

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

INVESTIGATION TO DETERMINE )  
WHETHER AN ADEQUATE MEANS FOR ) CASE NO. 90-290  
DELIVERY OF GAS IS AVAILABLE TO )  
KEN-GAS OF KENTUCKY, INC. )

O R D E R

This investigation was initiated for purposes of requiring Ken-Gas of Kentucky, Inc. ("Ken-Gas") to demonstrate that it had an adequate and reliable supply of gas to the city of Burkesville for the 1990-91 heating season. The status of Ken-Gas's supply was in question due to William Nickens' August 17, 1990 letter to the Commission regarding Ken-Gas's alleged unauthorized and illegal use of his pipeline.

During the course of this investigation, a joint application was filed with this Commission by Ken-Gas, Burkesville Gas Company, Inc. ("Burkesville Gas"), and Consolidated Financial Resources ("Consolidated") requesting approval to transfer the assets of Ken-Gas to Burkesville Gas and seeking authority to create and issue \$1,300,000 of long-term bonds.<sup>1</sup> In its February 21, 1991 Order, the Commission approved the transfer of the assets

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<sup>1</sup> Case No. 90-294, The Application of Burkesville Gas Company, Inc. for Approval of the Transfer and Sale of Ken-Gas of Kentucky, Inc., and for an Order Authorizing the Creation and Issuance of \$1,300,000 of Long-Term Instruments of Indebtedness.

of Ken-Gas to Burkesville Gas and authorized Burkesville to create and issue up to \$1,300,000 in long-term bonds.

Burkesville Gas, as the owner of Ken-Gas's distribution system, presented information in an effort to demonstrate that adequate and reliable gas supply arrangements exist to ensure a supply of gas to its customers in the city of Burkesville. Burkesville Gas has entered into two separate agreements, each of which became effective upon the Commission's approval of Case No. 90-294. A gas purchase agreement exists between Burkesville Gas and RCA Energy, Inc. ("RCA") for a term of 2 years. Burkesville Gas agrees to purchase 60 percent of its gas supply from RCA at a delivered price of \$3.50 per Mcf but also agrees to maintain its contracts with other suppliers in the event RCA cannot meet Burkesville Gas's daily demand. Burkesville Gas has also entered into a pipeline lease agreement with William Nickens for a period of 20 years. This lease grants Burkesville Gas complete control of the Nickens' pipeline in return for a payment of \$2,400 per month for the first 2 years; \$3,000 per month for the following 3 years; and an increase of 5 percent per year thereafter. Mr.

Nickens retains the right to tap into this pipeline for the sole purpose of selling gas to Burkesville Gas.<sup>2</sup>

The Commission recognizes that the Burkesville Gas pipeline lease agreement with Mr. Nickens secures the deliverability of gas arranged through the existing gas supply contract with Centran Corporation ("Centran"). Centran has been the sole source of gas supply to Ken-Gas since its operations began in 1989. Centran utilizes a Texas Eastern Transmission Corporation pipeline to deliver its gas to Burkesville Gas's point of receipt. At that point, the gas travels through pipelines owned by Kentucky Energy Transmission, Inc. ("K.E.T.") and Mr. Nickens to a point approximately three miles outside the city of Burkesville, at which point Burkesville Gas's system begins. The Commission further recognizes that the Burkesville Gas supply agreement with RCA provides an additional source of gas, in this case from local production in Cumberland and Metcalfe counties, Kentucky.

On January 22, 1991, Burkesville Gas submitted additional information in Case No. 90-294, including information on its gas supply sources. In addition to the gas purchases from RCA, Burkesville Gas will purchase the remaining 40 percent of its

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An agreement has also been entered into between Burkesville Gas and Mr. Nickens regarding the alleged past due transmission fees detailed in the August 17, 1990 letter. Pursuant to this agreement, Burkesville Gas would pay Mr. Nickens \$9,480 upon Commission approval of Case No. 90-294, and Mr. Nickens would assign his rights to Burkesville Gas concerning any past due transmission fees. In return, Burkesville Gas agrees to pay \$9,480 to Mr. Nickens in payments equal to any amounts collected from Mr. Turner if and when any monies are collected.

