

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION OF EAST KENTUCKY )  
UTILITIES, INC., FOR (1) ORDER )  
AUTHORIZING A RATE INCREASE; )  
(2) INTERIM ORDER TO IMMEDIATELY )  
IMPLEMENT ITS PROPOSED RATES ON )  
AN EMERGENCY BASIS; (3) ORDER )  
AUTHORIZING THE BORROWING OF )  
\$2,114,834 TO BE USED TO PAY ITS )  
INDEBTEDNESS AND TO CONSTRUCT )  
AND UPGRADE ITS UTILITY FACILITIES; ) CASE NO. 8114  
(4) ORDER GRANTING A CERTIFICATE OF )  
CONVENIENCE AND NECESSITY TO RE- )  
CONSTRUCT AND RENOVATE ITS GAS )  
SYSTEM; (5) INTERIM ORDER GRANTING )  
PERMISSION TO BORROW \$50,000 AS AN )  
EMERGENCY TO PAY WHOLESALE GAS )  
PURCHASES; (6) ORDER FIXING A HEAR- )  
ING DATE AS REQUIRED BY KRS 278.300 )

O R D E R

On January 7, 1981, East Kentucky Utilities, Inc., ("Applicant") filed an application requesting an increase in annual revenues of \$73,429 over normalized test year revenues to be implemented on an emergency basis. The Applicant's last general rate increase (Case No. 7768) was granted October 30, 1980, and as gas usage radically declines in summer months the Commission was not of the opinion that an emergency increase was warranted. Applicant also requested that the

Commission grant a certificate of convenience and necessity to reconstruct and renovate its gas system, authorize Applicant to borrow \$2,114,834 for the proposed reconstruction and upgrading of its utility facilities and grant authority for Applicant to borrow \$50,000 to pay its wholesale gas suppliers. Applicant stated that the requests contained in its application are necessary in order to continue to offer adequate service to its 1350 customers in Floyd County, Kentucky.

To determine the reasonableness of the proposed rates, the Commission set a public hearing to be held April 15, 1981. Notice of such hearing was made by Applicant in manners prescribed by Kentucky Revised Statutes and the Commission's rules and regulations.

The hearing was held as scheduled with two intervenors, Attorney General's Division of Consumer Intervention and Kentucky West Virginia Gas Company, being present.

At the conclusion of the hearing and following responses to all requests for information, the matter was submitted to the Commission for final determination.

#### TEST PERIOD

For the purpose of testing the reasonableness of the proposed rates and charges, the Commission has adopted the twelve months ending October 31, 1980. Adjustments, where proper and reasonable, have been included to more clearly reflect current operating conditions.

## REVENUES AND EXPENSES

Applicant proposed several pro forma adjustments to its income statement as set out in Exhibit Q of its application. The Commission finds that these adjustments are proper and they have been accepted with the following exceptions:

### (1) Purchased Gas Expenses

Applicant proposed to normalize its purchased gas expenses using wholesale rates approved in Case No. 7768. Applicant further proposed that the wholesale gas rates be applied to total test period purchases, thereby allowing full recovery of its 17% gas line loss. This deviates from past Commission policy which permits only a five per cent line loss for rate-making purposes. In justification of its position, Applicant presented evidence concerning the condition of its utility facilities, its overall financial condition and its inability to pay its wholesale gas suppliers, all of which have resulted in delinquent gas bills totaling approximately \$91,900.

The Commission has normalized Applicant's purchased gas expense to reflect the purchased gas cost in Case No. 7768-A and has allowed Applicant to recover 12% of its line loss. However, the Commission emphasizes that this does not constitute a change in Commission policy. The Commission

recognizes this utility's dire financial conditions at this time, and that, due to Applicant's failure to make timely payments to its wholesale gas suppliers, it has jeopardized the gas supply of its consumers.

Applicant is to immediately take action to improve its line loss situation. The Commission does not lightly waive its longstanding line loss policy. This is being done in this case and this case only. This practice will not be continued in any future cases Applicant may file and should not be looked upon as an indication that the Commission will tolerate a continuation of the conditions necessitating this action.

(2) Director's Fees

Applicant began paying director's fees in January 1980, thus incurring this expense for ten months of the test period. Applicant proposed to normalize this expense for the full 12-month period.

The Commission, after consideration of Applicant's financial condition and its inability to meet its obligations as they mature, finds that these fees are not proper at this time and will not consider them for rate-making purposes.

(3) Gas Sales

The Commission has adjusted the Applicant's test period sales by \$51,047 to reflect the rates approved in Case No. 7768-A.

Therefore, test period operations have been adjusted to produce the following results:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$358,865	\$49,343	\$408,208
Operating Expenses	<u>402,371</u>	<u>31,584</u>	<u>433,955</u>
Net Operating Income	\$(43,506)	\$17,759	\$(25,747)

#### REVENUE REQUIREMENTS

Applicant's debt service, based on the end-of-period outstanding debt, was \$26,459. In order to provide revenues sufficient to cover operation and maintenance expenses and annual debt service requirements, the Commission will calculate the increase in operating revenues as follows:

1.5 x Debt Service Coverage	\$ 39,688
Adjusted Operating Expenses (excluding depreciation)	<u>408,467</u>
Subtotal	\$448,155
Less: Adjusted Operating Revenues	<u>408,208</u>
Increase	\$ 39,947

#### SUMMARY

The Commission, after consideration of all the evidence of record and being advised, is of the opinion and finds that:

(1) The rates and charges set out in Appendix A attached hereto and made a part hereof will produce gross annual revenues of approximately \$448,000 and are the fair, just and reasonable rates for the Applicant to charge in that they will produce revenues sufficient to permit it to pay its operating expenses, service its debt and provide a reasonable surplus.

