

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

GAS SERVICE TO KENTUCKY CUSTOMERS	)	
BY KEN-GAS OF TENNESSEE, INC. d/b/a	)	CASE NO. 90-208
JELICO GAS UTILITY, INC.	)	

O R D E R

On February 6, 1989, Staff of the Kentucky Public Service Commission ("Commission") received a copy of CP88-387-000, an Order Determining Service Area issued by the Federal Energy Regulatory Commission ("FERC") on October 27, 1988. This Order is attached and marked Exhibit A. According to the FERC Order, Ken-Gas of Tennessee, Inc. ("Ken-Gas") proposes to build facilities which extend across the Kentucky/Tennessee border to supply gas to a local distribution system which it will construct in Jellico, Tennessee. Gas will be distributed by Ken-Gas directly to end-users, and there will be no sale for resale. Most of Ken-Gas's customers will reside in Tennessee; however, some of the prospective customers may be located in Whitley County, Kentucky.

Based upon the information available to the FERC, including the fact that Ken-Gas's local distribution operations in Kentucky and Tennessee are regulated by this Commission and the Tennessee Public Service Commission ("Tennessee PSC"), the FERC granted Ken-Gas a service area determination under section 7(f) of the Natural Gas Act. This determination pertains to service to the

city of Jellico, Tennessee, and its environs, Campbell County, Tennessee, and Whitley County, Kentucky. A section 7(f) determination means that the portion of Ken-Gas's operations that extend between the Kentucky/Tennessee border, which would ordinarily constitute interstate commerce, are jurisdictional to the appropriate state public service commission.

Since the FERC Order in CP88-387-000 referenced potential service to Whitley County, Kentucky, Commission Staff requested additional information from Ken-Gas and the Tennessee PSC to determine the status of the proposed project, the extent of proposed service to Kentucky residents, and to clarify certain jurisdictional issues with the Tennessee PSC. This information is attached and marked Exhibit B. In Docket No. U-87-7538, at the Tennessee PSC, Ken-Gas was granted a Certificate of Convenience and Necessity to construct and operate a natural gas distribution system to offer service within the corporate limits of Jellico, Tennessee, and the Oswego Industrial Park. In Docket No. U-87-7538, the Tennessee PSC also approved financing, revenue requirements, and rates for Ken-Gas. The design and construction of the Ken-Gas system, hereinafter referred to as Jellico Gas Utility, Inc. ("Jellico"), was required to comply with the Tennessee PSC's pipeline safety regulations, which include 49 CFR Part 192 (Federal Pipeline Safety Regulations).

Based upon information provided by Jellico, its gas is purchased from Delta Natural Gas, Inc. ("Delta"), a local distribution company with pipeline facilities and customers in central and south central Kentucky and jurisdictional to this Commission.

Jellico's gas supply is delivered through an eight-inch steel transmission line, originating in Kentucky approximately 1,000 feet from the Tennessee border and terminating at a point one mile north of Jellico, Tennessee, where the distribution system begins. This transmission pipeline is owned and operated by Jellico.

On February 1, 1990, Commission Staff met with Jellico officials and Glynn Blanton, manager of the Tennessee PSC's Gas Pipeline Safety Branch. Staff drove throughout the extent of the Jellico system, including two areas in Whitley County, Kentucky, where residents have requested gas service, the communities of Kentucky Hill and Black Oak. At the time of this visit, most of the distribution piping had been installed, and approximately 30 customers were receiving gas service. No pipe had been installed in either of the two Kentucky communities.

Mr. Blanton stated that his Staff had reviewed the construction specifications submitted by Ken-Gas in U-87-7538 and conducted periodic site inspections during the installation of the Jellico system. Based upon its review and inspections, the Tennessee PSC's Gas Pipeline Safety Branch has concluded that the design and installation of the Jellico system complies with the Tennessee PSC's gas safety regulations, including 49 CFR Part 192.

Prior to Commission Staff's February 1, 1990 site visit, Jellico had submitted information stating that whether or not Jellico offers service to the Kentucky communities of Kentucky Hill and Black Oak depends upon the regulatory treatment of such service by the Commission. See attachment marked Exhibit C. Gas service to residents in these two communities may be possible if

Jellico could remain under the jurisdiction of one regulatory commission. Jellico stated that if both the Kentucky and Tennessee Commissions imposed jurisdiction, the Kentucky residents would probably not be served. In Jellico's opinion, the costs of maintaining dual systems of accounts, filing dual annual reports, and rate cases would probably be greater than any potential benefits.

Jellico reiterated its position on February 14, 1990, concluding that it would not be economically feasible to serve the Kentucky residents if records were required by this Commission. However, Jellico is willing to offer service to the Kentucky Hill and Black Oak communities under the same terms and rates as approved by the Tennessee PSC for residents of Jellico, Tennessee. In this response, Jellico also provided two lists of prospective customers, 29 in Kentucky Hill and 28 in Black Oak. Jellico does not anticipate offering such service until sometime in 1991.

Following receipt of Jellico's initial statements regarding dual jurisdiction over Jellico's operations, Commission Staff contacted Delta regarding service to the two Kentucky communities. Delta currently serves Williamsburg which is located in central Whitley County. In its December 7, 1989 response, Delta stated it would not be feasible for Delta to directly serve the prospective customers in the Kentucky Hill and Black Oak communities. See attachment marked Exhibit D. However, Delta has no objection to Jellico serving these residents provided Jellico does not attempt to duplicate service provided by Delta.

The Commission's principal concern in this matter is that the Kentucky residents in the communities of Kentucky Hill and Black Oak have the opportunity to receive, if they desire, natural gas service; and that such service, if provided, is reliable, safe, and reasonably priced. In an effort to allow such an opportunity to occur, yet recognizing the only source from which such service can materialize, the Commission requested that the Tennessee PSC investigate the feasibility of extending its jurisdiction of Jellico to include any service Jellico provides to Kentucky Hill and Black Oak. The request was made based upon the combination of facts known: that the only source of gas service to these two communities is Jellico; the relatively small number of potential customers (approximately 57), and their proximity to Jellico, Tennessee; and that almost all of the Jellico system is physically located in Tennessee. Such jurisdiction would include rates, service, and safety. In its May 9, 1990 response, attached and marked Exhibit E, the Tennessee PSC advised that it had similar arrangements with other states contiguous to Tennessee and concluded that the Commission's proposal was feasible.

After review of the available information, pertinent statutes and regulations, and being otherwise sufficiently advised, the Commission finds that:

1. Jellico is a gas distribution utility subject to the jurisdiction of the Tennessee PSC. The Jellico system includes a transmission pipeline which begins in Whitley County, Kentucky, and terminates in Tennessee approximately one mile north of the city limits of Jellico, Tennessee.

2. The FERC has granted Ken-Gas a service area determination under section 7(f) of the Natural Gas Act to include the city of Jellico, Tennessee, and its environs, Campbell County, Tennessee, and Whitley County, Kentucky. The service area determination by the FERC means that delivery of gas by Jellico to its ultimate consumers, even if across state lines, is subject to the exclusive jurisdiction of the state commission in the state in which the gas is consumed.

3. In Docket No. U-87-7538, Ken-Gas was granted a Certificate of Convenience and Necessity to construct and operate a natural gas distribution system to offer service within the corporate limits of Jellico, Tennessee, and the Oswego Industrial Park.

