

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

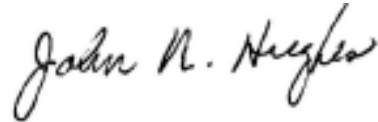
In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY)	CASE NO.
FRONTIER GAS, LLC FOR APPROVAL OF)	2021-00466
FINANCING)	

RESPONSE TO COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
TO KENTUCKY FRONTIER GAS, LLC

Kentucky Frontier Gas, LLC (Kentucky Frontier), by counsel, submits its responses to the Order of January 13, 2022.

Submitted By:



John N. Hughes
124 West Todd St.
Frankfort, KY 40601
502 227 7270
jnhughes@johnnhughespcc.com

Attorney for
Kentucky Frontier Gas, LLC

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 application 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 24th day of January 2022.



Steven Shute, Member,
Kentucky Frontier Gas, LLC

WITNESS FOR ALL RESPONSES: Steven Shute, Managing Member

1. Refer to the Application, paragraph 4.
 - a. Explain whether or not Kentucky Frontier evaluated leasing the service trucks.
 - b. Kentucky Frontier states that the utility expects to finance \$125,000. Refer to the Application, paragraph 17. Kentucky Frontier states that it is requesting an order approving the financing of approximately \$140,000. Reconcile these two amounts.

Response:

a. Frontier evaluated lease vs purchase of vehicles and didn't find much difference in cost for the first 3 years of vehicle life. When analysis extended past 5 years, the advantage of ownership became pronounced, depending on the type and usage of the vehicle.

We have looked back at the 2018 figures, with actual costs and the actual life of trucks now retired or soon to be. For the light Toyota trucks that are used in service-locates-meter reading with high annual mileage, the cumulative cost at 5-6 years is about \$10,000 per truck, less with ownership. For the heavier trucks used for construction and trailers, the savings for ownership was about \$20,000 per truck. There is no formal study or analysis that can be provided.

For Frontier's vehicles, Lease vs Purchase is more a philosophical choice, rather than an economic one. If we want sparkling new vehicles, we can lease trucks and get rid of them when they're barely broken in. If we are concerned with cost, we should finance & purchase vehicles, and drive them for a reasonable percentage of their intended practical life.

b. From 4) "...The approximate total [purchase] cost of the three vehicles is expected to be \$140,000. [of which] The company expects to finance \$125,000..." Paragraph 17 should state the requested financing amount is approximately \$125,000.

2. Refer to the Application, Exhibit 2-1, KFG_balsheet092021.pdf. For each long-term liability listed for account 224, provide the case number for which the loan received Commission approval, and if approval was not received, provide an explanation as to why Commission approval was not sought.

Response:

Account numbers see pg 6 of the balance sheet:

Utility acquisition loans:

224.2 is Case 2009-00442 for Auxier Road Gas etal

224.3 is Case 2009-00442 for Auxier Road Gas etal

224.8 is Case 2012-00099 for BTU Gas

224.12 is Case 2015-00299 for Public Gas

Short term loans:

224.13 and .15 are paid off

224.16 is Case 2008-00010

224.17 and .18 are Case 2019-00046

224.21 and .23 are Case 2019-00379

224.24 is Case 2019-00280 and short-term loan for 2 years, rolled over for additional two years

224.25 is Case 2019-00379, bought used vehicle

224.26 and .27 are Case 2020-00400, ..26 is used vehicle



00601006391000003096001242022

CHANGE IN TERMS AGREEMENT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$39,479.40	01-31-2020	02-01-2022	6010063910000003	27		952	

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.

Borrower: KENTUCKY FRONTIER GAS, LLC (TIN: 54-2180309)
PO BOX 408
PRESTONSBURG, KY 41653

Lender: Community Trust Bank, Inc.
Floyd County Branch
161 South Lake Drive
Prestonsburg, KY 41653

Principal Amount: \$39,479.40

Date of Agreement: January 24, 2022

DESCRIPTION OF EXISTING INDEBTEDNESS.

Current Balance: \$25,562.67.

DESCRIPTION OF CHANGE IN TERMS.

- (1) The Maturity Date is hereby extended to February 1, 2024, at which time all remaining principal and accrued interest shall be due and payable in full.
- (2) The payment schedule of the Promissory Note is hereby established to be as follows:
Beginning on March 1, 2022, and continuing on the 22nd day of each and every month thereafter until the Maturity Date, the Borrower shall pay installments of principal and interest in the amount of One Thousand One Hundred Twenty and 00/100 Dollars (\$1,120.00) each. On the Maturity Date the full remaining principal and all accrued but unpaid interest shall be due and payable in full.
- (3) Borrower shall pay interest due in the amount of \$115.38.
- (4) The interest rate is hereby amended to a Fixed Rate of 4.50% effective February 1, 2022.
- (5) The Guarantor, **Steven E. Shute**, hereby remakes and restates his full and unconditional guaranty of the Promissory Note.

