

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF COLUMBIA GAS)
OF KENTUCKY, INC., FOR AN ORDER)
REQUIRING MIKE LITTLE GAS COM-)
PANY, INC., TO SHOW CAUSE WHY IT) CASE NO. 8498
SHOULD NOT BE REQUIRED TO PLACE)
ITS FUNDS UNDER ESCROW UNDER COM-)
MISSION DIRECTION)

and

ADJUSTMENT OF RATES OF THE ELZIE)
NEELEY GAS COMPANY OF PRESTONS-) CASE NO. 8546
BURG, KENTUCKY)

O R D E R

PROCEDURAL BACKGROUND

On June 7, 1982, the Elzie Neeley Gas Company ("Elzie Neeley") filed an application with the Commission seeking approval of an increase in its gas rates. The proposed rates would produce an increase in gross annual revenues of approximately \$16,153, or 19.21 percent above test period revenues. The Commission in this Order has allowed rates to produce an increase in revenues of \$11,143.

A public meeting was held in this matter on July 30, 1982, in the Commission's offices in Frankfort, Kentucky. The Consumer Protection Division of the Attorney General's Office and Columbia Gas of Kentucky, Inc., ("Columbia") were permitted to intervene.

On April 6, 1982, Columbia, Elzie Neeley's gas supplier, filed an application with the Commission requesting that the Commission require Elzie Neeley to charge its customers a surcharge in order to pay past due bills owed by Elzie Neeley on gas purchases. On June 15, 1982, the case was heard, and Columbia presented testimony that detailed Elzie Neeley's delinquency in payment and requested that a surcharge on Elzie Neeley's customers' bills of \$1.50 per MCF be placed into effect to pay amounts owed for gas purchases. The Commission, in an Order entered on July 30, 1982, consolidated the two cases. Moreover, Columbia filed a motion on August 16, 1982, in the consolidated cases again requesting the establishment of a surcharge of \$1.50 per MCF.

ANALYSIS AND DETERMINATION

Test Period

For the purpose of determining the reasonableness of the proposed rates, the 12-month period ending December 31, 1981, has been accepted as the test period.

Valuation Method

Net Investment

Elzie Neeley proposed a net investment rate base of \$18,417.⁽¹⁾
In its calculation of net investment Elzie Neeley did not include

(1) Item No. 8 of Elzie Neeley's explanation of adjustments to its comparative income statement.

additional construction completed after the test period of approximately \$14,000 which will improve the system and reduce line loss to a reasonable level. The Commission is of the opinion that this is a proper adjustment and has also made an appropriate adjustment to the depreciation reserve.

Therefore, the Commission has determined Elzie Neeley's net investment rate base at December 31, 1981, to be as follows:

Gas Utility Plant in Service	\$ 44,032
Add:	
Cash Working Capital	1,769
Less:	
Reserve for Depreciation	<u>14,030</u>
Net Investment Rate Base	<u>\$ 31,771</u>

Revenues and Expenses

Elzie Neeley proposed several pro forma adjustments to actual operating revenues and expenses. The Commission finds these adjustments reasonable and has accepted them for ratemaking purposes with the following exceptions:

Natural Gas Purchases

Elzie Neeley adjusted its test period expenses for natural gas purchases by \$19,777 to reflect the price of gas at the end of the test period on adjusted gas purchases of \$79,057. Elzie Neeley experienced gas line loss of 10.8 percent ⁽²⁾ during the

(2) Page 15 of the 1981 annual report. Line loss of 1,750 Mcf ÷ gas purchases of 16,177 MCF = 10.8 percent.

test period. The Commission considers line loss above 5 percent to be excessive. Moreover, the improvements to the system in the amount of approximately \$14,000 included in Elzie Neeley's rate base should reduce line loss significantly. Therefore, for rate-making purposes, the Commission has reduced Elzie Neeley's adjusted natural gas purchases expense by \$4,841 to \$74,216.⁽³⁾

Outside Services Employed

In its examination of outside services for the test period, the Commission found that costs pertaining to a survey of the gas system are not recurring annually and should be amortized over a 3-year period. A breakdown of these costs is as follows:

Preparation of Maps	\$ 650
Engineering Services	<u>400</u>
Total	\$1,050

Therefore, the Commission has reduced Elzie Neeley's adjusted operating expenses by \$700.

Property Taxes

Elzie Neeley erroneously included 1980 property taxes of \$81 in 1981 test year expenses. The Commission has reduced adjusted operating expenses by this amount.

Depreciation Expense

Elzie Neeley had adjusted depreciation expense of \$2,448. The Commission has increased depreciation expense by \$228 to

$$(3) \quad 14,427 \text{ MCF} \div .95 \times \$4.887 = \$74,216.$$

reflect additional depreciation on the constructed improvements of \$14,000. Moreover, the Commission has reduced depreciation expense by \$493 to reflect the difference between Elzie Neeley's use of the double declining balance depreciation method on a truck included in plant in service instead of the straight line depreciation method required by the Commission for ratemaking purposes.

