

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE PETITION OF SIGMA GAS CORPORATION
FOR ADJUSTMENT OF RATES

) CASE NO.
) 98-244

O R D E R

IT IS ORDERED that Sigma Gas Corporation ("Sigma") shall file no later than July 6, 1998 an original and 8 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. Refer to the Pro Forma Income Statement in Exhibit 4 of the Application. For each Income Statement expense account listed below, as of test-year-end, prepare a breakdown of the expense showing the date of the expenditure, vendor or payee, and

a brief description of each expenditure. Provide the Uniform System of Account ("USOA") numbers in which the costs were recorded.

- a. Contract Labor.
- b. Computer Billing.
- c. Uncollectable Accounts.
- d. Outside Services Employed.
- e. Insurance.
- f. Miscellaneous General Expense.
- g. Transportation Expense.
- h. Service Supplies & Expenses.

2. Refer to the Summary Schedule in Exhibit 4 of the Application. Provide a schedule showing how Working Capital of \$40,634 was calculated.

3. Refer to the Summary Schedule in Exhibit 4 of the Application. Justify using a 12 percent rate of return on investment. Explain why Sigma feels that a 12 percent return on investment is reasonable given the financial condition of the utility.

4. Sigma has requested a return of 12 percent on Net Investment Rate Base of \$1.23 million. Sigma has indicated that it intends to refinance outstanding debt in the amount of \$1.5 million. Explain how Sigma can retire \$1.5 million of debt with a 12 percent rate of return on \$1.23 million.

5. Refer to the Summary Schedule in Exhibit 4 of the Application. Explain the following indebtedness, providing a description of terms and conditions and the purpose of the indebtedness. Provide the date of inception, any increases to the debt

and a schedule of payments for the past 3 years. Provide the case number of the order approving the indebtedness.

- a. DLG – 1st Mortgage, \$647,198.
- b. DLG – 2nd Mortgage, \$156,821.
- c. Bank Josephine, \$70,000.

6. Refer to the Summary Schedule in Exhibit 4 of the Application. Provide a breakdown of the following items. Include in this breakdown the date of the expenditure, the amount, the accounts charged, and the purpose of the expenditure. Discuss how the terms relating to the indebtedness were determined.

- a. Equitable Resources, \$199,788.
- b. KISU Service Company, \$219,416.
- c. Accounts Payable, \$130,006.

7. Refer to Exhibit 4 of the Application, Rent Adjustment. Justify the \$250 increase of rents of utility easements.

8. Refer to Exhibit 4 of the Application. Explain and justify how Sigma determined the percent increases for the following adjustments:

- a. 15% increase to Service Supplies and Expenses.
- b. 5% increase to Mains and Service Labor.
- c. 5% increase to Meter Reading Labor.
- d. 5% increase to Accounting and Collecting Labor.
- e. 5% increase in General and Administrative Salaries.
- f. 15% increase in Office Supplies and Expense.

9. Refer to Exhibit 4 of the Application, General & Administrative Salaries. Explain why the 5 percent increase to General & Administrative Salaries was calculated based on salaries of \$21,500 instead of using the amount reported in the Annual Report of \$30,500.

10. Refer to Exhibit 4 of the Application, Outside Services Employed Adjustment.

a. Provide justification for the attorney fees increase of \$2,025.

b. Provide justification for the audit expense of \$2,000. Include in this explanation when the last audit was performed, who performed the audit and how much the audit cost. Also, state whether the service was an audit, compilation or review of the financial records.

11. Refer to Exhibit 4 of the Application, Amortization of Rate Case Adjustment. Provide the following information concerning the costs for the preparation of this case:

a. A detailed schedule of costs incurred to date by Sigma for the rate case. Include the date of the transaction; check number or other document reference, the vendor, amount, a description of the services performed, and the USOA number in which the expenditure was recorded. Include copies of invoices received from the vendors.

b. An itemized estimate of the total cost to be incurred, detailed explanation of how the estimate was determined, and all supporting workpapers and calculations.

c. Monthly updates of the actual costs incurred during the course of this proceeding, in the manner prescribed above.

