

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE JOINT APPLICATION OF THE SALYERSVILLE)
GAS COMPANY, INC. AND WILLIE J. SMITH AND)
R. D. WILLIAMS FOR THE APPROVAL OF THE) CASE NO. 89-251
ACQUISITION OF THE SALYERSVILLE GAS)
COMPANY, INC. BY WILLIE J. SMITH AND)
R.D. WILLIAMS)

O R D E R

IT IS ORDERED that Salyersville Gas Company, Inc. ("Salyersville"), R. D. Williams and W. J. Smith ("joint applicants") shall file the original and 10 copies of the following information with the Commission with a copy to all parties of record within ten days from the date of this Order. If the information cannot be provided by this date, the joint applicants should submit a motion for an extension of time stating the reason a delay is necessary and include a date by which it will be furnished. Such motion will be considered by the Commission. Furnish with each response the name of the witness who will be available at the public hearing for responding to questions concerning each item of information requested.

1. Regarding the proposed contract with Centran Corporation is the gas Centran is to provide on a firm or interruptible basis?

a. If interruptible, is it considered prudent to contract for an interruptible supply of gas intended for residential customers? Explain.

b. If interruptible, have attempts been made to negotiate a firm gas supply with Centran? Explain.

c. The contract price in the proposed contract fluctuates month to month. Have attempts been made to negotiate a longer term contract with Centran which provides a fixed price?

d. Would gas supply intended for a residential market be more secure if the price to be paid is maintained for a longer term? Explain.

e. If in any given month during the heating season (November through March), Centran interrupts its supply of gas to Salyersville, how would the missing volumes be replaced by Salyersville? How much notice will Centran provide to Salyersville prior to interrupting the supply of gas?

f. The proposed price of \$1.73/MMBtu is for gas delivered into the pipelines of Columbia Gulf Transmission or Tennessee Gas Pipeline. How will this gas get to Salyersville's city gates? By the time gas provided by Centran reaches Salyersville, what (and how much) additional costs will have been added to the delivered price of \$1.73/MMBtu?

2. Has a contract been executed between Salyersville and Centran? If yes, provide a copy to the Commission. If not, describe any additional terms and conditions included in the agreement with Centran.

3. Do the applicants intend to utilize any pipelines currently owned by Inland Gas Company? If yes:

a. Will the pipelines designated "FG-51" or "G-39," both of which are located in southern Magoffin County, be utilized?

b. If either FG-51 or G-39 pipeline is to be used, describe the current condition of the pipeline in the context of compliance to Federal Pipeline Safety Regulations (49 CFR Part 192) and Commission regulations (807 KAR 5:022). Describe the means by which this assessment was made.

c. What improvements, if any, are intended to be made on FG-51 or G-39 pipeline? If either of these pipelines is to be used, what are the anticipated pressures (both MAOP and MOP)?

d. Prior to utilizing FG-51 or G-39 for supply purposes, will the pipeline be pressure tested in the presence of Commission representatives and in compliance with Commission regulations?

e. Will FG-51 or G-39 be purchased by Mr. Williams or Mr. Smith? If yes, when and for how much? Will these lines become part of the Salyersville Gas system?

f. If Inland maintains ownership of FG-51 or G-39, what will happen to the gas Inland currently moves through these lines?

4. Describe in detail any proposed construction anticipated to bring additional gas supply to Salyersville.

5. Describe the role that Williams Engineering and Development Company ("Williams Company") will have in the operations of Salyersville. Who are the owners/shareholders of Williams Company?

6. Regarding the Schedule of Property, Building, Equipment and Other Assets for Williams Company:

a. Provide additional information on the gas franchise with Celina, Tennessee, including: how long the franchise has been held; how much gas (annually) has been supplied to Celina during the past three years; and the nature (firm or interruptible), price and terms of Williams Company's gas supply contract for Celina.

b. Describe the nature and extent of Williams Company's operations in Clinton, Metcalfe, and Barren counties, Kentucky, including: the amount of gas purchased and moved; to whom the gas is sold and at what price; and the operational status (pressures, classification of pipelines, etc.) of the 65 miles of pipeline.

7. Do Mr. Williams, Mr. Smith, or Williams Company plan to produce gas in Magoffin or the surrounding counties? If yes:

a. Would any gas produced be available as system supply to Salyersville?

b. Will such activity be done as Salyersville Gas Company?

c. How will any gas produced but not utilized by Salyersville be delivered out of the area for resale? To whom would it be sold?

