

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF SENTRA)	CASE NO.
CORPORATION FOR AN ALTERNATIVE)	2020-00102
RATE ADJUSTMENT)	

ORDER

On April 3, 2020, Sentra Corporation (Sentra) filed an application with the Commission requesting to adjust its gas service rates pursuant to 807 KAR 5:076. After deficiencies to the application were cured, Sentra was notified via letter dated April 15, 2020, that the application was filed. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated April 27, 2020.

Sentra responded to five requests for information from Commission Staff (Staff). In its application, Sentra requested an approximate 74.70 percent rate increase, but did not provide its calculations to support the requested increase. The proposed rates would increase the monthly bill of a typical residential customer purchasing approximately 3.0 Mcf monthly by \$28.47, from \$18.11 to \$46.58, or approximately 157.21 percent.

On July 28, 2020, Staff issued a report (Staff Report) summarizing its findings regarding Sentra's requested rate adjustment. In the Staff Report, Staff found that Sentra's adjusted test-year operations support an overall revenue requirement of \$496,380 and that an annual revenue increase of \$155,178, or 118.27 percent, is necessary to generate the overall revenue requirement.

On August 10, 2020, Sentra filed with the Commission its comments on the Staff Report, wherein it accepted Staff's recommended revenue requirement and rates, but requested an informal conference be held to clarify issues Sentra identified with the Staff Report. Additionally, Sentra commented that it believed there was an error in Staff's calculation of the revenue requirement shown on page 13 of the Staff Report, which involved the pro forma adjustments to remove revenues and expenses related to Sales to Clay Gas, and the reduction in the calculation of the revenue requirement of \$208,026.¹

On November 25, 2020, Sentra filed notice that it planned to implement its proposed rates on and after November 26, 2020. Sentra also stated that it would maintain its records in a manner to enable it, or the Commission, to determine the amounts to be refunded and to whom a refund is due if the Commission were to order rates that differed from Sentra's proposed rates and ordered the issuance of a refund.²

BACKGROUND

Sentra is a gas utility that owns and operates a gas distribution system through which it provides retail gas service to approximately 210 retail customers that reside in Monroe County, Kentucky.³ Sentra's last application for rate adjustment was in 2016.⁴

¹ Sentra Corporation's Response to Commission Staff Report at 1–2.

² Sentra's Notice of Implementation of Proposed Rates at 1.

³ *Annual Report of Sentra Corporation c/o Sentra Resources to the Public Service Commission for the Calendar Year Ended December 31, 2019* (Annual Report) at 9 and 26.

⁴ Case No. 2016-00384, *Application of Sentra Corporation for Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Sept. 14, 2017).

TEST PERIOD

The calendar year ended December 31, 2019, was used as the test year to determine the reasonableness of Sentra's existing and proposed gas rates as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

Based on the Staff Report, Sentra's pro forma operational revenue is as follows:⁵

	<u>2019 Test Year</u>	<u>Pro Forma Adjustments</u>	<u>Staff Pro Forma Operations</u>
Operating Revenues	\$ 402,946	\$ (265,753)	\$ 137,193
Operating Expenses	<u>592,358</u>	<u>(155,544)</u>	<u>436,814</u>
Net Operating Income	(189,412)	(110,209)	(299,621)
Discounts Earned	<u>42</u>	<u> </u>	<u>42</u>
Income Available for Debt Service	<u>\$ (189,370)</u>	<u>\$ (110,209)</u>	<u>\$ (299,579)</u>

REVENUE REQUIREMENT ADJUSTMENTS

Billing Analysis Adjustment. In the Staff Report, Staff recommended the Commission increase test-year revenues by \$20,072 based on Sentra's current billing analysis subsequent to the removal of Sales to Clay Gas and the revenue from the Gas Cost Recovery Rate (GCR).⁶ The Commission finds that this adjustment meets the ratemaking criteria of being known and measurable and reasonable and should be approved.

⁵ See Appendix A for a complete pro forma.

⁶ Staff Report at 8, Adjustment A.

