

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION INTO THE)
ALLEGED DEFICIENCIES OF) CASE NO. 10479
RILEY AND SCOTT GAS COMPANY)

ORDER TO SHOW CAUSE

Riley and Scott Gas Company ("Riley and Scott") is a natural gas producing, gathering, and transmission company located in Pike County, Kentucky. It owns and operates facilities used in connection with the production, transmission, sale, and furnishing of natural gas to the public for compensation. Riley and Scott is a utility as defined by KRS 278.010(3)(b).

KRS 278.040 authorizes the Commission to prescribe rules for the performance of any service furnished or supplied by a utility. Pursuant to this authority, the Commission has promulgated a rule, codified at 807 KAR 5:022, which establishes minimum safety standards for the operation of a natural gas utility.

On June 22, 1988, investigators from the Gas Pipeline Safety Branch conducted a safety inspection of Riley and Scott. A copy of the inspection report is included as Appendix A. During the course of the investigation, the Virgie portion of the Riley and Scott system was also inspected. Riley and Scott supplies gas to 85 customers in Virgie, Kentucky, by backfeeding gas through a 2,600 foot, 2-inch, bare steel (unprotected) pipeline. Approximately 2,600 feet of additional pipe, 3/4 of which is plastic,

has been installed in Virgie to supply gas to the individual households. The Commission's investigators concluded that this portion of the Riley and Scott gas system may be operating as a distribution system since it is backfed from the gathering operations and pressure is regulated at a point remote from the consumers.

On August 25, 1988, a meeting was held between Commission Staff and James Kreutzer, part-owner and operator of Riley and Scott. Mr. Kreutzer stated that his father-in-law, while operating Riley and Scott, had installed the Virgie line although the year of installation is unknown. Mr. Kreutzer has been operating the Riley and Scott system since 1978. He stated that about 30 percent of the Virgie customers do not pay, and over \$77,000 in accounts receivable (unpaid bills) has accumulated due to nonpayment.

As a producer of gas, Riley and Scott has had its gas wells certified as "NGPA Section 108" gas, or stripper gas, which has a November ceiling price of \$5.416 per MMBtu. However, Mr. Kreutzer stated he charges both the farm tap customers and the Virgie customers \$6.05 per Mcf.

Mr. Kreutzer estimates that it will cost \$250,000 to bring the Virgie portion of the Riley and Scott system into safety compliance with Commission regulations. He also advised that one of the farm tap customers served from the two-inch bare steel pipeline which goes to Virgie contends that Riley and Scott has not been granted a right-of-way through his property; and that this customer has threatened to file suit to force removal of the

pipe from his property. Riley and Scott has no documentation to prove otherwise; therefore, if such a suit is filed and won, Riley and Scott contends that it would be required to remove the pipe which would effectively sever the connection to the Virgie customers. Riley and Scott would need to install new pipe from an existing gathering line to maintain adequate service to the Virgie customers, which would also result in a backfeed situation. If the line is severed, gas can be supplied from another feed on a limited basis. However, Mr. Kreutzer stated that this feed is insufficient for winter supply.

During the meeting, Mr. Kreutzer repeatedly stated that he did not want to be a distribution utility, and upon being declared such he would immediately terminate service to Virgie. Staff explained that Riley and Scott became a distribution utility when service to the Virgie customers began, and that abandonment of service to Virgie could not be done without Commission approval. Staff clarified that the distribution function only pertains to the Virgie portion of the Riley and Scott system. Mr. Kreutzer reiterated that it is uneconomical for Riley and Scott to spend the money required to bring the Virgie system into compliance.

On October 18, 1988, Mr. Kreutzer filed a response to the July 12, 1988 inspection report and to Staff's allegations that the Virgie portion of Riley and Scott is a distribution utility. Mr. Kreutzer stated that he is in the process of correcting some of the deficiencies noted in the inspection report. However, this work is being hampered by the need to repair and replace some of

the system's main lines which is necessary to continue its transportation of gas.

Mr. Kreutzer does not agree with Staff's allegations that "we are a distribution utility." He further stated that his options and courses of action are few, but he is trying to correct the deficiencies included in the July 12, 1988 inspection report.

