

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE PETITION OF SIGMA GAS)
CORPORATION FOR APPROVAL OF A)
CERTIFICATE OF CONVENIENCE)
AND NECESSITY TO CONSTRUCT)
FACILITIES AND APPROVAL OF)
FINANCING)

CASE NO. 94-435

O R D E R

IT IS ORDERED that Sigma Gas Corporation ("Sigma") shall file the original and 10 copies of the following information with the Commission with a copy to all parties of record no later than 30 days from the date of this Order. Sigma shall furnish with each response the name of the witness who will be available to respond to questions concerning each item of information requested should a public hearing be scheduled.

1. Provide support for the statement that "approximately 200 residential customers" will initially be added as a result of the proposed construction.

a. Has a customer survey been conducted in the area where these customers are located? If yes, provide a copy of the survey results.

b. Where are these customers located?

c. What will be the estimated annual usage per customer?

d. What is their current heat source?

e. How many of the new customers have taps on the existing system?

f. What is the estimated cost per customer to convert to natural gas heating?

2. To what interstate pipeline will the proposed facilities connect and from whom will the gas supply be purchased?

a. What will be the terms of the transportation and gas supply contracts and expected price for the gas? Is there a transportation cost for the gas to be delivered to Sigma's city gate? Will transportation and gas supply be firm or interruptible?

b. Provide the name and telephone number of the person with whom Sigma has been negotiating a gas supply contract.

3. a. From whom (individual, county or state government) are easements and rights-of-way being obtained?

b. When will the negotiations be completed?

c. How many grantors of right-of-way, if any, will receive free gas?

4. In Exhibit 1 of the application, a materials and labor sheet is provided.

a. From whom will the meters and regulators be purchased?

b. What will be the Maximum Allowable Operating Pressure and Maximum Operating Pressure of the pipelines?

c. At a total cost of \$37,500 for 200 new customer connections, the cost for each would be \$187.50. Provide a

breakdown of the specific costs expected to be incurred for a customer connection.

5. In reference to Exhibit 2, for each month during the period January 1994 through November 1994 provide the name of each gas supplier from whom Sigma has purchased gas; the amount (Mcf) and price (per Mcf) from each; and the total amount paid to each supplier each month. For each supplier listed, other than Equitable Resources Exploration ("EREX"), provide the names of the specific wells used to supply gas.

a. Which supplier's wells "have proven to be inadequate as a primary source of gas supply"?

b. Identify the pipelines whose "ownership and right to use" are in dispute.

c. List each date (day/month) gas service to a customer, or customers, has been disrupted due to "unreliable or inadequate" gas supply and for each, identify the supplier and length of the interruption.

6. What portion of the proposed construction is within the city limits of Salyersville? Provide a copy of Sigma's franchise with the City of Salyersville.

7. Does Sigma require a franchise for the portion of the construction outside the city limits of Salyersville?

8. Does KISU Service Company, Inc. ("KISU") have any ownership interest in any of the companies who have submitted bids? If yes, describe the nature of the interest. Will KISU be a subcontractor for the company who is awarded the bid?

9. If the proposed pipeline is built and Sigma begins purchasing a gas supply which is delivered through the proposed pipeline, what effect will this have on Sigma's existing contract with EREX whose gas is currently delivered through the G-39 (former Inland) pipeline?

10. If Sigma's gas supply is delivered through the proposed pipeline, how does Sigma intend to maintain service to its farm tap customers?

11. Give all the assumptions used in calculating revenues and expenses in Exhibit 4 (specifically, what level of customers and volumes of gas, etc.).

12. Provide supporting documentation and state all assumptions used in developing the pro forma income statement included as Exhibit 4 of the application.

13. Provide a compilation of any survey results relied upon in making the revenue projections in the pro forma income statement.

14. Provide a billing analysis reflecting the projected revenues in the pro forma income statement.

15. Provide a total company income statement based on the Uniform System of Accounts that reflects the operation of Sigma after the proposed construction.

16. Provide an amortization schedule of the proposed DLG loan using the interest rate agreed upon with DLG.

17. Provide a copy of the board of directors' resolution authorizing Sigma to borrow the funds.

18. In its application filed with DLG, attached and incorporated herein as Appendix A to this Order, Sigma stated that the additional debt service requirement per customer would total \$187.17 annually. In its application filed with the Commission, Sigma has stated that no rate adjustment would be required to service the proposed financing. Reconcile the two statements including an explanation of how Sigma will repay the proposed financing without a rate increase.

19. Sigma stated in its application with DLG that it expects to add approximately 250 customers to its system as a result of the proposed construction. The engineering report contained in the DLG application indicates that Sigma will add 300 customers to the current customer base. In its application with the Commission, Sigma stated that it anticipates adding 200 customers. Reconcile these three statements and provide the basis for the correct projection.

