

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

O R D E R

IT IS ORDERED that Sigma Gas Corporation, Inc. (Sigma) shall file within 14 days of the date of this Order an original and 10 copies of the following information with the Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. Provide a copy of the balance sheet that was used as the basis for the amounts included on Exhibit 1.

a. For each item included on Exhibit 1 provide the balance sheet account which contains the amount listed on the exhibit. If the amount appearing on the

balance sheet does not agree exactly with the amount listed on Exhibit 1, provide an explanation of the difference along with details of the other items included in the account.

b. If the balance in the account has been reduced since the date the amount was established on Exhibit 1, explain whether the amount of the loan will be reduced or the proceeds will be applied to some other use.

2. Provide a copy of the income statement for the same date as the balance sheet requested in Item 1.

3. In Case No. 98-103,¹ the Commission authorized the transfer of 450 shares of stock held by the estate of Grady Conley to Estill Branham. Provide the status of the stock transfer. If the transfer has taken place, provide a revised list of the current stockholders and the number of shares held by each stockholder.

4. In consideration of the stock transfer approved in Case No. 98-103, describe any changes that have occurred in the management and operations of Sigma.

5. With reference to Item 5 on Exhibit 1, Bank of Josephine note payable in the amount of \$70,000, provide the following:

a. The use of the proceeds of the note. If the loan was used for construction, provide the case number of the case in which the Commission approved the construction. If a certificate of public convenience and necessity was not requested, explain why.

¹ The Application of Sigma Gas Corporation for Approval of Transfer of Sigma Gas Corporation Stock, Final Order dated April 16, 1998.

b. Provide copies of the original work orders and/or invoices for each of the costs incurred. If work orders are not available, explain why they are not and provide any documentation available that shows details of the actual work performed which generated the invoice. Details should include, but not be limited to, the location of the assets installed, materials used, labor hours, equipment charges, and overhead charged, if any.

c. The accounts charged in connection with the use of the loan proceeds.

6. With reference to Item 6 on Exhibit 1, John N. Hughes, Attorney At Law, provide supporting documentation in the form of copies of invoices for the previous balance carried forward on the account statement dated October 5, 1998 in the amount of \$13,593.86. Include the following additional information:

a. The account charged when each of the amounts payable was recorded.

b. An explanation of the purpose of each of the items of expense included on the invoices.

7. With reference to Exhibit 1, Item 7, there are 2 invoices from Auxier Road Gas Company, Inc. to Sigma Gas Corporation for meters, regulators, and other supplies. Provide details of how and when each of these costs was recorded on the books of Sigma when the account payable was established.

8. With reference to Exhibit 1, Item 7, there are 3 invoices that total \$21,778.50 supporting the \$63,778.50 which Sigma is proposing to finance. Provide invoices or other support for the additional amounts. Also include details of why, how

and when each of these costs was recorded on the books of Sigma when the account payable was established.

a. Provide underlying monthly invoices or calculations for the gas transmission costs for the months January 1997 through September 1998. Has this outstanding balance changed since the September 1998 billing?

b. Explain whether these gas transmission costs were recovered through Sigma's Gas Cost Adjustment (GCA) mechanism, which is designed to recover gas costs.

9. Explain the outstanding debt to Alliance Energy Services (Alliance). Sigma's explanation should include why these arrearages were incurred, and whether the costs evidenced by Item 8 of Exhibit 1 to Alliance were recovered through Sigma's GCA.

a. Is the \$3.10 per Mcf price from Alliance still in effect? If not, how is the price determined?

b. The original pricing provisions of the Alliance contract dated March 1, 1995 states that the price includes transportation charges to Auxier Road Gas Company. Provide a statement from Alliance verifying that the price charged to Sigma now and in the past includes transportation charges to Auxier.

10. With reference to Exhibit 1, Item 9, provide copies of the original work orders for each of the costs incurred in connection with the payable to KISU Service Company, Inc. in the amount of \$286,881.00. If work orders are not available, explain why they are not and provide any documentation available that shows details of the actual work performed for which the invoice was generated. Details should include, but

not be limited to, the location of the assets installed, materials used, labor hours, equipment charges, and overhead charged, if any. Please note that none of the invoices filed with the application contain details of the actual work performed. These invoices contain only general references to pipeline construction and to hours and days of use of equipment.

11. With reference to Exhibit 1, Item 9, provide details of the accounts charged when each of the work orders, invoices or other documented charges was recorded on the books of Sigma.

12. With reference to Item 11 on Exhibit 1, have the property taxes been paid as of this date? If no, explain the status of any collection efforts of the local taxing authority. If yes, will the amount to be borrowed from DLG be reduced by this amount?

