

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

INVESTIGATION OF SALYERSVILLE GAS)
COMPANY TO DETERMINE ITS QUALITY OF)
GAS, STATUS AND REASONS FOR PAYMENT)
DELINQUENCIES, AND WHETHER A LONG-TERM)
RELIABLE SOURCE OF GAS AT A REASONABLE)
PRICE IS AVAILABLE) CASE NO. 90-157
_____)
ALLEGED VIOLATION OF KRS CHAPTER 278)
AND 807 KAR 5:022)

O R D E R

The Commission initiated this proceeding June 7, 1990 for purposes of requiring Salyersville Gas Company, Inc. ("Salyersville") to show cause why it and its owners, Richard Williams and Willie Smith, should not be subject to the penalties of KRS 278.990 and KRS 278.992 for their alleged violations of KRS 278.030(2), KRS 278.160(1), and 807 KAR 5:022, Section 16(4) and (8); and to demonstrate to the Commission that a long-term, reliable source of gas supply at a reasonable price was available to Salyersville for the 1990-91 heating season. In its June 7, 1990 Order, the Commission also required Salyersville to provide information regarding the Btu content of its gas; supporting information for its contention that local production of gas is available to Salyersville; and the status of and reasons for any payment delinquencies with a gas supplier or other party.

After review of the available information, pertinent statutes and regulations, and being otherwise sufficiently advised, the Commission finds that:

1. Staff has taken samples from the various sources of gas Salyersville has used to supply its customers during the 1990-91 heating season, that is currently supplying Salyersville's customers, and that will be available as system supply for the 1991-92 heating season. These samples were taken on January 17, 1991 and March 28, 1991 at the sources (including wells on the Vanderpool lease and the Fred Howard well), and at points within the distribution system. The Btu content of the gas from the samples has ranged between 1026.6 to 1181.5, an average of 1075 Btu.

2. Salyersville's tariff, at Original Sheet No. 8, paragraph 17, states that it will supply natural gas with a heating value of 1000 Btu. Commission regulation 807 KAR 5:022, Section 16(4) and (8), requires the utility to maintain the heating value of gas it has established with no greater variation than \pm 5 percent and to provide adequate notice to its customers when a change in the heating value occurs which exceeds the variation allowed.

3. Since November 21, 1989, Salyersville's gas customers have been receiving gas with a Btu content in excess of what Salyersville's tariff states and what 807 KAR 5:022, Section 16(4), allows. Salyersville acknowledges that it has not provided any notice to its customers regarding the change in Btu content as required by 807 KAR 5:022, Section 16(8). Mr. Williams assumed

control of Salyersville's operations on December 1, 1989, and since that time he has taken numerous steps to correct the problems related to the Btu content of the gas, including: termination of a source of gas with a 1546 Btu content, the highest by far of gas being purchased at that time; the purchase and installation of a gas stripping plant which subsequently broke down; and the interconnection of additional local gas wells to the system with a much lower Btu content and from which the samples referenced herein were taken.

4. Salyersville should request a tariff change to its Original Sheet No. 8, paragraph 17, and file a revised Btu content which reflects Salyersville's current and anticipated sources of gas and the capabilities of the heating equipment in use by Salyersville's customers. In addition, since the higher Btu content of gas previously supplied was particularly harmful to some Trane Company heating equipment, Salyersville should include with its tariff filing a statement from a qualified Trane Company representative that the proposed Btu content is compatible with its heating equipment in use in the Salyersville area.

5. Staff has witnessed a series of field tests on the gas wells used as the principal source of supply to Salyersville during the 1990-91 heating season--three wells in the Vanderpool lease: Hoenig #1 and #2 and Joseph #1. Based upon the results of the field tests conducted September 11, 1990, these three wells should produce approximately 542 Mcf per day, or 271 Mcf per day based upon a conservative estimate of only 50 percent deliverability.

