

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION FOR RATE ADJUSTMENT FOR) CASE NO.
RICHARDSVILLE GAS COMPANY, INC.) 2009-00123

ORDER

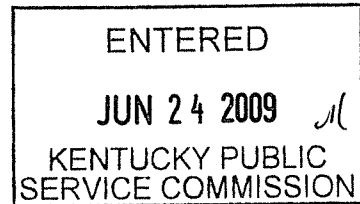
On March 24, 2009, Richardsville Gas Company, Inc. ("Richardsville") tendered its application requesting the Commission to approve its proposed increase in its base gas rates and its tariff revision to include a purchased gas adjustment clause. Commission Staff, having performed a limited financial review of Richardsville's operations, has prepared the attached report containing Staff's findings and recommendations regarding the proposed rates and tariff revision. All parties should review the report carefully and submit any written comments on Staff's findings and recommendations or requests for a hearing or informal conference no later than 10 days from the date of this Order.

IT IS THEREFORE ORDERED that:

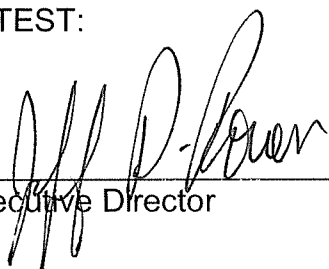
1. All parties shall, no later than 10 days from the date of this Order, submit written comments, if any, regarding the attached Staff Report or requests for a hearing or informal conference.
2. Any party filing a request for a formal hearing is to include in said request its comments as to the particular finding of the Staff Report to which it objects and a brief summary of testimony it would present at a formal hearing.

3. If no request for a formal hearing or informal conference is received within 10 days of the date of this Order, this case shall stand submitted to the Commission for a decision on all issues raised by the application.

By the Commission



ATTEST:



Executive Director

STAFF REPORT
ON
RICHARDSVILLE GAS COMPANY, INC.
CASE NO. 2009-00123

Pursuant to a request by Richlandville Gas Company, Inc. ("Richlandville") for assistance with the preparation of a rate application, Commission Staff performed a limited financial review of Richlandville's test period operations for the calendar year ending December 31, 2007. The scope of Staff's review was limited to obtaining information as to whether the test period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Upon completion of its limited review, Staff assisted Richlandville in the development and preparation of its rate application, which Richlandville filed with the Commission on March 24, 2009. Staff hereby adopts the contents of Richlandville's application as its recommendation in this report as if fully set out herein. Leah Faulkner of the Commission's Division of Financial Analysis is responsible for the pro forma revenue adjustment, the billing analysis, and the purchased gas adjustment clause. Mark Frost of the same division is responsible for all pro forma expense adjustments and the revenue requirement determination.

On page 2 of the application, attached hereto as Appendix A, is the adjusted pro forma operating income statement wherein adjustments were made to test period operating revenues and expenses that were known and measurable and deemed to be reasonable. The revenue requirement determination, Exhibit A of the application and

Appendix B of this report, shows that Richardsville's pro forma operations support a revenue requirement from base gas rates of \$10,077, an increase of \$3,060 or 43.6 percent above the normalized revenue from base gas rates of \$7,017. The rates proposed by Richardsville will increase the average monthly base residential bill from \$9.60 to \$14.30, an increase of \$4.70 or 48.958 percent.

According to Richardsville's application, Joel Grugin of the Commission's Engineering Division noted in his inspection report that Richardsville needs to replace 20 meters and regulators at an estimated cost of approximately \$4,072. Using Richardsville's current seven-year depreciation life for meters and the meter cost of \$4,072, Staff determined that pro forma depreciation expense should be increased by \$582, which results in a revised revenue requirement of \$10,758 as shown in Appendix B of this report. The base gas rates that produce the revised revenue requirement are contained in Appendix D of this Staff Report. Those rates will increase the average monthly base residential bill from \$9.60 to \$14.64, an increase of \$5.04 or 52.50 percent.

Staff finds that Richardsville's requested revenue requirement is sufficient for it to pay the pro forma "cash" expenses and to meet the debt service requirements of the long-term debt issuances. Therefore, Staff recommends that the Commission allow Richardsville to increase its base gas rates to a level that will generate the requested revenue requirement of \$10,077. Should Richardsville decide to further increase rates to generate the \$10,758 revised revenue requirement as determined by Staff, it should amend its application to request that level of revenue and shall provide confirmation to the Commission that it has published notice of those rates pursuant to 807 KAR 5:011,

Section 8. If Richardsville does not amend its application to request the additional revenue and give notice, it will not receive the additional revenue.

