

APPLICATION FOR RATE ADJUSTMENT  
BEFORE THE PUBLIC SERVICE COMMISSION

For Small Utilities  
Pursuant to 807 KAR 5:076  
(Alternative Rate Filing)

RECEIVED

JAN 7 2011

PUBLIC SERVICE  
COMMISSION

**Valley Gas, Inc.**

Name of Utility

**P.O. Box 55; 401 First Street**

**Irvington, KY 40146**

Business Mailing Address

Telephone Number **270 / 547 - 2455**

Area Code

Number

I. Basic Information

NAME, TITLE, ADDRESS and Telephone number of the person to whom correspondence or communications concerning this application should be directed:

Name: **Kerry R. Kasey**

Address: **P.O. Box 55; 401 First Street**

**Irvington, KY 40146**

Telephone Number: **270 - 547 - 2455**

- |    |   |                                     |    |
|----|---|-------------------------------------|----|
| 1) | Do you have 500 customers or fewer?   | <input checked="" type="checkbox"/> | No |
| 2) | Do you have \$300,000 in Gross Annual Revenue or less?  | <input checked="" type="checkbox"/> | No |
| 3) | Has the Utility filed an annual report with this Commission for the past year and the two previous years? | <input checked="" type="checkbox"/> | No |
| 4) | Are the utility's records kept separate from any other commonly-owned enterprise?                         | <input checked="" type="checkbox"/> | No |

NOTICE: To be eligible for consideration of a rate adjustment under this regulation, you must have answered yes to either question 1 or 2 and yes to both questions 3 and 4 above. If you answer no to questions 3 or 4, you must obtain written approval from the Commission prior to filing this Application. If these requirements are not met, you must file under the Commission's procedural rules, 807 KAR 5:001.

## II. Increased Cost Information

(1) The most recent Annual Report will be used as the basic test period data in order to determine the reasonableness of the proposed rates. The Annual Report used as the basis for the 12 months ending December 31, 2008.

a. If you have reason to believe some of the items of revenue and expense listed in the Annual Report will increase or decrease, please list each item, the expected increase or decrease and the adjusted amount.

Account Titles	<u>2008</u>	<u>Pro Forma Adjustments</u>	<u>Adj. Ref.</u>	<u>Pro Forma Operations</u>
<b>Operating Revenues:</b>				
Total Gas Service Revenues	\$ 518,814	\$ (376,894)	(a)	\$ 141,920
Forfeited Discounts	6,977	0		6,977
Miscellaneous Service Revenues	5,521	0		5,521
<b>Total Gas Operating Revenues</b>	<b>\$ 531,312</b>	<b>\$ (376,894)</b>		<b>\$ 154,418</b>
<b>Operating Expenses:</b>				
<b>Other Gas Supply Exp:</b>				
Natural Gas City Gate Purchases	\$ 382,538	\$ (382,538)		\$ 0
Gas Withdrawn from Storage - Credit	(81,028)	81,028		0
Natural Gas City Gate Purchases	\$ 301,510	\$ (301,510)	(a)	\$ 0
<b>Distribution Expenses:</b>				
Operation Supervision and Eng.	\$ (42,758)	\$ 42,758		\$ 0
Mains & Service Exp.	32,229	0	(a)	32,229
<b>Total Distribution Expenses</b>	<b>\$ (10,529)</b>	<b>\$ 42,758</b>		<b>\$ 32,229</b>
<b>Customer Records and Collection:</b>				
Uncollectible Accounts	\$ 8,048	\$ 0		\$ 8,048
<b>Administrative &amp; General Exp:</b>				
Administrative & General Salaries	\$ 28,900	\$ 0		\$ 28,900
Office Supply & Exp.	19,933	0		19,933
Outside Services Employed	87,093	(15,594)	(b)	71,499
Property Insurance	14,334	0		14,334
Employee Pension & Benefits	9,720	8,886	(c)	18,606
Misc. General Exp.	711	0		711
Rents	3,225	2,775	(d)	6,000
<b>Total Admin &amp; Gen. Exp.</b>	<b>\$ 163,916</b>	<b>\$ (3,933)</b>		<b>\$ 159,983</b>
<b>Total Gas Operation &amp; Maint Exp.</b>	<b>\$ 462,945</b>	<b>\$ (305,443)</b>		<b>\$ 200,260</b>
Depreciation	4,432	0		4,432
Taxes Other Than Income Tax	38,958	(32,196)	(e)	6,762
<b>Total Gas Operating Expenses</b>	<b>\$ 506,335</b>	<b>\$ (337,639)</b>		<b>\$ 211,454</b>
<b>Net Operating Income</b>	<b>\$ 24,977</b>	<b>\$ (39,255)</b>		<b>\$ (57,036)</b>

- b. Please describe each item that you adjusted on page 2 and how you know it will change. (Please attach invoices, letters, contracts or receipts which will help in proving the change in cost).

