

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

NOTICE OF PENDLETON COUNTY WATER )  
DISTRICT, GAS DIVISION, TO INCREASE )  
BASIC GAS RATES, TO IMPOSE A ) CASE NO. 8568  
TEMPORARY GAS SURCHARGE TO PAY )  
ITS SUPPLIERS AND MOTION FOR )  
INTERIM RATES )

O R D E R

On October 13, 1982, Pendleton County Water District, Gas Division, ("Pendleton") filed its notice seeking permission to increase the basic rates charged for gas service rendered to its customers and to implement a temporary surcharge for the payment of past due accounts payable to its suppliers, Columbia Gas Transmission Corporation ("Columbia Transmission") and Columbia LNG Corporation ("Columbia LNG"). Pendleton revised its filing on February 23, 1983, in order to reflect the substantial reduction in gas sales due to the loss of its major industrial customer, Griffin Industries. The revised filing sought an increase in rates of \$51,648 annually and a surcharge of \$.5765 or \$.6395 per Mcf depending on the interest rates available. On November 24, 1982, the Commission held a public hearing in order to consider Pendleton's request for interim rates and on January 12, 1983, issued an Order approving the interim rates as requested.

On March 23, 1983, the Commission held a public hearing at its offices in Frankfort, Kentucky, to consider Pendleton's request for permanent rate relief. The Consumer Protection Division of the Attorney General's Office, Columbia Transmission and Columbia LNG intervened in these proceedings.

In this Order the Commission has allowed an increase in rates to produce an additional \$17,031 in revenues annually and a temporary surcharge of \$1.01 per Mcf.

#### COMMENTARY

Pendleton operates a gas distribution company formed in 1964 in accordance with KRS 74.400 and is currently serving approximately 1,424 residential and 111 commercial and industrial customers in Falmouth, Kentucky.

#### TEST PERIOD

Pendleton has proposed and the Commission has accepted the 12-month period ending July 31, 1982, as the test period in this proceeding.

#### SURCHARGE

In an effort to sell the system and to keep rates as low as possible, Pendleton postponed applying for rate increases until it became unable to pay its suppliers for its purchased gas which resulted in substantial amounts of past due accounts payable. As of March 1983, these accumulated past due accounts payable equaled \$814,439.

In order to retire these past due accounts payable to its gas suppliers it has become necessary for Pendleton to

request a surcharge. In general the Commission looks with disfavor on the implementation of surcharges. A properly managed utility should not overlook its present financial obligations in hopes of seeking remedial action later from the Commission. However, in this instance the Commission will allow the imposition of a surcharge to retire these past due gas accounts payable in order to assure continued reliable service to Pendleton's customers and to avoid placing the responsibility for Pendleton's managerial decisions on its suppliers. The Commission advises Pendleton and its suppliers that this long-term neglect and inaction will not be tolerated in the future. Therefore, the Commission hereby authorizes Pendleton to obtain financing to be used solely for the retirement of its past due accounts payable in the amount of \$814,439, of which approximately \$74,605 is accrued interest. A temporary surcharge of \$1.01<sup>1</sup> per Mcf is hereby granted in order to retire this approved financing over a 5-year period at an interest rate not to exceed 10 percent as proposed by Pendleton in its notice.

REVENUES AND EXPENSES

Pendleton proposed several pro forma adjustments to its test period operations which the Commission finds

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<sup>1</sup> Supplemental Data Filed February 23, 1983.  
\$814,439 paid back over a 5-year period at 10 percent annual interest rate equals a total pay back of \$1,038,982.  
 $\$1,038,982 \div 5 \text{ years} \div 205,829 \text{ mcf} = \$1.01 \text{ per Mcf.}$

reasonable and has accepted for rate-making purposes. The adjusted operations of Pendleton which include normalization for PGA rates in effect at the end of the test period and the reduction of operating revenues and expenses due to the curtailed demand of Griffin Industries are stated as follows:

	<u>Actual</u>	<u>Adjustment</u>	<u>Adjusted</u>
Operating Revenues	\$1,301,013	<\$157,807>	\$1,143,206
Operating Expenses	<u>1,304,888</u>	<u>&lt; 196,251&gt;</u>	<u>1,108,637</u>
Net Operating Income <Loss>	< 3,875>	\$ 38,444	\$ 34,569

REVENUE REQUIREMENT

Pendleton's annual average principal requirement is \$25,000 and its annual interest expense is approximately \$18,000. The adjusted net operating income of Pendleton will result in a debt service coverage of .67X. The Commission is of the opinion that this coverage is unfair, unjust and unreasonable in that it does not provide sufficient income after operating expenses to allow Pendleton the opportunity to meet the debt service requirements of its lenders. The Commission is further of the opinion that a debt service coverage of 1.2X is fair, just and reasonable in that it will allow Pendleton to pay its operating expenses and to meet its debt service requirements. Therefore, the Commission will allow Pendleton to increase its rates to produce an additional \$17,031 annually, determined as follows:

1.2X Debt Service Coverage	\$ 51,600
Add: Adjusted Operating Expenses	1,108,637
Less: Adjusted Operating Revenues	1,143,206
Revenue Deficiency	<u>\$ 17,031</u>

FINDINGS AND ORDERS

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

1. The rates and charges proposed by Pendleton should be denied upon application of KRS 278.030.

2. The surcharge proposed by Pendleton should be denied.

3. The rates and charges in Appendix A are the fair, just and reasonable rates and charges to be charged by Pendleton to its customers for gas service rendered on and after the date of this Order.