(2) The Applicant's proposed rates produce revenues in excess of the revenues found reasonable herein and must be denied upon application of KRS 278.030.

(3) Applicant owes delinquent wholesale gas bills of approximately \$91,900 which have prompted its suppliers to consider terminating deliveries.

(4) In order for Applicant to continue to provide service to its consumers, it is necessary to grant a surcharge to produce revenues of approximately \$91,900 as set out in Appendix B attached hereto and made a part hereof.

(5) The Applicant has requested permission to borrow \$50,000 to pay its wholesale gas suppliers.

(6) Applicant's request to borrow \$50,000 for the stated purpose should be approved.

(7) Revenues collected through the surcharge or acquired through borrowing should first be applied to Applicant's delinquent gas bills and then to repaying the principal amount of the aforementioned loan.

(8) The surcharge shall be effective for one year or until it has generated, as nearly as possible, revenues of \$91,900.

(9) The Applicant has requested permission to borrow \$2,114,834 to be used to pay its indebtedness and to construct and upgrade its utility facilities.

(10) Applicant has been unable to locate a lender and cannot provide any information concerning specific terms of the proposed loan.

(11) The Applicant is currently preparing a loan application for the Farmers Home Administration ("FHA"), however Applicant has the mistaken understanding that FHA will not consider its application without prior Commission approval.

(12) The Commission has contacted FHA concerning this matter and found that Applicant's loan application will indeed be considered without prior Commission approval.

(13) Applicant's loan application should be submitted to FHA as soon as possible.

(14) The Commission will defer consideration of Applicant's request to borrow \$2,114,834 until Applicant can locate a willing lender and can provide specific lending terms. The Commission further wishes to apprise the Applicant that it is expected to explore every avenue, especially FHA, in an effort to secure this loan at the lowest possible cost.

(15) Applicant requested a certificate of convenience and necessity to reconstruct and renovate its gas system.

(16) Although the Commission realizes that Applicant's utility facilities are rapidly deteriorating and will require renovation and reconstruction in the near future, the Commission will, also, defer consideration of this matter until such

time as Applicant has secured the required funding and is financially able to proceed with the proposed reconstruction.

(17) For future application of Applicant's purchased gas adjustment clause, the base rate for purchased gas shall be:

	<u>Commodity</u>
Kentucky West Virginia Gas Company	\$1.3581 per dth
Southeastern Gas Company	.46 per Mcf

IT IS THEREFORE ORDERED that the Applicant's proposed rates as set forth in its application be and the same are hereby denied.

IT IS FURTHER ORDERED that the rates and charges set forth in Appendix A are fair, just and reasonable for gas service rendered by Applicant on and after the date of this Order.

IT IS FURTHER ORDERED that the charges set forth in Appendix B should be implemented on and after the date of this Order and shall remain in effect for a maximum of one year or until, as nearly as possible, revenues of \$91,900 have been collected.

IT IS FURTHER ORDERED that Applicant's request to borrow \$50,000 to be applied toward payment of its delinquent wholesale gas bills is hereby approved.



IT IS FURTHER ORDERED that Applicant shall file with this Commission a copy of the loan agreement when this loan is secured.

IT IS FURTHER ORDERED that the Applicant shall file with this Commission monthly reports showing the revenue collected through implementation of the rates set out in Appendix B and certified copies or statements showing payment of these amounts to Applicant's wholesale gas suppliers or to repayment of the \$50,000 loan.

IT IS FURTHER ORDERED that the revenues provided by the rates set out in Appendix B shall be used exclusively for payment of Applicant's delinquent wholesale gas bills or repayment of the \$50,000 loan as set out in Finding No. 7.

IT IS FURTHER ORDERED that consideration of Applicant's proposal to borrow \$2,114,834 to be used to construct and upgrade its utility facilities be deferred until such time as Applicant locates a willing lender and can provide specific information concerning terms of the loan agreement.

IT IS FURTHER ORDERED that consideration of Applicant's requested certificate of convenience and necessity be deferred until Applicant can demonstrate the ability to carry out the reconstruction and renovation of its utility facilities in a timely manner.

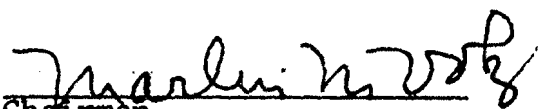
IT IS FURTHER ORDERED that for future application of Applicant's purchased gas adjustment clause, the base rate for purchased gas shall be as follows:

	<u>Commodity</u>
Kentucky West Virginia Gas Company	\$1.3581 per dth
Southeastern Gas Company	.46 per Mcf


IT IS FURTHER ORDERED that Applicant shall file with this Commission within 30 days from the date of this Order its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 10th day of August, 1981.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO. 8114 DATED AUGUST 10, 1981.

The following rates are prescribed for the customers in the area 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 the Commission prior to the date of this Order.

RATES: Monthly

First 1 Mcf	\$5.40 per Mcf
Over 1 Mcf	\$2.36 per Mcf

The minimum monthly bill shall be \$5.40 per month.

APPENDIX B

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO. 8114 DATED AUGUST 10, 1981.

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

RATES: Monthly

Customer charge	\$3.00 per month
All Mcf	.26 per Mcf