

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF THE GAS COSTS OF SENTRA	)	
CORPORATION PURSUANT TO KRS 278.2207, THE	)	
WHOLESALE GAS PRICE IT IS CHARGED BY ITS	)	
AFFILIATE, MAGNUM HUNTER PRODUCTION, INC.	)	CASE NO.
PURSUANT TO KRS 278.274, AND THE STRUCTURE	)	2016-00139
OF THE PURCHASED GAS ADJUSTMENT CLAUSE	)	
CONTAINED IN ITS FILED TARIFF	)	

ORDER

This proceeding was initiated April 8, 2016, to investigate Sentra Corporation's ("Sentra") gas costs pursuant to KRS 278.2207, the wholesale gas price it is charged by its affiliate, Magnum Hunter Production, Inc. ("MHP") pursuant to KRS 278.274, and the structure of the purchased gas adjustment ("PGA") clause in its approved tariff.<sup>1</sup> Sentra is a local gas distribution company ("LDC") subject to Commission jurisdiction pursuant to KRS 278.010(3)(b). The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"), is the only intervenor in this proceeding.

Sentra responded to the information request in Appendix B of the Order which opened this proceeding, one request for information from Commission Staff ("Staff"), and two requests for information from the AG. It participated in an informal conference ("IC") held shortly after the AG was granted intervention.<sup>2</sup> Neither party requested a formal hearing; accordingly, this matter is being decided based on the existing record.

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<sup>1</sup> The Order opening this investigation required that Sentra collect the gas cost component of its rates subject to refund for bills rendered after the date of that Order until further Order of the Commission.

<sup>2</sup> The IC, scheduled at Sentra's request, was held on May 12, 2016.

## BACKGROUND

In 2007, a time of very high natural gas market prices, the Commission approved increases in several LDCs' PGAs to amounts in excess of \$10.00 per Mcf. An increase in Sentra's PGA to \$12.5306 per Mcf was approved in Case No. 2007-00120.<sup>3</sup> Since it was first approved in 1998, Sentra's PGA clause has contained provisions on how to address an increase in its wholesale gas cost and the information it must file with the Commission in order to receive approval to pass an increase on to its customers. Its PGA clause, however, contains nothing that addresses decreases in its wholesale gas cost. Largely due to the absence of such a provision in Sentra's PGA clause, its PGA has remained unchanged at \$12.5306 since 2007.

Sentra's wholesale gas supplier for many years has been its affiliate, MHP. The fact that its supplier is an affiliate causes Sentra's gas supply to fall within the scope of two Commission statutes, KRS 278.2207(1)(b) and KRS 278.274(3)(c) and (d). The first of these statutes requires that:

Services and products provided to the utility by an affiliate shall be priced at the affiliate's fully distributed cost but in no event greater than market or in compliance with the utility's existing USDA, SEC, or FERC approved cost allocation methodology.

KRS 278.274(3)(c) and (d) state:

(3)(c) If the commission determines that the rates charged by the utility are not just and reasonable in that the cost of natural gas purchased from the affiliated company is unjust and unreasonable, the commission may reduce the

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<sup>3</sup> Case No. 2007-00120, *The Notice of Purchased Gas Adjustment Filing of Sentra Corporation* (Ky. PSC Apr. 19, 2007).

purchased gas component of the utility's rates by the amount deemed to be unjust or unreasonable.

(3)(d) The commission may also reduce the rate charged by the affiliated company by the same amount.

