COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE NOTICE OF PURCHASED GAS ADJUSTMENT FILING OF EAST KENTUCKY UTILITIES, INC.	CN 8114-J	
THE APPLICATION OF EAST KENTUCKY UTILITIES, INC., FOR A TEMPORARY SURCHARGE	CN 9109	
SHOW CAUSE OF EAST KENTUCKY UTILITIES, INC., AS TO WHY THE UTILITY SHOULD NOT REFUND ILLEGAL RATES BEING CHARGED	CN 9159	
APPLICATION OF EAST KENTUCKY UTILITIES, INC., FOR: 1. ORDER AUTHORIZING A RATE INCREASE 2. INTERIM ORDER TO IMMEDIATELY IMPLEMENT ITS PROPOSED RATES ON EMERGENCY BASIS PURSUANT TO KRS 278.190 3. INTERIM ORDER GRANTING PERMISSION TO BORROW $134,009.92 AS AN EMERGENCY TO PAY KENTUCKY WEST VIRGINIA GAS COMPANY WHOLESALE GAS PURCHASES AND FIX A SURCHARGE TO PAY SAME 4. ORDER APPROVING PGA FILINGS AS FILED JULY 17, 1984, UNDER CASE NO. 8114 5. ORDER APPROVING BOND ORDINANCE AS APPROVED AND ADOPTED BY COUNTY OF FLOYD	CN 9236	CASE NO. 9236
THE NOTICE OF PURCHASED GAS ADJUSTMENT FILING OF EAST KENTUCKY UTILITIES, INC.	CN 8114-K	

O R D E R

On December 7, 1984, East Kentucky Utilities, Inc., ("EKU") filed an application with the Commission seeking to increase its rates and charges for gas service rendered to its customers by $461,905 annually, a 63 percent increase over test-period actual revenues. EKU also requested, in its application, permission to immediately implement its proposed rates on an emergency basis, permission to borrow $134,010 as an emergency to pay past-due purchased gas costs and to fix a surcharge to pay the same, for an Order approving certain PGA filings, and for an Order approving a bond ordinance.

On January 10, 1985, a hearing was conducted on the issue of interim rate relief in which the Consumer Protection Division of the Attorney General's Office ("AG"), Consumers of Kentucky-West Virginia Gas Company ("Kentucky-West") and East Kentucky made appearances. Having no objection from the parties of record, Cases No. 8114-J, 9109 and 9159 were consolidated into this case, Case No. 9236. Upon motion of EKU, the request for an Interim Surcharge to pay for delinquent purchased gas costs was withdrawn without objection. On February 4, 1985, the Commission issued an Interim Order granting EKU an emergency rate increase of 88 cents per Mcf, or an increase of approximately $120,296 annually over normalized gas service revenues of $733,865. The interim increase effected in the form of a purchased gas adjustment was granted, subject to the final determination in this case.

On June 20, 1985, a final hearing was conducted to consider the proposed general rate increase, a surcharge to pay past gas purchase costs, and approval of a bond ordinance. The AG and Floyd County, Kentucky, participated in the hearing.

This Order addresses the Commission's findings and determinations with regard to its investigation of EKU's revenue requirements, request for a surcharge and approval of a bond ordinance. The Order establishes rates and charges which will produce approximately $109,270 in additional annual revenues above those reported for the test period, or an annual increase of approximately 13.9 percent.

COMMENTARY

EKU is a non-profit corporation serving approximately 1,300 customers in the towns of Garrett, Allen, Wayland, Lackey, Hueysville, Dwale and Estill.

TEST PERIOD

EKU proposed and the Commission has adopted the 12-month period ending September 30, 1984, as the test period for determining the reasonableness of the proposed rates. In utilizing the historical test period, the Commission has given full consideration to known and measurable changes found reasonable.

REVENUES AND EXPENSES

EKU proposed several adjustments to revenues and expenses in its application. The Commission is of the opinion that the proposed adjustments are generally proper and acceptable for rate-making purposes with the following modifications:

Audit Report Findings

A limited financial audit was conducted at EKU's office located in Prestonsburg, Kentucky, on February 25-28, 1985, and March 6 and 7, 1985. Incorporated under this heading are the uncontested findings[1] of the Commission's Audit Report.[2] Based on these uncontested findings, the Commission has made the following

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1 Tab B, Response to Commission Request dated April 19, 1985.

