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

NOTICE OF FILING OF COMMISSION STAFF REPORT

Notice is hereby given that, in accordance with the Commission's Order of April 27, 2020, the attached report containing the findings of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's April 27, 2020 Order, Sentra Corporation is required to file written comments regarding the findings of Commission Staff no later than 14 days from the date of this report. Pursuant to the Commission's Orders in Case No. 2020-00085,[1] issued March 16, 2020, and March 24, 2020, Sentra Corporation SHALL NOT FILE the original paper copy of its comments at this time, but rather shall file original paper copies within 30 days of the lifting of the current state of emergency. Due to COVID-19, Commission Staff is unable to physically sign this report. When Commission Staff is able to safely sign this report, a notice of filing with the executed signature page will be made in this case docket.

[1] Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 16, 2020), Order at 5–6. Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 24, 2020), Order at 1–3.

Kent A. Chandler
Acting Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED JUL 28 2020

cc: Parties of Record

STAFF REPORT

ON

SENTRA CORPORATION C/O SENTRA RESOURCES

CASE NO. 2020-00102

Sentra Corporation (Sentra) is a gas utility that owns and operates a gas distribution system through which it provides retail gas service to approximately 210 retail customers that reside in Monroe County, Kentucky.[2] On April 3, 2020, Sentra filed an application (Application), pursuant to 807 KAR 5:076, requesting to increase its gas service rates and update certain service charges. After deficiencies to the Application were cured, Sentra was notified via letter dated April 15, 2020, that the Application was filed. To ensure the orderly review of the Application, the Commission established a procedural schedule by Order dated April 27, 2020.

To comply with the requirements of 807 KAR 5:076, Section 9, Sentra based its requested rates on a historical test period that coincides with the reporting period shown in its most recent Annual Report on file with the Commission at the time it filed the Application; the calendar year ended December 31, 2019.

Using its pro forma test-year operations, Sentra provided evidence that it could justify a revenue increase of $261,262, or 64.92 percent to its retail gas customers, as shown in the table below.[3]

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[2] *Annual Report of Sentra Corporation c/o Sentra Resources to the Public Service Commission for the Calendar Year Ended December 31, 2019 (Annual Report)* at 9 and 26.

[3] Application, Attachment 4.

Pro Forma Operating Expenses	$	584,043
Divide by: Operating Ratio		88%
Overall Revenue Requirement		663,685
Less: Pro Forma Present Rate Service Revenues		(402,423)
Increase in Revenue	$	261,262
Percentage Increase		64.92%

Sentra stated in its Application that although it can justify an increase of 108.80 percent, it was requesting an approximate 74.70 percent rate increase, but did not provide its calculations to support either the 108.80 or the 74.70 percent increase.[4] Sentra did note its concern about the impact of a 108.80 percent increase on its customers and therefore is proposing an increase that removes the margins and will allegedly only cover operating expenses.[5] Sentra also proposed a change in the rate design from a single rate class to two classes, Residential and Non-Residential, and proposed a two-block rate schedule for the Non-Residential class. The rates proposed by Sentra would increase an average residential customer's bill from $18.11 to $46.58, an increase of $28.47, or 157.21 percent.[6]

To determine the reasonableness of the rates requested by Sentra, Commission Staff (Staff) performed a limited financial review of Sentra's test-year operations. The scope of Staff's review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable changes to test-

[4] *Id.,* Attachment 2, Reasons for Application.

[5] Direct Testimony of Eric Blake (Blake Testimony), at 5.

[6] Application, Attachment 1, Customer Notice. Sentra states that an average Residential Gas Customer uses approximately 3.0 Mcf monthly.

year operations were identified and adjustments made when their effects were deemed material.[7] Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

This report summarizes Staff's findings. Ariel Miller reviewed the calculation of Sentra's Overall Revenue Requirement. Eddie Beavers reviewed Sentra's reported revenues and rate design.

SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Operating Ratio method, as generally accepted by the Commission, Staff found that Sentra's Revenue Required from Rates is $286,385 and that a $155,178 revenue increase, or 118.27 percent, to pro forma present rate revenues of $131,207 is necessary to generate the Overall Revenue Requirement.

