

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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SEP 16 2005

In the Matter of: The Joint Application of:)
Kentucky Frontier Gas, LLC;)
Belfry Gas, Inc.;)
Floyd County Gas (East Kentucky Utilities, Inc.);) Case No.
Elam Utility Company, Inc.; and) 2005-00348
Mike Little Gas Company for Approval of Transfer)
and Acquisition of Assets and Stock, and Issuance)
of a Certificate of Convenience and Necessity,)
if Necessary.)

PUBLIC SERVICE
COMMISSION

ATTORNEY GENERAL'S INITIAL REQUEST FOR INFORMATION

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and submits this Initial Request for Information to Kentucky Frontier Gas, LLC ["KFG"], Floyd County Gas (East Kentucky Utilities, Inc.), Elam Utility Company, Inc., and Mike Little Gas Company [hereinafter jointly referred to as the "Joint Applicants"] to be answered by the date specified in the Commission's Order of Procedure, and in accord with the following:

(1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.

(2) Please identify the witness who will be prepared to answer questions concerning each request.

(3) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional

information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.

(4) If any request appears confusing, please request clarification directly from the Office of Attorney General.

(5) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(6) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self evident to a person not familiar with the printout.

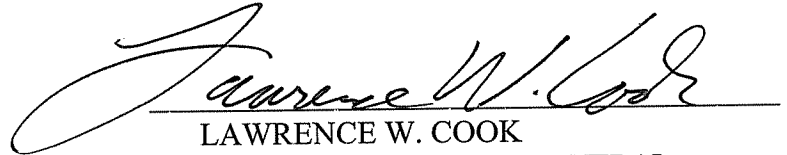
(7) If the Joint Applicants have objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

(8) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(9) In the event any document called for has been destroyed or transferred beyond the control of the company, please state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer;

and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

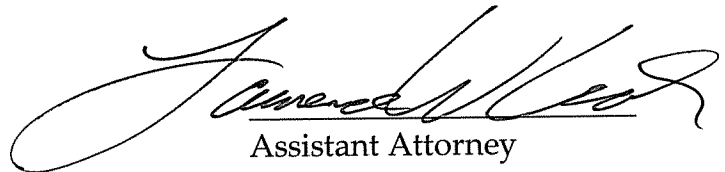
Respectfully submitted,
GREGORY D. STUMBO
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Certificate of Service and Filing

Counsel certifies that an original and ten photocopies of this Initial Request for Information were served and filed by hand delivery to Beth O'Donnell, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; furthermore, it was served by mailing a true and correct of the same, first class postage prepaid, to the Honorable John N. Hughes, 124 West Todd Street, Frankfort, Kentucky 40601, all on this 16th day of September, 2005.



Assistant Attorney
General

**Attorney General's Initial Request for Information
to the Joint Applicants
Case Number 2005-00348**

1. The proposed acquisition of four heretofore separate utilities and the consolidation of their operations and management does not necessarily mean that those individuals who have been managing and operating the utilities on a local level will continue to perform those services following KFG's acquisition. Accordingly, please describe the financial, technical and managerial ability of any individuals, employees, contractors or consultants of KFG who will be providing those services to each or all of the four underlying utilities being acquired, and indicate specifically the underlying utility or utilities to which those services will be provided.
 - a. Please state with particularity the capabilities and experience of these individuals as it relates to engaging in the financial, technical and managerial operations of a gas distributing company.
 - b. Please provide the total employee count of all the utilities to be acquired, before the proposed acquisition, and provide an estimated employee count following the acquisition.
 - c. Please state whether the duties of any employee regarding KFG's financial, technical or managerial functions will be outsourced.
2. Corporate Structure of KFG:
 - a. Please state whether KFG is, or is a part of, any holding company.
 - b. Please state whether KFG has any subsidiaries or affiliates.
 - c. Please state whether KFG is a subsidiary, member or affiliate of any other business entity.
 - d. Please state whether KFG is part of any partnership or any other type or sort of business entity.
3. Business Affiliations of KFG:
 - a. Please state whether any of KFG's members are stockholders, members, officers, partners or directors of any type or sort of business entity engaged in the exploration, processing, transmission or distribution of natural gas and/or any other type of energy.
4. Corporate Structure of KFG Member Industrial Gas Services, Inc. ("IGS"):
 - a. Please state whether IGS is, or is a part of any holding company.

