

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF BURKESVILLE GAS COMPANY )	
FOR AN ADJUSTMENT OF RATES PURSUANT TO )	CASE NO.
THE ALTERNATIVE RATE FILING PROCEDURE )	2008-00032
FOR SMALL UTILITIES )	

ORDER

Burkesville Gas Company, Inc. ("Burkesville") applied to the Commission for authority to adjust its base gas rates pursuant to 807 KAR 5:076, the alternative rate filing procedure for small utilities. On March 5, 2008, Burkesville amended its application to adjust its base gas rates to a level that will produce annual revenues of \$330,893,<sup>1</sup> which is an approximate 123.14 percent increase or \$182,603 above its test-period revenues from base gas rates of \$148,290.<sup>2</sup> By this Order, we establish rates that will produce annual revenues from base gas rates of \$299,325, which is an increase of 101.85 percent or \$151,035 over normalized revenues from existing base gas rates of \$148,290.

BACKGROUND

Burkesville is a Kentucky corporation regulated by the Commission as a utility under KRS 278.010(3)(b). It provides gas service to 220 residential customers

---

<sup>1</sup> Burkesville's response to the Commission Staff's First Information Request, Item 17(b).

<sup>2</sup> Residential	12,096.10 Mcf x \$4.25 =	\$	51,408
Commercial	24,841.60 Mcf x \$ 3.90 =	+	96,882
2007 Revenues – Base Gas Rates		\$	<u>148,290</u>

and 110 commercial customers in Cumberland County, Kentucky.<sup>3</sup> Burkesville last applied for a rate adjustment in 2000.<sup>4</sup>

### PROCEDURE

On January 24, 2008, Burkesville tendered its application. No parties have requested or have been granted leave to intervene in this proceeding. In its August 5, 2008 Order, the Commission directed Burkesville to submit a request for an informal conference or hearing within 10 days or this current proceeding would stand submitted to the Commission for a decision. Burkesville responded on August 12, 2008 that it did not request an informal conference or hearing in this matter.

### TEST PERIOD

In its application, Burkesville proposed to use the calendar year 2006 operating revenues and expenses as the basis for its requested increases in base gas rates. At the February 18, 2008 telephone conference, Burkesville informed Commission Staff that the application did not adequately reflect its current financial condition and that at the conclusion of this current proceeding a second application would be submitted. On March 5, 2008, Burkesville amended its application to reflect a calendar year 2007 test period, which is the most recently published financial data available. The Commission

---

<sup>3</sup> Annual Report of Burkesville to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2007 at 1 and 11.

<sup>4</sup> Case No. 2000-00158, The Application of Burkesville Gas Company, Inc. for Rate Adjustment Pursuant to the Alternative Rate Adjustment Procedure for Small Utilities (Ky. PSC Nov. 20, 2000).

finds the use of this period reasonable. In using a historic test period, the Commission gives full consideration to appropriate known and measurable changes.

### INCOME STATEMENT

For the test period, Burkesville reports actual operating revenues and expenses of \$624,746<sup>5</sup> and \$718,875,<sup>6</sup> respectively. Burkesville proposes several adjustments to revenues and expenses to reflect current and anticipated operating conditions, resulting in pro forma operating revenues of \$779,754<sup>7</sup> and pro forma operating expenses of \$768,850.<sup>8</sup> The Commission's review of these proposed adjustments is set forth below.

#### Operating Revenue – Base Rate

Burkesville reported total test period operating revenues from gas sales of \$622,416. However, included in this amount are purchased gas costs and gas transmission fees. These costs are recovered by Burkesville through its purchased gas adjustment and are excluded when determining base rate revenue. Based on the 2007 Meter Reading Calculations Report filed by Burkesville on April 25, 2008, Burkesville reported gas sales of 12,096.1 Mcfs to residential customers and 24,841.6 Mcfs to commercial and industrial customers during the test period. Applying these Mcf amounts to Burkesville's current rates of \$4.25 per Mcf for residential customers and \$3.90 per Mcf for commercial and industrial customers produces base rate revenue of

---

<sup>5</sup> Burkesville's March 4, 2008 letter ("March 4, 2008 letter"), Addendum 1, 2007 Actual Income and Expenses vs. Proposed Income and Expenses at 1.

