COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE PETITION OF BLUEGRASS GAS SALES, INC. FOR APPROVAL OF A CERTIFICATE OF CONVENIENCE AND NECESSITY TO CONSTRUCT FACILITIES, APPROVAL OF FINANCING, APPROVAL OF INITIAL RATES AND OPERATION OF A NATURAL GAS DISTRIBUTION SYSTEM	)	CASE NO. 94-433

O R D E R

IT IS ORDERED that Bluegrass Gas Sales, Inc. ("Bluegrass Gas") shall file the original and 10 copies of the following information with the Commission, with a copy to all parties of record within 14 days of the date of this Order. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets is required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6.

1. Reconcile the loan proposal totalling $147,000 as filed in the original application with the $150,000 loan discussed in the response to Item 19 of the Commission's February 22, 1995 Order. Explain the discrepancy and state the amount of the loan for which Bluegrass Gas is seeking Commission approval.

2. Provide the amortization schedule for the proposed loan as requested in Item 20 of the Commission's February 22, 1995 Order. The schedule should be prepared to reflect the interest rate available at the date of this Order.

3. Provide a copy of the loan documents to be executed between Bluegrass Gas and its lender.

4. Concerning the proposed loan, will the interest rate be 10 percent as stated in the application or 2 percent above prime as stated in the response to Item 20 of the Commission's February 22, 1995 Order? Explain the discrepancy and provide documentation to support the correct interest rate.

5. Refer to the response to Item 9(c) of the Commission's February 22, 1995 Order.

a. Who currently owns the distribution system assets that Bluegrass Gas is proposing to purchase for $22,000?

b. How many customers are currently being served by the existing distribution system?

c. How old is this system?

d. What is the original cost of this system?

e. What rate(s) is currently being charged to the existing customers?

f. Is the rate(s) a tariffed rate or a contracted rate? If it is a contracted rate, is the contract assignable? Provide copies of the contracts.

g. Provide the sale/purchase agreement.

h. Is the system currently classified as a gathering system?

6. Refer to the response to Item 27 of the Commission's February 22, 1995 Order. Provide the following:

a. The basis for the estimate that 90 percent of the propane customers will convert to natural gas.

b. Documentary evidence supporting the projection that there are over 300 potential customers using propane along the proposed distribution system route.

7. Has Bluegrass Gas done any surveying beyond the preliminary questionnaire which asks if the person would be interested in having natural gas available in the area? If so, provide copies of the surveys completed.

8. Has Bluegrass Gas contacted any individuals from the survey list in Exhibit 9 of its April 14, 1995 response to determine their level of interest in gas service? If so, describe the results of these contacts.

9. How many of the potential customers who signed the survey provided in the response to Item 27 of the Commission's February 22, 1995 Order use the following energy sources for heating purposes: electricity, propane, wood and other?

10. Provide an estimate of the cost to convert a house to natural gas from each of the heating sources listed in Item 9 above.

11. Is Lillian Parsons, identified as President of Mammoth Petroleum, Inc. in Exhibit 3 of the response to the Commission's February 22, 1995 Order, related to Jadie Parsons? If so, why was this relationship not disclosed in the response to Item 16(a) of the Commission's February 22, 1995 Order?

12. Refer to the response to Item 15 of the Commission's February 22, 1995 Order. State what portion of the insurance premium is being separately allocated to Bluegrass Gas and Natural

Gas of Kentucky ("Natural Gas"). Include with this response the basis for the allocation.

13. In the course of its negotiations with Natural Gas has Bluegrass Gas sought to establish a transportation rate that fairly compensates it for the use of an existing pipeline that already serves other customers? Were the pipeline's costs and the revenue contributions of other customers considered?

14. Since Bluegrass Gas's expected gas cost has changed, is it proposing different retail rates? If so, what are they?

15. Refer to Note J to the financial statements included as Exhibit 2 of the application and to the response to Item 9(c) of the Commission's February 22, 1995 Order. Are the "Glasgow Customers" reported as a $12,500 component of the construction costs listed in Note J related to the $22,000 purchase price referred to in the Item 9(c) response? If no, explain. If yes, reconcile the cost numbers.

16. Refer to the responses to Items 16(c) and 17(a) of the Commission's February 22, 1995 Order. Item 16(c) indicates that Bluegrass Gas will share office space with only Natural Gas. However, the response to Item 17(a) indicates there are 3 entities sharing space. Explain who is sharing office space with Bluegrass Gas.

17. In the response to Item 17(a) of the Commission's February 22, 1995 Order, it is stated that Bluegrass Gas will be charged 25 percent of the yearly rental expense of $3400 which equals $850. However, Note D to the financial statements included

as Exhibit 8 of the response to the Commission's February 22, 1995 Order shows Bluegrass Gas with a yearly rental charge of $1200. What is the true proposed rental cost? Provide any lease contracts Bluegrass Gas has entered into or will enter into for this office space.

18. Refer to the response to Item 17(d) of the Commission's February 22, 1995 Order. Why should Bluegrass Gas be allocated office expenses (i.e. supplies) from other companies instead of invoicing and purchasing its own supplies?

19. Refer to the response to Item 17(g) of the Commission's February 22, 1995 Order. Has Bluegrass Gas considered leasing its own vehicle? If no, why not? If yes, provide an analysis demonstrating that renting a vehicle from Mammoth is in the best interest of the utility.

20. Refer to the responses to Items 16(d), 16(e), 17(h), 17(i), and 17(j) of the Commission's February 22, 1995 Order. Provide the information as originally requested.

21. Refer to Note D to the financial statements included as Exhibit 8 of the response to the Commission's February 22, 1995 Order. 807 KAR 5:016, Section 4, disallows promotional advertising as an expense of a utility for ratemaking purposes. In light of this, explain why the advertising expense so described in Note D has been included in this application.

22. Refer to the response to Item 17(k) of the Commission's February 22, 1995 Order. Provide the depreciation workpapers.

23. Refer to Note D to the financial statements included as Exhibit 8 of the response to the Commission's February 22, 1995 Order. Provide documentation to support the actual costs incurred to date in preparation of the application.

24. Refer to Note F to the financial statements included as Exhibit 8 of the response to the Commission's February 22, 1995 Order. Has management contributed the $30,000 in capital necessary to initiate the operations?

25. Refer to Note D to the financial statements included as Exhibit 8 of the response to the Commission's February 22, 1995 Order. The following operating expenses have been estimated by management as a percentage of sales: maintenance of lines, uncollectible accounts, accounts payable and accounts receivable. Explain why management believes these estimates to be reasonable.

Done at Frankfort, Kentucky, this 24th day of May, 1995.

PUBLIC SERVICE COMMISSION

For the Commission

ATTEST:

Executive Director