

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF ELIZABETH STEPHENS)
BIERBAUER ATTORNEY-IN-FACT FOR D.C.)
STEPHENS, D/B/A LESLIE OIL AND GAS)
COMPANY AND COW CREEK GAS, INC. FOR) CASE NO. 94-321
APPROVAL OF SALE TO COW CREEK GAS, INC.)
OR 130 HIBBARD, PIKEVILLE, KENTUCKY,)
PURSUANT TO KRS 278.020(4), (5))

O R D E R

On August 26, 1994, Elizabeth Stephens Bierbauer, Attorney-in-Fact for D.C. Stephens, d/b/a Leslie Oil and Gas Company ("Leslie Gas"), and Cow Creek Gas, Inc. ("Cow Creek Gas") applied for approval to transfer the assets of Leslie Gas to Cow Creek Gas pursuant to the terms of two agreements signed by Leslie Gas dated August 16, 1994. As purchaser, Cow Creek Gas requested the sale be approved, and that it be granted a certificate of convenience and necessity to serve the same territory as Leslie Gas, at the same rates.

KRS 278.020 provides that in order to acquire or transfer ownership or control of a utility, prior Commission approval must be obtained. The Commission shall grant its approval if the person acquiring the utility has the financial, technical, and managerial abilities to provide reasonable service. The statute further provides that the Commission shall grant, modify, refuse, or prescribe appropriate terms and conditions with respect to the application.

After reviewing the evidence of record and being advised, the Commission finds that:

Elizabeth Stephens Bierbauer, Attorney-in-Fact for D.C. Stephens, owner of Leslie Gas, and Cow Creek Gas have executed a Receipt and Agreement with respect to the purchase by Cow Creek Gas of the assets of Leslie Gas.

Cow Creek Gas is a corporation established by Jerome Kanney and Dennis Rohrer for the purpose of acquiring the assets of Leslie Gas. It now controls Leslie Gas's source of supply. Leslie Gas owns a distribution system, which was rebuilt in 1987. All service lines, mains, regulators, and meters were up-graded, and P.E. piping installed, at that time.

D.C. Stephens, the current owner of Leslie Gas, was the sole operator of the system until 1981. Because of his age, health, and Florida residence, he can no longer run the system. Ms. Bierbauer, in an effort to save Leslie Gas, contracted with Estill Branham to operate the system but it is apparently still losing money. Leslie Gas also has a poor history in terms of regulatory compliance.

A full assessment of the current financial condition, or the economic potential of Leslie Gas after the transfer, cannot be made because Leslie Gas has not filed financial statements with the Commission since 1987. The financial viability of the gas distribution system will depend to some extent upon how Cow Creek records the value of the assets and how much of the \$15,000 purchase price is assigned to the gas distribution system. The Commission has been advised by Cow Creek Gas that information

regarding the value of the assets and the necessary journal entries to record the purchase will be provided after the transfer.

Pursuant to the Uniform System of Accounts Prescribed for Natural Gas Companies ("USoA"), the following journal entries should be made to effect the purchase of Leslie Gas:

	<u>Dr.</u>	<u>Cr.</u>
Plant Purchased or Sold	XX	
Long-term Debt		XX
To record purchase price of Leslie Gas		
Utility Plant in Service	XX	
Plant Purchased or Sold		XX
To record plant at original cost		
Plant Purchased or Sold	XX	
Accumulated Depreciation		XX
To record accumulated depreciation on original cost of plant		

Any amounts in the acquisition adjustments accounts on the books of Leslie Gas at the time of purchase shall also be transferred to the new books through the plant purchased or sold account. Any balance remaining in the plant purchased or sold account shall be adjusted to the acquisition account.

Leslie Gas's sole source of supply is a gas well drilled in about 1941, located in the Cow Creek area of Floyd County. This well has an average pressure of 30 to 80 pounds and has adequately served the needs of approximately twenty-five residential customers. D.C. Stephens owned a 37/128 interest in the well, and was its trustee, until such interest was purchased by Jerome Kanney, president of Cow Creek Gas, in August 1994.

According to Ms. Bierbauer, Mr. Stephens had always been able to purchase Leslie Gas's annual gas requirements for about \$300 per year. This inexpensive supply is no longer available, as Leslie

Gas must now purchase its gas from Cow Creek Gas. Leslie Gas can no longer afford to purchase gas to meet the needs of its few customers, many of whom are elderly or low-income, without a price increase. If Cow Creek Gas is allowed to acquire the system, it intends to continue charging Leslie Gas's current rate of \$5.25 per Mcf.

Jerome Kanney and Dennis Rohrer, through Cow Creek Gas, are the prospective owners of Leslie Gas. Mr. Kanney is a C.P.A. in Pikeville. He has compiled reports for various gas companies for many years, including B & H Gas System, a provider of natural gas and services in Floyd County. Mr. Kanney was named Accounting Advocate of the Year for the state of Kentucky by the United States Small Business Administration in 1986.

Mr. Rohrer has served as a consultant to Ashland Exploration, Kinzer Drilling Company, Equitable Gas Company, and Belfry Gas System. He has also served as president of the Society of Petroleum Engineers, Eastern Kentucky Chapter.

Together, Mr. Kanney and Mr. Rohrer since 1989 have acquired gas wells and developed oil and gas leases in eight Kentucky counties. They intend to use experienced personnel to manage and oversee all aspects of the Leslie Gas system.


Evidence has been presented by the parties in this proceeding to show that Cow Creek Gas has the financial, technical, and managerial abilities to provide reasonable service. Therefore, the Commission shall approve the transfer subject to certain conditions.

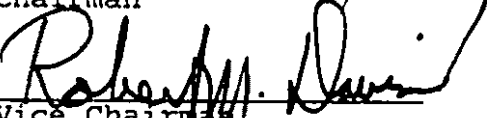
IT IS THEREFORE ORDERED that:

1. The transfer of the assets of Leslie Gas to Cow Creek Gas be and it hereby is approved.
2. Cow Creek shall follow the journal entries and accounting treatment prescribed above to reflect the transfer, original plant valuation, and certain acquisition adjustments.
3. Cow Creek Gas shall maintain its accounting records in accordance with the USoA.
4. Leslie Gas and Cow Creek Gas shall file documentation showing the journal entries as specified above have been made within 10 days of the date of closing.
5. Adoption Notice No. 1, filed by Cow Creek Gas on September 9, 1994, shall go into effect at the time of closing.
6. Cow Creek Gas shall file copies of all closing documents within 10 days of the closing date.

Done at Frankfort, Kentucky, this 6th day of January, 1995.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director