Sales to Clay Gas. In the Staff Report, Staff recommended Sentra reclassify the net income from sales to Clay Gas separately from Sentra's retail revenue and expenses, resulting in net adjustments to the pro forma of \$208,026.⁷ The Commission finds that these reclassification adjustments meet the ratemaking criteria of being known and measurable and the resulting pro forma income and expenses are representative of Sentra's operations for retail sales and are reasonable.⁸

Sales Directly Attributed to Cost of Natural Gas. In the Staff Report, Staff recommended that the Commission remove Sales attributable to GCR rate revenue of \$108,935 from pro forma operations.⁹ The Commission finds that because GCR rate revenue is recovered through the GCR mechanism as provided in Sentra's tariff, it should be properly excluded from the calculation of the base rate revenue requirement, and therefore the adjustment proposed by Staff is reasonable.

Overcollection Due to GCR Rate Mechanism. In the Staff Report, Staff recommended the Commission further decrease Sales of Gas by an additional \$15,509 to reflect an overcollection in GCR rates that occurred in the test year.¹⁰ The Commission

⁷ *Id.*, Adjustment B.

⁸ 807 KAR 5:076. Alternative rate adjustment procedure for small utilities, Section (9). See also Case No. 2001-00211, *The Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue its Evidence of Indebtedness therefor; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, *Application of Northern Kentucky Water District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds* (Ky. PSC June 25, 2003); Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018); and Case No. 2019-00080, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of the City of Pikeville to Mountain Water District* (Ky. PSC Dec. 19, 2019).

⁹ Staff Report at 9, Adjustment C.

¹⁰ *Id.*, Adjustment D.

finds that this adjustment is a known and measurable change to Sales, is reasonable, and should be accepted.

Disconnection and Reconnection Charges. In the Staff Report, Staff recommended the Commission increase pro forma Service/Fee Income by \$418 to reflect the revision of Sentra's disconnection/reconnection charge, which Staff believed should be adjusted to \$44.00 each.¹¹ The Commission finds that the disconnection and reconnection charge should be revised to \$44.00 for each charge based on the as filed cost justification sheets, and that the recommended adjustment to pro forma operations is reasonable based on this revision.

Contractual Service Provided to Clay Gas. In the Staff Report, Staff recommended the Commission accept Sentra's proposed adjustment to Contractual Services that were provided to Clay Gas in the amount of \$14,369 to reflect an increase to payroll costs for services provided each month per Sentra's contractual agreement with Clay Gas.¹² The Commission finds that this adjustment is reasonable and notes that as explained in the Staff Report, these amounts were removed for ratemaking purposes with the reclassification adjustment made in Staff's Adjustment (B) to correctly record net income from sales to Clay Gas.¹³

Cost of Natural Gas. In the Staff Report, Staff recommended the Commission adjust pro forma expenses in the amount of \$233,357 for the cost of natural gas, as the

¹¹ *Id.* at 8–9, Adjustment E.

¹² *Id.* at 11, Adjustment F.

¹³ *Id.* at 8, Adjustment B.

costs are recovered through the GCR mechanism as provided in Sentra's tariff.¹⁴ The Commission finds that this adjustment is reasonable and should be accepted.

Salaries and Wages – Office Manager. In the Staff Report, Staff recommended an increase to pro forma operations of \$47,175 to annualize the weekly salary of an employee hired in December of the test period.¹⁵ The Commission finds that this adjustment is known and measurable and reasonable and should be accepted.

Miscellaneous Expenses. In the Staff Report, Staff recommended an adjustment to reduce Sentra's test-year Miscellaneous Expense by \$194. Based on a review of Sentra's 2019 general ledger, Staff discovered expenses reported for an office outing hosted by Sentra Resources and late payment penalties paid to US Bank and the Kentucky State Treasurer.¹⁶ The Commission finds that this adjustment is reasonable on the grounds that these expenses are not required for the provision of gas service to Sentra's customers and should be accepted.

Amortization of Rate Case Expense. In the Staff Report, Staff recommended the Commission accept Sentra's proposed adjustment to increase Professional Expense by \$5,417 for rate case expenses incurred as a result of this proceeding.¹⁷ The Commission finds that this adjustment is reasonable and should be accepted.

