

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

|                              |   |                 |
|------------------------------|---|-----------------|
| THE APPLICATION OF SIGMA GAS | ) |                 |
| CORPORATION FOR APPROVAL OF  | ) | CASE NO. 99-074 |
| FINANCING                    | ) |                 |

O R D E R

On April 27, 1999, Sigma Gas Corporation ( Sigma ) filed its petition seeking the Commission s approval of financing in the amount of \$1,511,760. On May 17, 1999, the Commission issued an Order requesting information from Sigma concerning the debt and the disposition of the proceeds of the loan. On May 26, 1999, Sigma filed its response to that Order.

KRS 278.300(2) provides that the Commission shall have 60 days after filing to consider applications for authority to issue or assume securities or evidences of indebtedness unless it is necessary for good cause to continue the application. As the Commission has not completed its investigation of this matter, the Commission finds that good cause exists to continue this application beyond the 60-day period specified in KRS 278.300(2). The Commission finds that it is necessary to request additional information about the application of the loan proceeds in order to fully investigate the purposes and uses of the proceeds of the loan as required by the legislative directive contained in KRS 278.300(3). The Commission is required to determine if the loan is consistent with corporate purposes and necessary and appropriate for use by the utility

in its performance and in its service to the public. The additional time which will be required by Sigma and the Commission to answer and to review each question will exceed the 60 days from the filing date in this case.

The Commission, being sufficiently advised, HEREBY ORDERS that:

1. The application of Sigma for authority to incur additional indebtedness is continued beyond the 60-day period specified in KRS 278.300(2).

2. Sigma shall file with the Commission by July 12, 1999, the original and 6 copies of the information requested in Appendix A, attached hereto, with a copy to all parties of record, if any. 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. Where information requested herein has been provided along with the original application or other data request, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

Done at Frankfort, Kentucky, this 22<sup>nd</sup> of June, 1999.

By the Commission

ATTEST:

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Executive Director

## APPENDIX A

### AN APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 99-074 DATED JUNE 22, 1999

1. In Sigma's response to Item 26 of the Order dated May 17, 1999, the actual cost for the construction of the pipeline was \$1,143,135 compared to its estimated construction cost of \$632,671.<sup>1</sup>

a. Explain in detail why the cost of construction, as set out in Sigma's response, is 80 percent more than the amount authorized by the Commission in Case No. 94-435?

b. Why did Sigma fail to file with the Commission the actual cost of construction as ordered in the Commission's Order dated August 22, 1995 in Case No. 94-435?

c. When did Sigma realize that the cost of construction would exceed the authorized budget for the construction? What actions did Sigma take to control expenses? Why did Sigma fail to notify the Commission that it was experiencing significant cost overruns?

2. a. Tabulate itemized costs for all the materials and equipment as they were estimated before construction versus the actual costs of same incurred during or after the construction for the pipeline project in Case No. 94-435.

b. Tabulate itemized construction costs as they were estimated for the pipeline project in Case No. 94-435 versus the actual costs incurred for each item.

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<sup>1</sup> Case No. 94-435, The Petition of Sigma Gas Corporation for Approval of a Certificate of Convenience and Necessity to Construct Facilities and Approval of Financing.

c. Tabulate any other estimated costs and actual costs for any other items pertaining to the same project and the total costs of each set of items.

3. Provide the actual construction schedule for the pipeline project in Case No. 94-435.

4. At the date of completion of construction and commencement of operation of the pipeline in Case No. 94-435; of the Department of Local Government ( DLG ) loan of \$647,198 how much did Sigma pay to vendors and contractors who provided service for the project? How much, if any, debt is left to be paid to debtors who provided service on the project?

5. Did Sigma submit bid documents to construction contractors to bid for the above-mentioned pipeline project? If yes, how many bids were received and what was the minimum bid? Provide a copy of the bid documents.

6. Did Al Humphries Consultant prepare and/or provide feasibility studies, design and engineering, records of inspections, drawings, etc. for the above project? If yes, will Sigma be able to file copies of the above information with the Commission? If yes, when?

7. Refer to the construction of the pipeline in Case No. 94-435. Provide the actual service and cost per foot of the pipe length charged by KISU for the actual service provided for the construction of the pipeline.

