

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)	2017-00106

ORDER

On May 12, 1993, in Case No. 1992-00331,¹ 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.

On November 28, 2016, Western Lewis filed its proposed Gas Cost Recovery (“GCR”) rate in Case No. 2016-00406² to be effective January 1, 2017, through March 31, 2017. Due to the large over-recovery of gas cost by Western Lewis through the GCR mechanism, the Commission conducted an investigation into the reasonableness of the rate proposed by Western Lewis. Because Western Lewis’s application in Case No. 2016-00406 did not contain a signed and dated tariff, an Order suspending the tariff and associated rate was not necessary. During the course of the investigation, Western Lewis filed a new GCR application, Case No. 2017-00106, with proposed rates to be

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. 2016-00406, *Purchased Gas Adjustment of Western Lewis-Rectorville Water and Gas* (filed Nov. 23, 2016).

effective April 1, 2017, through June 30, 2017. By Order dated May 11, 2017, the Commission merged the case record of Case No. 2016-00406 into this case.

BACKGROUND

On February 19, 2014, Western Lewis filed an interim GCR rate application due to the extreme cold weather event known as the Polar Vortex.³ In its application, it stated that:

As you know gas rates have increased greatly due to the weather across the state. If we are not allowed to increase these rates with our March 01, 2014 billing we stand to loose [sic] another \$43,000 on top of the \$43,756 we have already lost for the month of January. Our February 1, 2014 billing for January Usage was \$52,000. However our Gas bill is \$95,756 for January 2014. We are a small Gas District and can't afford to loose [sic] this kind of money. We are asking for an expected gas cost recovery rate of \$10.2938 for March 1, 2014.

On March 5, 2014, the Commission entered an Order approving Western Lewis's GCR rate application, and set Western Lewis's Expected Gas Cost ("EGC") at \$11.1235 per Mcf.

In early 2016, in Case No. 2016-00085,⁴ the Commission became concerned with the Western Lewis's large negative Actual Adjustments ("AA") in its GCR rates, and ordered it to include support for the gas cost Western Lewis was using to calculate its EGC, and to explain why the price projections it was receiving from Atmos Energy Marketing, ("Atmos"), its wholesale gas supplier, were significantly higher than the then-

³ Case No. 2014-00049, *Purchased Gas Adjustment of Western Lewis-Rectorville Water and Gas* (Ky. PSC Mar. 5, 2014).

⁴ Case No. 2016-00085, *Purchased Gas Adjustment of Western Lewis-Rectorville Water and Gas* (Ky. PSC Mar. 11, 2016).

current prices for natural gas. In Case No. 2016-00191⁵, Western Lewis responded to the Commission's Order by stating:

Gas prices from Atmos Energy Marketing had spiked so high to us in early 2014, while the prices we were charging to our customers was still so low, we were not recovering anywhere near our gas cost. In order to help us quickly start recovering the higher gas cost, Atmos started providing us with higher projected gas cost for our EGC.

Western Lewis also stated that it could ask Atmos to gradually lower its projected gas cost-given that the difference between Western Lewis's EGC and the market price of gas was so great.

FUTURE GCA CALCULATION

The Commission has examined Western Lewis's recent GCR rate applications and finds the issue leading to the large over-recoveries of gas cost to be the continued practice of receiving inflated price estimates from Atmos. Therefore, the Commission finds that Western Lewis should request Atmos to resume basing its price projections for Western Lewis on projections as indicated by the market, with no adjustments to artificially increase the cost of gas. Western Lewis should use the market-based cost of gas starting when it files its GCR rate application for rates effective July 1, 2017. The Commission recognizes that decreasing what has historically been an inflated EGC and leaving the relatively high negative reconciling adjustments would cause Western Lewis difficulties in timely paying for its gas supply. Therefore, the Commission will extend the time Western Lewis has to return gas cost over-recoveries to its customers as described below. In Western Lewis's GCR rate application for rates effective July 1,

⁵ Case No. 2016-00191, *Purchased Gas Adjustment of Western Lewis-Rectorville Water and Gas* (Ky. PSC June 30, 2016).

2017, Western Lewis should set all of its currently effective quarterly AAs and Balancing Adjustments (“BA”) to \$.0000 per Mcf. The amounts that had been calculated to be recovered through those adjustments will be refunded through the use of the Refund Adjustment (“RA”), as more fully described below.

CALCULATION OF REFUND ADJUSTMENT

Total Amount of Refund Due to Customers

Using the quarterly AAs and BAs from Western Lewis’s GCA applications, the Commission is able to calculate the total gas cost over-recovery that is currently due to be refunded to customers. As shown on Western Lewis’s GCA application in Case No. 2016-00406, the four quarterly AAs are:

- (\$0.0760) per Mcf, which was set out in Case No. 2016-00406 to refund \$5,548;
- (\$0.5278) per Mcf, which was set out in Case No. 2016-00313⁶ to refund \$38,648;
- (\$1.3108) per Mcf, which was set out in Case No. 2016-00191 to refund \$97,003; and
- (\$1.0249) per Mcf, which was set out in Case No. 2016-00085 to refund \$39,820.

Western Lewis’s four quarterly BAs are:

- (\$0.1583) per Mcf, which was set out in Case No. 2016-00406 to refund \$11,559;
- (\$0.5111) per Mcf, which was set out in Case No. 2016-00313 to refund \$37,366;
- (\$0.3477) per Mcf, which was set out in Case No. 2016-00191 to refund \$10,220; and
- (\$0.1084) per Mcf, which was set out in Case No. 2016-00085 to refund \$4,210.

