

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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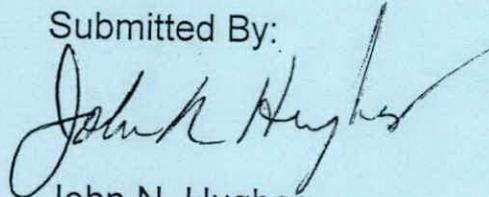
In the Matter of:

The Joint Application of Kentucky Frontier Gas, LLC )  
and Public Gas Company for approval of transfer )  
and acquisition of assets and financing )  
)

2015-00299

RESPONSES TO PSC SUPPLEMENTAL  
DATA REQUEST

Submitted By:



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Attorney for:

Kentucky Frontier Gas, LLC  
on behalf of Joint Applicants

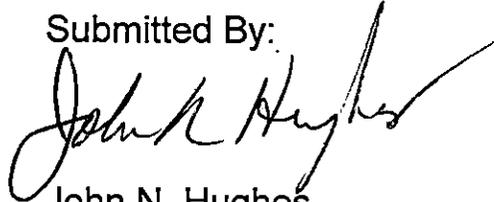
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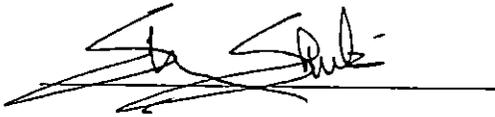
Attorney for:

Kentucky Frontier Gas, LLC  
on behalf of Joint Applicants

DECLARATION OF STEVEN SHUTE

I, Steven Shute, am a Member of Kentucky Frontier Gas, LLC, the Applicant in the referenced matter. I have read the Response and I have full authority to sign this declaration. The facts set forth therein are true and correct to the best of my knowledge, information and belief. Pursuant to KRS 523.020-040, I certify under penalty of false swearing that the foregoing is true and correct.

Dated this 4th day of November, 2015.

A handwritten signature in black ink, appearing to read "Steven Shute", is written over a horizontal line. The signature is stylized and somewhat cursive.

Steven Shute, Member,

Kentucky Frontier Gas, LLC

1. Refer to the response to Commission Staffs Initial Request for Information ("Staff's First Request"), Item 1.

a. The second paragraph in the response provides a customer count for Public in early 2015 of 1,730 and an August 2015 customer count of 1,496. Clarify whether these numbers include the roughly 460 customers "served directly off pipelines operated by Jefferson Gas."

b. Clarify whether the customer number of 1,270 included in the one-sentence third paragraph of the response is based on the early 2015 customer count less the 460 customers "served directly off pipelines operated by Jefferson Gas."

c. Clarify whether the third paragraph's statement that Public operates 11 different utility systems means 11 distribution systems not connected to each other. Explain also whether all systems are connected to Jefferson Gas LLC ("Jefferson").

**WITNESS: Shute**

**RESPONSE:**

**1.a. Correct; 460 farm tap customers are included in all customer counts.**

**1.b. Correct; 1730 minus 460 equals 1270.**

**1.c. Correct; Public has 11 distribution systems that are not connected to each other, but are each connected to Jefferson Gas.**

2. Refer to the response to Staffs First Request. Item 2.b.
  - a. Explain what rates Frontier intends to charge customers joining the former Public system after the acquisition is final and before a consolidation rate case.
  - b. Explain how Frontier has historically charged customers that joined a recently acquired system before it filed a consolidation rate case.

**WITNESS: Oxford**

**RESPONSE:**

- 2.a. Until a consolidation rate case is filed and approved, Frontier will adopt the Public Gas tariffs for all customers connected to Public Gas utility systems, and customers in areas where Public Gas currently operates farm taps connected directly to Jefferson Gas.**
- 2.b. For any new customers on a system, Frontier has historically charged the rates in existence for that system, whether the old stand-alone rates or the consolidated Frontier rates.**

3. Refer to the responses to Staffs First Request, Item 4, the negotiated contract with Jefferson, and Item 7, the September 4, 2015 electronic mail from John Hughes regarding the contract with Jefferson and the increase in the base rate to \$2.00.

a. Confirm that Frontier has agreed to the increased base rate as a reasonable rate. If such is confirmed, explain why, since the current contractual base rate is \$1.50 and the Jefferson rate reflected in Frontier's Purchased Gas Adjustment filings reflects a Jefferson "cost factor" of \$1.50 per Dth. If Frontier has not agreed to the base rate increase, describe the current status of contract negotiations with Jefferson.

b. Explain whether Jefferson has explained to Frontier the reason for the base rate increase, and if so, provide the reason.

