

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|--|---|-----------------|
| THE APPLICATION OF EAST KENTUCKY |) | |
| UTILITIES, INC. FOR ADJUSTMENTS OF RATES |) | |
| FOR CHANGES IN RULES AND REGULATIONS AND |) | CASE NO. 90-002 |
| APPROVAL OF INDEBTEDNESS PURSUANT TO |) | |
| KRS 278.300 |) | |

O R D E R

On January 2, 1990, East Kentucky Utilities, Inc. ("East Kentucky") filed an application seeking approval of: 1) increased gas rates to produce additional revenues of \$229,654; 2) changes in rules and regulations; and 3) approval of indebtedness pursuant to KRS 278.300. East Kentucky subsequently filed an amended application on February 16, 1990 to correct the deficiencies of its original application.

The Commission's Staff conducted a limited scope audit of the operations of East Kentucky and filed a Staff Report dated May 30, 1990, summarizing its findings and revenue requirement recommendations. An informal conference was held at the Commission's offices on July 19, 1990, which resulted in an agreement between East Kentucky and Staff on all outstanding issues. A Memorandum of Understanding, setting forth the general terms of the settlement, was filed on August 1, 1990, and a detailed Settlement Agreement (attached hereto as Appendix A and incorporated by reference) was subsequently filed on September 21, 1990.

The Settlement Agreement provides that East Kentucky's revenue requirements will be determined based upon the adjustments set forth in the Staff Report, as modified to reflect the adjustments specified therein. Further, the revenue requirements will be based on a coverage allowance of 10 percent of gross revenues in accordance with East Kentucky's existing bond provisions. The provisions of the proposed settlement will result in an allowed revenue increase, on an annual basis, of \$123,146. The Settlement Agreement also provides that East Kentucky will construct a main extension to serve three existing customers who are currently served from isolated gas wells that are depleted.

Based on a review of the Settlement Agreement, and all other evidence of record, the Commission hereby finds that the Settlement Agreement is a product of serious arms-length negotiations among capable, knowledgeable persons. The Settlement Agreement is a reasonable compromise of the matters in issue, and is fully supported by the evidence of record. The Settlement Agreement will result in fair, just, and reasonable rates which are set out in Appendix B, attached hereto and incorporated herein, and should be approved for service by East Kentucky on and after the date of this Order. The terms and provisions of the Settlement Agreement are in the public interest and benefit the ratepayers.

The Commission further finds that East Kentucky's request for approval of financing in the amount of \$292,221.90 through the Department for Local Government is for a lawful object within its corporate purpose, is necessary and appropriate for the proper

performance by East Kentucky of its service to the public, and will not impair its ability to perform that service.

IT IS THEREFORE ORDERED that:

1. The Settlement Agreement be and it hereby is adopted and approved.

2. The rates, rules, and regulations set forth in Appendix B to this Order be and they hereby are approved for service rendered by East Kentucky on and after the date of this Order.

3. Within 30 days from the date of this Order, East Kentucky shall file its revised tariff sheets setting forth the rates, rules and regulations set out in Appendix B and approved herein.

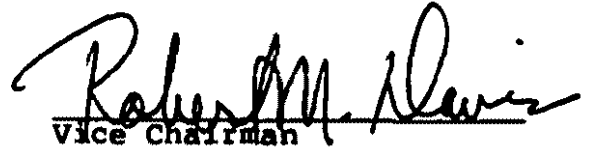
4. East Kentucky be and it hereby is authorized to issue evidences of indebtedness in the amount of \$292,221.90 to the Department for Local Government. This authorization does not imply any guarantee of the evidences of indebtedness by the Commonwealth of Kentucky, or any obligation on its part with respect thereto.

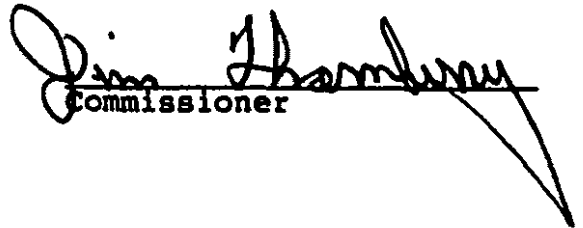
5. Within 30 days of the date construction is completed on the main extension, East Kentucky shall file a statement of the total construction cost to be recovered and the amount recovered to date. No later than October 1 in each succeeding year, East Kentucky shall file a statement showing the amount recovered to date and the amount outstanding in sufficient detail to distinguish between principle and interest.

Done at Frankfort, Kentucky, this 10th day of October, 1990.

PUBLIC SERVICE COMMISSION

Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

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SEP 21 1990

PUBLIC SERVICE
COMMISSION

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THE APPLICATION OF EAST KENTUCKY)
UTILITIES, INC. FOR ADJUSTMENTS OF RATES)
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KRS 278.300)

SETTLEMENT AGREEMENT

WHEREAS, East Kentucky Utilities, Inc. ("East Kentucky") and the Commission Staff ("Staff") have signed a Memorandum Of Understanding which was filed in the record on August 1, 1990; and

WHEREAS, the Memorandum Of Understanding sets forth the agreement of East Kentucky and Staff that all contested issues in this rate proceeding be settled in accordance with the provisions of the Memorandum Of Understanding; and

WHEREAS, on July 27, 1990, the Department of Local Government denied East Kentucky's amended loan application in the amount of \$517,778;

NOW, THEREFORE, BE IT RESOLVED that:

1. East Kentucky and Staff agree that the revenue requirements determination in this case will be based upon the adjustments set forth in the Staff Report, as modified to reflect the Settlement Adjustments set forth in the Memorandum Of Understanding, attached hereto as Exhibit 1 and incorporated herein by reference.

2. The revenue requirements will be based on a coverage allowance of 10 percent of gross revenue in accordance with East Kentucky's existing bond provisions.

3. East Kentucky will be allowed a revenue increase, on an annual basis, of \$123,146.00 as reflected in the revenue requirements calculation set forth in Exhibit 2, attached hereto and incorporated herein by reference.

4. The July 27, 1990 decision of the Department of Local Government to not approve East Kentucky's amended loan application renders East Kentucky's request, pursuant to KRS 278.300, for approval of financing to be moot, except the amount of \$292,221.90 loaned by the Department for Local Government as set out in East Kentucky's original application.

5. East Kentucky will be allowed rate recovery of the cost of a main extension to serve three existing customers whose supply is threatened. Based on an estimated construction cost of \$12,000.00 plus imputed interest of 12 percent for five years, the estimated total cost of the main extension is \$16,015.00. Utilizing a five year amortization, the cost of service has ben increased by \$3,203.00 as shown on Exhibit 2. Based on normalized test year level gas sales of 116,808 MCF, an adder of \$0.02742 per MCF will be charged by East Kentucky until the total cost of the main extension has been recovered.

East Kentucky Utilities, Inc.

By: *Michael L. Judy*
Hon. Michael L. Judy
Stoll, Keenon & Park
326 West Main Street
Frankfort, Kentucky 40601

Date: *September 14, 1990*

Commission Staff

By: *Richard Ruff*
Hon. Richard Ruff
Staff Attorney
P. O. Box 615
Frankfort, Kentucky 40601

Date: *September 20, 1990*