COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|---|---|---|
| FAILURE OF KEN-GAS OF KENTUCKY, INC., TO COMPLY WITH A COMMISSION ORDER | ) ) | CASE NO. 9987 |

O R D E R

On August 7, 1987, an Order was issued requiring Ken-Gas of Kentucky, Inc., ("Ken-Gas") to appear before the Commission to show cause why it should not be fined for failure to comply with an Order issued May 22, 1987. Ken-Gas was also ordered to present evidence that the design and construction of the gas system complies with 807 KAR 5:022; that a reliable and reasonably priced supply of gas is available; and that the gas system represents an economically viable operation. The Order also stated that the gas system was not to be pressurized, and gas service to customers was not to be initiated until these issues had been resolved.

A hearing was conducted on September 3, 1987. Appearing on behalf of Ken-Gas were Ken Turner, Walton Haddix, Kendall Seaton, and Bruce Hamon. The decision of the Commission is based upon the evidence of record, including two informal conferences and other information available in the Commission's offices. The evidence of record in Case No. 9586 has also been incorporated by reference.

## BACKGROUND

On May 22, 1987, an Order was issued in Case No. 9586[1] granting Ken-Gas a Certificate of Public Convenience and Necessity for the construction of a natural gas system in Burkesville, Kentucky. However, the issuance of the Certificate was conditioned upon a bid for construction not exceeding construction costs of $307,125. The Order also required certain design and construction information to be filed prior to starting construction, to which Ken-Gas agreed.[2]

Ken-Gas notified Commission Staff ("Staff") on July 14, 1987, that the construction crew was ready to begin installation of the gas system. As of that date the Commission had not received any of the required information. On July 14 and 15, 1987, and by letter dated July 20, 1987, Ken-Gas was advised it would be in violation of the Order if it proceeded with construction. On July 17, 1987, Ken-Gas filed some information, but no design and construction information was included.

Investigators from the Commission's Gas Pipeline Safety Branch visited Ken-Gas on July 20, 1987, and confirmed that construction had started. Upon a second visit on July 31, 1987, it was determined that approximately 75 percent of the distribution pipeline had been installed.

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1 Case No. 9586, Application by Ken-Gas of Kentucky, Inc., for a Certificate of Public Convenience and Necessity for the construction of a natural gas system, approval of financing and construction costs, and approval of applicable rates.

2 Case No. 9586, Transcript of Evidence ("T.E."), October 21, 1986, page 24.

An informal conference was conducted on July 27, 1987, between Staff and Ken-Gas to discuss three issues: the construction costs approved and the amount Ken-Gas had committed to spend; the nature and reliability of a gas supply; and compliance with 807 KAR 5:022 regarding design and construction of the system. Subsequently, the Commission initiated this proceeding to determine the reasons for Ken-Gas' noncompliance with the Order and to request and review the additional information and clarification necessary to resolve the issues discussed.

## REVENUE REQUIREMENTS

In its Order of May 22, 1987, the Commission determined Ken-Gas' projected initial revenue requirement to be $268,710. Subsequently, the Commission determined that certain portions of the record had been materially misstated by Ken-Gas, and therefore the findings should be reconsidered. In its Order of August 7, 1987, the Commission gave Ken-Gas the opportunity to propose documented adjustments to the expense, rate base, and capital structure determinations of the May 22, 1987, Order. Ken-Gas specifically proposed, and implied, such adjustments in its response of August 20, 1987, at the September 21, 1987, hearing and in its responses filed September 16 and 18. The Commission has given full consideration to these proposed adjustments as discussed below.

### Purchased Gas

In its Order dated May 22, 1987, page 3, the Commission determined a purchased gas expense of $123,590 based upon 330 residential customers, 21 commercial customers, and other applicable assumptions as proposed by Ken-Gas. Within this reconsideration process Ken-Gas has proposed the following adjustments to these original assumptions: that the number of residential and commercial customers be increased to 435 and 26, respectively; that the projected Mcf for these classes be changed to 8.3 Mcf per month and 62.1 Mcf per month, respectively; and that the projected wholesale cost of gas be increased from $2.50 per Mcf to $3.50 per Mcf.

