

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT PETITION OF MIKE LITTLE GAS)	
COMPANY, INC. AND PEOPLE’S GAS,)	
INC. FOR THE TRANSFER OF GAS)	CASE NO. 2001-027
TRANSMISSION FACILITIES AND)	
JOINT MOTION FOR RELIEF FROM)	
COMPLIANCE SCHEDULE)	

O R D E R

On February 13, 2001, Mike Little Gas Company, Inc. (“Mike Little”) and People’s Gas, Inc. filed a joint petition for approval of the transfer of the Phelps portion of the Mike Little system to a recently formed corporation known as People’s Gas, Inc. (“People’s Gas”). Mike Little is a regulated local distribution utility located at Melvin, Kentucky. Mike Little operates three non-contiguous systems under its tariff, one of which is the Phelps system.¹ Mike Little and People’s Gas entered into an agreement on August 20, 2000 for the transfer of the portion of the Mike Little system located in Phelps, Pike County, Kentucky.

The Phelps system was included in a prior Order of the Commission, which required Mike Little to correct the lack of cathodic protection in its entire system by replacing all the steel pipes with polyethylene (“PE”) pipes by the fall of 2001.² As part

¹ Case No. 93-400, Petition for Approval of Proposed Consolidation, Order dated December 17, 1993.

² Case No. 99-267, Miki Thompson and Winnie Greer d/b/a Mike Little Gas Company, Inc.

of an agreed settlement of that case, Mike Little should be in total compliance by “no later than fall of 2001.” Of the approximately 33,000 feet of steel pipe in the Phelps system, 20,000 feet has been replaced by PE pipe, and approximately 13,000 feet has yet to be replaced. People’s Gas was asked in an information request if it understood that, as a condition of transfer, People’s Gas would be required to bring the system into compliance with Commission regulations and to comply with the replacement construction schedule. People’s Gas responded that it intended to comply with the construction schedule and agreed that said compliance is a reasonable condition for the approval of the transfer.³ People’s Gas confirmed to Staff at the informal conference of April 6, 2001 that it would replace the remaining steel pipe with PE pipe by November 1, 2001.

KRS 278.020(4) prohibits any person from acquiring or transferring ownership or control of any utility under the jurisdiction of the Commission without having received prior approval. KRS 278.020(5) prohibits any entity from acquiring control of any utility under the jurisdiction of the Commission without prior approval.

The requirements for determining if a transfer should be approved are also contained in KRS 278.020(4) and (5). KRS 278.020(4) provides for Commission approval of a transfer if the person acquiring the utility has the financial, technical, and managerial abilities to provide reasonable service. KRS 278.020(5) provides for

³ Response of People’s Gas, filed March 21, 2001, to First Data Request of Commission Staff to People’s Gas Company, Inc., number 1(a) and 19. In the informal conference of April 6, 2001, it was found that approximately 13,000 feet of pipe, rather than 10,000 feet, needs to be replaced.

Commission approval of a transfer if it finds the transfer is to be made in accordance with the law, is for a proper purpose, and is consistent with the public interest.

Approval of the joint application transferring the Phelps system would also constitute the approval of People's Gas to serve customers as a local distribution utility subject to the jurisdiction of the Commission pursuant to KRS Chapter 278. Any entity functioning as a regulated utility is required to conform to the law and operate according to the regulations as contained in 807 KAR Chapter 5. Such utilities must be specifically knowledgeable of, among other statutes, KRS 278.160, which requires each utility to file with the Commission a tariff showing all rates and conditions of service; KRS 278.180, which specifies procedures required for a change in rates; and KRS 278.300, which requires prior approval for assumption of indebtedness.

The proper recording by People's Gas of the assets purchased and the proper recording by Mike Little of the assets sold is imperative. 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. Original cost as defined by the USoA means the cost of such property to the person first devoting it to public service. The USoA states that this cost shall be ascertained by an analysis of the utility's records or shall be estimated by the utility. Mike Little submitted balances for its Phelps plant and accumulated depreciation accounts for 1999 that were materially different from those reflected on Phelps' balance sheet in 1993, which was the last year Phelps filed an individual annual report with the Commission. Accordingly, Mike Little should provide a workpaper tracing the value of the assets from the amounts recorded in the Phelps 1993 annual report to the value on the date of the transfer. The schedule should

show for each year the additions and retirements to each plant account. Any difference between the net value of the assets and the price paid by People's Gas to Mike Little should be recorded in Account 114, Gas Plant Acquisition Adjustment ("GPAA").

Pursuant to the USoA, the GPAA shall "include the difference between (a) the cost to the accounting utility of gas plant acquired as an operating unit or system by purchase ... and (b) the original cost, estimated, if not known, of such property, less the amount or amounts credited by the accounting utility at the time of acquisition to accumulated provisions for depreciation, depletion, and amortization...." The amortization of the GPAA may be recorded in Account 425, Miscellaneous Amortization. The amount of amortization of the GPAA, if any, that will be allowed for rate-making will be determined in the next rate case and may be based in part on the number of years in the remaining lives of the assets. Commission Staff will be available to assist People's Gas in recording its journal entries or in setting up its books, and the Commission encourages People's Gas to contact Staff with any questions.