Amortization. In the Staff Report, Staff recommended the Commission accept Sentra's proposed adjustment to reduce test-year amortization by \$6,443 for state taxes

¹⁴ *Id.* at 11, Adjustment G.

¹⁵ *Id.*, Adjustment H.

¹⁶ *Id.* at 12, Adjustment I.

¹⁷ *Id.*, Adjustment J.

withheld that were not yet remitted.¹⁸ The Commission finds that this adjustment is reasonable and should be accepted.

REVENUE REQUIREMENT

The Commission notes that while it accepts the findings of Staff's recommended adjustments to pro forma operations, the issue of the revenue requirement calculation brought to the Commission's attention through Sentra's comments must be addressed. The Commission acknowledges Staff's error in the calculation of the Revenue Requirement as presented in the Staff Report with respect to the reduction in the Revenue Required from Rates of \$208,026. While Sentra stated its acceptance of the recommended rates calculated in the Staff Report despite the noted error, the Commission believes that Sentra's operations would be significantly impaired if the Commission were to authorize the recommended increase of \$155,178 as requested by Sentra. Therefore, the Commission finds that the recommended increase to base rates of \$155,178 should be approved for one year after the date of this Order, and then rates should be adjusted to reflect a revised Revenue Requirement that takes into account the error in the Staff Report. As a result of these revisions, Sentra requires an increase in revenues of \$363,205, or 276.82 percent above pro forma present rate revenues as shown below:

¹⁸ *Id.*, Adjustment K.

Pro Forma Operating Expenses	\$ 436,814
Divide by: Operating Ratio	<u>88%</u>
Overall Revenue Requirement	496,380
Plus: 5-Year Average Interest Expense on Indebtedness	4,060
Less: Service Fee Income	(5,986)
Discounts Earned	<u>(42)</u>
Revenue Required from Rates	494,412
Less: Pro Forma Present Rate Service Revenues	<u>(131,207)</u>
Required Revenue Increase	<u>\$ 363,205</u>
Adjusted Percentage Increase	<u>276.82%</u>

RATE DESIGN

The Commission finds that based on the results of Staff's analysis of Sentra's rates and in the absence of a cost of service study, the across-the-board method as proposed by Staff is an appropriate and equitable method to allocate the increased cost to Sentra's customers. The Commission finds that the rates set forth in Appendix B to this Order are based upon the revenue requirement contained in the Staff Report, are reasonable for the first year following this Order, and will produce revenues sufficient for Sentra to operate safely. The Commission finds that the Phase 2 rates set forth in Appendix C to this Order are based on the adjusted revenue requirement as described in the paragraphs above, and are reasonable and necessary for Sentra to provide safe, reliable, and adequate service to its customers on a going forward basis, one year from the date of this Order. The Phase 1 rates in Appendix B will increase a typical residential customer's monthly gas bill from \$18.11 to \$40.66, an increase of \$22.55, or approximately 124.51 percent. The Phase 2 rates in Appendix C will increase a typical residential customer's

monthly gas bill from \$40.66 to \$68.45, an increase of \$27.79, or approximately 68.33 percent.

In addition to the findings regarding the rate design set out above, the Commission finds that the rates placed into effect on November 26, 2020, as set forth in Sentra's notice it filed with the Commission are different from the rates approved in the rate schedules in this case, and that any difference between the Phase 1 rate, and the rates implemented in Sentra's November 25, 2020 notice, should be refunded accordingly.

MODIFICATION TO TARIFF REGARDING LATE PAYMENT PENALTIES

During the Commission's review of the record of this case and Sentra's tariff, it has come to the Commission's attention that Sentra has questionable language regarding its policy on late payment penalties to commercial customers. The tariff as written states:

A late payment penalty of five (5%) may be assessed, only once on any bill for rendered services, excluding Residential Customers, if a Customer fails to pay the bill by due date shown on Customer's bill. Any payment received will first be applied to the bill for service rendered. Additional penalty charges shall not be assessed on unpaid penalty charges.¹⁹

