

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE NOTICE TO INCREASE GAS RATES BY)
WESTERN LEWIS RECTORVILLE WATER AND)
GAS DISTRICT AND REQUEST FOR AUTHOR-) CASE NO. 8678
IZATION TO USE DEPRECIATION FUNDS)
FOR REPAIRS)

O R D E R

On October 14, 1982, the Western Lewis Rectorville Water and Gas District ("Western Lewis") filed its notice with the Commission seeking approval of an increase in rates charged for natural gas service. Western Lewis has also requested authorization to use depreciation funds for the purpose of making necessary repairs to its system. The proposed rates would produce an increase in gross annual revenues of approximately \$19,107, or 5.3 percent above test period revenues. In this Order the Commission has allowed rates to produce an increase in revenues of \$13,175.

A public hearing in this matter was held February 4, 1983, in the Commission's offices at Frankfort, Kentucky. The Consumer Protection Division of the Attorney General's Office was permitted to intervene and participated in the public hearing. All information requested by the Commission has been submitted.

TEST PERIOD

Western Lewis proposed and the Commission has accepted the 12-month period ending May 31, 1982, as the test period in this case.

REVENUES AND EXPENSES

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

Purchased Gas Expense

Western Lewis erroneously calculated the purchased gas expense allowable by the Commission for rate-making purposes. The Commission has recalculated this expense and has increased Western Lewis' expense by \$792.

Other Interest Expense

During the test period, the gas division of Western Lewis incurred late payment penalties of \$2,738 from its supplier, Columbia Gas Transmission, Inc. Western Lewis reported these late payment penalties as other interest expense. Moreover, the gas division of Western Lewis proposed an adjustment to its other interest expense of \$3,375 to reflect interest on anticipated short-term borrowing from the water division. The Commission is of the opinion that the rates allowed in this Order will provide

sufficient revenues for the gas division to meet its out-of-pocket expenses and debt service requirements on a timely basis. Therefore, The Commission has denied these adjustments and reduced Western Lewis' adjusted test period other interest expense by \$6,113.

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

	<u>Western Lewis Adjusted</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted</u>
Operating Revenues	\$ 361,092	\$	\$ 361,092
Operating Expenses	360,157	792	360,949
Operating Income	<u>\$ 935</u>	<u>\$ (792)</u>	<u>\$ 143</u>
Interest Income	\$ 423		\$ 423
Interest Expense	13,224	(6,113)	7,111
Net Income (Loss)	<u>\$ (11,866)</u>	<u>\$ 5,321</u>	<u>\$ (6,545)</u>

REVENUE REQUIREMENTS

The Commission has used the debt service coverage method to determine appropriate revenue requirements for Western Lewis. Western Lewis' average debt service for each of the next 5 years is approximately \$11,451. ⁽¹⁾ Western Lewis' debt service coverage on adjusted operating income of \$143 plus actual interest income of \$423 is .05X. The Commission is of the opinion that this

(1) Western Lewis' Response to Information Requested,
Filed November 30, 1982.

coverage is unfair, unjust and unreasonable. Furthermore, the Commission is of the opinion that a debt service coverage of 1.2X is the fair, just and reasonable coverage necessary for Western Lewis to pay its operating expenses and to meet the requirements of its lenders. Accordingly, the Commission has determined that additional revenues of \$13,175⁽²⁾ are necessary to provide the 1.2X debt service coverage which will insure the financial stability of Western Lewis.

RATE DESIGN

Western Lewis proposed no changes in its existing rate design and proposed to allocate the increase in revenue equally to each rate of the rate block steps. The Commission is of the opinion that the proposed rate design is reasonable and should be accepted.

SUMMARY

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

(2)	1.2X Debt Service Coverage (Principal \$4,340 + Interest \$6,828 + Amortization of Debt Discount \$283 X 1.2)	\$ 13,741
	Add: Adjusted Operating Expenses	360,949
	Subtotal	<u>\$374,690</u>
	Less: Adjusted Operating Revenue	361,092
	Interest Income	423
	Increase Granted	<u><u>\$ 13,175</u></u>

1. The rates in Appendix A, which have been adjusted to incorporate the purchased gas adjustments through Case No. 6996-GG, are the fair, just and reasonable rates to charge for gas service rendered to Western Lewis' customers.

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

3. Western Lewis' proposal to use internally generated funds of \$11,881 for the purpose of performing needed construction is in the public interest and should be approved. Furthermore, Western Lewis should be required to submit a report to the Commission at the close of this construction project setting out the following information:

Accounts affected by the withdrawal of funds;

Amounts withdrawn from each account; and

Proposed plan for refunding these accounts.

IT IS THEREFORE ORDERED that Western Lewis 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 Western Lewis is granted authority to use internally generated funds of \$11,881 for the purpose of performing needed construction. Furthermore, Western Lewis shall abide by the reporting requirements set out in finding number 3.

IT IS FURTHER ORDERED that for the purpose of the future application of the purchased gas adjustment clause of Western Lewis, the base rate for purchased gas shall be:

	<u>Commodity</u>
Columbia Gas Transmission Corporation	
Schedule GSG	\$4.8905 per Dth
Columbia LNG Corporation	\$6.0801*

*Includes transportation charge of \$.4701

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

Done at Frankfort, Kentucky, this 1st day of March, 1983.

PUBLIC SERVICE COMMISSION

NIT SITTING
Chairman

ATTEST:

Katherine Randall
Vice Chairman

Secretary

Len Dungan
Commissioner

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8678 DATED March 1,
1983.

The following rates are prescribed for the customers in the area served by Western Lewis-Rectorville Water and Gas District (Gas Division). 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	1,000 cu. ft. or less	\$ 8.17 (Minimum Bill)
Next	4,000 cu. ft. per 1,000 cu. ft.	6.0515
Next	5,000 cu. ft. per 1,000 cu. ft.	6.0015
Over	10,000 cu. ft. per 1,000 cu. ft.	5.9015