

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF VALLEY GAS,)
INC. FOR AN ADJUSTMENT OF)
RATES PURSUANT TO THE) CASE NO. 2001-009
ALTERNATIVE RATE FILING)
PROCEDURE FOR SMALL UTILITIES)

O R D E R

On January 15, 2001, Valley Gas, Inc. ("Valley") filed for an adjustment of rates pursuant to Administrative Regulation 807 KAR 5:076, the alternative rate filing procedure for small utilities. The proposed rates would generate additional annual revenues of \$34,497, or 8.28 percent. No individual or organization has requested intervention, challenged the reasonableness of the proposed rates, or requested discovery or a hearing in this matter.

Commission Staff performed a limited financial review of Valley's operations and assisted in the preparation of the application. A Staff Report was not necessary since the application is in agreement with Staff's guidance to Valley and Staff has no further modifications or recommendations for this application.

The Commission has noted the discussions in adjustments E and H of the application regarding cost allocations between Valley and its affiliate, Irvington Gas, Inc. These adjustments revise the level of expenses being shared between the regulated utility and its non-regulated affiliate. The discussion notes that misallocations in these

expenses were discovered during the preparation of the application. The Commission points out that House Bill 897, enacted by the 2000 General Assembly, prohibits the funding of unregulated business expenses with revenues from regulated activities. It also requires utilities to allocate costs in a manner that ensures utility ratepayers do not subsidize non-regulated affiliates. Provisions of the bill require utilities operating jointly with non-regulated affiliates to develop a Cost Allocation Manual and document transactions between related parties. Valley should review the requirements of House Bill 897 and make the necessary adjustments to bring its accounting procedures into compliance within the time period established by the bill.

The Commission, after considering the evidence of record and being otherwise sufficiently advised, finds that the rates proposed by Valley and attached as Appendix A will produce gross annual gas revenues of \$451,340 and are the fair, just, and reasonable rates for Valley. These rates will allow Valley sufficient revenues to meet its operating expenses and provide a reasonable rate of return.

IT IS THEREFORE ORDERED that:

1. The rates proposed by Valley and contained in Appendix A are approved for service rendered by Valley on and after the date of this Order.
2. Within 30 days of the date of this Order, Valley shall file with the Commission its revised tariffs setting out the rates approved herein.

Done at Frankfort, Kentucky, this 14th day of March, 2001.

By the Commission

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2001-009 DATED MARCH 14, 2001

The following rates and charges are prescribed for the customers in the area served by Valley Gas, 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 effective date of this Order.

Monthly Gas Rates

Monthly Charge	\$6.50 per bill
Base Rate	\$2.3819 per Mcf
Gas Cost	\$11.4706 per Mcf