8. Refer to the maintenance of the GEI pipeline. Provide the actual length, material, and size of pipeline replaced and any other facilities added or removed and any other costs incurred by Sigma in maintaining the GEI pipeline. Provide itemized costs for each of the above to include material and labor costs.

9. Refer to response to Order of May 17, 1999, Item 1. Clarify the revised Exhibit 1 with the following information:

a. Does Sigma consider the revised Exhibit 1 an amendment to its original application or is Sigma still seeking financing for the amounts included in the original application?

b. To the extent that the amount and/or the specific items to be included in the financing have changed, provide the items and the precise amounts to be covered by the proceeds of this financing.

c. Where the balance outstanding to any of these creditors has changed from the original filing, unless information was given in this format in the initial response, provide the following information:

(1) A schedule tabulating the supporting invoices or other supporting documentation, which equals the additional amount to be paid with the requested funding. The schedule should include the vendor or payee, the total paid, and the Uniform System of Accounts ( USoA ) account number to which the operating expense or capital expenditure was posted.

(2) Copies of each invoice, or other documentation, supporting the additional amount to be financed, appropriately referenced to the above tabulation schedule (i.e., No. 5, The Bank of Josephine, Item 1, page 1 of 4, and so forth, with cross-referencing back to tabulation schedule).

(3) Provide a copy of the work order which describes the work performed, and/or the goods and services purchased or an affidavit in sufficient detail to

provide a full and complete understanding of the nature and business purpose of each item of expense or capital expenditure contained in the schedule.

10. Refer to the response to Order of May 17, 1999, Item 5. The response did not include copies of work orders or an explanation of why these documents were not available. Provide the response.

11. Refer to the response to Order of May 17, 1999, Item 5. The response did not provide documentation and details of the actual work performed which generated the invoices including details of the location of assets installed, materials used, labor hours, equipment charges, and overhead charged. The invoices provided were not summarized in a form that could be used to support the cost that Sigma is seeking to finance with the proceeds of the proposed loan. In order to comply with the request, provide the following:

a. A schedule tabulating the supporting invoices or other supporting documentation, which equals the amount to be paid with the requested funding. The schedule should include the date of the transaction; the check number; the vendor or payee; the amount paid; and the USoA account number to which the operating expense or capital expenditure was posted. Sigma shall also provide:

(1) Copies of each invoice, or other documentation, supporting the additional amount to be financed, appropriately referenced to the above tabulation schedule (i.e., Item 1, page 1 of 4, and so forth, with cross-referencing back to tabulation schedule).

(2) Copies of work orders which describe the work performed, and/or the goods and services purchased or an affidavit in sufficient detail to provide a

full and complete understanding of the nature and business purpose of each item of operating expense or capital expenditure contained in the schedule.

(3) For each capital expenditure, provide the location and complete description of the assets installed and copies of the subsidiary records documenting the existence of the capital asset.

12. Refer to the response to Order of May 17, 1999, Item 5. Explain why the amount owed to Consolidated Pipe & Supply Company, Inc. is used to support both the amount outstanding to Auxier Road Gas Company, Inc. ( Auxier Gas ) and the use of the proceeds of the Bank of Josephine loan. Also provide:

a. The account the check was drawn on, date, check number, and amount paid to Consolidated Pipe & Supply Company, Inc. in settlement of the judgment.

b. Documentation of the reduction of the outstanding debt to Consolidated Pipe & Supply Company, Inc. from \$52,507.87 to \$42,000.00 per the statement contained in the response Item 8 to the Order of May 17, 1999.

13. Refer to the response to Order of May 17, 1999, Item 8. The response did not provide documentation and details of the actual work performed which generated the invoices including details of the location of assets installed, materials used, labor hours, equipment charges, and overhead charged. The invoices provided were not summarized in a form that could be used to support the outstanding obligation that Sigma is seeking to finance with the proceeds of the proposed loan. In order to comply with the request, provide the following:

a. A schedule tabulating the supporting invoices or other supporting documentation, which equals the amount to be paid with the requested funding. The schedule should include the date of the transaction; the check number; the vendor or payee; the amount paid; and the USoA account number to which the operating expense or capital expenditure was posted. Sigma shall also provide:

(1) Copies of each invoice, or other documentation, supporting the additional amount to be financed, appropriately referenced to the above tabulation schedule (i.e. Item 1, page 1 of 4, and so forth, with cross-referencing back to tabulation schedule).

