

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF STEPP BRANCH GAS COMPANY)
TO FUND THE INSTALLATION AND OPERATION)
OF A NEW NATURAL GAS DISTRIBUTION SYSTEM)
NEAR STEPP BRANCH, KENTUCKY, MARTIN) CASE NO.
COUNTY; TO CONSTRUCT; TO OPERATE; TO) 10371
ESTABLISH RATES; AND TO DISCONTINUE)
SERVICE TO CUSTOMER-OWNED MAINS)

INTERIM ORDER

On September 2, 1988, Stepp Branch Gas Company ("Stepp Branch") filed an application requesting approval of rates and the financing and construction (renovation) of a gas distribution system. Stepp Branch is located in Martin County and has 66 customers who are supplied from two wells owned by Glenn Sluss. Glenn and Randy Sluss are the owners and operators of Stepp Branch.

Stepp Branch's decision to renovate the system followed a series of safety inspections conducted by Commission gas safety investigators in which it was determined that the operation of the system and the system's facilities were not in compliance with Commission regulations, including 807 KAR 5:022 (Gas Safety).

The most recent safety inspection (a copy of the report is attached as Appendix A) of Stepp Branch found the system in continued deterioration. Numerous additional leaks were found, including a Grade 1 leak which required immediate repair. This inspection followed an October 7, 1988 informal conference in

which the application was discussed and Commission Staff ("Staff") received additional information from Stepp Branch.

During the informal conference, Stepp Branch described the details of the proposed construction and provided additional information regarding who will install the pipe and related equipment and their experience; the type and manufacturer of the pipe; and other materials and equipment. The construction plans and specifications have been reviewed by Staff for compliance to Commission regulations.

The construction includes the installation of one-inch and two-inch plastic pipe parallel to and crossing (at certain points) approximately 1.65 miles of Route 292 and parallel to approximately one-half mile of Branch Road. Also included is the installation of miscellaneous fittings, valves, saddles, risers, regulators, and meters.

The Commission notes that Randy Sluss has stated he did not want to start construction until rates were approved. This is related to Stepp Branch's proposal to change from flat rates to usage-based rates which will help pay the construction costs more effectively. However, based upon the findings of the most recent safety inspection, the Commission concludes that the continued deterioration of Stepp Branch's facilities makes the proposed construction a top priority. If the numerous leaks which exist on the system were located in more populated areas, the Commission would consider the system an imminent safety hazard. The Commission further concludes that replacing the existing pipe and complying with the other recommendations in the inspection report

(Appendix A) is the most economical means by which Stepp Branch can comply with Commission regulations, including 807 KAR 5:022. Since a Staff Report with recommendations for rates, revenue requirements, and related issues is scheduled to be issued very close to the date of this Interim Order, and given the Commission's safety concerns stated herein, Stepp Branch should proceed immediately with renovation of the system.

This Interim Order addresses the construction portion of the application. The rates proposed by Stepp Branch, financing, and the recommendations in the Staff Report will be addressed in a hearing, if requested, which would be scheduled at a later date. In the Final Order in this case, the Commission will set rates necessary to provide Stepp Branch with an opportunity to recover its reasonable operating costs, service its debt, and provide a reasonable surplus for equity growth.

FINDINGS AND ORDERS

The Commission, after consideration of the application, evidence of record, and being advised, is of the opinion and finds that:

1. Public convenience and necessity require that the proposed construction as described herein and in the application be performed and that a certificate of public convenience and necessity be granted.

2. The proposed construction includes approximately 12,000 feet of two-inch plastic pipe, some one-inch plastic pipe, and miscellaneous appurtenances.

3. The estimated cost of the construction is \$40,299.94.

4. Based upon the recommendations of the October 10, 1988 inspection report (Appendix A) and the safety concerns referenced herein, Stepp Branch should proceed immediately with the proposed construction as described herein.

5. Any deviations from the construction herein approved which could adversely affect service to any customer should be subject to prior approval of the Commission.

6. Stepp Branch should obtain approval from the Commission prior to performing any additional construction not expressly certificated by this Order.

7. Stepp Branch should file with this Commission duly verified documentation which shows the total costs of construction, including all capitalized costs (engineering, legal, administrative, etc.), within 60 days of the date that the construction is substantially completed. The construction costs should be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for Gas Utilities prescribed by this Commission.

8. Stepp Branch should ensure there is adequate supervision and inspection of the construction work so that it is done in compliance with Commission regulations.

9. Stepp Branch should provide the Commission within 60 days of the date of substantial completion of construction a copy of the as-built plans and a signed statement that the construction has been completed in accordance with the proposed plans and specifications and in compliance with Commission regulations.


IT IS THEREFORE ORDERED THAT:

1. Stepp Branch be and it hereby is granted a certificate of public convenience and necessity to proceed with the construction described by the plans and specifications of record herein approved.

