

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

In the Matter of:

KENTUCKY FRONTIER GAS
COMPANY, LLC AS BANKRUPTCY
OPERATOR OF B.T.U.GAS COMPANY

JAN 18 2012

PUBLIC SERVICE
COMMISSION

Vs.

CASE NO. 2012-

HARRY THOMPSON, THOMPSON ENERGY
ET. AL AND OTHER UNKNOWN ENTITIES

COMPLAINT

Kentucky Frontier Gas Company, LLC (Frontier), by counsel, petitions for an order directing Harry Thompson, Thompson Energy, Chattanooga Company or Chattaco, Wilon Gathering and entities associated with Thompson or Richard or Pam Williams et. al to cease their improper and unlawful service to certain customers of B.T.U. Gas Company ("BTU") and of diverting gas supplies of BTU and Frontier to their own use without authorization by this Commission or BTU and for a determination of ownership of certain pipeline facilities.

In support of its petition the following information is provided.

1. Kentucky Frontier Gas, LLC is a Colorado company authorized to do business in Kentucky. Its address is 4891 Independence St., Wheat Ridge CO 80033. Managing partners are Robert Oxford, Steven Shute and Larry Rich. A copy of its articles of organization and its certificate to operate in Kentucky were filed in Case No. 2008-00394.

2. The former owners and operators of BTU, Richard and Pam Williams, are involved in a personal bankruptcy case which has encumbered BTU's ability to continue operations. Frontier was appointed operator of BTU by the bankruptcy trustee in Case No.

10-70767-TNW on August 11, 2011.

3. Frontier as operator of BTU filed a tariff for a Gas Cost Adjustment mechanism on October 31, 2011. The tariff was approved for rates effective on and after November 2, 2011 in Case No. 2011-00374.

4. Frontier as operator of BTU filed a tariff for an emergency Gas Cost Adjustment mechanism on December 20, 2011. The tariff was approved for rates effective on and after January 9, 2012 in Case No. 2011-00512.

5. Frontier has learned in five months of operating the BTU system that the Lost & Unaccounted for gas (L&U) is inordinately high. For the August-December billing period, the L&U of BTU is at about 59%. In other words, almost 3/5ths of the gas purchased by BTU simply "disappeared". Some of this discrepancy is from leakage, but Frontier assisted BTU in a leak survey of the system in 2010 and believes leakage is a minor issue. Some of the L&U is due to inaccurate measurement, because most BTU meters are old and are apparently not under any meter testing program. Frontier believes that most of the L&U is plainly use by customers without meters, of which Frontier has found about 60 so far; and by foreign entities taking gas from illicit connections.

6. Under Commission rules, a gas utility cannot recover gas costs for more than 105% of its volumetric sales to customers. The L&U discrepancy between gas volumes purchased from suppliers versus gas costs recovered from customers results in a significant financial impact, as Frontier must subsidize the gas cost recovery losses incurred by BTU.

7. Frontier has found that the BTU system was interconnected with foreign pipelines. Three separate illicit connections to the Sigma system (now Frontier - Cow Creek) have been discovered and removed. These were direct and clandestine connections with no meter, both below- and above-ground, where BTU was improperly taking gas from Sigma. Area producers have similar stories, where BTU concealed connections to take un-measured gas from producing wells and pipelines.

8. On or about October 25, 2011, Frontier received a call from a BTU customer who wished to remain anonymous. The customer recounted a conversation with Pam Williams which purported to transfer the customer's account to Thompson Energy of Lexington, Kentucky. Information from customers in this area suggests that they are concerned about their gas supply and about uncertainty of the authorized gas supplier. Many fear the consequences of multiple gas operatives in the area.

9. On further investigation, Frontier found two pipeline segments which have served BTU customers for years, but which are now claimed by former owners Richard and Pam Williams as belonging to "Thompson Energy", which has no approved PSC tariff and no record of existence in Kentucky. These two segments at Hendricks and Oakley are still connected directly to BTU mains with no meter, just a block valve separating the putative Thompson lines from BTU. Frontier has closed these valves, but later found them slightly opened and feeding gas to the foreign "Thompson" pipeline sections.

10. The Hendricks segment is a 2-inch PE main that runs about two miles along Route 30 southwest of Salyersville from the Mountain Parkway into the Hendricks community. This segment serves a former school known as Hendricks Middle Fork School. Based on information Frontier has developed as operator of the BTU system and on information from a former BTU employee now working for Frontier, this meter was classified as a BTU customer for about 15 years. This segment was identified by Richard Williams to Frontier manager Robert Oxford as being a part of BTU in October, 2010. In direct conflict with this representation to Frontier, Richard Williams later produced a document purported to be a "deed" to sell this pipeline segment to Harry Thompson of Wilon Gathering. This document was executed in February, 2006, but not filed in the Magoffin County Clerk's office until October, 2011. No such sale or transaction was submitted by BTU for approval by, nor was it approved by the Commission. A copy of this document is attached as exhibit 1.

11. The Oakley system consists of at least two segments of 2-inch or 3-inch PE

main south of the Oakley community in the southern part of Magoffin County. BTU has meters on two “legs” of the system in this area, the main leg south-southeast along Rt. 1635 and the Chesapeake rail system into Bee Tree Branch, and a shorter leg along Right Oakley Creek Road. These two legs seem to be precisely described in a document “Descriptive Summaries of B.T.U. Pipeline, Inc. Service Areas and Pipelines” prepared by the Commission staff as Appendix Exhibit B for the original Case 92-220 that created the BTU utility. Copy attached as exhibit 2.

At that point in time - 1992-94 - the Oakley system was mainly old steel 6-inch lines FG-51 and G-39 stretching 13,000 feet and 2500 feet along Rt. 1635, with “also some service on... Right Branch Oakley Creek” (See exhibit 2 Section E on pages 5-6). Bee Tree Branch (See exhibit 2 Sec I on page 9) is similarly described as an old 4-inch steel line tying into the Oakley G-39 line, same area. The old steel lines have been replaced with PE, but these descriptions of BTU 1994 seem to precisely match BTU 2011 as recalled by the former BTU employee, now employed by Frontier. It appears from the investigation that there were 25-30 customers historically connected to and billed by BTU Gas on this section of Oakley Road, which are now claimed by Thompson et al.

12. Frontier has not completed its investigation and may likely identify such former customers on other segments formerly operated as BTU.

13. In Case 92-220 many of these same issues were presented to the Commission. The Commission determined the scope of the BTU system and of its unlawful activities. A letter from the Commission’s Executive Director to Frontier dated November 28, 2011 summarizes the findings in the case. It is attached as exhibit 3.

To avoid additional harm to BTU by loss of customers and loss of gas due to unauthorized, uncompensated use by foreign entities, Frontier seeks an order directing Harry Thompson, Thompson Energy, Richard or Pam Williams or any other entity from improperly serving certain customers and from the improper use of pipeline segments of BTU.

Frontier requests that the Commission compel the immediate and complete reinstatement of any and all gas line segments and customers to BTU Gas as they are identified and to authorize Frontier to disconnect illegal connections and install metered service to all affected customers. .

