

In the Matter of:

**ALLEGED VIOLATIONS OF KRS CHAPTER 278
and 807 KAR 5:022**

O R D E R

On May 25, 1994, the Commission issued a Staff inspection report (attached as Appendix A without map) regarding gas pipelines and service to customers in the general area along the Barren-Metcalf County line between the communities of Hiseville and Knob Lick. The inspection was performed April 28, 1994, at which time the system consisted of approximately 14.2 miles of four- and six-inch main line, and 3.4 miles of a four-inch lateral line.

According to Jodie Parsons, who identified himself as one of the owners, the pipeline system was installed in 1985-1986 to deliver gas from wells it planned to acquire or drill to the interstate pipeline market via a tap with Tennessee Gas Transmission. At the time of the inspection, no such tap existed and Mr. Parsons indicated that many of the wells developed were no longer producing gas. Mr. Parsons also stated that while 10 customers were connected to the pipeline system, all but two had their own gas wells and did not depend on the pipeline for gas.

On June 2, 1994, Natural Gas of Kentucky, Inc. ("Natural Gas") submitted its response (attached as Appendix B) to the inspection

report indicating that the owners of Natural Gas are Jadie Parsons, Mark O'Brien, and J. T. Sims. It stated its intention to seek authority to operate the Hiseville-Knob Lick pipeline system as a local gas distribution company. Natural Gas also identified eight individuals currently connected to the pipeline system as of June 1, 1994 and stated that 10 more connections existed but were not being served due to lack of gas.

On June 22, 1994, Staff met with Natural Gas to discuss its proposed application to operate a gas utility for the Hiseville-Knob Lick area. Initial filing requirements for the application were reviewed, including a proposed rate and tariff for distribution service. Application of 807 KAR 5:022 relative to the existing pipelines and the need for prior Commission approval regarding any additional construction were also discussed.

However, on November 9, 1994, Bluegrass Gas Sales, Inc. ("Bluegrass Gas") filed an application docketed as Case No. 95-433,¹ requesting Commission approval for construction, financing, rates, and authority to operate as a utility. The area in which Bluegrass Gas proposes to provide service includes the Hiseville-Knob Lick communities; use of the pipeline facilities previously inspected by Staff in April 1994; and construction of additional pipeline. In response to the Commission's February 22, 1995 Order in Case No. 94-433, Bluegrass Gas indicated that it is owned by

¹ Case No. 94-433, The Petition of Bluegrass Gas Sales, Inc. for Approval of a Certificate of Convenience and Necessity to Construct Facilities, Approval of Financing, Approval of Initial Rates and Operation of a Natural Gas Distribution System.

J. T. Sims, Jadie Parsons, and Mark O'Brien and that the existing system includes one- and two-inch "spur lines" which are 1 to 3 years old.

In response to the Commission's May 24, 1995 Order in Case No. 94-433, Bluegrass Gas stated that 52 customers are currently receiving gas service from Natural Gas through facilities which it proposes to sell to Bluegrass Gas. Although these facilities are the same pipelines which were the subject of Staff's May 25, 1994 inspection report, additional "spur" lines and service to additional customers have been added. According to Bluegrass Gas, Natural Gas is charging these customers a \$6 per Mcf rate for service. Natural Gas has an approved tariff on file with the Commission authorizing gas transportation service to two customers,² but does not have an approved tariff to provide distribution service, an apparent violation of KRS 278.160(2). Natural Gas may also be in violation of KRS 278.020, it appearing that additional pipeline facilities have been constructed without Commission approval. Numerous violations of 807 KAR 5:022 as listed in Recommendations 4 through 9 of the May 25, 1994 inspection report also remain outstanding.

Based upon the foregoing, the Commission finds that a prima facie showing has been made that Natural Gas and J. T. Sims, Jadie Parsons, and Mark O'Brien, individually, have violated KRS 278.160(2), KRS 278.020 and 807 KAR 5:022.

² Case No. 93-283, Gas Transportation Agreement Between Scotty's Contracting and Stone Company and Natural Gas of Kentucky, Inc. Order dated January 31, 1994.

