

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

A PETITION OF MILLENNIUM ENERGY,)	
INC. FOR APPROVAL OF AN INITIAL)	
RATE SCHEDULE TO CHARGE)	
CUSTOMERS THAT WILL BE SERVED)	CASE NO. 99-312
FROM AN EXISTING GAS SUPPLY LINE)	
IN SIMPSON COUNTY, KENTUCKY)	

ORDER

On July 23, 1999, Millennium Energy, Inc. ("Millennium") tendered this application requesting that the Commission (1) modify the final Order in Case No. 99-075,¹ (2) approve initial rates, and (3) approve additional financing in order to construct facilities and serve new residential and commercial customers. On August 20, 1999, the Commission rejected the petition and ordered Millennium to file information required to cure the deficiencies within 15 days. Millennium's filing of September 8, 1999 cured its deficiencies so that the application met the minimum filing requirements pursuant to the Commission's regulations.

On August 11, 1999, the Commission granted Western Kentucky Gas Company's motion for full intervention in this matter. On November 4, 1999, the Commission issued an Order continuing the financing beyond the statutory 60-day period and establishing a 10-day time limitation for parties to the case to request a hearing. No hearing was requested; therefore, the case stands submitted.

¹ Case No. 99-075, The Petition of Millennium Energy, Inc. for a Certificate of Convenience and Necessity to Construct and Operate a Natural Gas Supply Line.

On November 8, 1999, the Commission entered an Interim Order that granted Millennium a Certificate of Public Convenience and Necessity to install lateral distribution lines from its existing pipelines to serve four locations in Simpson County, Kentucky. The estimated cost of construction is \$60,124. The proposed additional financing of \$64,000 would be under the same terms and conditions as the financing approved in Case No. 99-075. The \$64,000 of additional financing would be used for construction in the amount of \$60,124, and funds for working capital and debt service reserve in the amount of \$3,876. The proposed financing would be obtained from the National Cooperative Service Corporation (NCSC), an affiliate of the National Rural Utilities Cooperative Finance Corporation (CFC).

OPERATING REVENUES AND EXPENSES

Millennium submitted financial projections for its first three years of operations and averaged the projected operating and maintenance expenses in support of its revenue requirement determination. The Commission has determined that the first year of operations, including projected sales revenues and estimated operating expenses, with minor adjustments, should be used for rate-making purposes.

Millennium projected that its customer base for year one would include two existing special contract customers plus sixteen residential customers and four commercial customers and used this customer base to make its projections.² The Commission uses the estimated operating expenses for the first year because the number of customers Millennium will serve that year is the same as the number of

² Millennium's projection of revenue and usage from base rates is at Rate Design Considerations, Exhibit 1, page 2 of 2 from its response to the Commission's September 20, 1999 Order.

customers that will be served over the first three years of operation.³ Millennium's research on other potential customers shows that other than those individuals and businesses requesting natural gas service, the potential customers in its area have electric heating equipment that was installed within the last 15 years. Therefore, Millennium does not expect conversions of any additional customers in the next three years.

Total Revenues

Millennium projects total revenues of \$238,493 comprised of \$102,736 in revenues from base rates and \$135,757 in gas cost revenues under the Gas Cost Adjustment (GCA) included in its proposed tariffs. The revenues from base rates are computed based on the estimated number of customers and estimated MCF sales volume for year one of Millennium's projected operations. Revenues under the GCA mechanism are solely for the recovery of Millennium's wholesale gas cost.

Purchased Gas

Millennium projects purchased gas cost of \$135,757 during year one, based on its estimated sales volume applied to its existing wholesale contract rate of \$2.98 per MCF, with Woodward Marketing, LLC. The sales volume estimate is based on the expected usage for Millennium's two special contract customers and the additional 16 residential and four commercial customers. The Commission finds this level of gas cost to be reasonable based on Millennium's projections.

³ Millennium's estimated operating and maintenance expenses for FY 2000 are from its response to the Commission's September 20, 1999 Order at Exhibit 2.