Frontier further requests that the Commission find that any agreements, transfers of facilities, easements rights of way agreements or other transfer of service, rights or property by BTU or Richard or Pam Williams or others acting on their behalf be declared unlawful.

SUBMITTED BY:

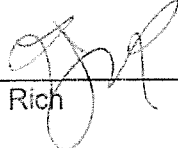
John N. Hughes
124 W. Todd St.
Frankfort, KY 40601
502-227-7270
Attorney for
Applicant

AFFIDAVIT

County of Floyd

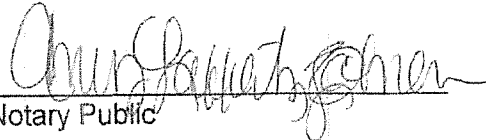
Commonwealth of Kentucky

Affiant, Larry Rich, after being sworn, states that he is a Managing Partner of Kentucky Frontier Gas, LLC and that the information contained in this complaint is true and correct to the best of his knowledge.



Larry Rich

Sworn and subscribed before me by Larry Rich, the _____ day of January, 2012.



Notary Public

My commission expires: 9-24-13

EXHIBIT 1

AGREEMENT AND BILL OF SALE

THIS AGREEMENT AND BILL OF SALE, made and entered into this 15th day of February, 2006 by and between B.T.U. Gas Company, Inc. hereinafter referred to as BTU; and Wilon Gathering Systems, Inc., hereinafter referred to as WGS.

WHEREAS, WGS has advanced to BTU funds to construct and lay a gathering pipeline in Magoffin County, Kentucky from P & R Trust property located on Craft Creek and running across the easements of Alvin Minix, Greg and Manuel Minix, Paul Bailey and Carl J. Howard; thence along the bank to the railroad and following the railroad track along the Howard property to the Carver Church across Rob Minix and Paul Bailey properties; thence leaving Travis Shepherd property, Hager Minix, Patrick property, Ronald Minix, Franklin Bailey, Tommy Frazier, Larry Lee Arnett, R.C. May, and Willard Bailey to the compressor station located on the James Edgar Arnett property.

WHEREAS, BTU asserts no ownership in the aforesaid gathering pipeline and desires to assign, transfer, sell convey, and set over to WGS any interest it may have in the gathering system, and

WHEREAS, BTU desires to establish the ownership or title as to the gathering pipeline set forth herein, and

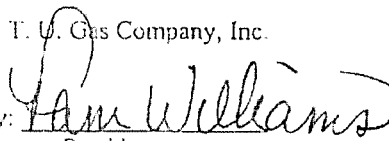
WHEREAS, BTU may from time to time have the need to transport gas through the gathering system, and

WHEREAS, BTU and WGS for and in consideration of the agreements set forth herein the parties do agree as follows:

1. That BTU does hereby assign, transfer, sell, convey and set over unto WGS any interest that it may have in the gathering pipeline in Magoffin County, Kentucky from P & R Trust property located on Craft Creek and running across the easements of Alvin Minix, Greg and Manuel Minix, Paul Bailey and Carl J. Howard; thence along the bank to the railroad and following the railroad track along the Howard property to the Carver Church across Rob Minix and Paul Bailey properties; thence leaving Travis Shepherd property, Hager Minix, Patrick property, Ronald Minix, Franklin Bailey, Tommy Frazier, Larry Lee Arnett, R.C. May, and Willard Bailey to the compressor station located on the James Edgar Arnett property.

2. That BTU shall have the right to transport its natural gas through the said gathering pipeline to its customers and provide WGS an accounting for such natural gas transported.

B. T. U. Gas Company, Inc.

By: 
President

Wilon Gathering Systems, Inc.

By: Harry Thompson
President

STATE OF TENNESSEE

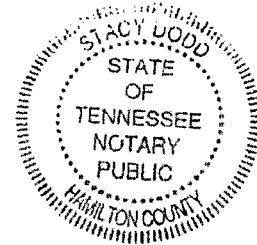
COUNTY OF HAMILTON

On this 15th day of February, 2006, before me a Notary Public in and for said state and county, personally appeared Pam Williams, President of B. T. U. Gas Company, Inc., known to be the person who executed and delivered the within Agreement and Bill of Sale and acknowledged to me that she executed the same for the purposes therein stated.

Stacy Dodd
Notary Public

COMMISSION EXPIRES:
April 22, 2009

My commission expires _____



STATE OF TENNESSEE

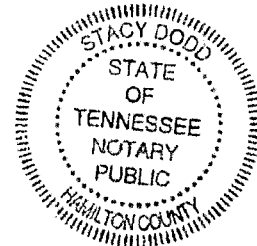
COUNTY OF HAMILTON

On this 15th day of February, 2006, before me a Notary Public in and for said state and county, personally appeared Harry Thompson, President of Wilon Gatherings Systems, Inc., known to be the person who executed and delivered the within Agreement and Bill of Sale and acknowledged to me that she executed the same for the purposes therein stated.

Stacy Dodd
Notary Public

MY COMMISSION EXPIRES:
April 22, 2009

My commission expires _____



THIS INSTRUMENT PREPARED BY:

Wilon Gathering Systems, Inc.
3875 Hixson Pike
Chattanooga, Tennessee 37415

By: _____

AGREEMENT AND BILL OF SALE

THIS AGREEMENT AND BILL OF SALE, made and entered into this 15th day of February, 2006 by and between B.T.U. Gas Company, Inc., hereinafter referred to as BTU; and Wilson Gathering Systems, Inc., hereinafter referred to as WGS.

WHEREAS, WGS has advanced to BTU funds to construct and lay a gathering pipeline in Magoffin County, Kentucky from the Mountain Parkway along State Route 30 to the Middle Fork School a distance of approximately four (4) to five (5) mile, and

WHEREAS, BTU asserts no ownership in the aforesaid gathering pipeline and desires to assign, transfer, sell convey, and set over to WGS any interest it may have in the gathering system, and

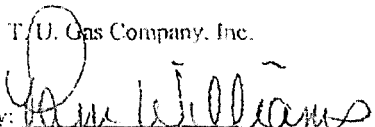
WHEREAS, BTU desires to establish the ownership or title as to the gathering pipeline set forth herein, and

WHEREAS, BTU may from time to time have the need to transport gas through the gathering system, and


WHEREAS, BTU and WGS for and in consideration of the agreements set forth herein the parties do agree as follows:

1. That BTU does hereby assign, transfer, sell, convey and set over unto WGS any interest that it may have in the gathering pipeline in Magoffin County, Kentucky from the Mountain Parkway along State Route 30 to the Middle Fork School a distance of approximately four (4) to five (5) miles.
2. That BTU shall have the right to transport its natural gas through the said gathering pipeline to its customers and provide WGS an accounting for such natural gas transported.

B. T. U. Gas Company, Inc.

By: 
President

Wilson Gathering Systems, Inc.

