

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

ELECTRONIC APPLICATION OF)	
NAVITAS KY NG, JOHNSON)	CASE NO.
COUNTY GAS COMPANY, AND B&H)	2020-00396
GAS COMPANY FOR APPROVAL OF)	
ACQUISITION, TRANSFER OF)	
OWNERSHIP, AND CONTROL OF)	
NATURAL GAS UTILITY SYSTEMS)	

**NAVITAS KY NG, LLC, JOHNSON COUNTY GAS COMPANY, INC, AND B&H GAS
COMPANY, INC RESPONSES TO COMMISSION STAFF’S FIRST REQUEST FOR
INFORMATION**

Navitas KY NG, LLC (“Navitas”), Johnson County Gas Company, Inc, and B&H Gas Company, Inc, pursuant to 807 KAR 5:001, hereby submits the following Responses to the Commission Staff’s First Request for Information. Navitas, B&H and Johnson County Gas states as follows:

1. Refer to the Application, page 3, paragraph 5.
 - a. Provide an analysis of plant accounts, including depreciation schedules and remaining lives, which supports the statement that the Seller has substantially rebuilt the B&H system.

THOMAS HARTLINE AND BUD RIFE RESPONSE: The B&H system was substantially rebuilt between 1995-1997. A loan was acquired in 1994 for the purpose of this rebuild. Unfortunately, records pertaining to this rebuilding project were destroyed. In December of 2015 an arsonist set fire to an abandoned building adjacent to the B&H/JCG building, causing approximately half of the structure to suffer fire damage, and some records were also lost in the fire. The insurance company was still conducting its evaluation in early 2016, when an electrical problem which was caused by the initial fire caused a secondary fire which burned the building entirely. Vast amounts of records were lost to this fire, including documentation regarding this rebuilding project.

- b. Refer also to Exhibit F. Given that Mr. Rife purchased the system in 1999 and has “substantially rebuilt the Johnson County system,” explain why Exhibit F assumes that Johnson County’s system was recommissioned in 1987.

TH AND BR RESPONSE: To Mr. Rife’s knowledge, a highway construction project began in 1986

or 1987, which caused the Johnson County System to lose some 400 houses. Mr. Rife acquired the system in 1998, long after this project. Additionally, records from this time before Mr. Rife acquired the system were lost in the 2015-2016 fire mentioned in Response 1 (a).

On Thursday August 27th, 2020 Thomas Hartline traveled to Betsy Layne and toured both systems with Mr. Rife. As Mr. Rife drove Mr. Hartline took notes and asked questions. From Mr. Hartline's notes the following information on the history of the systems was taken:

B&H Gas Company was founded by Saul Bradley and Hadrick Harmon in 1964. In 1986 Bud Rife was operating a construction company in the area and was approach about taking over the gas system on which his company had performed some work. Having bought the system in 1986 it was converted to poly in 1994.

Johnson County Gas was constructed in 1981 and at one time served approximately 1500 customers. Through a series of declines familiar to eastern Kentucky, and a highway bypass in 1995, the community substantially changed, with the system currently serving only approximately 250 customers. In 1997 Mr. Rife began operating the system, purchased it in late 1997, and subsequently rebuilt the system.

It appears both from my notes and Commission records that the recommission year from Johnson County Gas should be 1999 not 1987.

2. Refer to the Application, page 3, paragraph 7. Provide an analysis of plant accounts, including depreciation schedules and remaining lives, which supports the statement that the Seller has substantially rebuilt the system.

TH AND BR RESPONSE: Records from this time before Mr. Rife acquired the system were lost in the 2015-2016 fire mentioned in Response 1 (a).

However, as poly systems were built largely post the early 1980's and the system was in operation prior to that time, the fact that the system is poly indicates that the system has been substantially rebuilt

3. Refer to the Application, page 7, paragraph 19, in regard to the additional employee Navitas KY agreed to hire.
 - a. State the role this additional employee will have upon completion of the acquisition.

TH AND BR RESPONSE: Currently, B&H and Johnson County Gas are operated by four persons: a manager, two field service persons, and an office person. Navitas intends to hire the existing office person and one of the existing field service persons. Should these existing employees decline to accept employment, then Navitas will seek to hire for those positions in the community. The

additional new employee will take on the role of Kentucky Field Supervisor for all Navitas Kentucky operations. They will be responsible for direction and oversight of field operations in Kentucky including managing other field service workers, contractors, or vendors; defining and prioritizing pipeline improvements including new service installations, pipeline extensions, pipeline replacement, field compliance and inspections; coordination of field work including line locates, leak checks, service connections, meter reading; and other field work as needed. Navitas would like to clarify that the new hire would be an employee of Navitas Utility Corporation (NUC), not Navitas KYNG, LLC.

- b. Explain the agreement with Navitas KY and other applicants to hire this employee and why this agreement was necessary for this acquisition.

TH AND BR RESPONSE: There are three unique aspects of the additional new hire beyond the normal and customary process of hiring at Navitas. First, it has been the custom of Navitas to promote Field Supervisors from within. Given that this is a new geographic region for Navitas that opportunity was not available. Second, due to the regulatory approval process, there is a lag time between interviewing for the position and its availability. Third, this individual was coming out of a union environment at a very large utility with substantially different pay packages to Navitas. Initially, Navitas intended to hire this individual approximately one-month prior to regulatory approval closing with the understanding that a last-minute issue could derail the entire reason for employment. Navitas offered, and the individual accepted, a compensation package comparable to other field supervisors employed by Navitas.