4. Based upon its review in U-87-7538 of Jellico's construction specifications and subsequent periodic site inspections during the installation of the Jellico system, the Tennessee PSC's Gas Pipeline Safety Branch has determined that the design and installation of the Jellico gas system complies with the Tennessee PSC's gas pipeline safety regulations, which include 49 CFR Part 192 (Federal Pipeline Safety Regulations).

5. 807 KAR 5:022, this Commission's pipeline safety regulations, contains the same requirements found in 49 CFR Part 192.

6. Kentucky residents in two Whitley County communities, Kentucky Hill and Black Oak, both of which are immediately adjacent to the city limits of Jellico, Tennessee, have requested gas service from Jellico.

7. Jellico has concluded that gas service to the Kentucky residents referred to herein may be possible only if Jellico

remains under the jurisdiction of one regulatory commission. If Jellico offers such service, it cannot be provided until 1991.

8. Delta is the only Kentucky gas distribution utility jurisdictional to this Commission with facilities in Whitley County. However, Delta has stated it is not feasible for Delta to directly serve the prospective customers in Kentucky Hill and Black Oak.

9. With the relatively small number of Kentucky residents requesting gas service and their proximity to Jellico, Tennessee, and since virtually all of the Jellico gas system is physically located in Tennessee and represents the only source of natural gas to these residents, the existing jurisdiction of the Tennessee PSC over Jellico's operations should include any service provided to the Kentucky communities of Kentucky Hill and Black Oak.

IT IS THEREFORE ORDERED that:

1. Approval by the Tennessee PSC of Ken-Gas's construction and operation, financing, revenue requirements, and rates for the Jellico gas system shall be deemed compliance with this Commission's laws, rules, and regulations. Ken-Gas shall simultaneously file with this Commission every application it files with the Tennessee PSC. Ken-Gas shall file with this Commission every final order that the Tennessee PSC enters relating to its operations and rates within 10 days of the date of the Tennessee PSC final order.

2. Compliance with Tennessee PSC laws, rules, and regulations applicable to service and safety shall be deemed as


compliance with this Commission's laws, rules, and regulations applicable to service and safety.


3. Prior to providing service to Kentucky residents, Jellico shall comply with KRS 278.160 by filing a copy of its tariff, which sets out the rates and services to be offered, as approved by the Tennessee PSC for adoption and ratification by this Commission. Any subsequent changes to its tariff shall be filed with this Commission for adoption and ratification within 10 days of the date of approval by the Tennessee PSC.


4. Ordering paragraphs 1-3 herein apply only to Jellico's proposed service to Kentucky residents in Kentucky Hill and Black Oak.

Done at Frankfort, Kentucky, this 13th day of August, 1990.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

  
Executive Director



April 24, 1995:

Per Frankie Bertrand/Rebecca Goodman - not included on image file for case #90-208 were 5 items:

1. EXHIBIT A - FERC order #CP88-387-000
2. EXHIBIT B - CERTIFICATE OF CONVENIENCE & NECESSITY  
#U-87-7538 (before Tennessee PSC)
3. EXHIBIT C - letter addressed to Ralph Dennis dated 15Jan90
4. EXHIBIT D - letter addressed to Ralph Dennis dated 07Dec89
5. EXHIBIT E - letter addressed to Lee M. McCracken dated  
09May90

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UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Martha O. Hesse, Chairman;  
Charles G. Stalon, Charles A. Trabandt,  
Elizabeth Anne Moler and Jerry J. Langdon.

Ken-Gas of Tennessee, Inc. ) Docket No. CP88-387-000

ORDER DETERMINING SERVICE AREA

(Issued October 27, 1988)

Ken-Gas of Tennessee, Inc. (Ken-Gas) filed a request in Docket No. CP88-387-000, as amended, for a service area determination under section 7(f) of the Natural Gas Act to construct and operate a local distribution system to serve the City of Jellico, Campbell County, Tennessee. Ken-Gas proposes to transport gas received from Delta Natural Gas Company, Inc. (Delta), a producer located in Kentucky, across the Kentucky-Tennessee State line, to be distributed and ultimately consumed within the proposed distribution area.

Background

Ken-Gas proposes to construct approximately 19 miles of 2-inch and 4-inch diameter pipeline and appurtenant facilities, to distribute gas to commercial, industrial and other high-priority end-users, located in the City of Jellico, Tennessee and Whitley County, Kentucky. Ken-Gas will receive its gas supply from Delta at a delivery point in Kentucky and transport the gas approximately 1,000 feet through a four-inch pipeline, across the Kentucky/Tennessee State line to be distributed and consumed within the proposed distribution area. Most of Ken-Gas' customers reside in Tennessee; however, a few customers are located in Whitley County, Kentucky. Although the facilities will extend across State lines, the system will be operated as a local distribution company. Ken-Gas will own all of the gas distributed; there will be no sales for resale and Ken-Gas will not be transporting on behalf of a third party. The gas purchases and sales by Ken-Gas are regulated by the Kentucky Public Service Commission and the Tennessee Public Service Commission.

Interventions

After due notice by publication in the Federal Register on May 24, 1988 (53 Fed. Reg. 18598) and the amendment to the application on June 27, 1988 (53 Fed. Reg. 24127), no notices, motions to intervene, or protests to the granting of the application have been filed in this proceeding.

Discussion

In previous cases, we have made a section 7(f) service area determination where the natural-gas company was primarily engaged in the local distribution of natural gas, but was subject to the Commission's jurisdiction because its facilities crossed state lines. We have considered four factors in determining whether a section 7(f) service area is appropriate: (1) whether the company makes sales for resale; (2) whether its rates are regulated by state or local agencies; (3) whether the company has an extensive transmission system; and (4) the concerns of other companies providing gas in the same area. 1/

After consideration of these criteria, we find it is appropriate to determine a service area for Ken-Gas' proposed distribution system. First, although the proposed facilities will extend across state lines in interstate commerce, the system will be operated essentially as a local distribution company. The gas will be distributed by Ken-Gas directly to end-users, and there will be no sale for resale. Further, Ken-Gas' operations are regulated by the Kentucky and Tennessee Public Service Commissions. Finally, the proposed transmission system includes approximately 19 miles of 2-inch to 4-inch pipeline, which is not extensive, and is the only system providing natural gas service in the area. Our determination of a service area will enable Ken-Gas to enlarge or expand its facilities to better serve its customers in the area without seeking further Commission approval.

Accordingly, we grant Ken-Gas a service area determination under section 7(f) of the Natural Gas Act to include the City of Jellico, Tennessee and its environs, Campbell County, Tennessee and Whitley County, Kentucky.

The Commission staff prepared an environmental assessment (EA) for the proposal by Ken-Gas. The staff found that the facilities would be constructed within existing road and utility rights-of-way, and Ken-Gas has received the necessary authorizations for the use of those right-of-ways. All disturbed areas would be reseeded after construction. There would be no

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1/ See, e.g., Washington Gas Light Co., 28 F.P.C. 753 (1962); Blacksville Oil and Gas Co., 37 F.P.C. 502 (1967); National Fuel Gas Distribution Corp., 13 FERC ¶ 61,200 (1980); Great River Gas Co., 14 FERC ¶ 61,167 (1981); Shenendoah Gas Co., 16 FERC ¶ 61,087 (1981); Arkansas Oklahoma Gas Corp., 33 FERC ¶ 61,197 (1985); High Plains Natural Gas Company and Wheeler Gas, Inc., 41 FERC ¶ 61,364 (1987); and Associated Natural Gas Company, a Division of Arkansas Western Gas Company, et al., 43 FERC ¶ 61,304 (1988).

effect on cultural resources, or threatened or endangered species. Based on the finding in the EA, approval of this application does not constitute a major Federal action significantly affecting the quality of the human environment.


