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April 14, 2008

RECEIVED

APR 14 2008

PUBLIC SERVICE  
COMMISSION

Stephanie Stumbo  
Executive Director  
Public Service Commission  
211 Sower Blvd.  
Frankfort, KY 40601

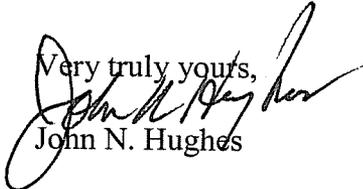
Re: Case No. 2008-00096

Dear Ms. Stumbo:

Gasco Distribution Systems, Inc. files the attached responses to the Commission's order of March 31<sup>st</sup>. Response 3 states that the filing has been made with the Secretary of State. However, the forms have been submitted to the CT Corporation as registered agent for filing with the Secretary of State and will be filed with the state by the end of the week. A copy of the responses has been delivered to the Attorney General.

If there are any questions, please contact me.

Very truly yours,

  
John N. Hughes

Attorney for Gasco  
Distribution Systems, Inc.

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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APR 14 2008

PUBLIC SERVICE  
COMMISSION

In the matter of:

The Investigation into the  
Reasonableness of the Gas  
Cost Recovery Filing of Gasco  
Distribution Systems, Inc.

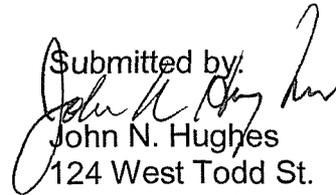
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Case No. 2008-00096

**RESPONSE TO ORDER DATED MARCH 31, 2008**

Gasco Distribution Systems, Inc., by counsel, submits the  
attached responses to the Commission's order of March 31, 2008.

Submitted by:



John N. Hughes  
124 West Todd St.  
Frankfort, KY 40601  
502 227 7270

Attorney for Gasco  
Distribution Systems, Inc.

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| Question No. 8 | Tab No. 8 |
| Affidavit      | Tab No. 9 |



1. Refer to Schedule I and II of Gasco's submission of February 25, 2008.

a. Describe how Gasco determined the average expected gas cost for the calendar quarter to be \$13.2335 per Mcf. This description should reflect whether the projected rate shown on Schedule II is based on a published indexed price and what, if any, basis, retainage or transportation fees are included in the expected gas cost.

Witness: Steele

Response: The expected gas cost for the calendar quarter of \$13.2335 per Mcf is based on pricing from the NYMEX Natural Gas Futures Index dated 2/19/08. This price includes 7% retainage and a \$.60 transportation fee for gas transported through the Titan Energy Group, Inc. pipeline as well as an East Tennessee Demand Charge of \$2,411.45 per month.

b. Describe how Gasco derived the Actual Cost Adjustment component of \$4.5686 per Mcf. Provide all workpapers and state all assumptions used. This description should reflect the monthly over- and under-recovery calculations for the 24 months upon which the proposed factor is based and the 36 months' sales volumes used to derive the factor.

Witness: Steele

Response:

The Actual Cost Adjustment component of \$4.5686 per Mcf was calculated as follows:

|  |              |
|--|--------------|
| Previous 12 months actual MCF's billed to customers<br>(Per February 22, 2008 Filing)          | 20,111       |
| Multiplied by 3 Year Recovery Period<br>(20,111 x 3)   | 60,333       |
| Previous 2 years under-recovery per September 21, 2007 filing<br>(\$135,008.55 + \$140,628.09) | \$275,636.64 |
| Previous 2 years gas cost recovery spread over 3 years<br>(\$275,636.64 / 60,333 MCF)          | \$4.5686     |



2. At an informal conference held on January 29, 2008 in Case No. 2007-00421, Gasco representatives stated that Titan Energy Group, Inc. ("Titan") is an affiliate organization. KRS 278.272 and 278.274 permit the Commission to consider the reasonableness of the rates and level of profit, or return, of the affiliate supplier of a regulated natural gas utility in reviewing the utility's rates and its gas purchasing practices.

- a. List all of Titan's officers and employees. For each officer or employee, state whether he or she has an ownership interest in Titan.
- b. Provide a copy of Gasco's gas supply contract with Titan.
- c. Describe the nature of Titan's business operation (e.g., natural gas marketer, a pipeline operator, a gas producer). State the location of all pipelines, gas wells, and other gas industry assets which Titan owns.
- d. Provide Titan's income statement and balance sheet for its three most recent fiscal years.
- e. Explain how Gasco's gas supply contract with Titan demonstrates compliance with KRS 278.2207.

