DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER OF THE APPLICATION OF DEACTIVATION OF PIPELINE SERVICE FOR FIVE VALLEYS GAS CO. AT SEELEY LAKE, MT	UTILITY DIVISION Docket No. D2015.3.31

FIVE VALLEYS GAS CO CO.'S RESPONSES TO THE MONTANA CONSUMER COUNSEL'S DATA REQUESTS MCC-001 THROUGH MCC-010

MCC-001

Regarding: Comparison Income Statements
Witness: Guay

Please define and give an example of the line item, "Propane Incident costs." Why has this line item not been included before?

RESPONSE:

On October 31, 2014, Five Valleys Gas experienced an emergency pipeline incident. I decided to create a line item designed to track all costs and expenses for this specific event separate from all other line items for ease of tracking and comparison in the future.

Each of the expenses included in the line item are unique to the October 31, 2014 event. The majority of the costs are related to bringing in employees on an emergency basis to re-hook up Five Valleys Gas customers after the pipeline had been shut down.

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MCC-002

Regarding: Comparison Income Statements
Witness: Guay

Please explain and provide supporting documentation of how each of the numbers comprising the total $44,600 in the column "Necessary Changes", was derived. For *Depreciation Expense*, please include a depreciation schedule showing the components of the 2014 ($9,951) and revised ($17,951) depreciation expense levels.

RESPONSE:

It appears there was an error in my original spreadsheet, and certain line items did not tie together properly. The improper link created the $5,600 difference. I have now corrected this error. In addition, when reviewing the spreadsheet, I discovered a second error. I neglected to include a line item in the Necessary Costs Summary for the estimated $100,000 in professional fees and expenses we would expect to incur should we be required to initiate a contested rate case proceeding. With these two corrections, the estimated Total Necessary Costs are $141,000. I have attached revised spreadsheets with all formulas and links intact.

With respect to the question related to *Depreciation Expense*, the additional depreciation expense is the projected purchase of a used vehicle (estimated cost of $40,000) with straight line depreciation over 5 years with no salvage value ($8,000 per year). Adding $8,000 for this depreciation to $9,951 results in $17,951.

MCC-003

Regarding: Necessary expenses vs. changes
Witness: Guay

On the first page of Exhibit 1 is a list of what Five Valleys considers to be, “additional necessary expenses”, that should be included in the non-gas constant totaling $39,000. Please explain what Five Valleys believes the disposition should be of the additional $5,600 included in the “Necessary Changes” column included with the *Comparison Income Statements*.

RESPONSE:

See Response to MCC-002.

MCC-004

Regarding: Financial Statements
Witness: Guay

Please provide income statements for Five Valleys Gas for 2012, 2013, 2014 and its balance sheets as of the end of April 2012, 2013, and 2014.

RESPONSE:

Five Valleys Gas uses an accounting year of September 1 through August 31, so our financial statements are not provided on a calendar year basis.

I have included the year August 31, 2014 audited Financials and the internally prepared financial for the periods of 2012, 2013, and 2014.

Please note the audited financial statements for the period ending August 31, 2014 has a going concern audit opinion.

MCC-005

Regarding: Exhibit 1
Witness: Guay

Please provide an electronic copy of all four pages of Exhibit 1 with all formulas and links intact.

RESPONSE:

See spreadsheet attached in Response to MCC-002.

MCC-006

Regarding: Safety requirements
Witness: Thorstad

Please detail the individual safety concerns referenced toward the bottom of the page JTD-5 including the related solutions and estimated costs associated with each one. For each concern please indicate if it has to be addressed now because of currently enacted safety regulations (with citation of the requirement) or if it merely has the potential to be an actionable item in the future based on the occurrence of some events such as new regulations coming into effect.

RESPONSE:

Some of our service lines may not be buried to the currently described safe and proper depth. Some of our service lines may not marked with marking tape and / or tracer wire. To date, despite our best efforts, we have not been able to locate some lines on the pipeline. Presently, the pipeline is not looped for shut down when a leak or damage occurs consistent with current regulations. Currently, we follow NFPA 58/54 and 49 CFR part 190 - 195. Presently, we do not have any estimates for any of these costs.

MCC-007

Regarding: Comparison Income Statements
Witness: Guay

On page 4 of Exhibit 1 there is the line item, *Cubic Feet sold* – 3,436,077. Please indicate how that number was derived. Is it actual sales per month for a certain time period, an average of cumulative sales for certain time periods, etc.?

