

COMMONWEALTH OF KENTUCKY
BEFORE THE ENERGY REGULATORY COMMISSION

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In the Matter of:

THE APPLICATION OF MOUNT OLIVET)
NATURAL GAS COMPANY, INC., FOR AN) CASE NO. 7800
INCREASE IN GAS RATES)

O R D E R

On March 31, 1980, Mount Olivet Natural Gas Company, Inc., hereinafter also referred to as the Applicant, filed a Notice with the Commission requesting an increase in rates of approximately \$18,461 to be effective on and after May 1, 1980.

To determine the reasonableness of the proposed rates, the Commission in an Order dated March 31, 1980, suspended the requested rates for a period of five (5) months on and after the effective date. Further, in an Order dated August 5, 1980, the Commission set a public hearing to be held September 2, 1980. Notice of such hearing was made by the Applicant in manners prescribed by Kentucky Revised Statutes and the Commission's rules.

The hearing was held as scheduled with the Consumer Intervention Division of the Attorney General's Office, the only party intervening in the matter. At the conclusion of the hearing, and following response to requests for additional information, the matter was submitted to the Commission for final determination.

Mount Olivet Natural Gas Company, Inc., is a gas distribution utility serving approximately 400 customers in Mount Olivet, Sardis and rural Robertson and Mason Counties. Applicant purchases its gas supplies from Columbia Gas Transmission Corporation.

Test Period

For purposes of testing the reasonableness of the proposed rates and charges, the Commission has adopted the calendar year ending December 31, 1979. Adjustments, where proper and significant, have been included to more clearly reflect current operating conditions.

Valuation Methods

Net Investment

From the record the Commission has determined that the Applicant's Net Investment at December 31, 1979, is as follows:

Utility Plant in Service	\$157,919
Cash Working Capital	4,002 ⁽¹⁾
Prepayments	3,090
Subtotal	<u>\$165,011</u>
Less: Accumulated Depreciation and Amortization	75,569
Total Net Investment	<u>\$ 89,442</u>

The above calculation agrees with Applicant's proposed Net Original Cost Rate Base⁽²⁾ with one exception. The Applicant proposed to include an allowance for normalized taxes in the working capital calculation. The Commission, in accordance with past policy, rejected this item and thus determined cash working capital to be one-eighth (1/8) of normalized out-of-pocket operation and maintenance expenses less the adjusted cost of purchased gas.

Capital Structure

The Commission has determined the Applicant's Capital Structure at the end of the test period to be as follows:

Common Stock	\$100,000
Paid in Capital	717
Retained Earnings (deficit)	(6,499)
Total Equity	<u>\$ 94,218</u>
Long Term Debt	-0-
Total Capitalization	<u>\$ 94,218⁽³⁾</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.

Revenues and Expenses

Applicant proposed several adjustments to their Operating Statement to more clearly reflect current operating conditions⁽⁴⁾. The Commission finds these adjustments proper and has accepted them for ratemaking purposes with the following exceptions:

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- (1) 1/8 (\$32,012) = \$4,002
 - (2) Applicant's Exhibit 3, Page No. 1
 - (3) Applicant's Exhibit 3, Page No. 3
 - (4) Applicant's Exhibit 2

1. Applicant's adjustment to revenues and expenses to reflect purchased gas adjustments since the end of the test period was based on the Order in Case No. 6005-W, effective January 1, 1980. This adjustment was altered to reflect the current rates placed in effect as a result of the Order in Case No. 6005-Z effective September 1, 1980. The net adjustment is therefore (\$308).

2. Applicant's adjustments to revenues and expenses to account for additional sales volumes resulting from abnormal temperatures experienced during the test year was also altered to reflect the rates in effect as a result of the Order in Case No. 6005-Z effective September 1, 1980. As a result, the net adjustment is \$2,499.

