

Sullivan and Associates CPA PLLC

Certified Public Accountants and Business Consultants
2304 Hurstbourne Village Dr, Suite 600
Louisville, KY 40299

August 29, 2022

Linda Birdwell
Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
PO Box 615
Frankfort, KY 40602

RE: Bluegrass Gas Sales, Inc. (BGS)
Case No. 2021-00483 Data Request
Dated August 1, 2022

Dear Ms. Birdwell:

Please consider this the company response to the correspondence referenced above:

1. Provide a cost justification for the proposed reconnect charge of \$75

Bluegrass Gas Sales (BGS) Reconnect Fees have been set at \$25 since the tariff was set in April 2001. The Consumer Price Index (CPI) has increased by 119.35% since then. If no increases were made for any other issues and added costs, today's reconnect fee should equal approximately \$55 (based on inflation rates through July 2022). Below is a calculation of an approximate cost to reconnect using the following data.

<i>Mileage Reimbursement IRS .58 per Mile (2022 Calculation)</i>	<i># Hourly Employee Costs \$15 Hour plus ER Taxes and Benefits (\$20.00)</i>	<i>Overhead (Tool Costs, supplies, etc.)</i>	<i>Total</i>
60 Miles X .58 = \$33.60	1.5 Hours X \$20.00	\$10.00	\$73.60 Rounded to \$75

2. Provide supporting documentation for the estimated savings and efficiencies – Computer System / odorizer

Billing System Upgrade - The current billing system in use by BGS is a step above a DOS based system and not compatible with the latest operating systems (Windows 10 or 11). The benefits, efficiencies and savings are numerous mainly due to years of improvement in the software industry. The computer software is now over 22 years old and no longer supported as stated earlier. The new web-based software is from the same Kentucky based company and has many new features that will greatly help with customer service and office efficiency. Customers will be able to view and pay their bills online 24/7, efficiencies will be realized in accounting and billing procedures, the company will be able to contact the entire customer base or any subset via email or text concerning billing reminders or safety issues, customers will be able to opt in to receiving e-billings, and the online billing system will have greater security through offsite cold storage and daily backup at secure offsite locations.

Upgrades to Meter Stations - The Meter station upgrades including zero emissions odorizers are considered normal maintenance upgrades that are necessary to assist with the regulatory safety requirements that change over time. The new injection type odorizer will optimize the odorant levels at wider flow rates than the existing differential pressure model with improved compliance of regulatory requirements. Additional benefits and efficiencies are documented with the literature provided in the original submission. Due to the complexity and nature of the equipment, it is hard to document the savings that will be obtained except that less maintenance will be needed to be provided because of new systems installed.

New Security System – The Security System with enhanced video surveillance with other physical systems can be a valuable addition for BGS. The new system will mitigate theft and vandalism risks and assist in the safety of the office and other BGS personnel. Savings can be achieved with insurance cost reductions due to the risk of loss and damage being reduced. BGS cannot provide a savings / efficiency on this new system but with the current environment today, the additional security will benefit both customers and employees of the company today.

3. Explain the rationale behind the proposed increase for the customer charge from \$10 to \$17.50

BGS monthly minimum charges have been set at \$10 since the last rate case in 2011. The \$10 fee was initially used to offset slow months (Late April through October) with little gas demand. Many customers only use Natural Gas for heating, so during warm months, gas sales diminish. BGS still has monthly overhead costs and payroll during this same slow period. The minimum charge was established so cash flow can be stabilized, and costs can be attributed more to the source each period. If the minimum fee was increased to stay in line with inflation, it would approximate the \$17.50 requested amount.

4. Explain whether any operations and maintenance expenses are allocated to the Logan County School District. If not, explain why not.

BGS does not have the systems to track costs allocated specifically for Logan County School District. So, at this time, there are no expenses that are directly spent on behalf of the school district as it does not require any unique or special services provided to all other customers.

5. Explain whether the margins for this special contract customer provides a benefit to Bluegrass's other customers.

Logan Counties special contract benefits other customers in that it is located very near to several residential customers thus keeping our costs to service low, while its monthly volume is always in the top 5 % of all customer's billings and thus contributes higher revenue to costs margin to BGS overall profitability.

6. Explain how many employees are contracted through Bluegrass's agreement with Home Office, Inc. (Home Office) and the duties, responsibilities, hours per year, and current and proposed pay of each employee.