During the May 12, 2016 IC, Sentra indicated that it had decreased its rates twice during the months leading up to the opening of this investigation: first, in December 2015, and again in April 2016,<sup>4</sup> both times without filing a new tariff or any other notice with the Commission. These were described as efforts to pass on to customers the lower wholesale gas costs Sentra was incurring.<sup>5</sup>

Subsequent to the IC, Sentra filed a new PGA clause tariff via the Commission's electronic Tariff Filing System with a July 1, 2016 effective date. The clause is similar to the PGA clause tariffs of other LDCs under the Commission's jurisdiction.<sup>6</sup> By Order dated June 10, 2016, the Commission entered the tariff in the record of this proceeding and suspended it for five months, from July 1, 2016, to December 1, 2016.<sup>7</sup>

### DISCUSSION

Sentra has indicated its willingness to revise its PGA clause tariff so that it will be responsible for making quarterly PGA filings which adjust the amount of its PGA up or

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<sup>4</sup> Sentra's representatives explained that residential and commercial rates were reduced from \$14.67 to \$12.00 per Mcf in December 2015, and to \$9.50 per Mcf in April 2016. Its industrial rates were reduced similarly; however, they were \$13.85 per Mcf prior to their being reduced.

<sup>5</sup> Given that its PGA clause contained no provision addressing how to deal with a decrease in wholesale gas costs, while acknowledging that rates were revised without Commission approval, Sentra's representatives stated that they were unable to discern the type of filing that could be made on behalf of Sentra to seek such approval.

<sup>6</sup> The proposed PGA clause tariff provided for quarterly filings by Sentra containing an expected gas cost which may include gas procured at fixed prices, forward prices, and indexed prices.

<sup>7</sup> The June 10, 2016 Order offered the AG an opportunity to comment or conduct discovery on the tariff within 14 days of the date of the Order. The AG did not avail itself of this opportunity.

down in order to reflect increases or decreases in its wholesale cost of gas. Sentra has also indicated that it anticipates filing for an increase in its base rates pursuant to 807 KAR 5:076, the Alternative Rate Filing ("ARF") procedure available to small utilities, with an anticipated timeframe for the ARF filing of August 2016. Sentra has been cooperative with the Commission, the AG, and Staff during this investigation. Prior to the opening of this proceeding, it reduced rates to its customers in order to recognize lower wholesale gas costs it had been incurring, although no tariffs were ever filed reflecting the lower rates.

Although the rate changes it made without filing tariffs and notice to the Commission reduced rates, which benefitted its customers, such rate changes by Sentra violated KRS 278.160 and KRS 278.180. However, given that the changes worked to the advantage of Sentra's customers and considering Sentra's explanation for making the rate changes in the manner they were made, it appears that the changes were well intended.

#### FINDINGS

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

1. The proposed PGA clause submitted by Sentra and placed in the record of this proceeding which requires that it make quarterly filings to reflect future changes in its wholesale gas, be they increases or decreases, is reasonable and should be approved.

2. Sentra should file an application pursuant to the PGA mechanism approved herein no later than October 1, 2016, for rates proposed to be effective

November 1, 2016. Using the provision for an Interim Gas Cost Adjustment contained in its PGA clause, Sentra has the ability to file an earlier application to establish an Expected Gas Cost (“EGC”) that can be supported by current market conditions for natural gas, and the Commission encourages it to do so. The suggested format for its application is attached as an Appendix to this Order. Support for the EGC proposed should be attached as an addendum to its application.

3. Sentra should timely file an application pursuant to the ARF procedure available to small utilities in order to confirm that its base rates accurately reflect its current financial condition.

4. On two occasions prior to the opening of this proceeding, Sentra reduced its rates to its customers with the outcome being to effectively reduce the PGA component of its rates to \$7.36 per Mcf.<sup>8</sup>

5. Sentra’s two rate reductions were made without filing tariffs or notice with the Commission and were therefore in violation of KRS 278.160 and KRS 278.180. Sentra should be subject to fines of \$500 for each of its two violations. The fines, however, should be suspended on the condition that no like violations occur in the next 24 months, after which time the fines should be rescinded without further action by the Commission.

6. Within ten days of the date of this Order, Sentra should file a tariff setting forth the rates currently being charged to each customer class.

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<sup>8</sup> In two steps, Sentra reduced its total volumetric rate from \$14.67 to \$9.50 per Mcf, a decrease of \$5.17. Its filed PGA tariff includes an approved PGA amount of \$12.53. \$12.53 minus \$5.17 results in an effective PGA amount of \$7.36 per Mcf.

