

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

FAILURE OF KEN-GAS OF KENTUCKY, INC.) CASE NO. 9987
TO COMPLY WITH A COMMISSION ORDER)

SHOW CAUSE ORDER

On May 22, 1987, an Order ("Order") was issued in Case No. 9586 granting Ken-Gas of Kentucky, Inc., ("Ken-Gas") a Certificate of Public Convenience and Necessity for the construction of a natural gas system in Burkesville, Kentucky. Costs of \$307,125 were approved for construction,¹ which included start-up costs and other necessary capital outlays.² This amount approved by the Commission was based upon the most recent information filed by Ken-Gas.³

In the Order Ken-Gas was required to provide the Commission a copy of the bid notice when advertised, copies of the bids submitted for construction within 10 days of receipt, and the name of the contractor selected to install the system within 10 days of selection. The Order also required Ken-Gas to submit to the Commission a copy of the selected bid within 10 days and a copy of

¹ Case No. 9586, Application of Ken-Gas of Kentucky, Inc., Final Order entered May 22, 197, page 17.

² Ibid., page 28.

³ Ibid., page 18.

the construction schedule and construction plans with specifications within 30 days prior to the start of construction. During the hearing in Case No. 9586, Ken-Gas agreed to provide this information prior to construction.⁴

The Commission's purpose in requiring the bid and construction information to be filed prior to the start of construction was to enable the Commission to determine that the design and construction of the system met the parameters of the Order and the requirements of the Commission's gas safety regulations (807 KAR 5:022). This is standard procedure by the Commission in all gas construction projects which require a Certificate of Public Convenience and Necessity.

On July 14, 1987, the Commission's Division of Engineering received a call from Ken-Gas stating that the construction crew was ready to begin installation of the system and asked whether "there was anything we need to let you know about." As of the date of this call, the Commission had not received any of the information required in the Order. During this conversation and on July 15, 1987, Commission staff advised that if construction began, Ken-Gas would not be in compliance with the Order and may be subject to a fine and possible revocation of its certificate. During neither of these conversations did Ken-Gas indicate it had started construction. Subsequent to these conversations, the Commission received some of the construction-related information

⁴ Case No. 9586, Hearing Transcript, October 21, 1986, page 24.

and copies of bids, but no design and construction plans with specifications were included.

On July 20, 1987, Commission staff sent a letter to Ken-Gas restating that Ken-Gas would be in violation of the Order if it proceeded with construction. On that same day an investigator from the Commission's Gas Safety Section visited Burkesville and witnessed the installation of pipe for the Burkesville system. At that time approximately two miles of pipe had been installed, and a member of the construction crew stated that construction had begun July 14, 1987. The investigator advised Ken-Gas that it had not complied with the Order and told Ken-Gas to stop construction.

At an informal conference on July 27, 1987, Commission staff and Ken-Gas discussed three issues: the discrepancy between the \$307,125 approved for construction costs and the amount Ken-Gas has committed to spend; clarification of the nature and reliability of the gas supply; and review and approval of the design and construction of the system. Some additional information was presented by Ken-Gas relating to the current anticipated construction costs and the change in the projected supplier of gas. Regarding why they had started construction, Ken-Gas stated that they were concerned with the expiration of the franchise with Burkesville in September 1987; the issuance of the certificate had taken so long; and that Ken-Gas had tried to schedule a meeting with the Commission regarding the construction costs, but no meeting was ever arranged. No reasons were offered by Ken-Gas regarding its failure to file the information required prior to construction. Staff requested and Ken-Gas agreed that additional

information and clarification would be necessary to resolve the issues discussed. Attached as Appendix A to this Order is a data request relating to the issues discussed at the informal conference. Ken-Gas should respond to this data request at least seven days prior to the hearing scheduled herein in order to allow time for the Staff to review the responses and seek any additional clarification as needed at the hearing.

On July 31, 1987, a Commission gas safety investigator revisited Burkesville and once again witnessed the installation of pipe for the Burkesville gas system. At this point it was estimated that 75 percent of the distribution pipeline had been installed.

The Commission concludes that Ken-Gas has demonstrated complete disregard towards compliance with the Order through its failure to provide the information required prior to construction, and the fact that Ken-Gas will incur construction costs substantially in excess of the costs approved by the Commission. The Commission is unable to determine whether the design and construction of the system complies with the Commission's gas safety regulations, or that the gas system is economically viable due to the increased costs for construction and the unknown cost of the projected gas supply. Until Ken-Gas presents evidence to clarify these issues, the system should not be pressurized, and gas service should not be initiated.