There is 1 employee contracted through the BGS agreement with Home Office. The duties include Accounting, billing, payroll, customer service and most daily administrative duties. She is a full-time employee at 2000 hours. Current base pay for month is \$2,544.78, paid since 2011 and proposed pay is \$2,930 representing a 15.13% cost of living increase. This increase is still below the total inflation since 2011.

7. ***Explain whether Home Office tracks the hours spent providing services to Bluegrass. If so, explain how that tracking is performed. If not, explain why not.***

Home Office does not track hours providing services to Bluegrass due to budgetary constraints and staffing levels. Further the contracted rate of services has been stagnant for 11 years even though the services require deep industry knowledge and experience. They include natural gas purchases, nominating and balancing services, billing services, PSC Gas Cost Recovery calculations, payroll and Human Resources oversight and management for leased employee. Hiring a full-time employee with the same level of experience and industry specific knowledge would be significantly more expensive for BGS. The rate increase request is de minimis in comparison to the inflationary cost increases over the past 11 years.

8. ***Additionally refer to Exhibit 5-2. Confirm that Mark O'Brien is the president of both Bluegrass and Home Office. If this cannot be confirmed, explain.***

Mark O'Brien is currently the president of Home Office and Bluegrass Gas Sales.

9. ***Explain who is covered by the health insurance. Provide support for the proposed increase.***

The following employees are covered by Health Insurance provided from Home Office to Bluegrass Gas Sales:

Rex Parsons – General Manager
Julie Parsons – Office Manager

Other employees either do not qualify or are provided insurance via their spouse's health care plans which offer higher levels of benefits. Since the filing of our rate request package last year, our health care costs for 2022 have increased above our requested amount of increase by \$2,700.

10. ***Provide a list of the contracted labor used by Bluegrass and what services the contracted labor provides to Bluegrass. (2) Provide the contract labor costs for 2019, 2020, and 2021.***

Contracted Labor used by BGS for the following years:

<i>Year</i>	<i>Amount</i>	<i>Description</i>
2019	\$2,650	Total amount was for 1 Individual that provided Meter Reading Services
2020	\$400	This was for Landscaping / Mowing of the Office and Shop area
2021	\$400	This also was for Landscaping and Mowing

BGS has stated in the past that Contract Labor was specifically for meter reading. As we have stated earlier in this request though, all meter reading is performed by employees of the company that are paid as wages now.

11. ***Provide the total bank fees for 2019, 2020, and 2021. (2) Explain whether all of Bluegrass's electronic and credit card payments are processed by the same vendor.***

Bank Fees for the following years are listed below:

<i>Year</i>	<i>Amount</i>	<i>Description</i>
2019	\$356	Credit Card Fees were not broken out this year due to system problems. They were netted against Sales numbers. This has since been corrected.
2020	\$3,705	Auto Draft Fees and Online Banking fees charged by BGS's Bank. Credit Card fees are charged by Vendor (TSYS)
2021	\$4,448	Same as above

12. Refer to Item I, Office Expense/Supplies. Provide a detailed calculation of the proposed adjustment.

Office expense increase was not a calculated proposed expense. Due to inflation, increasing costs, the 2021 expense increased over \$630 from prior test year. The request was to assist BGS in rising costs and other costs over multiple years.

13. Refer to Item J, Postage. Provide a detailed calculation of the proposed adjustment

Postage costs were not based on a calculation. An approximate amount of 10% was used because of additional mailings necessary for the rate case plus increasing postage amounts.

14. Refer to Item K, Rent. (1) State the entities from which Bluegrass rents its office space and equipment storage space. (2) Provide any market studies used to determine market rates. (3) Provide any rental agreements. (4) Provide the square footage used per renter and explain how rental payments are allocated between renters. (5) Provide a detailed calculation of the proposed increase.

15. Refer to Item L, Repairs and Maintenance. (1) Provide a detailed calculation of the proposed adjustment. (2) Explain the parties that are paid for the repairs and maintenance. (3) Provide the repairs and maintenance expenses for 2018, 2019, 2020, and 2021.

