COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF MOUNTAIN UTILITIES, INC., FOR A RATE INCREASE AND AUTHORITY TO BORROW CERTAIN AMOUNTS TO APPLY ON ITS CURRENT INDEBTEDNESS	)	CASE NO. 8425

ORDER

On December 28, 1981, Mountain Utilities, Inc., ("Mountain") filed with this Commission an application requesting a rate increase and authority to borrow funds to apply to its current indebtedness. The rates proposed by Mountain would increase revenues by $225,040 or approximately 122 percent. The rates approved herein will allow additional operating revenues of $83,351, and the surcharge provided herein will allow additional revenues of approximately $129,000 over the next 24-month period to amortize debt owed to Kentucky West Virginia Gas Company.

In order to determine the reasonableness of the proposed rates and charges, a hearing was held on February 9, 1982, in the Commission's offices in Frankfort, Kentucky. The Consumer Protection Division of the Attorney General's Office and Kentucky West Virginia Gas Company were allowed to intervene. Both participated in the hearing.

TEST PERIOD

Mountain proposed and the Commission has accepted the 12-month period ending September 30, 1981, as the test period in this matter.

REVENUES AND EXPENSES

Mountain proposed several pro forma adjustments to its test period operations. The Commission has accepted the adjustments for rate-making purposes with the following exceptions:

Gas Sales

The Commission has normalized Mountain's gas sales to reflect the most recent Purchased Gas Adjustment ("PGA"), Case No. 6127-M. Normalized sales for the test period are $190,560.

Gas Purchases

Mountain proposed no adjustment to gas purchases. However, subsequent to the test period, Mountain's supplier, the Kentucky West Virginia Gas Company, increased its wholesale gas cost to Mountain effective November 1, 1981, in PGA Case No. 6127-M. Moreover, Mountain experienced line losses in excess of 28 percent during the test period. Following the reconstruction of the entire distribution system, Mountain will experience line losses no greater than 5 percent, as allowed by Commission policy. Therefore, for rate-making purposes, the Commission has reduced Mountain's pro forma gas purchases expense by $15,898 to $129,663.[1/]

1/ 67,736 Mcf ÷ 95 percent = 71,301 Mcf x $1.81853 = $129,663.

Directors' Fees

To compensate its directors for inflation, Mountain proposed to increase its directors' fees by $900, an increase of 33 percent above the test period level. The Commission, after consideration of Mountain's financial condition and its inability to meet its obligations as they mature, finds that an increase in these fees is neither proper nor reasonable for rate-making purposes.

Legal and Accounting Expenses

Mountain estimated an increase in its legal and accounting expenses of $959. This increase was based on Mountain's expectations of continued inflation. Mountain provided no evidence or documentation to support this adjustment. Since it is neither known nor measurable, the Commission has denied the adjustment in its entirety. Therefore, Mountain's test period revenues and expenses have been adjusted as follows:

	Mountain Adjusted	Commission Adjustments	Commission Adjusted
Operating Revenue	$186,808	$ 6,835	$193,643
Operating Expenses	241,081	(17,757)	223,324
Operating Income (Loss)	$(54,273)	$ 24,592	$(29,681)

INTEREST COVERAGE

Mountain's investment in its utility plant is financed entirely by debt, the majority of which is held by the Federal Economic Development Administration through the Department of Local Government and was incurred to reconstruct the gas system.

Since the entire investment is financed through debt, a return on net investment is not appropriate.

The Commission is of the opinion that the most reasonable method of determining the required level of operating revenue is an interest coverage method. Moreover, the Commission is of the opinion that the fair, just and reasonable interest coverage in this case is 1.5 times the average interest expense payable over the next 3-year period which will provide an adequate margin for equity growth and the repayment of existing obligations.[2] Therefore, the Commission concludes that Mountain is entitled to increase its rates to produce an increase in annual operating revenues of $83,351, calculated as follows:

Adjusted Operating Expenses	$223,324
1.5 X Interest Expense	53,670
Subtotal	$276,994
Less:	
Adjusted Operating Revenue	$193,643
Revenue Requirement	$ 83,351

The Commission warns Mountain that the margin above operating costs and interest payments is not to be used for the purpose of payment of extraordinary dividends nor for additional increases in salaries to stockholders employed in company operations. This margin will compensate for ordinary business risks and help facilitate the payment of the judgment liability discussed in a subsequent section of this Order.

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[2] Average interest payable over next 3 years = $35,780.

OTHER MATTERS

Past Due Gas Payables

Mountain requested approval of a loan to be negotiated through a commercial lending institution to pay its wholesale gas supplier, Kentucky West Virginia, for gas purchases owed through the time of filing of $49,533. Moreover, Mountain has failed to make payments for gas purchases subsequent to the time of filing and therefore owes Kentucky West Virginia $120,355 as of March 10, 1982.

