

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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COMMISSION

In the Matter of:

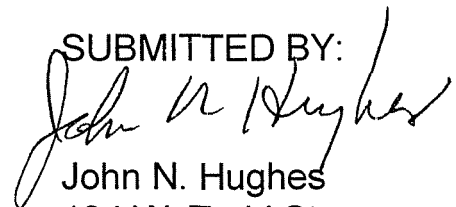
APPLICATION OF KENTUCKY FRONTIER GAS  
COMPANY, LLC FOR APPROVAL OF )  
TRANSFER OF AUXIER ROAD )  
CORPORATION STOCK

CASE NO.  
2009-00442

KENTUCKY FRONTIER GAS COMPANY, LLC  
RESPONSE TO DATA REQUEST OF COMMISSION STAFF

Kentucky Frontier Gas Company, LLC ("Kentucky Frontier"), by counsel provides the attached responses to the Order of December 4, 2009.

SUBMITTED BY:

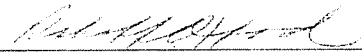


John N. Hughes  
124 W. Todd St.  
Frankfort, KY 40601  
502-227-7270

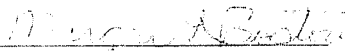
Attorney for  
Applicant

AFFIDAVIT

Affiant, Robert J. Oxford, after being first sworn, deposes and says he is authorized on behalf of the Kentucky Frontier, LLC to file these responses, that the responses and the statements are true and correct to the best of his knowledge and belief except as to those matters that are based on information provided to him and as to those he believes to be true and correct.

  
Robert J. Oxford, Member Manager

This instrument was produced, signed and sworn by Robert Oxford to be his act and deed the 16<sup>th</sup> day of December, 2009.

  
Notary Public

My Commission expires: 10-25-2011



1. Will Auxier Road Gas Company ("Auxier") customers continue to be served under its existing name rather than the "Kentucky Frontier" name?

WITNESS: OXFORD

RESPONSE: Auxier customers will be billed as such, with at least 6 months transition. Former Belfry Gas, EKU or Floyd County Gas, Mike Little Gas and Alert Gas customers are all billed in the name of Kentucky Frontier Gas, using each entity's approved rates.

Frontier intends to operate and bill customers in this manner for at least another year, as stated in its filings to purchase these utilities. As operations and management stabilize, and as Frontier verifies actual operating costs, Frontier will file a general rate case to consolidate all customers to the Frontier brand with uniform rates.



2. Refer to item 8 of the petition.

a. This paragraph states, "The present office and field personnel will remain in place." Explain at what location the day-to-day accounting, billing and collecting functions will take place.

b. How long does Kentucky Frontier anticipate it will maintain the present office location of Auxier?

c. Provide the number of offices Kentucky Frontier will maintain when the transfer takes place and the estimated cost to maintain those offices.

d. Explain whether customer deposit liability will transfer to Kentucky Frontier. If not, explain whether Auxier will refund the deposits prior to the transfer.

WITNESS: OXFORD

RESPONSE: a. The Auxier office-shop-yard complex will become Frontier's operational headquarters. Frontier will relocate 3 office and 3 field personnel across town to the new offices, and will retain 1 office and 2 field personnel from Auxier. Billing and collecting for all Frontier entities will be managed out of this new location, as well as first-line accounting and most of the PSC and DOT reporting.

b. Indefinitely. The Auxier complex is modern and adequately sized for Frontier's near-term plans. The location is close to the "center of gravity" of the systems served under Frontier.

c. Frontier presently leases the former EKU office in Prestonsburg for \$1,000/mo, which will terminate after 90 day notice. Frontier expects to move all operations to the Auxier complex within 90 days of closing of the purchase. The Auxier facilities will be leased for \$1800 per month, beginning on the effective date of the sale. Frontier will keep its current executive offices in Prestonsburg at a cost of \$1,000/mo. Corporate oversight will be managed from Frontier offices in Colorado. Total office and shop rental, utilities, supplies and maintenance for Frontier is estimated to be \$51,000/year.

d. Yes.



3. Does Kentucky Frontier expect that it can serve Auxier customers at existing rates with no diminution of services?

WITNESS: OXFORD

RESPONSE: Yes. Based on current operations and customers, the existing rates are adequate for the immediate future. Frontier plans to file a consolidated rate case for all operations in 2011





4. Does Kentucky Frontier expect to realize economies of scale in its proposed management of Auxier along with the other gas utilities it has acquired?