Witness: Steele

Response:

- a. Titan Energy Group, Inc. has no employees and its officers and there ownership interest is as follows:

|                |           |                        |
|----------------|-----------|------------------------|
| Fred A. Steele | President | Has Ownership Interest |
| Trina L. King  | Secretary | Has Ownership Interest |

- b. Gasco has no gas supply contract with Titan. A sheet outlining Titan's gas cost is attached.
- c. Titan is the operator of a natural gas pipeline and approximately 25 oil and gas wells.
- d. Titan's income statement and balance sheet for its three most recent fiscal years are attached.
- e. The gas price the utility pays to Titan is based on the market price from all purchases of gas at the city gate plus third party demand charges, transportation fees and shrinkage which are all based on actual costs.

February 19, 2008

**GASCO DISTRIBUTION SYSTEMS INC. - ALBANY DIVISION**  
**GAS COST ESTIMATE MAY 2008 - JULY 2008**

| CHARGE TYPE                |          | MAY 08      | JUN 08     | JUL 08     |          |          |          |          |          |          |          |          |          | ANNUAL   |
|----------------------------|----------|-------------|------------|------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
|                            |          |             |            |            |          |          |          |          |          |          |          |          |          | TOTAL    |
| NYMEX                      |          | \$9.0070    | \$9.0220   | \$9.1150   |          |          |          |          |          |          |          |          |          |          |
| TGP La. (ZONE 1)+.40/MMBTU |          | \$0.4000    | \$0.4000   | \$0.4000   |          |          |          |          |          |          |          |          |          |          |
| <b>TOTAL</b>               |          | \$9.4070    | \$9.4220   | \$9.5150   | \$0.0000 | \$0.0000 | \$0.0000 | \$0.0000 | \$0.0000 | \$0.0000 | \$0.0000 | \$0.0000 | \$0.0000 |          |
| TITAN RETAINAGE            | 0.9300   | 0.9300      | 0.9300     | 0.9300     | 0.9300   | 0.9300   | 0.9300   | 0.9300   | 0.9300   | 0.9300   | 0.9300   | 0.9300   | 0.9300   |          |
| LESS TITAN RETAINAGE       |          | \$10.1151   | \$10.1312  | \$10.2312  | \$0.0000 | \$0.0000 | \$0.0000 | \$0.0000 | \$0.0000 | \$0.0000 | \$0.0000 | \$0.0000 | \$0.0000 |          |
| TITAN TRANS FEE            | \$0.60   | \$0.60      | \$0.60     | \$0.60     | \$0.60   | \$0.60   | \$0.60   | \$0.60   | \$0.60   | \$0.60   | \$0.60   | \$0.60   | \$0.60   |          |
| ETNG TRANS FEE             | \$0.0027 | \$0.0027    | \$0.0027   | \$0.0027   | \$0.0027 | \$0.0027 | \$0.0027 | \$0.0027 | \$0.0027 | \$0.0027 | \$0.0027 | \$0.0027 | \$0.0027 |          |
| <b>TOTAL</b>               |          | \$10.7178   | \$10.7339  | \$10.8339  | \$0.6027 | \$0.6027 | \$0.6027 | \$0.6027 | \$0.6027 | \$0.6027 | \$0.6027 | \$0.6027 | \$0.6027 |          |
| VOLUME ESTIMATE(DTH)       |          | 995         | 811        | 338        | 0        | 0        | 0        | 0        | 0        | 0        | 0        | 0        | 0        | 2,144    |
| <b>TOTAL (\$)</b> GAS      |          | \$10,664.16 | \$8,705.18 | \$3,661.85 | \$0.00   | \$0.00   | \$0.00   | \$0.00   | \$0.00   | \$0.00   | \$0.00   | \$0.00   | \$0.00   | \$23,031 |
| LOCAL PROD. VOL. (DTH)     |          |             |            |            |          |          |          |          |          |          |          |          |          | 0        |
| LOCAL PROD. VOL. (MCF)     |          |             |            |            |          |          |          |          |          |          |          |          |          | \$0      |
| LOCAL PROD. BTU            |          |             |            |            |          |          |          |          |          |          |          |          |          | \$0      |
| LOCAL PROD. COSTS EST.     |          |             |            |            |          |          |          |          |          |          |          |          |          |          |
| LOCAL PROD. TOTAL COSTS \$ |          |             |            |            |          |          |          |          |          |          |          |          |          | 0        |
| VOLUME ESTIMATE(MCF)       |          | 961         | 784        | 327        | 0        | 0        | 0        | 0        | 0        | 0        | 0        | 0        | 0        | 2,072    |
| BTU CONVERSION             | 1.035    | 1.035       | 1.035      | 1.035      | 1.035    | 1.035    | 1.035    | 1.035    | 1.035    | 1.035    | 1.035    | 1.035    | 1.035    |          |
| AVERAGE RATE (MCF)         |          | \$11.0969   | \$11.1035  | \$11.1983  | #DIV/0!  |          |