The Commission finds that the use of the word "may" in Sentra's tariff is unreasonable and allows Sentra discretion with regard to whether it can assess late payment penalties. KRS 278.170(1) prohibits unreasonable differential rate treatment of customers of the same class, and the use of "may" opens up the possibility that one commercial customer would be required to pay a late payment penalty while another similarly situated commercial customer under identical circumstances may not have to pay the late payment penalty. Sentra's tariff does not sufficiently describe under what circumstances a commercial customer would have to pay, or be excused from paying, a

¹⁹ Sentra Corporation Tariff, Sheet No. 21.

late payment penalty. Therefore, the Commission finds that Sentra should revise its tariff to either explain in greater detail the circumstances under which a commercial customer would be required to pay a late payment penalty, and when it would be excused, or Sentra should replace “may” with “shall.”

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The recommendations contained in the Staff Report are supported by the evidence of record, are reasonable, and as noted above are adopted.
2. The gas service rates proposed by Sentra are denied.
3. The gas service rates set forth in the Appendix B to this Order are fair, just and reasonable and are approved for service rendered on and after the date of this Order.
4. The Phase 2 gas service rates set forth in Appendix C to this Order are fair, just and reasonable and are approved for service rendered one year from the date of this Order.
5. Sentra should file notice to its customers in the style set forth in Appendix D to this Order one month before the effective dates of the Phase 2 gas rates approved herein.
6. Sentra should refund any difference between the Phase 1 rates and the rates implemented in Sentra’s November 25, 2020 notice to the Commission billed to its customers.
7. Sentra should modify its tariff relating to late payments for commercial customers.

IT IS THEREFORE ORDERED that:

1. The adjustments and recommendations contained in this Order are adopted.
2. The gas service rates proposed by Sentra are denied.
3. The rates set forth in the Appendix B to this Order are approved for service rendered by Sentra on and after the date of this Order.
4. The Phase 2 gas service rates set forth in Appendix C are approved for service rendered one year from the date of this Order.
5. Within 20 days of the date of this Order, Sentra shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.
6. Within 20 days of the date of this Order, Sentra shall file with this Commission, using the Commission's electronic Tariff Filing System, a revised tariff sheet for late payment penalties for commercial customers.
7. Sentra shall refund any difference between the Phase 1 rates and the rates implemented in Sentra's November 25, 2020 notice to the Commission billed to its customers.
8. Within 20 days of the date of this Order, Sentra shall file in this case a statement detailing the amounts billed to customers in excess of the Phase 1 authorized in this Order with totals for each type of charge separately stated.

9. One month prior to the effective date of the Phase 2 rates, Sentra Corporation shall publish a notice with the rate schedule as set forth in Appendix D to this Order.

10. This case is closed and removed from the Commission's docket.

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By the Commission



ATTEST:

A handwritten signature in blue ink that reads "Linda C. Bidwell". The signature is written in a cursive style and is positioned above a horizontal line.

Executive Director

Case No. 2020-00102

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2020-00102 DATED FEB 12 2021

	2019 Test Year	Adjustment	(Ref.)	Staff Pro Forma
Operating Revenues				
Sales of Gas	\$ 375,509	\$ 20,072	(A)	
		(139,930)	(B)	
		(108,935)	(C)	
		(15,509)	(D)	\$ 131,207
Service/Fee Income	5,568	418	(E)	5,986
Management Fees	21,869	(21,869)	(B)	-
Total Operating Revenues	402,946	(265,753)		137,193
Cost of Goods Sold				
Supervisor Wages	63,372			63,372
Technician Wages	40,857			40,857
Payroll Taxes - Direct	9,074			9,074
Payroll Reimb from Clay Gas	(60,918)	(14,369)	(F)	
		75,287	(B)	-
Cost of Natural Gas	234,238	(233,357)	(G)	881
Job Supplies	4,774			4,774
Transport Fee - Clay Gas	29,060	(29,060)	(B)	-
Total Cost of Goods Sold	320,457	(201,499)		118,958
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages	136,918	47,175	(H)	184,093
Payroll Taxes - Office	13,372			13,372
Insurance and Workman's Comp	27,366			27,366
Transportation Expense	20,011			20,011
Other Supplies & Software	9,853			9,853
Miscellaneous Expenses	1,232	(194)	(I)	1,038
Taxes & Licenses	1,628			1,628
Rent & Lease	7,305			7,305
Professional Expense	40,033			40,033
Dues & Subscriptions	4,050			4,050
Repairs & Maintenance	125			125
Utilities	3,057			3,057
Retirement Contribution Matching	401			401
Total Operation and Maintenance Expenses	265,351	46,981		312,332
Amortization of Rate Case Expense		5,417	(J)	5,417
Amortization	6,550	(6,443)	(K)	107
Total Operating Expenses	271,901	45,955		317,856
Net Operating Income	(189,412)	(110,209)		(299,621)
Discounts Earned	42			42
Revenue from Transmission Sales	-	139,930	(B)	
		21,869	(B)	
		75,287	(B)	
		(29,060)	(B)	208,026
Income Available to Service Debt	\$ (189,370)	\$ 97,817		\$ (91,553)

