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PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE FILING ADJUSTMENT)
APPLICATION OF JOHNSON COUNTY GAS) CASE NO. 2012-140
COMPANY)

RESPONSES TO STAFF'S SECOND REQUEST FOR
INFORMATION TO JOHNSON COUNTY GAS COMPANY

Comes the applicant, Johnson County Gas Company, and hereby respectfully submits its Responses To Staff's Second Request For Information To Johnson County Gas Company:

1. Refer to Johnson County's responses to Item 1 of Commission Staff's First Request for Information ("Staff's First Request").

a. Based on the response that the information in its billing analysis is correct and corresponds to its amended Annual Report, confirm that Johnson County's Billing Analysis shows that its proposed rates will produce an increase in revenues over its current rates of \$47,821.28 (the difference between \$106,433.95 revenues at current rates and \$154,255.23 at proposed rates).

b. Reconcile Johnson County's proposed rates and the revenues they produce with the \$96,722 required revenue increase shown on ARF Form-1, Revenue Requirement Calculation - Operating Ratio Method in Johnson County's application.

RESPONSE:

a. **The Billing Analysis does show that proposed rates will produce an increase in**

revenues over current rates of \$47,821.28. However, please see the response to Item 2 for a full explanation of the amended request of Johnson County Gas Company for an increase in rates, and a change in rate design, that will provide sufficient revenues for the company to meet its current expenses and provide gas delivery service to its customers. This amended request completely supplants the original request for increase in rates and makes the information previously submitted in the Billing Analysis irrelevant.

- b. Please see the response to Item 2 for a full explanation of the amended request of Johnson County Gas Company for an increase in rates, and a change in rate design, that will provide sufficient revenues for the company to meet its current expenses and provide gas delivery service to its customers. This amended request completely supplants the original request for increase in rates and makes the information previously submitted in ARF Form-1 irrelevant.

2. The response to Item 2 of Staff's First Request indicates that Johnson County must recover \$182,417 annually plus \$39,000 (a total of \$221,417).

- a. Explain how Johnson County proposes to recover the difference between \$221,417, or \$182,417, and the \$154,255 produced by its proposed rates.

- b. Within the context of the information provided in Johnson County's ARF Form-1 and Billing Analysis, explain how the proposed minimum bill change from 1 Mcf to 2 Mcf produces \$18,100.

- c. The response states that the \$39,000 for debt service to Johnson County's creditors required in its Plan of Reorganization "probably should be treated as a separate, line-item surcharge." State whether it is Johnson County's intent to incorporate a surcharge into its

rate proposal, in addition to its proposed rates. If so, provide the amount of the proposed surcharge and its calculation.

RESPONSE:

- a. **Johnson County Gas Company has produced an annual budget for the Commission which indicates that total annual overhead expenditures would equal \$182,417. This included a proposed management fee to Bud Rife in the amount of \$7,000 per month or a total of \$84,000 annually. By this current filing and proposed rate structure (see below), Johnson County Gas Company proposes to lower Mr. Rife's management fee to \$6,000 per month, for a total of \$72,000. This would lower the annual overhead expenditure to \$170,417.**
- b. **Johnson County Gas Company proposes a new rate structure made up of the following components:**
 - i. **A customer charge of \$15.00 per meter per month for all residential and commercial meters. Based on the test year, there were 3,660 bills sent to residential and commercial customers. At \$15.00 per meter per month, this would produce \$54,900 in revenue.**
 - ii. **During the 2011 calendar test year, Johnson County Gas Company delivered and billed approximately 16,316 mcf to its customers (15,165 mcf to residential customers and 1,151 mcf to commercial customers). However, during the year beginning October 1, 2011, and ending September 30, 2012, gas sales were down approximately 22% below the 2011 test year, totaling only 12,674 mcf in 12 months ending September 30, 2012. This reduction was primarily the result of a much warmer**

winter in 2011-2012 than in 2010-2011. Nevertheless, this reduction in usage is cause for concern in setting a rate per mcf that will allow Johnson County Gas Company to recover its costs and earn a reasonable rate of return (ROR). As a result, Johnson County Gas Company respectfully requests that the Commission use the actual results from October 1, 2011 to September 30, 2012 (Exhibit A consists of a spreadsheet showing the actual sales for this period) as the test year rather than calendar year 2011.

Using October 1, 2011 through September 30, 2012 as the test year, Johnson County Gas Company expects to sell 12,674 mcf to its customers (residential and commercial) annually. Annual operating expenses are budgeted at \$170,417 (see Response to Item 2(a) above). A reasonable rate of return is 9% of total revenues (not including recovery of gas cost), which equals \$15,338, bringing total revenue required (not including actual cost of gas purchased and surcharge to repay creditors – see below) to \$185,755. Accounting for collection of customer charges totaling \$54,900 (see Response to Item 2(b)(i) above), this leaves \$130,855 to be collected through rates. Assuming that Johnson County Gas Company sells 12,674 mcf to its customers annually, this would require a rate of \$10.3247 per mcf to cover operating expenses and ROR. This is the rate requested pursuant to this filing.