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

	<u>Actual</u>	<u>Proforma Adjustments</u>	<u>Adjusted</u>
Operating Revenue	\$151,210	\$22,403	\$173,613
Operating Expense	149,698	29,498	179,196
Operating Income	<u>\$ 1,512</u>	<u>\$(7,095)</u>	<u>\$ (5,583)</u>
Net, Other Income/ Other Deductions	1,792	-0-	1,792
Net Income (Loss)	<u>\$ 3,304</u>	<u>\$(7,095)</u>	<u>\$ (3,791)</u>

Rate of Return

The Commission is of the opinion that the adjusted operating deficit is clearly unjust and unreasonable.

The Commission is of the opinion that a fair, just and reasonable rate of return on Net Investment Rate Base is 11.56% in that it will allow Mount Olivet Natural Gas Company, Inc., to pay its operating expenses and provide a reasonable surplus. Therefore, test period operations result in a net operating income deficiency of \$15,928⁽¹⁾. This deficiency adjusted for income taxes would cause an additional revenue requirement of approximately \$18,461⁽²⁾, and is the amount of additional revenue granted herein.

(1) $\$89,442 \times 11.56\% = \$10,345 + \$5,583 = \$15,928$

(2) \$15,928 plus income taxes of \$2,533

Liability Insurance

Mount Olivet Natural Gas Company, Inc., has in the past experienced difficulty in obtaining liability insurance. In fact, it has been forced to operate for periods of time without such coverage. Although the Company has had liability insurance during the test year, it was recently notified by its insurance agent that the policy was not renewable. However, the Company has been able to make temporary arrangements to renew the policy on a monthly basis until it is able to obtain coverage from another insurance company. Although this monthly renewal is more costly than an annual policy, the Commission has made no adjustment to operating expenses to reflect this additional cost as the record indicates that this arrangement is only temporary.

The Commission is of the opinion that liability insurance is a necessity. Considering the Company's accumulated insurance reserve fund, the Commission is further of the opinion that a deductible liability insurance policy would be the most prudent and economical means of obtaining liability coverage. It therefore directs the Company to continue its efforts to obtain such coverage on a permanent basis and to keep the Commission informed as to the results of these efforts.

Summary

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

1. The schedule of rates and charges proposed by Mount Olivet Natural Gas Company, Inc., and set forth in attached Appendix "A" are the fair, just and reasonable rates to charge for gas services rendered by the Applicant in that based on test year conditions they will produce revenues of approximately \$192,074.

2. The allowed rate of return on Net Investment of 11.56% is fair, just and reasonable in that it should permit Mount Olivet Natural Gas Company, Inc., to pay its operating expenses, taxes and provide a reasonable amount of surplus for equity growth.

3. All purchased gas adjustments approved by the Commission subsequent to the test period have been included in the gas service rates set forth in Appendix "A".

IT IS THEREFORE ORDERED:

1. That the schedule of rates and charges set forth in Appendix "A" are fair, just and reasonable for gas services rendered by Mount Olivet Natural Gas Company, Inc., on and after the date of this Order.

2. That Mount Olivet Natural Gas Company, Inc., file with this Commission within thirty (30) days from the date of this Order its revised tariff sheets setting out the rates approved herein.

3. That Mount Olivet Natural Gas Company, Inc., shall inform this Commission when they obtain liability insurance coverage as to the carrier, amount, effective date, time period and type of policy.

Done at Frankfort, Kentucky, this 13th day of October, 1980.

ENERGY REGULATORY COMMISSION


Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE ENERGY REGULATORY
COMMISSION IN CASE NO. 7800 DATED OCTOBER 13, 1980

The following rates are prescribed for the customers in the area served by Mount Olivet Natural Gas Company, Inc. 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.

Monthly Service Rates

First	1,000 cubic feet or less	\$5.45 (Minimum Bill)
Next	4,000 cubic feet	3.957 per 1,000 Cubic Feet
Next	5,000 cubic feet	3.757 per 1,000 Cubic Feet
Next	10,000 cubic feet	3.607 per 1,000 Cubic Feet
Over	20,000 cubic feet	3.407 per 1,000 Cubic Feet