

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE JOINT APPLICATION OF SIGMA )  
GAS CORPORATION AND SALYERSVILLE )  
GAS COMPANY, INC. FOR APPROVAL OF ) CASE NO. 93-349  
THE ACQUISITION OF THE ASSETS OF )  
SALYERSVILLE GAS COMPANY, INC. )

O R D E R

IT IS ORDERED that Sigma Gas Corporation ("Sigma") and Salyersville Gas Corporation, Inc. ("Salyersville Gas") shall file on or before October 15, 1993 the 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 if a public hearing is held. Careful attention should be given to copied material to ensure that it is legible. If any information requested herein has been previously placed in the record of this proceeding, reference may be made to the specific location of said information in responding to this information request.

The following information shall be provided by Sigma:

Please refer to the Application filed September 24, 1993.

1. Provide the accounting entries to be made on Sigma's books once the purchase is completed. Entries must be in conformity with the Uniform System of Accounts ("USoA").

2. Provide a projected 12 month income statement in accordance with the USoA for Sigma reflecting the anticipated revenues and expenses for annual operations under the new ownership.

3. Disclose any interests the shareholders of Sigma have in any joint venture, sole proprietorship, or corporation which is likely to be doing business with Sigma.

4. Disclose any interests the shareholders of Sigma have in the following entities: 1)Devco Energy, Inc.; 2) Equitable Resources Exploration; 3) Cobra Oil and Gas; 4)CanAm; 5) KISU Service Company

5. Provide information which demonstrates that Sigma can generate adequate revenues to service the proposed debt, pay on a timely basis its purchased gas costs, and pay its operation and maintenance expenses.

6. Will the transfer of the utility assets of Salyersville Gas to Sigma have any effect on the consumers of Salyersville Gas? Explain. Will service quality remain the same or improve? Explain.

7. Provide any financial statements provided to Sigma by Salyersville Gas or any other entity prior to the agreement to purchase.

8. According to the Articles of Incorporation of Sigma filed with the joint application, 1,000 shares of common stock are

authorized. Provide information on the number of shares of stock currently issued, the names of the stockholders, the number of shares held by each, the par value of the stock, and the amount paid for the stock.

9. If any stockholder of Sigma has provided cash or other assets to cover start-up costs for the corporation, provide information on the amount of the contribution and the method of accounting for it.

10. In reference to the pro forma balance sheet filed in Tab 11, provide a detailed explanation for the negative \$20,000 equity investment. Include with this response copies of the unvalued contracts referenced in footnote 3.

11. Again referring to Tab 11, provide copies of any invoices supporting the \$20,000 accrued payables.

12. In reference to Tab 7, Page 2, provide the following:

a. Justification for the base management fee of \$10 per billing month for each customer of Sigma.

b. Explain the basis for the escalation built into the management contract between Sigma and the manager in which compensation increases from \$2,200 the first year to \$3,500 ( a 60 percent increase) at the beginning of the third year.

13. In reference to Tab 7, Page 3, Sigma states that it will be responsible for transmission and distribution materials, supplies, meters, pipe, compressors, regulators, repair or replacement parts and other necessary equipment and any special equipment. Provide the following:

a. From whom will Sigma purchase these materials and supplies?

b. Has Sigma established a policy that will ensure that these purchases will be made at the lowest possible cost? If yes, provide a copy of this policy.

14. At tab 7, Sigma has presented a copy of the management contract it has entered into with the manager.

a. In paragraph 3 of the contract, it is stated that "[A]ny extraordinary expense above \$1,500.00 shall require the written approval of Sigma or its designated representative." Who would be the "designated representative"?

b. In paragraph 4, Confidentiality, will Sigma include an exception for any regulatory body, including the Commission?

15. According to the management contract filed at Tab 7, Page 2, the manager is authorized to make all decisions regarding day-to-day operations and finances of the utility. However, the Articles of Incorporation filed at Tab 10, page 2 state that certain utility action requires an 80 percent shareholder consent. Explain what actions require the 80 percent shareholder consent and how this will affect the manager's ability to operate the system.

16. At tab 3, paragraph 1.C, Purchase of Assets, reference is made to the "Highway 114" pipeline.

a. What is the status of the adversary proceeding in Court to clarify ownership of this pipeline?

b. What percentage of the gas system's load for the period October 1, 1992 through September 30, 1993 is represented by the customers who are currently connected to this pipeline?

c. What would be the economic impact on Sigma if this load were lost due to a determination that Salyersville Gas does not have title to this pipeline? Please be specific.

17. At tab 6, paragraph 5, Sigma identifies its gas supply sources as local production, Devco Energy, Inc. ("Devco") and Equitable Resources Exploration ("EREX").

a. Who are or will be the sources of local production, and delivery of natural gas to Salyersville Gas customers? For the parties identified how much gas (Mcfs/month) has each provided to Salyersville Gas during the period October 1, 1992 through September 30, 1993?

b. Also at paragraph 5, Sigma states that these gas supply sources are sufficient for "peak load times." Based upon the period October 1, 1992 through April 30, 1993, what was the average winter day load and the peak winter day load (and the day it occurred) for Salyersville Gas?

c. For the period October 1, 1992 through September 30, 1993, provide the amount of gas sold by Salyersville Gas, by month, separated into residential and commercial classes.