2 Commission's Order dated May 20, 1985.

adjustments to the appropriate test-period revenue and expense items: The Commission has reduced test-period reported service supplies and expenses of $6,807 by $889 annually, and has reduced test-period reported transportation expense of $13,327 by $466 annually. The Commission has increased EKU's reported test-period interest income of $4,212 by $7,556 annually.

Gas Service Revenues

The Commission has determined the adjusted amount of Gas Service Revenues to be $854,161 annually based on EKU's latest purchased gas adjustment, Case No. 9236-A, which includes the interim increase granted earlier in this proceeding.

Purchased Gas

EKU purchased approximately 188,537 Mcf of natural gas from its suppliers during the test year at a total cost of $673,360. EKU proposed a $140,583 adjustment to purchased gas cost based upon the historical test-year mix of gas volumes, complete recapture of its test-period line loss of 22.3 percent, and an increase in price from Southeastern, one of its primary suppliers.[3]

3 Application, Exhibit W, dated December 7, 1984.

In EKU's last rate case, Case No. 8114,[4] in the Final Order entered August 10, 1981, the Commission deviated from its general practice of allowing a maximum 5 percent line loss and allowed EKU a 12 percent line loss for rate-making purposes. However, EKU was instructed to "...immediately take action to improve its line loss situation." The Commission further stated that the deviation from its normal line loss practice "...is being done in this case and this case only..." and "...should not be looked upon as an indication that the Commission will tolerate a continuation of the conditions necessitating this action."

Contrary to the Commission's directive, EKU has not taken the necessary measures to control its line loss. As of the date of the test year, nearly 4 years have lapsed since the Final Order in Case No. 8114, where EKU's line loss was documented at a high 17 percent rate. The test-period line loss of 22.3 percent contrasts poorly and is nearly four and one-half times the 5 percent maximum rate normally allowed for rate-making purposes. There is no documented evidence in this record of any natural or man-made disaster which precipitated this large line loss. Furthermore, there is no evidence which indicates that EKU has

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4 Application of East Kentucky Utilities, Inc., for (1) Order to Authorize a Rate Increase; (2) Interim Order to Immediately Implement its Proposed Rates on an Emergency Basis; (3) Order Authorizing the Borrowing of $2,114,834 to be Used to Pay its Indebtedness and to Construct and Upgrade its Utility Facilities; (4) Order Granting a Certificate of Convenience and Necessity to Reconstruct and Renovate its Gas System; (5) Interim Order Granting Permission to Borrow $50,000 as an Emergency to Pay Wholesale Gas Purchases; (6) Order Fixing a Hearing Date as Required by KRS 278.300.

developed a systematic schedule to reduce its line loss[5] as might be considered prudent in view of the admonitions in Case No. 8114. Consequently, the Commission is compelled to only allow a maximum 5 percent line loss for rate-making purposes.

EKU's proposed adjustment of $140,583 to test-period gas purchase costs was also based, as noted earlier, on the test-period mix of suppliers. Supplies from its less costly supplier, Southeastern, were unavailable during part of June, July, August and September, 1984, which necessitated purchasing more gas from the more costly supplier, Kentucky-West, and thus changing EKU's normal gas purchase mix. The curtailment of supply from Southeastern was due to a supplier-side line break which has been repaired and is of such a nature as not to be reasonably expected to recur. The Commission is of the opinion that a more representative mix of suppliers is available on record in the purchased gas adjustment in Case No. 8114-J, where the mix of Southeastern supply and Kentucky-West supply was established at 27.9 percent and 72.1 percent, respectively, for the year ended April 30, 1984.

Using a maximum 5 percent line loss, a normal mix as established in Case No. 8114-J, and the current prices of $3.50 per Mcf from Southeastern and $3.6177 a decatherm from Kentucky-West, the Commission has determined the test-period purchased gas cost to be $628,301 based on test-period gas volumes sold. This is a reduction of $45,059 to the actual test-period purchased gas costs.

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5 Item No. 12, Commission Request dated April 19, 1985.

Uncollectible Accounts

EKU reported test-period Uncollectible Accounts expense of $7,413 which was .939 percent of its reported revenues from gas sales of $789,345. The test-period percentage relationship of .939 percent contrasts with .728 percent in 1982, and .463 percent in 1983.

