

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 the Commission to approve its proposed increase in rates. The proposed rates will increase the average residential bill from \$108.11 to \$128.20, an increase of 18.6 percent. East Kentucky's proposed rates will generate annual revenues of \$962,687, an increase of \$153,110 or 18.9 percent over normalized test-period revenues of \$809,577.

Commission Staff performed a limited financial review of East Kentucky's operations and, on February 8, 2005, issued a report containing its findings and recommendations regarding the proposed rates. In its report, Staff agreed with East Kentucky's pro forma adjustments to test-period operations and found 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. Staff further found that East Kentucky's proposed rates will generate the annual revenue requirement of \$962,687 and recommended their approval.

East Kentucky, the only party to the proceeding, was directed to file written comments upon Staff's findings and recommendations or to request a conference or

hearing no later than February 18, 2005. On February 14, 2005, East Kentucky filed its comments in support of the Staff's findings and recommendations. Subsequent thereto, numerous East Kentucky customers signed and filed letters and petitions protesting the requested increase. Several of the customers also expressed concern with the management of the utility. These letters and petitions were placed in the case file and considered by the Commission in rendering our decision. To date, no intervention requests have been received.

While the Commission has concerns about East Kentucky allowing its financial condition to deteriorate to the point that it requires an increase of this magnitude, we recognize that East Kentucky has incurred some expenses beyond its control. East Kentucky advised the Commission in Case No. 2004-00276,¹ which the Commission incorporates herein by reference, that it began experiencing financial problems in the spring of 2003 due to repairs necessitated by floods in the area. In addition to the expense of the repairs, East Kentucky informed the Commission that Equitable Energy, LLC, its wholesale gas supplier, had under-billed it by \$124,000 for gas purchases for 10 months of 2002 and that a payment arrangement would be established to make up for the under-billing.

East Kentucky first contacted the Commission in June 2004 about its outstanding obligation to its wholesale gas supplier and its overall financial condition. Subsequently,

¹ Case No. 2004-00276, Application of East Kentucky Utilities, Inc. for Approval of Long-Term Financing Through the Kentucky Infrastructure Authority for the Purpose of Becoming Current With Various Creditors, Including its Wholesale Natural Gas Supplier, Equitable Energy, LLC. The Commission revoked this approval on January 14, 2005.

on October 1, 2004, it filed for approval of long-term financing from the Gas System Restoration Board (“GSRB”) loan program through the Kentucky Infrastructure Authority (“KIA”).² After receiving Commission approval, East Kentucky chose to forego the long-term financing with KIA and, instead, negotiated a 7-year loan with the Floyd County Fiscal Court.

With the financial condition continuing to deteriorate, the management of East Kentucky was replaced upon the recommendation of the Floyd County Fiscal Court with the current management on October 31, 2004. On December 20, 2004, the new management of East Kentucky filed for approval of long-term financing from the GSRB loan program through the KIA³ to help resolve its financial problems while maintaining its existing level of debt under new, more favorable terms. In its final Order in Case No. 2004-00510, the Commission established a schedule of payment priorities.⁴ Based upon the record in this case, the Commission finds it reasonable to continue to require East Kentucky to follow the schedule of payment priorities. East Kentucky should provide a detailed schedule to support compliance on a quarterly basis. The schedule should include the vendor or payee, the date of receipt, the date of payment, and the amount paid.

² Id.

³ Case No. 2004-00510, The Application of East Kentucky Utilities, Inc. for Approval of Long-Term Financing through the Kentucky Infrastructure Authority for the Purpose of Consolidating Outstanding Debt Associated with Various Creditors, final Order dated January 14, 2005.

⁴ Id., pages 4 through 5.

The efforts of its new management indicate that East Kentucky now recognizes it has an obligation to undertake steps necessary to ensure its financial viability. Under the circumstances, we find that denial of the proposed rate increase might be detrimental to both the utility and its ratepayers by compromising East Kentucky's financial viability and jeopardizing its ability to provide service to its customers.

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

1. The recommendations and findings contained in the Staff Report are supported by the evidence of record and are reasonable.
2. East Kentucky's proposed rates will produce annual revenues of \$962,687.
3. Reporting requirements should be established to provide for more frequent monitoring of East Kentucky's financial condition and management status.

IT IS THEREFORE ORDERED that:

1. The recommendations and findings contained in the Staff Report are adopted and incorporated by reference into this Order as if fully set out herein.
2. East Kentucky's proposed rates, which are set forth in Appendix A, are approved for service rendered by East Kentucky on and after the date of this Order.
3. Within 20 days from the date of this Order, East Kentucky shall file its revised tariff sheets showing the rates and charges approved herein, their effective date, their date of issue, and that they were issued pursuant to this Order.
4. East Kentucky shall file quarterly reports 30 days after the end of each calendar quarter beginning with the period ending June 30, 2005, to allow the

Commission to monitor East Kentucky's financial condition and management status. These reports shall, at a minimum, include a detailed income statement, a statement of cash flows, the detailed schedule of compliance with the schedule of payment priorities, an explanation of any and all changes in management and employee status along with the basis for the change, and a statement of the number of customers.

5. The entire record of Case No. 2004-00276 is incorporated herein by reference.

Done at Frankfort, Kentucky, this 11th day of March, 2005.

By the Commission

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2005-00032 DATED March 11, 2005

The following rates and charges are prescribed for the customers served by East Kentucky Utilities, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

All Mcf

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