Ken-Gas states that the original customer projections were erroneous, and it is now the sworn testimony that the new projections are more reasonable; the Commission has, therefore, accepted the adjusted figures. The changes in the sales volumes are immaterial and have been accepted as proposed. The $1 increase in the wholesale cost of gas is attributable to a transportation charge which must now be incurred to transport the gas from the Texas Eastern hot-tap into Burkesville. A Memorandum of Agreement between Ken-Gas and the transporter, Wedco, Inc., reflecting a $1 per Mcf charge has been filed in the record.

The Commission has accepted the above proposed adjustments, and thus finds that Ken-Gas' initial rates should be based upon a purchased gas expense of $219,450.

<u>Franchise Fee</u>

In response to Item No. 7d of the Commission's Order dated August 7, 1987, Ken-Gas proposed that the annual franchise fee required to be paid to the City of Burkesville as stipulated within Section 16 of the August 16, 1987, Franchise Agreement be recognized as an expense. The amount of the annual franchise fee is 1.5 percent of all gross receipts received by Ken-Gas during a calendar year.

The only issue at hand is how the fee shall be recovered by the utility. The Commission has jurisdiction in prescribing the form of bills to the customers and the treatment of franchise fees for rate-making purposes. As with the school tax of KRS 160.613, the utility merely acts as the conduit by which taxpayers are assessed a fee which the utility then passes on to the municipality. Such itemization is further justified by the fact that this charge is not regarded by the Commission as an ordinary expense of the utility. Consumers have a right to know the amount of such charges collected from them for governmental operating expense. The matter of the amount of such franchises is basically between the citizens within the franchise area and their local government, but its inclusion in a utility bill and the treatment of the charge for rate-making purposes is a Commission matter.

The Commission, therefore, denies Ken-Gas' submitted adjustment to recognize the franchise fee as an operating expense for purposes of calculating revenue requirements, but will permit recovery of this fee under the condition that it is set out as a separate line item on customers' bills.

Depreciation/Amortization Expense

In its Order of May 22, 1987, page 10, the Commission determined Ken-Gas' plant-in-service and depreciation expense to be $425,325 and $23,551, respectively.

Following is a schedule showing the determination of plant-in-service and depreciation expense adjusted to reflect the findings of the Commission upon reconsideration. The basis for the adjustments are further explained in the subsequent discussion:

| Classification | Cost | Life Years | Depreciation/ Amortization Expense |
|---|---|---|---|
| Distribution System | $308,930 | 35 | $ 8,827 |
| Transmission System | 154,440 | 35 | 4,413 |
| Meters | 101,325 | 20 | 5,066 |
| Building | 35,000 | 35 | 1,000 |
| Trencher | 33,500 | 5 | 6,700 |
| Service Truck | 10,500 | 5 | 2,100 |
| Fusing Machine | 19,200 | 5 | 3,840 |
| Lender Fees | 14,133 | 20 | 707 |
| Organization Cost | 20,000 | 40 | 500 |
| | $697,028 | | $33,153 |

The costs of the distribution system, transmission system, and meters have been determined based upon Ken-Gas' submissions of September 16 and 18, 1987. Following is a schedule showing the calculations of these items:

| | | |
|---|---|---|
| **Materials** | | |
| Total Materials | $276,505 | |
| Adjustment to Add Residential Meters | 16,677 | |
| Adjustment to Add Commercial Meters | 3,661 | |
| Adjustment to Exclude Excess 6" Pipe | <43,099> | |
| | | $ 253,744 |
| **Labor** | | |
| Per Dallas Dean Invoices | $298,951 | |
| Clean-up | 12,000 | |
| Total Labor | | $ 310,951 |
| Total Cost of Transmission & Distribution System | | 564,695 |
| LESS: Transmission System | | <154,440> |
| Cost of Distribution System (Including Meters) | | $ 410,255 |
| LESS: Meters | | <101,325> |
| Cost of Distribution System | | $ 308,930 |

The basis for the determination of materials cost is at page 3 of Ken-Gas' filing of September 18, 1987. Presented therein is a listing of total proposed materials costs for both the distribution system and the transmission system; however, the costs are not segregated into these categories. The total listed costs of $276,505 are substantially supported by invoices included in the filing of September 16, 1987, as Item No. 6.