(a) **Normalized Base Rate Revenues** - Purchased gas costs are recovered through the purchased gas adjustment; those costs are excluded when determining base rate revenue.

Tariffed Customer Charge	\$	8.50
Multiplied by: No. of Customers	x	470
Monthly Customer Charge Revenues	\$	3,995
Multiplied by: 12 Months	x	12
Annual Customer Charge Revenues	\$	47,940
Base rate	\$	2.3819
Multiplied by: Mcf sales	x	39,456
Volumetric rate revenues	\$	93,980
2008 Normalized base rate revenues	\$	141,920
Less: Total Gas Service revenues	-	518,814
Pro Forma Adjustment	\$	(376,894)

Remove Purchased Gas Cost

Natural Gas City Gate Purchases	\$	(382,538)
Gas Withdrawn from Storage - Credit	\$	81,028
Operation Supervision and Engineering	\$	42,758

(b) Management Fee / Owner Management Fee:

Kenneth Kasey was one of the original founders of Valley Gas, Inc. in 1962. Mr. Kasey was present when the franchise was authorized and the pipeline was installed in 1962. He has never received a pay check from Valley Gas and a few times in the past few years it has been necessary that Mr. Kasey make an addition to capital in order to be current with obligations. I am sure that the company could be sold on a short notice to some major company. I could take that money and invest it in some good growing company and make a greater return. Presently, Mr. Kasey is responsible for the payment of all bills, preparation of correspondence, oversight of employees, gas purchases, attendance at meeting with various gas companies, and is involved in all of the company decisions. The management fee has been charged to Valley Gas for at least twenty years. The semi-annual charge for management fees, office space rental, utilities, labor, and insurance is \$32,203.

Semi-Annual Management Fee	\$	32,203
Multiplied by: 2	x	2
Annual Management Fee	\$	64,406
Less: Management Fee - No Supporting Documentation	-	80,000
Management Fee - No Supporting Documentation	\$	(15,594)

(c) Employee Pension & Benefits:

This adjustment reflects the allocation of the employee benefits provided to the two identified employees of Valley Gas

Monthly Health and Life Insurance	\$	1,683
Multiplied by: 12 Months	x	12
Annual Employee Health and Life Insurance	\$	20,196
Multiplied by: Salary Allocation Rate	x	44.000%
Allocated Emp. Health and Life Insurance Premium	\$	8,886
Allocated Annual Salaries to Valley Gas	\$	52,800
Total Salaries Paid in 2008	+	120,000
Salary Allocation Rate		44.000%

(d) Office Rent:

This adjustment reflects the annual office rent expense of \$6,000.

Pro Forma Monthly Office Rent	\$	500
Multiplied by: 12 Months	x	12
Pro Forma Annual Office Rent	\$	6,000
Less: Reported Office Rent Expense	-	3,225
Pro Forma Adjustment	\$	<u>2,775</u>

(e) Taxes Other Than Income Taxes:

This adjustment removes misclassified taxes and allocates the correct payroll taxes to Valley gas.

Employee Position	Payroll	St. Unemp.	Fed. Unemp	FICA	Totals
Kevin Kasey	\$ 26,400	\$ 56	\$ 80	\$ 2,020	\$ 2,156
Kerry Kasey	+ 26,400	+ 56	+ 80	+ 2,020	+ 2,156
Pro Forma Totals	<u>\$ 52,800</u>	<u>\$ 112</u>	<u>\$ 160</u>	<u>\$ 4,040</u>	<u>\$ 4,312</u>
Payroll Taxes - Expensed					\$ 4,312
Less: Test Period Payroll Taxes					- 4,630
Pro Forma Adjustment -Payroll					\$ (318)
Remove City Tax					13,444
Sales Tax					3,838
Utility Tax					- 14,596
Total Pro forma Adjustment					<u>\$ (32,196)</u>

- c. Please list your present and proposed rates for each class (i.e., residential, commercial, etc.) of customer and the percentage of increase proposed for each class: **The below rates are applicable to all customer classes.**

Customer Class	Existing Rates	Proposed Rates	Proposed Increase	
			Amount	%
<u>Base Rates</u>				
Customer Charge	\$ 8.50	\$ 12.00	\$ 3.50	41.18%
per Mcf	\$ 2.3819	\$ 4.2699	\$ 1.888	79.26%
<u>Gas Cost</u>				
Per Mcf	\$ 4.3928	\$ 4.3928	\$ 0.00	00.00%

III. Other Information

a. Please complete the following questions:

- 1) Please describe any events or occurrences, which may have an effect on this rate review that should be brought to the Commission's attention (e.g., excessive line losses, major repairs, planned construction).

