

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF MR. BUD RIFE)	
AND THE KENTUCKY MUNICIPAL GAS)	
UTILITY INVESTMENT TRUST FOR THE)	
APPROVAL OF THE ACQUISITION OF)	
THE STOCK OF JOHNSON COUNTY GAS)	CASE NO. 98-523
COMPANY, INC. OF PAINTSVILLE,)	
JOHNSON COUNTY, KENTUCKY, BY MR.)	
RIFE, AND THE ISSUANCE OF TWO)	
PROMISSORY NOTES EVIDENCING)	
CERTAIN INDEBTEDNESS OF)	
JOHNSON COUNTY GAS)	

O R D E R

On October 2, 1998, Bud Rife, the Johnson County Gas Company, Inc. (Johnson County Gas), and the Kentucky Municipal Gas Utility Investment Trust (Trust) (referred to collectively as Joint Applicants) applied to the Commission for the authority to transfer all outstanding shares of Johnson County Gas stock from the Trust to Bud Rife.

The Trust was created by certain creditors of Johnson County Gas pursuant to a Plan of Reorganization of Johnson County Gas Company, Inc., confirmed by the Bankruptcy Court for the Eastern District of Kentucky in Case No. 83-2. Under that Plan the Trust now owns 100 percent of the shares of Johnson County Gas.

Johnson County Gas is a Kentucky corporation, operating a local distribution company in and around Paintsville, Johnson County, Kentucky. Johnson County Gas serves approximately 490 customers in its service area.

KRS 278.020(5) requires the Commission to grant, modify, refuse, or prescribe terms and conditions to an application within 60 days after the filing or on a later date mutually acceptable to the Commission and the acquirer, in this case, Bud Rife. The acquirer waived the 60-day period for a decision and agreed to a decision by the Commission on or before January 30, 1999.

On December 17, 1998, the Commission ordered Bud Rife and Johnson County Gas to file certain data on or before January 5, 1999. Both Joint Applicants have filed motions for a 30-day extension of time from January 5, 1999, in which to answer the data request. Contained in the motion of the acquirer was an agreement to extend the time requirement for a decision in this matter until March 5, 1999. On January 21, 1999, the Commission granted the motion and ordered the response to the data request filed on or before February 6, 1999, and extended the time in which the Commission is required to reach a decision on this petition until March 5, 1999.

The Commission is required under KRS 278.020(4) to grant approval of a transfer if the Commission finds that the applicant has the financial, technical, and managerial ability to provide reasonable service.

The Joint Applicants seek the authorization for Johnson County Gas to issue two promissory notes to facilitate the transfer of the Johnson County Gas stock from the Trust to Mr. Rife. Under the purchase agreement, Johnson County Gas is to issue two promissory notes: Note 1 in the amount of \$655,302.00, and Note 2 in the amount of \$77,698.00. These new notes are to be issued in partial renewal and substitution of a prior indebtedness of Johnson County Gas to the Department of Local Government (DLG) for the secured claim held by DLG. Bud Rife has unconditionally guaranteed

the obligations and undertakings of Johnson County Gas in relation to the Stock Purchase Agreements. Under the terms of the sale documents, after the sale the difference between the new notes and the secured claim, representing a portion of the prior debt, will be suspended and held in abeyance. If Johnson County Gas has made payments due under the two new notes and complied with the terms thereof, the Trust will release and discharge all of the obligations and liabilities of Johnson County Gas in connection with the balance of the prior debt.

Before any utility may issue any security or evidences of indebtedness, it must be authorized to do so by the Commission pursuant to KRS 278.300.

The Commission finds that the creation and issuance of the above securities by Johnson County Gas are for lawful objects within the corporate purpose of Johnson County Gas's utility operation, are necessary and appropriate for and consistent with the proper performance of its service to the public, will not impair its ability to perform that service, are reasonably necessary and appropriate for such purposes, and should be approved.

The Commission has reviewed the entire record and, based upon the evidence contained herein, and being sufficiently advised, makes the following findings:

1. Johnson County Gas is a natural gas utility subject to the jurisdiction of the Commission.
2. Bud Rife has managed Johnson County Gas since February 12, 1997, and since that time Johnson County Gas has experienced operational and financial stability. Bud Rife has existing and previous business and employment experience in operating a natural gas utility.

3. Bud Rife is ready, willing, and able to continue providing adequate service.

4. The Commission finds that the issuance of the two notes and the discharge of a portion of the prior debt will benefit Johnson County Gas by substantially reducing the indebtedness of Johnson County Gas.

IT IS THEREFORE ORDERED that:

1. Johnson County Gas is authorized to issue two notes being Note 1 in the amount of \$655,302.00 and Note 2 in the amount of \$77,698.00 under the terms of the Stock Purchase Agreement. These new notes are to be issued in partial renewal and substitution of a prior indebtedness of Johnson County Gas to the Department of Local Government (DLG) for the secured claim held by DLG. Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty as to the securities authorized by this Order.

2. The transfer of all the outstanding shares of Johnson County Gas to Bud Rife is approved with the following conditions prescribed:

a. Johnson County Gas shall conduct an evaluation of its financial condition to determine whether a rate increase is necessary. Johnson County Gas shall file within 30 days of the date of this Order a report with the results of the analysis of its financial condition. If it is determined that a rate increase is warranted, it should file an application for an adjustment of rates within 45 days of the date of this Order. If Johnson County Gas has filed a request for a rate increase prior to the date of the required reports in this section, the filing requirements shall be considered fulfilled.

b. Johnson County Gas shall follow the Uniform System of Accounts for Natural Gas Utilities and submit annual reports in compliance with KRS 278.220.

c. Johnson County Gas shall establish cost allocation procedures to allocate any joint costs incurred with the affiliated companies commonly owned by Bud Rife to prevent cross-subsidization. The cost allocation procedures established by Johnson County Gas will be subject to review in any future rate case or any audit conducted by the Commission.

d. Johnson County Gas shall file copies of contracts for any services provided by affiliated or commonly owned companies, contract employees and/or for goods and services obtained by contract from affiliates or related parties.

e. Johnson County Gas and the Trust shall modify the Conditions of Stock Purchase Agreement to include references to the appropriate regulatory agency in any area where the reference to the Federal Energy Regulatory Commission is inappropriate.

f. Johnson County shall submit a quarterly report of its operations for the period ending June 30, 1999, and quarterly thereafter. Each quarterly report shall contain a balance sheet and detailed income statement. All quarterly reports shall be due within 45 days of the end of the quarterly reporting period, until further notice by the Commission.

3. The Joint Applicants shall notify the Commission that the transfer has taken place by filing with the Commission copies of the signed closing documents within 5 days thereof.

Done at Frankfort, Kentucky, this 3rd day of March, 1999.

By the Commission

ATTEST:

Executive Director