

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF MIKE LITTLE GAS COMPANY,)	
INC. FOR APPROVAL OF LONG-TERM)	CASE NO.
FINANCING THROUGH THE DEPARTMENT)	2004-00140
FOR LOCAL GOVERNMENT)	

O R D E R

On April 20, 2004, Mike Little Gas Company, Inc. (“Mike Little”) submitted its application seeking Commission approval to borrow \$115,666.21 from the Economic Development Administration through the Kentucky Department for Local Government (“DLG”) Gas Restoration Board’s financing program. The application was amended on May 20, 2004 to increase the amount by \$14,745.45, which results in a total financing request of \$130,411.66.¹ The DLG loan will be for a term not to exceed 30 years and will bear an annual interest rate to be determined by DLG.² The proceeds from the loan will be used to pay off delinquent accounts in the amount of \$28,206.88; a note held by First Commonwealth Bank in the amount of \$55,000; debt to Miki Thompson, President of Mike Little, in the amount of \$13,746.30; and \$33,458.48 to complete the replacement of unprotected steel pipe on its system. None of the proceeds of the DLG loan will be used by Mike Little to acquire property.

¹ The increase reflects DLG loan conditions, which require that local prevailing wage rates be paid for the construction labor, plus a change in the amount of Mike Little’s delinquent accounts.

² Exhibit E of the Application, DLG’s Commitment Letter, states the current effective rate is 4 percent.

Mike Little requests a waiver of the requirement contained in 807 KAR 5:001, Section 6, that an applicant's financial exhibit reflect a period ending not more than 90 days prior to the filing of its application. Mike Little proposes to use as its financial exhibit its 2003 annual report, which is the most recently published financial statement available. Mike Little states that it is a small utility that prepares financial statements only once a year and makes its request for deviation due to the costs that would have to be incurred to prepare additional financial statements.

Mike Little states that it was ordered to replace 14,100 feet of unprotected steel pipe in its system. It further states that, of the original 14,100 feet of steel pipe, approximately 2,775 feet remains to be replaced at an estimated cost of \$33,458.48. Mike Little believes the construction is in the ordinary course of business and that a Certificate of Public Convenience and Necessity ("CPCN") is not required. In the alternative, Mike Little requests that a CPCN be awarded and that it be granted a deviation from the filing requirements of a CPCN application.

Mike Little's application, as amended, indicates that it is delinquent in the amount of \$17,456.88 for accounts payable to Equitable Energy, LLC for purchases of natural gas. It is also delinquent in the amounts of \$7,500.00 for rent on its office building and \$3,250.00 for services rendered by the accounting firm of Smith, Goolsby, Artis & Reams. The proceeds of a loan from First Commonwealth Bank in the amount of \$55,000 have been used to pay for gas supplies and to meet operating expenses. Non-interest bearing demand loans from Miki Thompson, President of Mike Little, in the amount of \$13,746.30 have also been used to pay overdue gas supply bills.

Ordinarily, a request such as Mike Little's would be denied on the grounds that long-term financing should not be approved for the purpose of paying prior period operating expenses. Generally, ratepayers should not be required to pay, on a long-term basis, for short-term operating expenses. However, rejecting the proposed financing would potentially inure to the long-term detriment of both the utility and its ratepayers by compromising both Mike Little's financial viability and its ability to provide continued service to its customers. Given Mike Little's current situation with its creditors, the Commission is persuaded that approving the proposed financing will be in the best long-term interests of both Mike Little and its ratepayers. Mike Little will remain viable as a going concern and its ratepayers will continue to receive gas service.

FINDINGS AND ORDERS

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that:

1. The proposed financing from DLG, in the amount of \$130,411.66, is for lawful objects within the corporate purposes of Mike Little, is necessary and appropriate for, and consistent with, the proper performance by the utility of its service to the public and will not impair its ability to perform that service, and is reasonable, necessary, and appropriate for such purposes.
2. Good cause for granting the deviation from the requirements of 807 KAR 5:001, Section 6, has been presented, and there is sufficient financial information in the record to render a decision regarding the proposed financing.
3. Since replacement of the 2,775 feet of unprotected steel pipe discussed herein was previously deemed necessary, no CPCN is required.

4. The Commission has generally held that it is not appropriate to issue long-term financing to fund operating expenses; however, in this instance, given Mike Little's circumstances, the Commission is permitting such financing based on our conclusion that the utility cannot survive as a going concern without this capital funding and that such approval is in the best long-term interests of both the utility and its ratepayers.

5. The proceeds of the financing approved herein should be used only for the purposes stated in Mike Little's application.

IT IS THEREFORE ORDERED that:

1. Mike Little is authorized to borrow \$130,411.66 from DLG for a period of 30 years subject to the provisions and terms contained within its application.

2. Mike Little's request for a waiver of the requirement contained in 807 KAR 5:001, Section 6, is granted.

3. The proceeds from the transaction authorized herein shall be used only for the lawful purposes set out in the application.

Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

Done at Frankfort, Kentucky, this 4th day of June, 2004.

By the Commission

ATTEST:

A handwritten signature in black ink, consisting of several overlapping loops and flourishes, positioned above a horizontal line.

Executive Director

Case No. 2004-00067