At a hearing held on October 26, 1988, the Commission on its own motion received and made a part of the record in this proceeding all evidence, including the application and exhibits thereto, submitted in support of the authorization sought herein, and upon consideration of the record,

The Commission orders:

Ken-Gas is hereby granted the service area determination it has requested pursuant to section 7(f) of the Natural Gas Act. Ken-Gas' service area is determined to include the City of Jellico, Tennessee and its environs, Campbell County, Tennessee, and Whitley County, Kentucky, as more fully described in the application.

By the Commission. Commissioner Langdon voted present.

( S E A L )

  
Lois D. Cashell,  
Secretary.

RECEIVED

10-10-88

BEFORE THE TENNESSEE PUBLIC SERVICE COMMISSION  
October 13, 1988 Nashville, Tennessee

RECEIVED  
PUBLIC SERVICE COMMISSION  
NASHVILLE, TENNESSEE

IN RE: APPLICATION OF KEN-GAS OF TENNESSEE, INC. FOR A CERTIFICATE  
OF CONVENIENCE AND NECESSITY FOR THE CONSTRUCTION OF A  
NATURAL GAS DISTRIBUTION SYSTEM, APPROVAL OF FINANCING AND  
CONSTRUCTION COSTS AND APPROVAL OF APPLICABLE RATES.

DOCKET NO. U-87-7538

ORDER

This matter is before the Tennessee Public Service Commission upon the application of Ken-Gas of Tennessee, Inc. for a Certificate of Convenience and Necessity as set forth in the above caption.

The matter was set for hearing and was heard on March 15, 1988 before Ralph B. Christian, II, the Administrative Judge. On September 16, 1988 the Administrative Judge issued his Initial Order recommending that the application be granted.

The Commission considered this matter at the Commission Conference held on October 4, 1988. It was concluded after careful consideration of the entire record, including the Administrative Judge's Initial Order and all applicable laws and statutes that the Administrative Judge's Initial Order should be approved and the authority granted. The Commission further ratifies and adopts the findings and conclusions of the Administrative Judge as its own.

IT IS THEREFORE ORDERED:

1. That the Administrative Judge's Initial Order dated September 16, 1988, in this docket is hereby ratified, adopted and incorporated by reference in this Order as fully as though copied verbatim herein, including the findings and conclusions of the Administrative Judge which the Commission adopts as its own.

2. That a Certificate of Convenience and Necessity to construct and operate a natural gas distribution system is hereby granted.

3. That within sixty (60) days of the substantial completion of construction, Ken-Gas of Tennessee, Inc. is directed to file its final costs in accordance with the Uniform System of Accounts with the Tennessee Public Service Commission.

4. That within thirty (30) days of substantial completion of construction, Ken-Gas of Tennessee, Inc. is directed to file 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 with the Tennessee Public Service Commission.

5. That the proposed financing plan, its amounts, interests rates, and amortization periods as set forth herein, is hereby approved.

6. That the costs, as determined by the Tennessee Public Service Commission Staff and set forth in Schedules 1 through 9, are hereby approved.

7. That the rates as set forth herein are hereby approved.

8. That Ken-Gas of Tennessee, Inc. is hereby directed to file a tariff with the Tennessee Public Service Commission setting forth the rates approved herein before commencing operations.

9. That Ken-Gas of Tennessee, Inc. is hereby directed to file a copy of its General Rules and Regulations as prescribed by T.P.S.C. Rule 1220-4-1-.01 through .07.




10. That Ken-Gas of Tennessee, Inc. is hereby directed to maintain its accounting records in accordance with the methods

prescribed by the Uniform System of Accounting for Class C & D Utilities.

11. That Ken-Gas of Tennessee, Inc. is hereby directed to file a quarterly report, in the form of Quarterly Report Form PSC-3.04, within sixty (60) days of the end of the quarter covered by the report.

12. That any party aggrieved with the Commission's decision in this matter may file a Petition for Reconsideration with the Commission within ten (10) days from and after the date of this Order.

13. That any party aggrieved with the Commission's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from and after the date of this Order.

  
FRANK R. LINDER  
CHAIRMAN  
  
[illegible]  
COMMISSIONER  
  
STEPHEN D. HENDERSON  
COMMISSIONER

ATTEST:

  
EXECUTIVE DIRECTOR

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BEFORE THE TENNESSEE PUBLIC SERVICE COMMISSION  
Nashville, Tennessee  
September 16, 1988

IN RE: THE APPLICATION OF KEN-GAS OF TENNESSEE, INC.,  
FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY  
FOR THE CONSTRUCTION OF A NATURAL GAS  
DISTRIBUTION SYSTEM, APPROVAL OF FINANCING AND  
CONSTRUCTION COSTS AND APPROVAL OF APPLICABLE  
RATES.

DOCKET NO.: U-87-7538

ORDER

This matter is before the Tennessee Public Service Commission upon its own motion.

Having reviewed the initial Order in the above-captioned matter September 16, 1988, the Commission, pursuant to T.C.A. Section 4-5-315(b), hereby notifies all parties that the Commission will review all issues raised in the record of this proceeding before the Administrative Judge.

Any party may note his exceptions to the initial Order by filing a brief with the Commission within 5 days of the date of this Order. Reply briefs may be filed within 0 days after filing exceptions. Any party may request oral argument on the issues raised in the briefs.

Requests for extensions of time within which to file briefs must be made in writing to the Executive Director of this Commission and accompanied by a proposed order to be signed by the Chairman of this Commission. The request must



indicate that copies of the request and proposed order have been served on all parties.

The Commission decision to review the Initial Order does not affect any party's right to petition the Administrative Judge to reconsider the Initial Order pursuant to T.C.A. Section 4-5-317. Should such a petition be filed, the time limits set forth in this Order for the submission for exceptions and replies be suspended and will begin to run ab initio from the date of final disposition of the petition to reconsider.

  
CHAIRMAN FRANK COCHRAN

  
COMMISSIONER KEITH BISSELL

  
COMMISSIONER STEVE HEWLETT

ATTEST TO:

  
PAUL ALLEN, EXECUTIVE DIRECTOR

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BEFORE THE TENNESSEE PUBLIC SERVICE COMMISSION  
Nashville, Tennessee  
September 16, 1988

IN RE: THE APPLICATION OF KEN-GAS OF TENNESSEE, INC. FOR A  
CERTIFICATE OF CONVENIENCE AND NECESSITY FOR THE  
CONSTRUCTION OF A NATURAL GAS DISTRIBUTION SYSTEM,  
APPROVAL OF FINANCING AND CONSTRUCTION COSTS AND  
APPROVAL OF APPLICABLE RATES.

DOCKET NO. U-87-7538

INITIAL ORDER

This matter is before the Tennessee Public Service Commission upon the application of Ken-Gas Of Tennessee, Inc. (Ken-Gas) for a Certificate of Convenience and Necessity as set forth in the above caption.

The matter was heard March 15, 1988, in Nashville, Tennessee, before Ralph B. Christian, II, Administrative Judge, at which time the following appearances were entered:

APPEARANCES:

DAVID CROSS, Attorney at Law, P.O. Box 370, Albany, Kentucky 42602, appearing on behalf of the Applicant Ken-Gas of Tennessee, Inc.