The Commission is of the opinion that the alleged deficiencies of Riley and Scott represent a potentially hazardous situation to the customers at Virgie. Therefore, the Commission on its own motion HEREBY ORDERS that:

1. James Kreutzer shall appear before the Commission on January 17, 1989 at 9:00 a.m., EST, in the Commission's offices at Frankfort, Kentucky, for the purpose of presenting evidence concerning the operation of the Virgie gas distribution system, including the alleged violations of 807 KAR 5:022; to show cause why Riley and Scott should not be subject to the penalties prescribed in KAR 278.990; and to demonstrate what corrective action it intends to take to comply with Commission regulations.

2. Riley and Scott shall file the information outlined in paragraphs (a) through (j) below within 30 days from the date of this Order.

- a. Names and addresses of all Riley and Scott customers.

- b. Length, diameter, material, and condition of the pipeline from the gathering line, or the pressure regulator, to Virgie.

- c. The pressure upstream and downstream of the main regulator with a sketch of the regulator facility.
- d. When the pipeline from the main regulator to Virgie and the Virgie gas main lines was installed and operation began.
- e. The maximum operating pressure of the Virgie gas system.
- f. Gas analysis, including odorization test of Virgie gas.
- g. Flow sheet(s) and diagram(s) of the Riley and Scott gas system.
- h. Number of farm taps of Riley and Scott and whether the customer's facilities comply with the Commission regulations.
- i. Support for the \$250,000 estimate to bring the Virgie portion of the Riley and Scott system into safety compliance with Commission regulations.
- j. A list of which deficiencies from the July 12, 1988 inspection report have and have not been corrected.

Done at Frankfort, Kentucky, this 5th day of December, 1988.

PUBLIC SERVICE COMMISSION

Chairman

Robert M. Davis

Vice Chairman

ATTEST:

Executive Director

Spencer McIlhenny

Commissioner

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

ANNUAL COMPREHENSIVE INSPECTION REPORT

Riley and Scott Gas Company
Pikeville, Kentucky

July 12, 1988

BRIEF

On June 22, 1988, Public Service Commission Investigator Earl H. Alderman, Jr. and I conducted a comprehensive inspection of Riley and Scott Gas Company.

This inspection was conducted in accordance with the Public Service Commission's annual inspection program of all intrastate gas pipeline operators under its jurisdiction.

INSPECTION

Riley and Scott is a gathering company operating 24 wells and 1 compressor station in Pike County, Kentucky. This company has approximately 125 feet of transmission line downstream of its compressor. It also has about 250 farm tap customers.

This inspection included visits to the compressor station, farm tap customers and Class 3 areas in Virgie, Kentucky.

During the inspection it was noted that the portion of the system serving the community of Virgie may meet criteria applicable to a distribution system. This part of the system is backfed and is pressure controlled at a point remote from the individual consumer.

Several deficiencies were noted during inspection and will be further discussed in the Findings section of this report.

FINDINGS

The following deficiencies were found during this inspection:

1. No Operating and Maintenance Plan, [807 KAR 5:022, Section 13(1), and Section 2(a)(b)].
2. Utility does not conduct odorization tests, [807 KAR 5:022, Section 13(17)(f)4].
3. Utility has no corrosion control program, [807 KAR 5:022, Section 10(3)].
4. Utility has numerous instances of aboveground polyethylene (p/e) pipe, predominantly located in the community of Virgie, [807 KAR 5:022, Section 9(13)(a)].
5. Customer-owned, aboveground plastic pipe noted at the following locations: Carl Johnson's, Tackett's residence, Richard Adkins' and Donley Damron's, [807 KAR 5:026, Section 6(9)].
6. Multimeter set on Upper Street in Virgie does not have individual meter valves, [807 KAR 5:022, Section 9(7)(a)].

RECOMMENDATIONS

It is recommended that Riley and Scott:

1. Prepare an Operating and Maintenance Plan that will fulfill Commission requirements.
2. Conduct weekly odorization tests as required.
3. Institute a corrosion control program for all jurisdictional steel pipe.

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4. Notify all customers with aboveground plastic pipe that it must be removed or buried.
5. Install valves on the multimeter set to enable each meter to be turned off individually.

It is further recommended that a copy of this report be sent to Riley and Scott with a request that it respond by August 12, 1988, with a schedule of compliance to the deficiencies cited for Commission approval.

Respectfully submitted,

David B. Kinman
David B. Kinman
Utility Investigator

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