

COMMONWEALTH OF KENTUCKY
BEFORE THE ENERGY REGULATORY COMMISSION

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In the Matter of

THE REQUEST OF THE JOHNSON COUNTY)
GAS COMPANY FOR AN EXEMPTION FROM) CASE NO. 7576
807 KAR 50:015 (DEVELOPMENT OF A)
BUDGET PLAN))

AND

TRANSFER OF STOCK OF JOHNSON)
COUNTY GAS COMPANY, INC.) CASE NO. 7743

AND

THE APPLICATION OF THE JOHNSON)
COUNTY GAS COMPANY, INC., JOHNSON) CASE NO. 7875
COUNTY, KENTUCKY)

FOR

- (1) CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY)
AUTHORIZING RECONSTRUCTION)
OF ITS EXISTING GAS SYSTEM;)
AND)
- (2) APPROVAL OF THE PROPOSED PLAN)
OF FINANCING THE RECONSTRUC-)
TION AND TO RETIRE URGENT AND)
PRESSING DEBTS.)

INTERIM ORDER

Procedural Background

On September 10, 1979, the Commission notified Johnson County Gas Company, Inc. that it must comply with Commission Regulation 807 KAR 50:015 (11) by implementing a budget billing plan before the end of calendar year 1979. Thereafter, by letter dated September 12, 1979, the Company requested an extension of time until the summer months of 1980 to implement its budget billing plan.

The Commission decided to treat this letter as an application to deviate from the provisions of 807 KAR 50:015 (11); therefore, the matter was set for hearing on the 3rd day of October, 1979, in the Commission's office in Frankfort, Kentucky. The hearing was held as scheduled with one intervenor, the Attorney General's Division of Consumer Intervention, being present.

At this hearing on October 3, 1979, Mr. Charles Thomas Meade testified that on September 1, 1979, new owners had taken over the operation of Johnson County Gas Company, Inc. This transfer of ownership had occurred without the prior Commission approval required under Kentucky Revised Statutes. The parties were then informed that a proceeding must be initiated immediately to request approval necessary for any change of ownership.

It was not until February 19, 1980, however, that the Applicants requested authorization in Case No. 7743 for what they alleged to be a sale of stock. Documents filed by the Applicants indicated that the initial transaction relating to this change in ownership occurred on July 30, 1979. On this date Mr. Eugene Rice and his wife, Madonna Rice, and Mr. Charles Thomas Meade and his wife, Joyce Ann Meade, apparently sold 100% of the stock of Johnson County Gas Company, Inc., to Dr. Robert Roe and Mr. Danny Preston for the sum of \$224,340.29. Mr. Preston and Dr. Roe were each to own 50% of the stock. These documents also indicated that Dr. Roe loaned Johnson County Gas Company, Inc., \$40,000. At the hearing held March 24, 1980, in this case, Case No. 7743, Dr. Roe testified that Mr. Preston was no longer involved in the transaction and that he was now the sole owner of the Company.

Thereafter, on March 28, 1980, four days after the close of the hearing, the Commission was contacted by Mr. Preston. He alleged, among other things, that he was to own 50% of the Company's stock and that he was being defrauded of his share. Based on this complaint, the Commission ordered a further hearing in this matter. The hearing was held as scheduled on April 22, 1980. On this date Mr. Preston testified that he and Dr. Roe had reached an agreement and that he, rather than Dr. Roe, was now the sole owner of the Company. Mr. Preston was then ordered to provide additional information concerning the transaction for the Commission's review and analysis.

On June 5, 1980, even before the information requested in Case No. 7743 was received, Johnson County Gas Company, Inc., filed an additional application with the Commission. In this application, Case No. 7875, the Company requested a certificate of convenience and necessity for the reconstruction of its existing gas system and authorization to borrow \$1,483,043 at an interest rate of 5.125% from the federal Economic Development Administration (EDA) through the Kentucky Department of Local Government. The Company proposed to use the proceeds from the borrowing to finance the proposed construction and for the refinancing or payment of existing debts including gas purchases. A hearing was held in this matter on July 24, 1980, in the Commission's offices in Frankfort, Kentucky. The Attorney General's Division of Consumer Intervention was the sole intervenor in this matter.

As these three cases, Cases No. 7576, 7743 and 7875, are interrelated, the Commission is of the opinion and finds that they should be consolidated for the purposes of analysis, decision and order. Accordingly, these cases are hereby consolidated herein.

