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APR 14 2005

PUBLIC SERVICE
COMMISSION

April 12, 2005

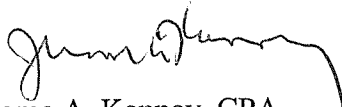
Ms. Beth O'Donnell
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

Dear Ms. O'Donnell,

Enclosed you will find 1 original and 6 copies of the "Response to Commission Staff's Interrogatories and Requests For Production of Documents to Joint Applicants Case No. 2005-00073".

If you need any additional information, Please let me know.

Sincerely yours,



Jerome A. Kanney, CPA

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Response to Commission Staff's Interrogatories and Requests

For Production of Documents to Joint Applicants

Case No. 2005-00073

1. Describe the due diligence review that the Joint Applicants have undertaken in conjunction with their offer to purchase the stock of Sigma Gas Corporation (“Sigma Gas”).

A. Due diligence review procedures undertaken with the offer to purchase Sigma Gas Corporation included the following:

- Review of the corporate minutes of Sigma Gas.
- Review of several years of Sigma Gas’s PSC reports.
- Comparison of Sigma Gas’s rates, financial condition, and customers with other public utilities.
- Review of PSC requirements regarding the approval process.
- Search of Magoffin and Floyd courthouses for mortgages and liens.
- Review of litigation regarding Sigma Gas.
 - Civil Action #04-CF-00079 Magoffin County Extension Board and Sara Brook Jenkins vs. Sigma Gas Corporation.
 - Civil Action # 04-CF-00161 Kentucky Farm Bureau Mutual Insurance Company vs. Sigma Gas Corporation.
- Reviewing all bankruptcy filings.
- Reviewing the BTU Gas PSC case # 2004-00018.
- Meetings with
 - Estill Branham
 - Barkley Sturgill
 - Jim Pruitt-representing Mrs. Coleman.
- Analyzing GOLD’s mortgage and security agreements.

- Meeting with an attorney familiar with larger bankruptcy proceedings.
- Meeting with Sigma Gas's bankruptcy attorneys Wise, Delcotto, and Gregg.
- Attending the Bankruptcy hearing in Pikeville.
- Discussion with insurance agents to determine if liability coverage would be available for Sigma Gas.
- Investigating what other individuals, companies, or entities may be interested in Sigma Gas.
- Meeting with Estill Branham to determine the location, size, and condition of the distribution lines and placing them on topographic maps.
- With the preliminary mapping of distribution lines, determine the proximity to potential sources of gas including:
 - Leases available
 - Jefferson Gas lines
 - Kentucky West Virginia Gas lines
 - Columbia Natural Gas Resources (now Triana) lines
 - Columbia Gas Transmission line
 - East Kentucky Utilities line
 - Prestonsburg Utilities line
 - Kinzer line

* The names of the witnesses that are responsible for responding to this question are Jerry Kanney, Dennis Rohrer, and their attorneys.

2. Describe the efforts that the Joint Applicants have undertaken, if any, to determine the availability of liability insurance for Sigma Gas after the proposed transfer of control occurs and the results of those efforts. List each insurance carrier or provider that has been contacted and the carrier's response.

- Bob Branham of Select Insurance indicated that he thought General Risk of Ohio would possibly offer insurance to Sigma Gas with new ownership.
- Mike Johnson of Acordia was provided a copy of Sigma Gas's major lines in place, the bankruptcy filing, the last PSC report, and the Department of Transportation report.

He located DBG & Associates, Inc. and they offered to provide liability insurance for \$7,407.00 per year and a \$1,000,000 umbrella policy for \$2,399.46 per year. A copy of the proposal is included.

* The names of the witnesses that are responsible for responding to this question are Jerry Kanney, Dennis Rohrer, and their attorney's.

JAN-17-2005 15:11

DBG ASSOCIATES INC

Quote Number: 612

XY amw

01/17/05 06:51

Page PT: 1

DBG & Associates Inc.
119 Dillmont Drive
Suite 105
Columbus OH 43235-5695

Policy Number:

Insured:
JERRY KARNET & DENNIS ROHRER
P.O. BOX 3385

Producer: 001
Dillon Insurance Agency

PIKEVILLE KY 41502

Rating Company: Greenwich Insurance Company

Inception Date: 01/04/05

Expiration Date: 01/04/06
Policy Type: Oil & Gas

Policy Totals:

General Liability	\$1,000,000 CGL	\$6,997.00	(7) Pollution Hazard included at \$100,000
Premises/Operations		\$4,637.00	
Owners, Contractors Protective		\$259.00	
Contractual		\$1,609.00	
Broad Form CGL		\$453.00	
Broad Form FD		\$39.00	
Commercial Auto		\$201.00	
Inland Marine Extension		\$100.00	
Kentucky Surcharge Tax		\$109.00	
Total Premium Amount		\$7,407.00	

JAN-17-2005 15:11

DBG ASSOCIATES INC

1/18/05
To: Jerry Kanney
Dennis Rohrer

MEMORANDUM

DBG & Associates, Inc.
119 Dillmont Drive Suite 105
Columbus, Ohio 43235
Phone: 614-846-1706
Fax: 614-846-1338

4376040 FAX

Date: January 17, 2005

To: Hemann, Dillon Insurance Agency

From: Kathy Will
DBG & Associates, Inc.

