

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF GASCO)
DISTRIBUTION SYSTEMS, INC.)
FOR APPROVAL OF FINANCING) CASE NO. 2000-084

O R D E R

On February 25, 2000, Gasco Distribution Systems, Inc. ("GDSI") filed an application for approval to borrow \$1,600,000 from KeyBank. GDSI will use the proceeds to refinance its outstanding balance of \$2,322,123.72 with the Joint Energy Development Investments ("JEDI") Limited Partnership, a loan originally obtained through Enron. The overall purposes of the proposed financing is to reduce its debt and to obtain more favorable terms than currently offered by JEDI.

GDSI provided additional information on March 8 and March 20, 2000 in response to the Commission's finding that the filing was deficient. The information supplied on March 20, 2000 cured the deficiencies and the application was considered filed. On April 18, 2000, Staff and GDSI held an informal conference to clarify the responses GDSI supplied in additional Commission information requests. GDSI is an Ohio corporation doing business in Kentucky selling and distributing natural gas to 150 customers in and around Albany in Clinton County via its separate Albany, Kentucky Division ("Albany Division").

GDSI will have the option of using a floating interest rate or a fixed interest rate per annum. The floating rate will be equal to the bank's Prime Rate plus one percent. The fixed rate, determined through an interest rate swap, will change daily until locked or closed. The fixed rate may be fixed for a period up to the seven year term of the loan with monthly principal payments of \$38,100 due from December through May, and accrued interest payments due monthly. At the time of the informal conference, GDSI stated that it planned on using the fixed rate option. The rate GDSI would have obtained that day was 10.9 percent, a rate below that of the current JEDI loan.

JEDI agrees to forgive \$722,123.72 of GDSI's outstanding loan balance if GDSI obtains both financing from KeyBank and all regulatory approvals by May 15, 2000. In addition, Enron has agreed to forgive \$219,376.40 of GDSI's outstanding trade payable of \$819,376.40 and to accept \$600,000 as full payment. GDSI indicated that Gasco Inc., not GDSI, will repay the \$600,000 over a six-year period, during which time it will accrue no interest. The payments will be made in annual installments ranging from \$75,000 to \$125,000. GDSI also stated that none of this payable relates to the Albany Division because Enron does not supply wholesale gas to the Albany Division.

GDSI will allocate 5.28 percent of the interest expense associated with the KeyBank loan to its Albany Division. GDSI has used this percentage since 1995 to allocate a portion of the JEDI loan interest expense to the Albany Division. This percentage was calculated by dividing the original amount of the JEDI loan, \$4,000,000, by the original cost and capital improvements of the Albany Division's assets as of December 1995, \$211,361. The \$4,000,000 also represents the sum of the cost of the

assets of GDSI's divisions' and the B&W-Tennessee assets of GDSI's subsidiary, Titan. The \$4,000,000 was originally used to purchase the previously mentioned assets.

GDSI should select the interest rate option that results in the lowest cost of money over the life of the financing. The interest rate option selected and related details should be filed with the Commission within 30 days of the closing of the loan. GDSI should also file an analysis that shows the basis for the interest rate selected and the method by which GDSI determined that the chosen option was the best option.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that GDSI's loan agreement with KeyBank to refinance its outstanding debt to JEDI is for a lawful object within GDSI's corporate purpose, is necessary, appropriate for and consistent with the proper performance of its service to the public, and should therefore be approved.

IT IS THEREFORE ORDERED that:

1. GDSI is authorized to borrow \$1,600,000 from KeyBank for the purpose of repaying the loan from JEDI.
2. GDSI shall obtain the financing pursuant to the terms and conditions specified in the application and other documents in this case. Any modification to the agreement with KeyBank must be approved by the Commission in advance.
3. GDSI shall, within 30 days of its agreement with Key Bank, advise the Commission in writing of the financing option and the interest rate applied to the loan, and any changes subsequent to the date of the original agreement. GDSI shall file supporting documentation and the analysis used to determine that the interest rate selected was the best option.

4. The proceeds from the transaction authorized herein shall be used only for the lawful purposes specified in GDSI's application.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the loan authorized herein.

Done at Frankfort, Kentucky, this 9th day of May, 2000.

By the Commission

ATTEST:


Executive Director