By: 
President

606 349 2328

Magoffin Co Clerk

08:05:00 p.m. 11-08-2011

2/2

STATE OF TENNESSEE

COUNTY OF HAMILTON

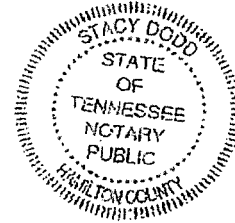
On this 15th day of February, 2006, before me a Notary Public in and for said state and county, personally appeared Pam Williams, President of B. T. U. Gas Company, Inc., known to be the person who executed and delivered the within Agreement and Bill of Sale and acknowledged to me that she executed the same for the purposes therein stated.

Stacy Dodd

Notary Public

MY COMMISSION EXPIRES:
April 24, 2009

My commission expires _____



STATE OF TENNESSEE
MAGOFFIN COUNTY

Before me, _____, of the County and State aforesaid
did appear _____, known to me to be the person whose name
is subscribed to the foregoing instrument, and acknowledged to me that she
executed the same for the purposes therein stated.

Given under my hand and seal of office this 3rd day of Nov 2011
at 115 Poplar St. Room 554
Time 1:13 PM
Melissa Stollberg

EXHIBIT 2

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 92-220 DATED 4/27/94

INSPECTION REPORT

B.T.U. Pipeline, Inc.
Magoffin County, Kentucky.

April 8, 1994

BRIEF

On March 21-22, 1994, Commission Staff visited B.T.U. Pipeline, Inc. (B.T.U.) to inspect all of B.T.U.'s pipelines and customer services and to determine the jurisdictional status of B.T.U.'s operations. Present for Staff were: David Kinman, a gas safety investigator with the Commission's Gas Pipeline Safety Branch; and Mark Hostetter and Ralph Dennis with the Commission's Gas Branch. Representing B.T.U. was Richard Williams.

The pipeline facilities and service areas inspected fall into two categories: pipelines installed or owned by B.T.U. (Rockhouse Fork Area, Elk Creek/Lick Creek, Dixie Avenue/Auxier Branch, Lakeville Road/Petro); and pipelines originally owned by Inland Gas Company (Inland). The service areas in this latter category and the designated ex-Inland pipeline are: Oakley (FG-51), Royalton (FG-47/G-39), Punchedon Camp Creek, Salt Lick, and Long Branch (G-39), and Beetree Branch (FG-40/41). Also inspected in some of these service areas were lateral lines which B.T.U. has installed.

All of these pipelines have customer services; however, responsibility for those customers connected to or in the general area of pipelines previously owned by Inland is claimed by both B.T.U. and Sigma Gas Corporation (Sigma), a local gas distribution

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utility providing service in Salyersville and jurisdictional to the Commission. This dispute, concerning customers most of whom have been considered in the past to be subject to 807 KAR 5:026 (farm tap service), is the subject of Civil Action No. 93-CI-00185 in Magoffin Circuit Court.

Included in this report are: Exhibit A, a county map which depicts the geographical location of each pipeline/service area and the extent to which the pipelines are interconnected; and Exhibit B, a series of descriptive summaries with details on each pipeline/service area.

INVESTIGATION

B.T.U. has installed a series of interconnected pipelines which stretch from north of Salyersville, southward through and around Salyersville, to the Bull Branch area south of Salyersville. This interconnected pipeline system includes several dead-end lateral lines from which additional service is provided. In the southern area of this system (Lakeville Road area), B.T.U. has connected its pipeline to the Petro pipeline (to which B.T.U. claims ownership) which had been but is not presently connected to an ex-Inland pipeline (FG-47).

*Separate
formed in hills*

B.T.U. also operates a pipeline in the vicinity of Highway 114 east of Salyersville designated Rockhouse Fork. It is a dead-end lateral line which has been disconnected from a pipeline which generally parallels Highway 114 (the R.C. Energy pipeline),

114D

114V

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operated by Sigma and which Sigma considers to be part of its distribution system.

From these pipelines and lateral lines, B.T.U. provides gas service to residential and small commercial end-users. According to B.T.U., the sources of gas for this portion of its operations are local wells; none of this gas leaves the pipeline system.

B.T.U. has also provided service to many end-use customers from various pipelines previously owned by Inland (and were operated by Inland as gathering pipelines): FG-47, FG-51, G-39, and FG-40/41. From some of these pipelines, B.T.U. has since installed lateral lines to provide service. Some of the customers served from some of these lateral lines were previously directly connected to ex-Inland pipelines, FG-47 or G-39. Pursuant to the Court's Order in CI-93-00185, B.T.U. has been ordered to maintain service to these customers, both those customers served directly from ex-Inland pipelines and those now served from more recently installed lateral lines, until the Court issues a final ruling.

According to B.T.U., the source of gas for these customers is principally gas flowing through the G-39 pipeline for ultimate delivery to Sigma. Gas delivered into G-39 is from either Equitable Resources Exploration or Devco/Global Environmental Industries, Inc. However, B.T.U. stated that gas from local wells which belong to B.T.U. is used to provide service to customers now connected to two of B.T.U.'s lateral lines (which are actually well

47-513
Inland line

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lines from the J. W. Howard and C. K. Stevens wells and have been disconnected from ex-Inland pipelines).

During the course of this inspection, Mr. Williams stated that all of his customers' taps and meter sets had been inspected by Commission Staff prior to the initiation of any service, except for the most recent group of customers who are provided service in the Punchedon Camp Creek area. However, after a search of Commission records, Staff has been unable to locate any documents which indicate that any of B.T.U.'s customers' services have been inspected, except for the farm tap customers who are presently connected to the G-39 pipeline. Since B.T.U. has considered itself a farm tap system providing gas service to customers pursuant to KRS 278.485, Commission Staff's inspection of a customer's tap and meter set is required prior to initiation of service (807 KAR 5:026, Section 3(4)).

FINDINGS

1. The pipelines which B.T.U. has installed (Elk Creek/Lick Creek, Buffalo Creek, and Dixie Avenue/Auxier Branch) and acquired through purchase (Petro), along with the various lateral lines, are operated as a self-contained gas system, the only purpose of which at present is to provide service to end-users. The Rockhouse Fork pipeline, while not interconnected with these other pipelines, is operating in the same manner. Gas service in all of these areas represents a distribution utility function as defined in KRS 278.010(3)(b).

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2. Meter sets for customers served from the Elk Creek/Lick Creek, Dixie Avenue/Auxier Branch and Petro pipelines generally comply with Commission regulations for distribution service. However, some meter sets had atmospheric corrosion; a limited number had copper tubing on the customer side of the meter; and some had hose clamps and aboveground plastic pipe connecting the customer's service line to the meter.

3. While inspecting the B.T.U.-installed pipelines, some areas were observed where the soil had eroded and exposed portions of plastic pipe. At each of these points, the depth of the pipeline did not appear to be adequate and in compliance with 807 KAR 5:022, Section 7(12)(a); and there was no evidence of the installation of tracer wire, a violation of 807 KAR 5:022, Section 7(12)(e). Inadequate depth and lack of tracer wire is also evident on the Lick Creek pipeline where it ends on Highway 3334, and the end of the pipe is exposed above ground.

