

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE PETITION OF BLUEGRASS GAS SALES, INC.)	
FOR APPROVAL OF A CERTIFICATE OF CONVENIENCE)	
AND NECESSITY TO CONSTRUCT FACILITIES,)	CASE NO.
APPROVAL OF FINANCING, APPROVAL OF INITIAL)	94-433
RATES AND OPERATION OF A NATURAL GAS)	
DISTRIBUTION SYSTEM)	

O R D E R

On February 27, 1996, Bluegrass Gas Sales, Inc. ("Bluegrass Gas") filed a petition for rehearing of the Commission's February 20, 1996 Order stating that it will not be serving the 5 commercial customers it had originally projected it would serve. The Commission granted Bluegrass Gas's petition for rehearing by Order dated March 14, 1996. The March 14, 1996 Order granting rehearing included a data request to Bluegrass Gas concerning the impact of the loss of the commercial customers on the cost of service and initial rates of the utility as found reasonable by the Commission in its February 20, 1996 Order.

In its petition for rehearing, Bluegrass Gas stated that due to the fact that the area to be served is rural and sparsely populated with few commercial customers and because of the substantial revenue impact the loss of the commercial sales will have on its operations, the company will not have sufficient revenue to provide reliable service to its remaining customers without modifying the rate approved in the Commission's February 20, 1996 Order.

In its March 28, 1996 response to the March 14, 1996 Order, Bluegrass Gas projected the annual loss of 7,500 Mcf in commercial sales would reduce its overall projected sales to 17,500 Mcf annually, a loss of 30 percent. In the same response, Bluegrass Gas identified reductions in gas costs, telephone and office expenses, and depreciation associated with the loss of the commercial customers. The Commission having reviewed the information finds that Bluegrass Gas's projections of decreasing expenses are reasonable and should be allowed. The Commission has also included an adjustment of \$28 to reflect the decrease in the PSC assessment from the amount that was included in the original order. These adjustments result in a \$19,163¹ decrease to operating expenses. Based on the 11.09 percent return on capitalization previously authorized, the revised revenue requirement is \$98,356.²

Bluegrass Gas also proposed in its responses adjustments to include a firm transportation fee and an amortization of additional start-up costs in the revenue

¹	7,500 Mcf's lost x \$2.50 per Mcf	\$18,750
	Decrease in telephone expense	200
	Decrease in office expense	100
	Decrease in Depreciation expense(a)	85
	Decrease in PSC Assessment (b)	<u>28</u>
	Total Expense Reduction	<u>\$19,163</u>

(a) Based upon the depreciation schedule included in the February 20, 1996 Order and adjusted for the reductions to plant identified by Bluegrass Gas in its March 28, 1996 response.

(b)	Assessment in February 20, 1996 Order	\$177
	\$98,356 in revenues x 0.001509 assessment rate	<u>149</u>
	Reduction to Assessment	<u>\$ 28</u>

²	Revenue Requirement approved in the 2/20/96 Order	\$117,519
	Less: Expense Reductions approved herein	<u>19,163</u>
	Total Revised Revenue Requirement	<u>\$ 98,356</u>

requirements of the utility. The transportation fee is part of Bluegrass Gas's cost of gas and is subject to inclusion in its periodic gas cost adjustment clause filings. When changes in the costs of gas occur, they should be included in purchased gas adjustment filings.

The response to Item 11 of the March 14, 1996 Order contained an additional cost for amortization of start-up costs. The start-up costs were not identified or supported and no information was included which would associate this cost solely with the loss of the commercial customers. Since the rehearing was granted for the sole purpose of considering the revenue requirement effects of the loss of the commercial customers, this item should not be included. The Commission included a reasonable level of amortization of start-up costs in its February 20, 1996 Order and no adjustment is required on rehearing.

The Commission's February 20, 1996 Order in this case did not include the proposed transportation fee charged by Natural Gas of Kentucky, Inc. ("Natural Gas") for gas delivered to Bluegrass Gas because Natural Gas did not have an authorized rate on file with the Commission. On May 6, 1996, the Commission authorized rates for Natural Gas including a 65 cent per Mcf transportation rate.³ The rates contained in Appendix A include the 65 cent transportation rate as a component of the Gas Cost Recovery Rate of \$3.15

The Commission, after considering the evidence of record and being otherwise sufficiently advised, finds that the rates in Appendix A approved herein are the fair, just and reasonable rates and will produce sufficient revenues to meet Bluegrass Gas's reasonable operating expenses, and provide for future equity growth.

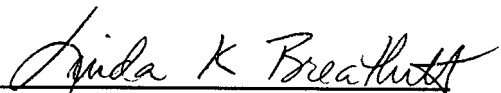
³ Case No. 95-547, In the Matter of The Tariff Filing of Natural Gas of Kentucky to Establish a Distribution Transportation Service, Order Dated May 6, 1996.

IT IS THEREFORE ORDERED that:

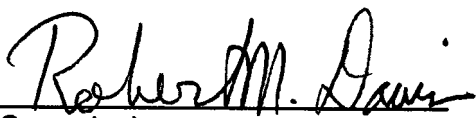
1. Bluegrass Gas's proposed adjustments for firm transportation and amortization of start-up costs are denied.
2. The rates in Appendix A are the fair, just and reasonable rates and are approved for service rendered by Bluegrass Gas on and after the date of this Order.
3. Within 30 days of the date of this Order, Bluegrass Gas shall file with the Commission its revised tariffs setting out the rates approved herein.

Done at Frankfort, Kentucky, this 31st day of May, 1996.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 94-433 DATED MAY 31, 1996

The following rates and charges are prescribed for the customers in the area served by Bluegrass Gas Sales, 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 effective date of this Order.

RATES:	Base Rate	Gas Cost Recovery Rate	Total
All Mcf (Minimum Bill)	\$3.1203	\$3.15	\$6.2703