

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
AT RICHMOND, JUNE 3, 2004

APPLICATION OF
SOUTHWESTERN VIRGINIA GAS COMPANY

For approval of an increase in rates and to
initiate a weather normalization adjustment

CASE NO. PUE-2003-00426

2004 JUN -3 A 11:45

PARENT ONLINE

FINAL ORDER

On September 17, 2003, Southwestern Virginia Gas Company ("SWVG" or the "Company") filed a rate application, supporting testimony and exhibits with the State Corporation Commission ("Commission") for an expedited increase in rates. The Company sought to increase its annual revenues by \$260,152, an increase of approximately 2.5%. The primary reason for the application is the loss of major industrial gas users that were responsible for approximately 26 percent of the Company's total throughput for the fiscal year ending June 30, 2003. In addition, the Company also requested to include in its rates for the first time a Weather Normalization Adjustment ("WNA"). The Company's Application requested that the increase go into effect, subject to refund, for services rendered on and after October 28, 2003.

The Company also requested a waiver pursuant to 20 VAC 5-200-30 A 11 for reporting information for Southwestern Virginia Energy Industries, Ltd. (the "Parent"), and consolidated information of the Parent and the Company as required in Schedules 1, 2, 6, and 7. In support of its request, SWVG states that: (1) the Parent has historically never contributed to the raising of capital for the Company; (2) the Parent has historically never assisted the Company in raising capital either by guaranteeing debt or in any other manner securing the Company's obligations; (3) the Parent is a closely held corporation and not traded publicly; and (4) the Parent does not have financial statements prepared for public distribution.

The Company further requests a waiver of the requirement to prepare a jurisdictional cost of service study - Schedule 30. SWVG states that it serves very few governmental non-jurisdictional customers; in fact, the Company states that the only non-jurisdictional customers - governmental offices and schools - represent less than 1.1% of the Company's customers and 2.8% of its gas throughput. According to SWVG, these non-jurisdictional customers pay for service on the basis of Commission-approved rates; thus, the Company asserts that there is virtually no impact on the per customer cost of service and no economic justification to expend the money, time and effort to create a non-jurisdictional cost study.

By Order dated October 27, 2003, the Commission authorized the Company to place its proposed rates into effect on an interim basis subject to refund. The Commission also established a procedural schedule and set a hearing date for February 24, 2004, to receive evidence on the Company's application.

On January 20, 2004, the Company filed an Amendment to its Application accompanied by the supplemental direct testimony of Bernadette J. Stowe. The Amendment sets forth an adjustment to the Company's bad debt reserve to reflect the bankruptcy of one of its largest customers, C P Films, Inc.

The hearing was convened as scheduled on February 24, 2004. Richard D. Gary, Esquire, and D. Zachary Grabill, Esquire, appeared as counsel for the Company. Rebecca W. Hartz, Esquire and Wayne N. Smith, Esquire, appeared as counsel for the Staff. Raymond L. Doggett, Jr., Esquire, appeared for the Division of Consumer Counsel, Office of the Attorney General ("Consumer Counsel"). No public witnesses appeared to offer comments on the Application.

The Company, Staff, and Consumer Counsel offered a Stipulation at the hearing in which they proposed to offer the prefiled testimony into the record without causing the witnesses to

come forward and be subject to cross-examination. The Stipulation sets forth the agreement of the Company, Staff, and Consumer Counsel that the record supports a fair and reasonable annual increase in revenues of \$219,177 based on the capital structure and cost of capital reflected in the Staff's testimony and exhibits. The increase is based on a return on equity of 10.1% and a range of 9.6% to 10.6%.

Pursuant to the Stipulation, the Company offered the prefiled testimony of Lance G. Heater, Company President and CEO, and Bernadette J. Stowe, assistant treasurer, in support of its amended application. Consumer Counsel offered the testimony of Glenn A. Watkins, which included recommendations relating to the proposed WNA. The Staff offered the prefiled testimony of Thomas P. Handley, a public utility accountant with the Commission's Division of Public Utility Accounting, Farris M. Maddox, a principal financial analyst in the Division of Economics and Finance, and David A. Roberts, a utilities analyst in the Division of Energy Regulation. Pursuant to the Stipulation, all of the prefiled testimony was entered into evidence without cross-examination, and the Stipulation was also entered into the record of this case.

At the hearing, counsel for the Company moved that SWVG be allowed to place the lower rates into effect for bills rendered on and after February 29, 2004. Counsel stated such an action would decrease the Company's ultimate refund liability and afford customers an expedited lower rate. This motion was granted subject to check by Commission Staff of the revised schedules.

