

COMMONWEALTH OF KENTUCKY
BEFORE THE ENERGY REGULATORY COMMISSION

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In the Matter of

NOTICE TO ADJUST RATES)
BY ELAM UTILITY COMPANY)
INC., MORGAN COUNTY,)
KENTUCKY)

CASE NO. 7601

O R D E R

On October 11, 1979, Elam Utility Company, Inc., (Elam) filed an application to adjust its rates and charges in order to increase annual revenues \$74,835 or approximately 33.2%. The proposed tariffs were to become effective for service rendered on and after November 1, 1979. Elam also filed a motion seeking authority, pursuant to KRS 278.190(2), to place the full increase requested herein into effect on an interim basis. By Order dated October 15, 1979, the Commission suspended the proposed rates until April 1, 1980.

The Commission, to determine the reasonableness of the proposed rates, set a public hearing to be held November 8, 1979. Notice of such hearing was made by Elam in manners prescribed by Kentucky Revised Statutes and the Commission's rules and regulations.

The hearing was held as scheduled with the Attorney General's Division of Consumer Intervention, the sole intervenor, being present. At the hearing Elam presented additional evidence which increased its original rate request by \$4870 to \$79,700. All requested information has been provided and made a part of the record.

On January 9, 1980 the Commission found that Elam's credit and operations had been materially impaired due to inadequate earnings, and Ordered an interim increase of \$74,835 placed into effect subject to refund upon final determination of this case.

TEST PERIOD

The Commission, for the purpose of testing the reasonableness of the proposed rates, has adopted the twelve months ending August 31, 1979. Adjustments, where proper and reasonable, have been included to more clearly reflect current operating conditions.

REVENUES AND EXPENSES

Elam proposed several adjustments to its income statement to more clearly reflect operating conditions. These adjustments to revenues and expenses are detailed in the evidence of record and the Commission finds these adjustments to be proper for rate-making purposes.

The Commission has made two further adjustments to Elam's income statement. The first adjustment increases operating revenues and purchased gas expense by \$29,961 to reflect Purchased Gas Adjustments approved since the end of the test year. The second adjustment increases operating expenses by \$160 to include the actual annual Energy Regulatory Commission assessment for the fiscal year 1980-81.

Therefore, test year operations have been adjusted as follows:

	<u>Actual</u>	<u>Pro forma Adjustments</u>	<u>Adjusted</u>
Operating Revenue	\$186,868	\$ 44,977	\$ 231,845
Operating Expenses	204,516	60,915	265,431
Operating Income	<u>(17,648)</u>	<u>(15,938)</u>	<u>(33,586)</u>

The Commission is extremely concerned with Elam's failure to meet its purchased gas expense obligations. This situation jeopardizes Elam's ability to provide continuous reliable service to its consumers and will not be tolerated by the Commission. Therefore, the Commission finds that Elam should take immediate action in order to eliminate the past due portion of this expense and should notify this Commission of provisions made to rectify this situation.

VALUATION METHODS

The Commission has traditionally considered the original cost of utility plant, the net investment and the capital structure in the determination of fair, just and reasonable rates. Elam, however, is currently engaged in a total reconstruction of its gas system.

To finance this construction Elam applied for and received a loan from the Gas System Restoration Project Account in the amount of \$589,100 at an interest rate of 5.125%. After consideration of the debt service requirements of \$47,835 placed upon Elam by this loan the Commission has concluded that emphasis should be placed on Elam's ability to pay its current operating expenses and to meet its debt service requirements in determining fair, just and reasonable rates in this matter.

SERVICE LINE OWNERSHIP

As a part of the reconstruction of the system under the gas restoration project of the Department of Local Government, Elam has replaced all service lines to and through the outlet riser at a total approximate cost of \$38,500. Elam, therefore filed its Motion on July 7, 1980 in this case requesting authorization to own the lines in question and to include the cost of these lines in its rate base for the purpose of setting its rates. This Motion constitutes a request for deviation from the provisions of 807 KAR 50:035 (10) (b) which provides that the customer shall have the responsibility of laying the pipe from the curb stop to the place of consumption.

