

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE
COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY FRONTIER
GAS, LLC FOR AN ADJUSTMENT OF RATES

CASE NO.
2017-00263

KENTUCKY FRONTIER GAS, LLC'S RESPONSE TO
PSC SECOND REQUEST FOR INFORMATION

And

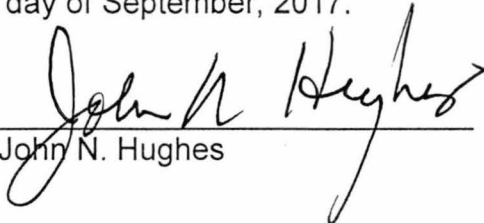
RESPONSE TO ATTORNEY GENERAL'S
FIRST DATA REQUEST

Submitted by:

John N. Hughes
124 West Todd St.
Frankfort, KY 40601
502 227 7270
Attorney for Kentucky Frontier Gas, LLC

Certificate:

I certify that a copy of these responses was delivered to the Attorney General, Capital Building, Frankfort, KY 40601 this the 8th day of September, 2017.



John N. Hughes

RESPONSE TO
PSC SECOND REQUEST FOR INFORMATION

Q1. Refer to Frontier's 2016 Annual Report, the Statement of Income, Ref Page 116. Explain the source of \$293,746 Revenues from Merchandising, Jobbing and Contract Work.

Response: Frontier does no merchandising or jobbing or contract work.

This item is the Management Fee paid from Auxier Road to Frontier. In the General Rate case in Docket 2011-00443 (with Order 4/30/13), Frontier consolidated all customers of various formerly separate entities under one rate structure and customer brand. Auxier Road Gas was one of those entities, and starting May 2013 all customers were billed under Kentucky Frontier Gas.

Auxier Road Gas Company, Inc. is a wholly-owned subsidiary of Kentucky Frontier Gas LLC. Due to constraints including tax implications and PSC directives, Frontier has kept Auxier Road as a separate corporate entity, with separate customers and accounting and tax books. The Auxier pipeline system is integrated with other Frontier assets formerly operated as Sigma Gas (briefly Cow Creek) and BTU Gas. Frontier supplies all operating no employees, office and yard, trucks, billing and accounting systems; Auxier has no such means to operate a gas utility.

All of those operating margins and costs for Auxier are wrapped into a "Management Fee" paid from Auxier to Frontier, to normalize the Auxier net income as a C Corp. Since this is an internal transaction, there is no actual income to Kentucky Frontier beyond the PSC-allowed margins and returns. This would be cleaner after a complete merger, but that hasn't been feasible so far.

This item is odd and has no other logical place in the annual financial report to the PSC.

Q2. Refer to the 2016 Annual Reports of Frontier and Auxier Road Gas Company, Inc. ("Auxier") and to the Application, Attachment SAO-G.

a. Provide a reconciliation of the amounts shown for all the components of Operating Revenues to the combined amounts shown in the 2016 Annual Reports for Frontier and Auxier.

Response: The test year in SAO-G is different from the annual reports due to the three items below not included in the annual reports:

Interest Income:	\$ 12.55
Gain on Sale of Asset:	\$ 4,000.00
Other Income:	\$84,331.93

Annual Reports total of $\$3,835,509 + \$12.55 + \$4000 + \$84,332 = \$3,923,854$ Test Year total.

On form SAO-G these items are then removed along with the Adjustment to Sales number to create the proforma on the right side of form. The explanation for the adjustment was included in the Application.

Q2. Refer to the 2016 Annual Reports of Frontier and Auxier Road Gas Company, Inc. ("Auxier") and to the Application, Attachment SAO-G.

b. Explain the source of \$71,626.92 in Forfeited Discounts shown on Attachment SAO-G.

Response: In our chart of accounts, Account 487 is Penalties & Forfeited Discounts. This item is Late Fees that are levied if payment is made after the due date.

Q3. Refer to the response to the Commission's Order of July 28, 2017 ("July 28, 2017 Order"), Items 2.e. and 2.f. Confirm that the cost of peripheral projects such as odorizers and GIS system mapping are not included in Frontier's approved Pipeline Replacement Program as described in the question to Frontier in Item 2.f.

Response: As quoted in 2.f., the final Order in Case No. 2011-004431 included the following description of the PRP (excerpted):

...The proposed program includes planning, design, replacement, construction, investment, and retirement costs of steel pipe and piping to meters, curb valves, risers, and meter sets...

The CAD and GIS updates are critical for Planning & Design of the replacement projects. When acquired by Frontier, most of these systems had essentially no mapping, mostly with a general location but no details on size-material-vintage-insertions-replacements-repairs etc. There can be no planning or design for the PRP without that basic information.

As stated, the odorizers are a "project on the way to the project". The odorant improves leak detection and reporting, and leak history is an important part of the Planning & Design process to prioritize PRP replacements.

None of these CAD-GIS-Odorizer projects are specifically listed in the PRP applications or orders, but neither are Engineering-Surveying-Permitting-Mapping-Purchasing-Contracting-Inspection-Admin-Overhead etc that are implied as part of completing any utility project.

Q4. Refer to the response to the July 28, 2017 Order, Item 6.c. State whether Frontier is now proposing to increase its Reconnect Fee.

Response:

As stated in response to 6.c:

In the exigent case, there are other more important issues to settle, but Frontier deems it appropriate to raise the Reconnect Fee for all customers to reflect the proposed \$16 monthly charge, and possibly adjust for 6 months of inactivity. This logic would raise the Reconnect Fee to \$96.

Given the financial impact, an increase in the Reconnect Fee to \$96 in this case would be beneficial and would be more expedient than to raise that fee in a separate filing. Frontier now proposes to increase the Reconnect Fee to \$96.00.

In the Test Year 2016, this fee was levied about 397 times:

266 Frontier at \$50

131 Public* at \$40

*Excluding the first billing period in 2016 by the former parent Gas Natural

Q5. Refer to the response to the July 28, 2017 Order, Item 6.e., and the Application, Attachment SAO-G. State why the full amount of \$115,209 indicated in the Excel spreadsheet provided with the response is not used for the amount of Miscellaneous Service Revenues, instead of \$40,055.

Response: See Q2: non recurring charges include \$71,627 of Late payment Fees. In the spreadsheet this is the column labeled Payment Penalty.

The other fees listed in the provided spreadsheet are combined under Miscellaneous Service Revenues. There is a \$3527 difference between the Fees spreadsheet total of \$115,209 and the total from our Non-recurring fees of \$111,682 ($\$71,627 + \$40,055$) from the P&L.

Write off Reversals of \$652 should not have been included in the Non-Recurring section, since these are not fees. After subtracting \$652 in Reversals, the Fees spreadsheet total is \$2875 higher than the total from the P&Ls.

The Fees details came from the billing program, and the P&Ls were generated in Quickbooks, which may explain the difference. There was also a switchover from the GNI billing system to the Frontier software, and a change in billing cycle dates for Public and some Frontier customers that may have accrued differently to 2015 and 2016. We could not identify the source for the modest disparity, so we used the lower of the two numbers in our calculations.

Q6. Refer to Frontier's response to the July 28, 2017 Order, Item 37.

a. State whether any of the lost and unaccounted-for gas was due to dig-ins, or other third-party damage. If so, provide the number of occurrences, the total related cost in 2016, whether and how much of the cost was paid by the responsible party, and Frontier's policy with regard to third-party damage prevention and cost recovery.

Response: On a significant line hit, Frontier will bill Lost Gas to a responsible party (if we find them). Lost gas is calculated with technical software, based on pressure and the size of the damage. There aren't many of these. Most line hits are smaller and the loss of gas is insignificant to the cost of repair.

In 2016, there were 38 excavation damages identified but none were significant enough to influence L&U. Most of these leaks are calculated at a few MCF, where 1% L&U would be 4000 MCF.

Only 2 excavators were invoiced for Lost Gas (attached). Neither of these invoices have been paid.

Q6. Refer to Frontier's response to the July 28, 2017 Order, Item 37.

b. Provide a discussion of Frontier's progress in reducing line loss on its system, including leak reduction, more accurate meter reading due to the AMR program, and elimination of incidences of unauthorized connections.

Response: Frontier consolidated several utility systems with a history of excessive levels of lost and unaccounted-for gas (L&U). Since inception in 2008, we have worked on several fronts to reduce it. The results seem to be starting to show. We have a reasonable chance of reducing L&U to 10% on the combined Frontier + Public systems for 2017, but the Commission's 5% limit will take a few more years.

