

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 AND ROYALTY GAS CUSTOMERS OF INTERSTATE NATURAL GAS COMPANY AND TRANSFER OF A PORTION OF DLR ENTERPRISES, INC. PIPELINE TO COW CREEK GAS, INC.

RECEIVED

APR 07 2010

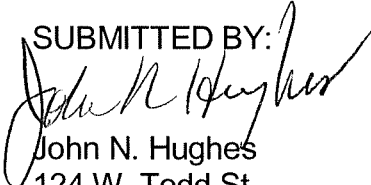
PUBLIC SERVICE COMMISSION

CASE NO.
2010-
00076

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

Kentucky Frontier Gas Company, LLC ("Kentucky Frontier"), by counsel provides the attached responses to the Order of March 26, 2010.

SUBMITTED BY:



John N. Hughes
124 W. Todd St.
Frankfort, KY 40601
502-227-7270

Attorney for
Applicant

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.

Witness: Shute

Response:

The former Sigma Gas system was split up in bankruptcy. As approved by the Commission, the portion of the system within the community of Salyersville was placed under the name of Cow Creek Gas, a tiny existing regulated utility. The remainder was placed into an unregulated gathering and pipeline company named DLR Enterprises. The Salyersville-Sigma segment had only about 150 meters attached to it. The DLR segment had about 350 customers attached, yet all those meters were allowed to stay as Sigma-Cow Creek.

As Frontier analyzed the purchase of the Sigma-Cow Creek customers, it realized that Frontier could not completely "un-ring the bell". The existing rates for Sigma could justify a \$550k purchase price of Sigma-Cow Creek and the peripheral Cow Creek, Dema and Interstate farm tap customers. But the combined entities had about \$800k in debt and the sellers were unable to sell at a loss.

The extra \$250k debt attributed to Sigma-DLR pipelines made the project untenable at existing Sigma rates for Frontier. To maintain control over the entire system and guarantee the integrity of the system and service, IGS will purchase a 10.1 mile segment of the DLR pipeline.

A segment of DLR will remain as DLR, with IGS ownership and separate financing from Frontier. IGS will pay up to \$250,000 for this portion of the pipeline. This segment has about 52 Sigma customers attached to it, which will stay distribution customers. DLR (IGS) will charge producers and transporters a pipeline charge. This change will have no effect on current customers, who already pay the charges to DLR within their gas cost.

Frontier will eventually file a General Rate case to consolidate all customers served by its Eastern Kentucky entities. But filing such a case now would unnecessarily delay by a year the pending acquisitions, and would have to be done *prospectively* without a true Test Year, since Frontier does not yet have history on the true cost of operating all these consolidated entities.

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.

Witness: Shute

Response: The customers being acquired are currently farm tap customers. Frontier is entering into a contract with ING to provide service to those customers, i.e. maintain the meter sets, read meters, bill for service and collect gas charges. The customers will remain served by the existing wells and gathering lines, however, the customer service associated with the farm taps will be contractually assumed by Frontier. This will provide those customers with a more reliable, long term service than might otherwise be available from the owner of the gathering system. When a consolidated GR case is filed, these could be deemed distribution customers.

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.

Witness: Shute

Response: Frontier is not refunding any money associated with its debt. The refinancing of a portion of the existing debt of the seller is not considered to be a refund, but is a portion of the consideration for the acquisition of assets by Frontier. Frontier will use the financing proceeds to buy the stock of Cow Creek, Dema and certain DLR assets. The Sellers are responsible for paying off their various loans.

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

Witness: Oxford

Response: No. The \$250,000 for the acquisition of the 10.1 miles of DLR pipeline is to be paid by IGS, not Frontier.

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?

Witness: Shute

Response:

No. If the production properties are sold prior to the closing of the agreement reflected in Exhibit 1, then the purchaser could chose to retain the farm tap customers and that portion of the agreement could change. However, if those properties are sold after the execution of Exhibit 1, that purchaser would be subject to the terms of the agreement reflected in Exhibit 1. No Frontier partner nor affiliate is working to purchase any other Interstate-related production properties. The agreement to acquire the farm taps contemplates that Frontier would keep the customers regardless of ownership of the wells and pipelines.

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?

Witness: Shute

Response:

Frontier has agreed to provide service to the farm taps for 10 years. At the end of that period, the agreement can be extended or modified. If the owner of the wells and gathering lines at the end of the ten year period wants to regain service to those customers, it would be able to do so, but Frontier intends to continue to serve those customers.

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.

Witness: Shute

Response: Seller's future farm taps refers to ING. The agreement is with Interstate Natural Gas, and does not cover other pipelines owned by Sellers, if there are any.

