

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

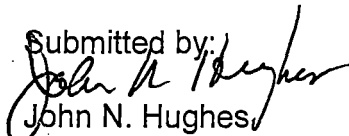
APPLICATION OF KENTUCKY FRONTIER
GAS, LLC FOR AN ADJUSTMENT OF RATES

CASE NO.
2017-00263

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COMMISSION

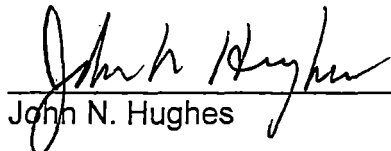
KENTUCKY FRONTIER GAS, LLC

**RESPONSE TO STAFF SIXTH
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 this Response was emailed to the Attorney General, Capital Building, Frankfort, KY.40601 this the 9th day of August, 2018.

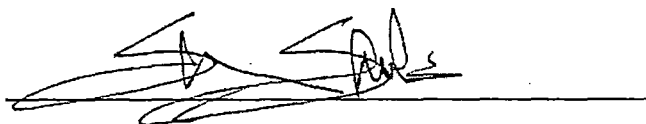


John N. Hughes

DECLARATION OF STEVEN SHUTE

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

Dated this 3rd day of August 2018.

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

Steven Shute, Member,
Kentucky Frontier Gas, LLC

1. Refer to Frontier's response to Commission Staff's Fifth Request for Information (Staff's Fifth Request), Item 1.

a. Reconcile this response to Frontier's response to Commission Staff's First Request for Information (Staff's First Request), Item 12.

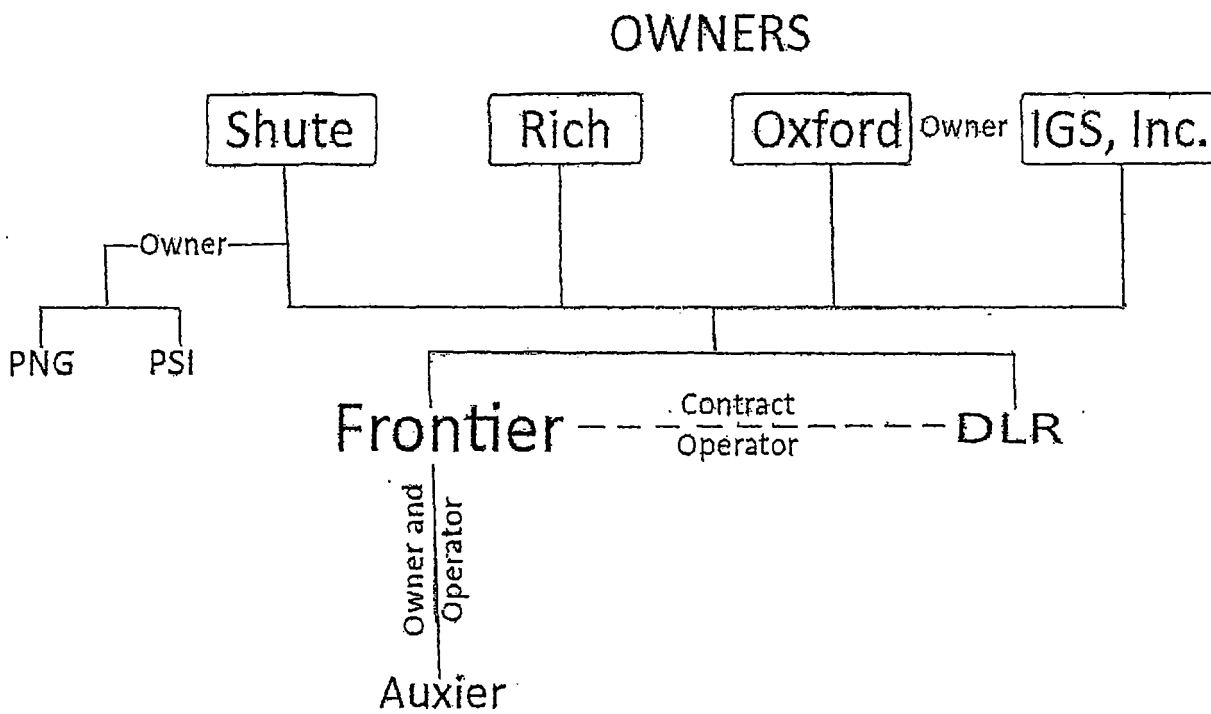
b. As originally requested in Staff's Fifth Request, Item 1, provide an updated copy of Frontier's current organizational chart, showing the relationship between Frontier and any affiliated companies, divisions, etc. Include the relative positions of all entities and affiliates with which Frontier routinely has business transactions, and provide a detailed description of the relationships between the affiliates. The provided chart should be an updated version of what Frontier provided in response to Staff's First Request, Item 12.

Response: The DR 1 # 12 is a chart for the companies owned by each member of Frontier. The chart provided to DR 5 # 1 is the internal organization chart for Frontier. The chart in DR 1 #12 is the current chart. The explanation for the relationship of the companies is included in PSC DR 5 #6.

Question 12 Attachment

KENTUCKY FRONTIER GAS, LLC

Organization Chart



2. Refer to Frontier's response to Staff's Fifth Request, Item 2.

Reconcile this response to Frontier's response to Staff's First Request, Item 13.

- a. As originally requested in Staff's Fifth Request, Item 2, provide all joint or shared affiliate costs incurred during the 2017 calendar year and the first six months of the 2018 calendar year that are allocated to Frontier and to the other affiliates. For each cost, list the vendor, total expense amount, amounts per affiliate, and the basis for allocation.

Response: Frontier owns all the stock of Auxier. It allocates revenues and expenses to Auxier based on number of customers. There is no written procedure. Auxier is operated as if it is part of Frontier and all revenues and expenses are included in their financial statements. All the revenue and expense for Auxier is regulated by the Commission through Frontier. DLR is a separately owned company by Shute, Oxford and Rich. Frontier does not allocate any expense to DLR. DLR charges Frontier a transport fee through its pipeline, that is part of Gas Cost to Sigma & BTU.

None of the non-Kentucky companies have allocated any expense to Frontier. The expenses for Shute and Oxford for the rate case and related services are not allocated, but are professional fees paid to them. Pinedale billed for short-term projects by other employees. The fees involved in this case billed to Frontier by Shute through Pipeline Solutions is \$41,550.00 for work on the rate case in 2017. IGS billed \$1515.00 for Oxford work on the rate case. Both billed for travel expenses to the hearing. The total fees billed by Shute and Oxford for 2017-2018 are:

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Fees for rate case were \$41,550.00 + \$1515.00 above,

Fees for other work were \$31,575.00 Shute and \$21,488.00 Oxford

Total \$96,128.00

Frontier also paid Pinedale for accounting fees associated with the rate case. PNG billed \$19,800.00 for work on the rate case (plus travel expenses) and \$3600.00 for other work during the year. Frontier has been billed \$7680.00 by Pinedale for GIS services in 2017.

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3. Refer to Frontier's response to Staff's Fifth Request, Item 3.

a. Reconcile this response to Frontier's response to Staff's First Request, Item 14.

b. As originally requested in Staff's Fifth Request, Item 3, describe the procedures that are used to allocate joint and shared costs among the various affiliates for the 2017 and 2018 calendar years.

Response: There is no allocation of costs among Frontier and any other company, except Auxier. Mr. Shute and Mr. Oxford bill for their professional services rendered to Frontier. As response to PSC DR 1 # 14, states, their fees are billed as consultants, not as employees of any other company. The fees billed to Frontier for those services are the only fees or charges among Mr. Shute, Mr. Oxford, Frontier and the non-Kentucky companies. No other expenses or revenues are shared. Pinedale billed for short-term projects by other employees as explained in Response 2. The revenues and expenses for Auxier are included in Frontier's operating statements and were reviewed as part of the rate application.

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4. Refer to Frontier's response to Staff's Fifth Request, Item 4.
 - a. Reconcile this response to Frontier's response to Staff's First Request, Item 15.
 - b. As originally requested in Staff's Fifth Request, Item 4, provide all internal memoranda, policy statements, correspondence, and documents related to the allocation of joint and shared costs.
 - c. Confirm that in response to Staff's First Request, Item 15, Frontier stated that since the inception of Kentucky Frontier Gas "the members and their affiliated companies have provided specialized services to Frontier and its affiliates on a part-time basis."

Response:

- a. There are no written memoranda for allocations. The response correctly states the members (Shute and Oxford) provide service to Frontier and Auxier (referred to as an "affiliate" of Frontier).
- b. There are none. The only "allocation" is among Frontier and Auxier which is per customer.
- c. In this context, "affiliated companies" are the companies (Pinedale NG, Pipeline Solutions and Industrial Gas) that are affiliated with the members but not Frontier. Frontier LLC members Shute and Oxford have provided specialized services to Frontier on a part time basis. They provide similar services to the other non-Kentucky companies that they own, and to outside clients completely unrelated to Frontier or the members' other entities.

5. Refer to Frontier's response to Staff's Fifth Request, Item 6. Frontier states that as of January 1, 2018, the Frontier LLC member-owners no longer bill Frontier through their respective consulting companies, but instead bill Frontier as individuals.

a. Explain in full detail why Frontier made this billing change.

b. Confirm that transactions for services made between Frontier and Frontier LLC member-owners are not arms-length transactions. Explain in full detail if not confirmed.

c. Explain whether Frontier is aware that the Commission closely scrutinizes transactions that are less than arms-length in order to ensure that unreasonable costs are not passed on to the ratepayers.

Response: a. There is obviously confusion over the nature of the fees charged by Shute and Oxford. To eliminate the confusion, the billing of those fees is now made directly by Shute and Oxford, not through their separate companies. The fees are for professional services rendered to Frontier and are income directly to them, not the companies.

b. The transactions are not arms-length, but as described in various responses, the fees charged are below market, which should eliminate any concern about competitiveness of the fees.

c. Yes, but the fees are all reflected in the financial statements for Frontier and were reviewed in detail in the rate case.

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6. If the Commission determines that certain businesses owned by Frontier LLC member-owners are affiliates with Frontier, explain in full detail whether Frontier intends to comply with the provisions of KRS 278.2201 to 278.2213, or request a waiver or deviation pursuant to KRS 278.2219.

Response: In an effort to expedite this matter and minimize further review, Frontier has included with this response a motion for deviation.