

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

O R D E R

On May 19, 1986, the Commission received a joint application from Hydrac Harmon, Lula Mae Harmon, Avery Lee Harmon and Diane Harmon ("Harmon") of Stanville, Floyd County, Kentucky, and John Bradley and Debbie Bradley ("Bradley") of Stanville, Floyd County, Kentucky, requesting that the Commission authorize and approve the transfer and sale of the stock and physical assets of B&H Gas Company ("B&H"). According to the application, the parties have agreed upon a price and for a transfer of the assets, physical properties and stock of B&H from Harmon to Bradley. Attached to the application was a copy of a Sales Agreement entered into by Harmon and Bradley regarding the sale of the physical assets and stock of the corporation. B&H is a natural gas distribution utility operating in and around Stanville, Floyd County, Kentucky.

Subsequent to filing the initial application on June 2, 1986, Bradley filed a statement of their qualifications relating to their ability to operate B&H and a financial statement of the Bradleys' assets and liabilities as of May 30, 1986.

On July 28, 1986, the Commission issued an Order requesting additional information. The Commission required clarification on

the willingness of Bradley to comply with the Commission's gas safety regulations since the history of B&H while operated by Harmon is inconsistent in this area. Additional information was also required to determine the qualifications of Bradley to operate B&H. On August 18, 1986, Bradley filed a response to the Commission's information request.

A hearing was not requested in this matter, and none was conducted. The decision of the Commission is based upon the application, written submissions by the applicant and other documents available in the Commission's office.

#### COMMENTARY

##### Accounting Considerations

According to the sales agreement filed with B&H's application, seller is to assume the net liability position of B&H as of December 31, 1985, receive a backhoe and ditch witch and relinquish the remaining net assets for a purchase price of \$109,000. In addition, seller is to receive \$1,000 for the stock in B&H. The Commission has reviewed the evidence of record and determined the acquisition adjustment of \$63,415 as detailed in Appendix A. The Commission is also of the opinion that a reasonable amortization period for the acquisition is 15 years. However, in any future rate case application, the burden of proof shall be on B&H to demonstrate why the acquisition adjustment should be included for rate-making purposes.

##### Sales Agreement

The Commission notes that the Sales Agreement includes the gas distribution system, including all easements, contracts,

lines, meters, gates, valves, real estate and all equipment and physical properties comprising the gas system with the exception of a backhoe and ditch witch. The purchase price of the physical plant is \$109,000, and the purchase price for the stock is \$1,000. At the time of application an unpaid balance of \$80,000 remained in the form of a note bearing interest at the rate of 8 percent per annum payable in monthly installments of \$2,000. Also included in the Sales Agreement is the provision that Avery Lee Harmon and Hydrac Harmon shall each receive free gas for one dwelling unit based upon reasonable consumption.

#### Qualifications To Operate B&H

The Commission is of the opinion that the principal issue in this case is the degree to which Bradley is ready, willing and able to operate B&H in compliance with the Commission's regulations. In support of his qualifications, John Bradley submitted a statement which describes his educational background and job experience. During 1968-1976 Mr. Bradley worked at B&H and had the following duties: meter reading, pipeline construction, general maintenance, repair of gas lines, customer service and billing. However, between 1976 and June 1, 1986, Mr. Bradley did not perform any work on B&H.

Based upon Bradley's response to the Commission's information request, Mr. Bradley intends to operate B&H within compliance of the Commission's gas safety regulations and to continue his training as a gas operator. He is familiarizing himself with the Commission's pipeline safety regulations and trying to implement

these into [his] daily maintenance of the gas system."<sup>1</sup> He has also attended one training seminar sponsored by the Kentucky Gas Association, "Instruction in Joining of Plastic Pipe," in June 1986; and he plans to attend another training seminar in the spring of 1987 on corrosion control.

The issue of corrosion control is significant since approximately 75 percent of the B&H system is unprotected steel which is about 45 years old. The Commission's records indicate that B&H has been cited for being deficient in developing a corrosion control program (807 KAR 5:022, Section 10). Mr. Bradley has indicated that a corrosion control plan will be developed by an engineer and corrosion technician.

#### Affiliated Entities

Two-thirds of the annual gas needs of B&H are supplied by Bradley and Son Oil and Gas Company ("Bradley and Son").<sup>2</sup> One hundred percent of the stock of Bradley and Son is owned by John and Debbie Bradley,<sup>3</sup> the applicants in this case who propose to own and operate B&H. If the Commission approves this application, 100 percent of the stock of B&H will also be owned by John and Debbie Bradley.

The Commission is of the opinion that once a certificate is issued approving the transfer of B&H's stock and physical plant from Harmon to Bradley, and Bradley becomes the operator and owner

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<sup>1</sup> Response to Commission Information Request, item 14.

<sup>2</sup> Ibid., item 28.

<sup>3</sup> Ibid., item 24.

of B&H, Bradley and Son and B&H will be affiliated companies. KRS 278.274(3)(a) defines affiliated companies "as those in which one (1) or more of the owners control or have the right to control the business affairs of all affected companies." Pursuant to KRS 278.274(3)(b):

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 as defined in KRS 278.010. The commission's jurisdiction shall extend to that extent necessary to ensure that the rates charged the utility and ultimately to the consumer are just and reasonable.

