

COMMONWEALTH OF KENTUCKY  
BEFORE THE ENERGY REGULATORY COMMISSION

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In the Matter of:

THE APPLICATION OF EAST KENTUCKY )  
UTILITIES, INC., FOR AN ORDER )  
AUTHORIZING A RATE INCREASE AND ) CASE NO. 7768  
APPROVING ITS OPERATING RULES )  
AND REGULATIONS AS AMENDED )

O R D E R

On March 12, 1980, East Kentucky Utilities, Inc., (Applicant) filed an Application to adjust its rates and charges in order to increase annual revenues \$104,086 or approximately 34.7%. Applicant further requested approval of certain amendments to its operating rules and regulations and of a purchased gas adjustment clause. Applicant stated that the requested increase is necessary to cover the increased costs experienced in labor and supplies in order for the utility to continue to offer adequate service to its consumers in Floyd County, Kentucky.

To determine the reasonableness of the proposed rates the Commission set a public hearing to be held June 17, 1980. Notice of such hearing was made by Applicant 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 conclusion of the hearing and following responses to all requested information the matter was submitted to the Commission for final determination.

Test Period

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

Valuation Methods

The Commission has determined from the evidence of record that Applicant's net investment in its utility operations at December 31, 1979, is as follows:

Utility Plant in Service	\$401,865
Cash Working Capital	13,036 <sup>(1)</sup>
Sub-total	<u>\$414,901</u>
Less: Accumulated Depreciation	<u>199,661</u>
Net Investment	<u>\$215,240</u>

Although no other methods of valuation are included herein, the Commission has given due consideration to all elements of value in order to determine the reasonableness of the matter herein.

Revenues & Expenses

Applicant proposed several pro forma adjustments, the net effect being to increase its Net Operating Loss by \$36,477<sup>(2)</sup>. The majority of the Applicant's adjustments were based on arbitrary percentage increases tied ostensibly to the rate of inflation. It is the Commission's opinion that these arbitrary adjustments in the amount of \$4,315, which exclude the adjustments to wage and wage related items and vehicles' expenses which will be discussed further are completely hypothetical and were not proven to be known or measurable and are therefore denied.

Moreover, the Commission has made the following adjustments to Applicant's operations:

(1) Gas Sales - The Applicant proposed to normalize its sales to reflect the rates approved in Case No. 6126-L. An additional purchased gas adjustment case, Case No. 6126-M, has been approved subsequent to the filing date of this case and the Commission has adjusted sales by an additional \$6,857<sup>(3)</sup> to reflect these rates.

(2) Gas Purchases - The Commission has made an adjustment to Applicant's operations to reduce the gas line loss to an allowable five (5) percent for ratemaking purposes. Moreover, in accordance with the adjustment to gas sales, test year purchases

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- (1) One-eighth (1/8) of adjusted operation and maintenance expenses less purchased gas.  
(2) Calculated from Applicant's Exhibits B and N.  
(3) Based on Applicant's Billing Analysis, Applicant's Exhibit M.

have been normalized to reflect the purchased gas cost in 6126-M. Therefore, the Commission has reduced the Applicant's adjustment by \$47,651 from \$80,840 to \$33,189<sup>(1)</sup>.

(3) Wages, Payroll Taxes & Employee Benefits - During the test period Applicant's total wage expense was \$52,875<sup>(2)</sup>, which included \$3,000 for attorney's fees. As other test period expense items included legal fees, the Commission finds that this salary expense constitutes duplicative services and has reduced test period wages by this amount.

The Commission has accepted the Applicant's proposed wage increase of eight (8) percent which applied to accepted test period wages of \$49,875 is \$3,990 or adjusted wages of \$53,865. The related expenses for payroll taxes and employee benefits have been adjusted by \$394<sup>(3)</sup> and \$988<sup>(4)</sup>, respectively.

(4) Rent - The Commission has adjusted rent expense by \$411<sup>(5)</sup> to reflect an annualized level of rent expense attributable to a billing and posting machine in use for only three months of the test period and to eliminate rent expense included in the test period for a supply building that is no longer in use.