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

Witness: Oxford:

Response:

- Sigma-Cow Creek City System (Salyersville) about 183 customers;
 - Sigma-DLR system west of the compressor (along 32.6 mi of pipeline to be sold to Cow Creek) about 282 meters;
 - Sigma-DLR system to be retained by DLR (10.1 mi pipeline) 52 meters;
 - Cow Creek original system in Floyd County has about 30 customers west of Allen.
- Therefore, there are about 547 customers currently being 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?

Witness: Shute

Response:

Most gas supply to Sigma-Cow Creek is provided by wells operated by Interstate Natural Gas. There is an emergency feed from Jefferson Gas along Ky Route 114 which delivers small volumes to Cow Creek to maintain pressure on peak winter days. There is a connection to Auxier Road which has been inactive for years. Sigma-Cow Creek could potentially be supplied by existing EQT or Columbia pipelines which intersect Cow Creek or DLR pipelines.

Dema and the original Cow Creek systems are fed from Interstate wells.

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?

Witness: Shute

Response: The \$7 per mcf price is a reasonable 12-month fixed price, then the price will convert to an Index-based price. The gas from the wells is 1,329 BTU/scf, so the price equals \$5.27 per DTh. This price does not include the current \$2 DLR transportation fee. Wells that feed directly to the original Cow Creek or Salyersville City System will not incur an additional transport charge from DLR.

Dema is currently purchasing gas from Brushy Gap Coal & Gas Co. Inc. at \$10.00 per mcf. There are no additional charges.

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

Witness Rich

Response: All gas is supplied to Dema by Brushy Gap's 3 wells. Any excess gas is delivered to Columbia, see below.

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

Witness: Shute

Response: This clause means that Frontier cannot sell Dema and unilaterally nullify this gas supply arrangement. This is a concession to seller to provide gas to Dema, which gives seller a market for a portion of its local gas. This also gives Dema access to local production, which is generally lower cost than other sources.

13. How many customers are currently served by Dema?

Witness: Shute

Response: 10

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

Witness: Shute

Response: This is a package deal for both entities. Cow Creek (Salyersville) works for Frontier only in the precise sequence and configuration of these agreements. If Frontier buys only the Cow Creek-Sigma system, then Interstate can't economically operate the other distribution entities - Dema and the original Cow Creek. Hence, "concurrency" is one of the terms of the purchase agreements. The purpose of these series of transactions is to put as much of the former Sigma Gas system back into one unified system. The Cow Creek- DLR arrangement is confusing and not as economical as it could be. Frontier is proposing to unify a significant portion of those systems into one distribution system. The remaining 10.1 miles of DLR pipeline will be owned by Frontier's sister corporation, IGS, Inc. The number of customers associated with the consolidation is essential to make the purchase financially feasible. In order to assure that all of the component parts are assembled into the consolidated operation, it is necessary to concurrently execute all sales documents. If it were to be done piecemeal, it is possible some portion of the system would not be transferred, which would defeat the purpose of these transactions.

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.

Witness: Oxford

Response: Cow Creek is the "utility" and successor to Sigma Gas in the Salyersville area. Cow Creek also has customers along DLR's 43 miles of former Sigma pipelines. After the Frontier transactions, Cow Creek will retain service lines and meters to about 52 utility customers (also former Sigma customers) off the 10.1 mile system retained by DLR. The sale of DLR stock and pipeline does not include the Cow Creek customers, service lines or meters.

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

Witness: Shute

Response: Interstate has about 100 paying customers and 163 free gas customers on farm taps off its gathering systems in several counties.

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?

Witness; Shute

Response: : If Interstate or its successor keeps the gathering lines and wells under same ownership, then alternate supply to farm taps would be difficult. If the wells and lines are separately owned, then an alternate supply would be feasible. There may be other wells in the area that could be connected to the gathering system. If not, IGS could convert the line into a distribution line as part of Cow Creek.

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

Witness: Shute

Response: The determination to purchase the gathering lines will depend on the circumstances existing at the time. Frontier would purchase the gathering lines only if the lines and their connected customers were being abandoned. Frontier currently operates a small section of abandoned gathering line with a few customers at Price (former Belfry).

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

Witness: Rich

Response:

Exhibit A A list of farm taps will be produced as soon as available from Seller.

Exhibit B There are currently no "additional procedures" to add.

Exhibit C Current rates are attached.

