

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION INTO THE RELIABILITY OF THE)	
NATURAL GAS SUPPLY FOR STEPP BRANCH GAS)	CASE NO. 2000-346
COMPANY AND ALLEGED VIOLATIONS OF KRS)	
278.300)	

ORDER

Stepp Branch Gas Company ("Stepp Branch"), a Kentucky corporation that owns and operates facilities that are used in the distribution, sale and furnishing of natural gas to the public for compensation in Martin County, Kentucky, is a utility subject to Commission jurisdiction. KRS 278.010(3)(b) and KRS 278.040.

KRS 278.020(4) provides that "[n]o person shall acquire or transfer ownership of, or control, or the right to control, any utility under the jurisdiction of the commission by sale of assets, transfer of stock, or otherwise, or abandon the same, without prior approval by the commission."

KRS 278.020(5) provides that "[n]o individual, group, syndicate, general or limited partnership, association, corporation, joint stock company, trust, or other entity (an "acquirer"), whether or not organized under the laws of this state, shall acquire control, either directly or indirectly, of any utility furnishing utility service in this state, without having first obtained the approval of the commission."

KRS 278.250 authorizes the Commission, whenever it is necessary in the performance of its duties, to investigate and examine the condition of any utility subject to its jurisdiction.

KRS 278.260 authorizes the Commission upon its own motion to investigate any practice or act affecting or relating to the service of a utility or any service that may be inadequate.

KRS 278.280 permits the Commission, upon finding that a utility's practices or services are unreasonable, unsafe, improper, inadequate or insufficient, to direct the reasonable, safe, proper, adequate or sufficient practices and services to be observed, employed or furnished.

The Commission has been advised of the following:

1. Stepp Branch owns two natural gas wells in Martin County, Kentucky that serve as the utility's principal supply of natural gas.

2. On December 30, 1998, Stepp Branch experienced low pressure in its system that resulted in the loss of service to its residential customers for approximately 6 days. With the assistance of Commission Staff, Stepp Branch on January 12, 1999 obtained temporary natural gas supply from Columbia Natural Resources Company ("CNR") for a 90-day period and was thus able to avoid additional system problems.

3. Following the 1998-1999 winter heating season, Stepp Branch failed to secure additional sources of natural gas.

4. Prior to the 1999-2000 winter heating season, Stepp Branch attempted to refurbish its natural gas wells to ensure a reliable supply of natural gas. These efforts, however, failed to increase the wells' output or reliability. Stepp Branch failed to undertake any other efforts to obtain additional supplies of natural gas.

5. During the 1999-2000 winter heating season, CNR, at the request of Commission Staff, agreed to again provide natural gas to Stepp Branch on a temporary basis.

6. CNR has ceased providing natural gas to Stepp Branch and has advised Commission Staff that it will no longer serve as a source of natural gas for that utility.

7. Stepp Branch has not advised the Commission that it has secured a new source of natural gas.

8. On or about March 31, 1998, James G. Sluss filed with the Commission on behalf of Stepp Branch a verified annual report of the utility's operations for calendar year 1997 as Administrative Regulation 807 KAR 5:006, Section 3(1) requires. In this report, Mr. Sluss indicated that he was Stepp Branch's sole shareholder.

9. On or about April 1, 1999, Michael Davis filed with the Commission on behalf of Stepp Branch a verified annual report of the utility's operations for calendar year 1998 as Administrative Regulation 807 KAR 5:006, Section 3(1) requires. In this report, Mr. Davis indicated that he and Lisa M. Davis were Stepp Branch's sole shareholders.

10. No application for the transfer of control or ownership of Stepp Branch from Mr. Sluss to Michael or Lisa Davis has been filed with the Commission.

Based upon the information set forth above, the Commission finds that:

1. Pursuant to KRS 278.250 and KRS 278.260, an investigation should be initiated into the condition and operation of Stepp Branch and its present ability to provide adequate, efficient and reasonable utility service.

2. There is sufficient evidence to believe that James Sluss, Michael Davis, and Lisa Davis have willfully violated KRS 278.020.

IT IS THEREFORE ORDERED that:

1. Stepp Branch shall appear before the Commission for a formal hearing on August 25, 2000 at 9:30 a.m., Eastern Daylight Time, at the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky for the purpose of presenting evidence on the adequacy of its current natural gas supply and its ability to provide adequate, efficient and reasonable utility service during the 2000-2001 winter heating season, and to show cause why, if it lacks adequate supplies of natural gas, it should not be required to cease providing natural gas service to the public.

