

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF AUXIER ROAD GAS CO.,)
INC. FOR AN ADJUSTMENT IN RATES AND) CASE NO.
CERTAIN NONRECURRING CHARGES) 2008-00156

ORDER

Auxier Road Gas Company, Inc. ("Auxier Road") applied to the Commission for authority to adjust its base gas rates pursuant to 807 KAR 5:076, the alternative rate filing procedure for small utilities. It also requested Commission authority to change several nonrecurring charges and to revise its tariffed purchased gas clause. Auxier Road requested an increase in its base gas rates that will produce annual revenues of \$541,970,¹ which is an approximate 28.513 percent increase or \$120,246 above its test-period revenues from base gas rates of \$421,724. By this Order, we establish rates that will produce annual revenues of \$501,798, which is an increase of 18.987 percent or \$80,074 over normalized revenues from existing base gas rates of \$421,724.

¹ Auxier Road's response to the Commission Staff's Second Information Request, Item 17(b).

BACKGROUND

Auxier Road is a Kentucky corporation regulated by the Commission as a utility under KRS 278.010(3)(b). It provides gas service to 485 residential customers in Floyd County, Kentucky.² Auxier Road last applied for a rate adjustment in 1989.³

PROCEDURE

On April 29, 2008, Auxier Road tendered its application. Auxier moved to amend its application on May 2, 2008 to request authority to change several nonrecurring charges and to revise its tariffed purchased gas clause. Because of filing deficiencies, the Commission did not accept the application for filing until June 4, 2008. On August 11, 2008, the Commission suspended the rates for five months, from June 4, 2008 up to and including November 4, 2008. No parties have requested or have been granted leave to intervene in this proceeding.

Using Auxier Road's responses to its information requests, Commission Staff performed a limited financial review of Auxier Road's test-period operations, the calendar year ending December 31, 2007. A report was issued on January 8, 2009 containing Staff's findings and recommendations and giving the parties until January 28, 2009 to file written comments, to request a hearing, or to request an informal conference.

On January 22, 2009, Auxier road submitted its response to the Staff Report commenting on four of Staff's recommendations: (1) Office Cleaning; (2) Employee

² Application, Section III, Other Information.

³ Case No. 10288, The Adjustment of the Auxier Road Gas Company, Inc. for an Increase in Gas Rates (Ky PSC Feb. 24, 1989).

Health Insurance; (3) Director Fees; and (4) Office Rent. A telephone conference was scheduled and held on February 12, 2009. At the conference, Auxier Road agreed to submit additional documentation in support of its proposed changes to Staff's report. On February 17, 2009, Auxier Road filed the supplemental information and waived its right to a formal hearing, requesting that the Commission base its decision upon the record.

STAFF'S RECOMMENDATIONS AND FINDINGS

In its report, Staff's findings and recommendations resulted in pro forma operating revenues and expenses of \$429,445 and \$396,602. The following are the Commission's analysis and discussions of the issues raised by Auxier Road in its Comments to the Staff Report:

Salaries and Wages

Auxier Road reported a test-period level of salaries and wages expense of \$232,608. Using Auxier Road's employee count and the wage rates that were in effect when its report was prepared,⁴ Staff calculated a pro forma salaries and wages expense of \$177,112, which is \$55,496 below the test-period level.

At the February 12, 2009 conference, Auxier stated that it had replaced its maintenance staff with two new employees: the first new maintenance employee was hired on November 11, 2008, and the second was hired on November 24, 2008. Considering the new employees and their current wages, the revised pro forma salaries and wages expense would be \$176,280, which is \$832 less than the level originally recommended by Staff or \$56,328 below Auxier Road's actual test-period expense.

⁴ Auxier Road's Response to the Commission Staff's First Information Request, Item 10(a).

Accordingly, the Commission is reducing Staff's pro forma salaries and wages expense of \$177,112 by \$832 to reflect the current payroll. The Commission is further decreasing Staff's pro forma payroll tax expense by \$64⁵ to reflect the impact the adjustment to test-period salaries and wages will have on Auxier Road's payroll tax expense.

Contract Labor

In the test period, Auxier Road paid its Vice-President/Director/Accountant,⁶ \$5,720 for the weekly cleaning of Auxier Road's office. In recommending that this cost be eliminated from test-period operating expenses, Staff cited Auxier Road's failure to show that the fee paid to its Vice-President/Director/Accountant is reasonable and that the performance of the office cleaning duties should entitle this employee to additional compensation.

In its response to the Staff Report, Auxier Road provided a bid from the Triple Clean Cleaning Service ("Triple Clean"). Triple Clean stated that it will clean Auxier Road's office once a week for a fee of \$100 or \$5,200 on an annual basis. At the informal conference, Auxier Road was requested to provide additional bids to show that its test-period cleaning fee is reasonable. In the information submitted February 17, 2009, Auxier Road stated that there are a limited number of cleaning services in the area and this was the only cleaning service that would respond to its request.