2. Gas Service Rates. Sentra currently provides retail gas sales to all customers under one rate schedule. In the application, Sentra proposed to separate this rate schedule into Residential and Non-Residential rate schedules. Both proposed rate schedules include a monthly customer charge, Gas Cost Recovery Rate, and a Base Mcf Rate. For the Residential Rate Schedule, Sentra proposed to increase the monthly customer charge from $5.00 to $15.00 as well as increase the Base Mcf Rate. In

[7] These adjustments are consistent with 807 KAR 5:076, Section 9; *See also* Case No. 2001-00211, *The Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue its Evidence of Indebtedness therefor; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, *Application of Northern Kentucky Water District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary*; *and (C) Issuance of Bonds* (Ky. PSC June 25, 2003); Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018); and Case No. 2019-00080, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of the City of Pikeville to Mountain Water District* (Ky. PSC Dec. 19, 2019).

determining the increase in the customer charge, Sentra reviewed the monthly customer charges for the five largest natural gas utilities within the jurisdiction of the Commission, and chose a customer charge that it alleged would not only be reasonable in comparison, but slightly lower.[8]

For the Non-Residential Rates, Sentra proposed a two-step declining-block rate structure. Sentra contended that such a rate structure will prevent certain large industrial users from leaving the gas utility and switching to alternative sources of energy, which, in turn, will force even higher rates upon the Sentra's remaining customers.[9] Sentra proposed to increase the Non-Residential customer charge from $5.00 per month to $25.00 per month. Sentra's support for this increase was similar to the support provided for the Residential Rate Class in that Sentra choose a rate that was less than the five largest natural gas utilities in Kentucky.[10]

In determining the Base Mcf Rate for the Residential Rate Class and the two block Base Mcf Rates for the Non-Residential Rate Class, Sentra calculated the volumetric rates which would satisfy the balance of the revenue requirement less the monthly customer charge. This calculation was performed so that the second block of the Non-Residential Base Mcf Rate was $2.00 per Mcf less than the Base Mcf Rate for the Residential Rate Class and the Non-Residential block one Base Mcf Rate. Sentra stated that the $2.00 reduction in the second block was designed to discourage Sentra's largest customer from switching to a competitive fuel such as propane.[11] In addition, the block

[8] Blake Testimony at 7.

[9] Blake Testimony at 6.

[10] *Id.* at 8.

[11] Sentra's Response to Staff's First Request for Information (Staff's First Request), Item 1.

division of 50 Mcf was chosen because it provides a reasonable approximation between residential and non-residential usage as those large customers on Sentra's system typically use over 60 Mcf per month.[12]

In the rate development, Sentra did not perform a cost-of-service study (COSS) as the historical accounting data necessary to perform portions of a traditional COSS such as a zero-intercept or minimum system analysis were unavailable to Sentra.[13] Sentra did provide support using reproduction costs and estimated that the reproduction cost of Sentra's mains would be in excess of $3 million, which would result in a monthly customer cost in excess of $84.00 per month.[14]

Regarding the calculation of the monthly customer charge and Base Mcf Rates, traditionally in the absence of a COSS, Staff would apply the percent increase across the board to all class rate components[15]. However, in this situation, Sentra is proposing a new rate design. Given that the capital cost to switch from natural gas to propane is $150 or less,[16] Staff agrees with Sentra that such a rate design allows it to be competitive and keeping such large volume customers on Sentra's system in the long run will support overall rate stability. Furthermore, declining block rates for large natural gas industrial

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[12] *Id*., Item 3.

[13] Blake Testimony at 9.

[14] *Id.* When Sentra purchased the utility, it was fully depreciated.

[15] *See* Case No. 2013-00170, *Alternative Rate Filing of Wood Creek Water District* (Ky. PSC filed Nov. 12, 2013), Case No. 2017-00191, *Electronic Application of Dexter-Almo Water District for Alternative Rate Filing* (Ky. PSC Nov. 11, 2017), and Case No. 2019-00293, *Application of Monroe County Water District for an Alternative Rate* (Ky. PSC filed Mar. 31, 2020).