12. Refer to Exhibit 4 of the Application, Insurance Adjustment.

a. Explain the increase in workers' compensation of \$2,656 and insurance of \$2,778 on utility truck nos. 1 and 2 and provide workpapers supporting the adjustment.

b. Provide copies of the policies showing the increase in insurance for the trucks.

13. Refer to Exhibit 4 of the Application, Office Rent Adjustment.

a. To whom does Sigma pay office rent?

b. Provide the amount of office rent paid by Sigma for the past 3 years.

c. What is included in the office rent expense?

d. Provide a copy of the lease of the rental office space for the test year.

e. Justify the rent increase.

14. Refer to Exhibit 4 of the Application, Office Rent Adjustment. If any of the office space is shared with another business, provide the following:

a. With whom the office space is shared.

b. How rent is allocated.

15. Refer to the Debt Refinance Schedule in Exhibit 4 of the Application. To what does "Debt Refinance" refer?

16. Refer to Exhibit 4 of the Application. Is the increase being requested \$193,574 or \$84,347? Explain the discrepancy between the two numbers.

17. Refer to Exhibit 4 of the Application, Loss on Sale of Equipment Adjustment. Describe what type of equipment was sold and provide the corresponding accumulated depreciation.

18. Refer to the Adjustment Schedule in Exhibit 4 of the Application.

a. Explain why the Equitable Resources debt of \$193,805 and the KISU Service Company debt of \$219,416 was "transferred" to Notes Payable.

b. Explain why Accounts Receivable of \$91,392 was deducted from Accounts Payable.

c. Explain the proposed amortization of Accounts Payable of \$130,006 over a 3-year period.

d. Explain why only \$193,805 of the Equitable Resources debt was "transferred" to Notes Payable.

19. Refer to Exhibit 4 of the Application, Payroll Tax Expense Adjustment. Explain the \$2,668 used in the calculation of the adjustment.

20. Provide the following:

a. A schedule of salaries and wages for the test year and each of the 3 calendar years preceding the test year as shown in Format 19, attached. For each time period, provide the amount of overtime pay.

b. A schedule showing the percentage of increase in salaries and wages for the test year and the 3 preceding years.

21. Provide the following payroll information for each employee:

- a. The actual regular hours worked during the test year.
- b. The actual overtime hours worked during the test year.
- c. The beginning wage rate and the test-year-end wage rate for each employee and the date of the last increase.
- d. Of the employees listed, how many of them are covered by another company in relation with Sigma?

The information shall identify all the employees as either salaried or hourly, and also as either full-time, part-time, or temporary. Include an explanation of how the overtime pay rate is determined. If any employees were terminated during the test year identify (along with the month in which the termination occurred), as well as those employees who replaced terminated employees or were otherwise added to the payroll during the test year. Provide the account numbers being charged for payroll.

22. Provide the following payroll tax information:

- a. The base wages and salaries used to calculate the taxes, with an explanation of how the base wages and salaries were determined.
- b. The tax rates in effect at test-year-end.

23. Refer to the Pro Forma Income Statement in Exhibit 4 of the Application. Provide an explanation of the amortization of the gas plant. Provide the case number of the Order approving the amortization of gas plant.

24. Refer to the Pro Forma Income Statement in Exhibit 4 of the Application. Provide an explanation for the following:

- a. \$32,379 adjustment to Interest-Equitable Resources.
- b. (\$33,729) adjustment to Interest-DLG.

25. Provide the following:

- a. An aging schedule on Accounts Receivable as of test-year-end.
- b. An aging schedule on Accounts Payable as of test-year-end.

26. Refer to Exhibit 4 of the Application, Uncollectable Accounts. How does Sigma determine the bad debt expense?

27. Refer to Exhibit 4 of the Applications, Debt Refinance.

- a. When is refinancing to occur?
- b. Is Sigma proposing to obtain Commission approval of the refinancing?
- c. Why is Sigma refinancing its debt structure with a loan of \$1,500,000 when the balance of the debt structure is \$1,423,229?
- d. Provide the terms and conditions of the refinancing.

28. Refer to the Pro Forma Income Statement in Exhibit 4 of the Application.

Provide an explanation for the following:

- a. Amortization of organization costs of \$1,522.
- b. Amortization of loan costs of \$270.

