

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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MAY 25 2016

PUBLIC SERVICE
COMMISSION

In the Matter of:

The Application of Kentucky Frontier Gas, LLC)
for Approval of Modification of AMR and)
Pipeline Replacement Programs, Surcharges) Case No. 2016-00132
and Tariffs to Include the Former Public Gas System)

APPLICATION

Kentucky Frontier Gas, LLC, (Frontier) by counsel, petitions the Commission for an order approving of the modification of the Automated Meter Reading (AMR) and Pipeline Replacement (PRP) tariffs to include customers formerly served by Public Gas Company. Frontier requests the issuance of a certificate of convenience and necessity pursuant to KRS 278.020 and approval of a surcharge pursuant to KRS 278.180, for approval of the expansion of the AMR and PRP programs and the modification of its tariffs to consolidate the former Public Gas customers within the programs.

1. Frontier is an LLC formed for the purpose of acquiring and operating small natural gas utilities generally located in eastern Kentucky. It is a Colorado company authorized to do business in Kentucky. Managing partners are Robert Oxford, Larry Rich and Steven Shute.

Its address is:

Kentucky Frontier Gas, LLC
PO Box 408
2963 KY Route 321 North
Prestonsburg, KY 41653
PH: 606-886-2431
Fax: 606-889-9196
<http://kyfrontiergas.com/>

2. Kentucky Frontier Gas, LLC is a Colorado limited liability corporation incorporated in 2005 and is in good standing to operate in that state. A copy of its articles organization and its certificate to operate in Kentucky were filed in Case No. 2008-00394. It is operating as a foreign corporation in Kentucky and attests that it is currently in good standing with the Kentucky Secretary of State. See exhibit 1.

3. Frontier owns and operates the former East Kentucky Gas (Floyd County Gas), Belfry Gas, Alert Gas Farm Tap System, Kinzer Farm Taps, Mike Little Gas Company pursuant to the order in Case No. 2008-00394 issued on November 25, 2008. It also owns the stock of Auxier Road Gas Company, which was approved in Case No. 2009-00442. It acquired the assets of Cow Creek Gas Company (formerly Sigma Gas Company) and Dema Gas Company in Case 2010-00076. It acquired the assets of People's Gas in Case No. 2009-00492 on January 29, 2010. Approval to acquire B.T.U. Gas Company was issued on June 1, 2012. It acquired the municipal gas system of Blaine effective August 1, 2012. Frontier has consolidated the farm tap customers of Interstate Gas Company, Kinzer Gas Company, Alert Oil and Gas Company, Quality Gas Company, and KLC Enterprises into its operations. Frontier acquired the assets of Public Gas effective December 1, 2015 in Case No. 2015-0299.

4. The operation of these small gas systems as a group has made an economically viable utility. Frontier now has about 5000 distribution customers and 630 farm tap customers. Frontier has consolidated all customers, management, financial and accounting and operations of all of the gas systems, including Public, into one operating company – Kentucky Frontier Gas, LLC. Extension of the AMR and PRP programs and surcharges to Public is another step toward completing the consolidation

of Public into Frontier. As with the other acquisitions, Frontier will seek approval in a future application to incorporate the former Public Gas rates and tariffs into a single rate structure, which will complete the process of incorporating all of Public's operations into Frontier.

5. The proposed surcharges reflect the financing of the proposed extension of AMR and PRP programs to the Public system with a cost recovery mechanism using the same a monthly surcharge for each program that is now approved for Frontier.

6. The application includes the following proposal for AMR.

a. Frontier proposes to expand the use of AMR equipment for the meters served by Public Gas. Frontier has implemented for many of its other customers an automated meter reading system (AMR) for radio reading up to one half mile away. AMR radio transmitters have been installed on about 1800 Frontier meters to date, including all farm taps and most meters in the former systems of Auxier Road, Blaine, Mike Little, Peoples and Sigma Gas. Automation of the meter reading process has greatly reduced meter reading time, especially for the farm taps, and has greatly increased accuracy in the monthly reading of the usage of gas by the customer. AMR minimizes billing errors and re-reading of meters, reduces meter reading costs by limiting travel distances and time, and improves timeliness of reading the meters. An expansion of the certificate of convenience and necessity, if required, is requested for this project pursuant to KRS 278.020.

b. As Frontier is doing with its current AMR project, it will upgrade the meter inventory of Public Gas to improve the quality of measurement and to establish uniformity for the AMR transmitters. As Public meters are tested, Frontier will refurbish

or replace all meters to conform to its standard parameters: all meters will be a single manufacturer; all meters will be Temperature Compensating (TC); all meters will have direct-read indexes (like odometers, not dials); all meters will (eventually) be 1980 or newer; and all meters in a size range like 175-250 will have the same size piping connections or meter "spuds".

c. Frontier has taken inventory of roughly 1800 meters in the Public Gas system, including spares. These meters are mostly a single brand and many of the small meters are temperature compensated. However, most of the large meters above 500 cfh capacity are from the 1960's, and many are non-TC. There are about 350 smaller 175's that are no longer made or supported for 20 years; 400 meters with an odd meter spud that is incompatible with all other Frontier and Public pipe fittings; and 500 meters with "dial" indexes that read like a clock and which generate dozens of error readings every month.

d. Frontier plans to complete the AMR-TC-upgrade project to Public within 7 years. Frontier started the current AMR program in 2013 with the radio reader, office equipment and software interface. Starting with about 200 far-flung Public customers in 4 counties, Frontier will expand AMR coverage to Public Gas by 250 meters at a cost of about \$16,000 per year. The total cost of AMR and meter upgrades for Public will be about \$155,000 spread over 7 years. Frontier proposes to apply the same \$1 monthly surcharge per meter charged to other Frontier customers to finance the AMR program for the Public Gas system. With approximately 1600 average paying customers, the surcharge will raise revenues of about \$19,000, which about matches the expected cost of the program.

7. Frontier proposes a Pipeline Replacement Program (PRP) as described in Shute's testimony. This cost of this program will be recovered through a \$1.25 per month surcharge on the customers' bills as it currently is for Frontier customers. The PRP mechanism would provide a means to recover more currently the cost of replacing all existing bare steel mains and service lines within the Public system, including replacement of service lines, meter loops, and any mandated relocates. Frontier expects to replace deteriorating main and service pipe and enhance the safety of its system by ensuring replacement of facilities with new, longer lasting and safer materials. Annual replacement cost may vary from year-to-year depending on size and location of the pipe replaced.

8. The following information is provided pursuant to 807 KAR 5:001 (15) for approval of the certificate of convenience and necessity for the AMR and TC equipment:

a. Frontier is an LLC. Its articles of organization were filed in Case 2008-00394.

b. Facts relied upon to show that the application is in the public interest: See Shute pre-filed testimony. The construction is in the public interest and is required to allow Frontier to continue to provide adequate service to its customers. The project will provide improved meter accuracy, better meter reading and improve pipeline safety. The project, its cost, need and other details are contained in the testimony and exhibits.

c. No franchises, rights of ways, easements or permits are required.

d. The area of the AMR and PRP project expansion is the former service area of Public Gas. The priority of the installation of the AMR and TC equipment will be determined at the time of initiation of installation, to maximize effectiveness and cost savings. These projects will not compete with any other utility.

e. Maps of the former Public Gas system were filed with the transfer Case No. 2015-0299 and are incorporated by reference.

f. The capital costs of the AMR and PRP will be financed with a proposed monthly surcharge over seven years or until the projects are completed.

g. The cost of the operation of the system as AMR and PRP are implemented is covered by existing rates and reflected in the 2015 Public Gas annual report that is incorporated by reference. Frontier has not yet filed its annual report, but current 2015 financials are provided in exhibit 2.

h. Frontier did not prepare a test year analysis because the proposed surcharge goes directly to capital improvements and will have little impact on financial results.