The Commission, having considered the Motion, and all evidence of record is of the opinion that the granting of the requested authority is in the best interest of the customers as the safety of the system will be greatly improved.

The Commission is further of the opinion that the handling of the cost in this manner is the most economical method for Elam's customers.

RATE DESIGN

Elam proposed to replace its existing declining block rate structure with a two step energy rate and a customer charge. The Commission is of the opinion and finds that the proposed rate design should encourage energy conservation and is in the public interest and should be approved. The rates set out in the attached Appendix "A" reflect this change.

SUMMARY

The Commission, after consideration of the evidence of record and being fully advised, is of the opinion and finds that gross annual revenues of \$311,550 are necessary in this case. The rates approved herein include all purchased gas adjustments approved by the Commission subsequent to the end of the test period and are the fair, just and reasonable rates for Elam in that they will produce revenues sufficient to permit it to pay its operating expenses and service its debt.

The Commission further finds that the rates proposed by Elam in this case and set out in Appendix "A" are the fair, just and reasonable rates in that they will produce additional gross revenues of approximately \$79,700 and should be approved.

The Commission further finds that the emergency rates granted Elam in the Interim Order dated January 9, 1980, produce annual revenues less than the amount found reasonable herein, therefore, no refund is required.

IT IS THEREFORE ORDERED, that the rates set forth in Appendix "A" attached hereto and made a part hereof be and they hereby are approved as the fair, just and reasonable rates for service rendered by Elam Utility Company, Inc., on and after the date of this Order.

IT IS FURTHER ORDERED, that for the reasons set forth on page 3 of this Order, Elam Utility Company, Inc. be and is hereby authorized to own all the service lines to and through the outlet riser and to include the cost of these service lines in its Rate Base for the purpose of setting rates.

IT IS FURTHER ORDERED, that Elam Utility Company, Inc., shall keep the service lines in good repair in accordance with the regulations of this Commission.

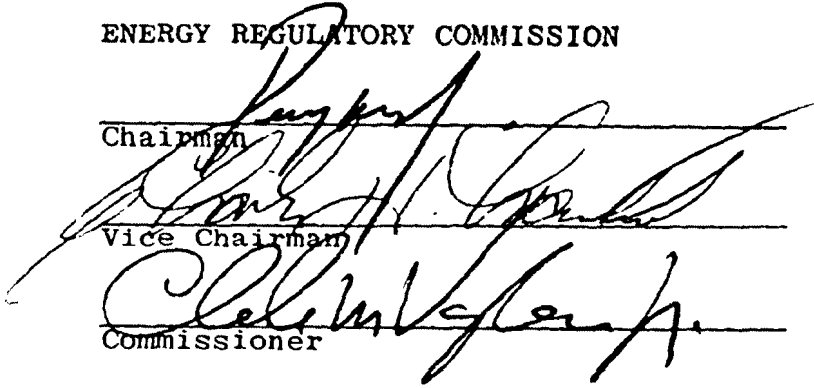
IT IS FURTHER ORDERED, that Elam Utility Company, Inc., shall file with the Commission quarterly financial reports consisting of an income statement and balance sheet. Amounts included as operating revenue and expenses and plant accounts should be shown in detail as provided for in the Uniform System of Accounts prescribed for Natural Gas Companies as adopted by this Commission.

IT IS FURTHER ORDERED, that Elam Utility Company, Inc., shall immediately make and file with this Commission provisions to eliminate the past due portion of its purchased gas expense.

IT IS FURTHER ORDERED, that Elam Utility Company, Inc., shall file with the Commission within thirty (30) days from the date of this Order its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this the 11th day of August, 1980.

ENERGY REGULATORY COMMISSION


Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE ENERGY REGULATORY
COMMISSION IN CASE NO. 7601 DATED AUGUST 11, 1980.

The following rates are prescribed for the customers in the area served by Elam Utility Company. 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 date of this Order.

