

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE PETITION OF KENTUCKY-OHIO GAS COMPANY)
FOR APPROVAL OF A CERTIFICATE OF)
CONVENIENCE AND NECESSITY TO CONSTRUCT) CASE NO. 93-144
PIPELINE FACILITIES, APPROVAL OF)
FINANCING AND APPROVAL OF SPECIAL)
CONTRACT)

O R D E R

On April 16, 1993, Kentucky-Ohio Gas Company ("KOG") filed with the Commission its application for a Certificate of Convenience and Necessity to construct pipeline facilities and approval of related financing and approval of a special contract for natural gas service with Ashland Petroleum Company, Inc. ("Ashland").

On May 11, 1993, KOG filed its proposed financing statement for the construction requesting approval of a loan of \$1,500,000 from an investor to be repaid in annual installments over a period of 10 years at an interest rate of 13 percent per year. On July 1, 1993, KOG filed an amended financing statement reflecting an interest rate of 9.75 percent per year. On September 3, 1993, KOG withdrew its financing proposal and informed the Commission that the construction would be financed through a note payable in two years or less with internally generated funds. Commission approval is not required for notes payable in two years or less. KRS 278.300.

On August 27, 1993, Columbia Gas of Kentucky, Inc. ("Columbia") filed a motion for leave to intervene in this proceeding which was denied by Order of the Commission dated September 3, 1993. Columbia subsequently requested the Commission vacate its Order and grant Columbia full intervention. By Order dated September 17, 1993 the Commission granted Columbia's request. In doing so, we allowed Columbia until September 27, 1993 within which to file a motion with the Commission seeking review of any new issues or facts it feels should be developed. Columbia filed a motion for development of additional facts and KOG has filed a response in opposition.

After consideration of the motion, the response of KOG and the evidence of record, the Commission finds Columbia's motion should be denied. Columbia has not shown in its motion that the proposed construction will have any direct impact on its operations or its current sales to Ashland. Columbia has merely suggested that the construction may not be in the public interest but has failed to specify any particular issues which have to be developed to protect its interest.

The proposed integration pipeline consists of approximately 15 miles of 8-inch steel pipeline connecting the eastern and western sections of KOG's transmission and distribution system allowing gas service to be provided to new areas. KOG estimates it can add as few as 50 or as many as 300 residential customers along the route of the proposed pipeline.

KOG estimates that the new line will generate approximately \$4.6 million in revenues during the first year of operation, increasing to \$5.6 million in year 10 and will cost \$35,000 annually to operate exclusive of gas costs. KOG requested a deviation under 807 KAR 5:001, Section 14, and requested that the proposed construction be approved as an extension in the ordinary course of business pursuant to 807 KAR 5:001, Section 9(3). Since the project represents a high percentage of KOG's capital investment and will significantly affect the existing operations of KOG, the construction is not in the ordinary course of business. The deviation should accordingly be denied.

KOG filed a copy of its contract with Ashland, under which KOG would supply a daily average quantity of 5,000 MMBTU of natural gas. The price of gas to Ashland under the contract is KOG's cost of gas at KOG's point of receipt plus \$0.185/MMBTU. The term of the contract is for 10 years from the effective date. KOG currently provides service to Ashland pursuant to a contract approved by this Commission. The proposed contract provides for increased sales over and above the original contract amount.

The Commission, having reviewed the evidence of record and being otherwise sufficiently advised, finds that KOG should be granted a certificate of convenience and necessity to construct the proposed pipeline facilities to provide flexibility in serving Ashland and potential residential customers. KOG's proposed contract with Ashland is reasonable and in the public interest and should also be approved.

IT IS THEREFORE ORDERED that:

1. KOG is hereby granted a Certificate of Convenience and Necessity to construct the proposed natural gas pipeline and facilities pursuant to 807 KAR 5:001, Section 9 to provide additional service to Ashland and to serve potential residential customers.

2. Columbia's motion for development of additional facts be and it hereby is denied.

3. KOG's request for a deviation from 807 KAR 5:001, Section 14, and its proposal to consider the construction of the pipeline facilities as in the ordinary course of business is hereby denied.

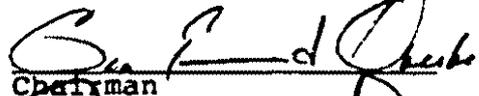
4. KOG shall file with the Commission the construction schedule and the final construction contract no later than 15 days prior to commencement of the construction.

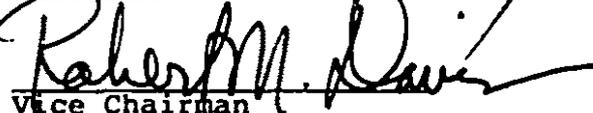
5. KOG shall file with the Commission the actual cost of the pipeline facilities and as-built drawings of the system no later than 3 months from the date of completion of the work.

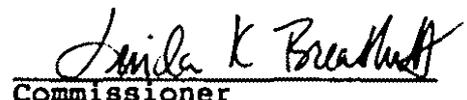
6. The proposed contract with Ashland is accepted as filed; the cost of gas portion of the rate to Ashland will be addressed in KOG's future purchased gas adjustment filings to ensure that the cost of gas is the same to all of KOG's customers.

Done at Frankfort, Kentucky, this 7th day of October, 1993.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director