

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

JOHNSON COUNTY GAS COMPANY, INC.,)
VAN LEAR, KENTUCKY 41265, APPLI-)
CATION FOR AUTHORITY TO ADJUST)
RATES ON AN EMERGENCY BASIS) CASE NO. 8235

O R D E R

The Commission on its motion pursuant to KRS 278.250 has investigated the financial and operating condition of Johnson County Gas Company ("Johnson County"). An interim report by the Commission's staff ("staff") indicated the existence of apparent irregularities in the financial condition and management practices. The final report by the staff, made part of the evidence of record by letter dated July 30, 1982, indicated that many of those deficiencies still exist and recommended that certain corrective actions be taken.

All parties of record were requested to provide written comments to the Commission on the final staff report by August 20, 1982. Written comments were received from Johnson County, the Attorney General's Office, the Department of Local Government, and the Appalachian Research and Defense Fund of Kentucky, Inc., counsel for intervenors Bonnie Franklin, et al.

On August 19, 1982, Columbia Gas of Kentucky, Inc., ("Columbia") filed its motion with the Commission to establish a surcharge to be added to Johnson County's rates for the purpose of

reducing delinquent purchased gas costs owed Columbia by Johnson County. On September 1, 1982, Kentucky-West Virginia Gas Company ("Kentucky-West") filed a similar motion in order to permit Johnson County to reduce its delinquent purchased gas costs to Kentucky-West. On September 2, 1982, the Attorney General filed a response to these motions stating that the surcharges should be denied because the Commission previously rejected such surcharges by Order dated October 29, 1981.

On August 31, 1982, Johnson County filed an additional response to the final staff report wherein it answered specific questions raised by the various intervenors' comments.

Commentary

The Commission has spent much time and effort with Johnson County in attempting to resolve its financial and operating problems. Along with the Department of Local Government, the Commission supported the rebuilding of the entire gas system to provide better, more efficient and safer gas service to the customers. The Commission also authorized a rate increase in May 1981 in order for Johnson County to begin repaying the cost for the new gas system. The Commission has worked closely with the Attorney General's Office to assure the customers of Johnson County that the rates being billed are those authorized and are fair, just and reasonable in order to reduce the large amounts of past due accounts being carried by Johnson County. And, finally, the Commission has directed its staff to conduct an investigation into the financial and operating conditions and management

practices of Johnson County. Throughout this process, the Commission has encountered varying degrees of cooperation from the management of Johnson County as well as its consultants.

The record in this matter clearly indicates that the management of Johnson County has not been responsive to the needs of its operations nor its customers. Although recent filings in this matter indicate that corrective changes in management and operations are taking place, and that management is showing an increasing desire to improve its relations with customers and creditors, the Commission is not convinced, without further proof from improved operating results, that the management is capable of operating a viable gas system.

The Commission continues to be concerned with Johnson County management's cavalier and, at times, irresponsible attitude toward its financial record-keeping and management practices. The Commission is of the opinion that much of Johnson County's cash flow problem results from this attitude. Lack of an adequate invoice documentation file, the existence of informal loan transactions and repayment arrangements and a failure to maintain basic financial records on a current basis are but a few examples of Johnson County management's irresponsibility and have resulted in its inability to adequately plan and execute a cash and operating budget. This situation has further led to Johnson County's customers' distrust of management.

The final staff report does indicate that some of the practices have been corrected. Further steps will be required. The Commission fully intends to insure that the customers of

Johnson County are provided gas service in a reasonable and efficient manner at a fair and just price.

Summary and Conclusions

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

(1) The final report of the staff examination of the books and records of Johnson County, submitted by memorandum to the Commission dated July 12, 1982, was made part of the evidence of record in this case on July 30, 1982. The report made the following recommendations:

(a) That the number of employees on the Johnson County payroll be reduced from five to no more than three;

(b) That the number of vehicles owned by Johnson County be reduced from three to two;

(c) That no further payments be made by Johnson County for a certain vehicle (Chevy Trailblazer) unless and until title is transferred from the president to Johnson County;

(d) That the provision of free gas service to certain customers be discontinued immediately; and

(e) That a system of financial records be established and maintained according to the Uniform System of Accounts for Small Gas Utilities. At the minimum, the following should be implemented:

- 1) A file should be set up for each vendor and a copy of each invoice included in the file.