4. B.T.U. has installed pipeline markers along the routes of the pipelines it has installed. However, none appeared to include the owner's name, address, or telephone number, a violation of 807 KAR 5:022, Section 14(5)(d)(1) and (2).

5. The only current source of gas for customers connected to the FG-51 pipeline (Oakley service area) is gas being backfed into the pipeline from the G-39 pipeline. While local wells are connected to the FG-40/41 pipelines and are being used to provide service to customers connected to these pipelines, no local gas

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enters the G-39 pipeline since the valve at the interconnection point of FG-40/41 and G-39 is closed. Gas service in each of these instances represents a distribution function as defined in KRS 278.010(3)(b).

6. B.T.U. is also providing service to customers connected to three lateral lines: the J. W. Howard well line, the C. K. Stevens well line; and the Puncheon Camp Creek line. Both the Howard and Stevens well lines used to be but are not presently connected to ex-Inland pipelines, FG-47 and G-39 respectively. The Puncheon Camp Creek lateral, which is directly connected to the G-39 pipeline, has no wells connected to it. Gas service in all three of these instances represents a distribution function as defined in KRS 278.010(3)(b).

RECOMMENDATIONS

1. B.T.U. should be declared a gas distribution utility and be required to develop and file with the Commission an Operating and Maintenance Plan [807 KAR 5:022, Section 13(2)(b)], an Emergency Plan [807 KAR 5:022, Section 13(9)], a Damage Prevention Program [807 KAR 5:022, Section 13(8)], and a Drug Testing Plan (807 KAR 5:023).

2. B.T.U. should adopt a standard method of meter and service line installation in compliance with 807 KAR 5:022, Section 8(2)(d), and provide a copy to the Commission and prospective customers. Any rebuilding of existing meter sets or service lines should comply with the standard method adopted.

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3. B.T.U.'s meters and regulators at all customer services should comply with 807 KAR 5:022, Section 9(2)(a), (b), (c), and (f).

4. Test requirements for service lines and plastic pipelines before being placed in service should comply with 807 KAR 5:022, Section 11(6)(a), (b), and (c); and Section 11(7)(a), (b), (c), and (d).

5. B.T.U. should operate its system at pressures in compliance with 807 KAR 5:022, Section 13(12)(a) and (b) and Section 13(13)(a) and (b).

6. Any service lines reinstated for service by B.T.U., or any facilities which B.T.U. abandons or inactivates, should comply with 807 KAR 5:022, Section 14(14) and (15).

7. Each B.T.U. customer should be separately metered to comply with 807 KAR 5:022, Section 8(2)(e), including customers who receive gas as compensation for leases and rights-of-way [807 KAR 5:022, Section 8(2)(b)]. B.T.U. should correct any existing service where a customer is not separately metered, including three services in the Dixie Avenue/Auxier Branch service area (Will Conley, Jimmy Hoskins, and Orvel Howard) and services in the Oakley area where three customers are served from one meter (Ronald Minix, Sr., Jaspas Minix, and Ronald Minix, Jr.).

B.T.U. should also replace any inoperable meters at existing services, including the meters for Janet Smith (Dixie Avenue/Auxier Branch); Dave Montgomery (Oakley); and Randolph Jackson (Royalton).

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8. B.T.U.'s installation of plastic pipe should comply with 807 KAR 5:022, Section 7(12)(a), (c), (d), (f), and (e). The depth of B.T.U.'s plastic pipelines and whether tracer wire (or other means of location) has been used should be the focus of a follow-up inspection.

9. B.T.U. should immediately address the dangerous conditions in the following service areas viewed during the inspection to comply with 807 KAR 5:006, Section 14(1)(b), and notify the Commission that the corrections have been made: copper tubing at three meter sets in Elk Creek (Norma Howard, Virgil Plummer and Todd Plummer); aboveground plastic at one service (Molly Montgomery), and a pair of vise grips holding the regulator pin in the out position at another service (Troy Minix), both in Oakley; black plastic pipe at two meter sets in Puncheon Camp Creek (Adam Risner and Mary Risner); and the use of hose clamps at one meter set in Lakeville (Viola Minix).

10. B.T.U. should immediately replace the inoperable regulator at the Phillip Conley meter set in Puncheon Camp Creek to comply with 807 KAR 5:022, Section 4(30)(b)1, and notify the Commission that the replacement has been made.

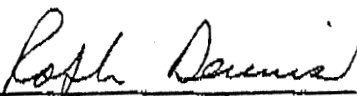
11. The tariff which B.T.U. has submitted in Case No. 92-220 should be rejected since it relates to gas service provided pursuant to 807 KAR 5:026. B.T.U. should resubmit its tariff as a gas distribution utility with all rates, services, and rules it intends to provide. B.T.U.'s tariff should address in some manner

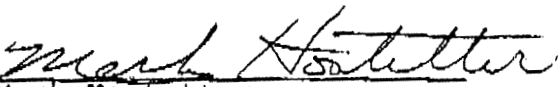
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the flat rates and free gas which B.T.U. currently provides to some customers, and such rates and service should be in compliance with KRS 278.030 and KRS 278.170.