IT IS THEREFORE ORDERED that:

1. Natural Gas and J. T. Sims, Jadie Parsons, and Mark O'Brien, individually, shall appear represented by counsel at a hearing scheduled for November 17, 1995 at 10:00 a.m., Eastern Standard Time, in Hearing Room 1 of the Commission's offices at 730 Schenkel Lane, Frankfort, Kentucky, to show cause why each should not be fined individually pursuant to KRS 278.990(1) and KRS 278.992(1) for the violations alleged herein.

2. Within 10 days of the date of this Order, Natural Gas shall file a list of all customers currently receiving service from the Hiseville-Knob Lick pipeline and the date service was initiated to each; and a response to Recommendations 4 through 9 of Staff's May 25, 1994 inspection report, specifically indicating what action was taken and when it was completed.

3. Natural Gas shall not provide service to any additional distribution customers without prior Commission approval.

Done at Frankfort, Kentucky, this 6th day of October, 1995.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 95-436 DATED 10/6/95

COMMONWEALTH OF KENTUCKY PUBLIC SERVICE COMMISSION

INSPECTION REPORT

Hiseville-Knob Lick Gas Pipeline System Barren and Metcalfe Counties, Kentucky

May 25, 1994

BRIEF

On April 28, 1994, Commission Staff (Staff) visited the Hiseville-Knob Lick Gas Pipeline System (Hiseville-Knob Lick) to inspect all of its pipelines and customer services and to determine the jurisdictional status of its operations. Present for Staff were: Larry Amburgey, Investigator Supervisor, Gas Pipeline Safety Branch; Ralph Dennis, Manager, Gas Branch; and Mark Hostetter, Geologist, Gas Branch. Representing Hiseville were Wilson Carter and Jadie Parsons. Also present was Michael Harrelson representing Halco Energy, Inc.

The pipeline facilities consist of approximately 14.2 miles of 6-inch and 4-inch main line and a 3.4 mile, 4-inch lateral. This system is located along the Barren-Metcalfe county line between the communities of Hiseville and Knob Lick. Also given a cursory inspection were some residential services connected to the system. All pipelines identified herein have customer services. Included in this report are:

1. Exhibit A - A county map (topographic) which depicts the geographical location of the pipelines/service area and the extent to which the pipelines are interconnected.
2. Exhibit B - A descriptive summary of pipeline details.

Also identified during this inspection is a pipeline owned/operated as Bowling Green Petroleum Company and its 3-plus miles of pipeline which are parallel to and cross the Hiseville-Knob Lick line and will be discussed in another investigation.

INSPECTION

During the period of 1985-86, the 17.6 miles of pipeline was constructed, and a compressor station was installed and a sales tap made onto the Tennessee Gas Transmission (TGT) pipeline by certain individuals.

This pipeline is now under the ownership and control of Wilson Carter and Jodie Parsons. Their purpose for the pipeline was to acquire and/or drill new gas wells in the immediate area and sell to the interstate pipeline market via TGT. Mr. Carter stated that there are 80-90 abandoned wells in the area that could be utilized; however, at present only approximately 18 wells are connected to the pipeline. Mr. Parsons stated that several of these wells are dead (no longer producing gas) and therefore of no use as a source of supply.

It had been reported to Staff that as many as 50 customers were served as farm tap service consumers in the past; however, at the time of this inspection only about 10 current customers were pointed out by Mr. Carter and Mr. Parsons. All but about 2 of these customers own their own gas wells and may or may not be dependent on the pipeline system gas supply.

The Hiseville-Knob Lick pipeline has been operating as a gas gathering system and may have sold gas into the TGT system, but is not doing so at this time. A tariff for KRS 278.485 farm tap service has not been filed with the Commission. Staff was not notified prior to the establishment of any service connections on this system as required by 807 KAR 5:026, Section 3(4).

FINDINGS

1. The 17.6 miles of pipeline including the lateral line which Hiseville-Knob Lick has installed and maintained is operated as a self-contained gas system, the only purpose of which at present is to provide service to end-users. None of the gas present in the system leaves the system. Gas service to any end-user connected to this pipeline represents a distribution utility function as defined in KRS 278.010(3)(b).
2. The only current source of gas for customers connected to the Hiseville-Knob Lick gas system is approximately 18 natural gas/oil wells scattered along the pipeline route. The wells are identified as the S. Wilson well (1), Sam York well (1), Alton Shirley wells (5), Euel Grier well (1), B. R. Carver well (1), Roger Burris well (1), A. C. McMillian wells (2), Dr. Florence Rich well (1), Wayne Foynter well (1), and Jadie Parsons wells (3). The pressure in the pipeline from these wells was not obtained during the inspection; however, it is assumed to

be low. During the 1993-94 heating season, line pressure was reported to have dropped significantly enough to cause customer inconvenience. According to Mr. Parsons, during this period he asked several individuals who had wells of their own to allow production from their wells to enter the Hiseville-Knob Lick gas system in order to provide gas to its customers. In Staff's opinion, it would appear the 18 wells are inadequate to provide a reliable supply of gas to the customers during another heating season.