It is a reasonable practice to average uncollectibles over a reasonable time span in order to determine a reasonable pro forma charge to uncollectible accounts expense. More recent uncollectibles experience may be weighted more heavily if it is suspected that certain fundamental trends have changed and are reflected in the more current statistics. The Commission has no evidence in the record herein which suggests that the test-period uncollectibles experience is more representative of what may occur than the typical practice of averaging. Therefore, the Commission has determined a pro forma amount of uncollectible accounts in the amount of $6,065 based on EKU's 3-year average experience of uncollectibles and the adjusted revenues determined herein. Thus the Commission has reduced test-period uncollectibles by $1,348 annually.

Outside Services

EKU reported $1,500 in expenses for test-period Outside Services. EKU proposed a $4,200 increase in Outside Services citing increases in costs due to the retirement of an in-house attorney and an increase in monthly accounting fees.[6]

6 Exhibits N and O of Application dated December 7, 1984.

Since no detail existed for the $5,700 proposed level of Outside Services, the Commission requested a breakdown of the $5,700 to include a description of the service, frequency of service, cost per unit of service, the payee, and documentation of annual services costing $500 or more. In reply, EKU stated that $2,100 was necessary for accounting services and $3,600 was necessary for legal services.[7] No further details were provided.

As the accounting services are provided to EKU by a family-owned business and transactions between each would necessarily be less than arms-length, the Commission sought additional information on the cost competitiveness of the current accounting services. The Commission requested documentation of terms, services and prices rejected in favor of EKU's current arrangement. EKU replied that, due to federal guidelines and state statutes exempting professional services from competitive bidding processes, documentation of rejected bids was unavailable.[8]

The in-house staff attorney was also a related party and the Commission sought to verify the cost of legal services provided by the related party. When asked to provide the annual costs, including benefits, and the account classification to which

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7 Response to Item No. 20, Commission Request dated April 19, 1985.

8 Response to Item No. 4, Commission Request dated April 19, 1985.

these amounts were expensed, EKU reiterated the known information that the in-house staff attorney had retired.[9]

In general, it is the Commission's charge to investigate the prudency of a utility's expenditures on a case-by-case basis in due consideration of varying environments in which a utility may operate. It is not the Commission's intent in testing for prudency to measure the utility's actions against a maximizing model that is beyond the utility's technical, financial or operational capabilities. However, it is apparent from the record in this case that these related-party transactions were entered into in a rather cavalier manner. Competitive bids were not sought purportedly because of federal guidelines and state statutes exempting professional services from competitive bidding. The Commission knows of no currently existing federal or state prohibitions of professional bidding that would affect this case. It is also relevant that the utility know what kinds of and approximate frequency of professional services it needs. This could be based on past needs or future needs that are reasonably certain to occur. EKU apparently is very uncertain as to what, if any, legal services it will need in the future. Therefore, the Commission must deny the proposed $4,200 adjustment to Outside Services.

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9 Response to Item No. 19, Commission Request dated April 19, 1985.

Employee Pensions and Benefits

EKU reported $16,660 in test-period Employee Pensions and Benefits. EKU proposed a $2,105 annual increase in this expense due to an increase in pension costs resulting from a 7 percent salary increase and an increase in the cost of medical insurance coverage.[10]

The Commission requested a breakdown of the proposed amount of pensions and benefits expense. EKU responded by stating that pension and benefits expense was comprised of $13,451 in medical insurance premiums, $4,657 in pension costs and $657 in holiday gifts.[11] The Commission has reduced the amount of medical insurance expense by $6,715 associated with non-employee directors to be consistent with its findings concerning directors' fees and compensation determined herein.

The $4,657 proposed annual amount of pensions expense was based on 6.25 percent of the proposed level of salaries and wages of four participating employees including the general manager, the clerical person, and two laborers.[12] The Commission has reduced the proposed amount of pension cost by $1,124 annually to be consistent with the amount of wages and salaries determined reasonable herein.

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10 Exhibits N and O of Application dated December 7, 1984.