(5) Equipment Rental - The Commission has excluded \$3,450<sup>(6)</sup> of expenses in this account which were applicable to a prior period and has included \$1,440<sup>(7)</sup> of expenses recorded subsequent to December 31, 1980, but should properly have been expensed during the test period.

(1) Calculation:

<u>Supplier</u>	<u>MCF Sales + 5% line Loss</u>		<u>Rate</u>	<u>\$</u>
Kentucky West Virginia	133,303	x	\$1.54825	\$206,386
Southeastern Gas Company	43,562	x	\$ .46	20,039
				<u>226,425</u>
				<u>193,236</u>
				<u>\$ 33,189</u>

(2) Applicant's Response to Information Filed June 30, 1980.

(3)  $\$53,865 \times 7.73\% = \$4,164 - \$3,770 = \$394.$

(4)  $\$53,865 \times 7.25\% + \$200 = \$4,105 - \$3,117 = \$988.$

(5) Add: 9 months @ \$119/mo. = \$107

Less: 11 months @ \$60/mo. = 660

\$411

(6) T.E. Page 72.

(7) T.E. Page 73.

(6) Legal and Accounting - Included in the test period expenses were \$1,595<sup>(1)</sup> in legal fees associated with the transfer of ownership of the system from the stockholders of Ohio Kentucky Gas Company, Inc., to Floyd County. (Case No. 7561). Concurrent with the transfer of assets the County entered into a lease agreement with the present operator providing for an initial term and subsequent renewal terms for a total period of twenty-five (25) years<sup>(2)</sup>.

It is the Commission's opinion that the expenses associated with the transfer will have benefit to the County and its customers for at least the twenty-five (25) year period of the lease.

Therefore, the Commission has amortized this expense over the twenty-five (25) year period and reduced test year expenses by \$1,531<sup>(3)</sup>.

(7) Vehicles' Expense - Applicant proposed an adjustment to reflect the increased prices of gasoline and oil. Applicant erroneously calculated this increase based on the total balance in the vehicles' expense account at December 31, 1980. This account included expenses for repairs which the Applicant stated would also increase due to rising prices in labor and parts. As cited above the portion of this adjustment related to repair costs is not known or measurable as Applicant failed to provide adequate documentation to support this increase and is therefore denied.

The Commission does recognize the portion of Applicant's adjustment to this item related to the price increase in gasoline and oil expenses of \$1,548<sup>(4)</sup>.

Therefore, test year operations have been adjusted to produce the following results:

	<u>Per Books</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenue	\$303,535	\$64,099	\$367,634
Operating Expense	326,467	34,008	360,475
Operating Income (Loss)	<u>\$(22,932)</u>	<u>\$30,091</u>	<u>\$ 7,159</u>

(1) T.E. Page 73.

(2) T.E. Page 24.

(3)  $\$1,595 \div 25 \text{ years} = \$64$ ;  $\$1,595 - \$64 = \$1,531$ .

(4)  $\$3,871 \times 40\% = \$1,548$ .

### Rate of Return

The Commission is of the opinion that the adjusted rate of return on Applicant's Net Investment Rate Base of 3.3%<sup>(1)</sup> is clearly deficient and unreasonable.

The Commission is of the opinion that a fair, just and reasonable rate of return is 9% in that it will allow East Kentucky Utilities to pay its operating expenses and service its debt. To achieve these earnings, Applicant is entitled to increase its gas rates to generate additional annual revenues of \$12,350<sup>(2)</sup>.

### Rate Design

East Kentucky has proposed in its Application to "flatten" its rate design to a two-step structure. The Commission is of the opinion and finds that the proposed rate design will provide encouragement for energy conservation and is in the public interest. Therefore, the rates set forth in Appendix "A" of this Order are designed in accordance with this procedure.

### SUMMARY

The Commission, after reviewing all the evidence of record and being advised is of the opinion and finds:

(1) That the rates and charges set out in Appendix "A" attached hereto and made a part hereof will produce gross annual revenues in the amount of approximately \$379,984 and are the fair, just and reasonable rates for the Applicant to charge for gas service in that they will produce revenues sufficient to permit it to pay its operating expenses, service its debt, and provide a reasonable surplus.

