

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NATURAL GAS OF KENTUCKY, INC.

ALLEGED VIOLATIONS OF KRS CHAPTER 278
AND 807 KAR 5:022

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) CASE NO. 95-436
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O R D E R

On October 6, 1995, Natural Gas of Kentucky, Inc. ("Natural Gas") and its owners and operators, J.T. Sims, Jadie Parsons, and Mark O'Brien, were directed to appear before the Commission and show cause why they should not be penalized pursuant to KRS 278.990 for alleged violations of KRS Chapter 278 and 807 KAR 5:022.

Following the commencement of this proceeding, Natural Gas, J.T. Sims, Jadie Parsons, Mark O'Brien and Commission Staff entered into negotiations to resolve all disputed issues. On November 27, 1995, they executed a Settlement Agreement, which is appended hereto, and subsequently submitted it for Commission approval.

After reviewing the Settlement Agreement and being otherwise sufficiently advised, the Commission finds that the Settlement Agreement is in accordance with the law, does not violate any regulatory principle, results in a reasonable resolution of this case, and is in the public interest.

IT IS THEREFORE ORDERED that:

1. The Settlement Agreement, appended hereto, is incorporated into this Order as if fully set forth herein.

2. The terms and conditions set forth in the Settlement Agreement are adopted and approved.

3. Natural Gas is assessed a penalty of \$2,100.

4. Natural Gas shall pay the assessed penalty within 10 days of the date of this Order by certified check or money order made payable to Treasurer, Commonwealth of Kentucky. Said check or money order shall be mailed or delivered to the Office of General Counsel, Public Service Commission of Kentucky, 730 Schenkel Lane, P. O. Box 615, Frankfort, Kentucky.

Done at Frankfort, Kentucky, this 11th day of December, 1995.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

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SETTLEMENT AGREEMENT

7 November This Agreement is made and entered into this *27th* day of November, 1995 by and between the Staff of the Public Service Commission ("Staff"), and Natural Gas of Kentucky, Inc. ("Natural Gas"), and its owners and operators Jadie Parsons, J.T. Sims, and Mark O'Brien.

W I T N E S S E T H:

THAT on October 6, 1995, the Public Service Commission issued a Show Cause Order in Case No. 95-436 alleging that there is prima facie evidence that Natural Gas, its owners and operators, J.T. Sims, Jadie Parsons, and Mark O'Brien, violated KRS Chapter 278.160(2), KRS 278.020, and 807 KAR 5:022;

THAT on April 28, 1994, the Staff inspected the "Hiseville/Knob Lick" gas system;

THAT as a result of that inspection certain possible violations of Commission regulations were found; and,

THAT in order to resolve the issues in the Order of October 8, 1995, the parties agree to the following stipulation of facts:

1. Natural Gas operated a pipeline system in the Barren and Metcalfe Counties area serving a limited number of customers in the Hiseville/Knob Lick area;

2. Natural Gas did not have PSC approval to operate a distribution system and did not have an approved tariff on file with the Commission to provide distribution service, but charged existing distribution customers a rate of \$6.00 per MCF;

3. Natural Gas informed the Staff on June 2, 1994 of its intention to seek authority from the Commission to operate as a local distribution company;

4. Natural Gas did not file its application, however, on November 9, 1994, Bluegrass Gas Sales, Inc. filed an application requesting approval to operate a gas system which included the Hiseville/Knob Lick areas;

5. Natural Gas and Bluegrass are owned by the same persons;

6. Since Staff's April 28, 1994 inspection, Natural Gas has constructed additional lines and added more customers;

7. Natural Gas failed to file an application for Commission approval which led to the issuance of the Order of October 6, 1995;

8. Bluegrass received approval from the Commission on October 6, 1995 in Case No. 94-433 to construct and operate a gas distribution system, which includes the Hiseville/Knob Lick area.

9. Bluegrass has notified all customers of Natural Gas of the transfer of service and proposed rate.

10. Bluegrass has an adequate supply of interstate pipeline gas to serve the Natural Gas customers;

11. Bluegrass has been authorized to assume operational control of the Hiseville/Knob Lick customers and facilities and has adequately addressed the deficiencies enumerated in the Staff Inspection report dated May 25, 1994;

NOW THEREFORE, Natural Gas, Jadie Parsons, J.T. Sims, Mark O'Brien and the Staff further stipulate and agree as follows in settlement of this matter:

NOW THEREFORE, IT IS AGREED AS FOLLOWS:

1. Natural Gas no longer provides natural gas distribution service to any customers.

2. The deficiencies identified in the May 25, 1994 Inspection Report, Recommendations 2, 3, and 10 have been met by Bluegrass Gas Sales. Recommendations 9 and 11 apply to pipelines and facilities owned by Bluegrass Gas Sales and Natural Gas, and will be addressed in subsequent comprehensive safety inspections by Commission Staff for each company. All remaining Recommendations (1 and 4 through 8) will be addressed in the Commission's final Order in Case No. 94-433.

3. Bluegrass has been authorized by the Commission to operate as a gas distribution company and has filed proposed rates for service to all customers, including the Hiseville/Knob Lick customers.

4. The Commission initiated this case based on information sufficient to necessitate further investigation.

5. The Staff, Natural Gas, Jadie Parsons, J.T. Sims and Mark O'Brien agree that Natural Gas should be fined \$4,200. However,

Staff recognizes the efforts made by Natural Gas to bring the existing facilities in the Hiseville/Knob Lick area into compliance with Commission regulations, including the application submitted by Bluegrass Gas Sales in Case No. 94-433. Natural Gas has also cooperated in the inspection of the pipeline facilities and the performance of tests required since Staff's 1994 inspection. For these reasons, Staff will recommend that a portion of the fine be compromised, and that Natural Gas pay a penalty of \$2,100.

6. Bluegrass Gas, Jadie Parsons, J.T. Sims and Mark O'Brien agree to correct any deficiencies in the operations and facilities of Natural Gas and to make any additional modifications to conform to Commission regulations.

7. This settlement agreement is subject to the approval of the Public Service Commission.

8. The Staff hereby recommends to the Public Service Commission that this Settlement be adopted in its entirety and without change or modification.

9. If the Public Service Commission fails to adopt this Agreement in its entirety, Natural Gas, Jadie Parsons, J.T. Sims and Mark O'Brien reserve the right to withdraw from it and to proceed with the case. In such event, none of the matters contained in this settlement shall be binding on any of the parties hereto.

10. All of the parties agree that the terms of this settlement are reasonable, factually accurate and it is in the public interest to resolve this matter.

11. If the settlement is adopted in its entirety by the Public Service Commission, this Settlement shall constitute a final adjudication and dismissal of the allegations raised in the Show Cause Order of October 6, 1995 without the need for a hearing.

12. If the Settlement Agreement is accepted by the Commission, the parties agree not to request rehearing or to appeal the order to Franklin Circuit Court.

Natural Gas of Kentucky
Natural Gas of Kentucky
by Mark O'Brien

J. T. Sims
J. T. Sims

Mark O'Brien
Mark O'Brien

Jadie Parsons
Jadie Parsons

Robert W. Goodman
Counsel, Public Service Commission