9. Frontier submits information pursuant to 807 KAR 5:001(14), to the extent applicable or available.

a. The surcharges proposed are to finance the AMR and metering improvements and replace and upgrade certain mains and services in the former Public Gas. The reasons for the proposed increase are more fully explained in the testimony and financial exhibits.

b. The company's Public Gas Annual Report has been filed with the Commission. The Frontier report will be filed. Current financial data for Frontier is included in exhibit 2. Each Annual Report is incorporated by reference.

c. The company is not a limited partnership.

d. There is no assumed name. All Public Gas customers are now billed as "Frontier".

e. Current and proposed tariffs are attached as exhibit 3.

f. Notice has been given by publication in local newspapers as required by 807 KAR 5:001 (1). A copy is attached as exhibit 4.

g. Notice of intent was filed on March 28, 2016 and served on the Attorney General.

h. The proposed adjustments will be treated the same as current surcharges to Frontier customers.

i. Prepared testimony is exhibit 5.

j. Estimated impact on annual revenues will be approximately \$19,200 for AMR surcharges (1600 customers x 12 billing cycles x \$1.00) and \$24,000 for PRP surcharges (1600 customers x 12 billing cycles x \$1.25). These increases in revenue will be directly offset with increases in capital expenditures.

k. The effect of the proposed surcharges on the average customer's bill is about \$27 per year. At current rates, a typical residential customer using 60 mcf per year will see an increase of about 5%.

l. Analysis of customers' bills in such detail that revenues from present and proposed rates can be readily determined for each customer class. Frontier requests a waiver pursuant to 807 KAR 5:001(22) from this requirement because the revenue from the proposed surcharges will go solely to metering and pipeline system improvements that will benefit the customers of the former Public Gas..

m. Summary of determination of revenue requirements based on return on net investment rate base, return on capitalization, interest coverage, debt service coverage, or operating ratio, with supporting schedules. Frontier requests a waiver pursuant to 807 KAR 5:001(22) from this requirement because the revenue is based on the annual expense associated with each specific project that qualifies under the tariff. There is no general increase in revenue.

n. Reconciliation of rate base and capital used to determine revenue requirements. Frontier requests a waiver pursuant to 807 KAR 5:001(22) from this requirement because rate base and capital are not used in calculating the revenue requirement.

o. Current chart of accounts if more detailed than the Uniform System of Accounts. Frontier requests a waiver pursuant to 807 KAR 5:001(22) from this requirement because of the limited nature of the tariff and the specific nature of the revenue adjustment.

p. Independent auditor's annual opinion report, with any written communication from auditor which indicates existence of material weakness in internal controls. Frontier requests a waiver pursuant to 807 KAR 5:001(22) from this requirement because of the limited nature of the revenue impact of the tariff.

q. The most recent FERC or FCC audit reports. Frontier requests a waiver pursuant to 807 KAR 5:001(22) from these requirements because it is not subject to these requirements by FERC or FCC.

r. The most recent FERC Form 1 (electric), FERC Form 2 (gas), or PSC Form T (telephone). Frontier requests a waiver pursuant to 807 KAR 5:001(22) from these requirements because it is not subject to these requirements by FERC.

s. Summary of latest depreciation study with schedules by major plant accounts, except that telecommunications utilities adopting PSC's average depreciation rates shall provide schedule identifying current and test period depreciation rates used by major plant accounts. If filed in another PSC case,

refer to that case's number. Frontier requests a waiver pursuant to 807 KAR 5:001(22) from this requirement because the tariff rates proposed are not based on plant in service.

t. List of all commercial or in-house computer software: Microsoft Office and Caselle customer service program.

u. Prospectuses of most recent stock or bond offerings is not applicable as Frontier has no stock or bond offerings.

v. Annual report to shareholders, or members, and statistical supplements covering the 2 most recent years from the application filing date; this is not applicable as Frontier has no shareholder reports.

w. Monthly managerial reports providing financial results for 12 months in test period are not applicable for this proposal; Frontier requests a deviation pursuant to 807 KAR 5:001(22) to substitute the annual financial report for the prior calendar year.

x. SEC's annual report (Form 10-K) for most recent 2 years, any Form 8-Ks issued within past 2 years, and Form 10-Qs issued during the past 6 quarters updated as current information becomes available; these are not applicable to Frontier.

y. Frontier had no amounts charged or allocated to it by affiliate or general or home office, or paid any monies to affiliate or general or home office during test period or during previous 3 calendar years.

z. If gas, electric, sewage or water utility, whose annual gross revenues exceed \$5,000,000, cost of service study based on methodology generally

accepted in industry and based on current and reliable data from a single time period. Frontier requests a waiver pursuant to 807 KAR 5:001(22) from these requirements due to the limited nature of the tariff and the revenue neutral impact on the company's earnings

aa. Detailed income statement and balance sheet reflecting impact of all proposed surcharges is not applicable. The increases in revenue are directly offset with capital expenditures.

bb. Most recent capital construction budget containing at least period of time as proposed for any pro forma adjustment for plant additions. Frontier has no formal capital construction budget. All costs associated with the proposed projects are estimated in Steven Shute's testimony.

cc. Amount contained in construction work in progress at end of test period is reflected in the 2015 Annual Report, which is incorporated by reference.

dd. Operating budget for each month of the period encompassing the proposed surcharges is not applicable, since the surcharges and related capital projects are offsetting and will minimally impact the operating budget.

ee. Number of customers to be added to the test period — end level of customers and the related revenue requirements impact for all pro forma adjustments with complete details and supporting work papers are not applicable to this proposal, which will not add or delete customers.

10. Frontier provides the following information pursuant to 807 KAR 5:001(17)(4):

a. The proposed effective date and the date the proposed rates are expected to be filed with the commission are reflected in the application and proposed tariffs.

b. The present and proposed rates for each customer class to which the proposed rates will apply are included in the proposed tariff and customer notice exhibit 4.

c. Amount of change requested in dollar amounts and percentage change for each customer classification to which change will apply is \$27 per year per customer. After adopting the Public Gas tariffs, Frontier has only one customer class among former Public customers. At the current gas cost and rates, the \$27 surcharges are about 5% of a typical annual residential bill. The annual percentage is significantly less for the larger commercial customers in the same class.

d. Electric, gas, and water utilities — the amount of the average usage and the effect upon average bill for each customer class to which change will apply is not applicable because the proposed surcharge is not consumption based.

e. A billing analysis is not applicable as the surcharge is a flat rate, not consumption or volumetric.

f. A summary of the calculation of the revenue requirements is not applicable and the revenue requirement is not being adjusted, because all revenues raised by the surcharges will be spent on related AMR and PRP projects.

11. Frontier requests a deviation from any other filing requirement that is not included in this application, based on the lack of applicability to the requested action.

For these reasons, the Frontier requests approval of the expansion of the AMR and PRP programs to include the customers of the former Public Gas Company with recovery mechanism and monthly surcharge, revisions to tariffs and any other authorizations required

Submitted by:

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Attorney for Kentucky Frontier Gas, LLC

EXHIBIT 1

KENTUCKY FRONTIER GAS, LLC

General Information

Organization Number	0620382
Name	KENTUCKY FRONTIER GAS, LLC
Profit or Non-Profit	Unknown
Company Type	FLC - Foreign Limited Liability Company
Status	A - Active
Standing	G - Good
State	CO
File Date	8/25/2005
Authority Date	8/25/2005
Last Annual Report	3/24/2016
Principal Office	4891 INDEPENDENCE ST. #200 WHEAT RIDGE, CO 80033-6714
Registered Agent	C T CORPORATION SYSTEM 306 W MAIN ST SUITE 512 FRANKFORT, KY 40601

Current Officers

Manager	Robert J Oxford
Manager	Steven E Shute
Manager	Larry Rich

Individuals / Entities listed at time of formation

Organizer	ROBERT J OXFORD
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Images available online

Documents filed with the Office of the Secretary of State on September 15, 2004 or thereafter are available as scanned images or PDF documents. Documents filed prior to September 15, 2004 will become available as the images are created.

