

COMMONWEALTH OF KENTUCKY  
BEFORE THE ENERGY REGULATORY COMMISSION

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In the Matter of:

NOTICE OF ADJUSTMENT OF RATES     )  
OF THE WISER OIL COMPANY TO        )  
BECOME EFFECTIVE SEPTEMBER 29,    )  
1980                                    )

CASE NO. 7957

O R D E R

On September 8, 1980, Wisser Oil Company (Applicant) filed a notice with this Commission requesting to increase its rate on and after September 29, 1980. The proposed rate would produce an increase in annual revenue to Applicant of \$990,356, on a test period basis, or an increase of approximately 22.5%. Applicant stated that the increase was necessary due to increased operating and capital costs.

In order to determine the reasonableness of the proposed rate, the Commission in Orders dated September 9, and September 12, 1980, suspended the proposed increase for a period of five (5) months on and after the effective date and set a public hearing for December 18, 1980.

The hearing was held as scheduled with the Attorney General's Division of Consumer Intervention, the sole intervenor, being present and participating in the proceedings. At the close of the hearing and following the Applicant's responses to requests for additional information, the matter was submitted to the Commission for final determination.

Wisser Oil Company produces, purchases and transports natural gas, selling the product for resale, to Delta Natural Gas Company and People's Gas Company, which was recently acquired by Delta. Applicant's last general rate increase was granted in Case No. 6870, effective in 1977.

TEST PERIOD

Applicant proposed and the Commission has accepted the twelve months ending June 30, 1980 as the test period in this case. Pro forma adjustments, where found reasonable, have been included to more clearly reflect current operating conditions.

VALUATION METHODS

Net Original Cost

Applicant proposed a Net Original Cost Rate Base at June 30, 1980 of \$11,770,880.<sup>1/</sup> The Commission has recognized the adjusted level of operation and maintenance expenses found reasonable herein in its calculation of Cash Working Capital and has therefore determined the rate base to be \$11,772,629, as follows:

Plant in Service	\$18,220,812
Construction Work in Progress	113,293
Materials & Supplies	151,706 <sup>2/</sup>
Cash Working Capital	119,581 <sup>2/</sup>
Subtotal	<u>\$18,605,392</u>
Less:	
Reserve for Depreciation	\$ 6,832,763
Net Original Cost Rate Base	<u>\$11,772,629</u>

Capital

At June 30, 1980, Applicant's investment was financed entirely by common equity. As the natural gas production and transmission is operated as a division of the corporation, which is also engaged in the production and sale of other petroleum products, it can be assumed that the portion of capital assignable to the investment in gas operations is equal to the Net Original Cost Rate Base as set out above.

REVENUES AND EXPENSES

Applicant proposed two pro forma adjustments to more clearly reflect current operations.<sup>3/</sup> Moreover, the Applicant submitted additional information, following inquiry at the hearing, which established that the adjustment for wage increases

<sup>1/</sup> Notice, Exhibit A, Page 1 of 2.

<sup>2/</sup> \$956,645 x 12.5% = \$119,581

<sup>3/</sup> Notice, Exhibit A, Pages 1 and 2.

had been understated in the original application by \$14,846.<sup>4/</sup>  
 The Commission has accepted the Applicant's adjustment for the  
 Kentucky Gas Severance Tax and has accepted the adjusted level  
 of wages of \$64,846.<sup>5/</sup>

To correspond to the additional wages, the Commission has  
 adjusted the related payroll overhead costs by \$3,118,<sup>6/</sup> making  
 the total for this adjustment \$13,618.<sup>7/</sup> Of this latter amount  
 the Commission has included the amount related to the employer's  
 portion of the Federal Insurance Contribution Act (FICA) taxes  
 of \$3,975, in Taxes Other Than Income Taxes.

After applying the Combined State and Federal Income Tax  
 Rate of 49.24% to the appropriate adjustments, the Commission  
 finds that net operating income should be decreased by \$88,163  
 to \$892,034 as follows:

	<u>Per Books</u> <sup>8/</sup>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenue	\$4,390,534	\$ -0-	\$4,390,534
Operating Expenses	3,410,337	88,163	3,498,500
Net Operating Income	<u>\$ 980,197</u>	<u>\$(88,163)</u>	<u>\$ 892,034</u>

#### RETURN

The Commission is of the opinion that the adjusted rate of  
 return of 7.58%<sup>9/</sup> is clearly unfair, unjust and unreasonable.

