

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF THE RATES OF LYDA GAS )  
COMPANY, INC., PURSUANT TO THE )  
ALTERNATIVE RATE ADJUSTMENT PROCEDURE ) CASE NO. 9600  
FOR SMALL UTILITIES )

O R D E R

On May 22, 1986, Lyda Gas Company, Inc., ("Lyda") filed an application with the Commission requesting authority to increase its gas rates. This application was filed pursuant to 807 KAR 5:076, Alternative Rate Adjustment Procedure for Small Utilities ("ARF"). Lyda stated that the requested increase was necessary because under the present rates it cannot pay current bills and maintain lines and meters. The amount of increased revenue requested by Lyda was \$4,438, an increase of 43.2 percent. Based upon the determination herein, no deficiency exists in the revenues of Lyda and, therefore, no increase in revenues has been allowed.

A hearing was not requested in this matter, and in accordance with the provisions of the ARF, no hearing was conducted. The decision of the Commission is based upon information contained in the application, written submissions, annual reports, staff reports and other documents on file in the Commission's offices.

COMMENTARY

Lyda operates as a public utility providing gas service to 29 customers in the town of Elkhorn City in Pike County, Kentucky.

### TEST PERIOD

Lyda proposed, and the Commission has accepted, the 12-month period ending December 31, 1985, as the test period for determining the reasonableness of the proposed rates. In utilizing the historical test period, the Commission has given full consideration to appropriate known and measurable changes.

### STAFF AUDIT REPORT ADJUSTMENTS

In the course of its investigation in this case, the Commission staff performed a limited audit to verify reported test year expenses and determine what accounting or classification changes might be appropriate. The Commission's objective was to substantially reduce the need for written data requests, thus reducing the expense of the rate case to Lyda. The staff audit report of Lyda's financial operations for the calendar year 1985 was filed as a part of the record in this case on August 29, 1986, and Lyda was given the opportunity to respond to the findings in the report. Having received no comments from Lyda, the Commission hereby adopts the findings of that report to be used as the basis for the rates proposed herein.

The Commission has made additional adjustments to the test year, as contained in the audit report, based upon the following findings of fact to reflect more normal and current operating conditions:

### VALUATION

Lyda, within its ARF application, did not propose a net investment rate base.

Though the audit report found that the reported December 31, 1985, balance sheet is unreliable, in the absence of any evidence in support of more appropriate valuation, the Commission will adopt it as the best available source of Lyda's test-year-end net investment rate base. Additionally, working capital of 1/8 of operation and maintenance expenses, exclusive of depreciation, taxes and other deductions, has been calculated based upon the adjusted pro forma operation and maintenance expenses found reasonable herein.

Therefore, Lyda's net investment rate base for rate-making purposes is as follows:

Gas Utility Plant in Service	\$23,428
Add:	
Prepayments	1,200
Materials and Supplies	1,529
Cash Working Capital	279
Less:	
Reserve for Depreciation	<u>22,863</u>
Net Investment Rate Base	<u>\$ 3,573</u>

#### REVENUES AND EXPENSES

Lyda proposed no adjustments to actual test period operations. The Commission has made adjustments as found appropriate to reflect current and anticipated operating conditions.

#### Normalized Revenue

Based upon the test-year billing data collected during the audit, the Commission has calculated normalized test year revenues to be \$9,661. This amount was determined by applying test-year

gas rates to actual test-year Mcf sales and results in an adjustment of \$608 to actual test period revenues.

Rent Expense/Utilities

As noted in the staff audit report, Lyda Gas will no longer be renting the building that it occupied during the test year; therefore, the following adjustments have been made to eliminate expenses associated with the rental of that building:

<u>Item Eliminated</u>	<u>Amount</u>	<u>Staff Audit Report Page Reference</u>
Bottled Gas	\$ 256	#4
Electricity	282	#5
Rent	<u>1,800</u>	#5
TOTAL	<u>\$2,338</u>	

The Commission, after consideration of all pro forma adjustments, has determined Lyda's adjusted operating results to be as follows:

	<u>Test Year Per Audit</u>	<u>Test Year Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$10,269	\$ <608>	\$9,661
Operating Expenses	<u>7,936</u>	<u>&lt;2,338&gt;</u>	<u>5,598</u>
Operating Income	\$ 2,333	\$ 1,730	\$4,063
Other Deductions	<u>255</u>	<u>-0-</u>	<u>255</u>
NET INCOME	<u>\$ 2,078</u>	<u>\$ 1,730</u>	<u>\$3,808</u>

RATE OF RETURN

In its application Lyda did not specify the rate of return on rate base which it was seeking, nor did it propose any other method to arrive at a reasonable level of earnings. In its last

case, issued in October 1980, Lyda was allowed a return on rate base of 13.5 percent. However, in consideration of lower interest rates and an improving economy, the Commission has, in recent cases, consistently allowed gas companies similarly capitalized and approximately the size of Lyda a maximum return of 10 percent.

The Commission is of the opinion that in this instance a return of 10 percent is a fair, just and reasonable rate of return on net investment rate base in that it will allow Lyda to pay its operating expenses, service its debt and provide a reasonable surplus for equity growth.

#### REVENUE REQUIREMENTS

No method for computation of its revenue requirement was proposed by Lyda in its application. The Commission has, therefore, computed revenue requirements herein in a manner consistent with the treatment normally accorded similarly-sized, similarly-capitalized gas companies, and consistent with Lyda's most recent case.

The Commission has determined that Lyda has a revenue sufficiency of \$3,706 in excess of the level required to earn a 10 percent return on its test-year-end net investment rate base. A 10 percent return on rate base applied to the adjusted test-year operating expenses results in a revenue requirement of \$5,955; normalized test year revenues were \$9,661. Therefore, the Commission finds that no deficiency exists in the revenues of Lyda and has allowed no increase in revenues herein.

SUMMARY

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

1. The rate proposed by Lyda would produce revenue in excess of that found reasonable herein and therefore should be denied upon application of KRS 278.030.

2. No deficiency exists in the current revenues of Lyda.

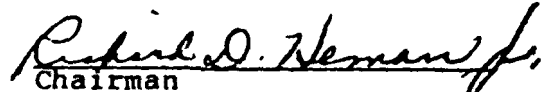
IT IS THEREFORE ORDERED that:

1. The rates proposed by Lyda be and hereby are denied.

2. The rates currently being charged by Lyda shall remain in effect.

Done at Frankfort, Kentucky, this 1st day of October, 1986.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Executive Director