Annual Report	3/24/2016	1 page	tiff	PDF
Annual Report	4/15/2015	1 page	tiff	PDF
Annual Report	4/22/2014	1 page	PDF	
Annual Report	6/27/2013	1 page	PDF	
Annual Report	5/4/2012	1 page	PDF	
Annual Report	5/10/2011	1 page	PDF	
Annual Report	5/7/2010	1 page	PDF	
Registered Agent name/address change	4/20/2010 4:40:50 AM	1 page	PDF	
Annual Report	5/12/2009	1 page	tiff	PDF
Registered Agent name/address change	9/16/2008 6:00:00 PM	1 page	PDF	
Annual Report	7/8/2008	1 page	PDF	
Annual Report	4/12/2007	1 page	PDF	

<u>Annual Report</u>	6/14/2006	1 page	<u>tiff</u>	<u>PDF</u>
<u>Principal Office Address Change</u>	3/9/2006	1 page	<u>tiff</u>	<u>PDF</u>
<u>Application for Certificate of Authority</u>	8/25/2005	1 page	<u>tiff</u>	<u>PDF</u>

Assumed Names

Activity History

Filing	File Date	Effective Date	Org. Referenced
Annual report	3/24/2016 2:43:44 PM	3/24/2016	
Annual report	4/15/2015 12:32:45 PM	4/15/2015	
Annual report	4/22/2014 4:55:17 PM	4/22/2014 4:55:17 PM	
Annual report	6/27/2013 5:36:15 PM	6/27/2013 5:36:15 PM	
Annual report	5/4/2012 1:50:06 PM	5/4/2012 1:50:06 PM	
Annual report	5/10/2011 1:21:16 PM	5/10/2011 1:21:16 PM	
Annual report	5/7/2010 12:48:11 PM	5/7/2010 12:48:11 PM	
Registered agent address change	4/20/2010 4:40:56 AM	4/20/2010 4:40:56 AM	
Annual report	5/12/2009 2:52:44 PM	5/12/2009	
Registered agent address change	9/16/2008 7:13:00 PM	9/16/2008 7:13:00 PM	
Annual report	7/8/2008 12:03:52 PM	7/8/2008 12:03:52 PM	
Annual report	4/12/2007 6:49:00 PM	4/12/2007 6:49:00 PM	
Annual report	6/14/2006 9:24:36 AM	6/14/2006	
Principal office change	3/9/2006 2:56:35 PM	3/9/2006	
Add	8/25/2005 12:38:13 PM	8/25/2005	

Microfilmed Images

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Summary

Details			
Name	Kentucky Frontier Gas, LLC.		
Status	Good Standing	Formation date	08/04/2005
ID number	20051297798	Form	Limited Liability Company
Periodic report month	July	Jurisdiction	Colorado
Principal office street address	4891 Independence, Suite 200, Wheat Ridge, CO 80033, United States		
Principal office mailing address	n/a		

Registered Agent	
Name	Industrial Gas Services, Inc.
Street address	4891 Independence St., Suite 200, Wheat Ridge, CO 80033, United States
Mailing address	n/a

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EXHIBIT 2

Kentucky Frontier Gas, LLC
Profit & Loss
December 2015 *(preliminary, not final)*

	Jan - Dec 15
Income	
405 · Management Fee Income	
405.1 · Management Fee Income - Auxier	493,877.20
405.3 · Management Fee Income- DLR	25,000.00
Total 405 · Management Fee Income	518,877.20
419 · Interest Income	185.63
480 · Residential Sales	1,680,432.93
481 · Commercial & Industrial Sales	418,618.67
482 · Commercial Tax Exempt	266,735.16
487 · Penalties & Forfeited Discounts	45,957.73
488 · Miscellaneous Service Revenues	
488.10 · Field Collection Fee	850.00
488.11 · Reconnection Fee	5,440.00
488.3 · Reimbursed Expenses - Income	0.00
488.4 · Service Charges	9,878.81
488.7 · NSF	792.00
488.8 · Connection Fee	3,750.00
Total 488 · Miscellaneous Service Revenues	20,710.81
489 · Sales Tax Commission	331.82
490 · Other Income	15,560.27
491 · Customer Charge	377,648.77
Total Income	3,345,058.99
Cost of Goods Sold	
800 · Gas Supply Expenses	
804 · Natural Gas Purchases & Transp	
800.22 · Gas Purch - Cumberland for CC	23,459.30
804.1 · Gas Purch - Quality	299,700.96
804.10 · Gas Purch-Hi Energy Gas	14,753.08
804.11 · Gas Purch - Jefferson Gas	174,182.86
804.12 · Gas Purch - Nytis Exploration	45,092.27
804.13 · Gas Purch - HTC Gas Company	5,247.00
804.14 · Gas Purch - Interstate Natural	784.46
804.15 · Transportation Expense-DLR	22,581.25
804.17 · Gas Purch - Spirit Energy	14,548.28
804.2 · Gas Purch - Columbia	84,548.64
804.20 · Gas Purch- EQT Energy, LLC	356,628.54
804.21 · Gas Purch - Plateau Energy	633.76
804.3 · Gas Purch - KLC	34,447.97
804.4 · Gas Purch -John Gray Energy	34,003.80
804.5 · Gas Purch - Slone Energy	50,225.75
804.6 · Gas Purch - Tackett & Sons	9,546.20
804.9 · Gas Purch - Magnum Drilling	37,128.00
Total 804 · Natural Gas Purchases & Transp	1,207,512.12
Total 800 · Gas Supply Expenses	1,207,512.12
Total COGS	1,207,512.12
Gross Profit	2,137,546.87
Expense	

Kentucky Frontier Gas, LLC
Profit & Loss
December 2015 *(preliminary, not final)*

	Jan - Dec 15
408 · Taxes Other Than Income Taxes	
408.3 · Property Tax	41,592.49
408.4 · Annual PSC Assessment	6,300.83
408.5 · Public Service Company Assess	6,863.19
408 · Taxes Other Than Income Taxes - Other	25.00
Total 408 · Taxes Other Than Income Taxes	54,781.51
409 · Income Taxes	
409.3 · Other State Income Taxes	175.00
Total 409 · Income Taxes	175.00
426 · Interest Exp - CTB (Line of Cr)	766.67
427 · Interest on Long-Term Debt	
427.1 · Interest on SBA Loan	24,972.62
427.10 · Interest on 2015 F350 Loan	798.73
427.11 · Int Exp- CTB 2015 Tacoma	385.38
427.2 · Interest on USDA Loan #1	0.00
427.3 · Interest on USDA Loan #2	7,922.48
427.5 · Interest on Tacoma Access Loan	293.37
427.6 · Interest on Tacoma Reg Loan	80.10
427.7 · Interest on Tundra Loan	109.77
427.8 · Interest on SBA Loan #2	10,353.63
427.9 · Interest on Silverado Loan	858.54
Total 427 · Interest on Long-Term Debt	45,774.62
768 · Contract Labor	2,182.80
806 · Gas Purch-Aei Kaars	0.00
807 · Gas Purch-Nytis(Evan 104)	0.00
808 · Gas Purch-Nytis (Dema)	0.00
809 · Gas Purch-Cumberland Valley	0.00
870 · DISTRIBUTION EXPENSES	
871 · DISTRIBUTION OPERATION	
874 · Mains & Services Expenses	-32,105.03
878 · Meter & House Regulator Exp	
878.2 · Uniforms	1,611.82
Total 878 · Meter & House Regulator Exp	1,611.82
880 · Other Expenses	
880.1 · DOT Physicals	393.20
880.10 · DIMP Program	347.60
880.2 · Travel for Tech Training	1,272.76
880.3 · Drug Testing	198.00
880.4 · Licenses & Permits	2,506.95
880.5 · Travel for Members	17,622.20
880.6 · Training	3,991.11
880.8 · Easements	377.37
Total 880 · Other Expenses	26,709.19
Total 871 · DISTRIBUTION OPERATION	-3,784.02
884 · DISTRIBUTION MAINTENANCE	
887 · Maintenance of Mains	21,000.00
888 · Maint of Comp Station Equip	26.49