<sup>6</sup> Id. at 3. \$718,905 (Total Expenses) – \$29 (Payroll Expense) = \$718,875.

<sup>7</sup> Id. at 1.

<sup>8</sup> Id. at 3.

\$148,290. The Commission has reduced operating revenues from gas sales by \$474,126 to eliminate the purchased gas costs and gas transmission fees.

#### Natural Gas Purchases and Transmission Fees

Burkesville proposed to increase transmission fees by \$30,576 due to an increase in the transmission fee paid to affiliate Apache Gas Transmission Co., Inc. during the test period. However, natural gas purchases and transmission fees are recovered through Burkesville's purchased gas adjustment and are eliminated from the operating expenses in the determination of the revenue requirement. Burkesville's operating expenses have been reduced by \$454,362<sup>9</sup> to remove purchased gas expense and the gas transportation expense.

#### Salaries & Wages – Employees

Burkesville proposed to increase its test-period customer records collection expense of \$18,264 by \$920<sup>10</sup> to reflect the wage increase that was given to its office manager on June 1, 2007.<sup>11</sup> However, Burkesville requests that the Commission consider the wage increases that were to be implemented on June 1, 2008.<sup>12</sup> Burkesville explained that it did not have the funds available to increase the employee

---

<sup>9</sup> \$388,124 (Purchased Gas Expense) + \$66,238 (Gas Transportation Expense) = \$454,362.

<sup>10</sup> March 4, 2008 letter, Addendum 1, 2007 Actual Income and Expenses vs. Proposed Income and Expenses at 1.

<sup>11</sup> Burkesville's response to the Commission Staff's Third Information Request, Item 10, as filed on July 14, 2008.

<sup>12</sup> Id.

wages on the scheduled date and that it intended to grant the wage increases once the current proceeding is completed.<sup>13</sup>

In analyzing pro forma adjustments, the Commission uses the rate-making standard of “known and measurable.” Administrative Regulation 807 KAR 5:001, Section 10(1), provides that all applications for general rate adjustment shall be supported by either a “twelve (12) month historical test period which may include adjustments for known and measurable changes” or a “fully forecasted test period.” Where an applicant bases its application upon a historical test period, it must provide a “complete description and quantified explanation for all proposed adjustments with proper support for any proposed changes in price or activity levels, and any other factors which may affect the adjustment.”<sup>14</sup> To meet the known requirement of that regulation, the date the change occurs must be readily identifiable.

Because Burkesville postponed the June 1, 2008 employee wage increase to a date uncertain, any adjustment that would reflect those wage increases would not meet the known and measurable standard. As shown in Table 1 below, by annualizing the June 1, 2007 employee wage rates, the Commission has calculated a pro forma level of salaries and wages expense of \$75,549, which is \$2,636 above the test-period level of \$72,913.

Position Title	Test-Period Hours		Pay Rates - Eff. 06/01/07		Pro Forma Payroll
	Regular	Overtime	Regular	Overtime	
	Service Manager	2057.50	70.00	\$ 17.42	
Assistant Service Manager	2080.00	57.50	\$ 11.00	\$ 16.50	23,829

<sup>13</sup> Id.

<sup>14</sup> Administrative Regulation 807 KAR 5:001, Section 10(6).

Office Manager	2080.00	0.00	\$ 10.00	\$ 15.00	20,800
Total Pro Forma Payroll					\$ 82,300
	Pro Forma	Percentage Payroll			Pro Forma
Position Title	Payroll	Non-Utility	Capital		Expense
Service Manager	\$ 37,671	11.977%	1.420%		\$ 32,624
Assistant Service Manager	\$ 23,829	5.821%	1.329%		22,125
Office Manager	\$ 20,800	0.000%	0.000%		20,800
Pro Forma Salaries & Wages					\$ 75,549
Less: Test-Period Salaries & Wages					72,913
Pro Forma Adjustment					\$ 2,636

