

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF EAST KENTUCKY)	CASE NO.
UTILITIES, INC FOR APPROVAL OF THE)	2005-00032
PROPOSED INCREASE IN RATES)	

ORDER

On January 18, 2005, East Kentucky Utilities, Inc. ("East Kentucky") submitted its application requesting that the Commission approve its proposed increase in rates. Commission Staff, having performed a limited financial review of East Kentucky's operations, has prepared the attached report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and submit any written comments on Staff's findings and recommendations or requests for a hearing or informal conference no later than 10 days from the date of this Order.

IT IS THEREFORE ORDERED that:

1. All parties shall, no later than 10 days from the date of this Order, submit written comments, if any, regarding the attached Staff Report or requests for a hearing or informal conference.
2. Any party filing a request for a formal hearing is to include in said request its comments as to the particular finding of the Staff Report to which it objects and a brief summary of testimony it would present at a formal hearing.

3. If no request for a formal hearing or informal conference is received by this date, this case shall stand submitted to the Commission for a decision on all issues raised by the application.

Done at Frankfort, Kentucky, this 8th day of February, 2005.

By the Commission

ATTEST:

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the bottom.

Executive Director

Case No. 2005-00032

STAFF REPORT
ON
EAST KENTUCKY UTILITIES, INC
CASE NO. 2005-00032

Pursuant to a request by East Kentucky Utilities, Inc. ("East Kentucky") for assistance with the preparation of a rate application, Commission Staff performed a limited financial review of East Kentucky's test period operations, the test year ending June 30, 2004. The scope of Staff's review was limited to obtaining information as to whether the test period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Upon completion of its limited review, Staff assisted East Kentucky in the development and preparation of its rate application, which East Kentucky filed with the Commission on January 18, 2005. Staff hereby adopts the contents of East Kentucky's application as its recommendation in this report as if fully set out herein. Dawn McGee of the Commission's Division of Financial Analysis is responsible for all pro forma revenue adjustments and the billing analysis. Andrea Edwards of the same division is responsible for all pro forma expense adjustments and the revenue requirement determination.

Exhibit 4 of the application, attached hereto as Appendix A, is the adjusted pro forma operating income statement wherein adjustments were made to test period operating revenues and expenses that were known and measurable and deemed to be reasonable. The revenue requirement determination, Exhibit 8 of the application and

Appendix B of Staff's Report, shows that East Kentucky's pro forma operations support a revenue requirement from rates of \$962,687, an increase of \$153,110 or 18.9 percent above the normalized revenue from rates of \$809,577. The rates proposed by East Kentucky will increase the average residential bill from \$108.11 to \$128.20, an increase of \$20.09 or 18.6 percent.

Upon its review of the application and the documents upon which it is based, Staff finds that the proposed revenue requirement of \$962,687 will allow East Kentucky to pay its adjusted operating expenses, meet the 1.3x debt service coverage requirements of East Kentucky's bond ordinances and provide for future equity growth. Based on its recommended revenues of \$962,687, Staff recommends the following rates for East Kentucky:

All Mcf

	<u>Base Rate</u>	<u>Gas Cost Recovery Rate</u>	<u>Total</u>
Minimum Bill	\$ 10.00	\$ 7.0902	\$ 17.0902
> 1 Mcf	\$ 5.2553	\$ 7.0902	\$ 12.3455

Signatures

Prepared by: Andrea Edwards
 Financial Analyst, Electric and Gas
 Revenue Requirements Branch
 Division of Financial Analysis

Prepared by: S. Dawn McGee
 Rate Analyst, Electric and Gas
 Rate Design Branch
 Division of Financial Analysis