2. James G. Sluss, Michael Davis and Lisa M. Davis shall also appear before the Commission on August 25, 2000 at the same time and place as stated above for the purposes of presenting evidence concerning their alleged violation of KRS 278.020(4) and (5) and of showing cause why they should not be subject to the penalties prescribed in KRS 278.990(1) for their alleged conduct.

3. James G. Sluss, Michael Davis and Lisa M. Davis shall each respond to the Commission in writing within 20 days of the date of this Order to the allegations contained herein.

4. Stepp Branch shall, on or before July 28, 2000, file with the Commission the original and 8 copies of the information listed in Appendix A. Each copy of the requested information shall be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Stepp Branch shall include with each

response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention shall be given to copied material to ensure its legibility.

5. On or before August 4, 2000, Stepp Branch shall provide notice to each customer by first class mail of the formal hearing in this matter. This notice shall conform to the format set forth in Appendix B.

6. Stepp Branch shall appear at an informal conference in this matter on August 4, 2000 at 10:00 a.m., Eastern Daylight Time, in Conference Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky for the purpose of discussing both the proceeding instituted by this Order and the present ability of Stepp Branch to provide adequate, efficient and reasonable utility service during the 2000-2001 winter heating season. Stepp Branch shall appear with such corporate officers or other persons who are competent to address and discuss questions related to its present source and supply of natural gas.

Done at Frankfort, Kentucky, this 14th day of July, 2000.

By the Commission

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2000-346 DATED JULY 14, 2000

1. Describe the current status of Stepp Branch's natural gas wells.
2. What is the current level of natural gas production for each of Stepp Branch's natural gas wells?
3. Describe all efforts that Stepp Branch has undertaken since January 1, 1998 to refurbish its natural gas wells.
4. What efforts, if any, has Stepp Branch taken to develop new natural gas wells since March 1, 2000?
5. List the names and addresses of all potential natural gas suppliers within the 50-mile radius of Stepp Branch's service area.
6.
 - a. List all persons or entities who Stepp Branch has contacted since March 1, 2000 to obtain additional sources of natural gas.
 - b. For each person or entity listed, state the date when contacted and describe the result of the contact.
 - c. Provide all correspondence between Stepp Branch and the entities listed in Item 6(a) discussing natural gas service to Stepp Branch.
7. List each natural gas supplier with whom Stepp Branch currently has a contract for supply of natural gas.
8.
 - a. Identify all natural gas pipelines within Martin County, Kentucky that could be used to transport natural gas to Stepp Branch's gas distribution system.
 - b. Describe all discussions that Stepp Branch has had with the owners of these pipelines since March 1, 2000 as part of its efforts to secure additional sources of natural gas.

9. Provide all engineering and geological studies, surveys and analyses that Stepp Branch has commissioned or caused to be prepared on its natural gas wells.

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2000-346 DATED JULY 14, 2000

NOTICE TO THE CUSTOMERS OF STEPP BRANCH GAS COMPANY

The Public Service Commission of Kentucky ("PSC") has initiated an investigation into the current operations of the Stepp Branch Gas Company. The PSC has ordered Stepp Branch Gas Company to demonstrate that it has an adequate supply of natural gas to provide adequate, efficient and reasonable utility service during the 2000-2001 winter heating season and to show cause why, if it lacks adequate supplies of natural gas, it should not be required to cease providing natural gas service to the public.

One possible outcome of this proceeding is that the PSC may find that Stepp Branch Gas Company lacks the ability to provide adequate utility service and may order it to cease providing natural gas service to its customers. In that circumstance, Stepp Branch customers must secure a replacement source of natural gas or heating.

The PSC will hold a public hearing in this matter on August 25, 2000 beginning at 9:30 a.m., Eastern Daylight Time, in the PSC's offices at 211 Sower Boulevard, Frankfort, Kentucky. Members of the public will be permitted to make comments on the quality of Stepp Branch Gas Company's current service, the actions that Stepp Branch should take to ensure adequate and reliable service, and the possible termination of Stepp Branch's service.

Any corporation, association, or person with a substantial interest in the matter who wishes to become a party to a proceeding before the commission may by timely motion request that he be granted leave to intervene. Such motion shall include his name and address and the name and address of any party he represents and in what capacity he is employed by such party. Requests for intervention should be sent to: Martin J. Huelsmann, Executive Director, Public Service Commission of Kentucky, Post Office Box 615, Frankfort, Kentucky 40602-0615.