Re: Jerry Kanney & Dennis Rohrer
Quote

Attached is the quote for Jerry Kanney & Dennis Rohrer.
Please note Property Damage for (z) Pollution Hazard is
included at the limit of \$100,000.

Package	\$7,298.
Ky Sur Tax	109.
	\$7,407.
\$1,000,000 Umbrella	\$2,364.
Ky Sur Tax	35.46
	\$2,399.46

KC4 - Full - Limit

This quote is subject to a favorable inspection.
Please let us know if you have any questions.

Kathy

To: Judy & Mike

606-432-2169

3. Describe the Joint Applicants' intentions in the event that the proposed transfer of control is approved and no liability insurance coverage is obtainable.

- Although liability insurance is available for Sigma Gas, in the event no liability insurance would be theoretically available, the Joint Applicants could theoretically consider the following:
 - Transfer assets to Dema Gas, Inc., and/or Cow Creek Gas Inc. and Interstate Natural Gas Company. These entities have liability insurance in effect.
 - Arrange through Auxier Road Gas Company to continue liability insurance currently in effect.
 - Contract with another company with liability insurance to operate Sigma Gas and add Sigma Gas as an "additional insured" to the policy.
 - Investigate if this insurance coverage is available through the mortgagor GOLD. Often a mortgagor will have made arrangements with an insurance carrier to find insurance for its mortgagee when a mortgagee does not provide proof of insurance.

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4. At the first page of their application, Joint [REDACTED] applicants state: "Kanney and Rohrer desire to take Sigma Gas Corporation out of [REDACTED] bankruptcy and resume operation as a corporation. Because of the bankruptcy laws and procedures, it became necessary to purchase the stock of the existing shareholders in order to bring the existing corporation out of bankruptcy. Once the corporation's ownership transfer is approved by the PSC, Kanney & Rohrer can then file the necessary paperwork with the Bankruptcy Court to amend the bankruptcy filing toward the goal of restoring Sigma Gas Corporation as a viable operating entity."

A. List and describe the amendments the Joint Applicants intend to make to Sigma Gas's bankruptcy filing should the Commission approve the proposed transfer of control.

- The Joint Applicants are strongly considering changing the bankruptcy filing from a Chapter 7 to a Chapter 11 proceeding.
- Consideration is also being given to assigning to lawsuit plaintiffs, claims against entities involved in earth mining, excavation, and sewer line installation on property where the Extension Agency Building Explosion occurred. The construction and installation may have damaged the Sigma Gas distribution system.
- Consideration is in process to move litigation from Magoffin County Circuit Court to Bankruptcy Court.

B. (1) State whether the Joint Applicants have developed a business plan for Sigma Gas once that corporation emerges from bankruptcy. The Joint Applicants have not yet developed the formal business plan required to be filed under a Chapter 11.

reorganization plan. Our attorneys have advised us that such an action can only be done after the PSC ownership transfer application is approved. Submission of such a business reorganization plan would be directing the policies of a utility and could violate KRS 278.020(C)

(2) If yes, describe the business plan.

(3) If no, state when the Joint Applicants expect to develop a plan and explain why a plan has not yet been developed.

- The Joint Applicants would work with Sigma Gas Bankruptcy Attorneys to finalize a business plan to submit to the Bankruptcy Court Judge for consideration and approval once the ownership transfer is approved by the PSC. Our attorneys have advised us that development of a business plan for the Bankruptcy Court may not be done until ownership transfer is granted by the PSC since the Joint Applicants have no present authority to control and operate.

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5. At page 12 of their Application, Joint Applicants state: “Kanney and Rohrer intend to continue the service provided by Sigma Gas with existing personnel and/or personnel from Interstate Natural Gas Company and affiliates, and/or new employees.”

a. Describe how the Joint Applicants intend to allocate salaries between Interstate Natural Gas Company (“Interstate”) and its affiliated companies.

- It is planned that Sigma Gas be charged for hours worked at reasonable industry rates where practical for field personnel. Reasonable industry administrative charges will be billed for other work.

b. List and describe all other costs that Sigma Gas will share with affiliated companies. Describe the methodology that Joint Applicants intend to use to allocate shared costs between the affiliated companies.