### Outside Services

Burkesville proposes to increase its test-period operating expenses by \$21,600 to reflect the management fee it accrues to Summit National Holding Corporation (“Summit”) for the services of Tom Shirey.<sup>15</sup> Burkesville is a wholly owned subsidiary of Summit<sup>16</sup> and Mr. Shirey is the sole stockholder of Summit.<sup>17</sup> To support its proposed adjustment, Burkesville claims that Mr. Shirey “[d]evotes an average of 18 hours per month providing services and expertise to Burkesville at a billing rate of \$100.00 per hour.”<sup>18</sup>

In its previous rate case, Burkesville proposed a management fee of \$12,000.<sup>19</sup> Citing Burkesville’s failure to substantiate the reasonableness of the proposed management fee, the Commission determined that the proposed management fee was

<sup>15</sup> Application, Attachment 2, Exhibit E, Account 92303 – Management Fee.

<sup>16</sup> Case No. 2001-00302, The Application of Consolidated Financial Resources, Inc. for an Order Authorizing the Purchase of 17,500 Shares of the Issued and Outstanding Capital Stock of Burkesville Gas Company, Inc. (Ky. PSC Feb. 22, 2002).

<sup>17</sup> Burkesville Gas Company, Inc. Report of Audit for the Year Ended December 31, 1996, Notes to the Financial Statement at 11.

<sup>18</sup> Id.

excessive given Burkesville's size.<sup>20</sup> The Commission found that a \$3,600 annual management fee was a reasonable level of compensation for Burkesville to pay to Summit.<sup>21</sup>

In this proceeding, Burkesville provided a list of the management duties performed by Mr. Shirey<sup>22</sup> but was unable to document the time he spends per month performing those tasks<sup>23</sup> or explain how Summit's \$100-per-hour billing rate was derived.<sup>24</sup> To show that Burkesville's proposed management fee adjustment meets the rate-making standard of being known and measurable, Burkesville entered into a Consulting Agreement ("Agreement") with Summit.<sup>25</sup> In the Agreement, Burkesville agreed to pay Summit a monthly management fee of \$1,800 and an additional \$100 per hour for any management services provided above the monthly limit of 18 hours.<sup>26</sup>

Given that this is a less-than-arm's-length transaction between affiliated companies, it is Burkesville's responsibility to justify the reasonableness of the proposed management fee. As in its last proceeding, Burkesville is unable to substantiate the

---

<sup>19</sup> See October 30, 2000 Staff Report at 4 in Case No. 2000-00158, as cited in fn. 4.

<sup>20</sup> Id.

<sup>21</sup> Id.

<sup>22</sup> Burkesville's response to the Commission Staff's First Information Request, Item 16(b), as filed on April 25, 2008.

<sup>23</sup> Id., Item 16(c).

<sup>24</sup> Id., Item 16(d).

<sup>25</sup> Burkesville's response to the Commission Staff's Second Information Request, Item 12(b), as filed on June 6, 2008.

<sup>26</sup> Id., Agreement at 3.

reasonableness of the proposed fee. Furthermore, Burkesville did not pay the management fee to Summit in the test period and Burkesville's current policy is to accrue a management fee only when it has the financial resources available to pay the fee.<sup>27</sup> The average management fee that Burkesville has paid to Summit for the 3-year period from 2005 through 2007<sup>28</sup> is \$3,533.<sup>29</sup>

Burkesville has not presented any evidence regarding the reasonableness of the proposed management fee and was unable to document the actual time spent by Mr. Shirey performing the management services. Burkesville has not persuaded the Commission that its proposed management fee is warranted in this instance. A management fee greater than the \$3,600 fee allowed in the last rate proceeding is unwarranted and excessive. The Commission will deny Burkesville's requested \$21,600 management fee and will increase pro forma operating expenses to reflect a management fee of \$3,600.

#### General Liability Insurance

Burkesville proposed to decrease the test-period general liability insurance expense of \$28,819 by \$1,715 to a pro forma level of \$27,104.<sup>30</sup> Burkesville's general

---

<sup>27</sup> See fn. 22 at Item 16(a).