RESPONSE:

Please refer to the excel spreadsheet attached in Response to MCC-002, under the "Consumption" tab. This is the actual cubic feet by month for the period September 2013 to August 2014.

August 2014 is the last fiscal year end date that is supported by the Audited Financial Statements.

MCC-008

Regarding: Comparison Income Statements
Witness: Guay

On page 4 of Exhibit 1 there is the line item, *Change per Gallon* – August - $.02793. How was that number derived since it is added with the *Total Non Gas* constant to arrive at a *Total charge per C/F* is that actually a per cubic foot number? Is that referring to August of 2014?

RESPONSE:

Yes, that is the August 2014 rate since that is the date of the last fiscal year end. I took the non gas constant rate less the track adjustment.

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MCC-009

Regarding: Comparison Income Statements
Witness: Guay

On page 4, left hand column of Exhibit 1 it appears that income taxes of $23,833 are deducted from what is already a loss to arrive at a Net Loss figure of $37,697. Then in the right hand column on that same page there is no income tax expense deducted even though that column is projecting positive net income of $18,944. Please explain this presentation of income taxes or indicate if those columns should be adjusted to reflect no income tax expense in the left hand column and include income tax expense in the right hand column.

RESPONSE:

Five Valleys Gas maintained a deferred asset tax account and a small related deferred liability tax account. These were net income tax losses to be used against taxable income. Since Five Valleys Gas has never had a profitable year it was not proper accounting to leave unusable assets on the Balance Sheet.

MCC-010

Regarding: Customer retention
Witness: Thorstad

On lines 3-4, page JTD-7 of your direct testimony you indicate that after notifying customers of the intent of Five Valleys Gas to deactivate the pipeline, some customers requested immediate termination of their pipeline service and to be switched to bottled propane service. How many customers have been switched over to bottled propane service as of the end of June?

RESPONSE:

To date, since the filing of our Application to deactivate our pipeline system, Five Valleys Gas has disconnected eight (8) services per customer requests.

DATED this 8th day of July, 2015.

BROWNING, KALECZYC, BERRY & HOVEN, P.C.

By Kimberly Beatty
Kimberly A. Beatty

Attorneys for Five Valleys Gas Company

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CERTIFICATE OF SERVICE

I hereby certify that on the 8th day of July, 2015, a true and correct copy of the foregoing was this day e-filed and served as follows:

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Kristi Staples
BROWNING, KALECZYC, BERRY & HOVEN, P.C.

MCC-004

5 Valleys Gas Company

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

August 31, 2014

Prepared by

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5 VALLEYS GAS COMPANY
August 31, 2014

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INDEPENDENT AUDITOR'S REPORT

Owners
5 Valleys Gas Company
Missoula, Montana

Report on the Financial Statements
We have audited the accompanying balance sheet of 5 Valleys Gas Company as of August 31, 2014 and the related statement of operations, owners' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 5 Valleys Gas Company as of August 31, 2014, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter
The accompanying financial statements have been prepared assuming that the company will continue as a going concern. As discussed in Note H to the financial statements, the company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note H. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Wipfli LLP

Missoula, Montana
March 30, 2015

5 VALLEYS GAS COMPANY
BALANCE SHEET
August 31

ASSETS

		2014
CURRENT ASSETS		
Cash and cash equivalents	$	2,039
Accounts receivable, net of allowance of $2,112		1,689
Inventories		8,311
Total current assets		12,039
PROPERTY AND EQUIPMENT, NET		4,564
OTHER ASSETS		
Non-compete covenants, net of accumulated amortization of $120,962		-
	$	16,603

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	$	15,963
Accrued liabilities		4,328
Current maturities of long-term debt		3,045
Total current liabilities		23,336
LONG-TERM LIABILITIES		
Long-term debt, less current maturities		6,255
Total liabilities		29,591
MEMBERS' EQUITY		
Common stock		2,038
Additional paid in capital		266,588
Retained earnings (deficit)		(281,614)
Total members' deficit		(12,988)
	$	16,603

The accompanying notes are an integral part of these financial statements.

