

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

* * * * *

In the Matter of:

APPLICATION OF TEXAS AMERICAN)
ENERGY CORPORATION, THROUGH ITS)
DIVISION, WESTERN KENTUCKY GAS)
COMPANY, OF OWENSBORO, KENTUCKY,)
FOR AN ORDER AUTHORIZING THE)
CREATION, ISSUANCE AND SALE OF)
\$12,000,000 FIRST MORTGAGE)
16.40% BONDS, SERIES I, DUE)
OCTOBER 1, 1997)

CASE NO. 8626

ORDER

On August 19, 1982, Texas American Energy Corporation ("Texas American") through its division, Western Kentucky Gas Company, filed its application seeking approval of the Commission to create, issue and sell \$12,000,000 of 16.40% First Mortgage Bonds, Series I, to be dated in October, 1982. On September 7, 1982, Texas American filed its amended and restated application seeking the same approval. The net proceeds of this sale are to be used to repay existing interim loans and additional short-term loans incurred prior to closing and relating to the public utility division of Texas American.

This matter was set for public hearing at the Commission's offices in Frankfort, Kentucky, on September 17, 1982, at which hearing there appeared no party of interest other than Texas American.

The Commission believes that if the provisions of KRS 278.300 are to have meaning, the Commission must withhold authorization of the first mortgage bonds. By any measure, the terms of the proposed sale do not reflect current conditions in the capital

market or likely future trends. Accordingly the Commission believes issuance of the bonds on the terms proposed is not in the public interest. The Commission reminds the parties that furtherance of the public interest is the primary reason for the existence of this Commission and its counterparts in other jurisdictions.

The Commission notes that between the end of April, when the terms of the proposed issue were agreed to, and the hearing in this case:

1. The prime rate declined three percentage points;
2. The rate on U. S. Treasury obligations maturing between 1995 and 2000 (the maturity of the proposed issue is 1997) declined in excess of one percentage point; and
3. The Moody's average rate on high-grade utility bonds declined at least one percentage point.

The Commission also notes that other important features of the proposed issue, e.g., the call premium and the ten-year prohibition against refunding at a net interest cost lower than that on the proposed issue, impose onerous terms on Texas American, and ultimately on its customers. Although features of the proposed bond issue -- interest rate, term, redemption and refunding provisions -- might have reflected conditions in the capital market at the time the provisions were negotiated, they do not reflect capital market conditions today -- conditions which the consensus of informed opinion seems to believe are likely to become even more favorable to borrowers in the near term.

The Commission further notes that until such time as the short-term debt of Texas American is funded through the issuance of

longer-term obligations, Texas American's short-term debt is at the prime interest rate, which, at 13.5% currently, is substantially lower than the 16.40% interest rate of the proposed issue of bonds.

The Commission is aware that its decision to withhold authorization of the proposed issue of mortgage bonds is not without some possible risk to Texas American, and thus ultimately to the customers. But in this regard the Commission can only repeat that, in its view, if the provisions of KRS 278.300 are to have meaning, the Commission is not merely to approve, without thorough review, the terms of a proposed issue of securities of any utility over which the Commission has jurisdiction. Rather, the Commission is to subject those terms to careful review and, making its best effort to balance the various considerations -- which it must do in all matters which come before it -- reach a decision which in the Commission's opinion furthers the public interest.

The Commission believes that this view of its role under the provisions of KRS 278.300 is precisely what was and is intended by the Kentucky General Assembly, and further believes that when this view of its role under the provisions of KRS 278.300 is applied in this proceeding, the Commission must withhold authorization of the proposed issuance of the mortgage bonds.

Therefore the Commission, after consideration of the application and amended and restated application and all evidence of record and being advised, finds that the proposed issuance and sale by Texas American of \$12,000,000 of its first mortgage bonds at 16.40% interest is not necessary and appropriate for and consistent with the proper performance of its service to the public

Secretary