<sup>28</sup> 807 KAR 5:076 states that the Commission's decision shall be based upon the annual report of the applicant for the immediate past year and the 2 prior years.

<sup>29</sup> See fn. 22 at Item 16(e).  $\$0$  (2005 Management Fee) +  $\$10,600$  (2006 Management Fee) +  $\$0$  (2007 Management Fee) =  $\$10,600 \div 3$  Years =  $\$3,533$ .

<sup>30</sup> March 4, 2008 letter, Addendum 1, 2007 Actual Income and Expenses vs. Proposed Income and Expenses at 2.



liability insurance premium is based on its gross sales.<sup>31</sup> This proposed adjustment uses projected sales of \$777,425 and the premium rate of \$27 per \$1,000.<sup>32</sup>

Burkesville provided a general liability insurance invoice for the 12-month policy period that ends April 24, 2009. As shown in Table 2 below, by using the general liability insurance premium rates that are currently in effect, Burkesville's pro forma general liability insurance expense would be \$20,699, a decrease of \$8,120 from the test-period level of \$28,819.

Operating Revenue		\$	622,416
Multiplied by: Actual Premium Rate (per \$1)		x	0.025
Premium		\$	15,560
S/L Tax	\$ 0.03077		479
KPDRS	\$ 0.01539		239
Municipal Tax	\$ 0.11796		1,835
Exp. Constant	\$ 400.00	+	400
General Liability Premium		\$	18,513
Add: Property Coverage (Buildings & Equipment)		+	2,186
Pro Forma General Liability Insurance Expense		\$	20,699

Accordingly, the Commission denies Burkesville's proposed adjustment and has decreased general liability insurance by \$8,120.

#### Employee Pensions & Benefits

Burkesville proposed to decrease test-year employee pensions and benefits of \$17,464 by \$1,000 to a pro forma level of \$16,464.<sup>33</sup> In recognition of receiving a favorable inspection report from the Commission, Burkesville gave its employees a

<sup>31</sup> See fn. 22 at Item 14(c).

<sup>32</sup> Id.

<sup>33</sup> March 4, 2008 letter, Addendum 1, 2007 Actual Income and Expenses vs. Proposed Income and Expenses at 2.

\$1,000 bonus in the test period.<sup>34</sup> Because the employee bonus is not a fringe benefit normally offered, Burkesville has proposed to eliminate the \$1,000 employee bonuses from its pro forma operations.<sup>35</sup>

In the test period, Burkesville capitalized 1.035 percent of employee payroll costs and allocated another 7.168 percent of the payroll to non-utility activities. All costs associated with employee payroll (fringe benefits and payroll taxes) should be capitalized or allocated in the same proportions as payroll. Using the current employee health insurance premiums, removing the amounts that should be either capitalized or allocated to nonregulated expense, and eliminating the nonrecurring employee bonuses, the Commission calculates a pro forma level of employee pensions and benefits expense of \$12,171 as shown in Table 3 below.

Position Title	Employee Health Ins. Premium	
	Monthly	Annual
Service Manager	\$ 578	\$ 6,936
Assistant Service Manager	\$ 353	4,234
Office Manager	\$ 265	3,179
Pro Forma Employee Health Insurance		\$ 14,349
Less: Health Insurance - Capitalized	\$ 14,349 x 1.035%	= (149)
Health Insurance - Allocated Non-Utility	\$ 14,349 x 7.168%	= (1,029)
Nonrecurring Employee Bonuses		(1,000)
Pro Forma Employee Health Insurance - Expensed		\$ 12,171

The Commission accepts Burkesville's proposed \$1,000 decrease to employee pensions and benefits and has decreased this operating expense by an additional \$2,474 to the pro forma level of \$12,171.

<sup>34</sup> See fn. 11 at Item 11(b).

<sup>35</sup> Id.