5 VALLEYS GAS COMPANY
STATEMENT OF OPERATIONS AND MEMBERS' EQUITY
for the year ended August 31

	2014
SALES	$ 189,422
COST OF SALES	133,979
GROSS MARGIN ON SALES	55,443
OPERATING EXPENSES	
Salaries and wages	36,000
Depreciation expense	9,951
Payroll expenses	4,464
Amortization expense	4,032
Utilities	3,494
Insurance	2,407
Safety training	2,033
Professional services	1,250
Truck expense	1,200
Other expenses	1,112
Taxes and licenses	1,076
Supplies and repairs	703
Office expense	674
Bad debts expense	151
Total operating expenses	68,547
LOSS FROM OPERATIONS	(13,104)
OTHER INCOME (EXPENSE)	
Interest expense	(760)
Income tax expense	(23,833)
Total other income (expense)	(24,593)
NET LOSS	(37,697)
MEMBERS' EQUITY - Beginning of year	24,709
MEMBERS' EQUITY (DEFICIT) - End of year	$ (12,988)

The accompanying notes are an integral part of these financial statements.

5 VALLEYS GAS COMPANY
STATEMENT OF CASH FLOWS
for the year ended August 31

	2014
CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss	$ (37,697)
Adjustments to reconcile net loss to net cash from operating activities	
Depreciation	9,951
Amortization	4,032
(Increase) decrease in	
Accounts receivable, net of allowance	(1,200)
Current deferred tax asset	23,855
Increase (decrease) in	
Accounts payable	6,398
Accrued liabilities	2,032
Deferred tax liability	(22)
Net cash from operating activities	7,349
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of equipment	(3,834)
CASH FLOWS FROM FINANCING ACTIVITIES	
Net decrease in long-term debt	(2,840)
NET INCREASE IN CASH AND CASH EQUIVALENTS	675
CASH AND CASH EQUIVALENTS	
Beginning of year	1,364
End of year	$ 2,039
CASH PAID FOR	
Interest	$ 760
Taxes	$ 50

The accompanying notes are an integral part of these financial statements.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization. 5 Valleys Gas Company was formed on April 29, 1999 and acquired by Energy Partners on July 31, 2002. The company operates a propane line serving customers in the Seeley Lake, Montana, area.

Property and Equipment. Property and equipment assets are recorded at cost. The company provides depreciation using the straight-line method over the estimated useful lives (a range of 3 to 20 years) of the assets. Depreciation expense was $9,951 for the year ended August 31, 2014.

Cash and Cash Equivalents. For purposes of the statement of cash flows, the company considers all highly liquid debt instruments purchased with a maturity of three months or less when purchased to be cash equivalents. The company maintains its cash balances at one financial institution. At times, balances may be in excess of the FDIC $250,000 insurance limit.

Inventory. Inventory consists primarily of propane, propane tanks and related appliances held for sale to customers. Inventory is valued at the lower of cost or market. Cost is determined using the first-in, first-out method of accounting.

Income Taxes. 5 Valleys Gas Company is taxed as a Subchapter C corporation. Accordingly, provisions for current and deferred income taxes are made in these financial statements.

Concentration of Credit Risk. Concentration of credit risk with respect to accounts receivable are limited due to a large number of customers, few of whom have significant balances. The company also controls credit risk through credit policies and monitoring procedures.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue Recognition. The company recognizes revenue upon delivery of propane to the customer.

NOTE B PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at cost as of August 31 were:

	2014
Equipment	$ 133,400
Less accumulated depreciation	(128,836)
	$ 4,564

Continued

NOTE C COVENANT NOT TO COMPETE

5 Valleys Gas Company entered into a 10-year covenant not-to-compete on April 29, 1999 with Pulici Propane in the amount of $120,962. Final amortization of $4,032 was expensed for the year ended August 31, 2014.

NOTE D PROVISION FOR BAD DEBT

The company provides for bad debt expense monthly based on the accounts receivable aging. As of August 31, 2014, the reserve for bad debts was $2,112.

NOTE E RELATED PARTY TRANSACTIONS

5 Valley Gas Company's accounts payable balance of $15,963 is for goods and services provided by its parent company, Energy Partners, LLC as of August 31, 2014.

NOTE F INCOME TAX MATTERS

5 Valleys Gas Company's net deferred tax (liabilities) asset was written off in 2014. Because of continued losses, management will not be able to realize the value of the asset.

NOTE G COMMITMENTS AND CONTINGENCIES

The company is a party to various legal actions and administrative proceedings and subject to various claims arising in the ordinary course of business. The company and its legal counsel believe the disposition of these matters will not have a material adverse effect on the financial position of the company.

NOTE H GOING CONCERN

The company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management believes it will be unable to reverse the financial situation, largely due to the nature of the company's sales and the fact that the company has a limited service area. All propane services are distributed through a pipeline and the customer base cannot be expanded. Management plans to take measures to close the company.

