COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF VALLEY GAS, INC. FOR AN ALTERNATIVE RATE ADJUSTMENT	))	CASE NO. 2013-00150

ORDER

Valley Gas Inc. ("Valley") is a local gas distribution company ("LDC") which provides retail natural gas service in and around Irvington in Breckinridge County, Kentucky. During the calendar year 2012 test period, it served 473 customers, of which 421 were residential while 52 were either commercial or industrial.

BACKGROUND

On April 15, 2013, Valley submitted an application for an increase of $39,757 in its base rate revenues pursuant to 807 KAR 5:076, the Alternative Rate Filing ("ARF") procedure for small utilities, and for increases in two non-recurring charges. Because it operates on a June 30 fiscal year while the ARF procedure relies on the calendar year information in utility annual reports filed with the Commission, Valley sought a deviation to permit it to file a depreciation schedule based on its most recent fiscal year. By order dated May 13, 2013, Valley's deviation request was granted and its application was considered filed as of that date. There are no intervenors in this matter.

Pursuant to the ARF regulation, on June 6, 2013, the Commission issued an order stating that a report on Valley's application would not be prepared or filed by Commission Staff ("Staff") in this matter. Valley responded to two written requests for information from Staff. The case now stands submitted for a decision.

TEST PERIOD

Valley proposed the 12–month period ending December 31, 2012, as the test period for determining the reasonableness of its proposed increase. The Commission finds using the 12-month period ending December 31, 2012, as the test period in this proceeding to be reasonable. In utilizing a historic test period, the Commission has given full consideration to appropriate known and measurable changes, based on changes occurring both during and subsequent to the test period.

For the test period, Valley reported operating revenues of $272,429, which consisted of $146,229 in revenues from base rates and miscellaneous charges plus $126,200 in gas cost adjustment ("GCA") revenues. Valley requested an increase in rates that would generate additional annual revenues of $39,757.

TEST-PERIOD REVENUES AND EXPENSES

Valley reported sales of 29,712 Mcf during the calendar year 2012 test year. Based on its total revenues of $272,429 and total expenses of $299,695 as reported in its annual report filed with the Commission, Valley incurred a net loss of $27,266 in 2012. Valley based its proposed increase in base rates on increasing its non-GCA revenues sufficiently to eliminate its test-year net loss, cover increases in expenses, and realize a profit based on applying an operating ratio of .88 percent to its non-gas test-year operating expenses.

ADJUSTMENTS TO TEST-YEAR REVENUES AND EXPENSES

The Commission will approve the full revenue increase of $39,757 requested by Valley based on the results of its operations for its calendar year 2012 test year and our acceptance of the adjustments to increase salaries and to eliminate gas costs and GCA revenues as proposed by Valley. These adjustments reflect standard ratemaking theories and the Commission's long-held ratemaking practices.

The results of Valley's 2012 test-period operations, based on the Commission's acceptance of Valley's adjustments to increase salaries and eliminate gas costs and GCA revenues, are shown below in Table 1.[1]

Table 1

Account Titles	Test-Period Operations	Accepted Adjustments	Adjusted Operations
Operating Revenues	$ 272,429	$ (126,200)	$ 146,229
Operating Expenses	282,025	(140,405)	141,620
Net Operating Income	$ (9,596)	$ 14,205	$ 4,609
Other Income & Deductions	(17,670)	0	(17,670)
Net Income	$ (27,266)	$ 14,205	$ (13,061)

REVENUE REQUIREMENT DETERMINATION

Valley developed its proposed revenue requirement based on the operating ratio methodology. Valley calculated the amount of its requested increase based on an operating ratio of .88 ("88 percent"), consistent with the Commission's typical practice in rate cases involving small investor-owned utilities.

Based on Valley's adjusted test-period operating results, as shown above in Table 1, and applying the 88 percent operating ratio, the Commission has determined that Valley requires an increase in revenues of $39,757, the amount it had requested. The derivation of the required increase is shown below in Table 2.

