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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Complaint against KNG Energy, Inc. by Ohio Intrastate Energy, LLC and Request for Approval for Immediate Substitution of Service and for Approval of Transition Plan.	:	Case No. 12-2576-GA-CSS

ANSWER OF KNG ENERGY, INC.

KNG Energy, Inc. ("KNG"), pursuant to Rule 4901-1-09, Ohio Administrative Code ("OAC"), hereby submits its answer to the complaint filed herein on September 20, 2012 by Ohio Intrastate Energy, LLC ("OIE"). KNG answers the complaint as follows:

FIRST DEFENSE

1. In response to Paragraph 1 of the complaint, KNG admits that Section 4905.26, Revised Code, provides that a public utility may file a complaint "as to any matter affecting its own product or service." Answering further, KNG denies that KNG and OIE are public utilities under Sections 4905.03(A)(6) and (7), Revised Code, and avers that KNG and OIE are natural gas companies under Section 4905.03(E), Revised Code, and that OIE is also a pipeline company under Section 4905.03(F), Revised Code. Thus, KNG admits that KNG and OIE are public utilities under Section 4905.02, Revised Code.

2. In response to Paragraph 2 of the complaint, KNG admits that it owns and operates an 8-inch pipeline (the "KNG Line") that is located north of the village of Hoytville. Answering further, KNG denies that the KNG Line is directly connected to the Hoytville Lateral,

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and avers that the Hoytville Lateral is directly connected to KNG Line. KNG admits that OIE has executed a lease with Hoytville of the Hoytville Lateral and the Hoytville distribution system.

3. In response to Paragraph 3 of the complaint, KNG admits that OIE has purchased a 5.5-mile pipeline from the Village of McComb that is connected to the Hoytville Lateral, but denies, for lack of knowledge and information sufficient to form a belief as to truth thereof, the specifics of, and circumstances surrounding the October 11, 2011 agreement set out in said paragraph. KNG denies that the KNG Line, the Hoytville Lateral, and the McComb-Hoytville Line comprise part of the so-called "System" referred to in this paragraph. Answering further, KNG states that the 1959 Deed and Indenture (the "1959 D&I) attached as Exhibit A to the complaint speaks for itself and disagrees with OIE's characterizations of the terms of this document.

4. KNG admits the allegations of Paragraph 4 of the complaint.

5. In response to Paragraph 5 of the complaint, KNG admits that the Commission's October 3, 2011 finding and order in Case No. 11-3171-GA-UNC imposed the stated notice requirement upon OIE, admits that OIE has not initiated service to any customers, but denies that OIE's failure to initiate service to customers is the result of the reasons subsequently discussed in the complaint. KNG assumes that OIE will file its tariff and provide notice to all affected customers once substitution of service has been approved by the Commission, but has no way of knowing what OIE will do in the future, and, thus, cannot respond to this allegation.

6. KNG admits the allegations of Paragraph 6 of the complaint.

7. KNG admits the allegations of Paragraph 7 of the complaint.

8. KNG denies the allegations of Paragraph 8 of the complaint.

9. In response to Paragraph 9 of the complaint, KNG denies, for lack of knowledge and information sufficient to form a belief as to truth thereof, that OIE has arranged a firm gas supply for those customers being served by KNG on a temporary basis. KNG denies that OIE has arranged for a delivery path through TCO meter station 708690 because the reactivation of said station does not give OIE the right to connect facilities at said station to the KNG Line and does not give OIE the right to deliver gas over the KNG Line from said station to the Hoytville Lateral. KNG denies, for lack of knowledge and information sufficient to form a belief as to truth thereof, the allegations regarding agreements with TCO entered into in January of 2012. KNG denies that the station is ready to be reactivated upon approval by this Commission so as to reinstitute deliveries through the KNG Line because: (a) there has been no Section 4905.48, Revised Code, application to the Commission by OIE and KNG for consent and approval to connect the outlet valves at the station to the KNG Line; (b) the Commission does not have jurisdiction to adjudicate OIE's claim that it has the right to transport gas over the KNG Line pursuant to the 1959 D&I (which is the sole basis cited by OIE for its allegation that it has the right to transport gas over the segment of the KNG Line in question); (c) such approval would violate the terms of the Stipulation approved by the Commission in the Suburban abandonment case, Case No. 08-947-GA-ABN; (d) OIE has no transportation agreement with KNG; and (e) there is no meter station at the connection of the Hoytville Lateral to the KNG Line.