May 2008 - Jul. 2008  
**\$11.1329 per Mcf**

**THE TITAN ENERGY GROUP, INC.**  
**Zanesville, Ohio**

**Balance Sheet**  
**June 30, 2005**

| <u>Assets</u>  | <b>The Titan<br/>Energy<br/>Group, Inc.</b> |
|--|---|
| Current assets:  |   |
| Cash in bank   | (3,181)                                     |
| Accounts receivable  |   |
| Trade  | 17,620                                      |
| Allowance for Bad Debts  | 0   |
| Related parties  | 2,172,733                                   |
| Deficits - Oil & Gas Wells   | 3,034                                       |
| Unrecovered purchase gas cost  | 0   |
| Prepaid expenses   | 4,463                                       |
| Inventory  | 0   |
| Total current assets   | 2,194,669                                   |
| Investments:   |   |
| Gasco Distribution Systems, Inc.                                       | 0   |
| The Titan Energy Group Inc.  |   |
| Gasco Inc.   | 95  |
| Total investments  | 95  |
| Property and equipment:  |   |
| Utility property   | 0   |
| Oil and gas property   | 209,298                                     |
| Pipelines and field equipment  | 470,681                                     |
| Transportation equipment   | 1,382                                       |
| Buildings  | 106,281                                     |
| Leasehold improvements   | 25,445                                      |
| Office furniture and equipment   | 55,792                                      |
| Land and right-of-ways   | 68,538                                      |
| Total property and equipment   | 937,417                                     |
| Accumulated depreciation, depletion<br>and utility acquisition account | 565,411                                     |
| Net property and equipment   | 372,006                                     |
| Other assets:  |   |
| Prepaid Acquisition Costs and Deposits                                 | 1,731                                       |
| Deferred federal income tax benefit                                    | 256,983                                     |
| Organization costs-net of amortization                                 |   |
| Stock subscription receivable  |   |
| Total other assets   | 258,714                                     |
| Total assets   | 2,825,484                                   |

*See Notes to Financial Statements*  
**UNAUDITED**

**THE TITAN ENERGY GROUP, INC.**  
Zanesville, Ohio

**Balance Sheet**  
**June 30, 2005**

| <u><i>Liabilities and Stockholder's Equity</i></u> | <b>The Titan<br/>Energy<br/>Group, Inc.</b> |
|--|---|
| Current liabilities                                |   |
| Accounts payable:                                  |   |
| Trade  | 156,137                                     |
| Deposits   | 0   |
| Related companies                                  | 828,128                                     |
| Short-term notes                                   |   |
| Current portion of long-term notes                 | 0   |
| Accrued wages                                      |   |
| Accrued taxes and other expenses                   | 82,713                                      |
| Accrued interest                                   | 0   |
| Undistributed production                           | 26,165                                      |
| Unrecovered purchased gas cost                     |   |
| Total current liabilities                          | 1,093,143                                   |
| Deferred federal income tax                        | 0   |
| Contribution to Aid of Construction                |   |
| Long-term liabilities:                             |   |
| Notes payable:                                     |   |
| Jackson & Kelly                                    |   |
| Boult, Cummings, Conner                            |   |
| Potesta & Associates, Inc.                         |   |
| North Valley Bank                                  |   |
| Commonwealth of Pennsylvania                       |   |
| ERS, Inc.  |   |
| Pickett County, TN                                 |   |
| Small Business Administration                      |   |
| First Merit  |   |
| Ford Motor Credit                                  |   |
| Interstate Gas Supply                              |   |
| North Coast Energy                                 |   |
| Duke Energy Trading & Marketing                    |   |
| Texaco Energy Marketing                            |   |
| Key Bank   |   |
| Total long-term notes payable                      | 0   |
| Less: Current portion of long-term notes payable   | 0   |
| Net long-term notes payable                        | 0   |
| Stockholder's equity:                              |   |
| Common stock, no par value                         |   |
| authorized 1,125 shares, 588 shares issued,        |   |
| 528 shares outstanding                             | 100   |
| Additional Paid In Capital                         |   |
| Retained earnings                                  | 1,732,241                                   |
| Subtotal   | 1,732,341                                   |
| Less: treasury stock                               |   |
| Total stockholders' equity                         | 1,732,341                                   |
| Total liabilities and stockholder's equity         | 2,825,484                                   |