12. Pipeline markers installed by B.T.U. should comply with 807 KAR 5:022, Section 14(5)(a), (c), and (d) 1 and 2.

Respectfully submitted,


Ralph E. Dennis, Manager
Gas Branch


Mark Hostetter
Geologist


David B. Kinman
Utility Investigator

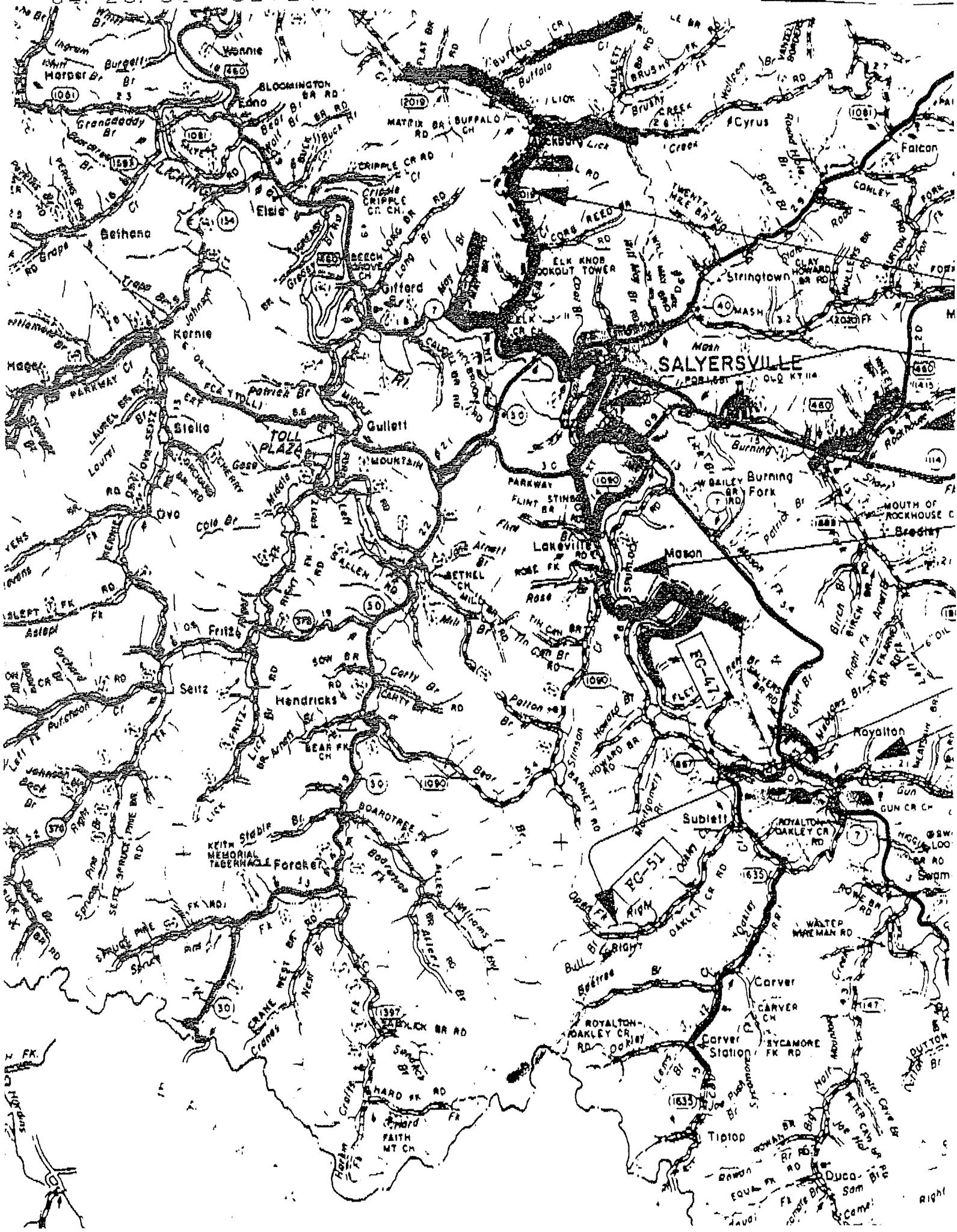
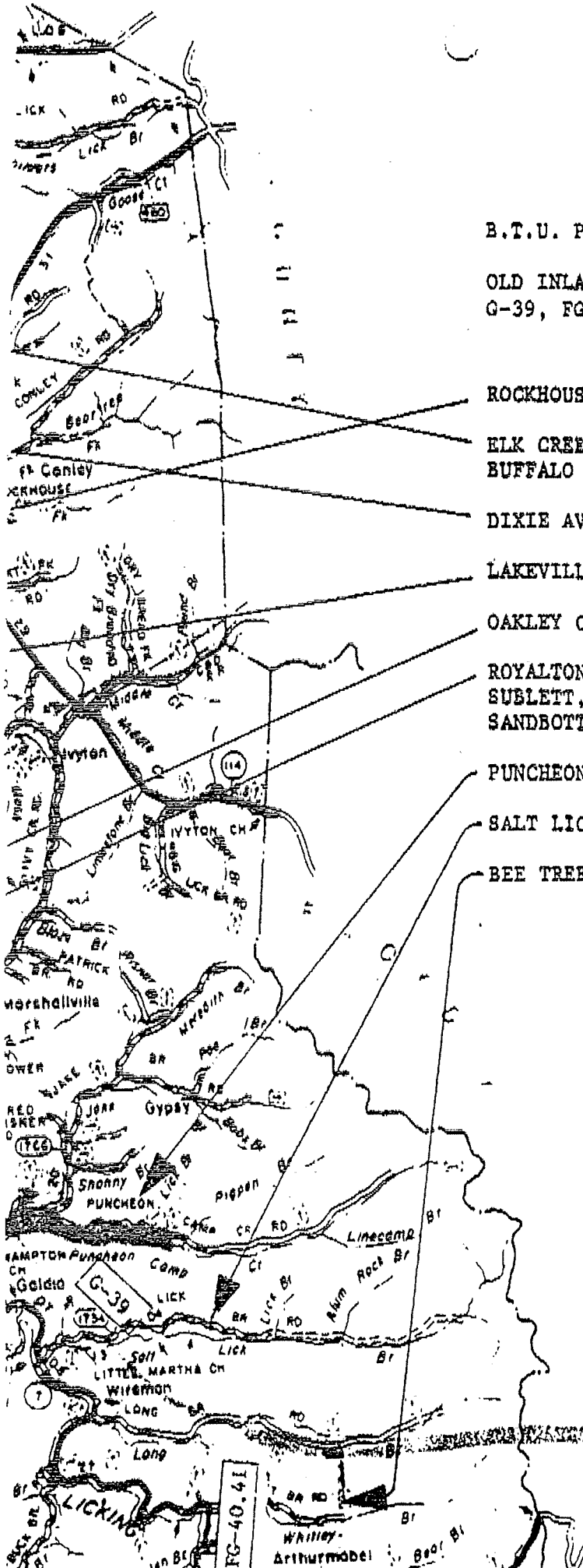


EXHIBIT "A"



B.T.U. PIPELINE, INC. PIPELINES

OLD INLAND GAS CO. PIPELINES
G-39, FG-47, FG-51, FG-40,41

ROCKHOUSE FORK AREA

ELK CREEK, LICK CREEK, MAY BRANCH,
BUFFALO CREEK AREA

DIXIE AVENUE, AUXIER BRANCH AREA

LAKEVILLE AREA

OAKLEY CREEK AREA

ROYALTON AREA WHICH INCLUDES:
SUBLETT, MEADOWS AREA
SANDBOTTOM, ROYALTON AREA

PUNCHEON CAMP CREEK AREA

SALT LICK BRANCH AREA

BEE TREE BRANCH AREA

FG-40.41

EXHIBIT B

DESCRIPTIVE SUMMARIES OF
B.T.U. PIPELINE, INC. SERVICE AREAS AND PIPELINESA. SERVICE AREA: Rockhouse Fork

LOCATION: Hwy. 114 east, left onto Hwy. 1415; also includes a lateral which crosses Highway 114 to Hwy. 1888.

NO. OF CUSTOMERS: 5 (includes 1 customer on Hwy. 1888 lateral)

CONSTRUCTION: Approximately 7,000 feet of 2-inch plastic pipe (with tracer wire according to B.T.U.).

SOURCE OF GAS: Local wells - Cain (2), Collinsworth (5), and Lemaster (1).

PIPELINE(S)/INTERCONNECTIONS: The Rockhouse Fork pipeline is currently connected to a series of active local wells. In the past, this line was connected to Salyersville's local distribution utility when operated as Salyersville Gas Company, Inc. The pipeline is presently disconnected from the distribution utility, now operating as Sigma Gas Corporation.

