

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF RICHARDSVILLE GAS	)	
COMPANY, INC. FOR AN ADJUSTMENT OF	)	
RATES ON AN EMERGENCY BASIS UNDER 807	)	CASE NO.
KAR 5:076, THE COMMISSION'S ALTERNATIVE	)	2014-00066
RATE FILING PROCEDURE, AND FOR A RATE	)	
SURCHARGE AND FOR NONRECURRING	)	
CHARGES	)	

ORDER

Richardsville Gas Company, Inc. ("Richardsville") is a local gas distribution company ("LDC") which provides retail natural gas service in Warren County, Kentucky. It served 47 customers during the calendar year 2012 test period, of which 44 were residential and 3 were commercial.

BACKGROUND

On February 28, 2014, Richardsville submitted an application for an increase of \$6,241 in its base-rate revenues pursuant to 807 KAR 5:076, the Alternative Rate Filing ("ARF") procedure for small utilities, for approval of a safety surcharge and approval to establish four non-recurring charges.<sup>1</sup> Due to financial problems cited in its application, Richardsville asked that its rate proposal be considered a request for an emergency increase and requested that its proposed rates become effective within 30 days of the Commission's receipt of its application. The application was found to be deficient due to

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<sup>1</sup> Because its utility plant was fully depreciated during calendar year 2011, Richardsville did not include a depreciation schedule in its application. Given that it had no depreciation expense to report, the absence of a depreciation schedule from the application was not considered a filing deficiency.

its failure to include a disclosure of related party transactions statement for Richardsville's sole shareholder, P. Glenn Miller.<sup>2</sup> That statement was filed on March 12, 2014, and the application was considered filed as of that date.<sup>3</sup> Pursuant to the ARF regulation, on March 25, 2014, the Commission issued an order stating that Commission Staff ("Staff") would not be issuing a report on Richardsville's application. There are no intervenors in this case, which now stands submitted for a decision.

#### TEST PERIOD

Richardsville proposes using the 12-month period ending December 31, 2012, as the test period for determining the reasonableness of its requested increase, which the Commission finds 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, Richardsville reported operating revenues of \$17,585, which consisted of \$9,702 in revenues from base rates and miscellaneous charges plus \$7,883 in other gas-cost revenues. Richardsville requests an increase in rates that would generate additional annual revenues of \$6,241.

#### TEST-PERIOD REVENUES AND EXPENSES

Richardsville reported sales of 3,027 Mcf during the 2012 test year. Based on its total revenues of \$17,585 and total expenses of \$15,995 as reported in its annual report

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<sup>2</sup> Mr. Miller owns Miller's Bottled Gas, Inc. ("Miller's Bottled Gas"), a propane supply company. Much of the work on the Richardsville system is performed by employees of Miller's Bottled Gas.

<sup>3</sup> Letter from Linda Faulkner, Filings Division Director, Kentucky Public Service Commission to L. Joan Miller, Richardsville Gas Company, Inc. (March 13, 2014).

filed with the Commission, Richardsville realized net income of \$1,590 in 2012.<sup>4</sup> Richardsville bases its proposed revenue increase on increasing its base-rate revenues sufficiently to cover a net increase in expenses of \$4,778, and on realizing 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 \$6,241 requested by Richardsville based on the results of operations for its test year and our acceptance of adjustments that reflect (1) equalizing gas revenues and gas supply expenses, (2) the full cost of annual leak surveys and regulator inspections, (3) increased mowing costs, (4) increases in the costs of office supplies, meter reading, and utilities, (5) the cost of the owner’s management of the utility, and (6) a decrease in non-income tax expenses, adjusting for the fact that two years of property taxes, rather than one, were paid during the test year. These adjustments reflect standard ratemaking theories and the Commission’s long held ratemaking practices.

Based on the Commission’s acceptance of the adjustments previously identified, Richardsville’s 2012 test-period operating results are shown below in Table 1.

Table 1

<u>Account Titles</u>	<u>Test-Period Operations</u>	<u>Accepted Adjustments</u>	<u>Adjusted Operations</u>
Operating Revenues	\$ 17,585	\$ (315)	\$ 17,270
Operating Expenses	15,994	4,778	20,772
Net Income	<u>\$ 1,591</u>	<u>\$ (5,093)</u>	<u>\$ (3,502)</u>

<sup>4</sup> Due to rounding, the total expense amount included in Richardsville’s application was \$15,994, which resulted in a net income amount of \$1,591.

## REVENUE REQUIREMENT DETERMINATION

Richardsville developed its proposed revenue requirement using the operating ratio methodology. It 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 Richardsville's adjusted test-period operating results, as shown above in Table 1, and applying the 88 percent operating ratio, the Commission has determined that Richardsville requires an increase of \$6,241, the amount of its request. The derivation of the required increase is shown below in Table 2.

