

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of the Application of
KNG Energy, Inc. for Authority to
Issue Additional Common Stock to
Provide for a Two-for-One Split of
its Outstanding Common Shares.

Case No. 97-642-GA-AIS

APPLICATION FOR AUTHORITY TO ISSUE COMMON STOCK

KNG Energy, Inc. ("KNG"),¹ pursuant to the provisions of Sections 4905.40 and 4905.41, Revised Code, hereby respectfully requests authority from this Commission to issue additional common stock to provide for a two-for-one split of its outstanding common shares.

In support of its application, KNG states as follows:

1. KNG, an Ohio corporation, is a public utility and natural gas company as defined Sections 4905.02 and 4905.03(A)(6), Revised Code, and, as such, is subject to the jurisdiction of this Commission pursuant to Sections 4905.04, 4905.05, and 4905.06, Revised Code.

2. KNG presently provides natural gas service to the village of Kalida, Ohio pursuant to a franchise ordinance (Kalida Ordinance No. 90-17) granting KNG a twenty-five year franchise to construct and operate a natural gas distribution system within the village.

¹ On April 5, 1995, KNG filed a certificate of amendment with the Ohio Secretary of State's office amending its articles of incorporation to reflect a change in its corporate name from Kalida Natural Gas Company, Inc. to KNG Energy, Inc. This Commission approved KNG's name change by its Finding and Order of May 4, 1995 in Case No. 95-361-GA-ACN.

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Technician *Joan Schuff* Date Processed *6-17-97*

The rates and charges to customers within the village of Kalida are governed by rate ordinance (Kalida Ordinance No. 91-22) (*see* Case No. 89-8035-GA-TRF). In addition to the customers located in the village of Kalida, KNG also provides service to customers located in the unincorporated area in the immediate vicinity of Kalida and to customers located in areas of Hancock and Seneca Counties in the vicinity of a 26.6-mile pipeline segment acquired by KNG in 1992 (*see* Ohio Power Siting Board Case No. 92-1407-GA-BLN). Pursuant to authority obtained from this Commission, service to these unincorporated area customers is governed by individual contracts which provide for the same rates and charges reflected in the village of Kalida rate ordinance (*see* Case No. 92-378-GA-AEC). In addition, KNG also provides service to a large consumer of natural gas located in the village of McComb, Ohio pursuant to Ordinance No. 1992-09 of the village of McComb and KNG's subsidiary, KNG Energy Resources, Inc., supplies natural gas to the village's municipal natural gas utility pursuant to Ordinance No. 0-1995-2 of the village of McComb.

3. KNG's Amended Articles of Incorporation, which were duly recorded by the Secretary of State on July 5, 1995, currently authorize the company to have outstanding ten thousand (10,000) shares of common stock without par value. A copy of the Amended Articles of Incorporation is attached hereto as Attachment A.

4. KNG has previously secured authority from this Commission to issue common stock in Case No. 90-1804-GA-AIS (Finding and Order dated December 20, 1990), Case No. 92-379-GA-AIS (Finding and Order dated April 16, 1992), Case No. 93-888-GA-AIS

(Finding and Order dated July 22, 1993), Case No. 94-563-GA-AIS (Finding and Order dated April 27, 1994), Case No. 95-1062-GA-AIS (Finding and Order dated December 14, 1995), Case No. 96-248-GA-AIS (Finding and Order dated March 28, 1996) and has issued three thousand three hundred and twenty-five (3,325) shares of common stock pursuant to that authority.² In addition, KNG has secured authority from this Commission in Case No. 96-1180-GA-AIS (Finding and Order dated December 19, 1996) to issue up to 300 additional shares of common stock in exchange for approximately two acres of land and an office and garage/warehouse complex to be constructed thereon, but has not yet issued said shares.

5. KNG has also previously secured authority from this Commission to enter into various long-term line of credit loan agreements (Case No. 91-1574-GA-AIS, Finding and Order dated September 12, 1991; Case No. 91-2191-GA-AIS, Finding and Order dated January 9, 1992; Case No. 92-169-GA-AIS, Finding and Order dated March 12, 1992; Case No. 92-1266-GA-AIS, Finding and Order, August 6, 1992). The long-term line of credit loan agreement approved by the Commission in Case No. 92-1266-GA-AIS remains in place as of the date of this filing.

² By its Finding and Order of March 28, 1996 in Case No. 96-248-GA-AIS, the Commission authorized KNG to issue up to 3,500 additional common shares at a price of not less than \$700 per share. Pursuant to that authority, KNG sold 300 shares at a price of \$1,000 per share in March of 1997. By its Supplemental Finding and Order dated March 20, 1997, the Commission granted KNG's request to extend the offering period until December 31, 1997. KNG contemplates that it will offer and sell additional shares authorized in Case No. 96-248-GA-AIS in the near future.

6. On June 10, 1997, the Board of Directors of KNG duly adopted the following resolution:

RESOLVED, that the outstanding common shares of the Corporation be split two for one, with each shareholder of record as of May 1, 1997 to receive, upon surrender of each original share certificate, a new certificate reflecting the two-for-one split of each share owned as of that date.

