

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF STEPP BRANCH GAS)
COMPANY TO FUND THE INSTALLATION AND)
OPERATION OF A NEW NATURAL GAS)
DISTRIBUTION SYSTEM NEAR STEPP BRANCH) CASE NO. 10371
KENTUCKY, MARTIN COUNTY; TO CONSTRUCT;)
TO OPERATE; TO ESTABLISH RATES; AND)
TO DISCONTINUE SERVICE TO CUSTOMER-)
OWNED MAINS)

O R D E R

On September 2, 1988, Stepp Branch Gas Company ("Stepp Branch") made application to the Commission to construct, operate, and establish rates for its gas distribution system to comply with regulations of the Commission.

Stepp Branch is a small gas distribution utility with approximately 67 customers located in Martin County, Kentucky, with an office in Inez and facilities in Lovely, Kentucky.

Stepp Branch had been operating outside of Commission authorization and through this proceeding is seeking to upgrade its distribution system and to obtain authorization of rates. As part of its application, Stepp Branch proposed rates that would produce annual revenues of \$48,238.

On November 29, 1988, a Staff Report was issued in which Staff recommended rates that would generate revenues of \$38,889 annually.

On December 8, 1988, Stepp Branch filed a response to the Staff Report in which it took exception to three of the Staff's recommendations.

Operations and Maintenance Labor

Staff recommended that Stepp Branch's proposed operations and maintenance labor expense of \$13,540 be reduced to \$6,686. Staff based its recommendations on Stepp Branch's proposal that maintenance would require 6 hours per week and that the operations would require 2 hours per day. The Staff, therefore, concluded that 20 hours per week was sufficient for maintaining and operating the plant. Staff suggested that one part-time person could perform the required maintenance and recommended an annual salary of \$6,000.

In its response, Stepp Branch contends that the system has experienced numerous maintenance problems in the past due largely to the environment in which the lines are placed and that it is impossible at this point to determine the level of maintenance expenses. In addition, Stepp Branch states that any employee must be on call 24 hours per day.¹

The Commission is aware of the maintenance problems that Stepp Branch had before the system was upgraded. However, the Commission believes that with the new system in service Stepp Branch will experience a minimal amount of maintenance because a new system will inherently have fewer maintenance problems. In addition, Stepp Branch has approximately 67 customers, thus

¹ Response to Staff Report, page 1.

requiring just a few hours per month for meter reading and other customer services. Therefore, the Commission believes that the Staff has provided a sufficient level of operation and maintenance labor expenses and, therefore, adopts the Staff's recommendation on this issue.

Professional Fees

In its filing, Stepp Branch proposed a total of \$12,000 for professional service expense to be amortized over a 4-year period resulting in an annual expense of \$3,000. Included in this amount were \$6,000 of professional fees attributable to the rate portion of this filing. The Staff recommended allowance of \$2,200 of fees attributable to the rate case expense and the total \$6,000 attributable to the construction and organization portions of the case. Stepp Branch's response was that the Staff recommendation only includes consultant's fees and not any attorney fees incurred as a result of the filing.

The Commission notes that the Staff did allow \$2,200 in attorney fees but recommended that they be capitalized thus allowing recovery over an extended period of time.

It is the Commission's opinion that in a filing of this nature where no public hearing is held that there should be considerably less professional fees required for the rate proceeding. The Commission believes that \$2,200 is sufficient for the rate portion of this case and that the total \$8,200 is a reasonable amount for professional fees expense.

Rate of Return

Stepp Branch proposed a rate of return of 12.9 percent on its investment. The Staff equated this to a return on equity of approximately 16.5 percent. The Staff recommended a return of 11.68 percent on investment stating that this is in line with recent Commission decisions.²

Stepp Branch, in its response to the Staff Report, stated that the return is inadequate to provide compensation for the operator and a return for the owner. However, under the Staff's proposal, Stepp Branch would be allowed an operation labor expense of \$6,000 to compensate the operator. This amount is separate from the return on investment which provides an additional \$2,181 in earnings for the owner of Stepp Branch. The Commission finds that a 13 percent return on equity, which equates to an 11.68 percent return on investment, is an adequate return to Stepp Branch's investors.

Engineering Issues

On November 23, 1988, an Interim Order was entered in this proceeding granting Stepp Branch a Certificate of Public Convenience and Necessity to perform the construction described in the application. The construction includes approximately 12,000 feet of two-inch plastic pipe, some one-inch plastic pipe, and miscellaneous appurtenances, and is estimated to cost \$40,299.94.