Much of the everyday gas loss is leakage from old bare steel pipe that is corroding. As discussed in the application, the Belfry system was nearly entirely bare steel, but the former owner had reported 0% L&U in all years before Frontier purchased it. We found the actual losses were 35 to 50%. We found high losses in Mike Little and BTU systems, although not like Belfry. Since 2013, the PRP has helped to survey, identify and replace numerous sections of bad pipe with quantifiable losses. Frontier proposes to accelerate the PRP.

Some of that loss is measurement error. The AMR program addresses several topics of meter error. Frontier is working to replace large diaphragm meters with rotary meters; upgrade the mongrel mix of old meters with standard, new or refurbished meters; and to have only temperature-compensating meters. TC meters correct a CCF reading to 60°F standard temperature. Colder gas is denser and will not register as many cubic feet as warmer gas. With a non-TC meter, the average December-January temperatures will cause a 5% deficit in metered volume on about 36% of the year's sales, or a 1.8% annual loss in just two months' use.

Some of the overall loss is gas theft. The former BTU system and parts of Sigma are suspected to have numerous unauthorized connections due to the business practices and priorities of its former owner, a felon. Free gas service was doled out to dozens of land owners and friends in exchange for rights-of-way, drilling leases and favors mostly unrelated to BTU Gas. These are in Magoffin County, where the legal system is completely uncooperative in prosecuting theft of service (see Q13.b).

In all of the Frontier systems, some local residents seem to have both a sense of divine right to free gas service, and the plumbing skills to tap a PE line and run underground pipe into a house. Frontier is always actively looking for unauthorized gas users, but has no historical records on most systems, to identify all the taps that were made.

Along with the pervasive, everyday losses from corrosion-measuring-theft, Frontier suffered 2 large events that greatly increased the L&U for 2013-14-16.

- Former EKU system at Dwale; from November 18, 2013 to January 30, 2014 a failed 3-inch pipe joint blew about 28,542 mcf worth \$132k without anybody discovering or reporting it. The pipeline supplier did not regard Frontier as worthy of receiving timely volume data, which eventually revealed an obvious increase of 300 mcf per day of unexplained gas flow.
- The Auxier Road system had a similar incident in July-August 2016 with a butt fusion failure between 2 types of 2-inch PE pipe. This joint blew about 10,000 mcf at a cost of \$30k before its discovery.

Both incidents were due to "cold fusion" butt joints, where the PE pipe ends were heated to melting temperature, but too much force was applied to push together the pipe ends. The melted PE was forced out and the colder pipe didn't completely fuse. These joints can pass a pressure test but can eventually fail, possibly due to freeze-thaw temperature changes, and often dramatically. If in a remote area, these failures can go undetected for days or months.

Frontier has identified these joints as a potential risk in its DIMP Distribution Integrity Management Plan. But there is no way to detect faulty joints that have not yet leaked or pulled apart. Frontier has pressed its gas pipeline suppliers for access to more timely delivery volume data, and actively monitors those data for anomalies.

Further, Frontier installed odorizers in 2016-17 on its 6 largest delivery points (by annual volume). The odorizers inject a commercial sulfur mercaptan that all big LDCs use, which is widely recognized as "oh, that's gas!" Without these odorizers, all of our deliveries meet the DOT / PSC odor requirements in monthly tests, but with a vague petroleum-oily-sulfurous smell. Some of these points were odorized 20-30 years ago (well before Frontier) but were abandoned for some reason.

These steps are all part of our all-out attack on L&U. The PRP and AMR programs are important, but by far not our only measures. We're cautiously optimistic that, after years of 15-20% overall L&U, the first half of 2017 appears to be about 7% which is a monumental improvement. As we systematically fix the leaks and errors, and can avoid the catastrophic events, then L&U of 10% and even 5% is eventually achievable.

Kentucky Frontier Gas LLC

INVOICE

P.O. Box 408
 Prestonsburg, Ky. 41653

606-886-2431

SOLD TO:

Combs Construction
 1300 Lakeside Drive
 Jackson, KY 41339

INVOICE 16808
 INVOICE DATE 8/8/16
 SERVICE DATE 8/4/16
 TERMS 10/15, NET 30

SERVICE LOCATION:

Railroad Street
 Jackson, KY 41339

PREPAID or COLLECT COLL

10% Penalty if not paid in 30 days.

QUANTITY	DESCRIPTION	UNIT PRICE	AMOUNT
1.00	Damage to Main Line	\$250.00	\$250.00
8.00	Line Loss 192 mcf daily (7/27/16 - 8/4/16)	\$826.00	\$6,608.00
1.00	Service Truck 107	\$65.00	\$65.00
7.00	Labor for service tech J.B.	\$50.00	\$350.00
7.00	Labor for service tech J.H.	\$50.00	\$350.00
3.00	Labor for service tech W.F.	\$50.00	\$150.00
3.00	Labor for service tech C.T.	\$50.00	\$150.00
1.00	Generator	\$50.00	\$50.00
1.00	Service Truck 103	\$65.00	\$65.00
1.00	Excavator	\$225.00	\$225.00
2.00	3" EF Coupling	\$30.10	\$60.20
Construction company damaged main line while back filling and dressing the hillside located at Railroad Street.		SUBTOTAL	\$8,323.20

DIRECT ALL INQUIRIES TO:
 Kentucky Frontier Gas
 606-886-2431

MAKE ALL CHECKS PAYABLE TO:
 Kentucky Frontier Gas
 P.O. Box 408
 Prestonsburg, Ky. 41653

\$8,323.20
 PAY THIS
 AMOUNT

THANK YOU FOR YOUR BUSINESS!

Kentucky Frontier Gas LLC

INVOICE

P.O. Box 408
 Prestonsburg, Ky. 41653

606-886-2431

SOLD TO:

Arthur Kilburn Jr.
 980 Old Abbott Mountain Rd
 Prestonburg, KY 41653

INVOICE 586
 INVOICE DATE 1/25/16
 SERVICE DATE 12/25/15
 TERMS 10/15, NET 30

SERVICE LOCATION:

980 Old Abbott Mountain Rd
 Prestonsburg, KY 41653

PREPAID or COLLECT COLL

Sales Tax Rate:

6%

10% Penalty if not paid in 30 days.

QUANTITY	DESCRIPTION	UNIT PRICE	AMOUNT
1.00	Main Line Damage Fee	\$250.00	\$250.00
8.50	Labor for service tech JWW	\$50.00	\$425.00
7.50	Labor for service tech MH relighting customers	\$50.00	\$375.00
7.50	Labor for service tech CC relighting customers	\$50.00	\$375.00
7.50	Labor for service tech JD relighting customers	\$50.00	\$375.00
2.00	4" EF Coupling	\$52.50	\$105.00
1.00	Generator	\$50.00	\$50.00
Customer digging ditch line and hit 4" main line with excavator.		SUBTOTAL	\$1,955.00
Damage to main line caused gas outage in Auxier South area.		TAX	\$117.30
		FREIGHT	
			\$2,072.30

DIRECT ALL INQUIRIES TO:
 Kentucky Frontier Gas
 606-886-2431

MAKE ALL CHECKS PAYABLE TO:
 Kentucky Frontier Gas
 P.O. Box 408
 Prestonsburg, Ky. 41653

PAY THIS
 AMOUNT

THANK YOU FOR YOUR BUSINESS!

Kentucky Frontier Gas, LLC
Case No. 2017-00263
Response To Commission Staff's
Second Request For Information

Witness: Shute

Q7. Refer to the response to the July 28, 2017 Order, Item 38, the invoices from Industrial Gas Services. Explain the initialism DRH as used on these invoices.

Response: "DRH" is Dennis R. Horner, president of IGS. Mr. Horner works on gas supply for Frontier and makes all Gas Cost Recovery filings.

Q8. Frontier's response to the July 28, 2017 Order, Items 5.b. and 5.c. acknowledges that the allocation to farm taps used in the prior case is inappropriate. Frontier also failed to provide the requested information. Provide a calculation of farm tap expenses based on the test year.

Response: In 5.b. Frontier provided details on operating the Farm Taps, meter reading days and miles, office time, and field duties. The allocation of 12% of operating expenses to Farm Taps from the 2012 case was only inappropriate because Frontier is a bigger company with more customers and higher expenses.

Without a full-blown cost of service analysis on Farm Taps, and without re-opening a separate General Rate case for FTs, Frontier asserts that the \$150,850 *amount* for cost allocation, not *percentage*, is still appropriate.

