

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

NOTICE OF DAVIS BRANCH GAS )  
COMPANY TO INCREASE ITS )  
RATES FOR GAS SERVICE ) CASE NO. 8920  
PURSUANT TO 807 KAR 5:076 )

O R D E R

On October 19, 1983, Davis Branch Gas Company ("Davis Branch") filed an application with the Commission to increase its gas rates pursuant to 807 KAR 5:076. This regulation allows utilities with 400 or fewer customers or \$200,000 or less gross annual revenues to use the alternative rate filing method ("ARF") in order to minimize the necessity for formal hearings, to reduce filing requirements and to shorten the time between the application and the Commission's final Order. This procedure should minimize rate case expenses to the utility and, therefore, should result in lower rates to the ratepayers.

There were no intervenors in this matter, and all information requested by the Commission has been submitted.

Davis Branch requested rates which would produce an annual increase of \$25,474 from its 53 customers. Of this increase, \$21,885 is from an increase in the cost of purchased gas to Davis Branch from its suppliers. The Commission recommends that Davis Branch consider filing a purchased gas adjustment clause to deal with supplier rate changes and, therefore, reduce future rate case

expense. In this Order, the Commission has allowed additional revenues of \$25,373.

TEST PERIOD

For the purpose of determining the reasonableness of the proposed rates, the 12-month period ending December 31, 1982, has been accepted as the test period.

REVENUES AND EXPENSES

Davis Branch incurred a net loss for the test period of \$1,443 after the adjustment made to correct its test period revenues by \$379. Davis Branch proposed several pro forma adjustments to its test period operating revenues and expenses to reflect current operating conditions more accurately. The Commission finds these adjustments reasonable and has accepted them for rate-making purposes with one exception:

Davis Branch, in its response to the Commission's request for additional information dated November 15, 1983, withdrew its interest expense adjustment of \$85, stating that it was unable to obtain the necessary backup information to sustain the adjustment. Thus, the Commission has reduced the pro forma interest expense of Davis Branch for the test period by \$85.

Therefore, Davis Branch's adjusted operations at the end of the test period are as follows:

	<u>Davis Branch Adjusted</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted</u>
Operating Revenues	\$ 12,474	\$	\$ 12,474
Operating Expenses	36,414		36,414
Operating Income	<u>\$ (23,940)</u>	<u>\$</u>	<u>\$ (23,940)</u>
Interest Expense	280	(85)	195
Net Income (Loss)	<u><u>\$ (24,220)</u></u>	<u><u>\$ 85</u></u>	<u><u>\$ (24,135)</u></u>

### REVENUE REQUIREMENTS

The Commission is of the opinion that Davis Branch's adjusted operating loss is unfair, unjust and unreasonable. The Commission is further of the opinion that an operating ratio of 88 percent is fair, just and reasonable in that it will allow Davis Branch to meet its operating expenses, service its debt and provide a reasonable return to its stockholders. Therefore, the Commission finds that Davis Branch should be permitted to increase its rates to produce an increase in annual revenue of \$25,373<sup>1</sup> which includes federal and state income taxes of \$217.<sup>2</sup>

### SUMMARY

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

1. The rates proposed by Davis Branch would produce revenues in excess of the revenues found reasonable herein and should be denied upon application of KRS 278.030.

2. The rates in Appendix A are the fair, just and reasonable rates to charge for gas service rendered to Davis Branch's customers and should produce annual revenues of approximately \$37,847.

IT IS THEREFORE ORDERED that the rates in Appendix A be and they hereby are the fair, just and reasonable rates of Davis

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<sup>1</sup>  $\$7,270 + \$217 = \$7,487 \bullet 88 \text{ percent} = \$8,508 + \$29,144 + \$195$   
 $- \$12,474 = \$25,373.$

<sup>2</sup>  $\$8508 \text{ (Revenue requirement exclusive of cost of gas and interest)} - \$7,270 = \$1,238 \text{ (Taxable Income)} \times .1755$   
 $\text{(Composite federal and state tax rate)} = \$217.$

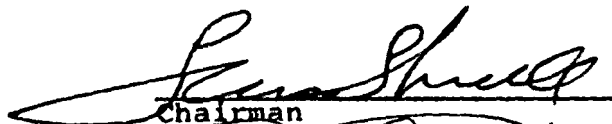
Branch for gas service rendered on and after the date of this Order.

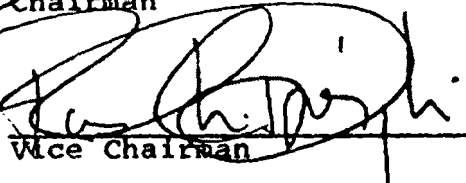
IT IS FURTHER ORDERED that the rates proposed by Davis Branch be and they hereby are denied.

IT IS FURTHER ORDERED that, within 30 days of the date of this Order, Davis Branch shall file with this Commission its tariff sheets setting forth the rates approved herein and a copy of its rules and regulations for providing gas service.

Done at Frankfort, Kentucky, this 9th day of February, 1984.

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. 8920 DATED 2/9/84

The following rates and charges are prescribed for the customers served by Davis Branch Gas Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

RATES

0 - 1 Mcf (Minimum Bill)	\$8.00
Over 1 Mcf	4.95 per Mcf