As currently configured, this system consists of a series of well lines connected to a pipeline, through which gas is moved to provide service to four end-users. B.T.U. has also laid a lateral pipeline from the Rockhouse Fork line, across Hwy. 114 to Hwy. 1888, to provide free gas to a well owner (Calvin Cain).

B. SERVICE AREA: Elk Creek (including May Branch) and Lick Creek

LOCATION: Elk Creek - Along Hwy. 460 west, right onto Hwy. 2019 and ending at the Hwy. 2019/Hwy. 3334 intersection;

includes two lateral pipelines--at May Branch (in the vicinity of Hwy. 460) and a gravel road off Hwy. 2019. Lick Creek - Begins at the Hwy. 2019/Hwy. 3334 intersection, follows Hwy. 3334 east until pipeline ends, and includes one lateral on a gravel road; and a second leg of Lick Creek follows Hwy. 2019 north beyond the intersection with Hwy. 3334 until the pipeline ends.

NO. OF CUSTOMERS: Elk Creek - 41

Lick Creek - 10

CONSTRUCTION: Elk Creek - Approximately 20,000 feet of three-inch plastic with tracer wire (according to B.T.U.) along Hwy. 460 and Hwy. 2019, plus approximately 4,000 feet of two-inch plastic with tracer wire (according to B.T.U.) for the May Branch and gravel road laterals. Lick Creek - Approximately 7,000 feet of three-inch plastic on Hwy. 3334, including the gravel road lateral; and approximately 11,000 feet of three-inch plastic for Hwy. 2019 (beyond the intersection).

SOURCE OF GAS: Local wells - Fred Howard (1), Tackett (2), Vanderpool (2), and Conley (1), Martin (1), G. V. Joseph (1), and R. C. May (2).

PIPELINE(S)/INTERCONNECTIONS: The Lick Creek pipeline interconnects with the Elk Creek pipeline, which in turn is interconnected with B.T.U.'s Dixie Avenue pipeline. The Howard well, which is directly connected to the Lick Creek pipeline on Hwy. 3334, is the principal source of gas for customers connected to these pipelines.

One end of each leg of the Lick Creek pipeline ends without connection to anything. The other ends of each leg interconnect to the Elk Creek pipeline which eventually interconnects with another portion of the B.T.U. system (the Dixie Avenue pipeline). At present all gas which enters these pipelines is used to provide service to end-users connected to these pipelines (as well as customers connected to other pipelines owned or claimed by B.T.U.).

C. SERVICE AREA: Dixie Avenue/Auxier Branch

LOCATION: Begins on Dixie Avenue (off Hwy. 460 west) and ends at its interconnection with the Petro pipeline owned by B.T.U. This pipeline includes a section along Auxier Branch which had been installed a few years ago.

NO. OF CUSTOMERS: 7

CONSTRUCTION: Approximately 7,000 feet of three-inch plastic pipe with tracer wire (according to B.T.U.), including one lateral on a gravel road (off the newer section of pipeline).

SOURCE OF GAS: Local wells - Fred Howard (1) and Tackett (2), Martin (1), G. V. Joseph (1), and R. C. May (2).

PIPELINE(S)/INTERCONNECTIONS: The Dixie Avenue pipeline, including the Auxier Branch section, is interconnected at one end with the Elk Creek pipeline and at the other end with the Petro pipeline. This pipeline system was interconnected with Salyersville's local distribution utility in the area of the Auxier Branch section. At present, this connection has been severed by Sigma Gas.

Dixie Avenue/Auxier Branch delivers gas to end-users directly connected to the pipeline. Some of the customers served have no meters since they are either free customers or billed a flat rate. One meter has been burned and needs to be replaced.

The source of the gas for these customers is identical to the source used for the Elk Creek/Lick Creek customers. The Dixie Avenue pipeline should be considered an interrelated part of the Elk Creek/Lick Creek and Petro pipeline systems which are operated by B.T.U. (the Petro pipeline is part of the Lakeville Road system described herein).

D. SERVICE AREA: Lakeville Road

LOCATION: Hwy. 7 south, right onto Hwy. 1090.

NUMBER OF CUSTOMERS: 11

CONSTRUCTION: Approximately 26,000 feet of four-inch plastic pipeline called the Petro pipeline (installed several years ago by another party); approximately 7,000 feet of two-inch plastic pipeline which connects a local well (R. C. May) to the Petro pipeline; and approximately 7,000 feet of a two-inch plastic lateral line. The two-inch lateral also has a short lateral paralleling a gravel road off Hwy. 1090.

SOURCE OF GAS: Local wells - Tackett (2), G. V. Joseph (1), Vanderpool (2), R. C. May (2), Conley and Martin, and Fred Howard (1).

PIPELINE(S)/INTERCONNECTIONS: The Lakeville Road pipeline system consists of the Petro pipeline with two major laterals.

The northern end of the Petro pipeline interconnects with the Dixie Avenue/Auxier Branch pipeline, while the southern end currently interconnects with a well line to B.T.U.'s G. V. Joseph well. The Petro pipeline has been disconnected from its connection to the FG-47 pipeline (previously owned by Inland).

At present, none of B.T.U.'s gas which enters the Lakeville Road pipeline system flows into the FG-47 pipeline. In fact, the flow of gas in FG-47 is to the north towards Salyersville (through the Cobra pipeline) for delivery to Sigma Gas. All of B.T.U.'s gas is used to provide service to the end-users directly connected to the Petro pipeline or lateral lines. Like the Dixie Avenue/Auxier Branch service area, there is a mixture of paying, free, and flat rate customers served from the Lakeville Road pipeline system.

E. SERVICE AREA: Oakley Creek Area

LOCATION: Hwy. 7 south, right onto Hwy. 867 and then left onto Hwy. 1635; also some service on right turn off Hwy. 1635 (Right Branch of Oakley Creek).

NO. OF CUSTOMERS: 13

CONSTRUCTION: The principal part of the Oakley system is the FG-51 pipeline, a six-inch steel pipeline installed 40-50 years ago. The portion of the pipeline with customers is approximately 13,000 feet. Some of the customers considered part of the Oakley system are connected to and served from a

section of the G-39 pipeline in this area, approximately 2,500 feet of six-inch steel.

SOURCE OF GAS: Unclear. Two wells, Carty and Rowe, are near the end of the FG-51 pipeline. In the past, B.T.U. has claimed the right to these wells, but more recently Devco/Global Environmental has claimed ownership. According to B.T.U., both of these wells are currently shut in, and the well lines from each well have been disconnected from the FG-51 pipeline.

In addition, it is unclear whether gas which is moving through the G-39 pipeline to the FG-47 pipeline for ultimate delivery to Sigma Gas in Salyersville is also being backfed into the FG-51 pipeline at the FG-51/G-39 interconnection point. Given the absence of any other sources of gas, it is likely that gas for B.T.U.'s customers served from the FG-51 pipeline is coming from one or both of these sources; that is, the Carty and Rowe wells or gas backfed from the G-39 pipeline.