Table 2

Adjusted Non-Gas Expenses before Income Taxes	\$ 13,204
Divided by : 0.88	<u>88%</u>
Revenue to Cover Expenses and Operating Ratio	\$ 15,005
Less: Adjusted Expenses before Income Taxes	<u>13,204</u>
Required Net Operating Income	\$ 1,801
Multiply by Tax Gross-up Factor of 1.23839	\$ 2,230
Add: Total Operating Expenses and Interest Expense	<u>21,596</u>
Total Revenue Requirement	\$ 23,826
Less: Other Operating Revenues	\$ <u>564</u>
Total Revenues Required from Rates for Service	\$ <u>23,262</u>
Total Annual Revenues	\$ 23,826
Less: Test Year Revenues	\$ 17,585
Required Increase in Annual Revenues	\$ <u>6,241</u>

Based on its test year sales volume, this rate increase will result in total annual revenues for Richardsville of \$23,826 as shown above in Table 2.

## SAFETY SURCHARGE

In addition to seeking an increase in its base rates, Richardsville requests to implement a \$4.50 per customer per month surcharge which it identifies as a “safety surcharge.” Richardsville states that the surcharge, which it proposes to be in effect for 18 months, is intended to recover the cost of training and certification of employees of Miller’s Bottled Gas<sup>5</sup> and the cost of purchasing a new pressure monitoring and charting recorder.<sup>6</sup> Richardsville’s application indicates that it seeks to recover these items through a surcharge because it understands that: (1) the full amount of costs incurred regularly but not annually were not typically included in an annual revenue requirement and (2) the cost of equipment was not typically allowed to be recovered through rates before purchasing the equipment.<sup>7</sup> Due to its tenuous financial situation, Richardsville indicated it had been unable pay for the safety training or purchase a new recorder to replace its old recorder, which was no longer repairable.

Richardsville is correct in its understanding of the Commission’s typical treatment of costs incurred regularly but not annually, and it is likewise correct regarding how the cost of equipment or capital expenditures, such as its proposed pressure monitoring and charting recorder, are typically treated. In recognition of Richardsville’s financial condition, in this instance, we find a departure from our typical rate treatment of such items to be warranted. Hence, the Commission will permit Richardsville to implement its proposed safety surcharge.

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<sup>5</sup> The employees had previously received training and certification, which had expired. In its current financial condition, Richardsville has not been able to pay for additional training.

<sup>6</sup> The safety training and certification is estimated to cost \$1,200, while the published price of the pressure monitoring and charting recorder at the time of Richardsville’s application was \$2,400. With its number of customers typically fluctuating between 45 and 48, Richardsville based the surcharge on the lower number of 45, at which the \$4.50 surcharge would produce \$3,645 over 18 months.

<sup>7</sup> Richardsville Application, Schedule of Adjusted Operations – Gas Utility, page 2 of 2.

As is the case with most surcharge approvals, certain conditions will apply to this approval. First, the amounts collected through the safety surcharge shall be recorded as “safety surcharge revenues” and shall be maintained in a separate account. Second, these amounts shall not be used for anything other than their designated purpose of funding (1) the safety training and certification of employees of Miller’s Bottled Gas and (2) the purchase of a new pressure monitoring and charting recorder. Third, as the safety training and certification is required by federal regulation which the Commission is responsible for enforcing, Richardsville shall use funds collected via the surcharge for the required training and certification before using any such funds to purchase a new pressure monitoring and charting recorder. Fourth, at the time it files its annual financial report with the Commission, Richardsville shall file an activity and transactions summary of its safety surcharge account which shows amounts collected and amounts expended during the previous calendar year. Fifth, not less than 30 days prior to the eighteenth month in which it is billed to its customers, Richardsville shall file a tariff revision with the Commission to delete the safety surcharge from its tariffs.

#### RATE DESIGN

Richardsville proposes changing its rate design, which currently incorporates a \$5.65 minimum bill including two Mcf of usage and a \$2.41 per Mcf base rate for all usage above 2 Mcf. Richardsville proposes replacing its minimum bill with a \$10.00 per month customer charge which includes no gas usage, and to implement a volumetric rate for all usage of \$3.21 per Mcf.

The Commission finds Richardsville’s proposed rate design and customer charge to be reasonable. They are similar to the rate designs and customer charges the Commission has approved for other small LDCs in recent years to provide greater

stability in revenue collection, especially during summer months, when lower sales volumes are experienced.

Richardsville's application sets out the same \$2.50 per Mcf gas cost rate that it has been charged by its supplier for several years. Richardsville also proposes to charge its customers a propane surcharge in the amount of \$17.44 per customer per month to re-pay its affiliated propane supplier, Miller's Bottled Gas, for past-due amounts for propane used in peak shaving.<sup>8</sup> The Commission approved a propane surcharge in Richardsville's last rate case, Case No. 2009-00123,<sup>9</sup> and required Richardsville to submit activity reports detailing its collections and payments. The Commission now finds that the same action appears appropriate in this proceeding.

