COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF BLAZER ENERGY CORP., INC., A WHOLLY OWNED SUBSIDIARY OF EASTERN STATES OIL & GAS, INC., TO ADJUST RATES	)))	CASE NO. 98-489

ORDER

IT IS ORDERED that Blazer Energy Corp., Inc. ("Blazer") shall file the original and 10 copies of the following information with the Commission. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a response requires multiple pages, each page should be indexed appropriately, for example, Item 1(a), page 2 of 4. With each response, include the name of the witness who will be responsible for responding to questions related thereto. Careful attention should be given to copied material to ensure that it is legible. The response to this request is due December 11, 1998.

1. Assuming that calendar year 1997 is the 12 month period upon which Blazer is basing its application, provide the Mcf volumes related to sales to KRS 278.485 customers for this period. Set out sales to the 370 right-of-way customers separately.

2. Refer to Blazer's response to Item 2 of the Commission's November 5, 1998 Order. Is Blazer expecting to charge an increased rate to right-of-way customers

immediately upon receiving an Order from the Commission? Or will Blazer wait until the final order of the United States Court of Appeals? When is such an order expected?

3. Page 3 of Blazer's September 9, 1998 application refers to an appeal of the Opinion and Order of the United States District Court, Eastern District of Kentucky to the United States Court of Appeals for the 6th Circuit. Is the contractual status of the right-of-way customers under appeal?

4. Provide Blazer's proposed revenues and expenses with the service to right-of-way customers removed. Include with the response all details of the amounts removed for the right-of-way customers and how the amounts were determined.

5. If Blazer served no KRS 278.485 customers, would it still have incurred the $827,198 in Total District Expenses as shown on Schedule 3.3 of Attachment A of its Application? For example, would Blazer still use compression to extract gas from low pressure reservoirs absent the requirement to serve KRS 278.485 customers?

6. Refer to Blazer's response to Item 5 of the Commission's November 5, 1998 Order. Explain why The Eastern Group, Inc. ("Eastern Group") does not maintain separate records, including a balance sheet and income statement for Blazer. If the information is not available for the 12 months ended December 31, 1997, explain the source of the information used to calculate the Non Gas Costs in Attachment A to the application. Provide a copy of the balance sheet and income statement used in preparation of the Consolidated Financial Statements of Eastern Group for December 31, 1997.

7. Explain how the Commission can verify the accuracy of the financial information used to support the rate increase in this case without any supporting financial statements for Blazer.

8. Refer to Blazer's response to Item 7 of the Commission's November 5, 1998 Order. Explain why it is reasonable to allocate the costs based on the percentage of estimated peak daily volumes to estimated total system volumes. Discuss other allocation methods considered by Blazer and explain why this method was deemed to be the best method. Provide the same explanation for each item included in the Non Gas Costs included in Schedule 1 of Attachment A to the Application.

9. Refer to Blazer's response to Item 17 of the Commission's November 5, 1998 Order. Is the $7.16 million, identified as the total cost of pipeline system in Kentucky, the amount recorded as an asset on the books of Blazer and the amount used by Blazer as the basis for tax depreciation? If no, provide the total cost of the pipeline system in Kentucky recorded on the books of Blazer at December 31, 1997. Also provide the amount used as the cost basis for tax purposes along with a copy of the depreciation schedule filed with the 1997 tax return.

10. Refer to Blazer's response to Item 17 of the Commission's November 5, 1998 Order.

a. Explain how the $2.00 per foot of pipeline used to determine the $7.16 million total cost of the pipeline system in Kentucky was determined.

b. Is the entire pipeline used to serve the domestic customers the same size pipe? If not, explain how the assumption that all pipe is valued at $2.00 per foot is correct.

c. How was the 15-year life determined? Why was the pipeline depreciation limited to 15 years?

d. Was any of the pipeline installed more than 15 years ago? If so, how much?

11. Refer to Blazer's response to Item 17 of the Commission's November 5, 1998 Order. Does Blazer maintain any continuing property records for the assets acquired through the stock purchase or for assets added since the acquisition? Explain the records available for each type of asset.

12. Explain why it is reasonable to allocate the cost of pipeline assets to the domestic customers based on the percentage of estimated peak daily volumes to estimated total system volumes.

13. Were any of the lines used to supply domestic customers constructed solely for the purpose of supplying retail service or are all customers connected to gathering lines used to transport gas from the well to the pipeline?

14. Refer to Blazer's response to Item 18 of the Commission's November 5, 1998 Order. Explain how the rate of return on equity of 12 percent was determined to be reasonable for Blazer. Does Blazer have any outstanding debt? If so, provide a schedule reflecting the date of issue, amount outstanding at December 31, 1997, and the associated interest rate for each note, bond or other long-term obligation.

15. Refer to Blazer's response to Item 7 of the Commission's November 5, 1998 Order and Schedule 3.1, 3.2, and 3.3 of Attachment A to the Application.

a. Explain how the "% of Time Working in Pikeville-Domestics" was determined for the various employees included in the wages and benefits costs.

b. Explain why salaries for employees classified as Well Tender and Superintendent Production should be included in the cost to serve the domestic customers.

c. Explain why the Contract Professionals expense of $4,200 for a Contract Landman should be included in the cost to serve the domestic customers.

d. Explain how the Rate/Legal Fees were determined and why they should be included in the cost to serve the domestic customers. Provide copies of invoices supporting these amounts.

e. Explain why all of the costs included on Schedule 3.3 should be allocated on the percentage of estimated peak daily volumes to estimated total system volumes.

16. What is included in "Domestic Customer Expenses"?

17. Refer to Attachment A, Schedule 3.1C of Blazer's application. What are the allocated salaries of the personnel in the Pikeville district?

18. How many KRS 278.485 customers has Blazer hooked up in each year 1994 through 1998? Does Blazer anticipate adding additional new customers during 1999?

19. How many gas wells require compressors for extraction of low pressure gas and what is the percentage of these wells to the total number of productive wells?

20. Explain the type and the costs of processing plants operated in Blazer's system to provide gas for Columbia Gas Transmission ("TCO").

21. Are the materials provided by Blazer to its residential customers limited to the residential meters?

22. Are the main compressors referred to in response to Item 15 of the Commission's November 5, 1998 Order installed to provide high pressure gas to meet TCO's pipeline pressure? If so, why should the KRS 278.485 customers share the costs of high pressure compressors?

Done at Frankfort, Kentucky, this 4th day of December, 1998.

PUBLIC SERVICE COMMISSION

B. J. Helton

For the Commission

ATTEST:

Helen C. Helton

Executive Director