supply needs from Centran. K.E.T. will assess an 80 cent per Mcf transportation charge for gas transported over its pipeline. During a January 25, 1991 informal conference on Case No. 90-294, Burkesville Gas advised Commission Staff that Mr. Nickens will assess a 20 cent per Mcf transportation charge on gas transported over his pipeline, in addition to the \$2,400 per month payment required pursuant to the pipeline lease agreement referenced herein. However, according to Burkesville Gas, RCA has entered into a sublease agreement with Burkesville Gas, which will be paid 20 cents per Mcf for gas that RCA moves through Mr. Nickens' pipeline. According to RCA, it did not enter into a lease agreement directly with Mr. Nickens due to the 20-year commitment required.

Burkesville Gas estimates that it will sell 35,341 Mcf in 1991 to approximately 400 customers who will be connected to the system at year end. Each of its gas supply sources will be provided through an interruptible contract. The propane-air injection system, included in the purchase of assets in Case No. 90-294, will be used by Burkesville Gas in an emergency if the RCA and Centran deliveries are interrupted. This system includes a 30,000 gallon storage tank which is the equivalent of 2,790 Mcfs of natural gas. Based upon Burkesville Gas's 1991 projections of 400 customers and annual sales of 35,341 Mcf and assuming an average usage of 14 Mcf per customer per winter month, the propane-air injection system should be able to provide about a 10-day supply to the customers in the event a disruption to Burkesville Gas's natural gas supply occurs. During such period of time, the reasons for the supply disruption could be rectified;

Burkesville Gas could request an emergency supply of natural gas from an interstate gas pipeline (through the Federal Energy Regulatory Commission); or Burkesville Gas could purchase an additional supply of propane.

After consideration of the record in this proceeding and being otherwise sufficiently advised, the Commission hereby finds that:

1. Pursuant to the Commission's February 21, 1991 Order in Case No. 90-294, Burkesville Gas is the owner of the assets of Ken-Gas pending the sale of the bonds authorized to be issued in Case No. 90-294. The assets include the gas distribution system in the city of Burkesville and a propane-air injection system.

2. Burkesville Gas intends to maintain the existing gas supply contract with Centran which will be used to provide an estimated 40 percent of the gas supply required by Burkesville Gas.

3. Burkesville Gas has entered into a pipeline lease agreement with William Nickens to operate his pipeline which interconnects with the Burkesville Gas system approximately three miles outside the city of Burkesville and will pay K.E.T. 80 cents per Mcf for the gas provided by Centran to be transported through its pipeline to Burkesville Gas. These two arrangements secure the delivery of gas from Centran to the Burkesville Gas system.

4. Burkesville Gas should provide the Commission a copy of the transportation contract it has entered into with K.E.T. and a copy of the transportation contract with Mr. Nickens through which

Burkesville Gas will pay 20 cents per Mcf for gas transported through his pipeline.

5. Burkesville Gas has entered into a gas purchase agreement with RCA which will be used to provide an estimated 60 percent of the gas supply required by Burkesville Gas.

6. RCA has entered into a sub-lease agreement with Burkesville Gas regarding Mr. Nickens' pipeline. Burkesville Gas should provide the Commission a copy of this sub-lease agreement.

7. Burkesville Gas should request from RCA and provide to the Commission information which shows that RCA has the ability to provide 60 percent of Burkesville Gas's needs, or 21,205 Mcf, based upon Burkesville Gas's estimated needs for 1991. This information should include an identification of the leases and wells on each lease which will be utilized to honor RCA's contract with Burkesville Gas; and for each well identified, test data which depicts the well's deliverability potential. The test data should include the type of test performed, when, and by whom.

8. Based upon the information presented herein and Case No. 90-294, this investigation should be closed.


IT IS THEREFORE ORDERED that:


1. Within 30 days of the date of this Order, Burkesville Gas shall comply with Findings 4, 6, and 7 as if each was individually ordered.

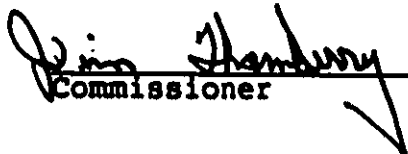
2. This investigation be and hereby is closed.

Done at Frankfort, Kentucky, this 3rd day of April, 1991.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

  
Executive Director