SUMMARY

The Commission's review of the applications and all evidence of record discloses that the Company has proposed to record on its books 994 shares of its common stock as treasury stock (the remaining six (6) shares of stock are owned by Mr. Preston and his wife). In order to record the stock in this manner, the Company purported to repurchase this stock from the owners, Mr. Eugene Rice and his wife and Mr. Charles Thomas Meade and his wife; signed notes payable in the amount of \$224,340.29 to the owners; and gave a first lien on the property as collateral for the notes. Recording the transaction in this manner would require the rate payer to pay the interest cost on debt incurred to repurchase the Company's common stock. Further, the placing of a first lien on the property effectively precludes obtaining a loan from the EDA since the EDA requires a first lien on the property as a condition of the loan.

The Commission's analysis also discloses that the net depreciated value of the property as of September 30, 1979, was \$107,644. Therefore, it does not appear logical, proper, or prudent for the Company to repurchase 994 shares of common stock for \$224,340.29, more than twice the value of the assets supported by the common stock.

Further, our review has disclosed that on September 9, 1980, an inspection of the Johnson County Gas Company, Inc., which was conducted by the Commission's Division of Utility Engineering and Services, revealed that the construction of the system does not even meet minimum standards and that virtually no maintenance has been performed on the system for several years.

The inspection also disclosed that the line loss for the month of July (at the reduced summer pressure of twelve (12) pounds) was 45.2% for the Van Lear area and 70.3% for the Hager Hill area. This line loss not only poses a severe safety hazard but also makes it impossible for the Company to remain solvent.

In addition to the above, the Inspection Report, which is being transmitted with this Order (attached Appendix "A"), indicated that the Company is in probable violation of forty-three (43) sections of the Department of Transportation Code of Federal Regulations for the Transportation of Natural and Other Gas by Pipeline, Part 192.

The combination of these probable violations, the excessive line loss and the poor fiscal condition of the Company indicates to the Commission that immediate action must be taken to prevent possible loss of life as well as gas service.

Taking all evidence into consideration, the Commission is, however, unable to determine that the customers will benefit if the proposed transfer of ownership is allowed as Mr. Preston's experience in operating a gas company is limited to the year that he has been associated with Johnson County Gas Company, Inc.

From the above, the Commission finds that the proposed transfer of ownership is not in the best interest of the consumers and should be denied.

The Commission further FINDS that:

(1) The Company shall make provisions to reimburse both Dr. Robert Roe and Mr. Danny Preston for any and all funds loaned to the Company.

(2) The condition of the system is such that immediate action must be taken by the owners of record, Mr. Eugene Rice and wife and Mr. Charles Thomas Meade and wife, to ensure reconstruction and operation of the system in compliance with Commission and Department of Transportation regulations or the system must be shut down.

(3) All parties involved should be required to appear before the Commission and present further testimony addressing all issues raised in these cases (No's 7576, 7743 and 7875).

(4) The Johnson County Gas Company, Inc., should be required to show cause, if any it can, why its certificate of convenience and necessity to operate should not be revoked.

IT IS THEREFORE ORDERED, that the proposed transfer of ownership be and it hereby is denied.

IT IS FURTHER ORDERED, that the Company shall make provisions to reimburse both Dr. Robert Roe and Mr. Danny Preston for any and all funds loaned to the Company and further to provide to the Commission a list of these funds, how they were used, and the manner in which they will be repaid.

IT IS FURTHER ORDERED, that all parties involved in these proceedings shall appear at the offices of the Energy Regulatory Commission of Kentucky on September 24, 1980, at 1:30 p.m., Eastern Daylight Time, for the above stated purposes.

Done at Frankfort, Kentucky, this 19th day of September, 1980.

ENERGY REGULATORY COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary

R E P O R T

TO: E. Scott Smith
Chief Engineer, Gas Section *ESS.*

FROM: Ernest Murphy *Ernest Murphy*
Chief Utility Inspector

RE: Johnson County Gas Company - Inspection

DATE: September 10, 1980

Inspectors Larry Amburgey and Ernest Murphy were directed to make an on-site inspection of all conditions relating to the system of Johnson County Gas Company, at Van Lear, Kentucky, and to report post haste.

Conditions are so critical at the moment that even we are frightened that we cannot move to avert a major occurrence of unheard magnitude.

Unaccounted-for (gas leakage) is ever increasing, until now it wouldn't be more from an open end line. During the past quarter, gas purchased and gas sold are as follows:

Columbia Gas - Van Lear

	<u>Purchased</u>	<u>Sold</u>	<u>Unaccounted for</u>
1980 May	3,619	1,763	48.7%
June	2,302	928	60.0%
July	1,876	1,028	45.2%

Kentucky-West Virginia - Hager Hill

1980 May	1,836	767	58.2%
June	2,278	365	71.4%
July	2,160	345	70.3%

This loss is at the reduced summer pressure, 12 pounds, as opposed to 60-80 pounds for winter season operation.

