

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of

THE APPLICATION OF COLUMBIA GAS )  
OF KENTUCKY, INC., FOR AN ORDER )  
REQUIRING MIKE LITTLE GAS COMPANY, )  
INC., TO SHOW CAUSE WHY IT SHOULD ) CASE NO. 8497  
NOT BE REQUIRED TO PLACE ITS FUNDS )  
UNDER ESCROW UNDER COMMISSION )  
DIRECTION )

AND

ADJUSTMENT OF RATES OF THE )  
PHELPS GAS COMPANY, INC., OF ) CASE NO. 8562  
PHELPS, KENTUCKY )

O R D E R

PROCEDURAL BACKGROUND

On July 8, 1982, the Phelps Gas Company, Inc., ("Phelps") filed an application with the Commission seeking approval of an increase in its gas rates. The proposed rates would produce an increase in gross annual revenues of approximately \$29,146 or 15.78 percent above test period revenues. The Commission in this Order has allowed rates to produce an increase in revenues of \$11,564.

A public meeting was held in this matter on September 9, 1982, in the Commission's offices in Frankfort, Kentucky. The Consumer Protection Division of the Attorney General's office and Columbia Gas of Kentucky, Inc., ("Columbia") were permitted to intervene.

On April 6, 1982, Columbia, Phelps' gas supplier, filed an application with the Commission requesting that the Commission require Phelps to charge its customers a surcharge in order to pay past-due bills Phelps owed on gas purchases. On June 15, 1982, the case was heard, and Columbia presented testimony that detailed Phelps' delinquency in payment and requested that a surcharge on Phelps' customers bills of \$1.50 per Mcf be placed into effect to pay amounts owed for purchases. The Commission, in an Order entered on July 30, 1982, consolidated the two cases. Moreover, Columbia filed a motion on August 16, 1982, in the consolidated cases again requesting the establishment of a surcharge of \$1.50 per Mcf.

#### ANALYSIS AND DETERMINATION

##### Test Period

For the purpose of determining the reasonableness of the proposed rates and surcharge, the 12-month period ending December 31, 1981, has been accepted as the test period.

##### Valuation Method

##### Net Investment

Phelps proposed a net investment rate base of \$28,518.<sup>1</sup>/<sub>1</sub>. The Commission has moreover included prepayments in the amount of \$400. Therefore, the Commission has determined Phelps net investment rate base at December 31, 1981, to be as follows:

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<sup>1</sup>/ Item No. 4 of Phelps explanation of adjustments contained in the application.

Gas Utility Plant in Service	\$64,387
Add:	
Prepayments	400
Cash Working Capital	3,704
Less:	
Reserve for Depreciation	<u>39,619</u>
Net Investment Rate Base	<u>\$28,872</u>

Revenues and Expenses

Phelps proposed several pro forma adjustments to actual operating revenues and expenses. The Commission finds these adjustments reasonable and has accepted them for rate-making purposes with the following exceptions:

Natural Gas Purchases

Phelps adjusted its test period expenses for natural gas purchases by \$47,634 to reflect the price of gas at the end of the period for adjusted gas purchases of \$173,459. Phelps experienced gas line loss of 13.1 percent<sup>2/</sup> during the test period. The Commission considers gas line loss above 5 percent to be excessive. Therefore, for rate-making purposes, the Commission has reduced Phelps adjusted natural gas purchases expense by \$14,765 to \$158,694.<sup>3/</sup>

Rate Case Expense

Phelps included estimated rate case expenses of \$1,550 to be amortized over 3 years. On August 16, 1982, Phelps filed revised estimates of rate case expense which totaled \$2,980.

<sup>2/</sup> Annual Report for 1981, page 15, (4,645 MCF ÷ 35,494 MCF = 13.1 percent).

<sup>3/</sup> 30,849 MCF ÷ .95 x \$4.887 = \$158,694.

To support the revised estimate, Phelps provided a breakdown of hourly rates and estimated hours of work to be performed by its rate case consultants. The consulting accountants' revised expense estimate was computed on the basis of 14 hours at \$40 per hour. The accountant did not prepare testimony and did not appear at the public meeting. The Commission is, therefore, of the opinion that the estimated expense should be reduced by \$320 to reflect the reduction expected for 8 hours time applicable to the public meeting. The remaining cost of \$2,660 has been amortized over a 3-year period and represents a net adjustment of \$106 to Phelps' computation.

#### Amortization of Accounts Receivable

Phelps proposed an adjustment of \$2,531 to expenses to amortize its accounts receivable over an 8-year period. Phelps requested this adjustment to provide additional working capital for operations to offset its time lag in the collection of its bills. On August 16, 1982, Phelps filed a schedule showing the aging of accounts receivable. The schedule revealed that 94 percent of the accounts receivable were collected within a period of 30 days during the same course of the test period. This does not indicate a collection problem. Moreover, working capital has been allowed in Phelps' rate base. Therefore, the Commission is of the opinion that no support exists for this adjustment and has rejected it.

