

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF PUBLIC GAS )  
COMPANY, INC., FOR APPROVAL TO ) CASE NO. 9898  
TRANSFER STOCK )

O R D E R

IT IS ORDERED that Public Gas Company, Inc., ("Public") shall file an original and eight copies of the following Staff Information Request with this Commission, with a copy to all parties of record. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. The information requested herein is due no later than 20 days from the date of this Order. If the information cannot be provided by this date, you should submit a motion for an extension of time stating the reason a delay is necessary and include a date by which it will be furnished. Such motion will be considered by the Commission.

Information Request No. 1

The following questions and statements are directed to Mr. Vachon:

1. Using the schedule of Notes Payable in the 1986 Annual Report, indicate how each note is secured (collateral, etc.)
  - a. Also indicate what the status of each note payable is currently.

2. In Article 1.1 of the Stock Purchase Agreement ("Agreement"), William R. Johnson agrees to purchase the stock of Public for \$60,000 and, ". . . shall cause the notes payable listed on the acquisition balance sheet to be paid in full at the closing, thereby relieving Seller of any personal responsibility on the payment of said notes."

a. Explain why such a transaction would not constitute more than just a sale and transfer of stock; in other words, a sale of stock and assets.

b. Indicate which notes payable, as listed in Item No. 1, are included in this Agreement.

c. Using the 1986 Annual Report of Public as a basis, provide all journal entries necessary to record the sale and transfer of Public. Prepare these sample entries as if the sale occurred on December 31, 1986. All entries should be in accordance with the Uniform System of Accounts for Gas Utilities ("USoA").

3. In the Final Order in Case No. 9565,<sup>1</sup> the Commission expressed its concern over errors discovered in the 1979 recording of the utility plant and accumulated depreciation for Public at its inception. The impact on Public could be a misstatement of the investment rate base. In order to clear up this situation and in fairness to the buyer of Public, the issue will be explored in

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<sup>1</sup> Notice of Public Gas Company, Inc., of General Rate Adjustment Effective May 12, 1986, Final Order issued October 10, 1986.

this case. While reviewing the annual reports on file with the Commission and the related cases, the following situations were discovered:

a. The utility plant transferred from Pan Bowl to Public in 1979 was written up in value by \$26,903.

b. Accumulated depreciation on the transferred utility plant was recorded on Pan Bowl's books at \$71,717 while no accumulated depreciation was recorded by Public.

c. In Public's 1980 Annual Report, a plant acquisition adjustment of \$31,162 is recorded. There are no references present to explain how that figure was arrived at.

Each of these items indicate that the original transfer was not accounted for in accordance with the USoA.

d. Provide a detailed explanation for each item, supporting the action that was taken.

e. Supply copies of any information which would clarify and support Public's accounting treatments.

4. What is your current job status with Public?

5. How many employees does Public have to perform field-related duties? Describe the duties of each.

6. When were the meters last read? When were the customers last billed?

7. Who is supervising the regular maintenance activities on the Public system as required by Commission regulations?

8. The application for transfer was filed April 1, 1987. Since that time have any assets of Public been removed or sold?

- a. Any tools, equipment or pipe?
- b. Has Edsel McCoun made any demands of Public during your ownership regarding any equipment owned by Public?

The following questions and statements are directed to Mr. Johnson:

1. Using the 1986 Annual Report of Public as a basis, provide all journal entries necessary to record the sale and transfer of Public. Prepare these sample entries as if the sale occurred on December 31, 1986. All entries should be in accordance with the Uniform System of Accounts for Gas Utilities.
2. Indicate if Public will be affiliated in any way with:
  - a. Capitol Oil Company ("Capitol Oil").
  - b. Capitol Resources, Inc., ("Capitol Resources").
3. Provide an explanation as to your relationship with each of the following:
  - a. Capitol Oil and/or its owners.
  - b. Capitol Resources and/or its owners.
  - c. Pan Bowl Production Company ("Pan Bowl") and/or its owners.
4. Provide a general description of how you plan to operate Public.
  - a. Include any changes planned in the areas of employees, business location, gas supplier, and the use of outside services.
  - b. Indicate what level of involvement you plan to have in the day-to-day operations of Public.

5. Describe your work experience related to the operation of a natural gas distribution company.

6. Are you knowledgeable of the Commission's rules and regulations? The gas safety regulations?

7. In your transfer application, it is stated that you are aware that "some corrosion control problems" exist on the Public system and that you "will implement a program to correct the deficiencies." Please describe the focus and nature of the proposed program, including the estimated time to complete, the estimated cost, and who would perform the work.

8. Also, in your application in a statement to the Bank of Pikeville, it is stated that you have interests in gas wells.

a. How many wells? Are they currently producing? If so, where is the gas currently marketed?

b. Does Pan Bowl or Capitol Resources maintain any interests in any of these wells?

9. Information in the statement to the Bank also says you are currently employed by Capitol Resources.

a. Are you one of the owners of Capitol Resources?

b. Doesn't Capitol Resources own Pan Bowl?

c. Isn't Pan Bowl the sole supplier of natural gas to Public?

d. Do you have any business relationship with Pan Bowl?

e. Given your position with Capitol Resources and the fact that Capitol Resources owns Pan Bowl, if the transfer is approved, would you consider transactions between Public and Pan Bowl to be at arms-length? If yes, why?

10. Describe any business relationships you have or have had with Edsel McCoun.

11. What is your general assessment of Public as an operating utility?

12. Who will operate the system on a day-to-day basis?

a. Who will be responsible for supervising the maintenance activities to comply with the Commission's gas safety regulations?

b. Do you consider the number of employees currently hired by Public to be adequate for operating and maintaining a system the size of Public?

Done at Frankfort, Kentucky, this 18th day of May, 1987.

PUBLIC SERVICE COMMISSION

  
For the Commission

ATTEST:

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Executive Director