### Building Repairs

Upon review of the historical financial information, Burkesville estimated that the ongoing level of the building repairs expense would be \$300, a decrease of \$949 below the actual test-period expense level of \$1,249.<sup>36</sup> Burkesville's proposed adjustment to reflect an estimated expense does not meet the rate-making standard of being known and measurable. However, Burkesville did identify a \$930 termite contract that was expensed in 2007 and will not be a recurring annual expense.<sup>37</sup> Accordingly, Burkesville's building repair expense has been decreased by \$930 to eliminate the nonrecurring expenditure.

### Transportation – Auto Insurance

Burkesville proposed to decrease its test-period transportation expense by \$52 to reflect the reduction in Burkesville's annual vehicle insurance premium for the 2008 policy period.<sup>38</sup> Because an adjustment to reflect the current vehicle insurance premium is known and measurable, the Commission accepts Burkesville's proposed adjustment.

### Amortization

Burkesville reports an amortization credit of \$1,595 in its test-period operations. In 1999 Burkesville recognized a gain of \$180,449 on the restructuring of its long-term debt.<sup>39</sup> In Burkesville's last rate case proceeding, the Commission decreased operating

---

<sup>36</sup> Id.

<sup>37</sup> Id.

<sup>38</sup> Id.

<sup>39</sup> See Case No. 2000-00158, October 30, 2000 Staff Report, Attachment B at 9.

expenses by \$9,022 to reflect amortizing the debt write-down over a 20-year period.<sup>40</sup> In the test period, Burkesville recorded the amortization of the debt write-down in Account 429.1, Amortization - Reacquired Debt. As determined in the last proceeding, the Commission is reducing amortization expense by \$9,022 to recognize the amortization of the gain.

#### Payroll Taxes

Burkesville proposed to increase test-period payroll taxes by \$34 to reflect the impact of its proposed adjustment to customer records collection expense.<sup>41</sup> Using the pro forma payroll recommended herein, the current payroll tax rates, and removing the amounts that should be either capitalized or allocated, Burkesville's pro forma payroll tax expense would be \$6,154, which is \$333 below the reported level. Accordingly, the Commission denies Burkesville's proposed adjustment and has decreased payroll tax expense by \$333.

#### Non-Utility Income

Burkesville reported a net income from non-utility sources of \$6,005 in its test-period income statement. The Commission has reduced non-utility income by \$1,510<sup>42</sup> to reflect the allocation of labor overheads to Burkesville's non-utility operations.

#### Interest Expense

Burkesville proposed to decrease its test-period long-term interest expense by \$891 to reflect the current outstanding balance of its long-term debt. As of December

---

<sup>40</sup> Id.

<sup>41</sup> Burkesville's response to the Commission Staff's Third Information Request, Item 11(b).

<sup>42</sup> \$1,029 (Employee Benefits) + \$481 (Payroll Taxes) = \$1,510.

31, 2007, Burkesville reported a Small Business Administration (“SBA”) loan with the Monticello Banking Company with an outstanding balance of \$576,025.<sup>43</sup> According to Burkesville, the SBA loan proceeds were used to fund capital improvements.<sup>44</sup> Using the amortization schedule for the SBA loan, the Commission calculates a 5-year average interest expense of \$10,203, as shown in Table 4 below.

Year	Small Business Administration
2008	\$ 11,216
2009	10,720
2010	10,213
2011	9,698
2012	+ 9,169
Total	\$ 51,016
Divide by: 5 Years	+ 5
5-Year Average Interest Expense	\$ 10,203

The Commission has decreased long-term interest expense by \$2,342 to reflect the 5-year average interest expense of \$10,203.

Summary

Based on the pro forma adjustments found reasonable herein, the Commission finds that Burkesville’s pro forma operations should be as follows:

Account Titles	Test-Period Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues:			
Operating Rev. Gas Sales	\$ 622,416	\$ (474,126)	\$ 148,290
Other Operating Rev.	2,330	(847)	1,483
Total Gas Operating Rev.	<u>\$ 624,746</u>	<u>\$ (474,973)</u>	<u>\$ 149,773</u>
Operating Expenses:			
Gas Operation & Maint. Exp.	\$ 648,473	\$ (460,702)	\$ 187,771

<sup>43</sup> See fn. 22 at Item 18(a).

<sup>44</sup> Id.

