

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF BLUEGRASS)	CASE NO.
GAS SALES, INC. FOR A RATE ADJUSTMENT)	2021-00483
PURSUANT TO 807 KAR 5:076)	

ORDER

On December 30, 2021, Bluegrass Gas Sales, Inc. (Bluegrass) tendered an application for an adjustment of its rates pursuant to 807 KAR 5:076, which was cured of deficiencies and deemed filed on January 18, 2022. After two motions for extension of time to file responses to Commission Staff's First Request for Information (Staff's First Request),¹ Bluegrass filed an amended application that was deemed filed on July 13, 2022. Bluegrass filed its responses to Commission Staff's Second Request for Information (Staff's Second Request) after the deadline so the October 5, 2022 Order accepting the responses and amending the procedural schedule also required Bluegrass to file notice with the Commission, by October 13, 2022, whether it would agree to delay placing the proposed rates into effect until the Commission issues a final Order in this proceeding, except in accordance with the statutory period in KRS 278.192. On October 14, 2022, Bluegrass filed notice that it would not place rates into effect until the final Order. Bluegrass also requested that the case be submitted for decision on the record, without a hearing. Bluegrass filed timely responses to Commission Staff's Third Request for Information (Staff's Third Request) on October 21, 2022. There are no intervenors in this

¹ Bluegrass did not file responses to Staff's First Request.

proceeding. As there are no intervenors in this case and a hearing is not necessary in the public interest, the Commission will adjudicate this case based on the evidence of record.

LEGAL STANDARD

Alternative rate adjustment (ARF) proceedings, such as this one, are governed by Commission regulation 807 KAR 5:076, which establishes a simplified process for small utilities to use to request rate adjustments, with the process designed to be less costly to the utility and the utility ratepayers. The Commission's standard review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, Bluegrass is allowed to charge its customers "only fair, just and reasonable rates."² Further, Bluegrass bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

Commission regulation 807 KAR 5:076, Section 8(1) provides that an application for an ARF shall not be amended unless the applicant files written notice of the proposed amendment with the Commission and publishes notice of the amended proposed rates in accordance with 807 KAR 5:076, Section 5. Further, 807 KAR 5:076, Section 8(2) states that an applicant shall not place the amended proposed rates into effect until the Commission has issued an Order approving the rates or six months from the date of filing of the written notice proposed amendment, whichever occurs first.

² *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Public Service Comm'n v. Dewitt Water District*, 720 S.W.2d 725 (Ky. 1986).

TEST PERIOD

The calendar year ended December 31, 2020, was used as the test year to determine the reasonableness of Bluegrass's existing and proposed gas base rates, as required by 807 KAR 5:076, Section 9. The Commission finds the use of this test year to be appropriate.

SUMMARY OF REVENUES AND EXPENSES

Bluegrass's pro forma income statement for the test year ended December 31, 2020, as proposed by Bluegrass and determined by the Commission appears below.

	<u>Test Year</u>	<u>Bluegrass Adjustments</u>	<u>Bluegrass Proforma</u>	<u>Commission Adjustments</u>	<u>Commission Proforma</u>
Gas Sales	592,655	(247,495)	345,160	-	345,160
Covid Cares Act	5,000	(5,000)	-	-	-
Other Water Revenues	7,323	-	7,323	3,862	11,185
Operating Revenues	<u>604,978</u>	<u>(252,495)</u>	<u>352,483</u>	<u>3,862</u>	<u>356,345</u>
Cost of Sales	<u>247,358</u>	<u>(247,358)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Operating Expenses	<u>349,634</u>	<u>69,664</u>	<u>419,298</u>	<u>(24,202)</u>	<u>395,096</u>
			<u>-</u>		<u>-</u>
Net Income	<u>7,986</u>	<u>(74,801)</u>	<u>(66,815)</u>	<u>28,063</u>	<u>(38,752)</u>

ADJUSTMENTS

Sales Tax and Gross Sales Tax: Bluegrass proposed to reduce test-year revenues by \$19,302 to remove sales tax and school tax collected through gross income.³ Because those taxes are remitted to the proper authority and not retained by Bluegrass, the Commission finds this proposed adjustment reasonable and therefore accepts Bluegrass's proposed adjustment.

