

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION FOR APPROVAL OF THE)
TRANSFER AND SALE OF ELAM UTILITY) CASE NO. 92-488
COMPANY)

O R D E R

IT IS ORDERED that Elam Utility Company, Inc. ("Elam") shall file an original and ten copies of the following information with this Commission, with a copy to all parties of record, within 10 days of the dater of this Order. If the information cannot be provided by this date, you should submit a motion for an extension of time stating the reason a delay is necessary and include a date by which it will be furnished. Such motion will be considered by the Commission.

1. The HISTORY AND BUSINESS PLAN submitted with the application states that Doug and Wilma Ison ("Purchasers") contemplate paying for the stock of Elam by continuing to pay a salary to B. C. and Ethel Phillips ("Sellers") or by utilizing the moneys which, prior to the proposed transfer, are being paid as salary to the Sellers. Explain what is meant by these statements and provide details of how the Purchasers plan to pay for the stock acquired from the Sellers.

2. Historically, principal and interest on a stock purchases has not been included in retail rates approved by the Commission. If, in future rate proceedings, the principal and interest of the purchase obligation is not allowed to be included

in rate base, will this impact the financial viability of the utility?

3. Do the Purchasers anticipate seeking to include a salary for the Sellers in the future operating expenses proposed for setting rates? Explain.

4. In Elam's last rate case, the Commission established rates based on the operating ratio because there was no adequate relationship between the rate base and level of capitalization. The earnings established at that time did not contain, due to the negative equity position of Elam, a return on equity. In light of this prior ratemaking treatment, explain how Purchasers anticipate recovering their investment of \$350,000 in the Elam stock.

5. What sources of funds, other than the current salaries paid to the Sellers, are available to Purchasers to acquire the stock of Elam?

6. Would the purchase of Elam be economically feasible for the Purchasers if the funds which are currently being paid to the Sellers were no longer available?

7. Based on your responses to the above questions, provide a projected annual cash flow analysis for Elam after the transfer has taken place.

8. Provide complete details of any journal entries Purchasers plan to record on the books of Elam as a result of the acquisition of the stock of Sellers.

9. Elam Utility has a negative equity of \$240,561.96 through the calendar year ended December 31, 1991. The HISTORY AND

BUSINESS PLAN states that Purchasers contemplate using virtually all net income of the utility to effect the contemplated stock purchase. Explain the actions Elam plans to take to achieve a positive equity position.

10. How do Purchasers propose to maintain reasonable reserves for contingencies and extraordinary costs, and to provide for capital additions and replacements, if all of the earnings are utilized to purchase the Elam stock?

11. Provide complete details of any other sources of capital, such as bank financing or investor funds, which are available to the Purchasers to provide for contingencies and extraordinary items, capital additions, and replacements.

12. Explain how Purchasers determined that \$350,000 was a fair price to pay for this utility.

13. With reference to Section 1.04(e) of Exhibit 2, Sale and Purchase Agreement Between B.C. and Ethel Phillips and Doug and Wilma Ison, filed with the application, provide the following:

a. A copy and a detailed explanation of the nature and terms of the lease agreement.

b. A detailed explanation of the proposed accounting treatment of the lease (i.e., capitalized or operating lease).

c. If it is a capital lease, the basis for the amount capitalized and the entries made in both recording and amortizing the lease.

d. If it is an operating lease, a detailed explanation of the amount of the lease payments.

Done at Frankfort, Kentucky, this 18th day of December, 1992.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:



Executive Director