- c. Pursuant to its Reorganization Plan filed with the United States Bankruptcy Court, Johnson County Gas Company will need to repay its creditors \$39,000

annually for five years, for a total of \$195,000. Johnson County Gas Company proposes that this be collected through a surcharge on all customer bills. Using 12,674 mcf to set the surcharge (number of mcf sales annually, using October, 2011 through September, 2012 as test year), this means that a surcharge in the amount of \$3.0772 per mcf will need to be collected to repay creditors in the Bankruptcy Plan of Reorganization. Johnson County Gas Company proposes that this surcharge be approved by the Commission.¹

3. Refer to the response to Item 5 of Staff's First Request
 - a. Confirm that the majority of Johnson County's system supply comes from Bradco Oil Company ("Bradco") and Hall, Stephens, & Hall and that, pursuant to the most recently negotiated contracts with those suppliers as provided in Case No. 2012-00227,² the price of gas from both of these suppliers is \$6.00 per Mcf.
 - b. State whether Johnson County is currently receiving invoices for the gas supplied by Hall, Stephens, & Hall. If yes, provide all invoices received. If not, explain when and how Johnson County expects to be billed and how it expects to recover the cost of this gas supply.
 - c. State whether Johnson County has paid all invoices received from Bradco, EQT Gathering, LLC., and Columbia Gas Transmission, LLC.

RESPONSE:

- a. This information is correct.**
- b. Invoices from Hall, Stephens & Hall for the period July 1, 2011 to September 30, 2012 are included in the GCA filing submitted simultaneously in Case No. ____.³**

¹ A summary of the present rates and the proposed rates is attached hereto as Exhibit B.

² Case No. 2012-00227, Purchased Gas Adjustment Filing of Johnson County Gas Company (filed June 4, 2012)

³ A copy of these invoices will be submitted for inclusion in this record upon receipt by counsel.

4. Refer to Johnson County's response to Item 6 of Staff's First Request and the first two general ledger pages attached thereto. Provide the following information.

a. The date Johnson County moved its office to its present location.

b. The response states that Johnson County and B & H Gas Company ("B & H") each pay \$1,000 per month to rent a building owned by Mr. Rife. Provide the square footage of the building.

c. Provide a description of the building's interior and how Johnson County utilizes the space (i.e., the number of rooms, the number of desks, the office equipment, the number of persons who work in the building, etc.).

d. The total amount of expense reported by Johnson County was for rent and the leases of trucks, according to part a. of the response. Identify the trucks leased by Johnson County and from whom they are leased.

RESPONSE:

a. July, 2011

b. Approximately 5,175 square feet.

c. Johnson County Gas Company shares the office building with B & H Gas

Company. Johnson County Gas Company has the use of four desks, one for the use of Renea Tackett, one for the use of Bud Rife, one for the use of Rosa McCoy and one for the use of visitors. Each desk is equipped with a telephone and the file cabinets used by Johnson County Gas Company. There is also a kitchen for the use of employees and visitors. In addition, there is a large warehouse where meters, pipe and other items used in the business of delivering gas is warehoused. This portion of the building has two large garage doors capable of

permitting entry by the trucks used by Johnson County Gas Company, as well as forklifts and other equipment needed. The entire building, including the warehouse is heated and cooled centrally. Heat is provided free of charge by Bud Rife. Four persons work in the building, including Renea Tackett, Rosa McCoy, Bud Rife, and Duane Bryant.

d. At present, Johnson County Gas Company leases from Bud Rife the following vehicles; 1999 Chevy One Ton Utility Truck used to transport meters, pipeline, etc., and a 2007 Chevy Tahoe used for transportation of the manager and employees (both vehicles shared 50-50 with B & H Gas Company).

5. Refer to the response to Item 7 of Staff's First Request, which in part d. asked for the compensation Mr. Rife received in 2011 from the other entities he owns.

a. The response did not indicate what compensation Mr. Rife received in 2011 from B & H. Provide the requested information.

b. B & H's 2011 annual report filed with the Commission does not specifically show the amount of Mr. Rife's compensation; however, based on the levels of expense reported for various accounts, it is evident that the amount would be much less than the \$84,000 annual management fee he receives from Johnson County.

(1) Provide a detailed description of the specific functions, tasks, and duties that Mr. Rife performs for Johnson County.