11 Response to Item No. 18 of Commission Request dated April 19, 1985.

12 Ibid.

In regard to the proposed amount of $657 for holiday gifts, the Commission is of the opinion that this type of expenditure should not be borne by the ratepayers. Therefore, the Commission has reduced the proposed amount of pensions and benefits expense by $657 annually.

The aggregate effect of the Commission's adjustments is to reduce the proposed amount of pensions and benefits expense by $8,517 to $10,248 annually. This is a $6,412 reduction in the actual test-period amount of pensions and benefits expense.

Regulatory Commission Expense

EKU reported $456 in test-period Regulatory Commission Expense and proposed an adjustment of $1,162 based on its proposed rate increase.[13] The Commission has determined the annual amount of Regulatory Commission Expense based upon the normalized revenues determined herein and the current assessment rate to be $898 and has adjusted test-period expenses by $442 annually.

Wages and Salaries

EKU reported $94,197 in test-period Wages and Salaries expense which was based on 4,594 permanent labor hours, the general manager's salary, the clerical person's salary, the legal counsel's salary, and 2,074 non-permanent labor hours.[14] EKU proposed an adjusted amount of wages and salaries of $98,921 based upon a general wage increase of 7 percent, 6,240 permanent labor

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13 Exhibits N and O of Application dated December 7, 1984.

14 Commission's Audit Report.

hours, the general manager's salary, the clerical person's salary, and 2,078 non-permanent labor hours.[15]

There are two basic issues of concern to the Commission with regard to EKU's proposed amount of Wages and Salaries. One is EKU's 7 percent general pay increase; the other is the planned increase in total general labor hours. The Commission is of the opinion that it would be very unlikely for a company engaged in a competitive industry experiencing annual losses from operations equal to 21 percent of its gross assets, and current liabilities 47 times greater than net equity, to grant a general wage and salary increase. In fact, it would be much more likely that a company struggling under these circumstances would be seeking wage reductions. The Commission is of the opinion that, relative to the financial condition of EKU, a 7 percent wage and salary increase is imprudent at this time and has reduced the proposed amount of wages and salaries by $6,471.

The second issue of concern to this Commission is the planned increase in total labor hours. Actual labor hours for the test period were 6,668,[16] whereas the adjusted amount of labor hours is 8,318, 1,650 hours more, or nearly a 25 percent increase. When asked what duties were performed with the non-permanent labor hours, the general manager stated that the hours are devoted to

15 Response to Item No. 17 of Commission's Request dated April 19, 1985.

16 Commission Audit Report.

construction.[17] Yet, when asked if EKU had a planned construction or renovation program, EKU stated that it had none.[18] The Commission is of the opinion that the addition of 1,650 labor hours lacks sufficient support to be included as a cost of service for rate-making purposes. Moreover, if the additional hours were included, they would not be reflected in operating expenses inasmuch as the manager stated that these hours were for construction programs. Therefore, the Commission has reduced the proposed level of Wages and Salaries Expense by $7,122 for the excess non-permanent hours at the wage rate determined previously.

The aggregate effect of the above two adjustments is to reduce the proposed amount of Wages and Salaries by $13,593 and to reduce the test-period amount of Wages and Salaries by $8,868 to $85,329 annually.

Directors' Fees

EKU expensed $4,000 during the test period for directors' fees. Each director received $1,000 annually plus medical insurance coverage[19] for approximately 16 hours of annual service to the utility.[20] One director is also the general manager of EKU.

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17 Transcript of Evidence ("T.E."), June 20, 1985, p. 32.

18 Response to Item No. 12, Commission Request dated April 19, 1985.

19 T.E., June 20, 1985, pp. 53-54.

20 Ibid., p. 59.

The Commission, after consideration of EKU's financial condition and its inability to meet its obligations as they matured, found, in Case No. 8114, that directors' fees were not allowable for rate-making purposes. The financial condition of EKU has not materially improved since Case No. 8114 and the Commission denies all compensation associated with the directors for rate-making purposes on the same basis as denied in Case No. 8114. Therefore, the Commission has reduced test-period operating expenses by $4,000 for the fee portion of the directors' remuneration and has reduced pensions and benefits accordingly.

Surcharge

EKU requested an Order granting permission to borrow $134,010 as an emergency to pay Kentucky West wholesale gas purchases and fix a surcharge.