NOTE I SUBSEQUENT EVENT

Management has performed an analysis of the activities and transactions subsequent to August 31, 2014 to determine the need for any adjustments to and/or disclosure within the audited financial statements for the year ended August 31, 2014. Management has performed this analysis through March 30, 2015, the date the financial statements were available to be issued and hey have determined there are no subsequent events that require recognition or disclosure in these financial statements.

Five Valley Gas
Comparative Balance Sheets

	August 13	August 12	Change
Current Assets:			
Cash	$ 1,364	$ 3,810	$ (2,446)
Accounts Receivable	$ 2,350	$ 3,628	$ (1,277)
Allowance Doubtful Accounts	$ (1,861)	$ (3,085)	$ 1,224
Inventory	$ 8,312	$ 8,312	$ -
Total Current Assets:	$ 10,165	$ 12,664	$ (2,500)
Property Plant & Equipment:			
Property & Equipment	$ 129,566	$ 125,777	$ 3,789
Non Compete Covenant	$ 120,962	$ 120,962	$ -
Accum Depreciation	$ (118,885)	$ (109,467)	$ (9,418)
Accum Amortization	$ (116,930)	$ (108,866)	$ (8,064)
Total Property & Equipment:	$ 14,713	$ 28,406	$(13,694)
Deferred Tax Asset	$ 48,855	$ 48,855	$ -
Total Assets:	$ 73,732	$ 89,926	$(16,193)
Current Liabilities:			
Accounts Payable	$ 9,565	$ (5,101)	$ 14,666
Leak Survey Reserve	$ 2,296	$ 8,525	$ (6,229)
Current Portion L/T Debt	$ 2,841	$ 2,649	
Deferred Tax Liablities	$ 659	$ 659	$ -
Total Current Liabilities:	$ 15,361	$ 6,732	$ 8,629
Long Term Liabilities	$ 9,299	$ 12,141	
Capital:			
Equity	$ 229,038	$ 229,038	$ -
Retained Earnings	$ (197,573)	$ (154,614)	$(42,959)
Paid in Capital	$ 37,550	$ 37,550	$ -
Common Stock	$ 2,038	$ 2,038	$ -
Net Income	$ (21,981)	$ (42,959)	$ 20,978
Total Capital:	$ 49,073	$ 71,053	$(21,981)
Total Liabilities & Capital:	$ 73,732	$ 89,926	$(16,193)

<u>Before Deferred Tax Adjustment</u>

Five Valley Gas
Comparative Income Statements
Year to Date

	August 13	August 12	Change
Sales	$ 131,390	$ 175,677	$ (44,287)
Meter Reading	$ 13,204	$ 12,741	$ 462
Finance Charges	$ -	$ (1,176)	$ 1,176
Total Sales	$ 144,594	$ 187,242	$ (42,648)
Propane Cost	$ 87,617	$ 120,619	$ (33,002)
Parts	$ 2,746	$ 5,792	$ (3,047)
Total Product Costs	$ 90,363	$ 126,411	$ (36,049)
Gross Profit	$ 54,231	$ 60,831	$ (6,600)
Gross Profit Percent	38%	32%	
Wages Expense	$ 36,000	$ 37,559	$ (1,559)
Meter Reading	$ 700	$ 1,000	$ (300)
Payroll Tax Expense	$ 4,464	$ 4,619	$ (155)
Bad Debt Expense	$ 618	$ 222	$ 395
Fuel Expense	$ 1,200	$ 1,100	$ 100
Professional Services Expense	$ 1,250	$ 2,521	$ (1,271)
Underground Leak Survey Expense	$ 2,037	$ 16,440	$ (14,403)
Repairs & Maintance Expense	$ 2,921	$ 1,069	$ 1,852
Utilities Expense	$ 3,589	$ 3,097	$ 492
Office Supplies Expense	$ 1,563	$ 1,007	$ 556
Banking Fees	$ -	$ 76	$ (76)
Meals Expense	$ 302	$ 14	$ 288
Travel	$ -	$ 731	$ (731)
Tax and License Expense	$ 711	$ 625	$ 86
Finance Charges	$ -	$ -	$ -
Insurance Expense	$ 2,400	$ 2,400	$ -
Interest Expense	$ 974	$ 89	$ 885
Depreciation Expense	$ 17,482	$ 16,219	$ 1,263
Total Expenses	$ 76,211	$ 88,790	$ (12,579)
Deferred Tax Adjustment	$ -	$ 15,000	
Net Income (Loss)	$ (21,980)	$ (42,959)	$ 20,979