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2020-00102 DATED FEB 12 2021

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

Monthly Gas Rates

Phase 1

Residential Customers		
Customer Charge	\$11.00	Minimum Bill
All Mcf	\$9.888	per Mcf
Non-Residential Customers		
Customer Charge	\$25.00	Minimum Bill
First 50 Mcf	\$9.888	per Mcf
Over 50 Mcf	\$7.888	per Mcf
Nonrecurring Charge		
All Customers		
Disconnection	\$44.00	
Connection/Reconnection	\$44.00	

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2020-00102 DATED FEB 12 2021

The following rates and charges are prescribed for the customers in the area served by Sentra Corporation on and after the first anniversary of the date of this Order. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Gas Rates

Phase 2

Residential Customers		
Customer Charge	\$18.00	Minimum Bill
All Mcf	\$16.815	per Mcf
Non-Residential		
Customers		
Customer Charge	\$35.00	Minimum Bill
First 50 Mcf	\$16.815	per Mcf
Over 50 Mcf	\$14.815	per Mcf

APPENDIX D

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2020-00102 DATED FEB 12 2021

NOTICE TO THE CUSTOMERS OF
SENTRA CORPORATION

On April 14, 2020, the Kentucky Public Service Commission (PSC) accepted for filing Sentra Corporation's (Sentra) application requesting to increase its revenue from gas sales by \$181,621, approximately 74.70% increase. After performing a review of Sentra's application and records, the PSC Staff recommended that Sentra be granted an increase in gas service revenues of approximately \$155,178. In response to the PSC Staff Report of July 28, 2020, on August 10, 2020, Sentra requested the PSC approve the PSC Staff recommended revenue requirement and that Sentra be allowed to implement the revised rates but also notified Commission Staff of a potential error in Staff's calculation, resulting in an incorrect reduction of the revenue requirement of \$206,026. The Commission reviewed the information in the filing, agreed with Sentra, and established a revenue requirement of \$494,412, or a 276.82% increase. The Commission further found that the rates should be phased in and established that Phase 1 rates should be the rates recommended by Staff's Report. The following shows the impacts of the Phase 2 rates:

	Phase 1	Phase 2	Dollar Increase	Percentage Increase
Residential				
Customer Charge	\$11.00 Minimum Bill	\$18.00 Minimum Bill	\$7.00	63.64%
Volumetric	9.888 Per Mcf	16.8150 Per Mcf	6.927	70.05%
Non-Residential				
Customer Charge	25.00 Minimum Bill	35.00 Minimum Bill	\$10.00	40.00%
First 50 Mcf	9.888 Per Mcf	16.8150 Per Mcf	6.927	70.05%
Over 50 Mcf	7.888 Per Mcf	14.815 Per Mcf	6.927	87.82%

This filing may be examined at the offices of Sentra located at 112 Orchard Lane in Tompkinsville, Kentucky.

This filing may also be examined at the offices of the Public Service Commission located at 211 Sower Boulevard in Frankfort, Kentucky, Monday–Friday from 8:00 a.m.–4:30 p.m. or on the PSC website at <http://psc.ky.gov>.

A copy of the PSC Staff report can be found at the following address:
https://psc.ky.gov/pscscf/2020%20Cases/2020-00102//20200728_STAFF_REPORT.pdf

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