[16] Sentra's Response to Staff's First Request, Item 3.

rate classes are common.[17] Therefore, Staff agrees that the proposed rate design of two separate rate schedules and a two-block Base Mcf Rate for the Non-Residential Rate Class is reasonable. Regarding the proposed customer charges, in the absence of a COSS, Staff recommends that the allocation of revenues between fixed and volumetric charges remain the same and therefore, determined a customer charge for the residential and non-residential classes by applying the current percent of income that is currently recovered from the customer charge to the Staff calculated revenue requirement. The rates found in the Appendix to this Staff Report are based upon the $155,178 revenue increase Staff found warranted, the proposed customer charges, and the proposed rate design. For the average residential customer using 3 Mcf per month, the average residential customer's bill would increase by $22.55, from $18.11 to $40.66 or approximately 124.51 percent.

PRO FORMA OPERATING STATEMENT

Sentra's Pro Forma Operating Statement for the test year ended December 31, 2019, as determined by Staff, appears below.

[17] Blake Testimony at 8. *See e.g.,* Atmos Energy Corporation's Tariff, P.S.C. KY No. 2 Sheets No. 4–8, and Columbia Gas of Kentucky, Inc.'s Tariff, P.S.C. Ky. No. 5 Sheets No. 5–7.

	Test Year	Adjustment	(Ref.)	Pro Forma
Operating Revenues				
Sales	$ 375,509	$ 20,072	(A)	
		(139,930)	(B)	
		(108,935)	(C)	
		(15,509)	(D)	$ 131,207
Service/Fee Income	5,568	418	(E)	5,986
Management Fees	21,869	(21,869)	(B)	-
Total Operating Revenues	402,946	(265,753)		137,193
Cost of Goods Sold				
Supervisor Wages	63,372			63,372
Technician Wages	40,857			40,857
Payroll Taxes - Direct	9,074			9,074
Payroll Reimb from Clay Gas	(60,918)	(14,369)	(F)	
		75,287	(B)	-
Cost of Natural Gas	234,238	(233,357)	(G)	881
Job Supplies	4,774			4,774
Transport Fee - Clay Gas	29,060	(29,060)	(B)	-
Total Cost of Goods Sold	320,457	(201,499)		118,958
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages	136,918	47,175	(H)	184,093
Payroll Taxes - Office	13,372			13,372
Insurance and Workman's Comp	27,366			27,366
Transportation Expense	20,011			20,011
Other Supplies & Software	9,853			9,853
Miscellaneous Expenses	1,232	(194)	(I)	1,038
Taxes & Licenses	1,628			1,628
Rent & Lease	7,305			7,305
Professional Expense	40,033			40,033
Dues & Subscriptions	4,050			4,050
Repairs & Maintenance	125			125
Utilities	3,057			3,057
Retirement Contribution Matching	401			401
Total Operation and Maintenance Expenses	265,351	46,981		312,332
Amortization of Rate Case Expense		5,417	(J)	5,417
Amortization	6,550	(6,443)	(K)	107
Total Operating Expenses	271,901	45,955		317,856
Net Operating Income	(189,412)	(110,209)		(299,621)
Discounts Earned	42			42
Revenue from Transmission Sales	-	139,930	(B)	
		21,869	(B)	
		75,287	(B)	
		(29,060)	(B)	208,026
Income Available to Service Debt	$ (189,370)	$ 97,817		$ (91,553)

(A) Billing Analysis Adjustment. In the Application, Sentra provided a billing analysis. Although not in the format as required by the ARF Application and regulation, the billing analysis was similar enough that Staff was able to calculate normalized revenues. Staff has reviewed Sentra's billing analysis and adjustments provided and concludes that the gas sales revenues of $131,207 as determined by the billing analysis is an accurate representation of normalized test-year revenue from gas sales less any gas cost recovery charge.[18] After removing the Sales to Clay Gas and the revenue from the Gas Cost Recovery (GCR) rate as detailed below in Item (B) and (C) respectively, the resulting adjustment is an increase of $20,072.

(B) Sales to Clay Gas. In its Application, Sentra included in Sales and Cost of Goods Sold revenue and expenses directly attributable to interstate transmission sales to Clay Gas located in Tennessee. Because these sales 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. A summary of the total revenues and expenses removed and net income is shown in the table below.

Revenues	
Sales to Clay Gas	$ 139,930
Management Fees	21,869
Expenses	
Transport Fee	29,060
Payroll Reimbursement	(75,287)
Net Income	$ 208,026

[18] Application, Attachment 5, Billing Analysis – Current Rates.