Three adjustments were necessary to conform the $276,505 proposed materials cost amount with the findings of the Commission. The cost of residential meters was increased by $16,677 to $53,736 to reflect meter costs for 435 residential customers rather than 300 as proposed by Ken-Gas. Four hundred thirty-five represents the figure that Ken-Gas projects to be hooked onto the system as of the test year and, thus, has been consistently applied to all projections in this Order. Similarly, the cost of commercial meters was increased to $47,584 to reflect 26 commercial customers at $1,830.33 per customer.

Materials costs were reduced by $43,099 to exclude the purchase of 6-inch pipe in excess of the quantity necessary to construct a 3-mile transmission line. The Polyethylene Products, Inc., invoices included in Exhibit 6 of the September 16, 1987, filing reflect the acquisition of 35,640 feet, or 6.75 miles, of 6-inch pipe; however, Ken-Gas states that the transmission line, which is the only portion of the total system for which this diameter pipe could reasonably be expected to be installed, consists of only 15,840 feet or 3 miles. The total cost of the 7.75 miles of pipe purchased was $89,513. The Commission has allowed for rate-making purposes the cost of the 3 miles of pipe actually needed plus one-half mile for inventory; thus 51.85 percent[3] of the $89,513 total cost, or $46,414, has been allowed herein.

In its August 7, 1987, Order establishing this proceeding, the Commission requested that Ken-Gas provide and explain all adjustments to the May 22, 1987, Order that it deemed appropriate. In its response of August 20, 1987, in regard to organizational costs, Ken-Gas stated, "the allowed cost in the May 22, 1987, Order will not be contested." In consideration of this statement, the Commission did not pursue organizational costs as an issue at the September 3, 1987, hearing.

In its filing of September 18, 1987, page 3, Ken-Gas reversed its position and requested that organizational costs in addition to the amounts allowed in the May 22, 1987, Order be considered. It has been typical of Ken-Gas to frequently change its positions throughout this proceeding. If Ken-Gas had originally requested that additional organizational costs be considered, the Commission would have done so by investigating the appropriateness of the proposed additional costs at the public hearing. However, Ken-Gas' delay in making this proposal has resulted in a case record which does not support the level of organizational costs requested.

The May 22, 1987, Order granted the full amount of organizational costs being requested by Ken-Gas. Twenty thousand dollars was the amount allowed and is considered by the Commission to be a

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3 3.5 miles + 6.75 miles = 51.85%.

sufficient sum to meet the necessary start-up costs attendant to forming a small gas company. The amount of organizational costs Ken-Gas currently requests is $67,170; however, $18,905 of this consists of lender fees which are addressed later. Therefore, only $48,265 of the requested organizational fees are considered in this discussion.

This $48,265 in requested organizational fees is set forth in Exhibit 4 of the September 16, 1987, filing at page 8. The Commission notes that at least $28,000 of these costs are applicable to former consultants who were involved in the preparation of the original application in this proceeding. The Commission also notes that a substantial portion of the work performed by these consultants has come to very little benefit in the final determinations in this proceeding. Ken-Gas has employed two attorneys, two accountants, two engineers, and has submitted at least six different sets of projected financial statements. A substantial portion of the costs requested is for work that is either duplicative or has proven to be of no value in advancing this proceeding toward a conclusion. In fact, in some instances, as in the first accountant's erroneous submission of customer projections, the work actually hindered the process. In view of this the Commission can find no justification for the cost of three consultants to be borne by the ratepayers.

The Commission, therefore, finds that no adjustment should be made to the $20,000 in organizational costs allowed in the May 22, 1987, Order.

As previously noted, Ken-Gas has requested that lender fees of $18,905 be considered. Proper accounting for these fees requires them to be recorded in Account No. 181, Unamortized Debt Expense, rather than in the organizational costs account. This amount represents 2.5 percent of a FmHA loan that includes borrowings in the amount of $429,686 (based upon debt imputation) for purposes unrelated to the Burkesville System. Based upon the amount of the FmHA loan related to the Burkesville System, the Commission has allowed lender fees of $14,133.

