

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

INVESTIGATION OF SALYERSVILLE GAS)
COMPANY TO DETERMINE ITS QUALITY OF)
GAS, STATUS AND REASONS FOR PAYMENT)
DELINQUENCIES, AND WHETHER A LONG-TERM,)
RELIABLE SOURCE OF GAS AT A REASONABLE)
PRICE IS AVAILABLE)

CASE NO. 90-157

ALLEGED VIOLATION OF KRS CHAPTER 278)
AND 807 KAR 5:022)

ORDER TO SHOW CAUSE

Salyersville Gas Company ("Salyersville") is engaged in the business of furnishing natural gas to the public and is a utility subject to the jurisdiction of this Commission pursuant to KRS 278.040. KRS 278.160(1) requires a utility to file with the Commission and adhere to a schedule showing all rates and conditions for service established by it and collected or enforced. 807 KAR 5:022, Section 16(4) and (8), requires the utility to maintain the heating value of gas it has established (Btu content) with no greater variation than ± 5 percent and to provide adequate notice to its customers when a change in the heating value occurs which exceeds the variation allowed.

KRS 278.030(2) requires a utility to furnish adequate, efficient, and reasonable service. KRS 278.010(12) defines adequate service as:

- . . . having sufficient capacity to meet the maximum estimated requirements of the customer to be served
- . . . and to meet the maximum estimated requirements of

other actual customers to be supplied from the same lines or facilities during such year and to assure such customers of reasonable continuity of service.

Subsequent to a series of gas supply disruptions during the 1988-89 heating season, the Commission established Case No. 89-174,¹ a show cause proceeding relating to Salyersville's non-compliance to its tariff and inadequate system pressure to maintain service to its customers. Salyersville was also required to demonstrate that it had a long-term, reliable gas supply for the 1989-90 heating season.

Case No. 89-174 was dismissed subsequent to Commission approval in Case No. 89-251² of the transfer in ownership of Salyersville to Richard Williams and Willie Smith. The dismissal was based upon Mr. Williams' testimony and evidence in Case No. 89-251 that a contract existed which provided Salyersville access to gas supply through the interstate pipelines. Such access contributed directly to Salyersville experiencing no significant gas supply problems during the 1989-90 heating season, virtually the first heating season since its operations began in 1983 that a supply disruption had not occurred. Most disruptions were due to Salyersville's reliance solely on local production of gas for its supply.

¹ Case No. 89-174, Failure of Salyersville Gas Company to Comply with Commission Regulations and to Furnish Adequate, Efficient and Reliable Service.

² Case No. 89-251, The Joint Application of the Salyersville Gas Company, Inc. and Willie J. Smith and R. D. Williams for the Approval of the Acquisition of the Salyersville Gas Company, Inc. by Willie J. Smith and R. D. Williams.

While Salyersville experienced no significant disruptions in its gas supply during the 1989-90 heating season, the Commission is nonetheless concerned about certain aspects of Salyersville's operations which appear to be related to Messrs. Williams' and Smith's assumption of control. This concern includes the extent to which a long-term, reliable supply of gas at a reasonable price exists for the 1990-91 heating season. These specific issues which the Commission is compelled to investigate have been either inherited by Messrs. Williams and Smith but allowed to persist, or have occurred since they assumed ownership of Salyersville by Commission Order on December 1, 1989.

The first area of concern relates to the Btu content of gas Salyersville is supplying to its customers. Salyersville's tariff states it will supply natural gas with a heating value of 1,000 Btu.³ Based upon Staff's most recent test on a gas sample from Salyersville's system on February 22, 1990, the Btu content was 1,246.