Kentucky Frontier Gas, LLC
Profit & Loss

December 2015 (preliminary, not final)

	Jan - Dec 15
893 · Maint of Meters & House Reg	7,370.85
894 · Maint of Other Equipment	5,953.93
Total 884 · DISTRIBUTION MAINTENANCE	34,351.27
Total 870 · DISTRIBUTION EXPENSES	30,567.25
900 · CUSTOMER ACCOUNTS EXPENSES	
900.1 · CUSTOMER ACCT OPERATION	
904 · Uncollectible Accounts	24,618.01
905 · Misc Customer Accounts Exp	
905.2 · Postage and Delivery	24,384.54
905 · Misc Customer Accounts Exp - Other	50.00
Total 905 · Misc Customer Accounts Exp	24,434.54
Total 900.1 · CUSTOMER ACCT OPERATION	49,052.55
Total 900 · CUSTOMER ACCOUNTS EXPENSES	49,052.55
906 · CUSTOMER SERVICE & INFORMATION	
906.1 · C S & I OPERATION	
909 · Inform & Instruc Advert Exp	
909.1 · Web Support	532.80
Total 909 · Inform & Instruc Advert Exp	532.80
Total 906.1 · C S & I OPERATION	532.80
Total 906 · CUSTOMER SERVICE & INFORMATION	532.80
918 · ADMINISTRATIVE & GENERAL EXP	
919 · ADMIN & GEN OPERATION	
920 · Admin & General Salaries	
920.2 · Payroll Administration Expenses	4,696.82
Total 920 · Admin & General Salaries	4,696.82
921 · Office Supplies and Expenses	
921.1 · Office Equipment	5,250.52
921.11 · Travel	2,657.17
921.12 · Credit Cd Charges	1,169.84
921.2 · Office Supplies & Expense	14,519.64
921.3 · Bank Service Charges	5,190.80
921.4 · Computer Software	16,285.30
921.5 · Cleaning/Janitorial	2,244.00
921.6 · Conferencing	559.88
921.7 · Dues and Subscriptions	1,805.45
921.8 · Telephone and Fax	18,784.16
921.9 · Utilities	4,986.29
921 · Office Supplies and Expenses - Other	428.79
Total 921 · Office Supplies and Expenses	73,881.84
923 · Outside Services Employed	
923.1 · Outside Services - Manager	6,150.00
923.2 · Outside Services - Accounting	2,812.00
923.3 · Outside Services - Engineering	103,588.93
923.4 · Outside Services - Legal	18,762.60
923.5 · Outside Services - Admin	74,166.55
923 · Outside Services Employed - Other	0.00
Total 923 · Outside Services Employed	205,480.08

Kentucky Frontier Gas, LLC

Profit & Loss

December 2015 *(preliminary, not final)*

	Jan - Dec 15
924 • Insurance	
924.1 • Auto Insurance	26,682.51
924.2 • General Liability Insurance	12,467.64
924.3 • Life Insurance	1,940.56
924.4 • Property Insurance	836.63
924.5 • Worker's Compensation	12,637.17
924.6 • Health Insurance	19,165.26
924.7 • Insurance- Aflac	5,621.92
Total 924 • Insurance	79,351.69
926 • Employee Pensions & Benefits	63,955.47
930.2 • Miscellaneous General Expenses	1,528.02
931 • Rents	26,073.00
919 • ADMIN & GEN OPERATION - Other	495.00
Total 919 • ADMIN & GEN OPERATION	455,461.92
Total 918 • ADMINISTRATIVE & GENERAL EXP	455,461.92
932 • MAINTENANCE OF GENERAL PLANT	
932.0 • Maint of General Plant - Garage	110.29
932.1 • Repairs	
Computer Repairs	22,720.65
Equipment Repairs	
Transportation Equipment	11,424.03
Equipment Repairs - Other	1,971.72
Total Equipment Repairs	13,395.75
Total 932.1 • Repairs	36,116.40
932.2 • Depreciation Expense	195,000.00
932.3 • Tools & Equipment	77.17
932.4 • Transportaion Equipment Fuel	33,356.43
Total 932 • MAINTENANCE OF GENERAL PLANT	264,660.29
981 • Interest Expense-Meter Deposit	117.00
990 • PAYROLL	
991 • Employee Wages	482,090.85
992 • Employer Social Security	30,358.81
993 • Employer Medicare	7,100.03
994 • Employer FUTA	1,972.25
995 • Employer KY State Unemployment	2,658.20
996 • Garnishment	2,901.50
Total 990 • PAYROLL	527,081.64
Total Expense	1,431,154.05
Net Income	706,392.82

Kentucky Frontier Gas, LLC
Balance Sheet
December 2015 *(preliminary not final)*

ASSETS

Current Assets

Checking/Savings

131 · Cash - Bank Accounts	
131.0 · Petty Cash	300.00
131.2 · Comm Trust Bank Oper 4002506337	42,702.76
131.3 · Comm Trust Payroll #4002507509	172.72
131.7 · CTB Savings #5001856760	3,168.05
Total 131 · Cash - Bank Accounts	<u>46,343.53</u>

Total Checking/Savings 46,343.53

Accounts Receivable

142 · Customer Accounts Receivable	305,903.55
143 · Other Accounts Receivable	
148 · Due from DLR	68,000.00
143 · Other Accounts Receivable - Other	44,086.83
Total 143 · Other Accounts Receivable	<u>112,086.83</u>
145 · Due From Quality Gas	28,232.80
Total Accounts Receivable	<u>446,223.18</u>

Other Current Assets

108.09 · CC - Accum Deprec	-58,915.00
108.11 · BTU-Accumulated Depr	-32,880.00
115.0 · Consol - Acc Depreciation	-201,484.00
146 · Reimbursement Receivable	42,000.00
147 · N/R - Fontaine Williams	984.54
173 · Organizational Account	

Start Up Costs

SBA Origination Fees	95,056.13
USDA Origination Fees	17,464.00
115 · Accumulated Amort - Start Up	-29,970.00
Start Up Costs - Other	298.98

Total Start Up Costs 82,849.11

Total 173 · Organizational Account 82,849.11

Total Other Current Assets -167,445.35

Total Current Assets 325,121.36

Fixed Assets

101 · Utility Plant

101.0 · Utility Plant - consolidated	
376 · Meters - Consolidated	52,355.65
376.0 · Itrons	-241.00
377 · Meter Sets	26,337.78
378 · Regulators	2,957.50
Total 101.0 · Utility Plant - consolidated	<u>81,409.93</u>

