

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DLR ENTERPRISES, INC.)
AND COW CREEK GAS, INC. FOR APPROVAL)
OF THE TRANSFER OF CERTAIN ASSETS) CASE NO. 2007-00419
FORMERLY OWNED AND CONTROLLED BY)
SIGMA GAS CORPORATION)

FIRST DATA REQUEST OF COMMISSION STAFF TO
DLR ENTERPRISES, INC. AND COW CREEK GAS, INC.

DLR Enterprises, Inc. ("DLR") and Cow Creek Gas, Inc. ("Cow Creek") (collectively "Applicants"), pursuant to 807 KAR 5:001, are requested to file with the Commission the original and 7 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before October 17, 2007. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, shall be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Applicants shall make timely amendment to any prior responses if they obtain information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Applicants fail or refuse to furnish all or part of the requested information, Applicants shall provide a written explanation of the specific grounds for their failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. The Applicants propose to acquire certain assets that are the property of Sigma Gas Corporation ("Sigma"). The relevant assets are described in the Asset Purchase Agreements ("APA") filed with the application.

a. Are Applicants familiar with the Uniform System of Accounts for Natural Gas Companies ("USoA") developed by the Federal Energy Regulatory Commission, and adopted by the Kentucky Public Service Commission, which will govern the accounting entries made in conjunction with the proposed acquisition? If no, explain whether Applicants have someone, either in their employ or outside experts, who is familiar with the USoA and who currently performs the regulatory accounting and reporting required for Cow Creek's existing utility operations.

b. Explain whether any valuation of the assets of Sigma has been performed, either in conjunction with Sigma's bankruptcy proceeding or with Applicants'

proposal to acquire these assets. If yes, provide the results of such valuation. If no, explain how Applicants plan to value the assets and record them in their books of account.

2. The last annual report which Sigma filed with the Commission was for calendar year 2004. The balance sheet in that report, as of December 31, 2004, reflected roughly \$984,000 in net utility plant, non-utility property of nearly \$43,000, and customer accounts receivable of approximately \$99,000, resulting in total assets of roughly \$1,126,000.

a. Provide a summary description of any additions or retirements of utility plant or non-utility plant on the Sigma system that have occurred since December 31, 2004.

b. Provide a list of the assets to be acquired by Applicants identified by plant item as shown in Article II of either of the APAs, specifically, Paragraph 2.1(a). Include the dollar value of each type of asset and identify the assets, with their related dollar amounts, that are to be acquired by DLR and Cow Creek, respectively.

3. The Sigma annual report filed with the Commission for calendar year 2004 showed 750 customers on the Sigma system as of the end of that year.

a. Indicate, based on Applicants' current knowledge, whether there has been any significant change in the number of customers since that time.

b. In approximate numbers, provide the number of customers located in the "City Business" and "Rural Business" portions of the existing Sigma system.

4. The most recent Gas Cost Adjustment (“GCA”) filing for Sigma was in Case No. 2006-00395,¹ in which its wholesale gas supplier, as of September 2006, was identified as Jefferson Gas Transmission Company (“Jefferson Gas”).

a. To the best of Applicants’ knowledge, is Jefferson Gas Sigma’s current wholesale gas supplier? If no, identify the current wholesale gas supplier.

b. The most recent GCA filing for Sigma, in Case No. 2006-00395, was made one year ago. Do Applicants have in their possession, or have access to, the purchased gas cost and gas cost recovery information for the past year that would be necessary to prepare a current GCA filing for the Sigma system?

c. Explain whether Applicants will be able to prepare a GCA filing for the acquired Sigma system within 30 days of the closing of the proposed acquisition transaction. If no, explain why.

5. Refer to the system map included in Exhibit 9 of the application which identifies where the “City Business” and “Rural Business” components of the existing Sigma gas system will be located under the transaction as proposed by the Applicants.

a. Provide a narrative description of the locations of the wells that have been connected to the lines of the Sigma system, both those belonging to Interstate Natural Gas Company (“Interstate”), which shares common ownership with Applicants, and those wells belonging to other entities.

¹ Case No. 2006-00395, The Notice of Gas Cost Recovery Filing of Sigma Gas Corporation, Order dated September 28, 2006.

b. In Case No. 2005-00073,² the owners of Applicants, Jerome Kanney and Dennis Rohrer, indicated it was their intent to ultimately secure Sigma's gas supplies through their company, Interstate, rather than rely on natural gas produced outside of Kentucky. Explain whether Applicants intend to pursue a similar procurement strategy under their proposed acquisition of the Sigma system.