Farm Taps currently represent 10.2% of KFG's total customers. During the test year 2016, Frontier serviced about 595 FTs and 5250 utility customers. (These were discrete customers served during the year, not the average numbers billed as seasonal and free FT customers vary.)

Of the \$1,503,529 in Operation and Maintenance Expenses listed on SAO-G (excluding cost of gas), most expenses should be evenly distributed among Farm Tap customers. The exception would be some Distribution Expenses attributed to O&M for distribution systems, which is estimated at 20-30% less for FTs than utility customers. Our estimated allocation is:

Distribution Expenses = 75% of 10.2% of \$133,392	\$ 10,204
Other O&M = 10.2% of (\$69,723 + \$6475 + \$1,293,939)	<u>\$139,754</u>
Total allocation to Farm Taps	\$149,958

This estimate is only 1% different than our 2012 allocation figure, which doesn't seem to merit filing a separate Farm Tap rate case.

9. Refer to the response to the July 28, 2017 Order, Item 31. It states that the company pays the first \$300 per month for employee health insurance. In response to question 29, the table shows that Frontier pays all the costs for health insurance and the employee pays zero. Additionally, for some employees it shows that the amount per employee exceeds \$300 per month. Please explain.

Response: In its first years of business Frontier chose to provide a health care benefit. This benefit originally paid the first \$300 of health insurance, and the employee chose their preferred plan and paid any excess. The Affordable Care Act significantly changed the rules and pricing structure for health insurance. Premiums for older employees increased significantly due to increased coverage, and the ACA limited some options we could offer. Rather than penalize older workers or offer wildly different plans, Frontier chose to average premiums across all employees with the target cost of \$300 to \$400 per employee per month. Frontier offers modest "Silver" level plans and is now paying the entire premium for health insurance to all full time employees. Spouse-child-family coverage is paid by the employee.

10. Provide the percentage contribution to the Simplified Employee Pension Plan.

Response: The maximum allowable SEP contribution is 25%. These were the company contributions by year (percentage of base wages):

2016	10%
2015	10%
2014	8%
2013	4%
2012	3% started in July

11. Frontier shows no costs for accidental death or dismemberment insurance, but states that this is provided to employees at no cost. If the insurance is provided, provide the cost per employee. If not, explain why it is not provided.

Response: Frontier added AD&D to its benefits package as of January 2017, so there was no historical cost attributed during the test year 2016. Several employees were already purchasing such insurance through a company insurer and paying the entire cost. The employees opted for better insurance coverage rather than an increase to the SEP contribution.

The total cost for all employees is currently about \$670 per month.

2017			
Employee Identification	AD&D (\$/Month)	Employee Identification	AD&D (\$/Month)
File No: 001	\$ 0.00	File No: 018	\$44.19
File No: 002	\$63.91	File No: 019	\$ 0.00
File No: 003	\$ 0.00	File No: 020	\$42.53
File No: 004	\$59.76	File No: 021	\$ 0.00
File No: 005	\$ 0.00	File No: 022	\$ 0.00
File No: 006	\$ 0.00	File No: 023	\$44.19
File No: 007	\$45.84	File No: 024	\$ 0.00
File No: 008	\$ 0.00	File No: 025	\$ 0.00
File No: 009	\$ 0.00	File No: 026	\$ 0.00
File No: 010	\$51.57	File No: 028	\$39.22
File No: 011	\$46.67	File No: 029	\$54.12
File No: 012	\$51.64	File No: 030	\$ 0.00
File No: 013	\$ 0.00	File No: 031	\$ 0.00
File No: 014	\$42.53	File No: 032	\$ 0.00
File No: 015	\$ 0.00	File No: 033	\$39.22
File No: 016	\$ 0.00	File No: 036	\$44.19
File No: 017	\$ 0.00	MONTHLY TOTAL	\$669.58

12. Refer to Frontier's response to the July 28, 2017 Order, Item 38.

a. Confirm that the dividend payments identified in this response are not included in Frontier's pro forma operating expenses.

Response: The dividend payments were not included in operating expenses.

b. If the dividend payments identified in the response to Item 12. a. are included in Frontier's pro forma operating expenses, identify the operating expense account where they are reported.

Response: N/A.

c. Frontier states that the April 2016 dividend was "paid out to some members." Identify all of the members that received a dividend payment in April 2016 and the amount of the payment. Include a detailed explanation for the differences in the dividends.

Response: Robert Oxford received \$29,652 and Industrial Gas Services received \$9,612. Dividends were based on the LLC ownership percentage at the end of 2015.

d. List the members that did not receive a dividend payment in April 2016 and provide a detailed explanation as to why they did not receive a payment.

Response: Steven Shute and Larry Rich received no dividend payment. The payment to Mr. Shute was delayed at his request pending more up-to-date financials at the end of winter heating season. When those were prepared, the actual cash flow ran lower than expected, and Frontier could not pay the dividends to Mr. Shute or Mr. Rich.

13. Refer to Frontier's response to the July 28, 2017 Order, Item 16, the 2015 General Ledger.

a. Frontier reports in Account, 923.3 · Outside Services- Engineering, a balance of \$77,544. For each expenditure included in this expense account that is listed in the table below, provide a detailed description and copies of all related invoices.

Response:

<u>Date</u>	<u>Vendor</u>	<u>Amount</u>
a. 01/31/2016	Slone Energy, LLC	675.00
c. 02/29/2016	Slone Energy, LLC	633.98
d. 03/21/2016	Keith E Krejci	2,000.00
e. 03/31/2016	Slone Energy, LLC	1,729.05
f. 05/01/2016	Slone Energy, LLC	1,125.00
g. 05/26/2016	Keith E Krejci	1,800.00
h. 06/01/2016	Slone Energy, LLC	675.00
i. 12/31/2016	Pipeline Solutions Inc	68,400.00

Response: Slone Energy has a CAD and mapping specialist with good base maps of Pike & Magoffin Counties. Frontier hired Slone to update CAD maps of the Auxier-BTU-Dema-Sigma systems, for eventual conversion to GIS.

Mr. Krejci was the GIS expert for Gas Natural when the Public Gas system was converted to GIS mapping. Frontier hired Mr. Krejci (who is no longer at GNI) to update the GIS files for the Public system. He also has added considerable data for the entire Frontier network, including most of the meter locations and other appurtenances on other systems.

For Pipeline Solutions, as stated in Item 38 of the first DR:

Mr. Shute bills his time & expenses through his wholly-owned consulting company PSI or Pipeline Solutions, Inc. Mr. Shute billed his actual time spent on Frontier matters at \$75 per hour, which has not changed since 2005. This total includes \$42,700 for the second half of 2015 (total \$63,675), and the 2016 invoice of \$66,000. Frontier accrued these charges, but still owes \$30k for 2015 and all of the 2016 bill.

The 2016 invoice above was provided in that response. Mr. Shute provides all manner of support including management, strategy, acquisitions, financing, engineering including metering-regulators-CP-odorization; rate design, legal case support and other

topics. The 2016 invoice also includes work done for Frontier by an associate of Mr. Shute's, for tracking gas volume data and DIMP program updates, among other tasks.

13. Refer to Frontier's response to the July 28, 2017 Order, Item 16, the 2015 General Ledger.

b. Frontier reports in Account, 923.4 · Outside Services - Legal, a balance of \$23,592. For each expenditure included in this expense account that is listed in the table below, provide a detailed description and copies of all related invoices.

<u>Date</u>	<u>Vendor</u>	<u>Amount</u>
a. 06/05/2016	John N. Hughes, PSC	979.74
c. 06/05/2016	John N. Hughes, PSC	9,906.26
d. 06/09/2016	LAW OFFICES OF TIMOTHY PARKER	108.90
e. 06/09/2016	LAW OFFICES OF TIMOTHY PARKER	1,101.10
f. 10/05/2016	John N. Hughes, PSC	1,244.67
g. 10/05/2016	John N. Hughes, PSC	12,585.02

Response: John Hughes represents Frontier in matters before the PSC.

Tim Parker represents Frontier in in two cases filed with the Magoffin Count Circuit. These cases were brought by a father and a daughter, two customers of the former BTU Gas regarding a right-of-way issue on an unrelated pipeline. These are Case #12CI00215 Rudd vs. Frontier (8/9/2012) and Case #12CI00261 Bailey vs. Frontier (9/26/2012).

The former owner of BTU Gas was indicted for numerous felonies for fraud and securities violations. He had supposedly promised free gas to these two particular landowners in exchange for an easement for a large cross-country gathering pipeline unrelated to BTU Gas, but tapped the BTU Gas system to provide the gas. When Frontier acquired the BTU Gas assets in mid-2012, the landowners quickly sued Frontier to continue free gas service.