101.1 · East Kentucky Utility Plant

General Plant

Kentucky Frontier Gas, LLC
Balance Sheet

December 2015 *(preliminary not final)*

394.1 · Tools, Shop & Garage Equip	891.00
Total General Plant	891.00
114.1 · Gas Plant Acquisition Adj	
376.01 · Mains	9,515.91
37601 · Meas & Reg Station Eq	5,980.39
380.01 · Services	12,220.74
381.01 · Meters	17,868.69
382.01 · New Meter Install	589.97
382.02 · ECU - Line Replacement	650.00
114.1 · Gas Plant Acquisition Adj - Other	955,369.74
Total 114.1 · Gas Plant Acquisition Adj	1,002,195.44
115.1 · Accumulated Provision for Amort	-312,977.00
Total 101.1 · East Kentucky Utility Plant	690,109.44
101.2 · Mike Little Gas Plant	
General Plant Assets	
394.2 · Tools, Shop & Garage Equip	989.36
Total General Plant Assets	989.36
114.2 · Gas Plant Acquisition Adj	
376.22 · Mains	28,484.44
380.22 · Services	6,816.10
381.22 · Meters	15,979.74
381.23 · Line Replacement	2,060.52
114.2 · Gas Plant Acquisition Adj - Other	481,044.76
Total 114.2 · Gas Plant Acquisition Adj	534,385.56
115.2 · Accum Prov for Amort of Gas PI	-160,466.00
Total 101.2 · Mike Little Gas Plant	374,908.92
101.3 · Belfry Utility Plant	
114.3 · Gas Plant Acquisition Adj	
376.33 · Mains	118,607.16
376.331 · Mains - Comp Const	28,661.96
376.34 · Mains Belf - Line Replacement	79,146.35
380.33 · Services	12,645.56
381.32 · Regulators	3,075.00
381.33 · Meters	34,233.60
381.34 · Meter & Regulator - FSM	4,675.82
382.22 · New Meter Installation	1,925.25
114.3 · Gas Plant Acquisition Adj - Other	480,342.00
Total 114.3 · Gas Plant Acquisition Adj	763,312.70
115.3 · Accum Prov for Amort of Gas PI	-312,209.00
Total 101.3 · Belfry Utility Plant	451,103.70
101.4 · Alert Farm Taps Utility Plant	
Distribution Plant	
381.4 · Meters	130.00
Total Distribution Plant	130.00

Kentucky Frontier Gas, LLC

Balance Sheet

December 2015 (preliminary not final)

114.4 · Gas Plant Acquisition Adj	
376.44 · Mains	2,600.29
380.44 · Services	2,950.40
381.44 · Meters	312.42
382.44 · New Meter Installation	111.00
Total 114.4 · Gas Plant Acquisition Adj	5,974.11
115.4 · Accum Prov for Amort of Gas Pl	-1,445.00
Total 101.4 · Alert Farm Taps Utility Plant	4,659.11
101.8 · Peoples Gas Utility Plant	
114.81 · Gas Plant Acq Adj - KFG	
376.88 · Mains	14,279.82
377.88 · Main Replacement - Phelps	20,837.63
380.88 · Services	1,196.90
382.88 · New Meter Install	114.75
114.81 · Gas Plant Acq Adj - KFG - Other	25,541.00
Total 114.81 · Gas Plant Acq Adj - KFG	61,970.10
115.8 · Accum Amortization - Acquisitio	-13,270.00
Total 101.8 · Peoples Gas Utility Plant	48,700.10
Total 101 · Utility Plant	1,650,891.20
101.11 · BTU Purchase	
380.10 · Mains	700.00
380.11 · Services	12,207.13
380.13 · Regulators	815.90
380.14 · Main Replacement - BTU	41,888.01
380.16 · Drip Tank	1,010.03
101.11 · BTU Purchase - Other	262,500.00
Total 101.11 · BTU Purchase	319,121.07
101.13 · Public Gas Utility Plant	
376.13 · Mains	1,900,000.00
Total 101.13 · Public Gas Utility Plant	1,900,000.00
101.9 · COW CREEK UTILITY PLANT	
376.09 · Mains	446,356.00
380.09 · Services	10,049.92
381.09 · Meters	46,473.56
383.09 · Regulators/Detectors	21,815.00
101.9 · COW CREEK UTILITY PLANT - Other	16,699.00
Total 101.9 · COW CREEK UTILITY PLANT	541,393.48
154 · Inventory	19,215.14
380 · General Plant Assets	
391 · Office Furniture & Equipment	
391.1 · Office Furniture & Equipment	12,826.02
391.11 · Office Equip - Folder/Insertor	10,270.34
Total 391 · Office Furniture & Equipment	23,096.36
392 · Transportation Equipment	

Kentucky Frontier Gas, LLC Balance Sheet

December 2015 (preliminary not final)

108 · Gen Utility Plant - Accum Depr	-116,091.00
392.1 · 1996 Ford F-150	5,300.00
392.11 · Transportation Eq- Other	3,657.00
392.2 · 2005 Toyota	12,500.00
392.3 · 2012 Tacoma Access Cab	26,224.54
392.4 · 2012 Tacoma Reg Cab	23,655.24
392.5 · 2012 Tundra	29,687.00
392.6 · 2015 Chevy Silverado	33,695.08
392.7 · 2015 F350	41,338.81
392.9 · 2015 Tacoma	26,110.74
392 · Transportation Equipment - Other	4,913.83
Total 392 · Transportation Equipment	90,991.24
394 · Tools, Shop & Garage Equip	15,114.73
396 · Power Operated Equipment	
396.3 · CAT Mini Excavator	33,780.90
Total 396 · Power Operated Equipment	33,780.90
397 · Tools & Equipment	1,643.19
Total 380 · General Plant Assets	164,626.42
380.15 · Meter- H Thompson	8,222.69
398 · Leasehold Improvements	1,527.64
Total Fixed Assets	4,604,997.64
Other Assets	
123 · Investment in Subsidiary Compan	
123.1 · Investment - Auxier Rd	1,695,459.23
123.3 · Investment - DEMA	10,000.00
123.4 · Investment - Interstate FT	10,000.00
Total 123 · Investment in Subsidiary Compan	1,715,459.23
125 · CASELLE Billing Software	32,650.00
150 · CC- A/R	70.19
155 · Utility Deposits	324.00
Total Other Assets	1,748,503.42
TOTAL ASSETS	6,678,622.42
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
232 · Accounts Payable	782,645.61
Total Accounts Payable	782,645.61
Other Current Liabilities	
230 · CC-N/P DEMA	5,885.42
231 · Notes Payable	
231.5 · N/P- CTB (Line of Credit)	40,000.00
Total 231 · Notes Payable	40,000.00
233 · Notes Payable - Assoc Co's	

Kentucky Frontier Gas, LLC
Balance Sheet
December 2015 *(preliminary not final)*

233.1 · N/P IGS	27,602.80
233.2 · N/P DLR	21,673.25
Total 233 · Notes Payable - Assoc Co's	49,276.05
235 · Customer Deposits/Retainers	
235.1 · CC- Cust Deposits	20,050.00
237 · Accrued Interest Deposits	
237.1 · CC- Accr Int on Deposits	2,730.26
237 · Accrued Interest Deposits - Other	1,884.33
Total 237 · Accrued Interest Deposits	4,614.59
235 · Customer Deposits/Retainers - Other	99,730.18
Total 235 · Customer Deposits/Retainers	124,394.77
239 · Accrued Other State Income Tax	175.00
241 · Sales Tax Payable	2,189.11
242 · Utility Tax Payable	
242.1 · CC- Utility Tax Payable	-2,013.92
242 · Utility Tax Payable - Other	5,198.28
Total 242 · Utility Tax Payable	3,184.36
251 · CC- A/P	27,195.49
Total Other Current Liabilities	252,300.20
Total Current Liabilities	1,034,945.81
Long Term Liabilities	
224 · Long Term Liability	
224.1 · Community Trust Bank Loan	589,203.12
224.10 · 2015 F350 Loan CTBI	28,607.14
224.11 · CTB-2015 TACOMA	17,467.54
224.12 · CTB Loan - SBA #3	1,500,000.00
224.2 · USDA Loan #1	1,132,171.98
224.3 · USDA Loan #2	125,796.17
224.5 · Tacoma Access Loan - CTBI	4,634.63
224.8 · CTB Loan - SBA #2	197,635.99
224.9 · 2015 Chev Silverado Loan CTBI	27,840.32
Total 224 · Long Term Liability	3,623,356.89
Total Long Term Liabilities	3,623,356.89
Total Liabilities	4,658,302.70
Equity	
211.1 · Partner One Equity - RJO	
208.1 · Partner One Investments	365,750.00
211.1 · Partner One Equity - RJO - Other	10,500.00
Total 211.1 · Partner One Equity - RJO	376,250.00
211.2 · Partner Two Equity - SS	
208.2 · Partner Two Investments	956,000.00
211.2 · Partner Two Equity - SS - Other	14,000.00
Total 211.2 · Partner Two Equity - SS	970,000.00
211.3 · Partner Three Equity - LR	

