

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

A PETITION OF MILLENNIUM ENERGY,	)	
INC. FOR A CERTIFICATE OF	)	
CONVENIENCE AND NECESSITY TO	)	
CONSTRUCT A NATURAL GAS LINE,	)	CASE NO. 99-115
APPROVAL OF FUNDING, AND THE	)	
OPERATION OF A NATURAL GAS LINE IN	)	
OHIO COUNTY, KENTUCKY	)	

O R D E R

IT IS ORDERED that Millennium Energy, Inc. ("Millennium") shall file an original and six copies of the following information with the Commission with a copy to all parties of record. Each copy of the information should be placed in a bound volume with each item tabbed. When a response requires multiple pages, each page should be appropriately indexed, for example, Item 1(a), page 2 of 4. Include with each response the name of the person who will be responsible for responding to questions related thereto. Careful attention should be given to copied material to ensure that it is legible. The information shall be filed with the Commission no later than ten days from the date of this Order.

1. Provide a copy of the signed agreement with Peake Energy, Inc. ("Peake") for firm natural gas supply for the potential customers in the proposed gas system.
2. Refer to Exhibit 1, Natural Gas Survey/Study.
  - a. The annual usage volumes presented in the original application's Exhibit 1 were stated in Mcf; however, the information submitted on April 17, 2000

presents the same volume figures in MMBtu. Explain whether the usage volumes presented in Exhibit 1 are in Mcf or MMBtu.

b. The presentation of the estimated number of residential customers in Exhibit 1 requires clarification. The total number is presented as 100, but the supporting numbers seem to indicate 200 customers. Provide the total number of additional residential customers Millennium expects to obtain with the Ohio County expansion.

c. Explain how Millennium developed its volume usage estimates for the customers in Exhibit 1.

3. Refer to Exhibit 5, Rate Design Considerations. The Exhibit lists expected revenues from the Residential and Commercial classes but does not include the Industrial customers listed on the original application's Exhibit 5.

a. Explain whether or not Millennium's Ohio County customers will include industrial customers.

b. If yes, provide the expected number of customers and their estimated annual usage volumes.

c. The "Revenue from Rate" column is labeled "FY 2002." Explain why Millennium does not expect revenue from Ohio County customers until 2002.

4. Refer to Millennium's response to Question 4 and Exhibit 6, Pro Forma Income Statement.

a. Woodward LLC ("Woodward") is Millennium's current natural gas supplier. Explain whether or not Peake will replace Woodward or be an additional supplier.

b. If Peake is to replace Woodward, does Millennium expect to get a better price from Peake?

c. Provide the price range of the purchased gas costs discussed with Peake.

5. Refer to the Commission's March 10, 2000 Order, Items 9 and 9(b). Millennium was directed to provide all executed notes payable, line of credit agreements and copies of Warren Rural Electric Cooperative Corporation's ("Warren RECC") agreements as guarantor of Millennium's notes payable and line of credit agreements. Millennium failed to provide the executed notes payable and guarantor agreements. Provide the information requested.

6. Millennium proposes to fund this project with financing from a \$500,000 line of credit.<sup>1</sup> How does Millennium plan to borrow \$694,197 from a \$500,000 revolving line of credit? Fully justify the response and reconcile the borrowings required to fund this proposed construction with the funding available.

7. Refer to Exhibits 6 and 9 of Millennium's response to the Commission's March 10, 2000 Order.

a. The revenue and expenses for the "existing system" in "FY 2000" as referred to on Exhibit 6 is based on a 3-year average provided in Millennium's response to the Commission's September 20, 1999 Order in Case No. 99-312.<sup>2</sup> That schedule of the initial 3 years' estimated operating expenses included inflation or other upward adjustment to many expenses beyond the initial year of operations in the

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<sup>1</sup> Millennium's response to the Commission's March 10, 2000 Order, Exhibit 15.

<sup>2</sup> Case No. 99-312, A Petition of Millennium Energy, Inc. for Approval of an Initial Rate Schedule to Charge Customers that will be Served from an Existing Gas Supply Line in Simpson County, Kentucky, Order dated September 20, 1999.

amount of 7 percent. The Commission allows only known and measurable adjustments to costs or expenses in financial exhibits for revenue requirement determination. The adjustment may be supported by historical cost trends, future contractual obligations or some other relevant, reliable measure. Provide your source of the above-referenced adjustments.

b. In Exhibit 6 (operating expenses by USoA account and the pro forma income statement) of its response to the Commission's March 10, 2000 Order, Millennium included inflation or some other upward adjustment in the amount of 7 percent operating expenses in "FY 2001" and "FY 2002" for the Ohio County Expansion. The Commission allows only known and measurable adjustments to costs or expenses in financial exhibits for revenue requirement determination. The adjustment may be supported by historical cost trends, future contractual obligations or some other relevant, reliable measure. Provide your source of the above-referenced adjustments.

c. The interest expense on Exhibit 9, line 2, references Exhibit 6 (the pro forma income statement) of Millennium's response to the Commission's March 10, 2000 Order. However, the interest expense for the Existing System and Ohio County Expansion does not agree with the amount on the amortization schedule at Exhibit 10(b). Total system interest for the first, second and third year of operations of the Ohio County Expansion appears to equal \$78,664, \$77,587 and \$72,834, respectively. These totals of interest expense result in an average annual amount of \$76,362. Reconcile the amounts from the amortization schedule at Exhibit 10(b) to the amount of the revenue requirement determination at Exhibit 9, line 2.

8. In Exhibit 6 (the cash flow summary) of its response to the Commission's March 10, 2000 Order, Millennium shows negative "funds available for capital

improvements and additions” after considering the “FY 2002” operating results. Refer to the Commission’s March 10, 2000 Order, Item 10(b). Millennium was asked whether its parent company, Warren RECC, would provide capital to Millennium if its cash flow is insufficient to make principal payments on loans. Millennium responded that it will not borrow funds from Warren RECC and all projects must be self-sustaining. Explain how Millennium will obtain funding to maintain its service to public consumers if its total system becomes deficient of funds.

a. Restate your cash flow summary to include any changes to revenues or expenses resulting from the issues raised by this Order. Refer to the Commission’s March 10, 2000 Order, Item 10(a). Millennium was asked to project cash flow until 2010. Millennium did not provide the cash flow summary for the projected time-period requested. With net income and depreciation, as adjusted, constant from “FY 2002” forward, project cash flow for two additional years.

b. Provide all supporting documentation used to prepare the restated cash flow summary as requested in 4(b). Include any changes to operating expenses, the pro forma income statement, or other documentation you use to derive your data for the restated cash flow summary.

Done at Frankfort, Kentucky, this 19<sup>th</sup> day of May, 2000.

By the Commission

ATTEST:

  
Executive Director