On April 15, 2004, Hearing Examiner Howard P. Anderson issued a Report in which the Examiner summarized the record and reviewed and analyzed the evidence and issues in this proceeding. The Examiner's Report also included the following findings:

- (1) The use of a test year ending June 30, 2003, is proper in this proceeding;

- (2) The Company's test year operating revenues, after all adjustments, were \$10,233,157;
- (3) The Company's test year operating deductions, after all adjustments, were \$9,968,486;
- (4) The Company's current rates produce a return on adjusted rate base of 5.031%;
- (5) A reasonable return on equity for the Company is in the range of 9.60% and 10.60%, and the midpoint of 10.10% should be used to calculate rates;
- (6) The Company's adjusted test year rate base is \$5,080,344;
- (7) The Company requires \$219,177 in additional gross annual revenues to earn a return on rate base of 7.704% and a return on common equity of 10.10%;
- (8) The Company should be granted a waiver of the rules requiring the report of information for its Parent and the consolidated information of the Parent and the Company;¹
- (9) The Stipulation agreed to by Staff and the parties is reasonable and should be adopted; and
- (10) A WNA, as set forth in the Stipulation, should be adopted in this proceeding.

Accordingly, the Examiner recommended that the Commission adopt the Stipulation and findings in his Report and grant an increase in annual gross revenues of \$219,177 as set forth in the Stipulation. The Examiner also recommended that the Commission direct the Company to refund with interest any excess revenues that have been collected and recommended the company be granted authority to implement a WNA as outlined in the Stipulation.

¹ While not addressed in the findings, the company did request a waiver of the requirement to prepare a jurisdictional cost of service study - Schedule 30 - as noted above. Because the non-jurisdictional customers pay the same rates as jurisdictional customers and account for only 1.1% of total customers and 2.8% of total gas throughput, Staff did not object to this waiver request. Staff, therefore, prepared its exhibits without jurisdictionalizing the Company's revenues, expenses, and rate base. (Exhibit No. 7, pp. 2-3.) We find this request for waiver of the requirement to prepare a jurisdictional cost of service study should be granted for this case only.

On April 23, 2004, counsel for SWVG filed a letter noting a clarification of the Examiner's Report of the procedural history, which restates that the Company's Application requested the proposed rate increase to go into effect subject to refund "for **service** rendered on and after October 28, 2003" (and not for **bills** rendered on and after October 28, 2003).

NOW THE COMMISSION, having considered the record, the Stipulation, the Examiner's Report, and the applicable law, is of the opinion and finds that the recommendations of the Examiner, including the waiver of the requirement to file a jurisdictional cost of service study, should be adopted.

Accordingly, IT IS ORDERED THAT:

(1) The findings and recommendations of the April 15, 2004, Hearing Examiner's Report are hereby adopted, consistent with the findings above.

(2) Rates reflecting the new revenue requirement are to be billed to the Company's customers, pursuant to the Company's Motion granted, on and after February 29, 2004.

(3) Within ninety (90) days from the date of entry of this Order, SWVG shall recalculate using the rates and charges prescribed in Ordering Paragraph 2 above, each bill it rendered that used, in whole or in part, the rates and charges that took effect under bond and subject to refund on October 28, 2003. Where application of the new rates resulted in a reduced bill, SWVG shall refund the difference with interest as set out below.

(4) Interest upon the ordered refunds shall be computed from the date payments of monthly bills were due to the date each refund is made at the average prime rate for each calendar quarter, compounded quarterly. The average prime rate for each calendar quarter shall be the arithmetic mean, to the nearest one-hundredth of one percent, of the prime rate values published in the Federal Reserve Bulletin or in the Federal Reserve's Selected Interest Rates (Statistical Release H.15) for the three months of the preceding calendar quarter.

(5) The refunds ordered in Ordering Paragraph 3 above may be credited to current customers' accounts (each refund category shall be shown separately on each customer's bill). Refunds to former customers shall be made by check mailed to the last known address of such customers when the refund amount is \$1 or more. SWVG may offset the credit or refund to the extent of any undisputed outstanding balance for the current or former customer. No offset shall be permitted against any disputed portion of an outstanding balance. SWVG may retain refunds owed to former customers when such refund is less than \$1. SWVG shall maintain a record of former customers for which the refund is less than \$1, and such refunds shall be promptly made upon request. All unclaimed refunds shall be subject to § 55-210.6:2 of the Code of Virginia.

(6) Within one hundred twenty days (120) from the date of entry of this Order, SWVG shall deliver to the Divisions of Public Utility Accounting and Energy Regulation a report showing that all refunds have been made pursuant to this Order and detailing the costs of the refund and the accounts charged.

(7) SWVG shall bear all costs incurred in effecting the refund ordered herein.

(8) Since there is nothing further to come before the Commission, this case is hereby dismissed and the papers herein placed in the Commission's file for ended causes.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:

Richard D. Gary, Esquire, and D. Zachary Grabill, Esquire, Hunton & Williams, Riverfront Plaza, East Tower, 951 East Byrd Street, Richmond, Virginia 23219-4074; C. Meade Browder, Jr., Senior Assistant Attorney General, and Raymond L. Doggett, Jr., Assistant Attorney General, Division of Consumer Counsel, Office of the Attorney General, 900 East Main Street, Second Floor, Richmond, Virginia 23219; and the Commission's Office of General Counsel and Divisions of Energy Regulation, Public Utility Accounting, and Economics and Finance.