[1] Compared to Valley's application, in which amounts were shown in dollars and cents, there are some small rounding differences in Tables 1 and 2.

Table 2

Adjusted Expenses before Income Taxes	$ 159,116
Divided by : 0.88	88%
Revenue to Cover Expenses and Operating Ratio	$ 180,814
Less: Adjusted Expenses before Income Taxes	159,116
Required Net Operating Income	$ 21,698
Multiply by Tax Gross-up Factor of 1.23839	$ 26,870
Add: Adjusted Operating Expenses	159,116
Total Non-GCA Revenue Requirement	$ 185,986
Less: Adjusted Test Year Non-GCA Revenues	$ 146,229
Required Increase in Non-GCA Revenues	$ 39,757

Based on its test-year sales volume and its most recent GCA,[2] this rate increase will result in total annual revenues for Valley of $334,329. This reflects GCA revenues of $148,343, compared to Valley's test-year GCA revenues of $126,200.

RATE DESIGN AND NON-RECURRING CHARGES

Valley proposed to increase its monthly customer charge from $10.00 to $15.00 and to increase its per Mcf volumetric rate from $2.7544 to $3.1372. It also proposed to increase its Collection Charge and its Reconnection Charge. It proposed increasing its Collection Charge to $25.00 and its Reconnection Charge to $50.00. However, Valley's cost support does not justify its proposed increases in these non-recurring charges. The cost support provided by Valley shows the cost associated with a collection trip to be $17.78 and the cost associated with reconnecting service to be $43.28. Based on these levels of costs, the Commission finds that Valley's Collection Charge should be increased to $18.00 and its Reconnection Charge should be increased to $43.00.

[2] Case No. 2013-00330, Purchased Gas Adjustment Filing of Valley Gas, Inc. (Ky. PSC Sept. 27, 2013).

Valley did not recognize the additional revenues it would realize from increasing these non-recurring charges in calculating its proposed non-GCA rates. Based on the increases the Commission is approving for the Collection and Reconnection Charges and the number of such charges Valley imposed during the test period, these increased charges should produce additional annual revenue of $3,900.

The Commission finds Valley's proposed rate design and Customer Charge to be reasonable. They are similar to customer charges and rate designs approved for other small LDCs in recent years to provide greater stability to revenue collection, especially during summer months when low sales volumes are experienced. The Commission also finds, based on the revenue increase being granted and recognizing the $3,900 in additional revenue to be realized from increasing Valley's Collection and Reconnection Charges, that its proposed volumetric rate should be denied. Based on these revenues and the revenues projected from the $15.00 Customer Charge, the required volumetric rate is $3.0061. The Commission finds it reasonable for Valley to charge these rates for service rendered on and after the date of this Order.

TARIFF ISSUES

In Case No. 2006-00012,[3] the Commission approved a $25.00 Returned Check Charge for Valley. While it has been charging the approved charge, Valley's tariff on file with the Commission includes no Returned Check Charge in any amount. When it files its compliance tariffs pursuant to this Order, it will be necessary for Valley to revise Tariff Sheet No. 2 in the General Service Rate portion of its tariffs to reflect the

[3] Case No. 2006-00012, Application of Valley Gas, Inc. for an Adjustment of Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities (Ky. PSC, Mar. 29, 2006).

increases in its Collection and Reconnection Charges granted herein. It should also include its approved $25.00 Returned Check Charge on its revised Tariff Sheet No. 2.

Also in Case No. 2006-00012, in its report on Valley's requested increase, Staff recommended increasing the Collection Charge from $7.50 to $15.00. The Final Order in that case stated that Staff's recommendations were being adopted as if they were set out in that Order. However, the rate appendix attached to that Order reflected Valley's existing $7.50 Collection Charge rather than Staff's recommended $15.00. According to its filed tariff and the customer notice it provided in this case, Valley's existing Collection Charge is $7.50. Its response to Staff's Second Information Request ("Staff's Second Request") confirms that it charged $7.50 during the test year for collection activities.