Summing the above amounts produces (\$244,374), which is the total gas cost over-recovery due to customers as reflected in Case No. 2016-00406. Adding to this total the AA and BA over-recovery amounts of (\$46,103) and (\$1,728) respectively, as

⁶ Case No 2016-00313, *Purchased Gas Adjustment of Western Lewis-Rectorville Water and Gas* (Ky. PSC Sept. 26, 2016).

shown on Western Lewis's GCR rate application in Case No. 2017-00106, produces a total amount of (\$292,205) that should be returned to Western Lewis's customers.

Calculation of Amounts Already Returned to Customers

Western Lewis had total sales volumes of 35,028 Mcf in 2016,⁷ and 15,908 Mcf in Quarter 1 of 2017.⁸ A breakdown of sales volumes for 2016 and 2017 is shown below:

Quarter 1, 2016	16,475 Mcf
Quarter 2, 2016	5,222 Mcf
Quarter 3, 2016	1,276 Mcf
Quarter 4, 2016	12,055 Mcf
Quarter 1, 2017	15,908 Mcf

Using these sales volumes to calculate the amounts that have already been returned to Western Lewis's customers through the AA and BA tracking mechanisms yields an amount of (\$120,903).⁹ Subtracting this from the amount of the total amount due to customers yields a remaining gas cost over-recovery of (\$171,302).¹⁰

Refund Adjustment

In moving Western Lewis's EGC to a market-based rate, the Commission must also consider what constitutes a reasonable time period over which Western Lewis will return the \$171,302 to its customers. The Commission recognizes that any decrease in

⁷ Case No. 2016-00406, Western Lewis's response to Staff's Second Request for Information, Item 1.

⁸ *Id.*, Western Lewis's supplement to the record dated May 3, 2017.

⁹ See Appendix for calculation.

¹⁰ \$292,205 (amount due to customer) - \$120,903 (amount already refunded) = \$171,302 (amount still needing to be refunded).

the EGC may affect Western Lewis's ability to pay its wholesale gas supplier. In weighing all concerns, the Commission finds a refund period of four years to be reasonable. We note that much of the refund due to customers was amassed over approximately two and a half years, and was precipitated by the Polar Vortex in early 2014, an event outside Western Lewis's control or ability to foresee. During 2016, Western Lewis sold 35,028 Mcf to its customers. Using 2016 as a base period, it is reasonable to project that Western Lewis will realize 140,112 Mcf of sales over the next four years. Dividing the \$171,302 amount to be returned by 140,112 Mcf equals a refund of approximately \$1.22 per Mcf. For simplicity, the Commission will transfer the remaining gas cost over-recovery amounts to be returned to customers through the RA mechanism, and set Western Lewis's RA at (\$1.25) per Mcf for approximately the next four years. The Commission will track the amount being refunded through this adjustment, and may adjust it in a future GCA proceeding, depending on Western Lewis's actual sales volumes.

IT IS THEREFORE ORDERED THAT:

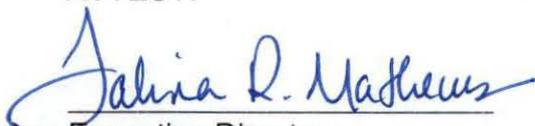
1. Western Lewis shall instruct Atmos to project its gas supply cost based on current market prices, and shall commence using the market-based prices in the calculation of its EGC beginning with rates effective July 1, 2017.
2. Western Lewis shall set out its RA as (\$1.25) per Mcf for the next four years or until \$171,302 has been refunded to customers.
3. When Western Lewis files its GCR rate application for rates effective July 1, 2017, it shall set out its currently effective AAs and BAs as \$0.0000 per Mcf, as those

amounts will be refunded through the RA. Western Lewis shall calculate its current quarter AA as it ordinarily would pursuant to its GCA tariff, to reconcile the difference between the currently effective EGC and the actual gas cost for the period January 2017 through March 2017.

By the Commission

ENTERED
MAY 16 2017
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2017-00106 DATED **MAY 16 2017**

AA factor	Case factor approved in	Credited since	Sales volumes for period (mcf)	Amount refunded
(\$1.0249)	2016-00085	4-1-2016	34,461	(\$35,319)
(\$1.3108)	2016-00191	7-1-2016	29,239	(\$38,327)
(\$.5278)	2016-00313	10-1-2016	27,963	(\$14,759)
Total				<u>(\$88,405)</u>
BA factor	Case factor approved in	Credited since	Sales volumes for period (mcf)	Amount refunded
(\$1.1084)	2016-00085	4-1-2016	34,461	(\$3,736)
(\$1.3477)	2016-00191	7-1-2016	29,239	(\$10,166)
(\$1.5111)	2016-00313	10-1-2016	27,963	(\$14,292)
Total				<u>(\$28,194)</u>

The Commission notes that no Order approving rates was issued in Case No. 2016-00406. Therefore, the rates approved in Case No. 2016-00313 have been charged since October 1, 2016. Because of this, the AA factor of (\$.2005) per Mcf and the BA factor of (\$.0701) per Mcf from that case have been charged for five quarters instead of four. This has caused Western Lewis to return an additional \$3,189 through its AA and an additional \$1,115 through its BA. The Commission will recognize these amounts as having already been returned to its customers, and thus will include \$4,304 in the calculation of the RA.

$$(\$88,405) + (\$28,194) + (\$4,304) = (\$120,903)$$

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