

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF ZEBULON GAS ASSOCIATION, INC.)	
FOR APPROVAL OF \$48,148 IN FINANCING THROUGH)	
THE DEPARTMENT OF LOCAL GOVERNMENT FOR THE)	
PURPOSE OF FURTHER FUNDING THE REPLACEMENT)	CASE NO.
OF ITS EXISTING GAS DISTRIBUTION SYSTEM AND)	2002-00285
FOR APPROVAL OF ITS AGREEMENT TO REPAY)	
\$152,500 IN GAS IMBALANCES OWED TO COLUMBIA)	
GAS TRANSMISSION COMPANY IN GAS IMBALANCES)	

O R D E R

On July 26, 2002, Zebulon Gas Association, Inc. (Zebulon) submitted its application seeking approval to finance \$48,148 through the Department for Local Government (DLG) at an annual interest rate of 4 percent for a term of 30 years. The Commission previously approved financing through DLG for \$150,197 for the replacement of Zebulon s distribution system in Case No. 2001-00358.¹ DLG approved Zebulon s loan application, but could not grant Zebulon s request for deviation from the prevailing wage requirements of the Davis-Bacon Act. Compliance with the provision of the Act that requires payment of prevailing wage rates for construction projects funded through the federally-supplied gas restoration fund administered by DLG will increase

¹ Case No. 2001-00358, Application of Zebulon Gas Association, Inc. for a Certificate of Public Convenience and Necessity, Approval of Long-Term Financing Through the Department of Local Government for the Purpose of Replacing 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.

the cost of replacing Zebulon's existing gas distribution system by approximately \$43,678.²

Zebulon also seeks approval of an agreement with Columbia Gas Transmission Company (TCO) to repay \$152,500 in gas imbalances over a 20-year period pursuant to KRS 278.300. Zebulon has previously been authorized to enter into a similar agreement to repay \$175,203.37 in imbalances, also in Case No. 2001-00358. That agreement was later renegotiated to provide for repayment of the smaller amount of \$158,500 rather than the \$175,203.37 originally proposed.

Zebulon entered into an operating agreement with Jefferson Gas Transmission (Jefferson), a Kentucky corporation in Lexington, Kentucky. Under that agreement Jefferson is responsible for both the reconstruction of Zebulon's distribution system and the day-to-day operations of the utility. The agreement and Jefferson's initial estimates of the cost of construction, contingencies and related working capital requirements were filed with the Commission in Case No. 2001-00358.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that Zebulon's additional loan agreement with DLG to finance the replacement of its gas system and its revised 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.

² In addition to the labor cost increase of \$43,678, Jefferson Gas Transmission has revised its estimates for construction materials and contingencies/non-construction costs upward by \$4,470, resulting in a total increase of \$48,148 in the financing required for the project.

IT IS THEREFORE ORDERED that:

1. Zebulon s loan agreement with DLG for \$48,148 is approved subject to the provisions and terms contained within its application.
2. The proceeds from the loan authorized herein shall be used only for the lawful purposes set out in the application.
3. Zebulon s revised agreement with TCO is approved.

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 20th day of August, 2002.

By the Commission

ATTEST:


Executive Director