**WITNESS: Oxford**

**RESPONSE:**

**3.a: Frontier has agreed to a base rate of \$2.00/Dth for Public Gas customers only. Frontier now has two contracts with Jefferson Gas - one for Magoffin County customers (Sigma and BTU systems) and one for Public Gas customers.**

**Frontier's Purchased Gas Adjustment filings have been for Magoffin County customers (part of Frontier's unified rate) and therefore based on the Magoffin County Jefferson Gas contract which is \$1.50/Dth from 12/1/14 to 03/31/16 for Magoffin County customers only.**

**3.b: Jefferson's contract with Public Gas included a provision to transfer the existing contract to Frontier if both parties agreed to the transfer. Frontier's request for the transfer of Public's contract was denied by Jefferson. Frontier has negotiated a new contract with Jefferson, for Public customers only, which is \$2.00/Dth from 10/1/15 to 9/30/16.**

**The reason given for the rate increase is Jefferson's dependence on major market sources for gas supply.**

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4. Refer to the response to Staffs First Request, Item 9.d. Confirm that the fact that Public does not separately track the customers fed directly off Jefferson's system means that revenue from those customers is included in the revenues shown in the income statement for Public in Exhibit 1.01-A to the Disclosure Schedules document that was filed with the application.

**WITNESS: Shute**

**RESPONSE:**

**4. Correct; Public does not separately track the farm tap revenues, which are included in the referenced income statement.**

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5. Refer to the response to Staff's First Request, Item 15.c. After being in a range of roughly \$.9 million to \$1.1 million from June of 2014 to December of 2014, explain, generally, why Frontier's equity balance increased to nearly \$2.2 million by May of 2015.

**WITNESS: Shute**

**RESPONSE:**

**The increase in 2015 to Total Equity is in net income. Some of the factors contributing to the increase are recapture of L&U, weather, and the period of time that is being compared. Gross profit (sales less COG) for the period of Aug-Dec 14 was \$543,373 compared to \$1,184,266 for Jan-May 15, due to cold weather for that period.**

**The May 2015 balance is at the highest point for the year and has been whittled down by negative cash flow over this summer. Last winter, with some rate relief from the relentless L&U losses of the Belfry and BTU systems, Frontier performed as it was originally intended, and was able to pay off some long-standing debts to suppliers.**

6. Refer to the Public balance sheet in Exhibit 1.01-A to the Disclosure Schedules document and to the Gas Utility Plant in Service schedule in the 2014 annual report filed with the Commission by Public.

a. The annual report reflects a December 31, 2014 balance of Total Gas Plant in Service of \$3,480,872. Adding the Accumulated Depreciation balance to the Net Plant balance in the Exhibit 1.01-A June 30, 2015 balance sheet results in Total Plant of \$3,200,997. (Neither amount includes Construction Work in Progress.) Explain why Public's plant in service decreased by approximately \$280,000 during the first six months of 2014.

b. The schedule in the annual report reflects an increase in 2014 of approximately \$96,000 due to additions of that amount to Account 367, Mains. As no retirements are shown in the schedule for Account 367, Mains, explain whether these additions reflect an expansion of Public's system in 2014.

c. The schedule in the annual report shows a reduction in the balance of Account 394, Tools, Shop, and Garage Equipment from approximately \$282,000 to approximately \$160,000 due to retirements of slightly more than \$122,000. Describe the nature of the retirements of equipment that accounted for approximately 43 percent of the monetary value of the account at the beginning of 2014.

**WITNESS: Shute**

**RESPONSE:**

**6.a. According to Public Gas, the 12/31/14 balance includes \$283,424.87 Goodwill that was moved to Goodwill Impairment expense on 6/30/15.**

**6.b. Correct; mainline additions of \$96,000 in 2014 were expansions to the system.**

**6.c. Equipment retirement was transfer of JT922 boring machine & related equipment to Northeast Ohio Gas.**

7. Refer to the schedule in Public's 2014 annual report titled Accumulated Provision for Depreciation, Depletion and Amortization of Gas Utility Plant. Describe in detail the nature of the \$39,139.17 listed as *Disposal Depreciation in 2014* that was subtracted from the annual depreciation accrual of \$144,797.49.

**WITNESS: Shute**

**RESPONSE:**

**7. According to Public Gas, Depreciation disposal partially related to 6c above \$26,368.17 was depreciation of JT922 boring machine & equipment. Also there was a disposal of a 1990 F-250 truck for \$12,771.**

8. Refer to the response to Staff's First Request, Item 23. Explain how Frontier will ensure there is no confusion on the part of existing Frontier customers and former Public customers if the Public customers are immediately branded as Frontier customers, but are still billed at the former Public rates.

**WITNESS: Oxford**

**RESPONSE:**

8. That same condition applied to all other companies as we acquired them, as we ran them for years as Frontier under the existing rates for BEL-AUX-EKU etc. The Public customers will become Frontier customers, but the bills will reflect the current Public rates. We don't expect confusion that Frontier is the service provider but the rates won't change for now.