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

1. Ken-Gas should appear before the Commission to show cause why it should not be fined for its failure to comply with the Order issued May 22, 1987.

2. Ken-Gas should present evidence that the design and construction of the Burkesville gas system complies with 807 KAR 5:022, that a reliable and reasonably priced supply of gas is available, and that the operation of the system is still economically viable.

3. Ken-Gas should not pressurize the system nor initiate gas service to any customer until the issues referenced herein are resolved by the Commission.

4. Ken-Gas should respond to the data request attached as Appendix A no later than seven days prior to the date of the hearing.

IT IS THEREFORE ORDERED that:

1. Ken-Gas shall appear on September 3, 1987, at 9:00 a.m., Eastern Standard Time, in the Commission's offices to show cause why it should not be fined for failure to comply with the Order issued May 22, 1987.

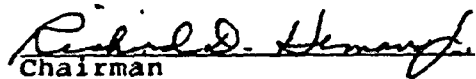
2. Ken-Gas shall present evidence at the hearing that the design and construction of the gas system complies with 807 KAR 5:022, that a reliable and reasonably priced supply of gas is available, and that the gas system represents an economically viable operation.

3. Ken-Gas shall not pressurize the gas system nor initiate gas service to any customer until the issues referenced herein have been resolved by the Commission.

4. Ken-Gas shall respond to the data request attached as Appendix A no later than seven days prior to the date of the hearing.

Done at Frankfort, Kentucky, this 7th day of August, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX A

DATA REQUEST CASE NO. 9987

5. Based upon current facts and circumstances, what is the projected number of customers for the test year?

6. For both residential and commercial customers, provide any adjustments to projected sales volumes.

7. With reference to the proposed increase in the cost of the distribution system above the amount allowed in the May 22, 1987, Order, provide the associated projected increases in the following expenses, including detailed explanations, calculations, documentation, and support for the projected increases:

- a. Depreciation and Amortization
- b. Interest
- c. Transportation
- d. Any other expense Ken-Gas believes will increase as a result of this.

8. With reference to the proposed change in the wholesale gas supplier, provide the following information with detailed documentation:

- a. The name of the gas supplier.
- b. The cost per MCF of gas.
- c. The transportation charge per MCF by Texas Eastern and any other company which will be involved in transporting gas for Ken-Gas.

9. Provide adjustments related to any other changes in facts or circumstances occurring since the May 22, 1987, Order; including, but not limited to, allowed expenses, financing,

capital structure, and rate base. Provide detailed explanations, calculations, documentation, and support for each of these adjustments.

10. Provide a set of construction drawings with specifications. Are these drawings the same as those being used by the contractor who is installing the system? When did Ken-Gas receive these drawings?

11. Who prepared these drawings?

12. Will you submit a set of as-built drawings to the Commission once the system is substantially completed? Will these as-built drawings be signed by an engineer? Who?

13. Explain the basis for the difference between the 400 residential customers projected for the second year, which appears in the preliminary materials estimate, and the 330 residential customers projected for the third year on the revised pro forma sheets filed January 16, 1987.

14. Send a copy of the agreement dated July 6, 1987, which is referred to in the notice to proceed.

15. What is the amount of money Dallas Dean bid and Ken-Gas subsequently accepted? For how many feet of distribution main?

16. What is the current cost estimate for completing the installation of the system? Identify what portion of the total costs represents labor, materials, and equipment.

17. Regarding the 15-mile gas line that runs from the Texas Eastern line to approximately four miles outside of Burkesville:

a. Provide test results and design/construction information.

b. When will Energy Search/Wedco assume ownership of this line? Who are the current owners?

c. For gas delivered through this line for the Burkesville system, what will be the transportation charge by the existing owners? By Energy Search/Wedco?

d. Where will Ken-Gas assume ownership of any gas supplied through this line? Is this line the sole source of supply for Ken-Gas?

18. What is the current status of contract negotiations between Ken-Gas and any potential suppliers of gas? Identify with whom you have talked. Provide information which relates to the cost of gas and the terms of supply.

19. Provide a copy of any contracts Ken-Gas has with Energy Search/Wedco, or any other individual or company which relates to the supply of gas. If no firm information is available, when do you expect to have supply contracts finalized?

20. Who is testing the distribution pipeline as it is being installed? At what pressure is the test being made, and how long is the test held? Who is witnessing the test, and what is that person's experience?

21. Who is the inspector monitoring the construction? Describe that person's experience.

22. Why wasn't the information stipulated in the May 22, 1987, Order submitted to the Commission prior to starting construction as required?

23. Provide information from the manufacturer on the test results and specifications of the plastic pipe that is being used.