The case has now been in Magoffin County Court for 5 years. The court ordered Frontier to continue gas deliveries to both parties. For five years Mr. Parker has attempted on numerous occasions to have the court dismiss the Rudd case (no written contract) and set a trial date for the Bailey case (written contract with a corporation not related to BTU Gas).

13. Refer to Frontier's response to the July 28, 2017 Order, Item 16, the 2015 General Ledger.

c. Frontier Reports in Account, 923.5 · Outside Services - Administrative, a payment to Industrial Gas Services Inc. of \$7,181. Provide a detailed description of the service provided by this vendor for this payment and copies of all related invoices.

Response: IGS billed Frontier \$10,211.25 for consulting services by way of Invoice 101730, dated August 31, 2016. The \$7,181 referenced here is from that invoice for services provided by Dennis R. Horner (see attached invoice).



Slone Energy, LLC
 417 E. Mountain Parkway
 Salyersville, KY 41465

Invoice

Date	Invoice #
2/1/2016	2262

Bill To

Kentucky Frontier Gas LLC
 2962 Route 321 N
 Prestonsburg, KY 41653

P.O. No.	Terms	Due Date	Account #	Project
Mapping-January 2016	Due on receipt	2/1/2016		
Description		Qty	Rate	Amount
Mapping/Drafting		15	45.00	675.00

Please remit to above address.

Total	\$675.00
Payments/Credits	\$0.00
Balance Due	\$675.00

Phone #
606.225.2206

E-mail
chrislone@sloneenergy.com



Slone Energy, LLC
 417 E. Mountain Parkway
 Salyersville, KY 41465

Invoice

Date	Invoice #
3/1/2016	2285

Bill To
 Kentucky Frontier Gas LLC
 2962 Route 321 N
 Prestonsburg, KY 41653

P.O. No.	Terms	Due Date	Account #	Project
Mapping Feb 2016	Due on receipt	3/1/2016		
Description		Qty	Rate	Amount
Mapping/Drafting		10	45.00	450.00
Misc reimbursements.		1	183.98	183.98
Please remit to above address.				Total \$633.98
				Payments/Credits \$0.00
				Balance Due \$633.98

Phone #
606.225.2206

E-mail
chrisslone@sloneenergy.com



Slone Energy, LLC
 417 E. Mountain Parkway
 Salyersville, KY 41465

Invoice

Date	Invoice #
4/1/2016	2286

Bill To

Kentucky Frontier Gas LLC
 2962 Route 321 N
 Prestonsburg, KY 41653

P.O. No.	Terms	Due Date	Account #	Project
Mapping March 2016	Due on receipt	4/1/2016		
Description	Qty	Rate	Amount	
Mapping/Drafting	37	45.00	1,665.00	
Misc Reimbursements.	1	64.05	64.05	

Please remit to above address.

Total	\$1,729.05
Payments/Credits	\$0.00
Balance Due	\$1,729.05

Phone #
606.225.2206

E-mail
chrisslone@sloncenergy.com



Slone Energy, LLC
 417 E. Mountain Parkway
 Salyersville, KY 41465

Invoice

Date	Invoice #
5/1/2016	2309

Bill To

Kentucky Frontier Gas LLC
 2962 Route 321 N
 Prestonsburg, KY 41653

P.O. No	Terms	Due Date	Account #	Project
Mapping - April 2016	Due on receipt	5/1/2016		
Description		Qty	Rate	Amount
Mapping/Drafting.		25	45.00	1,125.00

Please remit to above address.

Total	\$1,125.00
Payments/Credits	\$0.00
Balance Due	\$1,125.00

Phone #
606.225.2206

E-mail
chrisslone@sloneenergy.com



Slone Energy, LLC
 417 E. Mountain Parkway
 Salyersville, KY 41465

Invoice

Date	Invoice #
6/1/2016	2310

Bill To

Kentucky Frontier Gas LLC
 2962 Route 321 N
 Prestonsburg, KY 41653

P.O. No.	Terms	Due Date	Account #	Project
Mapping - May 2016	Due on receipt	6/1/2016		
Description	Qty	Rate	Amount	
Mapping/Drafting.	15	45.00	675.00	

Thank you for your business.

Total	\$675.00
Payments/Credits	\$0.00
Balance Due	\$675.00

Phone #
606.225.2206

E-mail
chrisslone@sloneenergy.com



C & B Blueprint, Inc.
 824 6th Street
 Huntington, WV 25701-2618
 Local: 304-525-2175
 Toll Free: 800-248-8812
 Fax: 304-529-7651
 Website: www.cbblueprint.com

INVOICE
 Number: 137115
 Date: 02/24/2016

Account: Sloneenerg
 Slim #: 3

Page: 1

BILL TO
Slone Energy, LLC 417 E. Mountain Parkway Salysersville KY 41465

SHIP TO
Slone Energy, LLC 417 E. Mountain Parkway Salysersville KY 41465

Description	Order Date	Customer PO#	Sales Order	Shipping Instructions	
Invoice	02/24/2016		137115	UPS	
Code	Quantity	U/M	Description	Price	Amount
KY100	1.00	Each	#72 Matte black ink cartridge HEWC9403A 1	\$69.00	\$69.00
KY001	1.00	Each	Shipping	\$17.78	\$17.78
Terms: NET 30 C & B Blueprint, Inc. 824 6th St. Huntington WV 25701				Discount:	\$0.00
				Subtotal:	\$86.78
				Tax:	\$5.21
				Freight:	\$0.00
				Less Deposit:	\$0.00
				TOTAL AMOUNT:	\$91.99

Total Month = 183.98



C & B Blueprint, Inc.
 824 6th Street
 Huntington, WV 25701-2618
 Local: 304-525-2175
 Toll Free: 800-248-8812
 Fax: 304-529-7651
 Website: www.cbblueprint.com

INVOICE
 Number: 137127
 Date: 02/25/2016

Account: Sloneenerg
 SIm #: 3

Page: 1

BILL TO
Slone Energy, LLC 417 E. Mountain Parkway Salysersville KY 41465

SHIP TO
Slone Energy, LLC 417 E. Mountain Parkway Salysersville KY 41465

Description	Order Date	Customer PO#	Sales Order	Shipping Instructions	
Invoice	02/25/2016		137127	UPS	
Code	Quantity	U/M	Description	Price	Amount
KY100	1.00	Each	#72 Gray Ink cartridge HEWC9374A 1	\$69.00	\$69.00
KY001	1.00	Each	Shipping	\$17.78	\$17.78
Terms: NET 30 C & B Blueprint, Inc. 824 6th St. Huntington WV 25701				Discount:	\$0.00
				Subtotal:	\$86.78
				Tax:	\$5.21
				Freight:	\$0.00
				Less Deposit:	\$0.00
				TOTAL AMOUNT:	\$91.99



C & B Blueprint, Inc.
 824 6th Street
 Huntington, WV 25701-2618
 Local: 304-525-2175
 Toll Free: 800-248-8812
 Fax: 304-529-7651
 Website: www.cbbblueprint.com

INVOICE
 Number: 137273
 Date: 03/11/2016

Account: Sloneenerg
 SIm #: 3

Page: 1

BILL TO
Slone Energy, LLC 417 E. Mountain Parkway Salyersville KY 41465

SHIP TO
Slone Energy, LLC 417 E. Mountain Parkway Salyersville KY 41465

Description	Order Date	Customer PO#	Sales Order	Shipping Instructions	
Invoice	03/11/2016		137273	UPS	
Code	Quantity	U/M	Description	Price	Amount
KY100	1.00	Roll	42" x 300' plotter bond paper 20 lb.	\$39.40	\$39.40
KY001	1.00	Each	RBCIJB2042300 1 Shipping	\$21.02	\$21.02
Terms: NET 30 C & B Blueprint, Inc. 824 6th St. Huntington WV 25701				Discount:	\$0.00
				Subtotal:	\$60.42
				Tax:	\$3.63
				Freight:	\$0.00
				Less Deposit:	\$0.00
				TOTAL AMOUNT:	\$64.05

Total Month = \$ 64.05

Keith E. Krejci GIS Consulting

5241 Chestnut Hill Drive
Willoughby, OH 44094

DATE OF INVOICE: MARCH 21ST, 2016

BILL TO: PUBLIC GAS – KENTUCKY

DESCRIPTION OF SERVICE: PUBLIC GAS INFORMATION GATHERING & GIS DATA
ANALYSIS AND RESEARCH

RATE (INITIAL): AGREED UPON AMOUNT OF
TOTAL = \$2,000

Checks can be made payable to:
And mailed to:

Keith E. Krejci
5241 Chestnut Hill Drive
Willoughby, OH 44094

Thank You

Keith E. Krejci GIS Consulting

5241 Chestnut Hill Drive
Willoughby, OH 44094

DATE OF INVOICE: MAY 26TH, 2016
BILL TO: PUBLIC GAS – KENTUCKY
DESCRIPTION OF SERVICE: GIS DATA MAPPING, ANALYSIS, & RESEARCH
RATE (\$40.00 PER HOUR): 45 HOURS – (TOTAL HOURS UP TO MAY 26)
TOTAL = \$1,800

Checks can be made payable to: Keith E. Krejci
And mailed to: 5241 Chestnut Hill Drive
Willoughby, OH 44094

Thank You



Billing for Professional Services: 2016

Invoice Date: 31-Dec-16
Invoice No.: 1616
Client: Kentucky Frontier Gas LLC
 PO Box 408
 Prestonsburg KY 41653

Eastern Kentucky Gas Utility	hrs	rate	Total
Engineering, financial & management services	769		
DOT annual reports O&M program updates DIMP program updates Meter & ITRON programs Sales - BREG - BSUM reports Gas msmt, L&U analysis various mgmt duties			
Conversion to Caselle billing program			
Public Gas merge, start odorizers	80		
<i>Sr. Utility Engineer</i>	849	hours	\$66,000.00
Utility Analyst - data, BREG, Volumes, Meters	60	\$40	\$2,400.00
<i>Expenses (see detail)</i>			\$2,563.99
<i>Prior payments</i>			\$0.00
<i>Amount This Invoice</i>			\$70,963.99

Pipeline Solutions, Inc.
PO Box 1054
Glenwood Springs, CO 81602
970-928-9208 Federal EIN# 84-1187790

PIPELINE SOLUTIONS, INC.
Time & Mileage Report for Steven Shute
Client: Kentucky Frontier Gas, LLC

Date	Description	Hours	Description	Hours
January-16	On site management	40	Home office management	116
February-16			Home office management	96
March-16			Home office management	124
April-16			Home office management	92
May-16			Home office management	72
June-16			Home office management	72
July-16			Home office management	64
August-16			Home office management	20
September-16	On site management	48	Home office management	36
October-16			Home office management	32
November-16			Home office management	24
December-16			Home office management	44
	Total for Shute	88		792
	Hourly Rate	\$75		\$75
	Total Billing	\$6,600		\$59,400

880

\$66,000

EXPENSE SUMMARY

1/26/2017

Steven Shute
 PO Box 1054
 Glenwood Springs, CO 81602

Date	Place	Meals No.	Amt.	Lodging	Transportation		Other	Detail	Amount
					Air, Car	Pers Mi **			
11-Jan-16	week in	6	cc		\$1,270.40	\$43.20		with Jan; fly from EGE, strm ORD delay; divert SDF	\$1,313.60
15-Jan-16	Prestonsburg	5	\$70.00		cc		cc	Natl Car + gas; drop charge, fly from LEX	\$70.00
6-Apr-16	PSI cc						\$148.00	Automation Direct - CTT controls for odorizer	\$148.00
							\$18.49	Big John's Ace Hdwr - odorizer	\$18.49
23-Sep-16	week in	8	cc				\$482.08	CostCo LEX bt 21 jackets	\$482.08
29-Sep-16	Prestonsburg	4	\$29.00		\$449.64	\$43.20		fly EGE to CVG	\$521.84
30-Nov-16							\$9.98	odor controls, 24v supply	\$9.98
Totals		23	\$99.00	\$0.00	\$1,720.04	\$86.40	\$658.55		<u>\$2,563.99</u>

\$0.540 per mile IRS rate

Law Offices Of Timothy A. Parker
 15 North Hall Alley
 Prestonsburg, KY 41653
 Office Phone: (606) 886-2573
 Mobile Phone: (606) 226-0100
 tap41653@icloud.com

Invoice

Invoice Number: I160609327
Invoice Date: Jun 09, 2016
Payment Terms: Due On Receipt
Invoice Amount: 1,210.00
Created By: Timothy Parker

Billing Address

Frontier Gas
 P.O. Box 408 2963 Ky. Rte. 321
 Prestonsburg, KY 41653

Shipping Address

Frontier Gas
 P.O. Box 408 2963 Ky. Rte. 321
 Prestonsburg, KY 41653

Item #	Item Name	Quantity	Unit Price	Taxable	Total
1180	Bailey, Rudd v. Kentucky Frontier Gas Preparation for, travel to, and attendance at Mediation held on July 25, 2014	6.50	100.00		650.00
1180	Bailey, Rudd v. Kentucky Frontier Gas Attendance in Court on Motion to Reschedule Trial Date	1.00	100.00		100.00
1180	Bailey, Rudd v. Kentucky Frontier Gas Attendance at Pretrial Conference on 12-18- 2014	1.00	100.00		100.00
1180	Bailey, Rudd v. Kentucky Frontier Gas Receipt and review of Order Rescheduling Bench Trial to 2-27-2015	0.25	100.00		25.00
1180	Bailey, Rudd v. Kentucky Frontier Gas Receipt and Review of Motion to Withdraw as Counsel by Gordon Long	0.25	100.00		25.00
1180	Bailey, Rudd v. Kentucky Frontier Gas Attendance at Motion to Withdraw	1.00	100.00		100.00
1180	Bailey, Rudd v. Kentucky Frontier Gas Preparation of Motion to Reschedule Bench Trial	0.75	100.00		75.00
1180	Bailey, Rudd v. Kentucky Frontier Gas Receipt and review of Motion to Add Indispensable Parties	0.25	100.00		25.00

Item #	Item Name	Quantity	Unit Price	Taxable	Total
1180	Bailey, Rudd v. Kentucky Frontier Gas Receipt and review of Renotice of Motion to Add Indispensable Parties	0.10	100.00		10.00
1180	Bailey, Rudd v. Kentucky Frontier Gas Attendance in Court on Motion to Join Indispensable Parties	1.00	100.00		100.00

Subtotal: \$ 1,210.00
Invoice Amount \$ 1,210.00

STATEMENT OF ACCOUNT

John N. Hughes, PSC
 Attorney at Law
 124 West Todd St.
 Frankfort, KY 40601

Invoice to:
 Kentucky Frontier Gas, LLC

Date of Invoice: June 5, 2016

Date	Reference	Time (Hrs)
3/21	Review Information from SS re: Public AMR/PRP tariff	.5
3/22	Tele. SS re: Public AMR/PRP; review draft documents	.75
3/24	Draft Public AMR/PRP application	3.75
3/25	Public application; exhibits, notice of intent	4.25
3/28	File notice of intent w/PSC	.33
3/30	Draft Public application	3.75
3/31	Draft Public application	2.16
4/5	Public application - draft SS testimony, tariff revisions, public notice	4.75
4/6	Public application. Notice	1.25
4/8	Public tariffs, notice	2.25
4/27	Tele. KC re: Public financial exhibits; review SS revisions to application, testimony	.91
5/19	Message SS; revisions to Public application	.5
5/20	Revise application/testimony for SS edits	.75
5/23	Final revisions to Public application, testimony, tariffs, notice	4.5
5/24	Tele. SS re: Public application	.25
Expenses	Copies Public application, tabs, binders	\$158.50
Sub-Total		30.65 hrs@ <u>\$350.00=</u> \$10,727.50
Total		\$10,886.00

STATEMENT OF ACCOUNT

John N. Hughes, PSC
 Attorney at Law
 124 West Todd St.
 Frankfort, KY 40601

Invoice to:
 Kentucky Frontier Gas, LLC

Date of Invoice: October 5, 2016

Date	Reference	Time (Hrs)
6/7	Review PSC deficiency letter re: Public AMR/PRP application; tele. SS; draft response	.75
6/8	Response to deficiency; file PSC	.5
7/12	Research abandonment of pipeline (Belfry Church); tele. SS; response SS re; Church pipeline	1.75
7/13	Tele. SS; review/revise Church letter re: pipeline	.83
7/14	Revise Southside termination letter	.75
7/15	Several messages SS re: Church and BTU easements; Connelly disconnection issues	.75
7/18	Conference PSC staff re: Connelly and Southside disconnections; research injunction for disconnection	4.5
7/22	Response SS re: Southside/Connelly; research condemnation and prescriptive easement issues	2.25
7/26	Southside/Connelly issues; tele. PSC	.5
7/28	Tele. SS re: Southside/Connelly	.25
7/29	Messages SS re: Southside; review draft PSC responses	.75
8/1	Prepare and file Public AMR/PRP responses	
	Copies	\$67.69
	Research Belfry Church easement/disconnection issues	3.25
8/2	Draft Church declaratory order petition	4.5
8/3	Revise Church petition; tele SS re: Southside	2.5
8/8	Response Southside easement offer; several messages SS re: Southside	.75
8/11	Several messages SS re: Southside; review Church release	.91
9/9	Review Church Motions to intervene, respond; several messages SS	.75
9/12	Research/draft response to Church motions	5.25