Thus, Phelps' adjusted operations at the end of the test period are as follows:

	<u>Phelps Adjusted</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted</u>
Operating Revenues	\$187,706	\$ - 0 -	\$187,706
Operating Expenses	<u>213,050</u>	<u>(18,386)</u>	<u>194,664</u>
Operating Income	<u>\$(25,344)</u>	<u>\$ 18,386</u>	<u>\$ 6,958</u>

#### Rate of Return

The Commission is of the opinion that Phelps' adjusted operating loss is unfair, unjust and unreasonable. The Commission is further of the opinion that a rate of return on net investment of 13 percent is fair, just and reasonable for Phelps to earn in that it will allow Phelps to meet its expenses and provide a reasonable surplus for equity growth. Therefore, the Commission finds that Phelps should be permitted to increase its rates to produce an increase in annual revenue of \$11,564,<sup>4/</sup> which includes state and federal income taxes of \$853.<sup>5/</sup>

#### OTHER MATTERS

##### Past Due Payables

Columbia supplies the wholesale gas requirements of the Phelps Gas Company. Moreover, Phelps has been delinquent in its payments for gas purchases subsequent to the time of filing this

<sup>5/</sup> \$4,606 (Gross taxable income) x 18.52 percent (Federal and state composite income tax rate) = \$853.

<sup>4/</sup> \$194,664 (Adjusted operating expenses) + \$3,753 (13 percent allowed return) - \$189,706 (adjusted per books revenue) + \$853 (state and federal income taxes) = \$11,564.

rate case, and, therefore, owes Columbia \$41,775, which includes interest at 18 percent, as of August 18, 1982.

Columbia requested that the Commission institute a monthly surcharge of \$1.50 per MCF applicable to the customers of Phelps. On this basis, it would take Phelps approximately 12 months to repay the debt. The Commission has analyzed the financial exhibits and the annual reports of Phelps and finds that failure to make current payments for gas purchases is primarily the result of management's failure to seek timely rate relief.

The Commission is of the opinion that both the pay-back period and the proposed monthly surcharge is unfair and unreasonable in that it would place a tremendous financial burden on Phelps' customers. The Commission has determined that a pay-back period not to exceed 24 months is more reasonable and should be the period to pay off the delinquent gas payments. Moreover, the surcharge method will be a combination of flat monthly fee/usage per MCF which is more appropriate than the proposed method because it more equitably distributes the cost to the customers of Phelps.

Therefore, the Commission finds it appropriate for Phelps' ratepayers to pay a surcharge of \$2 per month plus an additional charge of \$.51 per MCF for a period not to exceed 24 months or until total revenues (including accrued interest at 7 percent per annum) of \$44,890 are collected, whichever first occurs. Amounts collected under this surcharge will be applied by Phelps solely to the settlement of the debt owed to Columbia. Amounts owed in excess of this amount will be the responsibility of the stockholders.

The Commission further advises Phelps that failure to comply with the terms and conditions set forth herein will result in the implementation by the Commission of steps necessary to insure safe and adequate service to Phelps' customers. Phelps will be required to file with the Commission quarterly statements of payment on its indebtedness to Columbia.

#### FINDINGS AND ORDER

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The rates in Appendix A are fair, just and reasonable rates to charge for gas service rendered to Phelps' customers and should produce annual gross revenues of approximately \$196,322.

2. The rates proposed by Phelps will produce revenues in excess of the revenues found reasonable herein and should be denied upon application of KRS 278.030.

3. Phelps should charge its customers, in addition to the rates in Appendix A, a surcharge as outlined in Appendix A to this Order.

4. Phelps should be required to submit a quarterly statement showing amounts received from the surcharge and each payment made to Columbia Gas of Kentucky, Inc., with copies of cancelled checks and the supplier's invoices.

IT IS THEREFORE ORDERED that Phelps be and it hereby is authorized to place into effect the rates and charges in Appendix A for gas service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the proposed rates be and they hereby are denied.

IT IS FURTHER ORDERED that Phelps shall place into effect the surcharges in Appendix A, effective with the next billing after the date of this Order for a period not to exceed 24 months on and after the date of the next billing or until \$44,890, including interest accrued at 7 percent has been collected, whichever first occurs.

IT IS FURTHER ORDERED that Phelps shall file a quarterly statement with the Commission outlining the amounts collected from the surcharge payments made to Columbia Gas of Kentucky, Inc. These monthly statements shall include a copy of the cancelled checks and the supplier's invoices.

IT IS FURTHER ORDERED that within 20 days of the date of this Order, Phelps shall file its tariffs setting out the rates approved in Appendix A.

Done at Frankfort, Kentucky, this 30th day of November, 1982.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Secretary



APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO. 8497 and 8562  
DATED 30th day of November, 1982.

The following rates are prescribed for the customers in the areas served by Phelps 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.

RATES:

First	1 Mcf	\$9.10 Minimum Bill
Over	1 Mcf	6.80 Per Mcf

The above rates have incorporated the latest PGA Order in Case No. 5743-W and for the purpose of the future application of the purchased gas adjustment clause of Phelps, the base rate for purchased gas shall be:

	<u>Commodity</u>
Columbia Gas of Kentucky, Inc.	\$5.571 Per Mcf

SURCHARGE: Monthly

Phelps Gas Company, Inc., will charge each customer the following surcharge for a period not to exceed 24 months:

RATES:

Monthly Charge	\$2.00 Per Month
Mcf Charge	\$0.51 Per Mcf