

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF GASCO DISTRIBUTION)
SYSTEMS, INC. FOR A CERTIFICATE OF)
CONVENIENCE AND NECESSITY TO PROVIDE) CASE NO.
LOCAL GAS DISTRIBUTION SERVICE TO ALBANY,) 94-427
KY AND FOR TRANSFER OF THE ALBANY GAS)
UTILITY COMPANY)

O R D E R

On December 1, 1994, Gasco Distribution Systems, Inc. ("Gasco") filed a Petition with the Commission seeking approval for the transfer of Albany Gas System, although the petition indicated that the transfer occurred in December 1993. The record indicates that the city of Albany transferred the utility to Royal Energy Company, Inc. ("Royal") which in turn sought to transfer the utility to Gasco. Gasco has been operating the utility since December 1993. Gasco appeared at an informal conference on January 11, 1995 to discuss problems arising under KRS 278.020(4) and (5) because the transfer had not been approved by the Commission.

KRS 278.020(5) provides that any transfer of control of a utility without prior authorization of the Commission shall be void and of no effect. The agreement between Royal and Gasco cites in four different places that the transfer was subject to Commission approval. However, that approval was never sought until this application was filed nearly a year after the closing. Gasco explained at the informal conference that confusion arose at the

time of the transfer due to timing problems in acquiring both the utility and a related Tennessee operation at the same time. Gasco further stated that it was not aware at the time the contract was signed that Royal had not obtained a certificate of convenience and necessity from the Commission in Case No. 93-443.¹

On January 12, 1995, Gasco filed an amended application clarifying that the assets of the utility are currently owned by Royal and modifying the Asset Purchase Agreement between Royal and Gasco to allow Gasco to withhold final payment of the purchase price until the transfer is approved by the Commission. Modifications to the management agreement between Gasco and Royal extending Gasco's authority to operate the utility until Commission approval of the transfer is obtained were also filed. Gasco alleges and the Commission agrees that since the contract with Royal remains executory until the last payment to Royal is made, and until the Commission approves the transfer, Gasco can only be considered the operator of the utility for Royal and the transaction has not been completed within the meaning of KRS 278.020(5).

The Commission is required by statute to grant its approval if the person acquiring the utility demonstrates the financial, managerial, and technical abilities to provide reasonable service. The Commission after examination of the application, the amendments

¹ Case No. 93-443, The Application of Royal Energy Company, Inc. For a Certificate of Public Convenience and Necessity to Provide Local Gas Distribution Services to the Public.

thereto, and all other evidence of record, and being otherwise sufficiently advised finds that Gasco has met the statutory standard and the transfer should be approved. Gasco has demonstrated the requisite managerial and technical abilities to operate this utility for the past year pursuant to the management contract with Royal. In addition, the principals of Gasco include officers and directors of the parent corporation, the Titan Energy Group, Inc. which owns and operates five local distribution companies in this and other jurisdictions. Gasco has demonstrated to the Commission's satisfaction that it has the financial ability to acquire the assets by its infusion of the \$200,000 in equity capital necessary to purchase the system.

Gasco should properly record this transaction after closing. The Uniform System of Accounts Prescribed for Natural Gas Companies ("USoA") requires that utility plant be recorded on the books of the utility at its original cost.² The USoA states that this cost shall be ascertained by an analysis of the utility's records or shall be estimated by the utility. Gasco has been unable to obtain the records necessary to determine the original cost of the assets and will therefore need to estimate this cost. In order to estimate such costs, Gasco will need to perform an original cost study of the Albany Gas system and record the plant, and its requisite depreciation, based upon the results of the study.

² Original cost as defined by the USoA means the cost of such property to the person first devoting it to public service.

1. Pursuant to the USoA, the following journal entries should be made to effect the purchase of the Albany Gas assets:

- a. To record purchase of assets:
- | | | |
|---------------------------------------|------|------|
| Acc 102 - Gas Plant Purchased or Sold | XXXX | |
| Acc 130 - Cash | | XXXX |
- b. To record original cost of plant, estimated if not known:
- | | | |
|---|------|------|
| Acc 101 - Gas Plant in Service | XXXX | |
| including entries to accounts | | |
| 301 thru 399 | | |
| Acc 104 - Gas Plant Leased to Others | XXXX | |
| Acc 105 - Plant Held for Future Use | XXXX | |
| Acc 105.1 - Production Properties | | |
| Held for Future Use | XXXX | |
| Acc 107 - Construction Work in Progress | XXXX | |
| Acc 102 - Gas Plant Purchased | | |
| or Sold | | XXXX |
- c. To record accumulated depreciation, depletion and amortization incurred up to the time of the transfer:
- | | | |
|---------------------------------------|------|------|
| Acc 102 - Gas Plant Purchased or Sold | XXXX | |
| Acc 110 - Accumulated | | |
| Provision for Depreciation | | |
| Depletion, and Amortization | | |
| of Gas Utility Plant | | XXXX |
- d. Any amount remaining in account 102, Gas Plant Purchased or Sold, should be closed to account 114, Gas Plant Acquisition Adjustments:
- | | | |
|---------------------------------------|------|------|
| Acc 102 - Gas Plant Purchased or Sold | XXXX | |
| Acc 114 - Gas Plant | | |
| Acquisition Adjustment | | XXXX |
- or:
- | | | |
|--|------|------|
| Acc 114 - Gas Plant Acquisition Adjustment | XXXX | |
| Acc 102 - Gas Plant Purchased | | |
| or Sold | | XXXX |

IT IS THEREFORE ORDERED that:


1. The proposed sale of the utility plant assets of the Albany Gas System to Gasco be and it hereby is approved.

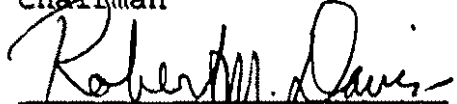
2. The journal entries and accounting treatment prescribed by the USoA and set forth above shall be followed to reflect the original plant valuation, depreciation, and any acquisition adjustment.

3. Gasco shall file documentation showing the journal entries as specified above within 20 days of the date of closing.

Done at Frankfort, Kentucky, this 16th day of February, 1995.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director