D. BILLYE SANDERS, Assistant General Counsel, Tennessee Public Service Commission, 460 James Robertson Parkway, Nashville, Tennessee 37219-5477, appearing on behalf of the Commission Staff.

The matter is unopposed.

APPLICANT

Ken-Gas of Tennessee, Inc. by letter dated October 16, 1987, filed an application requesting that the Tennessee Public Service Commission issue a Certificate of Convenience and Necessity for the construction of a natural gas distribution system. The

proposed construction cost will be funded by equity investment and a commercial bank loan. Installation of the gas system will provide natural gas service to approximately 250 residential, 44 commercial, and 3 industrial customers following the first year of operation. The proposed natural gas distribution system has been designed to offer service within the corporate limits of Jellico, Tennessee and to the Oswego Industrial Park located approximately one mile from Jellico's city limits. Ken-Gas was awarded a franchise from the City of Jellico on the third reading of an Ordinance approved October 15, 1987. Said Ordinance is known as the *Jellico Natural Gas Franchise Ordinance* and is designated as Ordinance No. 4-87.

#### REVENUE REQUIREMENTS

Upon the filing of the instant application, the Public Service Commission Staff commenced its investigation of the application and requested additional information from the Company. Additionally, operating gas companies of similar size and type were analyzed to verify the accuracy and reasonableness of projections for the Jellico natural gas distribution system. The investigation produced nine schedules. After evaluation of the schedules, Ken-Gas accepted the Staff's projections. Following is a summary of the Tennessee Public Service Commission's findings.

Schedules 1 through 9 demonstrate the revenue requirements upon which the initial rate structure is based. The schedules were prepared by Commission Financial Analyst Magdal Thompson.

#### Purchased Gas

Natural gas for the Jellico natural gas distribution system will be supplied by Delta Natural Gas Company, Inc., of Winchester, Kentucky. Natural gas will be delivered through an

eight inch steel transmission line, located approximately one mile north of the Jellico city limits. The line will be tapped in Kentucky approximately 1000 feet from the Tennessee border.

Applicant provided the Public Service Commission with a copy of its Gas Service Agreement with Delta Natural Gas Company, Inc., dated July 22, 1988. The cost of gas to the Jellico natural gas system will be under the Seller's Tariff regulated by the Kentucky Public Service Commission. The initial rate determination by the Tennessee Public Service Commission Staff is based on a projected wholesale cost of purchased gas of \$3.50 per Mcf as shown on Schedule 3. Applicant, however, will be allowed to operate under Appendix A to TPSC Rule 1220-4-1-.12, *Standardized Requirements for a Purchased Gas Adjustment Provision*. A natural gas pipeline's tariff usually consists of two elements: demand charges and commodity charges. Herein, however, Jellico's gas supplier, Delta Gas, has included only commodity charges in its rate structure. Therefore, the PGA will be dependent only upon changes in the commodity rate as follows:

$$PGA = \text{Current Commodity Charge} - \text{Base Commodity Charge}$$

The Current Commodity Charge will be the Delta Gas approved tariff rate with the Base Commodity Charge being the \$3.50 used by the Staff to compute Jellico's cost of gas in this proceeding. Moreover, since Jellico has only firm rates, this factor will be used to adjust all of its rates.

Franchise Fee

A franchise fee of one percent of all gross receipts from the sale of natural gas will be paid to the City of Jellico. The fee will be listed separately on utility bills and will not be considered as an expense for rate-making purposes. Ken-Gas will

act as a conduit for the tax that is collected from the gas customers and in turn is paid to the city.

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#### Depreciation/Amortization Expenses

Schedule 9 discloses that the Commission Staff has allowed \$1,000,000 for Plant-in-Service and \$24,239 for depreciation expense. The depreciation rates used on Schedule 9 are to be used by the utility to compute depreciation unless changed by the Public Service Commission.

#### Operating Expenses

Operating Expenses of \$347,640 as shown on Schedule 1 and on related Schedules 3, 4, 5, and 6, were accepted by Ken-Gas of Tennessee, Inc. Said amount has been used by the Commission in determining Jellico's rates.

#### Revenue Requirement Determination

Based upon operating expenses of \$347,640, Ken-Gas' revenue requirement for the first year of operation is \$424,425 and is shown on Schedule 2. The projected gross revenue amount is based upon Staff requested documents obtained from the Applicant. The documents included feasibility studies and analysis by United Cities Gas Company and by Barge, Waggoner, Sumner & Cannon, an independent engineering and planning firm in Nashville, Tennessee. On site evaluations were made by Ken-Gas to verify and augment the above studies.

Ken-Gas of Tennessee, Inc.'s revenue requirement is summarized below:

Revenue	\$424,425
Total Operating Expense	<u>347,640</u>
Net Operating Income	<u>\$ 76,785</u>

The rate of return is 7.68% on a rate base of \$1,000,346.

## FINANCING

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The Applicant avers that long term financing will be provided by equity investment and by a commercial bank loan. Fentress County Bank of Jamestown, Tennessee will provide the loan. The loan interest rate will be 2.5% above the low New York prime rate as published in the *Wall Street Journal*. The term of the loan will be 20 or 25 years.

### NET INVESTMENT RATE BASE/CAPITAL STRUCTURE

#### Rate Base

Based upon the cost of the Natural Gas Distribution System as determined herein and upon an allowance of 1/12 of the operating and maintenance expense, exclusive of Purchased Gas, Applicant's investment rate base has been determined as follows:

Plant-in-Service	\$1,000,000
Working Capital	<u>24,585</u>
Total	\$1,024,585
Less Accumulated Depreciation	<u>24,239</u>
Rate Base	<u>\$1,000,346</u>

The revenues allowed herein will produce a rate return of 7.68%

#### Capital Structure

Ken-Gas of Tennessee, Inc.'s proposed Capital Structure follows:

Debt (87%)	\$1,000,000
Equity (13%)	<u>145,570</u>
Total Capital	<u>\$1,145,570</u>

### RATE DESIGN

The rates for Ken-Gas customers have been determined using a projected sales volume of 22,750 Mcf for residential users, 19,800 Mcf for commercial users, and 16,200 Mcf for industrial

users. Revenue projected from a combined sales volume of 38,750 Mcf at the rates set forth below is \$424,425.

Customer Rates	
Residential	\$7.50 per Mcf
Commercial	\$7.50 per Mcf
Industrial	\$6.50 per Mcf

### ENGINEERING CONSIDERATIONS

United Cities Gas Company's proposed piping configuration was submitted to the Public Service Commission by Ken-Gas along with its original application for a Certificate of Convenience and Necessity. The actual design and construction of the gas distribution system must comply with Public Service Commission Pipeline Safety Regulations as defined in TPSC Rule 1220-4-1-.09. The system will use SDR 11 plastic pipe for gas mains and service lines. Accordingly, requirements and joining procedures for making such plastic pipe joints and for performing inspection of those joints are to be reviewed and followed. Applicant should be directed to submit construction specifications and plans for installing the gas system to the Tennessee Public Service Commission for approval, prior to the start of construction.

WHEREFORE, having considered the testimony, the evidence of record, and the statutory criteria, the Administrative Judge finds that the application is in the public interest and should be granted.

T.C.A. Section 4-5-315 provides that all parties shall have an opportunity to appeal initial orders to the Commission. The Tennessee Public Service Commission, however, reviews all initial orders, thereby assuring review. All parties may file exceptions or replies to exceptions in the form of a brief setting forth specific issues. The exceptions and any replies thereto will be

considered by the Commission in its review. The Commission will determine the matter in a regularly scheduled Commission conference. Affected parties may then seek reconsideration of the Commission's final order or may appeal the final order to the Court of Appeals, Middle Division, within 60 days of the final order.