10. In response to Paragraph 10 of the complaint, KNG denies that the gas cost differential cited therein currently exists and avers that the comparison set forth therein does not accurately reflect the all-in cost associated with either option. Answering further, KNG states that these costs fluctuate daily, and that, in any event, neither OIE nor KNG has any way of knowing what the price differential or relative advantage of either option may be in the future.

11. KNG denies the allegations of Paragraph 11 of the complaint for lack of knowledge and information sufficient to form a belief as to truth thereof. Answering further, KNG states that, even if the allegations are true, the facts alleged are not relevant to the issue raised by the complaint and, with respect to the allegation that OIE must be prepared to deliver up to 300,000 cu.ft./hour, states that it is physically impossible to deliver gas from the KNG Line into the Hoytville Lateral at that rate.

12. KNG denies the allegations of Paragraph 12 of the complaint for lack of knowledge and information sufficient to form a belief as to truth thereof. Answering further, KNG states that, even if the allegations are true, the facts alleged are not relevant to the issue raised by the complaint.

13. KNG denies the allegations of Paragraph 13 of the complaint for lack of knowledge and information sufficient to form a belief as to truth thereof. Answering further, KNG states that, even if the allegations are true, the facts alleged are not relevant to the issue raised by the complaint.

14. KNG denies the allegations of Paragraph 14 of the complaint for lack of knowledge and information sufficient to form a belief as to truth thereof. Answering further,

KNG states that, even if the allegations are true, the facts alleged are not relevant to the issue raised by the complaint.

15. In response to Paragraph 15 of the complaint, KNG admits that Suburban Natural Gas Company initiated civil litigation in the Wood County Court of Common Pleas in Case No. 2012CV0150 against OIE and TCO, but, because the terms of the settlement that resolved that litigation have not been disclosed due to OIE's claim that the terms are confidential, KNG denies the remaining allegations of this paragraph of the complaint for lack of knowledge and information sufficient to form a belief as to truth thereof. Answering further, KNG states that even if the allegations are true, the facts alleged are not relevant to the issue raised by the complaint.

16. In response to Paragraph 16 of the complaint, KNG admits the allegations thereof, except that KNG denies that it has rights as the successor in interest to the village of Deshler as alleged in Paragraph 16.b, and denies that OIE has a common right to capacity on the KNG Line and that KNG has acknowledged that OIE has such a capacity entitlement as alleged in Paragraph 16.c.

17. KNG admits the allegations of Paragraph 17 of the complaint.

18. KNG denies the allegations of Paragraph 18 of the complaint.

19. KNG denies the allegations of Paragraph 19 of the complaint.

20. KNG denies the allegations of Paragraph 20 of the complaint.

21. KNG denies the allegations of Paragraph 21 of the complaint. Answering further, KNG states that if there are any prospective customers that have requested service from OIE, OIE should direct those customers to submit an application for service to KNG so that those customers can obtain service on the same temporary basis as the customers being served by KNG until such time as the Commission approves the joint KNG-OIE application for a substitution of service contemplated by the Commission's order in Case No. 08-947-GA-ABN.

22. In response to Paragraph 22 of the complaint, KNG admits that its motion to intervene and supporting memorandum filed in Case No. 08-947-GA-ABN contains the statements set out in this paragraph regarding the rights of each village to capacity on the then-existing "System," the need for an agreement to address the balancing issues that would arise if both Suburban and KNG were introducing gas into the "System," and the advantages of an additional delivery point in terms of increasing supply options. However, KNG's statement with respect to the capacity rights of the villages predated the ordinances enacted by the villages terminating their interests in the 1959 D&I and the Commission's order in Case No. 08-947-GA-ABN. Thus, KNG denies any implication that it now acknowledges that any of the villages have any remaining capacity rights by on pipelines that were formerly part of the "System," but are now owned or leased by various public utilities. KNG further denies that the potential arrangement with Suburban discussed in KNG's communications with Deshler and Hamler has any relevance to the issue raised by the complaint.