7. KNG, by this application, now requests authority from this Commission to issue additional common shares authorized by its Amended Articles of Incorporation as necessary to effect the two-for-one stock split authorized by the resolution of its Board of Directors dated June 10, 1997. Specifically, KNG seeks authority to issue six thousand six hundred fifty (6,650) shares of common stock with no par value, said shares to be issued on a two-for-one basis for each outstanding share surrendered by shareholders of record as of May 1, 1997.

8. Consistent with this application, KNG has, this same date, filed a related motion in Case No. 96-248-GA-AIS requesting that the authority to issue an additional shares at a cost not less than \$700 previously granted in that docket be amended to permit KNG to offer the remaining authorized shares at \$500 per share in order to recognize the impact of the two-for-one stock split and the price at which the shares heretofore issued pursuant to that authority were actually sold. KNG believes that the Commission's approval of this application, in conjunction with granting the related motion in Case No. 96-248-GA-AIS, will serve to enhance the marketability of the shares authorized in that proceeding and

thereby facilitate the sale of those shares.

9. The additional common shares for which approval is sought by this application will be issued under the terms specified in Paragraph 6. The recipients of these common shares will be entitled to all rights of common stock shareholders of an Ohio corporation, as provided by Ohio law.

10. The total assets and liabilities of KNG are as set forth on the balance sheets contained in the financial statements attached hereto as Attachment B and C. Income statements depicting operating results for the twelve months ended December 31, 1996 and the three months ended March 31, 1997 are also contained in the attached financial statements.

11. The common stock to be issued pursuant to the authority requested herein is not desired for the purpose of the reimbursement of money expended from income.

12. Except for the common stock to be issued pursuant to the amended authority requested by the related motion filed this date in Case No. 96-248-GA-AIS and the stock to be issued pursuant to the authority granted in Case No. 96-1180-GA-AIS, no other stock, bonds, or other evidence of indebtedness, payable at periods of more than twelve months after their date of issuance, will be issued at this time.

13. A verification of this application is attached hereto as Attachment D.

WHEREFORE, KNG Energy, Inc. respectfully requests that its application for authority to issue common stock for the purposes and subject to the terms and conditions set forth above be granted.

Respectfully submitted,

KNG ENERGY, INC.

A handwritten signature in black ink, appearing to read "Barth E. Royer", is written over a horizontal line.

Barth E. Royer

BELL, ROYER & SANDERS CO., LPA
33 South Grant Avenue
Columbus, Ohio 43215-3927
(614) 228-0704

Attorney for KNG Energy, Inc.

ATTACHMENT A

**Amended Articles of Incorporation
of
KNG Energy, Inc.**



Department of State

The State of Ohio

Sherrod Brown
Secretary of State

777714

Certificate

It is hereby certified that the Secretary of State of Ohio has custody of the Records of Incorporation and Miscellaneous Filings, that said records show the filing and recording of: ARF

of:

KALIDA NATURAL GAS COMPANY, INC.

United States of America
State of Ohio
Office of the Secretary of State

Recorded on Roll G913 at Frame 0987 of
the Records of Incorporation and Miscellaneous Filings.

Witness my hand and the seal of the Secretary of State, at the
City of Columbus, Ohio, this 25TH day of JULY,
A.D. 19 90.



Sherrod Brown



Prescribed by
SHERROD BROWN, Secretary of State
30 East Broad Street, 14th Floor
Columbus, Ohio 43266-0418
Form ARF (March 1990)

Approved	<u>8/</u>
Date	<u>7-25-90</u>
Fee	<u>\$ 75⁰⁰</u>

Articles of Incorporation

(Under Chapter 1701 of the Ohio Revised Code)
Profit Corporation

The undersigned, desiring to form a corporation, for profit, under Sections 1701.01 et seq. of the Ohio Revised Code, do hereby state the following:

FIRST. The name of said corporation shall be Kalida Natural Gas Company, Inc.

SECOND. The place in Ohio where its principal office is to be located is P.O. Box 442

Kalida Putnam County, Ohio.
(city, village or township) 45853

THIRD. The purpose(s) for which this corporation is formed is:

To engage in any lawful act or activity for which corporations may be formed under Section 1701.01 to 1701.98 inclusive of the Ohio Revised Code.

66913-3983

FOURTH. The number of shares which the corporation is authorized to have outstanding is: (Please state whether shares are common or preferred, and their par value. Shares will be recorded as common with no par value unless otherwise indicated.)

Seven hundred and fifty (750) common shares without par value.

IN WITNESS WHEREOF, we have hereunto subscribed our names, this 24th day of July, 19 90.

By: A. Scott Rothey Incorporator

(A. Scott Rothey)
By: (A. Scott Rothey) Incorporator

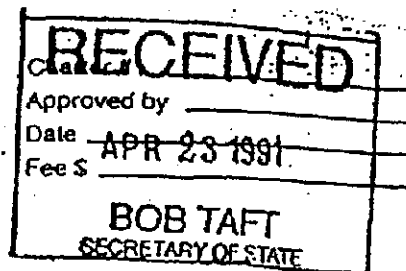
By: _____ incorporator

Print or type Incorporators' names below their signatures.

INSTRUCTIONS

1. The minimum fee for filing Articles of Incorporation for a profit corporation is \$75.00. If Article Fourth indicates more than 750 shares of stock authorized, please see Section 111.16 (A) of the Ohio Revised Code or contact the Secretary of State's office (614 455 2010) to determine the fee.

Prescribed by **Sherrod Brown**
Secretary of State



Certificate of Amendment

By Shareholders
to the Articles of Incorporation of

Kalida Natural Gas Company, Inc.

(Name of Corporation)

A. Scott Rothery

, who is ☐ Chairman of the Board ☒ President ☐ Vice President (Check one)

and Joseph A. Herz

, who is ☒ Secretary ☐ Assistant Secretary (Check one)

of the above named Ohio corporation for profit with its principal location at P.O. Box 442, Kalida

Ohio do hereby certify that: (check the appropriate box and complete the appropriate statements)

☐ a meeting of the shareholders was duly called for the purpose of adopting this amendment and held on _____ 19_____, at which meeting a quorum of the shareholders was present in person or by proxy, and by the affirmative vote of the holders of shares entitling them to exercise _____ % of the voting power of the corporation.

☒ in a writing signed by all of the shareholders who would be entitled to notice of a meeting held for that purpose.

the following resolution to amend the articles was adopted:

RESOLVED, that the Articles of Incorporation of the Corporation are hereby amended by deleting Article FOURTH in its entirety and inserting, in lieu thereof, the following:

FOURTH. The number of shares which the Corporation is authorized to have outstanding is One thousand (1,000) common shares without par value.

and by adding the following new Articles

FIFTH. No holder of shares of the corporation shall have any preemptive right to subscribe for or to purchase any shares of the corporation of any class, whether those shares or that class now or later authorized.

SIXTH. The corporation, through its Board of Directors, shall have the right and power to purchase any of its outstanding shares at a price and on terms that may be agreed on between the corporation and the selling shareholder or shareholders.

IN WITNESS WHEREOF, the above named officers, acting for and on the behalf of the corporation, have hereto subscribed

their names this 15th day of April, 19 91

BY

A. Scott Rothery

(Chairman, President or Vice President)

BY

Joseph A. Herz

(Secretary or Assistant Secretary)

NOTE: Ohio law does not permit one officer to sign in two capacities. Two separate signatures are required, even if this necessitates the election of a second officer before the corporation.



Prescribed by
BOB TAFT, Secretary of State
30 East Broad Street, 14th Floor
Columbus, Ohio 43266-0418
Form SH-AMD (January 1991)

EQ346-1885

Charter No.	7777/4
Approved	RB
Date	5/1/92
Fee	\$235.00

92050127401

CERTIFICATE OF AMENDMENT by Shareholders to the Articles of Incorporation of

Kalida Natural Gas Company, Inc.

(Name of Corporation)

A. Scott Rothery, who is:

☐ Chairman of the Board ☒ President ☐ Vice President (check one)

and

Joseph A. Herz, who is: ☒ Secretary ☐ Assistant Secretary (Check one)

of the above named Ohio corporation for profit do hereby certify that: (check the appropriate box and complete the appropriate statements)

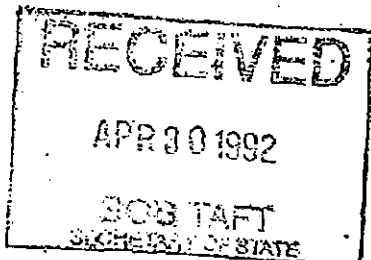
☒ a meeting of the shareholders was duly called for the purpose of adopting this amendment and held on April 11, 19 92 at which meeting a quorum of the shareholders was present in person or by proxy, and by the affirmative vote of the holders of shares entitling them to exercise 71.4 % of the voting power of the corporation.

☐ in a writing signed by all of the shareholders who would be entitled to notice of a meeting held for that purpose, the following resolution to amend the articles was adopted:

RESOLVED, that the Articles of Incorporation are hereby amended by deleting the FOURTH Article in its entirety and inserting, in lieu thereof, the following:

FOURTH. The number of shares the Corporation is authorized to have outstanding is Five Thousand (5,000) common shares without par value.

IN WITNESS WHEREOF, the above named officers, acting for and on the behalf of the corporation, have hereto subscribed their names this 28th day of April, 19 92



By A. Scott Rothery
(President)

By Joseph A. Herz
(Secretary)



Prescribed by
BOB TAFT, Secretary of State
30 East Broad Street, 14th Floor
Columbus, Ohio 43266-0418

Charter No.	_____
Approved	_____
Date	_____
Fee	_____

CERTIFICATE OF AMENDMENT BY SHAREHOLDERS TO THE ARTICLES OF INCORPORATION OF:

KALIDA NATURAL GAS COMPANY, INC.

(Name of Corporation)

A. Scott Rothery, who is:

☐ Chairman of the Board ☒ President ☐ Vice President (Please check one.)

and Joseph A. Herz, who is:

☒ Secretary ☐ Assistant Secretary (Please check one.)

of the above named Ohio corporation organized for profit does hereby certify that: (Please check the appropriate box and complete the appropriate statements.)

☒ a meeting of the shareholders was duly called for the purpose of adopting this amendment and held on April 30, 19 94 at which meeting a quorum of the shareholders was present in person or by proxy, and by the affirmative vote of the holders of shares entitling them to exercise 84.2 % of the voting power of the corporation.

☐ in a writing signed by all of the shareholders who would be entitled to notice of a meeting held for that purpose, the following resolution to amend the articles was

adopted: RESOLVED, that the Articles of Incorporation of the Corporation are hereby amended by deleting Article FOURTH in its entirety and inserting, in lieu thereof, the following:

FOURTH. The number of shares the Corporation is authorized to have outstanding is Ten Thousand (10,000) common shares without par value.

IN WITNESS WHEREOF, the above named officers, acting for and on the behalf of the corporation, have hereto subscribed their names this

30th day of JUNE, 19 94.

By A. Scott Rothery
(Chairman, President, ~~Vice President~~)

By Joseph A. Herz
(Secretary, ~~Assistant Secretary~~)

NOTE: OHIO LAW DOES NOT PERMIT ONE OFFICER TO SIGN IN TWO CAPACITIES. TWO SEPARATE SIGNATURES ARE REQUIRED, EVEN IF THIS NECESSITATES THE ELECTION OF A SECOND OFFICER.



The State of Ohio

Bob Taft

Secretary of State

777714

Certificate

It is hereby certified that the Secretary of State of Ohio has custody of the Records of Incorporation and Miscellaneous Filings; that said records show the filing and recording of: AMD HIS CHN

of:

KNG ENERGY, INC. FORMERLY KALIDA NATURAL GAS COMPANY, INC.

United States of America
State of Ohio
Office of the Secretary of State

Recorded on Roll 5106 at Frame 0473 of
the Records of Incorporation and Miscellaneous Filings.

Witness my hand and the seal of the Secretary of State at

Columbus, Ohio, this 5TH day of APRIL .

A.D. 19 95 .

Bob Taft
Bob Taft

Secretary of State





Prescribed by
BOB TAFT, Secretary of State 05106-0473
30 East Broad Street, 14th Floor
Columbus, Ohio 43266-0418

Charter No. 77714
Approved CR
Date 4-5-95
Fee 35.00

CERTIFICATE OF AMENDMENT BY SHAREHOLDERS TO THE ARTICLES OF INCORPORATION OF

Kalida Natural Gas Company, Inc.

(Name of Corporation)

A. Scott Rothey, who is:

☐ Chairman of the Board ☒ President ☐ Vice President (Please check one.)

and Joseph A. Herz, who is:

☒ Secretary ☐ Assistant Secretary (Please check one.)

of the above named Ohio corporation organized for profit does hereby certify that: (Please check the appropriate box and complete the appropriate statements.)

☐ a meeting of the shareholders was duly called for the purpose of adopting this amendment and held on _____, 19____ at which meeting a quorum of the shareholders was present in person or by proxy, and by the affirmative vote of the holders of shares entitling them to exercise _____ % of the voting power of the corporation.

☒ in a writing signed by all of the shareholders who would be entitled to notice of a meeting held for that purpose, the following resolution to amend the articles was adopted:

RESOLVED, that Article First of the Articles of Incorporation be, and hereby is, amended by deleting Article First in its entirety and replacing it with the following:

First: The name of the Corporation shall be KNG Energy, Inc.

IN WITNESS WHEREOF, the above named officers, acting for and on the behalf of the corporation, have hereto subscribed their names this

31 day of March, 1995.

By A. Scott Rothey
(Chairman, President, Vice President)

By Joseph A. Herz
(Secretary Assistant Secretary)

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NOTE: OHIO LAW DOES NOT PERMIT ONE OFFICER TO SIGN IN TWO CAPACITIES, TWO SEPARATE SIGNATURES ARE REQUIRED, EVEN IF THIS NECESSITATES THE ELECTION OF A SECOND OFFICER

ATTACHMENT B

**Consolidated Financial Statements
of
KNG Energy, Inc. and Subsidiary
Year Ended December 31, 1997**

KNG ENERGY, INC. AND SUBSIDIARY
Consolidated Financial Statements
Year Ended December 31, 1996
(With Accountants' Review Report Thereon)

KNG ENERGY, INC. AND SUBSIDIARY

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The Board of Directors
KNG Energy, Inc.

We have reviewed the accompanying consolidated balance sheet of KNG Energy, Inc. and Subsidiary as of December 31, 1996, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of KNG Energy, Inc.

A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Our review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles. The information included in the accompanying Schedule 1 is presented only for supplementary analysis purposes. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

Hendel/Harris & Associates, Inc.

March 14, 1997

KING ENERGY, INC. AND SUBSIDIARY
Consolidated Balance Sheet
December 31, 1996

Assets

Current assets:

Cash	\$	52,127
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Receivables:

Trade accounts (Note 6)		207,623
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Employees		1,735
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Other		4,480
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		213,838
--	--	---------

Inventories:

Parts and supplies		14,181
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Gas in pipeline storage		24,331
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		38,512
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Prepaid expenses

		47,649
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Total current assets		352,126
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Property and equipment:

Land and land rights		10,503
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Mains		1,548,375
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Meters and regulators		207,133
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Service lines and taps		170,484
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Machinery and equipment		29,089
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Transportation equipment		33,393
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Office equipment, furniture and fixtures		22,740
--	--	--------

Leasehold improvements		561
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		2,022,278
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Less accumulated depreciation		194,136
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Net property and equipment		1,828,142
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Other assets:

Deferred costs (Note 4)		170,455
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Deferred tax asset (Note 5)		3,000
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Deposits		536
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		173,991
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	\$	2,354,259
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Liabilities and Stockholders' Equity

Current liabilities	
Line of credit (Note 2)	\$ 60,000
Current installment of long-term debt (Note 3)	210,509
Trade accounts payable (Note 7)	284,728
Payroll taxes and amounts withheld	39,895
Customer deposits	39,483
Accrued expenses:	
Accrued salaries	3,500
Gross receipts tax	38,496
Property taxes	74,580
Workers' compensation	172
Interest	<u>3,170</u>
Total accrued expenses	<u>119,918</u>
Total current liabilities	<u>754,533</u>
Long-term debt, excluding current portion (Note 3)	<u>429,800</u>
Total liabilities	<u>1,184,333</u>
Commitments (Note 8)	
Stockholders' equity (Notes 7, 8 and 9)	
Common stock without par value. Authorized 10,000 shares; issued and outstanding 3,012 shares	1,490,300
Common stock issuance costs	(63,216)
Accumulated deficit	<u>(257,158)</u>
Total stockholders' equity	<u>1,169,926</u>
	\$ <u><u>2,354,259</u></u>

See accompanying notes and accountants' review report.

KNG ENERGY, INC. AND SUBSIDIARY
Statement of Consolidated Operations
Year ended December 31, 1996

Natural gas sales	\$ 1,460,007
Expenses:	
Natural gas purchased	863,041
Natural gas transportation costs	183,693
Gross receipts tax expense	26,899
Property taxes	74,580
Maintenance of general plant	2,831
General and administrative expenses	261,103
Depreciation and amortization	<u>53,868</u>
Total operating expenses	<u>1,466,015</u>
Loss from operations	(6,008)
Other income (expense)	
Interest income	799
Interest expense	(58,665)
Loss on disposal of assets	(967)
Miscellaneous (Note 10)	<u>49,415</u>
	<u>(9,418)</u>
Loss before income taxes	(15,426)
Income tax expense (benefit) (Note 5)	
Current	-
Deferred	<u>(3,000)</u>
	<u>(3,000)</u>
Net loss	<u><u>\$ (12,426)</u></u>

See accompanying notes and accountants' review report.

KNG ENERGY, INC. AND SUBSIDIARY
Statement of Consolidated Stockholders' Equity
Year Ended December 31, 1996

	<u>Common Stock</u>	<u>Common Stock Issuance Costs</u>	<u>Accumulated Deficit</u>	<u>Total</u>
Balance at December 31, 1995	\$ 1,449,000	\$ (63,216)	\$ (244,732)	\$ 1,141,052
Net loss	—	—	(12,426)	(12,426)
Stock issued	<u>41,300</u>	<u>—</u>	<u>—</u>	<u>41,300</u>
Balance at December 31, 1996	\$ <u><u>1,490,300</u></u>	\$ <u><u>(63,216)</u></u>	\$ <u><u>(257,158)</u></u>	\$ <u><u>1,169,926</u></u>

See accompanying notes and accountants' review report.

KNG ENERGY, INC. AND SUBSIDIARY
Statement of Consolidated Cash Flows
Year Ended December 31, 1996

Operating activities	
Net loss	\$ (12,426)
Adjustment to reconcile net loss to net cash provided from operating activities:	
Depreciation and amortization	53,868
Loss on disposal of assets	967
Decrease in allowance for contributions in aid of construction	(43,585)
Increase in accounts receivable	(43,045)
Increase in inventories	(22,599)
Increase in prepaid expenses	(43,804)
Increase in deferred tax asset	(3,000)
Increase in accounts payable	163,935
Decrease in other current liabilities	6,480
Net cash provided from operating activities	56,791
Investing activities	
Additions to property, plant and equipment	(129,211)
Increase in potential contract costs	(118,442)
Net cash used in investing activities	(247,653)
Financing activities:	
Proceeds from line of credit	60,000
Issuance of stock	41,300
Payments on notes	(2,876)
Net cash provided from financing activities	98,424
Net decrease in cash	(92,438)
Cash at beginning of year	144,565
Cash at end of year	\$ <u><u>\$52,127</u></u>
Supplemental cash flow disclosure:	
Interest payments	\$ <u><u>45,119</u></u>
Non cash activities— Salary and office expenses paid with stock	\$ <u><u>41,300</u></u>

See accompanying notes and accountants' review report.

KNG ENERGY, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
December 31, 1996

(1) Summary of Significant Accounting Policies

A summary of the significant accounting policies of KNG Energy, Inc. (the Company) and Subsidiary is as follows:

(a) Principles of consolidation

The consolidated financial statements include the accounts of KNG Energy, Inc. and its wholly-owned subsidiary, KNG Energy Resources, Inc. All intercompany transactions have been eliminated in consolidation.

(b) Description of business

The Company is an Ohio corporation engaged in the transportation and distribution of natural gas for resale to customers in various communities in northwest Ohio. The Company's subsidiary, also an Ohio corporation, serves as a marketing entity for the direct sale of natural gas and providing merchant services to large end-users.

(c) Basis of accounting

The accounting policies of the Company conform to generally accepted accounting principles and reflect practices appropriate to the gas industry. The accounting records are maintained in accordance with the Uniform System of Accounts for Gas Utilities prescribed by the Public Utilities Commission of Ohio.

(d) Cash

Cash includes currency on hand, as well as demand and savings deposits with banks.

(e) Inventories

Inventories of supplies are stated at the lower of cost (first-in, first-out) or market. With respect to stored gas inventory, cost is based on the price paid for gas in the months during which purchases are made plus related transportation charges.

(f) Property and equipment

Property and equipment are stated at cost. Depreciation for financial reporting purposes is computed using the straight-line method over the estimated useful lives of the assets. Depreciation for federal income tax reporting purposes is based on accelerated and alternative depreciation methods.

In accordance with practices permitted by the Public Utilities Commission of Ohio, the costs of improvements which extend the useful lives of pipelines are capitalized.

KNG ENERGY, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements, Continued

(g) Use of estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(h) Federal income taxes

The Company and its subsidiary file a consolidated federal income tax return.

Deferred federal income taxes are recognized for income and expense items that are reported in different years for financial and federal income tax reporting purposes. The principal timing differences relate to depreciation expense and net operating loss carry-forwards.

(2) Bank Line of Credit

The Company has a bank line of credit expiring in June 1997. Borrowing is limited to \$165,000, and interest is payable monthly at the prime rate plus one percent (aggregating 9.25 percent at December 31, 1996). The balance outstanding at December 31, 1996 was \$60,000.

(3) Long-Term Debt

The Company has a note outstanding to a bank due June 2000, which is secured by a mortgage on pipeline, easements, and related equipment. The amount outstanding at December 31, 1996 was \$447,096. Monthly payments are \$5,000, including interest at 1.5 percent over the prime rate (aggregating 9.75 percent at December 31, 1996). The final payment in June 2000 is to include any unpaid principal.

The Company has a note payable to Buckeye Pipeline Co., L.P. calling for a single payment of \$200,000 in July 1997. The present value of this obligation, assuming an interest rate of 6.7 percent, was \$193,213 at December 31, 1996.

As of December 31, 1996, the fair value of these notes approximated their carrying amount based on the current interest rates.

Annual maturities of long-term debt for the years ending December 31 are as follows:

1997	\$ 210,509
1998	18,831
1999	20,059
2000	390,910

KNG ENERGY, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements, Continued

(4) Deferred Costs

Certain costs pertaining to development efforts incurred in obtaining new and expanded customer contracts are capitalized as deferred costs. If efforts result in a long-term contract, the related costs are amortized over the life of the contract. However, if efforts are unsuccessful, any accumulated costs are to be recognized as an expense in the current year. At December 31, 1996, unamortized costs relating to existing contracts were \$2,768.

As of December 31, 1996, \$166,148 had also been capitalized with respect to negotiations still underway related to the potential acquisition of two pipelines which, if successful, would enable the Company to substantially expand its service capabilities. Costs incurred include option payments, consultant fees, other direct costs and certain salary costs. Management believes that there is a reasonable probability that its negotiations will lead to the acquisition of desired pipe lines. Amortization of these and subsequent costs would commence when the contract(s) become a commitment of the Company. However, should a contract(s) not be realized, future operating results could be adversely affected by the Company's expensing all or the portion of these costs deferred as of December 31, 1996, and any additional costs which may be incurred in 1997.

Certain costs associated with the acquisition of the bank note payable were capitalized and are being amortized over the term of the loan. The unamortized balance at December 31, 1996 was \$1,290. Professional fees and other related costs associated with the formation of KNG Energy Resources, Inc. are being amortized over a period of sixty months. The unamortized value at December 31, 1996 was \$249.

(5) Federal Income Taxes

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's assets and liabilities as of December 31, 1996 were as follows:

Deferred Tax Assets:	
Net operating loss carry-forward	\$ 87,900
Valuation allowance	(36,000)
	51,900
Deferred Tax Liabilities:	
Depreciation	48,900
Net Deferred Tax Assets	\$ 3,000

This amount has been presented in the Company's balance sheet in noncurrent assets.

The valuation allowance increased approximately \$13,000 during 1996. At December 31, 1996, the Company has net operating loss carry-forwards for federal income tax purposes of approximately \$580,000 which are available to reduce future taxable income through 2011.

KNG ENERGY, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements, Continued

(6) Business and Credit Concentration

The Company provides natural gas service to residential, commercial, industrial, and municipal customers located in northwest Ohio. Two single customers accounted for more than ten percent of the Company's total consolidated sales in 1996. Accounts receivables outstanding from each of these two customers at December 31, 1996 also exceeded ten percent of total consolidated trade accounts receivable. Pertinent information pertaining to the two customers is presented below:

- The Company entered into a six year contract in 1992 with an industrial customer whose gas purchases and other fee payments accounted for approximately 49 percent of the Company's total consolidated sales in 1996. The contract, which expires in 1998, also includes a four-year option extension. The customer owns the pipeline connecting with the Company's system. The Company has contracted to operate and maintain the customer's pipeline through the year 2017. The Company anticipates that it will continue to provide this customer with its natural gas needs during the four year extension period.
- The Company entered into a three year contract in 1995 to provide natural gas to a municipal gas system. Sales in 1996 to this utility approximated 24 percent of the Company's total consolidated sales. The Company also operates and manages the municipal system. The Company plans to negotiate renewal of the contract when it expires at the end of 1998.

Should the Company not be successful in renewing contracts with these two large customers, the effect on future Company operations could be significant.

The Company also has a 25-year nonexclusive franchise (expiring in 2016) with another municipal village to provide gas to residential and commercial users within its boundaries. Sales to these users in 1996 approximated 10 percent of the Company's total consolidated sales.

(7) Related Party Transactions

An officer of the Company, who is a shareholder, operates a sole proprietorship which provides consulting services to utilities and customers of utilities. This sole proprietorship was paid \$45,000 by the Company during 1996 for consulting services performed in connection with the pipeline acquisitions discussed in Note 8. At December 31, 1996, the Company had a payable due this firm totaling \$9,000.

Stock was issued during 1966 to two officers, who are shareholders, in partial payment of their employee compensation and expenses incurred by them. Fifty nine shares were issued at a price of \$700 per share for a total value of \$41,300.

(8) Commitments and Other Agreements

The Company owns no gas reserves and relies on gas producers and gas marketing companies for the gas which it purchases for resale. The Company has transportation agreements with several interstate pipeline companies for transporting its purchased gas, but it currently relies on one pipeline company, Columbia Gas Transmission, which connects directly to its system mains.

KNG ENERGY, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements, Continued

The Company has an agreement with Columbia Gas (renewable annually at the Company's option) whereby the Company pays for space or capacity in Columbia's pipeline to ensure the Company's ability to procure sufficient quantities of gas for its customers on the coldest days of winter. A separate agreement with Columbia Gas provides a "temporary storage" feature which allows the Company to store gas which it cannot take into its system because customer demands fall below the Company's purchase needs. The Company is required to withdraw the stored volume within a certain amount of time.

An annual agreement between the Company and another interstate pipeline supplier expires near the end of 1997, and the Company has an automatic right to renew this agreement if it so chooses.

The Company has agreed to purchase a connecting pipeline for approximately \$1,300,000, subject to verifying the pipeline's capacity and integrity and obtaining regulatory approval. This acquisition will enable the Company to have a direct connection with Crossroads Pipeline Company, an interstate pipeline which has direct access to a supply hub at Chicago. Closing of the purchase transaction is expected by July 1997. Financing for this purchase has not been finalized.

The Company has entered into an agreement for the construction of a new office/garage complex located on a two acre site. A guaranteed maximum price of \$210,000 has been provided to the Company by the developer. The Company has agreed to provide the developer up to 300 shares of its stock at a price of \$700 per share in exchange for the site and the new building complex. Construction has not yet begun, but is expected to be completed by the fall of 1997.

(9) Subsequent Event

In early March 1997, the Company issued 300 shares of stock at a price of \$1,000 per share for an aggregate price of \$300,000. The Company intends to use the majority of the proceeds to repay the current outstanding line of credit and the note payable maturing in July 1997.

(10) Other

Miscellaneous income for 1996 included \$43,585 representing payments received from customers for measuring and regulatory equipment to be owned by the Company.

KNG ENERGY, INC. AND SUBSIDIARY
General and Administrative Expenses
Year ended December 31, 1996

Salary and wages	\$ 134,351
Payroll taxes	12,037
Employee benefit expenses	7,710
Professional fees	33,548
Insurance	14,354
Telephone and communications	6,823
Rents	11,415
Utilities	5,592
Office supplies	4,723
Meals and travel	9,769
Dues and subscriptions	6,968
Advertising	2,790
Bad debts	295
Other	10,728
	<u>\$ 261,103</u>

The accompanying accountants' review report should be read with this supplementary schedule.

ATTACHMENT C

**Consolidated Financial Statements
of
KNG Energy, Inc. and Subsidiary**

Three Months Ended March 31, 1997

KNG ENERGY, INC. AND SUBSIDIARY
Consolidated Financial Statements
Three Months Ended March 31, 1997
(With Accountants' Compilation Report Thereon)

KNG ENERGY, INC. AND SUBSIDIARY

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The Board of Directors
KNG Energy, Inc.

We have compiled the accompanying consolidated balance sheet of KNG Energy, Inc. and Subsidiary as of March 31, 1997, and the related consolidated statements of income, stockholders' equity and cash flows for the three months then ended, and the supplementary information included in Schedule 1, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them and the supplementary information.

Management has elected to omit substantially all of the disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Company's financial position, results of operations, and cash flows. Accordingly these financial statements are not designed for those who are not informed about such matters.

Hendel/Harris & Associates, Inc.

May 12, 1997

KNG ENERGY, INC. AND SUBSIDIARY
Consolidated Balance Sheet
March 31, 1997

Assets

Current assets:

Cash	\$	318,642
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Receivables:

Trade accounts		122,685
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Employees		1,525
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Other		4,391
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		128,601
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Inventories-- parts and supplies		15,098
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Prepaid expenses		4,094
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Total current assets		466,435
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Property and equipment:

Land and land rights		10,503
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Mains		1,555,315
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Meters and regulators		214,300
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Service lines and taps		175,260
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Machinery and equipment		29,089
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Transportation equipment		33,393
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Office equipment, furniture and fixtures		23,059
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Leasehold improvements		561
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		2,041,480
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Less accumulated depreciation		207,387
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Net property and equipment		1,834,093
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Other assets:

Deferred costs		201,593
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Deferred tax asset		3,000
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Deposits		536
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		205,129
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	\$	2,505,657
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Liabilities and Stockholders' Equity

Current liabilities

Current installment of long-term debt \$ 210,509

Trade accounts payable 251,242

Payroll taxes and amounts withheld 1,171

Accrued expenses:

Accrued salaries 18,500

Gross receipts tax 20,559

Property taxes 55,935

Workers' compensation 0

Interest 3,170

Total accrued expenses 98,164

Total current liabilities 561,086

Long-term debt, excluding current portion 428,674

Total liabilities 989,760

Stockholders' equity

Common stock without par value. Authorized 10,000 shares;
issued and outstanding 3,325 shares

1,799,400

Common stock issuance costs

(65,770)

Accumulated deficit

(217,733)

Total stockholders' equity 1,515,897

\$ 2,505,657

KNG ENERGY, INC. AND SUBSIDIARY
Statement of Consolidated Income
For Three Months Ended March 31, 1997

Natural gas sales	\$ 559,836
Expenses:	
Natural gas purchased	351,508
Natural gas transportation costs	48,922
Gross receipts tax expense	6,726
Property taxes	18,645
Maintenance of general plant	678
General and administrative expenses	66,069
Depreciation and amortization	<u>13,671</u>
Total operating expenses	<u>506,219</u>
Income from operations	53,617
Other income (expense)	
Interest income	435
Interest expense	(15,447)
Miscellaneous	<u>820</u>
	<u>(14,192)</u>
Income before income taxes	39,425
Income tax expense	
Current	-
Deferred	<u>-</u>
	<u>-</u>
Net income	<u><u>\$ 39,425</u></u>

See accompanying accountants' report.

KNG ENERGY, INC. AND SUBSIDIARY
Statement of Consolidated Stockholders' Equity
For Three Months Ended March 31, 1997

	<u>Common Stock</u>	<u>Common Stock Issuance Costs</u>	<u>Accumulated Deficit</u>	<u>Total</u>
Balance at December 31, 1996	\$ 1,490,300	\$ (63,216)	\$ (257,158)	\$ 1,169,926
Net income			39,425	39,425
Stock issued	<u>309,100</u>	<u>(2,554)</u>	<u>-</u>	<u>306,546</u>
Balance at March 31, 1997.	<u>\$ 1,799,400</u>	<u>\$ (65,770)</u>	<u>\$ (217,733)</u>	<u>\$ 1,515,897</u>

See accompanying accountants' report.

KNG ENERGY, INC. AND SUBSIDIARY
Statement of Consolidated Cash Flows
For Three Months Ended March 31, 1997

Operating activities	
Net income	\$ 39,425
Adjustment to reconcile net income to net cash provided from operating activities:	
Depreciation and amortization	13,671
Decrease in accounts receivable	85,237
Decrease in inventories	23,414
Decrease in prepaid expenses	43,555
Decrease in accounts payable	(33,486)
Decrease in other current liabilities	(99,961)
Net cash provided from operating activities	71,855
Investing activities	
Additions to property, plant and equipment	(19,202)
Increase in potential contract costs	(31,558)
Net cash used in investing activities	(50,760)
Financing activities:	
Repayment of line of credit	(60,000)
Issuance of stock, net of expenses	306,546
Payments on notes	(1,126)
Net cash provided from financing activities	245,420
Net increase in cash	266,515
Cash at beginning of period	52,127
Cash at end of period	<u><u>\$ 318,642</u></u>

See accompanying accountants' report.

KNG ENERGY, INC. AND SUBSIDIARY
General and Administrative Expenses
For Three Months Ended March 31, 1997

Salary and wages	\$ 35,103
Payroll taxes	1,819
Employee benefit expenses	1,881
Professional fees	7,662
Insurance	3,842
Telephone and communications	1,023
Rents	2,010
Utilities	1,041
Office supplies	667
Meals and travel	10
Dues and subscriptions	5,010
Advertising	2,647
Other	3,354
	<u>\$ 66,069</u>

The accompanying accountants' report should be read with this supplementary schedule.

ATTACHMENT D

**Verification by Officers
of
KNG Energy, Inc.**

VERIFICATION

State of Ohio :
: SS
County of Hancock :

The undersigned officers of KNG Energy, Inc. hereby verify and state that the contents of the foregoing application are true to the best of their knowledge and belief.

KNG Energy, Inc.

A. Scott Rothery
A. Scott Rothery, President

Joseph A. Herz
Joseph A. Herz, Secretary

Swore to and subscribed before me a Notary Public for said County and State, on this day of June 13 1997.

Kay Nartker
Notary Public

KAY A. NARTKER
NOTARY PUBLIC, STATE OF OHIO
My Commission Expires Sept. 10, 2000

