount. Explain why the amount reported in the annual report is more than twice the amount shown in the tax return.

Response to question no. 5

The purchase of natural gas for which checks were paid amounted to \$52,954.94. A copy of the 2011 general ledger reflecting this amount is attached along with a list of the schedule of purchases by vendor. These are summarized below:

Bradco Oil Company	- \$36,992.00
EQT	- \$10,565.94
Columbia Gas	- <u>\$5,433.53</u>
Total	- \$52,954.94

This amount reflects the amount deducted of the 2011 income tax return. The remainder of \$81,732 is gas purchases from Columbia Gas that was not paid for by year end but is included in the PSC report in accounts payable.

Question No. 6

Refer to ARF FORM-1. \$28,698 is the amount listed as Distribution Expenses, which matches the amount in Johnson County's 2011 Annual Report. In the Annual Report, \$20,576 of the total for Distribution Expenses is identified as Rents – Account 881.

- a. Clarify whether or not this rent expense was for office space.
- b. If this was rent for office space, identify the owner of the property. If the owner is Mr. Rife, a relative of Mr. Rife, or one of the other entities owned by Mr. Rife, explain in detail how the amount of rent charged to Johnson County is determined.
- c. Exhibit 2 of what were identified as the "Bankruptcy Documents" in Johnson County's original application is headed "Johnson County Gas Company, Inc." with a sub-heading of "Overhead Expense Budget for the Year Ending 12/31/12" ("Exhibit 2 – Bankruptcy Documents"). The monthly budget for office rental is \$1,000, or \$12,000, for calendar year 2012. Explain whether this budgeted amount indicates that Johnson County's office rent expense was reduced beginning in 2012.

Response to question no. 6

- a. This was paid to Bud Rife for leases of trucks and rent.
- b. Bud Rife owns the office and building where Johnson County Gas maintains its office. B & H Gas and Johnson County Gas each pay \$1,000 per month, or a total of \$2,000 per month for the entire building. The building is a lot more space than the old location that it had previously leased for \$800 per month. The old location was in a flood zone and caused damage to business records and personal property in past years. The amount of the rent is reasonable based upon the size of the office space utilized by Johnson County Gas and the location of the building in a business district. Mr. Rife purchased the present location for approximately \$175,000 and paid more than \$25,000 to “fit-up” the premises for B & H Gas and Johnson County Gas. Thus, the monthly rent of \$2,000 (\$1,000 times 2 tenants), is reasonable based upon Mr. Rife’s costs.
- c. It was not reduced. See above.

Question No. 7

Refer to ARF FORM-1. \$141,296 is the amount listed as Administrative and General Expenses, which matches the amount shown in Johnson County's 2011 Annual Report. In the Annual Report, \$117,745 of the total for Administrative and General Expenses is identified as Outside Services Employed – Account 923.

- a. Provide a breakdown of the \$117,745 which lists each individual or firm that provided services to Johnson County in 2011, the nature of the services provided, and the amount charged to Johnson County by each individual or firm
- b. Exhibit 2 - Bankruptcy Documents shows \$84,000 being budgeted, a monthly amount of \$7,000, for calendar year 2012 for "Bud Rife Management Fee." Provide the amount of compensation Mr. Rife received for managing Johnson County for each of the years 2010 and 2011.
- c. Explain whether Mr. Rife has been compensated \$7,000 per month by

Johnson County in 2012. If his compensation has not been this amount, provide his total 2012 compensation from Johnson County, through September 2012.

d. An earlier item in this request listed four other entities in which Mr. Rife has previously been identified as either sole- or part-owner. Provide the amount of compensation Mr. Rife received from each of those entities -- Bud Rife Construction Company, Inc., B & H Gas Company, B & S Oil and Gas Company, and Hall, Stephens & Half, in 2011.

Response to question no. 7

a. A copy of the ledger showing this amount is attached. Below is the breakdown

Bud Rife (Management Fees)	\$ 81,000.00
Darrell Madden, CPA PSC (Accounting)	1,365.00
Attorney Fees (Bunch & Brock – Dinsmore & Shohl)	35,014.00
Kimberlain IT Services (Computer Technician)	365.70
Total	\$ 117,744.70

Also, the ARF Form should be an easy filing however it has been a drawn out process for Johnson County Gas. Johnson County Gas to date has paid Dinsmore & Shohl to file the ARF however due to lack of funds we still owe them \$11,712.68. But date Johnson County has paid them \$11,480.75.

b. A copy of the general ledger showing these payments for 2010 and 2011 is attached. The amounts are listed below:

2010 - \$84,000

2011 - 81,000

c. No compensation from Hall, Stephens, & Hall. Mr. Rife has been paid a total of \$49,000.00 from January 2012 to present. There are a couple of months he has not been compensated due to lack of funds.

d. As previously stated, no business was done with B & H Gas Company or Hall, Stephens & Hall. B & S oil and Gas is a sole proprietorship so no wages were derived by Bud Rife from this entity. The W-2 from Bud Rife Construction paid to Bud Rife was in the amount of \$40,800 for 2011. A copy is attached

Question No. 8

Exhibit 2 – Bankruptcy Documents shows \$5,976 as the amount budgeted for calendar year 2012 for “Telephone”. While the income statement in the 2011 Annual Report does not reflect a specific “Telephone” expense, the income statement in Johnson County’s 2011 tax return includes an amount for “Telephone Expenses” that