While the discrepancy between the text of the Commission's Final Order in Case No. 2006-00012 and the Collection Charge of $7.50 included in the rate appendix to that Order quite clearly reflects an error on the part of both Staff and the Commission, it is Valley's responsibility to read, review, and understand Commission orders. If, in the course of such review, it detects an error of the sort described above, it should contact the Commission in order to correct the error.

All utilities regulated by the Commission are responsible for ensuring that the rates and charges they are billing customers match their approved rates and charges and that their tariffs on file with the Commission reflect those rates and charges. In a situation such as what appears to have occurred with respect to Case No. 2006-00012, it is incumbent upon a utility such as Valley to be accountable for protecting its own interests, in order to ensure that an error of the sort that occurred in that case does not go unnoticed to the utility's detriment.

UNAUTHORIZED CHARGES

As stated in the prior paragraph, utilities are responsible for ensuring that they are charging Commission-approved rates and that their tariffs reflect those rates. The record in this proceeding shows that Valley has been charging an unauthorized Reconnection Fee. Its Commission-approved Reconnection Fee as set out in Valley's tariff is $15.00; however, it has been charging a higher amount. Valley's notice to its customers showed the current Reconnection Fee as $25.00 and its response to Staff's First Information Request stated that it has been charging $25.00. However, the revenues and number of occurrences for reconnecting service in its response to Staff's Second Request reflect that it charged $20.00 to reconnect service during the test year.

Pursuant to KRS 278.160(2), no utility may charge more or less for any service than what is set out in its rate schedules filed with the Commission. Its collection of an unauthorized Reconnection Fee could subject Valley to a Commission investigation pursuant to KRS 278.150 and to possible penalties pursuant to KRS 278.990. Because unauthorized revenue collected during the test year amounted to only $40.00, however, the Commission finds it more practical to require that the individual customers who were charged the unauthorized rate be made whole through refunds. Further, Valley should take all appropriate steps to ensure that in the future every recurring and non-recurring rate that it charges to its customers is set forth in a filed tariff.

SUMMARY

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

1. Based upon the adjusted test-period operations reflected herein, Valley's annual non-GCA revenue requirement is $185,986.

2. Valley's proposed rates and charges will produce approximately $192,421 in annual base rate revenues.

3. The rates and charges proposed by Valley would produce revenues in excess of those found reasonable herein and should be denied.

4. The rates and charges set forth in the appendix to this Order are found reasonable and should be approved for Valley.

5. Valley should engage in a thorough review of its charges for reconnecting service beginning January 1, 2012, through the date of this Order in order to determine which customers should receive a refund of any amounts charged over $15.00. Any excess revenues collected as a result of Valley charging an unauthorized Reconnection Fee should be returned to its customers within 60 days of this Order.

IT IS THEREFORE ORDERED that:

1. The rates and charges proposed by Valley are denied.

2. The rates and charges found reasonable herein and set forth in the appendix to this Order are approved for service rendered by Valley on and after the date of this Order.

3. Within 20 days of the date of this Order, Valley shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariffs which set out the rates and charges approved herein and which state that they were approved pursuant to this Order. Valley shall include its previously approved $25.00 Returned Check Charge with its tariff revisions.

4. Within 60 days of the date of this Order, Valley shall refund to affected customers all unauthorized Reconnection Fee revenue as required herein.

5. Within 90 days of the date of this Order, Valley shall provide a report to the Commission of all unauthorized Reconnection Fee revenue collected and returned to customers pursuant to this Order.

6. This shall be considered an Interim Order and this case shall remain on the Commission's docket until it is determined that Valley has complied with ordering paragraph 5 herein.

By the Commission

ENTERED
NOV 05 2013
KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2013-00150 DATED NOV 05 2013

The following rates and charges are prescribed for the customers served by Valley Gas, 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 Rate	Gas Cost Recovery Rate	Total
Customer Charge	$15.00		
All Mcf	$ 3.0061	$4.9927	$ 7.9988
Collection Charge	$18.00		
Reconnection Charge	$43.00		

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Secretary
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