

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY)
FRONTIER GAS COMPANY, LLC FOR)
APPROVAL OF TRANSFER OF STOCK OF)
COW CREEK GAS, INC., DEMA GAS)
COMPANY, INC., PURCHASE OF FARM TAP) CASE NO.
AND ROYALTY GAS CUSTOMERS OF) 2010-00076
INTERSTATE NATURAL GAS COMPANY AND)
TRANSFER OF A PORTION OF DLR)
ENTERPRISES, INC. PIPELINE TO COW)
CREEK GAS, INC.)

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

Kentucky Frontier Gas Company, LLC ("Kentucky Frontier"), pursuant to 807 KAR 5:001, is to file with the Commission the original and six copies of the following information, with a copy to all parties of record. The information requested herein is due on or before April 6, 2010. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Kentucky Frontier shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Kentucky Frontier fails or refuses to furnish all or part of the requested information, Kentucky Frontier shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

All tax identification numbers, financial account numbers, social security numbers, dates of birth, and e-mail addresses of individuals should be redacted from the material to be filed herein. Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to the Petition for Transfer of Stock and Pipeline Facilities, Purchase of Farm Tap Customers, and Approval of Financing ("Petition") filed February 22, 2010. In Item 3, Kentucky Frontier proposes to acquire the stock of Cow Creek Gas, Inc. ("Cow Creek"), a regulated utility. Item 4 proposes that 32.6 miles of a 42.7-mile pipeline become part of the Cow Creek system, with the remaining 10.1 miles retained by DLR Enterprises ("DLR"), the current owner of the pipeline. Item 7 states that DLR is to be purchased by Industrial Gas Services, Inc. ("IGS"), a company related to Kentucky Frontier and not regulated by the Commission. Explain why the 10.1 miles of pipeline is

not to become part of Cow Creek and why it is, instead, to be owned by IGS. Also explain what impact, if any, this will have on rates of regulated utility customers.

2. In Item 6 of the Petition, Kentucky Frontier proposes to acquire farm tap customers from Interstate Natural Gas Company ("Interstate"). Article 1.08 of Exhibit 4 speaks to Kentucky Frontier's assuming statutory responsibilities of the seller pursuant to KRS 278.485. KRS 278.485 specifies that farm tap service is furnished to requesting customers by gas pipeline companies obtaining gas from producing wells within the state when those well(s) or gas-gathering pipeline(s) are located on or over the customers' property. Explain why Kentucky Frontier believes it will be providing farm tap and not distribution service if it will not be the owner of the wells, leases, or pipelines.

3. Item 17 states that the proceeds of the \$550,000 financing will not be used to refund any outstanding obligations. Reconcile this statement with the later commitments to pay off existing indebtedness as part of the transfer/purchase agreements with Cow Creek.

4. Is the \$550,000 financing to be used to repay the \$250,000 loan referenced in Exhibit 5?

5. Refer to page 4 of Exhibit 1, the Stock Purchase Agreement with Cow Creek ("Cow Creek Agreement"). Article 3.10 discusses negotiations surrounding the sale of certain gas production properties belonging to Interstate. Is Kentucky Frontier or IGS involved in these negotiations as a potential purchaser? If not, what will be the disposition of the current Interstate farm tap customers that Kentucky Frontier is proposing to acquire?

6. Similarly, Exhibit 4, the Farm Tap Sale Agreement, speaks to a 10-year provision. Is Kentucky Frontier proposing that obligation to serve these farm tap customers will revert to future purchasers of Interstate wells, pipelines, and leases?

7. Article 1.07 of Exhibit 4 says that the seller may transfer future farm taps placed on any of the seller's pipelines or leases to Kentucky Frontier. Are these contemplated future farm taps on the Interstate pipelines only, or are other sellers' pipelines to be covered by this section as well? Explain.

8. How many customers are currently served by Cow Creek?

9. Refer to page 6 of the Cow Creek Agreement and the Stock Purchase Agreement of Dema Gas Company, Inc. ("Dema"), Article VI, Gas Sales to Purchaser. Provide the identities of all current suppliers of gas and transportation services to Dema and to Cow Creek, including that portion acquired from Sigma Gas Corporation. What is the source of the seller's gas, and what other suppliers are envisioned if the seller is unable to supply gas in the quantity required for the Cow Creek and Dema systems?