The terms and conditions of the present contract between Bradley and Son and B&H include a current rate of \$2.00 per MCF and a termination date of November 26, 1986. Bradley has stated that this rate will be adjusted "in compliance with other companies. . .adjusting for economic conditions."<sup>4</sup> The Commission recognizes that the current rate charged by Bradley and Son to B&H certainly meets the standard of "just and reasonable." The Commission is also aware that a variety of rates are charged by other gas production companies to their customers. In order to determine the just and reasonable nature of the new contract to be signed between Bradley and Son and B&H, the Commission is of the opinion that it will need to approve this contract once the parties have reached agreement; therefore, B&H shall submit a copy of this contract to the Commission as soon thereafter as possible.

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<sup>4</sup> Ibid., item 30.

### FINDINGS AND ORDERS

After reviewing the record and being fully advised, the Commission is of the opinion and hereby finds that:

1. A joint application has been made to the Commission by Harmon, the present owner and operator, and Bradley, the prospective owner and operator, to approve the terms and conditions of a Sales Agreement and authorize the transfer of stock and physical assets of B&H.

2. Bradley is ready, willing and able to operate B&H in compliance with the Commission's regulations.

3. The customers of B&H will best be served by approving the Sales Agreement and transfer of stock and physical assets requested in this proceeding.

4. The accounting treatment of the sale and transfer as detailed in Appendix A is fair and reasonable.

5. The terms of the sales agreement result in an acquisition adjustment of \$63,415 as detailed in Appendix B.

6. A 15-year amortization period on a straight-line basis for the acquisition adjustment is fair and reasonable.

7. Bradley should submit to the Commission a corrosion control plan to comply with 807 KAR 5:022, Section 10, including a schedule for implementation and the names of the engineer and corrosion technician involved with the plan.

8. Subsequent to Commission approval of this application, Bradley and Son and B&H will be affiliated companies within the meaning of KRS 278.274.

9. B&H should submit to the Commission for approval a copy of any new contract signed with Bradley and Son.

IT IS THEREFORE ORDERED that:

1. The joint application made by Harmon and Bradley to transfer and sell the stock and physical assets of B&H to Bradley is approved.

2. B&H shall submit to the Commission within 30 days of the date of this Order a corrosion control plan, including a schedule for implementation and the names of the engineer and corrosion technician involved.

3. B&H shall follow the accounting of the sale and transfer as detailed in Appendix A.

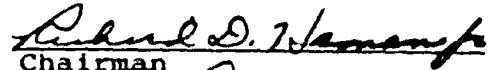
4. B&H shall amortize on a straight-line basis the acquisition adjustment over a period of no more than 15 years.

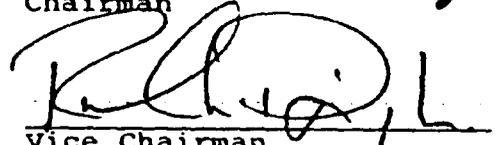
5. B&H shall submit to the Commission for approval a copy of any contract it has signed with Bradley and Son after the date of this Order.

6. B&H shall issue, file and post an adoption notice pursuant to 807 KAR 5:011, Section 11.

Done at Frankfort, Kentucky, this 5th day of November, 1986.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Executive Director

APPENDIX A

<u>Account Number</u>		<u>DR.</u>	<u>CR.</u>
102	Gas Plant Purchased or Sold	\$ 82,883	
238	Other Current and Accrued Liabilities	14,822	
232	Accounts Payable	485	
231	Notes Payable	43,805	
141	Notes Receivable		\$ 10,000
131	Cash and Working Funds		329
142	Customer Accounts Receivable		22,666
224	Other Long-Term Debt		109,000
216	Unappropriated Retained Earnings	11,163	
110	Accumulated Provision for Depreciation	8,785	
101	Utility Plant		<u>19,948</u>
		<u>\$161,943</u>	<u>\$161,943</u>
To record sale of plant and property, dividend of backhoe and ditch witch of 12/31/85			
102	Gas Plant Purchased or Sold		\$112,401
101	Utility Plant	\$112,401	
102	Gas Plant Purchased or Sold	92,933	
110	Accumulated Provision for Depreciation		92,933
114	Gas Plant Acquisition Adjustment	63,415	
102	Gas Plant Purchased or Sold		<u>63,415</u>
		<u>\$268,749</u>	<u>\$268,749</u>

To record purchase of plant and acquisition adjustment of 12/31/85

APPENDIX B

12/31/85 Net Current Assets:

Notes Receivable	\$10,000	
Cash	329	
Accounts Receivable	<u>22,666</u>	
 Current Assets 12/31/85		 \$32,995
 Other Liabilities	 \$14,822	
Accounts Payable	485	
Notes Payable	<u>43,805</u>	
 Current Liabilities 12/31/85		 <u>\$&lt;59,112&gt;</u>
 Seller Assumes Net Liabilities		 <u>\$&lt;26,117&gt;</u>

12/31/85 Physical Plant:

Gross Plant		\$132,349
Less Property Distribution		
Backhoe	\$13,256	
Accumulated Depreciation	<4,904>	
Ditch Witch	6,692	
Accumulated Depreciation	<u>&lt;3,881&gt;</u>	
		\$<11,163>
 Accumulated Depreciation		 <u>&lt;101,718&gt;</u>
 Net Plant Purchased		 <u>\$ 19,468</u>

Consideration Given for Physical Plant and Assumption of Net Current

Liabilities		\$109,000
Less:		
Net Liabilities Assumed		<26,117>
Net Plant Purchased		<u>&lt;19,469&gt;</u>
 Acquisition Adjustment		 <u>\$ 63,414</u>