

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE PETITION OF BLUEGRASS GAS SALES, INC.	)	
FOR APPROVAL OF A CERTIFICATE OF CONVENIENCE	)	
AND NECESSITY TO CONSTRUCT FACILITIES,	)	CASE NO.
APPROVAL OF FINANCING, APPROVAL OF INITIAL	)	94-433
RATES AND OPERATION OF A NATURAL GAS	)	
DISTRIBUTION SYSTEM	)	

O R D E R

On February 27, 1996, Bluegrass Gas Sales, Inc. ("Bluegrass") filed a petition for rehearing of the Commission's February 20, 1996 Order. In its petition, Bluegrass stated that it is not going to be serving the 5 commercial customers it had originally projected it would serve. Bluegrass further states that due to the fact that the area to be served is rural and sparsely populated with few commercial customers and because of the substantial revenue impact the loss of commercial sales will have, the company will not generate sufficient revenue to provide reliable service to its remaining customers without modifying the rate approved in the Commission's February 20, 1996 Order.

Given the magnitude of the potential impact the loss of the commercial customers may have on the utility and the fact that this is a start-up utility with little or no prior ratemaking experience, the Commission finds good cause exists to rehear the issues in this proceeding, and rehearing should be granted.

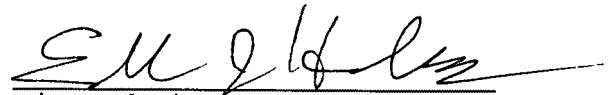
IT IS THEREFORE ORDERED that:

1. Bluegrass's request for rehearing is granted.
2. Bluegrass shall file responses to the data request attached as Appendix A no later than 10 days from the date of this Order.

Done at Frankfort, Kentucky, this 14th day of March, 1996.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

  
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 94-433 DATED MARCH 14, 1996

1. Provide the names of the 5 commercial customers that Bluegrass originally expected to connect to its system.

2. On page 1 of its Petition for Rehearing, Bluegrass states that some of the customers have determined that the cost of conversion to natural gas is uneconomical.

a. Name the commercial customers that made this determination.

b. What form of energy are these customers currently using?

c. Did Bluegrass assist the potential customers in their analysis of the cost of using natural gas verses their current forms of energy? If not, why not? If yes, provide the results of the analysis that show that converting to natural gas is uneconomical.

3. Explain why each of the remaining commercial customers originally expected to connect to Bluegrass are now not expected to request service.

4. Can any of the 5 commercial customers receive gas transportation service directly from Natural Gas of Kentucky ("Natural Gas")? If yes, which ones?

5. Provide a map of Bluegrass's distribution system. Include on this map the location of Natural Gas's transportation line and the location of each of the 5 commercial customers.

6. Provide financial projections in the same format as was provided on August 9, 1995. These financial projections should identify any revenues or expenses that have changed since the date of that filing including the impact of the loss of the commercial customers. Include with this response all documentation supporting the changes in projections.

7. Provide a revised depreciation schedule for each of the next 5 years. The schedule should exclude the commercial customers' meters, regulators, pipes, and any other assets not needed now that Bluegrass does not expect to service those customers.

8. How will the loss of these customers impact Bluegrass's gas purchasing costs and contract arrangements with suppliers of gas, transportation, and consulting services?

9. In light of the loss of the projected commercial customer load, provide an analysis of the current customer projections. Provide supporting documentation for any change(s) in the projections from that which was originally filed, including any updated customer survey results, usage analysis, etc.

10. What impact will raising Bluegrass Gas's residential rate have on the company's ability to attract the customer levels originally projected? Provide justification for your response.

11. Bluegrass states, beginning at page 1 of its Petition for Rehearing, that, "Because of the substantial revenue impact this loss of sales will have on Bluegrass and the inability of the Company to replace these volumes or to absorb any of the revenue

loss, it is necessary to adjust the revenue requirement to conform to this change in circumstance." What adjustments to revenue requirements does Bluegrass believe are necessary? Provide supporting documentation for your response.