The packages for the existing B&H and Johnson County employees Navitas intends to hire have not been finalized. However, it is Navitas' intent to honor their time of service with the utility for the purposes of vacation accrual and, as closely as possible, to match their current compensation package within the Navitas structure.

4. Refer to the Application, page 7, paragraph 19.
 - a. Provide the name and job title of each of the current B&H or Johnson County operating staff and personnel that Navitas KY will retain after the proposed transfer and a summary of their experience and qualifications.

TH AND BR RESPONSE: Ms. Suda Allen and Mr. Jimmy Lawson are both employees in service to JCG/B&H whom Navitas Utility Corporation will retain in Kentucky after the proposed transfer. Navitas is advised that, Ms. Allen has been with the systems for 19 years and Mr. Lawson for 7 years. Ms. Allen's duties include customer service, corporate record keeping, and office management. Mr. Lawson is a field serviceperson.

- b. Confirm whether Bud Rife will be employed by Navitas KY if the acquisition is

approved. If confirmed, state the role Mr. Rife will hold under the new acquisition and provide in detail his subsequent duties.

TH AND BR RESPONSE: Mr. Bud Rife will not be employed by Navitas. However, going forward Mr. Rife will potentially have involvement. First, as questions arise, we expect Mr. Rife will continue to be a resource of answers (note – Navitas, while mindful of not burdening Mr. Rife with questions, anticipates these answers as a courtesy). Second, Mr. Rife will own some of the wells serving the systems and be compensated in accordance with the GCA formula in place. Third, Mr. Rife will own the building from which Navitas continues to operate the system assets being acquired under this Application. And finally, Mr. Rife has indicated that he will continue to operate his construction company and Navitas may from time to time utilize those services either on a time and materials basis from small work or on a bid basis for larger projects, though there is no obligation, contractual or otherwise, for the parties to do so.

Navitas KY would also like to clarify that Navitas Utility Corporation would be the employer to all Kentucky personnel, not Navitas KYNG, LLC.

5. Refer to the Application, page 7, paragraph 20. Provide analysis and support for the statement: “As a standalone entity, B&H does not generate sufficient revenue to maintain safe and reliable gas service to its customers.”

TH AND BR RESPONSE: In 2019, B&H generated \$139,889.00 in non-commodity revenue, as shown on page 26 of the 2019 Annual Report. This is barely sufficient to maintain a single employee. In 2019, Mr. Rife personally loaned money to B&H in order for the system to meet Accounts Payable. Page 13 of the 2019 Annual report will show that over the last 30 years Mr. Rife has had to loan the system substantial sums in order for the B&H system to continue to serve customers, with some of these loans being part of the issues leaning to fines issued by the PSC.

Additionally, it is the opinion of Navitas that a stand-alone system with approximately 250 predominately residential customers, could not access sufficient revenue and other resources at competitive rates to maintain full compliance with DIMP and other regulatory requirements or to have minimal emergency resources to draw from (note – Navitas does not view municipal systems as standalone).

6. Refer to the Application, page 7, paragraph 22.
 - a. If the transfer is approved, provide Navitas KY’s expected timeline for requesting unified rates for its Kentucky systems.

TH RESPONSE: Navitas would not expect to unify rates in Kentucky before a test case using the 2022 year. The earliest Navitas anticipates a rate case is 2023, meaning that new, unified rates are not

expected until January 2024 at the earliest.

- b. Confirm that Navitas is proposing to adopt the existing tariff sheets of B&H and Johnson County Gas. If the answer is no, provide any additional proposed tariff sheets that Navitas KY plans to implement upon this acquisition, or any proposed changes along with a detailed explanation of why the changes were made.

TH AND BR RESPONSE: Navitas confirms it is proposing to adopt the current Johnson County Gas rates. Navitas has stipulated in the Asset Purchase Agreement that the outcome of the B&H rate case generate tariffs similar too, or the same as, Johnson County Gas. While Navitas anticipates the B&H rates to be slightly greater than the Johnson County Gas rates, in their application Navitas has requested that Johnson County Gas rates be adopted in order to unify rates.

- c. Confirm if the Applicants are requesting that Johnson County's current tariff rate be used for B&H's current ratepayers upon acquisition in this case, irrespective of the outcome of the B&H rate case. If confirmed, provide copies of B&H's and Johnson County's billing analyses in Excel spreadsheet format with all formulas intact and unprotected and all rows and columns fully accessible in such detail that revenues at current rates and at proposed rates based on actual gas usage can be readily determined. If this cannot be confirmed, clarify what rates Navitas KY is proposing to adopt for each of the two systems.

TH AND BR RESPONSE: The adoption of the current Johnson County Gas rates is predicated on the B&H rates case generating tariffs that are greater than current Johnson County Gas rates. Navitas assumes the B&H rates would exceed the current Johnson County Gas rates due to inflation and the general increase in costs.

It is Navitas' experience that in other jurisdictions where multiple rates proximate to each other causes intercompany confusion and customer dissatisfaction. Navitas proposes that B&H adopt the current Johnson County Gas rates in order to unify rates and simplify the rate schedule. Should the B&H rate case produce rates less than the current Johnson County Gas rates, Navitas would not request to charge a rate greater than what is approved by the Commission but also has no obligation to finalize the transaction.

