COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF APACHE GAS	**)**	
TRANSMISSION COMPANY, INC. FOR	**)**	**CASE NO.**
APPROVAL OF THE AUTHORITY TO OBTAIN	**)**	**2025-00301**
FINANCING	**)**	

RESPONSES TO STAFF'S FIRST INFORMATION REQUEST

TO APACHE GAS TRANSMISSION COMPANY, INC.

DATED OCTOBER 13, 2025

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF APACHE GAS TRANSMISSION COMPANY, INC. FOR APPROVAL OF THE AUTHORITY TO OBTAIN FINANCING	))))	**CASE NO. 2025-00301**

VERIFICATION OF DAVID THOMAS SHIREY, JR.

STATE OF KENTUCKY)
)
COUNTY OF CUMBERLAND)

David Thomas Shirey, Jr., President of Apache Gas Transmission Company, Inc., being duly sworn, states that he has prepared certain of the following responses of Apache Gas Transmission Company, Inc. to the data requests issued by Commission Staff in Case No. 2025-00301 and that the matters and things set forth in his responses are true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.

David Thomas Shirey, Jr.

Subscribed, acknowledged and sworn to before me by David Thomas Shirey, Jr., President of Apache Gas Transmission Company Inc., on this 22 day of October 2025.

NOTARY PUBLIC, Notary # KYNP46724
Commission expiration: March 9 2026

DUSTIN ALLEN MOORE
NOTARY PUBLIC
MY COMMISSION EXPIRES
COMM. # KYNP46724
MARCH 09, 2026
COMMONWEALTH OF KENTUCKY

APACHE GAS TRANSMISSION COMPANY, INC.
CASE NO. 2025-000301
FIRST REQUEST FOR INFORMATION RESPONSE

STAFF'S REQUEST DATED OCTOBER 13, 2025
REQUEST 1
RESPONSIBLE PARTY: David Shirey

Request 1. Refer to the Application, generally. Explain how Apache plans to repay the proposed Small Business Administration (SBA) Microloan and United States Department of Agriculture (USDA) Rural Microentrepreneur Assistance Program (RMAP) Loan.

Response 1. Based on Burkesville Gas Company's Gas Cost Adjustment filing for the 12-month period ending December 31, 2024, Apache Gas Transmission Company ("Apache") transported a total of 38,440 MCF of natural gas during the 2024 calendar year. Apache's application requests approval for a $0.44 per MCF increase to the Pipeline Replacement Program (PRP) volumetric rate to support system main replacement.

Applying the proposed $0.44 per MCF rate to 38,440 MCF yields $16,902.29 in additional annual PRP revenues. The combined annual debt service for the two proposed financing instruments—the USDA Rural Microentrepreneur Assistance Program (RMAP) Loan A and the SBA Microloan Loan B—totals $15,716.00.

Accordingly, the incremental PRP revenue associated with the proposed $0.44 per MCF increase is sufficient to fully cover the annual debt service obligations for both loans with a margin of approximately $1,186.29 per year, ensuring repayment without dependence on general operating revenues.

APACHE GAS TRANSMISSION COMPANY, INC.
CASE NO. 2025-000301
FIRST REQUEST FOR INFORMATION RESPONSE

STAFF'S REQUEST DATED OCTOBER 13, 2025
REQUEST 2
RESPONSIBLE PARTY: David Shirey

Request 2. Refer to the Application, Exhibit C. *Apache Gas Transmission Company Assumptions and Financial Projections (2026-2028)*, pages 3 and 4. Explain how Apache will repay the proposed loans in months where it does not have sufficient revenues to cover its current debt service.

Response 2. Since the beginning of Apache's PRP program in 2018, there have been years in which PRP revenues were insufficient to pay the total debt service on the PRP loans, requiring Apache to use other funds to make those payments. Those funds have since been repaid. Beginning in 2024, one of the two debts from the initial PRP program reached final maturity in May 2024, resulting in an excess of PRP revenues that have been escrowed, creating a modest PRP escrow fund surplus.

This surplus, together with the collection of PRP fees during higher-volume winter heating months, will provide sufficient liquidity to make timely payments on the proposed loans in months when current revenues alone are temporarily insufficient to meet that month's debt service.

APACHE GAS TRANSMISSION COMPANY, INC.

CASE NO. 2025-000301

FIRST REQUEST FOR INFORMATION RESPONSE

STAFF'S REQUEST DATED OCTOBER 13, 2025

REQUEST 3

RESPONSIBLE PARTY: David Shirey

Request 3. Explain what due diligence was performed to evaluate alternative financing options with potentially lower interest rates or more favorable terms, beyond the two loans proposed and provide a summary of the loan options that were evaluated and a justification for why the chosen loans were deemed the most advantageous for the company and its customers.

Response 3. Apache has not conducted new, formal due-diligence activities specific to this 2025 PRP financing request. However, extensive efforts were undertaken when securing financing for the original PRP program beginning in 2018, and the same market conditions and collateral limitations remain relevant today.

At that time, Apache spent over a year pursuing financing for the initial PRP projects while simultaneously and after obtaining Commission approval, and meetings were held and applications submitted to a local bank and with three regional economic-development organizations: the Kentucky Highlands Investment Corporation (KHIC), Lake Cumberland Area Development District, and Southeast Kentucky Economic Development (SKED). Applications were also submitted to two independent business-finance providers.

Despite these efforts, Apache's applications did not advance beyond the initial review stage of the local bankers' committee. Traditional lenders expressed consistent reluctance to extend credit secured by natural-gas transmission assets because such collateral involves inherent operational and environmental risks, regulatory oversight, and asset characteristics unfamiliar to conventional lenders. In short, lenders were unwilling to accept a lien position on an operating utility system composed primarily of underground natural gas mains, meters, and easements.

In the original PRP proceeding, the Commission approved both the Certificate of Public Convenience and Necessity (CPCN) and the requested financing; however, obtaining financing commitments still required roughly a year after that approval due to the collateral and risk concerns described above.

Recognizing these limitations, Apache approached long-time contacts at Kentucky Highlands Investment Corporation, whose community-development lending programs are familiar with federal guarantees and public-utility collateral. KHIC determined that Small Business Administration (SBA)–backed loans would be most appropriate, as the SBA routinely accepts liens on utility infrastructure. Consequently, the 2018 PRP financing was structured as one SBA 7(a) loan and one microloan, totaling approximately $150,000, which proved successful and sustainable.

For the current request, Apache again contacted KHIC because that lender remains familiar with both the Commission's PRP program and Apache's repayment record. In my professional judgment—supported by extensive public-finance experience as well as commercial and residential mortgage finance experience—the combined rates and terms offered by KHIC under its USDA RMAP and SBA Microloan programs represent market-appropriate financing for a company of Apache's size and collateral profile, where an inferior lien on buried mains is effectively the only security available. In my opinion, the KHIC offer represents the best available financing option under current market conditions especially when considering the difficulty of locating lenders willing to accept such collateral, Apache believes it is prudent to proceed without further delay under KHIC's proposal, which provides workable terms and a demonstrated understanding of the PRP program's objectives and performance history.

APACHE GAS TRANSMISSION COMPANY, INC.
CASE NO. 2025-000301
FIRST REQUEST FOR INFORMATION RESPONSE

STAFF'S REQUEST DATED OCTOBER 13, 2025
REQUEST 4
RESPONSIBLE PARTY: David Shirey

Request 4. Refer to the Application, Exhibit B, *Loan Approval Notification* and Exhibit C, *Breakdown of Funds*.

a. Confirm that the 2026 Pipeline Replacement Program and the 2026 Main Replacement Program are two separate programs. If confirmed, provide a list of the projects for each program as well as the associated estimated expenses.

b. Explain how the remaining amount of the loan will be allocated.

c. Explain why Apache chose to utilize two distinct loans for these projects instead of a single financing instrument.

d. Quantify the amount of savings resulting from the two distinct loans being secured at the same time. Include in the response, workpapers to support the calculations and provide a narrative explanation for how excess indebtedness achieves savings in this case.

Response 4.

a. Apache clarifies that the statement appearing at the bottom of the *Total Project Funds* section for the 2025 Pipeline Replacement Program—reading, *"Remaining Project Funds for the 2026 Main Replacement Program"*—was a typographical error. The correct language should read "Remaining Project Funds for the 2026 Pipeline Replacement Program." A revised Exhibit has been included with this response to reflect that correction.

This filing represents one continuing Pipeline Replacement Program (PRP) with two separate funding schedules**,** not two separate programs. Apache uses the terms *Main Replacement* and *Pipeline Replacement* interchangeably because, by statute, the PRP is a mechanism specifically intended for the replacement of mains.

b. At this time, Apache does not have a detailed cost breakdown for the remaining approximately $49,000 in project funds associated with the second phase of the program. However, Apache seeks financing approval for the full $100,000 because it is clear that the total cost to repair or replace the fourteen (14) exposed main sections previously identified to the Commission will meet or exceed that amount.

There is both economic and time efficiency in obtaining financing approval for the total program amount at this stage. Only a portion of the total funds will be expended initially—approximately one-half—on the first set of replacements, with the remainder to be held in an interest-bearing escrow account pending submission to and approval by the Commission for the 2026 replacements.

This approach reduces the duplication of legal, filing, and administrative expenses associated with multiple financing applications and each subsequent data-request responses. Apache believes that securing approval for the total $100,000 at once will ensure continuity in construction planning while maintaining full regulatory oversight of fund utilization for the second-phase projects.

In addition, Apache anticipates submitting an additional request for PRP financing around the end of 2028**,** when the $100,000 SBA 7(a) loan will reach maturity. At that time, approximately $1,087.02 per month in debt-service capacity will become available, allowing Apache to initiate a new loan for an additional $100,000 to fund further main replacements or other system improvements identified through continued inspection and maintenance activities.

c. The Kentucky Highlands Investment Corporation (KHIC) administers two community-development loan programs that are particularly well-suited to Apache Gas Transmission Company's financing needs. Each program, however, carries a $50,000 lending limit. To achieve the $100,000 in total financing needed to begin addressing the 2025–2026 Pipeline Replacement Program, Apache therefore elected to utilize both programs—the USDA RMAP Loan A and the SBA Microloan B—in tandem.

This dual-loan approach was driven by both program constraints and timing considerations. Because Apache sought to complete the first round of main replacements prior to the onset of the winter heating season, it was critical to pursue loan options that could be approved and funded expeditiously. The KHIC microloan programs offered a substantially shorter approval timeline (requiring only a local decision) than a conventional SBA 7(a) loan, which typically involves a more extensive underwriting and federal approval process.

Accordingly, Apache selected the sections of exposed main deemed most urgent for immediate replacement to be funded under the first $50,000 loan and intends to apply the remaining $50,000 to the second phase of replacements following Commission approval for the use of those funds. As noted in Exhibit C and the revised cash-flow schedules, both loans together provide approximately $100,000 in financing, which will allow Apache to begin addressing the fourteen (14) main replacements identified to the Commission.

d. Quantification of Savings from Concurrent Loan Approvals. Method. Apache compared total estimated cost to obtain borrowed funds under two scenarios:

1. Concurrent closings (USDA RMAP + SBA Microloan at the same time), and
2. Separate closings (each loan closed at different times).

Scenario	Total Interest (Expense)	Legal Cost	Title/Security Instrument Legal	Interest Earned on Escrow	TOTAL Cost to Obtain Borrowed Funds	Cost % of Borrowed Funds
Combined loan scenario (concurrent closings)	$30,000.92	$5,000	$2,000	($913.52)	$37,914.44	37.9144%
Separate loan scenario (staggered closings)	$30,000.92	$10,000	$4,000	$0.00	$44,000.92	44.0009%

Concurrent closings reduce total program cost by $6,086.48 (=$44,000.92 − $37,914.44), a 6.0865 percentage-point reduction in the effective cost of funds (44.0009% → 37.9144%). The savings arise from:

- Avoided duplicate legal/recording/admin work (one set of security instruments, filings, and closing work instead of two), and
- Interest earnings on escrowed proceeds of $913.52 that are only available when both loans fund upfront and the second-phase proceeds can sit in an interest-bearing account until Commission authorization for use on the 2026 work.

Conclusion. Securing both loans at the same time lowers the total cost to obtain funds by ~$6.1k and improves the cost efficiency of the PRP financing by just over 6 percentage points, primarily through avoided duplicative closing costs and documented escrow interest earnings. See attached TValue interest earnings calculations (Workpaper 4 d) supporting the estimated escrow interest on unexpended 2026 proceeds.

Apache Gas Transmission Work Paper fo Response 4d
Bank (10/21/2025 rate for 6 month CD rate FDIC insured at a bank Apache currently has accounts.

Compound Period .... : Monthly

Nominal Annual Rate .... : 3.700 %

CASH FLOW DATA

	Event	Date	Amount	Number	Period	End Date
1	Invest	01/01/2026	49,000.00	1		
2	Return	07/01/2026	49,913.52	1		

AMORTIZATION SCHEDULE - Normal Amortization

	Date	Return	Interest	Net Change	Balance
Invest	01/01/2026			49,000.00	49,000.00
1	07/01/2026	49,913.52	913.52	49,000.00-	0.00
2026 Totals		49,913.52	913.52	0.00	
Grand Totals		49,913.52	913.52	0.00	

APACHE GAS TRANSMISSION COMPANY, INC.
CASE NO. 2025-000301
FIRST REQUEST FOR INFORMATION RESPONSE

STAFF'S REQUEST DATED OCTOBER 13, 2025
REQUEST 5
RESPONSIBLE PARTY: David Shirey

Request 5. Refer to the Application, Exhibit C, USDA RMAP LOAN (Loan A) and SBA Microloan (Loan B). Explain the start date of both loans in the amortization schedule based on Apache's application being accepted for filing until September 24, 2025, after all deficiencies had been cured.

Response 5. Apache began preparing the loan application and related CPCN financing request in June 2025, with the goal of obtaining Commission approval and closing the financing by approximately November 1, 2025. The amortization schedules included in Exhibit C reflect that preliminary timeline and therefore show a loan date of November 1, 2025 and a first scheduled payment on December 1, 2025. These dates were used solely for debt-service calculation purposes to estimate annual principal and interest requirements. The actual closing and first-payment dates will be adjusted to reflect the final approval date once financing is authorized.