

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

ADJUSTMENT OF THE RATES OF)
AUXIER ROAD GAS COMPANY, INC.,) CASE NO. 9318
FOR AN INCREASE IN GAS RATES)

O R D E R

On March 29, 1985, Auxier Road Gas Company, Inc., ("Auxier Road") filed notice with the Commission requesting to increase its rates and charges for gas service. The Commission issued its Order in this case on December 20, 1985. On January 9, 1986, Auxier Road filed its petition for rehearing with the Commission requesting reconsideration on the following issues: burden of proof; rate design; exclusion of Cliff Transmission Line from rate base and the corresponding adjustments to depreciation reserve and expense; normalized revenue; wages, salaries and benefits; amortization of arrearages; telephone expense; amortization of expenses for intervention in Columbia Gas case; rate of return and rate case expense.

On January 29, 1986, the Attorney General ("AG") filed a response to Auxier Road's petition stating that the Commission's positions are supported by the record and that no new matters have been raised which would require a deviation from the original Order in this case. The Commission has given consideration to the AG's response in arriving at the findings contained herein.

Burden of Proof

In Item No. 1 of its petition, Auxier Road requests that the Commission reconsider and rehear that portion of the Order which overrules the motion to require the burden of proof in going forward in this proceeding to be placed upon the Commission and intervenors.

The Commission is of the opinion that Auxier Road should be given the opportunity to offer additional support for its position on this issue. Therefore, the petition for rehearing on this issue should be granted.

Rate Design

Auxier Road in its petition states that the rates and charges approved in Appendix A of the December 20, 1985, Order do not produce the gross operating income found reasonable and authorized by the Order. Auxier Road further requests that there be an adjustment in its favor regarding this issue.

The case, as filed by Auxier Road, and the determination of the revenue requirement by the Commission, were based upon PGA Case No. 8768-L. The second paragraph of Appendix A reads as follows: "The following rates and charges have incorporated all increases and decreases in purchase gas adjustment clause cases from 8768-L through 8768-P." The incorporation of 8768-L through 8768-P amounts to a 40 cents per Mcf reduction in gas rates, and it is this factor that was not accounted for in Auxier Road's contention that the rates shown in Appendix A do not produce the rates established within the Order. Therefore, the Commission denies rehearing on this issue.

Cliff Transmission Line

Auxier Road in its petition requests that the Commission reconsider its decision to disallow a return and depreciation on a transmission line constructed to allow the Kentucky/West Virginia Gas Company to deliver gas into the Auxier Road system.

Though this line has not been approved by the Commission and its exclusion could be upheld on that basis alone, the Commission will afford Auxier Road the opportunity to present additional evidence regarding the appropriateness of receiving a return on this asset by granting rehearing on this issue. However, the Commission will place the burden on Auxier Road of proving the need and demand for the line as well as justification of the purchase price.

Normalized Revenue

In Item No. 5 of its application, Auxier Road states that the Commission should use the temperature-adjusted billing analysis to calculate normalized revenues. This statement is an unnecessary portion of the petition because the temperature-adjusted billing analysis was used to consider the normalized revenues and to produce the final rates in Appendix A. The temperature adjustment as proposed by Auxier Road was accepted with the exception that, whereas Auxier Road used an average rate of \$8.94 to calculate the adjustment, the Commission used \$7.267/Mcf, the same rate that was used to determine normalized revenues. This is the established methodology used in determining temperature adjustments and, therefore, Auxier Road's request for rehearing on this issue should be denied.

Wages and Salaries

In Item No. 7 of its petition, Auxier Road requests that the Commission reconsider its findings regarding wages, salaries and benefits. Auxier Road presents no additional substantive evidence but, rather, merely reargues the evidence already presented in an attempt to justify wages and benefits. The Commission reiterates that Auxier Road's wages and benefits are among the highest of the Eastern Kentucky gas companies and, as such, are excessive, especially considering the company's financial plight. The Commission further disagrees that \$52,173 in wages and salaries alone was allowed in Case No. 7897; this approved amount included benefits, so the argument presented in the petition on this matter is invalid. Moreover, the proposal to introduce a new index for the Commission's consideration at this stage of the proceeding is inconsistent with the rehearing process set out in KRS 278.400, which allows submission of additional evidence on rehearing that could not, with reasonable diligence, have been offered at the former hearing. Auxier Road has not demonstrated that it was unable to submit Current Wage Developments ("CWD") during the period of the Commission's original consideration of the application and, therefore, rehearing on this issue should be denied.