Repairs and Maintenance costs for the prior four years are as follows:

<i>Year</i>	<i>Amount</i>	<i>Description</i>
2018	\$21,181	Includes parts, supplies, fittings for maintenance performed by BGS. Parts included are purchased for digging equipment, meters, pipeline and fittings. Vendors include Ditch Witch, Consolidated Pipe, Tucker Meter Service, C & F Supply, Hiseville Parts, HDPE Supply, American Welding Gas Midstate Waste (Trash Service). As stated earlier, most repairs / maintenance work is provided by in house employees.
2019	\$13,652	See Above
2020	\$20,218	See Above
2021	\$20,775	See Above

Request for increase was determined for long term growth in this category. Since last rate increase, expense amounts for Repairs and Maintenance were \$9,500 and since then the 4-year average has more than doubled that amount. Also, due to equipment aging and other inflationary pressure, the request was for approximately 30%. As stated earlier in the request, it is extremely challenging to prepare/budget for this category due to unknown and unplanned maintenance needed. The company does as much preventive maintenance as possible and would like to increase this due those challenges.

16. Health Insurance - Provide a detailed calculation of the proposed adjustment. (2) Provide the insurance policy and explain which items are covered.

Health insurance policies attached with additional discussion.

17. Refer to Item O, Rate Case Fees Adjustment. (1) Provide an itemized estimate of rate case expenses. (2) In the same detail as above, provide the cost incurred to date.

Proposed invoices from Vendors are attached:

18. Refer to Item P, Truck Maintenance/Gasoline. Provide a detailed calculation of the proposed adjustment.

Truck Maintenance costs for 3 years are below:

<i>Year</i>	<i>Amount</i>	<i>Description</i>
2019	\$23,379	This year had no major vehicle costs included
2020	\$25,890	This year had no major vehicle costs included
2021	\$29,670	Increase of 2021 fuel costs started in latter part of year as fuel costs increased dramatically.

The proposed increase of \$12k was to reflect over 100% fuel cost increases in upcoming year. The maintenance of vehicles was proposed at \$3,250 to reflect the aging of the vehicles and higher costs so 23% increase was requested to assist in this highly volatile economy.

19. Refer to Item Q, Property Tax. Provide a detailed calculation of the proposed adjustment.

Property Taxes for last 3 years are listed below:

<i>Year</i>	<i>Amount</i>	<i>Description</i>
2019	\$9,604	Valuation relies on profitability and other factors. This number can increase or decrease based the company's financial status.
2020	\$7,231	See above – This was the test case year.
2021	\$8,484	Increase of \$1,253 from prior year. Budgeted increase was for \$1,800 and this was calculated to reflect the possible increases in profitability going forward.

20. Refer to the Application, Exhibit 6, Billing Analysis. Provide this exhibit in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible.

Billing analysis provided in addendum to this reply. It is fully accessible without password.

21. Refer to the Application, Exhibit 8 and the amortization schedules included in Bluegrass's July 13, 2022, response to filing deficiencies. Confirm that the \$40,000, 5- year note with Huntington National Bank, executed July 20, 2020, did not receive approval pursuant to KRS 278.300.

Application Exhibit 8 Response – This is to confirm that the \$40,000 note for the purchase of a company truck was not officially approved pursuant to KRS 278.300. The note has been properly reported in the annual PSC report since the loan was obtained.

22. Refer to Bluegrass’s 2020 Annual Report, page 29 of 42. a. In calendar year 2020, Bluegrass reported “Meter Reading Labor” of \$400. Explain what this amount represents.

Reference to BGS 2020 Annual Report page 29 of 42. This was reported in error. The preparer of the report has stated that in prior years, contract labor was utilized for meter reading. Since then, all meter reading has been performed by in house W2 employees. This expense for 2020 and 2021 was actually landscaping and the Annual Report can be amended to reflect this if necessary.

23. In calendar year 2020, Bluegrass reported no expenses for “Customer Records and Collection.” (1) Describe in detail the manner in which Bluegrass performs the customer billing and collections and how it maintains the customer records.

Describe in detail the way Bluegrass performs the customer billing and collections and how it maintains the customer records. - BGS uses UMSWIN software to record meter readings, enter rates, generate bills, print bills on postcards. Cards are then taken in bulk to the post office. Staff enters all payments (check, cash, credit card and auto draft) into the UMSWIN software. Checks and cash are taken to the local bank for deposit. We print late notices using the UMSWIN software. Monthly Billing Journals are printed on hard copy at the time of each billing and filed. Monthly late notice files are kept on paper for late notices sent. All payments are recorded on the software and accessible for all years beginning July 1, 2000. Meter Reading sheets are kept for required timeframe and filed at the Bluegrass Gas Sales, Inc. office. Trapping costs directly tied with records and collection is difficult for current systems at hand but should improve with new systems being put in place.

Explain whether customer billing and collections are performed by Bluegrass employees, or by outside contractors.