Insurance Expense

Ken-Gas proposes that the May 22, 1987, Order be adjusted to include as an operating expense a $4,000 premium for a life insurance policy required by its lender that would pay in full the outstanding principal on its loans in the event of the death of either of its two major stockholders, Ken and Phyllis Turner. These stockholders have personally guaranteed the loan. The Commission finds that it is inappropriate for this expense to be borne by the ratepayers because they, through rates, are providing sufficient amounts to Ken-Gas to service its debt and thus to avoid default on its loan and should not, therefore, be burdened with additional expenses for purposes for which they derive no benefit. The insurance premium is clearly for the benefit of the Turners to protect their personal guarantee; thus this expense should be borne by the stockholders. Therefore, no adjustment has been made to include this expense for rate-making purposes herein.

Interest Expense

As explained in a subsequent section of this Order, financing of $565,314 at an interest rate of 10.5 percent has been approved herein. The resulting interest allowed on this financing is $58,943. This amount represents the interest during the first year of the loan and conforms with the methodology for determining interest expense proposed by Ken-Gas.

Taxes

Based upon the revenues and expenses determined to be reasonable herein, state and federal income taxes of $12,536 reflecting the composite rate of 38.785 percent have been allowed for rate-making purposes.

Based upon the foregoing adjustments, following is a schedule showing the projected expense levels allowed by the Commission:

| Expense | Allowed in 5/22/87 Order | Reconsideration Adjustments | Commission Allowed |
|---|---|---|---|
| Purchased Gas | $123,590 | $ 95,860 | $219,450 |
| Salaries | 35,633 | -0- | 35,633 |
| Payroll Overhead | 4,614 | -0- | 4,614 |
| Insurance | 14,780 | -0- | 14,780 |
| Rent | 2,400 | -0- | 2,400 |
| Utilities | 2,616 | -0- | 2,616 |
| Transportation | 1,000 | -0- | 1,000 |
| Depreciation/Amortization | 23,551 | 9,602 | 33,153 |
| Advertising | -0- | -0- | -0- |
| Bad Debts | 3,777 | -0- | 3,777 |
| Licenses & Dues | 1,000 | -0- | 1,000 |
| Outside Services | 1,200 | -0- | 1,200 |
| Office Expense | 5,400 | -0- | 5,400 |
| Repairs | 1,500 | -0- | 1,500 |
| Miscellaneous | 3,000 | -0- | 3,000 |
| Taxes | 3,334 | 9,202 | 12,536 |
| Total Operating Expenses | $227,395 | $114,664 | $342,059 |
| Interest | 36,054 | 22,889 | 58,943 |
| | $263,449 | $137,553 | $401,002 |

Revenue Requirements Determination

In its Order of May 22, 1987, page 14, the Commission determined Ken-Gas' revenue requirement to be $268,710 based upon a 15 percent allowed return on invested equity and other applicable findings.

Ken-Gas has proposed and the Commission has accepted an adjustment that significantly alters its capital structure. The equity component has been increased to 20 percent of total capitalization, whereas this component was established at only 12.48 percent in the May 22, 1987, Order. In consideration of the reduced risk associated with the revised capital structure, the Commission finds that the return granted on invested equity should be reduced from 15 percent to 14 percent.

Thus, based on operating expenses of $342,120, Ken-Gas' revenue requirement has been determined to be $420,789 and is summarized as follows:

| | |
|---|---|
| Revenue Granted | $420,789 |
| Operating Expense | 342,059 |
| Operating Income | $ 78,730 |
| Interest | 58,943 |
| NET INCOME | $ 19,787 |

This results in a revenue requirements increase of $152,079 above the amount allowed in the Commission's Order dated May 22, 1987.

## FINANCING

In its May 22, 1987, Order, the Commission approved financing of $384,898. Additional information obtained since that time reflects that Ken-Gas' actual intention is that the loan funds to be obtained by Ken-Gas are to be a portion of a significantly larger loan that will involve many other aspects of Mr. Turner's business operations. These operations are outside the jurisdiction of the Commission. The Commission will approve financing for Ken-Gas in the form proposed and, as previously noted, has determined that the appropriate amount to be imputed to Ken-Gas is $565,314, representing 80 percent of total capitalization of $706,643. Therefore, the Commission finds that financing in the amount of $565,314, at an annual interest rate of 10.5 percent, amortized over 240 months should be approved.