WITNESS: OXFORD

RESPONSE: Yes. By consolidating offices, billing and accounting systems, personnel and administrative functions, 24hr emergency response centers, company standards and DOT safety programs, there will be tangible savings associated with the addition of Auxier to the current Frontier operations. No quantification of the savings has been attempted.



5. Is Kentucky Frontier familiar with Auxier's tariffs, rates, and special charges?

WITNESS: OXFORD

RESPONSE: Yes. Frontier has reviewed the tariffs and rates of Auxier as part of its due diligence.



6. Is Kentucky Frontier aware that Auxier's Gas Cost Adjustment tariff requires monthly filings, and is it prepared to make those filings in a timely manner pursuant to the tariff requirements?

WITNESS: OXFORD

RESPONSE: Yes. Frontier intends to standardize GCAs for all operating units, and eventually to file a single GCA for all customers. At that time, Frontier will decide whether to file monthly or quarterly GCAs.



7. What will Auxier's source of gas supply be after the proposed transfer? Will Kentucky Frontier combine the gas procurement function for the jurisdictional gas utilities it operates in order to realize all possible cost savings for its customers?

WITNESS: OXFORD

RESPONSE : Frontier will maintain the current Auxier gas supply relationships with Chesapeake, AE1-Kaars, NYTIS and Constellation at least through this winter. To the extent practical, Frontier plans to shift some of the gas supply for Auxier and other entities to local producers such as Quality or Interstate Gas. The local production is cheaper but has less uniform standards for gas quality.





8. How many customers are currently served by Auxier?

WITNESS: OXFORD

RESPONSE: Auxier has about 500 active meters.



9. Provide three copies of topographic maps showing the locations and routes of the mains, distribution lines, and other gas service equipment to be acquired by Kentucky Frontier.

WITNESS: OXFORD

RESPONSE Attached



10. Provide an estimate of when Kentucky Frontier expects to complete the transfer.

WITNESS: OXFORD

RESPONSE: Frontier plans to close on financing and purchase of Auxier Road by December 31, 2009, with an Effective Date of December 1, 2009 for billing, revenues, operating costs and other business.



11. Provide the journal entry or entries Kentucky Frontier will use to record the transfer.

WITNESS: OXFORD

RESPONSE: Attached



JOURNAL ENTRIES  
 KENTUCKY FRONTIER GAS LLC  
 AUXIER ROAD ACQUISITION

12/11/2009

ACCT #		DEBIT	CREDIT	AUX RD 6/30/2009
131	CASH		\$1,663,000.00	
101	GAS PLANT IN SERVICE	\$1,242,951.00		\$1,242,951.00
108	ACCUM DEPRECIATION	-\$794,567.00		-\$794,567.00
114	GAS PLANT ACQUISITION ADJUSTMENT	\$1,214,616.00		
TOTALS		\$1,663,000.00	\$1,663,000.00	



12. Who will be responsible for maintaining the safety of the system pursuant to C.F.R. 49 § 192?

WITNESS: OXFORD

RESPONSE: All Frontier field operators are trained in DOT compliance under the Operator Qualifications program. Frontier has drafted extensive new uniform plans for Operations & Maintenance, Public Awareness, Damage Prevention and Emergency response. Members Larry Rich and Steve Shute are responsible for oversight and formulating standards.



13. Does the purpose or description of the lines, valves, or any part of Auxier's system change or convert to an unregulated component (i.e., distribution to gathering)?

WITNESS: OXFORD

RESPONSE: No.



14. Describe in full how Kentucky Frontier plans to fund the purchase price of Sallye Branham's stock in Auxier. If the purchase price is to be financed, provide details of the loan agreement.

WITNESS: OXFORD

RESPONSE: Under the executed term sheet, Frontier will pay cash for Sallye Branham's shares of stock in Auxier, about 94-2/7ths shares out of 100 issued.

The purchase will be funded with about 20% equity and 80% debt. Frontier has funds in escrow for acquisitions from the original funding, and will add operating funds and member contributions for the remaining equity required by the bank.

Frontier has applied for funding through its banker Community Trust Bank in Pikeville. CTB secured a Small Business Administration loan for Frontier's original acquisitions in December 2009.

Based on the financial results and stability of Frontier's first year of consolidated utility operations, CTB is willing to underwrite a USDA-guaranteed loan for additional acquisitions. The loan as proposed by USDA would be a 15-year adjustable loan at Prime plus 1.24%, with a floor of 6% APR.