FOR Pike, Floyd, Leslie, Perry, Lawrence, Johnson, Knott, Letcher, Lee, Morgan, Magoffin, Martin, and other counties in Kentucky

Community, Town or City

P.S.C. KY. NO. _____

_____ SHEET NO. _____

Interstate Natural Gas Company
(Name of Utility)

CANCELLING P.S.C. KY. NO. _____

_____ SHEET NO. _____

CONTENTS

INTERSTATE NATURAL GAS COMPANY

Of

347 Thompson Road
P.O. Box 3385
Pikeville, KY 41502

RATES, RULES, AND REGULATIONS FOR FURNISHING

Natural Gas

In

Pike, Floyd, Leslie, Perry, Lawrence, Johnson, Knott, Letcher, Lee, Morgan, Magoffin, Martin and other counties in Kentucky

DATE OF ISSUE _____

Month / Date / Year

DATE EFFECTIVE _____

Month / Date / Year

ISSUED BY James A. Perry _____

(Signature of Officer)

TITLE General Partner _____

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION

IN CASE NO. 2004-00356 DATED 6-20-2005

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE
2/4/2006
PURSUANT TO 807 KAR 5:011
SECTION 9 (1)

By [Signature]
Executive Director

FOR Pike, Floyd, Leslie, Knott, Johnson, Letcher,
Lee, Morgan, Magoffin, Martin, and other counties
Community, Town or City

P.S.C. KY. NO. 1

SHEET NO. 2

Interstate Natural Gas Company
(Name of Utility)

CANCELLING P.S.C. KY. NO. 1

SHEET NO. 2

RATES AND CHARGES

APPLICABLE:

Available to applicants along the gas lines of Interstate Natural Gas Company.

AVAILABILITY OF SERVICE:

Available to all classes of customers.

RATES: Monthly

Minimum Bill \$14.44

All additional MCF \$14.44

DATE OF ISSUE December 31, 2006
Month / Date / Year

DATE EFFECTIVE _____
Month / Date / Year

ISSUED BY James A. Glanville
(Signature of Officer)

TITLE General Partner

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION

IN CASE NO. 2006-00122 DATED December 20, 2006

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE
12/20/2006
PURSUANT TO 807 KAR 5:011
SECTION 9 (1)

By [Signature]
Executive Director

FOR Pike, Floyd, Leslie, Perry, Lawrence, Johnson, Knott, Letcher, Lee, Morgan, Magoffin, Martin, and other counties in Kentucky

Community, Town or City

P.S.C. KY. NO. _____

_____ SHEET NO. _____

Interstate Natural Gas Company
(Name of Utility)

CANCELLING P.S.C. KY. NO. _____

_____ SHEET NO. _____

RULES AND REGULATIONS

1. Bills for service will be rendered monthly, the term "month" shall mean the period between consecutive meter readings which shall be taken, as nearly as possible, every thirty (30) days.
2. Bills are rendered on or about the 1st day of the month for service furnished during the previous month and are due on that date. Bills not paid by the 12th of the month shall be subject to a 10 percent penalty on the monthly amount due. A penalty will not be charged on an existing penalty.
3. A charge of \$150 shall be charged for each new service tap, including saddle and first shutoff valve that Interstate Natural Gas Company must furnish and install.
4. A reconnection charge of \$25 shall be paid before service is restored following disconnection of service for nonpayment of bills.
5. A deposit of 2/12 of the average annual bill will be required for each new account. This will be refundable upon disconnection of service and payment of any balance due for gas service. Otherwise, the deposit will be applied toward the outstanding balance and the remainder, if any will be refunded.
6. A reconnection charge of \$25 shall be paid by customers, which request a disconnection and subsequently re-establish service at the same premises within 12 months.
7. A service charge of \$25 will be imposed on any customer whose check is returned from the bank due to insufficient funds. Such account will be considered in arrears, subject to penalty and possible

DATE OF ISSUE _____
Month / Date / Year

DATE EFFECTIVE _____
Month / Date / Year

ISSUED BY Jenna A. Hawley
(Signature of Officer)

TITLE General Partner

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. 2004-00356 DATED 6-20-2005

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE
2/4/2006
PURSUANT TO 807 KAR 5:011
SECTION 9 (1)

By [Signature]
Executive Director

FOR Pike, Floyd, Leslie, Perry, Lawrence, Johnson, Knott, Letcher, Lee, Morgan, Magoffin, Martin, and other counties in Kentucky

Community, Town or City

P.S.C. KY. NO. _____

_____ SHEET NO. _____

Interstate Natural Gas Company

(Name of Utility)

CANCELLING P.S.C. KY. NO. _____

_____ SHEET NO. _____

RULES AND REGULATIONS

termination after notice pursuant to 807 KAR 5:006, Section 11.

8. A charge of \$15 will be levied when a trip is made to collect a delinquent bill after proper notice.
9. Service will not be discontinued for non-payment of bills without first having made a reasonable effort to induce the customer to pay the balance due. A 10 day written notice of cut-off will be given to the customer but the cut-off shall not be effective before 27 days after the mailing date of the original bill. This notice is separate from the bill and will include notification of state, local, and federal programs, if any, and their addresses, which provide assistance in payment of utility bills under certain conditions.
10. Any service call that is made by Interstate Natural Gas Company for the customer side of the meter there will have \$30 charge.
11. For matters not addressed herein, Interstate Natural Gas Company adopts the applicable rules of the Public Service Commission.

