

25. Refer to Joint Application, Exhibits 6 and 7. State whether the annual salary amount of \$222,000 set forth in Exhibit 7 is based upon the salaries set forth in the column labeled "3000 mtrs" in Exhibit 6.

25. The O&M costs for the 3000 meter case include estimated \$222k in salaries. The total O&M cost for the "3000 meter case" is \$601,909. The total O&M cost for the first year in the proforma is \$600,000 for 2,833 meters.

26. Refer to Joint Application, Exhibit 6. State whether Wilma Ison will be employed to fill the "Sr.Tech/Marketing Spec" position that is listed in Exhibit 6. If yes, explain why Exhibit 6 lists a salary of \$45,000 for the position, but Mr. Oxford in his letter of June 23, 2005 offered to employ Ms. Ison at an annual salary of \$48,000.

26. Ms. Ison will be employed in a marketing and administrative position somewhat like that envisioned for "Sr. Tech / Marketing Spec". The salary difference was overlooked in preparing the proforma documents, but does not have a material effect.

27. Exhibit 6 of the Joint Application lists only one employee for accounting and customer service. State why Kentucky Frontier is of the opinion that one person can adequately perform all day-to-day accounting and recordkeeping functions as well as consumer service functions for a utility with 2,500 customers.

27. KFG envisions that one clerical employee will be adequate to route customer service calls to the technicians, run the billing system, code deposits and make simple accounting entries. Similar small utilities such as Pinedale Natural Gas function adequately with no clerical help, with various simple duties divided among technicians.

28. State whether Kentucky Frontier intends to employ an in-house accountant.

28. KFG does not plan to hire an in-house accountant solely dedicated to Frontier business. After deposits and customer reconciliations are made, a simple QuickBooks-type accounting system takes only a few days per month to produce most required financial reports. Taxes and more complex year-end statements will be handled by an outside accountant.

29. Refer to Joint Application, Exhibit 7. The projected balance sheet gives only totals for assets, liabilities and equity. Provide a breakdown of each of these categories. For example, in the assets category, provide line item totals for plant, accumulated depreciation, cash, accounts receivable, etc. For the liabilities category, provide individual totals for debt, accounts payable, accrued taxes payable, customer deposits, etc.

29. "Projected balance sheet" is attached.

KENTUCKY FRONTIER GAS
PROJECTED BALANCE SHEET 2006

ASSETS:		
CASH		\$1,000,000.00
ACCOUNTS RECEIVABLE		\$380,000.00
PLANT (METERS & PIPELINE)	\$2,250,000.00	
LESS: ACCUMULATED DEPRECIATION	-\$127,500.00	
NET PLANT		\$2,122,500.00
GOODWILL		\$150,000.00
TOTAL ASSETS		\$3,652,500.00
LIABILITIES:		
ACCOUNTS PAYABLE		\$117,500.00
LONG TERM DEBT		\$2,380,000.00
TOTAL LIABILITIES		\$2,497,500.00
EQUITY:		
CAPITAL		\$1,020,000.00
RETAINED EARNINGS		\$135,000.00
TOTAL EQUITY		\$1,155,000.00
TOTAL LIABILITIES & EQUITY		\$3,652,500.00

30. Mike Little currently collects a surcharge to pay off an outstanding amount to Kentucky-West Virginia Gas Company. This debt and surcharge results from Federal Energy Regulatory Commission Docket No. TQ89-1-46-000. The surcharge, which began in January 1991, was to be in place for 10 years with an automatic 5-year extension if the balance was not paid off at the end of the 10-year period. The 5-year extension period ends December 31, 2005. State the current amount that Mike Little owes to Kentucky-West Virginia Gas Company. State whether this liability will be transferred to Kentucky Frontier.

30. Mike Little Company believes that the Ky-West balance has been paid in full. If any liability remains, it will not be transferred to or assumed by KFG.

31. Provide three copies of topographic maps showing the locations and the routes of the mains for each utility to be acquired by Frontier.

