

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION OF MAGOFFIN GAS COMPANY,	)	
INC. MAGOFFIN COUNTY, KENTUCKY, FOR	)	
AUTHORITY TO DISCONTINUE SERVICE TO	)	CASE NO. 8366
CUSTOMERS IN THE ROYALTON AREA OF	)	
APPLICANT SERVICE AREA	)	

O R D E R

On October 13, 1981, Magoffin Gas Company, Inc., ("Magoffin") requested authority to abandon service to the Royalton area of Magoffin County, Kentucky.

Henry Joseph and 25 other Magoffin customers filed a petition protesting the proposed abandonment, and asked for a hearing.

A hearing was held on November 9, 1981. Donald Cohen, owner of 25 percent of Magoffin, testified that the lines in the Royalton area were in poor condition, with "leaks galore," that there were "bottlenecks" that greatly restricted the flow of gas to portions of the system, and that the gas supply was inadequate for the demand. He was interested only in the sale of the system at salvage value.

Historical Background

At the hearing on November 9, the records in Case Nos. 7896 and 7903 were incorporated by reference into the record in this case.

I. Case No. 7896 involved Magoffin's application dated June 23, 1980, to the Energy Regulatory Commission for authority to borrow \$170,850 at 6 1/4% for a period of 30 years from the Economic Development Administration through the Department for Local Government ("DLG") to reconstruct its system and for a certificate of convenience and necessity to undertake such construction. On August 27, 1980, after it was notified that its loan request to DLG had been denied, Magoffin filed an amended application for permission to borrow \$83,590 to undertake limited reconstruction to make the system operable and to provide a safe and adequate supply of gas to its system.

II. Case No. 7903 involved Magoffin's notice of intent, dated June 30, 1980, to adjust its rates for gas service from 75 cents to \$5 per MCF to cover payment of the proposed \$170,850 reconstruction loan.

On October 7, 1980, hearings were held on Case Nos. 7903 and 7896. Magoffin scaled down its request for \$83,590 to \$20,000, to replace and reroute approximately 2,500 feet of 2-inch line in the Royalton area and approximately 400 feet in the Ivyton area. An undetermined number of meters, regulators and valves was also to be replaced. These repairs were the minimum required to allow service through the winter of 1980. On November 25, 1980, the Energy Regulatory Commission issued its Order in Case No. 7896, in which it granted Magoffin a certificate of public convenience and necessity to make urgent repairs to its gas system and to borrow \$20,000 to perform these repairs.

On December 16, 1980, the Energy Regulatory Commission issued an Interim Order in Case No. 7903 granting increased rates for gas service. The revenues granted included \$1,099 for the construction, as follows:

	<u>Total</u>	<u>Useful Life</u>	<u>Annual Expenses</u>
Temporary Repairs	\$ 2,000	4 years	\$ 500
Permanent Repairs	17,975	30 years	<u>599</u>
			\$1,099

No interest on the principal balance was allowed in the Order. Magoffin was ordered to arrange financing and submit a verifiable rate of interest. Magoffin failed to obtain the additional financing authorized, and the final Order issued reflected no interest expense.

The repairs which Mr. Cohen was authorized to undertake in Case No. 7896 were not performed, but the additional rates granted in Case No. 7903 have been in effect since their authorization.

No order was entered after the November 9, 1981, hearing because there were informal indications by Magoffin to the Commission that it might not pursue its plans for abandonment. Meanwhile, during the remainder of the 1981-82 heating season, Magoffin successfully maintained a reasonable supply of gas to its Royalton customers by keeping the wells constantly pumped off and swabbed.

On May 26, 1982, the Commission again contacted Magoffin regarding the proposed abandonment or possible sale of the system. Magoffin responded that negotiations were in progress which might

result in continued service to the customers, but that no specific commitments had been made.

A hearing was set on this matter for July 15, 1982, at the Salyer Elementary School in Royalton. A continuance was granted to allow Magoffin to pursue negotiations with prospective suppliers and buyers for the system, and the hearing was held on September 2, 1982.

