

COMMONWEALTH OF KENTUCKY
BEFORE THE ENERGY REGULATORY COMMISSION

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In the Matter of

ADJUSTMENT OF RATES OF)
AUXIER ROAD GAS COMPANY,) CASE NO. 7521
INC., OF PRESTONSBURG,)
KENTUCKY)

O R D E R

On September 13, 1979, Auxier Road Gas Company, Inc., (Applicant) a gas distribution utility serving approximately 490 customers in Floyd County, Kentucky, filed a Notice with the Energy Regulatory Commission requesting an increase in rates for gas service to be effective on and after October 3, 1979. The proposed rates would produce additional annual revenues of \$19,158, an increase of approximately 7.5%. Applicant stated that the requested increase was necessary to cover the increased costs experienced in labor and supplies in order for the utility to continue to offer adequate and reliable service to its customers.

To determine the reasonableness of the proposed rates, the Commission in an Order dated September 13, 1979, suspended the requested rates for a period of five (5) months on and after the effective date. Further, in an Order dated November 15, 1979, the Commission set a public hearing to be held December 18, 1979. Notice of such hearing was made by the Applicant in manners prescribed by Kentucky Revised Statutes and the Commission's rules.

The hearing was held as scheduled with the Attorney General's Division of Consumer Intervention, the only party intervening in the matter, being present. A second hearing in the matter was held in the Commission's offices on January 4, 1980. At the conclusion of the final hearing, and following responses to requests for information, the matter was submitted to the Commission for final determination.

TEST PERIOD

For purposes of testing the reasonableness of the proposed rates and charges, the Commission has adopted the twelve months ending June 30, 1979. Adjustments, where proper and reasonable, have been included to more clearly reflect current operating conditions.

VALUATION METHODS

Net Investment

On Exhibit 2 of its Application, the Company proposed a Net Investment Rate Base of \$99,554. The Commission agrees with Applicant's proposed Rate Base with the exception of the calculation of the Cash Working Capital Allowance, which, in accordance with past policy, has been calculated as one-eighth of adjusted operation and maintenance expenses less the cost of purchased gas. Therefore, the Commission has determined Applicant's Net Investment Rate Base at June 30, 1979, to be as follows:

Utility Plant in Service	\$146,879
Add:	
Prepayments	3,940
Cash Working Capital Allowance	7,618 ⁽¹⁾
Subtotal	<u>\$158,437</u>
Less: Accumulated Depreciation	<u>\$ 58,665</u>
Net Investment	<u>\$ 99,772</u>

Capital Structure

The Commission has accepted the Applicant's proposed Capital Structure at the end of the test period as follows:

Equity:	
Common Stock	\$ 20,000
Paid in Capital	2,035
Retained Earnings	50,677
Total Equity	<u>\$ 72,712</u>
Long-Term Debt	<u>\$ 31,140</u>
Capitalization	<u>\$103,852⁽²⁾</u>

Although no other methods of valuation are included herein, the Commission has given due consideration to all elements of

(1) $\$60,944 \times 12.5\% = \$7,618.$

(2) Applicant's Exhibit 2, page 1.

value in order to determine the reasonableness of the matter.

REVENUES AND EXPENSES

Applicant proposed several adjustments to their Operating Statement to more clearly reflect current operating conditions.⁽¹⁾ The Commission finds these adjustments proper and has accepted them for rate-making purposes with the following exceptions:

- (1) In the adjustments to normalize test-period gas sales and purchases and the temperature adjustments to revenues and expenses, Applicant used the Columbia Gas Rate and the rates for gas service as set out in Case No. 6529-P. This purchased gas adjustment was dismissed by Order dated July 24, 1979. Therefore, in the above-mentioned adjustments, the Commission has used the Columbia Gas Rate and the rates for gas service rendered by the Applicant as set out in Case No. 6529-M, the rates effective at the close of the test period. The Commission's adjustments, as calculated in the same manner proposed by the Applicant, and the Applicant's proposed adjustments are set out in comparative form below:

	<u>Applicant's Proposal</u> ⁽²⁾	<u>Commission Accepted</u>	<u>Difference</u>
Adjustment to Normalize Gas Sales	\$ 9,605	\$ (1,396)	\$(11,001)
Adjustment to Normalize Gas Purchases	\$ 10,554	\$ (508)	\$(11,062)
Temperature Adjustment - Revenue	\$(13,618)	\$(13,038)	\$ 580
Temperature Adjustment - Expense	\$(10,966)	\$ (9,864)	\$ 1,102

- (2) Applicant proposed to increase gasoline expenses by \$500, to reflect the increased cost at the end of the test period. The Commission finds that this adjustment was improperly calculated as it was based on

(1) Applicant's Exhibit 3, pages 1 - 3.