³ Amended Application, Exhibit 4.

Special Contract Revenues and Expenses: Bluegrass proposed to reduce test-year revenues by \$29,955 to remove revenues collected from a special contract with Logan County School District and reduce gas costs by \$18,345 to remove gas purchases.⁴ Bluegrass stated that it does not allocate any general or administrative costs to the special contract.⁵ Under Bluegrass's proposed adjustment, non-participating customers are paying for the cost to serve the special contract, less gas costs. The Commission finds the proposed revenue adjustment, in conjunction with the adjustment to remove gas costs, reasonable; however, the Commission also finds that the gross margins of the contract should be used to reduce the revenue requirement, which will decrease test-year expenses by \$11,610.⁶

COVID Cares Act: Bluegrass proposed an adjustment to reduce test-year revenues by \$5,000 to remove proceeds from the COVID Cares Act, which was a non-recurring, extraordinary income.⁷ The Commission finds this adjustment reasonable and therefore accepts the adjustment, as the income was extraordinary.

Gas Cost Recovery Revenues and Expenses: Bluegrass proposed to reduce test-year revenues by \$198,237 and expenses by \$229,103 to remove the impact of its Gas Cost Recovery (GCR), which recovers gas purchase and transportation costs of a dollar-for-dollar basis.⁸ The Commission finds this adjustment reasonable and therefore

⁴ Amended Application, Exhibit 4.

⁵ Bluegrass's Response to Staff's Second Request (filed Sept. 1, 2022), Item 4.

⁶ \$29,955 - \$18,345 = \$11,610.

⁷ Amended Application, Exhibit 4.

⁸ Amended Application, Exhibit 5.

accepts the proposed adjustment as the standard procedure for removing GCR revenues and expenses.

Forfeited Discounts: Bluegrass did not propose an adjustment for test-year late payment fees of \$3,223. Late payment fees were suspended for part of 2020 and as a result Bluegrass's test-year revenues were abnormally low. The average revenues from 2018, 2019, and 2021 were \$6,524.⁹ The Commission finds that the test-year late payment fees should be increased by \$3,301 to adjust the revenues to the average.¹⁰

Management Fees and Leased Employee: Bluegrass has a management contract with an affiliated management company, Home Office, Inc. (Home Office) which is owned by Mark O'Brien, President of Bluegrass.¹¹ The only contract between the two companies, signed in 2012, provides that Home Office will provide Bluegrass with management, accounting, tax, administrative, and regulatory services for a fixed annual fee of \$17,022.¹² Bluegrass has included this fee in the test year and proposed an adjustment to increase this fee by \$7,978 based on inflation.¹³ Bluegrass also included a separate salary expense of \$22,055 for an employee of Home Office and proposed to increase salary expenses by \$4,153 for inflation.¹⁴ Bluegrass stated that this employee is providing accounting and administrative support and this employee transferred to Home

⁹ Bluegrass's Response to Staff's Second Request, Item 29.

¹⁰ \$6,524 - \$3,223 = \$3,301.

¹¹ Bluegrass's Response to Staff's Third Request (filed Oct. 21, 2022), Item 5(c), Exhibit 4 and Bluegrass's Response to Staff's Second Request, Item 8.

¹² Bluegrass's Response to Staff's Third Request, Item 5(c), Exhibit 4.

¹³ Amended Application, Exhibit 5.

¹⁴ Amended Application, Exhibit 5.

Office in 2011 to reduce Bluegrass's insurance expenses because Home Office has more participating employees.¹⁵

While the contracts for Home Office employees are not arm's length transactions, the total salary expenses are less than the median income provided in Bluegrass's salary study and the year over year increases are below inflation.¹⁶ The Commission finds these adjustments reasonable and therefore accepts the proposed adjustments, contingent upon Bluegrass filing revised contracts at the new rate within 90 days of the issuance of the final Order, similar to a requirement from Bluegrass's last rate case.

