

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY FRONTIER GAS, LLC
FOR APPROVAL OF CONSOLIDATION OF AND
ADJUSTMENT OF RATES, APPROVAL OF AMR
EQUIPMENT AND A CERTIFICATE OF
CONVENIENCE AND NECESSITY FOR
INSTALLATION OF AMR, PIPELINE REPLACEMENT
PROGRAM, REVISION OF NON-RECURRING FEES
AND REVISION OF TARIFFS

CASE NO.
2011-00443

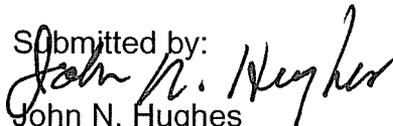
KENTUCKY FRONTIER GAS, LLC's RESPONSE TO
SECOND REQUEST FOR INFORMATION

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COMMISSION

Submitted by:


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1. Refer to Frontier's responses to Items 3 and 12 of Commission Staff's First Request for Information ("Staff's First Request").

a. Provide the number of operators employed by Frontier (1) at the beginning of the test year, (2) at the end of the test year, and (3) as of June 30, 2012.

b. Provide the number of office staff employed by Frontier (1) at the beginning of the test year, (2) at the end of the test year, and (3) as of June 30, 2012.

c. For the operators employed at each point in time as referenced in part a. of this request, provide their total annual compensation, broken down between salaries/wages and benefits at those specific points in time.

d. For the office staff employed at each point in time as referenced in part b. of this request, provide their total annual compensation, broken down between salaries/wages and benefits at those specific points in time.

Witness: Shute

All data are taken from Labor spreadsheet submitted in DR1.

Operators:

6 on January 1, 2011	Col. "2010 Rate"
7 on December 31, 2011	Col. "2011 Adj Wage"
8 on June 30, 2012	Col. "2012 Adj Wage"

Hourly Office Staff:

2 on January 1, 2011
2 on December 31, 2011
3 on June 30, 2012

Operators:

Begin 2011 TsYr	6 Ops at \$12.45 per hour average base wage
End 2011 TsYr	7 Ops at \$13.79 per hour
June 30, 2012	8 Ops at \$14.31 per hour*

*including 2 with raises in mid-July.

See Test Year analysis. There are embedded comments in several cells in Known & Measurable Adj. in the Excel file which was provided to Staff.

To these Base Wages are added 30% Overtime (8hrs per week average at 1.5x), plus 20% of Base + OT pay for the Frontier portion of payroll taxes (Social Security, Medicare, Workers Comp and Unemployment KY+Fed).

Pensions & Benefits are calculated in Test Year for all employees. Medical

insurance is calculated on projected 2012 cost, and the SEP program will cost

3% of wages

Hourly Office Staff:

Begin 2011 YsYr	2 Clerical at \$11.30 per hour average base wage
End 2011 YsYr	2 Clerical at \$12.50 per hour
June 30, 2012	3 Clerical at \$13.28 per hour

Using the same concept as for hourly Operators, the Base Wages are increased by 16% OT and 20% payroll taxes; Pensions & Benefits are the same as for Operators.

2. Refer to Frontier's response to Item 5 of Staff's First Request. Apparently, Frontier misunderstood the request. Specifically, the request, based on the anticipated approval of the proposed Automated Meter Reading ("AMR") program, was seeking a general point in time, or timeline, for when Frontier expects to start realizing the benefits of reduced meter reading costs. Assuming the AMR program is approved, explain in what quarter of what calendar year Frontier expects it will begin realizing the benefits of reduced meter reading costs.

Witness: Shute

The very first AMR conversions will result in immediate reductions in meter reading cost. Frontier has targeted the hardest-to-read and farthest-to-drive meters for initial conversion. Frontier expects to install a few dozen ERTs starting in 4Q12, and these will immediately shave several hours and many miles from monthly meter reading burden.

3. Refer to Frontier's response to Item 6.d. of Staff's First Request.

a. Provide a more detailed discussion of the circumstances to which reference is made in the statement, "Depending on cash flow from utility operations and capital needs, Frontier may elect to end the PRP and AMR surcharges early and retain the net positive increase in rate base."

b. Explain whether Frontier is aware that terminating any surcharges that have been authorized by the Commission will also require Commission approval.

Witness: Shute

a. The PRP and AMR projects are needed after decades of neglected maintenance, and the surcharges are necessary for Frontier to finance the cost. These types of projects are improbable to finance through Frontier's limited bank sources, since there is no significant nor predictable increase to net revenue as required for a bank loan. Several years down the road, Frontier may be in a financial position to self-finance and rate base these projects, and can file with PSC to drop the surcharge.

b. Yes.

