

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2003-00491 DATED *May 27, 2004.*

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PEOPLE'S GAS, INC.)
AND)
RANDALL A. HAYES, INDIVIDUALLY)
AND AS AN OFFICER OF THE UTILITY)
_____) CASE NO. 2003-00491
)
ALLEGED VIOLATIONS OF)
KRS 278.992(1))

SETTLEMENT AGREEMENT

THIS AGREEMENT is made and entered into this 22nd day of March, 2004, by and between the STAFF OF THE PUBLIC SERVICE COMMISSION OF KENTUCKY ("Commission Staff") and PEOPLE'S GAS, INC. ("People's") and, RANDALL A. HAYES, individually and as an officer of People's.

WITNESSETH:

WHEREAS, People's operates a natural gas distribution system in Kentucky. Peoples' system was a part of Mike Little Gas Company's distribution system until it was transferred in 2001. Peoples' is subject to Commission jurisdiction pursuant to KRS 278.040; and

WHEREAS, pursuant to and as a condition of approval of the transfer of the Phelps portion of the Mike Little Gas Company's system to People's in the Order in Case No. 2001-00027, People's agreed to replace all remaining steel pipe; and

WHEREAS, on December 24, 2003, an Order was issued to People's and Randall A. Hayes, individually and as an officer of People's, requiring each of them to show cause why each should not be assessed penalties pursuant to KRS 278.992 for violations of the Commission's Order dated October 24, 2003, as amended by an Order dated November 24, 2003; and

WHEREAS, an informal conference was held on March 22, 2004 between People's; Randall A. Hayes, and Commission Staff for the purpose of discussing the issues and the parties entered into a Settlement Agreement through compromise to settle the proceeding herein; and

WHEREAS, People's has submitted to Commission Staff documents containing the following: Operator Qualification Plan; Anti-Drug and Alcohol Plan; Damage Prevention Plan; and continuing educational program for the public; and

WHEREAS, People's stated that there remains approximately 5,800 feet of steel pipe to be protected or replaced. People's believes that by switching to a new gas supply source (Kinzer), it can eliminate 3,200 feet of this pipe. This can only be accomplished after April of 2005, when Kinzer is able to contract with People's for a gas supply. In the meantime, People's proposes to replace the remaining 2,600 feet of steel pipe on or before September 1, 2004. If People's cannot obtain a supply of gas and eliminate the 3,200 feet of steel pipe, People's proposes to replace that section of the line on or before September 1, 2005.

NOW, THEREFORE, People's, Randall A. Hayes, and Commission Staff agree that:

1. People's is in violation of federal pipeline regulations as follows:

- a. No Operator Qualification Plan.
- b. No Anti-Drug and Alcohol Plan.
- c. No Damage Prevention Plan.
- d. Failure to establish continuing educational program for the public.
- e. No Corrosion Control Program was found for the steel section of the system. (This was a repeat violation carried over from the previous owner, Mike Little Gas Company, in Case Number 2001-00027.)

- f. Plastic pipe installed above ground (two violations).

2. Randall A. Hayes is to be dismissed as a party, and People's waives a formal hearing of all matters herein.

3. People's is assessed a civil penalty of Ten Thousand Dollars (\$10,000), Two Thousand Five Hundred Dollars (\$2,500) of which shall be paid as directed within 30 days of the date of the Commission's Order approving this settlement. The remaining Seven Thousand Five Hundred Dollars (\$7,500) of the penalty shall be suspended upon the following conditions:

- a. Staff will schedule an on-site inspection of the documents furnished by People's. Staff will make any recommendation necessary to supplement the documents for compliance with the regulations. People's agrees to make any suggested changes and to keep the plans updated.

- b. People's stated that the above-ground 2-inch polyethylene pipe observed at Bones Branch, and 1¼-inch pipe had been covered, and that People's was preparing to apply concrete to one area. People's will notify Staff of completion and schedule Staff's inspection of the area. People's will do all that is reasonably necessary to have the pipe covered.

c. People's will protect or replace approximately 5,800 feet of the remaining steel pipe as follows:

i. People's will replace approximately 2,600 feet of steel pipe with PE pipe on or before September 1, 2004.

ii. If People's cannot obtain a supply of gas and eliminate the 3,200 feet of steel pipe, People's will replace that section of steel pipe with PE pipe on or before September 1, 2005.

iii. People's agrees to conduct a leak survey of the steel pipe sections at least once every six months until all the steel pipe is replaced or abandoned.

4. People's will notify Commission Staff of the completion of any scheduled pipe replacement and if any of the above conditions are not completed as scheduled, then the entire suspended penalty shall become due and payable.

5. This Agreement is subject to the acceptance of and approval by the Public Service Commission.

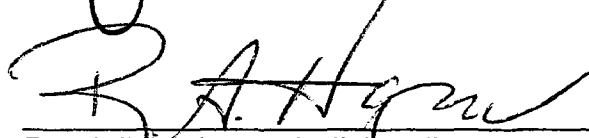
6. If the Public Service Commission fails to accept and approve this Settlement Agreement in its entirety, this proceeding shall go forward and neither the terms of this Settlement Agreement nor any matters raised during settlement negotiations shall be binding on any signatory hereto or be construed against Randall A. Hayes or People's or Commission Staff.

7. Commission Staff shall recommend to the Public Service Commission that this Settlement Agreement be accepted and approved.

IN WITNESS WHEREOF, People's, Randall A. Hayes, and Commission Staff
have executed this Settlement Agreement on the date first above written.

STAFF OF THE KENTUCKY PUBLIC SERVICE COMMISSION

BY: 
James R. Goff, Staff Attorney


Randall A. Hayes, Individually and
As President of PEOPLE'S GAS, INC.