7. Given the reductions in rates implemented by Sentra prior to the opening of this investigation, no refunds of the amounts it collected subject to refund pursuant to the Order opening this proceeding should be required.

IT IS THEREFORE ORDERED that:

1. Sentra's proposed PGA clause tariff is approved.
2. As soon as possible, but no later than October 1, 2016, Sentra shall file a PGA application containing the information as set out in the form in the Appendix attached hereto in order to establish a market-based EGC for its gas cost rate.
3. Sentra shall notify the Commission within seven days of the date of this Order of its anticipated timeframe, including the latest foreseeable date, for filing an ARF application.
4. Sentra shall be subject to fines of \$500 for each of its two violations of KRS 278.160 and KRS 278.180. However, the fines shall be suspended on the condition that no like violations occur in the next 24 months, after which time the fines shall be rescinded without further action by the Commission.
5. Given the reductions in rates implemented by Sentra prior to the opening of this investigation, no refunds of the amounts it collected subject to refund pursuant to the Order opening this proceeding shall be required.
6. Within ten days of the date of this Order, Sentra shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets showing the rates currently charged to each customer class.

By the Commission

ENTERED  
**AUG 16 2016**  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2016-00139

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2016-00139 DATED **AUG 16 2016**



Company Name

Quarterly Report of Gas Cost  
Recovery Rate Calculation

Date Filed:

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Date Rates to be Effective:

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Reporting Period is Calendar Quarter Ended:

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SCHEDULE I

GAS COST RECOVERY RATE SUMMARY

<u>Component</u>	<u>Unit</u>	<u>Amount</u>
Expected Gas Cost (EGC)	\$/Mcf	
+ Refund Adjustment (RA)	\$/Mcf	
+ Actual Adjustment (AA)	\$/Mcf	
+ Balance Adjustment (BA)	\$/Mcf	
= Gas Cost Recovery Rate (GCR)		
GCR to be effective for service rendered from _____		to _____
<hr/>		
A. <u>EXPECTED GAS COST CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
Total Expected Gas Cost (Schedule II)	\$	
÷ Sales for the 12 months ended _____	Mcf	
= Expected Gas Cost (EGC)	\$/Mcf	
B. <u>REFUND ADJUSTMENT CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
Supplier Refund Adjustment for Reporting Period (Sch. III)		
+ Previous Quarter Supplier Refund Adjustment	\$/Mcf	
+ Second Previous Quarter Supplier Refund Adjustment	\$/Mcf	
+ Third Previous Quarter Supplier Refund Adjustment	\$/Mcf	
= Refund Adjustment (RA)	\$/Mcf	
C. <u>ACTUAL ADJUSTMENT CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
Actual Adjustment for the Reporting Period (Schedule IV)	\$/Mcf	
+ Previous Quarter Reported Actual Adjustment	\$/Mcf	
+ Second Previous Quarter Reported Actual Adjustment	\$/Mcf	
+ Third Previous Quarter Reported Actual Adjustment	\$/Mcf	
= Actual Adjustment (AA)	\$/Mcf	
D. <u>BALANCE ADJUSTMENT CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
Balance Adjustment for the Reporting Period (Schedule V)	\$/Mcf	
+ Previous Quarter Reported Balance Adjustment	\$/Mcf	
+ Second Previous Quarter Reported Balance Adjustment	\$/Mcf	
+ Third Previous Quarter Reported Balance Adjustment	\$/Mcf	
= Balance Adjustment (BA)	\$/Mcf	

SCHEDULE II  
EXPECTED GAS COST

Actual \* MCF Purchases for 12 months ended \_\_\_\_\_

(1) Supplier	(2) Dth	(3) BTU Conversion Factor	(4) Mcf	(5)** Rate	(6) (4) X (5) Cost
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Totals \_\_\_\_\_

Line loss for 12 months ended \_\_\_\_\_ is \_\_\_\_\_ % based on purchases of \_\_\_\_\_ Mcf and sales of \_\_\_\_\_ Mcf.