PIPELINE(S)/INTERCONNECTIONS: The FG-51 pipeline's only interconnection is with the G-39 pipeline. Aboveground plastic was seen at one service on the customer side of the meter; and at another service, three customers were being served from one meter (at this site, it could not be observed whether each customer had adequate pressure regulation). Just past the three customers/one meter site, there was also a pair of vise grips holding the regulator pin in the out position.

Several of the customers on this system are also free or flat rate customers.

F. SERVICE AREA: Royalton Area

LOCATION: Hwy. 7 south past the turn for Hwy. 867, in the general vicinity of the communities of Royalton and Sublett, and the Sandbottom and Meadows Branch areas.

NO. OF CUSTOMERS: 31

CONSTRUCTION: Some service is directly from the FG-47 and G-39 pipelines, both of which are six-inch steel in this service area. The remaining service is from two local wells, each of which has a three-inch steel well line (although the J. W. Howard well line has a small section of two-inch plastic).

SOURCE OF GAS: Local wells - J. W. Howard (1) and Stevens (1); and the G-39 pipeline (probably from gas delivered into the pipeline by Devco or Equitable Resources Exploration for ultimate delivery to Sigma).

PIPELINE(S)/INTERCONNECTIONS: FG-47 connects to the Cobra pipeline (ownership claimed by Devco/Global Environmental), which is three-inch plastic, and with the G-39 pipeline, which connects with the Columbia Natural Resources system (approximately 15-20 miles east of this area). According to B.T.U., neither of the well lines from the J. W. Howard or Stevens wells is connected to the G-39 pipeline.

None of the gas currently produced from the J. W. Howard and Stevens wells enters the G-39 pipeline and is used solely

to provide service to customers connected to the well lines. Gas which enters the G-39 pipeline from other sources is used to provide service to B.T.U.'s customers directly connected to the G-39 pipeline.

G. SERVICE AREA: Puncheon Camp Creek

LOCATION: Hwy. 7 south; also, from Hwy. 7 left onto Hwy. 1766.

NO. OF CUSTOMERS: 19

CONSTRUCTION: Most of the service in this area is from one of two lateral pipelines connected to the G-39 pipeline. According to B.T.U., the first two-inch plastic lateral (which serves four customers) is in the vicinity where the G-39 pipeline crosses Hwy. 1766, and was installed by another party sometime in 1991. A second two-inch plastic lateral with tracer wire (according to B.T.U.) has been installed by B.T.U. to provide service to 11 customers who were previously directly connected to the G-39 pipeline.

SOURCE OF GAS: Gas which has been delivered into the G-39 pipeline from sources other than B.T.U.

PIPELINE(S)/INTERCONNECTIONS: Each of the lateral pipelines is connected to the G-39 pipeline, which is interconnected at one end (east) to the Columbia Natural Resources gathering system and at the other end with the FG-47 pipeline.

At least in one instance a customer's regulator needs to be replaced; and at two other services, black plastic pipe on the customer side of the meter needs to be replaced. None of

the gas used to provide service to customers from either of the two laterals goes anywhere but to the end-use customers.

H. SERVICE AREA: Salt Lick

LOCATION: Hwy. 7 south, left onto Hwy. 1734 (past turnoff for Hwy. 1766).

NO. OF CUSTOMERS: 2

CONSTRUCTION: None (except service lines for each customer).

SOURCE OF GAS: Gas flowing through G-39 pipeline.

PIPELINE(S)/INTERCONNECTIONS: None. Each customer is directly connected to the G-39 pipeline.

I. SERVICE AREA: Beetree Branch (formerly Inland FG40-41 pipeline)

LOCATION: Hwy. 7 south, left onto Hwy. 404, then right onto 1734.

NO. OF CUSTOMERS: 5

CONSTRUCTION: Pipeline is four-inch steel installed 40-50 years ago.

SOURCE OF GAS: Local wells - Stevens (1) and Salyer(1). (Six other wells are shut in.)

PIPELINE(S)/INTERCONNECTIONS: The Beetree Branch pipeline is connected to the G-39 pipeline. However, according to B.T.U., the valve at the interconnection point is closed, and therefore the gas being produced by the wells which are connected to these pipelines is not entering the G-39 pipeline.

J. ADDITIONAL PIPELINE(S): Buffalo Creek and Long Branch

During the March 21-22, 1994, inspection Staff also discussed two other pipelines: Buffalo Creek and Long Branch. The Buffalo Creek pipeline parallels a road off Hwy. 2019, past the turnoff for Hwy. 3334 (Lick Creek area). It is a three-inch plastic pipeline of approximately 12,000 feet connected to the Lick Creek pipeline. According to B.T.U., there is no gas service from this pipeline at present; B.T.U.'s intentions are to extend the pipeline northeast to interconnect with an Ashland Oil pipeline.

Long Branch is located off Hwy. 7 south between Salt Lick and Beetree Branch. Six customers (all free and metered) are served from this six-inch and eight-inch steel pipeline which is the G-39 pipeline. B.T.U. stated Sigma now services these customers, and B.T.U. does not claim any right to this service.

EXHIBIT 3



Steven L. Beshear
Governor

Leonard K. Peters
Secretary
Energy and Environment Cabinet

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David L. Armstrong
Chairman

James W. Gardner
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Charles R. Borders
Commissioner

November 28, 2011

Mr. Larry Rich
Kentucky Frontier Gas
2963 Ky. Route 321
P. O. Box 408
Prestonsburg, KY 41653

Dear Mr. Rich:

I would like to take this opportunity to address the questions and concerns you raised in your email to me on November 7, 2011, and as clarified during your telephone conference on November 14, 2011 with Commission Staff, regarding the jurisdictional status of B.T.U. Gas Company, Inc. Although BTU¹ has routinely argued that it is not a jurisdictional utility under the authority of the Commission, this claim has never been supported and has never been accepted by the Commission. In order for me to fully answer your question, I have taken the liberty to discuss the 20-year history of BTU's operations in Magoffin County, Kentucky, as well as the Commission's long history with Richard and Pamela Williams ("Williams") and BTU, which describes how BTU has always operated and been recognized as a local distribution company ("LDC") in Magoffin County.

1. On May 29, 1992, the Commission established Case No. 92-220, *An Investigation of Richard Williams, D/B/A B.T.U. Pipeline, Inc. and M5-A1, Inc.* after Williams, representing both BTU and M5-A1, informed the Commission that M5-A1 had purchased a natural gas pipeline in Magoffin County called the R. C. Energy Pipeline, which had been constructed in 1984 by Estill Branham as an extension of Salyersville Gas. Williams stated his intention to sever the R. C. Energy Pipeline from Salyersville Gas and include it in BTU's gathering system. The R. C. Energy pipeline represented 50% of Salyersville Gas' annual revenue. Salyersville Gas, which was in bankruptcy at that time, also claimed ownership of the R. C. Energy Pipeline. On July 20, 1992, at the request of Salyersville Gas, the Commission ordered that the proceedings be held in abeyance until the conclusion of the Salyersville Gas bankruptcy proceedings.