(2) Applicant's Exhibit 3.

test-period expenses in Gasoline, Oil and Repairs and should properly have been based on gasoline expenses only. Gasoline expenditures for the test-period were \$2,643,⁽¹⁾ and the Commission therefore finds the proper adjustment to be \$264.⁽²⁾

(3) Applicant proposed to increase its Utilities' expenses by \$379.⁽³⁾ The Commission finds that this adjustment is improper, as it is an estimated value and therefore not measurable, and as the Applicant has not presented sufficient justification to substantiate the proposal.

(4) Applicant has proposed to make an adjustment to amortize estimated rate case expenses of \$7,500⁽⁴⁾ over a three-year period. The Commission considers this expense to be excessive and has accepted only \$6,300 for rate-making purposes, making the annual adjustment \$2,100.

Moreover, the Commission, in accordance with past policy, had made a further adjustment to disallow donations of \$157,⁽⁵⁾ included in test-period operating expenses.

Therefore, test-year operations have been adjusted to produce the following results.

	<u>Actual</u>	<u>Pro forma Adjustments</u>	<u>Adjusted</u>
Operating Revenue	\$259,463	\$(14,434)	\$245,029
Operating Expenses	<u>247,112</u>	<u>784</u>	<u>247,896</u>
Operating Income	<u>\$ 12,351</u>	<u>\$(15,218)</u>	<u>\$ (2,867)</u>

(1) Applicant's Cross-Examination Exhibit No. 4.

(2) \$2,643 x 10% = \$264

(3) Applicant's Exhibit 3.

(4) I.B.I.D.

(5) Responses to Staff Request No. 1, Item 2, Filed November 9, 1979.

RATE DESIGN

Applicant has proposed in its Notice to "flatten" its rate structure. The Commission is of the opinion and finds that the proposed rate design will provide encouragement for energy conservation and is in the public interest. Therefore, the rates set forth in Appendix "A" of this Order are designed in accordance with this procedure.

RATE OF RETURN

The Commission is of the opinion that the adjusted operating deficit is clearly unjust and unreasonable.

The Commission is of the opinion that a fair, just, and reasonable rate of return on the Net Investment Rate Base is 11.5%, in that it will allow Auxier Road Gas Company, Inc., to pay its operating expenses, service its debt, and provide a reasonable surplus. Therefore, test-period operations result in a net operating income deficiency of \$14,341.⁽¹⁾ This deficiency adjusted for taxes and liability insurance, calculated on gross receipts, would cause an additional revenue requirement of approximately \$16,965 and is the amount of additional revenue granted herein.

SUMMARY

The Commission, after reviewing all the evidence of record and being advised, is of the opinion and FINDS:

- (1) That the schedule of rates and charges set out in Appendix "A" are the fair, just, and reasonable rates to charge for gas service rendered by Auxier Road Gas Company, Inc., in that based on test-year conditions they will produce revenues of \$351,357.
- (2) That the allowed rate of return on Net Investment of 11.5% is fair, just, and reasonable in that it should permit Auxier to pay its operating expenses, interest expenses, and provide a reasonable amount of surplus for equity growth.

⁽¹⁾ \$99,772 x 11.5% = \$11,474 + \$2,867 = \$14,341

- (3) That the rates proposed by Auxier and set out in the Notice should be denied in that they will produce annual revenues in excess of those found reasonable herein.
- (4) That this Order approves and includes the purchased gas adjustment set out in Case No. 6529-T. Moreover, all purchased gas adjustments approved by the Commission subsequent to the end of the test period have been included in the gas service rates set out in Appendix "A".

IT IS THEREFORE ORDERED:

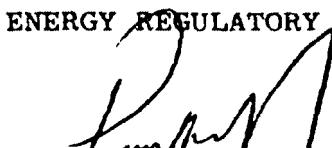
(1) That the schedule of rates set forth in Appendix "A" are fair, just, and reasonable for gas service rendered by Auxier Road Gas Company, Inc., on and after March 1, 1980.

(2) That the rates proposed by Auxier Road Gas Company, Inc., and set out in the Application, insofar as they differ from those in Appendix "A", be and are hereby denied.

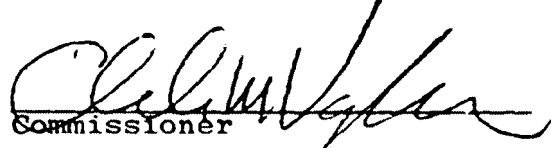
(3) That Auxier Road Gas Company, Inc., file with this Commission within thirty (30) days from the date of this Order its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this the 28th day of February, 1980.

ENERGY REGULATORY COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE ENERGY REGULATORY
COMMISSION IN CASE NO. 7521 DATED FEBRUARY 28, 1980.

The following rates are prescribed for the customers in the area served by Auxier Road Gas Company. 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 date of this Order.

Rates: Monthly

First	1 MCF per Month	\$5.00 per MCF
All Over 1	MCF per Month	4.25 per MCF
Minimum Bill		\$5.00

The minimum bill of \$5.00 entitles the user to one MCF or less of gas per month.