Operations, Maintenance, Customer Accounts, Administrative and General

Millennium projected these significant operating expenses primarily on contract services for supervision, maintenance, meter-reading labor, accounting and billing labor. The amounts are based on projected hours of service required at the contract rates and applicable costs of benefits for employees that Millennium will share with its parent company, Warren Rural Electric Cooperative Corporation (Warren RECC).

Depreciation Expense

According to its pro forma depreciation schedule, Millennium proposes to depreciate organizational costs over 10 years; services and measuring and regulating station equipment over 30 years; and mains over 50 years.⁴ The Commission finds these depreciable lives to be within acceptable ranges. This results in an annual depreciation expense of \$9,573.

Interest Expense

Millennium s interest rate on long-term debt may vary depending on the interest rates in effect at the time of draw downs of the funds or the conversion of withdrawals into a single loan with a 10-year maturity. The rate projected for the withdrawals in this application was 6.55 percent per annum. The Commission finds this reasonable for rate-making purposes. Applying the 6.55 percent interest rate to total long-term debt with NCSC produces a projected annual interest expense of \$24,170.

Uncollectible Accounts

Millennium estimates that uncollectible accounts would be 0.4 percent of net operating revenue. Although the 0.4 percent factor is reasonable, the factor should be

⁴ Millennium s response to the Commission s September 20, 1999 Order, at Exhibit 6.

applied to gross operating revenue. Accordingly, the amount computed by applying the 0.4 percent to Millennium's initial year projected gross operating revenue equals \$954.

PSC Assessment Fee

The annual PSC Assessment Fee for 1999-2000 is 1.667 cents per \$1,000 of revenue. Applying this current rate to Millennium's initial year projected operating revenues results in a total annual fee of \$397.

Federal and State Income Taxes

Millennium proposed federal and state income taxes at the marginal rates for the projected level of operating income before income taxes. This assumption has been accepted as reasonable by the Commission. The amount of income tax has changed due to the change in operating income before income taxes resulting from using the initial year of operations. The adjusted operating income will result in total Federal and State Income Tax expense of \$3,548.⁵

REVENUE REQUIREMENTS

The Commission has determined that Millennium's revenue requirements should be calculated using the Times Interest Earned Ratio (TIER) method. In determining the required revenue, Millennium proposes a TIER of 1.6, since its parent company, Warren RECC, determines its revenue requirements using the same methodology and TIER level. The TIER methodology is commonly accepted for utilities with financing through the Rural Utilities Service (RUS) and CFC. The Commission believes the

⁵ Net Operating Income		\$19,280
State Income Tax Rate	4.0 %	
Federal Rate (net of State benefit)	<u>14.4 %</u>	
Combined Income Tax Rate		<u>18.4 %</u>
Federal and State Income Taxes		\$ 3,548

TIER approach is reasonable since Millennium's assets are security under Warren RECC's restated RUS/CFC mortgage.

The utility's cost of service is based upon the full complement of customers, a complete draw down of the debt, and completion of the construction. Based on Millennium's projections of its initial year of operations, and the modifications approved herein, the pro forma operating statement is as follows:

Revenues from Base Rates	\$	102,736
Revenue from GCA		<u>135,757</u>
Total Revenues	\$	238,493
Purchased Gas	\$	135,757
Operations		5,125
Maintenance		5,125
Customer Accounts		8,000
Uncollectible Accounts		954
Administrative and General		28,000
Depreciation		9,573
Taxes Other Than Income Taxes		2,112
PSC Assessment Fee		397
Interest		<u>24,170</u>
Total Expenses		<u>219,213</u>
Net Operating Income		19,280
Federal and State Income Taxes		<u>3,548</u>
Net Income	\$	<u><u>15,732</u></u>

The TIER resulting from the pro forma projected initial year operations adjusted is 1.650848. This TIER is approximately the same as the TIER level requested by Millennium. Furthermore, the TIER is within the level normally authorized by the Commission for utilities capitalized with RUS and CFC financing. Accordingly, the

Commission finds the projection acceptable for rate-making purposes in this initial rates determination. Therefore, the proposed revenue of \$238,493 is reasonable.