⁵ \$176,280 (Pro Forma Salaries & Wages) x 7.65% (FICA Rate) =	\$	13,485
\$177,112 (Salaries & Wages - Staff Report) x 7.65% (FICA Rate) =	-	13,549
Payroll Tax Adjustment		<u>\$ (64)</u>

⁶ Auxier Road's Response to the Commission Staff's Second Information Request, Item 5(a).

In reviewing the bid, and considering the limited availability of cleaning services, the Commission finds that an annual cleaning fee of \$5,200 is reasonable. Therefore, the Commission is increasing Staff's pro forma operating expenses by \$5,200 to reflect the annual cost to clean Auxier Road's office.

Employee Pensions and Benefits

Auxier Road reported a test-period employee pensions and benefits expense of \$27,257, which includes the costs related to the employee health insurance premiums, pension contributions, health insurance copayments/deductibles, and life insurance premiums in this expense account. Staff proposed to eliminate the entire pensions and benefits expense from Auxier Road's test-period operating expenses for the following reasons:

(1) Auxier Road stated that its policy is to provide health insurance coverage and pension benefits only to its management employees.⁷ This represents a less-than-arm's-length transaction because the utility owners, Auxier Road's managers, made the decision to offer fringe benefits to management-level employees only. There is no evidence in the record to show that additional compensation is required.

(2) Employee deductibles and co-payments are the employee's personal responsibility and, therefore, these costs should be excluded from test-period operating expenses.

(3) Auxier Road failed to show how the life insurance policies for its Chief Operating Officers provided a benefit to its ratepayers.

⁷ Id. Item 8.

In its response to the Staff Report, Auxier Road stated that its current policy is to provide health insurance to all of its employees. Auxier further stated that the new employees will become eligible for pension contributions when they become vested in three years. In the information submitted February 17, 2009, Auxier Road provided the most recent employee health insurance invoice showing that coverage is now being provided to all of its employees.

Using the current employee health insurance premiums and pension contribution for the vested employees, the Commission calculates a pro forma employee pension and benefit expense of \$16,962, which is \$10,295 less than the actual test-period level of \$27,257. Accordingly, the Commission is increasing Staff's pro forma employee pension and benefit expense by \$16,962 to reflect the level determined reasonable herein.

Directors' Fees

During the test period Auxier Road paid its former Chief Operating Officer an annual board of directors fee of \$750. Citing that the fee will not be incurred by Auxier Road on an on-going basis, Staff proposed to reduce miscellaneous general expense by that amount.

In its response to the Staff Report, Auxier Road stated that the vacant position on its Board of Directors had been filled. To support its statement, Auxier Road provided a copy of its annual report on file with the Secretary of State supporting its statement. Accordingly, the Commission is increasing Auxier Road's director fee expense by \$900⁸ to reflect the annual expense for this position.

⁸ \$75 (Monthly Director's Fee) x 12 (Months) = \$900.

Office Rent

Auxier Road proposed to increase test-period office rent expense of \$16,200 by \$1,800 to reflect its annual rent expense of \$18,000. During the test period, Auxier Road paid to Estill Branham Rental, a related subsidiary, \$1,500 per month for office rent.⁹

Auxier Road claimed that its office is owned by its current Chief Operating Officer,¹⁰ but the October 10, 2008 commercial real estate appraisal report listed the owner as Auxier Road Gas Company, Inc. The appraisal report stated that the transfer to the current owners was via deed and that it has not been further conveyed within the past three years.¹¹ Citing that Auxier Road is listed as the owner of the office building and that any related payments for the use of the office building is unreasonable, Staff proposed to reduce test-period operating expenses by \$16,200 to eliminate the office rent expense.

In its response to the Staff Report, Auxier Road stated that the appraisal report incorrectly stated ownership and provided a deed showing that its current Chief Operating Officer is the legal owner of the office. Auxier Road has adequately demonstrated that the appraisal report was in error and has documented the reasonableness of the proposed office rent expense of \$18,000. Accordingly, the

⁹ Auxier Road's Response to the Commission Staff's First Information Request, Item 6 at 56.

¹⁰ Auxier Road's Response to the Commission Staff's Second Information Request, Item 2.

¹¹ Auxier Road's Supplemental Response to the Commission Staff's Second Information Request, Item 2.

Commission is increasing Staff's pro forma operating expenses by \$18,000 to reflect Auxier Road's current office rent expense.

Summary

Based on its modifications made herein to the Staff Report, the Commission finds that Auxier Road's pro forma operations should be as shown in Table 1 below.