23. KNG denies the allegations of Paragraph 23 of the complaint.

24. In response to Paragraph 24 of the complaint, KNG admits that the language from the Commission-approved stipulation and the Commission's order in the Suburban

abandonment case is as set forth in the excerpts presented in this paragraph, but denies all other allegations of this paragraph, except the allegation of Paragraph 24.c that the Commission's order does not imply that deliveries could not be reinstituted in the future. With respect to this allegation, KNG admits that deliveries could be reinstituted in the future, but states that any reinstitution of deliveries over this path would require the consent of KNG, which, as the owner of the KNG Line, has the exclusive right to operate this facility, and the consent of the Commission to the connection of the OIE and KNG facilities, which can only be obtained through a joint application filed by OIE and KNG pursuant to Section 4905.48, Revised Code.

25. In response to Paragraph 25 of the complaint, KNG states that it does not know what the terms "Deshler System" and "KNG/Deshler meter" refer to because they are not defined terms. However, assuming that the term "Deshler System" refers to the pipelines that comprised the former "System" created by the 1959 D&I, KNG denies that there is only one delivery meter current operating on these pipelines and avers that, consistent with standard industry practice, there is a metered delivery point that isolates the facilities of KNG from the facilities of the Deshler municipal gas utility and a metered delivery point at the interconnection of the segment of the former Hamler pipeline now owned by Ohio Gas with the KNG high-pressure line that runs from Crossroads to the village of Leipsic. KNG denies, for lack of knowledge and information sufficient to form a belief as to truth thereof, the allegation that the Deshler Station was inactivated upon the Commission's authorization of substitution of service in the Suburban abandonment case. KNG denies that the excerpt from the joint motion for a substitution of service set forth in Paragraph 25 of the complaint represents an acknowledgement of the value of access to two interstate pipelines by Ohio Gas and the village of Deshler. KNG admits that KNG observed in the joint motion that "access to two different interstate pipelines

(Crossroads and TCO) would be a significant benefit to KNG and, ultimately, to all affected customers." Answering further, KNG states that, as is apparent from the context, this observation was based on a scenario in which KNG would be the operator of the delivery point on TCO. Thus, KNG denies any implication that this general observation indicates an acknowledgement by KNG that access to TCO through a delivery point operated by OIE would benefit KNG or its customers.

26. In response to Paragraph 26 of the complaint, KNG denies, for lack of knowledge and information sufficient to form a belief as to truth thereof, the allegation that TCO required OIE to notify KNG, Ohio Gas, and Deshler of the option to schedule gas through the delivery point on the TCO line. KNG admits that OIE did provide a notice to KNG, Ohio Gas, and Deshler, but states that neither KNG, Ohio Gas, or Deshler expressed any interest in scheduling gas through this delivery point. KNG denies all other allegations of Paragraph 26 of the complaint.

27. In response to Paragraph 27 of the complaint, KNG admits that it owns the line purchased from the village of Deshler, but denies that it acquired this line subject to any capacity rights of any village. Although this line is referred to in the complaint by various designations, KNG assumes that the reference in this paragraph to the "Deshler Pipeline" means the line KNG purchased from Deshler. If that is, in fact, the case, KNG denies that this line is interconnected with the KNG meter station on Crossroads. KNG avers that this line (now the "KNG Line") is connected at Deshler to the segment of a line formerly owned by village of Hamler that was conveyed to Ohio Gas and subsequently conveyed by Ohio Gas to KNG to permit KNG to deliver gas to Deshler from the west and to feed the KNG Line from the west. KNG avers that

this segment is connected to the KNG high-pressure line at a point northwest of Deshler. KNG further avers that it is the KNG high-pressure line that is interconnected with the KNG meter station on Crossroads. KNG admits that the KNG Line is currently connected to the station at the North Baltimore delivery point on the TCO line, but states that such connection, which was performed by OIE without KNG's consent and without Commission approval, is unlawful. KNG admits that OIE has opined regarding the possible benefits of delivering gas sourced from either the Crossroads or TCO delivery points to the village of McComb's internal distribution system which is operated by KNG as well as to Hearthside, a customer served by KNG, but denies the efficacy of delivering gas to Hearthside from either delivery point over the pathway proposed by OIE due to pressure constraints on the Hoytville Lateral and the McComb-Hoytville Line.