*See Notes to Financial Statements*

**THE TITAN ENERGY GROUP, INC.**  
**Zanesville, Ohio**

**Income Statement**  
**For The Twelve Months Ended June 30, 2005**

|  | <b>The Titan<br/>Energy<br/>Group, Inc.</b> |
|--|---|
| Income                                 |   |
| Gas sales                              | 0   |
| Service and operating fees             | 1,095                                       |
| Oil and gas production                 | 61,274                                      |
| Transportation and transmission        | 103,098                                     |
| Compression                            | 54,502                                      |
| Management fees                        | 24,000                                      |
| Gain (loss) on sale of property        | 6,000                                       |
| Contracting and rentals                | 16,560                                      |
| Interest and others                    | 636   |
| Total income                           | <u>267,165</u>                              |
| Expenses                               |   |
| Cost of gas sold                       | 0   |
| Well & Pipeline Operating Expenses     | 18,388                                      |
| Management fees                        | 13,392                                      |
| Salary and wages                       |   |
| Taxes                                  | 5,736                                       |
| Employee Benefits                      | 0   |
| Maintenance and repairs                | 0   |
| Contract labor and consulting          | 38,001                                      |
| Fuel and auto expense                  | 2,130                                       |
| Telephone                              | 576   |
| Travel and entertainment               | 98  |
| Office expense                         | 893   |
| Utilities                              | 0   |
| Legal and professional                 | 10,144                                      |
| Dues and subscriptions                 | 0   |
| Depreciation and depletion             | 39,796                                      |
| Seminar and training                   | 0   |
| Rent                                   | 3,295                                       |
| Interest expense                       | 15,563                                      |
| Insurance                              | 6,202                                       |
| Amortization of organization costs     | 0   |
| Bad debts                              | 0   |
| Other expenses                         | 0   |
| Total expenses                         | <u>154,214</u>                              |
| Net income before income taxes         | 112,951                                     |
| Federal income tax provision (benefit) | <u>(25,039)</u>                             |
| Net income before extraordinary items  | 137,990                                     |
| Debt Forgiveness ( Net of Taxes)       | 0   |
| Net income                             | <u><u>137,990</u></u>                       |

*See Notes to Financial Statements*  
**UNAUDITED**

**THE TITAN ENERGY GROUP, INC.**  
Zanesville, Ohio

**Balance Sheet**  
**June 30, 2006**

| <u>Assets</u>  | <b>The Titan<br/>Energy<br/>Group, Inc.</b> |
|--|---|
| Current assets:  |   |
| Cash in bank   | 8,853                                       |
| Accounts receivable  |   |
| Trade  | 14,151                                      |
| Allowance for Bad Debts  | 0   |
| Related parties  | 1,593,732                                   |
| Deficits - Oil & Gas Wells   | 2,964                                       |
| Unrecovered purchase gas cost  | 0   |
| Prepaid expenses   | 4,159                                       |
| Inventory  | 0   |
| Total current assets   | 1,623,859                                   |
| Investments:   |   |
| Gasco Distribution Systems, Inc.                                       | 0   |
| The Titan Energy Group Inc.  |   |
| Gasco Inc.   | 95  |
| Total investments  | 95  |
| Property and equipment:  |   |
| Utility property   | 0   |
| Oil and gas property   | 209,298                                     |
| Pipelines and field equipment  | 471,531                                     |
| Transportation equipment   | 1,382                                       |
| Buildings  | 106,281                                     |
| Leasehold improvements   | 25,445                                      |
| Office furniture and equipment   | 55,792                                      |
| Land and right-of-ways   | 68,538                                      |
| Total property and equipment   | 938,267                                     |
| Accumulated depreciation, depletion<br>and utility acquisition account | 608,438                                     |
| Net property and equipment   | 329,829                                     |
| Other assets:  |   |
| Prepaid Acquisition Costs and Deposits                                 | 1,731                                       |
| Deferred federal income tax benefit                                    | 256,983                                     |
| Organization costs-net of amortization                                 |   |
| Stock subscription receivable  |   |
| Total other assets   | 258,714                                     |
| Total assets   | <b>2,212,497</b>                            |

*See Notes to Financial Statements*  
**UNAUDITED**

THE TITAN ENERGY GROUP, INC.

