

**EAST KENTUCKY UTILITIES, INC.**

**P. O. BOX 408  
PRESTONSBURG, KY. 41653**

RECEIVED

OCT 25 2004

PUBLIC SERVICE  
COMMISSION

Phone -606-886-2431

Fax -606-889-9196

RECEIVED

OCT 25 2004

FINANCIAL ANALYSIS

**Andrea Edwards, Public Utilities Financial Analyst  
Public Service Commission  
P. O. Box 615  
Frankfort, Kentucky 40602**

**RE: Request for information Re: Rate increase application**

*Case No.  
2004-00317*

**Dear Ms. Edwards:**

I am replying to your request for additional information per our telephone conversation on October 21, 2004.

- (1) The Floyd County Government owns the gas distribution system, all the assets, and all employees are in fact County Employees.

East Kentucky Utilities, Inc. is simply a nonprofit Corporation created in order to operate the gas system for the County.

Floyd County owns all the assets of the gas distribution system, East Kentucky has an operating agreement with the Floyd County Fiscal Court to operate the gas system for the benefit of the County.

- (2) Copy of Articles of Incorporation attached.
- (3) Floyd County will pay Equitable the outstanding gas bills of \$ 148,323.00 before the end of October as agreed to by Equitable. This amount will be repaid to Floyd County by East Kentucky Utilities, Inc. over an eight (8) year period. The note and other documents have not been prepared at this time.
- (4) The 20,000.00 advance to East Kentucky on March 3rd 2004 by the County will be included in one note which will include the 148,323.00 the County will pay Equitable and the 20,000.00 advance making a total eight (8) year loan to the County of 168,323.00 to be repaid by East Kentucky Utilities, Inc. . The notes and other documents have not been prepared at this time. They will be ready sometime in November after three Fiscal Court Meetings. I have attached a loan payment schedule based on the above amounts that East Kentucky Will agree to repay The Floyd County Government.
- (5) John Allen, Jr. has agreed to continue managing East Kentucky for the sum of \$ 500.00 per month until Floyd County decides the individual that will become the new manager.

East Kentucky has no severance obligations to either Tax Consulting, Inc. or to John Allen, Jr..

(6) (a)

Harold Case	Annual Salary \$ 29,325.36
Milford Case	Annual Salary \$ 24,879.60
Charles. M. Harris	Annual Salary \$ 30,000.00

Each full time employee is covered by group health insurance and is covered under the County Employees Retirement System.

Ursal Ray Wilcox- Part time- receives no annual salary - East Kentucky pays his Medicare supplemental insurance of 220.50 per month. He receives no other benefits.

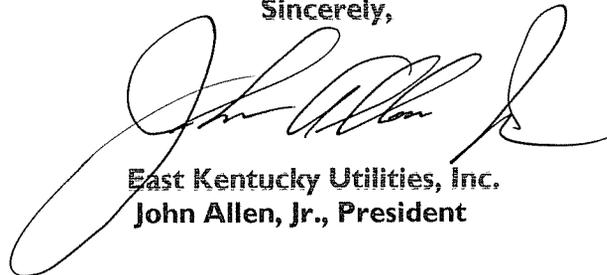
(6) (b)

YES- Salary will be reduced from \$ 66,000.00 to \$ 48,000.00 per year.

(6) (c) YES!

- (7) Per Retirement system rules- 5 % of each full time employees Gross monthly salary/wages are deducted from employees' check and then this amount along with East Kentucky' liability of 8.48% of total Gross wages/ salaries are submitted to Retirement Board each month. Part time employees are not covered under the retirement system.
- (8) This account is for use when any employee is approved by the retirement Board to purchase previous years, military service, etc.. The additional years when purchased on an installment plan established by the Retirement Board they notify East Kentucky and we withhold the amount of monthly payment established by the retirement Board and the amount is withheld from the employee's check and submitted to Retirement System. East Kentucky has no liability for these type of purchases from retirement Board. We simply deduct the amount stated by Retirement Board from employee's check and submit, we have no matching obligations.

Sincerely,



East Kentucky Utilities, Inc.  
John Allen, Jr., President

# Loan Amortization



## Inputs

Loan Principal Amount  
 Annual Interest Rate  
 Loan Period in Years  
 Base Year of Loan  
 Base Month of Loan

LOAN 1	
Loan Principal Amount	\$168,323.00
Annual Interest Rate	4.00%
Loan Period in Years	8
Base Year of Loan	2004
Base Month of Loan	11



## Key Figures

Annual Loan Payments \$24,620.88  
 Monthly Payments \$2,051.74  
 Interest in First Calendar Year \$1,117.19  
 Interest Over Term of Loan \$28,644.04  
 Sum of All Payments \$196,967.04