3. The Hiseville-Knob Lick gas system, presently has approximately 10 customers. All customers are metered, but receive free gas in exchange for leases and rights-of-way.
4. A large compressor located near the tap/connection point with the TGT line does not appear to be connected to the system, and various lengths of pipe connection have been removed.
5. Based upon Staff observations, the Hiseville-Knob Lick gas system does not have adequate pipeline markers along the routes of the pipelines it has installed.

RECOMMENDATIONS

1. Hiseville-Knob Lick should be declared a gas distribution utility and be required to develop and file with the Commission an Operating and Maintenance Plan [807 KAR

- 5:022, Section 13(2)(b)], an Emergency Plan [807 KAR 5:022, Section 13(9)], a Damage Prevention Program [807 KAR 5:022, Section 13(8)], and a Drug Testing Plan (807 KAR 5:023).
2. Hiseville-Knob Lick shall be required to demonstrate that it has an adequate and reliable supply of gas to meet current local customer needs during peak winter demand periods, and should Hiseville-Knob Lick be unable to demonstrate such ability, Staff may recommend the abandonment of this system, and customers will be notified to secure alternative heating sources. Hiseville-Knob Lick should provide any actual production figures or well tests it has regarding its existing wells.
 3. Hiseville-Knob Lick should submit a list of all end-use customers who were provided gas service during the period of September 1, 1993 through April 1, 1994.
 4. Hiseville-Knob Lick's meters and regulators at all customer services should comply with 807 KAR 5:022, Section 9(2)(a), (b), (c), and (f).
 5. Test requirements for service lines and plastic pipelines before being placed in service should comply with 807 KAR 5:022, Section 11(6)(a), (b), (c); and Section 11(7)(a), (b), (c), and (d).

6. Hiseville-Knob Lick should operate its system at pressures in compliance with 807 KAR 5:022, Section 13(12)(a) and (b) and Section 13(13)(a) and (b).
7. Any service lines reinstated for service by Hiseville-Knob Lick, or any facilities which Hiseville-Knob Lick abandons or inactivates, should comply with 807 KAR 5:022, Section 14(14) and (15).
8. Each Hiseville-Knob Lick customer should be separately metered to comply with 807 KAR 5:022, Section 8(2)(e), including customers who receive gas as compensation for leases and rights-of-way [807 KAR 5:022, Section 8(2)(b)].
9. Hiseville-Knob Lick's installation of plastic pipe should comply with 807 KAR 5:022, Section 7(12)(a), (c), (d), (f), and (e). The depth of Hiseville-Knob Lick's plastic pipelines and whether tracer wire (or other means of location) has been used is unclear and should be the focus of a follow-up inspection.
10. Hiseville-Knob Lick should submit a tariff as a distribution utility with all rates, services, and charges it intends to provide. Hiseville-Knob Lick's tariff should address in some manner the free gas which Hiseville-Knob Lick currently provides to some customers, and such rates and service should be in compliance with KRS 278.030 and KRS.170.


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11. Pipeline markers installed by Hiseville-Knob Lick should comply with 807 KAR 5:022, Section 14(5)(a), (c), and (d) 1 and 2.

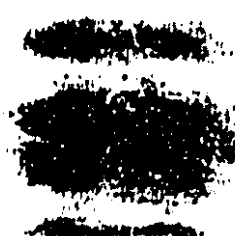
Respectfully submitted,


Larry L. Amburgey
Investigator Supervisor


Ralph Dennis, Manager
Gas Branch


Mark Hostetter
Geologist

MH/ml1
Attachments



Descriptive Summary
Hiseville-Knob Lick Gas Service Area and Pipeline

Pipeline Name: Hiseville-Knob Lick Pipeline

Location: Beginning about 1 mile northwest of Hiseville, Kentucky along Ky. Rte. 70 and continuing southeast and east a total of 17.6 miles to an interconnection with Tennessee Gas Transmission pipeline about 1 1/2 miles east of Knob Lick, Kentucky. The Barren-Metcalf County line bisects this pipeline network.

