

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF PUBLIC GAS COMPANY,)
ITS SHAREHOLDERS, AND KENTUCKY ENERGY)
DEVELOPMENT, LLC FOR AN ORDER) CASE NO. 2002-00374
APPROVING A TRANSFER AND ACQUISITION)
OF OWNERSHIP AND CONTROL)

O R D E R

On October 11, 2002, Public Gas Company (Public Gas) and Kentucky Energy Development, LLC (Kentucky Energy) (collectively, Joint Applicants) filed with the Commission an application pursuant to KRS 278.020(4) and (5) requesting approval of the proposed transfer of Public Gas to Kentucky Energy. The Joint Applicants also requested a ruling that neither KRS 278.020(4) nor KRS 278.020(5) applies to mergers involving affiliated third parties, or, in the alternative, Commission approval of such mergers as may be required pursuant to KRS 278.020(4) and (5) .

PROCEDURE

On October 30, 2002, the Commission established a procedural schedule and Commission Staff issued its first data request. The Commission granted the Attorney General's motion for full intervention on November 8, 2002. The Joint Applicants responded to Commission Staff's data request on November 12, 2002. After carefully reviewing the information submitted, the Commission found that the record contained sufficient evidence for a ruling on the proposed transaction. On November 14, 2002,

the Commission cancelled the hearing originally scheduled for November 18, 2002, and continued the matter generally.

PROPOSED TRANSACTION

Public Gas is a Kentucky corporation principally located in Lexington, Kentucky. Public Gas provides natural gas service to approximately 1500 customers in Breathitt, Johnson, Lawrence, Lee, Magoffin, Morgan, and Wolfe counties.

Kentucky Energy is a Kentucky limited liability company principally located at 1268 East Rookwood Drive, Cincinnati, Ohio. The Joint Applicants state that at the time of transfer, the membership interests in Kentucky Energy will be held as follows: 40 percent Marbel Investments, L.L.C. (Marbel Investments); 40 percent Mapes Energy L.L.C. (Mapes Energy); and 20 percent Marshall B. Belden, Jr.

Marbel Investments is an Ohio company owned by members of the Belden family and controlled by Marshall B. Belden, Jr. Mapes Energy, also an Ohio company, is owned by Gene Mapes, Sr. and Gene Mapes Jr. The company was formed on October 11, 2002 to hold the interests of Gene Mapes, Sr. and Gene Mapes, Jr.

On September 26, 2002, the shareholders of Public Gas agreed to transfer all issued and outstanding shares in Public Gas to Kentucky Energy. In consideration of this proposed transfer, Kentucky Energy will pay \$177,269. The stock purchase agreement is subject to certain conditions, one of which is approval by the Commission.

STATUTORY PROVISIONS

KRS 278.020(4) provides that no person may acquire or transfer control or ownership of a utility without prior approval by the Commission. The Commission will approve such a transfer if it determines that the acquirer has the financial, technical,

and managerial abilities to provide reasonable service. The Commission must also determine that the acquisition is made in accordance with the law, is for a proper purpose, and is consistent with the public interest. KRS 278.020(5). The Commission may grant an application upon terms and conditions it deems necessary to protect the public interest.

After considering the evidence submitted in the record, the Commission finds that the proposed acquisition of Public Gas by Kentucky Energy meets the standards set forth in KRS Chapter 278. Kentucky Energy has provided sufficient evidence to support its assertion that it has the financial, technical, and managerial ability to provide reasonable service to Kentucky consumers.

Kentucky Energy has demonstrated the financial ability to provide reasonable service to Public Gas customers following the proposed transfer. Under a petition for confidentiality, financial information was filed for Marbel Investments and the principals of Mapes Energy. This information, along with the Joint Applicants assertion that Kentucky Energy's members and principals have a combined net worth of \$13 million, demonstrates that Kentucky Energy has the financial ability to operate Public Gas.

The proposed transaction should be financially beneficial to Public Gas. Currently, Public Gas owes \$1,200,000 to an affiliated company, Jefferson Gas Transmission Company, Inc. (JGT). As part of the Agreement, a dividend in kind of \$600,000 of the indebtedness of Public Gas to JGT will be distributed to the shareholders of JGT prior to the closing. The shareholders will contribute this indebtedness to the equity of Public Gas. In effect, this transaction will increase Public Gas's equity by \$600,000 and reduce its debt to JGT by \$600,000.

Kentucky Energy has also demonstrated the technical and managerial ability necessary to provide reasonable service to Kentucky customers. Marshall B. Belden, Jr. is a petroleum engineer with 30 years experience in the energy industry with specific experience in the production, transmission, and local distribution of natural gas. Mr. Belden served as president of MB Operating Company, which operated 1,080 miles of pipeline. He also served as chairman of Northeast Ohio Natural Gas Corporation. Gene Mapes, Sr., co-owner of Mapes Energy, founded Mapes & Company in 1981. This company provides specialized risk management services to the energy industry, including natural gas distribution companies. In addition, Mr. Mapes has management experience with two Fortune 500 companies. His son, Gene Mapes, Jr., is an insurance executive with Mapes & Company. Prior to joining Mapes & Company, he served as general manager of Kentucky-Ohio Gas Company.

With regard to the distribution system, information furnished by Public Gas shows sections of bare steel distribution pipe in its system. Because bare steel pipes are subject to corrosion and may incur leaks, the Commission will require Kentucky Energy to review the condition of its pipes. The Commission will also require Kentucky Energy to file, within 6 months, a report of its review and identify any sections of its distribution system scheduled for replacement.

The proposed transaction is consistent with the public interest. Kentucky Energy has offered continued employment to all current Public Gas employees, and states that it will make no changes in the current day-to-day management of the company. Given the retention of current Public Gas employees and the management- and energy-related experience of Kentucky Energy's principals, the Commission finds that Kentucky

Energy has demonstrated the managerial and technical abilities necessary to provide reasonable service to Public Gas customers.

Performance of the proposed stock purchase agreement will effectuate the merger of certain companies affiliated with Public Gas, namely JGT, People s Public Gas Company, Inc. (PPG), and Anex Exploration, Inc. (Anex). JGT, PPG and Anex are Kentucky corporations engaged in the business of producing natural gas and selling it on a wholesale basis. These companies are not utilities within the meaning of KRS 278.010 and their transfer is not subject to Commission jurisdiction.

CONCLUSIONS

Kentucky Energy has provided sufficient evidence to prove that it has the financial, technical, and managerial ability to provide reasonable service to Kentucky customers. The proposed acquisition is made in accordance with law, does not violate any statutory prohibition, and is executed for a proper purpose. The Commission finds that the proposed acquisition is consistent with the public interest and that Kentucky Energy will maintain both the level and quality of service currently received by Public Gas customers.

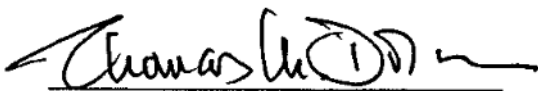
The Commission, having reviewed the evidence of record and having been otherwise sufficiently advised, HEREBY ORDERS that:

1. The application for approval of the transfer of Public Gas to Kentucky Energy is approved.
2. Within 6 months of the transfer, Kentucky Energy shall file with the Commission a report of its review of the bare steel pipes in the distribution system, and shall identify any portions scheduled for replacement.

Done at Frankfort, Kentucky, this 10th day of December, 2002.

By the Commission

ATTEST:

A handwritten signature in black ink, appearing to read "Charles H. [unclear]", written over a horizontal line.

Executive Director