DATE OF ISSUE _____
Month / Date / Year

DATE EFFECTIVE _____

ISSUED BY James A. Hanley _____
Month / Date / Year
(Signature of Officer)

TITLE General Partner

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. 2004-00356 DATED 6-20-2005

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE
2/4/2006
PURSUANT TO 807 KAR 5:011
SECTION 9 (1)

By [Signature]
Executive Director

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

Witness: Shute

Response: It has no utility function. It should refer only to DLR being a Kentucky corporation, not utility. DLR has no utility functions. DLR will continue to gather and transport gas for Interstate and other producers.

21. Refer to Exhibit 5, Article 5.09. Who are the current customers of DLR?

How many customers does DLR currently serve?

Witness: Shute

Response: DLR has no utility customers, but connections with Jefferson and Cow Creek utility systems.

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.

Witness: Shute

Response: : IGS owns a stake in Kentucky Frontier; the others are suppliers to various Frontier systems, but there is no other affiliation. Frontier is a customer of EQT and may be a future customer of Jefferson and Chesapeake. We have no knowledge concerning Seller's relationships with these companies.

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?

Witness: Shute

Response: Yes: Interstate Gas will pay the stated fee for gathering and transportation of produced gas.

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.

Witness: Shute

Response: The DLR Transfer Line was built as a Sigma distribution line but is currently operated as a gathering system. IGS has no preference and will operate it as a DOT pipeline regardless of classification. It could be considered a distribution line for purposes of pipeline safety jurisdiction by the PSC.

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.

Witness: Shute

Response: The segment in question was built as a Sigma distribution line. It will be sold from DLR to Frontier / Cow Creek and will be considered a distribution line.

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?

Witness: Oxford

Response: Frontier is does not have information on individual farm taps or dates installed by Interstate. It is our understanding that all farm taps were constructed, inspected, and approved by the PSC as required.

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?

Witness: Shute

Response: Frontier is unaware of the addition of new customers, but believes that none have been added. New farm taps are not likely since DLR began operating this former Sigma system ca 2008. Under the bankruptcy settlement approved by the Commission, Cow Creek kept all Sigma customers under the distribution tariff, although 2/3 of them were actually served by gas from the DLR system. Under this scheme, DLR-Interstate-Cow Creek had a disincentive to add farm tap customers when Cow Creek customers would pay more.

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 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?

Witness: Rich/Shute

Response: a The square orange symbol is a meter. This is an interconnection on the Columbia Gas Transmission pipeline PM-3 and is operated as a sales point for gas gathered from Brushy Gap. Features located at this interconnection are an Interstate Natural Gas Company compressor, an Interstate Natural Gas Company sales meter, a Columbia Gas's purchase meter and meter house, and valves.

b. The red "M" squares are meters that measure gas delivered by production companies. Brushy Gap Coal and Gas Co., Inc. delivers to the Dry Creek pipeline operated by EQT Kentucky West Virginia Gas. Interstate Natural Gas Company delivers to the Potato Branch pipeline operated by Columbia Gas Transmission Company.

c. They are located at various points along the gathering line before it connects to

Kentucky West Virginia pipeline on Dry Creek.

d. Brushy Gap was initially owned by the Allen family, and is now owned by Interstate owners Kanney & Rohrer. The interconnecting gathering lines are owned by Brushy Gap.

e. Dema has a contract with Brushy Gap Coal and Gas Co., Inc. for gas supply from 3 wells:

Joseph and Lena Hall #1 and #2 (no KGS numbers available)

Lena Hall # 3 well (KGS 56778).

These wells are included in the negotiations for the sale of certain production properties. The two parties have signed a letter of intent and have established a May 3 signing date for the sales agreement.

f. No other wells.

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?

Witness: Shute

Response: Frontier does not have that information. This is the date used by the previous owners. Dema Gas, Inc. was incorporated on or about September 1, 1989 and we presume the lines were installed then. The mains are mostly PE.

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.)

Witness: Oxford/Rich

Response: a The current sources of gas supply are labeled on the respective maps, showing the name of the supplier and/or well operator. Gas wells operated by Interstate and are captive to the Cow Creek system as proposed are so indicated on the maps. Interstate prepared the attached list of wells.

b. Cow Creek-Sigma has 2 separate interconnections with Jefferson Gas. The Grover Arnett Compressor delivers excess gas from DLR to Jefferson. The other point is a take point from Jefferson to DLR near Ky Route 114 (Parkway).

c. The square red symbol represents a connection between Auxier Road Gas Co. and DLR. The connection has not been active for several years.

d. . The Grover Arnett Compressor is located along Burning Fork Road or Magoffin County Road 1888 about 1.2 miles off the Mountain Parkway (Ky Route 114), the aprx location of which is labeled on the attached map, Exhibit 2.