20. Explain whether the bid tabulation includes the cost of the meters and regulators. If so, provide a breakdown of the cost. If not, provide the estimated cost of the meters and regulators needed to serve the 200-300 additional customers and the source of the funds to provide those items.

21. Disclose any business relationships between any of the bidders and any of the owners or management of Sigma.

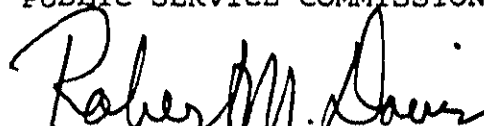
22. The lowest bid on the bid tabulation is \$446,499 whereas the DLG loan application contains an estimate of \$425,850 for construction materials and labor. The application with DLG also

indicates Sigma will incur \$50,000 for legal fees, engineering fees and inspection fees. Assuming Sigma accepts the lowest bid, explain how Sigma will fund the \$20,649 difference between the \$475,850 financing obtained from DLG for construction and the current estimated total cost of the project.

23. Provide a determination of the rates Sigma would have to charge, based on the current customer base and current operating costs, to repay the DLG loan and earn a reasonable return. Include supporting calculations and assumptions.

Done at Frankfort, Kentucky, this 21st day of December, 1994.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director

GAS SYSTEM RESTORATION PROJECT
APPLICATION FOR ASSISTANCE
BY THE DEPARTMENT OF LOCAL GOVERNMENT

Date: June 28, 1994

GAS COMPANY: Sigma Gas Corporation Rev. Sept. 19 1994

ADDRESS: P.O. Box 22, Salyersville, KY 41465

I understand the terms of the model contract attached to this application and realize that disbursement of loan funds will depend upon approval of this application and execution of attached contract. The information contained in this application is accurate to the best of my knowledge.

OWNER: Sigma Gas Corporation (signed)

Estill Branham, President (name, title)

MANAGER: Estill Branham (signed)

President (name, title)

ATTEST: Mary L Hackworth (signed)

MARY L HACKWORTH State at Large (notary public)
EXP. Date: 6/23/96

I. General Description of Project

A. Amount of Funding Requested: \$ 647,198

B. Age of System: 12 Years

C. Feet of Pipe Needing Replacement: 62,000* Total Feet

D. Number of Meters and Regulators Needing Replacement: 250*

E. Percent Line Loss, Twelve Months Just Ended: 20.9

* New Construction

II. Legal Description of Project

A. Provide a complete set of engineering plans for all construction work (to be used as legal description), specifying size, location and depth of piping, and the schedule to be used for construction. An additional set of plans should be submitted for approval to the Public Service Commission (PSC) or Office of Pipeline Safety as appropriate.

See Attachment A

- B. List and describe any land, easements or other property rights to be acquired in connection with the project. None

III. Proposed Use of Funds

Itemize the costs for construction and financial rehabilitation of the gas system, based upon specific plans as described in Section II above.

Construction

1. Materials (attach itemized list as exhibit)	<	\$ 425,850
2. Labor	<	_____
3. Land		0
4. Right-of-Way		0
5. Legal		10,000
6. Engineering		30,000
7. Other (<u>Inspection</u>)	>	10,000
8. Other (<u>Contingency</u>)	>	_____
9. Total Cost of Construction		<u>475,850</u>

In-Kind Contribution to Construction

10. Materials (attach itemized list as exhibit)	_____
11. Labor	_____
12. Equipment	_____
13. Land	_____
14. Total Value of In-Kind Contribution	<u>-0-</u>
15. Net Funding Needed for Construction (total cost less in-kind contribution)	<u>475,850</u>

Financial Rehabilitation

List all outstanding debts to be covered by loan. Attach documentation as exhibits.

16. <u>The Bank Josephine</u>	<u>\$171,348</u>
17. <u>Attachment B</u>	<u>--</u>
18. _____	_____
19. _____	_____

20.	_____	\$ _____
21.	Total Needed for Financial Rehabilitation	<u>171,348</u>
23.	Total Funding Needed for Construction and Financial Rehabilitation	<u>647,198</u>

IV. Environmental Aspects of Construction

This partially fulfills a requirement by the Economic Development Administration for environmental review by the Kentucky Natural Resources and Environmental Protection Cabinet (NREPC). If any requirements are unclear, assistance may be obtained through NREPC or the Department of Local Government.

A. Describe the possible conflict with environmentally sensitive public land. NONE

1. Number of river or stream crossings None.

List: _____

2. Number of feet of pipe that will be located within the rights-of-way of existing public highways 62,000.

B. Environmental description of the construction project.

1. Provide a scale map detailing the layout of the existing and proposed gas distribution system as it relates to the surrounding environs. A 7.5 minute topographic map should be used.

