

COMMONWEALTH OF KENTUCKY
BEFORE THE ENERGY REGULATORY COMMISSION

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In the Matter of:

ADJUSTMENT OF RATES OF)
MAGOFFIN GAS COMPANY, INC.) CASE NO. 7903
MAGOFFIN COUNTY, KENTUCKY)

INTERIM ORDER

Preface

On June 30, 1980, Magoffin Gas Company, Inc. hereinafter referred to as the "Applicant", filed with this Commission a duly verified application seeking an adjustment of its gas rates to customers served in the communities of Ivyton and Royalton, Magoffin County, Kentucky. The Applicant based its proposed revenue projections on a total of 61 customers which would increase its annual gross revenues by \$25,212. Due to the stringent financial condition of the Applicant, and also the acute need to provide an adequate supply of gas to its customers, this interim rate order is concerned with providing sufficient funds for operating expenses and the necessary rates to obtain debt capital. Cost of debt will be determined by the Applicant pursuant to the orders of this Commission in Case No. 7896. The final order in this case will take into consideration allowable debt cost to be incorporated into the rate structure.

The Commission, by its Order dated July 1, 1980, suspended the Applicant's proposed rates, charges and classifications for a period of five (5) months on and after August 1, 1980.

The case was set for hearing at the Commissions offices in Frankfort, Kentucky on October 7, 1980 at 10:00 a.m., Eastern Daylight Time. All parties of interest were notified with the Consumer Intervention Division of the Attorney General's Office and Mr. Beecher Risner, Royalton, Kentucky being permitted to intervene in the matter. At the hearing, certain requests for additional information were made by the Commission staff. This information has been filed, and the entire matter is now considered to be fully submitted for final determination by this Commission.

Test Period

The Applicant has selected the twelve month period ending March 31, 1980, as the "Test-Year" and has submitted tabulations of its revenues and expenses for this period. Pro-forma adjustments, where proper and significant, have been included to more clearly reflect current operating conditions.

Revenues and Expenses

Applicant proposed several adjustments to Operating Revenues and Expenses as reflected in its Comparative Income Statement. The Commission finds these adjustments allowable and has accepted them for ratemaking purposes with the following exceptions:

(1) Applicant proposed to increase its purchased gas cost by \$1,846 based on annual sales of 5,246 MCF @ \$2.00 per MCF with additional allowances for line loss of 5 percent and severance tax of 4.5 percent. Pursuant to an examination of Applicant's responses filed on October 1 & 13, 1980, line loss was reduced by the Commission from five percent to .6 percent relative to gas purchases of 4,833 MCF and gas sales of 4,804 MCF during the test period. The effect of this adjustment will reduce purchase gas cost by \$482.

(2) Applicant proposed an annual cost of \$5,039 with regard to maintenance of its gas lines. After making a comparative analysis with similar sized gas utilities under the Commissions jurisdiction, this amount was found to be excessive for ratemaking purposes. It was determined that an average cost of \$35 per year, per customer is allowable ($\$35 \times 61 \text{ customers} = \$2,135$).

(3) The same reason as set out in item no. two (2) of this section applies to maintenance of Applicant's meters and regulators. An average cost of \$25 per year, per customer is allowable ($\$25 \times 61 \text{ customers} = \$1,525$).

(4) Applicant proposed a pro-forma cost of \$3,600 per year relative to accounting and collecting labor. This collective cost was reduced to \$2,510 per year which was deemed reasonable in comparison with fees paid for these services by similar sized utilities operating under the jurisdiction of this Commission. The allowable amounts were determined as follows:

Meter Reading	: 61 customers X 12 X \$1.50 =	\$1,098
Cards and Postage	: 61 customers X 12 X .20 =	146
Customer Billing Labor	: 61 customers X 12 X .50 =	366
General Bookkeeping	:\$75 per month	<u>900</u>
Total	:	\$2,510

