

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF ZEBULON GAS ASSOCIATION, INC.)	
FOR A CERTIFICATE OF PUBLIC CONVENIENCE)	
AND NECESSITY, APPROVAL OF LONG-TERM)	
FINANCING THROUGH THE DEPARTMENT OF LOCAL)	CASE NO.
GOVERNMENT FOR THE PURPOSE OF REPLACING)	2001-358
ITS EXISTING GAS DISTRIBUTION SYSTEM AND FOR)	
AUTHORIZATION TO ENTER INTO AN AGREEMENT)	
WITH COLUMBIA GAS TRANSMISSION COMPANY)	
TO REPAY \$175,203.37 IN GAS IMBALANCES)	

O R D E R

On October 25, 2001, Zebulon Gas Association, Inc. ("Zebulon") submitted its application for a Certificate of Public Convenience and Necessity for construction to replace its existing gas distribution system. Zebulon also seeks approval of long-term financing through the Commonwealth of Kentucky's Department of Local Government ("DLG") in the amount of \$150,197 for a term of 30 years at an annual interest rate of 4 percent, and authorization to enter into an agreement with Columbia Gas Transmission Company ("TCO") to repay \$175,203.37 in gas imbalances over a 20-year period.

Jefferson Gas Transmission Company, Inc. ("Jefferson"), a Kentucky corporation in Lexington Kentucky, has been maintaining the Zebulon system under an informal arrangement since November 2000, and has determined that the entire system is in need of replacement. Jefferson has agreed to replace, repair, maintain and operate Zebulon's gas system. Zebulon has agreed to pay Jefferson a reasonable operator's

fee for the ongoing operation of its system. The proposed operating agreement between Zebulon and Jefferson was included as Attachment B to the application.

Zebulon seeks to obtain long-term financing of \$150,197 through DLG's Gas Restoration Board, to finance reconstruction of its system, plus an additional \$22,500 for contingencies and working capital. The DLG loan will be for a term of 30 years at an annual interest rate of 4 percent. The DLG commitment letter was included as Attachment D to the application.

Zebulon also seeks to enter into an agreement with TCO to repay a negative gas imbalance that it incurred from March 1994 through October 2000 when Zebulon's withdrawals of natural gas from the TCO system exceeded its deposits by 60,826 decatherms ("the Gas Imbalance"). The parties have agreed to monetize the Gas Imbalance at a value of \$175,203.37 that shall be deemed a debt owed by Zebulon to TCO evidenced by a promissory note. The debt will be paid by Zebulon to TCO at the rate of \$730.00 per month, with the last payment being \$733.37, for a period of 240 consecutive months, with the first payment due on or before May 30, 2002 and each subsequent payment due on or before the last day of each succeeding month. The draft agreement with TCO and the draft of the promissory note were included as Attachments E and F, respectively, to the application.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that Zebulon's operating agreement with Jefferson, its loan agreement with DLG to finance the replacement of its gas system, and its payment agreement with TCO to eliminate its gas imbalance are for lawful objects within Zebulon's corporate purpose, are necessary, appropriate for and consistent with the

proper performance of its service to the public, and should therefore be approved, contingent upon its filing with the Commission copies of the executed documents described in the following ordering paragraphs.

IT IS THEREFORE ORDERED that:

1. Zebulon's application for a Certificate of Public Convenience and Necessity is approved.

2. Zebulon's operating agreement with Jefferson is approved.

3. Zebulon shall file 5 copies of the executed operating agreement with the Commission within 20 days of its execution.

4. Zebulon's loan agreement with DLG for \$150,197 is approved subject to the provisions and terms contained within its application.

5. The proceeds from the loan authorized herein shall be used only for the lawful purposes set out in the application.

6. Zebulon's agreement with TCO is approved.

7. Zebulon shall file 5 copies of the executed agreement with TCO, and the final related promissory note, along with the operating agreement required in ordering paragraph 3, within 20 days of its execution.

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 16th day of November, 2001.

By the Commission

ATTEST:

A handwritten signature in black ink, appearing to read "Charles McQuinn", written over a horizontal line.

Executive Director