

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF HARMON)
AND BRADLEY TO SELL AND) CASE NO. 9584
PURCHASE B & H GAS COMPANY)

O R D E R

On May 19, 1986, a joint application was filed by the owners of B & H Gas Company ("B & H") requesting the Commission to approve the acquisition of B & H by John and Debbie Bradley ("Bradleys"). The proposed sale includes the gas distribution system together with the stock and all appurtenances of B & H, except as noted in the application.

In order to rule in this proceeding the Commission is of the opinion that additional information is required from the proposed new operators. The Commission notes that the history of B & H's operation regarding compliance with the Commission's regulations has been inconsistent. Significant safety measures remain to be incorporated into the physical facilities and general operation of B & H. Additional information is required by the Commission in order to determine the qualifications of the Bradleys to operate B & H and their willingness to comply with the Commission's regulations. The Commission notes that the Bradleys have apparently been operating B & H since June 1, 1986.

IT IS THEREFORE ORDERED that the Bradleys shall file the following information with the Commission within 14 days of the date of this Order.

1. The following is an excerpt from the Uniform System of Accounts which applies to B & H:

5. Gas plant purchased or sold. A. When gas plant constituting an operating unit or system is acquired by purchase, merger, consolidation, liquidation, or otherwise, after the effective date of this system of accounts, the costs of acquisition, including expenses incidental thereto properly includible in gas plant, shall be charged to account 102, Gas Plant Purchased or Sold.

B. The accounting for the acquisition shall then be completed as follows:

(1) The original cost of plant, estimated if not known, shall be credited to account 102, Gas Plant Purchased or Sold, and concurrently charged to the appropriate gas plant in service accounts and to account 104, Gas Plant Leased to Others, account 105, Gas Plant Held for Future Use, 105.1, Production Properties Held for Future Use, and account 107, Construction Work in Progress-Gas, as appropriate.

(2) The depreciation, depletion, and amortization applicable to the original cost of the properties purchased, shall be charged to account 102, Gas Plant Purchased or Sold, and concurrently credited to the appropriate account for accumulated provision for depreciation, depletion or amortization.

(3) The cost to the utility of any property includible in account 121, Nonutility Property, shall be transferred thereto.

(4) The amount remaining in account 102, Gas Plant Purchased or Sold, shall then be closed to account 114, Gas Plant Acquisition Adjustments.

Please provide the journal entries and supporting calculations and workpapers used to record the transfer of B & H.

2. Please provide the original cost of the Case backhoe transferred and the associated accumulated depreciation at the time of the transfer. Please also provide a copy of the original invoice purchasing the backhoe.

3. Please provide the original cost of the ditch witch transferred and the associated accumulated depreciation at the time of the transfer. Please also provide a copy of the original invoice purchasing the ditch witch.

4. Please provide the original costs of all office supplies and equipment and the related accumulated depreciation as of the time of the transfer.

5. Are you aware that the Commission does not typically allow a rate of return on acquisition adjustments or debt service on liabilities incurred to fund the acquisition adjustment?

6. Please provide a copy of B & H's current gas supply contract.

7. Please provide a copy of B & H's previous gas supply contract.

8. As B & H and its gas supplier are commonly-owned, how are the terms, including price, of the gas supply contract proposed to be determined?

9. Is a copier included in the sale of B & H? If not, why? Hasn't the copier been carried on the books of B & H for ratemaking purposes?

10. For each item not included in the sale of B & H provide the following information:

(a) Whether the asset was rented or purchased.

(b) If purchased, whether the company's funds or private funds were used.

11. With reference to your letter to the Commission dated June 2, 1986, provide further clarification on the following:

(a) What is the status of your scheduled maintenance on stand pipes and meters to eliminate atmospheric corrosion?

(b) Has a corrosion control program been established? If so, who is the engineer and qualified corrosion technician?

(c) What percentage of the system is steel? How is it protected from corrosion?

12. During your employment with B & H between 1968 and 1976 describe with more detail your activities related to meter reading, pipeline construction, general maintenance, repair of gas lines and customer service.

13. Did you perform any work on B & H between 1976 and the present? If so, what?

14. Are you familiar with the Commission's pipeline safety regulations regarding construction, maintenance and operation?

15. Have you attended any of the training programs sponsored by the Kentucky Gas Association? Which ones and when?

16. Do you intend to comply with the Commission's regulations regarding meter testing and filing meter test reports? Are you aware that B & H has not filed annual meter test reports for 1983, 1984 and 1985?

17. Does B & H have a meter test program? If so, who tests B & H's meters? Is this person certified by the Commission?

18. With reference to the application filed by B & H on May 19, 1986, why isn't the backhoe and the ditch witch included in the transfer of assets and physical property?

19. Haven't these two items been carried on the books of B & H for ratemaking purposes?

20. Does the transfer include the office building? If not, why? Haven't the construction costs for the building and subsequent maintenance costs been carried on the books of B & H for ratemaking purposes?

21. Why are the Harmons provided free gas? What constitutes "reasonable consumption" and who determines that amount? Why isn't this service discriminatory to B & H's other customers?

22. Are you aware that KRS 278.170 restricts a utility from providing free gas to individuals except officers, agents and employees, and then only with Commission agreement?

23. Is free gas provided to any other customers of B & H? If so, how many and on what basis?

24. According to information filed June 3, 1986, you own 100 percent of the stock in Bradley and Son Oil and Gas ("Bradley and Son"). How much (in percent) by each spouse?

25. Are you familiar with KRS 178.274 which states in part: "In instances in which a utility purchases natural gas from an intrastate affiliate, the Commission shall assume jurisdiction of the affiliated company as though it were a utility . . ."?

26. Are you aware that this statute also states: "(i)t shall be presumed that natural gas purchases from affiliated companies are not conducted at arm's length"?

27. Pursuant to KRS 278.274 is there any reason why the Commission should not assume jurisdiction over Bradley and Son based upon its status as an affiliated company of B & H?

28. What percentage of B & H's annual gas needs are supplied by Bradley and Son? Who supplies the remainder?

29. Does B & H meter the gas it purchases from Bradley and Son at the purchase point? How many purchase points are there? Is the pipe interconnection at each purchase point in compliance with the Commission's pipeline safety regulations?

30. What is the termination date of Bradley and Son's present contract with B & H? What is the current rate? How long is this rate expected to remain in effect?

31. When does the contract with Kentucky West Virginia Gas Company ("Kentucky West") expire? Do you as owner of B & H intend to continue purchasing from Kentucky West?

32. Has B & H purchased gas from Kepco, Inc., in the past? If so, please provide the provisions of the contracts.

33. Explain the relationship between Kepco, Inc., and Kentucky West.

Done at Frankfort, Kentucky, this 28th day of July, 1986.

ATTEST:

PUBLIC SERVICE COMMISSION

Executive Director

Richard D. Hansen

For the Commission