Zanesville, Ohio

Balance Sheet

June 30, 2006

| <u>Liabilities and Stockholder's Equity</u>      | <u>The Titan<br/>Energy<br/>Group, Inc.</u> |
|--|---|
| Current liabilities                              |   |
| Accounts payable:                                |   |
| Trade  | 165,218                                     |
| Deposits   | 0   |
| Related companies                                | 168,174                                     |
| Short-term notes                                 |   |
| Current portion of long-term notes               | 0   |
| Accrued wages                                    |   |
| Accrued taxes and other expenses                 | 86,993                                      |
| Accrued interest                                 | 0   |
| Undistributed production                         | 11,235                                      |
| Unrecovered purchased gas cost                   |   |
| Total current liabilities                        | <u>431,620</u>                              |
| Deferred federal income tax                      | <u>0</u>                                    |
| Contribution to Aid of Construction              |   |
| Long-term liabilities:                           |   |
| Notes payable:                                   |   |
| Jackson & Kelly                                  |   |
| Boult, Cummings, Conner                          |   |
| Potesta & Associates, Inc.                       |   |
| North Valley Bank                                |   |
| Commonwealth of Pennsylvania                     |   |
| ERS, Inc.  |   |
| Pickett County, TN                               |   |
| Small Business Administration                    |   |
| First Merit                                      |   |
| Ford Motor Credit                                |   |
| Interstate Gas Supply                            |   |
| North Coast Energy                               |   |
| Duke Energy Trading & Marketing                  |   |
| Texaco Energy Marketing                          |   |
| Key Bank   |   |
| Total long-term notes payable                    | <u>0</u>                                    |
| Less: Current portion of long-term notes payable | <u>0</u>                                    |
| Net long-term notes payable                      | <u>0</u>                                    |
| Stockholder's equity:                            |   |
| Common stock, no par value                       |   |
| authorized 1,125 shares, 588 shares issued,      |   |
| 528 shares outstanding                           | 100   |
| Additional Paid In Capital                       |   |
| Retained earnings                                | 1,780,777                                   |
| Subtotal   | <u>1,780,877</u>                            |
| Less: treasury stock                             |   |
| Total stockholders' equity                       | <u>1,780,877</u>                            |
| Total liabilities and stockholder's equity       | <u>2,212,497</u>                            |

See Notes to Financial Statements

**THE TITAN ENERGY GROUP, INC.**  
**Zanesville, Ohio**

**Income Statement**  
**For The Year Ended June 30, 2006**

|  | <b>The Titan<br/>Energy<br/>Group, Inc.</b> |
|--|---|
| Income                                 |   |
| Gas sales                              | 0   |
| Service and operating fees             | 1,186                                       |
| Oil and gas production                 | 66,882                                      |
| Transportation and transmission        | 55,755                                      |
| Compression                            | 40,699                                      |
| Management fees                        | 24,000                                      |
| Gain (loss) on sale of property        | 0   |
| Contracting and rentals                | 16,560                                      |
| Interest and others                    | 1,157                                       |
| Total income                           | <u>206,239</u>                              |
| Expenses                               |   |
| Cost of gas sold                       | 0   |
| Well & Pipeline Operating Expenses     | 26,441                                      |
| Management fees                        | 17,513                                      |
| Salary and wages                       |   |
| Taxes                                  | 5,115                                       |
| Employee Benefits                      | 0   |
| Customer Assistance Expense            | 0   |
| Maintenance and repairs                | 0   |
| Contract labor and consulting          | 38,050                                      |
| Fuel and auto expense                  | 2,206                                       |
| Telephone                              | 887   |
| Travel and entertainment               | 193   |
| Office expense                         | 414   |
| Utilities                              | 0   |
| Legal and professional                 | 6,748                                       |
| Dues and subscriptions                 | 0   |
| Depreciation and depletion             | 43,027                                      |
| Seminar and training                   | 0   |
| Rent                                   | 356   |
| Interest expense                       | 10,836                                      |
| Insurance                              | 5,916                                       |
| Amortization of organization costs     | 0   |
| Bad debts                              | 0   |
| Other expenses                         | 0   |
| Total expenses                         | <u>157,702</u>                              |
| Net income before income taxes         | 48,537                                      |
| Federal income tax provision (benefit) | 0   |
| Net income before extraordinary items  | <u>48,537</u>                               |
| Debt Forgiveness ( Net of Taxes)       | 0   |
| Net income                             | <u><u>48,537</u></u>                        |