4. Refer to Frontier's response to Item 7, the last bullet on page 2 of its response to Item 12, and the pages filed under Tab 22 with the heading Kentucky Frontier Gas LLC/Journal Entries, all in its response to Staff's First Request. The Item 12 bullet regarding depreciation indicates that Frontier is using 20 years to amortize its acquisition adjustments. Provide the following information:

- a. The total amount of the acquisition adjustments being amortized;
- b. An explanation of how the acquisition amounts for East Kentucky Utilities, Inc. and Kinzer Farm Taps of \$955,370 and \$250,000, respectively, shown in the Journal Entries pages under Tab 22 were determined;
- c. An explanation of the differences in the two gas plant acquisitions shown in the Journal Entries section of Item 22 for Peoples Gas; and
- d. Calculations of the amounts shown in the Journal Entries section of Item 22 as Investment Auxier, Investment Cow Creek, Investment Dema, Investment Interstate Farm Taps.

Witness: Shute

a. \$1,925,508

EKU \$955,369

MLG \$481,045

BG \$480,342

PG \$ 6,420

\$ 2,332 (on People's Gas books when purchased)

b. The Kinzer Farm Taps acquisition is not part of this filing.

EKU – Credit - cash paid (from loan and reduced payment for GOLD loan

Debit - Distribution Plant and General Plant on ECU's books

Credit – Accumulated Depreciation on ECU's books

Debit – Acquisition adjustment (difference)

Received guidance from PSC staff

c. People's Gas books showed an acquisition adjustment so kept that amount as shown on their books separate from the acquisition adjustment resulting in the purchase.

d. Cash paid for the entities as determined by the Purchase Agreements. The Auxier investment includes note to Bill Branham to purchase his shares in Auxier.

5. Refer to Frontier's response to Item 9.c. of Staff's First Request and the spreadsheet filed under Tab 22 of the response, specifically, the pages with the heading "Kentucky Frontier Gas LLC / MCF Sales Volume History."

a. The pages are not numbered, but the ninth of the 12 pages with the aforementioned heading appears to show 12-month totals of Mcf sales. Confirm that the numbers on the line identified as "Utilities" are Frontier's total utility sales (adjusted) for the 12-month periods ending 12/31/2010, 12/31/2011, and 6/30/2012.

b. Describe the adjustments that were made to arrive at the numbers identified in part a. of this request and provide the actual Mcf sales for each of the three periods before any adjustments were made.

c. For each of the 12-month periods shown, provide the average annual residential and "Large 3" industrial Mcf usage.

d. Explain the relationship between the sales volumes provided in the 12/31/2011 column and the 3,329 meters reported on the "Current Rates" spread sheets of Tab 22, i.e., whether the 3,329 is an average number of meters for the year or an end-of-year number, and whether the 292,882 and 71,569 Mcf are actual billed volumes.

e. Provide, for the parts of Kentucky served by Frontier, any heating degree day data that supports the descriptions in 9.c. of 2011's "unusually cold and lingering winter" and 2012 as having "several of the warmest months in recorded history."

Witness: Shute

Correct. The 4 volume figures shown here are:

- Utilities - all sales by utilities.
- Large 3 - sales to the Hospital-MOB-Prison (incl in Utilities).
- FTs - sales to Farm Taps.
- Totals - the sum of Utilities + FTs.

a. Describe the adjustments that were made to arrive at the numbers identified in part a. of this request and provide the actual Mcf sales for each of the three periods before any adjustments were made.

The embedded comments in cells in the Excel file help to explain these adjustments in Row 82, UTILS Last 12 mos - adjustments:

- Jan10+Feb10+Mar10 adjustments are the sums of 2-3 numbers (visible as a formula in the cell): the first is the estimate of BTU volume (same as 2011), which Frontier started operating in Aug11;
- The second number is an estimate for the combined volume of Cow Creek, Dema and Sigma for the first 3 months of 2010, since Frontier did not take control of these utilities until April 2010;
- The third number is an estimate for the volume of Peoples Gas in Phelps, which was not controlled by Frontier for Jan-Feb10;
- Jan11 to Jul11 has an estimate for BTU (same as in 2010);

- Jan12 has an adjustment for Belfry and BTU volumes, which are inexplicably low in the reports generated from the billing system; these volumes were lower in January than in December or February, which is not logically possible; no reason was found for this anomaly.
- b. For each of the 12-month periods shown, provide the average annual residential and “Large 3” industrial Mcf usage.

The Large 3 industrial MCF usage is specified. Of these volumes, the Prison is about 64% over last 3 years, the Hospital 29% and MOB 7%.

Average usage for “Non-Large 3” is 236k, 221k and 196k MCF for the time periods in the box. These figures do not include an estimated 4k MCF for Blaine. Assuming 3330 average meters in these totals, the average non-Large utility customer used 71-66-59 MCF in those periods.

That’s a very wide scatter for consecutive and overlapping 12-month periods. The latter total includes the unusually warm first half of 2012; the middle figure includes the unusually cold 2011, and the first figure includes a lot of guessing for BTU-Blaine. We believe the true figure may be in the middle, at about 66 MCF.

These averages include every residential and commercial utility customer of Frontier. Frontier has no easy way to isolate Residential sales from other customers including some fairly large ones like car dealers, churches and a Wal-Mart. At 66 MCF overall, we believe 60 MCF is a reasonable estimate for average annual Residential.

- c. Explain the relationship between the sales volumes provided in the 12/31/2011 column and the 3,329 meters reported on the “Current Rates” spread sheets of Tab 22, i.e., whether the 3,329 is an average number of meters for the year or an end-of-year number, and whether the 292,882 and 71,569 Mcf are actual billed volumes.

The 3,329 figure is the arithmetic average of 3,366 bills actually sent in Jan12 and 3,291 in May12. These figures include the 3 Large customers. The COS Cost of Service study at tab COS used the average 3,330 regular and 3 large customers to calculate the revenues from Monthly Charges.

The volumes are as-billed in Row 81 plus Adjustments in Row 82.

The 292k figure includes the 71k total for the 3 Large customers; these are not additive.

- d. Provide, for the parts of Kentucky served by Frontier, any heating degree day data that supports the descriptions in 9.c. of 2011’s “unusually cold and

lingering winter” and 2012 as having “several of the warmest months in recorded history.

The 2012 HDD data are not yet available for the KY reporting station we have used. Further, Frontier doesn't have long-term nor accurate gas usage for many of our systems. This statement is based on the perceptions of the Frontier staff in Prestonsburg, along with the actual operations of partner Steve Shute's utilities in CO and WY. The Walden and Pinedale utilities had 5-6 months of 2011 where gas sales were the highest for that month in recent history (ie coldest Feb11, Mar11, Apr11 etc in years). Walden and Pinedale had temperatures of -48°F and -43°F respectively in early February 2011. Then in 2012, Walden had the warmest winter and lowest MCF sales, ever since inception ca 1956, for the 7 months of March through September. The HDDs are obviously not the same, at 10-11,000 HDDs for WY vs 4200 for KY, but the wild high-low swing from 2011 to 2012 was very similar for this swath of the country.

6. Refer to Frontier's response to Item 12 of Staff's First Request. The fourth bullet on the first page of the response refers to an operator Frontier added in February 2012. The latter part of the text reads "the Operator (with truck) was not included in the Farm Tap case so comes in at 100%."

a. Provide the annual compensation of the operator Frontier added in February of 2012, broken down between salaries/wages and benefits.

b. Confirm that the text quoted above indicates that, because the cost of the operator added in February 2012 was not part of the costs that were allocated 88 percent to utilities and 12 percent to farm taps in the recent farm tap rate case, Frontier is proposing that 100 percent of the cost be considered a cost of the utilities in this case.

Witness: Shute

a. Provide the annual compensation of the operator Frontier added in February of 2012, broken down between salaries/wages and benefits.

The newest Operator is at \$12.50 per hour Base rate, with the same OT + taxes + pensions & benefits adders as described above for other Operators.

b. Confirm that the text quoted above indicates that, because the cost of the operator added in February 2012 was not part of the costs that were allocated 88 percent to utilities and 12 percent to farm taps in the recent farm tap rate case, Frontier is proposing that 100 percent of the cost be considered a cost of the utilities in this case.

That is correct.

7. Refer to Frontier's response to Item 15 of Staff's First Request. Reconcile the 3,062 utility customers reported in this response with the 3,333 customers used in tab 22, the "Cost of service by Class" spread sheet.

Witness:Shute

Actual Jan12 billing was 3366 meters, including 462 for BTU and adjusted for 59 at Blaine (not billed until 3Q12). We have discovered a few dozen more BTU users who were taking unmetered or free gas, and they've been converted to paying customers or shut off. The 3333 figure is a yearly average to account for numerous heat-only summer shut-offs, used to make an accurate calculation of Monthly Meter Charges. Mostly because of BTU, Calendar 2011 was a chaotic year from which it is difficult to judge what "normal" will be. This is our best estimate of customer counts and volumes going forward.