Operations Salaries: Bluegrass reported test-year salary expenses for operational employees of \$103,278 and proposed an adjustment of \$19,447 based on inflation.¹⁷ The operational employees include 3 meter reader/maintenance positions, an operations manager, and a part time receptionist.¹⁸ Bluegrass stated that these employees have not received a wage increase since 2011, but two employees have been added in that time.¹⁹ The total salary expenses are less than the median income provided in Bluegrass's salary study and the year over year increases are below inflation.²⁰ The Commission finds this adjustment reasonable and therefore accepts the proposed adjustment contingent upon Bluegrass filing an affidavit stating that the pay increases authorized by the Commission

¹⁵ Bluegrass's Response to Staff's Second Request, Item 6 and Case No. 2011-00364, *Alternative Rate Filing Adjustment of Bluegrass Gas Sales, Inc.* (Ky. PSC Sept. 26, 2012), June 14, 2012 Order, Appendix C at 7.

¹⁶ Bluegrass's Response to Staff's Third Request, Item 5(a), Exhibit 3.

¹⁷ Amended Application, Exhibit 5.

¹⁸ Amended Application, Exhibit 5-4.

¹⁹ Amended Application, Exhibit 5.

²⁰ Bluegrass's Response to Staff's Third Request, Item 5(a), Exhibit 3.

were implemented for its employees within 90 days of the issuance of the final Order, similar to a requirement from Bluegrass's last rate case.

Health Insurance Expenses: Bluegrass's test-year expenses included health insurance expenses totaling \$25,845 and Bluegrass proposed to increase insurance expenses by \$1,292 to account for premium increases.²¹ These expenses cover two employees, the general manager who is a Bluegrass employee and the contract employee with Home Office, through a family plan paid for through the Home Office employee.²² The Commission has recently required utilities to require employee contributions toward insurance premiums of at least 12 percent to avoid an adjustment to the Bureau of Labor Statistics' (BLS) average.²³ Bluegrass stated that employees do contribute to insurance premiums, but Bluegrass covers most of the cost.²⁴ The Commission finds an adjustment necessary to reduce the employer contribution percentage to 66 percent for health insurance, in line with the BLS average for family coverage,²⁵ an expense reduction of \$6,809 as shown below.

²¹ Amended Application, Exhibit 5.

²² Bluegrass's Response to Staff's Second Request, Item 9 and Bluegrass's Response to Staff's Third Request, Item 8, Exhibit 9.

²³ Case No. 2019-00053, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment in Existing Rates* (Ky. PSC June 20, 2019).

²⁴ Amended Application, Exhibit 5 at 2-3.

²⁵ U.S. Department of Labor, Bureau of Labor Statistics, National Compensation Survey: Employee Benefits in the United States, March 2021, Table 11, Medical care benefits: Share of premiums paid by employer and employee, private industry workers, March 2021 (<https://www.bls.gov/ebs/publications/pdf/employee-benefits-in-the-united-states-march-2021.pdf>).

Type of Premium	Monthly Premiums	Average Employee Contribution Rate	Monthly Employee Contribution	Monthly Employer Contribution
Family Health Insurance	\$ 2,566.72	34%	\$ 872.68	\$ 1,694.04
Times: 12 Months				12
Total Annual Pro Forma Premium				\$ 20,328.42
Less: Test-Year Proforma Health Insurance Expense				\$ 27,137.65
Health Insurance Adjustment				\$ (6,809.23)

Payroll Tax Expense: Bluegrass proposed to increase test-year payroll taxes of \$8,015 by \$1,509 to account for the proposed increase to salaries expenses.²⁶ The Commission finds this adjustment reasonable based on acceptance of the salary increases, and therefore accepts the proposed adjustment.

Contract Labor: Bluegrass stated that it hires contract labor to perform various jobs such as lawn mowing and painting. Test-year expenses were \$400, which Bluegrass stated was anomalously low because of reduced operations during the pandemic and proposed an increase of \$2,100 to be more in line with prior years.²⁷ Bluegrass also stated that the 2022 expenses were \$400 and that expenses had been higher in prior years due to contracted meter reading, which is now performed by Bluegrass employees.²⁸ Bluegrass did not explain why expenses would increase beyond “additional work that is necessary for some of the aging equipment and possible future upgrades.”²⁹

²⁶ Amended Application, Exhibit 5.

²⁷ Amended Application, Exhibit 5.

²⁸ Bluegrass’s Response to Staff’s Second Request, Item 10.

²⁹ Amended Application, Exhibit 5.