See Attachment A

2. Provide a map with a scale compatible with the topographic map provided above (IV B (1)) delineating the base (1%) floodplain. This may be done by incorporation of a Flood Insurance Risk Map (FIRM) issued by the Office of Federal Insurance and Hazard Mitigation, or any other flood study conducted for the area. Identify structures by location and name within the base floodplain that will be serviced by the gas distribution system.

Not Applicable

3. Provide a brief description of the types of land that will be affected by the proposed project. Land use categories should delineate between: All lines on state road right of way

- a. Residential and Commercial
- b. Agricultural Areas
- c. Forest Land
- d. Water
- e. Strip Mines, Quarries and Excavation Sites
- f. Parks and Public Owned Land
- g. Wetlands
- h. Other

The location and amount of area affected by each category should be identified. This requirement can be fulfilled by shading land uses on the system map or by written description.

V. Costs for Post-Construction Maintenance and Operations

A. Itemize the anticipated post-construction expenses necessary for maintaining and operating the gas system in compliance with Federal regulations as set forth in the Federal Register (CFR 191 and CFR 192) "Regulations for the Transportation of Natural and Other Gas by Pipeline." Such estimates should include, but are not limited to, costs for preparing and submitting any required annual reports, operating and maintenance plans, emergency and public education plans; and for leakage test requirements and record keeping. These figures can be estimated through analysis of past operating expenses and anticipation of future operating costs.

1. Estimated Annual Legal Expenses	<u>\$ 500</u>
2. Estimated Annual Administrative Expenses	<u>28,000</u>
3. Estimated Annual Clerical Expenses	<u>10,000</u>
4. Annual Insurance Costs (See Item VI B)	<u>4,000</u>
5. Estimated Annual Cost for Management Consultant	<u>1,000</u>
6. Estimated Other Annual Maintenance Expenses	<u>15,000</u>
7. Estimated Cost for Annual Audits	<u>1,200</u>
8. Estimated Annual Capital Expenditures	<u>-0-</u>
Total Costs for Maintenance and Operations (total from above)	<u>59,700</u>

VI. Appurtenant Statements

- A. Provide documentation that funding for the proposed construction has been sought from, and denied by, at least three conventional sources. Documentation should clearly reflect the reason for denial of funding. See Attachment C
- B. List all insurance currently carried. If the utility is not covered by performance or liability insurance, the utility should seek out and obtain estimates for said insurance and attach to this application a letter from the insurance company stating cost, terms and conditions of the coverage after reconstruction. See Model Loan Conditions for Insurance Requirements. None currently carried See Attachment D
- C. Indicate source(s) of gas and provide evidence of reliability (longevity) of future gas supply, in years. See Attachment E

VII. Balance Sheet*

Jan. 31, 1994

<u>Assets and Other Debits</u>	<u>Balance First of Year</u>	<u>Balance Last of Year</u>
<u>Utility Plant</u>		
1. Utility Plant (101-107, 114, 116)	\$ _____	\$ 514,514
2. Less: Accumulated Provision for Depreciation, Depletion and Amortization (110)	_____	432,235
3. Net Utility Plant	_____	82,279
<u>Other Property and Investments</u>		
4. Non-Utility Property - Net (121-122)	_____	32,000
5. Other Investments (124)	_____	1,598
6. Special Funds (125)	_____	34,488
7. Total Other Property and Investments	_____	68,086
<u>Current and Accrued Assets</u>		
8. Cash and Working Funds (131)	_____	16,444
9. Temporary Cash Investments (132)	_____	_____
10. Notes Receivable (141)	_____	_____
11. Customer Accounts Receivable (142)	_____	42,177
12. Other Accounts Receivable (143)	_____	_____
13. Accumulated Provision for Uncollectible Accounts-Credit (144)	_____	_____
14. Materials and Supplies (150)	_____	_____
15. Gas Stored Underground (164)	_____	_____
16. Prepayments (165)	_____	_____
17. Other Current and Accrued Assets (170)	_____	_____
18. Total Current and Accrued Assets	_____	58,551
<u>Deferred Debits</u>		
19. Unamortized Debt Expense (181)	_____	_____
20. Extraordinary Property Losses (182)	_____	_____
21. Other Deferred Debits (183)	_____	_____
22. Deferred Losses from Disposition of Utility Plant (187)	_____	_____
23. Unamortized Loss on Reacquired Debt (189)	_____	_____
24. Accumulated Deferred Income Taxes (190)	_____	_____
25. Unrecovered Purchased Gas Costs (191)	_____	_____
26. Total Deferred Debits	_____	_____
27. TOTAL ASSETS AND OTHER DEBITS	_____	184,348

*Financial schedules are keyed to the "Accounting and Reporting Requirements for Natural Gas Companies" as promulgated by the Federal Energy Regulatory Commission and adopted by the Kentucky Public Service Commission.