6. Since March 1, 1991, Salyersville's principal source of gas has been the Fred Howard well, located approximately two and one-half miles north of the city of Salyersville. While Staff has not witnessed a field test on this well, Mr. Williams has stated to Staff that the results of an earlier field test conducted by a Texas consulting firm estimate that 350 Mcf per day should be produced, or 175 Mcf per day assuming 50 percent deliverability. Staff has requested but not yet received copies of the type of test performed and the results. Salyersville should submit this information to the Commission no later than 30 days of the date of this Order.

7. Staff has also witnessed field tests on two additional wells located near the Vanderpool lease--the Alben Arnett and Emily Arnett wells. Based upon the results of the tests, these two wells should provide approximately 96.5 Mcf per day assuming only 50 percent deliverability. These two wells and the wells on the Vanderpool lease have been shut in for most of the time since the 1990-91 heating season since their production is not presently needed. However, these wells, the Vanderpool lease wells, and the Howard well are all directly accessible to the Salyersville system through connecting pipelines owned by Mr. Williams. Therefore, there should be no threat of disruption of supply from these wells by another party.

8. Mr. Williams has stated that during the 1989-90 and 1990-91 heating seasons Salyersville's peak needs were approximately 270 Mcf per day. While Salyersville continues to add customers, the amount of gas available to Salyersville--in excess

of 500 Mcf per day--from the wells referenced herein and directly accessible to the distribution system should be sufficient for the 1991-92 heating season. However, since the longevity of the estimates derived from the field tests is unknown, Salyersville should conduct identical field tests on these same wells--Hoenig #1 and #2; Joseph #1; the Howard well; and the two Arnett wells. These tests should be completed prior to August 15, 1991 and the results submitted to the Commission no later than September 1, 1991.

9. On October 23, 1990, Salyersville filed a voluntary petition for Chapter 11 Bankruptcy in the United States Bankruptcy Court, Eastern District of Kentucky, Pikeville Division. The Commission has been granted intervention by the Bankruptcy Court, and by Order entered December 11, 1990 has been declared by that Court to be exempt from the automatic stay provision pursuant to 11 U.S.C. §362(b)(4). Listed as creditors are W. Grady Conley and Barkley J. Sturgill, amount of claim \$1,100,000; Centran Corporation, \$17,000; and B.T.U. Pipeline, \$15,000. Not listed as creditors are AEI-KAARS Pipeline Company and Inland Gas Company, both of which have alleged that Salyersville is delinquent in payment for gas purchased.

10. There has been an absence of complaints to Salyersville or the Commission by customers or representatives of heating equipment in use by Salyersville's customers since February 1990 related to the Btu content of gas. Mr. Williams' timely response appears to have resolved the problem sometime in the early period of 1990 and should no longer occur to the extent Salyersville

maintains its current sources of supply or introduces new gas supply with a similar component mix. Accordingly, Salyersville, Mr. Williams, and Mr. Smith should not be fined for the alleged noncompliance to KRS 278.160(1) and 807 KAR 5:022, Section 16(4) and (8).

11. Based upon Salyersville's performance during the 1990-91 heating season in providing an uninterrupted supply of gas to its customers, no violation of KRS 278.030(2) took place.

IT IS THEREFORE ORDERED that:

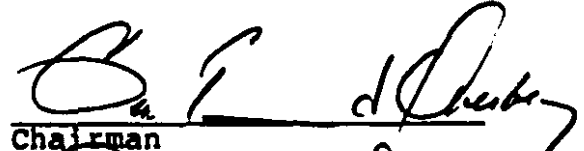
1. Within 30 days of the date of this Order, Salyersville shall comply with Findings 4 and 6 as if each was individually ordered herein.

2. Salyersville shall comply with Finding 8 as if individually ordered herein and provide notification to Staff at least 7 working days prior to commencing such tests.

3. This investigation be and hereby is closed.

Done at Frankfort, Kentucky, this 28th day of June, 1991.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman

ATTEST:


Executive Director


Commissioner