Kentucky Frontier Gas, LLC
Balance Sheet

December 2015 *(preliminary not final)*

208.3 · Partner Three Investments	254,500.15
211.3 · Partner Three Equity - LR - Other	<u>7,000.00</u>
Total 211.3 · Partner Three Equity - LR	261,500.15
211.4 · Partner Four Equity - IGS	
208.4 · Partner Four Investments	115,250.00
211.4 · Partner Four Equity - IGS - Other	<u>3,500.00</u>
Total 211.4 · Partner Four Equity - IGS	118,750.00
216 · Retained Earnings	-574,573.25
Net Income	<u>706,392.82</u>
Total Equity	<u>1,858,319.72</u>
TOTAL LIABILITIES & EQUITY	<u><u>6,516,622.42</u></u>

EXHIBIT 3

FOR Entire Service Area
Community, Town or City

P.S.C KY NO. 1

79th Revised Sheet No. 1

Public Gas Company

Cancelling P.S.C. KY NO. 1

78th Revised Sheet No. 1

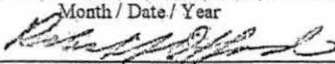
RATES & CHARGES

Applies to: All Customers
Rate, Monthly:

	<u>Base Rate</u>	<u>Gas Cost Recovery Rate</u>	<u>Rate Per Unit (CCF)</u>
Customer Charge	\$10.00		
All Ccf	\$ 0.30914	\$ 0.40133	\$ 0.71047 (l)

DATE OF ISSUE March 30, 2016
Month / Date / Year

DATE EFFECTIVE May 1, 2016
Month / Date / Year

ISSUED BY 
(Signature of Officer)

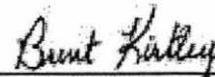
TITLE Managing Member

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. 2016-00136 DATED April 8, 2016

KENTUCKY
PUBLIC SERVICE COMMISSION

Aaron D. Greenwell
ACTING EXECUTIVE DIRECTOR

TARIFF BRANCH



EFFECTIVE

5/1/2016

PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

FOR Public Gas Company service area _____

PSC KY NO. 1 _____

8th Revised Sheet NO. 1 _____

Public Gas Company
(NAME OF UTILITY)

CANCELLING PSC KY NO. 1 _____

77th revised _____ SHEET NO. 1 _____

Applies to All Customers:
Rate, Monthly

PROPOSED TARIFF

	Base Rate	Gas cost recovery	Rate Per Unit(CCF)
Customer Charge:	\$10.00		
All Mcf	\$3.0914	\$.40133	\$.71047
AMR Surcharge	\$1.00 per month		N
PRP Surcharge	\$1.25 per month		N

DATE OF ISSUE June 1, 2016 _____
MONTH / DATE / YEAR

DATE EFFECTIVE July 1, 2016 _____
MONTH / DATE / YEAR

ISSUED BY Steve Shute  _____
SIGNATURE OF OFFICER

TITLE Managing Partner _____

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. _____ DATED _____

RULES & REGULATIONS

VI. PIPELINE REPLACEMENT PROGRAM (PRP)

Applicable to all utility customers receiving service from ~~under the Company's Rate Schedules~~.
Kentucky Frontier Gas, LLC T

A. CALCULATION OF PIPELINE REPLACEMENT RIDER SURCHARGE:

The PRP surcharge is based on the annual cost of replacing older metal pipe on the Frontier distribution systems.

B. PIPELINE REPLACEMENT PROGRAM FACTORS

All customers receiving service ~~under Frontier's Rate Schedules~~, except farm tap customers, shall be assessed a monthly charge in addition to the Customer Charge component of their applicable rate schedule that will enable the Company to complete the pipeline replacement program. T

The PRP Rider will be updated annually in order to reflect the impact of net plant additions from pipeline replacements. Such adjustment to the Rider will become effective with meter readings on and after the first billing cycle of May, and will reflect allocation of the required increase based on the distribution approved by the Commission.


VII. AMR & METER UPGRADE PROGRAM

Applicable to all utility customers receiving service from ~~under the Company's Rate Schedules~~.
Kentucky Frontier Gas LLC. T

All customers receiving service ~~under~~ from Frontier's ~~Rate Schedules~~, including farm tap customers, shall be assessed a monthly charge in addition to the Customer Charge component of their applicable rate schedule that will enable the Company to complete the Automated Meter Reading (AMR) and meter upgrade program. T

Date Issued: June 1, 2016

Date Effective; July 1, 2016

Issued By: Steve Shute, managing member 

Issued by Authority of
Public Service Commission of KY
in Case No dated

EXHIBIT 4

KENTUCKY FRONTIER GAS, LLC
NOTICE TO PUBLIC GAS COMPANY CUSTOMERS OF
GAS RATE SURCHARGE ADJUSTMENT AND
TARIFF CHANGES

Pursuant to the regulations of the Public Service Commission (KPSC), Kentucky Frontier Gas, LLC (Frontier) gives notice that it intends to implement a monthly surcharge on customers of the former Public Gas Company, which was acquired by Frontier, to recover the cost of a Pipeline Replacement Program (PRP) surcharge and mechanism and an Automated Meter Reading recovery (AMR) surcharge. No change in the rates to other existing Frontier customers is proposed. The application will be filed on or near May 27, 2016 with a proposed effective date of July 1, 2016 pursuant to Kentucky Revised Statute 278.180 and the Rules of the Public Service Commission of Kentucky.

Frontier proposes to modify its existing tariffs to include the customers of the former Public Gas Company in the existing AMR and PRP surcharge tariffs. The average change in the monthly bill and the percentage change in the monthly bill are listed in the rate schedule below.

CURRENT RATES FOR FORMER PUBLIC GAS COMPANY CUSTOMERS:

<u>Current rate:</u>	<u>Proposed Surcharges:</u> New
\$10.00 per month	AMR: \$1.00 per month
\$0.710 per ccf	PRP: \$1.25 per month

<u>Customer Class</u>	<u>Average Monthly Usage</u>	<u>Average Monthly Bill (Present Rates)</u>	<u>Average Monthly Bill (Proposed Surcharges)</u>	<u>Increase in Average Monthly Bill (\$)</u>	<u>Increase in Average Monthly Bill (%)</u>
<u>Residential</u>	50 ccf	\$45.52	\$47.77	\$2.25	4.9%
<u>Commercial</u>	166.7 ccf	\$128.41	\$130.66	\$2.25	1.8%
<u>Industrial/transportation</u>	N/A				

All other charges not specifically mentioned shall remain the same as those presently in effect. The proposed surcharges will result in an overall approximate monthly increase in the amount of \$2.25 or 4.9% for residential consumers, and \$2.25 or 1.8% for commercial consumers.

The impact on each customer's average bill will vary according to individual consumption. However, this impact can be determined by each customer by applying the proposed rates listed above to their respective average consumption.

The surcharges contained in this notice are those proposed by Frontier, however, the KPSC may order surcharges that differ from the proposed rates contained in this notice. Such action may result in rates for customers higher or lower than the rates included in this notice.

Frontier's application for rate adjustment is available for examination at its offices listed below. Any person may obtain a copy of the application, testimony or other documents or examine the rate application and any related filings at the offices of Frontier listed below or at its website <http://kyfrontiergas.com> or the Commission office or its website listed below.

A person may also examine the application at the Public Service Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, Monday through Friday, 8:00 a.m. to 4:30 p.m., or through the Public Service Commission's Web site at <http://psc.ky.gov>. Comments regarding the application may be submitted to the Public Service Commission through its Web site or by mail to Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602.

