

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

WESTERN LEWIS-RECTORVILLE WATER AND)
GAS DISTRICT MASON AND LEWIS) CASE NO. 9642
COUNTIES, KENTUCKY FOR A REVISION)
OF GAS RATES APPLICATION)

O R D E R

On July 16, 1986, Western Lewis Rectorville Water and Gas District ("Western Lewis") filed its application to increase its revenues from providing gas service by approximately \$50,289 annually or approximately 17.3 percent above test-period normalized revenues. Western Lewis cited its inability to pay current operating expenses, including gas purchases, as requiring the rate filing. This Order grants Western Lewis a \$13,510 increase in its basic rate and a temporary annual surcharge of approximately \$39,636 to repay its past due gas purchases owed to Columbia Gas Transmission Corporation ("TCO").

A hearing was conducted in this matter on December 11, 1986. No intervenors were present.

COMMENTARY

Western Lewis is a nonprofit public utility providing gas service to approximately 530 customers in rural Mason and Lewis counties.

TEST PERIOD

Western Lewis proposed and the Commission has accepted the 12-month period ending December 31, 1985, as the test period for

determining the reasonableness of the proposed rates. In using the historical test period, the Commission has given full consideration to appropriate known and measurable changes found reasonable.

STAFF AUDIT REPORT ADJUSTMENTS

In the course of its investigation in this case, the Commission's staff performed a limited audit to verify reported test year expenses and to determine what accounting or classification changes might be appropriate. The Commission's objective was to substantially reduce the need for written data requests, thus reducing the expense to Western Lewis. The staff audit report of Western Lewis' financial operations for the test year was filed as a part of the record in this case on November 11, 1986.

The Commission hereby adopts the findings of that report to be used for rate-making purposes herein. Western Lewis filed no comments regarding the audit report.

After consideration of the pro forma adjustments proposed by Western Lewis, the Commission finds that they are known and measurable and reasonable and reflect normal and current operating conditions. Accordingly, Western Lewis' adjusted operating results are as follows:

	<u>Test Year Per Audit</u>	<u>Adjustments</u>	<u>Test Year Adjusted</u>
Operating Revenues	\$309,429	<20,138>	\$289,291
Operating Expenses	293,867	< 3,565>	290,302
Operating Income	<u>\$ 15,562</u>	<u><16,573></u>	<u>\$< 1,011></u>

REVENUE REQUIREMENTS

Western Lewis proposed to include in its revenue requirements interest expense of \$23,033 annually, and principal payments of \$20,000 annually for the retirement of past due gas purchases which have accumulated to \$161,033.¹ These items are considered in a following section under the surcharge heading.

Western Lewis has an average long-term debt service of approximately \$10,416 over the next 5 years. The adjusted test-year operating loss of \$1,011 annually is clearly insufficient to service Western Lewis' long-term debt. The Commission is of the opinion that revenue based on a 1.2X debt service coverage will provide sufficient revenues to serve Western Lewis' long-term debt and will provide for ongoing operation expenses. Therefore, the Commission grants Western Lewis an additional \$13,510 in permanent annual sales rates determined as follows:

Operating Loss	\$ 1,011
Debt Service	10,416
Coverage (.2)	<u>2,083</u>
REVENUE INCREASE	<u>\$13,510</u>

SURCHARGE

The current arrearage owed TCO for past due gas purchases is approximately \$161,033 which is being carried at an interest rate of approximately 8.8 percent.² The Commission does not normally allow a surcharge to recover past due operating costs such as gas

¹ Information filed January 16, 1987.

² Hearing Transcript dated December 11, 1986, page 13.

purchases. However, under certain circumstances it is none-the-less in the best interest of all concerned to allow a temporary surcharge. The Commission finds in this case that the arrearage in gas purchases was not the result of mismanagement and that the rates of Western Lewis are not excessive in comparison to other small gas utilities, and with regard to other sources of energy. The Commission notes that Western Lewis is a nonprofit district whose customers are primary beneficiaries of the financial integrity of the district. Furthermore, the cash flow of this small utility will not provide for a reasonable amortization period for this past due amount and alternative financing arrangements are not allowed under Western Lewis' bond ordinance. Therefore, the Commission is of the opinion that a temporary surcharge is warranted in this case.

