

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KEN-GAS OF KENTUCKY)	
FOR APPROVAL TO CONSTRUCT AND FINANCE)	CASE NO.
A GAS SYSTEM TO SERVE THE CITY OF)	10346
HYDEN, KENTUCKY)	

O R D E R

On August 11, 1988, Ken-Gas of Kentucky, Inc. ("Ken-Gas"), filed an application with the Commission requesting a certificate of public convenience and necessity for the construction of a natural gas distribution system in the City of Hyden, Kentucky.

On September 19, 1988, an informal conference was conducted between Ken-Gas and Commission Staff. The issues discussed in the conference were outlined in the Commission's letter to Ken-Gas dated September 9, 1988.

On September 27, 1988, Ken-Gas filed some of the documents and information requested by Commission Staff at the informal conference on September 19, 1988.

On October 25, 1988, Ken-Gas filed a gas analysis report of the natural gas that will be delivered to the City of Hyden, Kentucky, by Kentucky West Virginia Gas Company ("KWV"). The sample was dated February 22, 1985.

IT IS ORDERED that Ken-Gas shall file an original and 10 copies of the following information with the Commission with a copy to all parties of record no later than January 6, 1989. If

the information cannot be provided by this date, Ken-Gas should submit a motion for an extension of time stating the reason a delay is necessary and include a date by which it will be furnished. Such motion will be considered by the Commission. Ken-Gas shall furnish with each response the name of the witness who will be available at the public hearing for responding to questions concerning each item of information requested.

1. Provide an optimization study of the gas system, including material selection of the pipelines and other facilities, size, route, and operating conditions.

2. Provide an agreement between Ken-Gas and KWV stating that KWV shall provide the City of Hyden with natural gas at 100 psig.

3. Provide an updated gas analysis report of KWV that would be fed to Hyden City gas system, including the content of impurities such as hydrogen sulfide.

4. With reference to the proposed rates, charges, and other tariff provisions for the Hyden system, Ken-Gas should provide the following:

- a. Please explain whether Ken-Gas proposes to operate the Hyden and Burkesville systems as a single company under a single tariff or as separate companies with separate tariffs.

- b. In consideration of the response to the previous question, explain the benefits of the form of organization and approach to setting rates selected by Ken-Gas.

- c. Explain the effects of the geographic distances between the two systems, differences in suppliers, differences in

construction costs, completion dates, and other such differences on the cost of service and rates of the Hyden system and the Burkesville system.

d. The rate established for the Burkesville system in the Commission's Order dated December 23, 1987 was \$7.024. Explain why Ken-Gas has used a \$7 rate for the Hyden system in the projections included in its application in this case.

5. Ken-Gas should provide the pro forma statements of operation and revenue requirements determinations used to arrive at a per Mcf rate of approximately \$7 for the Hyden system customers.

6. With reference to Ken-Gas' application, of the 5 years of projected operations included, Ken-Gas should identify the one which it proposes to use as the "test year" (the year to be evaluated in determining an appropriate rate) in this proceeding.

7. Ken-Gas should provide a depreciation schedule showing the derivation of the projected \$26,228 annual depreciation/amortization expense.

8. Ken-Gas should provide a copy of the quote for liability insurance from Keisling Insurance Agency. Also, it should provide copies of quotes for all other types of insurance to be acquired related to the Hyden system.

9. With reference to the proposed two full-time employees whose function will be "making installations, conversions and in general acquiring all of the customers possible," Ken-Gas should provide the following information:

a. Elaborate on the duties and activities included in the "installation" function. Identify all equipment and assets that these employees will be responsible for installing. State specifically if this will include installation of customer service lines.

b. Elaborate on the duties and activities included in the "conversion" function. State whether this applies to the conversion of customer appliances to adapt them for use of natural gas.

c. State whether the cost of any of the services included in (a) and (b) above will be reimbursed by customers. If so, identify those that will and the amount of reimbursement.

d. Explain why the customer acquisition function cannot be performed by employees already on the payroll of Ken-Gas.

10. With reference to the proposed rent expense, Ken-Gas should provide the following information:

a. State and describe all assets that will be rented and state the monthly rent of each asset.

b. Provide copies of quotes or other evidence supporting the above costs.

11. With reference to the \$2,000 proposed property tax expense, Ken-Gas should provide the calculation showing the assessed value of the system and the tax rate.

12. Ken-Gas should provide copies of all documents associated with the debt that will be incurred to finance the Hyden system, including copies of all correspondence with prospective

lending institutions. Also, continue to provide copies of such documents as they become available.

13. Ken-Gas should state the amount of equity investment that will be made toward financing the construction of the Hyden system.

Done at Frankfort, Kentucky, this 28th day of November, 1988.

PUBLIC SERVICE COMMISSION

Richard D. Weman, Jr.
For the Commission

ATTEST:

Executive Director