Wells connected to the Cow Creek and DLR systems owned by Interstate Natural Gas

<u>Name of Wells</u>	<u>KGS Numbers</u>
Harold Green #1	132209
Roger Spradin # 1	132670
Anne Dickerson # 1	134186
Caleb Whitaker Wells	
Elkhorn Well # 4	125641
Elkhorn Well # 5	128422
Elkhorn Well # 6	128423
Elkhorn 21	132598
Lloyd Rice # 1	133587
Lloyd Rice # 2	133589
Lloyd Rice # 3	133590

Wells connected to the Cow Creek and DLR systems owned by Plateau Energy, LLC

<u>Farm Name</u>	<u>Name of Wells</u>	<u>Well Operator</u>	<u>KGS Numbers</u>
Jody Hackworth	# 3	Plateau Energy, LLC	127055
Jody Hackworth	#3A	Plateau Energy, LLC	127361
Jody Hackworth	#4	Plateau Energy, LLC	129378
Jody Hackworth	#4A	Plateau Energy, LLC	132744
Jody Hackworth	#1	Plateau Energy, LLC	126263
Jody Hackworth	#1A	Plateau Energy, LLC	126486
Jody Hackworth	#2	Plateau Energy, LLC	127053
Jody Hackworth	#2A	Plateau Energy, LLC	127057

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).

Witness: Rich

Response: Frontier does not have this information. : Frontier will produce a list of farm tap meters and addresses and information after closing, but likely cannot produce a usable map. The various pipelines and connected well information will be produced at a later date if readily available from Interstate.

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?

Witness: Shute

Response: A royalty customer is one who has contracted with a gas producer to drill a well on his property. In exchange for the right to locate the well on the property, the property owner gets a "royalty". It may be a payment based on the amount of gas produced or a flat payment or a volume of gas. It is a negotiated payment that Frontier is contractually required to accept. Royalty customers receive their royalties in-kind from the production company, rather than a cash payment. Free Gas customers are those who have negotiated rights of way for a certain volume (typically 60 to 200 mcf per year) by the production company, in this case Interstate Natural Gas. When a customer's annual allotment of free gas or royalty gas is used up, he will pay the farm tap rate for any volume over the annual allotment, until the end of the year. These allotments re-set at year's end. Customers do not accumulate credits for unused allotments.

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

Witness: Shute

Response: Attached are the financial statements for Cow Creek and Dema. The DLR financials are not yet available.

COW CREEK GAS, INC.
STATEMENT OF OPERATIONS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2009

	Dec-09
REVENUES:	
Gas Income	\$ 537,613
Contract Service Fees	<u>0</u>
Total Revenue	537,613
OPERATING EXPENSES	
Gas Purchases	296,517
State Severance taxes	17,345
Sales, Ad Valorem, and use tax	31,374
Lease Operating Expense	14,545
Employee Leased	96,600
Depreciation Expense	<u>33,523</u>
Total Operating Expenses	<u>489,904</u>
Gross Profit from Operations	47,709
GENERAL & ADMINISTRATIVE EXPENSES	
Parts & Supplies	14,750
Parts & Supplies-Wells	1,811
Parts & Supplies-House Customers	4,232
Freight	506
Accounting & Legal Services	3,022
Advertising and Promotions	320
Bank Service Fees	724
Licenses and Permits	15
Office Supplies & Expenses	128
Rent Expense	9,645
Rental-Equipment & Tools	599
Miscellaneous Expenses	198
Interest Expense	14,948
Insurance: Equipment	<u>4,344</u>
Total General and Administrative Expense	55,241
NET INCOME (LOSS)	\$ <u><u>-7,532</u></u>

COW CREEK GAS, INC.
Balance Sheet
December 31, 2009

ASSETS

Current Assets:

Cash	\$ 28,692
Accounts Receivable	37,050
Prepaid Insurance	<u>3,042</u>
Total Current Assets	68,784

Fixed Assets:

Shop Building	15,876
Meters	106,463
House Regulators	33,833
Mains	759,707
Less: Accumulated Depreciation	<u>(498,527)</u>
Total Fixed Assets	<u>417,353</u>

TOTAL ASSETS \$ 486,137

LIABILITIES

Accounts Payable	\$ 218,359
Interest Payable	1,714
Customer Deposits	11,537
Loans from Shareholders	8,000
Notes Payable-CNB 25763	<u>317,510</u>
Total Liabilities	557,121

