

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.
AND NECESSITY TO CONSTRUCT AND OPERATE) 97-496
A NATURAL GAS SUPPLY LINE)

O R D E R

IT IS ORDERED that Daugherty Petroleum, Inc. ("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 from the date of this Order.

1. Provide any agreement or contract with Gaddie-Shamrock Asphalt Plant.
2. Who are Daugherty's major customers for phase 1 of the project?
3. Provide the calculations for the pressure profile along the 8-inch and 4-inch pipelines at the estimated peak consumption conditions.

4. What is the peak consumption for natural gas by Fruit of the Loom? Provide any correspondence or agreements between Daugherty and Fruit of the Loom for the supply of natural gas.

5. Provide the feasibility studies performed by R.W. Beck, Inc. for this project.

6. Provide a time schedule for the construction of each of the phases.

7. Refer to the response to the Commission's February 17, 1998 Order, Exhibit A. Provide page 4 of the audited financial statements, which is the Asset portion of the Balance Sheet.

8. Refer to the response to the Commission's February 17, 1998 Order, Exhibit D. Concerning the joint venture agreement ("Agreement") with Environmental Gas Company, Inc. ("Environmental"):

a. Identify any business or professional relationships which exist between Daugherty, its parent, and its subsidiaries, and Environmental, Environmental Energy, Inc., or Environmental Holding Company, LLC. These relationships include, but are not limited to, other joint ventures, common ownership of stock, common officers, and common employees.

b. According to paragraph II(B) of the Agreement, Daugherty was to begin construction of a gas distribution system in southern Kentucky within approximately 30 days from the date of the Agreement. Describe the status of this provision of the Agreement, as of the date of this Order.

c. According to paragraph V(A) of the Agreement, Daugherty and Environmental are each to provide 50 percent of the initial funding to install and complete the construction of the main line of the initial gas distribution system. Describe the status of this provision of the Agreement, as of the date of this Order.

d. As used in paragraph V, describe what is meant by the phrase "AFE basis."

e. Provide the "Asset Acquisition Agreement" dated November 3, 1997, which is referenced in paragraph VI of the Agreement.

9. Refer to the response to the Commission's February 17, 1998 Order, Exhibit K, part 12(a).

a. Explain in detail why it is reasonable to base transportation volume estimates on data that is 7 to 10 years old.

b. Reference is made to a previous certificate of convenience and necessity and rate approved by the Commission to Walton R. Haddix. Provide the case number for the previous certificate proceeding and the name of the utility under which the application was filed.

10. Refer to the response to the Commission's February 17, 1998 Order, Exhibit K, parts 12(b) and 12(c).

a. Daugherty has indicated that Michael Wallen will be the manager and operator of the gas supply line and transportation volumes. Mr. Wallen is listed as a corporate officer of Alaska Apollo Resources Inc., Daugherty, and Sentra Corporation. Explain why it is reasonable to allocate all of

Mr. Wallen's salary to the project, rather than allocate it among the four entities for which Mr. Wallen will be working.

b. Describe the allocation basis used to justify the amount of office rent assigned to the project. If an allocation methodology was not used, describe the approach used.

c. Describe the reasoning used in concluding that "a majority of one clerk's time will be spent on the gas operation" and how the majority of the time equaled two-thirds.

d. Why is the estimated telephone cost "a reasonable amount"?

e. Explain why it is reasonable to estimate the repair cost using a percentage of the gross revenue method.

f. How was the rate of 0.7 percent of gross revenues determined to be a reasonable estimate for bad debts?

g. Describe the amount of liability insurance coverage expected to be provided by the estimated annual premium. How old is this premium estimate?

h. How was a rate of 2.0 to 3.0 percent of gross revenues determined to be a reasonable estimate for miscellaneous expenses?

i. A comment in the response indicates that Daugherty had originally assumed it would have to provide funding for the entire gas supply line. Given the terms of the joint venture agreement, explain why Daugherty had made that assumption.

11. Exhibit K contains the statement "For the present time Daugherty Petroleum, Inc. plans to install Phase I of an 8" PE gas supply line in Adair County to serve all the available and feasible customers within the county irregardless of when the Russell County part becomes a reality." Provide a revised version of Application Exhibit No. 6, reflecting the projected revenues and operating costs associated with Phase I only of this project. For each item of revenue and expense, include a detailed explanation of how the amount was determined. Explain the basis for all allocations utilized. Include all supporting workpapers, assumptions, and other documentation.

12. Refer to the response to the Commission's February 17, 1998 Order, Exhibit L, part 3, rights-of-way acquisition.

a. Explain why the land surveyor was retained by Walton Haddix rather than Daugherty.

b. Indicate when Mike McKinney actually gathered the information from landowners along the proposed pipeline route.

c. Explain the business relationships between Walton Haddix, Mike McKinney, and Energy Search, Inc. of Albany, Kentucky.

d. Explain the basis for the conclusion by Mike McKinney that over a distance of 5 miles, there would be 9 commercial and/or subdivision developments along the proposed pipeline route.

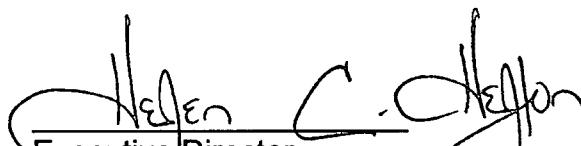
e. Have these rights-of-way actually been secured? Who holds the rights-of-way as of the date of this Order?

Done at Frankfort, Kentucky, this 15th day of May, 1998.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director