*See Notes to Financial Statements*  
**UNAUDITED**

**THE TITAN ENERGY GROUP, INC.**  
**Zanesville, Ohio**

**Balance Sheet**  
**June 30, 2007**

| <u>Assets</u>  | <b>The Titan<br/>Energy<br/>Group, Inc.</b> |
|--|---|
| Current assets:  |   |
| Cash in bank   | 44,685                                      |
| Escrowed Funds   |   |
| Accounts receivable  |   |
| Trade  | 919   |
| Allowance for Bad Debts  | 0   |
| Related parties  | 1,534,358                                   |
| Deficits - Oil & Gas Wells   | 2,992                                       |
| Unrecovered purchase gas cost  | 0   |
| Prepaid expenses   | 41,781                                      |
| Inventory  | 0   |
| Total current assets   | <u>1,624,735</u>                            |
| Investments:   |   |
| Gasco Distribution Systems, Inc.                                       | 0   |
| The Titan Energy Group Inc.  |   |
| Gasco Inc.   | 95  |
| Total investments  | <u>95</u>                                   |
| Property and equipment:  |   |
| Utility property   | 0   |
| Oil and gas property   | 209,298                                     |
| Pipelines and field equipment  | 494,667                                     |
| Transportation equipment   | 1,382                                       |
| Buildings  | 106,281                                     |
| Leasehold improvements   | 28,946                                      |
| Office furniture and equipment   | 5,276                                       |
| Land and right-of-ways   | 68,538                                      |
| Total property and equipment   | <u>914,388</u>                              |
| Accumulated depreciation, depletion<br>and utility acquisition account | <u>601,354</u>                              |
| Net property and equipment   | <u>313,034</u>                              |
| Other assets:  |   |
| Prepaid Acquisition Costs and Deposits                                 | 1,731                                       |
| Deferred federal income tax benefit                                    | 256,983                                     |
| Organization costs-net of amortization                                 |   |
| Stock subscription receivable  |   |
| Total other assets   | <u>258,714</u>                              |
| Total assets   | <u><u>2,196,578</u></u>                     |

*See Notes to Financial Statements*  
**UNAUDITED**

THE TITAN ENERGY GROUP, INC.  
Zanesville, Ohio

Balance Sheet  
June 30, 2007

The Titan  
Energy  
Group, Inc.

Liabilities and Stockholder's Equity

|  |                         |
|--|-------------------------|
| Current liabilities                              |                         |
| Accounts payable:                                |                         |
| Trade  | 140,092                 |
| Deposits   | 0                       |
| Related companies                                | 168,174                 |
| Short-term notes                                 |                         |
| Current portion of long-term notes               | 0                       |
| Accrued wages                                    |                         |
| Accrued taxes and other expenses                 | 89,538                  |
| Accrued interest                                 | 0                       |
| Undistributed production                         | 17,517                  |
| Unrecovered purchased gas cost                   |                         |
| Total current liabilities                        | <u>415,321</u>          |
| Deferred federal income tax                      | <u>0</u>                |
| Contribution to Aid of Construction              |                         |
| Long-term liabilities:                           |                         |
| Notes payable:                                   |                         |
| Boult, Cummings, Conner                          |                         |
| Potesta & Associates, Inc.                       |                         |
| Commonwealth of Pennsylvania                     |                         |
| ERS, Inc.  |                         |
| Pickett County, TN                               |                         |
| Small Business Administration                    |                         |
| Ford Motor Credit                                |                         |
| Interstate Gas Supply                            |                         |
| North Coast Energy                               |                         |
| Duke Energy Trading & Marketing                  |                         |
| Texaco Energy Marketing                          |                         |
| Key Bank   |                         |
| Total long-term notes payable                    | <u>0</u>                |
| Less: Current portion of long-term notes payable | <u>0</u>                |
| Net long-term notes payable                      | <u>0</u>                |
| Stockholder's equity:                            |                         |
| Common stock, no par value                       |                         |
| authorized 1,125 shares, 588 shares issued,      |                         |
| 528 shares outstanding                           | 100                     |
| Additional Paid In Capital                       |                         |
| Retained earnings                                | 1,781,157               |
| Subtotal   | <u>1,781,257</u>        |
| Less: treasury stock                             |                         |
| Total stockholders' equity                       | <u>1,781,257</u>        |
| Total liabilities and stockholder's equity       | <u><u>2,196,578</u></u> |

