

COMMONWEALTH OF KENTUCKY /  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

ADJUSTMENT OF RATES            )  
OF THE MIKE LITTLE            )    CASE NO. 8799  
GAS COMPANY, INC.            )

ORDER

On March 31, 1983, Mike Little Gas Company, Inc., ("Mike Little") filed its application with the Commission to increase its rates charged to its customers in Melvin and adjacent Floyd County in Kentucky. The proposed increase of \$46,879<sup>1/</sup> represents an increase of 17.7 percent over unadjusted revenues for the 1982 fiscal year or 12.2 percent over 1982 revenues normalized for the last purchased gas adjustment, 7176-K. In this Order the Commission has authorized \$39,973 in additional revenues or 85 percent of the requested increase.

In order to determine the reasonableness of the proposed increase, the Commission suspended the proposed rates until September 28, 1983, and ordered that a hearing be held on June 9, 1983, in its offices at Frankfort, Kentucky. The Consumer Protection Division of the Attorney General's Office was the sole intervenor in this matter.

Analysis and Determination

Test Period

Mike Little proposed and the Commission has accepted the 12 months ending December 31, 1982, as the test period in this proceeding.

Net Investment Rate Base

Mike Little proposed a net investment rate base of \$79,124.<sup>2/</sup> The Commission has accepted the proposed rate base with these following modifications:

Accumulated Depreciation

At the time of application Mike Little submitted a depreciation schedule using other depreciation methods not approved by the Commission. In response to the Commission's first information request dated May 19, 1983, Mike Little filed a revised schedule using straight line depreciation rates as approved by the Commission and restated beginning and ending 1982 accumulated depreciation account balances. In keeping with past policy, the Commission has adjusted Mike Little's accumulated depreciation account by \$3,993 to reflect depreciation using the straight-line method determined as follows:

	Balance Beginning of the year 1982	\$78,572 <sup>3/</sup>
Add:	Straight line depreciation of radio equipment for 1982	1,721
	Straight line depreciation for 1982	9,677
Less:	Net charge for retired plant	<u>&lt;4,632&gt;<sup>4/</sup></u>
	Accumulated depreciation - end of the year 1982	\$85,338
	Proposed	89,331
	Difference	<u>&lt;3,993&gt;</u>

Cash Working Capital

Mike Little proposed to include a cash working capital allowance of \$11,500 in its proposed rate base. The Commission has increased this amount by \$152 to \$11,652 in order to allow one-eighth of the adjusted operating and maintenance expenses less purchased gas found appropriate herein. Moreover, the Commission has adjusted Plant in Service to account for the communication equipment and system maps purchased subsequent to the test year.

Thus, the Commission has determined Mike Little's net investment rate base to be as follows:

Utility Plant (Adjusted for System Map and Radio Equipment)	\$182,718
Working Capital	<u>11,652</u>
Subtotal	\$194,370
Less Depreciation Reserve	<u>85,338</u>
Net Investment Rate Base	<u>\$109,032</u>

Revenues and Expenses

Mike Little had a net operating loss of \$2,438 for the test period. In order to reflect current operating conditions, Mike Little proposed several adjustments to revenues and expenses resulting in an adjusted net operating loss of \$35,001. The appropriate level of net operating income as determined by the Commission after consideration of the proposed adjustments is a net operating loss of \$25,799.

The Commission has accepted Mike Little's pro forma revenues and expenses with the following adjustments:

Depreciation Expense

Mike Little made no adjustments to depreciation expense, thereby maintaining the \$11,798 level of expense for rate-making purposes. However, the test period expense does not reflect the straight line depreciation rate approved by the Commission nor does it reflect the depreciation expense for the purchased radio equipment. Therefore, in keeping with Commission policy, depreciation expense has been decreased by \$400 calculated as follows:

	Straight line depreciation expense	\$ 9,677 <sup>5/</sup>
Add:	Straight line depreciation of radio equipment	<u>1,721<sup>6/</sup></u>
		<u>\$11,398</u>

Income Taxes

In the original application, Mike Little proposed an income tax expense of \$1,937 arising from the liability created through the proposed rate increase. However, at the June 19, 1983, hearing Mike Little tendered exhibit 2-2 which in effect replaces the \$1,937 tax expense with a \$9,929 expense broken down as follows:

Maintenance of system maps	\$ 1,000
Maintenance of communication equipment	600
Depreciation of system map	2,743
Depreciation of radio equipment	1,721
15% return	<u>3,865</u>
	<u>\$ 9,929</u>

Mike Little withdrew the proposed income tax expense because it is a Subchapter S Corporation and tax expenses of this kind are inappropriate for rate-making purposes.

The additional adjustments described above were omitted from the original application because of their uncertainty at the time.