Depreciation	59,222	0	59,222
Amortization	(1,595)	(9,022)	(10,617)
Taxes Other Than Inc. Tax	12,775	(333)	12,442
Total Gas Operating Exp.	<u>\$ 718,875</u>	<u>\$ (470,057)</u>	<u>\$ 248,818</u>
Net Operating Income	\$ (94,129)	\$ (4,916)	\$ (99,045)

### REVENUE REQUIREMENT

The Commission has historically used an operating ratio approach<sup>45</sup> to determine revenue requirements for small, privately owned utilities.<sup>46</sup> This approach is used because no basis for rate-of-return determination exists or the cost of the utility has fully or largely been recovered through the receipt of contributions. The Commission finds that this method should be used to determine Burkesville's revenue requirement. The Commission further finds that an operating ratio of 88 percent will allow Burkesville sufficient revenues to cover its reasonable operating expenses and to provide for reasonable equity growth.

As shown in Table 6 below, Burkesville's pro forma operations, an allowance for income taxes and the impact on the general liability premium, and an 88-percent operating ratio result in a revenue requirement from base rates of \$299,325, which is an

---

<sup>45</sup> Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues.

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes Other Than Income Taxes}}{\text{Gross Revenues}}$$

<sup>46</sup> See generally, McKnight Utilities, Inc. and Maple Oak Development Company Application and Petition for an Order of Certificate of Convenience and Necessity Immediately Following the Hearing, and for an Order Approving Uniform Rates for a Sewage Treatment Plant with Tertiary Treatment Facilities located in Maple Oaks Trails Subdivision, Campbell County, Kentucky, Case No. 7553 (Ky. PSC Nov. 13, 1979). (This is the original case in which the policy for the 88-percent operating ratio approach was established by the Commission.)

increase of 101.85 percent or \$151,035 over normalized revenues from existing base gas rates of \$148,290.

Table 6: Revenue Requirement Determination	
Operating Expenses – Base Rates	\$ 248,818
Divide by: Operating Ratio	÷ 88%
Revenue to Cover Operating Ratio	\$ 282,748
Add: Interest on Long-Term Debt	10,203
Income Taxes on Net Operating Income	+ 8,089
Total Revenue Requirement – Base Rates	\$ 301,040
Less: Operating Revenues – Base Rates	- 148,290
Revenue Increase before General Liability Impact	\$ 152,750
Add: General Liability Increase	+ 4,445
Revenue Increase	\$ 157,195
Less: Other Operating Revenues	1,483
Non-Operating Revenues	- 4,677
Revenue Increase Base Rates	\$ 151,035
Add: Operating Revenues – Base Rates	+ 148,290
Total Revenue Requirement – Base Rates	\$ 299,325

#### BASE GAS RATES

Burkesville’s proposed rates consist of a customer service charge of \$7.50 per month and separate volumetric charges for its residential and commercial/industrial customers. The Commission accepts Burkesville’s customer service charge but denies the proposed volumetric rates because they produce revenue greater than that found reasonable herein.

#### NONRECURRING CHARGES

Burkesville submitted a revised tariff schedule of special service charges, which the Commission docketed as Case No. 2008-00123.<sup>47</sup> Finding “[t]he issues of establishment of rates substantially similar in both cases,” the Commission consolidated

<sup>47</sup> Case No. 2008-000123, The Application of Burkesville Gas Company, Inc. to Add and Increase Certain Non-Recurring Charges (Ky. PSC Apr. 22, 2008).

Case No. 2008-00123 into this proceeding for administrative purposes.<sup>48</sup> To support its proposed increases and the establishment of new nonrecurring charges, Burkesville submitted cost justification sheets.<sup>49</sup> Upon review of Burkesville's cost justification sheets, the Commission revised several of the proposed charges. Table 7 below compares the current nonrecurring charges, Burkesville's proposed charges, and nonrecurring charges deemed reasonable by the Commission.