This Initial Order is prepared in conformity with the Tennessee Uniform Administrative Procedures Act, and T.C.A. Section 4-5-101, et seq. Procedures whereby parties seek review, stay, or reconsideration are found in T.C.A. Sections 4-5-315 through 318. Judicial review of Commission orders is described in T.C.A. Section 4-5-322.

**IT IS THEREFORE ORDERED:**

1. That the application of Ken-Gas Of Tennessee, Inc. be granted for a Certificate of Convenience and Necessity for the construction of a natural gas distribution system.

2. That within 60 days of the substantial completion of construction, Ken-Gas of Tennessee, Inc. is directed to file its final costs in accordance with the Uniform System of Accounts with the Tennessee Public Service Commission.

3. That within 30 days of the substantial completion of construction, Ken-Gas of Tennessee, Inc. is directed to file 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 with the Tennessee Public Service Commission.

4. That the proposed financing plan, its amounts, interest rates, and amortization periods as set forth herein, is hereby approved.



5. That the costs, as determined by the Tennessee Public Service Commission Staff and set forth in Schedules 1 through 9, are hereby approved.


6. That the rates as set forth herein are hereby approved.

7. That Ken-Gas of Tennessee, Inc. is hereby directed to file a tariff with the Tennessee Public Service Commission setting forth the rates approved herein.

8. That Ken-Gas of Tennessee, Inc. is hereby directed to file a copy of its General Rules and Regulations as prescribed by TPSC Rule 1220-4-1-.01 through .07.

9. That Ken-Gas of Tennessee, Inc. is hereby directed to maintain its accounting records in accordance with the methods prescribed by the Uniform System of Accounting for Class C & D Utilities.

10. That Ken-Gas of Tennessee, Inc. is hereby directed to file a quarterly report, in the form of Quarterly Report Form PSC-3.04, within 60 days of the end of the quarter covered by the report.

  
RALPH B. CHRISTIAN, II  
ADMINISTRATIVE JUDGE

Before the  
PUBLIC SERVICE COMMISSION  
of the  
STATE OF TENNESSEE

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JUL 24 1989  
DIVISION OF UTILITY  
ENGINEERING & SERVICES

in re:

KEN GAS OF JELICO  
(Docket No. U-87-7538)

**RECEIVED**  
PUBLIC SERVICE COMMISSION  
EXECUTIVE DIRECTOR  
MAR 2 1988  
PM 1:41:13

\*\*\*\*\*

Testimony

of

Magnal Thompson

\*\*\*\*\*

March 15, 1988

1 Q. State your name for the record please.  
2 A. My name is Magnal Thompson.  
3 Q. What is your position with the Tennessee Public Service  
4 Commission?  
5 A. I am employed as a Financial Analyst with the  
6 Commission.  
7 Q. How long have you been employed with the Commission?  
8 A. Two years.  
9 Q. Would you briefly describe your duties as a Financial  
10 Analyst?  
11 A. During my two year employment I have participated in  
12 several rate case audits of utilities subject to the  
13 Commission's jurisdiction, as well as the preparation  
14 of exhibits for Commission hearings. I have also been  
15 involved with the audit and analysis of the various  
16 financial reports filed with the Commission.  
17 Q. What is your educational background and what degrees  
18 have you earned?  
19 A. I have earned a Bachelor of Business Administration  
20 degree with a major in Accounting and a Masters of  
21 Business Administration degree from Tennessee State  
22 University in May 1984 and May 1986, respectively.  
23 Q. What is the purpose of your testimony in this case?  
24 A. The purpose of my testimony is to present information  
25 and supporting exhibits to the Commission to assist  
26 them in deciding on the petition for a CCN by Ken Gas  
27 of Tennessee to build a natural gas system in Jellico,

1 Tennessee and begin operations within Jellico,  
2 Tennessee.

3 Q. Are there any controversial issues in this case?

4 A. No. The Company has decided to adopt my exhibits as  
5 their own.

6 Q. What test period did you use in considering the  
7 Company's request?

8 A. Please allow me to give a brief explanation of a test  
9 period for better understanding. A test period is  
10 generally, a twelve month period of time in which a  
11 company's financial results are analyzed and adjusted,  
12 if necessary, to test a company's earnings under  
13 present or, in the case of Ken Gas, proposed rates. In  
14 this case the Staff decided on a five year period of  
15 time. The Staff felt that in order to analyze and test  
16 the proposed rates of the Company a longer test period  
17 was necessary. This process of analyzing the results  
18 of operations assists the Commission in determining  
19 fair and reasonable rates on which the Company will be  
20 allowed an opportunity to earn a reasonable return on  
21 its investments.

22 Q. You referred to the term "fair rate of return". What  
23 is its definition and its importance to the Commission?

24 A. A rate of return is the compensation for capital  
25 required by the utility to provide service to the  
26 customer. A "fair rate of return" is a return,  
27 expressed as a percentage, approximating the cost of

1 the capital. And, the cost of this capital is the  
2 price that is paid for its use. This means that the  
3 fair rate of return is what capital invested would be  
4 able to earn if invested under similar conditions  
5 elsewhere.

6 In the context of regulation of utilities, a fair rate  
7 of return is the percentage figure multiplied by rate  
8 base which produces the return available to cover  
9 interest on debt and dividends on preferred and common  
10 stock.

11 Generally, the Commission would consider what  
12 constitutes a fair rate of return and adjust rates so  
13 as to allow investors to earn this rate of return. The  
14 Company failed to show calculations for what it  
15 considered a fair rate of return that it should be  
16 allowed the opportunity to earn. The staff Economist  
17 computed an overall return of 11.95% and an equity  
18 return of 15%.

19 Q. Would you please summarize the Company's request?

20 A. The Company requested a Certificate of Convenience and  
21 Necessity to install and operate a natural gas  
22 distribution system within the city limits of Jellico,  
23 Tennessee. Also, it requested approval of a rate to  
24 charge customers using the gas. Finally, it requested  
25 approval of the construction cost to build the system  
26 and the financing arrangements necessary to pay for the  
27 debt.

1 Q. Is there a need for a natural gas system in Jellico,  
2 Tennessee?

3 A. Yes, the City of Jellico is a municipal corporation  
4 located in Campbell County, Tennessee and is without a  
5 natural gas distribution system. There is currently a  
6 need and demand for a natural gas distribution system  
7 to provide natural gas to the citizens of Jellico. In  
8 order to supply the need for natural gas the Jellico  
9 City Counsel has awarded a franchise to Ken Gas of  
10 Tennessee, Inc. for the intent and purpose of  
11 installing and operating a natural gas distribution  
12 system within the city limits.

13 Q. What is your recommendation to this Commission?

14 A. I recommend that this Commission after viewing the  
15 Company's and Staff's testimony and exhibits grant a  
16 Certificate of Convenience and Necessity to Ken Gas of  
17 Tennessee, Inc. to operate a natural gas distribution  
18 system within the city limits of Jellico, Tennessee.

19 Q. How would you like to present your exhibits with their  
20 adjustments to the Commission?

21 A. As there are no controversial issues between the  
22 Company and myself, I would like to summarize each  
23 exhibit and provide a brief explanation for adjustments  
24 of material importance.