The Commission has investigated Mountain's financial exhibits and annual reports and finds that Mountain's failure to make timely payments for gas purchases is primarily a result of the Commission's limitation of line losses to 5 percent in Mountain's last rate case.

Subsequent to the original filing, Kentucky West Virginia agreed to finance the amounts owed it through March 10, 1982, over a 9-month period at 7 percent interest. Kentucky West Virginia later agreed to extend the pay-back period to 24 months. Kentucky West Virginia made this offer to Mountain on the condition that the Commission approve a surcharge to collect the amount due directly from Mountain's customers. Mountain then adopted this method of financing and requested that the Commission institute the appropriate surcharge.

The Commission agrees that the 7 percent interest rate and 24-month pay-back period offered by Kentucky West Virginia are reasonable and in the best interest of Mountain's ratepayers.

Therefore, the Commission finds it appropriate for Mountain's ratepayers to pay a surcharge of $5 per month plus a charge of $.43 per Mcf for a period not to exceed 24 months or until total revenues (including accrued interest) of $128,948 are collected, whichever first occurs. Amounts collected under this surcharge will be applied by Mountain solely to the settlement of the debt owed to Kentucky West Virginia. Amounts owed in excess of this amount will be the responsibility of the stockholders. The Commission further warns Mountain that failure to comply with the terms and conditions set forth herein will result in the implementation by the Commission of steps necessary to insure safe and adequate service to Mountain's customers.

Mountain will, moreover, be required to file with the Commission monthly statements of payment to Kentucky West Virginia.

Judgment Liability

Litigation in the case of Pratt, et al., v. Mountain Utilities Company, Inc., ("Pratt Judgment") resulted in a judgment of $120,000 against Mountain. Mountain proposed to place a surcharge on its customers to allow it to pay this judgment.

Because Mountain was found to be responsible for damages due to negligence on its part, the Commission is of the opinion that it would be unfair and unjust to require Mountain's customers to provide recovery of the funds needed to pay the judgment. Mountain's stockholders, therefore, shall be responsible for the judgment.

SUMMARY

The Commission, after consideration of all the evidence of record and being advised, is of the opinion and finds that:

(1) The rates in Appendix A are the fair, just and reasonable rates to charge for gas service rendered to Mountain's customers and should produce annual revenues of approximately $276,994.

(2) The rates proposed by Mountain will produce revenues in excess of the revenues found reasonable herein and should be denied upon application of KRS 278.030.

(3) The financing of past due gas payables proposed by Mountain is unacceptable and should be denied.

(4) The recovery of the Pratt judgment through rates and surcharges would be unjust and unfair to the ratepayers and should be denied.

(5) Mountain should charge customers, in addition to the rates in Appendix A, a surcharge as outlined in Appendix B to this Order.

(6) Mountain should be required to submit monthly statements showing payments to Kentucky West Virginia with copies of cancelled checks and the supplier's invoices.

(7) The rates in Appendix A have been normalized to include the most recent PGA rates (Case No. 6127-M) and therefore, effective with the date of this Order, Mountain should have a zero purchased gas adjustment.

IT IS THEREFORE ORDERED that Mountain is hereby authorized to place into effect the rates and charges in Appendix A for service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the proposed rates be and they hereby are denied.

IT IS FURTHER ORDERED that recovery of the cost of the Pratt judgment be and it hereby is denied.

IT IS FURTHER ORDERED that Mountain shall place into effect the surcharges in Appendix B, effective with the next billing after the date of this Order for a period not to exceed 24 months on and after the date of the next billing or until $128,948 has been collected, whichever first occurs.

IT IS FURTHER ORDERED that Mountain shall file monthly statements with the Commission outlining payments to Kentucky West Virginia Gas Company. These monthly statements shall include a copy of cancelled checks and the supplier's invoices.

IT IS FURTHER ORDERED that within 20 days of the date of this Order, Mountain shall file its tariffs setting out the rates approved in Appendices A and B.

Done at Frankfort, Kentucky, this 6th day of July, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Volz
Chairman

Katherine Randall
Vice Chairman

[illegible]
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8425 DATED July 6, 1982

The following rates are prescribed for the customers in the area served by Mountain Utilities, 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 date of this Order.

RATES: Monthly

First	1 MCF	$4.700 per MCF
All Over	1 MCF	3.925 per MCF

The minimum monthly bill shall be $4.70 when less than 1 MCF is used.

For the purpose of the future Application of the purchased gas adjustment clause of Mountain Utilities the base rate for purchased gas shall be:

	Commodity
Kentucky-West Virginia Gas Company	$1.81853/MCF

APPENDIX B

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8425 DATED July 6, 1982.

The following charges are prescribed for the customers in the area served by Mountain Utilities, Inc., and shall remain in effect for a period of 2 years from the date of this order. 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

Customer Charge	$5.00 per month
All Mcf	.43 per Mcf