Table 1: Comparison of Pro Forma Operations			
	<u>Staff Report</u>	<u>Adjustments</u>	<u>Order</u>
Operating Revenues	\$ 429,445	\$ 0	\$ 429,445
Operating Expenses	- 396,602	- 40,166	- 436,768
Net Operating Income	\$ 32,843	\$ (40,166)	\$ (7,323)
Interest Expense	- 6,695	- 0	- 6,695
Net Income	\$ 26,148	\$ (40,166)	\$ (14,018)

REVENUE REQUIREMENT DETERMINATION

Based on the modifications to the recommendations and findings of the Staff Report, the Commission finds that Auxier Road requires revenue from base gas rates of \$501,798, for an increase in revenues of \$80,074 over normalized revenues from base gas rates of \$421,724, as determined in Table 2 below.

Table 2: Revenue Requirement Determination	
Operating Expenses (Net of Income Tax Expense)	\$ 430,179 ¹²
Divide by: Operating Ratio	÷ 88%
Revenue to Cover Operating Ratio	\$ 488,840
Add: Interest on Long-Term Debt	6,695
Other Income and Deductions	0
Income Taxes on Net Operating Income	+ 13,984
Total Revenue Requirement - Base Gas Rates	\$ 509,519
Less: Other Operating Revenues	- 7,721
Total Revenue Requirement Base Rates	\$ 501,798
Less: Operating Revenues	- 421,724
Revenue Increase	\$ 80,074
Percentage Increase	18.987%

¹² \$436,768 (Pro Forma Operating Expenses) - \$6,589 (Test-Period Income Tax Expense) = \$430,179.

BASE GAS RATES

Auxier Road's proposed rates consist of a minimum bill of \$6.36 for the first 1 Mcf of usage and a volumetric rate of \$5.5099 per Mcf for all usage over the first Mcf. In its report, Staff recommended acceptance of Auxier Road's proposed minimum bill but recommended a volumetric rate of \$5.3953 per Mcf.

The Commission accepts Auxier Road's proposed minimum bill but denies the proposed volumetric rates because they produce revenue greater than that found reasonable herein. The Commission notes that there is an error in Staff's recommended volumetric rate in that the proposed rate will produce revenues greater than the revenue requirement determined reasonable in the Staff Report. For this reason, the volumetric rate contained in Appendix A of this Order is below the Staff-recommended volumetric rate, even though the revised revenue requirement of \$501,798 is greater than the requirement of \$454,850 recommended by Staff in its report.

SUMMARY

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Auxier Road's proposed rates would produce revenue in excess of that found reasonable herein and should be denied.
2. The recommendations and findings contained in the Staff Report, as modified herein, are reasonable and should be adopted as the Commission's findings and should be incorporated by reference as if fully set out herein.

3. The base gas rates in Appendix A are the fair, just, and reasonable rates for Auxier Road and will produce gross annual revenues as found reasonable herein.

IT IS THEREFORE ORDERED that:

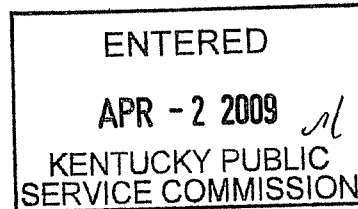
1. Auxier Road's proposed rates are denied.

2. The base gas rates and nonrecurring charges set forth in Appendix A are approved for service rendered by Auxier Road on and after the date of this Order and will produce gross annual revenues as found reasonable herein.

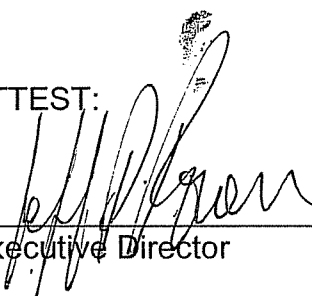
3. Auxier Road's proposed change to its Purchased Gas Adjustment ("PGA") to file a monthly PGA with 20 days' notice is reasonable and is approved.

4. Within 20 days of the date of this Order, Auxier Road shall file new tariff sheets setting forth the rates and the modifications to the PGA clause approved herein and reflecting their effective date and that they were authorized by this Order.

By the Commission



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2008-00156 DATED APR - 2 2009

The following rates and charges are prescribed for the customers in the area served by Auxier Road Gas Company, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

RATES AND CHARGES

<u>RATE CLASSIFICATION</u>			<u>BASE RATE</u>
First	1 McF	\$	6.36 Minimum bill
Over	1 McF	\$	5.0645 per McF

SPECIAL NONRECURRING CHARGES

Reconnect for Non-Payment	\$ 100.00
Reconnect by Request	\$ 100.00
Collection Fee	\$ 25.00
Returned Check	\$ 15.00

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