

LOUISIANA PUBLIC SERVICE COMMISSION

ORDER NO. U-24603

ST. AMANT GAS COMPANY EX PARTE

In re: Application for authority to increase rates charged for natural gas service within the operating territory of the company, applicable to customers in Ascension Parish.

(Decided at the July 25, 2001 Open Session)

Nature of Case

St. Amant Gas Company has applied to the Louisiana Public Service Commission ("LPSC") requesting authority to increase its gas rates throughout its service area in Ascension Parish, Louisiana. St. Amant Gas is a moderately size company serving 1, 266 customers. A board of directors and its 350 stockholders administer the utility.

Based upon the applicant's filing, the Staff was able to determine that St. Amant Gas is seeking an increase for its gas rates because it has been operating at a loss for the periods ending 1998 and 1999. As a result, St. Amant Gas is seeking Commission approval to return to its 1991 gas rate of \$5.90 plus the cost of the PGA per Mcf. The company is currently charging \$3.90 plus the cost of the PGA.¹ St. Amant Gas also stated that the increase would facilitate the expansion to other parts of the community because the company sustained losses in 1998 and 1999.

The Staff elected to employ the operating ratio method to calculate St. Amant Gas' revenue requirement instead of the traditional rate base approach, given the fact that 79% of the plant in service has been fully depreciated and thus would not give an equitable revenue requirement as the Net Plant In Service is less than \$200,000. The operating ratio method is a means of simplifying the ratemaking process. The purpose of this method is not to provide a return on invested capital, but rather to provide an adequate margin (or "cushion") of revenues over expenses. This method provides utilities with a sufficient cash flow to meet financial, operational, and regulatory obligations. The additional internal funds can protect utilities from adverse revenue and expense fluctuations.

The audit staff recommends that St. Amant Gas' rates be increased from \$1.90/Mcf commodity charge to \$3.15/Mcf commodity charge. However, this recommendation is contingent upon St. Amant Gas refunding \$80,083.42 for over collection to its ratepayers via billing credits and its becoming current with the Commission mandated PGA filings.² If the Staff's recommended rate is approved, the additional revenues will yield St. Amant Gas an 11.43% operating margin over operating and maintenance expenses and will increase its yearly revenues by an average of \$65,178.³ An increase of \$1.25 per Mcf commodity charge would increase the average customer's bill from \$1.90 per Mcf commodity charge to \$3.15 per Mcf commodity charge and would increase the average residential monthly bill by \$4.50.

Should the Commission, in the alternative, grant the applicant's request as filed, the additional revenues would yield the St. Amant Gas an 19.67% operating margin over operating and maintenance expenses and will increase its net income by \$104,285.⁴

In order to prepare the jurisdictional gas rate comparison schedule, the Staff compared its recommended rated to the rates currently charged by other jurisdictional gas utilities. If the Staff's recommended rated is approved, St. Amant will have the fifth lowest rate in comparison with four companies having rates above St. Amant and four companies having rates below that of St. Amant Gas Company.⁵

Jurisdiction

¹ Please note that with the advent of the new PGA Order, the base rate of \$2.00 per Mcf for gas has been removed from the commodity charge and is recovered under the PGA which would decrease the current \$3.90 rate per Mcf to \$1.90 per Mcf and the requested rate would decrease to \$3.90 per Mcf instead of the previous 5.90 per Mcf.

² Please note that under the previous PGA Order the commodity charge would have been \$5.15/Mcf.

³ The 11.43% is reached after the self-insurance reserve requirement of 20% is met.

⁴ The 19.67% is reached after the self-insurance reserve requirement of 20% is met.

⁵ See Schedule H.

The Louisiana Constitution, Article IV, Section 21, provides:

The commission shall regulate all common carriers and public utilities and have such other regulatory authority as provided by law. It shall adopt and enforce reasonable rules, regulations, and procedures necessary for the discharge of its duties, and shall have other powers and perform other duties as provided by law.

