

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE JOINT PETITION OF AMERICAN )  
NATURAL GAS CORPORATION AND )  
NATURAL ENERGY UTILITY )      CASE NO. 2002-00050  
CORPORATION FOR APPROVAL OF )  
TRANSFER OF ASSETS )

FIRST DATA REQUEST OF COMMISSION STAFF  
TO AMERICAN NATURAL GAS CORPORATION

Pursuant to 807 KAR 5:001, American Natural Gas Corporation ( ANG ) is requested to file with the Commission the original and six copies of the following information, with a copy to all parties of record. The information requested herein is due on or before March 29, 2002. 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 person 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 herein has been previously provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. Refer to the Application, Page 2, Section 6 and Exhibit 6, Note 1, Summary of Significant Projection Assumptions. The purchase price will be financed through a loan with Classic Bank ( Classic ) in the amount of \$2,100,000 at an interest rate of 7.5 percent for a period of 10 years. NEUC [Natural Energy Utility Corporation] is also seeking a loan guarantee through the United States Department of Agriculture Rural Business Cooperative Service.

- a. Provide a copy of the loan agreement.
- b. Provide an amortization schedule for the \$2,100,000 loan.
- c. Classic is requiring Mr. and Mrs. Jay Freeman to personally guarantee the loan. Provide documentation to show Mr. and Mrs. Freeman s financial ability to guarantee the loan.
- d. Provide a copy of the loan guarantee application.
- e. Explain the current status of the loan guarantee application.
- f. Will the loan guarantee replace Mr. Freeman s personal guarantee of the Classic loan? Explain your response in detail.
- g. Explain whether the commitment of Classic to the loan and its terms remains firm as of the date of the response to this data request.
- h. Discuss the terms of the loan and the steps that NEUC has taken to ensure that this is the optimal financing arrangement available. In the discussion, include an explanation of Classic s limitation of 10 years for the term of the loan.
- i. Does NEUC plan to seek recovery of the Classic loan in future rate cases? If yes, explain why this debt should be included in future rates.

2. Refer to the Application, Page 2, Section 6 and Page 3, Item 14(b). The purchase price of \$2,200,000 will be financed through a loan with Classic. A note for \$2,100,000 has been secured from Classic pending relevant approvals. Explain in detail the source of the \$100,000 difference.

3. Refer to the Application, Page 3, Section 15(a). Hinkle Engineering, Inc. ( Hinkle ) will receive 200 shares of NEUC stock. Explain in detail Hinkle s contribution to NEUC related to capital investment, management services, and any other areas of involvement.

4. Refer to the Asset Purchase Agreement, Schedule 1.1(a).

a. The schedule of ANG s fixed and intangible assets at November 30, 2001 shows plant of \$7,594,821 and accumulated depreciation of \$3,157,176. Items 2 and 5 of the Gas Plant Instructions of the Uniform System of Accounts Prescribed for Natural Gas Companies ( USoA ) require that utility plant be stated at original cost. Explain why, on Exhibit 6, NEUC s projected balance sheet for December 2002, utility plant and accumulated depreciation are stated at \$2,397,500 and \$144,281, respectively.

b. Included in the contracts that are transferring to NEUC is a Natural Gas Sales Agreement with ProLiance Energy dated May 1, 2001. Has ANG filed a copy of this contract with the Commission? If no, provide a copy of the contract.

c. Provide the accounting entries showing the sale of assets on ANG s books and the acquisition of the corresponding assets on NEUC s books. All entries should be prepared in accordance with the requirements of the USoA. For

purposes of this request, assume the sale occurred on November 30, 2001 and reflect the account balances as of November 30, 2001.

5. Refer to Schedule 1.3(a), Columbia Gas Agreement. The agreement states the gas imbalance will be eliminated by October 31, 2002. Exhibit 6, NEUC's Projected Financial Statements, states that the imbalance will be repaid over the next 3½ years in like product by a 2.6 percent monthly gas allowance by Marathon Ashland Petroleum ( Marathon ). The Projected Balance Sheet shows that NEUC will repay \$39,600 or 49 percent of the imbalance in the first year of operation.

a. Explain in detail the repayment schedule of the gas imbalance. If Schedule 1.3(a), Columbia Gas Agreement dated November 7, 2000, has been amended, provide a copy of the amended agreement. If the Agreement has not been amended, explain in detail why it has not been amended.

b. Explain whether Columbia Gas requires a minimum monthly repayment.

c. Provide the projected average monthly Mcf volume generated by the 2.4 percent Marathon allowance.

d. If applicable, provide the expiration date of the Marathon contract.

e. Explain the purpose of the 2.6 percent allowance in the Marathon agreement. Address whether or not this allowance relates solely to line loss.

6. Refer to Schedule 2.4, Financial Statements and Tax Returns. ANG's November 30, 2001 balance sheet shows customer deposits of \$7,476. Customer deposits represent the amount of money customers were required to pay to establish gas service and the deposits are refundable to those customers. This section (as well

as Schedule 1.8) indicates that the customer deposit liability is not transferring to NEUC.

a. Explain in detail why the customer deposit liability is not transferring to NEUC.

b. Is it ANG's intention to refund the customer deposits, as well as any accrued interest, after the transfer? Provide details.

c. Provide the amount of interest that has accrued on the customer deposits to date.

7. Refer to Section 2.5 of the Asset Purchase Agreement. This section states that there are no undisclosed liabilities required to be reflected in ANG's financial statements in accordance with generally accepted accounting principles. Are there any existing undisclosed liabilities that would not be required to be disclosed under generally accepted accounting principles?

8. Refer to the Asset Purchase Agreement, Schedule 2.7, Taxes. What is the current balance due the Kentucky Revenue Cabinet relating to the judgment dated on or about December 4, 2000? Provide the repayment schedule.

9. Refer to Section 2.9 (b) of the Asset Purchase Agreement. This section states that ANG has valid title to the assets free of any liens and encumbrances except as reflected in Schedule 2.9(b). Schedule 2.9(b) lists numerous mortgages and security agreements, liens, and judgment liens. Is there a written agreement between ANG and NEUC requiring ANG to pay off all debt associated with the liens and mortgages? If no, how will the liens and mortgages be satisfied to enable the property to transfer?

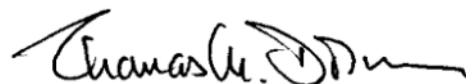
10. Refer to the Asset Purchase Agreement, Section 2.10, Agreements, Contracts and Commitments. Briefly describe each agreement listed on Schedule 2.10(a).

- a. Explain the obligations of each party for each contract listed.
- b. Which, if any, of these contracts will transfer to NEUC?

11. Refer to Exhibit 6, NEUC's Projected Financial Statements. NEUC's projected balance sheet at closing shows Cash of \$301,000; Common Stock of \$1,000; and Additional Paid in Capital of \$300,000. Provide a list of the parties contributing the Additional Paid-In Capital of \$300,000 to NEUC, including the amount provided by each party.

12. Explain whether NEUC foresees the necessity for any changes in rates, rate structure, non-recurring charges, or in the day-to-day operation of the utility as a result of the change in ownership.

13. If available, provide a copy of the 2001 Annual Report for ANG. If not currently available, indicate when the report is expected to be available.



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Thomas M. Dorman  
Executive Director  
Public Service Commission  
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DATED March 15, 2002

cc: All Parties