No. of Customers: Approximately 10, possibly several more not yet identified.

Construction: Approximately 25,000 feet of 6-inch plastic pipe and approximately 50,000 feet of 4-inch plastic pipe in the main line. One lateral consisting of 18,000 feet of 4-inch plastic pipe located in the Loves Knob area of Barren County.

Source of Gas: Approximately 18 local oil/gas wells.

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 95-436 DATED 10/6/95

NATURAL GAS OF KENTUCKY

Mark O'Brien, President
P.O. Box 23187
Louisville, KY 40223
(502) 228-9600

June 2, 1994

Mr. Ralph Dennis, Manager of Gas Branch
Public Service Commission
750 Schenck Lane
Frankfort, KY 40602

Dear Ralph:

As per our numerous discussions on the Hiseville Knob Lick gas pipeline system, please find enclosed Natural Gas of Kentucky's response to your May 23, 1994 Brief. Natural Gas of Kentucky is owned in equal parts by Jodie Parsons of Centar Kentucky, Mark O'Brien of Louisville Kentucky, and J.T. Simms of Louisville Kentucky.

We are responding to this Brief less the Bowling Green Petroleum line which is not a part of our proposed new venture in the Hiseville, Knob Lick area. It is Natural Gas of Kentucky's intent to apply to become an LDC for the Hiseville, Knob Lick gas pipeline. We have previously asked the commission to add to our transportation tariff for Glass Paving Company to deliver gas to Glass Paving Company's asphalt plant in Horse Cave, Kentucky which would use the same gas transmission line as our proposed LDC system.

In specific response to your recommendations beginning on Page 4:

1. It is the intent of Natural Gas of Kentucky to apply for and comply with all aspects of an LDC.
2. Natural Gas of Kentucky has negotiated with Tennessee Gas Marketing company to be the primary supplier of gas for this system to meet peak demand needs. Additionally, we intend to buy on an as available basis secondary gas from local production from Mammoth Petroleum from local wells.
3. Please see attached list.

FAX TRANSMITTAL MEMO

★ ★

TO: <i>Ralph Amico</i>	DATE: <i>6/3/94</i>	Number of Pages (including cover sheet) <i>4</i>
DEPT:	FAX #: <i>502/564-7279</i>	
FROM: <i>Mark O'Brien</i>	Phone #: <i>502/228-3638</i>	
COMPANY: <i>LHS HOLDINGS, INC.</i>	FAX #: <i>502/228-7018</i>	

Comments:

If this fax transmittal is not received in its entirety, please contact this office at the number listed.

LHS HOLDINGS, INC.

13400 U.S. Highway 42, Suite 200 • Prospect, KY 40059 • (502) 228-9699 • Fax (502) 228-7016

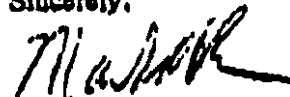
Mr. Ralph Dennis
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4. Our intent is to upgrade and/or change all meters that are on this system and to install new meters which will comply with the appropriate requirements.
5. We intend to coordinate all of our line testing and the construction of new lines with the appropriate PSC staff to insure that we are in compliance with all the applicable sections.
6. See number 5 above
7. See number 5 above
8. It is our understanding that each customer currently has a separate meter.
9. It is the intent of Natural Gas of Kentucky to comply with all aspects of pipeline safety and regulations for the construction of new line, including tracing wire. Natural Gas of Kentucky is not aware of tracer wire being used on the existing line and we will need to discuss this with PFC staff.
10. See number 1 above
11. It is the intent of Natural Gas of Kentucky to install appropriate markers the entire length of the line complying with the appropriate sections of Code.

Ralph, as you are aware we would like to get this project moving forward and we would very much appreciate meeting with you and your staff at your earliest convenience to ensure that we are approaching this project in the proper manner.

I look forward to hearing from you.

Sincerely,



Mark O'Brien

cc: Bob Bass of Helton, Linton, Cranfill & Hall
Jodie Parsons

Enclosures