13. With reference to Item 13 on Exhibit 1, explain the reason the accounting services are not performed in the ordinary course of business by employees of Sigma.

14. With reference to Item 15 on Exhibit 1, provide details of the accrued wages including the employees to whom the wages are payable, the nature of the work performed for the wages accrued, the dates the work was performed, and the account charged for each of the amounts which make up the \$22,650.

15. With reference to Exhibit 1, Items 7, 9, 13, 14, and 15, each of these items appear to reflect balances of transactions with family members and/or companies under common ownership with the major stockholder of Sigma, Estill Branham. Explain how the prices are established for the goods and services included in the various types of related party transactions contained in these items.

16. Provide a copy of all loan documents that will be executed for the \$1,511,760 loan.

17. Provide the total amount of principle and interest that has been paid to the Gas System Restoration and Development Account Review Board (GSRDARB) by Sigma since the inception of the loan program conducted by the GSRDARB. The information should be categorized by annual amounts of principle and interest, beginning with the first loan obtained.

18. Provide a copy of the policies, rules, regulations, and/or guidelines under which the GSRDARB makes loans to gas companies in Kentucky for Financial Rehabilitation.

19. In Exhibit 1 of Sigma s petition to refinance, Item 14 is \$13,000.00 owed to Estill Branham. Included as part of Exhibit 4 is a January 31, 1999 Balance Sheet, with a current liability account entitled Loan from Shareholder EB of \$13,000.00. Are these the same items? If so, how long has this shareholder loan been outstanding? Does a written note exist? If so, does it bear interest, and how much has been paid annually since receipt of the loan? Provide the uses of the loan proceeds.

20. Explain the outstanding debt to Equitable Resources Energy Company (EREC). Sigma s explanation should include why this arrearage was incurred, whether it was recovered through the GCA mechanism, and the current status of EREC s offer to accept a lump sum payment of \$132,000.00 in satisfaction of its account (Item 4, Exhibit 1).

21. Based on a comparison of the Notes Payable from the November 30, 1998 balance sheet to the January 31, 1999 balance sheet, the notes appear

unchanged, except for a decrease in debt to EREC. Explain the cause for the decrease in the EREC debt. Is Sigma in arrears on any of these loans? Is Sigma in default on any of these loans? If yes, what, if any, action has been taken by Sigma's creditor(s)?

22. Item 9.b. of the petition refers to overall cost savings due to a reduction in interest expense. Provide calculations of these savings over the next 5 years and an amortization schedule of the old notes payable and interest expense thereon, as well as a projected loan amortization schedule for the proposed loan.

23. Item 9 of Sigma's petition states that the rates from Case No. 98-244² are sufficient to repay the proposed debt and that annual operating costs are inapplicable to the application. Case No. 98-244 was based on a 1996 calendar year test period and this petition relates to conditions surrounding the 1998 calendar year.

a. Sigma's income statement for the 1998 calendar year in Exhibit 4 shows an operating loss of \$108,231.88. Provide a pro forma cash flow statement for a projected 12-month period using the rates from Case No. 98-244 to show that funds will be available to amortize the proposed indebtedness.

b. Provide any other reasons applicable to justify how Sigma will repay the proposed refinancing in a timely manner, when based upon a review of the annual reports on file with the Commission beginning with 1996, Sigma appears not to have made any payment of interest or principal to GSRDARB.

² Case No. 98-244, The Petition of Sigma Gas Corporation for Adjustment of Rates, Final Order dated October 27, 1998.

24. Are any of the amounts included in Exhibit 1, Items 1, 2 and 3 related to past due interest on GSRDARB loans? Why has Sigma not accrued any interest on its books for amounts due GSRDARB for 1996, 1997 or 1998? Why is the repayment of interest due on the three GSRDARB loans not included as a use of the proceeds from the refinancing? Is GSRDARB agreeing to forgive the interest owed under the old loans as a condition of this refunding and refinancing?

25. Provide supporting documentation for Item 10 of Exhibit 1, \$19,348.44 due to Al Humphries Consulting. Include detailed information, such as project name, location, description of services and hours worked per day, per job or location. Provide the account(s) charged for the services by Al Humphries Consulting.

26. With reference to Item 6 of the Commission's Order in Case No. 94-435,³ provide the actual cost of construction and as-built drawings of the construction approved by the Commission in this case.

Done at Frankfort, Kentucky, this 17th day of May, 1999.

By the Commission

ATTEST:

Executive Director

³ Case No. 94-435, The Petition of Sigma Gas Corporation for Approval of a Certificate of Convenience and Necessity to Construct Facilities and Approval of Financing, Final Order dated August 22, 1995.