**The rates are being adjusted to recover the increases in operating expenses that have occurred since Valley Gas's last increase in its base rates.**

2) Total number of Customers as of the date of filing: 470

3) Total amount of increased revenue requested: \$ 94,233 Exhibit A

4) Please circle Yes or No:

- a) Does the utility have any outstanding indebtedness? Yes  No

If yes, attach a copy of any documents such as promissory notes, bond resolutions, mortgage agreements, etc.

- b) Were all revenues and expenses listed in the Annual Report for 2008 incurred and collected from January 1 to December 31 of that year?  Yes  No

If no, list total revenues and total expenses incurred prior to or subsequent to this period and attach invoices or other analysis which show how amounts were calculated.

- 5) Attach a copy of the utility's depreciation schedule of utility plant in service. Reconcile any differences between total depreciation shown on the Annual Report for 2008 and the amount shown on this schedule.

**A copy of the 2008 depreciation schedule is attached to the Application.**

- 6) If utility is a sewer utility:
- a) Attach a copy of the latest State and Federal Income Tax Returns. **Copies of the Income Tax Returns are attached.**
  - b) How much of the utility plant was recovered through the sale of lots or other contributions \_\_\_\_\_ \$ or %? (If unknown, state the reason).

- b. Please state the reason or reasons why a rate adjustment is requested. (Attach additional pages if necessary).

**The operating expenses have increased since the last rate case. For Richardsville to be able to provide adequate service to its ratepayers the requested increase in the base rates is required.**



Step3: Next 10,000 gallons rate level  
 1,830 Bills  
 16,268,700 gallons used  
 $1^{\text{st}}$  2,000 minimum x 1,830 bills = 3,660,000 gallons – record in Column 4.  
 Next 3,000 gallons x 1,830 bills = 5,490,000 gallons – record in Column 5.  
 Next 10,000 gallons – remainder of water over 3,000 = 7,118,700 gallons – record in Column 6.

Step4: Next 25,000 gallons rate level  
 650 Bills  
 15,275,000 gallons used  
 $1^{\text{st}}$  2,000 minimum x 650 bills = 1,300,000 gallons – record in Column 4.  
 Next 3,000 gallons x 650 bills = 1,950,000 gallons – record in Column 5.  
 Next 10,000 gallons x 650 bills = 6,500,000 gallons – record in Column 6.  
 Next 25,000 gallons – remainder of water over 10,000 = 5,525,000 gallons – record in Column 7.

Step5: Over 40,000 gallons rate level  
 153 Bills  
 9,975,600 gallons used  
 $1^{\text{st}}$  2,000 minimum x 153 bills = 306,000 gallons – record in Column 4.  
 Next 3,000 gallons x 153 bills = 459,000 gallons – record in Column 5.  
 Next 10,000 gallons x 153 bills = 1,530,000 gallons – record in Column 6.  
 Next 25,000 gallons x 153 bills = 3,825,000 gallons – record in Column 7.  
 Over 40,000 gallons – remainder of water over 25,000 = 3,855,600 gallons – record in Column 8.

Step6: Total each column for transfer to Revenue Table.

b. Revenue Table (Revenue by Rate Increment)

The Revenue Table is used to determine the revenue produced from the Usage Table. Column No. 1 is the incremental rate steps in the rate schedule for which the analysis is being made. Column No. 2 indicates the total number of bills. Column No. 3 is the number of gallons accumulated in each rate increment (Totals from Columns 4, 5, 6, 7, and 8 of the above usage table). Column No. 4 is the rates to be used in determining revenue. Column No. 5 contains the revenue produced.

**SAMPLE**

Revenue from Present/Proposed Rates  
 Test Period from 01-01-XX to 12-31-XX

**USAGE TABLE**  
Usage by Rate Increment

**Class:** Residential

(1)	(2) Bills	(3) Gallons/Mcf	(4) First 2,000	(5) Next 3,000	(6) Next 10,000	(7) Next 25,000	(8) Over 40,000	(9) Total
First 2,000 Minimum Bill	432	518,400	518,400					518,400
Next 3,000 Gallons	1,735	4,858,000	3,470,000	1,388,000				4,858,000
Next 10,000 Gallons	1,830	16,268,700	3,660,000	5,490,000	7,118,700			16,268,700
Next 25,000 Gallons	650	15,275,000	1,300,000	1,950,000	6,500,000	5,525,000		15,275,000
Over 40,000 Gallons	153	9,975,600	306,000	459,000	1,530,000	3,825,000	3,855,600	9,975,600
<b>Totals</b>	<b>4,800</b>	<b>46,895,700</b>	<b>9,254,400</b>	<b>9,287,000</b>	<b>15,148,700</b>	<b>9,350,000</b>	<b>3,855,600</b>	<b>46,895,700</b>