	Balance First of Year	Jan. 31, 1994 Balance Last of Year
<u>Liabilities and Other Credits</u>		
<u>Proprietary Capital</u>		
1. Common Capital Stock (201)	\$ _____	\$ _____
2. Preferred Capital Stock (204)	_____	_____
3. Other Paid-In Capital (207)	_____	6,006
4. Discount on Capital Stock (213)	_____	_____
5. Capital Stock Expense (214)	_____	1,000
6. Appropriated Retained Earnings (215)	_____	_____
7. Unappropriated Retained Earnings (216)	_____	9,803
8. Recquired Capital Stock (217)	_____	_____
9. Noncorporate Proprietorship (218)	_____	_____
10. Total Proprietary Capital	_____	16,809
<u>Long-Term Debt*</u>		
11. Bonds (221)	_____	_____
12. Advances from Associated Companies (223)	_____	_____
13. Other Long-Term Debt (224)	_____	_____
14. Total Long-Term Debt	_____	_____
<u>Current and Accrued Liabilities</u>		
15. Notes Payable (231)*	_____	140,305
16. Accounts Payable (232)	_____	16,242
17. Notes Payable to Associated Companies (233)	_____	_____
18. Accounts Payable to Associated Companies (234)	_____	_____
19. Customer Deposits (235)	_____	_____
20. Taxes Accrued (236)	_____	1,297
21. Interest Accrued (237)*	_____	_____
22. Other Current and Accrued Liabilities (238)	_____	9,695
23. Total Current and Accrued Liabilities	_____	167,539
<u>Deferred Credits</u>		
24. Customer Advances for Construction (252)	_____	_____
25. Other Deferred Credits (253)	_____	_____
26. Accumulated Deferred Investment Tax Credits (255)	_____	_____
27. Accumulated Deferred Income Taxes (281-283)	_____	_____
28. Total Deferred Credits	_____	_____
<u>Operating Reserves</u>		
29. Property Insurance Reserve (261)	_____	_____
30. Injuries and Damages Reserve (262)	_____	_____
31. Pensions and Benefits Reserve (263)	_____	_____
32. Miscellaneous Operating Reserves (265)	_____	_____
33. Total Operating Reserves	_____	_____
34. TOTAL LIABILITIES AND OTHER CREDITS	_____	184,228

*Itemize on attached Supplemental Schedule.

VIII. Statement of Income for the Year

1989
Amount

Account
Operating Revenues

1.	Residential Sales (480)	\$ 108,056
2.	Commercial and Industrial Sales (481)	
3.	Interdepartmental Sales (484)	
4.	Total Sales to Ultimate Consumers	
5.	Sales for Resale (483)	
6.	Total Gas Service Revenues	108,056

Other Operating Revenues

7.	Forfeited Discounts (487)	7,920
8.	Miscellaneous Service Revenues (488)	
9.	Revenues from Transportation of Gas of Others (489)	
10.	Revenues from Natural Gas Processed by Others (491)	
11.	Rent from Gas Property (493)	
12.	Other Gas Revenues (495)	
13.	Total Other Operating Revenues	
14.	Total Gas Operating Revenues	115,976

Operating Expenses

15.	Total Gas Operation and Maintenance Expenses*	130,334
16.	Depreciation and Depletion Expense (403)	16,757
17.	Amortization Expense (404-407)	
18.	Taxes Other Than Income Taxes (408.1)	5,074
19.	Total Income Taxes - Utility Operations	
20.	Total Gas Operating Expenses	153,082
21.	NET OPERATING INCOME	22,894

Other Income

22.	Nonutility Income (415-418)	\$
23.	Interest and Dividend Income (419)	170
24.	Miscellaneous Nonoperating Income (421)	
25.	Other Accounts (Specify Account Number and Title):	
26.	<u>Total Other Income</u>	170

Other Deductions

27.	Interest on Long-Term Debt (427)	
28.	Amortization of Debt Discount and Expense (428)	
29.	Nonutility Deductions (426.1 - 426.5)	
30.	Other Interest Expense (431)	22,016
31.	Total Income Taxes - Nonutility Operations	
32.	Other Accounts (Specify Account Number and Title):	
33.	<u>Taxes Other than Income Taxes (408.2)</u>	
34.	Total Other Deductions	22,016
35.	NET INCOME	58,232

*Itemize on attached Supplemental Schedule.