Given the changes in the contract labor expenses and consistency with 2022 expenses, the Commission finds this adjustment unreasonable and therefore rejects the proposed adjustment.

Bank Fees: Bluegrass proposed an adjustment to increase test-year bank fees of \$3,706 by \$570 to account for increased credit card processing fees from the proposed rate increase.³⁰ Bluegrass's tariff requires customers to separately pay the actual credit card fees per transaction.³¹ The Commission finds the proposed adjustment reasonable and therefore accepts the adjustment, but also finds that the revenues collected from customers should be increased by the same amount.

Office Supplies and Expenses: Bluegrass proposed an adjustment to increase test-year office supplies expenses of \$1,480 by \$500 and office expenses of \$3,601 by \$1,500 to account for additional supplies related to upgrading computer systems, inflation, and software cost increases.³² Bluegrass stated that it did not calculate the proposed increase and stated that the increase from 2020 to 2021 was \$630.³³ Because Bluegrass did not calculate the proposed increase and included costs for software updates in a separate adjustment, the Commission finds that the proposed \$2,000 increase should be reduced to \$630.

Postage: Bluegrass proposed an adjustment to test-year postage expenses of \$3,118 by \$300 to account for the increased price of postage.³⁴ Bluegrass stated that the

³⁰ Amended Application, Exhibit 5.

³¹ Bluegrass's Tariff, PSC KY No. 1, Original Sheet No. 7, Special Charges, "Credit Card Fee."

³² Amended Application, Exhibit 5.

³³ Bluegrass's Response to Staff's Second Request, Item 12.

³⁴ Amended Application, Exhibit 5.

adjustment was not calculated but estimated at a 10 percent increase.³⁵ Although Bluegrass's adjustment is not calculated, it is below the actual cost increase for postage from 2020 to 2023, therefore the Commission finds the proposed adjustment reasonable and therefore accepts the adjustment.

Office and Equipment Storage Rent: Bluegrass rents its office space and equipment storage from affiliated parties, Bluegrass's vice president and general manager, respectively.³⁶ Office rent expense has not increased since Bluegrass's last rate case in 2011 and the equipment storage rental began in 2020.³⁷ Bluegrass proposed adjustments to increase test-year office rental expenses of \$4,800 by \$2,700 and to increase test-year equipment storage rental expense of \$1,500 by \$1,500.³⁸ Bluegrass provided its usage of the shared office space based on square footage used and estimated costs of similar rentals for both agreements.³⁹ While the rental contracts are not arm's length transactions, the total rent expenses are less than similar rentals and the per square foot price for office rent has increased less than inflation, from \$5.10⁴⁰ to \$6.71.⁴¹ The Commission finds these adjustments reasonable and therefore accepts the proposed adjustments, contingent upon Bluegrass filing revised rental contracts at the

³⁵ Bluegrass's Response to Staff's Second Request, Item 13.

³⁶ Bluegrass's Response to Staff's Third Request, Item 7(a).

³⁷ Bluegrass's Response to Staff's Third Request, Item 7(c), Exhibit 7.

³⁸ Amended Application, Exhibit 5.

³⁹ Bluegrass's Response to Staff's Third Request, Item 7(d), Exhibit 8.

⁴⁰ Case No. 2011-00364, *Alternative Rate Filing Adjustment of Bluegrass Gas Sales, Inc.* (Ky. PSC Sept. 26, 2012), June 14, 2012 Order, Appendix C at 6.

⁴¹ \$7,500 per year / 1,117 square foot = \$6.71 per square foot.

new rate within 90 days of the issuance of the final Order, similar to a requirement from Bluegrass's last rate case.

Repairs and Maintenance Expense: Bluegrass proposed an adjustment to increase test-year repairs and maintenance expense of \$20,218 by \$6,500 to account for inflation, aging equipment, and market conditions.⁴² Bluegrass stated that this expense includes parts, supplies, fittings for repairs and maintenance and payment to outside vendors such as equipment rentals, meter repairs, and waste disposal. Bluegrass stated that 2021 expenses were \$20,775 and Bluegrass's proposed adjustment was based on long-term increases, including expanded preventative maintenance.⁴³ The Commission finds this adjustment reasonable and therefore accepts the adjustment because inflation between 2020 and 2023 of 15.76 percent would account for approximately half of the requested increase and increased preventative maintenance is an appropriate goal for Bluegrass.