- b. Please state whether IGS has any subsidiaries or affiliates.
 - c. Please state whether IGS is a subsidiary or affiliate of any other business entity.
 - d. Please state whether IGS is part of any partnership or any other type or sort of business entity.
 - e. Please state whether IGS is subject to the jurisdiction of any regulatory agency or agencies, and if so, identify such agency or agencies.
 - f. Please state whether IGS has filed any documents with any other regulatory authorities in connection with this proposed transaction (e.g., Public Service Commissions in other states, the Securities and Exchange Commission, etc.);
 - g. Please identify the following in IGS' corporate structure:
 - (1) Officers;
 - (2) Members of the Board of Directors for the past 10 years;
 - (3) Stockholders owning a controlling interest.
5. Please state whether KFG is engaging in regulated activities in any other jurisdiction. If so, please provide:
- a. the nature of the activity;
 - b. the jurisdiction;
 - c. a breakdown by percentage of the amount of regulated activity and non-regulated activities in which KFG engages; and
 - d. the amount of revenue derived from regulated activities.
6. Please state whether KFG is engaging in non-regulated activities in any location. If so, please provide:
- a. the nature of the activity;
 - b. the location of the activity;
 - c. a breakdown by percentage of the amount of non-regulated activity and regulated activities in which KFG engages; and
 - d. the amount of revenue derived from non-regulated activities.
7. Please state whether IGS is engaging in regulated activities in any other jurisdiction. If so, please provide:
- a. the nature of the activity;
 - b. the jurisdiction;
 - c. a breakdown by percentage of the amount of regulated activity and non-regulated activities in which IGS engages; and
 - d. the amount of revenue derived from regulated activities.
8. Please state whether IGS is engaging in non-regulated activities in any location. If so, please provide:

- a. the nature of the activity;
 - b. the location of the activity;
 - c. a breakdown by percentage of the amount of non-regulated activity and regulated activities in which ISG engages; and
 - d. the amount of revenue derived from non-regulated activities.
9. State whether the pipelines, operating systems and other infrastructure components of the gas utilities KFG intends to acquire are physically and/or electronically interconnected, and if so, identify the specific infrastructure components so interconnected, and their degree of interconnectedness.
- a. If said infrastructure systems are not interconnected, please:
 - (1) State how KFG expects to achieve economies of scale, economies of scope or synergies;
 - (2) Identify the specific area(s) in which such economies or synergies are expected.
10. KFG's petition states, in numerical paragraph 5., "The consolidation of these utilities is expected to create a critical mass which is much more viable." Please explain exactly what is meant by this statement and include any quantifications.
11. Please identify whether KFG expects its proposed acquisition of the subject utilities to lower the cost of essential activities such as replacing older, or laying new, distribution pipelines.
12. Please state whether any family relative of John Allen will hold any type or sort of position, whether as employee, contractor or consultant, with KFG, any of its affiliates or subsidiaries, or any of its partners following the proposed acquisition.
13. What impact, if any, does KFG expect the proposed refinancing will have on ratepayers?
14. Please state whether KFG intends to perform a depreciation study, or make any changes to its depreciation rates or practices applicable to the utilities KFG intends to acquire.
15. Please state whether KFG anticipates any positive or negative acquisition adjustment(s) resulting from its proposed acquisition of the subject utilities.

16. Please state whether any of the utilities KFG proposes to acquire currently have any deferred tax accounts on their balance sheets. If the reply is "yes," please identify the account(s), the amount carried therein, and provide a summary of the nature of the balance.
17. For each deferred tax balance set forth in your reply to question number 16, above, please state what impact the proposed acquisition will have on the account (e.g., will the proposed transaction result in a loss of any deferred tax credits?).
18. Please state whether KFG will receive any tax benefits arising from the acquisition of the subject utility companies? If the answer to this question is "yes," please describe such benefits in detail.
19. Please state whether any of KFG's members, its employees, consultants, or contractors will receive any bonus or other remuneration of any type or sort resulting from the proposed acquisition.
20. Please identify the gas supplier for each of the four utilities KFG proposes to acquire, and provide the current price each utility pays for gas. If the supply of gas is governed under a contract, please supply a photocopy of the current contract.
21. Please state whether KFG intends to centralize its gas purchasing activities following the proposed acquisition of the subject utilities. Will such gas supplier in any way be affiliated with KFG, IGS, or any employees, contractors, consultants, directors, or owners of either entity?
22. Please state if or when KFG expects to adopt a unified rate structure that will allow for uniform prices to be charged to all customers throughout the combined service areas of the current four utilities.
23. Does KFG agree that there are two categories of costs for the proposed transaction, namely: (1) costs-to-achieve the transaction (e.g., due diligence reports, legal counsel, etc.); and (2) costs-to-achieve cost savings in the post-transaction structure (e.g., systems integration, etc.)? If no, please identify the categories and provide a definition.
 - a. For the costs-to-achieve the transaction, explain how KFG determines the costs that are allocated to or the responsibility of KFG's members. Include any allocation methodologies.

