

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES)	
COMPANY FOR APPROVAL OF THE SALE OF)	
A PORTION OF ITS DISTRIBUTION SYSTEM)	CASE NO.
TO THE CITY OF PARIS, KENTUCKY AND TO)	2002-00297
AMEND TERRITORIAL MAPS)	

O R D E R

On August 6, 2002, Kentucky Utilities Company (KU) filed with the Commission an application pursuant to KRS 278.020(4) and (5) requesting approval of its proposed transfer of certain distribution facilities to the city of Paris, Kentucky (City). KU also requested permission to amend maps certified pursuant to KRS 278.016, *et seq.*, to reflect the proposed transfer.

PROCEDURE

On September 3, 2002, Commission Staff issued the first data request in this proceeding. KU responded to the request on September 13, 2002. KU supplemented its response on September 20, 2002 and October 28, 2002. On October 4, 2002, the Commission found, pursuant to KRS 278.020(5), good cause to extend the procedural statutory review period to 120 days. Commission Staff issued its second data request on October 4, 2002. The parties responded on October 14, 2002. Representatives from KU and the City attended an informal conference at the Commission s offices on October 16, 2002. KU responded to Staff s informal conference data request on

October 22, 2002. On November 1, 2002, a public hearing was held at the Commission's offices in Frankfort, Kentucky.

PROPOSED TRANSACTION

KU is a Kentucky corporation principally located at One Quality Street, Lexington, Kentucky 40507. KU provides retail electric service to approximately 499,000 customers in 77 counties in Kentucky. KU currently provides electric utility service to approximately 2,000 City residents.

The City is a Kentucky municipal corporation with over 9,000 residents. The City has operated its own municipal electric system for over 60 years.

On June 25, 2002, KU agreed to sell to the City the portion of its distribution facilities that currently serves approximately 600 KU customers within the City's corporate boundary as it existed in 1973. These facilities include the Vine Street 69/4 kV substation, poles, conductor, line transformers, meters, services, and appurtenances. All substations, transmission lines, facilities, and distribution lines outside the 1973 limits are excluded from the proposed transfer. The transfer agreement is subject to certain conditions, one of which is approval by the Commission with respect to the transfer of the facilities to the City.

STATUTORY PROVISIONS

KRS 278.020(4) provides that no person may acquire or transfer control or ownership of a utility without prior approval by the Commission. The Commission will approve such a transfer if it determines that the acquirer has the financial, technical, and managerial abilities to provide reasonable service. The Commission must also

determine that the acquisition is made in accordance with the law, for a proper purpose, and is consistent with the public interest. KRS 278.020(5). The Commission may grant an application upon terms and conditions it deems necessary to protect the public interest.

The Commission finds that the proposed transaction meets the standards set forth in KRS Chapter 278. The City has provided sufficient evidence to support its assertion that it has the financial, technical, and managerial ability to provide reasonable service to Kentucky consumers.

Both KU and the City have the financial ability to provide reasonable service to their respective customers following the proposed transfer. Because it is acquiring existing distribution facilities, the City will need to extend very little capital to provide service to KU's customers. With regard to KU, its transfer of a small portion of its distribution system will allow the company to provide dependable service at reasonable rates while eliminating unnecessary duplication of equipment and services. Both companies should benefit from the proposed transfer.

KU and the City agree that the fair value of the facilities being transferred is based on the replacement cost adjusted for the remaining useful life. Based on inventories as of October and November 1999, the estimated price is \$318,000 with a final inventory to be conducted prior to the transfer to determine the actual price.¹ However, KU has indicated that it would not be able to determine the final cost to be removed from its records until the transfer is completed. Therefore, within 10 days of the consummation of the transfer, KU should provide the Commission with a copy of the

¹ Willhite Testimony at 5 of 10.

final inventory of the transferred assets, the original cost of the transferred assets, and the related accumulated depreciation. In addition, within 10 days of the consummation of the transfer, KU should provide the Commission with a copy of the accounting entries made on its books to record the transfer.

The City has demonstrated the technical and managerial ability necessary to provide reasonable service to Kentucky customers. In addition to its electric distribution facilities, the City also operates seven 12 MW generation units serving 2,384 retail electric customers.² Because the City will purchase the same distribution facilities that are currently used to provide electric service to KU's customers, the quality of service should not be affected. The City established its electric system in 1933 and has successfully operated the system for over 60 years. The City's experience with distribution facilities will enable it to maintain, remove or upgrade the acquired facilities as needed. The City's management expertise, together with its financial and technical resources, ensures that KU's customers will receive safe and reliable service at reasonable rates.³

The proposed transaction is consistent with the public interest. As a result of the proposed transfer, the City will be able to remove the less reliable duplicated distribution plant, which will result in fewer energized conductors per pole. The removal of the duplicated facilities will vastly improve safety conditions for utility workers and will

² Casher Testimony at 2 and 3 of 6.

³ On September 13, 2002, the City filed additional information with the Commission stating that it proposed to adopt the City's rates for the customers transferred from KU. A comparison of KU's and the City's rates showed that the City's rates are lower for most of the rate classes.

ultimately improve the quality of service to all customers. For these reasons, the Commission encourages the City to adopt a change-out plan and adhere to it until completion.

CONCLUSIONS

The City has provided sufficient evidence to prove that it has the financial, technical, and managerial ability to provide reasonable service to Kentucky customers. The proposed acquisition is made in accordance with law, does not violate any statutory prohibition, and is executed for a proper purpose. The Commission finds that the proposed acquisition is consistent with the public interest and that the City will maintain both the level and quality of service currently received by KU customers.

The Commission, having reviewed the evidence of record and having been otherwise sufficiently advised, HEREBY ORDERS that:

1. The application for the approval of KU's transfer of a portion of its distribution system to the City is approved.
2. Within 10 days of the transfer, KU shall file with the Commission a copy of the final inventory of the transferred assets, the original cost of the transferred assets, and the related accumulated depreciation.
3. Within 10 days of the transfer, KU shall file with the Commission a copy of the accounting entries made on its books recording the transfer.
4. Within 60 days of the transfer, KU shall file with the Commission revised copies of the certified territorial boundary maps reflecting the approved transfer.

Done at Frankfort, Kentucky, this 4th day of December, 2002.

By the Commission

ATTEST:

A handwritten signature in black ink, appearing to read "Thomas H. [unclear]", written over a horizontal line.

Executive Director