The Commission finds the newly proposed adjustments reasonable with the following exceptions:

Depreciation of System Map - Mike Little proposed to depreciate the system map over a 5-year period as it would be useless after such time. However, the Commission is of the opinion that the maintenance fee discussed above will perpetually keep the map up-to-date thus eliminating the need to recover the cost over a 5-year period. Therefore, the Commission has disallowed \$2,743 of depreciation of the system map.

#### Purchased Gas

Mike Little proposed two adjustments to purchased gas expense consisting of the normalization of gas purchases to year end levels according to the last purchased gas adjustment 7176-K amounting to \$118,924 and a weather normalization adjustment of \$17,356. Mike Little calculated these adjustments using its test period line loss of 7.8 percent. The Commission in the past has used an allowable maximum line loss of 5 percent for rate-making purposes and deems it appropriate in this case. Therefore, the Commission has recalculated purchased gas cost as follows:

Purchased Gas Cost

Test period gas sales	76,231 MCF <sup>8/</sup>
+ Minimum allowable sales to purchases	.95
Adjusted maximum gas purchases	<u>80,243 MCF</u>
Purchase rate per 7176-K	\$ 3.7004
Total Maximum Gas Purchases	<u>\$296,931</u>

Temperature Adjustment

Excess heating sales	4,351 MCF <sup>9/</sup>
X 1.05 maximum line loss	<u>1.05</u>
Allowable heating purchases	4,569
Purchase rate per 7176-K	<u>\$ 3.7004</u>

Total Temperature Adjustment \$ 16,907

Net Allowable Gas Purchases  
(\$296,931 - \$16,907) \$280,024

Therefore, the adjusted operations of Mike Little are stated as follows:

	<u>Mike Little Adjusted</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted</u>
Operating Revenues	\$ 363,019	\$ -0-	\$ 363,019
Operating Expenses	<u>398,020</u>	<u>(9,202)</u>	<u>388,818</u>
Net Operating Income	<u>\$ (35,001)</u>	<u>\$ 9,202</u>	<u>\$ (25,799)</u>

RATE OF RETURN

In its application Mike Little proposed a rate of return of 15 percent. The Commission is of the opinion that a fair, just and reasonable rate of return on net investment rate base taking into account recent economic trends and company past performance

should be 13 percent in that it will allow Mike Little to meet its operating expenses and provide a reasonable return for equity growth.

REVENUE REQUIREMENT

Based on the rate of return found fair, just and reasonable and Mike Little's adjusted operations, the required net operating income is \$14,174. Thus, the Commission has determined that Mike Little should be allowed to increase its rates and charges by \$39,973 annually, determined as follows:

Required Net Operating Income	\$ 14,174
Adjusted Net Operating Loss	<u>25,799</u>
Required Revenue Increases	<u>\$ 39,973</u>

FINDINGS AND ORDERS

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

(1) The rates and charges proposed by Mike Little should be denied upon application of KRS 278.030 in that they will produce revenues in excess of those found fair, just and reasonable.

(2) The rates and charges in Appendix A are the fair, just and reasonable rates and charges to be charged by Mike Little on and after the date of this Order.

IT IS THEREFORE ORDERED that the rates and charges in Appendix A be and they hereby are the fair, just and reasonable rates and charges to be charged by Mike Little for service rendered on and after the date of this Order.

FOOTNOTES

1. Mike Little Application for Rate Increase, Exhibit 3, page 1.
2. Ibid., Exhibit 2, page 1.
3. Response to Commission Order of May 19, 1983, Item 6.
4. 1982 Public Service Commission Annual Report for Mike Little Gas Company, page 6, Line 19.
5. Response to Commission Order of May 19, 1983, Item 6.
6. Transcript of Evidence, June 14, 1983, Exhibit 2-2.
7. Ibid.
8. Mike Little Application for Rate Increase, Exhibit 3, page 3.
9. Ibid.

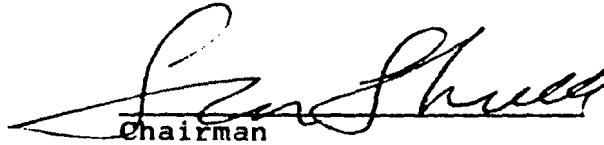


IT IS FURTHER ORDERED that the rates proposed by Mike Little be and they hereby are denied upon application of KRS 278.030.

IT IS FURTHER ORDERED that Mike Little shall file its revised tariff sheets with this Commission setting forth the rates and charges approved herein within 30 days of the date of this Order.

Done at Frankfort, Kentucky, this 27th day of September, 1983.

PUBLIC SERVICE COMMISSION

  
Chairman

not participating  
Vice Chairman

  
Commissioner

ATTEST:

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Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC  
SERVICE COMMISSION IN CASE NO. 8799 DATED  
SEPTEMBER 27, 1983

The following rates are prescribed for the customers served by Mike Little 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: Monthly

First 1 Mcf - Minimum Bill	\$ 6.07
All over 1 Mcf	5.7889 per Mcf

The above rates have incorporated the rates established in PGA Case No. 7176-L.