18. At tab 8, Sigma has presented a copy of the gas supply contract it has entered into with Devco.

a. In paragraph 3, the price is subject to change due to market conditions. Define "market conditions," referencing any sources that will be used to determine a fair market price.

b. For what period of time will the stated price of \$3.10 be effective?

c. With what frequency will the price be subject to change?

d. With regard to paragraph 5, has Devco's gas been tested for its quality and BTU content, and does the BTU content meet the requirements of the tariff currently on file with the Commission? Provide a copy of any test results performed.

e. Paragraph 6 states that all residential and commercial customers in Magoffin County belong to Sigma. Does this include those customers currently connected to the Highway 114 line if the Court rules Salyersville Gas is not the owner of the pipeline? What about the customers of Magoffin Gas Company owned by Dan Cohen?

f. Also in paragraph 6, it is stated that the farm tap customers presently belonging to Devco and previously served by the Inland Gas Company shall belong to Sigma. Does Sigma intend to amend the Salyersville Gas tariff to reflect farm tap service, and what rate will these farm tap customers be charged? How many are there, and are the customers connected to the Cobra Oil and Gas Company's ("Cobra") pipeline included?

g. In paragraph 7, what are the "pipelines, leases, rights-of-way, and wells outside of the City of Salyersville," and

where (specifically) are they located? If in fact these are assets of Salyersville Gas, is Commission approval of the transfer of such assets necessary? If not, why?

h. With regard to paragraph 9, provide copies of whatever information Devco has provided to Sigma which support Devco's warranty and representation that it can supply the Salyersville Gas system up to 1,000,000 cubic feet of gas per day. Is this 1,000,000 cubic feet over and above the minimum 2,000 dekatherms per day which CanAm Energy Venture, a joint venture of Devco, has committed to Columbia Gas Development Corporation? To the extent Devco's supply includes gas from the Grace Howard Heirs, Well No. 1, what impact does the Allegheny Wireline Services' lien on this well have on Devco's ability to obtain gas from this well?

i. Pursuant to paragraph 10, what would be the delivered price to Sigma for any additional gas Devco purchases "from Sigma at the EREX delivery point"? As Devco has warranted that it can provide gas to Sigma up to a maximum of 1,000,000 cubic feet per day at a price of \$3.10, why should these additional purchases include an additional fee from Devco to the extent such additional purchases are used to meet Sigma's requirements up to the 1,000,000 cubic feet per day warranted by Devco? Is this "additional gas" the gas which will be provided by EREX pursuant to the contract in tab 9?

j. With regard to the additional fee to be assessed by Devco, is Sigma aware that Devco has no authority to charge such a fee absent a tariff on file with the Commission approving such a

fee? If Devco chooses not to file a tariff or the fee is otherwise not approved, what would be the impact on Sigma regarding the availability of these additional supplies?

19. At tab 9, with regard to Sigma's contract with EREX, pursuant to paragraph 5, will EREX provide gas to Sigma in excess of the forecasted volumes plus twenty-five percent without being notified by Sigma 15 days in advance?

20. Tab 16 includes test reports performed by Devco on the G-39 pipeline. These test reports apparently cover that portion of the pipeline from its connection with a Columbia Gas Transmission Company pipeline in Floyd County, westward to the point where the G-39 pipeline crosses Route 7 in Magoffin County. What is the status of pressure tests which Devco intends to perform on the remaining portion of the pipeline between Route 7 and the Cobra pipeline? As Sigma's gas supply from Devco will need to be moved through the Cobra pipeline, Sigma shall provide a copy of the pressure test results performed on the Cobra pipeline.

21. At tab 17, according to the pressure analysis performed by EREX, what impact, if any, is there on the ability to deliver 420 Mcf and maintain pressure at 53 psig on the discharge side of meter site 9F63, and maintain pressure at 30 psig in Salyersville, if the assumption of "1 well in line at 150 Mcfs" is removed?

22. Does EREX's pressure analysis depend upon the installation of a compressor? If yes:

a. Who will own the compressor, who will install and maintain it, and how much will it cost?



b. On the discharge side of the compressor, at what pressure and for how much gas will the compressor be designed to operate?

23. With regard to the map which EREX included in tab 17:

a. Who owns the pipeline which lies between the "Ky West Line" and the G-39 pipeline?

b. As this line is connected to the Kentucky West Virginia Gas Company ("Kentucky West") system, would Sigma have access to firm transportation from Kentucky West?

c. If the line depicted between the "Ky West Line" and G-39 pipeline is owned by EREX or Kentucky West, what has been represented to Sigma regarding the condition of this line and its ability to move gas provided by EREX to the G-39 pipeline?

The following questions shall be answered by Salyersville Gas:

24. Provide the closing accounting entries to reflect the sales on the books of Salyersville Gas. Entries must be in conformity with the USoA.

25. Provide a detailed breakdown of the original cost of all of the utility plant assets of Salyersville Gas as of December 31, 1990, December 31, 1991, December 31, 1992, and August 31, 1993. Indicate any items which will not be a part of the transfer.

26. Provide a depreciation schedule for all plant broken down by subaccount of Salyersville Gas as of December 31, 1990, December 31, 1991, December 31, 1992, and August 31, 1993 which reflects the accumulated depreciation to date.

27. Provide a detailed balance sheet and income statement of Salyersville Gas as of December 31, 1990, December 31, 1991, December 31, 1992 and August 31, 1993.

28. Provide a copy of the general ledger for the most recent 12-month period available of Salyersville Gas.

29. Explain who will be liable for any outstanding obligations of Salyersville Gas after the transfer to Sigma.

30. Who are the current suppliers of gas (for October 1993) to Salyersville Gas? What is the maximum amount of gas (Mcf/day) available to Salyersville Gas from each supplier? Provide supporting documentation which demonstrates this amount of gas is in fact available from each supplier.

31. If the Joint Application is not approved by the Commission what plans has Salyersville Gas made to secure an adequate and reliable supply of gas for the period October 1993 through April 1994? Explain fully.

Done at Frankfort, Kentucky, this 5th day of October, 1993.

PUBLIC SERVICE COMMISSION

  
For the Commission

ATTEST:

  
Executive Director