25 Schedule 1 - Shows the forecasted earnings for the  
26 first five years of operation.

1     Schedule 2 - Shows for the initial five years of  
2     operations total sales volume for each class of  
3     customer priced out using the proposed rates. This  
4     provided total revenues from gas sales for the five  
5     years.

6     Schedule 3 - Purchase gas was computed based on the  
7     projected sales volumes multiplied by the gas cost per  
8     Mcf. Total cost of gas was then adjusted for loss and  
9     unaccounted for gas at a reasonable rate of 2%. This  
10    provided the total cost of gas purchased.

11    Schedule 4 - Other operating expenses of the Company  
12    were found to be fair and reasonable by the Staff and  
13    were adopted as presented.

14    Schedule 5 - Shows other operating taxes that the  
15    Company is required by law to pay as a result of doing  
16    business.

17           Franchise Tax is a tax imposed on corporations for  
18    the privilege of engaging in business within the State  
19    of Tennessee. The franchise tax shown was computed by  
20    applying the statutory franchise tax rate of \$.25 per  
21    \$100 to the net utility plant in service at the end of  
22    the Company's fiscal year.

23           Gross Receipts is another tax that corporations  
24    pay for the privilege of conducting business. Gross  
25    receipts was computed on the total revenues received  
26    less the applicable exemption for gas companies of  
27    \$5000 multiplied by the statutory gross receipt rate of

1        3%. Generally, gross receipts taxes are computed on  
2        prior year total gross receipts and payable in the  
3        current year. But for simplistic purposes, gross  
4        receipts taxes are calculated on the current total  
5        revenues.

6        PSC Fees, public utilities operating within the  
7        State of Tennessee and subject to the control and  
8        jurisdiction of the Commission must pay a fee for the  
9        inspection, control, and regulation of the company. .  
10       The fee is based on total revenues less a \$5000  
11       exemption multiplied by the statutory rate of 3%.

12       Payroll Taxes, utilities like other employers are  
13       required to pay social security and unemployment taxes  
14       on the wages and salaries paid to their employees. The  
15       Company's payroll tax was computed based on its  
16       projected three (3) employees multiplied by the  
17       applicable state and federal unemployment tax rates and  
18       social security tax rate.

19       Property Tax is based on appraised net book value  
20       of the property in service, multiplied by the  
21       applicable statutory, equalization, city, and county  
22       rates. The Company's property tax shown was computed  
23       based on the assessed value of its property by the TPSC  
24       Assessment Division. In reviewing the Company's filed  
25       financial statements the Staff noted that the Company  
26       did not show operating other taxes as an expense of  
27       conducting business. The Staff has corrected this by



1 the inclusion of other operating taxes in its operating  
2 expense section as shown on Schedule 1.

3 Schedule 6 - Details the Staff's calculation of Federal  
4 Income Tax and Tennessee Excise Tax for the first five  
5 years of operations. The Staff included the 5% surtax  
6 in year 5 placed on taxable income over \$100,000.  
7 Interest expense on the loan was computed by  
8 multiplying the projected yearly rate base by the  
9 weighted cost of debt. Because interest expense is tax  
10 deductible it must be deducted before arriving at  
11 taxable income.

12 After arriving at taxable income, the Staff computed  
13 excise tax using the statutory rate of 6% as shown on  
14 line 7. Next, the Staff computed FIT using statutory  
15 rates of 15% for taxable income up to \$50,000, 25% for  
16 income over \$50,000 and up to \$75,000 and 34% for  
17 income over \$75,000.

18 Schedule 7 - Shows the estimated rate base for the  
19 first five years of operations. Line 1, Utility Plant  
20 in Service \$1,000,000 represents the Company's  
21 estimated cost for the natural gas system in Jellico.  
22 Line 2, Working Capital is a cash working capital  
23 allowance that is included in the rate base to meet the  
24 day to day cost of providing services to the customer.  
25 Line 4, Accumulated Depreciation represents the amount  
26 of depreciation which has been accumulated through

1 depreciation expense over the lives of the various  
2 plant items included in utility plant in service.

3 After considering all of the above items, the Staff  
4 estimated the rate base for the first five years of  
5 operations as shown on Schedule 7. Rate base  
6 represents the investment on which the Company should  
7 be allowed an opportunity to earn a fair rate of  
8 return.

9 Schedule 8 - Shows the capital structure of Ken Gas of  
10 Jellico. The Commission's staff Economist estimated a  
11 fair rate of return to be 11.95%. This consists of  
12 87.29% debt at a cost of 11.50% and of 12.71% equity at  
13 a cost of 15%.

14 Schedule 9 - Details the depreciation expense schedule  
15 as computed by the Commission's staff Engineer. Total  
16 depreciation expense was computed to be <sup>\$24,239 AC</sup> ~~\$26,239~~ with a  
17 composite rate of .024239.

18 Q. Does this conclude your testimony?

19 A. Yes.

KEN-GAS OF JELICO  
FORECAST OF EARNINGS  
For the Initial Five Years of Operation

Schedule 1

Line No.			1988-89	1989-90	1990-91	1991-92	1992-93
	<b>OPERATING REVENUES A/</b>						
1	Residential Revenues	\$	170,625	\$ 204,750	\$ 235,463	\$ 259,350	\$ 285,285
2	Commercial Revenues		148,500	178,875	205,875	226,125	249,750
3	Industrial Revenues		105,300	140,400	175,500	175,500	210,600
4	Total Revenues	\$	424,425	\$ 524,025	\$ 616,838	\$ 660,975	\$ 745,635
	<b>OPERATING EXPENSES</b>						
5	Purchase Gas	B/ \$	209,738	\$ 259,718	\$ 306,467	\$ 327,476	\$ 370,345
6	Salaries & Wages	G/	34,000	35,300	35,300	35,300	35,300
7	Controller	G/	12,000	12,500	12,500	12,500	12,500
8	Depreciation	C/	24,239	24,239	24,239	24,239	24,239
9	Office Rent	G/	3,600	3,600	3,600	3,600	3,600
10	Insurance	G/	4,000	4,000	4,000	4,000	4,000
11	Truck Expense	G/	3,600	3,600	3,600	3,600	3,600
12	Other Operating Exp.D/		28,088	29,432	32,039	34,221	36,308
13	Other Taxes	E/	28,376	29,660	30,853	31,389	32,472
14	Excise Tax	F/	0	1,410	4,066	5,424	7,863
15	Federal Income Tax	F/	0	3,314	10,925	17,139	31,292
16	Total Oper. Expenses	\$	347,640	\$ 406,773	\$ 467,589	\$ 498,888	\$ 561,518
17	NET OPERATING INCOME	\$	76,785	\$ 117,252	\$ 149,248	\$ 162,087	\$ 184,117
18	RATE BASE	H/ \$	1,000,346	\$ 980,773	\$ 960,887	\$ 938,819	\$ 918,565
19	RATE OF RETURN (L17/L18)		7.68%	11.96%	15.53%	17.26%	20.04%

A/ Schedule 2.

B/ Schedule 3.

C/ Schedule 9.

D/ Schedule 4.

E/ Schedule 5.

F/ Schedule 6.

G/ Company's Workpapers.

H/ Schedule 7.

