

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PURCHASED GAS ADJUSTMENT FILING)	
OF WESTERN LEWIS-RECTORVILLE)	CASE NO.
WATER AND GAS)	2016-00191

ORDER

On May 12, 1993, in Case No. 1992-00331, the Commission approved rates for gas service for Western Lewis-Rectorville Water and Gas District (“Western Lewis”) and provided for their further adjustment in accordance with Western Lewis’s Gas Cost Adjustment (“GCA”) clause.¹

On May 31, 2016, Western Lewis filed its proposed Gas Cost Recovery (“GCR”) rate to be effective July 1, 2016. Western Lewis included with its application information concerning its Expected Gas Cost (“EGC”) projections as required by the Commission’s Order in Case No. 2016-00085,² as well as a request for Commission approval to change its method for calculating its Actual Adjustment (“AA”).

After reviewing the record in this case and being otherwise sufficiently advised, the Commission finds that:

1. Western Lewis’s notice includes revised rates designed to pass on to its customers its expected change in gas costs.

¹ Case No. 1992-00331, *The Application of Western Lewis-Rectorville for an Adjustment of Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC May 12, 1993).

² Case No. 2016-00085, *Purchased Gas Adjustment of Western Lewis-Rectorville Water and Gas* (Ky. PSC Mar. 11, 2016).

2. Western Lewis's notice sets out an EGC of \$8.1985 per Mcf. Western Lewis used an incorrect Mcf sales volume of 32,395 Mcf for the 12 months ended March 31, 2016, in its GCR rate calculations. Using monthly sales volumes of 29,395 Mcf as derived from Western Lewis's AA calculations, results in a corrected EGC of \$8.3448 per Mcf, which is a decrease of \$1.4226 per Mcf from its previous EGC of \$9.7674 per Mcf.

With regard to its EGC price projections received from Atmos Energy Marketing ("AEM") being significantly higher than the current and recent published futures prices of natural gas, Western Lewis explained that AEM started providing it with higher projected gas cost for its EGC following price spikes in early 2014. Western Lewis stated that the GCR rates it was charging its customers at that time were too low to recover its cost of gas, and AEM raised its EGC price projections it provided Western Lewis in order to help it quickly start recovering the higher gas cost. Western Lewis acknowledged that use of the higher than market projections has resulted in high negative AAs due to the actual cost of gas being lower than the EGC projections.

In Case No. 2016-00085, the Commission required Western Lewis to explain what changes can be made to its EGC estimates so that it more closely reflects the price it should reasonably expect to pay for natural gas, and so that it does not continue to pass such large over recoveries of gas cost through its AA calculation. Western Lewis responded in this proceeding that it can ask AEM to reduce its EGC price projections to market cost, but to do so gradually so that its large negative total AA does not reduce its GCR rate so low that it would have hardly any gas cost recovery from its customers.

The Commission finds Western Lewis's proposal to decrease its EGC to a market-based cost of gas to be reasonable. Based on Western Lewis's large negative AA, which will be even more significant due to over recoveries of gas cost for the AA quarter of January through March 2016, a gradual return to market-based EGC projections appears to be in order. Western Lewis should inform AEM that future EGC price projections should be supported by market-based gas cost no later than Western Lewis's GCR application to be filed for rates effective July 1, 2017.

3. Western Lewis's notice sets out no Refund Adjustment.

4. Western Lewis's notice sets out a current quarter AA of (\$2.9944) per Mcf. Correcting its calculation to reflect the correct 12-month sales volume produces a current quarter AA of (\$3.3000) per Mcf, and would result in a total AA of (\$5.3414) per Mcf.

In order to address the impact of the large negative current quarter AA on its GCR rate, which is exacerbated by the previous quarter's negative AA rates, Western Lewis requested Commission approval to deviate from its typical AA calculation methodology and to allow it to return its current quarter over recoveries over a 24-month period instead of the typical 12-month period. The Commission recognizes the impact that returning relatively large over recoveries over 12 months would have on Western Lewis's recovery of gas cost going forward, and possibly on its day to day operations. Given the large current quarter total AA resulting from the use of 12 months of sales volume, and the fact that such deviation is not precluded by its GCA tariff, the Commission finds that Western Lewis's request should be granted in order to avoid an adverse impact on its financial condition. Any future use of 24 months instead of 12

months of sales volumes in AA calculations must be specifically requested by Western Lewis and approved by the Commission.