10. Article 6.02 of the Cow Creek and Dema Agreements set out a price of \$7.00 Mcf ("or more," in the case of Dema) for all gas delivered by the seller for a 12-month period. What is the basis for this \$7.00 charge, and does it include a \$2.00 transportation fee? If so, to whom will the \$2.00 transportation fee be payable? Under what circumstances would Dema be charged more?

11. Is all the gas supplied by the seller to Dema captive to the Dema system?

12. Refer to Exhibit 3 of the Dema Agreement, Article 6.01(b). Explain the reason for inclusion of this paragraph.

13. How many customers are currently served by Dema?

14. Why are all the transactions proposed in the Petition contingent on their concurrency and on all being approved by the Commission?

15. Refer to Exhibit 2, Bill of Sale for Business Assets of DLR. The last sentence of Exhibit A says, "Although not considered part of the DLR system, all piping, regulators, meters and other facilities associated with serving any utility customers and attached to any DLR segment sold or retained, shall remain in ownership of the utility and are not subject to this sale." Explain this sentence, including which utility is referenced as having ownership of facilities serving utility customers.

16. How many farm tap customers will be involved in the proposed transfer of farm tap customers from Interstate to Kentucky Frontier?

17. Article V of Exhibit 4 concerns the right of first refusal of the seller to sell gas to Kentucky Frontier for the farm tap customers. What other source of supply could there be for farm tap customers served pursuant to KRS 278.485 in the event the seller does not exercise the right of first refusal?

18. Refer to Article 5.02 of Exhibit 4. Is it currently Kentucky Frontier's intention to purchase the gathering lines referenced?

19. Provide the information indicated in Exhibits A, B, and C of Exhibit 4; those pages of the application are currently blank.

20. Refer to Exhibit 5, Article 3.01. Explain the utility functions of DLR.

21. Refer to Exhibit 5, Article 5.09. Who are the current customers of DLR? How many customers does DLR currently serve?

22. Refer to Exhibit 5, Article 6.01. Explain the current and future relationships of IGS, Kentucky Frontier, and the seller to each of the following entities: Jefferson Gas, LLC; Chesapeake Appalachia, LLC; and Kentucky West/EQT.

23. Is the \$0.25-per-Mcf transportation fee referenced in Exhibit 5 to be paid to DLR/IGS for the use of the 10.1 miles of pipe being retained by DLR?

24. Describe the function/classification of the approximately 10.1 miles of pipeline designated in the Petition as the DLR Transfer Line (i.e., production, gathering, distribution, or transmission). Explain in detail the criteria used to determine the classification of this pipeline.

25. Describe the function/classification of the approximately 32.6 miles of pipeline described in the Petition as “generally located west and southeast of the Grover Arnett compressor in Magoffin” (i.e., production, gathering, distribution, or transmission). Explain in detail the criteria used to determine the classification of this pipeline.

26. Has Interstate added any new farm tap customers over the last five years? If yes, how many new customers have been added during that time? Have farm tap installations been constructed, inspected, and approved as required by 807 KAR 5:026 and 278.485?

27. Has DLR added any new farm tap customers over the last five years? If yes, how many new customers have been added during that time? Have farm tap installations been constructed, inspected, and approved as required by 807 KAR 5:026 and 278.485?

28. The following questions address the sources of supply for natural gas to Dema and their location on the map provided with the Petition:

a. On the map submitted for Dema, there is a square orange symbol that appears to intersect the Columbia Gas transmission pipeline PM-3. What does this symbol represent? Is this an interconnection with Columbia Gas? If so, describe the features (i.e., compressor, meter, gate station to purchase gas, selling point, etc.) located at this point.

b. On the map submitted for Dema, there are two square red symbols with the letter "M" in them. What does this symbol represent? Are these meters to measure gas between two pipeline companies? If so, who is the owner/operator of the connecting pipeline?

