

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|----------------------------|---|------------|
| ALTERNATIVE RATE FILING |) | |
| ADJUSTMENT APPLICATION OF |) | CASE NO. |
| JOHNSON COUNTY GAS COMPANY |) | 2012-00140 |

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION
TO JOHNSON COUNTY GAS COMPANY, INC.

Johnson County Gas Company ("Johnson County"), pursuant to 807 KAR 5:001, is to file with the Commission the original and six copies of the following information, with a copy to all parties of record. The information requested herein is due within 14 days of the date of this request. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Johnson County shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Johnson County fails or refuses to furnish all or part of the requested information,

Johnson County shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

1. Refer to the responses to Items 1 and 2 of the Commission Staff's Second Request for Information ("Staff's Second Request"). The last sentence in the response to Item 1.b. states, "This amended request completely supplants the original request for increase in rates and makes the information previously submitted in ARF Form-1 irrelevant." Items 2.b.i., 2.b.ii., and 2.c. of the response include a proposed new rate structure consisting of a \$15.00 monthly customer charge for all residential and commercial meters, a per Mcf rate of \$10.3247, and a per Mcf surcharge of \$3.0772.

a. As Johnson County's application and the notice it provided to its customers did not reflect the proposed new rate structure, explain whether Johnson County believes the Commission is permitted to process this case based on the existing procedural dates or whether the proposal of new rates now requires the Commission to establish a new "filed date" for this case, which would mean establishing a new effective date for the proposed new rates.

b. Item 2.b.ii. of the response states that Johnson County's Mcf sales for the 12 months ending September 30, 2012 were 12,674, down 22 percent from its calendar year 2011 sales of 16,316 Mcf. The response goes on to state that this

decrease was primarily due to a much warmer 2011-2012 winter compared to the 2010-2011 winter.

(1) Identify the other reasons, aside from the warmer winter, that resulted in the decreased sales volumes for the more recent period.

(2) Heating Degree Day (“HDD”) data for Kentucky published by the National Oceanographic and Atmospheric Administration (“NOAA”) shows that, for the six months, October 2010 through March 2011 (the 2010-2011 “heating season”), HDD were 4,228 and, for the months which make up the 2011-2012 heating season, October 2011 through March 2012, HDD were 3,241.¹ The data also shows that the HDD for the 2010-2011 heating season were roughly 200 above normal while the HDD for the 2011-2012 heating season were roughly 800 less than normal.² Given that the temperature data, in the form of HDD, shows that the winter heating season from which Johnson County now wants to use the Mcf sales and base its rate calculations was much more abnormal than the prior heating season, explain why the Commission should calculate Johnson County’s rates using the smaller sales volumes.

c. The last paragraph in Item 2.b.ii. of the response states that “A reasonable rate of return is 9% of total revenues (not including recovery of gas cost)” Explain how Johnson County determined that a percentage of total revenues approach is appropriate and why it believes 9 percent is a reasonable rate of return.

d. Explain whether Johnson County is familiar with the operating ratio method typically used by the Commission to determine the revenue requirement of

¹ ftp://ftp.cpc.ncep.noaa.gov/htdocs/products/analysis_monitoring/edus/degree_days/archives, last viewed on Jan. 9, 2013.

² Id.

small, privately-owned utilities in which, for gas utilities, operating expenses (excluding gas costs) are divided by a ratio of 0.88 to derive revenues required from base rates.

2. Refer to the response to Item 2.c. of Staff's Second Request and the bankruptcy documents attached as Exhibit 1 to the application. The response indicates that, pursuant to its reorganization plan filed in the U.S. Bankruptcy Court, Johnson County needs to repay its creditors \$39,000 annually for a period of five years, for a total of \$195,000. The bankruptcy documents appear to identify six creditors: (1) Johnson County Fiscal Court; (2) Constellation New Energy; (3) Atmos Energy Marketing, Inc.; (4) Columbia Gas Transmission, LLC; (5) the Kentucky Department of Local Government; and (6) the Internal Revenue Service.

a. These creditors were owed amounts for franchises taxes, natural gas purchases, natural gas delivery services, debt service payments, etc. Given that it was (1) legally permitted to request an increase in rates at any time to recover its operating expenses and (2) has had a Gas Cost Adjustment clause in its tariffs for many years, explain why Johnson County's financial condition, under the management of its current president, Mr. Bud Rife, deteriorated to the point that it filed for bankruptcy.

b. Explain why the Commission should expect that Johnson County's fiscal operations, under the future management of Mr. Rife, will be improved compared to its historical level of operations under Mr. Rife's management.

3. Refer to the responses to Item 5.a. and b. of Staff's Second Request.

a. The responses to Item 5, together with the responses to Item 7 of Commission Staff's First Request for Information, indicate that, based on his W-2s and his personal income tax return, Mr. Rife's combined compensation in 2011 from B & H

Gas, Bud Rife Construction Company, and B & S Oil & Gas Company was \$69,387. Provide the amount of his management contract fee for 2011 that Mr. Rife reported as income for personal income tax purposes.

b. Provide the calculations, and accompanying narrative description, which show and explain how Johnson County determined that the secretarial services it receives via Mr. Rife's management contract would cost \$45,000 annually if they were charged directly to Johnson County.

c. The response identifies Renae Tackett as a B & H Gas employee who provides services to Johnson County under Mr. Rife's management contract. A review of B & H Gas's 2011 Annual Report filed with the Commission does not appear to reflect compensation for Ms. Tackett in any of the accounts in which secretarial, administrative, or clerical services would normally be recorded. Provide the total amount of Ms. Tackett's compensation from B & H Gas in 2011, including all employee benefits, and state where this compensation is reflected in B & H Gas's 2011 Annual Report.



Jeff Derouen
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED JAN 11 2013

cc: Parties of Record

Joe Childers
Joe F. Childers & Associates
300 Lexington Building
201 West Short Street
Lexington, KENTUCKY 40507

Bud Rife
Manager
Johnson County Gas Company, Inc.
P. O. Box 447
Betsy Layne, KY 41605