Subject to TCO accepting the terms of the surcharge as detailed herein, Western Lewis should be granted approximately \$39,636 in temporary annual surcharge revenues. The surcharge will be in affect for no longer than 60 months from the date of this Order or until the past due account has been relinquished, whichever comes first. The surcharge will be a fixed monthly charge, separately identified on each customer's billing. The first money collected from each billing shall be considered surcharge revenue. The surcharge revenue shall be separately identified on all statements of operations submitted to this Commission. The money collected from the surcharge shall be deposited in an escrow account dedicated solely to the monthly payment of the arrearage of gas purchases owed TCO. Western Lewis

shall file monthly reports within 21 days of the close of each calendar month. These reports shall contain:

1. The number of customers billed the surcharge.
2. The total Mcf billed.
3. The total amount of the surcharge billed.
4. The amount deposited in escrow.
5. The amount paid on the arrearage broken down as to interest and principal.

For documentation of each monthly report Western Lewis shall provide:

1. A photocopy of the bank statement.
2. A photocopy of all checks disbursed from the escrow account.
3. A photocopy of all deposit receipts for the escrow account.
4. A photocopy of TCO's billing showing payment and current balance.

REVENUE ALLOCATION

The increase allowed to Western Lewis has been incorporated into the rate structure as a 24 cent per Mcf increase to base rates to satisfy revenue requirements. A separate billing component allowed in this case is a two-part surcharge consisting of a \$1 per month customer charge and a usage charge of 59 cents per Mcf to repay the past due gas purchases owed TCO.

SUMMARY

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

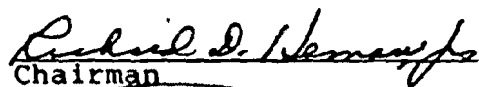
1. The proposed rates are excessive and unreasonable.
2. The rates and charges in Appendix A are the fair, just and reasonable rates and charges to be charged by Western Lewis.
3. Western Lewis should be granted a temporary surcharge to pay the arrearages owed for gas purchases.
4. The surcharge should continue for no longer than 60 months from the date of this Order.
5. The reporting, accounting and documentation requirements described in this Order are necessary and in the public interest.
6. The surcharge revenue should be placed in escrow and used exclusively to pay the arrearage of gas purchases.

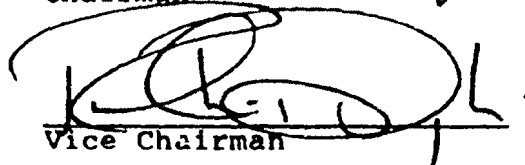
IT IS THEREFORE ORDERED that:

1. The rates and charges in Appendix A be and they hereby are approved for service rendered by Western Lewis on and after the date of this Order.
2. The rates proposed by Western Lewis be and they hereby are denied.
3. Western Lewis shall comply with the reporting, accounting and documentation requirements described herein.
4. Western Lewis shall place the surcharge revenue in escrow and use the surcharge revenues to pay the arrearage of gas purchases exclusively.

Done at Frankfort, Kentucky, this 4th day of February, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 9642 DATED 2/4/87

The following rates are prescribed for customers of Western Lewis-Rectorville Gas and Water District, Gas Division. 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 effective date of this Order.

Surcharge: (1) Customer charge - \$1.00 per Month
(2) Usage charge - \$.59 per Mcf

Base Rates: 0 to 1 Mcf - \$7.38 per Mcf (Minimum Bill)
Next 4 Mcf - 5.2536 per Mcf
Next 5 Mcf - 5.2036 per Mcf
All over 10 Mcf - 5.1036 per Mcf

The rates in this Appendix have been adjusted to reflect Purchased Gas Adjustments filed by Western Lewis in Case No. 8678-BB and Case No. 8678-DD.

The surcharge is a temporary charge to remain in effect no longer than 60 months.