- 2) All transactions between Johnson County and its officer-stockholders should be formalized. Loans to Johnson County from officer-stockholders or to officer-stockholders from Johnson County should be evidenced by a note issued by the lender and signed by the borrower.
- 3) Cash receipts, disbursements and general ledgers should be posted monthly. For maximum flexibility in preparation of financial data the general ledgers should be designed to provide monthly, year-to-date and 12 month-to-date balances for revenue and expense data.

(2) Johnson County filed a response to the final staff report and to various questions raised by intervenors on August 31, 1982, wherein it stated it will adopt each and every recommendation made by the Commission. Johnson County should file a detailed plan indicating how and when it will implement these recommendations.

(3) Johnson County's response further indicates that cost savings will result from implementation of the final staff report recommendations and from a reduction in line loss due to the system reconstruction. The expected annual savings as a result of the implementation of the recommendations in the final staff report was estimated to be approximately \$53,000. The savings in purchased gas cost from a reduction in line loss was estimated to be approximately \$80,000.

(4) There were no comments filed by any intervenor concerning the final staff report which disputed the recommendations nor offered any additional evidence which would require further action in this matter. Certain intervenors did request further investigations into several allegations or questions concerning

cash accounts and loan transactions which were raised in the interim report but were not specifically addressed in the final report. The Commission is of the opinion that the final report does adequately address the questions raised in the interim report and no further investigation is warranted. Although severely inadequate--and often deliberately inappropriate--accounting procedures were found, the staff's investigation of the books and records disclosed no material misappropriation of assets. To prevent the recurrence of such accounting procedures related to the loan transactions, the Commission should prohibit any loans from Johnson County to its owners.

(5) When the final staff report was submitted for comment, the Commission requested that it be notified as to the need for a hearing on the findings and recommendations. Because no party requested a hearing, the Commission should hold no further hearings in this matter.

(6) The Department of Local Government has requested a meeting with Johnson County and its major creditors to consider delinquent accounts and certain payment arrangements. The Commission agrees that this meeting should be held.

(7) The motions by Columbia and Kentucky-West for surcharges should be denied because the expected savings to Johnson County as a result of the changes outlined herein will increase the funds available to repay the delinquent purchased gas accounts. Moreover, Johnson County's efforts to collect its past due accounts should be redoubled and any further cash received

from these actions will serve to increase the monies available to repay its major creditors.

(8) To enable the Commission to monitor the impact of the implementation of the recommended changes in the final staff report, Johnson County should be required to file quarterly financial statements (income statement, balance sheet and a statement of changes in financial position) with the Commission for a period of 2 years beginning with the third calendar quarter of 1982.

(9) Johnson County has failed to comply with a previous Commission Order in this case dated October 29, 1981, wherein it was required to file monthly statements of payments to its gas suppliers. Johnson County should be required immediately to file a statement setting forth in detail its entire accounts payable as of the date of this Order, indicating which payables are currently due, past due, and describing actions it is taking to meet these payments.

IT IS THEREFORE ORDERED that Johnson County shall immediately adopt and implement the recommendations contained in the final staff report.

IT IS FURTHER ORDERED that Johnson County shall file, within 30 days of the date of this Order, its plan indicating how and when it will implement these recommendations.

IT IS FURTHER ORDERED that Johnson County is hereby prohibited from making loans to its owners.

IT IS FURTHER ORDERED that Johnson County shall immediately schedule a meeting with its principal creditors and notify the Commission of the date, time and place.

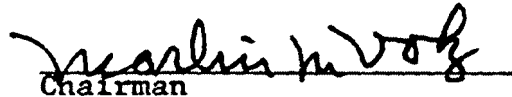
IT IS FURTHER ORDERED that the motions of Columbia and Kentucky-West requesting surcharges on Johnson County's customers to repay delinquent gas costs be and they hereby are denied.

IT IS FURTHER ORDERED that Johnson County shall file, within 20 days of the date of this Order, a listing of its accounts payable as of the date of this Order indicating which payables are currently due and past due, and describing what actions it is taking to meet these payments.

IT IS FURTHER ORDERED that Johnson County shall file quarterly financial statements with the Commission for a period of 2 years beginning with the third calendar quarter of 1982.

Done at Frankfort, Kentucky, this 7th day of October, 1982.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary