

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WESTERN LEWIS-	)	
RECTORVILLE WATER AND GAS DISTRICT	)	CASE NO.
FOR RATE ADJUSTMENT FOR SMALL	)	2017-00074
UTILITIES PURSUANT TO 807 KAR 5:076	)	

ORDER

On February 14, 2017, Western Lewis-Rectorville Water and Gas District (“Western Lewis”) tendered an application (“Application”) to the Commission requesting to increase its gas service rates pursuant to 807 KAR 5:076. After Western Lewis corrected filing deficiencies, its Application was accepted for filing on March 6, 2017. To ensure the orderly review of the Application, the Commission established a procedural schedule by Order dated March 16, 2017, which, among other things, required Commission Staff (“Staff”) to file a report containing its findings regarding the rates requested by Western Lewis.

On July 17, 2017, Staff issued a report summarizing its findings. In its report, Staff found that Western Lewis’s adjusted test-year operations support an overall revenue requirement in the amount of \$118,789 and that an annual revenue increase in the amount of \$20,360, or 24.75 percent, is necessary to generate the overall revenue requirement. Staff further found that the revenue increase should be distributed through a customer charge and a flat rate for all Mcf sold.

On August 1, 2017, Western Lewis filed with the Commission its comments on Staff’s report wherein it made statements addressing Staff’s findings, but ultimately

requested that the case stand submitted to the Commission for a decision without holding an informal conference or a formal hearing.<sup>1</sup>

### BACKGROUND

Western Lewis owns and operates a gas distribution system through which it provides gas service to approximately 527 customers that reside in Lewis and Mason counties, Kentucky.<sup>2</sup> Western Lewis's last general gas rate adjustment occurred in Case No. 1992-00331.<sup>3</sup>

### TEST PERIOD

The calendar year ended December 31, 2015, should be used as the test year to determine the reasonableness of Western Lewis's existing and proposed gas rates, as required by 807 KAR 5:076, Section 9.

### MODIFICATION TO STAFF'S FINDINGS

In its Report, Staff reduced operating expenses by \$12,675 to remove test-year payments to RussMar Utility Management ("RussMar") because it found that RussMar was not providing Western Lewis with the expected operational benefits. In its contract, RussMar agreed to provide services that included: (1) an annual leakage survey; (2) annual regulator inspections; (3) annual valve inspections; (4) annual Cathodic

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<sup>1</sup> Letter from Chad Clark, General Manager, Western Lewis-Rectorville Water and Gas District, to Talina R. Mathews, Executive Director, Public Service Commission (Aug 1, 2017).

<sup>2</sup> *Annual Report Western Lewis-Rectorville Water and Gas District to the Public Service Commission for the Calendar Year Ended December 31, 2015 ("Annual Report")* at 9 and 26.

<sup>3</sup> 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).

Protection readings; (5) public awareness program implementation; and (6) submission of annual Pipeline and Hazardous Materials Safety Administration report(s).<sup>4</sup>

In its response to the Staff Report, Western Lewis stated that “[a]ny deficiencies or issues found by RussMar in the provided reports were to be corrected by WLRW&GD [Western Lewis], not RussMar. WLRW&GD contracts with RussMar to perform services that they themselves do not have the equipment to complete.” The Commission finds that in light of the information contained in Western Lewis’s response to the Staff Report regarding the contract with RussMar, the annual contract payment to RussMar in the amount of \$21,000 should be included in pro forma operations.

SUMMARY OF REVENUE AND EXPENSES

The Commission finds, based on its modifications to the findings of the Staff Report, Western Lewis’s pro forma operations should be as follows:

	<u>Staff Pro Forma Operations</u>	<u>Commission Adjustments</u>	<u>Commission Pro Forma Operations</u>
Operating Revenues	\$ 98,429		\$ 98,429
Operating Expenses	<u>104,534</u>	<u>\$ 21,000</u>	<u>125,534</u>
Net Operating Income	<u>\$ (6,105)</u>	<u>\$ (21,000)</u>	<u>\$ (27,105)</u>

REVENUE REQUIREMENTS

Based upon the Commission’s findings and determinations herein, Western Lewis requires an increase in revenues of \$44,223 or 53.76 percent above pro forma operating revenues from base rates, as shown below:

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<sup>4</sup> Response to Commission Staff’s First Request for Information, Item 17.d.(2), Contract at Paragraph 1.

Pro Forma Operating Expenses	\$ 125,534
Divide by: Operating Ratio	<u>88%</u>
Overall Revenue Requirement	142,652
Less: Other Operating Revenue	<u>(16,174)</u>
Revenue Required from Base Rates	126,478
Less: Operating Revenue - Base Rates	<u>(82,255)</u>
Required Revenue Increase	<u>\$ 44,223</u>
Percentage Increase	<u>53.76%</u>

### RATE DESIGN

Western Lewis proposed to increase its current gas service rates by continuing the use of its \$1.00 monthly customer charge as well as a minimum bill including 1 Mcf with a base rate of \$10.00 plus the Gas Cost Recovery (“GCR”) rate, and with all usage over 1 Mcf charged at a flat base rate of \$10.00 plus the GCR rate. The staff report recommends a charge of \$10.00 per month and a base rate delivery charge of \$1.5642 per Mcf. The Commission finds that the recommended change in rate design as outlined in the Staff Report is appropriate. The rates in the Appendix attached to this Order will produce revenues from base gas rates of \$126,478, the revenue requirement determined reasonable by the Commission herein.

### SUMMARY

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

1. The rates proposed by Western Lewis would produce revenues in excess of the amount found reasonable herein and should be denied.

2. The rates set forth in the Appendix to this Order are the fair, just, and reasonable and should be approved.

IT IS THEREFORE ORDERED that:

1. The rates proposed by Western Lewis are denied.
2. The rates set forth in the Appendix to this Order are approved for services rendered by Western Lewis on and after the date of this Order.
3. Within 20 days of the date of this Order, Western Lewis 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.

By the Commission



ATTEST:

  
Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2017-00074 DATED **OCT 18 2017**

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 the Commission prior to the effective date of this Order.

Monthly Gas Rates

RETAIL RATES:

Customer Charge	\$10.00 per month
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Monthly Usage:

	<u>Base Rate</u>
All Mcf	\$ 1.5642

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