29. Refer to Exhibit 4 of the Application, Maintenance of Meters Adjustment.

Justify the \$565 increase to Maintenance of Meters. Provide a workpaper showing how the adjustment was calculated.

30. Refer to Exhibit 4 of the Application, Transportation Expense.

- a. Provide a copy of the lease on the utility vehicle.
- b. Justify the 50% increase in gasoline for the new utility vehicle.

31. Refer to the depreciation schedule filed as Exhibit 5 of the Application. Explain why January 1997 Salaries and February 1997 payroll are included in the depreciation schedule.

32. Refer to the depreciation schedule filed as Exhibit 5 of the Application. Reconcile the total depreciation expense and accumulated depreciation with that shown in the Balance Sheet and Income Statement for the test year.

33. Refer to page 7 of the Annual Report filed as Exhibit 6 of the Application. Explain why no interest is recorded for the test year for the two Commonwealth of Kentucky Department of Local Government loans.

34. Refer to page 7 of the Annual Report filed as Exhibit 6 of the Application and Exhibit 4. The Annual Report shows the outstanding balance of The Bank of Josephine long-term debt to be \$65,647. Exhibit 4 shows the balance to be \$70,000. Explain the discrepancy.

35. In Case No. 94-435,¹ Sigma expected to add 250 residential customers initially and ultimately 500 new customers. How many additional customers were added since the completion of the construction of the 13.5 miles of pipeline in the above case. Explain why Sigma failed to add the expected number of customers.

36. Provide the actual cost of the construction and as-built drawings as cited in the Commission Order dated August 22, 1995, in Case No. 94-435.

37. Refer to Exhibit 5 of the Application. Provide a legible copy of the depreciation schedule.

¹ Case No. 94-435, The Petition of Sigma Corporation for Approval of Certificate of Convenience and Necessity to Construct Facilities and Approval of Financing, Order dated August 22, 1995.

38. Refer to the proposed tariff sheet. Are these the only charges Sigma is proposing to charge? Is Sigma currently or is it proposing to charge any non-recurring charges?

39. Provide a comparison of an average monthly bill under existing and proposed rates. Show all calculations.

40. Why has Sigma provided two projected analyses of revenues in the billing analysis? If Sigma is proposing a rate of \$11.25 per Mcf for consumption over 1 Mcf, why does it also show a computation of revenues using \$8.60 per Mcf?

41. Why is Sigma using projected customer numbers in its billing analysis? How many customers did Sigma have at the end of the test year? How many customers does it currently have?

42. Why did Sigma use the rates \$7.17 for its minimum bill and \$6.85 for over 1 Mcf as its current rates in its billing analysis, comparative tariff sheet, and customer notice? Why did it not use its most current approved rates? Prepare a billing analysis using the current rates approved for Sigma (\$6.2460 and \$5.3160 per Mcf).

43. Explain the \$6,024.15 in penalties and \$4,306.00 in other income which are included under Other Gas Revenues.

44. Why did Sigma include gas purchases of \$127,315 rather than normalizing purchased gas expense for the most recently approved gas cost?

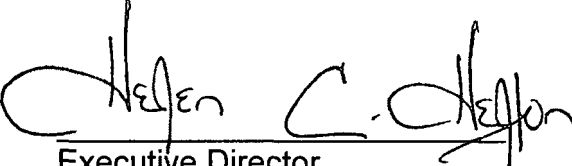
Done at Frankfort, Kentucky, this 18th day of June 1998.

PUBLIC SERVICE COMMISSION



For the Commission

ATTEST:



Executive Director

SIGMA GAS CORPORATION

CASE NO. 98-244

Analysis of Salaries and Wages
For the Calendar Years 19 Through 19
And the Test Year
(000's)

12 Months Ended

Line No.	Item (a)	Calendar Years Prior to Test Year						Test Year				
		3rd		2nd		1st						
		Amount (f)	% (g)	Amount (h)	% (i)	Amount (j)	% (k)		Amount (l)	% (m)		
13.	Ratio of salaries and wages capitalized to total wages (L.10 ~ L.11)											

NOTE: Show percent increase of each year over the prior year in Columns (c), (e), (g), (i), (k), and (m).