6. Refer to pages 5-7 of the application, specifically, the description of the proposed transaction.

a. Identify and describe any and all business activities of DLR within the past 5 years (2003-2007).

b. The paragraph beginning near the bottom of page 5 and continuing on page 6 states that the "City Business" portion of the system will include gas operations located principally within the city limits of Salyersville and "the end-use customer taps wherever located, whether within or outside the city limits...." Provide a clarification as to whether this means that none of Sigma's customers will become farm tap customers of DLR and that they will all be distribution customers of Cow Creek.

c. The paragraph beginning at the middle of page 6 states, among other things, that upon receiving Commission approval of the proposed acquisition, Cow Creek will file an adoption notice stating that "All customers receiving service by means of the Sigma system will continue to be served by Cow Creek upon the terms and conditions pursuant to which their service is currently provided." Explain whether this is intended only for the customers to be served by the "City Business" portion of the Sigma

² Case No. 2005-00073, Application of Jerome A. Kanney and Dennis L. Rohrer for Authorization of the Acquisition of the Corporate Stock of Sigma Gas Corporation from Estill Branham, Barkley Sturgill, and Ruth Conley Clemmons.

system, which is to be acquired by Cow Creek, or if this is also for customers that will be in the "Rural Business" portion of the system, which is to be acquired by DLR. If only applicable to "City Business" customers, explain whether DLR will be providing service to any customers under KRS 278.485. If yes, explain how DLR anticipates addressing its need for a tariff setting out the terms and conditions under which it will provide such service.

7. The first full paragraph on page 7 of the application indicates that the proposed acquisition will initially be funded by personal loans made by Mr. Kanney to DLR in the amount of \$425,000, and Mr. Rohrer to Cow Creek in the amount of \$425,000 (these are identified as approximate amounts, dependent upon the level of administrative expenses related to the transaction).

a. Provide the terms of these loans and explain whether either Mr. Kanney or Mr. Rohrer will be taking out personal loans in order to make these loans to Applicants.

b. In Case No. 2005-00073, Mr. Kanney and Mr. Rohrer filed personal financial statements as of December 31, 2004, which, among other things, indicated their individual net worths. In the nearly 3 years that have elapsed since that time, have the net worths of Mr. Kanney and Mr. Rohrer increased or decreased? If either's net worth has decreased, provide the percentage decrease compared to the net worth at December 31, 2004.

c. The application states that DLR has agreed to not only pay off the Governor's Office of Local Development ("GOLD") obligation but certain administrative expenses as well. Provide a list of the administrative expenses DLR has agreed to pay.

d. Explain whether the administrative expenses are the source of the \$100,000 difference between the \$850,000 Mr. Kanney and Mr. Rohrer will provide and the \$750,000 payment to GOLD.

8. On page 7 of the application, Footnote No. 10 refers to Cow Creek filing an application for new rates that will reflect the cost of service of its merged system after its current utility operations have been operationally merged with the "Rural Business" portion of the Sigma system.

a. Explain whether this footnote reference should have been to the "City Business" portion of the Sigma system, which would appear to be consistent with the text of the application.

b. If the footnote reference to the "Rural Business" portion of Sigma's system is accurate, provide a more detailed description of when Cow Creek expects to merge its current utility operations with the Rural Business and when it expects to file the rate application referenced in the footnote.

9. Refer to page 5, paragraph O, of the August 30, 2007 Order of the United States Bankruptcy Court, Eastern District of Kentucky. This paragraph, as well as the APAs, refer to DLR/a DLR designee/purchaser acquiring assets "pursuant to a private sale by credit bidding the secured claims" of various parties. Provide a brief description of credit bidding and explain how it fits in with other aspects of the closing.

10. Exhibit 10 of the application identifies employees of Mr. Kanney's and Mr. Rohrer's companies to be responsible for day-to-day operations of the acquired system. For many employees, Exhibit 10 reflects their education and experience and also refers to additional information filed in Case No. 2005-00073. However, there is no mention of

the education or experience of Jaime Chaney, Barry Lucas, or Mike Potter, with the exception of Ms. Chaney's 8 years working for Mr. Kanney and Mr. Rohrer. Provide additional information on the education and specific work experience of these three employees.

11. Refer to Article X, Conditions Precedent of Obligations of Purchaser, of either of the APAs filed with the application, specifically paragraph 10.9. This states that the "PSC Approval Order shall have been entered by the PSC on or before December 5, 2007...." Explain why this specific date was established as a condition precedent.

12. Pursuant to the APAs attached as Exhibit 9 to the application, DLR is the purchaser of both the "City Business" and the "Rural Business."

a. State whether the Applicants have entered into an agreement to transfer the "City Business" from DLR to Cow Creek.

b. If yes, provide a copy of the agreement.

c. If no, explain when the Applicants expect an agreement will be entered or when the terms of such an agreement will be presented to the Commission for review.



Beth O'Donnell
Executive Director
Public Service Commission
P.O. Box 615
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DATED: October 10, 2007

cc: Parties of Record