

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE NOTICE OF PURCHASED GAS ADJUSTMENT)	CASE NO.
FILING OF EAST KENTUCKY UTILITIES, INC.)	8114-J
THE APPLICATION OF EAST KENTUCKY)	
UTILITIES, INC., FOR A TEMPORARY)	CASE NO.
SURCHARGE)	9109
SHOW CAUSE OF EAST KENTUCKY UTILITIES,)	CASE NO.
INC., AS TO WHY THE UTILITY SHOULD NOT)	9159
REFUND ILLEGAL RATES BEING CHARGED)	
APPLICATION OF EAST KENTUCKY UTILITIES,)	
INC., FOR:)	
1. ORDER AUTHORIZING A RATE INCREASE)	
2. ITERIM ORDER TO IMMEDIATELY IMPLEMENT)	
ITS PROPOSED RATES ON EMERGENCY BASIS)	
PURSUANT TO KRS 278.190)	
3. INTERIM ORDER GRANTING PERMISSION TO)	
BORROW \$134,009.92 AS AN EMERGENCY)	CASE NO.
TO PAY KENTUCKY WEST VIRGINIA GAS)	9236
COMPANY WHOLESALE GAS PURCHASES AND)	
FIX A SURCHARGE TO PAY SAME)	
4. ORDER APPROVING PGA FILINGS AS FILED)	
JULY 17, 1984, UNDER CASE NO. 8114)	
5. ORDER APPROVING BOND ORDINANCE AS)	
APPROVED AND ADOPTED BY COUNTY OF)	
FLOYD)	

AND

THE NOTICE OF PURCHASED GAS ADJUSTMENT)	CASE NO.
FILING OF EAST KENTUCKY UTILITIES, INC.)	8114-K

I N T E R I M O R D E R

On December 7, 1984, East Kentucky Utilities, Inc., ("East Kentucky") filed an application with this Commission pursuant to KRS 278.190(5) seeking an interim increase in its rates effective

immediately. The proposed rates would produce approximately \$461,905 of additional annual revenue, an increase of 63 percent.

On December 17, 1984, the Consumer Protection Division in the Office of the Attorney General ("AG") filed its response to East Kentucky's application. In issues of concern to this Interim Order the AG sought:

1. That the interim rate relief sought by East Kentucky be denied; or in the alternative that a hearing on the merits of such relief be held;

2. That the surcharge sought by East Kentucky to reduce past-due gas accounts be denied;

3. That no deviation from this Commission's gas line-loss practice be permitted.

On January 10, 1985, a hearing was conducted on the issue of interim rate relief in which the AG, Consumers of East Kentucky, and Kentucky-West Virginia Gas Company ("Kentucky-West Virginia") made appearances. Having no objection from the parties of record, Case Nos. 8114-J, 9109, 9159, were consolidated into this case. Upon motion of East Kentucky the request for an interim surcharge to pay for delinquent purchased gas accounts was withdrawn without objection.

The operator of East Kentucky, Mr. David Allen, testified that the financial impact of the increased cost of gas purchases, as set out in its application, would prevent East Kentucky from fulfilling the requirements of its bond ordinance and would jeopardize the long-run survival of East Kentucky. Mr. Allen further testified that the increase in gas purchase costs resulted

from factors beyond East Kentucky's control. The financial exhibits in the application and the supplemental information requested at this hearing show an actual operating loss for the 3 months ending December 31, 1984, of \$59,123 and a projected operating loss of \$135,971, as modified by actual results, for the 5-month period ending February 28, 1985.

Of fundamental importance in interim rate relief issues, as outlined in the Commission's "Guidelines for Applications for Interim Rate Relief" issued to all utilities on September 29, 1982, is whether material financial harm will occur to the utility as a direct result of nondiscretionary expenditures. East Kentucky, as set out in Exhibit A of its application, based its interim request on an increase in wholesale gas purchase cost from its supplier, Southeastern Gas Company ("Southeastern"), and in the event gas supplies would not be available from Southeastern, an increase in the blended cost of gas purchases due to buying all gas from its more expensive supplier, Kentucky-West Virginia.

The rates requested on an interim basis were the same as the permanent rates which are based on the annual cost of service as projected through September 30, 1985. The projected annual cost of service includes adjustments to increase discretionary costs over the historical test period ended September 30, 1984, such as rents, outside services, salaries, employee benefits and depreciation.

In establishing the need for interim rate relief, the Commission has taken the position that due to the limited amount of

time in which to rule on the interim request there is a substantial burden on the utility to provide a thoroughly documented, clearly justifiable need for interim rates within the parameters established in the guidelines on requests for interim rates. In this instance, East Kentucky did not provide documentation of any of the projected monthly operating costs except the purchased gas costs. Moreover, East Kentucky testified that it was current on all expenditures except its purchased gas account.¹ Although East Kentucky has not proven the need for the full amount of requested interim rates, the cost of gas to East Kentucky has increased substantially due to the increased cost from Southeastern. Therefore, the Commission will allow as an interim increase herein the increase in purchased gas cost.