	<u>Unit</u>	<u>Amount</u>
Total Expected Cost of Purchases (6)	\$	
÷ Mcf Purchases (4)	Mcf	
= Average Expected Cost Per Mcf Purchased	\$/Mcf	
x Allowable Mcf Purchases (must not exceed Mcf sales ÷ .95)	Mcf	
= Total Expected Gas Cost (to Schedule IA)	\$	

\*Or adjusted pursuant to Gas Cost Adjustment Clause and explained herein.

\*\*Supplier's tariff sheets or notices are attached.

SCHEDULE III  
 SUPPLIER REFUND ADJUSTMENT

Details for the 3 months ended \_\_\_\_\_ (reporting period) \_\_\_\_\_

<u>Particulars</u>	<u>Unit</u>	<u>Amount</u>
Total supplier refunds received	\$	
+ Interest	\$	
= Refund Adjustment including interest	\$	
+ Sales for 12 months ended	Mcf	
= Supplier Refund Adjustment for the Reporting Period (to Schedule IB.)	\$/Mcf	

SCHEDULE IV

ACTUAL ADJUSTMENT

For the 3 month period ended \_\_\_\_\_ (reporting period)

<u>Particulars</u>	<u>Unit</u>	Month 1 ( )	Month 2 ( )	Month 3 ( )
Total Supply Volumes Purchased	Mcf			
Total Cost of Volumes Purchased	\$			
+ Total Sales (may not be less than 95% of supply volumes)	Mcf			
= Unit Cost of Gas	\$/Mcf			
- EGC in effect for month	\$/Mcf			
= Difference [(over-)/Under-Recovery]	\$/Mcf			
x Actual sales during month	Mcf			
= Monthly cost difference	\$			

	<u>Unit</u>	<u>Amount</u>
Total cost difference (Month 1 + Month 2 + Month 3)	\$	
+ Sales for 12 months ended _____	Mcf	
= Actual Adjustment for the Reporting Period (to Schedule IC.)	\$/Mcf	

SCHEDULE V

BALANCE ADJUSTMENT

For the 3 month period ended \_\_\_\_\_ (reporting period) \_\_\_\_\_

	<u>Unit</u>	<u>Amount</u>
(1) Total Cost Difference used to compute AA of the GCR effective four quarters prior to the effective date of the currently effective GCR <b>Less:</b> Dollar amount resulting from the AA of _____ \$/Mcf as used to compute the GCR in effect four quarters prior to the effective date of the currently effective GCR times the sales of _____ Mcf during the 12-month period the AA was in effect. <b>Equals:</b> Balance Adjustment for the AA.	\$  \$  \$	     _____
(2) Total Supplier Refund Adjustment including interest used to compute RA of the GCR effective four quarters prior to the effective date of the currently effective GCR. <b>Less:</b> Dollar amount resulting from the RA of _____ \$/Mcf as used to compute the GCR in effect four quarters prior to the effective date of the currently effective GCR times the sales of _____ Mcf during the 12-month period the RA was in effect. <b>Equals:</b> Balance Adjustment for the RA	\$  \$	    _____
(3) Total Balance Adjustment used to compute BA of the GCR effective four quarters prior to the effective date of the currently effective GCR <b>Less:</b> Dollar amount resulting from the BA of _____ \$/Mcf as used to compute the GCR in effect four quarters prior to the effective date of the currently effective GCR times the sales of _____ Mcf during the 12-month period the BA was in effect. <b>Equals:</b> Balance Adjustment for the BA.	\$  \$  \$	     _____
Total Balance Adjustment Amount (1) + (2) + (3)	\$	_____
÷ Sales for 12 months ended _____	Mcf	_____
= Balance Adjustment for the Reporting Period (to Schedule ID.)	\$/Mcf	_____

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