See Notes to Financial Statements  
**UNAUDITED**

**THE TITAN ENERGY GROUP, INC.**  
Zanesville, Ohio

**Income Statement**  
**For The Twelve Months Ended June 30, 2007**

|  | <b>The Titan<br/>Energy<br/>Group, Inc.</b> |
|--|---|
| Income                                 |   |
| Gas sales                              | 0   |
| Service and operating fees             | 707   |
| Oil and gas production                 | 67,292                                      |
| Transportation and transmission        | 54,219                                      |
| Compression                            | 34,912                                      |
| Management fees                        | 12,000                                      |
| Gain (loss) on sale of property        | (4,307)                                     |
| Contracting and rentals                | 16,560                                      |
| Interest and others                    | 301   |
| Total income                           | <u>181,684</u>                              |
| Expenses                               |   |
| Cost of gas sold                       | 0   |
| Well & Pipeline Operating Expenses     | 51,611                                      |
| Management fees                        | 15,569                                      |
| Salary and wages                       |   |
| Taxes                                  | 1,301                                       |
| Employee Benefits                      | 0   |
| Customer Assistance Expense            | 0   |
| Maintenance and repairs                | 0   |
| Contract labor and consulting          | 40,607                                      |
| Fuel and auto expense                  | 932   |
| Telephone                              | 800   |
| Travel and entertainment               | 165   |
| Office expense                         | 577   |
| Utilities                              | 0   |
| Legal and professional                 | 9,206                                       |
| Dues and subscriptions                 | 0   |
| Depreciation and depletion             | 39,125                                      |
| Seminar and training                   | 0   |
| Rent                                   | 717   |
| Interest expense                       | 14,888                                      |
| Insurance                              | 6,012                                       |
| Amortization of organization costs     | 0   |
| Bad debts                              | 0   |
| Other expenses                         | 0   |
| Total expenses                         | <u>181,510</u>                              |
| Net income before income taxes         | 174   |
| Federal income tax provision (benefit) | 0   |
| Net income before extraordinary items  | <u>174</u>                                  |
| Debt Forgiveness ( Net of Taxes)       | 0   |
| Net income                             | <u><u>174</u></u>                           |

*See Notes to Financial Statements*  
**UNAUDITED**



3. At an informal conference held on January 29, 2008 in Case No. 2007-00421, Commission Staff advised representatives of Gasco that the Kentucky Secretary of State had revoked Gasco's Certificate of Authority to Transact Business in the Commonwealth of Kentucky as of November 2, 2006. As of the date of this Order, Gasco is still without a Certificate of Authority to Transact Business in this state. KRS 271 .B.15-020(1) bars a foreign corporation without a Certificate of Authority from maintaining a proceeding in this state until it obtains such a certificate. Explain why the Commission should not reject Gasco's present submission in light of its failure to have a valid certificate of authority.

Witness: Steele

Response: Gasco has filed for a certificate to do business in Kentucky. KRS 271B 15-020(3) validates the corporate acts of Gasco.



4. The AG, in his response to Gasco's motion to dismiss, has requested that Gasco consider a provision for a 5-year billing plan for those customers who might demonstrate severe economic hardship as a result of the gas cost increase. 807 KAR 5:006, Section 13(2)(a) requires a gas utility to develop and offer residential customers a budget payment plan and to include the provisions of such plan in its tariffed rules. Section 13(2) also requires a partial payment plan for customers facing termination of service for non-payment of bills. Gasco's current tariff fails to include provisions for budget plans or partial payment plans. Prepare and submit a partial payment plan and a budget payment plan that complies with 807 KAR 5:006, Section 13(2).

a. State whether Gasco is willing to negotiate and accept a 5-year payment plan for customers who demonstrate a severe economic hardship as a result of the gas cost increase. Explain.

Witness: Steele

Response: The budget tariff is attached. There is no provision in the Commission's regulations for a hardship payment plan as suggested in the question. Because KRS 278.225 allows recovery of the gas cost over a two year period and makes no allowance for a protracted payment period, there is no basis to offer such a plan. However, Gasco is willing to consider alternative payment methods on a case by case basis.