Using sales volumes for the 24 months ended March 31, 2016, Western Lewis's current quarter AA is (\$1.3108) per Mcf. The resulting total AA is (\$3.3522) per Mcf, which is an increase of \$1.1728 per Mcf from its previous total AA of (\$4.5250) per Mcf.

5. Western Lewis's notice sets out a current quarter Balance Adjustment ("BA") of (\$.9366) per Mcf. Western Lewis incorrectly used the most recent expired AA of (\$2.4836) per Mcf in its calculations instead of using the appropriate expired AA of (\$.5727) per Mcf. A review of Western Lewis's application in Case No. 2016-00085 shows that Western Lewis included the expired (\$.5727) per Mcf AA in its BA calculation a quarter early for rates effective April 1, 2016. Likewise, in Case No. 2015-00392,³ Western Lewis included the expired (\$1.0005) per Mcf AA a quarter early in its BA calculation, instead of using a BA amount of \$0 to represent the GCA it failed to file for rates effective October 1, 2014. The effect of these two errors was a miscalculation of the amounts refunded to customers during the 12-month periods the individual expired AA components were included in rates.

Using the correct expired BA components and corresponding 12-month sales volumes in the calculations for the two previous cases results in additional over-recovery amounts of \$4,803 and \$5,417, respectively, which should be included in the current BA calculation. Dividing these amounts over sales of 29,395 Mcf for the 12-month period ended March 31, 2016, produces a current quarter BA of (\$.3477) per Mcf, which will appropriately return the total amount of remaining gas cost over

³ Case No. 2015-00392, *Purchased Gas Adjustment Filing of Western Lewis-Rectorville Water and Gas* (Ky. PSC Dec. 18, 2015).

recoveries to Western Lewis's customers. Western Lewis's corrected total BA is (\$.5482) per Mcf, which is a decrease of \$.3500 per Mcf from the previous total BA of (\$.1982) per Mcf.

In its application for rates effective October 1, 2016, Western Lewis should include the (\$2.4836) per Mcf expired previous quarter AA in its BA, and use sales for the 12-month period ended June 30, 2016, in its calculations.

6. Western Lewis's corrected GCR rate is \$4.4444 per Mcf, which is a decrease of \$.5998 per Mcf from the previous GCR rate of \$5.0442 per Mcf.

7. The rates set forth in the Appendix to this Order are fair, just, and reasonable and should be approved for service rendered by Western Lewis on and after July 1, 2016.

8. In its next GCR filing for rates effective October 1, 2016, Western Lewis should include verification that it communicated to AEM that it should no longer increase its EGC projections for Western Lewis as has been its practice since early 2014, and that AEM should begin to lower its projections closer to those indicated by the market for natural gas. Western Lewis should further attest that AEM is aware that Western Lewis's EGC projections should be market-based no later than June 1, 2017.

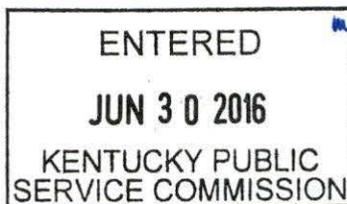
IT IS THEREFORE ORDERED that:

1. The rates proposed by Western Lewis are denied.
2. Western Lewis's request to use 24-month sales volumes in the calculation of its current quarter AA is approved.
3. The rates set forth in the Appendix to this Order are approved for service rendered by Western Lewis on and after July 1, 2016.

4. Within 20 days of the date of this Order, Western Lewis shall file with this Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets setting out the rates approved herein and reflecting that they were approved pursuant to this Order.

5. Western Lewis shall file the information required in finding paragraph 8 concurrent with the filing of its next application for GCR rates.

By the Commission



ATTEST:

A handwritten signature in blue ink, appearing to read "Aaron D. Gunnell".

Acting Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2016-00191 DATED **JUN 30 2016**

The following rates and charges are prescribed for the customers in the area served by Western Lewis-Rectorville Water and Gas District. 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.

RETAIL RATES:

Customer Charge \$1.00 per month

Monthly usage

	<u>Base Rate</u>	<u>Gas Cost Recovery Rate</u>	<u>Total</u>
First 1,000 cubic feet or less (Minimum Bill)	\$3.9883	\$4.4444	\$8.4327
Next 4,000 cubic feet per 1,000 cubic feet	1.4565	4.4444	5.9009
Next 5,000 cubic feet per 1,000 cubic feet	1.3970	4.4444	5.8414
Over 10,000 cubic feet per 1,000 cubic feet	1.2228	4.4444	5.6672

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