

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE NOTICE OF PURCHASED GAS)
ADJUSTMENT FILING OF AUXIER ROAD) CASE NO. 9318-D
GAS COMPANY, INC.)

O R D E R

On April 28, 1988, Auxier Road Gas Company, Inc. ("Auxier Road"), petitioned the Commission to reconsider and rehear its Order of April 7, 1988, directing Auxier Road to adhere to the terms of its approved Purchased Gas Adjustment Clause ("PGA").

Auxier Road's petition argues that the savings resulting from purchasing lower cost gas should not be flowed through to its ratepayers as mandated by Auxier Road's PGA Clause. Rather, Auxier Road claims that it should be permitted to retain these savings "to assure that the utility's revenues will be maintained at an appropriate level which has been set by the Commission at the utility's last rate case."

Based on Auxier Road's petition, the evidence of record, and being advised, the Commission is of the opinion and hereby finds that the relief sought by Auxier Road is precluded by the terms of its PGA Clause. In recognition of the fact that the cost of purchased gas has been volatile and that it represents a gas utility's largest single expense, the Commission has authorized Auxier Road (and other gas utilities) to adopt a PGA Clause to expedite changes in retail rates to track changes in its cost of

purchased gas. Consequently, when the cost of purchased gas increases, the PGA Clause allows Auxier Road to timely recover those costs and thereby limit its risk of financial loss. Similarly, when the cost of purchased gas decreases, or a supplier refund is received, Auxier Road is obligated to timely reduce its rates to pass the savings through to its ratepayers.

Auxier Road's PGA Clause (attached hereto as Appendix A) was approved by the Commission's Order entered September 30, 1976, in Case No. 6529, Notice of Adjustment of Rates of Auxier Road Gas Company, Inc., to Become Effective May 1, 1976. Auxier Road's PGA Clause states that "for the purpose of this purchased gas adjustment provision, current wholesale rates shall be considered as the base rate for purchased gas." The PGA Clause further states that in the event there is a decrease in the purchased gas price or a refund, the company shall file certain information with the Commission. Upon receipt of this information, the Commission is required to review the proposed reductions and within 30 days issue its Order setting out the proper refund and/or revised rates.

Thus, the purpose of Auxier Road's PGA Clause is to timely pass through changes in wholesale gas prices to Auxier Road's customers. There is nothing in Auxier Road's PGA Clause to suggest that it was intended "to maintain the utility's revenues at the level in the last case," as now argued by Auxier Road.

If Auxier Road is experiencing financial difficulties as alleged in its petition, Auxier Road should properly file a general rate case. The PGA Clause is restricted to changes in

wholesale gas prices and is not intended to provide a guarantee of the earnings level set in Auxier Road's last rate case. The central issue here is the fact that the PGA Clause is not the correct method to recover increases in operating costs except when the increases are in Auxier Road's wholesale gas price.

Auxier Road's claim that it does not want to increase the rates of its non-contract customers is erroneous. By failing to pass on the decrease in the wholesale gas costs, Auxier Road is actually withholding a decrease properly attributable to these customers. Auxier Road's current rates are higher by the amount of the reduction in the cost of purchased gas. Thus, Auxier Road is attempting to keep its rates at a level higher than authorized in its last rate case without complying with the statutory requirements incident to filing a general rate case.

Auxier Road has presented no new evidence to support its petition for rehearing and the petition should be denied. Further, the Commission advises Auxier Road that if its assessment of its financial condition brings it to a conclusion that it needs a rate increase, said increase should be filed pursuant to KRS 278.180.

IT IS THEREFORE ORDERED that Auxier Road's petition for rehearing be and hereby is denied.

Done at Frankfort, Kentucky, this 18th day of May, 1988.

PUBLIC SERVICE COMMISSION

Richard D. Leman, Jr.
Chairman

Robert M. Davis
Vice Chairman

James W. Wilkerson, Jr.
Commissioner

ATTEST:

Executive Director

APPENDIX "A" TO AN ORDER OF THE
PUBLIC SERVICE COMMISSION IN CASE NO. 9318-D
DATED MAY 18, 1988

APPENDIX "A"

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC
SERVICE COMMISSION IN CASE NO. 6529 DATED
SEPTEMBER 30, 1976.

The following rates are prescribed for the customers in the area served by the Auxier Road Gas Company, 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	2,000 MCF per month	\$2.65 per MCF
All Over	2,000 MCF per month	\$2.22 per MCF

The minimum bill for service shall be \$4.00 per month and shall entitle the user to 1 MCF or less of gas per month.

Purchased Gas Adjustment Clause

The rate adjustments requested hereunder shall be based upon the wholesale cost of gas to the Company as computed upon rates of its wholesale supplier under Kentucky Public Service Commission tariffs for intrastate business. For the purpose of this purchased gas adjustment provision, current wholesale rates shall be considered as the base rate for purchased gas. In the event there is an increase in this base rate, the Company shall within thirty days from the time it receives notice of the proposed change file with this Commission the following information:

(1) A copy of the Kentucky Public Service Commission tariff effecting the change in the base rate and a statement relative to the effective date of such proposed change.

(2) A statement setting out the details of gas purchased under the provision of the base rate for the previous twelve months showing billing under the base rate and under the proposed revised rate applicable to this service.

(3) A balance sheet as of the end of the latest twelve month period and a statement of operating expenses and revenues as reported to the Commission in the Company's Annual Report.

(4) Such other information as the Commission may request for a proper determination of the purchased gas adjustment.

Upon receipt of this information the Commission will review the effect of the revised base rate on the operations of the Company and will prior to the effective date of the revised base rate, but not less than thirty days from the date of the filing of the above prescribed information, issue its Order setting out the purchased gas adjustment that the Company shall apply to its rates.

In the event there is a decrease in the purchased gas price or a refund, the Company shall file the information required in 1, 2, and 4 above.

Upon receipt of this information the Commission shall review the proposed reductions and within thirty days from receipt of the information required, issue its Order setting out the proper refund and/or revised rates.

The maximum amount of the adjustment so prescribed shall not produce revenue adjustments, based upon the actual preceding twelve months, period, greater than the difference between the purchased gas billed at the then existing rates and the purchased gas billed at the revised rates.

The base rate for purchased gas for the application of this Purchased Gas Adjustment clause is:

Columbia Gas of Kentucky, Inc.

Commodity

\$1.515