Insurance Expense: Bluegrass proposed an adjustment to increase test-year liability and property insurance of \$7,805 by \$2,400 to account for premium increases.⁴⁴ Bluegrass also proposed an adjustment to increase test-year vehicle insurance of \$4,734 by \$900 to account for premium increases.⁴⁵ The Commission finds these adjustments reasonable and therefore accepts the adjustments because they are based on known and measurable increases to insurance premiums.

⁴² Amended Application, Exhibit 5.

⁴³ Bluegrass's Response to Staff's Second Request, Item 15.

⁴⁴ Amended Application, Exhibit 5.

⁴⁵ Amended Application, Exhibit 5.

Legal/Professional Services: Bluegrass proposed an adjustment to increase test-year legal and professional services of \$2,225 by \$1,000 to account for estimated increases due to new software and tax systems and increased fees for regulatory, financial, and other reporting needs.⁴⁶ The Commission finds this adjustment reasonable and therefore accepts the adjustment because the total expense is minimal for a utility of Bluegrass's size and accounts for financial auditing fees and all legal expenses outside of rate case expense.

Rate Case Expense: Bluegrass proposed an adjustment of \$6,667 to include the three-year amortization of estimated rate case expenses of \$20,000.⁴⁷ Total rate case expenses were \$20,688⁴⁸ so the Commission finds the proposed adjustment reasonable and therefore accepts the adjustment.

Non-fuel Truck Expenses: Bluegrass proposed an adjustment to increase test-year non-fuel truck expenses of \$13,639 by \$3,250 to account for increased maintenance due to inflation and aging vehicles.⁴⁹ The Commission finds this adjustment reasonable and therefore accepts the adjustment, based on 15.76 percent inflation between 2020 and 2023 and a reasonable increase for additional maintenance.

Fuel Expense: Bluegrass proposed an adjustment to increase test-year fuel expenses of \$12,251 by \$12,000 to account for increases in fuel prices.⁵⁰ Diesel prices

⁴⁶ Amended Application, Exhibit 5.

⁴⁷ Amended Application, Exhibit 5.

⁴⁸ Bluegrass's Response to Staff's Third Request, Item 8, Exhibit 10.

⁴⁹ Amended Application, Exhibit 5.

⁵⁰ Amended Application, Exhibit 5.

peaked in 2022 at over \$5.00 per gallon compared to an average of \$2.55 in 2020.⁵¹ The fuel expense accounts for meter reading and repair and maintenance trips. Due to the increased costs and expected increases in maintenance trips, the Commission finds the proposed adjustment reasonable and therefore accepts the adjustment.

Property taxes: Bluegrass proposed an adjustment to increase test-year equipment and pipeline property taxes of \$7,231 by \$1,800 to account for increases in assessed value due to higher income.⁵² The 2021 expense was \$1,253 higher than 2020 and the proposed rate increase will increase Bluegrass's net income and therefore property taxes.⁵³ The Commission finds this adjustment is reasonable and therefore accepts the adjustment as a reasonable estimate of the increased expense.

Telephone expenses: Bluegrass proposed an adjustment to increase test-year telephone expenses of \$2,868 by \$250 to account for increased costs.⁵⁴ The Commission finds this modest increase in costs reasonable and therefore accepts the adjustment.

Workers Compensation Insurance: Bluegrass proposed an adjustment to increase test-year workers compensation insurance expenses of \$3,410 by \$750 to account for the proposed increases in salaries.⁵⁵ The Commission finds the proposed adjustment reasonable based on accepting the increases to salaries, and therefore accepts the proposed adjustment.

⁵¹ Amended Application, Exhibit 5.

⁵² Amended Application, Exhibit 5.

⁵³ Bluegrass's Response to Staff's Second Request, Item 19.

⁵⁴ Amended Application, Exhibit 5.

⁵⁵ Amended Application, Exhibit 5.