**REVENUE TABLE**  
Revenue by Rate Increment

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 2,000 Minimum Bill	4,800	9,254,400	\$ 5.00 Minimum Bill	\$ 24,000.00
Next 3,000 Gallons		9,287,000	\$ 2.50 per 1,000 Gal.	23,217.50
Next 10,000 Gallons		15,148,700	\$ 2.00 per 1,000 Gal.	30,297.40
Next 25,000 Gallons		9,350,000	\$ 1.25 per 1,000 Gal.	11,687.50
Over 40,000 Gallons		3,855,600	\$ 0.75 per 1,000 Gal.	2,891.70
<b>Totals</b>	<b>4,800</b>	<b>46,895,700</b>		<b>\$ 92,094.10 Total Revenue</b>

Instructions for Completing Revenue Table:

- (1) Complete Columns No. 1, 2, and 3 using information from Usage Tables.
- (2) Complete Column No. 4 using rates either present or proposed.
- (3) Column No. 5 is completed by first multiplying the bills times the minimum charge.
- (4) Then, starting with the second rate increment, multiply Column No. 3 by Column No. 4 and total.

V. General Information/Customer Notice

1) Filing Requirements:

a. If the applicant is a corporation, a certified copy of its articles of incorporation must be attached to this application. If the articles and any amendments thereto have already been filed with the Commission in a prior proceeding, it will be sufficient to state that fact in the application and refer to the style and case number of the prior proceeding.

b. An original and 10 copies of the completed application should be sent to:

Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Post Office Box 615  
Frankfort, Kentucky 40602

Telephone: 502 / 564 – 3940

c. One Copy of the completed application should also be sent at the same time to:

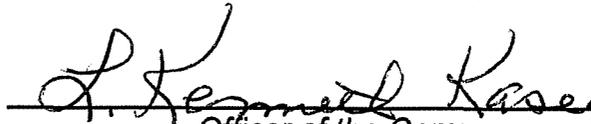
Public Service Litigation Branch  
Office of the Attorney General  
Post Office Box 2000  
Frankfort, Kentucky 40602-2000

2) A copy of the customer notice must be filed with this application. Proper notice must comply with Section 4 of this regulation.

3) Copies of this form and the regulation may be obtained from the Commission's Office of Executive Director; or by calling 502 / 564 – 3940.

4) I have read and completed this application, and to the best of my knowledge all the information contained in this application is true and correct.

Signed

  
\_\_\_\_\_  
Officer of the Company

Title

**President**

Date

01-03-11

**EXHIBIT A**  
**Determination of Revenue Requirement**

Operating Expenses (Net of Purchased Gas Costs & Income Taxes)	\$ 211,454
Divide by: Operating Ratio	+ 88%
Revenue to Cover Operating Ratio	<u>\$ 240,289</u>
Add: Interest on Long-Term Debt	1,488
Income Taxes on Net Operating Income	+ 6,874
Total Revenue Requirement - Base Rates and Customer Charges	<u>\$ 246,651</u>
Less: Other Operating Revenues	<u>- 12,498</u>
Total Revenue Requirement Base Rates	<u>\$ 236,153</u>
Less: Operating Revenues (Less: Gas & Transportation Costs)	<u>- 141,920</u>
Revenue Increase	<u><u>\$ 94,233</u></u>

**Determination of Income Tax Expense**

Revenue to Cover Operating Ratio	\$ 240,289
Less: Operating Expenses	<u>- 211,454</u>
Net Operating Income	<u>\$ 28,835</u>
Multiplied by: Gross-up Factor	<u>x 1.23839009</u>
Net Operating Income Before Income Taxes	<u>\$ 35,709</u>
Less: Net Operating Income	<u>- 28,835</u>
Income Tax Expense	<u><u>\$ 6,874</u></u>

**Determination of Gross-up Factor**

	Rates	Factors
Operating Revenue		100.00000%
Less:		
General Liability Insurance @	0.00000%	0.00000%
PSC Fee	0.00000%	<u>0.00000%</u>
Taxable Income		100.00000%
Less: State Income Taxes @	5.00%	<u>5.00000%</u>
Taxable Income - Federal		95.00000%
Less: Federal Income Taxes @	15.00%	<u>14.25000%</u>
Gross-Up Factor - Division		<u>80.75000%</u>
Gross-Up Factor - Multiplication		<u><u>1.23839009</u></u>
Composite Income Tax Rate		<u><u>19.25000%</u></u>