COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF THE MIKE LITTLE GAS COMPANY, INC.	))	CASE NO. 9535

O R D E R

On September 17, 1986, the Commission issued its Final Order in this proceeding wherein it granted Mike Little Gas Company, Inc., ("MLG") additional revenues of $32,850. On October 6, 1986, MLG filed for rehearing on seven issues: (1) revenue generated by rates granted; (2) rent expense; (3) theft loss; (4) rate of return; (5) depreciation expense; (6) amortization expense; and (7) surcharge.

Following are the Commission's findings regarding MLG's petition for rehearing:

Revenue Granted by Rates

MLG stated in its petition that the rates granted did not produce the revenues recited in the Order. The Commission will allow rehearing on this issue to afford MLG the opportunity to present evidence that the rates do not produce the granted revenues after consideration of the reduction through PGA Case No. 8799-U.

Rent Expense

MLG requested rehearing on the Commission's treatment of rent expense. The Commission will grant rehearing to allow MLG the opportunity to provide additional evidence on this issue. In order to support the need for the proposed net expense, MLG should provide testimony and documentation as follows:

1. That the monthly rent expense is not more than it would be in an arms-length transaction.

2. Present tangible evidence to justify a higher rent expense for MLG than two other small gas companies owned by Mike Little occupying the same office space.

3. That the rent charge for this office space compares favorably with the cost of similar office space in the market area.

4. That no economically viable alternative for office space exists.

5. Justification for the necessity of the amount of square footage rented, and detailed descriptions of how this square footage is used (office, garage, storage, etc.)

6. Detailed descriptions of all other operations conducted from the same office space in addition to the two gas companies and the amount of rent paid by these operations.

7. Evidence that MLG bills and collects for the gas used at the building.

MLG is given 30 days in which to file testimony and present other proof on this issue.

Theft Loss

In its petition, MLG claimed that the Commission erred in disallowing $4,345 related to a theft loss from its office. The Commission finds it appropriate to grant rehearing on this issue and to permit MLG to file any additional evidence it deems appropriate which would clarify the circumstances surrounding this loss within 30 days from the date of this Order.

Rate of Return

MLG requested rehearing on the 10 percent rate of return on rate base granted by the Commission, stating that a $13,002 annual return on the allowed $130,018 rate base did not result. MLG is incorrect in its statement. The rates are designed to produce revenues of $325,846, while allowed operating expenses were $312,844. This results in the allowed operating income of $13,002. MLG is apparently mistakenly assuming that a granted 10 percent return on rate base means the return after payment of interest expense. Interest is not an operating expense and is, therefore, treated as a deduction from operating income.

MLG has been allowed a return on its rate base consistent with that allowed other small Eastern Kentucky gas companies in recent cases, and when non-cash expenses are considered, adequate cash flow is provided which should be applied toward extinguishment of MLG's debts to Kentucky-West Virginia Gas Company ("Kentucky-West") and other creditors. MLG should note that there is very little equity investment in this company and, therefore, its stockholders should not expect excessive returns relative to that investment.

Depreciation Expense

MLG requested rehearing on the Commission's findings on depreciation expense, stating that the original cost and original useful life should be used for each asset rather than remaining life and remaining balance. MLG has previously depreciated these assets at rates greater than permitted by the Commission, thus resulting in greater write-offs than would have existed had the straight-line method been used. These excess amounts are amounts that have been recovered previously from ratepayers. Therefore, the only reasonable method to compute allowable depreciation is on an undepreciated balance/remaining useful life basis; the method proposed by MLG would result in double recovery of the costs of the assets.

The Commission, therefore, denies rehearing on this issue.

Amortization Expense

MLG requested rehearing on the Commission's disallowance of amortization expense. The adjustment, as described in the Order, was necessary because expenditures were incorrectly charged to prepayments; the amounts included in prepayments were then incorrectly charged to amortization expense. The Commission, therefore, made adjustments to correct MLG's errors.

Within its discussion in its rehearing petition, MLG makes reference to the expense for maintenance of its system map which was accepted as an adjustment in Case No. 8799. MLG is apparently relating this map-maintenance expense to the 40-year life assigned to the depreciation of the original cost of the system map. The depreciation of the original cost of the system map has no direct relationship to annual expenses for upkeep of the map. No expenses for on-going map upkeep were disallowed in this proceeding since none were incurred or included in test-year actual expenses and the Commission is of the opinion that 40 years is a reasonable period over which to depreciate a system map. It should be of benefit throughout the remaining life of the system.

MLG has stated that it believes it is responsible for an annual leak survey on a portion of its system. The largest portion of the system is located in rural, nonbusiness areas. Leak surveys on pipeline outside of business areas must be conducted at intervals not exceeding 5 years, or as frequently as necessary depending upon the known history and condition of the pipe. MLG has most recently (1984) had a systemwide leak survey performed by an independent firm. It is this survey on which the Commission bases its depreciation period. To the extent that additional leak surveys are required within the 5-year period, the Commission is of the opinion the performance and costs should be borne by the company as part of its routine maintenance activities.

The Commission, therefore, denies rehearing on this issue.

Surcharge

MLG requested rehearing on the Commission's decision to deny MLG's motion to impose a $1.86 surcharge for the purpose of retiring its arrearage to Kentucky-West. MLG, in its application, failed to produce any new evidence on this issue and the Commission, therefore, denies rehearing.

The Commission further orders MLG to contact Kentucky-West to negotiate a payment plan satisfactory to eliminate the arrearages and to keep its current bills paid to date. MLG is required to report the status of the negotiation with Kentucky-West within 30 days of the date of this Order.

SUMMARY

The Commission, after consideration of the petition for rehearing, the record in Case No. 9535, and being otherwise advised, is of the opinion and finds that:

1. MLG should be granted rehearing on the issues of the revenue generated by the rates, rent expense, and the theft of funds from its office.

2. Rehearing should be denied on the issues of rate of return, depreciation expense, amortization expense, and the imposition of a surcharge.

3. MLG should enter into negotiations with Kentucky-West to negotiate a payment plan on its arrearage.

IT IS THEREFORE ORDERED that:

1. MLG is hereby granted rehearing on the issues of the revenue generated by the rates, rent expense, and the theft of funds from its office.

2. Rehearing is hereby denied on the issues of rate return, depreciation expense, amortization expense, and the imposition of a surcharge.

3. MLG shall, within 30 days, file testimony and present any other proof it deems appropriate on the issues granted rehearing herein.

4. MLG shall enter into negotiations with Kentucky-West to negotiate a payment plan on its arrearage.

5. MLG shall report the status of its negotiations with Kentucky-West within 30 days on and after the date of this Order.

Done at Frankfort, Kentucky, this 27th day of October, 1986.

PUBLIC SERVICE COMMISSION

Richard D. Heman Jr.
Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director