9/13	Church response	2.5
9/16	Review Church Sur-Reply; message SS	.33
9/19	Research and draft response to Church	4.5
Expenses		\$67.69
Sub- Total		39.32 hrs@ <u>\$350.00</u> = \$13,762.50
Total		\$13,829.69

Industrial Gas Services,
 4891 Independence St., Suite 200
 Wheat Ridge, CO 80033-6714

Invoice

DATE	INVOICE NO.
8/31/2016	101730

BILL TO
Kentucky Frontier Gas 4891 Independence St. Suite 200 Wheat Ridge, CO 80033

P.O. NO.	TERMS	DUE DATE
		8/31/2016

ITEM	DESCRIPTION	QTY	RATE	AMOUNT
Accounting/Super...	PAO/ HR, Payroll	75.75	40.00	3,030.00
Administrative	DRH/ Regulatory, Administrative	95.75	75.00	7,181.25
			Total	*\$10,211.25

RESPONSE TO ATTORNEY GENERAL'S
FIRST DATA REQUEST

1. Refer to the Application, Section 6, Notice to Customers, and Frontier's Response to the Commission's July 28, 2017 Order ("Frontier Response"), Item 1, the Corrected Notice to Large Customers.

a. Explain why the Residential and Commercial classes have a proposed total base rate increase of 14%, while the Large Commercial class has a proposed total base rate decrease of 1%. Provide any studies, analyses, memoranda, or other documents specifically discussing the reasoning for the difference in rates.

Response: The difference in rates came out of the Cost of Service Study, using the best assumptions we could make for allocating costs.

b. Explain why the Residential and Commercial classes have a proposed 60% increase in the customer charge, while the Large Commercial class has no proposed increase. Provide any studies, analyses, memoranda, or other documents specifically discussing the reasoning for the difference in rates.

Response: See the Application, Section 11 Rate Design and Q3 "Explain the proposal to increase the Monthly Charge". The proposed \$16 charge is lower than average for Kentucky utilities. The present \$10 just isn't enough. Both Frontier and Public converted from First / Next MCF rates to Monthly Charges in 2012 rate cases. In Frontier's case, the \$10 monthly charge was a step in the right direction, wasn't enough to cover summer overhead, but seemed as much as the Commission would allow. Public likely made the same calculus.

The monthly charge for Industrials isn't significant to either Frontier or its 2 industrial customers with 3 meters. The total annual cost of monthly charges for all 3 meters is \$1800 compared with total charges of \$450,000. Whether the monthly charge is cut to zero, or doubled or tripled, the effect is minimal on these 2 customers. The current \$50 charge covers billing and overhead and the meter facilities, so seems not worth higher scrutiny.

2. Refer to Application, Section 11, Rate Design, Question 5, paragraph 1. What does Frontier maintain is the size threshold for requiring an extensive Cost of Service Study ("COSS")?

Response: 807 KAR 5:001(16) requires a COSS only if the utility has annual revenue in excess of \$5M. Frontier does not set that criterion, but qualifies for the Alternative Rate Filing procedure because annual revenue is under \$5M.

a. Refer to Application, Section 11, Rate Design, Question 5, paragraph 1, where it states "In the 2011-00443 case Frontier used an allocation method as we used to establish a new rate class with the Wyoming PSC for Pinedale Natural Gas." Explain who the "we" is as to who established this rate class with the Wyoming PSC, and why the Pinedale Natural Gas example should have any bearing on this matter, especially given Mr. Shute's ownership of it.

Response: "We" is Mr. Shute's reference to the Pinedale utility he owns. Mr. Shute first developed this basic COS methodology for Pinedale Natural Gas in a 2006 Wyoming general rate case. Mr. Shute adapted that model for the prior rate application of Kentucky Frontier in Case 2011-00443.

The Pinedale model is a previously accepted cost model that is readily adaptable to Frontier. Its relevance is a matter for the Commission to determine based on the information provided by Frontier. These are similar sized utilities with about 5000 customers in Kentucky and 1500 customers in Wyoming, and there are no analogous non-municipal gas utilities in Kentucky. In Case 2011-00443 the Commission agreed with using this approach and we use it again in this case.

3. Explain why all other costs as indicated in response to Question 5 are allocated 30% to Demand and 70% to Commodity.

- a. Is there any literature or direction from FERC or NARUC advocating for cost to be allocated on a 30% demand/70% commodity ratio?
- b. Provide all evidence unique to Frontier that demonstrates justification of customer service cost allocation consisting of 1/3 to demand and 2/3 to commodity.
- c. Provide the representative who asked and answered the questions regarding rate design in this testimony.
 - i. Did this same person sponsor the COSS?

Response: The logic developed in Q5 stands for itself. Frontier is not familiar with any FERC or NARUC directive on this matter. We reviewed the rate filings of the Big Four and found a very similar pattern of carving out Customer Service costs to allocate among all customers, then remaining costs are split about 1/3 by Demand and 2/3 by Commodity.

The more costs are split by Demand, the higher the impact on Residential and Commercial customers, which are all but 2 of Frontier's 5500 customers. Frontier made the decision to use a mix of 70/30% similar to the Big Four.

Steven Shute developed the COSS for Frontier in both the 2012 and 2017 cases, and sponsors this study.

4. Refer to Application, Section 11, Rate Design, Question 5. Does the "very simplified COSS method" proposed by Frontier follow the standard COSS practice of 1) assignment of components of the revenue requirement functional costs; 2) allocating functional costs to cost components; and 3) distributing those costs to each customer class? Explain the rationale of this simplified method against the standard COSS criteria.

Response: The "standard" practice apparently references the factors generally used in a COSS required of much larger utilities. While some of those factors are explained in this ARF application, they are not applied to the same extent as in a more formal COSS. The rationale for using the proposed methodology is to provide support for the rate increase. There is no requirement that Frontier must prepare any COSS, or that any COSS proposed by Frontier be validated in relation to the "standard COSS criteria."

5. Refer to Application, Section 11, Rate Design, Question 5, paragraph 2. What segments of operating costs did Frontier identify as being "clearly attributed to customer service"? Explain the rationale of designating them as such.

Response: Meter reading and meter maintenance, turn on-turn offs, office-billing-collections functions should be attributed to customer service.

Some system tasks like leak surveys, pressure regulator maintenance and utility locates would have to be done even with zero customers. There is a very limited amount of work that is driven by higher gas volume demand, mostly due to winter weather and low temperatures. But the vast majority of work on the utility is driven by simply having customers.

Kentucky Frontier Gas Case No. 2017-00263

Attorney General's First Data Request

Witness: Shute

6. Refer to Application, Section 11, Rate Design, Question 1, paragraph 3, and Application Section 7, Question 1, paragraph 4. Quantify the savings in year 2016 from consolidation and economies of scale.

a. Will these savings be passed onto customers in subsequent rate cases?

Response: Economies of scale reflect savings over a wide range of expenses and operations. The impact reduces overall costs, but not necessarily specifically identifiable costs. Frontier has spent 2016-17 sorting out how Public Gas and Frontier can best operate their systems that are adjacent, even interleaved. To the extent there are savings, they will be reflected either as deferral of the need for additional rates or as reductions of specific costs. Either way the savings will be reflected in future cases.

7. Refer to the 2016 Annual Report filed by Frontier with the Commission ("Frontier 2016 Annual Report"), Gas Operation and Maintenance, pg. 323. Explain in detail the \$28,542.00 increase in Office Supplies and Expenses from \$79,074.00 in 2015 to \$107,616.00 in 2016.

Response: With the acquisition of Public Gas assets, Frontier made the decision to keep the Jackson office operational to have fewer disruptions to customers and to better serve Jackson and surrounding areas. This expanded the customer base by 1700 meters and almost 50%, and resulted in higher costs of associated office supplies and expenses.