Auxier Road's assertion that the Commission twice deducted \$1,800 in directors' fees from expenses is incorrect and, therefore, rehearing on that matter should also be denied.

Amortization of Arrearages

In Item No. 8 of its petition, Auxier Road requested that the Commission set aside and reconsider that portion of the Order which found that there should be no adjustment for the amortization of arrearages owed to the Department of Local Government and Columbia Gas.

As stated in the December 20, 1985, Order, the Commission finds that, in this case, recovery of past operating expenses through current rates is inappropriate. Auxier Road in its petition has presented no substantive evidence that would merit reconsideration of the arrearages; therefore, rehearing on this issue should be denied.

Telephone Expense

In Item No. 9 of its petition, Auxier Road requested that the Commission reconsider its findings relative to the disallowance of an additional telephone line. Auxier Road argued it was management's prerogative to maintain two telephone lines. The Commission does not disagree with Auxier Road on that point. However, it is the Commission's obligation to disallow the expense of the extra line in the absence of sufficient proof that establishes its necessity. Auxier Road failed to meet its burden of proof in this proceeding and, moreover, the petition presents no additional evidence of a persuasive nature. Therefore, rehearing on this issue should be denied.

Intervention in Columbia Gas Case

In Item No. 10 of its petition, Auxier Road requests that the Commission reconsider and allow the expenses associated with

its intervention in Columbia Gas Case No. 9003, An Adjustment of Rates of Columbia Gas of Kentucky, Inc. The Commission finds that Auxier Road should be afforded the opportunity to present additional evidence in order to attempt to justify the inclusion of this expense for rate-making purposes. Therefore, rehearing on this issue should be granted.

Rate of Return/Revenue Requirement

In Item No. 11 of its petition, Auxier Road requests reconsideration of that portion of the Order wherein the Commission finds and concludes the reasonable rate of return on net investment rate base to be 7.0 percent. In support of its request, Auxier cites the 7.47 percent return on temporary cash investments used by the Commission in its analysis on page 15 of the Order.

The Commission finds no justification for relating the return on temporary cash investments to the allowed return on rate base. Since Auxier Road has not explained its reasoning as to why it should be, so the Commission finds this point alone to be insufficient to merit rehearing. As set forth in the Order, the lack of stockholder equity in Auxier Road serves as the basis for the Commission's reduction in allowed rate of return in the last case.

Auxier Road's additional contention that the revenue requirement generated by this rate of return is insufficient to meet its Department of Local Government payments is without merit. The necessity of using cash generated from depreciation expense to fund a portion of principal repayments is common in heavily

leveraged companies such as Auxier Road. Therefore, Auxier Road's request for rehearing on this issue should be denied.

Rate Case Expense

Auxier Road further requested in its petition that the Commission allow additional amounts for rate case expense. Auxier Road contends that this request is justified by its response to Item No. 2 of information requested at the hearing.

The Commission allowed the full amount requested for rate case expense by Auxier Road in its application. At no time during the proceeding did Auxier Road propose to amend its application to request additional amounts for this expense. If additional amounts were thought necessary by Auxier Road, it was incumbent upon it to request and document the additional expense for the Commission's consideration. The Commission finds the evidence and statements contained within the petition to be insufficient to justify reconsideration. Therefore, the request should be denied.

SUMMARY

Based upon the issues presented in the petition for rehearing and the evidence of record and being advised, the Commission hereby finds:

1. A rehearing should be granted on the issue of the burden of proof.
2. A rehearing should be granted on the issue of the exclusion of the Cliff Transmission Line from rate base and the corresponding adjustments to depreciation reserve and expense.

3. A rehearing should be granted on the issue of the amortization of expenses for intervention in the Columbia Gas Case No. 9003.

4. All other issues presented in Auxier Road's petition for rehearing should be denied.

5. The Commission's Order of December 20, 1985, requires no modification at this time, pending the outcome of the rehearing.

IT IS THEREFORE ORDERED that:

1. Auxier Road is granted rehearing on the issues of the burden of proof, the exclusion of the Cliff Transmission Line from rate base and the corresponding adjustments to depreciation reserve, and expense and amortization of expenses for intervention in the Columbia Gas Case No. 9003, and Auxier Road shall file any additional testimony it deems appropriate on these issues within 30 days from the date of this Order.

2. All other issues presented in Auxier Road's petition for rehearing be and they hereby are denied.

Done at Frankfort, Kentucky, this 31st day of January, 1986.

PUBLIC SERVICE COMMISSION

Richard D. Hemminger
Chairman

[Signature]
Vice Chairman

[Signature]
Commissioner

ATTEST:

Secretary