28. KNG denies the allegations of Paragraph 28 of the complaint.

29. In response to Paragraph 29 of the complaint, KNG denies, for lack of knowledge and information sufficient to form a belief as to truth thereof, the allegation that OIE has paid almost $10,000 to insure "this pipeline" and that another payment will be due in October 2012, but avers that KNG has maintained, at its own expense, the insurance required of operators of pipelines in connection with its operation of these facilities throughout the period it has provided temporary service. KNG denies the allegation that it has had a "free ride" on the OIE system, but admits that, consistent with the Commission's order in Case No. 08-947-GA-ABN, OIE has received no compensation for the OIE system during the period KNG has provided temporary service. KNG admits that the language from the Commission-approved stipulation in Case No. 08-947-GA-ABN contained in this paragraph is as set forth therein, admits that KNG is charging

its standard rate for service to these customers, but denies that, in providing this service, KNG is being subsidized by OIE.

30. KNG denies the allegations of Paragraph 30 of the complaint. Answering further, KNG states that, although OIE has an approved tariff, it has no authority to provide natural gas service to the customers now being served by KNG on a temporary basis until the Commission approves a substitution of service as provided in the Commission's order in Case No. 08-947-GA-ABN.

31. KNG denies the allegations of Paragraph 31 of the complaint, including the allegation that "KNG has acknowledged that the TCO/OIE's meter is in KNG's best interest." Answering further, KNG states that the so-called "ultimatum" referred to in this paragraph is entirely consistent with the Commission's order in Case No. 08-947-GA-ABN.

32. KNG admits the allegations of Paragraph 32 of the complaint, but denies that allegations relating to the path for the delivery of gas to the McComb municipal utility by KNG have any relevance to the issue raised by the complaint.

33. KNG admits the allegations of Paragraph 33 of the complaint.

34. In response to Paragraph 34 of the complaint, KNG admits that the Hoytville Lateral is physically connected to the KNG Line, but denies that this is an "interconnection" as the term is customarily used in the industry because the Hoytville Lateral is not isolated from the KNG Line, a measure which is not necessary when the same utility is serving end-user customers on both sides of the point of connection, but which is absolutely necessary when one utility is transporting gas for another to a specified delivery point. KNG denies, for lack of knowledge

and information sufficient to form a belief as to truth thereof, the allegation that OIE is prepared to construct a meter station at the point of delivery at a significantly lower cost than KNG estimated for building the meter station, but avers that, although KNG included an estimate in its proposal, KNG's proposal included a provision for a true-up once construction was completed so the OIE would pay no more than the actual cost.

35. KNG admits the allegations of Paragraph 35 of the complaint.

36. In response to Paragraph 36 of the complaint, KNG admits that its tariffed transportation rate structure does not include a demand charge and that the institution of a demand charge would require Commission approval under Section 4905.31, Revised Code. Answering further, KNG states that, in the absence of a Commission-approved special contract, KNG would be entitled and obligated to charge its tariffed transportation rate, and that, notwithstanding that its initial proposal to OIE included a demand component, the overall price to OIE under this proposal was below the price for transportation service specified in its tariff. KNG admits the remaining allegations of this paragraph of the complaint.