A gas safety investigator in the Commission's Gas Pipeline Safety Branch conducted a construction inspection on Stepp Branch

² Staff Report, page 7.

on February 1, 1989 to view the progress being made in replacing the existing pipe in the system. A copy of the construction report was submitted to the record of this proceeding on February 21, 1989. The investigator determined that Stepp Branch had installed 14,340 feet of two-inch plastic pipe, 2,000 feet of one-inch plastic pipe, and 45 customer risers. Approximately 1,500 feet of two-inch plastic pipe, 20 service lines (one-inch plastic pipe), and risers remain to be installed. New meters have also been ordered.

Stepp Branch advised the investigator that after all customers are on the new system, the old, bare steel lines would be purged and retired. The investigator concluded with a determination that the construction work observed during the inspection appeared to be in compliance with Commission regulations.

As Stepp Branch proceeds with abandoning the old pipe, it should review and follow the requirements of 807 KAR 5:022, Section 14(15)(a)-(e), abandonment or inactivation of facilities. If any customers who were served from the original system choose not to be served from the new lines, Stepp Branch should follow the requirements provided in 807 KAR 5:022, Section 14(15)(d)-(e), to discontinue service to such customers. Within 60 days of substantial completion of construction, Stepp Branch should file certain financial documentation and construction-related plans as described in Findings 7 and 9 of the November 23, 1988 Interim Order.

FINDINGS AND ORDERS

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

1. All recommendations of the Staff Report should be adopted.

2. Stepp Branch should be granted rates which would produce operating revenues of \$38,889 annually.

3. The rates in the Appendix, attached and incorporated hereto, are the fair, just, and reasonable rates to be charged by Stepp Branch for service rendered on and after the date of this Order. These rates will allow Stepp Branch sufficient revenues to meet its operating expenses, service its debts, and provide for future equity growth.

4. Within 30 days from the date of this Order, Stepp Branch should file with this Commission tariff sheets setting out the rates and rules and regulations approved herein.

5. As Stepp Branch abandons the old, bare steel lines and deactivates service to any customers who no longer wish to receive gas from the new system, it should review and follow the requirements of 807 KAR 5:022, Section 14(15), subsections (a)-(e), and (d)-(e), respectively.

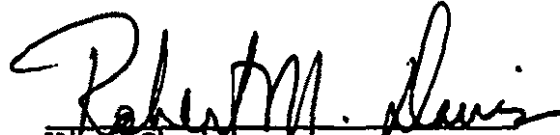
6. Stepp Branch should file financial documentation and construction-related plans as described in Findings 7 and 9 of the November 23, 1988 Interim Order.

BE IT SO ORDERED.

Done at Frankfort, Kentucky, this 3rd day of May, 1989.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 10371 DATED 5/03/89

The following rates and charges are prescribed for the customers served by Stepp Branch Gas Company. For all matters not addressed specifically herein, Stepp Branch Gas Company shall adopt the rules and regulations of this Commission.

CURRENTLY EFFECTIVE BILLING RATES

<u>Rate Schedule</u>	<u>Monthly Billing Rate</u>
Residential:	
Minimum Bill (1 MCF)	\$6.00
All Additional MCF	\$5.65

RULES AND REGULATIONS

- (1) Bills for service will be rendered monthly. The term "month" shall mean the period between consecutive meter readings which shall be taken, as nearly as possible, every 30 days.
- (2) Bills are due when rendered. Bills not paid within 10 days after mailing shall be subject to a 10 percent penalty on the amount due.
- (3) A reconnection charge of \$25.00 shall be paid before service is restored following disconnection for non-payment of bills.
- (4) A reconnection charge of \$50.00 shall be paid by customers which request disconnection and subsequently re-establish service at the same premises within 12 months.
- (5) A service charge of \$15.00 will be imposed on any customer whose check is returned from the bank due to insufficient funds. Such accounts will be considered in arrears, subject to penalty and possible termination after notice pursuant to 807 KAR 5:006, Section 11.
- (6) A charge of \$15.00 will be levied when a trip is made to collect a delinquent bill after proper notice.
- (7) For matters not addressed herein, Stepp Branch adopts the applicable rules and regulations of the Public Service Commission.