c. In Case No. 2006-00168, Dema's Gas Cost Adjustment,¹ the supplier for natural gas is Brushy Gap Coal and Gas Company ("Brushy Gap"). On page 2 of the data response from Dema in that case, it was stated that "Dema's system is comprised of various pipeline interconnects directly into the Brushy Gap gathering system. No third party transporter is involved." Where are the interconnections to the Brushy Gap gathering system on the map?

d. Who owns the Brushy Gap gathering system? Are the interconnecting gathering lines to the Dema system owned by Brushy Gap? If not, what company owns them?

e. In Exhibit 3 of the Application, Stock Purchase Agreement of Dema, Section 3.09, Sale of Interstate Natural Gas Company Production Properties, the purchase of certain production properties is being negotiated with Interstate. Which

¹ Case No. 2006-00168, Purchased Gas Adjustment of Dema Gas Company, Inc. (Ky. PSC May 19, 2006).

wells, by Kentucky Geological Survey Record Number, on the Dema system are included in the negotiations? What is the status of the negotiations?

f. In regard to Article VI, Gas Sales to Purchaser, in Exhibit 3 of the Application, are there any producing wells, other than those operated by Interstate, that are along the Dema system and deliver gas into the Dema pipelines? If so, what are their Kentucky Geological Survey Record Numbers, and who are their operators? Does Dema have a contract with the operators?

29. Refer to Exhibit A for Dema, the Equipment List, which has "Date Purc" of 9/1/1989 for the mains. Is that the date purchased? How does that correspond to the date of installation of the mains? What is the date of installation of the mains? What material are the mains made of?

30. The following questions address the sources of supply for natural gas to Cow Creek Gas and DLR and their location on the map:

a. Locate all current sources of supply of natural gas to the Cow Creek and DLR systems on their respective maps and label them. If they are gas wells, what are their Kentucky Geological Survey Record Numbers, and who is their operator? Include all gas wells operated by Interstate that are captive to the Cow Creek system.

b. If a source of supply is an interconnection to a natural gas gathering pipeline, place a symbol on the map for it and describe the owner/operator of that pipeline and whether Cow Creek or DLR has a contract with that operator to supply gas.

c. At the end of Creek Side Drive and Workman Road on the DLR map, there is a square red symbol with a black dot in it. What does that represent?

d. Where is the Grover Arnett compressor in Magoffin County (see Exhibit 2) on the map for DLR?

e. How many utility customers are along the DLR Transfer Line that are not associated with the laterals that will be transferred to Kentucky Frontier? Will DLR continue to serve them as farm tap customers under the current tariff? (Exhibit 2, last paragraph of Exhibit A.)

31. Provide a map showing the location of each farm tap and royalty gas customer Kentucky Frontier is purchasing, along with the pipelines belonging to Interstate that will deliver the gas to the customer's meter. Include all producing gas wells and the meters associated with them that belong to Interstate, as well as the location of all customer meters (see the list in Exhibit A of Exhibit 4).

32. What is a royalty gas customer? How does this correspond to a "Free Gas Meter" and "Free Gas customers who have used more than their individual allotment of free gas" in Exhibit 4? Which company determines who is a "Free Gas customer" and the amount of the allotment of free gas?

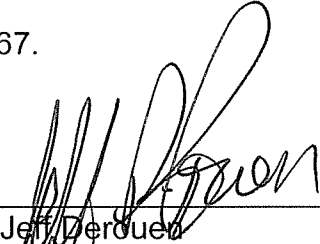
33. Provide financial statements as of December 31, 2009 for Cow Creek, DLR, and Dema.

34. Provide the most recent financial statement available for 2010 for Kentucky Frontier, Cow Creek, DLR, and Dema.

35. Using the information provided in the application, provide the suggested journal entries that Kentucky Frontier would make on each party's books to record the approved acquisition.

36. Refer to Exhibit 5, Article 1.02. Confirm that IGS is agreeing to pay or assume the entire balance of the loan with Citizens National Bank even if the balance at closing exceeds \$250,000. What is the current balance of the loan from Citizens National Bank?

37. Refer to Exhibit 5, Exhibit B, of DLR's balance sheet as of November 30, 2009. Provide a detailed analysis of what comprises the line item for Notes Payable – Citizens National Bank in the amount of \$483,867.



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DATED: MAR 26 2010

cc: Parties of Record

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