## Payments in First 12 Months

Year	Month	Balance	Payments	Principal	Interest	Cumulative Principal	Cumulative Interest	Ending Balance
2005	Nov	\$168,323.00	\$2,051.74	\$1,490.66	\$561.08	\$1,490.66	\$561.08	\$166,832.34
	Dec	\$166,832.34	\$2,051.74	\$1,495.63	\$556.11	\$2,986.29	\$1,117.19	\$165,336.71
	Jan	\$165,336.71	\$2,051.74	\$1,500.62	\$551.12	\$4,486.91	\$1,668.31	\$163,836.09
	Feb	\$163,836.09	\$2,051.74	\$1,505.62	\$546.12	\$5,992.53	\$2,214.43	\$162,330.47
	Mar	\$162,330.47	\$2,051.74	\$1,510.64	\$541.10	\$7,503.17	\$2,755.53	\$160,819.83
	Apr	\$160,819.83	\$2,051.74	\$1,515.67	\$536.07	\$9,018.84	\$3,291.60	\$159,304.16
	May	\$159,304.16	\$2,051.74	\$1,520.73	\$531.01	\$10,539.57	\$3,822.61	\$157,783.43
	Jun	\$157,783.43	\$2,051.74	\$1,525.80	\$525.94	\$12,065.37	\$4,348.55	\$156,257.63
	Jul	\$156,257.63	\$2,051.74	\$1,530.88	\$520.86	\$13,596.25	\$4,869.41	\$154,726.75
	Aug	\$154,726.75	\$2,051.74	\$1,535.98	\$515.76	\$15,132.23	\$5,385.17	\$153,190.77
	Sep	\$153,190.77	\$2,051.74	\$1,541.10	\$510.64	\$16,673.33	\$5,895.81	\$151,649.67
	Oct	\$151,649.67	\$2,051.74	\$1,546.24	\$505.50	\$18,219.57	\$6,401.31	\$150,103.43

## Yearly Schedule of Balances and Payments

Year	Balance	Payments	Principal	Interest	Cumulative Principal	Cumulative Interest	Ending Balance
2005	\$165,336.71	\$24,620.88	\$18,340.85	\$6,280.03	\$21,327.14	\$7,397.22	\$146,995.86
2006	\$146,995.86	\$24,620.88	\$19,088.48	\$5,532.40	\$40,415.62	\$12,929.62	\$127,907.38
2007	\$127,907.38	\$24,620.88	\$19,866.17	\$4,754.71	\$60,281.79	\$17,684.33	\$108,041.21
2008	\$108,041.21	\$24,620.88	\$20,675.55	\$3,945.33	\$80,957.34	\$21,629.66	\$87,365.66
2009	\$87,365.66	\$24,620.88	\$21,517.90	\$3,102.98	\$102,475.25	\$24,732.63	\$65,847.75
2010	\$65,847.75	\$24,620.88	\$22,394.58	\$2,226.30	\$124,869.82	\$26,958.94	\$43,453.18
2011	\$43,453.18	\$24,620.88	\$23,306.97	\$1,313.91	\$148,176.79	\$28,272.85	\$20,146.21
2012	\$20,146.21	\$20,517.40	\$20,146.21	\$371.19	\$168,323.00	\$28,644.04	\$0.00

JUN 19 1979

ARTICLES OF INCORPORATION

*Diacep J. Davis*  
SECRETARY OF STATE

The undersigned hereby forms a non-profit corporation under the laws of the Commonwealth of Kentucky, and to accomplish such purpose, does hereby adopt the following articles of incorporation.

ARTICLE I

The name of the corporation to be East Kentucky Utilities, Inc. with its principal offices at 3 South Arnold Avenue, Prestonsburg, Kentucky 41653.

ARTICLE II

The corporation shall have no capital, common or preferred stock and shall be composed of members rather than shareholders.

ARTICLE III

The purposes for which this corporation is formed are as follows:

- (1) To promote, assist, advise, research, formulate and publish information that will encourage conservation of all types of energy fuels, coal, oil, gas, timber and energy producing substance.
- (2) To promote, assist, advise, the development and production of oil and gas for distribution to utilities at the lowest cost possible to consumers.
- (3) To promote, train, and arrange for management, administrative, and technical personnel in the construction, management, maintenance, and operation of a small utility system; to meet all qualifications and standards required by State and Federal regulatory agencies having jurisdiction of utility operations.
- (4) To promote, publish, assemble, encourage and assist small utility systems in the adoption of a uniform accounting, control and reporting system to conform to the rules and regulations of State and Federal regulatory agencies having jurisdiction of utility operations.
- (5) To promote, advise and assist in establishing safe and economic use of energy by domestic and commercial users.
- (6) To provide technical advice and assistance of every kind and nature to small utility systems in the safe and economic manner to reduce cost of natural gas service to domestic and commercial users.
- (7) To receive aid, grants, gifts, contributions and other lawful forms of assistance, to distribute same to person, firms, corporations or other legal entity who are engaged in the natural gas distribution and energy related substances, and who operate as a small utility, in the furtherance of reducing cost to domestic consumers and for their safe and economic use of said services.