Staff was contacted in November 1989 by the local distributor of Trane natural gas furnaces regarding numerous replacements of Trane furnaces he had been required to make for Salyersville customers since the 1988-89 heating season. Upon investigation Staff concluded that the furnace problems were probably caused by high Btu gas supplied to Salyersville's customers with furnaces designed for 1,000 Btu gas. From the results of a series of tests

³ Salyersville tariff approved by Commission, November 5, 1982, Original Sheet No. 8, paragraph 17.

conducted on November 21, 1989 of gas samples taken from the Salyersville system at different supply points, Staff determined the source of gas with the highest Btu content (1,546) was supplied by AEI-KAARS Pipeline Company ("AEI-KAARS"). Salyersville began purchasing gas from AEI-KAARS in Fall 1988. Salyersville terminated this source of supply, which has not entered its system since December 1989.

However, in January 1990 a Salyersville customer contacted Staff and advised that his Trane furnace would have to be replaced due to "sooting up." Subsequently, on January 22, 1990 the Trane Company in Tyler, Texas, advised Staff the Btu content of Salyersville's gas continued to cause "sooting up" problems on some of their customers' furnaces in Salyersville which necessitated repair or replacement. On April 16, 1990, Trane once again contacted Staff and stated that the problems continued to occur periodically.

Given the problems with the Trane furnaces that some of Salyersville's gas customers continue to experience, it appears that the existing Btu content of Salyersville's gas is beyond the variation permitted from the Btu content stated in its tariff and in violation of 807 KAR 5:022, Section 16(4). It also appears that Salyersville has failed to comply with 807 KAR 5:022, Section 16(8), by not providing adequate notice to its customers regarding a change in the Btu content of its gas from the Btu content stated in its tariff. In each instance, Salyersville would appear to be in noncompliance with its own tariff, in violation of KRS 278.160(1).

A second area of Commission concern is Salyersville's lack of payment to its gas suppliers. Based upon its 1989 Annual Report, Salyersville's principal sources of gas supply for 1989 were: AEI-KAARS (11,230 Mcf), Eagle Wells (2,684 Mcf), and Centran (2,226 Mcf). In addition, Centran supplied the majority of gas to Salyersville in January 1990.

AEI-KAARS contacted Staff in February 1990 to advise that Salyersville owed \$8,431.29 for gas purchased in November and December 1989. On February 21, 1990, the Commission received a letter from AEI-KAARS requesting assistance in requiring Salyersville to honor its gas supply contract with AEI-KAARS and pay for gas it had supplied to Salyersville. About this same time AEI-KAARS advised Staff that the amount owed by Salyersville was \$5,596.25. In March 1990, Centran advised Staff that Salyersville had paid \$10,000 towards its account but still owed approximately \$30,000 to Centran. Staff also determined at this time that Salyersville had paid Inland Gas Company ("Inland") \$3,000 for gas transported over Inland's system in November and December 1989, but had made no payment towards Inland's January and February 1990 transportation charges. (Inland's pipelines are the means by which Centran's gas reaches Salyersville.) Centran has advised Staff that no more gas will be supplied to Salyersville until its current bill is paid or a letter of credit is received from Salyersville.

The Inland pipeline is Salyersville's sole access to the interstate pipeline system and a source of gas other than local production. In Case No. 89-174, the Commission concluded that

Salyersville could not rely on local production as its sole source of gas supply. It was the Commission's intent in Case No. 89-174 to define access to the interstate gas pipeline system as a necessary ingredient to a long-term, reliable source of gas for Salyersville. It appears that Salyersville's payment delinquencies with Inland and Centran threaten Salyersville's access to the interstate gas pipeline system and may prevent it from providing adequate service as defined in KRS 278.010(12) in violation of KRS 278.030(2).

A third area of Commission concern is Mr. Williams' failure to adequately support his contention that additional local production of gas is available in the event Centran and Inland fail to supply gas to Salyersville. The Commission's concern is predicated on the basis that Salyersville's principal gas suppliers during the 1989-90 heating season, AEI-KAARS and Centran, have been either terminated or refuse to supply additional gas, and that information Staff has received from Salyersville regarding the amount of additional local gas available lacks adequate support regarding volumes and price.