NET INVESTMENT RATE BASE/CAPITAL STRUCTURE

Ken-Gas did not propose a net investment rate base or capital structure in this proceeding. Based upon the cost of the gas system as determined herein and the allowance of 1/8 of operating and maintenance expense exclusive of purchased gas, the Commission has determined Ken-Gas' investment rate base to be as follows:

| | |
|---|---|
| Plant in Service | $697,028 |
| Working Capital | 9,615 |
| RATE BASE | $706,643 |

The revenues allowed herein produce a return on rate base of 11.14 percent.

Capital structure has been imputed based upon the debt/equity ratios proposed by Ken-Gas and is determined to be as follows:

| | |
|---|---|
| Debt (80%) | $565,314 |
| Equity (20%) | 141,329 |
| TOTAL CAPITAL | $706,643 |

## RATE DESIGN

The rates for customers of Ken-Gas have been determined based upon projected sales volumes of 43,289 Mcf for residential customers and 19,380 Mcf for commercial and industrial customers, and the revenue granted in the amount of $420,789. The rates granted are shown in the Appendix to this Order.

## ENGINEERING CONSIDERATIONS

### Design and Construction

On July 17, 1987, the Commission received documents from Ken-Gas regarding the construction of the gas system, including bid documents and related information. However, design and construction drawings were not submitted until August 6, 1987. After review of these drawings, Ken-Gas was advised by Order on August 7, 1987, that the drawings were deficient in several areas. Ken-Gas was ordered to resubmit the drawings with the deficiencies corrected. During the hearing, Mr. Haddix provided certain design and construction information. On September 17, 1987, Ken-Gas provided additional information including: pressure test records of the distribution piping; bills and receipts from the contractor relating to work completed; and revised drawings of the regulation station.

Based upon the information provided by Ken-Gas in this proceeding and Case No. 9586, the testimony of Mr. Haddix, and the various inspections conducted by Commission gas safety investigators, the Commission concludes that the Burkesville system has been designed and constructed in compliance with 807 KAR 5:022. However, the Commission notes that the manner in which Ken-Gas has made its filings of design and construction information failed to comply with the requirements of the May 22, 1987, Order, in that:

1. Mr. Haddix testified that construction of the system began "Sometime in the middle of July."[4] Earlier at the July 27, 1987, informal conference Mr. Haddix identified the start of construction as July 14 or 15.[5]

2. No bid information or design and construction specifications and schedule were submitted to the Commission by Ken-Gas until July 17, 1987, despite the fact that this information was to be filed prior to starting construction, and in some cases it was to be filed 10 or 30 days before starting construction.

3. Ken-Gas stated that the construction drawings with specifications used by the contractor to install the system were available in March 1987.[6]

The Commission also notes that during the informal conference Mr. Haddix gave no reason regarding the failure to supply the bid documents and construction-related information prior to starting construction.[7]

The purpose in requiring the bid and construction information to be filed prior to the start of construction was to enable the Commission to determine that the design and construction of the

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4 T.E., September 3, 1987, page 29.

5 Memorandum from Informal Conference held July 27, 1987, submitted to Case No. 9987 file, August 11, 1987.

6 Response to the Commission's Order dated August 7, 1987, Item 10.

7 Memorandum from Informal Conference.

system met the parameters of the May 22, 1987, Order and the requirements of 807 KAR 5:022. This is standard procedure by the Commission in all gas construction projects requiring a Certificate of Public Convenience and Necessity.

Gas Supply

In its initial application in Case No. 9586, Ken-Gas proposed to use natural gas from local production for its system supply needs. Upon further review and investigation, however, Ken-Gas determined that local production would not represent a long-term and reliable source of gas. In this proceeding Ken-Gas filed information which stated, "In order to guarantee a supply of natural gas to serve Burkesville, a 6-inch, 3-mile transmission line was required to connect with the 21-mile existing transmission lines which ran to the Texas Eastern 36-inch pipeline."[8] This information also included a signed memorandum of agreement with Wedco, Inc., the owner of the above referenced 21-mile pipeline, to transport gas for Ken-Gas from a tap on the Texas Eastern pipeline to the Burkesville system. Based upon this information Ken-Gas had also initiated discussion with American Natural Resources, an interstate pipeline, for a supply of gas.