While Salyersville Gas' bankruptcy was pending, Commission Staff inspected BTU's remaining pipeline facilities on March 21-22, 1994, and prepared an Inspection Report on April 8, 1994, which reflected its findings and recommendations. This

¹ BTU will refer to both B.T.U. Pipeline, Inc. and B.T.U. Gas Company, Inc.

Mr. Larry Rich
November 28, 2011
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Inspection Report was ordered filed in Case No. 92-220, and was reviewed by the Commission at a hearing on June 3, 1994. At that hearing BTU accepted Staff's report as factually accurate and agreed with Staff's conclusion that BTU was operating as a gas distribution utility. By Order dated September 21, 1994, the Commission declared BTU to be a gas distribution utility pursuant to KRS 278.010(3)(b). That Order also incorporated the Commission's prior Order of April 27, 1994, which conclusively established BTU's operations, pipeline system, gas sources, and customer service as of March 22, 1994.² A copy of the April 27, 1994 Order, including the Staff Report dated April 8, 1994 is appended to this letter as Appendix A and a copy of the Commission's Order of September 21, 1994 is appended to this letter as Appendix B.

On January 17, 1995, in response to the Commission's September 21, 1994 Order, BTU filed information with the Commission that confirmed that the Salyersville Gas Bankruptcy Court had awarded ownership of the R. C. Energy pipeline to Sigma. At the time of its Final Order in Case No. 92-220, dated July 6, 2000, the Commission noted that Salyersville Gas was then operating as Sigma.

2. On October 25, 1995 in Case No. 95-103, *The Tariff Filing of BTU Pipeline, Inc. to Establish Rates and Conditions for Service* (filed January 17, 1995), Williams filed a tariff on behalf of "BTU Gas Company, Inc." Prior to filing this tariff, Williams had not notified the Commission that "BTU Pipeline, Inc." had changed its name, sold, transferred, or in any way conveyed any of its assets or operations to another entity named "BTU Gas Company, Inc." An adoption notice was not filed as required. The Commission was informed that BTU Pipeline, Inc. had filed bankruptcy proceedings.³

3. On November 19, 1997, the Commission consolidated Case No. 92-220, Case No. 95-029, Case No. 95-103, Case No. 95-513, Case No. 95-377, and Case No. 96-087 into a Show Cause matter, *An Investigation of Richard Williams d/b/a BTU Pipeline, Inc. and M5-A1*. This consolidation was done in order to deal with all of the outstanding issues involving BTU Pipeline, Inc. a/k/a BTU Gas Company, Inc. and R. D. Drilling and Completion, Inc. On January 22, 1998, in testimony before the Commission, Williams stated that when Case No. 92-220 was held in abeyance (pending the Salyersville Gas bankruptcy proceedings), "We simply formed a new

² Order of April 27, 1994 contains as Exhibit B the Staff Report and Map of BTU's lines and facilities as of March 22, 1994.

³ B.T.U. Gas Company, Inc. is currently the only BTU gas utility operating in Kentucky.

corporation and thought, 'Hey, we'll start over.'" The Commission found that BTU Pipeline, Inc. failed to follow the law and the regulations in its "starting-over" process. The Commission also found that evidence taken at the hearing revealed that the assets of the companies involved in supplying gas to numerous customers, and the customers themselves, were "passed around in what can best be described as a cavalier manner." There was no effort by Williams to inform the Commission that the name "BTU Pipeline, Inc." was being changed or its assets were being transferred to "BTU Gas Company, Inc."

4. In Case No. 2004-00018, *In the Matter of Sigma Gas Corporation v. BTU Gas Company, Inc.* (filed on January 14, 2004), Sigma Gas Corporation ("Sigma") filed a complaint against BTU alleging that BTU had extended its gas facilities in and around the city of Salyersville, Kentucky by connecting a number of customers that Sigma could serve. Sigma also alleged that BTU was serving customers that were previously served by Sigma.

On March 17, 2008, the Commission found that Sigma had been administratively dissolved and its assets had been transferred to DLR Enterprises, Inc. ("DLR") and Cow Creek Gas, Inc. ("Cow Creek"). Cow Creek was granted full intervention in this case and stood "in the shoes of Sigma."

At a formal hearing on June 29, 2004, Estill Branham, President and Manager of Sigma, testified about the loss of its customers to BTU. One example was the new Magoffin County Courthouse, which Sigma had a two-inch riser at the location prior to the courthouse construction and had to cap off and remove some of that line to be out of the way during construction. A second example was the Magoffin County Teen Coalition, which was being served by Sigma until the Teen Coalition directed Sigma to remove its meter, which was replaced by a meter set by BTU.

In reviewing the evidence presented, the Commission concluded that BTU believed that it was some sort of hybrid gas company, either an LDC, a gathering company, or a production company, even though this issue had been addressed and BTU's status as a jurisdictional utility had been established in Case No. 92-220, wherein BTU was found to be a LDC under the jurisdiction of the Commission. The Commission also found that BTU believed it could serve customers whenever and wherever it wanted to, regardless of whether a customer was presently being served by another LDC. The Commission determined that the extensions and service by BTU to the "new," "switched," and "exchange" customers were not, nor were they ever, in the

Mr. Larry Rich
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ordinary course of business, exempt under 807 KAR 5:001, Section 9(3). Since BTU's actions were not exempt, BTU was required to first seek and obtain a CPCN prior to any such construction or service connections.

By Order in this consolidated case, dated June 30, 2009, the Commission found that the new service connections by BTU were contrary to established policy and law. There was no evidence in the record that Sigma was unwilling or unable to serve the customers or areas at issue. The Commission found that BTU was not authorized to serve customers of Sigma or any potential customers of Sigma in the Salyersville area. Specifically, BTU was not authorized to serve the customers previously served by Sigma in the Dixie area of Salyersville, the Magoffin County Courthouse, the Teen Coalition, H. C. Prater, Burke Arnett, Tommy Howard, Magoffin County Recycling Center, and Tom Bailey's home and garage (WRLV Radio station is listed as connected but not served). Finally, BTU was not authorized to serve any new customer in the Salyersville area until it had been granted a CPCN to do so. The Commission ordered BTU to submit a list of those customers it had begun serving in the Salyersville area since June 29, 2004, and Cow Creek was ordered to notify the Commission in writing of its intention to serve those customers and the time necessary to construct lines, set meters, and service lines to serve those customers. A copy of this June 30, 2009 Order is appended to this letter as Appendix C.

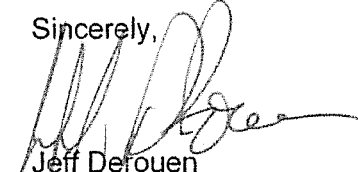
Once again, I would like to emphatically state that BTU is a local distribution company, a public utility, subject to the jurisdiction of the Commission. Any claims by Williams or BTU to the contrary are false.

We will continue to closely monitor the entire BTU situation, including the Williams actions and activities. Please do keep us informed of any new developments or information that you obtain during your operation of BTU.

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If you have additional questions or concerns, feel free to contact me.

Sincerely,



Jeff Derouen
Executive Director

VG/kar
Attachments