2. Stepp Branch shall comply with Findings 4 through 9 herein the same as if each of these findings were also ordered.

Done at Frankfort, Kentucky, this 23rd day of November, 1988.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
ANNUAL COMPREHENSIVE INSPECTION REPORT

Stepp Branch Gas Company
Inez, Kentucky

October 13, 1988

BRIEF

Stepp Branch Gas Company (Stepp Branch) is a small gas distribution utility located in Martin County, Kentucky, with an office in Inez and the facilities in Lovely, Kentucky. Stepp Branch is supplied by 2 wells which are owned by Glenn Sluss. Stepp Branch is also owned by Glenn Sluss, but is operated by his son, Randy Sluss. Stepp Branch has 66 customers, all of whom are charged a flat rate of \$25 per month for gas--winter and summer.

Since the last inspection, Stepp Branch has purchased 2" plastic pipe to replace approximately 3 miles of mains, plus anodeless risers for each service, and it has applied to the PSC for construction and rate approval. Stepp Branch is ready to start replacing its system.

The findings of the 1987 comprehensive inspection were as follows:

1987 FINDINGS

1. The 2" main from the well is mostly bare, rusty, partially exposed steel, with no cathodic protection on buried segments. This same 2" bare steel runs throughout the system.
2. Many customer services are exposed polyethylene plastic, connected to risers by radiator type hose clamps. Some

other customer services are exposed plastic pipe not designed for gas use. Other customer service hookups are very rusty.

3. Many customer services have more than one customer from the same service riser.
4. Stepp Branch has no customer meters.
5. Stepp Branch has no operation or maintenance records.
6. Stepp Branch has not performed a leak survey or filed an annual leak report.
7. Stepp Branch has no line markers.
8. Stepp Branch has no systemwide map.
9. Stepp Branch has no continuing education program with the public on recognizing and reporting an emergency.
10. Stepp Branch does not have a written damage prevention program.

INSPECTION

On October 10, 1988, accompanied by Jeff Schroeder of the PSC staff, I met with Glenn Sluss, manager of Stepp Branch. We discussed records, maps, and plans of Stepp Branch and then toured and inspected the system.

DISCUSSION

The mains of Stepp Branch cannot be completely located due to extremely rough and overgrown terrain. Some areas would require a bulldozer for access. The system is so mixed up that it is unknown how many customers are tied in. In some cases we could not determine where the service lines terminated.

FINDINGS

1. The 2" main from the well to the regulator station has been cleaned and painted since the last inspection. There is still no cathodic protection on buried segments, and the exposed segments in the creek bottom are rusty and pitted. The leak in one area across the road from the foot of Stepp Branch Road can be heard from the highway (see photo).
2. Many customer services are exposed plastic with radiator type hose clamps. This is a repeat of the 1987 comprehensive inspection (see photo).
3. Many services still have more than one customer per service riser and shut-off valve--as on the previous inspection.
4. Stepp Branch has not instituted the use of customer meters yet.
5. Stepp Branch now has an Operating and Maintenance Plan.
6. Stepp Branch had a leak survey performed by Heath Consultants in November 1987. Approximately 25 Grade 3 leaks were found.
7. Stepp Branch now has line markers on much of the system.
8. Stepp Branch has a systemwide map.
9. Stepp Branch now has a continuing education program.
10. Stepp Branch does not have a written damage prevention program.

11. A severe leak was detected at the Oppy Church of God on Highway 292. Mr. Sluss immediately shut off the service.

RECOMMENDATIONS

1. Based on the findings of this inspection and the 1987 inspection, it is recommended that the leaking and rusty mains be replaced as soon as possible and that the Grade 1 leak be repaired immediately.
2. It is recommended that all services with exposed plastic, wrong type clamps, and non-locking shut-off valves not be reconnected to new line until they meet the specified requirements. If a new main is not installed, it is recommended that all nonregulation services be shut off immediately. (It was recommended that these services be shut off 30 days after receipt of the 1987 report if they were not brought up to standards.) [807 KAR 5:022, Section 9(6) through 9(17), and Section 7(12)].
3. Since there are many taps with unknown numbers of homes connected, a new line with metered service and a cutoff valve for each service is recommended. [807 KAR 5:022, Section 9(7)&(8), and Section 8(2)(a)].
4. It is recommended that Stepp Branch develop a written damage prevention program immediately. [807 KAR 5:022, Section 13(8)].

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5. It is recommended that all excessive unused piping in the Oppy churchyard be disassembled and removed, and that all leaks in remaining lines be repaired immediately.

It is further recommended that a copy of this report be forwarded to Stepp Branch to make it aware of the findings of this inspection and that it be directed to respond immediately on receipt of this report.

Respectfully submitted,

Marcus L. Rogers *MLR*
Marcus L. Rogers
Utility Investigator *MLR*
MLR

MLR/ml1