On April 13, 2001, responding to a question regarding customer deposits raised in the April 6, 2001 informal conference, Mike Little filed a supplemental response, stating that it intends to refund Phelps customer deposits prior to any transfer of the system. Mike Little must make refunds of customer deposits and accrued interest pursuant to KRS 278.460 and 807 KAR 5:006, Section 7.

People's Gas intends to finance the pipeline replacement construction with loans from its sole shareholder at the prime interest rate plus 2 percent for a period of

3 years.⁴ This was discussed at the informal conference and in a data response. While the Commission acknowledges that this financing may be acceptable, People's Gas is reminded that other forms of financing may be available at a lower cost than prime plus 2 percent. People's Gas should explore available alternatives and should secure financing at the lowest possible cost.

Randall A. Hayes, the sole shareholder of People's Gas, has several affiliated businesses and, during the April 6, 2001 informal conference, stated that he keeps separate books for each of the affiliated entities. He indicated that separate records would be kept for People's Gas, although the utility company would share employees with other non-regulated businesses. The USoA requires each utility to keep its accounts and records so as to be able to furnish accurately and expeditiously statements of all transactions with associated companies. This includes, but is not limited to, any invoices and billing statements concerning transactions between the utility and its affiliate. Also, KRS 278.2201 through 2219 prohibit cross-subsidization and require cost allocation for companies such as People's Gas that have both regulated and non-regulated affiliates.

The Applicants included as part of the joint petition a motion that they be relieved from the compliance schedule in Case No. 99-267 pending a decision on the transfer. As this case is now complete, the motion is moot.

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

⁴ Response 4(a) to the Commission Staff's Second Data Request to People's Gas.

1. Randall A. Hayes formed People's Gas for the purpose of operating the Phelps system as People's Gas, and he is the sole shareholder. Mr. Hayes serves as its President and Secretary-Treasurer. He also is the corporate officer responsible for regulatory compliance.⁵ Mr. Hayes has over 35 years' experience in the natural gas business, in production, exploration and as an employee of Royalton Gas Company.

2. People's Gas has the financial, technical, and managerial abilities to provide reasonable service.

3. The transfer should be approved upon the condition that each Applicant file within 7 days of the date of this Order a written acknowledgement accepting, and agreeing to be bound by, the commitments and conditions set forth in this Order.

4. People's Gas agrees, as a condition of this transfer, to full acceptance of the regulatory obligations of the Phelps system, including, but not limited to, the obligation to replace all remaining steel mains of the Phelps system with PE pipe. No main replacement shall be less than two inches in diameter. People's Gas shall file with the Commission a construction schedule prior to start of construction, with completion-of-construction date no later than November 1, 2001.

5. Mike Little agrees, as a condition of this transfer, to provide a workpaper tracing the value of the assets from the amounts recorded in the Phelps 1993 annual report to the value on the date of the transfer. The schedule shall be provided within 10 days of the date of this Order.

⁵ Responses 3(a-c) to Commission Staff's First Information Request to People's Gas.

6. People's Gas and Mike Little have agreed to pay one-half of the disputed Columbia Gas bill for the Phelps system in the amount of \$3,700. When recording the purchase transaction on the books of People's Gas, this debt shall be recorded. Mike Little shall likewise reduce this debt on its books by one-half. There is no other present debt attributable to Phelps.

7. Upon completion of the transfer, People's Gas should file with the Commission an adoption notice adopting, ratifying, and making its own all rates, rules, and classifications of the Phelps system of Mike Little, which are on file with the Commission and effective at the time of such change of ownership or control.

8. Mike Little should refund the Phelps customer deposits prior to the transfer of that system. Mike Little should make these refunds of deposits and accrued interest pursuant to KRS 278.460 and 807 KAR 5:006, Section 7.

9. The proposed acquisition of the Phelps system by People's Gas is in accordance with law, is for a proper purpose, and will be consistent with the public interest, if the Applicants accept and agree in writing to the commitments and conditions set forth in this Order.

IT IS HEREBY ORDERED that:

1. The transfer of ownership of the Phelps system of Mike Little to People's Gas is approved, subject to the filing, within 7 days of the date of this Order, of written acknowledgements described herein.

2. Upon compliance with the conditions contained herein, People's Gas is authorized to operate the Phelps system in its own name as a local distribution utility.

3. Within 10 days after completion of the transfer, People's Gas shall file an adoption notice adopting, ratifying, and making its own all rates, rules, and classifications of the Phelps system of the Mike Little utility.

4. People's Gas shall file with the Commission the as-built drawings for its gas distribution system 60 days after the completion of the construction.

5. Mike Little shall refund the Phelps customer deposits prior to the transfer of that system. Mike Little shall make these refunds of deposits and accrued interest pursuant to KRS 278.460 and 807 KAR 5:006, Section 7, and shall file verification of same with the Commission within 30 days of the transfer.

6. Within 30 days from the date of the transfer, Mike Little shall file journal entries recording the sale.

7. Within 30 days from the date of the transfer, People's Gas shall file journal entries recording the purchase.

8. Mike Little shall file, within 10 days of the date of this Order, a workpaper tracing the value of the assets from the amount recorded in the Phelps 1993 annual report to the value on the date of the transfer, demonstrating for each year the additions and retirements to each plant account.

Done at Frankfort, Kentucky, this 30th day of April, 2001.

By the Commission

ATTEST:


Executive Director