On August 10, 1981, the Commission issued its Order in Case No. 8114 approving certain adjustments in rates and providing under certain conditions for the further adjustment of such rates when the wholesale cost of gas is increased or decreased or a refund is received.

On October 8, 1984, East Kentucky filed with the Commission an application in Case No. 8114-J to increase its rates in accordance with its purchased gas adjustment clause. The increase was the result of an increase in the wholesale cost of gas from East Kentucky's supplier, Southeastern. On October 26, 1984, the

¹ Transcript of Evidence, January 10, 1985, pages 81 and 82.

proposed rates were suspended for a period of 5 months to allow the Commission time to investigate the supply contract with Southeastern.

As stated earlier, a substantial burden is placed upon a utility to prove its need for interim rate relief. Long-term gas supply contracts are complicated in that an understanding of reasonableness of such contracts requires a knowledge of the relative bargaining positions of each party as well as the near and far term market conditions concerning quality, quantity and deliverability. The Commission is not entirely convinced of the reasonableness of East Kentucky's existing contract with Southeastern and requires more time and greater investigation into this issue than is afforded in an interim hearing. Before the Commission accedes to this contract, even on an interim basis, it appears reasonable to the Commission that a contingent reserve of 44 cents per Mcf sold is necessary in the event that it is decided that a lower contract price for delivered gas is more reasonable, and a refund is ultimately required. The 44 cents per MCF sold reserve requirement is based on the differential between gas costs from the Southeastern portion of total gas supply at \$2.50 per MCF and \$3.50 per MCF.

FINDINGS AND ORDERS

1. The interim rates as proposed by East Kentucky are based on increases in the cost of service and/or the interim cost of service which have not been adequately documented or substantiated as to nondiscretionary character.

2. East Kentucky has met its burden of proof that it will be financially impaired only to the extent of the increase in purchased gas cost, pending the Commission's final determination as to the reasonableness of the contract price of \$3.50 per MCF.

3. The cost of service as determined in Case No. 8114 is an appropriate cost of service for the purposes of this Interim Order.

4. The Commission in this instance shall not deviate from its customary gas line-loss practice.

5. On August 16, 1984, East Kentucky signed a service agreement with Southeastern to purchase gas at the rate of \$3.50 per MCF, an increase of \$3.04 per MCF.

6. East Kentucky should deposit 44 cents per MCF sold in an escrow account to be held until the Commission's final determination in its investigation of East Kentucky.

7. East Kentucky's adjustment in rates set out in the Appendix to this Order under the purchased gas adjustment provisions approved by the Commission in its Order in Case No. 8114 dated October 10, 1981, is fair, just and reasonable and in the public interest and should be effective with gas supplied on and after the date of this Order, subject to refund.

IT IS THEREFORE ORDERED that the rates in the Appendix to this Order be and they hereby are authorized effective with gas supplied on and after the date of this Order, subject to refund.

IT IS FURTHER ORDERED that East Kentucky shall deposit 44 cents per MCF sold in an escrow account to be held for disposition pending the Commission's final determination.

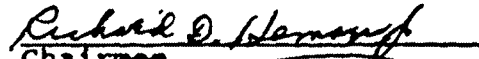
IT IS FURTHER ORDERED that, pursuant to the guidelines for interim rate relief, East Kentucky shall file monthly statements, for each month until the final Order is rendered in this case, of the amount deposited in the escrow account pursuant to the preceding ordering paragraph.

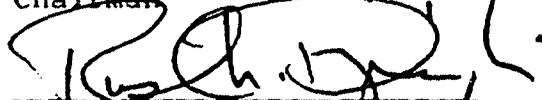
IT IS FURTHER ORDERED that East Kentucky shall maintain its records in such a manner as will enable it, the Commission, or any of its customers to determine the amounts to be refunded and to whom in the event a refund is ordered by the Commission.

IT IS FURTHER ORDERED that within 30 days of the date of this Order East Kentucky shall file with this Commission its revised tariffs setting out the rates authorized herein.

Done at Frankfort, Kentucky, this 4th day of February, 1985.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NOS. 8114-J, 9109, 9159, 9236 and
8114-K DATED FEBRUARY 4, 1985.

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.

RATES: Monthly

First 1 Mcf	\$8.6062 per Mcf
Over 1 Mcf	5.5662 per Mcf

Minimum Bill: \$5.40 for less than 1 Mcf.

The base rate for the future application of the purchased gas adjustment clause of East Kentucky Utilities, Inc., shall be:

Kentucky West Virginia Gas Company	<u>Commodity</u> \$3.5661/dth*
*Includes \$0.0125 per Dth - Gas Research Institute Funding Charge	

Southeastern Gas Company	\$3.50/Mcf
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