During the October 30, 1989 hearing in Case No. 89-251, Mr. Williams testified that a contract existed between Salyersville and Centran providing for a maximum 1,000,000 cubic feet of gas per day with a month-to-month fluctuating price. However, Mr. Williams stated negotiations would begin with Centran for a firm supply contract with a fixed price. As of the date of this Order, no such contract apparently exists. It appears that the lack of a firm gas supply contract with Centran, which was Salyersville's

principal supplier in December 1989 and January-February 1990, was directly responsible for the high cost of Centran's gas in December 1989 (\$4.34 per Mcf) and January 1990 (\$3.73). It also appears that due to Salyersville's payment delinquencies with Inland and Centran and the information submitted by Mr. Williams to support his contention that adequate local supplies of gas exist to meet Salyersville's needs, Mr. Williams has put Salyersville in the position of sole reliance on local production of gas for its supplies, a direct contradiction of the Commission's conclusion in Case No. 89-174.

In addition to the concerns stated herein, the Commission notes that Salyersville has a PGA clause which was approved in November 1982 but has never been used. It lists one supplier and price, Cobra Oil and Gas at \$3.10 per Mcf. Salyersville's 1989 Annual Report lists seven additional gas suppliers which provided 96 percent of Salyersville's gas in 1989 at an average cost of \$3.36 per Mcf. Based upon this information, it appears that Salyersville's current gas rates do not reflect its actual wholesale cost of gas and that Salyersville has failed to adhere to its own PGA clause, a violation of KRS 278.160(1).

After review of the available information, pertinent statutes and regulations, and being otherwise sufficiently advised, the Commission hereby finds that a prima facie case has been established that Salyersville is in violation of KRS 278.030(2), KRS 278.160(1), and 807 KAR 5:022, Section 16(4) and (8).

IT IS THEREFORE ORDERED THAT:

1. Salyersville shall submit to the Commission no later than June 16, 1990 the following information: what action Salyersville will take, and when, regarding the Btu content of its gas; a copy of the agreement between BTU Pipeline, Inc. and Salyersville which includes the cost of the gas to Salyersville and the term and nature of the supply; and supporting information for the contention that 20 local wells have been reworked and production exceeding 500,000 Mcf per day is available. The information on the 20 wells and production shall include the name of the lease for each well, its location, and a copy of the production history or results of the well test performed on each well.

2. Salyersville shall submit to the Commission no later than June 16, 1990 monthly cash flow statements for the period December 1989 through May 1990 and the current status of any payment delinquency with a gas supplier or other party which includes the reasons for the delinquency and the date the delinquency will be resolved.

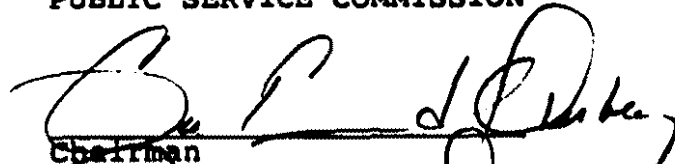
3. The record in Case No. 89-251 shall be incorporated herein by reference.

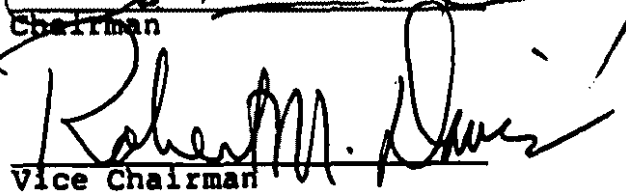
4. Salyersville shall appear on June 26, 1990, at 10 a.m., Eastern Daylight Time, in the Commission's offices at Frankfort, Kentucky, for the purpose of showing cause, if any it can, why Salyersville and Messrs. Williams and Smith, in their individual capacities as owners, should not be subject to the penalties of KRS 278.990 and KRS 278.992 for their alleged violations of KRS


278.030(2), KRS 278.160(1), and 807 KAR 5:022, Section 16(4) and (8); and for the purpose of demonstrating to the Commission that a long-term, reliable source of gas supply at a reasonable price is available to Salyersville for the 1990-91 heating season.

Done at Frankfort, Kentucky, this 7th day of June, 1990.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director