- d. State whether Navitas KY intends to eventually charge all Kentucky customers in the three service areas under one unified rate schedule.

TH RESPONSE: Navitas KYNG, LLC confirms its goal is to eventually charge all Kentucky customers in the three service areas under one unified rate schedule.

7. Refer to the Application, pages 7 and 8, paragraph 23, in regard to the consolidation of

Navitas KY's accounting and billing practices for B&H and Johnson County upon its acquisition.

- a. Provide a timeline and explain in detail the method that will be used to consolidate the accounting and billing practices.

TH AND BR RESPONSE: Consolidation of the accounting and billing practices will happen immediately. Closing of the books will occur at a month-end and closing of the billing will occur with a final billing closest to the normal date prior to closing.

A final meter reading and billing by JCG and B&H will be performed. The next billing will be by Navitas KYNG, LLC, utilizing our normal billing system and process. In the month between the customer accounts are transferred, set-up, and checked. Typically, a sample test billing is also performed. Many of the taxes will carry over from Navitas KYNG, LLC, however, Navitas make it a practice to review various fees and taxes to the source rules as they are implemented in the billing system. Navitas implements the meter factors as given, then over the course of subsequent months, Navitas systematically changes out meters by route and puts them on a ten-year cycle, or earlier as necessary. Billing input will occur in Kentucky (meter reading and download), and the bills themselves are generated in Eakly, Oklahoma. Payments are received by mail or electronically in Eakly, with in person payment in available Kentucky.

It is likely Navitas will set up a separate accounting division for eastern Kentucky. This is done in QuickBooks immediately post-closing. Separate accounting divisions are used for either different jurisdictions, joint-ventures, liability isolation, or separately tariffed companies. Accounting, which includes financial statements, capitalization, depreciation, accounts payable, and financing, is done in Costa Mesa, California.

- b. State when B&H and Johnson County currently bill their customers each month.

BR RESPONSE: B&H and Johnson County Gas bill monthly.

- c. State whether Navitas KY, Johnson County, or B&H currently prorate their billing and Gas Cost Adjustment (GCA) rates when the date for service billed to customers and the meter reading date is different from the Commission approved effective date for services rendered.

TH AND BR RESPONSE: Navitas does not prorate its billing of the GCA rates. Subsequent to 2019, Navitas delays implementation of the GCA to the first full month after its approval. For example, the GCA in 2020-00410 was issued on January 26, 2021, effective February 1, 2021. Navitas will bill this GCA rate on March 7, 2021 for the period February 1 through February 28. B&H and JGC also do not prorate its billing of the GCA rates.

8. Refer to the Application, page 8, paragraph 25.
 - a. Provide a timeline and explain in detail the method that will be used to consolidate the GCA rates. Be sure to discuss the calculation of the Expected Gas Cost, Actual Cost Adjustment, and the Balancing Adjustment calculations in detail.

TH RESPONSE: These can be viewed less challenging to more challenging issues, taken in increasing order of difficulty.

Expected Gas Cost. This seems fairly straight forward as the total anticipated costs are tallied and divided by sales.

Second grouped (after Expected Gas Costs are unified as part of a normal filing) Actual Cost Adjustment. Again, this seems fairly straight forward. The total costs divided by total sales against expected gas costs.

Balance Adjustments. The residuals of the Actual Cost Adjustments, done well these should be fractions of pennies, realistically not material. These should be able to be grouped together and run out. Of course, if they are not mere pennies then unification problematic.

First grouped Actual Cost Adjustment. The challenge here is the expected gas cost figure. One solution is to reopen the two cases and calculate a joint expected gas cost from the data originally submitted.

Actual Cost Adjustments. These are most problematic as there can be substantial and current to the actual rate payer. The relative amounts per unit at the time of consolidation will dramatically color the fairness of the action. If they are close then there is little issue, far apart then unification problematic.

- b. Provide the proposed unified GCA rate report that Navitas KY plans to use in Excel spreadsheet format with all formulas intact and unprotected and all rows and columns fully accessible.

TH RESPONSE: Navitas will use its current method of filing. Navitas has provided its most recent filing in 2020-00410 (“**GCA Rate Report**”) to serve as an example. However, a preliminary unified spreadsheet will take substantial time to prepare and test.

Navitas would like to note that even at ten time larger than JCG and B&H, Navitas is still resource constrained and would require additional time to prepare such an undertaking. Additionally, Navitas seeks more clarity with regard to a pathway for success.

- c. Given that B&H and Johnson County currently use different calendar quarters for their GCA rate reports than Navitas KY, explain which calendar quarters Navitas KY would use if the GCA rate reports were to be consolidated.

TH RESPONSE: A determination or sight of a clear path on the Actual Cost Adjustments per unit being relatively close could be used as a trigger for consolidation. Additionally, if the Commission has a preference for quarterly submission months based on managing workload or other considerations then Navitas is open to moving or executing on a particular time frame in line with the Commission's preference. If there is no preference on the part of the Commission, then Navitas would seek to keep its current submission months.

- d. Assuming a consolidated GCA, explain how Navitas KY plans to reconcile the previous quarters' under/over-recoveries of gas cost that are tracked through the Actual Cost and Balancing Adjustment amounts of the three systems, so that no system's customers subsidize past gas cost of other systems.