KEN-GAS OF JELLICO  
Projected Revenues  
For the Initial Five Years of Operation

Line No.	Customers	Price per MCF	No. of Customers	Sales Vol. Per Customer	Total Sales Vol. (MCF)	Revenues (Col.1*Col.4)
1	Residential	\$ 7.50	250	91	22,750	\$ 170,625
2	Commercial	\$ 7.50	44	450	19,800	148,500
3	Industrial	\$ 6.50	3	5,400	16,200	105,300
4	Year 1 Total		297	5,941	58,750	\$ 424,425
			=====	=====	=====	=====
5	Residential	\$ 7.50	300	91	27,300	\$ 204,750
6	Commercial	\$ 7.50	53	450	23,850	178,875
7	Industrial	\$ 6.50	4	5,400	21,600	140,400
8	Year 2 Total		357	5,941	72,750	\$ 524,025
			=====	=====	=====	=====
9	Residential	\$ 7.50	345	91	31,395	\$ 235,463
10	Commercial	\$ 7.50	61	450	27,450	205,875
11	Industrial	\$ 6.50	5	5,400	27,000	175,500
12	Year 3 Total		411	5,941	85,845	\$ 616,838
			=====	=====	=====	=====
13	Residential	\$ 7.50	380	91	34,580	\$ 259,350
14	Commercial	\$ 7.50	67	450	30,150	226,125
15	Industrial	\$ 6.50	5	5,400	27,000	175,500
16	Year 4 Total		452	5,941	91,730	\$ 660,975
			=====	=====	=====	=====
17	Residential	\$ 7.50	418	91	38,038	\$ 285,285
18	Commercial	\$ 7.50	74	450	33,300	249,750
19	Industrial	\$ 6.50	6	5,400	32,400	210,600
20	Year 5 Total		498	5,941	103,738	\$ 745,635
			=====	=====	=====	=====

## Schedule 3

KEN-GAS OF JELLICO  
Cost of Purchased Gas  
For the Initial Five Years of Operation

Line No.		1988-89	1989-90	1990-91	1991-92	1992-93
1	MCF per Year	58,750	72,750	85,845	91,730	103,738
2	Gas Cost per MCF	\$ 3.50	\$ 3.50	\$ 3.50	\$ 3.50	\$ 3.50
3	Cost of Gas	\$ 205,625	\$ 254,625	\$ 300,458	\$ 321,055	\$ 363,083
4	Loss & Unaccounted for Gas (Computed at 2%)	2.00%	2.00%	2.00%	2.00%	2.00%
		\$ 4,113	\$ 5,093	\$ 6,009	\$ 6,421	\$ 7,262
5	Total Cost of Gas	\$ 209,738	\$ 259,718	\$ 306,467	\$ 327,476	\$ 370,345
		=====	=====	=====	=====	=====

SOURCE: Company's Workpapers and Contract Agreement with Delta  
Natural Gas Company, Inc.

KEN-GAS OF JELICO  
Other Operating Expenses  
For the Initial Five Years of Operation

Line No.		1988-89	1989-90	1990-91	1991-92	1992-93
1	Telephone	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,500	\$ 1,500
2	Utilities	1,200	1,200	1,300	1,300	1,400
3	Billing Exp.; Supplies	6,000	6,000	6,500	6,500	7,000
4	Printing, Booklets	4,000	3,000	2,500	2,500	2,000
5	Travel, Training	1,200	1,200	1,500	1,500	1,500
6	License & Dues	1,000	1,000	1,000	1,000	1,000
7	Miscell. Exp. @ 1%	4,244	5,416	6,519	6,961	7,954
8	Repairs @ .5%	2,122	2,708	3,260	3,480	3,977
9	Bad Debts @ .5%	2,122	2,708	3,260	3,480	3,977
10	Professional Fees	5,000	5,000	5,000	6,000	6,000
11	Total Other Expenses	\$ 28,088	\$ 29,432	\$ 32,039	\$ 34,221	\$ 36,308
		=====	=====	=====	=====	=====

Source: Company's Workpapers.

KEN-GAS OF JELICO  
Total Other Operating Taxes  
For the Initial Five Years of Operation

Line No.		1988-89	1989-90	1990-91	1991-92	1992-93
1	FRANCHISE TAX	\$ 2,440	\$ 2,380	\$ 2,320	\$ 2,260	\$ 2,200
2	GROSS RECEIPTS	4,404	5,450	6,424	6,888	7,777
3	PSC FEES	1,268	1,567	1,846	1,978	2,232
4	PAYROLL TAXES	2,725	2,725	2,725	2,725	2,725
5	PROPERTY TAX	17,538	17,538	17,538	17,538	17,538
6	TOTAL TAXES	\$ 28,376 =====	\$ 29,660 =====	\$ 30,853 =====	\$ 31,389 =====	\$ 32,472 =====

NOTE: Excludes Excise & Federal Income Taxes.  
SOURCE: Staff's Workpapers.

**KEN-GAS OF JELLICO**  
**Federal Income Tax & Excise Tax**  
**For the Initial Five Years of Operation**

Schedule 6

Line No.			1988-89		1989-90		1990-91		1991-92		1992-93
1	Revenues	A/ \$	424,425	\$	524,025	\$	616,838	\$	660,975	\$	745,635
	Less:										
2	Operating Expenses	A/ \$	319,265		372,388		421,745		444,936		489,891
3	Other Taxes	A/	28,376		29,660		30,853		31,389		32,472
4	Interest Expense	B/	100,435		98,470		96,473		94,257		92,224
5	Taxable Income	\$	(23,650)	\$	23,507	\$	67,766	\$	90,393	\$	131,048
6	Excise Tax Rate		6.00%		6.00%		6.00%		6.00%		6.00%
7	Excise Tax	\$	(1,419)	\$	1,410	\$	4,066	\$	5,424	\$	7,863
8	Taxable Income	\$	(22,231)	\$	22,096	\$	63,700	\$	84,969	\$	123,185
9	FIT Rate up to		15.00%		15.00%		15.00%		15.00%		15.00%
10	1st \$50,000										
11	FIT at 15% Rate	\$	(3,335)	\$	3,314	\$	7,500	\$	7,500	\$	7,500
12	Taxable Income over					\$	13,700	\$	25,000	\$	25,000
	1st \$50,000										
13	FIT Rate over \$50,000						25.00%		25.00%		25.00%
	& up to \$75,000										
14	FIT at 25%					\$	3,425	\$	6,250	\$	6,250
15	Taxable Income over							\$	9,969	\$	48,185
	\$75,000										
16	FIT Rate over \$75,000							\$	34.00%	\$	34.00%
17	FIT at 34%							\$	3,389	\$	16,383
18	Surtax of 5% over \$100,000									\$	1,159
19	Total FIT	\$	(3,335)	\$	3,314	\$	10,925	\$	17,139	\$	31,292
			=====		=====		=====		=====		=====

A/ Schedule 1.

B/ Company's Projected Yearly Rate Base \* Weighted Cost of Debt.  
 ( Schedule 7 & Schedule 8).



