

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF WESTERN KENTUCKY)
GAS UTILITY CORPORATION AND TEXAS)
AMERICAN ENERGY CORPORATION FOR)
APPROVAL OF THE TRANSFER OF OWNERSHIP) CASE NO. 10063
AND CONTROL OF WESTERN KENTUCKY GAS)
UTILITY CORPORATION TO ENERGAS COMPANY)

O R D E R

On October 22, 1987, a joint application of Texas American Energy Corporation ("TAE") and Western Kentucky Gas Utility Corporation ("WKG") was filed with the Commission for approval to transfer "ownership and control" of WKG by a sale of all of the issued and outstanding stock in WKG to Energas Company ("Energas").

On October 23, 1987, Energas filed a motion for full intervention that was granted on October 29, 1987. On October 30, 1987, the Attorney General's Utility and Rate Intervention Division filed a motion for full intervention. The motion was granted by Order of the Commission entered November 2, 1987. Pursuant to the Order of November 18, 1987, a hearing was held on December 2, 1987. The issue before the Commission is whether Energas has "the financial, technical, and managerial abilities" to enable WKG to provide reasonable service. KRS 278.020(4).

WKG is a gas distribution utility subject to the jurisdiction of the Commission. KRS 278.010(3)(b) and KRS 278.040. It

supplies natural gas to approximately 143,000 residential, commercial and industrial customers in South Central and Western Kentucky, including the cities of Owensboro, Madisonville, Bowling Green, Paducah, Danville and Shelbyville.

Energas is a natural gas distribution company with approximately 350,000 customers in 53 counties of west Texas and 21 parishes in Louisiana. Natural gas distribution is its sole business.

Energas' history can be traced to the founding of the Amarillo Gas Company in 1906. In 1954, that company combined with similar companies in northwest Texas under the name of Pioneer Natural Gas Company. After the company diversified into non-gas distribution businesses under the name of the Pioneer Corporation, all of the company's gas distribution properties and personnel were incorporated into a new corporate entity, Energas. At the time of its incorporation in 1983, Energas served approximately 280,000 gas customers in northwest Texas. In April 1986, Energas acquired by merger TransLouisiana Gas Company, a natural gas distribution utility with 65,500 customers in Louisiana.

WKG will complement Energas' present gas utility operations in west Texas and Louisiana. The acquisition should enhance earnings stability because of the economic and climatic diversity of the three areas in which Energas will operate, namely, west Texas, Louisiana and Kentucky. Following the closing of the stock purchase agreement, approved by TAE's shareholder on December 8, 1987, Energas plans to merge WKG into Energas and to continue its gas utility operations as an unincorporated division. As a

division of Energas, WKG should have greater access to capital markets. It will also benefit from the experience and diversity of Energas' management. Because of TAE's present precarious financial condition, borrowings by WKG as a division of Energas should be perceived to involve less financial risk to the lender. This should result in a more moderate cost of capital than would otherwise occur.

Energas has been able to finance the acquisition of the stock of WKG by a short term credit agreement through Morgan Guaranty Trust Company of New York. Energas plans to replace this interim financing with a permanent capital structure which more nearly approaches natural gas utility norms.

In response to information requests from the Commission and cross-examination at the hearing held December 2, 1987, the Commission has received certain information about Energas' plans for the operation of WKG as a division of Energas which would be relevant in a future rate-making proceeding, such as the pro forma beginning balance sheet of WKG as a division of Energas and the intra-company allocation of certain managerial and professional expenses. However, because the issue in this proceeding is the financial, technical, and managerial abilities of Energas to provide reasonable service, the Commission makes no finding on these issues and draws no conclusions on the impact that this transfer will have on rates. Thus, determination of these issues must be deferred until a future rate-making proceeding. The Commission notes, however, that Energas proposes to adopt the existing tariffs of WKG pursuant to 807 KAR 5:011, Section 11(1).

The purchase price of \$61.5 million for the outstanding stock of WKG and Western Kentucky Gas Resources Company was the result of arms-length negotiations between TAE and Energas. Energas is not directly or indirectly affiliated with TAE.

Energas is ready, willing and able to operate WKG, and has the financial, technical and managerial abilities to operate WKG so that the customers of WKG continue to receive reasonable service.

For these reasons, the application for approval of transfer of ownership and control of WKG to Energas should be approved.

IT IS THEREFORE ORDERED that:

1. Energas is granted approval to acquire ownership and control of WKG and all of its utility properties and franchises pursuant to KRS 278.020(4);

2. Energas is granted approval to adopt WKG's tariffs pursuant to 807 KAR 5:011, Section 11(1);

3. Promptly after acquisition of ownership and control of WKG, Energas shall file with this Commission an adoption Notice adopting the existing tariffs of WKG pursuant to 807 KAR 5:011, Section 11(1);

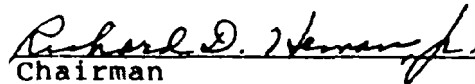
4. Within 45 days of the acquisition of WKG, Energas shall file all journal entries or other notations made on the books of WKG to record the transfer of the stock from TAE to Energas; and

5. Within 45 days of the consummation of the merger of WKG into Energas, Energas shall file with this Commission a consolidated financial statement as of the effective date of the merger, showing all adjusting entries on the books of Energas (on

the date of the filing) for the merger of WKG into Energas and the establishment of WKG as a division of Energas.

Done at Frankfort, Kentucky, this 18th day of December, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director