CONTINUING VALIDITY. Except as expressly changed by this Agreement, the terms of the original obligation or obligations, including all agreements evidenced or securing the obligation(s), remain unchanged and in full force and effect. Consent by Lender to this Agreement does not waive Lender's right to strict performance of the obligation(s) as changed, nor obligate Lender to make any future change in terms. Nothing in this Agreement will constitute a satisfaction of the obligation(s). It is the intention of Lender to retain as liable parties all makers and endorsers of the original obligation(s), including accommodation parties, unless a party is expressly released by Lender in writing. Any maker or endorser, including accommodation makers, will not be released by virtue of this Agreement. If any person who signed the original obligation does not sign this Agreement below, then all persons signing below acknowledge that this Agreement is given conditionally, based on the representation to Lender that the non-signing party consents to the changes and provisions of this Agreement or otherwise will not be released by it. This waiver applies not only to any initial extension, modification or release, but also to all such subsequent actions.

PRIOR TO SIGNING THIS AGREEMENT, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS AGREEMENT. BORROWER AGREES TO THE TERMS OF THE AGREEMENT.

CHANGE IN TERMS SIGNERS:

STATE OF: _____

COUNTY OF: _____

KENTUCKY FRONTIER GAS, LLC
By:
STEVEN E. SHUTE, Manager of KENTUCKY FRONTIER GAS, LLC

The foregoing Change In Terms Agreement was hereby acknowledged before me this _____ day of _____, 2022, by STEVEN E. SHUTE, individually as Guarantor and as Manager of KENTUCKY FRONTIER GAS, LLC.

X
STEVEN E. SHUTE, Guarantor

LENDER:

NOTARY PUBLIC

COMMUNITY TRUST BANK, INC.

NOTARY I.D. #: _____

X _____
Authorized Signer

My Commission Expires: _____

3. For each vehicle in Kentucky Frontier's fleet, provide the following:
 - a. Make, model, and year.
 - b. Mileage.
 - c. Annual amount spent on maintenance for the past three years.
 - d. The type of maintenance required for each vehicle for past 3 years.
 - e. The employee that is assigned to the service truck.

Response: Attached in Ex 8 Excel.

4. Provide a list of all full time and part time employees.

Response:

Admin:

Kimberly, Michelle, Heather, Sherry, Brenda

Operations:

Mike, William, Luther, Matthew, James, Dallas, Kenneth, Kenton, Clinton, Jason,
John, Brandon

Only first names given for confidentiality. All these employees are full time.

5. Explain whether or not a vehicle is part of an employee's compensation package. If so, provide the policy and procedures regarding the benefit.

Response:

Operating employees drive their vehicles home at night, but are not allowed personal use of vehicles as a benefit. Frontier has 5500 customers scattered over 13 counties, with 12 operators subject to 24/7 emergency callout to any point on the system. Some operators live 20-50 miles from a shop, but closer to a system they watch over. It's impractical and even risky, to force the operator to drive 20 miles to an office, pick up a company truck then go 50 miles somewhere else to an emergency call, sometimes right back past their house.

6. Kentucky Frontier has requested that the Commission approve financing for one service truck in Case No. 2018-00010, 2 two service trucks in Case No. 2019-00046, 3 three service trucks in Case No. 2019-00379, 4 three service trucks in Case No. 2020-00400, 5 and three service trucks in this proceeding. Additionally, according to the balance sheet supplied in Exhibit 2-1 of the Application, Kentucky Frontier also has loans for a 2016 Toyota Tacoma and 2017 Toyota Tacoma. Provide support as to why Kentucky Frontier needs 14 service vehicles in a span of approximately six years.

Response:

Frontier consolidated about a dozen tiny gas utilities into the present operation. Some had no company vehicles, or had ratty old multi-colored junkers with 200-250,000 miles. Frontier acquired only 4 decent trucks in a dozen transactions, so has spent 13 years catching the fleet up to an acceptable standard of service and appearance.

