

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE TARIFF FILING OF NATURAL GAS OF)
KENTUCKY TO ESTABLISH DISTRIBUTION) CASE NO. 95-547
TRANSPORTATION SERVICE)

O R D E R

On December 13, 1995, Natural Gas of Kentucky ("Natural Gas") filed a motion requesting the Commission to modify its December 8, 1995 Order suspending the proposed transportation rate to Bluegrass Gas Sales Company ("Bluegrass"). Natural Gas proposed to place its proposed tariff into effect subject to refund. In order to provide the relief sought by Natural Gas, that of having an approved tariff rate to charge Bluegrass, a hearing should be held on the merits of Natural Gas's proposed rate. A final rate can then be set, without the possible necessity of refunds being owed to customers.

IT IS THEREFORE ORDERED that:

1. Natural Gas's motion is denied.
2. The transportation contract between Natural Gas and Bluegrass previously filed in Case No. 94-433¹ is incorporated by reference herein.

¹ Case No. 94-433, The Petition of Bluegrass Gas Sales, Inc. for Approval of a Certificate of Convenience and Necessity to Construct Facilities, Approval of Financing, Approval of Initial Rates and Operation of a Natural Gas Distribution System.

3. Natural Gas shall appear at a hearing scheduled February 20, 1996 at 10:00 a.m., Eastern Standard Time, in Hearing Room 2 of the Commission's offices at 730 Schenkel Lane, Frankfort, Kentucky, to support its proposed transportation charge.

4. Natural Gas shall prefile a summary of its expected witness's testimony no later than February 12, 1996.

5. Natural Gas shall file 10 copies of its responses to the following requests no later than February 6, 1996.

a. Provide a balance sheet and income statement for Natural Gas prepared in accordance with the Uniform System of Accounts ("UsoA") for Natural Gas Utilities for the most recent 12-month period available.

b. Provide a 12-month forecasted income statement for Natural Gas reflecting the company's revenues and expenses solely as a transportation utility with no distribution utility revenues and expenses.

c. Provide the names of the individuals who prepared the table attached to the proposed tariff.

d. Provide the total transportation revenues received from and total volumes transported on behalf of the two existing commercial transportation customers for the period October 1994 to October 1995. (Refer to Footnote 1 of the table attached to the proposed tariff.)

e. Refer to Footnote 2 of the Table attached to the proposed tariff. Is Natural Gas providing transportation service

to Bluegrass or is it providing transportation service to 250 residential customers? Explain.

f. Refer to the Table attached to the proposed tariff. Explain why each expense in the "Additional Expense" column was estimated on the basis of additional volumes Natural Gas expects to transport. Include with your response all workpapers, quotes, or other supporting documentation.

g. What line loss expense and imbalance penalties does Natural Gas expect to incur on on behalf of Bluegrass?

h. Why is Natural Gas including line loss expense and imbalance penalties in its transportation rate instead of passing the actual cost of penalties to Bluegrass as they are incurred (assuming these are pipeline-related penalties)?

i. Will Natural Gas be performing gas supply functions such as scheduling and balancing for Bluegrass?

j. Do the 61,125 commercial transportation volumes include volumes attributable to the 5 commercial customers of Bluegrass?

k. Calculate Natural Gas's rate base and capital structure for the 12-month period which matches the financial statements prepared in response to Item (a).

l. Project the rate of return on rate base and on capital, for the period used in response to Item (k) above, which would be generated by the proposed transportation rates. Include all supporting documentation for the projected income, rate base,

and return, and explain why the projected rate of return is reasonable.

m. Provide a depreciation schedule for Natural Gas's transportation assets. Include with your response the original cost, date of purchase, depreciation life used, annual depreciation, and accumulated depreciation.

n. How are the actual costs listed on the table attached to the proposed tariff currently being recovered?

o. Describe the nature of the relationship between Natural Gas and Bluegrass, specifically identifying the nature and extent of any common ownership.

p. Provide copies of all procedures Natural Gas has established to ensure that its records and operations are separate and distinct from that of any company with which Natural Gas shares staff or assets.

q. Provide copies of all procedures Natural Gas has established to ensure fair pricing of services between itself and any company with which Natural Gas shares staff or assets.

r. What is the status of construction for the proposed extension about which Natural Gas contacted Commission Staff on July 18, 1995?

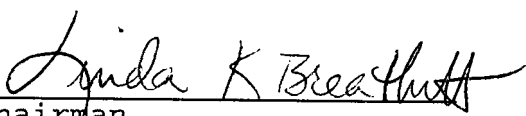
(1) Has service been initiated to the two customers?

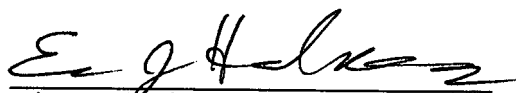
(2) If yes, at what rate? If no, when will this service commence and at what rate? Provide copies of any applicable contracts.

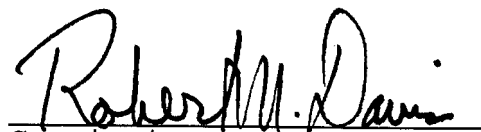
(3) What are, or will be, the total costs incurred by Natural Gas to provide this service and the forecasted revenues to be generated for the 12-month period following commencement of service?

Done at Frankfort, Kentucky, this 23rd day of January, 1996.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director