

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE PETITION OF DAUGHERTY PETROLEUM, )  
INC. FOR A CERTIFICATE OF CONVENIENCE ) CASE NO. 97-496  
AND NECESSITY TO CONSTRUCT AND )  
OPERATE A NATURAL GAS SUPPLY LINE )

O R D E R

IT IS ORDERED that the request of Daugherty Petroleum, Inc. ("Daugherty") to start construction on a proposed 8-inch pipeline while the review process for a certificate of convenience and necessity by the Commission Staff is ongoing is hereby denied.

IT IS FURTHER ORDERED that Daugherty shall file an original and 8 copies of the following information with this Commission, with a copy to all parties of record. Each copy of the data 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 ensure that it is legible. The information requested herein is due no later than 21 days after the date of this Order.

1. Provide the most recent balance sheet and 12-month income statement for Daugherty.
2. Provide a copy of Daugherty's certificate of good standing from the Kentucky Secretary of State.

3. Concerning Daugherty's affiliation with Alaska Apollo Resources, Inc. ("Alaska Apollo"),

a. Indicate the state or province in which Alaska Apollo is incorporated.

b. Provide a copy of Alaska Apollo's Articles of Incorporation. If applicable, provide a copy of Alaska Apollo's certificate of good standing or other similar document from the incorporating state or province.

c. Provide a current corporate organization chart showing the relationship between Daugherty, Alaska Apollo, and all other subsidiaries and affiliates of Alaska Apollo.

d. Indicate when Daugherty was acquired by Alaska Apollo.

e. Describe the extent to which Daugherty's financial condition is dependent upon the overall financial condition of Alaska Apollo.

f. Indicate the percentage of Alaska Apollo's total revenues and expenses that are represented by Daugherty's revenues and expenses.

g. Included in Daugherty's application was a copy of its 1984 Articles of Incorporation. Were there any amendments to these Articles of Incorporation when Daugherty was acquired by Alaska Apollo? If yes, provide copies of the amended Articles of Incorporation. If no, explain why there were no amendments upon the acquisition of Daugherty by Alaska Apollo.

4. Provide a copy of the joint venture agreement with Environmental Gas Company ("Environmental").

5. Concerning the joint venture with Environmental, provide a summary which lists precisely the rights, responsibilities, and obligations of the parties.

6. Concerning the Small Business Administration loan application,

a. Provide a copy of the application, including all supporting documents and attachments.

b. Indicate the status of the application as of the response date to this Order.

c. Provide the terms of the loan and the debt amortization schedule.

7. Item 5 of the application indicates that additional equity of between \$200,000 and \$300,000 will be provided by the owners.

a. Identify these "owners."

b. Indicate the source(s) of the additional equity.

8. Item 7 (c) of the application shows the proposed transportation rates. Explain in detail how the various transportation rates were determined. Include all assumptions and estimates used in this determination, including number of customers and projected volumes.

9. The application indicates any customers that applied in Adair County would be under the rate structure approved for Sentra Corporation ("Sentra") in Case No. 97-429.<sup>1</sup>

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<sup>1</sup> Case No. 97-429, A Petition of Sentra Corporation for a Certificate of Convenience and Necessity to Construct and Operate a Natural Gas Distribution System.

a. Provide documentation that indicates the rate structure for Sentra has been approved by the Commission.

b. Explain in detail how the Sentra transportation rates and other rates were determined. Include all assumptions and estimates used in this determination.

c. Explain why it is reasonable for Adair County customers to be under the Sentra rate structure rather than Daugherty's.

10. Explain the \$2 rate for transportation volumes listed on Exhibit 6. What is the basis for the \$2 rate to Sentra? Is this rate set out or proposed elsewhere?

11. Provide the names of the owners, corporate officers, and managers for each of the entities listed below.

a. Alaska Apollo.

b. Daugherty.

c. Environmental.

d. Sentra.

12. Exhibit No. 6 of the application is the projected revenue and operating cost for the proposed project.

a. Explain how the transportation volumes were determined. Include all supporting workpapers, assumptions, and other documentation.

b. Explain how each amount of operating expense was determined. Include all supporting workpapers, assumptions, and other documentation.

c. For operating expenses which are to be allocated,

(1) Identify the entity with which the cost is being shared.

(2) Explain the allocation methodology used to make the allocation.

(3) Explain why the chosen allocation methodology is reasonable.

d. Indicate how many employees are assumed in the operating expenses. If more than one, provide the wage and associated costs for each employee. If the employee wages represent a shared or allocated cost, provide the information requested in part (c) above.

13. Exhibit No. 7 of the application is the estimated cost for completion of the proposed project.

a. For each unit price listed, explain how that price was determined.

Include all supporting workpapers, assumptions, estimates, and other documentation.

b. Several of the costs listed have the designation "LS."

(1) Explain what the reference "LS" means.

(2) Explain how the amounts listed for "LS" items were determined.

Include all supporting workpapers, assumptions, estimates, and other documentation.

14. Will the proposed line provide transportation service only? Will there be no retail distribution service?

15. Refer to the franchise with Russell County.

a. Has the franchise been assigned?

b. If it has been assigned, provide a copy of a document which assigns the franchise.

c. If the franchise has been assigned, provide a stamped copy of it which reflects that it has been filed with the Russell County Court Clerk.

d. If the franchise has been assigned, provide a document which reflects that the Russell County Fiscal Court has consented to and approved such assignment.

16. Does the applicant have a franchise in Adair County?

a. If yes, provide a copy of same together with all documents related to such franchise.

17. When will Daugherty secure the rights-of-way for the proposed 8-inch pipeline and related facilities? Provide any agreements into which Daugherty has entered with public agencies and private landowners for the provision of rights-of-way for the proposed pipeline.

18. With reference to the proposed pipeline construction documents filed by Daugherty on December 8, 1997, provide the following information:

a. The types of polyethylene pipes, valves, fittings, and other appurtenances that are proposed for this project, with reference to ASTM standard.

b. The basis for proposing 8-inch polyethylene pipeline.

c. The fluid to be used for pressure testing the pipeline.

d. Drawings for typical road and creek crossings.

19. Provide a copy of the construction bid documents for this project.

20. Provide the operation, inspection, emergency, and maintenance manual for the proposed project.

21. Does Daugherty intend to install the 8-inch pipeline to serve both Adair and Russell counties? Provide the details of Daugherty's future plan. Include the estimated costs of the distribution systems in Russell Springs and Jamestown.

22. Provide a depreciation schedule for the utility plant.

23. Provide a map for the existing 4-inch, 3-mile polyethylene pipeline in Adair County from Highway 80 to the Gaddie-Shamrock area which Daugherty suggests to connect into the proposed pipeline.

24. Provide detailed drawing for the regulator and meter station at the tap-on connection of the proposed pipeline into Gulf Transmission pipeline.

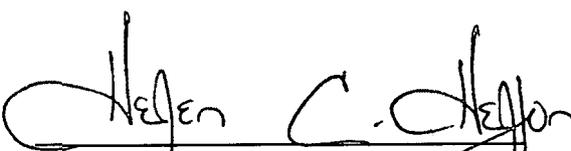
25. Provide the class location of the proposed pipeline along the rights-of-way.

Done at Frankfort, Kentucky, this 17th day of February, 1998.

PUBLIC SERVICE COMMISSION

  
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For the Commission

ATTEST:

  
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Executive Director