Staff recommends that the Commission approve the rates requested by Richardsville that are set forth in Appendix C. If Richardsville amends its application, its amendment should reflect the rates contained in Appendix D as they will produce the recommended revenue requirement of \$10,758.

In its application, Richardsville reported an increase in its gas cost cost from \$1.00 per Mcf to \$2.50 per Mcf. Staff recommends that the Commission approve the \$2.50 per Mcf gas cost as reasonable.

Richardsville has proposed a tariff revision to include a Purchased Gas Adjustment (“PGA”) clause. The proposed PGA clause would allow Richardsville to file for a PGA within 30 days of an increase or a decrease in its wholesale gas cost. Staff finds Richardsville’s proposed tariff revision to be appropriate and, therefore, recommends that the Commission grant approval to include the proposed PGA clause in Richardsville’s tariff.

Richardsville states in its application that when the outside temperature stays between 18 to 20 degrees for an extended period of time the gas pressure from the wells supplying gas to Richardsville drops below 6 psi. When this happens, Richardsville operates a peak shaving plant that mixes propane and air with natural gas to maintain an adequate pressure and volume that allow its customers’ heating systems to operate.

During the past heating season, Richardsville purchased 2,515.4 gallons of propane at a cost of \$3,697. If a PGA clause had been in effect, Richardsville could

recover its propane costs through that mechanism. However, the PGA clause is being considered in this proceeding and, therefore, was not available for Richardsville to use. Staff believes the propane cost incurred by Richardsville is reasonable and that Richardsville should be allowed to recover that cost.

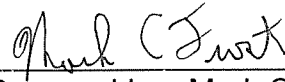
In order to allow Richardsville to pay for its propane in a timely manner and to allow Staff to ensure that the payments are actually made, Staff recommends that the Commission approve a surcharge for the propane costs. Staff further recommends that the surcharge be placed in effect for a 12-month period or until \$3,697 has been collected. Staff has calculated a monthly surcharge of \$5.70 per customer by dividing the propane cost of \$3,696 by the number of annual bills of 648 for 54 2007 test-year customers.

If the Commission approves the proposed propane surcharge, then it should direct Richardsville to place the surcharge collections in a separate interest-bearing account. The Commission should require Richardsville to submit semi-annual activity reports containing the following information: the monthly surcharge billings and collections; the monthly surcharge bank statement; and a detailed listing of the payments made from the account. Richardsville's failure to comply with the above funding requirements or to file the quarterly reports should warrant the revocation of the surcharge and refund of the monies already collected, plus interest.

Should Richardsville decide to request the propane surcharge as calculated by Staff, it should amend its application and shall provide confirmation to the Commission that it has published notice of that rate pursuant to 807 KAR 5:011, Section 8. If

Richardsville does not amend its application to request the surcharge and give notice, it will not be allowed to collect the surcharge.

Signatures



Prepared by: Mark C. Frost
Financial Analyst, Water and Sewer
Revenue Requirements Branch
Division of Financial Analysis



Prepared by: Leah Faulkner
Rate Analyst, Electricity and Gas Rate
Design Branch
Division of Financial Analysis

APPENDIX A
STAFF REPORT CASE NO. 2009-00123
PRO FORMA INCOME STATEMENT

Account Titles	2007	Pro Forma Adjustments	Adj. Ref.	Pro Forma Operations
Operating Revenues:				
Total Gas Service Revenues	\$ 10,732	\$ (3,715)	(a)	\$ 7,017
Other Operating Revenues:				
Other Operating Revenues	472	-		472
Total Gas Operating Revenues	\$ 11,204	\$ (3,715)		\$ 7,489
Operating Expenses:				
Other Gas Supply Exp:				
Purchased Gas Expense	\$ 3,715	\$ (3,715)	(a)	\$ -
Administrative & General Exp:				
Administrative & General Salaries	0	3,600	(b)	3,600
Office Supply & Exp.	363	(91)	(c)	272
Outside Services Employed	1,785	0		1,785
Misc. General Exp.	1,063	0		1,063
Total Gas Operation & Maint Exp.	\$ 6,926	\$ (206)		\$ 6,720
Depreciation	1,107	0		1,107
Amortization & Depletion Exp.	0	0		0
Taxes Other Than Income Tax	843	0		843
Total Gas Operating Expenses	\$ 8,876	\$ (206)		\$ 8,670
Net Operating Income	\$ 2,328	\$ (3,509)		\$ (1,181)
Other Income:				
Misc. Non-operating Income	1,208	-		1,208
Other Deductions:				
Interest Long-Term Debt	1,623	-		1,623
Net Income	\$ 1,913	\$ (3,509)		\$ (1,596)

(a) Billing Analysis

Purchased gas costs are recovered through the purchased gas adjustment; those costs are excluded when determining base rate revenue.