Operating Statistics

	Gas Volume - Mcf				Cost Per Mcf Current
	Current Month ()		12 Months Ended ()		
	Last Year	This Year	Last Year 1988	This Year 1989	
<u>Gas Purchased</u>					
Suppliers: <u>Various</u>			18,161	20,440	2.08
Suppliers: _____					
<u>Total Purchased</u>			18,161	20,440	2.08 (Average)
Local Production			0	0	
<u>Gas Sold</u>					Average Rate Per Mcf Current
Residential			18,152	16,155	26.43
Commercial					
Industrial					
<u>Total Sold</u>					
Gas Used by Company					
Gas Unaccounted For				4,285	

<u>Number of Customers</u>	1989 End of Year	
	Last Year	This Year
Residential (480)	209	200
Commercial and Industrial (481)		
Interdepartmental Sales (484)		
Total - Ultimate Consumer		
Sales for Resale (483)		
<u>Total Gas Service Customers</u>	209	200

<u>Average Consumption Per Customer (Mcf)</u>	12 Months Ended ()	
	Last Year 1988	This Year 1989
Residential	87	102
Commercial and Industrial		
Interdepartmental Sales		
Sales for Resale		
<u>Total</u>	87	102

Supplemental Schedules

Long-Term Debt

List Each Original Issue Amount, Class and Series of Obligation:	Date of Issue	Date of Maturity	Outstanding Per Balance Sheet	Interest Rate	Interest For the Year Amount
Total (to page 6)					- 0 -

Notes Payable

Name of Payee	Date of Note	Date of Maturity	Interest Rate	Balance End of Year
The Bank Josephine	3-18-84	3-1-88	7.0	\$171,348
				June 1984
Total (to page 6)				

Interest Accrued

Description of Obligation	Int. Accrued Balance First of Year	Int. Accrued During Year	Int. Paid During Year	Int. Accrued Balance End of Year
Total (to page 6)				- 0 -

Operation and Maintenance Expenses

	Amount	1989
Manufactured Gas Production (700-706)		
Natural Gas Production and Gathering (710-719)		
Exploration and Development Expenses (720-737)		
Storage Expenses (740-747)		
Gas Supply Expenses (730-736)	57,075	
Transmission Expenses (750-757)	2,300	
Distribution Expenses (760-769)	15,004	
Customer Accounts Expense (901-904)	6,784	
Customer Service and Informational Expenses (907)		
Administrative and General Expenses (920-935)	45,275	
Total Gas Operation and Maintenance Expenses (to page 7)	132,338	

REPORT

To: Sigma Gas Corporation

From: A.F. Humphries, Consulting Engineer

Subject: Natural Gas Transmission Supply Line in Magoffin and
Floyd Counties to supply the city of Salyersville.

The city of Salyersville has for more than forty (40) years needed an adequate supply of natural gas. In 1982 the distribution system was rebuilt to modern standards through local efforts. A new gas supply was to furnish requirements from local well production. This supply failed the first winter. The distribution system has suffered through the succeeding years - through bankruptcy - and now has an opportunity to connect to an interstate supply of gas if financial arrangements can be made.

The project requires the construction of approximately nine (9) miles of line along KY Rt. 1888 and 114 in an easterly direction to a connection with facilities of KY W Va Gas at Holbrock Branch. See attached Report and maps of proposed construction.


A town boarder regulator station will be necessary as well as at least 100 customer service connections.

