

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION INTO THE CONDITION)
AND MANAGEMENT OF ZEBULON GAS) CASE NO. 2005-00424
ASSOCIATION, INC.)

~~ORDER~~

By this Order the Commission finds that prima facie evidence exists that the natural gas distribution system that Zebulon Gas Association, Inc. ("Zebulon") owns has been abandoned. We direct Zebulon to show cause why its natural gas distribution facilities should not be declared abandoned and why these facilities should not be placed under the control and responsibility of a receiver.

Zebulon, a non-profit corporation organized pursuant to KRS Chapter 273, owns facilities that distribute natural gas to approximately 52 households in Pike County, Kentucky, for light, heat, power, and other purposes.¹ It is a utility subject to the Commission's jurisdiction and regulation. KRS 278.010(3)(b); KRS 278.040.

In October 2000, Columbia Gas Transmission Company ("CGT")² notified the Commission that Zebulon had a negative imbalance of 60,408 dekatherms valued at about \$379,000. At the Commission's direction, Commission Staff held a series of

¹ Annual Report of Zebulon Gas Association to the Public Service Commission of Kentucky for the Calendar Year Ended December 31, 2004 at 9.

² CGT, a Delaware Corporation, is an interstate transmission pipeline company that operates pipelines in the Commonwealth of Kentucky. It is not subject to Commission jurisdiction.

meetings with representatives of Zebulon, CGT, and Jefferson Gas Transmission Company (“Jefferson Gas”)³ to discuss this imbalance and the continued operations of the Zebulon gas system.

In June 2002, as a result of these discussions, CGT and Zebulon agreed to place a value of \$175,203 on Zebulon’s gas imbalance. They further agreed that Zebulon would pay this amount over a 20-year period. The Term Note, which the two corporations executed, required Zebulon to make monthly payments of \$730 for this 20-year period. CGT subsequently agreed to reduce the value of the imbalance to approximately \$152,500 with Zebulon paying approximately \$635 a month for 20 years.

Similarly, on October 9, 2001, Jefferson Gas and Zebulon entered into an operating agreement. Under the terms of this agreement, Jefferson Gas agreed to operate Zebulon’s gas facilities, reconstruct these facilities, and provide Zebulon with appropriate administrative services to collect system revenues, pay system debts, and perform system accounting, reporting and regulatory requirements. This Agreement provided for an initial term of operation of 3 years and for automatic renewal for a one-year term unless one of the parties provided 30 days’ prior written notice.

Since October 9, 2001, Jefferson Gas has operated Zebulon’s gas facilities. After Zebulon obtained financing from the Gas System Restoration Board, Jefferson Gas replaced virtually all of Zebulon’s gas mains. Jefferson Gas has operated the

³ The original agreement is between Jefferson Gas Transmission Company, Inc. and Zebulon. On December 11, 2002 Jefferson Gas Transmission Company was reorganized as Jefferson Gas, LLC, a Kentucky limited liability company. All references in this Order to Jefferson Gas refer to Jefferson Gas, LLC.

facilities without incident. Its officials have had little contact with any representatives of Zebulon.

On September 8, 2004, Jefferson Gas notified the Commission and the members of Zebulon's Board of Directors in writing of its intent to terminate its operating agreement with Zebulon.⁴ After discussions between representatives of Jefferson Gas and Commission Staff, Jefferson Gas agreed to continue operating Zebulon's facilities on a short-term basis until another operator could be found. As of the date of this Order, Jefferson Gas has continued to operate the system on a month-to-month basis.

On October 3, 2005, Jefferson Gas notified the Commission in writing that, effective October 18, 2005, it would cease operating or otherwise serving Zebulon's facilities. In its notification, it advised us of its unsuccessful efforts to obtain a replacement operator and to locate any active members of Zebulon's Board of Directors. It further advised us that it had foregone several attempts to cease operating Zebulon's facilities to permit Commission Staff the opportunity to locate another operator. Jefferson Gas further advised that written notification of its intent to terminate the operating agreement and to cease operating Zebulon's facilities had also been served upon all of the facilities' present customers.

Zebulon does not appear as a viable alternative to operate its own gas facilities. The Kentucky Secretary of State administratively dissolved Zebulon on November 1, 2005.

⁴ Letter from Gene Mapes, Sr., Chairman, Jefferson Gas Company, to Jeff Shaw, Assistant Director, Financial Analysis Division, Kentucky Public Service Commission (Sep. 8, 2004); letter from Bert R. Layne, Treasurer, Jefferson Gas Company, to Beth O'Donnell, Executive Director, Kentucky Public Service Commission (Oct. 3, 2004).