In Case No. 8114, the Commission allowed EKU a surcharge to pay past-due purchased gas costs. The Commission is of the opinion that the necessity of a surcharge in Case No. 8114 was created by EKU's excessive line loss. Therefore, the same admonitions of Case No. 8114 which apply to excessive line loss also apply to the surcharge. The Commission views the current arrearage in purchased gas cost as being a direct result of EKU's excessive test-period line loss of 22.3 percent. Thus, the Commission reiterates its admonition in Case No. 8114 and denies EKU's request for a surcharge.

Therefore, test-period operations have been adjusted to produce the following results:

	Reported Test Period	Adjustments to Test Period	Adjusted Test Period
Gas Service Revenues	$789,345	$ 64,816	$854,161
Other Operating Revenues	8,990	-0-	8,990
Gas Operating Expenses	889,052	<65,925>	823,127
Net Operating Income	$<90,717>	$130,741	$ 40,024

REVENUE REQUIREMENTS

EKU proposed to base its revenue requirements on its proposed rates, transfers to bond sinking and depreciation funds of $141,537, depreciation expense of $31,201, interest expense of $13,809 and net income of $11,126.[21] EKU's bond ordinance requires monthly payments of $2,050 into a sinking fund and requires 10 percent of its revenues after the sinking fund requirement to be set aside into a depreciation fund. EKU has additional debt service of $1,084 monthly on a loan to purchase a ditch-witch and $524 monthly on a loan to purchase a 1983 Buick Riviera which is used for the commuting purposes of the general manager.

In the case of non-profit corporations such as EKU, the Commission's primary obligation to the corporation's investors, above providing revenues for operating and maintenance expenses, is to provide fair and reasonable revenues to allow adequate coverage for prudently incurred debts utilized in providing service to the corporation's customers. EKU's bond ordinance is extraordinary in that it requires a sinking fund and a substantial depreciation fund which is equal to 10 percent of gross revenues

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21 Exhibit N of Application dated December 7, 1984.

after sinking fund requirements. The Commission is of the opinion that the requirement of EKU's bond ordinance meets the investors' needs for adequate debt service and has eliminated depreciation expense of $31,201, interest expense of $13,809, and net income of $11,126 from the determination of revenue requirements. Furthermore, the Commission is of the opinion that debt service on the 1983 Buick Riviera should not be allowed for revenue determination since there are currently six other vehicles available for the four potential users of the vehicles.[22] Therefore, the Commission has determined EKU's revenue requirements based on the adjusted test-year operating expenses, the bond ordinance formula, and the additional debt service on the ditch-witch trencher as follows:

Total Gas Operating Expenses (Excluding Depreciation)	$ 791,926
Debt Service on Ditch-witch	13,008
Increase in PSC Assessment	47
	$ 804,981
Depreciation Fund Requirement	89,476
Sinking Fund Requirement	24,600
Increase in Uncollectibles	316
Total Revenue Requirements	$ 919,373
Adjusted Revenues	<854,161>
Interest Income	< 11,768>
Miscellaneous Service Revenues	< 8,990>
Required Increase	$ 44,454

EKU's payments for interest and principal for debt allowed for rate-making purposes is approximately $34,140 for 1985. The adjusted test-period net operating income of $40,024 when considering the elimination of depreciation expense of $31,201 and the inclusion of interest income of $11,768 (available funds for

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22 T.E., June 20, 1985, pp. 36-37.

debt service of $82,993) produces a 2.4X debt service coverage ratio which will not adequately meet EKU's bond ordinance provisions. The Commission has determined that an additional $45,089 in annual revenues from gas sales above interim rates previously granted will be necessary to meet the bond ordinance requirements. The additional $44,454 annually in gross revenue will produce, calculated on the same basis as earlier herein, an approximate 3.7X debt service coverage ratio and will allow EKU to pay its operating expenses, debt service, and fund the reserves required in the bond ordinance.

Typically, a 1.5X debt service coverage calculated with the exclusion of depreciation expense will satisfy most bond ordinance requirements. EKU's bond ordinance describes the required depreciation fund as necessary "to make good the depreciation" and to provide for the replacement of utility plant as needed. The purpose of the depreciation fund is to protect the long-run revenue producing capabilities of the utility plant, for it is these revenues which must retire the outstanding debt.