A separate application for approval of the financing will be filed when the loan is authorized by the bank





15. Provide a complete set of Auxier's current financial statements,

WITNESS: OXFORD

RESPONSE: Attached:

Auxier Road Gas Co., Inc.  
 INCOME STATEMENT  
 FOR THE SIX MONTHS ENDED JUNE 30, 2009

	C U R R E N T P E R I O D		Y E A R T O D A T E	
	Amount	Percent	Amount	Percent
Revenue				
Gas Sales	39,609.69	99.5	667,852.79	99.2
COLLECTION FEES	75.00	0.2	200.00	0.0
Reconnection Fee	0.00	0.0	35.00	0.0
Penalties	70.62	0.2	5,030.96	0.7
Service Charge	50.00	0.1	225.00	0.0
Sales Tax Commission	1.26	0.0	76.15	0.0
	39,806.57	100.0	673,419.90	100.0
Total revenue				
Expenses				
Gas Purchases	18,043.59	45.3	549,154.26	81.5
Mains & Services Labor	2,781.50	7.0	14,885.24	2.2
Services Supplies & Exp	722.85	1.8	11,927.98	1.8
Contract Labor	750.00	1.9	3,800.00	0.6
Maintenance of Meters	0.00	0.0	213.80	0.0
Meter Reading Labor	2,781.50	7.0	14,885.26	2.2
Accounting & Coll. Labor	5,737.50	14.4	33,755.00	5.0
Accounts Supplies & Exp	997.29	2.5	1,636.78	0.2
Admin & General Salaries	5,737.50	14.4	33,755.00	5.0
Office Supplies & Exp	2,830.39	7.1	24,533.22	3.6
Outside Services Employed	500.00	1.3	3,875.00	0.6
Insurance	7,683.70	19.3	14,542.67	2.2
Employee Benefits	1,397.38	3.5	10,951.68	1.6
Miscellaneous Gen Expense	429.18	1.1	4,094.18	0.6
Rents	1,500.00	3.8	9,000.00	1.3
Transportation Expenses	1,109.08	2.8	11,471.05	1.7
Interest Expense	275.13	0.7	1,731.61	0.3
Depreciation Expense	2,700.00	6.8	16,200.00	2.4
Payroll & Other Taxes	3,781.48	9.5	14,510.05	2.2
	59,758.07	150.1	774,922.78	115.1
Total expenses				
Net income	\$ (19,951.50)	(50.1)	\$ (101,502.88)	(15.1)

See Accountant's Compilation Report

Auxier Road Gas Co., Inc.  
BALANCE SHEET  
JUNE 30, 2009

LIABILITIES AND CAPITAL

Current liabilities		
Notes Payable	99,703.89	
Accounts Payable	38,797.55	
Customer Deposits	39,969.52	
Accrued Interest	(7.50)	
Accrued Taxes	1,092.85	
Accrued Employee Benefits	3,330.00	
Accrued Salaries	61,300.00	
	<hr/>	
Total current liabilities		\$ 244,186.31
Long term liabilities		
	<hr/>	
Total long		
Other liabilities		
	<hr/>	
Total other		
Total liabilities		\$ 244,186.31
Capital		
Common Stock	20,000.00	
Other Paid-In Capital	2,035.00	
Retained Earnings	472,366.96	
Current Earnings	(101,502.88)	
	<hr/>	
Total capital		392,899.08
		<hr/>
TOTAL LIABILITIES AND CAPITAL		\$ 637,085.39
		<hr/> <hr/>

See Accountant's Compilation Report

Auxier Road Gas Co., Inc.  
BALANCE SHEET  
JUNE 30, 2009

ASSETS

Current assets		
Cash	122,165.99	
Customer Accounts Rec.	66,535.44	
	<hr/>	
Total current assets		\$ 188,701.43
Fixed assets		
Plant & Equipment	1,242,951.44	
Accum. Depreciation	(794,567.48)	
	<hr/>	
Total fixed assets		448,383.96
Other assets		
	<hr/>	
TOTAL ASSETS		\$ 637,085.39

See Accountant's Compilation Report



16. Item 3 of the Term Sheet states that Kentucky Frontier will assume the Community Trust Bank note not to exceed \$88,000. Identify other liabilities that will be assumed by Kentucky Frontier as a result of this transfer

WITNESS: OXFORD

RESPONSE: The CTB note has a current balance of \$82,000 and will be paid off at closing of the Frontier financing.

Frontier is negotiating with Bill Branham, brother-in-law of Sallye Branham and holder of the remaining 5-5/7ths shares of Auxier stock. No deal is yet consummated, but Frontier expects to purchase the shares on a 5-year installment through the seller.

No other liabilities will be assumed.