2003.⁵ The Commission has received reports that some members of Zebulon's Board of Directors are deceased and that the members of the corporation have not selected successors for these members. There is no evidence that the corporation has engaged in any of the actions necessary for the corporation to maintain its corporate identity and existence.

KRS 278.021(1) provides that "[i]f the commission determines, after notice and hearing, that any utility is abandoned, the commission may petition the Franklin Circuit Court for an order attaching the assets of the utility and place it under the sole control and responsibility of a receiver."

Given the apparent absence of any viable corporate entity to assume responsibility for Zebulon's gas facilities upon the cessation of Jefferson Gas's operation of those facilities, the Commission finds that prima facie evidence exists that Zebulon has been abandoned. We further find that Zebulon, its officers and members should be required to show cause why the natural gas distribution facilities that Zebulon owns should not be declared abandoned and why these facilities should not be placed under the control and responsibility of a receiver.

To ensure that all parties that have an interest in the operation of these facilities have an adequate opportunity to represent those interests in this proceeding, we find that Zebulon's customers, the Attorney General, the Governor's Office of Local Development, CGT and Jefferson Gas should be served with copies of this Order and

⁵ See [http://apps.sos.ky.gov/business/obdb/\(4005he55z3dymxuc5pz352vt\)/shoentity.aspx?id=0110046&ct=09&cs=99999](http://apps.sos.ky.gov/business/obdb/(4005he55z3dymxuc5pz352vt)/shoentity.aspx?id=0110046&ct=09&cs=99999) (last visited Oct. 11, 2005).

that notice of this proceeding should be published in a newspaper of general circulation in the area that Zebulon's facilities presently serve.

To ensure that those who the Zebulon facilities presently serve are fully aware of the implications of this proceeding' we further find that a public meeting for the purpose of informing Zebulon's customers of the nature of this proceeding and the efforts to continue natural gas service in Zebulon's service area should be held in Zebulon, Kentucky.

IT IS THEREFORE ORDERED that:

1. Zebulon, its directors and its members shall appear before the Commission on October 18, 2005, at 11:30 a.m., Eastern Daylight Time, in Hearing Room 1, of its offices at 211 Sower Boulevard, Frankfort' Kentucky and show cause why the Commission should not declare the natural gas distribution system that Zebulon owns as abandoned and why this natural gas system should not be placed under the control and responsibility of a receiver.

2. The Executive Director shall serve by mail a copy of this Order on all known directors and customers of Zebulon. She shall also serve a copy of this Order upon the Attorney General, the Governor's Office of Local Development and Columbia Gas Transmission Company.

3. The Executive Director shall cause the notice set forth in Appendix A to this Order to be published in a newspaper of general circulation in the area in which Zebulon provides natural gas service.

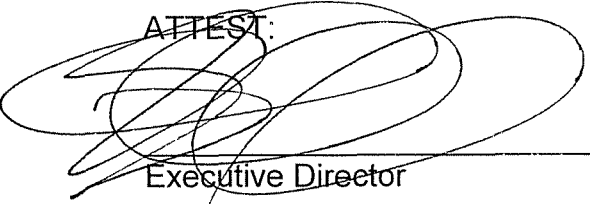
4. A public meeting for the purpose of informing Zebulon's customers of the nature of this proceeding and the efforts to continue natural gas in Zebulon's service

area shall be held on October 13, 2005, at 5:30 p.m., Eastern Daylight Time, at the Community Funeral Home in Zebulon, Kentucky. The Executive Director shall take all necessary actions to inform Zebulon's customers of this meeting.

Done at Frankfort, Kentucky, this 11th day of October, 2005.

By the Commission

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2005-00424 DATED OCTOBER 11, 2005.

**NOTICE TO
MEMBERS, DIRECTORS, AND CUSTOMERS
OF ZEBULON GAS ASSOCIATION, INC.**

The Public Service Commission of Kentucky has initiated an investigation (Case No. 2005-00424) into the condition and management of the gas distribution facilities that Zebulon Gas Association, Inc. owns. The Public Service Commission will hold a public hearing in this proceeding on October 18, 2005, at 1:00 p.m., Eastern Daylight Time, in Hearing Room 1, of its offices at 211 Sower Boulevard, Frankfort, Kentucky. The Public Service Commission has directed that Zebulon Gas Association, its directors and members appear at this hearing and show cause why the the natural gas distribution system that Zebulon Gas Association owns should not be declared abandoned and why this natural gas system should not be placed under the control and responsibility of a receiver.