(5) Applicants pro-forma computation of depreciation expense of \$2,054 per year has been adjusted in the following manner:

(a) Proposed construction at Royalton, Kentucky of \$16,975 was erroneously used by the Applicant in computing proforma depreciation expense. Subsequently, the correct amount (17,975) was filed in the record- \$17,975 ÷ 30 year service life =	\$ 599
(b) "Per Books" depreciation expense of \$1,488 was considered to be excessive and has been re-computed based on a 15 year service life relative to gross plant of \$14,883-\$2,328(Plant Retired) \$12,555 ÷ 15 yr. service life =	<u>837</u>
Total - adjusted	<u><u>\$1,436</u></u>

(6) Applicant proposed to amortize the expenses associated with temporary repairs of \$3,000 over a two (2) year period. However, it was established through Applicant's response filed on October 13, 1980, that \$2,000 is the proper amount to be considered as temporary repairs. The Commission considers a four year period of amortization more appropriate and has reduced the annual charge to \$500 per year.

Therefore, the following tabulation is the Commission's summary of "Test Year" and projected annual revenues and expenses:

	Per Books <u>Test-Year</u>	(1) <u>Pro-Forma</u> <u>Requested</u>	(1) <u>Pro-Forma</u> <u>Found</u> <u>Reasonable</u>
1. <u>Operating Revenues:</u>			
(a) Residential Gas Sales	\$ 4,678	\$ 29,890	\$ 25,132
2. <u>Operating Expenses:</u>			
(a) Natural Gas Purchases	9,666	11,512	11,030
(b) Maint. of Compressor St. Equip.	64	-0-	-0-
(c) Mains & Services Supplies & Exp.	1,543	556	556
(d) Maintenance of Lines	13,998	5,039	2,135
(e) Maint. of Meters & Regulators	6,064	2,557	1,525
(f) Misc. Distribution Expense	(29)	-0-	-0-
(g) Accounting & Collecting Labor	310	3,600	2,510
(h) Uncollectible Accounts	27	27	27
(i) Office Supplies and Expenses	128	128	128
(j) Outside Services Employed	962	-0-	-0-
(k) Property Insurance	198	198	198
(l) Transportation Expenses	1,102	397	397
(m) Depreciation Expense	1,488	2,054	1,436
(n) Amort. of Temporary Repairs	-0-	1,500	500
(o) Rate Case Expense	-0-	750	750
(p) Taxes Other Than Inc. Taxes	168	168	168
(q) Income Taxes	-0-	-0-	735
	<u>\$ 35,689</u>	<u>\$ 28,486</u>	<u>\$ 22,095</u>
Total Operating Expenses			
Net Operating Income	\$(31,011)	\$ 1,404	\$ 3,037
3. <u>Other Income:</u>			
(a) Interest Income	130	-0-	
(b) Other Deductions			
(c) Interest on Long-Term Debt	-0-	2,207	-0-
	<u>\$(30,881)</u>	<u>\$ (803)</u>	<u>\$ 3,037</u>
Net Income (Loss)			

(1) "Per Books" and "Pro-Forma Requested" income and expenses were taken from the Applicants Comparative Income Statement for the twelve-month period ending March 31, 1980.

Summary

The Commission, after consideration of all the evidence of record and being advised, is the opinion and Finds:

1. That, in this instance, the determination of rates and revenues requirements should be based on the operating ratio method.

2. That an operating ratio of approximately 0.88 results from the projected operations, as adjusted, and provides a fair, just and reasonable net income in this instance.

3. That the rates prescribed and set forth in Appendix "A" attached hereto and made a part hereof should produce gross annual revenues of approximately \$25,132 from 61 customers and are the fair, just and reasonable rates to be charged for gas service to customers of the Magoffin Gas Company.

4. That the rates proposed by the Applicant are unfair, unjust and unreasonable in that they would produce revenues in excess of those found reasonable herein and should be denied.