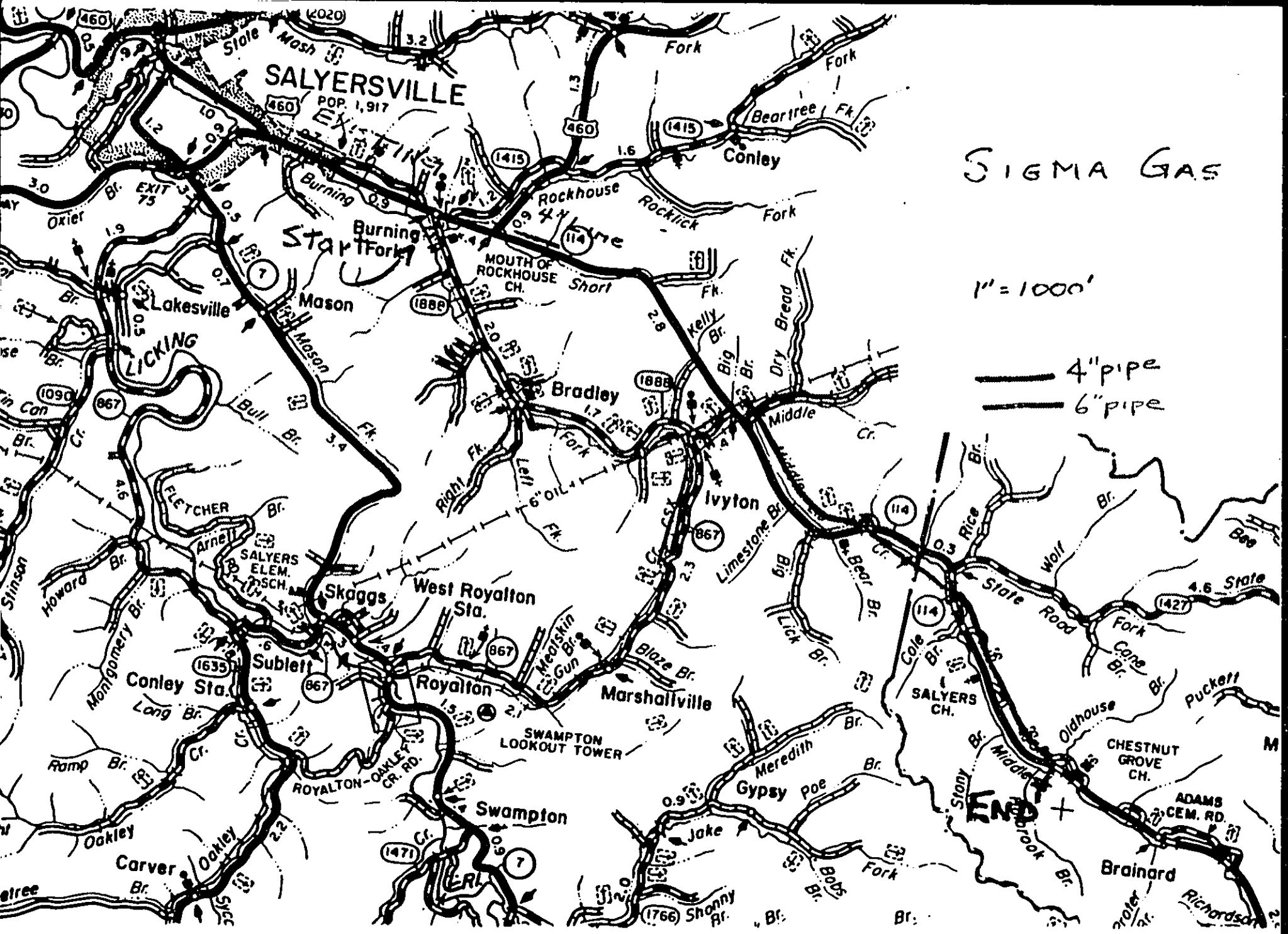
The economic feasibility of this project may appear unfavorable on its face; however, the system is not now serving all piped customers in the existing system because of the gas shortage. There are over 200 service taps now in the city not connected. These customers along with those to be picked up with new construction would increase net income by more than \$90,000 per year based on approximately a total of 500 customers.

A listing of items and estimated costs of construction is attached as well as a map detailing the proposed route of this line.

This preliminary report will be expanded to include rate projections and construction plans as they become necessary.

Respectfully submitted,


Engineer, KPE 3000



SALYERSVILLE
 POP. 1,917

Start

SIGMA GAS

1" = 1000'

— 4" pipe
 = 6" pipe

END

THE BANK JOSEPHINE
P.O. BOX 471
PRESTONSBURG, KY 41653

LOAN NO _____
DATE OF NOTE 3/18/94 || SIGMA GAS CORPORATION
FINAL MATURITY DATE 3/18/04 || P.O. BOX 27
PRINCIPAL AMT \$ 173,315.50 || PRESTONSBURG, KY 41653
RENEWAL OF _____

LENDER _____ BORROWER(S) NAME(S) AND ADDRESS _____

On or before the Final Maturity Date its value received, the undersigned (sometimes called "You" or "Your"), jointly and severally promise to pay to the order of the LENDER named above at its main office or any branch office, the Principal Amount shown above, together with interest at the annual interest rate checked below beginning on the Date of Note and continuing until paid in full. Unless specified differently below payments will be applied first to interest accrued on the unpaid Principal Amount to the date of payment, then to the scheduled reduction of the Principal Amount, and the excess, if any, to any unpaid late charges and then to reduce the Principal Amount.

Interest will be accrued according to the 365/365 360/360 365/360 accrual method.
If checked Lender shall be entitled to a minimum of \$10.00 in interest.
If checked you will pay a late charge on each payment that is more than 10 days late, in the amount of \$ N/A or 1.00 % of the payment, whichever is N/A.
You promise to pay as follows 120 payments of \$2,012.34 due monthly beginning 04/18/94.