(C) Sales Directly Attributed to Cost of Natural Gas. Sentra included in its pro forma income statement Sales that were attributable to GCR Rate Revenue. In its billing analysis provided in the Application, Sentra stated that the total revenue from GCR rate sales was $108,935.[19] These sales are recovered through the GCR mechanism as provided in Sentra's tariff and therefore should be excluded from the calculation of the revenue requirement of its base rates. Therefore, Staff removed Sales attributable to GCR rate revenue of $108,935 from pro forma operations.

(D) Overcollection Due to GCR Rate Mechanism. During the test period, Sentra had revenue attributable to the GCR rate of $108,935 as discussed in Item (C) above and Sales to Clay Gas in the amount of $139,930 as discussed in Item (B) above, which results in total sales related to the cost of gas of $248,865. In the response to Staff's Fourth Request for Information, Sentra stated that the total cost of gas sold to retail customers was $93,484 and that the total cost of gas sold to Clay Gas was $139,872, which results in total sales attributable to the cost of gas of $233,356.[20] Therefore, the record reflects that an overcollection in the GCR rate has occurred. In order to properly reflect the pro forma base rate revenue, Staff decreased Sales by an additional $15,509 to reflect the overcollection in the GCR rate.[21]

(E) Disconnection/Reconnection Charges. Sentra proposed to increase the disconnection/reconnection charge from $40.00 to $120.00. Sentra supported this increase by reasoning that since the current charge is equivalent to eight months of the

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[19] Application, Attachment 5, Billing Analysis – Current Rates.

[20] Sentra's Response to Staff's Fourth Request for Information (Staff's Fourth Request), Item 1.

[21] $233,356 (cost of gas sold) - $108,935 (revenue from GCR) - $139,930 (Clay City) = $(15,509).

current customer charge, or eight times $5.00, a proportional change would be eight times $15.00, or $120.00.[22] Sentra asserts that some customers will connect to the systems and use gas only during the winter for four months a year and then disconnect during the remaining eight months, and Sentra asserts that such a method for calculating the monthly charge was developed to prevent customers from disconnecting and avoid paying the fixed cost of facilities that have been installed to serve the customer.[23]

Cost support for a disconnection and reconnection provided by Sentra are estimated to be $66.50 and $54.50, respectively.[24] Staff recognizes the argument surrounding the seasonal connects and disconnects as gas utilities have similar language in their tariffs regarding seasonal disconnections and reconnections.[25] Staff recommends that the disconnection and reconnection fees be $44.00 each. Not only is this cost justified, but the sum of the two fees is equivalent to the monthly customer charges of eight months so to discourage seasonal disconnections and connections. Additionally, by keeping the two fees separate, if a new customer joins Sentra's system or, if an existing customer permanently leaves the system, each is paying the associated cost. Staff increased Sentra's pro forma Service/Fee Income by $418 to reflect the resulting effect of the increase to the disconnection/reconnection charge on the test period based on the number of system reconnects as shown in the calculation below.

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[22] *Id.* at 10.

[23] Sentra's Response to Staff's First Request, Item 2.

[24] *Id*.

[25] See Columbia Gas of Kentucky Tariff, Fifth Revised Sheet No. 70.

Adjusted Disconnection/Reconnection Charge	$ 88
Times: Reconnections in 2019	11
Total Disconnection/Reconnection Charges	968
Less: Test Year	(550)
Increase	$ 418

(F) Contractual Services Provided to Clay Gas. In its Application, Sentra proposed to increase its collections for Payroll Reimbursement by $14,369 that were directly attributable to sales to Clay Gas. Staff accepts this proposed adjustment but notes that the net of test-year income and this increase were reclassified in Adjustment (B) above, to correctly record net income from sales to Clay Gas.

(G) Cost of Natural Gas. Sentra included in its pro forma income statement the cost of natural gas to serve its retail customers. In its response to Staff's Fourth Request for Information, Sentra showed the breakdown of the costs of natural gas between sales to its Retail customers and sales to Clay Gas. Additionally, Sentra stated that there were $881 in expenses in this category that were not related to the cost of natural gas.[26] Staff removed the total cost of natural gas from its calculation of pro forma operations, as these costs are recovered through the Gas Cost Recovery mechanism as provided in Sentra's tariff.

