

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE PETITION OF CUMBERLAND VALLEY)	
ENERGY, INC. FOR A CERTIFICATE OF)	
CONVENIENCE AND NECESSITY TO)	
CONSTRUCT THE GAS SYSTEM,)	
APPROVAL OF FINANCING, INITIAL RATES)	CASE NO. 99-139
AND THE OPERATION OF A NATURAL GAS)	
DISTRIBUTION SYSTEM IN CLINTON)	
COUNTY, KENTUCKY AND INTO)	
MONTICELLO, KENTUCKY)	

O R D E R

IT IS ORDERED that Cumberland Valley Energy, Inc. ("Cumberland") shall file the original and 6 copies of the following information with the Commission, with a copy to all parties of record within 21 days from the date of this Order. Cumberland shall furnish with each response the name of the witness who will be available to respond to questions concerning each item of information should a public hearing be scheduled. Each copy of the data should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately labeled, for example, Item 1(a), Sheet 2 of 6.

1. Provide the financial and technical feasibility studies to construct the proposed system as noted in Cumberland's Petition under paragraph 1. If these studies have not been completed, state when they will be completed and available for Commission Staff to review.

2. Provide the forecast or load projection related to estimated levels of service on an annual basis for 5 years with a study or analysis that supports the forecast.

3. Provide the design, engineering, and construction specifications of the proposed system, including any crossing of a lake or stream, prepared in accordance with KRS 322.340.

4. Provide a copy of any bid documents for the construction of the proposed system.

5. Provide a copy of any agreement with the city of Monticello for providing gas or gas service to that city. If Cumberland provides gas service to the city of Monticello, does such service require Cumberland to bid on a franchise under KRS 278.020(3)?

6. Provide the inspection, operations, emergency, and maintenance manual for the proposed Cumberland gas system.

7. Provide the preliminary construction schedule for the proposed system.

8. Provide copies of contracts to perform work on the proposed construction of the system.

9. Provide technical qualifications of the persons who will operate the proposed system.

10. Identify the gas suppliers from which Cumberland expects to purchase gas to serve its prospective customers.

a. Do these suppliers already have capacity on the Texas Eastern pipeline into which Cumberland expects to tap?

b. Provide the purchased gas cost for Cumberland s gas system from its supplier.

c. Provide any contracts that Cumberland has executed with these suppliers. If no contracts exist, provide any correspondence between potential suppliers and Cumberland and/or a description of any discussions or negotiations that have taken place to date.

11. Refer to the 5-year projection of operating costs filed in response to the Commission s deficiency letter dated June 17, 1999. It did not include any estimate of Cumberland s wholesale gas costs.

a. Provide an estimate of expected wholesale gas supply costs for each of the next 5 years, or explain why no estimate has been made.

b. Provide an estimate of the number of customers, by customer classification, that Cumberland expects to serve for each of the next 5 years, or explain why no estimate has been made.

c. Provide an estimate of Cumberland s projected sales volume, by customer classification, for each of the next 5 years, or explain why no estimate has been made.

d. Based on the estimates of its costs, customer levels, and sales volumes, provide the calculation of rates for each customer classification that Cumberland anticipates it will need to charge in order to generate the revenues necessary to operate its proposed distribution system.

12. Has Cumberland begun preparing tariffs that will set out its rules and regulations for providing service to its prospective customers? If no, when does Cumberland anticipate preparing such tariffs?

13. Is Cumberland aware that most local distribution companies tariffs include a Gas Cost Adjustment (GCA) mechanism that permits adjustments in rates based on changes in their wholesale gas cost? Does Cumberland propose to include a GCA mechanism in its tariffs?

14. In regard to item 10 of Cumberland's petition, provide a detailed explanation of the financial, managerial, and technical ability of the proposed local gas distribution company to provide the necessary services described in the application.

15. Does Cumberland have any written documentation to evidence that Clinton County will authorize the sale of the proposed Industrial Building Gross Revenue Bonds? If yes, provide a copy.

16. Is there a fiscal court ordinance or bond resolution that places stipulations or conditions, such as a specific debt service coverage requirement, on the proposed bond issuance? If yes, provide a copy.

17. Does Cumberland have a financial advisor or investment broker for the proposed bond issuance?

a. If yes, what is the firm's name and has the firm been provided financial projections for the proposed project? Provide copies of any projections.

b. If yes, has the advisor or broker provided estimated costs, with terms and conditions, of the bond issuance? Provide copies of any projections.

c. If yes, has the advisor or broker provided an estimate of the interest rate for the bond issuance? If so, provide a copy of the amortization schedule.

18. Does Cumberland have a financial advisor or investment broker for the proposed stock issuance?

a. If yes, what is the firm's name and has it been provided financial projections for the proposed project? Provide copies of any projections.

b. If yes, has the advisor or broker provided estimated costs of the stock issuance? Provide copies of any estimated issuance costs.

19. Refer to Cumberland's response of June 28, 1999 to deficiency item 1 of the Commission's letter dated June 17, 1999. Classify the 5-year projected schedule of operating and maintenance costs according to the Uniform System of Accounts (USoA).

a. Provide a schedule of the estimated total company salaries and wages for the projected 5 years by categories, i.e., distribution supervision, distribution labor, customer meter reading labor, accounting and collecting labor, and administrative and general salaries. Include the following:

(1) Estimate regular hours for each employee classification for the initial year.

(2) Estimate overtime hours for each employee classification for the initial year.

(3) Provide initial year salary and wage rates for each employee classification.

(4) Provide a detailed calculation and explanation of the source of the anticipated payroll-related costs, such as payroll taxes, employee health and life insurance, and pensions.

b. Provide documentation and a thorough explanation of projected contractual expenses, i.e., office lease and equipment rental.

c. Provide a detailed breakdown of projected miscellaneous general expenses, USoA account number 930, with a thorough explanation of projected costs.

d. Provide a detailed breakdown of projected insurance expenses, i.e., property, general liability, and bonding, with a thorough explanation of projected costs.

e. Provide an estimated calculation of workers' compensation and any other estimated costs or expenses applicable to USoA account number 925, injuries and damages.

f. Provide an asset schedule determining depreciation expense, complete with associated cost, estimated date placed in service, useful life, salvage value (if any), and rate of depreciation.

g. Calculate estimated income taxes (federal and state), including deferred taxes, if any, and reconcile book to taxable income, if different.

h. Give a thorough explanation of the basis or source documentation used to project any expense not previously mentioned.

i. Explain the basis for the increase in projected costs over the 5-year period presented in the projection.

20. Prepare a revenue requirement calculation and provide a detailed explanation for the basis or methodology selected by Cumberland, describing why such basis or methodology is appropriate. Be sure to exclude advertising expenses (807 KAR 5:016), civic and club dues, as well as charitable contributions, from any operating expense calculation.

21. Prepare a calculation of Cumberland's estimated return on equity and overall rate of return for each year of the 5-year projection.

22. Refer to Cumberland's response of June 28, 1999 to deficiency item 2 of the Commission's letter dated June 17, 1999. Explain the following items.

a. Why are consulting fees and the contingency fund not part of gas plant in service?

b. Provide a detailed explanation of the composition of reserve funds.

Done at Frankfort, Kentucky, this 22nd day of July, 1999.

By the Commission

ATTEST:

Executive Director