

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

ELECTRONIC APPLICATION OF SENTRA
CORPORATION FOR AN ALTERNATIVE RATE
ADJUSTMENT

CASE NO. 2020-00102

SENTRA CORPORATION'S RESPONSE TO COMMISSION STAFF REPORT

On July 28, 2020, the Kentucky Public Service Commission Staff filed its Staff Report regarding Sentra Corporation's ("Sentra's") proposed rate adjustment filed in Case No. 2020-00102. Sentra respectfully files herein the following comments regarding the findings in the Staff Report.

Rate Design

Sentra does not have any objections to the Staff's recommended rate design, including the recommended level of the customer charges.

Revenue Requirement

Sentra believes that there may be an error in the calculation of the revenue requirement as shown on page 13 of the Staff Report. Specifically, Sentra believes that revenue requirements related to Clay Gas may have been deducted twice in the calculation of base rate revenue requirements for Sentra's retail customers.

In calculating the revenue required from rates on page 13 of the Staff Report, the 88% operating ratio was applied to a Pro Forma Operating Expense amount from which all expenses related to Clay Gas had been removed. Specifically, the 88% Operating Ratio was applied to total operating expenses of \$436,814, which includes \$118,958 in cost of goods sold and

\$317,856 in operating expenses. The \$118,958 in cost of goods sold and \$317,856 in operating expenses correspond to the pro forma amounts shown on page 7 of the Staff Report.

In calculating these amounts, the Staff made *pro forma* adjustments to remove expenses related to Clay Gas. In particular, the adjustments referenced as “(B)” specifically removed all expenses related to Clay Gas. (See Attachment A hereto.) As explained on page 8 of the Staff Report, “Because these sales [the Sales to Clay Gas] are not regulated by the Commission, Staff reclassified the revenues and expenses to record the net income from sales to Clay Gas separately from Sentra’s retail revenue and expenses.”

Therefore, the total operating expenses of \$436,814 shown on page 13 of the Staff Report *do not include any expenses related to Clay Gas*. However, in calculating the Revenue Required from Rates of \$286,385 shown on page 13, Revenue from Sales to Clay Gas of \$208,026 was deducted from the overall revenue requirement. This entry appears to be in error because all Clay Gas expenses have already been removed from the overall revenue requirement of \$496,380, from which an additional \$208,026 in Clay Gas revenue requirement is removed. In other words, it appears that revenue requirement related to Clay Gas has been removed twice.

Sentra believes that correcting this presumed error would result in a substantially larger increase. In calculating its proposed increase, Sentra’s proposed rates that would allow it to simply cover its expenses, without providing a material net income increase to the company. Consequently, in its application, Sentra proposed a revenue increase that was significantly less than what could be supported by the application of an 88% operating ratio. Sentra did this to give consideration to the ratemaking principles of rate continuity and gradualism.

Even though Sentra believes that there is an error in the calculation of Staff’s recommended revenue requirement, as formulated on page 13 of the Staff Report, it feels that the

level of increase recommended by the Staff is acceptable. Although the revenue increase recommended by the Staff is less than what Sentra proposed, and is less than can be supported by a fully consistent revenue requirement calculation, Sentra believes that it represents a significant movement towards reflecting its cost of service and is consistent with the ratemaking principle of gradualism, which was one of Sentra's goals in its filing.

Request for Staff Conference

To gain a better understanding of the calculations shown on page 13 of the Staff Report, which will help Sentra evaluate its revenue requirements in future rate applications, Sentra hereby requests a Staff Conference prior to the issuance of the Commission's Order in this proceeding. In the Staff Conference, Sentra would also like to discuss alternatives that might be possible for creating a new rate schedule for public authorities, schools and churches; specifically, whether such a new rate classification could be included in the current general rate case application or whether a 30-day rate filing would be required. In consideration of the COVID outbreak, Sentra would be agreeable to the Staff Conference being held by videoconference or by telephone conference.

Respectfully submitted,

/s/ Robert C. Moore

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