STOCKHOLDERS' EQUITY (DEFICIT)

Capital Stock	1,000
Retained Earnings (DEFICIT)	<u>(71,985)</u>
Total Stockholders' Equity (DEFICIT)	<u>(70,985)</u>

TOTAL LIABILITIES & STOCKHOLDERS' EQUITY (DEFICIT) \$ 486,136

COW CREEK GAS, INC.
STATEMENT OF CASH FLOWS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2009

BOOK INCOME	(7,533)
PLUS CHARITABLE CONTRIBUTIONS	0
PLUS DEPLETION	0
PLUS DEPRECIATION	33,523
PLUS INTEREST EXPENSE	14,948
	<hr/>
EARNINGS BEFORE DEPLETION, DEPRECIATION, AMORTIZATION AND INTEREST EXPENSE	40,938

DEMA GAS COMPANY, INC.
STATEMENT OF OPERATIONS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2009

	Dec-09
REVENUES:	
Gas Income	\$ 6,456
Miscellaneous Income	<u> </u>
Total Revenue	6,456
OPERATING EXPENSES	
Gas Purchases	3,209
Severance Taxes	158
Contract Labor	570
Depreciation Expense	<u>1,510</u>
Total Operating Expenses	<u>5,447</u>
Gross Profit from Operations	1,009
GENERAL & ADMINISTRATIVE EXPENSES	
Sales & Use Tax	186
Outside Services	3,445
Advertising & Promotions	47
Interest Expense	1,469
Accounting	800
Miscellaneous Expenses	0
Other Administrative Expenses	<u>406</u>
Total General and Administrative Expense	<u>6,353</u>
NET INCOME (LOSS)	\$ <u><u>(5,344)</u></u>

DEMA GAS COMPANY, INC.
BALANCE SHEET
December 31, 2009

ASSETS

Current Assets:

Cash	\$ 1,709
Accounts Receivable	<u>172</u>
Total Current Assets	1,881

Fixed Assets:

Equipment	46,536
Less: Accumulated Depreciation	<u>(36,235)</u>
Total Fixed Assets	<u>10,301</u>

TOTAL ASSETS

\$ 12,182

LIABILITIES

Accounts Payable	\$ 3,447
Interest Payable	1,541
Notes Payable- Interstate	24,025
Notes Payable-Baiden	2,000
Customer Deposits	<u>300</u>
Total Liabilities	31,313

STOCKHOLDERS' DEFICIT

Capital Stock	6,000
Retained (Deficit)	<u>(25,130)</u>
Total Stockholders' (Deficit)	<u>(19,130)</u>

TOTAL LIABILITIES & STOCKHOLDERS' (DEFICIT)

\$ 12,182

DEMA GAS COMPANY, INC.
STATEMENT OF CASH FLOWS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2009

BOOK INCOME	(5,344)
PLUS CHARITABLE CONTRIBUTIONS	0
PLUS DEPLETION	0
PLUS DEPRECIATION	1,510
PLUS AMORTIZATION	0
PLUS INTEREST EXPENSE	<u>1,469</u>
EARNINGS BEFORE DEPLETION, DEPRECIATION, AMORTIZATION AND INTEREST EXPENSE	(2,365)

DEMA GAS COMPANY, INC.
BALANCE SHEET
February 28, 2010

ASSETS

Current Assets:

Cash	\$ 103
Accounts Receivable	<u>547</u>

Total Current Assets 650

Fixed Assets:

Equipment	46,536
Less: Accumulated Depreciation	<u>(36,420)</u>

Total Fixed Assets 10,116

TOTAL ASSETS \$ 10,766

LIABILITIES

Accounts Payable	\$ -
Interest Payable	108
Notes Payable- Interstate	-
Notes Payable-Baiden	-
Customer Deposits	<u>300</u>

Total Liabilities 408

STOCKHOLDERS' EQUITY

Capital Stock	6,000
Retained Earnings	<u>4,358</u>

Total Stockholders' Equity 10,358

TOTAL LIABILITIES & STOCKHOLDERS' EQUITY \$ 10,766

DEMA GAS COMPANY, INC.
STATEMENT OF OPERATIONS
FOR THE TWO MONTHS ENDED FEBRUARY 28, 2010

	Feb-10
REVENUES:	
Gas Income	\$ 1,730
	<hr/>
Total Revenue	1,730
OPERATING EXPENSES	
Gas Purchases	1,308
Severance Taxes	51
Depreciation Expense	186
	<hr/>
Total Operating Expenses	1,545
Gross Profit from Operations	185
GENERAL & ADMINISTRATIVE EXPENSES	
Sales & Use Tax	57
Outside Services	1,515
Advertising & Promotions	63
Interest Expense	252
Other Administrative Expenses	10
	<hr/>
Total General and Administrative Expense	1,897
NET INCOME (LOSS)	\$ <u>(1,712)</u>