(2) That the rates proposed by the Applicant in this Case are unfair, unjust and unreasonable in that they produce gross annual revenues in excess of \$379,984 and should be denied.

(3) That Applicant's request for a Purchased Gas Adjustment Clause should be approved.

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(1)  $\$7,159 \div \$215,240 = 3.3\%$ .  
(2)  $\$215,240 \times 9\% = \$19,509$ .

(4) That East Kentucky Utilities has requested that the Commission approve its proposed "Rules and Regulations" as set out in Exhibit "P" of its Application.

(5) That with the exceptions set out in Findings 6, 7 and 8 to this Order, Applicant's Rules and Regulations should be approved.

(6) That Applicant's proposed regulation establishing an initial connection charge violates the provision of 807 KAR 50:015 Section 10(2) and 807 KAR 50:035 Section 10(1a) and should be denied.

(7) That Applicant's proposed regulation concerning account payments does not allow sufficient time and that the account due date should be extended from ten (10) to fifteen (15) days from the statement mailing date.

(8) That Applicant's proposed regulation concerning the penalty on late payment charges is excessive and should be reduced from "10% on total billing" to: not to exceed 5% on the unpaid balance.

(9) That Applicant has not proposed rules and regulations concerning deposit requirements, bill adjustment procedures, discontinuance of service procedures, meter testing procedures and extension of service policy, and that these should be made a part of Applicant's general tariff.

IT IS THEREFORE ORDERED:

(1) That the schedule of rates and charges set forth in Appendix "A" are fair, just and reasonable for gas service rendered by East Kentucky Utilities, Inc., on and after the date of this Order.

(2) That the rates proposed by Applicant and set out in the Application be and are hereby denied.

(3) That Applicant's proposal for a Purchased Gas Adjustment Clause is hereby approved.

(4) That Applicant's proposed operating regulation establishing an initial service connection charge be and it hereby is denied.

(5) That Applicant's proposed operating regulation establishing an account due date of ten (10) days from the date of mailing, be and it hereby is denied.

(6) That Applicant shall amend its rules, regulations to establish an account due date of fifteen (15) days from the date of mailing.

(7) That Applicant's proposed operating regulation establishing a penalty 10% be and it hereby is denied.

(8) That Applicant shall amend its rules and regulations to establish a penalty not to exceed 5% on the unpaid balance.

(9) That Applicant shall file operating regulations with the Commission concerning deposits, bill adjustment, discontinuance of service, meter testing and extension of service and that these operating regulations shall conform with the provisions of appropriate Commission administrative regulations.

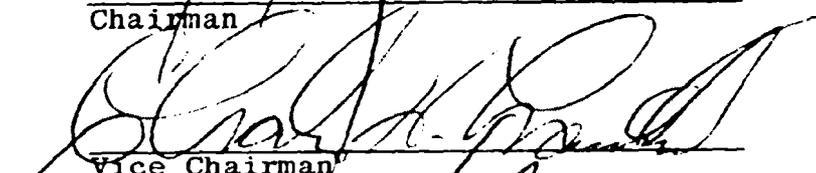
(10) That Applicant shall file with this Commission within twenty (20) days from the date of this Order its revised tariff sheets setting out the rates approved herein.

(11) That Applicant shall file with this Commission within thirty (30) days from the date of this Order its revised General Tariff outlining the changes set forth herein.

Done at Frankfort, Kentucky, this 30th day of October, 1980.

ENERGY REGULATORY COMMISSION

  
\_\_\_\_\_  
Chairman

  
\_\_\_\_\_  
Vice Chairman

  
\_\_\_\_\_  
Commissioner

ATTEST:

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Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE ENERGY REGULATORY  
COMMISSION IN CASE NO. 7768 DATED OCTOBER 30, 1980.

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

Gas Service

Rate:

0 - 1 MCF	\$5.00 Per MCF
Over 1 MCF	1.95 Per MCF

Minimum Bill: \$5.00