(H) Salaries and Wages – Office Manager. On December 19, 2019, Sentra hired an office manager who was compensated $925 in the test year. The office manager is currently employed and being compensated $925 per week. Staff increased pro forma operations by $47,175 to annualize the weekly salary for this new employee.

[26] Sentra's Response to Staff's Fourth Request, Item 1.

Office Manager Weekly Salary	$	925
Times: 52 Weeks		52
Pro Forma Salary		48,100
Less: Test Year		(925)
Increase	$	47,175

(I) Miscellaneous Expenses. During the test year, Sentra incurred expenses of $128 and $66 respectively for an office outing hosted by Sentra Resources and for late payment penalties paid to US Bank and the Kentucky State Treasurer. Because these expenses are not required for the provision of gas service to Sentra's customers, Staff removed the amounts, which total $194 from pro forma operations.

(J) Amortization of Rate Case Expense. In its Application, Sentra proposed to increase Professional Expense by $5,417 for expenses incurred as a result of this proceeding.[27] Sentra amortized its total cost of the rate case of $16,250 over three years. Staff accepts the adjustment as proposed by Sentra and has included it in pro forma operations.

(K) Amortization. In its Application, Sentra proposed to decrease Amortization expense by $6,443 for state taxes withheld, but had not yet been remitted.[28] Staff believes this to be reasonable, as taxes withheld to be remitted to another entity is not an expense and should be removed from test-year operations. Therefore, Staff accepted the adjustment made by Sentra.

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[27] Application, Attachment 4, Adjustment C.

[28] *Id.* Adjustment E.

OVERALL REVENUE REQUIREMENT AND REQUIRED REVENUE INCREASE

By applying the operating ratio method, Staff determined Sentra Corporation's Revenue Required from Rates to be $286,385. Staff calculated a revenue increase of $155,178, or 118.27 percent, over present rate revenues of $131,207 is necessary to generate the Overall Revenue Requirement. Staff's calculation of the Overall Revenue Requirement and the Required Revenue Increase using the Operating Ratio method is shown below.

		Commission Staff	
Pro Forma Operating Expenses		$ 436,814	
Divide by: Operating Ratio		88%	
Overall Revenue Requirement		496,380	
Plus: 5-Year Average Interest Expense on Indebtedness		4,060	(1)
Less:	Service/Fee Income	(5,986)	
	Discounts Earned	(42)	
	Revenue from Sales to Clay Gas	(208,026)	
Revenue Required from Rates		286,385	
Less: Pro Forma Present Rate Service Revenues		(131,207)	
Required Revenue Increase		$ 155,178	
Percentage Increase		118.27%	

(1) In its Application, Sentra proposed to increase interest paid on debt by $546 to reflect the additional expense from the conversion of a promissory note and line of credit from Edmonton State Bank into a five-year loan.[29] In Case No. 2020-00112, Sentra

[29] *Id.* Adjustment D.

proposed to refinance both its promissory note and line of credit into a five-year loan.[30] In response to Staff's First Request for Information in that case, Sentra provided an amortization schedule reflecting the 60-month payment schedule on that note.[31] Based on the schedule provided by Sentra, Staff calculated the five-year average of interest payments that will be required for the years 2021 through 2025, which resulted in an average interest expense of $4,060.

[30] Case No. 2020-00112, *Electronic Application of Sentra Corporation for Authorization to Enter into Business Loan Agreement* (Ky. PSC filed Apr. 7, 2020).

[31] *Id.* Response to Staff's First Request for Information, Item 1.

Signatures

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APPENDIX

APPENDIX TO A STAFF REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2020-00102 DATED JUL 28 2020

Staff Calculated Monthly Gas Rates

Residential	Base Rate	Gas Cost Recovery Rate*	Total
Customer Charge	$11.00		
All Mcf	9.888	$2.3640	$12.252

Non-Residential	Base Rate	Gas Cost Recovery Rate*	Total
Customer Charge	$ 25.00		
First 50,000 Mcf	9.888	$2.3640	$12.252
Over 50,000 Mcf	7.888	$2.3640	$10.252

*Gas Cost Recovery Rate approved in Case No. 2020-00078 effective May 1, 2020.

Nonrecurring Charges

Residential and Non-residential

Disconnection	$44.00
Connection/Reconnection Charge	$44.00

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