DEMA GAS COMPANY, INC.
STATEMENT OF CASH FLOWS
FOR THE TWO MONTHS ENDED FEBRUARY 28, 2010

BOOK INCOME (LOSS)	(1,712)
PLUS CHARITABLE CONTRIBUTIONS	0
PLUS DEPLETION	0
PLUS DEPRECIATION	186
PLUS AMORTIZATION	0
PLUS INTEREST EXPENSE	<u>252</u>
EARNINGS (LOSS) BEFORE DEPLETION, DEPRECIATION, AMORTIZATION AND INTEREST EXPENSE	(1,274)

COW CREEK GAS, INC.
Balance Sheet
February 28, 2010

ASSETS

Current Assets:

Cash	\$ 1,154
Accounts Receivable	34,621
Prepaid Insurance	<u>2,173</u>

Total Current Assets 37,947

Fixed Assets:

Shop Building	15,876
Meters	106,463
House Regulators	33,833
Mains	759,707
Less: Accumulated Depreciation	<u>(504,126)</u>

Total Fixed Assets 411,753

TOTAL ASSETS **\$ 449,700**

LIABILITIES

Accounts Payable	\$ -
Interest Payable	1,182
Customer Deposits	12,237
Notes Payable-CNB 25763	<u>312,459</u>

Total Liabilities 325,878

STOCKHOLDERS' EQUITY

Capital Stock	1,000
Retained Earnings	70,516
Current Year Earnings	<u>52,307</u>

Total Stockholders' Equity 123,822

TOTAL LIABILITIES & STOCKHOLDERS' EQUITY **\$ 449,700**

COW CREEK GAS, INC.
STATEMENT OF OPERATIONS
FOR THE TWO MONTHS ENDED FEBRUARY 28, 2010

	Feb-10
REVENUES:	
Gas Income	\$ 248,419
Contract Service Fees	<u>0</u>
 Total Revenue	 248,419
 OPERATING EXPENSES	
Gas Purchases	146,414
State Severance taxes	5,363
Sales, Ad Valorem, and use tax	4,971
Lease Operating Expense	-365
Employee Leased	26,143
Depreciation Expense	<u>5,600</u>
 Total Operating Expenses	 <u>188,125</u>
 Gross Profit from Operations	 60,294
 GENERAL & ADMINISTRATIVE EXPENSES	
Parts & Supplies	271
Parts & Supplies-Wells	0
Parts & Supplies-House Customers	0
Freight	0
Accounting & Legal Services	0
Advertising and Promotions	237
Bank Service Fees	121
Licenses and Permits	938
Office Supplies & Expenses	0
Rent Expense	2,400
Rental-Equipment & Tools	0
Miscellaneous Expenses	801
Interest Expense	2,351
Insurance: Equipment	<u>869</u>
 Total General and Administrative Expense	 <u>7,988</u>
 NET INCOME	 \$ <u>52,307</u>

COW CREEK GAS, INC.
STATEMENT OF CASH FLOWS
FOR THE TWO MONTHS ENDED FEBRUARY 28, 2010

BOOK INCOME	52,307
PLUS CHARITABLE CONTRIBUTIONS	0
PLUS DEPLETION	0
PLUS DEPRECIATION	5,600
PLUS INTEREST EXPENSE	2,351
<hr/>	
EARNINGS BEFORE DEPLETION, DEPRECIATION, AMORTIZATION AND INTEREST EXPENSE	60,258

Kentucky Frontier Gas, LLC
Profit & Loss
 January 1 through February 16, 2010

	Jan 1 - Feb 16, 10
Income	
419 · Interest Income	127.32
480 · Residential Sales	295,296.26
481 · Commercial & Industrial Sales	44,686.64
Total Income	340,110.22
Cost of Goods Sold	
800 · Gas Supply Expenses	
804 · Natural Gas Purchases & Transp	31,511.03
Total 800 · Gas Supply Expenses	31,511.03
Total COGS	31,511.03
Gross Profit	308,599.19
Expense	
408 · Taxes Other Than Income Taxes	
408.1 · Payroll Taxes Expenses	3,516.52
408.2 · Sales Tax	689.85
Total 408 · Taxes Other Than Income Taxes	4,206.37
870 · DISTRIBUTION EXPENSES	
871 · DISTRIBUTION OPERATION	
874 · Mains & Services Expenses	1,721.29
878 · Meter & House Regulator Exp	966.78
880 · Other Expenses	750.00
881 · Rents	2,000.00
Total 871 · DISTRIBUTION OPERATION	5,438.07
884 · DISTRIBUTION MAINTENANCE	
887 · Maintenance of Mains	11,769.71
892 · Maintenance of Services	7,479.07
Total 884 · DISTRIBUTION MAINTENANCE	19,248.78
Total 870 · DISTRIBUTION EXPENSES	24,686.85
900 · CUSTOMER ACCOUNTS EXPENSES	
900.1 · CUSTOMER ACCT OPERATION	
902 · Meter Reading Exp	3,818.23
903 · Customer Records & Collec Exp	15,643.95
Total 900.1 · CUSTOMER ACCT OPERATION	19,462.18
Total 900 · CUSTOMER ACCOUNTS EXPENSES	19,462.18
906 · CUSTOMER SERVICE & INFORMATION	
906.1 · C S & I OPERATION	
909 · Inform & Instruc Advert Exp	
909.1 · Web Support	87.80
Total 909 · Inform & Instruc Advert Exp	87.80