The Commission is of the opinion that a fair, just and  
 reasonable rate of return is 11.85%, which will allow Applicant  
 to pay its operating expenses and provide a reasonable surplus  
 for equity growth.

The additional revenue required, and the amount of the  
 increase granted herein, is equal to the Applicant's requested  
 increase and is computed as follows:

Adjusted Net Operating Income	\$ 892,034
Net Income Found Reasonable	<u>1,394,739</u>
Deficiency	\$ 502,705
Deficiency Adjusted for Taxes or Increase	<u>\$ 990,356</u>

<sup>4/</sup> Filed January 25, 1981

<sup>5/</sup> IBID

<sup>6/</sup> \$14,846 x 21% = \$3,118.

<sup>7/</sup> \$64,846 x 6.13% = \$3,975

<sup>8/</sup> Notice, Exhibit A, Page 1 of 2.

<sup>9/</sup> \$892,934 ÷ \$11,772,629 = 7.58%

SUMMARY

Having considered the evidence of record and being advised, the Commission is of the opinion and FINDS that:

(1) The rate proposed by the Applicant and set out in Appendix "A" is the fair, just and reasonable rate to charge for gas service rendered by Wiser Oil Company in that, based on test year conditions, it will produce gross annual revenues of approximately \$5,380,890.

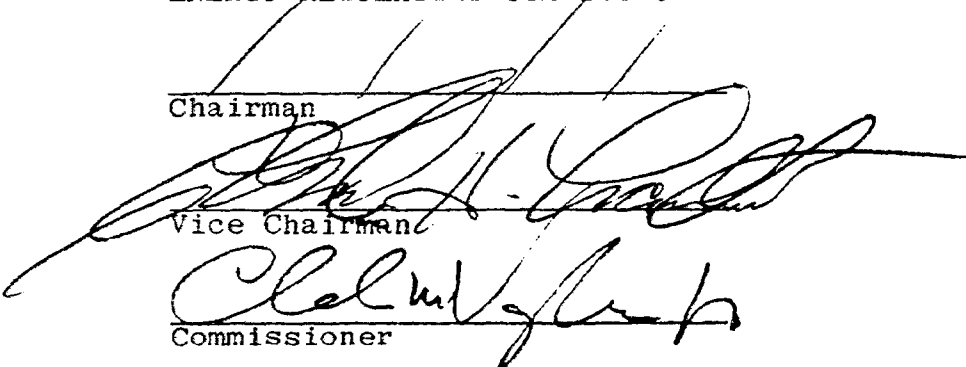
(2) The allowed rate of return on the Net Original Cost Rate Base of 11.85% is fair, just and reasonable in that it should permit the Applicant to provide for its necessary operating expenses and accumulate a reasonable amount of surplus for equity.

IT IS THEREFORE ORDERED, that the Applicant be and it hereby is directed to place into effect the rate set forth in Appendix "A," attached hereto and made a part hereof. Said rate is to be made effective on and after the date of this Order.

IT IS FURTHER ORDERED, that the Applicant shall file with this Commission, within thirty (30) days from the date of this Order, its tariff sheets setting forth the rates and charges approved herein.

Done at Frankfort, Kentucky, this 26th day of February, 1981.

ENERGY REGULATORY COMMISSION

  
Chairman

Vice Chairman

Commissioner

ATTEST:

\_\_\_\_\_  
Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE ENERGY REGULATORY  
COMMISSION IN CASE NO. 7957 DATED February 26, 1981

The following rates and charges are for wholesale gas service for all customers of Wiser Oil Company. 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.

Rates: Monthly

Wholesale Service

Per MCF

Delta Natural Gas Company, or its successors

\$2.17

Purchased Gas Adjustment (PGA) applicable to rates approved herein  
0.00¢ per 100 cu. ft.\*

\*Purchased Gas Adjustment authorized after completion of refunds authorized in Case No. 6870-A dated January 13, 1978, 6870-B dated April 3, 1978, 6870-C dated August 2, 1979 and 6870-D dated March 13, 1980.