Depreciation Expense: Bluegrass proposed an adjustment to increase test-year depreciation expense of \$47,365 by \$9,700 to account for proposed capital spending for administrative and operational equipment as described below.⁵⁶

1. Security System: Bluegrass proposed to install an upgraded security system at its offices for \$2,500 and depreciate it over five years, for an annual expense of \$500.⁵⁷ Bluegrass stated that the security upgrades would reduce expenses due to equipment damage and insurance.⁵⁸ Because Bluegrass shares the office with an affiliate who would also benefit from the proposed security system, the Commission finds that half of the proposed adjustment is reasonable and therefore accepts the modified adjustment of \$250.

2. Billing and Accounting System Upgrades: Bluegrass proposed to upgrade its billing and accounting system because the current system is over 20 years old and no longer compatible with its computer operating system.⁵⁹ Bluegrass stated that the estimated cost of the new system is \$17,500, with a useful life of five years for an annual expense of \$3,500 including an annual support fee of \$2,300.⁶⁰ The information provided by Bluegrass supports a total cost of \$13,625 and an annual fee of \$2,250;⁶¹ the annual expense assuming a five-year life would be \$4,975. Bluegrass stated that the new system would create savings through efficiencies in the accounting and billing

⁵⁶ Amended Application, Exhibit 5.

⁵⁷ Amended Application, Exhibit 5.

⁵⁸ Bluegrass's Response to Staff's Second Request, Item 2.

⁵⁹ Amended Application, Exhibit 5.

⁶⁰ Amended Application, Exhibit 5.

⁶¹ Amended Application, Exhibit 5-5.

procedures, reduce costs to communicate with customers, and allow customers to view and pay their bills online.⁶² The Commission finds this adjustment reasonable because the upgraded system is reasonably needed to continue to provide adequate service, and therefore accepts the proposed adjustment. The Commission also reminds Bluegrass that financing the purchase of equipment over a period longer than two years requires Commission pre-approval pursuant to KRS 278.300.

3. Upgrades to Meter Stations: Bluegrass proposed to replace two meter stations that are at the end of their useful life with updated meter stations that include zero emission odorizers.⁶³ The estimated cost of the new meters is \$85,000 and the estimated useful life is 15 years, for an annual expense of \$5,700.⁶⁴ The Commission finds this adjustment reasonable because the replacement is reasonably needed to continue to provide adequate service, and therefore accepts the proposed adjustment. The Commission also reminds Bluegrass that financing the purchase of equipment over a period longer than two years requires Commission pre-approval pursuant to KRS 278.300.

Interest Expense: In 2020, Bluegrass did not receive Commission approval to issue a loan with a term of greater than two years, contrary to KRS 278.300.⁶⁵ In July 2020, Bluegrass borrowed \$40,000 payable over five years to purchase a truck.⁶⁶ Bluegrass stated that it “did not go through the process of obtaining approval by the PSC

⁶² Bluegrass’s Response to Staff’s Second Request, Item 2.

⁶³ Amended Application, Exhibit 5.

⁶⁴ Amended Application, Exhibit 5.

⁶⁵ Bluegrass’s Response to Staff’s Second Request, Item 21.

⁶⁶ Amended Application, Exhibit 8.

due to the timing and necessity of replacing the vehicle and the uncertainty of the Pandemic.”⁶⁷ Bluegrass included interest expense for this loan in its test-year of \$802.⁶⁸ The Commission finds that the interest expense related to the unapproved loan should be removed from the test-year. The Commission may also open an investigation into the unapproved loan.

Bluegrass also did not appropriately reflect interest expense in its revenue requirement calculation. Interest expense was not removed before the operating ratio was applied, contrary to standard practices.⁶⁹ The Commission finds that interest expense should be included in the revenue requirement calculation after the operating ratio.

REVENUE REQUIREMENT SUMMARY

The Commission has historically used an operating-ratio approach to determine revenue requirements for small, privately owned utilities.⁷⁰ This approach is used because either no basis for rate of return determination exists or the cost of the utility has

⁶⁷ June 16, 2022 Letter from Mark O’Brien to Linda Bridwell, filed with Amended Application.

⁶⁸ Bluegrass’s Response to Staff’s Third Request, Item 11, Exhibit 11.

⁶⁹ Amended Application, Exhibit 5 and ARF FORM 1 – ATTACHMENT RR-OR (filed Jan. 18, 2022).