It is with great concern that the Commission views the operating statistics of EKU. Most notably, the Commission sees the exceptionally high line loss percentage as jeopardizing the safety, reliability, cost efficiency and, therefore, the long-run viability of EKU. The reality of such a line loss dictates that EKU must take immediate measures to reduce the unacceptably high line loss percentage. It is with the preceding caveat that the Commission authorizes revenues which result in a 3.7X debt service coverage. As a result of allowing a 3.7X debt service coverage, EKU will realize cash flow of $81,176 in excess of the operating costs and debt service allowed herein. The Commission has made numerous adjustments to reduce expenses in this case which it feels are imprudent or otherwise unwarranted under the circumstance in this case. If EKU continues to incur costs in areas the Commission has disallowed, it will not have adequate funds to pay all of its operating costs and provide for its required reserves. Therefore, the Commission feels that it must monitor, on a monthly basis, the financial condition of EKU. This will require the filing of monthly reports, until further notice, beginning with September, 1985. Each monthly report is due within 45 days of the close of each calendar month. If EKU management does not take immediate action to remedy its excessive line loss condition, remain current on its payments to its gas suppliers and improve EKU's overall financial condition through implementation of cost-savings measures, the Commission will consider taking action to terminate the operating lease now in force between EKU and Floyd County.

Excess Collections

As shown in Exhibit R of its application, EKU has excess revenues in the amount of $8,632 that should be returned to its customers. The overcollection is the result of a misapplication of rates charged in July and August, 1984.

FINDINGS AND ORDERS

The Commission, after examining the evidence of record and being advised, is of the opinion and finds that:

1. The rates and charges proposea by EKU should be denied upon application of KRS 278.030.

2. The rates and charges in Appendix A will produce gas service revenues of approximately $898,615 annually and are fair, just and reasonable rates in that they will produce revenues sufficient, when considering additional revenues, to permit EKU to pay its operating expenses, service its debt and provide a reasonable surplus.

3. The delinquent purchased gas costs are a direct result of EKU's excessive line loss and the surcharge to pay the delinquency should be denied.

4. The bond issuance of Floyd County is outside the realm of this Commission's jurisdiction and is not subject to the rules and regulations thereof.

5. EKU overcollected $8,632 during the period from July to September, 1984, that should be returned to its customers.

6. The amounts held in escrow pending the Commission's final determination in this case should be released to EKU for lawful objects within corporate purposes of its utility operations.

7. EKU should file monthly financial reports beginning with September 1985 within 45 days of the close of each calendar month until further notice by the Commission

IT IS THEREFORE ORDERED that EKU's proposed rates as set forth in its application be and they hereby are denied.

IT IS FURTHER ORDERED that the rates and charges in Appendix A are fair, just and reasonable for gas service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the request to borrow $134,010 as an emergency to pay delinquent purchased gas costs and fix a surcharge to pay same is hereby denied.

IT IS FURTHER ORDERED that the amounts the Commission ordered held in escrow are to be released to EKU for its lawful utility operations and EKU shall cease making deposits into the escrow account.

IT IS FURTHER ORDERED that within 30 days of the date of this Order EKU shall file with this Commission a plan to refund its overcollections.

IT IS FURTHER ORDERED that EKU shall file monthly financial reports, beginning with September 1985 within 45 days of the close of each calendar month until further notice by the Commission.

IT IS FURTHER ORDERED that within 30 days of the date of this Order EKU shall file with this Commission its revised tariffs setting out the rates authorized herein.

Done at Frankfort, Kentucky, this 30th day of September, 1985.

PUBLIC SERVICE COMMISSION

Richard D. Heman Jr.
Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 9236 DATED 9/30/85

The following rates and charges are prescribed for the customers served by East Kentucky Utilities, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

The following rates and charges have incorporated all changes through Case Number 9236-A.

RATES: Monthly

First 1 Mcf	$8.9558 Per Mcf
Over 1 Mcf	$5.9158 Per Mcf

Minimum Bill: $7.50 for less than 1 Mcf.

The base rate for the future application of the purchased gas adjustment clause of East Kentucky Utilities, Inc., shall be:

	Commodity
Kentucky West Virigina Gas Company	$3.6177/Dth*
Southeastern Gas Company	$3.50/Mcf

*Includes $0.0125 per Dth - Gas Research Institute Funding Charge