31. Topo maps are not available for the Mike Little, ECU, and Elam gas distribution systems. The Belfry system is on a topographical base. Frontier has gathered all available maps and plans to input these to a CAD system after the consolidation is effected. All CAD maps can be placed over a topo base map for printing.

32. State when Kentucky Frontier expects the proposed transfer of ownership to be completed.

32. As stated in the application, time is of the essence for these transactions. Because of the seasonal nature of gas utility sales, it is highly important that Frontier take over operation of each of these utilities before winter. To achieve that deadline, Frontier requests expedited approval by PSC of the necessary actions herein described on or before November 1, 2005. Frontier is prepared to close these transactions within a few weeks of PSC and GOLD approval, which is requested as soon as practical and before winter 2005-06.

33. List all regulatory approvals of the proposed transfer, aside from the Kentucky Public Service Commission, that are required. For each regulatory agency listed, state the current status of all requests for regulatory approval.

33. Frontier has a finance application pending with Governors Office of Local Development (GOLD) to extend or expand financing, a copy of which was attached to this application. Other than GOLD, Frontier is unaware of any other regulatory approvals required.

34. Describe the timing for completion of the transfer of control of the four gas distribution systems (e.g., all transfers to occur simultaneously or in phases).

34. The success of the Frontier plan depends on the consolidation of operating expenses of 4 utilities into a single entity. Frontier expects to transfer all 4 utilities at the same time.

35. Provide the journal entry or entries that Kentucky Frontier will use to record the transfers.

35. Journal entries are attached.

KENTUCKY FRONTIER GAS
PROJECTED JOURNAL ENTRIES 01/01/2006

	DEBIT	CREDIT
CASH	\$1,000,000.00	
PLANT	\$2,250,000.00	
GOODWILL	\$150,000.00	
LONG TERM DEBT		\$2,380,000.00
CAPITAL		\$1,020,000.00
TOTALS	\$3,400,000.00	\$3,400,000.00

36. a. Provide an income statement and balance sheet for East Kentucky Utilities' operations for the calendar year ending December 31, 2004.
- b. Provide an income statement and balance sheet for East Kentucky Utilities' operations for the period from January 1, 2005 to the date of the filing of the Joint Application.

36. a. "Income statement & balance sheet for ECU 12/31/04" was answered in 7. above.

b. An Income statement & balance sheet for ECU YTD 2005 is not available and no one at ECU has the ability to prepare one. After the transfer, as that information becomes available, KFG can submit it to the Commission.

37. List for each note or other debt that Belfry owes to J.W. Kinzer, its original date and amount of the note, its maturation date, and the amount recorded on Belfry's Annual Report to the Kentucky Public Service Commission for the Calendar Year Ending December 31, 2004.

37. The 2004 Annual Report filed with PSC is available on the website and incorporated by reference into the application. The report shows Accounts Payable (232) balance of \$651,023. Frontier understands that much of this account is owed to JW Kinzer, the owner. Frontier has no other information. Frontier will pay the stated purchase price for Belfry utility assets to Mr. Kinzer and will not own the stock or assume any debt, therefore, any debt owed by Belfry to Kinzer is not part of the transaction. If the internal and personal arrangements between Belfry and its owner are relevant to this transaction, Frontier is not aware of such relevance.

38. a. State the total acquisition cost.
b. Provide a breakdown by acquired utility of the total acquisition costs.

38. a. Total purchase price of the 4 utilities is \$3,100,000.

b. Purchase price of the 4 utilities is as follows:

Belfry Gas	\$ 750,000
Floyd County Gas	\$1,075,000
Elam Utility	\$ 800,000
Mike Little	\$ 475,000

39. Provide an electronic copy of the model to which the Joint Applicants refer in their supplemental filing to the Commission on September 14, 2005.

39. To be provided later. Unavailable due to technical problems.

40. Describe Kentucky Frontier's familiarity with the purchased gas adjustments (or gas recovery mechanisms) that are filed with the Kentucky Public Service Commission.

40. Frontier has reviewed the regulations and is familiar with the gas recovery mechanism and has been involved with similar mechanism in other states.