(2) Copies of work orders which describe the work performed, and/or the goods and services purchased or an affidavit in sufficient detail to provide a full and complete understanding of the nature and business purpose of each item of operating expense or capital expenditure contained in the schedule.

(3) For each capital expenditure, provide the location and complete description of the assets installed and copies of the subsidiary records documenting the existence of the capital asset.

14. Refer to the response to Order of May 17, 1999, Item 8. Explain why the amount owed to Consolidated Pipe & Supply Company, Inc. is used to support both the amount outstanding to Auxier Road Gas Company, Inc. and the use of the proceeds of the Bank of Josephine loan. Provide a copy of the judgment in the amount of \$46,657.89 related to the outstanding obligation to Consolidated Pipe & Supply Company, Inc.



15. Refer to the response to Order of May 17, 1999, Item 8(b). Clarify the response. Did Sigma recover these transmission costs from ratepayers through its GCA, then fail to remit the proceeds to Auxier?

16. Refer to the response to Order of May 17, 1999, Item 9(a). Provide a copy of the agreement between Auxier and Alliance for the supply to Sigma.

17. Refer to the response to Order of May 17, 1999, Item 10. The response did not include copies of work orders or an explanation of why these documents were not available. Provide the response.

18. Refer to the response to Order of May 17, 1999, Item 10. The response did not provide documentation and details of the actual work performed which generated the invoices including details of the location of assets installed, materials used, labor hours, equipment charges, and overhead charged. The invoices provided were not summarized in a form that could be used to support the cost that Sigma is seeking to finance with the proceeds of the proposed loan. In order to comply with the request, provide the following:

a. A schedule tabulating the supporting invoices or other supporting documentation, which equals the amount to be paid with the requested funding. The schedule should include the date of the transaction; the check number; the vendor or payee; the amount paid; and the USoA account number to which the operating expense or capital expenditure was posted. Sigma shall also provide:

(1) Copies of each invoice, or other documentation, supporting the additional amount to be financed, appropriately referenced to the above tabulation

schedule (i.e., Item 1, page 1 of 4, and so forth, with cross-referencing back to tabulation schedule).

(2) Copies of work orders which describe the work performed, and/or the goods and services purchased or an affidavit in sufficient detail to provide a full and complete understanding of the nature and business purpose of each item of expense or capital expenditure contained in the schedule.

(3) For each capital expenditure, provide the location and complete description of the assets installed and copies of the subsidiary records documenting the existence of the capital asset.

19. Refer to the response to Order of May 17, 1999, Item 10(a). Provide a full description of the transactions between Global Environmental Industries, Inc. ( GEI ) and KISU Service Co., Inc. ( KISU ). Explain the nature of the services provided. Provide a copy of the contractual agreement between KISU and GEI, and any agreement between GEI and Sigma or Sigma and KISU. If written contracts or other written documentation is not available, explain why it is not and provide a complete explanation of the obligations of each of the parties to these arrangements.

20. Refer to response to Order of May 17, 1999, Item 10.

- a. Provide a full description of the transactions between GEI and KISU.
- b. Explain the nature of the services provided.
- c. Provide a copy of the contractual agreement between KISU and GEI, and any agreement between GEI and Sigma or Sigma and KISU.

d. If written contracts or other written documentation is not available, explain why it is not and provide a complete explanation of the obligations of each of the parties to these arrangements.

e. Explain who owns the GEI assets that were maintained by KISU.

f. Explain who owns the new construction that was built by KISU in relation to the GEI pipeline.

g. Provide a breakdown of the GEI costs into costs that were capitalized by Sigma and costs that were expensed. Provide complete details of the accounts charged with each amount.

h. Provide the name, address, and telephone number of the official of GEI who authorized the expenses contained on the invoices provided. If this is not the primary contact person for KISU, include the same information for the primary contact person.

i. What is the status of the receivable from GEI?

j. Provide the name of the official of KISU who authorized the work performed on the GEI line.

k. Provide the name of the official of Sigma who authorized the work and payment of the invoices from KISU.

l. Provide the name of the employees of KISU who actually performed the work on the GEI line.

m. Provide the name of any employees of Sigma who performed any work on the GEI line.

n. Provide details of the purpose of the GEI line and the customers served. Include details of who currently serves those customers.

o. Explain who receives revenues from sales to customers served by the GEI line and whether or not they are recorded on the books of Sigma.