THE ANNUAL INTEREST RATE ON THIS NOTE.
I is a FIXED RATE of _____ %.
II is a VARIABLE RATE which may change from time to time. The rate will be determined by adding 1.000 percentage points to the index (described below) on each Index Review Date. That sum, subject to any adjustments and limitations (described below) will be the New Rate. The New Rate will become effective on the next following Rate Change Date. The annual interest rate on this Note today -- Date of Note -- is 7.000 %.
The index: THE NEW YORK PRIME RATE AS PUBLISHED IN THE WALL STREET JOURNAL

Index Review Date(s) (date lender checks index and sets rate): DAILY FROM DATE OF NOTE
First Rate Change Date (first date a rate change may take effect): MARCH 19, 1994
Later Rate Change Dates (all other dates a rate change may take effect): 3/20/94 and daily thereafter

Adjustments in setting the New Rate: None unless one or both of the following is checked:
 on each Index Review Date the New Rate will be rounded to the next _____ of one percent.
 on any Index Review Date the Lender may, at its option, add fewer percentage points to the index than otherwise provided.

Limitations on setting the New Rate.
Maximum Rate Increase on any Rate Change Date is _____ percentage points more than the Rate in effect prior to that Rate Change Date. Maximum Rate at any time is _____ % (Provisions do not apply if blank.)
Maximum Rate Decrease on any Rate Change Date is _____ percentage points less than the Rate in effect prior to that Rate Change Date. Minimum Rate at any time is _____ % (Provisions do not apply if blank.)

Effect of Interest Rate Change on Payments: If the Interest Rate changes, the payment(s) will change as follows (check one):
 Different Periodic Principal and Interest Payments - Each remaining payment will change to the amount necessary to pay, in equal installments, the unpaid Principal Amount on the Rate Change Date plus interest by the Final Maturity Date.
 Different Periodic Interest Payment(s) - The remaining payment(s) will change to the amount necessary to pay the interest accrued to the date of each payment, and the last payment due on the Final Maturity Date will include the unpaid Principal Amount. The amount of scheduled periodic principal payment(s) will remain the same.
 Different Final Payment - The payment due on the Final Maturity Date will change to the amount necessary to pay the interest accrued to that date and the unpaid Principal Amount. Scheduled periodic payments, if any, will remain the same.
 Different Number of Payments - Each payment (except the last payment) and the frequency of payments will remain the same but the total number of payments and the Final Maturity Date will change.
 Different Periodic and Final Payments - The remaining payments will change to the amount necessary to pay, in equal installments by the next to last payment, that portion of the unpaid Principal Amount plus interest scheduled to be paid prior to the Final Maturity Date, and the payment due on the Final Maturity Date will change to the amount necessary to pay the interest accrued to that date and the remaining Principal Amount.

SECURITY: In addition to any other security interest which Lender may have, the following apply if checked:
 This indebtedness is secured by separate: Real Estate Mortgage Assignment Security Agreement
 Other _____ of same date as the Note, if not same date, the date is _____
Collateral:
 IF CHECKED THIS DOCUMENT IS ALSO A SECURITY AGREEMENT. The undersigned grants and pledges to the Lender a security interest in the following described property. ADDITIONAL TERMS AND CONDITIONS OF THE SECURITY AGREEMENT ARE ON THE REVERSE SIDE HEREOF. (Describe the property fully, include make, model, serial no., if any, etc.)
SEE SCHEDULE "A" ATTACHED HERETO AND MADE A PART THEREOF
 If checked, the property is affixed or is to be affixed to the following real estate, or its crops growing or to be grown on the following real estate. (Describe real estate)
The use of the above property will be Personal Business Agricultural Other _____

THE TERMS AND CONDITIONS OF THIS NOTE (AND SECURITY AGREEMENT IF APPLICABLE) STATED ON THE REVERSE SIDE HEREOF ARE INCORPORATED BY REFERENCE HEREIN AND CONSTITUTE A PART OF THIS CONTRACT TO THE SAME EXTENT AS IF PRINTED IN FULL AT THIS POINT. THE UNDERSIGNED ACKNOWLEDGE RECEIPT OF A TRUE COPY OF THIS DOCUMENT, AND AGREE TO THE TERMS AND CONDITIONS HEREOF.