Louisiana Revised Statute 45:1163(A)(1) provides:

(A)(1): The commission shall exercise all necessary power and authority over any street, railway, gas, electric light, heat, power, waterworks, or other local public utility for the purpose of fixing and regulating the rates charged or to be charged by and service furnished by such public utility.

Procedural History

St. Amant Gas Company's application for rate increase was received by the Commission on December 3, 1999. It was published in the Commission's Official Bulletin on December 10, 1999. On April 26, 2001, Commission Staff filed its Report and Recommendation. On July 2, 2001 a letter signed by Gregory Morgan, President of St. Amant Gas Company, was filed into the record of these proceedings. The letter indicated that St. Amant Gas Company was in agreement with the Staff Recommendation and desired that a public hearing be held for the purpose of resolving the rate application. A hearing was held in this matter on July 19, 2001 wherein Mr. Morgan appearing on behalf of St. Amant Gas Company stipulated to the Staff's Report and Recommendation.

Staff's Report and Financial Analysis⁶

Background

St. Amant Gas Company has applied to the Louisiana Public Service Commission ("LPSC") requesting authority to increase its gas rates throughout its service area in Ascension Parish, Louisiana. St. Amant Gas is a moderately size company serving 1, 266 customers. A board of directors and its 350 stockholders administers the utility.

Based upon the applicant's filing, the Staff was able to determine that St. Amant Gas is seeking an increase for its gas rates because it has been operating at a loss for the periods ending 1998 and 1999. As a result, St. Amant Gas is seeking Commission approval to return to its 1991 gas rate of \$5.90 plus the cost of the PGA per Mcf. The company is currently charging \$3.90 plus the cost of the PGA. St. Amant Gas also stated that the increase would facilitate the expansion to other parts of the community because the company sustained losses in 1998 and 1999.

Previous Rate Case(s):

The Staff was able to document a previous rate filing by St. Amant Gas. This filing, bearing Docket Number U-21596, was dismissed pursuant to an agreement between Commission Staff and St. Amant Gas. The agreement stated that the Docket would be dismissed without prejudice to allow St. Amant Gas to collect a year's worth of financial data. The Order of Dismissal was issued on May 23, 1996.

In addition to the above, the Staff notes that St. Amant Gas was cited in 1993 for "[f]or failure to provide United Gas Pipeline Company refunds to gas customers and failure to recognize regulatory jurisdiction of this Commission". The Commission ordered St. Amant Gas to hold a shareholders' meeting to permit the shareholders to decide, by majority vote, what disposition it should make of the \$76,000 refund from United Gas Pipeline. The shareholders voted to set aside the entire amount for payment of any liabilities chargeable to its self-insurance reserve account.⁷ The shareholder also voted to transfer 20% of its annual net income into the self-insurance reserve account. However, in 1998 and 1999, the company sustained losses and was unable to transfer any funds.

REVIEW OF COMPANY FINANCIAL DATA

⁶ The Staff Report and Recommendation contained Schedules A-H. Those Schedules are hereby incorporated by reference into this Order. If you would like to receive copies of the schedules please contact the Commission's Records and Recording Division at Post Office Box 91154, Baton Rouge, Louisiana 70821-9154 or you contact the Division by dialing 225/342-4408.

⁷ The self-insurance reserve account is a restricted asset.

Income Statement Comparison for 1998 and 1999 (Schedule C)

The audit staff reviewed the income statements for St. Amant Gas Company for the periods ending 1998 and 1999. Total income before operating expenses and after gas purchases was \$116,474.91 for 1998 and \$151,037.33 for 1999 or an increase of \$34,562.42 (29.67%). Total operating expenses decreased from \$192,689.96 in 1998 to \$170,590.92 in 1999 or a decrease of \$22,099.14 or (-74.34%). Two expense items, in particular, decreased from 1998 to 1999 and they were:

<u>Description</u>	<u>1999 Amount</u>	<u>1998 Amount</u>	<u>Difference (\$)</u>
Supplies	\$20,577.60	\$35,031.08	(\$14,453.48)
Repairs	\$ 769.83	\$ 3,929.22	(\$ 3,159.39)

These expenses (supplies and repairs) decreased due to fewer repairs in 1999. Also, some supplies bought in the latter part of 1998 may not have been used until the first months of the new year. The company keeps a small amount of supplies on hand but maintains no official inventory reports.