37. KNG admits the allegations of Paragraph 37 of the complaint.

38. KNG denies the allegations of Paragraph 38 of the complaint.

39. In response to Paragraph 39 of the complaint, KNG admits that it transports gas to the village of the McComb at the rate alleged therein, but denies the allegation that this service is in any way comparable to the service that would be provided to OIE and the allegation that this rate would be a reasonable rate for such service. KNG denies, for lack of knowledge and information sufficient to form a belief as to truth thereof, the allegation that OIE has received

service requests from customers for natural gas service from OIE as an alternative to propane and that construction is to begin soon at the site of the PBD in Henry Township, Wood County. Answering further, KNG states that, even if these allegations are true, the facts alleged are not relevant to the issue raised by the complaint.

40. In response to Paragraph 40 of the complaint, KNG denies that its rate proposal, the net effect of which was an overall price to OIE that was lower than that which would have resulted under its transportation tariff, was onerous, and denies that OIE's status as the operator of the station at the TCO delivery point gives it any right to transport gas over the KNG Line. Further, KNG denies that it has conceded that OIE has dedicated capacity rights on the KNG Line under the 1959 D&I, and denies that OIE has any such rights. KNG denies, for lack of knowledge and information sufficient to form a belief as to truth thereof, the allegation that OIE is positioned to transport volumes on TCO at the rates set forth in this paragraph.

41. KNG denies the allegations of Paragraph 41 of the complaint.

42. In response to Paragraph 42 of the complaint, KNG denies the allegation that KNG's agenda is to prevent OIE's market entry, but admits the remaining allegations of this paragraph.

43. In response to Paragraph 43 of the complaint, KNG admits that KNG's president contacted the Executive Director of the Northwestern Water and Sewer District after the preliminary hearing in Suburban's civil suit against OIE in the Wood County Court of Common Pleas, but states that, to the best of its recollection, this contact was in the form of an email rather than a telephone call. Answering further, KNG denies that the purpose of this contact was to

advise Mr. Greiner that OIE could not deliver gas to the PBD without the participation and consent of KNG, notwithstanding that, had it been given, such advice would have been accurate, and states that the purpose of this contact was to correct the mistaken impression voiced at the preliminary hearing by the Executive Director of the Wood County Economic Development Commission that OIE was "the only game in town."

44. In response to Paragraph 44 of the complaint, KNG denies, for lack of knowledge and information sufficient to form a belief as to truth thereof, the allegation that, in late spring of 2012, McComb requested OIE to submit a proposal to supply gas to the McComb municipal utility, but admits that, in that time frame, McComb requested KNG to provide a quote for gas supply commencing May 1, 2012 following the expiration of its existing supply agreement with McComb. KNG admits the remaining allegations of this paragraph. Answering further, KNG states that, as the operator of the McComb distribution system, it was responsible for compliance with pipeline safety requirements, and that the principal reason it contacted the Commission's Pipeline Safety staff was to ascertain how it could satisfy the necessary documentation requirements if OIE's contractor performed the interconnection.

45. KNG denies the allegations of Paragraph 45 of the complaint.

46. With respect to the complaint's Prayer for Relief, KNG denies that the requested relief is lawful or reasonable.

SECOND DEFENSE

47. As more fully explained in a forthcoming motion to dismiss, the complaint fails to state reasonable grounds for complaint as required by Section 4905.26, Revised Code.

THIRD DEFENSE

48. As more fully explained in a forthcoming motion to dismiss, the complaint is barred by principles of promissory and collateral estoppel and by the principle of laches.

FOURTH DEFENSE

49. As more fully explained in a forthcoming motion to dismiss, the complaint represents an untimely application for rehearing from the Commission's order in Case No. 08-947-GA-ABN.

FIFTH DEFENSE

50. As more fully explained in a forthcoming motion to dismiss, the Commission lacks subject matter jurisdiction to adjudicate OIE's assertion that it has a right to transport on the segment of the KNG Line between the delivery point on the TCO interstate pipeline at North Baltimore and the Hoytville Lateral by virtue of the 1959 D&I.

SIXTH DEFENSE

51. As more fully explained in a forthcoming motion to dismiss, the complaint seeks relief that the Commission has no authority to grant.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been served upon the following parties by first class mail, postage prepaid, and by electronic mail this 11th day of October 2012.

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