RATES: Monthly

Customer Charge	\$3.00
First 11 MCF	\$4.17 per MCF
Over 11 MCF	\$5.17 per MCF

PURCHASED GAS ADJUSTMENT CLAUSE

The rates authorized herein are based upon the wholesale cost of gas to the Applicant as computed upon rates of its wholesale suppliers then currently in effect under Federal Energy Regulatory Commission tariffs for interstate business or under wholesale tariffs of this Commission. For the purpose of this purchased gas adjustment clause, these rates shall be considered as the base rate for purchased gas. In the event there is an increase in this base rate the Applicant shall file with this Commission the following information:

(1) A copy of the Federal Energy Regulatory Commission tariff or wholesale tariff of this Commission effecting the change in the base rate and a statement relative to the effective date of such proposed change.

(2) A statement setting out the details of gas purchased under the provision of the base rate for the previous twelve months showing billing under the base rate and under the proposed revised rate applicable to this service.

(3) A statement setting out the details of gas sold for the previous twelve months.

(4) A balance sheet as of the end of the latest twelve-month period and a statement of operating expenses and revenues in the same detail as reported to this Commission in the Utility's Annual Report.

(5) Such other information as this Commission may request for a proper determination of the purchased gas adjustment.

In the event there is a decrease in purchased gas costs or refund, the Applicant shall file the information required in 1, 2, and 4 above.

Upon receipt of this information, this Commission will review the effect of the revised rate on the operation of the Applicant and will issue its Order setting out the purchased gas adjustment that the Utility shall apply to its rates.

The maximum amount of the adjustment so prescribed shall not produce revenue adjustments based upon the actual preceding twelve-month period, greater than the difference between the purchased gas billed at the then existing rates and the purchased gas billed at the revised rate.

On and after the effective date of this rate schedule, if any increase or decrease is made in the rate at which Company's gas suppliers sell gas to the Company, the unit charges of the aforesaid rate schedule shall be increased or decreased by a Purchased Gas Adjustment determined as follows:

(1) Gas purchases will be determined by the Company under supplier's applicable rate schedule during a period of twelve calendar months ending within three months preceding the month of the effective date of the supplier's rate change. Such purchases shall be:

- (a) At the Base Supplier Rate
- (b) At the New Supplier Rate

(2) The difference between the amounts so determined shall be divided by the number of cubic feet of gas sold by the Company during the said twelve-month period, unless purchases are in excess of 105% of total sales. In such instance, such difference shall be divided by sales plus five (5) percent. The unit charge or credit so determined, expressed in cents per cubic feet, shall be the Purchased Gas Adjustment applicable to consumer billings.

(3) The new supplier rates shall become the Base Supplier Rate to be used in measuring the effect of any subsequent supplier rate change. Each such subsequent change shall be treated in the same manner as set forth above for the establishment of a new Purchased Gas Adjustment and for the establishment of a new Base Supplier Rate.

In the event that the Company receives from its supplier a refund of amounts paid to such supplier in respect of a prior period, the Company will apply to the Commission for authority and upon receipt thereof make adjustments on the amounts charged to its customers under this provision, as follows:

(1) The "Refundable Amount" shall be the amount received by the Company as a refund. Such Refundable Amount shall be divided by the number of cubic feet of gas that Company estimates it will sell to its customers during the four-month period commencing with the first day of the month following receipt of the refund, thus determining a "Refund Factor."

(2) Effective with meter readings taken on and after the first day of the second month following receipt of the refund, the Company will reduce by the Refund Factor so determined any Purchased Gas Adjustment that would otherwise be applicable during such period. Provided, however, that the period of reduced Purchased Gas Adjustment will be adjusted, if necessary, in order to refund as nearly as possible the Refundable Amount.

(3) In the event of any large or unusual refunds, the Company may apply to the Energy Regulatory Commission for the right to depart from the refund procedure herein set forth.

The base rate for purchased gas for the future application of this Purchased Gas Adjustment Clause is:

<u>Supplier</u>	<u>Rate</u>
Columbia Gas Transmission Corporation	\$2.6420 per Mcf