<u>Before Deferred Tax Adjustment</u>

Five Valley Gas
Comparative Balance Sheets

	August 12	August 11	Change
Current Assets:			
Cash	$ 3,810	$ 4,899	$ (1,089)
Accounts Receivable	$ 3,628	$ 6,307	$ (2,680)
Allowance Doubtful Accounts	$ (3,085)	$ (2,796)	$ (289)
Inventory	$ 8,312	$ 8,312	$ -
Customer Deposit	$ -	$ -	$ -
Total Current Assets:	$ 12,664	$ 16,722	$ (4,058)
Property Plant & Equipment:			
Property & Equipment	$ 125,777	$ 125,777	$ -
Non Compete Covenant	$ 120,962	$ 120,962	$ -
Accum Depreciation	$ (109,467)	$ (101,312)	$ (8,155)
Accum Amortization	$ (108,866)	$ (100,802)	$ (8,064)
Total Property & Equipment:	$ 28,406	$ 44,625	$(16,219)
Deferred Tax Asset	$ 48,855	$ 63,855	$(15,000)
Total Assets:	$ 89,926	$ 125,203	$(35,277)
Current Liabilities:			
Accounts Payable	$ (5,101)	$ 4,609	$ (9,710)
Leak Survey Reserve	$ 8,525	$ 5,922	$ 2,603
Current Portion L/T Debt	$ 2,649	$ -	
Deferred Tax Liablities	$ 659	$ 659	$ -
Total Current Liabilities:	$ 6,732	$ 11,191	$ (4,459)
Long Term Liabilities	$ 12,141	$ -	
	$ -		
Capital:			
Equity	$ 229,038	$ 229,038	$ -
Retained Earnings	$ (154,614)	$ (149,828)	$ (4,786)
Paid in Capital	$ 37,550	$ 37,550	$ -
Common Stock	$ 2,038	$ 2,038	$ -
Net Income	$ (42,959)	$ (4,786)	$(38,173)
Total Capital:	$ 71,053	$ 114,012	$(42,959)
Total Liabilities & Capital:	$ 89,926	$ 125,203	$(35,277)

<u>Before Deferred Tax Adjustment</u>

Five Valley Gas
Comparative Income Statements
Year to Date

	August 12	August 11	Change
Sales	$ 174,501	$ 186,762	$ (12,261)
Meter Reading	$ 12,741	$ 12,881	$ (140)
Finance Charges	$ -	$ -	$ -
Total Sales	$ 187,242	$ 199,644	$ (12,401)
Propane Cost	$ 120,619	$ 136,872	$ (16,253)
Inventory Adjustments	$ 5,792	$ 412	$ 5,380
Total Product Costs	$ 126,411	$ 137,284	$ (10,873)
Gross Profit	$ 60,831	$ 62,359	$ (1,528)
Gross Profit Percent	32%	31%	
Wages Expense	$ 37,559	$ 36,000	$ 1,559
Meter Reading	$ 1,000	$ 500	$ 500
Payroll Tax Expense	$ 4,619	$ 4,464	$ 155
Bad Debt Expense	$ 222	$ 1,115	$ (893)
Fuel Expense	$ 1,100	$ 600	$ 500
Professional Services Expense	$ 2,521	$ 500	$ 2,021
Underground Leak Survey Expense	$ 16,440	$ (1,000)	$ 17,440
Repairs & Maintance Expense	$ 1,069	$ 1,600	$ (531)
Utilities Expense	$ 3,097	$ 3,156	$ (59)
Office Supplies Expense	$ 1,007	$ 781	$ 226
Banking Fees	$ 76	$ 27	$ 48
Meals Expense	$ 14	$ -	$ 14
Travel	$ 731	$ -	$ 731
Tax and License Expense	$ 625	$ 1,326	$ (701)
Finance Charges	$ -	$ -	$ -
Insurance Expense	$ 2,400	$ 2,400	$ -
Interest Expense	$ 89	$ -	$ 89
Depreciation Expense	$ 16,219	$ 16,986	$ (767)
Total Expenses	$ 88,790	$ 68,456	$ 20,334
Deferred Tax Adjustment	$ 15,000	$ (1,311)	
Net Income (Loss)	$ (42,959)	$ (4,786)	$ (38,173)

<u>Before Deferred Tax Adjustment</u>