One employee from Home Office (see #6) performs customer billings and collections in the office. One BGS employee works average of 1 day per week in the office entering payments and other data entry and filing (part time employee of Bluegrass Gas Sales, Inc.)

24. In calendar year 2020, Bluegrass reported “Uncollectible Accounts” of \$5,109. Provide the uncollectible accounts expenses for 2019 and 2021.

<i>Year</i>	<i>Amount</i>	<i>Description</i>
2019	\$0	No accounts written off
2020	\$5,109	(Test Year) Covid Pandemic
2021	\$6,203	Ending of COVID and economic downturn

25. Refer to Bluegrass’s Tariff, PSC KY No. 1, Original Sheet No. 7, Rules and Regulations, Section 12, Special Charges. a. Provide updated cost justification of the \$25 Collection Charge.

This fee is to provide incentive for customer to pay bill and additionally, avoid a reconnection charge. The fee includes cost of travel time for employee, labor costs. BGS is not requesting an increase because this charge is not utilized often due to customer paying the outstanding balance.

b. Provide updated cost justification for the \$25 Reconnection Charge.

This is discussed earlier in the response. Due to increasing costs, fuel costs, employee time and the opportunity cost of the employee not able to perform normal functions, while the reconnect is performed.

c. Provide updated cost justification for the \$15 Returned Check Fee.

Bank returned check charge is \$10. \$5 covers cost of processing and updating accounts. This fee was not in the updated rate request.

26. Explain why there is no income from nonrecurring charges listed in the Application.

Due to billing system weaknesses and budgetary constraints, the timeframe to make adjustments to the system does not justify the benefit of this application. The new system will now break this out going forward.

27. Provide Bluegrass's nonrecurring charges in a schedule listing the number of occurrences per charge, the cost per charge, the total dollar amount billed, and the total dollar amount collected during the test year.

<i>Charge Description</i>	<i># Occurrences</i>	<i>Cost per Charge</i>	<i>Total Billed during Test Year</i>
Auto Draft Charge	1837	.10	\$183.70
Credit Card Fees	890	2.65% of Amount Due	\$1,569.70
Late Fees	190	10% of Most Recent Amount Due	\$2,071.27
Bad / Returned Check Fees	5	\$15	\$75
Reconnect Charges	8	\$25	\$200

28. Provide the monthly customer count and monthly sales for the test year

Month	Billing \$	Customer Count
Jan	\$ 88,459.99	771
Feb	\$ 90,945.47	773
Mar	\$ 73,886.56	770
Apr	\$ 36,510.32	767
Mar	\$ 22,879.28	767
Jun	\$ 11,791.17	767
Jul	\$ 10,915.62	767
Aug	\$ 11,704.04	779
Sep	\$ 20,733.90	771
Oct	\$ 36,027.37	796
Nov	\$ 69,256.70	783
Dec	\$ 109,385.95	790

29. Provide the total amount collected for late fees and the number of instances for which late fees were charged during 2018, 2019, 2020, and 2021.

Year	Number times Late Fees Charged	\$ Charged for Late Fees
2018	1,283	\$6,975
2019	1,382	\$7,256
2020	190	\$3,223
2021	927	\$5,340

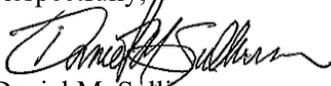
30. Provide the number of disconnections and reconnections for 2019, 2020, and 2021.

Year	Disconnections	Reconnections
2019	23	12
2020	8	6
2021	16	10

31. State the last time Bluegrass performed a cost-of-service study (COSS) to review the appropriateness of its current rate and rate design. a. Explain whether Bluegrass considered filing a COSS with the current rate application and the reasoning for not filing one. b. Explain whether any material changes to Bluegrass's system would cause a new COSS to be prepared since the last time it has completed one. c. If there have been no material changes to the Bluegrass's system, explain when Bluegrass anticipates completing a new COSS. d. Provide a copy of the most recent COSS that has been performed for Bluegrass's system in Excel spreadsheet format with all formulas, rows, and columns fully accessible and unprotected.

Bluegrass has not had a COSS performed due to the cost of the actual study. As stated earlier, the same individuals have been involved with BGS since 1993. Since then, the company has financial audits by the PSC on several occasions and reports all financial information on an annual basis to the PSC and the PSC division of the Kentucky Department of Revenue. Current management does not think a COSS would benefit the customers of BGS.

Respectfully,



Daniel M. Sullivan
Accountant

Cc Mark O'Brien, Julie Parsons