Ongoing, Frontier has 5500 customers over 13 counties in eastern Kentucky. These aren't consolidated in a city like Lexington, but in 50+ unconnected, scattered rural systems serving 5 to 500 meters, along with 900 single farm taps. Customers can be located up to 50 miles from the company offices in Prestonsburg or Jackson. Frontier has 12 field service and construction technicians that are each assigned a truck. Depending on their job duties, several of these techs can drive 20 to 25,000 miles per year. Frontier tries to drive vehicles to 150,000 miles if practical, and has replaced 2-3 vehicles per year to maintain that standard. After the 3 replacements planned for 2022, we forecast fewer replacements needed for 2023-24.

If these vehicles had been leased instead, starting with our fleet in 2016, Frontier would have replaced & leased about 30 service vehicles in a span of 6 years, not 14 as purchased.

7. Kentucky Frontier currently owns 100 percent of the common stock of Auxier Road Gas Company, Inc (Auxier Road)⁶ and Kentucky Frontier operates Auxier Road under contract.⁷

- a. Provide a copy of the existing contract between Kentucky Frontier and Auxier Road.
- b. Explain if the 11 service trucks identified in Item 6 and the three service trucks that Kentucky Frontier proposes to purchase in this instant case will be used by Auxier Road.
- c. If the response to Item 7.b. is yes, explain how Auxier Road reimburses Kentucky Frontier for their use.

Response:

a. Auxier operations contract was effective January 2010, pending the closing of finance and acquisition of Auxier in May 2010. The contract was re-executed upon acquisition of all KFG & Auxier interests by Steven Shute in July 2020. Copy attached.

b. Auxier Road has no employees, trucks or equipment. Frontier operates Auxier and furnishes all of those, so any new vehicle will be partially used to operate Auxier.

c. Auxier pays a management fee to Frontier that includes all operating expenses.

AUXIER ROAD GAS COMPANY SYSTEM SERVICES AGREEMENT

THIS AGREEMENT made and entered into the day and year set forth below, by and between AUXIER ROAD GAS COMPANY, hereinafter referred to as the "SYSTEM", and KENTUCKY FRONTIER GAS, LLC., hereinafter referred to as "Contractor".

WITNESSETH:

In consideration of the mutual covenants and obligations herein expressed, it is agreed by and between the parties hereto as follows:

1. Scope of Services and Standards of Service. The Contractor agrees to operate the SYSTEM, and to provide services in accordance with the Scope of Services attached hereto as Exhibit "A" and incorporated herein by this reference. The Scope of Services, compensation, and other conditions of this agreement may be changed at any time upon written agreement by both parties.

The Contractor agrees to adhere to the Standards of Service attached hereto as Exhibit "B" and incorporated herein by this reference.

2. Term. This agreement shall be effective for all purposes as of January 1, 2010 and shall extend for an Initial Contract Term of six (6) months from first effective date, subject to Section 4 of this agreement. The agreement may be extended with a written memorandum agreement signed by both parties. If any party intends to terminate and not renew the contract at the end of the Initial or Extended periods, such party shall notify the other in writing at least thirty (30) days prior to the termination of operations. If no notification of termination is given but a new operating agreement is

not in effect, to ensure continuity of service past the end of the Initial or Extended Contract periods, Contractor shall continue to operate the system for up to six (6) months under the last existing contractual terms.

3. Termination for Cause. Notwithstanding the time periods contained herein, either party may terminate this Agreement at any time for cause by providing 21 days prior written notice of termination to the other party. "For cause" shall include, but is not limited to incompetence, breach or neglect of duty, gaps in coverage, failure to perform the Scope of Services outlined in Exhibit A or adhere to the Standards of Service outlined in Exhibit B; non-payment or under-payment of compensation as defined in Section 9 or extraordinary capital items as defined in Section 7 of this agreement; or willful and uncorrected violation of any rule or regulation pertaining to natural gas utility operations of the utility system.

SYSTEM reserves the right to terminate this Agreement with sixty (60) days written notice, upon the unavailability of funds due to matters outside SYSTEM's control.

4. Termination on Sale of SYSTEM. SYSTEM has approved the sale of the gas utility to Contractor and reserves the right to terminate this Agreement upon closing of such sale and subject to Section 17 of this agreement.

5. Notices. All notices provided under this Agreement shall be effective when mailed, postage prepaid and sent to the following addresses:

If Contractor:

Robert J. Oxford
Kentucky Frontier Gas
4891 Independence St, #200
Wheat Ridge, CO 80033

If SYSTEM:

Ms. Kimberly Crisp
Auxier Road Gas Co.
1963 Ky Rte 321 N
Prestonsburg, KY 41653

6. Payment Upon Termination. In the event of any early termination by either party, the Contractor shall be paid for services rendered prior to the date of termination, subject to the satisfactory performance of the Contractor's obligations under this Agreement and the provisions of paragraphs 3 and 15 of this Agreement. Such payment shall be the Contractor's sole right and remedy for such termination.

7. Extraordinary Repairs. Contractor is not expected to perform extraordinary items outside the scope of services. Such extraordinary items are reflected in Exhibit A. As long as practical before such extraordinary items are required, Contractor shall consult with SYSTEM regarding the scope, cost, or necessity of such items. Contractor can provide personnel and resources as available to define, plan, bid if necessary, coordinate, and supervise performance of such items as Agent for SYSTEM. SYSTEM shall be responsible for third-party contractor costs of such items.

If SYSTEM does not approve any item of extraordinary repair that Contractor deems required for safe operation of any part of the system, the following process shall be followed to resolve the matter. (1) SYSTEM shall, in its sole discretion, hire its own consultants to review the proposal; (2) The parties shall try to resolve the matter; (3) If the matter cannot be resolved, then the situation shall be referred to the Kentucky

Public Service Commission; (4) SYSTEM shall obtain a written opinion from the Commission as to the course of action that should be followed in the matter; and (5) The parties shall follow the advice of the Commission in resolving the matter.

8. Design, Project, Indemnity and Insurance Responsibility. The Contractor shall be responsible for the professional quality, technical accuracy, timely completion and the coordination of all services rendered by the Contractor, including but not limited to designs, plans, reports, repair quality, construction quality, specifications, and drawings and shall, without additional compensation, promptly remedy and correct any errors, omissions, or other deficiencies.

CERTIFICATES OF INSURANCE must be provided by SYSTEM to Contractor as follows:

General Liability:	Including contractual with limits of not less than:	
		\$1,000,000 Per Occurrence
		\$2,000,000 General Aggregate
		\$1,000,000 Products/Completed Operations Aggregate
Automobile Liability:		
With limits of not less than:		\$1,000,000 Combined Single Limit
Worker's Compensation:	"Statutory Limits" with Employer's Liability	
Limits of not less than:		\$1,000,000 Each Accident
		\$1,000,000 Disease Policy Limit
		\$1,000,000 Disease Each Employee

APPLICABLE TO GENERAL LIABILITY AND AUTOMOBILE LIABILITY ONLY: Contractor shall be named as an additional insured and policy shall waive rights of subrogation against Contractor.

APPLICABLE TO WORKERS COMPENSATION ONLY: Unless specifically prohibited by State statute, Policy shall waive rights of subrogation against

SYSTEM.

INDEMNITY: Contractor agrees to protect, defend, indemnify and hold harmless SYSTEM, its officers, directors, employees or their invitees, and any customer for whom SYSTEM is performing services, from and against all claims, demands, and causes of action of every kind and character without limit and without regard to the cause or causes thereof or the negligence or fault (active or passive) of any party or parties including the joint or concurrent negligence of SYSTEM, any theory of strict liability and defect of premises, arising in connection herewith in favor of Contractor's employees, Contractor's subcontractors or their employees, or Contractor's invitees on account of bodily injury, death or damage to property.

SYSTEM agrees to protect, defend, indemnify and hold harmless Contractor, its officers, directors, employees or their invitees, from and against all claims, demands, and causes of action of every kind and character without limit and without regard to the cause thereof or the negligence or fault (active or passive) of any party or parties including the joint or concurrent negligence of Contractor, any theory of strict liability and defect of premises, arising in connection herewith in favor of SYSTEM's employees, SYSTEM's subcontractors (other than Contractor herein) or their employees, or SYSTEM's invitees on account of bodily injury, death or damage to property.

Both SYSTEM and Contractor will carry at least the minimum insurance limits described above in support of the indemnity agreements contained herein.

Contractor shall at all times also maintain workers compensation insurance on its employees. Certificates of insurance for both liability and workers compensation coverage shall be submitted to SYSTEM within 30 days of the signing of this contract and within 30 days of the anniversary date for every year that the contract continues in force.

9. Compensation. In consideration of the services to be performed pursuant to this Agreement, SYSTEM agrees to pay Contractor a fee based on actual costs with a fixed percentage margin, as set out in Exhibit "C" and incorporated herein by this reference. Fee shall be paid monthly by the 20th day of each month. Contractor shall submit verifiable statements to document costs paid to third parties.

If the parties decide to extend this Agreement beyond the end of the Initial Contract Term, the parties agree to negotiate subsequent modified compensation

amounts and document the understanding reached by written memorandum agreement for the prospective extension period.

Upon full payment of fees, all designs, plans, reports, specifications, drawings, and other services rendered by the Contractor shall become the sole property of SYSTEM. Expenses that are the responsibility of SYSTEM under this agreement are as detailed in Exhibit A.

10. Contract Representatives. Each party will designate, prior to commencement of work, its local contract representative who shall make, within the scope of his or her authority, all necessary and proper decisions with reference to this contract. All requests for contract interpretations, change orders, and other clarification or instruction shall be directed to the respective Contract Representatives.

11. Independent Contractor. The services to be performed by Contractor are those of an independent contractor and not of an employee of SYSTEM. SYSTEM shall not be responsible for withholding any portion of Contractor's compensation hereunder for the payment of FICA, Workers' Compensation, other taxes or benefits or for any other purpose.

12. Personal Services. It is understood that SYSTEM enters into this Agreement based on the special abilities of the Contractor and that this Agreement shall be considered as an agreement for personal services. Accordingly the Contractor shall neither subcontract, assign any responsibilities nor delegate any duties arising under this Agreement without the prior written consent of SYSTEM.

13. Acceptance Not Waiver. SYSTEM's approval of repairs, construction, drawings, designs, plans, specifications, reports, and incidental work or materials

furnished hereunder shall not in any way relieve the Contractor of responsibility for the quality or technical accuracy of the work. SYSTEM's approval or acceptance of, or payment for, any of the services shall not be construed to operate as a waiver of any rights or benefits provided to SYSTEM under this Agreement.

14. Default. Each and every term and condition hereof shall be deemed to be a material element of this Agreement. In the event either party should fail or refuse to perform according to the terms of this agreement, such party may be declared in default.

15. Remedies. In the event a party has been declared in default and notified of such in writing, such defaulting party shall be allowed a period of twenty-one (21) days from the date of notice within which to cure said default. In the event the default remains uncorrected, the party declaring default may elect to (a) terminate the Agreement and seek damages; (b) treat the Agreement as continuing and require specific performance; or (c) avail itself of any other remedy at law or equity. If one party commences legal or equitable actions against the alleged defaulting party, and a party is found to have been in default, then the defaulting party shall be liable to the non-defaulting party for the non-defaulting party's reasonable attorney fees and costs incurred because of the default.

SYSTEM may take remedial action if it should find that the Contractor has substantially failed to satisfy or perform the duties and obligations in this Agreement. Substantial failure shall include, but not be limited to, incorrect or improper activities or inaction. Remedial actions may include: (1) suspension of the Contractor's performance pending necessary corrective actions; (2) proportionate reduction of

payment to Contractor until the unperformed services or corrections in performance are satisfactorily completed; (3) request removal from work of any employees or agents of the Contractor SYSTEM reasonably deems as being incompetent, careless, unsuitable, or otherwise unacceptable, or whose continued employment is contrary to the public interest and not in the best interest of SYSTEM; and (4) deny payment for those services or obligations not performed. These remedies are cumulative and SYSTEM, in its sole discretion, may exercise any or all of them individually or simultaneously. Contractor may be afforded the opportunity to correct or cure its performance; however, this in no way is intended to limit SYSTEM's right to exercise the remedial actions outlined herein.

16. Binding Effect. This writing, together with the exhibits hereto, constitutes the entire agreement between the parties and shall be binding upon said parties, their officers, employees, agents and assigns and shall inure to the benefit of the respective survivors, heirs, personal representatives, successors and assigns of said parties.

17. Event of Sale to Third Party. In the event the pending sale of the gas utility system to Contractor is not consummated, then to the extent practical, the purchasing entity shall give preference to hiring the Contractor's full-time operating personnel to continue in their respective roles.

18. Law / Severability. The laws of the State of Kentucky shall govern the construction, interpretation, execution and enforcement of this Agreement. In the event any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision of this Agreement.

19. Records. Contractor shall maintain all records, documents, communications, and other written materials pertaining to this contract for at least 3 years after termination for final payment. SYSTEM and any authorized agent for a governmental agency shall be allowed to audit or inspect Contractor's records and to monitor all activities of the Contractor during the term of this Agreement and for 3 years after to assure compliance with the Agreement and evaluate the Contractor's performance. Contractor agrees to maintain confidentiality of all utility customer records in accordance with relevant statutes or regulations.

20. Adherence to Laws and Regulations. Contractor agrees to adhere to all applicable federal, state, and local laws and regulations including labor laws and laws regulating the gas utility industry during the term of this Agreement. Contractor is required to obtain, and maintain in effect throughout the duration of the Agreement all licenses, permits and authorizations necessary to do the work, with proof thereof being provided to SYSTEM upon request.

Revisions August 2020 upon retirement of Robert Oxford and IGS:

AUXIER ROAD GAS COMPANY, Inc.

BY:


Steven Shute, President

Date: August 1, 2020

KENTUCKY FRONTIER GAS, LLC

BY:


Steven Shute, Managing Member

Date: August 1, 2020

5. Notices. Revise address:

If Contractor:

Kentucky Frontier Gas
Steven Shute
PO Box 1054
Glenwood Springs CO 81602

Revise **Exhibit C** as attached.

EXHIBIT "A"

SCOPE OF SERVICES

The following are the services to be furnished by the Contractor to operate the Auxier Road Gas Company SYSTEM. Although the list is intended to be all-inclusive, there may be other services, in the ordinary course of business that the Contractor will be asked to perform.

GAS UTILITY FIELD SERVICES

- Operate and maintain SYSTEM and all its components.
- Receive, log and respond to all gas utility-related calls from customers.
- Read meters on a monthly basis. No active meter shall be estimated for more than two (2) consecutive meter cycles. Estimated usage is allowable when such meter reading creates an unsafe condition such as access due to weather conditions.
- Render bills to customers on a monthly basis.
- Answer customer inquiries about billing and accounts.
- Administer Budget Billing in accordance with the utility's rules and regulations.
- Collect amounts due from monthly billings and deposit to a SYSTEM bank account.
- Follow up on delinquent accounts and render delinquency notices if needed.
- Provide all monthly general ledger transactions for entry into SYSTEM accounting system.
- Provide monthly reports to SYSTEM including usage, amounts billed and collected.
- Set, change and remove meters based on service orders logged by the utility.
- Exchange meters for testing according to utility's testing schedule.
- Conduct leak surveys in accordance with utility's schedule.
- Conduct leak investigations for all leaks called in by customers.
- Repair underground leaks.
- Repair above-ground leaks.
- Perform annual and bimonthly corrosion control checks.
- Trouble shoot pressure problem areas and make recommendations for corrective actions.
- Perform annual inspections on emergency valves.
- Perform annual regulator station inspections.
- Perform line locates based on utility work orders including orders through One Call.
- Conduct pressure checks in winter months (October through April) to ensure adequate service.
- Operate the transmission pipeline, distribution system, and all related facilities.
- Perform periodic DOT required pipeline patrols.
- Perform checks of gas delivery stations and operate the utility odorizer.

- Install or remove service lines.
- Install or remove underground valves for the purpose of control, maintenance or leak repair.
- Install or remove extensions or laterals off the transmission or distribution pipeline.
- Assist SYSTEM in ordering parts and supplies to be furnished by SYSTEM as specified herein.
- Work in cooperation with SYSTEM's gas supplier to ensure adequate gas purchase and supply.
- Provide engineering & support for minor projects such as service line and repair work.
- Analyze L & U gas, search for solutions for any discrepancies.
- Prepare and submit all monthly operating reports to SYSTEM's supplier.
- Prepare and submit all operations-related reports required by regulatory agencies such as Kentucky PSC, DOT, etc.
- Ensure that gas system is operated in accordance with the Natural Gas Rules and Regulations filed for this utility.
- All above services shall be conducted in accordance with industry standards and DOT 49 CFR Part 192 requirements.
- Contractor will develop a comprehensive written Plan for adding new customers to the gas utility system. The Plan is to be submitted to SYSTEM by the end of March of each year. Consideration in the plan should be given to how to add the most profitable customers for the least cost. Costs of construction should be estimated in the plan.
- Contractor shall submit a written monthly report on the gas operations to SYSTEM that includes discussion of significant issues or problems as well as what "went right" during the month.

SYSTEM agrees to furnish the following relating to the performance of the above services:

- Materials, parts, and supplies required to perform any routine repairs or maintenance.
- Construction materials for construction projects.
- Specialized equipment for repair, maintenance and construction, including utility trucks, PE fusion equipment and tools, gas detectors, line locators, trencher, backhoe and accessories. Such equipment is the property of SYSTEM.
- Storage area at SYSTEM property.

EXTRAORDINARY ITEMS OUTSIDE THE SCOPE OF SERVICES

The following are outside the scope of services required to be completed by the Contractor:

- Major repairs caused by fire, flood, explosion, land movement, vehicular damage and similar occurrences which have caused or may cause a safety related condition
- Facility relocations required by jurisdictional agencies
- Major extensions or improvements which require more than 3 worker-days in more than 4 consecutive weeks
- Major facility replacements which require more than 3 worker-days in more than 4 consecutive weeks
- Backhoe operation more than 8 hours per project, or in environmentally sensitive areas or around transmission pipeline or other critical facilities
- Certified welding on steel pipe containing natural gas
- Meter testing and refurbishing
- Environmental disposal and remediation activities

EXHIBIT "B"

STANDARDS OF SERVICE

- The Contractor shall maintain at least 1/2 Full-Time Equivalent (FTE) employee position at all times. One Full-Time Equivalent (FTE) employee position is defined as one or more Contractor-supplied personnel working for the benefit of SYSTEM, on-duty for normal forty (40) hour work weeks for the entire contract month.
- An Employee may be absent for normal leaves including time off beyond the normal work week, vacation, and sick leave as long as adequate system coverage is provided.
- Part-time employees may be used to fulfill the FTE requirement.
- All operating employees shall be covered by DOT-proscribed programs for drug and alcohol testing.
- All employees shall be covered as applicable by DOT-proscribed plans for Operator Qualification for covered tasks and other programs.
- The Contractor's employees shall be expected to perform most services during normal working hours of SYSTEM's customary work week (i.e., M-F excluding observed holidays).
- At least one employee shall remain on-call and be present within SYSTEM's service area for after-hours emergency services (i.e., coverage is expected 24/7).
- At least one back up employee shall be provided for instances of vacation, illness, or training of regular employees. Back up employees are expected to provide regular services and after-hours emergency services for SYSTEM as needed.
- Except when unable due to Force Majeure, Contractor employees shall respond to emergency calls within 45 minutes.
- In addition to regular and backup employees, Contractor may designate and train Emergency Responder personnel to provide emergency response more quickly or efficiently.

EXHIBIT "C"
BASIS OF FEES FOR OPERATION

As detailed in Section 9 of the Services Agreement, SYSTEM shall pay a management fee for operating the Auxier Road Gas system. Contractor has consolidated utility rates and operations of Auxier Road into the Frontier utility. Contractor will manage all the costs of operations for the SYSTEM, and Auxier Road will pass through to Contractor the net utility margin after gas costs as a management fee.

8. Provide a schedule in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible showing Kentucky Frontier's operating ratio for calendar years 2018, 2019, and 2020. The operating ratio calculations should exclude gas service revenues and gas purchases that are recovered through Kentucky Frontier's Gas Cost Recovery mechanism. Include all calculations, assumptions, and workpapers used by Kentucky Frontier in its response.

Response:

Attached. Frontier's accounting system does not track Gas vs Non-Gas components of commodity rate revenues. GCR is tracked by a separate department in a separate database. Revenue less COGS is a very good approximation, since the GCR account balance is usually low.

The Auxier management fee is included in Frontier revenue and Auxier expense, so washes out of these financials.

"Operating Ratio" is not defined precisely. In most cases, the expenses in the numerator don't include Interest or Taxes paid. But Depreciation isn't a cash expense and isn't agreed upon by all sources as part of ops ratio. All potential components to Ratio are presented here for Staff to choose.

AUXIER ROAD GAS COMPANY INC

	<u>2020</u>	<u>2019</u>	<u>2018</u>
REVENUES			
SALES			
48001 Sales - Residential	163,108.05	187,389.03	222,390.85
48002 Sales - Commercial	77,938.16	87,826.28	99,402.68
48003 Sales - Commercial Nontaxable	511,888.34	592,398.46	695,148.92
48004 Tracker Adj to Sales	(541.37)	(584.59)	(581.02)
48005 Volume Metric Charge	-	1,389.04	1,622.16
48100 Move Meter Fee	-	800.00	-
48300 Transfer Service Chg	1,010.00	630.00	510.00
48400 NSF Charge	180.00	180.00	90.00
48600 Reconnection Fees	480.00	1,920.00	1,344.00
48700 Penalties	8,599.13	16,069.74	7,528.56
48800 Service Charge	1,100.00	2,500.00	2,500.00
48900 Sales Tax Commission	95.13	104.34	115.22
49100 Customer Charge	73,983.00	73,658.00	75,361.00
49300 Customer Charge-Lg	1,800.00	1,800.00	1,800.00
NET SALES	839,640.44	966,080.30	1,107,232.37
49000 Other Income	-	1,022.60	-
OTHER INCOME	-	1,022.60	-
TOTAL REVENUES	839,640.44	967,102.90	1,107,232.37
COST OF GOODS SOLD			
73001 Gas Purch- Chesapeake	-	-	-
73002 Gas Purch- AEI-KAARS	936.82	815.92	-
73005 Gas Purch- NYTIS Exploration	31,605.06	31,394.07	34,391.76
73006 Gas Purch-Nytis (Dema)	234.57	536.54	699.20
73007 Gas Purch- Constellation	-	-	-
73008 Gas Purch- Cumberland Valley	229,285.92	361,376.94	359,062.79
73009 Gas Purch- Southern Energy	9,086.16	13,684.95	-
COST OF GOODS SOLD	271,148.53	407,808.42	394,153.75
OPERATING & ADMIN EXPENSES			
75100 Interco Mgmt Fee: KFG	387,505.11	367,074.57	527,747.22
76300 Contract Labor	39.60	99.20	146.80
76600 Rents	2,443.65	2,439.62	2,416.05
76800 Maintenance of Meters	829.25	752.17	665.49
76900 Maintenance of Other Equipment	844.81	376.42	375.42
87400 Mains & Svc Expense	2,796.59	3,056.12	229.65
87800 Meter & House Regulator Exp	51.63	560.40	213.15
90400 Uncollectible Accounts	483.28	1,128.77	1,582.08
90900 Inf/Instruct Adv - Other	49.90	-	-
90901 Web Support	259.79	191.93	256.73
90902 Public Awareness Expense	197.54	-	-
90903 DIMP Program	35.55	35.55	35.55
92100 Office Supplies & Expense - Other	34.92	-	-
92101 Telephone	4,462.06	7,136.71	6,303.16
92103 Postage	2,683.60	2,307.22	2,290.35
92104 Bank Charges	83.73	291.52	427.79
92105 Office Supplies & Expense	7,105.94	8,616.02	6,052.49
92107 Travel	707.82	1,235.61	741.34
92108 Drug Testing	46.87	76.50	89.21
92109 Credit Cd Chgs	2,423.25	2,868.21	2,227.99
92110 Printing & Reproduction	589.17	546.85	453.83
92301 Outside Svcs- Accounting	1,981.75	1,942.25	1,982.72
92302 Outside Svcs- Legal	571.50	4,284.00	1,197.00

92303 Outside Svcs- Consulting	-	126.68	86.40
92304 Outside Svcs- Engineering	7,039.44	8,811.36	11,069.82
92401 Insurance- Auto	4,627.33	3,119.94	2,245.58
92402 Insurance- General Liability	1,239.90	47.63	1,198.17
92403 Insurance- Workers Comp	2,900.74	2,527.49	1,166.45
92404 Insurance- Property Ins	476.31	444.26	217.87
92406 Insurance-Comm Umbrella	1,337.42	-	-
92600 Employee Benefits	11,397.22	9,372.25	8,395.84
93000 Miscellaneous Expense	89.59	93.09	71.56
93003 Licenses & Permits	485.31	457.87	472.47
93004 Dues & Subscriptions	42.58	164.45	85.41
93100 Rent	3,240.00	3,240.00	3,240.00
93200 Maint of General Plant	117.66	141.64	24.12
93301 Transp Expense- Gasoline	3,582.15	4,519.87	5,092.58
93303 Transp Expenses	1,475.06	1,927.10	1,810.61
98106 Interest Exp- Meter Deposit	731.88	1,075.47	581.30
98107 Interest Exp- Other	-	-	4.31
98112 Interest Exp- Long term Debt	43,880.33	47,074.10	62,724.52
98300 Depreciation Expense	16,494.00	16,041.00	16,621.00
98701 State Inc Tax- Other (LLET)	175.00	175.00	175.00
98702 Income Tax - State	1,998.00	-	-
98703 Income Tax - Federal	5,834.00	-	-
98802 Public Svc Co Assessments	1,800.00	1,886.22	1,500.00
98803 Public Svc Comm Assessments	1,933.69	2,165.75	1,841.37
98804 Taxes Other Than Income	6,421.79	6,319.11	4,818.35
OPERATING & ADMIN EXPENSES	533,546.71	514,749.92	678,876.75
TOTAL EXPENSES	804,695.24	922,558.34	1,073,030.50
NET INCOME	34,945.20	44,544.56	34,201.87