However, it should be noted that the company sustained income losses of \$72,215.05 in 1998 and \$19,438.69 in 1999. Due to these losses the company was unable to transfer money to its self-insured insurance fund. Pursuant to Commission Order Number U-20206, St. Amant Gas was ordered to transfer 20% of its annual net income to this self-insurance fund.

Proforma Income Statement for 1999 Using LPSC Staff Recommended Increase of \$1.00/Mcf Commodity Charge (Schedule D)

The audit staff took the company submitted data for 1999 and added an expense item for a part-time office worker that will work approximately 20 hours per week at \$7.50 per hour. St. Amant currently employs an office manager who works alone performing duties involving bookkeeping, billing and PGA submissions. The Staff believes that the additional employee is necessary for internal control purposes. The additional yearly expense of the part-time employee would be \$7,800.

Using the audit staff's recommended rate and the additional funds needed to cover the expenses for an additional part-time employee, the total revenues before operating expenses would increase from \$157,037.33 to \$216,257.33. Total expenses would increase from \$170,590.92 to \$178,390.92. Net income (profit/loss) would increase from a loss of \$19,438.69 to a profit of \$37,866.41 before federal and state taxes. Net income after taxes would increase from zero to \$30,898.99.

The audit staff also created a proforma income statement using the same information as listed above but used an increase of \$.50/Mcf or a yearly increase of \$26,078. Using this increase would produce a net loss of \$1,275.59. (See Page 2 of Schedule D)

1999 Proforma Income Statement with the Company Requested Increase of \$2.00/Mcf (Schedule E)

The audit staff used the company submitted data, the additional expense item of \$7,800 for the part-time employee and the company requested increase of \$2.00/mcf which would produce \$104,312.00 of additional revenue. Therefore total revenues would increase from \$151,037.33 to \$255,349.33. Proforma expenses would be \$178,390.92. Net income before federal and state taxes would be \$76,958.41 and after taxes would be \$62,798.06.

Balance Sheet Comparison for 1998 and 1999 (Schedule F)

The audit staff reviewed the balance sheets for St. Amant for the periods ending 1998 and 1999 and found that total assets decreased from \$444,087.67 in 1998 to \$418,194.55 in 1999 or a decrease of \$25,893.12, total liabilities decreased from \$59,452.32 in 1998 to \$52,997.89 in 1999 or a decrease of \$6,454.43 and that stockholder's equity decreased from \$384,635.35 in 1998 to \$365,196.66 in 1999 or a decrease of \$19,438.69.

The company has two cash accounts and these accounts have decreased considerably from 1998 to 1999 as shown below:

<u>Description</u>	<u>1999</u>	<u>1998</u>	<u>Difference</u>	<u>%</u>
Cash in Bank (Gonzales)	\$4,959.45	\$10,694.19	\$5,734.74	-53.62
Cash in Bank (Fist National)	\$ 817.15	\$ 3,352.40	\$2,535.25	-75.62

The furniture and fixtures account increased \$5,370.75 and is partly due to the purchase of a new computer system for the office. The retained earnings account decreased from \$165,531.29 in 1998 to \$85,458.19 in 1999 or a decrease of \$80,073.10 due to income losses.