Although strip mining is a major problem to maintaining transmission lines (2) from Columbia Gas purchase points, it is not the immediate problem to maintain supply.

The second, or south segment of a two inch loop is out of service and will not now hold a gas charge. This means that only one-half of the normal volume will be available to maintain the line into Van Lear. It is our collective considered opinion that all gas service will be lost when the temperature drops to 30 degrees.

The problem of supply was unmanageable with two lines in service. Line pressures were increased to the absolute maximum and regulators were by-passed to hold a minimum of one pound pressure on sections of the system. This was all manually controlled and was very hazardous even if attended. Access to the various regulators is by unimproved trails and extremely hazardous under ideal conditions of yesterday, September 9. We can hardly imagine accessibility during conditions of snow and ice for the several trips per day to each. Most trips have been made during the night and early morning before daylight.

Conditions are so critical at the moment that we almost wish to ignore inspections of specific locations, however, on September 9, 1980, the following locations were inspected by this writer:

1. Johnson County Gas Company
 - a. Office - plastic line above ground
 - b. Galvanized piping
 - c. Unapproved metal to plastic connector (highly dangerous)
2. Lick Fork and Hager Hill
 - a. Exposed piping not supported - general corrosion - deep pits, more than 50%
 - b. 1 1/2 mile 1 inch main swinging along ditch line
 - c. Service lines and mains running through culverts - both plastic and bare steel

3. Hager Hill - main supply line above ground along side of highway - crossing roads and driveways.
4. Darrel Davis Residence
 - a. Plastic service exposed
 - b. Illegal (unapproved) connector
 - c. Meter submerged 2/3
5. East Point boundary - Highway 23 main exposed and open to damage.
6. Paradise Subdivision
 - a. Gas main on side of ditch - dead trees and grass indicating leakage
7. Columbia supply line above ground and severely pitted - probably cannot again hold the 165 pounds of pressure as before.
8. Other Columbia supply line above ground severely pitted.
9. Jade Ward Holler supply line to Mealy out of service.
10. Main Columbia supply line shows about one inch pulling out of dresser coupling.
11. Other segments of Jade Ward Holler line are seriously deteriorated and exposed.
12. No leak surveys have been conducted since Danny Preston became associated with Johnson County Gas Company.
13. Some known leaks have not been repaired.
14. A partial vegetation leak survey was made with many indications of gas leakage.

On September 9, 1980, Chief Inspector Larry Amburgey of Commission staff made a partial leak survey beginning at Johnson County Gas Company office and extending for about twenty blocks, which resulted in the location of twelve leaks as follows:

<u>Location</u>	<u>Type of Survey</u>	<u>Results</u>	<u>Comments</u>
Eulas Crace	F/I	Leak observed	Leak under concrete driveway pick-up both sides
2nd house below old gas office	F/I	Small leak	Left side of driveway 5' to 0'
Tommy Meade	F/I	Large Leak	Left side of property approx. 6' from fence
Tommy Meade	F/I	Medium Leak Small Leak (2 leaks)	6' left of driveway Near large tree - right side
1st house right side of Tommy Meade	F/I	Medium	Left side of driveway
Tom Howard	F/I	Large	Right in front of meter set - next to left end of street fence
Gary Watkins	F/I	Large	Directly in front of house
Earl Music - mailbox	F/I	Medium	Both sides of driveway
Clifford Booth	F/I	Small	Left side of driveway
Tim Boyd	F/I	Medium	10-12' from telephone booth - right side of yard
Tim Boyd	F/I	Medium	5' from driveway

This appears to be indicative of conditions throughout the entire system.

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September 10, 1980
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Also on September 9, 1980, Inspector Amburgey made the following on-site inspections, with pictures and noted as follows:

14 psig at gas company office

No employees are certified to join plastic pipe.

Recommend that a form be promulgated to record prospective customers - when system improves and customers can be added, oldest request can be honored first.

Pictures 13-14 - exposed 1" line with coupling then 2"

Picture 12 - exposed 1" line below Columbia No. 5 regulator

Pictures 1-11 - three (3) regulator buildings

Pictures 15-19 - exposed line on Silk Stocking Road - line through culvert

Picture 20 - line runs over one bridge and under another

Pressure on the end of East Point/Hager Hill system is 22 psig

Kerby Goble stated that the only meters that are changed are dead meters. They are replaced with a new meter.