⁷⁰ An operating ratio measures the difference between operating revenues and operating expenses. It is defined by the following equation.

$$\text{Operating ratio} = \frac{\text{Operation \& Maintenance Exp. + Depreciation + Taxes}}{\text{Gross Revenues}}$$

The Commission has found that the operating ratio is a reasonable and necessary alternative to the rate of return method for calculating the allowable net operating income for small investor-owned utilities. Specifically, it has found that the rate of return method cannot be used because there is “no basis” upon which to determine a rate of return for these utilities, Case No. 95-236, *Application of Thelma Waste Control, Inc. for a Rate Adjustment Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Apr. 15, 1996) at 6. Further, it has found that the operating-ratio method is appropriate when plant investment is low and operating expenses are high, Case No. 7982, *Notice of Application of Fern Lake Company* (Ky. PSC Aug. 27, 1981) at 3.

fully or largely been recovered through the receipt of contributions. Given that Bluegrass is a small gas distribution system, the Commission finds that this method should be used to determine Bluegrass's revenue requirement.

As shown in the table below, Bluegrass's pro forma operations combined with an 88 percent operating ratio results in a revenue requirement from base rates of \$451,765, which is an increase of 27.65 percent, or \$95,421, over normalized revenues from existing base rates of \$345,160.

	<u>Bluegrass</u>	<u>Commission</u>
Proforma Operating Expenses Before Income Taxes	\$ 419,298	\$ 395,096
Operating Ratio	0.88	0.88
Subtotal	476,475	448,973
Less: Proforma Operating Expenses Before Income Taxes	419,298	395,096
Allowable Net Income	57,177	53,877
Add: Interest Expense		2,792
Proforma Operating Expenses Before Income Taxes	419,298	395,096
Total Revenue Requirement	476,475	451,765
Less: Other Operating Revenue		11,185
Total Revenue Required from Base Rates	476,475	440,581
Less: Revenues from Sales at Present Rates	345,161	345,160
Required Revenue Increase	<u>\$ 131,314</u>	<u>\$ 95,421</u>
Percent Increase	38.04%	27.65%

RATE DESIGN

Customer Charge and Volumetric Rate: Bluegrass currently provides retail gas sales to all customers under a single general service rate structure. Bluegrass originally proposed a new rate structure to separate its residential and non-residential customers into distinct rate classes but ultimately rescinded the proposal when it refiled its amended application filing after refusing to provide a cost-of-service study (COSS).⁷¹ The current

⁷¹ Application, Exhibit 6 and Amended Application, Exhibit 6.

rate structure is for general service and includes a monthly customer charge, volumetric rate, and a GCR rate. Bluegrass proposed to increase the monthly customer charge from \$10.00 to \$17.50, or 75 percent.⁷² Bluegrass also proposed to increase the volumetric rate from \$5.1416 per Mcf to \$6.4100 per Mcf, or 24.67 percent.⁷³

Bluegrass stated that it proposed the \$17.50 customer charge based on inflation since its last rate case and as an effort to stabilize cash flow in low usage months.⁷⁴ Commission Staff requested a COSS but Bluegrass refused to obtain a COSS, stating that a COSS would require exorbitant costs and delay to the filing.⁷⁵ Without a COSS, the Commission finds that a proportional increase between the fixed and volumetric charge is reasonable. Based on the 27.65 percent increase recommended above, the Commission finds reasonable a monthly customer charge of \$12.77, and a volumetric charge of \$6.5622 per Mcf. For the average Bluegrass customer using 6.46 Mcf per month, the average monthly bill would increase by \$11.95, from \$43.21 to \$55.16. Bluegrass did not distinguish the average monthly residential usage from non-residential usage in its application. Based on Bluegrass's 2021 Annual Report its average monthly residential usage is 3.6 Mcf.⁷⁶ The average residential customer bill impact would be an increase of \$7.88, from \$28.51 to \$36.39.

⁷² Amended Application, Exhibit 6.

⁷³ Amended Application, Exhibit 6.

⁷⁴ Amended Application, Exhibit 2.

⁷⁵ Amended Application, Exhibit 2.

⁷⁶ *Annual Report of Bluegrass Gas Sales, Inc. to the Public Service Commission for the Year Ended December 31, 2021* at 26. 30,273 Mcf / 702 customers / 12 months = 3.6 Mcf/customer/month.