On October 6, 1987, Ken-Gas provided Staff with a copy of the proposed contract with Wedco and requested that Staff review it and advise Ken-Gas of any concerns. By letter dated October 23, 1987, Staff advised Ken-Gas of certain issues relating to the proposed contract. Staff reminded Ken-Gas that:

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8 Information filed by Ken-Gas, dated September 17, 1987.

1. It must have a firm gas supply, including firm transportation service.

2. To the extent possible, the cost of gas should be tied to the supplier's cost, its cost decreasing as the supplier's cost decreases.

3. Wedco is required to transport gas as an intrastate pipeline pursuant to KRS 278.505, whether or not Ken-Gas chooses to have Wedco arrange for the supply.

It was further pointed out to Ken-Gas that certain provisions of the contract were too broad regarding the termination of supply and Wedco's refusal rights concerning other sources of supply for Ken-Gas. The term of the contract after the initial one-year period also needed to be longer in order to provide some degree of stability to the supply.

On November 23, 1987, Ken-Gas filed a revised gas purchase and sales agreement. In this document the earlier provisions regarding termination of supply, Wedco's refusal rights, and the term of the contract have been removed. Ken-Gas also stated that agreements have been prepared between Ken-Gas and Texas Eastern and Ken-Gas/Wedco and American Natural Resources ("ANR"). Ken-Gas will also have the option to use any gas broker.

However, despite this latest filing, the Commission notes that Ken-Gas still has no signed contract for a supply of gas, although certain memoranda of agreement appear to commit Texas Eastern and ANR to provide gas, and commit Wedco to transport gas for Ken-Gas from the Texas Eastern tap to the inlet meter for the Burkesville system. Staff has advised that it expects to review any contract prior to acceptance by Ken-Gas.[9] Without such review the Commission cannot conclude that Ken-Gas has a supply of gas that will provide adequate service to the prospective customers of Burkesville, as required by KRS 278.030(2).

Another issue regarding gas supply relates to 807 KAR 5:022, Sections 1(8) and 11(9), which require that design, construction, operation, and maintenance history and records shall be reviewed before a steel pipeline being put back into service qualifies for use. If sufficient records are not available, tests must be performed on the existing pipeline to determine that it is safe to use. The Commission and Staff advised Ken-Gas that no historical records or test results have been submitted to the Commission regarding the 25-mile transmission line, a part of which is four-inch steel.

On December 3, 1987, a Commission gas safety investigator witnessed a pressure test in progress on the transmission line. Ken-Gas subsequently provided the Commission with a copy of the test chart depicting that the test remained in progress for 7 days and stabilized at 97 pounds per square inch gauge after 3 days. Based upon these test results, the Commission concludes that the steel portion of the transmission line complies with Commission regulations referenced herein. Therefore, the Ken-Gas distribution system should be allowed to interconnect with the transmission line.

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9 Staff letter to Ken-Gas, October 23, 1987.

However, Ken-Gas should be aware that the operator of this transmission line must comply with 807 KAR 5:022, Section 10(2). This regulation requires that cathodic protection must be implemented on pipelines qualifying for use under 807 KAR 5:022, Section 1(8), within one year after the pipeline has been readied for service. The Commission considers this pipeline readied for service as of the date of this Order.

The Commission concludes that a fine should be assessed in this proceeding due to the conscious disregard for the Order issued May 22, 1987. Pursuant to KRS 278.990, Mr. Turner, as majority owner and person in charge of operating the system, and Mr. Haddix, self-described as the person "responsible for getting the system built,"[10] should be held responsible for the failure to submit the required information. The record demonstrates that Mr. Turner said he would comply and that Mr. Haddix had much of the information in-hand at least 30 days prior to construction. While miscommunication apparently occurred between Mr. Turner and Staff regarding a proposed meeting to discuss the Order, the focus of Ken-Gas' concerns did not include a problem with filing the information as required.[11]

FINDINGS AND ORDERS

After reviewing the record the Commission is of the opinion and hereby finds that:

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10 T.E., September 3, 1987, page 7.