Five Regulator Stations were inspected by Mr. Amburgey and found to be in reasonably good condition although no maintenance has ever been performed. Completed inspection forms are attached (5).

The regulator stations appear to be in working order, however, no maintenance, no test and no calculations have ever been made on the regulators or the relief valves.

Regulator buildings are all of combustible material and not vented in accordance with requirements.

Probable violations appear to be as follows:

DOT 49 CFR

192.13(b)(c) - No plans, procedures and programs available.

192.14(1)(2)(3)(4)(b) - No record of investigations, tests, repairs, replacements and alterations made under (a) of this section.

192.17 - No inspection and maintenance plan.

192.51, 192.53, 192.55 - Pipe and component parts not able to maintain the structural integrity of the pipeline - not otherwise qualified in accordance with applicable requirements. No specifications of any pipeline material known by operator or on file.

192.59 - No specifications for plastic known or on file.

192.61 - Copper pipe used not marked and specifications not known - no record.

192.145 - Value of valves unknown.

192.161 - In its entirety - supports or anchors - movement.

192.181 - No record of emergency valves or records of maintenance.

192.197(1) - No regulator capable of reducing distribution line pressure to pressures recommended for household appliances, usually 3.5 inches of water column.

192.199(b)(c)(g) - No records and no knowledge.

192.201(ii) - No record and no knowledge of settings.

192.273 - No written procedures, and no inspections.

192.281, 192.283, 192.285, 192.287 - Absolutely no procedures established for use or joining of plastic materials.

192.303 - No written specifications or standards for construction of transmission line or main.

192.317 - Transmission line or main not protected from wash-outs, floods, unstable soil, landslides or other hazards.

192.321(a)(e) - Much plastic seen above ground - no electrically conductive wire or other means of locating plastic pipe underground.

192.327 - Transmission lines not buried sufficient depth.

192.361 - Service lines not buried minimum depth or protected from anticipated external load.

192.363 - No service line valves.

192.451 - No corrosion control - submerged or above ground.

192.553 - Pressure increases - pressure is increased to maximum available without plan or increment checks.

192.603(a)(b) - No operating and maintenance plan established.

192.613 - No surveillance plan, however, pipeline is known to be in unsatisfactory condition.

192.615 - No emergency plan.

192.617 - No procedure for investigation of failures.

192.621 - MAOP Unknown (4) limits unknown

192.703 - No person may operate a segment of pipeline that becomes unsafe.

192.706 - No leakage survey of transmission lines.

192.707 - No line markers.

192.709 - No records of leak repair on transmission lines.

192.723 - No leak survey.

192.725 - No leak test made on service lines.

192.739 - No inspections and no tests made - no pressure test for setting.

192.741 - No recording pressure gauges.

192.743 - No testing or calculations of capacity of pressure limiting devices.

192.745, 192.747 - No valve maintenance on transmission lines.

Relates to: KRS Chapter 278. 807 KAR 50:015:

Section 8 - No records of complaint to the utility by a customer.

Section 11(b) - Dangerous conditions known to exist do not result in discontinued service.

Section 13 - No testing of meters - new or periodic tests.

Section 15(3) - No records and meters not sealed.

807 KAR 50:035. GAS.

Section 3(a) - No copies of minimum safety standards available - either state or federal.

Section 8(1) and (2) - Heating value of gas not established - and whether maintained unknown.

Section 11(4) - No standard method of meter and service line installations.

Section 13 - No meter testing performed.

Section 14 - No recording pressure gauges.

Section 15 - No standard pressure adopted -
and maintained.

Section 16 - Variations of pressure are extreme -
from one pound to 165 pounds.

Section 17 - No record of service interruptions.

Section 18 - No meter testing facilities and no
19 tests made.

There now appears to be only two courses of action to pursue -

1. Establish ownership and move to make necessary improvements in supply and distribution to provide gas service at 30 degrees or below.
2. Give notice to each customer of Johnson County Gas Company to arrange for alternate energy source.

The above applies to both segments, Hager Hill and Van Lear, because the necessary pressure increase to maintain service is out of the question.

Very pertinent to this report and conditions of possible continued gas service by Johnson County Gas Company is the arrears for gas purchased now outstanding to the following suppliers:

Columbia Gas	\$44,287
Kentucky-West Virginia	11,696

These suppliers are seriously concerned that an unaccounted-for of 70 per cent is far more than any distribution company can absorb.