Revenue Requirement – Rate Base Method Vs Operating Ratio Method

The Staff elected to employ the operating ratio method to calculate St. Amant Gas’ revenue requirement instead of the traditional rate base approach, given the fact that 79% of the plant in service has been fully depreciated and thus would not give an equitable revenue requirement as the Net Plant In Service is less than \$200,000. The operating ratio method is a means of simplifying the ratemaking process. The purpose of this method is not to provide a return on invested capital, but rather to provide an adequate margin (or “cushion”) of revenues over expenses. This method provides utilities with a sufficient cash flow to meet financial, operational, and regulatory obligations. The additional internal funds can protect utilities from adverse revenue and expense fluctuations. Therefore, the operating ratio method is being used to calculate the revenue requirement as follows:

$$RR = O \& M + D + OT + IT + r(O \& M)$$

- RR= revenue requirement
- O & M = Operations and Maintenance
- D = Depreciation
- OT = Other Taxes
- IT = Income Taxes
- r = Authorized rate of return

The audit staff recommends that St. Amant Gas’ rates be increased from \$1.90/Mcf commodity charge to \$3.15/Mcf commodity charge. However, this recommendation is contingent upon St. Amant Gas refunding \$80,083.42 for over collection to its ratepayers via billing credits and its becoming current with the Commission mandated PGA filings.⁸ If the Staff’s recommended rate is approved, the additional revenues will yield St. Amant Gas an 11.43% operating margin over operating and maintenance expenses and will increase its yearly revenues by an average of \$65,178. An increase of \$1.25 per Mcf commodity charge would increase the average customer’s bill from \$1.90 per Mcf commodity charge to \$3.15 per Mcf commodity charge and would increase the average residential monthly bill by \$4.50

Using the audit staff’s recommended rate, the operating ratio method calculation would be as follows:

$$\begin{aligned} \$216,257.33 &= 161,958.89 + 16,432.03 + 0 + 6967.42 + 30,898.99 \\ \$30,898.99 / \$216,257.33 &= 14\% \end{aligned}$$

After the self-insurance requirement of 20% is met, St. Amant Gas would have the following net income: \$30,898.99 – (\$30,898.99 * 20%) / \$216,257.33 = **11.43%**

Using the rate requested by the applicant, the operating ratio method calculation would be as follows:

$$\begin{aligned} \$255,349.33 &= \$161,958.89 + \$16,432.03 + 0 + \$6,967.42 + \$62,798.06 \\ \$62,798.06 / \$255,349.33 &= 25\% \end{aligned}$$

After the self-insurance requirement of 20% is met, St. Amant Gas would have the following net income: \$62,798.06 – (20% * \$62,798.06) / \$255,349.33 = 19.67%

Projected Increase in Revenue

If the Staff’s recommended rate is approved, the additional revenues will yield St. Amant Gas an 11.43% operating margin over operating and maintenance expenses and will increase its yearly revenues by an average of \$65,178. An increase of \$1.25 per Mcf commodity charge would increase the average customer’s bill from \$1.90 per Mcf commodity charge to \$3.15 per Mcf commodity charge and would increase the average residential monthly bill by \$4.50.

Should the Commission, in the alternative, grant the applicant’s request as filed, the additional revenues would yield the St. Amant Gas an 19.67% operating margin over operating and maintenance expenses and will increase its net income by \$104,285. This would result in the average residential monthly bill increasing by \$7.20. The dollar amounts quoted are based on the yearly amount of 52,176 Mcfs purchased by the company on federal form EIA-176 that is submitted to the U.S. Department of Energy for 1999. (*See Schedule B*).

⁸ Please note that under the previous PGA Order the commodity charge would have been \$5.15/Mcf.

