COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF BURKESVILLE GAS COMPANY, INC. FOR APPROVAL OF THE TRANSFER AND SALE OF KEN-GAS OF KENTUCKY, INC. and APPLICATION OF BURKESVILLE GAS COMPANY, INC. FOR AN ORDER AUTHORIZING THE CREATION AND ISSUANCE OF $1,300,000.00 OF LONG TERM INSTRUMENTS OF INDEBTEDNESS	CASE NO. 90-294

O R D E R

IT IS ORDERED that Burkesville Gas Company, Inc. ("Burkesville") and Ken-Gas of Kentucky, Inc. ("Ken-Gas") shall appear at an informal conference on January 15, 1991, at 1:00 p.m., Eastern Standard Time, in Conference Room 1 of the Commission's offices in Frankfort, Kentucky.

IT IS FURTHER ORDERED that Burkesville and Ken-Gas shall produce at the informal conference and file with the Commission the original and 12 copies of the following information, with a copy to all parties of record. Each copy of the information requested should 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. 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 make certain that it is legible.

1. Provide an adjusted beginning journal entry for Burkesville Gas Company which includes the following corrections:

a. Plant should be reported at original cost along with the associated accumulated depreciation as required by the Uniform System of Accounts.

b. Burkesville's assumption of the liability for customer deposits as part of the asset purchase from Ken-Gas should be properly recorded. Since the purchase price is $840,200 and the net book value of the physical plant is $840,200, an acquisition adjustment must be established to account for the assumption of the customer deposit liability.

c. If the franchise fee of $2,200 is also a part of the asset purchase from Ken-Gas, this must be properly reflected and the amount in the acquisition adjustment account would change accordingly.

2. In its response to question 2 of the Commission's November 1, 1990 data request, Burkesville identifies $113,372 in cash as a journal entry representing the purchase of a propane injection system.

a. What is the purpose of the propane injection system?

b. Provide a breakdown of the materials, equipment and associated items that are included in the purchase, identifying separately the cost for each item.

3. In its response to question 17, Burkesville states that it has entered into a pipeline lease agreement with Bill Nickens.

a. What is the purpose of this agreement?

b. If it is to be used to assist in the delivery of gas to the Burkesville distribution system, identify the sources from which the gas will be purchased and any other pipelines in which such gas will be transported prior to delivery through Mr. Nickens' pipeline.

4. Gas load:

a. The gas consumption by the city of Burkesville will be increased 7 fold in 1991. Can Burkesville meet the demand? Provide details of the agreements between Burkesville and its suppliers.

b. Is it correct that the current gas supply contract of Ken-Gas is with the Centran Corporation?

c. If yes, does Burkesville intend to continue that contract?

d. Does Centran utilize pipelines of the Texas Eastern Transmission Corporation ("Texas Eastern") to deliver the gas to Ken-Gas's point of receipt?

e. Is the transportation of Centran's gas for delivery to Ken-Gas over Texas Eastern's pipeline interruptible?

f. Does Burkesville consider an interruptible transportation contract to be a reliable basis on which a gas distribution company should purchase its gas? Explain.

5. If Burkesville intends to utilize Centran to provide gas and also purchase gas from local producers, provide the estimated percentage that Burkesville will purchase from each.

6. If it can be concluded that Burkesville's purchases from Centran and local producers represent a long-term, reliable source of gas sufficient for Burkesville's needs and can be provided at reasonable prices, why is the purchase of the propane injection system necessary?

7. Describe the analysis which Burkesville performed to conclude that purchase of a propane injection system represents the most reliable source of additional gas supply that can be provided at the most reasonable price.

8. If Burkesville assumes ownership of the Ken-Gas system, who will own the K.E.T. transmission pipeline? If K.E.T. maintains ownership, how much transportation costs (per Mcf) will Burkesville be required to pay if it transports some portion of its gas supply over K.E.T.'s pipeline?

9. Construction work in progress:

a. Provide the feasibility study from which the load projections were taken.

b. Provide maps of the system showing the extension lines (2" and 3/4") in the load projection for 1991.

c. Provide support for the addition of 400 residential and commercial customers to the existing customers in 1991. Provide any agreements between Burkesville and customers.

d. Is the projected construction work to be implemented by a contractor? If yes, give details of the contract.

10. Fort Knox Gas Transmission Line:

a. Provide the basis of the monthly rate for the lease agreement with Bill Nickens.

b. Who is responsible for maintaining the line?

c. What is the condition of the line?

11. Provide an analysis of the sources and uses of the funds provided in the original capitalization (debt and equity) of Burkesville.

12. Restate Burkesville's balance sheet as filed on December 13, 1990 to be in accordance with the Uniform System of Accounts ("USoA") which requires that special funds be separately recorded under Account No. 129. According to the application, a portion of the proposed loan funds will be used to establish:

a. A reasonably "required" Reserve Fund. State the purpose of this Reserve Fund and who is requiring this funding. Provide a list of the requirements of the Reserve Fund including minimum balance requirements and who will have access to the fund and who will manage the fund.

b. A Capitalized Interest Fund. State the purpose of this fund. State the basis for determining the amount included in the Capitalized Interest Fund. Provide a list of the requirements of the fund and who is requiring this reserve. State who will have access to this fund and who will manage this fund.

13. Provide a narrative explanation and provide all assumptions used in developing the projected operating expenses included in the cash flow projections in the application.

14. According to Burkesville's balance sheet included in the December 13, 1990 data response, $120,250 in interest is being capitalized to the Gas Utility Plant account.

a. State the basis for capitalizing 100 percent of the first years bond interest cost to the Gas Plant Account.

b. Explain how Burkesville's treatment of capitalized interest conforms to the USoA's instructions concerning Allowance for Funds Used During Construction.

15. According to the balance sheet of Burkesville, $133,023 is in cash and working funds. State the reasons for needing such a large cash account. Explain why the loan should be increased to provide this amount of cash.

16. Provide an explanation of the amount listed as debt issuance costs in the data response of December 13, 1990.

Done at Frankfort, Kentucky, this 9th day of January, 1991.

PUBLIC SERVICE COMMISSION

For the Commission

ATTEST:

Executive Director