TH RESPONSE: As noted above, a trigger could be set such that when the total Actual Cost Adjustments are within 20% of each other on a per unit basis a consolidation filing could be made. All totals will be consolidated, with the 19.9% or less difference on a per custom basis being considered de minimis to the individual rate payer. Navitas would like to work with KY PSC staff to come to a conclusion all parties find amenable.

- e. Also, given that GCA rates are charged on a quarterly basis with the GCA calculation methodology accounting for quarterly adjustments in its Actual Cost Adjustment, and the Balancing Adjustment calculations explain in detail how Navitas KY plans to reconsolidate the calculation differences in the timing of the Applicants GCA rates without causing a disruption in the gas costs paid for by the ratepayers so that subsidization or losses of actual costs of natural gas and pipeline transportation costs do not occur.

TH RESPONSE: It is not Commission practice to ensure 100% wholeness to any individual customer. GCAs are not kept on a per customer basis. There is constant de minimis incidental subsidization from one customer to another as they come on or go off the system. Additionally, there is class subsidization as their usage changes throughout the year coupled with the quarterly timing of ACAs. The intent will be to keep total ACA and GCA of all systems intact as they become one.

- f. State the provider of natural gas for each system currently and after the proposed transaction. The response should include details concerning the sources of system gas supply and gas transportation arrangements following the transfer, and include copies of all executed contracts, as well as all possible sources of supply that were considered but not chosen.

TH AND BR RESPONSE:

Natural gas will be purchased from the same suppliers and transporters as currently used by JCG/B&H.

For the B&H Gas Company system there are six feeds. Two of the feeds are off the transmission grid and four feeds are inputting the production of ten local wells. The grid feeds are owned by Diversified (formerly EQT).

For the Johnson County Gas system, which is currently split into two parts, there is one feed for each part, one from the Kentucky side and one from the West Virginia side.

For both systems, a portion of the gas supply is provided by wells owned by Bud Rife. Navitas is entered into a Gas Purchase Agreement for this gas with the price set in accordance with the mechanism used in the current GCA filings of JCG/B&H. This contract is included with this filing (“**Gas Purchase Agreements**”).

Generally, Navitas continues with existing supplies and of course existing transporters since they generally own the pipeline. As any contracts are written anew to Navitas Utility Corporation certain areas such as minimum takes are closely examined in addition to pricing. Often our experience is legacy contracts have been held out as a courtesy and major companies seek to discontinue service to small systems. Navitas has a supplier out of Houston that specializes in small quantities (they currently serve Navitas at certain locations in Oklahoma, Texas, and Tennessee; and they also serve Burkesville Gas Company and other small providers proximate to our operations) that can step in as the majors bow out.

- g. Describe the due diligence Navitas KY performed to satisfy itself that the price of its gas supply will be the least cost option to provide natural gas service to Navitas KY’s customers, consistent with security of supply.

TH RESPONSE: Please see “**Gas Supply Price**”, submitted for confidential treatment.

- 9. Refer to the Application, page 8, paragraph 25. Also, refer to the Application, page 7, paragraph 19. Navitas KY states that it believes that it would be costly and cumbersome to calculate individual sub-system GCAs and would likely require the employment of additional personnel to perform the task.
 - a. Explain why Navitas KY would require additional personnel for individual sub-system GCAs given that Navitas KY plans to retain all B&H and Johnson County personnel upon acquisition.

TH AND BR RESPONSE: As discussed above, Navitas intends to retain two of the four persons currently working the systems and hire an additional third new person. It is Navitas’ intent that Ms. Allen take over GCA filings for all Kentucky systems. However, as stated in the response for 9(c), it

is Navitas' experience that in other jurisdictions where multiple rates proximate to each other causes intercompany confusion and customer dissatisfaction. To that point, Navitas would like to refer to page 8, paragraph 25 of the Joint Application:

“Navitas has unified GCAs in both Texas and Oklahoma, where Navitas operates multiple sub-systems utilizing numerous suppliers, transporters, and city-gate equipment. Absent their unified GCAs, Navitas believes it would be costly and cumbersome to calculate individual sub-system GCAs and would likely require the employment of additional personnel to perform the task, which would be costly to the rate payer.”

The first “if” is Navitas is referring to is that in Oklahoma, where it has approximately two-dozen take point, were it not for a unified GCA (PGA in Oklahoma) it would require an additional person to manage the filing.

The second “if” is that as Navitas pursues its goal to expand in Kentucky to a similar number of take points as Oklahoma, it would like to avoid the cost of submitting two-dozen GCAs as it has been able to avoid in Oklahoma.

- b. Explain the post-acquisition roles of the current B&H and Johnson County personnel that handle each utility's GCA rate reports given that Navitas KY plans to retain all B&H and Johnson County personnel.

TH AND BR RESPONSE: It is the intent of Navitas to have the office person, Ms. Allen, file the single Navitas KY NG, LLC GCA in the future. In addition to filing the Navitas KLY GCA, the office person in Kentucky will handle dispatch of leak checks and line locates, meter reading inputs, billing questions, new service orders, DIMP and other compliance records and paperwork, in person payments, other customer service duties, and additional tasks as needed. Accordingly, it is our goal to not have to file three GCAs currently, and potentially more in the future as Navitas moves to further expand in the state.

- c. Explain why Navitas KY would not plan to utilize the retained B&H and Johnson County personnel to prepare individual sub-system GCAs.

TH AND BR RESPONSE: As discussed, the question as stated is not the long-term case. It is the goal of Navitas to have the office person submit the Kentucky GCA, however, it is likely that the Navitas systems and processes for all the duties of this person are meaningfully different than the current methodology. It will take time for the individual to be trained and inculcated into the Navitas methodologies. Navitas would simply like to address now having a single GCA as it does in Texas and Oklahoma rather than three or eventually two-dozen.

- d. Explain how individual sub-system GCAs filed in Kentucky could not be handled

by a single employee given that Navitas currently files multiple GCAs in other states already. Be sure to explain how Navitas KY believes that multiple GCAs filed within Kentucky are more cumbersome than multiple GCAs filed in different states with different filing requirements.

TH AND BR RESPONSE: Navitas believes the Commission will agree that two-dozen GCAs for approximately 3,600 customers is a cumbersome and inappropriate amount more suited for a system that served 360,000 customers and has SAP or some other ERP system that essentially could do that calculation.

Navitas has a single GCA for Oklahoma which is calculated quarterly using the Kentucky method. The method and timing, beyond once per year, is at our request and discretion.

Navitas has a single GCA for Texas which is calculated quarterly using the Kentucky method. The method and timing, beyond once per year, is at our request and discretion.

Navitas has two GCAs for Tennessee which may only be calculated once per year and is performed by Commission staff.

Additionally, with regard to Tennessee it is curious that on the one hand they have multiple GCAs yet on the other they have unified tariff rates. There is little doubt that the cost of service in a major city versus a small town is substantially different, primarily due to customer density, yet no one is concerned with rural subsidization with regard to tariffs.

Finally, if, as it seems, a unified GCA is historically and/or seriously problematic then we wish not to rail against the tide, and are open to other solutions.

10. Refer to the Application, page 12. Explain how the dismissal of the refunds is fair to B&H's customers who were over-billed.

TH AND BR RESPONSE: All parties desire closure on the matter that is fair, just, and reasonable. Navitas appreciates the difficult situation in rectifying the matter, but the burden on such a small system is not compatible to its continued existence. Ultimately, Navitas' greatest concern in pursuing this acquisition is that Navitas will be able to provide safe, stable, and reliable gas service to its' customers.

To coopt a phrase, fairness is in the eye of the beholder. While the point of fairness is addressed below, Navitas believes we can all agree that the lack of a rate case since 1991 (KY PSC Case No. 91-127) has substantially benefitted the rate payers of B&H. Moreover, the death spiral of regulatory investigations precipitated in part by an injudicious perhaps even extra-legal expedencies aimed at remedying insufficient revenue further delayed a proper review and increase in rates. Thus, while we agree there was a failure to go through the correct procedures to increase revenue, the need and

therefore right to increased revenue is not in doubt.

While Navitas is taking on the B&H and JCG systems assets, it is not able or willing to take on the burden of approximately \$200,000 refund to B&H customers imposed on B&H while under the ownership of another. Under the terms of the Asset Purchase Agreement between Navitas and B&H / Johnson County Gas, the refund is not the responsibility of Navitas. It is Navitas' belief that it is in the public's best interest that Navitas provide to them safe and reliable gas service.

Navitas concern going forward is that the system needs the cooperation of the Bud Rife wells as well as the larger community to which he is an integral part. Navitas believes it will go poorly if there is an impression that he was treated unfairly during his exit.

Finally, to a certain extent the GCAs are more about the company than the customer as the funds are not calculated on an individual customer basis. Every customer that ever leaves the system does so either owing GCA or being owed GCA, likewise too every customer that ever come on either receiving money they did not pay or paying money they did not owe.

Globally, did B&H earn revenue that was not needed for safe operation or did time and legislation pass by the ability for the owner of B&H to manage a changing world.

When Mr. Rife was asked to undertake the role of owning a gas utility coming on four-decades ago, the burden of regulatory obligations on a small system such as JCG/B&H was significantly less rigorous than the modern regulatory environment that now oversee natural gas utilities. Ultimately, time and legislation passed by the ability for the owner of B&H to manage the changing state of regulatory burdens.

Additionally, from a legal standpoint, there are numerous issues that Navitas believes make the matter of the customer refund in its current state premature. First, appeals have not been ruled on. Second, settlement agreements are found reached between the parties while the matter is on appeal. Third, there is an issue of timing in that there has not been a determination of how many customers at the time of the dispute are still on the system.

11. Refer to the Application, page 12 and 13, paragraph 41.

- a. Provide the Distribution Integrity Management Plan, unified Operations and Maintenance Manual, and unified Emergency Plan for the Navitas KY system.

TH RESPONSE: These requested items need to be provided in paper form to limit work product usurpation. Additionally, Navitas has an agreement with its creator to not publish their product online.

- b. Explain why Navitas KY's requested, "citation forbearance for one- year for nonconformity with its approved Plan or the outgoing Plan currently in place" is

necessary.

TH RESPONSE: Navitas and B&H / Johnson County have different Distribution Integrity Management Plans. Navitas desires and intends to use its own Distribution Integrity Management Plan. If not be granted forbearance , Navitas will be out of compliance with the currently approved JCG/B&H DIMP immediately.

- c. Provide any procedure or plan that Navitas KY has developed to transition to its unified Distribution Integrity Management Plan, unified Operations and Maintenance Manual, and unified Emergency Plan.

TH RESPONSE: Navitas Utility Corporation, who will operate JCG / B&H, have approved the O&M / Emergency Plans, and Navitas would like to transition to this fully unified Distribution Integrity Management Plan, unified Operations and Maintenance Manual, and unified Emergency Plan from day one. The Navitas DIMP should be up for review in 2022 and JCG / B&H will be integrated in that review, assuming they are permitted to go off schedule.

In the past, Navitas has dispatched a long-time employee to work with the new system and to inculcate new Navitas employees. Our intent is to use this same methodology to bring the crew up to speed.

- d. Explain whether Navitas KY would document its progress toward implementing its unified plans and manuals in a manner sufficient to determine when the transition is complete.

TH RESPONSE: Navitas' intent is to implement its unified plans and manuals immediately for the first day of operations. It is Navitas' view that the transition is complete when the next regularly scheduled inspection is complete. Our operations manager will participate in the first inspection with the rest of the crew. From time to time, Navitas has requested for the inspection to be moved out farther, but not beyond the required time frame.

12. Refer to the Application, page 13. Provide the specific regulations for which Navitas KY is seeking a waiver or deviation in regard to meter shops and state with specificity how those requirements are impractical or unduly burdensome to Navitas KY.

TH RESPONSE: Please see the Letter to PSC Requesting Opinion ("Letter to PSC"). The PSC response to this Letter was subsequently received.

13. Refer to the Application, page 14, paragraphs 45 and 47.
 - a. Explain whether Navitas KY is requesting approval to issue evidences of indebtedness with terms in excess of two years in this case. If so, provide the information required by 807 KAR 5:001, Section 18. If not, explain whether and

when Navitas KY plans to file an application pursuant to 807 KAR 5:001, Section 18.

TH RESPONSE: Yes, Navitas KYNG, LLC intends to issue indebtedness in excess of two-years. The general terms of the loan are 6% interest, adjustable every 5 years, 20 years fully amortizing.

- b. Describe with specificity how Navitas KY plans to fund the purchase price of the two utilities. If the purchase price is to be financed, provide details of the loan agreement.

TH RESPONSE: Navitas KYNG, LLC intends to issue a new tranche to its master finance loan agreement. Each state and/or major system acquisition or expansion has its own tranche. Currently there are two tranches for Kentucky, the original acquisition from Gasco and the expansion to the chicken processing facility.

The terms for each of these tranches are 20-year fully amortizing at 6% interest (adjustable every 5-years).

14. Refer to Exhibit B, APA – EPA – Lease Agreement.
 - a. Refer to page 7, Article II, paragraph 2.4. State whether this includes any liabilities other than those listed in the Joint Application which relate to pending litigation with the Commission and if so, enumerate the specific B&H Gas and Johnson County Gas liabilities that are excluded pursuant to this paragraph. The information should include any amounts that Navitas KY will assume with regard to Bud Rife Construction and any remaining Johnson County Gas bankruptcy liabilities.

TH AND BR RESPONSE: Navitas KY, NUC and any and all Navitas companies will not be assuming any liabilities in any amount with regard to Bud Rife Construction and any remaining B&H or Johnson County Gas bankruptcy liabilities, or other such liabilities. All liabilities related to these assets are excluded. Navitas KYNG, LLC et al are not taking on any liabilities associated with the assets. To be clear, Navitas KYNG, LLC is not taking any liabilities which relate to pending litigation with the Commission nor any other liabilities.

- b. Refer to page 15, Article VI. Provide corrections to paragraphs 6.1 and 6.6.

TH RESPONSE: Please see supplemental attachment (“**Corrections**”) for corrections to paragraphs 6.1 and 6.6.

15. Refer to the Application, Exhibit B, Schedule 1.1(b), Description of Pipeline Asset and Exhibit F.
 - a. State whether B&H or Johnson County will transfer assets to Navitas KY that are

not recorded on their Annual Reports filed with the Commission. If yes, list each asset and state its original cost and accumulated depreciation to date.

TH RESPONSE: Navitas KYNG, LLC does not believe it will receive assets from JCG/B&H that are not recorded on their Annual Reports filed with the Commission.

- b. State whether B&H or Johnson County will retain any of the assets recorded on their Annual Reports. If yes, provide a list of each asset and state its original cost and accumulated depreciation to date.

TH RESPONSE: Navitas KYNG, LLC does not believe JCG/B&H will retain any assets that are recorded on their Annual Reports filed with the Commission.

- c. State whether all of the contracts and agreements in Exhibit B are intended to convey all of the assets of Bud Rife Construction to the two utilities and Navitas KY.

TH AND BR RESPONSE: It is the intent of the Asset Purchase Agreement to convey all the real property assets of JCG/B&H to Navitas KYNG, LLC with the possible specific exception of the building used to operation of the utilities.

It is the intent of the Equipment Purchase Agreement to convey only the personal property listed in the Agreement to Navitas Utility Corporation.

It is the intent of the Lease Agreement for Navitas to rent a building that remains in the ultimate ownership of Bud Rife.

There is some concern, given the loss of records from the old building that the actual owner of certain assets was unclear. As such the Agreements were structured in such a way that any potential entity and their ultimate owner, Bud Rife, are listed as parties.

16. Refer to the Application, Exhibit B, to the Contracts and Commercial Lease Agreements between B&H Gas and Johnson County Gas and Bud Rife, which each set out an agreement for office rental, truck rental, fees for legal work, and lease details. Confirm that the Lease Agreements are for the same property, and state whether the trucks indicated in the Contracts are the same two trucks that are rented to each utility. State whether Navitas KY intends to honor these contracts and agreements and adopt their provisions. If not, describe how provisions of the Commercial Building Lease Agreement between Navitas KY and Bud Rife differ from those between Bud Rife and the two utilities.

TH RESPONSE: Navitas Utility Corporation does not intend to assume any existing contract covering the operation of JCG/B&H. After review, Navitas will either renew, replace, or drop

various existing contracts covering the operations of the utilities.

Navitas has a set methodology it utilizes for all utility operations across all four jurisdictions. This methodology was put in place as part of a rate case in Tennessee utilizing test case year 2012 and subject to review and modification by the Tennessee Consumer Advocate after its implementation.

Broadly speaking it is represented to Navitas as the Atmos method.

Specifically with regard to rolling stock, Navitas uses a no profit rental with a three-part test: 1) Does the rent include profit? 2) Is the rent less than or equal to market rate? 3) Is the rent less than the cost otherwise incurred were the unit included in net plant?

With regard to the building only half the rent is currently recognized through the JCG rate case. It is the expectation of Navitas that the other half of the rent will be recognized with the conclusion of the B&H rate case.

17. Refer to the Application, Exhibit B, the Equipment Purchase Agreement. State whether the two vehicles that are included in the equipment purchase are the two trucks indicated in the Contracts between Bud Rife and B&H and Johnson County, and whether the remaining equipment has been used for the daily operation and maintenance of the two utility systems.

TH AND BR RESPONSE: Please refer to the response for Question 16. It is the understanding of Navitas that these and other vehicles and equipment are used in the day-to-day operations of JCG/B&H. Through the Equipment Purchase Agreement, Navitas is ensuring sufficient resources to begin operations day one.

Navitas, based on its truck policy, anticipates quickly supplementing and/or replacing the listed equipment.

The Navitas truck policy is they are purchased new and held for a minimum of seven-years (mandated by a particular jurisdiction). Our goal is to move trucks out of the fleet subsequent to the seven-year mark and at some point between 210,000 and 250,000 miles. The Navitas experience is 250,000 is the break over point for many wear points, particularly engines, on the smaller trucks. The larger trucks are typically held much longer but also have lesser miles.

18. Refer to the Application, Exhibit C. Provide all assumptions, sources, and data relied on to establish values in the exhibit.

TH RESPONSE: Please supply clarification to Question 18. Exhibit C of the Joint Application is a Corporate Structure chart.

19. Refer to Exhibit C, Required Regulatory Actions and Consent, with regard to the B&H rate case. Confirm that the parties understand that cost of service based revenues for B&H

will not necessarily equal those of Johnson County Gas, and that B&H's proposed rate structure in Case No. 2020-003642 is not identical to that of Johnson County Gas (B&H's proposed rate structure continues to include a minimum charge for 2 Mcf of gas).

TH RESPONSE: Based on its understanding of the JCG rate case and the assumption that costs have increased with inflation since the 2015 test case year, Navitas believes that the revenue requirement for B&H will be greater than the JCG rates x the B&H tariff factors (e.g. – total customer charges, total flow, etc.). Thus, if the JCG rates are adopted by B&H the revenue generated will be less than the anticipated required revenue from the pending B&H rate case.

Navitas believes this is a good compromise to unify rates as well as resolve the GCA fairness issue.

20. Refer to Exhibit C, Required Regulatory Actions and Consent, with regard to pending litigation and actions against Bud Rife et al. Describe Navitas KY's understanding of outstanding issues regarding Bud Rife, B&H Gas, Johnson County Gas, and any other entity, including but not limited to the litigation listed in Schedule 3.4 Litigation. Confirm that Navitas KY proposes that the Commission excuse all fines and penalties it has found to be reasonable with respect to B&H and Johnson County, and that it not require the gas cost refunds that the Commission ordered to be refunded to B&H's customers.

TH AND BR RESPONSE: As discussed in Question 19, adoption of the JCG rates to the outcome of the pending B&H rate case is potentially a good compromise on the GCA issue.

It is Navitas' view that Mr. Rife is receiving the ultimate penalty in that some 30 years of his life's work is being removed from his ownership and control. It is a bitter pill to swallow regardless of the assuagement of dollars, and more akin to the day you have to take the car keys from your parent multiplied ten-fold.

Ultimately, Navitas believe this is a good compromise and a good outcome for all involved.

21. Refer to the Application, Exhibit D, page 2, paragraph 1.
 - a. Explain how Navitas KY has or is in the process of fulfilling the goals set out in its mission statement in its Kentucky service area: "to acquire existing utilities and bring them up to standards necessary for homeowners and farming operations to 2 Case No. 2020-00364, Electronic Application of B&H Gas Company, Inc. for an Alternative Rate Adjustment (filed Nov. 12, 2020). thrive and for businesses and factories to locate in and utilize the stable and talented farming community workforce."

TH RESPONSE: Bringing gas to the chicken processing facility outside of Albany, KY in 2015, where others had for twenty-years tried and failed, stands out as one of Navitas' best achievements.

Since that time, Navitas have twice extended the line to several industrial complexes in the area. Additionally, since 2011 Navitas' customer count in Kentucky has increased from 125 to 165. Natural gas is cheaper, cleaner, safer and more efficient than alternative hydrocarbons or hydrocarbon derived energy.

- b. Explain how Navitas KY plans to achieve its mission statement in the B&H and Johnson County Gas service areas.

TH AND BR RESPONSE: Despite our successes in Kentucky, Navitas has not yet been able to achieve a critical mass of customers to have a real presence in Kentucky. Navitas believe this holds us back. With someone responsible, incentivized, focused, and proximate, Navitas believes there to be many more available customers and substantially more line to construct.

Likewise in the JCG/B&H service areas there are many unserved customers, sometimes literally right next door. Additionally, renewed long-term investment needs to be directed toward the securing of the systems.

22. Refer to Exhibit D, General Conveyance. Describe all assets that grantors are conveying to Bud Rife that are not currently assets of the regulated utilities, or that have been identified as being of unclear ownership.

TH AND BR RESPONSE: Please see Question 15. This General Conveyance is a bit of a catch all in that the particular ownership of certain assets could not be readily ascertained, but is known to ultimately be owned by Bud Rife.

23. Refer to the Application, Exhibit F.
 - a. Explain how the per foot estimates were developed. Provide any supporting documentation.

TH RESPONSE: Per foot estimates were developed from various recent jobs performed by Navitas including in Texas, Oklahoma, and three projects since 2014 in Kentucky.

- b. Provide the source for the "Dollar factor (BLS) to commission year," and state the specific index used.

TH RESPONSE: The Bureau of Labor Statistics (BLS).

- c. State whether the current meters are included in the asset transfer. If so, provide the meter costs included in the net plant calculation or explain why meter costs are omitted.

TH AND BR RESPONSE: While the meters are included in the asset transfer they will be moved to Navitas Utility Corporation as is our practice. This is done primarily so that we do not have to track which meter goes back to which state. Rather meters are treated similar to rolling stock.

Additionally, in Kentucky we have not been able to return rebuilt meters from our shop in Eakly, Oklahoma.

d. Provide the existing net plant recorded on B&H and Johnson County's books.

TH AND BR RESPONSE: As shown on page 11 of the respective B&H and JCG Annual Reports, the year-end balance of the B&H net plant is \$120,475.00 and the JCG net plant is \$102,939.00.

24. Provide any independent or internally generated studies used to evaluate and assess the condition of the plant of B&H and Johnson County.

TH RESPONSE: An analysis from our regulatory compliance consultant can be provided under a protective order. Please see the Request for Confidential Treatment for our response to Question 24 (“**Analysis of B&H and JCG**”).

25. Using the information provided in the application, provide the proposed journal entry or entries Navitas KY will make to record the transfer.

TH RESPONSE: Please see “**Journal Entries**”, for which Navitas is filing Confidential Treatment for.

/s/ Klint W. Alexander

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Counsel for B&H and JCG

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on the 29th day of January, 2021, a true and correct copy of the foregoing instrument was deposited in the United States Mail with postage prepaid, and addressed to the following:

Lindsey Flora

Executive Director
Public Service Commission
Commonwealth of Kentucky
211 Sower Blvd.
Frankfort, KY 40601

J.E.B. Pinney, Esq.

General Counsel
Public Service Commission
Commonwealth of Kentucky
211 Sower Blvd.
Frankfort, KY 40601

Larry Cook

Office of the Attorney General
Rate Intervention
700 Capitol Ave. Suite 20
Frankfort, KY 40601

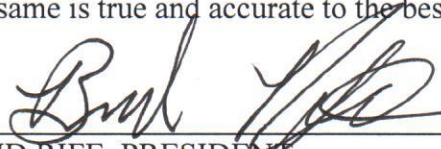
/s/ Klint W. Alexander
Klint W. Alexander

/s/ Joe F. Childers
Joe F. Childers

**VERIFICATION OF B&H GAS COMPANY INC AND JOHNSON COUNTY GAS
COMPANY INC**


STATE OF KENTUCKY)
)
COUNTY OF FLOYD) ss.

I, Bud Rife, President of B&H Gas Company Inc. and Johnson County Gas Company Inc, being duly sworn according to law, makes oath and affirm that I have read the foregoing documentation, know the contents thereof, and that the same is true and accurate to the best of my knowledge, information and belief.




BUD RIFE, PRESIDENT

Subscribed and sworn to me on this the 29th day of January 2021, by Bud Rife, proved to me based on satisfactory evidence to be the person who appeared before me.



Notary Public Signature

Notary Public Seal



VERIFICATION OF NAVITAS KY NG, LLC

STATE OF CALIFORNIA)
)
COUNTY OF ORANGE) ss.

I, Thomas Hartline, Secretary of Navitas KY NG, LLC, being duly sworn according to law, makes oath and affirm that I have read the foregoing documentation, know the contents thereof, and that the same is true and accurate to the best of my knowledge, information and belief.


THOMAS HARTLINE

Subscribed and sworn to (~~or affirmed~~) before me on this 29th day of January, 2021, by Thomas Hartline, proved to me on the basis of satisfactory evidence to be the person(s) who appeared before me.

Notary Public Seal



Notary Public Signature