A person may submit a timely written request for intervention to the Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602, establishing the grounds for the request including the status and interest of the party. If the Public Service Commission does not receive a written request for intervention within thirty (30) days of initial publication of this Notice, it may take final action on Frontier's application.

Kentucky Frontier Gas, LLC
PO Box 408
2963 KY Route 321 North
Prestonsburg, KY 41653
PH: 606-886-2431
Fax: 606-889-9196
www.kyfrontiergas.com

Public Service Commission of Kentucky
211 Sower Blvd.
P.O. Box 615
Frankfort, KY 40602
(502) 564-3940
www.psc.ky.gov

EXHIBIT 5

1 COMMONWEALTH OF KENTUCKY
2 BEFORE THE PUBLIC SERVICE COMMISSION
3

4 In the Matter Of:

5
6 The Application of Kentucky Frontier Gas, LLC)
7 for Approval of Modification of AMR and)
8 Pipeline Replacement Programs, Surcharges) Case No. 2016-00132
9 and Tariffs to Include Former Public Gas System)
10
11
12

13 PREFILED TESTIMONY OF STEVE SHUTE, P.E.
14

15 Q1 Please state your name and address.

16 A Steve Shute of Glenwood Springs, Colorado.

17 Q2 By whom and in what capacity are you employed?

18 A. I am a Managing Partner of Kentucky Frontier Gas, LLC.

19 Q3 What is the purpose of your testimony?

20 A. I am responsible for all financial information and surcharge calculations involved in
21 this case, including the pro-forma financial statements.

22 Q4 Did you also prepare a determination of the Company's surcharge revenue
23 requirements?

24 A. Yes.

25 Q5 Would you explain and briefly describe the exhibits that you have prepared or which
26 have been prepared subject to your supervision?

27 A. I prepared or assisted in the preparation of all of the financial exhibits, surcharge
28 calculations rate and revenue requirements calculations.

29 Q6 Can you briefly summarize the reasons for this application?

30 A. Yes. Frontier is proposing to continue the process of consolidating Public Gas
31 Company, which was acquired in 2015, into Frontier. When Frontier acquired that

1 system, it adopted the rates and tariffs of Public and has been charging separate rates
2 and operating under separate tariffs for Public's customers. During that same time,
3 Frontier has consolidated the operations, meter reading, maintenance, accounting
4 and financial activities of Public into Frontier's management. This case takes another
5 step toward unification by imposing the Automated Meter Reading (AMR) and
6 Pipeline Replacement Program (PRP) rates for all customers.

7 Frontier is proposing to install the current automated meter reading system
8 (AMR) on the Public system and to replace existing meters with temperature
9 compensating meters (TC). This project will take about seven years and be financed
10 with the proposed annual surcharge. Frontier is also proposing a Pipeline
11 Replacement Program to begin reconstruction of several sections of the Public
12 facilities that are primarily unprotected bare steel pipe.

13 Q. 7 Are you proposing to adjust either the Frontier or Public general rates?

14 A. No, Frontier is not adjusting general rates in this application. This consolidation of
15 the AMR and PRP surcharges is separate from an adjustment of the general rates to
16 reflect current operating costs and revenues.

17 Q. 8 Explain the need for the AMR program.

18 A. AMR systems have been adopted by most large gas-electric-water utilities over the
19 US. The benefits of AMR are well-established, with significant savings to meter
20 reading costs and enhanced accuracy from reduced manual data handling. Frontier
21 currently has about 5600 customers in eastern Kentucky. These customers are
22 accumulated from a dozen different entities. One of Frontier's primary goals is
23 to standardize equipment and procedures as much as practical among all customers.
24 One of those standards is to improve measurement. Frontier has started an
25 aggressive meter change-out and testing program. Old meters are being replaced in

1 neglected systems (Mike Little & BTU). All commercial meters >500 cfh are being
2 tested and Frontier will eventually catch up to the 5-10 yr testing required by PSC.
3 As meters are exchanged, Frontier is retiring the odd meter makes such as Superior
4 & Sprague, the 175s for which parts are not being made and most meters older than
5 35 years.

6 Frontier finds that about half of old meters are re-usable with refurb and
7 testing. As these meters come in, they are converted as needed to temperature
8 compensating (TC) indexes, and standard size pipe connections (spuds) and drive
9 gears (2 cuft, 10 cuft etc). This program is typical of any well-run gas utility.

10 Q.9 What is the estimated cost for the Public Gas AMR project?

11 A. AMR cost is \$65 per meter x 1700 meters or \$110,000 for the Itron radio ERTs. We
12 will likely add another mobile reader for \$10,000 and replace approximately 500 old
13 meters at \$35,000. Total capital cost of AMR and upgrades is estimated to be \$155,000
14 and will be spread over 7 years. Total AMR surcharges over that period will be about
15 \$135,000.

16 Q10 Why are the temperature compensating meters needed?

17 A Frontier is confident there is no significant gas leakage in the Public gas system, but
18 it has a moderately high lost and unaccounted for gas (L&U). This is likely mostly
19 measurement error. The TC meter corrects the reading back to 60°F standard
20 temperature. Colder gas is denser and will not register as many cubic feet as warmer
21 gas. The average December-January temperatures will cause a 5% reduction in
22 metered gas through an uncompensated meter. These 2 months are about 36% of
23 the year's sales, or a 1.8% annual loss in just two months' use. Frontier has found
24 numerous metering-billing-pressure correction errors that will help to reduce L&U.
25 But inadequate measurement still remains.

1 Q. 11 Why is the AMR and meter replacement project necessary now?

2 A. Frontier has taken inventory of roughly 1800 meters in the Public Gas system,
3 including spares. These meters are mostly a single brand with only about 45 made
4 by others. There are 500 meters that haven't been tested in more than 10 years, and
5 90% of all meters are 20 years or older. The majority of residential meters are
6 Temperature Compensated, however most of the large meters above 500 cfh capacity
7 are from the 1960s, and many of these are non-TC. There are about 350 smaller
8 meters from the 1960s and 1970s, mostly 175s that are no longer made or supported
9 for 20 years, and all of which will be replaced. About 400 meters have an odd 30LT
10 meter spud that is incompatible with all other Frontier and Public pipe fittings.
11 About 500 meters have "dial" indexes that read like an old clock and which generate
12 dozens of mis-reads every month. All of these meter upgrades and replacements
13 and standardization are part of the overall AMR project to improve measurement.

14 Q. 12 Explain the AMR phase of the project.

15 A. Frontier plans to extend into Public the automated meter reading system (AMR) for
16 radio reading up to one half mile away. Frontier has already installed 2000 radio
17 transmitters on Frontier meters. Transmitters will be installed immediately on all
18 rural and remote Public meters and eventually on all 1700 utility meters in the Public
19 system. Our goal is to replace or upgrade all meters and fit them with AMR, which
20 will accomplish the following:

21 *Assure the accuracy in the monthly reading of gas usage by the customer.

22 *Assure there will be very little, if any, errors and re-reading of meters. The re-reads
23 are directly caused by mistakes in reading the dial indexes, the manual process of
24 reading and transcribing the meter reading to the meter reader route sheets, then
25 again transcribing from the route sheets to the billing software at the office.

1 *Improve the timeliness of reading the meters.

2 *Reduce meter reading costs.

3 Q. 13 What is the immediate benefit of the AMR proposal?

4 A. As Frontier is doing with its current AMR project, Frontier will upgrade the meter
5 inventory of Public Gas to improve the quality of measurement and to establish
6 uniformity for the AMR transmitters. As Public meters are changed for testing,
7 Frontier will refurbish or replace all meters to conform to its standard parameters:
8 all meters will be a single manufacturer; all meters will be Temperature
9 Compensating (TC); all meters will have direct-read indexes (like odometers, not
10 dials); all meters will (eventually) be 1980 or newer; and all meters in a size range
11 like 175-250 will have the same size piping connections or meter "spuds".