4. The surcharge in Appendix B is the fair, just and reasonable surcharge to be levied by Pendleton on its customers for the sole purpose of repaying the past due accounts owed by Pendleton to its suppliers.

5. The surcharge should remain in effect for a period not to exceed 5 years or until the amount of past due gas accounts payable being financed is retired, whichever first occurs.

6. Pendleton should file quarterly reports with this Commission stating the amount of the liability still owed, either to Columbia Transmission and Columbia LNG or to the financial institution from which funds are borrowed to repay these suppliers, the amount of revenues from the surcharge billed and the amount collected, the amount paid on the above liability and the current total unpaid portion of the liability. Copies of cancelled checks to the financial institution or supplier showing payment of the liability should be filed as support for these quarterly reports.

7. Should Pendleton not obtain financing for the retirement of its past due accounts payable the above reports should be filed with Columbia Transmission and Columbia LNG.

8. This action does not require the refunding of revenues to Pendleton's customers.

9. The Commission's Interim Order of November 24, 1982, should be superseded by this Order and all requirements of the Interim Order should no longer be in force and effect.

10. Pendleton should file with this Commission its revised tariffs setting out the rates and charges approved herein within 30 days of the date of this Order.

IT IS THEREFORE ORDERED that the rates and charges proposed by Pendleton be and they hereby are denied upon application of KRS 278.030.

IT IS FURTHER ORDERED that the surcharge proposed by Pendleton be and it hereby is denied.

IT IS FURTHER ORDERED that the rates and charges in Appendix A be and they hereby are the fair, just and reasonable rates and charges to be charged by Pendleton for gas service rendered to its customers on and after the date of this Order.

IT IS FURTHER ORDERED that the surcharge in Appendix B be and it hereby is the fair, just and reasonable surcharge to be levied by Pendleton for the repayment of its past due accounts payable to its gas suppliers.

IT IS FURTHER ORDERED that Pendleton shall file quarterly reports with this Commission and Columbia Transmission and Columbia LNG in accordance with Findings Nos. 6 and 7.

IT IS FURTHER ORDERED that the Commission's Interim Order of November 24, 1982, as amended December 8, 1982, be and it hereby is superseded by this Order and all requirements of the Interim Order shall no longer be in force or effect.

IT IS FURTHER ORDERED that Pendleton shall file with this Commission its revised tariff sheets setting out the rates and charges approved herein within 30 days of the date of this Order.

Done at Frankfort, Kentucky, this 10th day of June, 1983.

PUBLIC SERVICE COMMISSION

Laura L. Murrell did not participate.  
Chairman

Katherine Randall  
Vice Chairman

Ann Caruga  
Commissioner

ATTEST:

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Secretary



APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO. 8568 DATED June 10, 1983.

The following rates are prescribed for the customers in the areas served by Pendleton County Water District, Gas Division. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the date of this Order.

RATES: Monthly

Rates per Unit

Residential:

0 - 1 Mcf (Minimum Charge)	\$6.66 Per Month
1 - 2 Mcf	6.083 Per Mcf
2 - 6 Mcf	5.830 Per Mcf
Over 6 Mcf	5.780 Per Mcf

Commercial:

0 - 1 Mcf (Minimum Charge)	\$7.21 Per Month
1 - 20 Mcf	5.780 Per Mcf
2 - 30 Mcf	5.730 Per Mcf
3 - 40 Mcf	5.680 Per Mcf
4 - 50 Mcf	5.630 Per Mcf
Over 50 Mcf	5.580 Per Mcf

SMALL INDUSTRIAL:

All Mcf	\$5.539 Per Mcf
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SPECIAL CONTRACTS:

Interruptible Service:

Griffin Industries, Inc.,	\$5.070 Per Mcf
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Firm Gas Service:

MAGO Construction Co., Inc.,	\$5.283 Per Mcf
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The above rates and charges have incorporated the adjustments through Case No. 8568-E.

For the purpose of the future application of the purchased gas adjustment clause of Pendleton County Water District, Gas Division, the base rate for Purchased gas shall be:

	<u>Commodity</u>
Columbia Gas Transmission Corporation Schedule SGS	\$ 4.6376 Per Dth
Columbia LNG - Schedule SG	5.61 Per Mcf
Transportation Charge - Schedule SGES	.4701 Per Dth

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 8568 DATED June 10, 1983.

The following rates and charges are prescribed for the customers in the area served by Pendleton County Water District, Gas Division. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

Surcharge

An itemized surcharge in the amount of \$1.01 per mcf shall be added to the monthly bill of each customer served by Pendleton County Water District, Gas Division, subject to conditions outlined in this Order.