Nonrecurring Charges: Bluegrass did not propose any changes to its nonrecurring charges. In keeping with recent rate case orders, the Commission will remove straight-time labor from the charges because personnel are paid during normal business hours and their salaries are recovered through base rates.⁷⁷

1. Returned Check Fee: The current fee is \$15, Bluegrass proposed a fee of \$15, and the total non-labor costs support a fee of \$11.25.⁷⁸ The Commission finds a fee of \$11.25 reasonable.

2. Reconnection Charge: The current charge is \$25, Bluegrass proposed a charge of \$75, and the total non-labor costs support a fee of \$26.25.⁷⁹ The Commission finds a charge of \$26.25 reasonable.

3. Collection Charge: The current charge is \$25, Bluegrass proposed a charge of \$25, and the total non-labor costs support a charge of \$13.75.⁸⁰ The Commission finds a fee of \$13.75 reasonable.

SUMMARY

After consideration of the evidence of record and being sufficiently advised, the Commission finds that:

⁷⁷ See Case No. 2022-00161, *Electronic Application of Northern Kentucky Water District for an Adjustment of Rates; Issuance of Bonds; Financing; and Tariff Revisions* (Ky. PSC Feb. 8, 2023), Order at 14.

⁷⁸ Bluegrass's Response to Staff's Third Request, Item 13, Exhibit 12 and Bluegrass's Tariff, PSC KY No. 1, Original Sheet No. 7, Special Charges, "Returned Check Fee."

⁷⁹ Bluegrass's Response to Staff's Third Request, Item 13, Exhibit 12 and Bluegrass's Tariff, PSC KY No. 1, Original Sheet No. 7, Special Charges, "Reconnection Charge."

⁸⁰ Bluegrass's Response to Staff's Third Request, Item 13, Exhibit 12 and Bluegrass's Tariff, PSC KY No. 1, Original Sheet No. 7, Special Charges, "Collection Charge."

1. The rates proposed by Bluegrass 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 fair, just and reasonable and should be approved.

IT IS THEREFORE ORDERED that:

1. The rates and charges proposed by Bluegrass are denied.

2. The rate and charges found reasonable herein, and set forth in the Appendix to this Order, are approved for service rendered on and after the date of service of this Order.

3. Within 20 days of the date of service of this Order, Bluegrass 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.

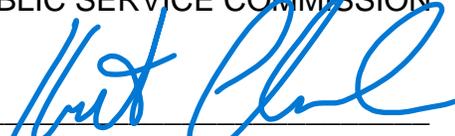
4. Within 90 days of the date of service of this Order, Bluegrass shall file notice, as described in this Order, that revised contracts have been executed with Home Office with regards to management fees and the leased employee.

5. Within 90 days of the date of service of this Order, Bluegrass shall file notice, as described in this Order, that revised rental contracts have been executed for office and equipment storage rentals.

6. Within 90 days of the date of service of this Order, Bluegrass shall file notice, as described in this Order, that wage increases have been executed with operations staff.

7. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner



ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00483 DATED MAY 05 2023

The following rates and charges are prescribed for the customers served by Bluegrass Gas Sales, Inc. All other rates and charges not specifically mentioned in this Order shall remain the same as those in effect under the authority of this Commission prior to the effective date of this Order.

RATES

	<u>Base Rate</u>	<u>Gas Cost Recovery Rate</u>	<u>Total</u>
Customer Charge:	\$ 12.77		
Cost per Mcf:	\$ 6.5622	\$3.5242 *	\$ 10.0864

* Gas Cost Recovery Rate approved in Case No. 2023-00069 effective for service rendered on and after April 1, 2023.

NON-RECURRING CHARGES

Returned Check Fee	\$11.25
Reconnect Charge	\$26.25
Collection Charge	\$13.75

*Daniel M Sullivan
Bluegrass Gas Sales, Inc.
3620 Rockland Mills Road
Center, KY 42214

*Bluegrass Gas Sales, Inc.
3620 Rockland Mills Road
Center City, KY 42214

*Julie Parsons
Bluegrass Gas Sales, Inc.
3620 Rockland Mills Road
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*Mark O'Brien
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