- (8) To borrow money, execute promissory notes, debentures, bonds, mortgage and pledge as security for its debts, to issue any and all forms of lawful commercial and negotiable instruments as obligations for any and all of its operations.
- (9) To aid support and assist by gifts, contributions or otherwise to underprivileged persons, poor or needy in the payment and credit for energy related services owed to or obligated for such utility services, to protect the health and well being of domestic residential users.
- (10) To promote, encourage, assist in the purchase of energy by-products, to store, stock pile and hold for future use and delivery when emergency arises, by reason of shortage of supply or curtailment for reasons beyond the control of the distributor or users of such energy.
- (11) To promote, encourage and assist in the formation of underground storage field of natural gas by use of depleted wells, said storage to be held for peak load use in winter months or during emergencies beyond the control of distributor and users so as to keep prices at minimum cost to domestic users.
- (12) To acquire, by lease, purchase or otherwise, hold, own, and operate natural gas systems and facilities, for the distribution of such natural gas to domestic and commercial users.

#### ARTICLE IV

To do all acts necessary or convenient to accomplish the purposes herein set forth to the same extent as any natural person could or might do and are not forbidden by law.

#### ARTICLE V

To have all powers, that are conferred upon non-profit corporations as set out in Chapter 273.161 to 273.390 of Kentucky Revised Statutes of Commonwealth of Kentucky and known as "Kentucky Nonprofit Corporation Acts" and shall be operated exclusively for such charitable purpose as are within the meaning of Section 501(c)(3) of the 1954 Internal Revenue Code. . .

#### ARTICLE VI

The name and address of the resident agent of the corporation is David D. Allen, 3 South Arnold Avenue, Prestonsburg, Kentucky 41653.

#### ARTICLE VII

The name and address of the directors who are to serve until the first annual meeting are:

David D. Allen	3 South Arnold Avenue, Prestonsburg, Ky. 41653
Stephen R. Allen	917 Mason Headley Road, Lexington, Ky. 40504
Mary Leslie	41 N. Arnold Avenue Prestonsburg, Ky. 41653

ARTICLE VIII

The property of the corporation shall be irrevocably dedicated to charitable purpose and no part of the net earnings of the corporation shall inure to the benefit of any member, director or individual.

ARTICLE IX

The corporation shall not sponsor, encourage or carry on any activity regarding any legislation, State or Federal, nor participate in any political campaign on behalf of or against any candidate for public office.

ARTICLE X

That upon dissolution of the corporation no member, officer or director shall be entitled to or receive any distribution or division of its property or preceeds from sale of same, including money or other property held or owned by the corporation, after the payments of all its debts and obligation. Its remaining property of every kind or nature shall be used or distributed by decree of a court of competent Jurisdiction in the County where its principal offices is located as provided by law, and only for the purposes set forth in the Articles herein and within the compliance of Section 501(c)(3) of the 1954 Internal Revenue Code and Chapter 273.161 to 273.390 of Kentucky Revised Statutes of the Commonwealth of Kentucky.

ARTICLE XI

Members of the corporation shall not be personally liable for any debt or obligation of the corporation by reason of membership.

ARTICLE XII

By Laws of the corporation may be adopted or amended by a majority of the members present and voting at a regular meeting.

ARTICLE XIII

Membership in the corporation may be terminated as provided by its By-Laws.

ARTICLE XIV

The duration of the corporation shall be perpetual, unless dissolved as provided by the laws of the Commonwealth of Kentucky.

In Witness Whereof, the undersigned incorporator has hereunto subscribed his name as of the 18 th day of June, 1979.

David D. Allen

STATE OF KENTUCKY

COUNTY OF FLOYD

I, Sarah E. Jones, a Notary Public in and for the State and County aforesaid do hereby certify that the foregoing Articles of Incorporation were presented to me in said State and County by David D. Allen who personally appeared before me and duly signed and acknowledged his signature as his act and deed for the purposes therein stated.

Given under my hand as Notary Public aforesaid this the 18 th day of June, 1979.

My Commission Expires:

August 27, 1979

Sarah E. Jones  
NOTARY PUBLIC  
FLOYD COUNTY - KENTUCKY

Prepared by:

M. W. B... Attorney  
Prestonsburg, Kentucky 41653

COUNTY OF FLOYD  
I, C. "OLLIE" POPINSON, Clerk in and for the State of Kentucky, do hereby certify that the foregoing is a true and correct copy of the Articles of Incorporation as appears on record in Book 5 Page 5802 File # 1473 filed in my office on the 27 day of June 1979.  
Floyd County Court Clerk's Office. Witness my hand this day  
C. "OLLIE" POPINSON  
David Woods

East Kentucky Utilities  
P. O. Box 408  
Prestonsburg, KY 41653

ATTN: ANDREA EDWARDS  
PUBLIC UTILITIES FINANCIAL ANALYST

PUBLIC SERVICE COMMISSION  
P.O. BOX 615  
FRANKFORT, KENTUCKY 40602

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