Frontier also greatly upgraded the telephone system and data network to integrate the new Jackson office with the main office in Prestonsburg and a central server for the new billing system. The new telephone system includes fiber optic service and VOIP phone service and features to better route calls between offices and workers.

Utilities, supplies and other minor costs are also part of the expense increase.

Kentucky Frontier Gas Case No. 2017-00263

Attorney General's First Data Request

Witness: Shute

8. Refer to the Frontier 2016 Annual Report, Gas Operation and Maintenance, pg. 323. Explain in detail why the Information and Instructional Expenses under the Customer Service category increased from \$533.00 in 2015 to \$6,202.00 in 2016, break out the line items in this expense category.

Response: The sub accounts in this expense category are Web Support of \$514, Public Awareness Exp of \$163, and Informational & Instructional Advertising Expense - Other of \$5,524.

The expense increase under the latter account is due to publication costs incurred with Case No. 2016-00132 required by PSC for public notice. This case extended the PRP and AMR programs, surcharges and tariffs to the former Public Gas utility.

Kentucky Frontier Gas Case No. 2017-00263

Attorney General's First Data Request

Witness: Shute

9. Refer to the Frontier 2016 Annual Report, Gas Operation and Maintenance, pg. 323. Explain why the Employee Pensions and benefits increased from \$63,955.00 in 2015 to \$124,468.00 in 2016.

Response: The 2016 figures include the 6 employees of former Public Gas that were not included in 2015.

Also, there was a significant increase in health insurance premiums for all employees for the same level of coverage as the previous year.

10. Refer to the Frontier 2016 Annual Report, Statement of Income, pg. 116. Explain the increase in Interest on Long Term Debt from \$45,774.00 in 2015 to \$131,375.00 in 2016.
- a. State whether Frontier intends on changing the capital structure, either through issuing more equity or taking on more debt. Explain your answer fully, whether in the affirmative or negative.
 - b. Was the increase in long-term debt due to an increase in debt principal? If so, was the increase approved by the Commission?

Response: The increase is entirely due to the addition of \$1.5M in debt to purchase the assets of Public Gas.

- a. Frontier does not plan to change the capital structure. The LLC partnership allocation may change as owners retire. There is currently no need to raise additional debt or equity.
- b. Frontier increased its LT debt by \$1.5M for the purchase of Public Gas assets in December 2015, as approved by the Commission in Case 2015-00299.

11. Refer to the Application, Section 15, Auto Loans with Community Trust Bank, and Frontier 2016 Annual Report, Long-Term Debt, pg. 256, which shows loans issued on a 2016 Tacoma SR 4x4 (\$17,695) and a 2017 Toyota Tacoma 4x4 (\$27,323) during 2016, as well as on three vehicles in 2015. Further, refer to other documents, in which it shows four other vehicles were purchased outright in 2015.

- a. Explain whether the proposed rates factor in the costs of financing or purchasing these vehicles.
- b. If so, state whether Frontier expects to finance or purchase any other vehicles in the next year, and the reason for such planned purchases.

Response: The outright vehicle purchases in 2015 were the vehicles included with the purchase of Public Gas assets.

- a. The proposed rates include the interest costs of financing company vehicles. The assets are included in the rate base but the ARF model does not include RORB.
- b. Frontier acquired only a few vehicles with its constituent companies, most of them depreciated with 100k miles and more. Frontier has no plans to replace any specific vehicle, but generally Frontier runs vehicles out to 150-200,000 miles depending on maintenance costs.

The interest cost to finance new vehicles through dealers is currently 2.99%, which is quite lower than the utility's LT debt at 5.86% currently. Unlike the Big 4 gascos, Frontier has no automatic credit facility to finance purchases such as utility trucks that aren't practical out of normal cash flow. Dealer financing is easier and cheaper.

12. Refer to the Application, Section 7, and Reasons for Application, where it says that consolidating rates and tariffs for all customers would "eliminate confusion among customers of inconsistent tariffs and ... reduce the administrative burden of multiple rates and tariffs."

a. Explain the extent of the confusion that has existed among customers regarding tariffs and rates, identify the class of customers they belong to, and state how many customer complaints were lodged in relation to this issue since the acquisition of Public Gas.

- i. Provide all evidence of customer confusion referenced in the Application.
- ii. Provide all customer complaints regarding this issue, and the date the when each was received.

Response: Frontier knows of no specific case where a customer has complained of confusing the various tariffs. Frontier's office employees have struggled with the different rates and gas costs and peripheral charges between the two entities.

12. Refer to the Application, Section 7, and Reasons for Application, where it says that consolidating rates and tariffs for all customers would "eliminate confusion among customers of inconsistent tariffs and ... reduce the administrative burden of multiple rates and tariffs."

b. Refer to the Application, Section 8, Current and Proposed Rates, Effect on Average Customer. Explain why Frontier did not attempt to gradually consolidate Public Gas customers' rates.

- i. Explain how increases of 41% for base rates and 24% for total bill charges (including gas cost) benefit customers. Provide any studies, analyses, memoranda, or other documents specifically discussing the reasoning for the difference in rates.
- ii. Was the benefit of consolidating rates into one tariff weighed against the impact on these customers' bills?

Response:

b. The sole reason for this application is to consolidate the rates and gas costs and tariffs of Public Gas into Frontier. Public Gas assets were purchased in December 2015 under this assumption, and the Commission and Staff anticipated Frontier would file sooner than it did.

b.i. The 60% increase in Base Rates is the same for Frontier and Public customers. As discussed in the application at Rate Design Q2-Q3, and in this response at Q1b, both entities could have justified higher base rates in their last rate cases, but were converting from the antiquated First-Next MCF scheme that was already a big gulp for customers. The proposed \$16 base rate for most customers will still be lower than the average of the Big Four.

As discussed in the application at Rate Design at Q9:

In its last 3 years that Public Gas was stand-alone, it lost an average of \$135,000 per year. Clearly, the current Public rates are too low to sustain financial viability.

This multi-year deficit is 2/3rds of the proposed revenue increase for former Public Gas customers, and the rest is a modest return on a considerable investment. The owners of Public Gas assets cannot continue to pay customers to take gas. The long term benefit to Public customers is that the utility remain financially viable and to improve its utility system.

b.ii. As stated above, the consolidated tariff has been anticipated since the inception of the Public Gas merger. We could continue to subsidize customers and spread out the pain of unavoidable rate increases, but inevitably the customers have to pay their fair share for gas service.

13. Refer to the Application, Section 11, Rate Design. Did Frontier perform any analysis to determine the cost of service separately for the Frontier service area prior to the Public Gas acquisition and the former Public Gas service area? If so, provide all such analyses and data. If not, why not?
- a. Provide the MCF for the Public Gas service area and the rest of the system.
 - b. Provide the revenue requirement for the Public Gas service area, and the remainder of the current Frontier system.

Response: The cost of service for Frontier prior to the Public Gas acquisition was reflected in the prior rate Case 2011-00443, after which there have been increases in some costs. Public Gas was similarly represented in Case 2012-00431. Frontier did not update the 2012 rate cases with more recent information, because all parties anticipated the rate case to consolidate Frontier with Public Gas.

- a. The projected MCF volumes are shown at the Proforma tab of the PSC GR17 ARF model.xls spreadsheet:

Public area	108,800 MCF
Rest of Frontier	253,000 MCF

- b. The assets of Public Gas have been operated as part of Frontier since its acquisition, not a separate entity. The revenue requirement for the various parts (including the other 9 constituent companies) cannot be segregated if Frontier is to remain viable. The total proposed non-gas margins by area can be inferred using the same Proforma tab with some simple calculations:

Public area	\$ 757,574
Rest of Frontier	\$1,578,578

We make no attempt to split the non-recurring charges.

14. Refer to Frontier's Response, Item 5.b., pg. 29.

- a. State how many Farm Tap customers currently have a Free Gas allotment, and how such was determined.
- b. Has Frontier has ever thought about discontinuing the Free Gas allotment? Explain answer fully whether in the affirmative or negative.
- c. Is a tariff specifying these Farm Tap rates on file with the Commission?

Response: The cost of service for Frontier farm taps was decided in prior rate Case 2011-00513.

a. There are currently about 180 farm taps with a free gas allotment. These allotments were set by agreement between the customers and the gas producer that supplies gas in exchange for an oil & gas lease on the allottee's property. Approximately 20 of these customers use up their free gas allotment sometime during the year, after which Frontier bills \$10 per month with no gas margin.

b. Frontier would love to get rid of the free FTs, but they were accepted as a condition for purchasing Belfry Gas and other paying FTs from the same production entity. We have discussed changes in this arrangement many times with that producer, with no progress.

c. Case 2011-00513 resulted in the current FT tariff that remains unchanged.