- b. For the costs-to-achieve cost savings, explain how KFG determines the costs that are allocated to or the responsibility of KFG's members. Include any allocation methodologies.
- c. For the costs-to-achieve the transaction, explain how KFG determines the costs that are allocated to or the responsibility of KFG's non-regulated operations. Include any allocation methodologies.
- d. For the costs-to-achieve cost savings, explain how KFG determines the costs that are allocated to or the responsibility of KFG's regulated operations. Include any allocation methodologies.
- e. Does KFG agree that there are certain costs associated with this acquisition that are attributable solely to the process of obtaining the approval of the transaction (e.g. legal counsel for the regulatory proceedings)?
- f. Does KFG agree that it will obtain certain cost savings post-transaction that do not require the expenditure of costs-to-achieve those savings? (For example, each utility presently prepares its own annual report to shareholders and the PSC, and there is an expense associated with the preparation of such a report that will be avoided post-transaction due to the fact that only one report will be prepared.) If no, then is it KFG's position that all cost savings associated with this transaction require spending?
- g. Does KFG consider the reduction of a company's or unit's operating loss a cost savings?
- h. Please supply a schedule that shows the cost-to-achieve the transaction by year for Year 1 through Year 5. (This is a request for a schedule that shows the estimated costs by year.)
- i. For the schedule requested under sub-part h (the prior question), please identify by year for Year 1 through Year 5 the following:
 - (1) the assignment of costs to KFG members; and
 - (2) the breakdown of the assignment of costs between regulated and non-regulated operations.

- j. Please supply a schedule that shows the costs-to-achieve the costs savings post-transaction by year for Year 1 through 5. (This is a request for a schedule that shows the estimated costs by year.)
- k. For the schedule requested under sub-part j (the prior question), please identify by year for Year 1 through Year 5 the following:
 - (1) the assignment of costs to KFG members; and
 - (2) the breakdown of the assignment of costs between regulated and non-regulated operations.
- l. Please supply a schedule that shows the cost savings associated with this acquisition for Year 1 through Year 5. (This is a request for a schedule that shows the estimated cost savings by year.)
- m. For the schedule requested under sub-part l. (the prior question), please identify by year for Year 1 through Year 5 the following:
 - (1) the assignment of costs to KFG members; and
 - (2) the breakdown of the assignment of costs between regulated and non-regulated operations.
- 24. For each category of cost savings, did KFG determine the allocation percentages to separate out the non-regulated cost savings from the regulated costs savings? For example, did KFG determine the amount of total staffing cost savings to allocate to the regulated and the amount to allocate to non-regulated operations?
- 25. For each category of cost savings, identify the allocation process, including the factors, for allocating costs between regulated and non-regulated operations.
- 26. For each category of cost savings, identify the corresponding amount of cost savings allocated to non-regulated operations for that category.
- 27. In the course of conducting their due diligence reviews, did the Joint Applicants identify any facts or circumstances that would have a material adverse effect on their ratepayers?
- 28. Please provide all minutes of any meetings held between KFG's members, and the board of directors of any Joint Applicant pertaining to this acquisition.

29. Will the acquisition result in any changes in accounting principles for either KFG or any of the utilities to be acquired? If yes, please summarize the change(s).
30. Do the Joint Applicants anticipate any changes in any existing contracts of the joint applicants with other vendors (e.g., engineering, information technology, maintenance, etc.)?
31. Do the Joint Applicants anticipate entering any new contracts as a consequence of this transaction? If so, will any of the entities with whom the Joint Applicants will enter said contract(s) be affiliated in any way with the Joint Applicants, or any of their employees, owners, contractors, consultants, or directors?