11 Letter submitted by Ken-Gas dated May 29, 1987.

1. Ken-Gas should file with the Commission duly verified documentation of the final cost of this project, including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within 30 days of the date that construction is substantially completed. Said construction costs should be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for gas utilities prescribed by the Commission.

2. Ken-Gas should furnish a copy of the "as-built" drawings and a signed statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 30 days of the date of substantial completion of the construction.

3. Financing should be approved for the amounts, interest rates, and amortization periods as determined herein.

4. Costs of $564,695, representing $308,930 for the distribution system, $154,440 for the transmission system, and $101,325 for meters, should be approved for construction, start-up, and other necessary capital outlays as referenced herein. Pursuant to 807 KAR 5:022, Section 9(17)2, the construction costs herein approved should not include any customer service lines.

5. The rates in Appendix A are fair, just, and reasonable rates for Ken-Gas in that they will produce gross annual revenues from gas sales of approximately $420,789, which should provide for Ken-Gas' operating expenses and provide a sufficient return for its investors.

6. Ken-Gas should file with the Commission a tariff sheet setting out the rates approved herein and a copy of its operation rules and regulations within 30 days of the date of this Order.

7. Ken-Gas should maintain its accounting records in accordance with the methods prescribed by the Uniform System of Accounts for Class C and D Gas Utilities.

8. By Order issued May 22, 1987, in Case No. 9586, Ken-Gas was required to submit certain design and construction information for review and approval before construction of the Burkesville system began.

9. Ken-Gas initiated construction on July 14 or 15, 1987. At that time the information referenced herein had not been submitted.

10. During this proceeding Ken-Gas has submitted sufficient information to conclude that the gas system has been designed and constructed in compliance with the 807 KAR 5:022.

11. Ken-Gas has submitted adequate information on the steel portion of an existing transmission line which is to be brought back into service to determine that it is safe for use, pursuant to 807 KAR 5:022, Sections 1(8) and 11(9). Therefore, the Ken-Gas distribution system should be allowed to interconnect with the 25-mile transmission line referenced herein.

12. Ken-Gas continues to negotiate for a supply of gas that will provide adequate service to the Burkesville customers pursuant to KRS 278.030(2). Until Ken-Gas has presented a signed contract to the Commission for review which represents a long

term, reliable, and reasonably priced supply of gas, Ken-Gas should not be allowed to initiate gas service to any customer.

13. Pursuant to KRS 278.990, Mr. Turner, the person in charge of operating the system, and Mr. Haddix, responsible for getting the system built, should each be assessed a fine of $1,000 individually for personally disregarding certain stipulations in the May 22, 1987, Order as referenced herein.

14. Within 30 days of the date of this Order, Mr. Turner and Mr. Haddix should each issue a check in the amount of $1,000 payable to the State Treasurer and mail it to Ms. Leigh Hutchens, Public Service Commission, P. O. Box 615, Frankfort, Kentucky, 40602.

IT IS THEREFORE ORDERED that:

1. Financing be and it hereby is approved for the amounts, interest rates, and amortization periods as determined herein.

2. The rates proposed by Ken-Gas be and they hereby are denied.

3. The rates in Appendix A be and they hereby are approved for service rendered by Ken-Gas on and after date of this Order.

4. Pursuant to KRS 278.990, Mr. Turner and Mr. Haddix are each assessed a fine in the amount of $1,000 for their failure to comply with a Commission Order.

5. Ken-Gas shall comply with all matters set forth in Findings 1 and 2, 4, 6 and 7, and 11 through 14 as if the same were individually ordered.

Done at Frankfort, Kentucky, this 23rd day of December, 1987.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. 9987 DATED 12/23/87

The following rates are prescribed for customers of Ken-Gas of Kentucky, Inc.

Residential

Rates: Monthly

| | |
|---|---|
| All Mcf | $7.024 |

Commercial and Industrial

Rates: Monthly

| | |
|---|---|
| All Mcf | $6.024 |