15. Refer to Frontier's Response, Item 32, Attachment 1 — Member Meeting Minutes, where Larry Rich's voluntary resignation as member-manager was accepted by the remaining member-managers on November 23, 2015, and Frontier's Response, Item 12, where it says that Larry Rich "has retired from the management of Frontier."
- a. Explain whether Mr. Rich expressed an intent to continue working with Frontier in a different role. Provide any documentation evidencing the same.
 - b. Explain the invoices from 2016 and 2015 from Mr. Rich where he appears to do work for the company as needed, and the extent of his work for Frontier.
 - c. State Mr. Rich's current title and role, explain the type of work Mr. Rich performs, and state whether he continues to perform such work on an ongoing basis in 2017. If Mr. Rich does continue to work with Frontier, what rate does he charge and how was that determined?
 - d. Refer to Frontier's Response, Item 38, where it states that \$4,200.00 "accrued to [Mr. Rich] but not paid." Explain whether Frontier plans to pay Mr. Rich this accrued amount.

Response: Mr. Rich is retired to North Carolina and has medical issues that prevent him from doing regular work for Frontier, both now and in the future. He has returned to Kentucky from time to time, generally for a day or so of interaction with other LLC members. For work in the past, Mr. Rich was paid \$300 per day plus expenses. The outstanding invoice will be paid when cash flow allows.

16. Refer to Frontier's Response, Item 38, Attachments, showing expenses and invoices billed for professional services rendered, from Pipeline Solutions, Inc. ("PSI") to Frontier for years 2015 and 2016. Pursuant to KRS 278.2207, services provided to a utility by an affiliate must be priced at the affiliate's fully distributed cost, but not greater than market cost, or in compliance with the utility's regulatory approved cost allocation methodology.
- a. State whether any agreements or other documentation for affiliate transaction pricing exist as required by KRS 278.2209.
 - b. State whether Frontier has a cost allocation manual.
 - c. Explain how the rate for these services is determined.
 - d. State whether the rate is different for "Engineering, financial & management services" and "Public Gas purchase analysis-financing-mgmt."
 - e. State whether PSI, and Mr. Shute in his capacity as engineer, also provide these same professional services to Pinedale Natural Gas Co., or other utilities in which Mr. Shute is involved. If so, provide a breakdown of how he divides his time providing these services to each utility.
 - f. State whether Frontier ever solicited bids for these engineering services from other firms or consultants. Explain why or why not, as well as the details of any bids and the resulting decision to retain PSI.

Response: Neither Pipeline Solutions Inc. (PSI) or Pinedale Natural Gas (Pinedale) are affiliated in any way with Kentucky Frontier Gas LLC. Steven Shute is sole owner of PSI and Pinedale, and majority owner of Frontier, but they are in no way legally bound nor share facilities or employees.

- a. No and N/A.
- b. No and N/A.
- c. PSI has charged \$75 per hour for the services of Mr. Shute since inception of Frontier in 2005. This is the same as 2 employees of IGS that are also members of the LLC.
- d. Public Gas no longer exists and as such is not billed for any services. The rate is the same for all services provided to Frontier.
- e. Mr. Shute is an employee of Pinedale Natural Gas and typically spends at least 1200 hours per year on matters for several Pinedale entities.
- f. Since inception of Frontier, LLC members Steven Shute and Bob Oxford have provided services on an as-needed basis through their consulting companies PSI and IGS. As Frontier was getting off the ground, this started with just a few hours per month and has ramped up to several hundred hours per year.

They are both employees of other entities, and the uncertain workload makes difficult any typical employee arrangement.

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Attorney General's First Data Request

Witness: Shute

Both companies have given Frontier a preferential rate of \$75 per hour that is unchanged for 12 years. IGS and PSI bill their other consulting clients \$150 to \$250 per hour for the same services.

Frontier hires outside consultants for other tasks that can't justify full-time employees. Frontier has used GIS and CAD technicians for \$45-50 per hour, OQ trainers at \$125 per hour, and attorneys and CPAs up to \$350 per hour.

Frontier has not solicited for assistance from other firms or consultants for the work done by Mr. Shute. First, this isn't regular work. Second, there are very few consultants that specialize in all aspects of the natural gas utility business: there are utility engineers out there, and metering specialists, and pressure regulator designers, and corrosion control technicians, and rate making analysts, and strategic business consultants and CPAs and M&A specialists, etc. But none of them can do more than 1 or 2 of these tasks, few have ever worked for a tiny gas utility, and none has been part of a utility startup venture.

As Mr. Shute says, "I don't know anybody that does what I do."

17. Refer to Frontier's Response, Item 38, Attachments, showing expenses and invoices billed for professional services rendered, from Industrial Gas Services ("IGS") to Frontier for work done in 2015, 2016, and 2017.

- a. State whether any agreements or other documentation for affiliate transaction pricing exist as required by KRS 278.2209.
- b. Explain how the rate for these services is determined.
- c. State whether all payroll, human resources, and administrative functions of Frontier are managed by IGS.
- d. Explain how much of these functions are managed by IGS, and how many employees of IGS are dedicated to providing these services to Frontier.
- e. Refer to Frontier's Response, Item 12. Explain what other consulting services IGS provides to Frontier, and whether this relationship is ongoing or on a project to project basis.

Response: IGS and its majority owner Robert Oxford are minority LLC members of Frontier. IGS is not legally bound with Frontier, nor shares facilities or employees.

a. No and N/A.

b. IGS has charged \$75 per hour for the services of Mr. Oxford and Mr. Horner since inception of Frontier in 2005. This is the same rate charged by PSI for Mr. Shute.

c. One IGS employee prepared payroll and did most HR functions for Frontier for several years, and is now a part-time employee of Frontier. Other administrative functions like personnel decisions are split between IGS and PSI.

d. IGS has 2-3 employees with administrative duties.

e. IGS manages gas supply contracts and approximately 25% of engineering and operations management. This relationship is ongoing.

18. Refer to Frontier's Response, Item 12, explaining that DLR Enterprises, Inc. ("DLR") transports gas from the Auxier system to Frontier's system.
- a. State whether any agreements or other documentation for affiliate transaction pricing exist as required by KRS 278.2209.
 - b. Explain how the rate for these services is determined.
 - c. Provide the invoices from the last three winter months of 2016 from Frontier to DLR.

Response:

a. DLR has similar ownership but is not legally bound with Frontier, nor does it share facilities or employees.

b. When the Cow Creek (Sigma) and DLR assets were financed, purchased and reconfigured in 2010, DLR moved significant volumes of gas for producers as a gas gathering entity. These activities were a departure from normal utility practice. In the 2010 reorganization, about one-third of the DLR system was retained for gathering, while the other DLR pipelines were purchased and consolidated into Frontier.

The DLR transportation rate of \$1.25 per mcf for Frontier gas is the same rate as Interstate Natural Gas charged Cow Creek Gas, Inc. prior to Frontier's acquisitions in 2010. Frontier currently pays \$2.00 per mcf to Jefferson Gas for transportation and \$1.68 per mcf to EQT.

c. DLR invoices are attached for October through December 2016.

DLR ENTERPRISES INC.
P O BOX 408
PRESTONSBURG, KY 41653

DEC 31, 2016

KENTUCKY FRONTIER GAS LLC
P O BOX 408
PRESTONSBURG, KY 41653

TRANSPORTATION COST FOR OCT 2016

2,237 mcf's X \$1.25 = \$ 2,796.25

DLR ENTERPRISES INC.
P O BOX 408
PRESTONSBURG, KY 41653

DEC 31,2016

KENTUCKY FRONTIER GAS LLC
P O BOX 408
PRESTONSBURG, KY 41653

TRANSPORTATION COST FOR NOV 2016

7068 mcf's X \$1.25 = \$ 8,835.00

DLR ENTERPRISES INC.
P O BOX 408
PRESTONSBURG, KY 41653

DEC 31,2016

KENTUCKY FRONTIER GAS LLC
P O BOX 408
PRESTONSBURG, KY 41653

TRANSPORTATION COST FOR DEC 2016

9233 mcf's X \$1.25 = \$ 11,541.25

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Attorney General's First Data Request

Witness: Shute

19. State whether Frontier plans to continue acquisitions of other natural gas providers in Kentucky.
 - a. If so, explain any projected timeline and strategy of such acquisition.

Response: Frontier has no immediate plans nor timeline for more acquisitions. The company will review and consider any acquisition options that may arise, based on factors existing at that time.