Title	Current	Proposed	Commission
Service Reconnection Charge	\$ 24.00	\$ 35.00	\$ 35.00
Service Reconnection Charge-After Hours	\$ 34.00	\$ 52.50	\$ 52.50
Returned Check Charge	\$ 0.00	\$ 25.00	\$ 22.00
Service Labor Charge	\$ 0.00	\$ 42.00	\$ 42.00
Service Labor Charge-After Hours	\$ 0.00	\$ 63.00	\$ 63.00
Light Pilot Charge -First 30 minutes	\$ 0.00	\$ 20.00	\$ 20.00
Light Pilot Charge-Over 30 minutes	\$ 0.00	\$ 42.00	\$ 35.00

In computing normalized revenues, the Commission used the tariffed nonrecurring charges rather than the nonrecurring charges that are recommended herein. Burkesville's request for an increase in nonrecurring charges was not a part of the original rate application, and proper notification was not provided to Burkesville's customers. For this reason, the Commission directs Burkesville to give proper customer notification of the changes in the nonrecurring charges pursuant to KRS 278.180. Burkesville should publish notification of the nonrecurring charges in the newspaper of general circulation within its area of service, and the notice should be published once a week for 3 consecutive weeks. This proceeding will remain open until Burkesville submits evidence of publication and files a new tariff in accordance with Table 7, as

<sup>48</sup> Id., Application at 2.

<sup>49</sup> See fn. 22 at Item 8.



provided above, with an effective date no earlier than 20 days after publication of the new charges in the newspaper of general circulation. After receipt of satisfactory evidence of publication and the filing of the new tariff, the Commission will enter a separate Order addressing the nonrecurring charges.

#### CUSTOMER CLASSIFICATION

Burkesville's tariff has two rate classifications, residential and industrial. While performing its billing analysis, Commission Staff noted that Burkesville charges commercial customers under both classifications. Burkesville stated that its internal policy is to treat all businesses as industrial customers except for very low users which are charged the residential rate.<sup>50</sup> This policy is not included in Burkesville's tariff. Burkesville should revise its tariff to specifically define residential customer and non-residential customer. As Burkesville has stated that the classification is based on usage, the tariff revision should include the monthly level of usage that would place a customer into the non-residential class.

#### SUMMARY

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Burkesville's proposed rates would produce revenue in excess of that found reasonable herein and should be denied.
2. The rates in Appendix A are the fair, just, and reasonable rates for Burkesville and will produce gross annual revenues as found reasonable herein.

---

<sup>50</sup> See fn. 11 at Item 5(a).

3. Burkesville should give proper customer notification of the changes in the nonrecurring charges pursuant to KRS 278.180.

4. Burkesville should publish notification of the nonrecurring charges in the newspaper of general circulation within its area of service, and the notice should be published once a week for 3 consecutive weeks.

5. Burkesville should submit satisfactory evidence of publication of the customer notification and a new tariff.

IT IS THEREFORE ORDERED that:

1. Burkesville's proposed rates are denied.

2. The rates set forth in Appendix A are approved for service rendered by Burkesville on and after the date of this Order and will produce gross annual revenues as found reasonable herein.

3. Within 20 days of the date of this Order, Burkesville shall file new tariff sheets setting forth the rates approved herein and reflecting their effective date and that they were authorized by this Order.

4. Within 20 days of the date of this Order, Burkesville shall revise its tariff to specifically define "residential customer" and "non-residential customer."

5. Burkesville shall give proper customer notification of the changes in the nonrecurring charges pursuant to KRS 278.180.

6. Burkesville shall publish notification of the nonrecurring charges in the newspaper of general circulation within its area of service, and the notice should be published once a week for 3 consecutive weeks.

7. Burkesville shall submit satisfactory evidence of publication of the customer notification and a new tariff.

Done at Frankfort, Kentucky, this 31st day of October, 2008.

By the Commission

ATTEST:

  
Executive Director

## APPENDIX A

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2008-00032 DATED OCTOBER 31, 2008

The following rates and charges are prescribed for the customers in the area served by Burkesville Gas Company, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

	<u>Base Rate</u>
Customer Charge	\$ 7.50
Residential	\$ 7.54 per McF
Industrial	\$ 7.19 per McF