Kentucky Frontier Gas, LLC
Profit & Loss
January 1 through February 16, 2010

	<u>Jan 1 - Feb 16, 10</u>
Total 906.1 · C S & I OPERATION	<u>87.80</u>
Total 906 · CUSTOMER SERVICE & INFORMATION	87.80
918 · ADMINISTRATIVE & GENERAL EXP	
919 · ADMIN & GEN OPERATION	
920 · Admin & General Salaries	473.60
921 · Office Supplies and Expenses	993.87
923 · Outside Services Employed	
923.1 · Outside Services - Manager	5,062.50
923.2 · Outside Services - Accounting	2,278.13
923.3 · Outside Services - Engineering	5,152.00
Total 923 · Outside Services Employed	<u>12,492.63</u>
924 · Insurance	
924.1 · Auto Insurance	773.75
924.2 · General Liability Insurance	2,985.90
924.5 · Worker's Compensation	847.48
Total 924 · Insurance	<u>4,607.13</u>
930.2 · Miscellaneous General Expenses	
930.21 · Bank Service Charges	212.40
930.22 · Cleaning/Janitorial	363.27
930.25 · Licenses & Permits	125.49
930.26 · Payroll Administration Expenses	3,651.02
930.27 · Postage and Delivery	2,483.95
930.29 · Member/Managerial Costs	
Cell Phone	92.44
Emp share of FICA	387.28
Insurance	600.00
Internet	99.90
Lodging	55.12
Meals	1,008.00
Mileage	2,635.05
Travel	1,143.03
Total 930.29 · Member/Managerial Costs	<u>6,020.82</u>
930.30 · Telephone and Fax	1,139.64
930.32 · Utilities	757.74
Total 930.2 · Miscellaneous General Expenses	<u>14,754.33</u>
931 · Rents	<u>6,050.00</u>
Total 919 · ADMIN & GEN OPERATION	<u>39,371.56</u>
Total 918 · ADMINISTRATIVE & GENERAL EXP	39,371.56
932 · MAINTENANCE OF GENERAL PLANT	
932.1 · Repairs	
Building Repairs	<u>129.11</u>

Kentucky Frontier Gas, LLC
Profit & Loss
January 1 through February 16, 2010

	<u>Jan 1 - Feb 16, 10</u>
Total 932.1 · Repairs	129.11
932.3 · Tools & Equipment	894.18
932.4 · Transportaion Equipment Fuel	
Vehicle 201	446.12
932.4 · Transportaion Equipment Fuel - Other	<u>3,397.12</u>
Total 932.4 · Transportaion Equipment Fuel	<u>3,843.24</u>
Total 932 · MAINTENANCE OF GENERAL PLANT	<u>4,866.53</u>
Total Expense	<u>92,681.29</u>
Net Income	<u><u>215,917.90</u></u>

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

Witness: Shute

Response: Attached are February, 2010 financial statements for Frontier, Cow Creek and Dema. The DLR financials are not yet available.

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.

Witness: Oxford

Response: The suggested journal entries will be furnished as soon as we receive a final closing statement.

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?

Witness; Oxford

Response: IGS will pay an amount not to exceed \$250,000. The current balance is approximately \$230,000. DLR has a loan with Citizens with the stated loan balance at that date. IGS has agreed to pay the balance up to and including \$250,000. If the loan balance at closing exceeds this amount, the present owners of DLR must pay down the balance or retain a loan for the difference.

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.

Witness: Shute

Response: DLR has a loan with Citizens with the stated loan balance at that date. The current Citizens Bank statements show loan balances as of 3/31:

Cow Creek	\$314,137
DLR	\$468,687

Frontier will pay \$320k to Cow Creek, which will pay off this CC loan.

Then Frontier will pay \$230k to Cow Creek to pay DLR for pipelines.

IGS will purchase remaining DLR stock and pipeline for the remaining DLR loan balance, not to exceed \$250k.