#### NON-RECURRING CHARGES AND TARIFF ISSUES

Richardsville proposes four non-recurring charges: a reconnection fee in the amount of \$50 for which it provided cost support; a collection fee in the amount of \$50 for which it provided cost support; a late-payment fee of 10 percent, which is in line with other late-payment fees approved by the Commission; and a returned-check charge of \$30. Although its application and notice to customers proposes a returned-check charge of \$30, Richardsville indicated that Miller's Bottled Gas charges "what the bank charges our account if any plus a \$25 paperwork fee."<sup>10</sup> As no other support was

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<sup>8</sup> When the outside temperature drops below a certain level for an extended period of time, the gas pressure from the wells supplying gas to Richardsville drops. When this happens, Richardsville operates a peak shaving plant that mixes propane and air with natural gas to maintain an adequate pressure and volume that allows its customers' heating systems to operate.

<sup>9</sup> Case No. 2009-00123, *Application for Rate Adjustment of Richardsville Gas Company, Inc.* (Ky. PSC Aug. 5, 2009).

<sup>10</sup> See January 20, 2014 e-mail from Mrs. Joan Miller to Staff Member Jeff Shaw, filed in case record under cover letter of Jeff Derouen, Commission Executive Director, of March 19, 2014.

provided for the proposed \$30 returned check charge, Miller's Bottled Gas's current \$25 returned-check charge, with no bank fees included, appears more reasonable.

Although Richardsville has a Gas Cost Adjustment ("GCA") clause in its tariff which includes recovery of the propane at current market cost, it appears to be inadequate to track the sometimes substantial expense of peak shaving for its system after the fact. An addition to Richardsville's tariff to clarify the best method of recovery of these propane costs would provide more transparency to its customers and to the Commission with regard to Richardsville's combined natural gas and propane cost and recovery thereof.

#### REQUEST FOR EMERGENCY RATE RELIEF AND EFFECTIVE DATE OF RATES

Richardsville's application, received on February 28, 2014, requests that its proposed rates become effective in 30 days, which would result in a March 31, 2014 effective date. However, because the application was not considered filed until March 12, 2014, the required 30-day notice period would result in an effective date of April 11, 2014. Pursuant to KRS 278.180, given Richardsville's financial situation and a showing of good cause, the Commission is able to shorten the 30-day notice period to 20 days, which allows Richardsville's rates to have an effective date of April 1, 2014.

#### SUMMARY

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

1. Pursuant to KRS 278.180 and a showing of good cause, Richardsville's request for emergency rate relief should be granted with an effective date of April 1, 2014.

2. Based upon the adjusted calendar year 2012 test-period operations reflected herein, Richardsville's annual revenue requirement is \$23,826.

3. The rates proposed by Richardsville and set forth in the appendix to this Order will produce approximately \$23,826 in annual revenues, are found to be reasonable, and should be approved.

4. The safety surcharge proposed by Richardsville and set forth in the appendix to this Order is found to be reasonable, subject to the conditions described herein, and should be approved.

5. The non-recurring charges proposed by Richardsville are reasonable and should be approved, except for the proposed \$30.00 returned-check fee. As discussed herein, a \$25.00 returned-check fee should be approved.

6. Richardsville's GCA tariff should be revised to include a specific provision for a propane cost-tracking mechanism.

IT IS THEREFORE ORDERED that:

1. The rates, safety and propane surcharges, and non-recurring charges proposed by Richardsville, with the exception of the \$30.00 returned-check charge, are approved.

2. The rates, safety and propane surcharges, and non-recurring charges set forth in the appendix to this Order are approved for Richardsville for service rendered on and after April 1, 2014.

3. Within 20 days of the date of this Order, Richardsville shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariffs setting out the rates, surcharges, and non-recurring charges approved herein which state that they were approved pursuant to this Order.

4. Within six months of the date of this Order, Richardsville shall file with the Commission, using the Commission's electronic Tariff Filing System, revised language for inclusion in its GCA tariff that addresses the recovery of propane peak shaving cost.

5. Richardsville shall file the first summary of activity and transactions of its safety surcharge, for calendar year 2014, by March 31, 2015, and annually thereafter for each succeeding year until the surcharge is terminated.

6. Richardsville shall file the first summary of activity and transactions of its propane surcharge, for calendar year 2014, by March 31, 2015, and annually thereafter for each succeeding year until the surcharge is terminated.

7. No less than 30 days prior to the eighteenth month in which the safety surcharge is billed to its customers, Richardsville shall file with the Commission, using the Commission's electronic Tariff Filing System, a tariff revision to delete the safety surcharge from its tariffs after the eighteenth month's billing.

8. Any documents filed pursuant to ordering paragraphs 5 and 6 of this Order shall reference the number of this case and shall be retained in the utility's general correspondence file.

By the Commission

ENTERED  
APR 01 2014  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2014-00066 DATED **APR 01 2014**

The following rates and charges are prescribed for the customers served by Richlandville Gas Company, 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.

	<u>Base Rate</u>	<u>Gas Cost Recovery Rate</u>	<u>Total</u>
Customer Charge	\$10.00		
All Mcf	\$ 3.21	\$2.50	\$ 5.71
Safety Surcharge per Month	\$ 4.50		
Propane Surcharge per Month	\$17.44		
Returned Check Fee	\$25.00		
Collection Charge	\$50.00		
Reconnection Charge	\$50.00		
Late Payment Charge	10%		

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