SIGMA GAS CORPORATION

SIGNATURE ESTILL B. BRANHAM President
Estill B. Branham
SIGNATURE _____

SIGNATURE _____
SIGNATURE _____

FOR LENDER USE ONLY
PURCHASE EQUIPMENT PHONE #
OFF: OSB 606 319 5584
PREP: OSB
APPR: OSB
Interest provided to the customer:
 KRS 208 KRS 290
SIMPLE INTEREST NOTE AND SECURITY AGREEMENT

THE PARTY SIGNING HEREIN DOES SO TO GRANT A SECURITY INTEREST IN THE ABOVE DESCRIBED PROPERTY BUT ASSUMES NO PERSONAL LIABILITY TO PAY THE NOTE.
ESTILL B. BRANHAM 3-18-94
NAME DATE
PRESTONSBURG, KY 41653
ADDRESS
Estill B. Branham
SIGNATURE



THE BANK JOSEPHINE

SINCE 1891

P. O. Box 471 • Telephone (606) 886-4000
PRESTONSBURG, KENTUCKY 41653

June 20, 1994

Sigma Gas Corporation
P. O. Box 22
Salyersville, KY 41465-0022

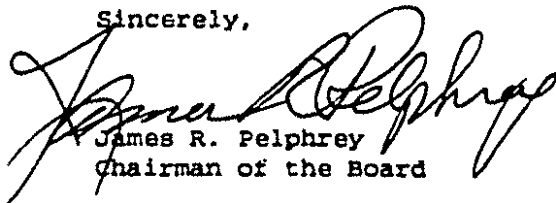
Re: Request for a Business Loan

Gentlemen:

The Bank Josephine has reviewed your request. We will have to deny financing of your request at this time.

If you have questions regarding this matter, please do not hesitate to call me at (606) 886-4001.

Sincerely,



James R. Pelphrey
Chairman of the Board

JRP:ikh



First Guaranty National Bank

P. O. DRAWER 457 • MARTIN, KENTUCKY 41649

Ben J. Spradlin

EXECUTIVE VICE PRESIDENT

June 24, 1994

To Whom It May Concern:

I have discussed a loan with Mr. Estill Branham for Sigma Gas Corp. of Salyersville, Kentucky.

Under the terms & conditions discussed, this bank is not in the position to approve this loan.

Sincerely,

Ben Spradlin
CEO

First Commonwealth Bank

100 North Arnold Avenue
Prestonsburg, Kentucky 41653

June 22, 1994

Sigma Gas Corporation
P. O. Box 22
Salyersville, Kentucky 41465

Attn: Estill Branham, President

Re: Loan Application


Dear Mr. Branham:

Please be advised that your corporate application for a loan to expand the local distribution system of Sigma Gas has been denied because of concerns we have regarding the financial stability of Sigma.

I appreciate the opportunity to consider your loan request and hope we will be able to work with Sigma Gas and you in the future.

Please do not hesitate to contact me if I can be of any assistance.

Sincerely,



Burl Wells Spurlock, President

BWS/va

COMMERCIAL INSURANCE SERVICE CORPORATION
P.O. BOX 4186
LEXINGTON, KENTUCKY 41501
PH. 606-278-0349
FAX 606-277-8867

June 24, 1994

Mr. Estill Branham
Sigma Gas Corporation
P.O. Box 22
Salyersville, KY 41465

Dear Estill:

The annual premium for the gas company would be \$5,013.00 plus \$75.20 Kentucky Tax. This quote is based on the following policy limits:

General Aggregate Limit	\$500,000.00
Products/Completed Operations	500,000.00
Each Occurrence Limit	500,000.00
Medical Expense Limit	5,000.00
Fire Damage Limit	50,000.00

Just let me know if you have any questions regarding this quote. I appreciate this opportunity to be of service.

Sincerely,


Kenneth A. Bales

KAB/lrb

GAS SUPPLY

Sigma proposes to connect to Equitable Resources, Inc., in Holbrook Branch, Floyd County, Kentucky. Sigma has contracted for a full service supply at contract rates.

Equitable Resources is an interstate operation which purchases, gathers, transports, and distributes natural gas throughout eastern Kentucky and the United States.

SIGMA GAS CORPORATION
LOAN REPAYMENT SCHEDULE

\$647,198 loan compounded annually for 30 years @ 4% interest.

Annual payment of \$37,433.93 may be paid on the following schedule:

<u>Months</u>	<u>Percentage</u>	<u>Monthly Payment</u>	<u>Number of Payments</u>	<u>Total</u>
January - March	14.5%	\$5,427.92	3	\$16,283.76
April	14.5%	5,427.89	1	5,427.89
May - June	7.0%	2,620.38	2	5,240.76
July - October	3.5%	1,310.90	4	5,240.76
November - December	7.0%	2,620.38	2	<u>5,240.76</u>
Total				\$37,433.93

Average annual payment per customer: \$187.17.

Total principal and interest paid: \$1,123,017.90.