(2) According to their annual reports, Mr. Rife is the president of both Johnson County and B & H. Explain the difference in the level of compensation that he receives from each utility.

c. The response states: "B & S Oil and Gas is a sole proprietorship so no wages were derived by Bud Rife from this entity." The request was not for wages; it was for compensation. Provide the amount of the net earnings, management fee, or other type of compensation Mr. Rife received from B & S Oil and Gas in 2011.

RESPONSE:

- a. **\$22,950 reported as W-2 income.**
- b. **(1) Mr. Rife oversees all functions of Johnson County Gas Company, including safety, for which he is trained and certified, and management of all functions, including meter reading, billing, repairs and maintenance. Through his management contract, Mr. Rife provides secretarial assistance (Renea Tackett's overtime and Rosa McCoy) without charging Johnson County Gas Company for the associated salary, benefits, workers compensation, unemployment insurance, social security and Medicare contributions or other expenses associated with an employee. If these secretarial expenses were charged directly to Johnson County Gas Company, it would amount to approximately \$45,000 per year. In addition, Mr. Rife oversees all legal proceedings for the company, including PSC filings, matters related to disconnection of customers for non-payment (including physically going to accomplish the disconnect and swearing out warrants if threatened with physical harm), Bankruptcy filings, and collection actions. Mr. Rife also personally participates in locating gas leaks on any Johnson County Gas Company line and delivers meters to a testing facility for testing. He also provides staff assistance to customers regarding the federal LIHEAP program.**
(2) Mr. Rife is President of both Johnson County Gas Company and B & H.

Unlike Johnson County Gas Company, B & H has an employee, Renae Tackett (works full-time for B&H and overtime for Johnson County Gas Company, which is not paid by B&H but by Bud Rife Construction Company). Therefore, Mr. Rife does not need to charge as high a management fee for B & H as he does for Johnson County Gas Company, in order to provide the same level of service. Other expenses paid directly by B & H which are included in Mr. Rife's management fee received from Johnson County Gas Company are reading of meters, banking, secretarial, odorization, and valve maintenance.

c. According to the Schedule C to Mr. Rife's personal income tax return, federal form 1040, the net profit of B & S Oil & Gas Company in 2011 was \$5,637.

6. Refer to the response to Item 8 of Staff's First Request, which confirms that Johnson County's telephone expense in 2011 was \$5,595. Provide a description of Johnson County's telecommunication service, stating all features.

RESPONSE:

a. Johnson County Gas Company has its own telephone line for the office with one land line and a shared fax line. The expense is particularly high because the office is located in Floyd County but the customers have a local Johnson County number to all in on. In addition, Johnson County Gas Company shares internet service with B & H Gas Company through the telephone system. Johnson County Gas Company also shares the expenses of 5 cell phones used by Bud Rife and 4 employees with B & H Gas Company and Bud Rife Construction Company.

VERIFICATION

I Bud Rife, do hereby state that I have read all of the foregoing Responses to Staff's Second Request For Information To Johnson County Gas Company, Inc. and each answer was made by me and is correct and accurate to the best of my recollection and belief.




BUD RIFE

COMMONWEALTH OF KENTUCKY)
COUNTY OF FAYETTE)

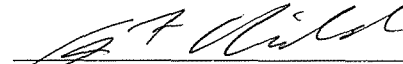
Subscribed and sworn to before me by Bud Rife on this the 5th day of December, 2012.

My commission expires: 11/2/2014



NOTARY PUBLIC, STATE AT LARGE
NOTARY ID NO. 431149

Respectfully submitted,



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**JOHNSON COUNTY GAS COMPANY
REVISED PROPOSED RATES**

<u>Item</u>	<u>Current Rate</u>	<u>Proposed Rate</u>	<u>Rev. Produced</u>
Customer Charge	\$0		
Customer Charge		\$15 per month	\$54,900
Rate per mcf (Current)			
First mcf (res.)	\$6.9542		\$24,131.07
Over first mcf (res.)	5.9542		75,046.74
All mcf (comm.)	6.3042		<u>7,256.13</u>
Total Current Revenue			\$106,433.95
Rate per mcf (Proposed)			
All mcf (res. & comm.)		\$10.3247	\$130,855.09
Surcharge (5 yrs)			
Per mcf	\$0	\$3.0772	\$39,000 per year

Exhibit B

JOHNSON COUNTY GAS COMPANY'S SALES FOR PERIOD OCTOBER 1, 2011 TO SEPTEMBER 30, 2012

	<u>Oct-11</u>	<u>Nov-11</u>	<u>11-Dec</u>	<u>12-Jan</u>	<u>12-Feb</u>	<u>12-Mar</u>	<u>12-Apr</u>	<u>12-May</u>	<u>12-Jun</u>	<u>12-Jul</u>	<u>12-Aug</u>	<u>12-Sep</u>	<u>Total</u>
Sales mcf	896	1,484	2,109	2,980	2,351	991	789	390	129	176	144	235	12,674

Exhibit A