APPENDIX A
STAFF REPORT CASE NO. 2005-00032
PRO FORMA INCOME STATEMENT

	Test-Period Operations	Pro Forma Adjustments	Adj. Ref	Pro Forma Operations
Operating Revenue:				
Gas Sales	\$ 801,117.50	\$ (3,432.48)	(a)	\$ 797,685.02
Penalties	8611.76			8,611.76
Service Charge	3280.00			3,280.00
Total Operating Revenue	<u>\$ 813,009.26</u>	<u>\$ (3,432.48)</u>		<u>\$ 809,576.78</u>
Total Operating Expenses:				
Operation & Maintenance:				
Gas Purchases	\$ 520,631.50	\$		\$ 520,631.50
Mains & Services Labor	89,503.72	(2,279.76)	(b)	87,233.96
Maintenance of Lines	11,477.67	(334.50)	(c)	11,143.17
Services Supplies & Expenses	1,290.61			1,290.61
Accounting & Collection Labor	41,375.00	(32,750.00)	(d)	8,625.00
Bad Debt	6,273.96			6,273.96
Admin & General Salaries	65,750.00	6,250.00	(e)	72,000.00
Office Supplies & Expenses	17,163.54	(1,089.92)	(f)	16,073.62
Outside Services	31,941.21	(27,200.00)	(g)	4,471.21
Insurance	14,691.17	19,078.82	(h)	33,769.99
Employee Benefits	35,591.16	1,712.34	(i)	37,303.50
Equipment Rental	2,481.94	(2,481.94)	(j)	0.00
Miscellaneous General Expenses	466.20			466.20
Rent	16,109.26			16,109.26
Transportation Expense	18,511.47	(3,180.87)	(k)	15,330.60
Total Operation & Maint.	<u>\$ 873,258.41</u>	<u>\$ (42,275.84)</u>		<u>\$ 830,982.58</u>
Interest Expense	\$ 43,086.99	\$ 7,156.51	(l)	\$ 50,243.50
Depreciation Expense	35,490.44			35,490.44
Amort. Debt Depr. & Expense	2,165.00			2,165.00
Taxes Other than Income	13,744.50	859.56	(m)	14,604.06
Total Operating Expenses	<u>\$ 967,745.34</u>	<u>\$ (34,259.76)</u>		<u>\$ 933,485.58</u>
Net Operating Income (Loss)	<u>\$ (154,736.08)</u>	<u>\$ (30,827.28)</u>		<u>\$ (123,908.80)</u>
Other Income & Deductions:				
Interest Income	\$ 550.71	\$ 0		\$ 550.71
Other Income	2,700.00	0		2,700.00
Total Other income (Deductions)	<u>\$ 3,250.71</u>	<u>\$ 0</u>		<u>\$ 3,250.71</u>
NET INCOME	<u>\$ (151,485.37)</u>	<u>\$ (30,827.28)</u>		<u>\$ (120,658.09)</u>

Adj. Ref.

Descriptions of Pro Forma Adjustments

- (a) **Revenue from Gas Sales:** This adjustment reflects the change in the number of customers at test-year-end with the test-year average number of customers.
- (b) **Mains & Services Labor:** This adjustment reflects the current staff level and current wage rates.
- (c) **Maintenance of Lines:** This adjustment reflects the elimination of repair work to an employee's home, a floral arrangement, and a grocery gift card.
- (d) **Accounting & Collection Labor:** This adjustment reflects the elimination of the management firm, and the current staff level and wage rate.
- (e) **Administrative and General Salaries:** This adjustment reflects the current staff level and current wage rates.
- (f) **Office Supplies & Expenses:** This adjustment reflects the elimination of a cellular phone contract that was not renewed and corrects misclassified expense.
- (g) **Outside Services:** This adjustment removes the management consulting fees.
- (h) **Insurance:** This adjustment reflects an expected increase in liability insurance
- (i) **Employee Benefits:** This adjustment reflects the current health and retirement expenses.
- (j) **Equipment Rental:** This adjustment removes the non-recurring equipment rental.
- (k) **Transportation Expense:** This adjustment reflects the elimination of non-field personnel fuel expenses and corrects misclassified expenses.
- (l) **Interest Expense:** This adjustment reflects the increase in interest expense due to the debt refinancing.
- (m) **Taxes Other than Income:** This adjustment reflects the payroll taxes at the current wage rates.

APPENDIX B
STAFF REPORT CASE NO. 2005-00032
REVENUE REQUIREMENT DETERMINATION

Adjusted Operating Expenses	\$ 933,485.58
130% x Debt Service Coverage (130% x 97,558.79)	126,826.43
Less: Depreciation	(35,490.44)
Interest Expense	(50,243.50)
Other Gas Revenue	<u>(11,891.76)</u>
Total Revenue Requirement	\$ 962,686.31
Normalized Revenues	<u>\$ 809,576.78</u>
Increase (Decrease) Required	<u><u>\$ 153,109.53</u></u>