5. That the Commission further concludes that gross annual revenues in the amount of \$25,132 are necessary and will permit the Applicant to meet its operating expenses and provide a reasonable surplus.

Orders in This Matter

The Commission, on the basis of the matters hereinbefore set forth and the evidentiary record in this case:

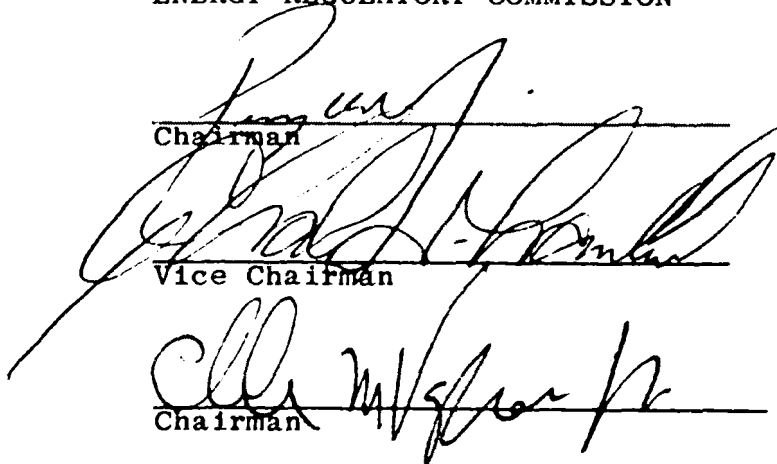
HEREBY ORDERS that the rates prescribed and set forth in Appendix "A" attached hereto and made a part hereof be and they are hereby fixed as the fair, just and reasonable rates of the Magoffin Gas Company for providing gas service to customers located in Ivyton, Royalton and environs of Magoffin County, Kentucky to become effective for services rendered on and after the date of this Order.

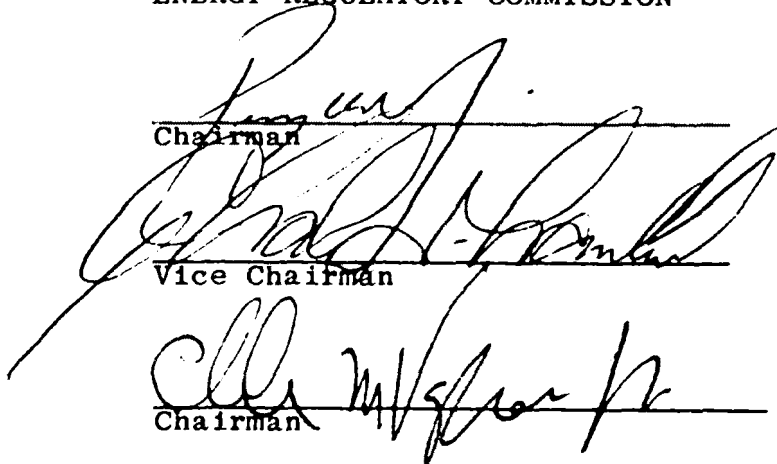
IT IS FURTHER ORDERED that the rates sought by the Applicant be and the same are hereby denied.

IT IS FURTHER ORDERED that the Applicant file with this Commission, within thirty (30) days from the date of this Order, its tariff sheets setting forth the rates approved herein. Further, that a copy of the Applicant's Rules and Regulations for providing service to its customers shall be filed with said tariff sheets.

Done at Frankfort, Kentucky, this 16th day of December, 1980.

ENERGY REGULATORY COMMISSION


Chairman


Vice Chairman


Chairman

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE ENERGY REGULATORY
COMMISSION IN CASE NO. 7903 DATED DECEMBER 16,
1980.

The following rates are prescribed for gas service rendered to all customers served by the Magoffin Gas Company in the areas of Ivyton, Royalton and environs, Magoffin County, Kentucky. 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

First	1 MCF	\$6.00 Minimum Bill
All over	1 MCF	\$4.25 per MCF