At a public hearing in Royalton on September 2, 1982, members of the Commission staff described the deteriorated condition of the Royalton portion of the system and its need for replacement and repairs. However, the evidence established that, although there were shortages, the Commission received no reports of total gas outage during the 1981-82 heating season from the Royalton area customers.

Magoffin confirmed the existence of the deteriorated conditions described by the staff, but asked to withdraw its application to abandon service to the Royalton area, asserting that there were now available to the Royalton area added supplies of gas which would warrant immediate replacement of the lines.

The record in Case Nos. 7896 and 7903 established that not less than 2500 feet of the deteriorated and inadequately-sized distribution lines in the Royalton area would need immediate replacement and that it would be necessary to continue efforts to acquire additional gas supplies in the Royalton area. However, if added supplies of gas for the Royalton area are not available, the existing supply could serve the present reduced number of customers (23) since the newly installed lines would not have the line loss caused by leaks that the present lines suffer.

At the hearing, the Commission staff offered into evidence a report of a survey of the system conducted on August 20, 1982. Upon objection by Magoffin that the survey and report did not cover the Royalton area here under consideration, the staff report was admitted into evidence subject to Magoffin's objection, which is sustained. The report was not considered by the Commission in the determination of this case.

After reviewing the record in this case and the record incorporated from Case Nos. 7896 and 7903 and being advised, the Commission is of the opinion and finds that:

1. Magoffin has asked to withdraw its application to abandon service to the Royalton area.

2. The gas piping facilities of Magoffin in the Royalton area are severely deteriorated, will not provide adequate or safe transport of natural gas to the customers of Magoffin throughout the 1982-83 heating season, and must be replaced.

3. Magoffin has agreed to replace at least 2500 feet of its distribution lines in the Royalton area with piping that meets Commission regulations for size and installation and to repair or replace leaking transmission line segments.

4. The present supply of gas should be sufficient to maintain service to the existing customers if system deficiencies are corrected and if the wells are properly maintained.

5. Magoffin's management has agreed to seek additional supplies of gas for connection to the Royalton area of its system at the earliest date practicable.

6. On November 25, 1980, in Case No. 7896, the Energy Regulatory Commission granted Magoffin a certificate of public convenience and necessity to make urgent repairs to its gas system and to borrow \$20,000 to perform these repairs. The loan was not consummated, nor were the repairs performed.

7. On December 16, 1980, in Case No. 7903, the Energy Regulatory Commission granted Magoffin increased rates, which included revenues for repairs to be performed. Those rates are presently in effect.

IT IS THEREFORE ORDERED that Magoffin's request for permission to withdraw its application for abandonment of service to the Royalton area be and it hereby is granted.

IT IS FURTHER ORDERED that Magoffin shall conduct a leak survey of its Royalton area system from the producing wells to its consumers, repair those leaks found on its transmission lines, and replace by qualified installers no less than 2500 feet of distribution lines in the Royalton area, as outlined by Magoffin in Case No. 7903, within 30 days of the date of this Order, unless hindered by inclement weather, but in no case later than December 1, 1982.

IT IS FURTHER ORDERED that Magoffin shall connect the existing customers in the Royalton area to the new mains and shall ascertain that only one customer is served from each connection and that no unmetered service is provided.

IT IS FURTHER ORDERED that Magoffin shall make monthly written reports to the Commission of its progress in obtaining additional gas supplies in the Royalton area beginning November 1, 1982, and

that Magoffin shall submit to the Commission by April 1, 1983, copies of contracts for added supply sufficient to provide gas service to potential customers in the immediate area of service.

IT IS FURTHER ORDERED that Magoffin shall file with this Commission by June 1, 1983, a written plan for compliance with all Commission rules and regulations.

Done at Frankfort, Kentucky, this 8th day of October, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Voth  
Chairman

Katharine Randall  
Vice Chairman

Len Carver  
Commissioner

ATTEST:

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Secretary