KEN-GAS OF JELICO  
RATE BASE  
For the Initial Five Years of Operation

Schedule 7

Line No.			<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
	<u>ADDITIONS</u>						
1	Plant in Service	A/ \$	1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
2	Working Capital	C/	24,585	29,012	33,126	35,058	38,804
3	Total Additions	\$	<u>1,024,585</u>	<u>\$ 1,029,012</u>	<u>\$ 1,033,126</u>	<u>\$ 1,035,058</u>	<u>\$ 1,038,804</u>
	<u>DEDUCTIONS</u>						
4	Accum. Depreciation	B/ \$	<u>24,239</u>	<u>\$ 48,239</u>	<u>\$ 72,239</u>	<u>\$ 96,239</u>	<u>\$ 120,239</u>
5	Rate Base	\$	1,000,346	\$ 980,773	\$ 960,887	\$ 938,819	\$ 918,565
A/ Company's Workpapers.							
B/ Staff's Workpapers.							
C/ Working Capital:							
1	Total Operating Exp.	\$	347,640	\$ 406,773	\$ 467,589	\$ 498,888	\$ 561,518
2	Less: FIT		0	3,314	10,925	17,139	31,292
3	Other Taxes		28,376	31,071	34,919	36,813	40,335
4	Depreciation		24,239	24,239	24,239	24,239	24,239
5	Total	\$	<u>295,026</u>	<u>\$ 348,149</u>	<u>\$ 397,506</u>	<u>\$ 420,697</u>	<u>\$ 465,652</u>
6	Working Capital (L.5 / 12 mths.)	\$	<u>24,585</u>	<u>\$ 29,012</u>	<u>\$ 33,126</u>	<u>\$ 35,058</u>	<u>\$ 38,804</u>

KEN-GAS OF JELICO  
Capital Structure  
For the Initial Five Years of Operation

Line No.		Capital Structure	% of Capital	Cost Rate	Weighted Cost
1	Long-Term Debt	\$ 1,000,000 A/	87.29%	11.50%A/	10.04%
2	Common Stock	145,570 A/	12.71%	15.00%B/	1.91%
3	Total	\$ 1,145,570 =====	100.00% =====		11.95% =====

A/ Company's Workpapers.

B/ Staff Economist's equity cost rate estimation.

KEN-GAS OF JELICO  
Depreciation Expense Schedule  
For the Initial Five Years of Operation

Line No.	Plant Accounts	Investment	Rate	Average Life	Depreciation Expense
1	Receiving Station	\$ 37,500	3.00%	33 years	\$ 1,125
2	District Regulator	3,500	3.00%	33 years	105
3	Distribution Mains	740,353	2.00%	50 years	14,807
4	Service Lines	116,025	2.50%	40 years	2,901
5	Meters	21,180	3.00%	33 years	635
6	Service Regulators	4,942	3.00%	33 years	148
7	Industrial Sets	6,000	3.00%	33 years	180
8	Case 580 Backhoe	37,500	6.70%	15 years	2,513
9	Service Truck	10,500	10.00%	10 years	1,050
10	Fusing Machine, Tools & Equipment	17,500	3.00%	33 years	525
11	Computer & Office Equipment	5,000	5.00%	20 years	250
12	Total	\$ 1,000,000 =====			\$ 24,239 =====

• Composite Rate 0.024239

SOURCE: Mr. Ted Tingley, Commission's Engineer.



*Jellico Gas Utility, Inc.*

P.O. BOX 119  
JELICO, TN 37762-0119  
(615) 784 2126

January 15, 1990

**RECEIVED**

JAN 18 1990

DIVISION OF UTILITY  
ENGINEERING & SERVICES

Mr. Ralph Dennis  
Kentucky Public Service Commission  
P. O. Box 615  
Frankfort, Kentucky 40602

*Pending O*

Re: Jellico, TN natural gas system

Dear Mr. Dennis:

In response to your request for information several residents of Jellico that live in Kentucky just across the Tennessee state line have requested natural gas service.

Natural gas for the Jellico gas system is supplied by Delta Natural Gas Company, Inc. from an M/R station in Kentucky. A 7(f) exemption was issued by FERC to transport natural gas across the Kentucky-Tennessee border.

Mr. Earnest F. Burke, Gas Safety Inspector for the Tennessee Public Service Commission is the inspector for the gas system. His office phone is (615) 741-2844 and home phone is (615) 395-4655.

If agreeable with the Kentucky Public Service Commission natural gas will be supplied to the Kentucky residents under the same conditions as the residents in Jellico, Tennessee. This would have to be subject to Tennessee Public Service Commission approval and acceptance.

After your planned February 1, 1990 inspection visit to Jellico additional information will be provided if needed.

Your assistance and consideration in this matter is appreciated.

Respectfully yours,

*Walton R. Haddix*

Walton R. Haddix

cc Opal Leach

enclosure

**Delta Natural Gas Company, Inc.**

8817 Lexington Road  
Winchester, Kentucky 40391

606-744-6171

December 7, 1989

**RECEIVED**

DEC 12 1989

DIVISION OF  
ENGINEERING SERVICES*Pending* 0

Mr. Ralph E. Dennis  
Manager, Gas Branch  
Public Service Commission  
730 Schenkel Lane  
P. O. Box 615  
Frankfort, KY 40602

Dear Ralph:

I am pleased to respond to your letter of November 13, 1989 regarding Jellico Gas Utility's interest in serving certain residents in Kentucky.

I have recently talked with Mr. Earl Holsapple of Jellico Gas Utility and he has informed me that there may be as many as fifty (50) residents of Kentucky that could be feasibly served by Jellico Gas Utility. It would not be feasible for Delta to directly serve these prospective customers.

Delta has no objection to Jellico Gas Utility serving customers in Kentucky provided that Jellico Gas Utility does not attempt to duplicate service provided by Delta. It is our feeling that the question of jurisdiction should be determined by the respective Public Service Commissions and Delta has no opinion on this issue.

We encourage the respective Public Service Commissions to resolve this issue in such a manner that residents of the Jellico area will not be discouraged from obtaining natural gas service.

We appreciate the opportunity to respond and if I can be of any further assistance please contact me at your convenience.

Sincerely,

Robert C. Hazelrigg  
Vice President  
Marketing and Public Relations

**TENNESSEE PUBLIC SERVICE COMMISSION**

460 JAMES ROBERTSON PARKWAY  
NASHVILLE, TENNESSEE 37243-0505

KEITH BISSELL, CHAIRMAN  
STEVE HEWLETT, COMMISSIONER  
FRANK COCHRAN, COMMISSIONER



PAUL ALLEN, EXECUTIVE DIRECTOR  
HENRY M. WALKER, GENERAL COUNSEL

May 9, 1990

**RECEIVED**

MAY 29 1990

PUBLIC SERVICE  
COMMISSION

Mr. Lee M. McCracken  
Executive Director  
Kentucky Public Service Commission  
730 Schenkel Lane  
P.O. Box 615  
Frankfort, KY 40602

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Re: Jellico Gas Utility, Inc.

Dear Mr. McCracken:

I have reviewed your letter which proposes that the Tennessee Public Service Commission extend its jurisdiction of Jellico Gas Utility, Inc. to approximately 57 perspective customers in Kentucky. We have had similar arrangements with Commissions in other states contiguous to Tennessee and believe that this proposal is feasible. I recommend that the Kentucky Commission issue an order giving Jellico Gas Utility authority to operate in the proposed territory pursuant to the rates and terms approved by the Tennessee Commission. We would regulate the entire system as a whole including rates, service and safety. When we issue an order with respect to the company, it could be sent to your Commission for ratification with respect to the Kentucky service. I see no problem with the Kentucky PSC reviewing the situation periodically to determine if it wishes to reassert jurisdiction over the Kentucky customers.

I am referring the matter to Glynn Blanton, our Director of Gas Pipeline Safety and D. Billie Sanders, Assistant General Counsel to continue to work with you on the details.

Sincerely,

  
Keith Bissell  
Chairman

c: Glynn Blanton  
D. Billie Sanders  
Walton Haddix, Jellico Gas Utility, Inc.  
Paul Allen, Executive Director  
Hal Novak, Accounting Division