FOR Entire Service Area

Community, Town or City

P.S.C. KY. NO. \_\_\_\_\_

SHEET NO. \_\_\_\_\_

Gasco Distribution Company

(Name of Utility)

CANCELLING P.S.C. KY. NO. \_\_\_\_\_

SHEET NO. \_\_\_\_\_

RULES AND REGULATIONS

BUDGET PAYMENT PLAN

A budget payment plan is available to residential and commercial customers if the customer elects to pay a fixed monthly amount for the budget year in lieu of the actual monthly billing based on usage. The monthly budget payment will be based on a minimum of one-twelfth of the estimated annual usage for that customer class. The budget year is the 12 months from August through July. Any amounts to be settled will be included in the subsequent budget year.

The customer's account may be adjusted through a series of equal adjustments on a monthly basis if usage or changes in rates indicate that the account will not be current upon the payment of the last scheduled budget amount.

To be accepted as a budget customer, the account balance must be paid in full before the customer is put on a payment plan. The budget plan shall continue until the customer notifies the company in writing to discontinue the plan or if the customer fails to pay the bills due under the plan. The company may revoke the plan and restore the customer to monthly billing and require immediate payment of any deficiency in payments.

Failure to receive a bill does not exempt the customer from the monthly budget payments.

Date of Issue: \_\_\_\_\_

Issued by: \_\_\_\_\_

Title: \_\_\_\_\_



5. Gasco proposes to recover the difference between actual gas costs and recovered gas costs for the 2-year period ending June 30, 2007 through the ACA component of its GCR Rate. Explain how this proposal is consistent with the provisions of Gasco's present GCR Rate Schedule which limits the ACA component to the difference between the previous quarter's expected gas cost and the actual cost of gas during that quarter on a dollar per Mcf basis.

Witness: Steele

Response: The GCR is designed to allow recovery for routine quarterly changes in gas costs. KRS 278.225 allows recovery of unbilled costs for a two year period. The GCR tariff cannot supercede the statute and prevent the recovery of two years gas costs.

However, to avoid further delays in collecting the amounts allowed by statute, Gasco will amend its tariff section IV(3), if necessary, to include the following language:

"If actual gas costs were not billed during the period incurred or were not included in a gas cost recovery filing within the quarterly period referenced in the tariff, the company may recover its actual unbilled gas costs for any period through its gas cost adjustment mechanism consistent with the provisions of KRS 278.225 or other applicable statute."



6. State whether, if Gasco's GCR Rate Schedule does not permit the inclusion of Gasco's unrecovered gas costs for the 2-year period ending June 30, 2007 in its ACA component, KRS 278.160(2) would prohibit the recovery of those costs through Gasco's GCR Rate. Explain.

Witness: Steele

Response:

No. KRS 278.225 allows the recovery of unbilled costs and the tariff cannot prevent the recovery of that statutory amount. See response to Item 5.



7. State whether Gasco's proposal to recover the difference between actual gas costs and recovered gas costs for the 2-year period ending June 30, 2007 requires modifications to Gasco's existing GCR Rate Schedule. Explain.

Witness: Steele

Response: See responses 5 and 6.



8. Explain why a temporary surcharge, unrelated to Gasco's GCR Rate Schedule is not a more appropriate mechanism for recovery of the difference between actual gas costs and recovered gas costs for the 2-year period ending June 30, 2007.

Witness: Steele

Response: The GCR is the mechanism established for the recovery of gas costs. It is the most reasonable means to recover the unbilled gas costs. Any amounts recovered through this mechanism will be reflected as an offset to gas purchases. Revenue collected through a surcharge will be reflected as operating income and will be included in the calculation of revenue requirements if a rate case should be filed during the collection period.

There seems to be no difference in the impact on the customer of a GCR recovery or a surcharge recovery. The period of recovery will remain the same and the monthly amount added to each customer's bill will be calculated on the same amount of unbilled cost. There is the potential that if a surcharge is used, the pending decision in "Public Service Commission and Duke Energy v. Attorney General" will be adverse to the Commission and surcharges will not be allowed. To avoid that issue, the GCR is a preferable alternative.



AFFIDAVIT

State of Ohio

County of Muskingum

I, Fred A. Steele, President after being sworn, state that the responses to Appendix B to an order of the Kentucky Public Service Commission in Case No. 2008-00096 dated March 31, 2008 on behalf of Gasco Distribution Systems, Inc. are true and accurate to the best of my knowledge, information and belief formed after a reasonable inquiry.

Sworn to before me by Fred A. Steele on this 10th day of April, 2008.

Fred A Steele  
Fred A. Steele

Twila D. Wright  
Notary Public

**TWILA D. WRIGHT**  
Notary Public, State of Ohio  
My Commission Expires May 15, 2010