

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN INVESTIGATION INTO THE)
NATURAL GAS SUPPLY AVAILABLE) CASE NO. 9200
TO THE SALYERSVILLE GAS COMPANY)

SHOW CAUSE ORDER

On November 5, 1982, the Commission issued an Order in Case Number 8652 which granted a certificate of public convenience and necessity to Salyersville Gas Company ("Salyersville") to proceed with the construction of a natural gas utility for the purpose of service to the City of Salyersville and environs. The certificate was granted after a hearing in which the proposed utility's gas supply was discussed (among other issues). At that hearing and in several filings before the Commission, Salyersville contended that a more than adequate supply of natural gas was available to meet the demands of the utility.

The contract between Salyersville and its supplier, Cobra Oil and Gas Company ("Cobra"), dedicates six natural gas wells exclusively for the supply of Salyersville. The contract further states that Cobra shall maintain pressure and shall provide a minimum of 200,000 Mcf annually to Salyersville. In its application and notice, Salyersville stated that the wholesale contract provided for adequate supply. Finally, during the hearing on October 8, 1982, Mr. Grady Conley of Salyersville referred to the availability of 21 wells which could provide a 30-year supply of

natural gas for 1,000 or more Salyersville customers. Mr. Conley also referred to sources of natural gas (other than Cobra's wells) by the names of Energy Capital, KV Gas and Oil and Equitable of Louisiana. Mr. Conley further stated that Salyersville could also purchase from Inland Gas Company ("Inland"). On the basis of the available supply and alternate supplies, the Commission granted the certificate with the expectation that Salyersville would have an adequate supply of natural gas.

The history of Salyersville thus far has shown otherwise. In the first winter of operation (1983-84), Salyersville was unable to provide sufficient natural gas for the customers then on the system (fewer than 200). For a time, the only industrial customer of Salyersville was required to switch to alternate fuels and emergency purchases from Inland were required to maintain service to Salyersville's remaining customers. It is the Commission's understanding that Inland provided most, if not all, of Salyersville's gas requirements for that winter.

Though some efforts were made by Salyersville during the spring and summer of 1984 to obtain additional supplies of natural gas, a pressure/supply problem occurred again in early October, 1984. Reportedly, tampering with the gas/liquid separators resulted in liquid entering the gas supply lines and caused a drop in line pressure on the Salyersville system to unacceptable levels (4 pounds rather than the normal 20 pounds).

Though the situation was remedied within 24 hours and no reports of outages have been received since that time, the Commission is concerned about the continued ability of


Salyersville to supply the needs of its existing customers. The ability to supply additional customers as was initially anticipated by Salyersville in its certificate filing is certainly in doubt. Adding to the Commission's concern is the fact that Inland is not available to Salyersville as an additional, emergency supplier for this winter or the future due to commitments of line capacity to other customers.

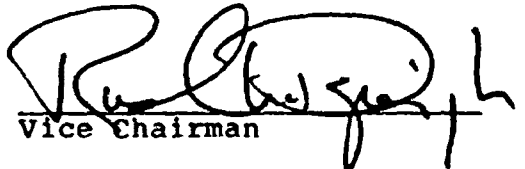
Due to this concern and the history of Salyersville to date, the Commission finds that it is necessary for Salyersville to demonstrate that it is able to provide sufficient natural gas to meet the requirements of its present and anticipated customers. As previously noted, an adequate supply was one factor in the granting of the certificate and, indeed, has been the reason for the failure of previous natural gas systems in Salyersville.

IT IS THEREFORE ORDERED that Salyersville shall appear before the Commission on November 14, 1984, at 1:30 PM, Eastern Standard Time, in the Commission's offices at Frankfort, Kentucky, for the purpose of establishing that adequate gas supplies are available for the Salyersville system and to demonstrate an ability to continue to supply its customers.

Done at Frankfort, Kentucky, this 2nd day of November, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary