COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY FRONTIER GAS,	)	
LLC FOR APPROVAL OF ADJUSTMENT	)	Case No. 2011-00513
OF FARM TAP RATES	)	

RESPONSE TO COMMISSION'S FIRST DATA REQUEST

Kentucky Frontier Gas, LLC, by counsel, responds to the Commission's first request for information.

Submitted By:
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WITNESS: SHUTE

1. Refer to Paragraph 3 of Frontier's December 20, 2011 application ("Application") and Exhibit 3 thereto. Frontier has provided its own Adoption Notices for Alert Oil and Gas Company and Interstate Gas Company, and an Adoption Notice for J.W. Kinzer Drilling Company by Quality Natural Gas, LLC ("Quality").

a. Explain why there is no Adoption Notice for Quality or KLC Enterprises by Frontier, and why there are no rates or tariffs for Kinhag Development or for farm tap customers of Belfry Gas.

WITNESS: SHUTE

Frontier: The application lists various entities associated with the Kinzer organization that Frontier now operates or from which Frontier delivers gas to customers.

- Quality rates are listed on sheet R-5 of the Frontier tariff.
- KLC rates are listed on sheet R-1 of the Frontier tariff.
- Kin-Hag Development was listed in error; it is a real estate entity with utility customers on Frontier EKU, not farm taps.
- Belfry Gas has no farm tap customers.

b. Provide the rates currently charged to Belfry Gas and Kinhag Development farm tap customers.

Frontier: See above; Belfry has no farm taps, Kin-Hag customers are on EKU.

WITNESS: SHUTE

2. Refer to Paragraphs 4 and 5 of Frontier's Application, specifically, the discussion of the 180 customers that have an allotment of free gas.

a. The discussion indicates that some of these customers have an annual limit on the volume of free gas they receive, with a weighted average annual limit for all such customers of 180 Mcf. Provide the number of customers with annual limits of: less than 100 Mcf; between 100 and 200 Mcf; and more than 200 Mcf.

Frontier: (All approximate.)
There are 35 customers with 1 to 99 mcf per year of free gas.
There are 123 customers with annual limits of 100 to 200 Mcf in 16 different levels. The 200 Mcf limit is the most common, with 84 customers at that level.
There are 17 customers between 203 and 600 Mcf per year, and 2 unlimited free gas customers.

b. Paragraph 5 states that Frontier bills these customers "at the applicable tariffed rate for paying customers" for gas used in excess of the customers' annual limit. For the 12 months ending June 2011, which Frontier proposes as a test period, provide the volume of "excess" gas for which it billed the free gas customers and the amount of revenue generated by these billings.

Frontier: That statement was in error: the existing tariffs are not used for the excess gas. The price is set monthly by Kinzer at the daily average TCO index price, with no margin or markup imposed by Frontier. For the test period, aprx 15 Free Gas customers were billed about 3,296 mcf and $16,366 gross revenue, but zero margin to Frontier.

c. Paragraph 4 refers to tariffed and untariffed rates applicable to the free gas customers. For each of the systems listed in Paragraph 3 of the Application as having farm tap customers, provide that system's existing untariffed rates.

Frontier: Upon purchase of the farm taps, Frontier took over billing as prescribed by Kinzer. This includes customers with allotments of Free Gas from Alert, Quality and KLC. Most of the free gas customers have an annual mcf limit. After that amount is used by a customer in a calendar year, Kinzer specifies a monthly variable rate based on TCO Appalachian Index to be charged for all mcf above the limit.

For December 2011 for example, this rate was $3.85 per mcf, compared with $4.52 paid by Frontier Auxier for gas delivered by Columbia.

There are 5 customers on KLC and Quality that have individual Contract rates specified by Kinzer. These rates are set by specific contractual obligations from a gas lease.

3. Refer to Paragraphs 9 and 16 of the Application.
a. Explain why Frontier intends to establish a farm tap-specific Gas Cost Adjustment mechanism as part of its planned general rate application for its distribution operations rather than in this proceeding (Case No. 2011-00513).

WITNESS: SHUTE

Frontier: Frontier intends that the Gas Cost Adjustment mechanism for Farm Taps will be separate from, and simpler than the GCA for regular utility system customers. Supply is provided from only 2 entities, there are no gas losses when buying & selling on the same Frontier meter, and volume is modest. Frontier intends to contract for gas supply at a fixed price for a set period, thus negating the need for a commodity cost balancing account.

It was anticipated that all general rules & regulations and tariff changes would be included in a General Rate case filed before now. However, due to the timing of and extent of time needed to resolve the issues related to the acquisition of BTU Gas, that has not occurred. Additionally, while some of the FT tariff issues are FT specific, many are included in the general tariffs. It seemed more efficient to have one tariff review, rather than one in each case.

Clarify whether Frontier expects the final rates approved by the Commission in this case to include a gas cost component.

Frontier: Yes.

4. Refer to Paragraph 12 of the Application. Explain in detail how Frontier determined that its farm tap service represents 17 percent of its operations costs.

WITNESS: SHUTE

Frontier: It is impossible to cleanly separate operating costs between farm taps and other utility customers. The logic for the allocation figure is developed in Paragraph 10-11-12 of the Application.

As explained below, every operator is subject to working on farm taps along with any other utility customer. There are no pipelines or mains to repair or maintain, but the farm taps are much more widely flung, which adds greatly to mileage and time spent on meter reading, repairs and callouts.

There are some functions like billing and collections where the farm taps should be identical to all other customers. But the Kinzer contractual rate matrix makes billing more complex, offset by slightly less work for collections.

There are about 450 farm taps that pay tariffed rates, and about 180 farm taps that are free or fixed contract.

The Free & Contract customers were part of the original package of Kinzer meters that Frontier purchased. Frontier accepted the responsibility for these customers in exchange for a lower price and favorable terms on the other Kinzer assets. Frontier intends that the cost of operating these Free & Contract customers will be spread among all tariffed customers of Frontier, both FT and utility.

The paying FTs are about 13.2% of the total 3400 meters of Frontier, or 14% of all tariff-paying customers. These FTs consumed about 30,800 MCF in the test year, which is about 10.2% of 300,000 MCF total annual volume, or about 10.9% of all gas sales with margin.

Note: none of the figures used in this proceeding include BTU Gas, which Frontier operates for a bankruptcy trustee.

With all this in mind, Frontier attributes 12% of most operating expenses to the tariff-paying farm taps.

The remaining 88% of ops expenses will be allocated to utility customers in the upcoming consolidated general rate case.

WITNESS: SHUTE

5. Refer to Paragraph 15 and page 2 of Exhibit 2 of the Application.
a. Explain why the annual Mcf volumes used to derive the proposed Non-Gas Commodity Charge are estimated volumes rather than actual volumes.

Frontier: The initial calculations were in error. We have very limited historic data on the Farm Tap customers. The billing system reported volume for the test year was 52,473 Mcf. After the filing, we discovered this figure includes Free Gas and Contract Gas for which tariffs do not apply.

b. Explain how the estimate of 52,000 annual Mcf was determined. Include all applicable workpapers, spreadsheets, etc. with the explanation, which should reflect the extent to which the excess volumes of “free gas” customers are included.

Frontier: See above. This figure included free and contract-priced gas that is not subject to a tariffed rate. The paying Interstate and Kinzer customers used about 30,600 MCF in the test year (Exhibit).

c. Provide calculations supporting the $4.18 projected gas cost.

Frontier: The exhibit filed in December showed the then-projected futures prices, multiplied by projected volumes, to arrive at $4.18 per mcf weighted average cost. Frontier intended to contract a fixed price for the entire year. Over the winter, gas prices have fallen, and producers aren’t willing to lock up low prices for more than a few months. Frontier has reached agreements with the 2 suppliers to fix gas price at $3.60 per mcf (about $3.00 per Dth) for the period of April to July 2012. Frontier thus revises the gas cost for farm taps to $3.60 per mcf.

d. Explain why free gas customers will not be charged the proposed $10 monthly service charge after they have used their allotment of free gas.

Frontier: Frontier intended to charge the Free Gas customers the monthly service charge for any month in which they are billed for gas over the annual allocation. However, it appears that this is not allowed under the standard form contract used by the Kinzer organization.

e. Explain how the average usage of 60 Mcf per year was determined.

Frontier: We have used 60 Mcf/yr in every financial model since inception ca 2005. This was the approximate annual use of the average residential customer in the first systems EKU, Mike Little and Belfry. Without detailed analysis, Frontier estimates that its largest 100 commercial-industrial customers use about 100,000 MCF, leaving smaller customers to use about 200,000 MCF among 3300 meters, or 60.6 MCF each.

f. According to page 2 of Exhibit 2, the current weighted average annual bill of Frontier's farm tap customers is $542.40. Provide the average annual bill of each of the individual farm tap systems listed in paragraph 3 of the Application.

Frontier: The "weighted average" in this case is a 60 Mcf/yr customer, weighted between the Kinzer and Interstate tariff rates.

Interstate customers are currently paying $14.40 per Mcf or $864.00 per year.

Alert and KLC customers are mostly paying $7.45 per Mcf or $447.00 per year.

Quality has about 14 customers that pay $13.05 per Mcf or $783.00 per year.

WITNESS: SHUTE

6. Refer to page 1 of Exhibit 2 of the Application.
a. Explain in detail how the farm tap-specific amounts shown for the individual operating expenses were derived.

Frontier: Gas Sales Revenues and Natural Gas Expenses and Depreciation are actual numbers from the test period, directly attributable to Farm Taps.

All other Expenses were allocated at 12% of the actual expenses to operate all systems as described above in 4 above.

b. Clarify that the following expense items do not include any Frontier in-house labor costs.

(1) Outside Services
(2) Pensions and Benefits
(3) Insurance
(4) Taxes, Property, PSC, Other

Frontier: Outside Services includes outside legal, accounting and tax preparation. This category included the manager-partner salary, which is moved to Admin.

Pensions & Benefits are paid to or on behalf of Frontier employees, including health insurance.

In preparing these responses, we found that Taxes-Other includes all payroll related taxes for all employees. Payroll taxes include Social Security, Medicare, unemployment and workers comp, and are about 14.5% of the salary rate. These expenses will be moved to the appropriate categories Mtce-Office-Meters for future filings.

c. Provide the number of employees for whom some portion of their compensation is included in the operating expenses shown for the test year. Include each employee's job title and the farm tap job functions he or she performs.

Frontier: There are currently 7 full-time Operations Technicians for Frontier. These expenses do not include a temporary operator working only on BTU Gas. Two of the operators spend more time on meter reading vs other utility duties, but all of them are trained to do every task in a utility. All of them have worked on farm taps. All of them rotate on-call duties. Many of the call-outs in winter are freeze-offs on farm taps on gathering pipelines.

Frontier has 2 full-time office workers for billing and collections, a full-time financial analyst working on front-end accounting, and a full-time manager.

All of these local employees perform their respective functions for farm taps as well as for every other utility customer.

d. Of the employees identified in the response to part c. of this request, identify those receiving a 5 percent raise and the date of the employee's raise.

Frontier: Frontier has revised the base financials and the known & measurable changes to those.

Frontier gave significant increases to most of the office and field staff in May 2011, which changes were not reflected in the original filing.

Frontier has scheduled raises effective July 1, 2012 that will raise operators by 3% and office staff by 5%.

e. The note to the adjustment to Distribution Expenses reads "add 1 operator, 5% raises."

(1) Provide the number of operators Frontier currently employs.
(2) Provide the date on which the new operator began as an employee of Frontier.

Frontier: See 6b above, 7 operators. The newest operator started June 6, 2011; his first paycheck was not booked until July 2011, after this Test Period.

(3) Provide a breakdown of the proposed adjustment of $6,718 which shows separately the amounts for the additional operator and the 5 percent raises. Explain whether the amount for the additional operator is equal to 17 percent of the operator's compensation.

Frontier: This section is revised and expanded in detail. All operator and office labor costs are allocated at 12%.

f. The note to the adjustment to Office Expenses reads, "rent due to increase $200 /month." Identify the owner of the relevant rental property and provide the date of the planned increase in rent.

Frontier: This is retracted. Office rental costs are included in Mtce Expense. Frontier's headquarters are in the former Auxier Road Gas office-shop-yard complex, which is leased from the former owner of Auxier. The old lease ran through December 2011, and there is no change to the monthly rate.

g. The note to the adjustment to Mgmt-Admin reads, "move Mgr., changes to HQ." Explain what is meant by "changes to HQ."

Frontier: Time and expenses for the partners are included in this category. The local manager is also an owner of Frontier, so it seems more appropriate to charge those expenses to Administration than Outside Expenses. This also includes a small increase in the time & expenses of the other 2 partners.

h. The note to the adjustment to Pensions & Benefits reads, "increase pension contribution." Explain how the amount of the adjustment, which reflects a 36 percent increase to the test year actual amount, was determined.

Frontier: This adjustment has been modified, see Exhibit.

In the test year, this expense was mostly medical insurance for employees in the test period. Two additional employees are now taking company insurance. The change from the test year is $300 per month or $432 annual attributed to FTs.

Frontier plans to contribute 3% of regular wages to a Simplified Employee Pension plan for each employee for wages paid starting July, 2012. The SEP plan was not included in the Test Year. The change will add about $10,000 per year or $1200 annual attributed to FTs.

WITNESS: SHUTE

7. Refer to Exhibit 5 of the Application, which contains a September 30, 2011 balance sheet and a profit and loss statement for the nine months ending September 30, 2011. It appears the balance sheet is provided on a consolidated basis as it separately identifies assets of gas systems acquired by Frontier, including the Alert Oil and Gas Company's farm tap utility plant. Confirm that the nine-month profit and loss statement also represents Frontier's operations on a consolidated basis.

Frontier: Yes.

Exhibit __

Kentucky Frontier Gas
Farm Tap Rate Calculations

FY Ended 06/30/11 Income Statement	**Test Year Actual**	**Known-Meas Adjustments**	**Adjusted Tyr**	**Known & Measurable Change**
OPERATING REVENUES:				
Gas Sales Revenues	$ 295,094		$ 295,094	
Other Revenues	$ -		$ -	
TOTAL REVENUES	$ 295,094	$ -	$ 295,094	
OPERATING EXPENSES:				
Natural Gas Purchases	$ 167,399		$ 167,399	
Maintenance Expense	$ 37,537	$ 3,900		add 1 Operator
		$ 2,902		6 Operators raises May11
		$ 874	$ 45,212	7 Operators raises Jul12
Office Supplies	$ 6,796		$ 6,796	
Outside Services	$ 16,514	$ (10,800)	$ 5,714	move Manager to Admin
Customer Records, etc	$ 21,288	$ 689		raises in May11
		$ 359	$ 22,336	raises in Jul12
Meter Reading Labor	$ 4,406		$ 4,406	
Admin Salaries	$ 22,260	$ 11,115	$ 33,375	move Mgr, changes to HQ
Pensions & Benefits	$ 2,712	$ 1,632	$ 4,344	incr med ins, st pension contribs
Property Insurance	$ 3,268		$ 3,268	
Other/Misc Expenses	$ 1,262		$ 1,262	
Depreciation	$ 13,428		$ 13,428	
Tax Expense - Other	$ 10,432		$ 10,432	
Income Tax Expense	$ 277		$ 277	
TOTAL OPERATING EXPENSE	$ 307,579	$ 10,670	$ 318,249	
NET OPERATING INCOME	-$12,485	-$10,670	-$23,155	

Kentucky Frontier Gas
Farm Tap Rate Calculations

Rate Calcs

Adjusted Operating Costs		$318,249		
Gas Cost (Test Year)		167,399		
Non-Gas Op Costs		$150,850		
Operating Ratio		*0.88*		
Grossup to Allowable Revenue		**$171,421**		
Number of Customers	450		***$10.00***	Monthly Service Charge
Annual MoChg Revenue		$54,000		
Annual Volume mcf	30,600			
Annual MCF Revenue		$117,421	***$3.84***	per MCF non-gas volumetric charge
Allowable Revenue		**$171,421**		
Gas Cost			***$3.60***	per MCF (projected)
Volumetric Charge			***$7.44***	per MCF
Annual Cost for 60 mcf/yr			**$ 566.40**	total proposed annual bill
			$ 542.40	current wtd ave annual bill
			4.4%	*average customer increase*

03/09/12