

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION OF EAST KENTUCKY UTILITIES,)
INC., FOR (1) ORDER AUTHORIZING A RATE)
INCREASE; (2) INTERIM ORDER TO IM-)
MEDIATELY 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 CERTI-) CASE NO. 9236
FICATE 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)

O R D E R

IT IS ORDERED that East Kentucky Utilities, Inc., ("EKU") shall file an original and 12 copies of the following information with this Commission, with a copy to all parties of record, by May 2, 1985, or within 2 weeks after the filing of the application, whichever is later. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to insure that it is legible. Where information

requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately. If neither the requested information nor a motion for an extension of time is filed by the stated date, the case may be dismissed.

1. Transactions between related parties are by definition not independent, arms-length transactions. EKU rents its office space from an Allen family-run business. Please provide documented or other substantial evidence:

- a. That the amount of square footage rented or leased is reasonable;
- b. Of the current contract or lease agreement, including terms, services provided, square footage and price;
- c. Of terms and prices of contracts or leases rejected in favor of the current agreement.

2. EKU leases trucks from an Allen family-owned business.

Please provide:

- a. A copy of the lease contract;
- b. Documented evidence of the competitive price of the contract, including copies of contracts, prices, and terms rejected;
- c. Documented evidence of the prudence of leasing versus purchasing this equipment;
- d. The vehicles covered under the current agreement.

3. EKU utilizes the computer services of an Allen family-owned business. Please provide:

- a. A copy of the contract and a description of each service provided, including the price;
- b. Documented evidence of terms, prices, services of non-related computer service firms rejected in favor of the current agreement;
- c. A description and analysis of the necessity and cost benefit of these services.

4. EKU's accounting services, compilations, etc., are provided by a family-owned firm. Please provide:

- a. A copy of the contract and a description of each service provided, including the price;
- b. Documented evidence of terms, prices, and services from non-related firms rejected;
- c. A description and analysis of the necessity of and cost benefit of each service provided.

5. Transportation expense of \$7,596.17 for gas, oil and repairs was not supported by individual charge invoices or contemporaneous mileage records. Furthermore, company vehicles are not marked as an EKU vehicle, yet employees have personal charge of these vehicles. Please provide a thorough narrative describing all efforts to prevent the potential diversion of these vehicles to non-utility use. Please also provide a thorough explanation of the necessity of \$7,596.17 in gas, oil and repairs.

6. EKU had additional interest income for the test period from the sinking fund and depreciation fund cash accounts in the total amount of \$7,506. This interest income was accounted for with a debit to cash and a credit to reserve accounts. This accounting treatment is contrary to the findings of the Commission's audit report. Please cite the section and language of the bond

indenture which prescribes this method of accounting. Please also cite the section and language of the Uniform System of Accounts for Class C and D gas companies which prescribes this method of accounting.

7. The test-period interest income of \$5,549 related to the depreciation fund cash account is 7.9 percent of the average balance of this cash account. The 1979 bond issue has only a 5 percent interest rate. Please provide a thorough explanation why this situation has not violated the 1979 bond indenture provisions on arbitrage.

8. The application seeks \$31,201 in depreciation expense. Case No. 8114 disallowed depreciation expense and provided a 1.5X debt service coverage ratio. Please provide all evidence which has materially changed since Case No. 8114 and supports the inclusion of depreciation expense for rate-making purposes.

9. Rough estimates of the break-even point for switching from natural gas to Number 2 heating oil is \$8.27 per Mcf under current market prices. ECU's proposed tariff is requesting \$8.26 per Mcf. Has ECU made any allowances for lost customers due to the proposed price per Mcf of gas? If so, please provide these estimates, along with appropriate explanations.

10. Please provide a breakdown of property insurance, Account No. 924. Provide copies of contracts and billings for the \$2,305 expensed as property insurance for the test period.

11. According to Exhibit O, line 3 of ECU's application, gas purchase cost is based on the actual volumes purchased from each

supplier during the test period. Supplies from the less costly supplier, Southeastern, were unavailable during part of June, July, August and September, 1983, which necessitated purchasing more gas from the more costly supplier, Kentucky West Virginia, and thus changing the gas purchase mix. Please provide copies of billings from each supplier for May, June, July, August and September, 1983, so that the normal mix of gas purchase can be approximated.

12. Does EKV have a planned maintenance, repair and replacement program? If so, please provide:

- a. Geographic area of planned repairs;
- b. Labor hours by skill-level required to effect repairs;
- c. Cost per hour, per skill level;
- d. Equipment requirements by hour and task as well as cost;
- e. Time schedule for start and finish;
- f. Quantifiable cost or service benefit resulting from repair;
- g. Material needs by task and by time schedule.

13. Does EKV have a long-term capital budget or planned program of major purchases of equipment or plant renovation? If so, please provide:

- a. The plant renovation or major purchases planned;
- b. The quantified cost or service benefit derived from the purchase or renovation;
- c. The time schedule for implementation of plan;
- d. The budgeted labor hours and costs to implement plan;

- e. The amount of funding needed;
- f. The break-even cost of funds versus cost benefit;
- g. The time span in which cost benefits can be expected.

14. On pages 111 through 113 of transcripts of Interim Hearing conducted in this case, Mr. David Allen testified that 80 percent of the system was in need of a complete rebuilding. Please provide all evidence which is contrary to the notion that the amounts carried as utility plant in service were imprudently incurred and depreciation associated with the imprudently incurred gross plant should be disallowed for rate-making purposes.

15. In November, 1983, EKV purchased a \$33,600 ditching machine financed with a 10 percent installment loan of 36 monthly payments of \$1,084.17. Please provide the following:

- a. The analysis of the cost of rental versus the cost of ownership and maintenance which indicated the prudence of purchasing the ditching machine;
- b. The amounts expensed during the test period for ditching and trenching machine rental;
- c. The anticipated annual cost savings from the use of this ditching machine;
- d. The number of hours the ditching machine was used during the test period;
- e. If appropriate, the number of hours this machine was used for other than EKV purposes.

16. During 1984, EKV purchased a commuter vehicle for \$11,269 financed by a GMAC installment loan with \$524.13 monthly payments. This vehicle is not marked as belonging to EKV. Please provide the following:

- a. A thorough explanation of the cost savings or the necessity of purchasing this vehicle;

- b. The business purpose of this vehicle;
- c. The total mileage this vehicle was driven during the test period;
- d. The mileage driven for ECU business.

17. For the pro forma salaries line item in Exhibit N of the application, please provide:

- a. The job title of each permanent employee;
- b. The budgeted number of permanent labor hours required during the year for each skill and skill-level;
- c. The budgeted number of non-permanent labor hours required during the year;
- d. The rate of remuneration for each skill and skill level.

18. For the pro forma employee benefits line item in Exhibit N of the application, please provide for each employee receiving benefits:

- a. The employee's job description;
- b. The cost per each benefit received;
- c. A description of each benefit;
- d. How the benefit is calculated (if appropriate). Please also provide, if appropriate, copies of representative billings of each benefit.

19. In reference to the outside services line item in Exhibit N of the application, please provide the amounts, including benefits expensed for legal services provided by the in-house staff attorney. Please also provide the account classification of these amounts.

20. For the proposed amount of \$5,700 in the line item outside services as indicated in Exhibit N of the application,

please provide a breakdown of the \$5,700 pro forma amount. This breakdown should include a description of the service, frequency of service, cost per unit of service, and the payee. Please also provide billings, invoices, or documented evidence of the cost per unit of service if this service has an annual cost of \$500 or more.

Done at Frankfort, Kentucky, this 19th day of April, 1985.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:

Secretary