8. If the Commission approves the transfer, who will oversee the day-to-day operations of Salyersville? Who will be responsible for meter reading, customer billing, and related maintenance and service activities?

9. Provide any information which describes the extent of experience on the part of Mr. Williams and Mr. Smith regarding the operation of a gas distribution company.

10. Are Mr. Williams and Mr. Smith familiar with Commission regulations, particularly 807 KAR 5:001, 5:006, 5:022, and 5:027, and the applicable parts of Kentucky Revised Statutes, Chapter 278?

11. Are Mr. Williams and Mr. Smith familiar with the operations and records of Salyersville?

12. Provide the total amount of gas sold by Salyersville to its customers for each month during the period September 1988 through March 1989.

13. What is the current status of Salyersville's payments for gas purchased from each of its suppliers? If any payment for gas purchases is delinquent, list each supplier to whom money is owed and the amount delinquent.

14. During the 1988-89 heating season, Salyersville disagreed with two of its suppliers, Hunsaker Oil and AEI-KAARS, regarding the amount of gas supplied from each to Salyersville. Will additional meter reading equipment be installed at each of Salyersville's purchase points to more accurately measure the amount of gas purchased? If not, why not?

15. Provide the peak needs of Salyersville for the 1988-89 heating season (peak needs defined as the amount required on the day the gas system experienced its highest demand).

16. Provide an estimate of the peak needs expected during the 1989-90 heating season, including the means by which the estimate was derived.

17. What is the status of Salyersville's gas supply contracts with Hunsaker Oil, AEI-KAARS, and Cobra Oil and Gas Company (Cobra)?

a. Do each of these suppliers intend to supply gas to Salyersville during the 1989-90 heating season?

b. If yes, how much is expected each month (November 1989 through March 1990) from each supplier?

c. Provide the basis on which the estimated amounts from each supplier was made.

18. Are Mr. Williams, Mr. Smith, or Williams Company involved in any way with WEDCO? If so, explain the nature and extent of this involvement.

19. Is Cobra part of the acquisition by Mr. Williams and Mr. Smith in Case No. 89-251? If not, is such an acquisition anticipated in the future? Explain.

20. Provide details of plans in 1990 or beyond to expand Salyersville's customer base. How will such expansion be financed?

21. Based upon the Contract of Sale attached to the Application, the total sale price is \$1,200,000. Once executed, the Contract states that the Buyers will place \$100,000 in escrow; the remainder to be paid by assumption of a \$172,000 Promissory Note and execution by the Buyers of a \$928,000 Promissory Note. Has this been approved by Salyersville National Bank?

a. Provide a copy of and the details of the \$172,000 Promissory Note currently owed by Salyersville, including how it was incurred and for what purposes it was incurred. Why should this debt be included as part of the purchase price and not assumed by the current owners?

b. Provide a breakdown of what constitutes the additional \$928,000 portion of the sale price.

22. According to Salyersville's 1988 Annual Report, the balance of Salyersville's total plant not depreciated is \$403,078.

a. Provide information that shows how the sale price was determined.

b. Are Mr. Williams and Mr. Smith requesting that the Commission allow an acquisition adjustment of \$524,922 to be included in Salyersville's rate base?

c. What would be the impact on the proposed transfer if the Commission did not allow recovery of all or part of the additional \$524,922 acquisition adjustment?

23. Provide information which demonstrates that Salyersville can generate adequate revenues to service the proposed debt, pay on a timely basis its purchased gas costs, and pay its operations and maintenance expenses.

24. Regarding the amortization schedule submitted September 13, 1989, why do payments not begin until March 1, 1994? Has Salyersville National Bank approved such a delay?

25. Are Mr. Williams and Mr. Smith requesting that the Commission allow recovery of interest charges on debt that exceeds

the amount incurred to finance the original cost of plant excluding any acquisition adjustment?

26. Regarding AEI-KAARS' supply of gas to Salyersville during the period September 1988 through April 1989, have all disagreements concerning the actual amount of gas provided been resolved? If not, explain the current status of any disagreements.

27. Has AEI-KAARS been paid for all the gas it has supplied to Salyersville to date? If not, what is the current status of any delinquency?

Done at Frankfort, Kentucky this 6th day of October, 1989.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:

Executive Director