This level of revenues should allow Millennium to meet its operating expense and provide for reasonable equity growth. Projected net operating income resulting from this approach is \$19,280. After provision for federal and state income taxes in the amount of \$3,548, the projected net income is \$15,732.

RATE DESIGN AND RATES

Millennium s proposed rates are as follows:

<u>Residential</u>	
Customer Charge	\$ 6.00
Local Distribution Charge	\$ 4.00

<u>Commercial/Industrial</u>	
Customer Charge	\$20.00
Local Distribution Charge	\$ 3.00

The company has used the terms Local Distribution Charge and Commodity Charge interchangeably in describing its proposed rates. In informal discussions with Staff, Millennium clarified its use of these terms. The proposed local distribution charge is comparable to what is usually referred to as a volumetric charge, or commodity charge. Millennium will be recovering its actual gas cost from customers through its GCA clause included in its proposed tariffs. The proposed rates are comparable to the rates of other gas utilities in the area.

ADDITIONAL FINANCING REQUESTED

Funding for the construction, debt service reserve and working capital will be provided through a loan from NCSC that will not exceed \$64,000. The loan will be

amortized over 10 years, with principal payments deferred for the first two years at the interest rate in effect at the time of a draw down. The rate projected by Millennium in the preparation of the projected pro forma income statement was 6.55 percent.

SUMMARY

After reviewing the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The rates proposed by Millennium should produce annual revenues of \$238,493, which is sufficient to cover all operating costs and provide a reasonable return.

2. The rates in Appendix A approved herein are the fair, just and reasonable rates for Millennium.

3. The loan from NCSC in the amount of \$64,000 is for lawful objects within the corporate purposes of Millennium, is necessary and appropriate for and consistent with the proper performance by the utility of its service to the public and will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purposes.

4. Millennium is capable of executing its notes as security for the loan as stated herein.

5. The proceeds from the proposed loan should be used only for the lawful purposes set out in Millennium s application as stated herein.

IT IS THEREFORE ORDERED that:

1. The rates set out in Appendix A are approved for service rendered on and after the date of this Order.

2. Millennium is authorized to issue additional indebtedness to NCSC in an amount not to exceed \$64,000, with advances from the loan bearing interest at varying rates dependent upon interest rates in effect at the time of each advance. Ultimately, all advances from the loan shall be converted to a 10-year loan. If Millennium chooses to issue its evidence of indebtedness at a fixed rate, it shall select the interest rate that will result in the lowest cost over the term of the financing.

3. Within 10 days of each loan withdrawal, Millennium shall notify the Commission of the interest rate, conditions, and terms of the financing.

4. Within 10 days of the conversion of the withdrawals to a 10-year loan, Millennium shall notify the Commission of the interest rate, conditions, and terms of the loan.

5. The proceeds from the proposed loan should be used only for the lawful purposes set out in Millennium's application as stated herein.

6. Within 20 days of the date of this Order, Millennium shall file with the Commission its tariffs setting out the rates approved herein containing the date of issuance and the statement that they were issued by authority of this Order of the Commission.

Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

Done at Frankfort, Kentucky, this 2nd day of December, 1999.

By the Commission

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 99-312 DATED DECEMBER 2, 1999

The following rates and charges are prescribed for the customers in the area served by Millennium Energy, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of this Commission prior to the effective date of this Order.

Residential Rates

Customer Charge	\$ 6.00
Local Distribution Charge	\$ 4.00
Gas Cost Adjustment	Subject to Gas Cost Adjustment Tariff

Commercial/Industrial

Customer Charge	\$20.00
Local Distribution Charge	\$ 3.00
Gas Cost Adjustment	Subject to Gas Cost Adjustment Tariff