	Test Year 2007	Adjustment	Per Staff
Residential Base Rates Revenue	\$ 7,017.00	\$ -	\$ 7,017.00
GCA Revenue	3,715.00	(3,715.00)	0.00
Total Gas Sales	\$ 10,732.00	\$ (3,715.00)	\$ 7,017.00
Misc. Service Revenues	\$ 472.00	\$ 0.00	\$ 472.00
Total Operating Revenues	\$ 11,204.00	\$ (3,715.00)	\$ 7,489.00
Natural Gas Purchases	\$ 3,715.00	\$ (3,715.00)	\$ -
Transmission Fee	0.00	0	0.00
	\$ 3,715.00	\$ (3,715.00)	\$ -

(b) Administrative Salaries:

Richardsville is requesting that an Owner/Manager fee of \$3,600 be included in its test period operations. This fee represents the owner's compensation for her management services and to cover the office overhead costs (i.e. rent, telephone, etc.)

Owner/Manager Fee	<u>\$ 3,600</u>
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(c) Outside Services:

Non-utility related costs have been removed from test-period operations.

Entertainment/Meals	<u>\$ (91)</u>
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APPENDIX B
STAFF REPORT CASE NO. 2009-00123
REVENUE REQUIREMENT DETERMINATION

Determination of Revenue Requirement

	Application	Revision	Revised
Operating Expenses to be recovered in Base Rates	\$ 8,670	\$ 582	\$ 9,252
Divide by: Operating Ratio	88%	88%	88%
Revenue to Cover Operating Ratio	\$ 9,852	\$ 661	\$ 10,514
Add: Interest on Long-Term Debt	1,623	0	1,623
Other Income and Deductions	0	0	0
Income Taxes on Net Operating Income	+ 282	+ 19	+ 301
Total Revenue Requirement - Base Rates	\$ 11,757	\$ 680	\$ 12,438
Less: Other Operating Revenues	(472)	0	(472)
Non Operating Revenues	- (1,208)	- 0	- (1,208)
Revenue Requirement Base Rates	\$ 10,077	\$ 680	\$ 10,758
Less: Operating Revenues Base Rates	- (7,017)	- 0	- (7,017)
Total Revenue Increase Base Rates	<u>\$ 3,060</u>	<u>\$ 680</u>	<u>\$ 3,741</u>

Determination of Income Tax Expense

Revenue to Cover Operating Ratio	\$ 9,852	\$ 661	\$ 10,514
Less: Operating Expenses	- (8,670)	- (582)	- (9,252)
Net Operating Income	\$ 1,182	\$ 79	\$ 1,262
Multiplied by: Gross-up Factor	x 1.23839009	x 1.23839009	x 1.23839009
Net Operating Income Before Income Taxes	\$ 1,464	\$ 98	\$ 1,563
Less: Net Operating Income	- 1,182	- 79	- 1,262
Income Tax Expense	<u>\$ 282</u>	<u>\$ 19</u>	<u>\$ 301</u>

Determination of Gross-up Factor

	Rates	Factors
Operating Revenue		100.00000%
Less:		
General Liability Insurance @	0.00000%	0.00000%
PSC Fee	0.00000%	0.00000%
Taxable Income		100.00000%
Less: State Income Taxes @	5.00%	5.00000%
Taxable Income - Federal		95.00000%
Less: Federal Income Taxes @	15.00%	14.25000%
Gross-Up Factor - Division		<u>80.75000%</u>
Gross-Up Factor - Multiplication		<u>1.23839009</u>

APPENDIX C
STAFF REPORT CASE NO. 2009-00123
REQUESTED RATES AND CHARGES

BASE GAS RATES

<u>RATE CLASSIFICATION</u>		<u>BASE RATE</u>
First	2 MCF	\$ 5.65 Minimum bill
Over	2 MCF	\$ 2.32 per Mcf

GAS COST

Per Mcf \$ 2.50

APPENDIX D
STAFF REPORT CASE NO. 2009-00123
RATES AND CHARGES
RICHARDSVILLE COULD JUSTIFY

BASE GAS RATES

<u>RATE CLASSIFICATION</u>		<u>BASE RATE</u>
First	2 MCF	\$ 5.65 Minimum bill
Over	2 MCF	\$ 2.41 per Mcf

GAS COST

Per Mcf \$ 2.50

PROPANE SURCHARGE

Per Month \$ 5.70 per Customer

Mr. Glenn Miller
President
Richardsville Gas Company, Inc.
110 E. Campbell Lane
P. O. Box 9675
Bowling Green, KY 42102