Therefore, Elzie Neeley's adjusted operations at the end of the test period are as follows:

	<u>Elzie Neeley Adjusted</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted</u>
Operating Revenues	\$ 85,146	\$ -0-	\$ 85,146
Operating Expenses	<u>97,715</u>	<u>(6,495)</u>	<u>91,220</u>
Operating Income (Loss)	<u>\$ (12,569)</u>	<u>\$ 6,495</u>	<u>\$ (6,074)</u>

Rate of Return

The Commission is of the opinion that Elzie Neeley's adjusted operating loss is unfair, unjust and unreasonable. The Commission is further of the opinion that a rate of return on net investment of 13 percent is the fair, just and reasonable return for Elzie Neeley to earn in that it will allow Elzie Neeley to meet its expenses and provide a reasonable surplus for equity growth. Therefore, the Commission finds that Elzie Neeley should be permitted to increase its rates to produce an increase in

annual revenue of \$11,143⁽⁴⁾ which includes state and federal
income taxes of \$939.⁽⁵⁾

RATE DESIGN

Elzie Neeley proposed one change in the rate design. The minimum usage was decreased from 3 MCF to include only 1 MCF, and the minimum charge was adjusted accordingly.

The Commission is of the opinion that the proposed minimum charge is fair, just and reasonable for the customers of Elzie Neeley.

OTHER MATTERS

Past Due Gas Payables

Columbia supplies the wholesale gas requirements of Elzie Neeley. Moreover, Elzie Neeley has been delinquent in its payments for gas purchases subsequent to the time of filing this rate case, and, therefore, owes Columbia \$35,329 which includes interest at 18 percent, as of August 18, 1982.

Columbia requested that the Commission institute a monthly surcharge of \$1.50 per MCF applicable to the customers of Elzie Neeley. On this basis, it would take Elzie Neeley approximately 18 months to repay the debt. The Commission has analyzed the financial exhibits and the annual reports of Elzie Neeley and finds that failure to make current payments for gas purchases is primarily the result of management's failure to seek timely rate relief.

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- (4) \$91,220 (adjusted operating expenses) + \$4,130 (13 percent allowed return) - \$85,146 (adjusted per books revenues) + \$939 (state and federal income taxes) = \$11,143.
(5) \$5,069 (Gross taxable income) X 18.52 percent (Federal and state corporate composite tax rate) = \$939.

The Commission is of the opinion that both the pay-back period and the proposed monthly surcharge is unfair and unreasonable in that it would place a tremendous financial burden on Elzie Neeley's customers. The Commission has determined that a pay-back period not to exceed 24 months is more reasonable and should be the period to pay off the delinquent gas payments. Moreover, the surcharge method will be a combination flat monthly fee/usage per MCF which is more appropriate than the proposed method because it more equitably distributes the cost to the customers of Elzie Neeley.

Therefore, the Commission finds it appropriate for Elzie Neeley's ratepayers to pay a surcharge of \$5 per month plus an additional charge of \$.94 per MCF for a period not to exceed 24 months or until total revenues (including accrued interest at 7 percent per annum) of \$37,963 are collected, whichever first occurs. Amounts collected under this surcharge will be applied by Elzie Neeley solely to the settlement of the debt owed to Columbia. Amounts owed in excess of this amount will be the responsibility of the stockholders. The Commission further advises Elzie Neeley 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 Elzie Neeley's customers. Elzie Neeley will be required to file with the Commission quarterly statements of payment on its indebtedness to Columbia.

FINDINGS AND ORDERS

The Commission, after consideration of 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 Elzie Neeley's customers and should produce annual gross revenues of approximately \$95,234.

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

3. Elzie Neeley should charge its customers, in addition to the rates in Appendix A, a surcharge as outlined in Appendix A to this Order.

4. Elzie Neeley should be required to submit a quarterly statement showing amounts received from the surcharge and each payment made to Columbia with copies of cancelled checks and the supplier's invoices

IT IS THEREFORE ORDERED that Elzie Neeley be and it hereby is authorized to place into effect the rates and charges in Appendix A for gas 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 Elzie Neeley shall place into effect the surcharges in Appendix A, 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 \$37,963 including interest accrued at 7 percent has been collected, whichever first occurs.

IT IS FURTHER ORDERED that Elzie Neeley shall file a quarterly statement with the Commission outlining the amounts collected from the surcharge and payments made to Columbia. These quarterly statements shall include a copy of the cancelled checks and the supplier's invoices.

IT IS FURTHER ORDERED that within 20 days of the date of this Order, Elzie Neeley shall file its tariffs setting out the rates approved in Appendix A.

Done at Frankfort, Kentucky, this 23rd day of November, 1982.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC
SERVICE COMMISSION IN CASE NO. 8498
AND 8546 DATED NOVEMBER 23, 1982

The following rates are prescribed for the customers in the area served by Elzie Neeley Gas Company, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

RATES: Monthly

First	MCF	\$8.22	Minimum Bill
All Over	1 MCF	\$7.23	Per MCF

The above rates have incorporated the latest PGA Order in Case No. 4378 II and for the purpose of the future application of the purchased gas adjustment clause of Elzie Neeley the base rate for purchased gas shall be:

	<u>Commodity</u>
Columbia Gas of Kentucky, Inc.	\$5.571

SURCHARGE: Monthly

Elzie Neeley Gas Company, Inc., will charge each customer the following surcharge for a period not to exceed 24 months.

RATES:

Monthly Charge	\$5.00 per month
MCF Charge	\$0.94 per MCF