21. Refer to the response to Order of May 17, 1999, Item 10. Provide the amount of payroll, materials and supplies and any other costs incurred directly by Sigma for maintenance of the GEI line.

22. Refer to the response to Order of May 17, 1999, Item 10.

a. Explain the purpose of the 50 pages in the back of the response containing dates, items of equipment, usage rates, hourly rates and extended amounts.

b. Explain who prepared these documents and how they are used by Sigma to support any of the cost incurred during the period involved.

c. Identify the person within Sigma who authorizes the use of and payment for the construction equipment included in the charges from KISU.

d. Explain how the price Sigma pays KISU for equipment usage is established. Include the names of the employees of Sigma and KISU who agree to the prices to be paid by Sigma. Identify the individual at KISU who authorizes the dispatch of equipment to Sigma and maintains records on the hours of use of the equipment.

23. Refer to the response to Order of May 17, 1999, Item 15. Provide the following:

a. A copy of the management contract under which Estill Branham operates Sigma with references to the provisions of the contract with regard to procurement of assets, goods and services highlighted.

b. Explain any provisions contained in the contract, which provide for purchases from affiliated companies or companies owned by related parties.

c. Explain the bidding process used by Sigma to assure that the goods and services purchased from related parties are at the lowest cost.

d. Provide any evidence that will substantiate that the prices paid to KISU for the goods and services acquired are reasonable.

24. Refer to response to Order of May 17, 1999, Item 23. In Case No. 94-435 the Commission approved the application of Sigma to construct, and approved financing from DLG in the amount of \$632,671. Describe how Sigma accounted for the use of the proceeds of the \$632,671 loan from DLG. Include a description of how the work was performed, who was responsible for oversight of the work, who authorized payment of invoices, etc.

a. Provide a schedule reflecting the disbursement of all of the proceeds of the loan from DLG in the amount of \$632,671. The schedule should contain the following:

(1) Date of disbursement

(2) Check number

(3) Payee

(4) Amount paid

(5) Description of items purchased

(6) Supporting invoice and any other detail describing the use of

the loan funds. Invoices should be referenced to the schedule containing information regarding the payments.

b. Provide the entries to the depreciation records for the assets acquired with the proceeds of the loan.

c. Provide copies of any subsidiary records used to record the assets constructed with the proceeds of the loans.

25. a. Refer to response to Order of May 17, 1999, Item 23. With regard to the difference between the total cost of construction approved in Case No. 94-435 in the amount of \$632,671 and the total cost of construction of \$1,143,135 provide a schedule reflecting the disbursement of the \$510,564. The schedule should be in the same format as the schedule requested in the previous question and should contain the following:

- (1) Date of disbursement
- (2) Check number
- (3) Payee
- (4) Amount paid
- (5) Description of items purchased
- (6) Supporting invoice and any other detail describing the use of

the loan funds. Invoices should be referenced to the schedule containing information regarding the payments.

b. Provide the entries to the depreciation records for the assets acquired with the proceeds of the loan.

c. Provide copies of any subsidiary records used to record the assets constructed with the proceeds of the loans.

26. Refer to response to Order of May 17, 1999, Item 23. Provide copies of all documentation supplied to the Gas System Restoration and Development and Review Board reflecting the use of the loan funds which the Commission approved in Case No. 94-435. This information should reflect the actual cost after the loan funds were expended and not the original estimates.

27. Provide an amortization schedule for the portion of the current loans that Sigma is seeking to refinance.

28. Provide an amortization schedule for the entire amount of the new loan for which Sigma is seeking approval in this case.

29. Refer to response to Order of May 17, 1999, Item 16. Provide a date certain for when the loan documents will be available.

a. Provide the expected closing date for the loan.

b. Explain how the Commission can authorize financing when the detailed loan documents are not available for its review.

c. Provide the copies of the loan documents as soon as they are available.

30. Provide the number of customers, by month through May, Sigma had during 1999.