12 Q 14 What is the benefit of consolidating the AMR surcharge rates and tariffs for Public's
13 customers?

14 A. Frontier proposes to expand the use of AMR equipment for the meters served by
15 Public Gas. Frontier has implemented for many of its other customers an automated
16 meter reading system (AMR) for radio reading up to one half mile away. AMR radio
17 transmitters have been installed on about 2000 Frontier meters to date, including all
18 farm taps and most meters in the former systems of Auxier Road, Blaine, Mike Little,
19 Peoples and Sigma Gas. Automation of the meter reading process has greatly
20 reduced meter reading time, especially for the farm taps and has greatly increased
21 accuracy in the monthly reading of the usage of gas by the customer. AMR
22 minimizes re-reading of meters, reduces meter reading costs by limiting travel
23 distances and time, and improves timeliness of reading the meters.

24 Because of the need to replace the old, error prone meters and the unprotected
25 steel pipelines in the Public system, it is necessary to fund those projects with

1 revenue from the proposed surcharges. Just as customers from the other acquired
2 systems are included in and benefit from an AMR surcharge, Public customers will
3 now be placed in the same position as all other Frontier customers.

4 Q 15 What is the timing of the proposed AMR upgrade?

5 A. Frontier plans to complete the AMR-TC-upgrade project to Public within 7 years.
6 Frontier started the AMR program in 2013 with the radio reader, office equipment
7 and software interface. Starting with about 250 far-flung Public customers in 4
8 counties, Frontier will expand AMR coverage to Public Gas by 250 meters at a cost
9 of about \$16,000 per year. The total cost of AMR and meter upgrades for Public will
10 be about \$155,000 spread over 7 years or \$22,000 per year. With approximately 1600
11 average paying customers, this equates to \$13.00 per customer per year. A monthly
12 surcharge is proposed to finance the program.

13 Q 16 How do you plan to finance these meter replacements?

14 A The AMR project is funded with a \$1.00 surcharge added to the bill each month.

15 Q 17 Please explain the objective of the proposed Pipe Replacement Program
16 mechanism.

17 A There are portions of the Public system that present a need for immediate
18 replacement of existing facilities. Some parts of the Public system are deteriorating
19 to the point that we now need to begin a systematic upgrade or replacement. It
20 appears to be safe to continue to operate, but as time passes it will become
21 problematic. The Pipeline Replacement Program ("PRP") mechanism would provide
22 a mechanism to recover more currently the cost of replacing all existing bare steel
23 within the Public system, including replacement of service lines, meter loops, and
24 any mandated relocates. Frontier expects to replace deteriorating main and service
25 pipe and enhance the safety of its system by ensuring replacement of facilities with

1 new, longer lasting and safer materials. Annual replacement cost may vary from
2 year-to-year depending on size and location of the pipe replaced.

3 The Public system has approximately 7000 feet of bare steel pipe that will be
4 replaced. Most of this is in Jackson. We estimate that half is diggable at \$10-12.00
5 per foot and half will have to be drilled at \$30.00 per foot.

6 The Public Gas system also has several low-pressure distribution systems in
7 Jackson and Hazel Green. Frontier will upgrade and replace the mains and services
8 in these sections, and will test and raise the operating pressure to a typical 20 psi
9 operating pressure. Low pressure systems have only a central pressure regulator, so
10 we will also have to install new regulators at each house. There are roughly 350 of
11 these at a cost of approximately \$50.00 each, in addition to the pipe upgrade and
12 replacement. Under the PRP we will investigate the state of Cathodic Protection of
13 4 miles of reportedly Coated & Protected Steel pipe, and supplement CP as needed.

14 Q 18 Why does Frontier need a Pipe Replacement Program surcharge for Public?

15 A. The only method available to the Company to recover the cost it incurs for pipe
16 replacement is through costly traditional rate cases. The PRP will improve public
17 safety and reliability of service for our customers. It will align our customers'
18 interests of safety and reliability with the Company's ability to recover its investment
19 on a timely basis. Use of the PRP will provide benefits to both the company and its
20 customers by avoiding the costly and resource-intensive process necessary to review
21 adjustments through the traditional rate case process replacing it instead with a
22 simple, straightforward and financially transparent process. The PRP will allow the
23 Company to earn a more timely return on the incremental investment, including
24 incurred overhead expenditures, and be reimbursed for related expenses including
25 incremental depreciation expense and ad valorem taxes while avoiding the resource

1 commitment and expense required by traditional rate cases. The annual PRP filings
2 made by the Company are streamlined so as to avoid the majority of legal and other
3 expenses inherent in traditional rate cases while maintaining an appropriate level of
4 rigor and review.

5 Q 19 Please describe in more detail the pipe replacement components that Frontier
6 proposes to include in its PRP.

7 A. The Public PRP will mirror the current PRP tariff for Frontier. Public customers will
8 simply be included in the existing tariff.

9 Q 20 What types of materials will be used to replace the bare steel?

10 A The majority of replacement piping will be polyethylene plastic where the system
11 pressure will allow it to be used. Some of the replacement piping may be short
12 sections of coated steel pipe between existing segments of cathodically protected
13 coated steel pipe, but not much of that is expected.

14 Q 21 Will corrosion leaks on bare steel increase in the future and does this increase the risk
15 to public safety?

16 A If we do not replace this pipe, corrosion leaks on bare steel main will increase in the
17 future. The likelihood of leaks occurring increases as the corrosion becomes more
18 general and severe on the pipe wall. The combined effects of aging pipe and
19 continuous corrosion increase the potential of an incident occurring. Each leak found
20 on the system increases the risk to public safety.

21 Q 22 How will this program be implemented?

22 A Frontier plans to replace these corroding and leaky pipelines and convert the low
23 pressure systems over the next 7 years or as need and funding allow. The current
24 cost of replacement is from \$10.00 to \$30.00 per foot using company forces, for
25 trenching or directionally drilling. Replacing 7000 ft of bare steel pipeline is expected

1 to cost \$140,000. Frontier will set priority for projects based on leakage history and
2 the quickest path to converting low pressure systems. The PRP surcharge will raise
3 about \$24,000 per year that will be applied to these pipeline projects.

4 Q 23 Provide a summary explanation of the PRP recovery mechanism.

5 A Frontier proposes a tracking mechanism to recover the costs of this system
6 improvement on a timelier basis than provided by the traditional ratemaking process
7 of repeated and more frequent rate cases. The cost recovery program is set forth in
8 detail in the proposed tariffs in this filing.

9 Q 24 Does the tracking mechanism in PRP mean that Frontier will adjust its revenue
10 requirement to recover its annual expenditures on pipe replacement in each year?

11 A No. The annual cost of the program is not recovered in each year. The Company is
12 allowed to earn a return on the investment only after the Commission has approved
13 the actual PRP related expenditures, consistent with traditional ratemaking theory.

14 Q 25 How would the rate adjustment be allocated to customer classes and rate
15 components?

16 A The rate adjustment would be an annual per customer fee of \$15, billed as \$1.25
17 monthly surcharge.

18 Q 26 Does Frontier propose to continue its current PRP mechanism filing?

19 A Yes, the filing will be March 1 of each year and cover PRP investment made since the
20 end of the prior year.

21 Q 27 How will main replacement expenditures be reflected in future base rate proceedings?

22 A The ability to recover the depreciation and carrying costs related to the capital
23 investment, less operating expense reductions, lowers Frontier's need to file frequent
24 rate applications. However, when a general rate case is filed, the program investment
25 and reduced operating expense should be included in base rates and the Rider PRP

1 reset to zero.

2 Q 28 Does that conclude your testimony?

3 A. Yes.

4

5 DECLARATION OF STEVEN SHUTE

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

11 Dated this 24th day of May, 2016.

12

13

A handwritten signature in black ink, appearing to read 'Steven Shute', is written over a horizontal dashed line.

14 Steven Shute

15 Member-Manager, Kentucky Frontier Gas, LLC

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