- Other costs for operating supplies, equipment, vehicles, etc, will be charged on a usage basis at reasonable industry rates.

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7. Refer to Joint Applicants' Application, Exhibit A-Transfer of Stock Agreement between Joint Applicants and Estill Branham. Describe the "value received" that Joint Applicants provided to Mr. Branham for his outstanding shares of Sigma Gas.

- On December 22, 2004, Mr. Branham indicated he had previously offered \$150 per share to purchase Mrs. Conley's shares and was not successful in purchasing her shares. He then indicated he would take \$150 per share (\$15,000) for his stock (10% of outstanding shares), but he didn't mind staying in and not selling. Mr. Branham agreed to take an option for 60 days to buy his stock.
- After 90% of Sigma Gas stock was obtained, with the advice of attorneys, it was decided that the prudent thing to do was exercise the option to gain 100% of the stock to streamline the forthcoming PSC and bankruptcy proceedings. Mr. Branham was the President of Sigma Gas and Auxier Road Gas, and Auxier Road Gas had a contract with GOLD to operate Sigma Gas. The prudent thing to do was acquire his stock, and proceed in PSC proceedings and Bankruptcy Court proceedings and thereafter with 100% of the stock.

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8. Describe the Joint Applicants' intentions regarding changes to Sigma Gas's rates for the first 24 months following any transfer of control.

- As part of its application, the Joint Applicants indicated no changes to rates requested for the first 12 months. For the 13th to the 24th months, the Joint Applicant's intentions regarding rates are dependent upon many factors including the number of customers Sigma Gas has. The resolution of the BTU Gas PSC case has a significant bearing on the Joint Applicant's plans.

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9. List and describe all meetings and discussions that Joint Applicants have had with Salyersville officials and Magoffin County officials regarding the proposed transfer of control.

- The Joint Applicant's have not met with Salyersville or Magoffin County elected officials regarding the proposed transfer of control.
- One discussion occurred with Salyersville Mayor Stan Howard on November 11, 2004. The Mayor was informing us that Sigma Gas's assets were going to be sold in a bankruptcy bid process. He indicated that there was a bankruptcy hearing scheduled in Pikeville soon, and he did not want to have any interruption of gas to the city because of the bankruptcy filing.
- Subsequently we learned the City of Salyersville itself was planning to submit a bid for Sigma Gas's assets.

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10. State the Joint Applicants' intentions regarding the payment of Sigma Gas's present loan with the Governor's Office of Local Development after approval of the proposed transfer of control.

- The Joint Applicants plan to follow Bankruptcy Court procedures regarding secured creditors. The Joint Applicants believe they have a good repore with GOLD and anticipate an acceptable plan for repayment is forthcoming.

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11. Describe the Joint Applicants' efforts to verify size, type, and nature of Sigma Gas's existing distribution facilities.

- Initially, Estill Branham met with Mr. Kanney and the major distributions were placed on topographic maps.
- On Monday, December 27, 2004, The Joint Applicants traveled the distribution system in Floyd and Magoffin Counties and a proposed line in Johnson County. Estill Branham showed us the gas purchase meter station, distribution lines, and customer meters. He indicated line sizes and discussed potential future expansion areas and customers taken by BTU Gas.

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12. Describe the changes, if any, that Joint Applicants would implement to Sigma Gas's procurement practices if the proposed transfer is approved.

- Sigma Gas currently purchases gas from Auxier Road Gas Company. The gas is received from a tap on 1) Columbia's "P" Transmission line and 2) a tap on Kentucky West Virginia Gas Company's gathering system. The gas then goes through Auxier Road Gas's main distribution line and is purchased from Auxier Road Gas. Auxier Road Gas adds \$0.20/MCF to deliver the gas to Sigma Gas.
- After the anticipated Chapter 11 Bankruptcy plan is approved, the Joint Applicants are considering having Sigma Gas purchase natural gas from alternate sources. These sources could include the following:
 - Interstate Natural Gas Company supplies delivered from Columbia Gas Transmission through Auxier Road Gas. Mr. Branham has indicated Auxier Road Gas would continue to deliver gas to Sigma Gas.
 - New wells to be drilled by Interstate Natural Gas Company in Floyd, Johnson, and Magoffin Counties along or near Sigma Gas's lines.
 - Interstate Natural Gas Company supplies delivered from various pipelines which could include:
 - Jefferson Gas Transmission
 - Kentucky West Virginia Gas Company
 - Columbia Natural Resources
 - Equitable Gathering Line

These supplies would avoid the \$0.20/MCF Auxier Road delivery charge.

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