

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

EAST KENTUCKY UTILITIES, INC.)
DELINQUENT PURCHASED GAS)
ACCOUNT WITH KENTUCKY WEST) CASE NO. 9405
VIRGINIA GAS COMPANY)

O R D E R

On August 22, 1985, the Commission issued a Show Cause Order directing East Kentucky Utilities, Inc., ("EKU") to appear before the Commission to explain the reason for its delinquent purchased gas account with Kentucky West Virginia Gas Company ("Kentucky West"), and what EKU's intentions were concerning resolution of the delinquent account to prevent suspension of gas deliveries by Kentucky West to EKU. The Commission had been notified by Kentucky West on August 13, 1985, that EKU had a delinquent account of \$249,705.67, which included an interest penalty of \$7,274.96, and further, that unless a definite payment schedule was arranged Kentucky West would suspend gas deliveries to EKU and initiate civil action to collect the monies owed.

Prior to the hearing conducted by the Commission on August 29, 1985, motions were filed by EKU and Floyd County to consolidate this case with Case No. 9236, at the time a pending rate case filed by EKU in December 1984. On September 30, 1985, the Commission denied both motions since the subject matter of this case was of such importance it should remain separate.

During the hearing EKU stated that the delinquent account was a direct result of the Commission's failure to grant interim rate relief to EKU. This request had been submitted by EKU as part of Case No. 9236 in December 1984, and was denied by the Commission on January 10, 1985. According to EKU, interim rate relief would have produced additional revenues of approximately \$240,000 on an annual basis.

Subsequent to the hearing, Kentucky West orally advised the Commission that it would not suspend gas deliveries to EKU pending further negotiations on a repayment plan and an expedited decision in this case. In that regard, EKU advised the Commission on December 6, 1985, that it had filed an application with Farmers Home Administration ("FmHA") for funds "to complete restoration of its system and to pay its wholesale gas purchase, delinquent accounts." Also, EKU at or about the same time filed for a loan through the Department of Local Government ("DLG") to pay its delinquent purchased gas account. EKU has also approached First Commonwealth Bank, Prestonsburg, Kentucky, to secure a loan of \$200,000 to pay toward its delinquent purchased gas account. However, according to EKU, the bank is unwilling to approve such a loan without a surcharge attached to EKU's sale of each MCF of gas. EKU has also been advised by DLG "that a loan entirely for the purpose of paying a gas supplier is ineligible," although such funds might be available for such a purpose as part of an approved reconstruction loan from DLG. The Commission notes, however, that DLG denied an earlier request by EKU for a reconstruction loan.

The Commission also notes that the actions initiated by EKU regarding its delinquent account with Kentucky West are not considered satisfactory by Kentucky West. On December 6, 1985, the Commission was notified by Kentucky West that it will seek authority from the Federal Energy Regulatory Commission to abandon all future sales to EKU since EKU "is either unable or unwilling to establish any type of repayment schedule."

The Commission is of the opinion that while one immediate concern of this proceeding, continued gas supplies to EKU's customers during the 1985-86 heating season, has been resolved for the short term, the remaining issue of EKU's delinquent purchased gas account with Kentucky West is not likely to be resolved by the actions initiated by EKU referred to herein. This conclusion is supported by past actions on the part of DLG and FmHA regarding the purpose of such applications submitted by EKU (i.e., use of borrowed funds to repay past bills).

Furthermore, the Commission is of the opinion that the primary reason for EKU's delinquent purchased gas account is and has been due to imprudent management decisions on operations expenses that relate directly to EKU's ability to pay its prudently incurred cost of service. This conclusion is based upon issues raised by the Commission in EKU's recent rate cases, Case No. 8114 and Case No. 9236, relating to imprudent or otherwise unwarranted expenses. As of September 1985, the effect on payment of such expenses in lieu of payment of its purchased gas account has resulted in EKU experiencing annual losses from operations equal to 21 percent of its gross assets, and current

liabilities 47 times greater than net equity. The Commission intends to pursue this issue of EKU's management of the Floyd County gas system in Case No. 9478, at which time the delinquent purchased gas account will continue to be addressed, since in the Commission's view the delinquency is directly related to EKU's management of the gas system.

After being fully advised the Commission is of the opinion and hereby finds that:

1. EKU has initiated action to resolve its delinquent purchased gas account with Kentucky West, although such action is not likely to succeed in acquiring funds.

2. Kentucky West does not characterize EKU's action as an attempt to arrange repayment and may seek authority to abandon gas sales to EKU.

3. The immediate issue in this case, a loss of gas supply, was resolved only for the short term in that EKU's customers had gas through the 1985-86 heating season.

4. The longer range issues of EKU's financial stability, a secure gas supply and a properly managed system, have not been resolved and require further attention and scrutiny in a future proceeding to be initiated by the Commission.

IT IS THEREFORE ORDERED that:

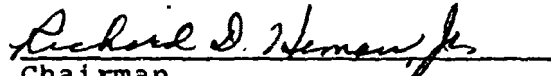
1. The Show Cause proceeding instituted in the above styled case is dismissed.


2. EKU's delinquent purchased gas account and the issue of EKU's management of the gas system will be further addressed in Case No. 9478.

3. This dismissal shall not be interpreted as Commission support for EKU's actions to acquire loans as the means to discharge its delinquent purchased gas account with Kentucky West.

Done at Frankfort, Kentucky, this 10th day of July, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary