

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE
COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY FRONTIER GAS
COMPANY, LLC FOR APPROVAL OF)
TRANSFER OF AUXIER ROAD)
CORPORATION STOCK

CASE NO.
2009-00442

KENTUCKY FRONTIER GAS COMPANY, LLC
REVISED RESPONSE TO DATA REQUEST OF COMMISSION STAFF

Kentucky Frontier Gas Company, LLC ("Kentucky Frontier"), by counsel provides the attached **REVISED** responses to the Order of December 4, 2009, pursuant to staff request.

SUBMITTED BY:


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Attorney for
Applicant

2. Refer to item 8 of the petition.

a. This paragraph states, "The present office and field personnel will remain in place." Explain at what location the day-to-day accounting, billing and collecting functions will take place.

b. How long does Kentucky Frontier anticipate it will maintain the present office location of Auxier?

c. Provide the number of offices Kentucky Frontier will maintain when the transfer takes place and the estimated cost to maintain those offices.

d. Explain whether customer deposit liability will transfer to Kentucky Frontier. If not, explain whether Auxier will refund the deposits prior to the transfer.

WITNESS: OXFORD

REVISED RESPONSE: a. The Auxier office-shop-yard complex will become Frontier's operational headquarters. Frontier will relocate 3 office and 3 field personnel across town to the new offices, and will retain 1 office and 2 field personnel from Auxier. Billing and collecting for all Frontier entities will be managed out of this new location, as well as first-line accounting and most of the PSC and DOT reporting.

b. Indefinitely. The Auxier complex is modern and adequately sized for Frontier's near-term plans. The location is close to the "center of gravity" of the systems served under Frontier.

c. Frontier presently leases the former ECU office in Prestonsburg for \$1,000/mo, which will terminate after 90 day notice. Frontier expects to move all operations to the Auxier complex within 90 days of closing of the purchase. The Auxier facilities will be leased for \$1800 per month, beginning on the effective date of the sale. **The lease has not been executed. Terms are being negotiated presently. It is expected that the lease will be for a fixed term with renewal and that there will be a provision allowing for early termination upon notice.**

Frontier will keep its current executive offices in Prestonsburg at a cost of \$1,000/mo. Corporate oversight will be managed from Frontier offices in Colorado. Total office and shop rental, utilities, supplies and maintenance for Frontier is estimated to be \$51,000/year.

d. Yes.

14. Describe in full how Kentucky Frontier plans to fund the purchase price of Sallye Branham's stock in Auxier. If the purchase price is to be financed, provide details of the loan agreement.

WITNESS: OXFORD

REVISED RESPONSE: Under the executed term sheet, Frontier will pay cash for Sallye Branham's shares of stock in Auxier, about 94-2/7ths shares out of 100 issued.

The purchase will be funded with about 20% equity and 80% debt. Frontier has funds in escrow for acquisitions from the original funding, and will add operating funds and member contributions for the remaining equity required by the bank. **The \$480,918 of equity financing has not been allocated specifically to the Auxier acquisition for purposes of the Bank financing. The equity contribution is required to meet the Bank's collateral requirements. It is expected that for regulatory purposes, Frontier's books will reflect a 80/20 debt equity ratio for the acquisition. However, that determination has not been finalized.**

Frontier has applied for funding through its banker Community Trust Bank in Pikeville. CTB secured a Small Business Administration loan for Frontier's original acquisitions in December 2009.

Based on the financial results and stability of Frontier's first year of consolidated utility operations, CTB is willing to underwrite a USDA-guaranteed loan for additional acquisitions.

The loan as proposed by USDA would be a 15-year adjustable loan at Prime plus 1.24%, with a floor of 6% APR.

A separate application for approval of the financing will be filed when the loan is authorized by the bank