STAFF'S REFUND RECOMMENDATION

The Commission's PGA Order requires that Louisiana gas utilities monitor the over/under recovery of purchased gas costs to provide a true up or reconciliation of actual recoverable costs to actual recoverable expenses. The computations that result from the monitoring are to be filed with the Commission in accordance with the appropriate schedules. Upon receipt of the filings, the Commission's Utilities Division prepares a utility specific over and under costs of gas recovery report. The test year report for St. Amant Gas indicates that St. Amant recovered the cost of gas for 56,064 Mcfs. However, during a site visit, the staff auditor reviewed the billing register and found that the company had billed customers for 54,043 Mcfs from January through December 1999⁹ resulting in St. Amant over collecting \$80,083.42 over a three-year period. It is the Staff's recommendation that this amount be refunded to St. Amant Gas ratepayers over the three-month period constituting the winter heating season. (See Schedule A)

JURISDICTIONAL GAS RATE COMPARISON

The Commission's Utilities Division generates the jurisdictional gas rate comparison schedule. With the advent of the 1999 PGA Order, St. Amant must recover the entire cost of gas through the PGA. Prior to the 1999 Order, the base rate of gas was taken out of the PGA and placed into the Commodity Charge per Mcf. For example, of the \$3.90 commodity charge, \$2.00 was attributable to the base rate of gas. In the December gas rate comparison, this \$2.00 is recovered through the PGA thus reducing the Commodity Charge to \$1.90 per Mcf. As of December 1999, using an average of 3.6 Mcfs rounded to 4 Mcfs, St. Amant had the second lowest residential rate with one company's rate below that of St. Amant and seven companies having rates above that of St. Amant. If the LPSC Recommended rate increase is approved, then St. Amant will have the fifth lowest rate in the comparison with four companies having rates above St. Amant and four companies having rates below that of St. Amant Gas Company. (See Schedule H)

STAFF'S RECOMMENDATION

The task of the Staff in this and all other rate cases is to simply balance the interest of the consumer and the utility requesting rate relief. Thus, the chief objective of the Staff in this proceeding is to secure efficiency of the utility's operation without allowing the utility to take advantage of the consumer. We recognize that the ultimate decision in this matter lies with the Louisiana Public Service Commission. In that respect and in light of the information presented above, Staff would recommend that St. Amant Gas be given an 11.43% operating margin over operating and maintenance expenses which would result in an increase of its yearly revenues by an average of \$65,178. An increase of \$1.25 per Mcf commodity charge would increase the average customer's bill from \$1.90 per Mcf to \$3.15 per Mcf commodity charge and would increase the average residential monthly bill by \$4.50.¹⁰ The Staff's recommendation would result in a 66% increase in rates to St. Amant Gas Company's ratepayers. However, this recommendation is contingent upon St. Amant Gas refunding \$80,083.42 for over collection to its ratepayers via billing credits over the three month period constituting the winter heating season and its becoming current with the Commission mandated PGA filings.

In addition to the foregoing, the Staff recommends that St. Amant Gas Company be directed to do the following: (a) use the NARUC Chart of Accounts for financial record keeping; (b) employ a part-time employee for internal control purposes; (c) refund ratepayers \$80,083.42 via billing credits over the three month period constituting the winter heating season; (d) interface with the Commission's Utilities Division for any assistance related to its PGA filings; and, (e) continue deferring 20% of their residual income after taxes to the self-insurance fund.

Docket Number U-24603 was considered and decided by the full Commission at its July 25, 2001 Open Meeting. On motion of Commissioner Dixon, seconded by Commissioner Field, and unanimously adopted, the Commission voted to accept the Staff Recommendation with the inclusion of language directing St. Amant Gas Company to file with the Commission no later than January 15, 2002, proof that the ordered rate refund has been completed.

IT IS THEREFORE ORDERED THAT:

1. St. Amant Gas Company, Inc. is hereby be given an 11.43% operating margin over operating and maintenance expenses which would result in an increase of its yearly revenues by an average of \$65,178.

⁹ It should be noted that there is a lag time of approximately two months from the purchase of gas to the actual sale of gas and the LPSC Utility Department's Over and Under Cost of Gas Recovery Report allows for this consideration. For example, gas purchased in March will probably not be sold until May.

¹⁰ Please note that this figure would have been \$5.15 before the 1999 PGA Order. With the advent of the 1999 Order, the \$2.00 base rate of gas is recovered through the PGA and not through the commodity charge

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