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Commissioner

October 23, 2014

## PARTIES OF RECORD

Re: Case No. 2014-00304  
Kentucky Frontier Gas, LLC Purchased Gas Adjustment Filing and  
Petition for Waiver

Attached is a copy of the memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the informal conference memorandum, please do so within five days of receipt of this letter. If you have any questions, please contact Staff Attorney Virginia Gregg at 502-782-2584.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Derouen".

Jeff Derouen  
Executive Director

VG/ch  
Attachment

## INTRA-AGENCY MEMORANDUM

### KENTUCKY PUBLIC SERVICE COMMISSION

**TO:** Case File

**FROM:** Virginia Gregg, Staff Attorney

**DATE:** October 23, 2014

**RE:** Case No. 2014-00304  
Purchased Gas Adjustment Filing of  
Kentucky Frontier Gas, LLC

On October 21, 2014, a telephonic Informal Conference ("IC") was conducted at the Commission Offices in Frankfort, Kentucky. In attendance were Virginia Gregg and Leah Faulkner of Commission staff ("Staff") and Dennis Horner of Kentucky Frontier, LLC ("Frontier"). Frontier's counsel, who had filed a related Petition for Waiver for GCR Adjustment on behalf of Frontier along with the August 28, 2014 application in this proceeding, indicated that he would be unable to participate in the IC, but had no objection to Mr. Horner's participation. Mr. Horner also stated he had no objection to discussing the facts of the case without counsel present.

The IC was scheduled to clarify Frontier's proposal with respect to its quarterly Gas Cost Adjustment ("GCA") with rates to be effective November 1, 2014. Staff confirmed with Frontier that 1) its revised Expected Gas Cost ("EGC") filed October 6, 2014, should be \$7.5084 per Mcf instead of \$7.4672 per Mcf, based on Frontier's desire to pass through its actual lost and unaccounted for ("L&U") percentage in the calculation of its EGC; 2) that the (\$.0610) per Mcf previous quarter Actual Adjustment ("AA") which expires October 31, 2014, should not have been included in the total AA calculation; 3) that revised Schedule II was inadvertently excluded from Frontier's revised October 6, 2014 application, and should be attached to this IC memo as provided electronically to Staff by Frontier; 4) that the AA as revised did not reflect its total 26 percent L&U for the quarter as it intended, and that the calculation should be revised to use actual sales instead of sales adjusted with an L&U limiter; 5) that its proposed AA should be \$.0918 per Mcf instead of the \$.0226 per Mcf set out in its revised application; 6) that the total GCA rate resulting from the previously discussed clarifications should be \$8.7032 per Mcf instead of the \$8.5706 per Mcf included in its October 6, 2014 revised application; and 7) irrespective of the \$8.7032 per Mcf GCA rate produced by these clarifications, Frontier proposes to implement a GCA rate of \$8.80 per Mcf as discussed in its Petition for Waiver for GCR Adjustment, in order to recover part of its previous substantial under-collection of gas cost.

Staff and Frontier also discussed the document entitled KFG Actual Losses May 2013 to April 2014 which Frontier filed with its October 6, 2014 revision. Staff informed Frontier that it appeared that the \$367,748 Unrecovered Gas Costs set out on that

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document was not correctly calculated, and that its unrecovered gas cost for the 12 months ended April 2014 was approximately \$721,000. Staff's calculation of Frontier's unrecovered gas cost is included as Attachment 2 to this IC memo.

Finally, there was a discussion regarding Frontier's efforts to replace aging pipeline on its system, as evidenced by its Pipeline Replacement Program surcharge report filed with the Commission on September 22, 2014.

The conference was then adjourned.

Attachments

Kentucky Frontier Gas, LLC - Unified

SCHEDULE II

EXPECTED GAS COST

MCF Purchases for 12 months ended:

July 31, 2014

Supplier	Dth	Btu Factor	Mcf	Rate	(4) x (5) Cost
AEI-KAARS		N/A	2,150	\$ 3.1000	\$ 6,665
** Chattaco		1.0916	5,942	\$ 3.8206	\$ 22,702
Cheseapeake		N/A	4,949	\$ 5.1500	\$ 25,487
Columbia (Goble Roberts,Peoples)		N/A	14,186	\$ 6.4961	\$ 92,154
Cumberland Valley (Auxier)		1.2350	101,854	\$ 5.4224	\$ 552,297
Cumberland Valley (Sigma) includes \$1.25/Mcf DLR trans		1.2350	20,563	\$ 6.6724	\$ 137,204
EQT (EKU,MLG,Price) 10/1/13 to 12/31/14		1.2820	107,277	\$ 7.4383	\$ 797,958
* Gray		1.0520	13,657	\$ 4.2080	\$ 57,469
* HI-Energy		1.0090	5,247	\$ 4.0360	\$ 21,177
*** HTC		1.1079	849	\$ 3.6180	\$ 3,072
*** Interstate NG (Sigma) rate includes \$1.25/Mcf DLR trans		1.2499	1,222	\$ 5.3317	\$ 6,515
Jefferson (Sigma) rate includes \$1.25/Mcf DLR trans		N/A	14,715	\$ 6.1377	\$ 90,316
Magnum Drilling, Inc.		N/A	3,770	\$ 10.5000	\$ 39,585
Nytis (Auxier)		1.0962	3,931	\$ 3.9454	\$ 15,510
*** Nytis (Sigma) includes \$1.25/Mcf DLR trans		1.0962	14,445	\$ 4.8298	\$ 69,766
** Plateau		1.1200	2,254	\$ 3.9200	\$ 8,808
Quality (Belfry)		1.2499	65,161	\$ 5.7677	\$ 375,827
Quality (EKU,MLG,Price)		1.2560	1,341	\$ 6.6219	\$ 8,880
** Slone Energy		1.1753	10,782	\$ 4.1136	\$ 44,352
** Spirit		1.0458	1,302	\$ 3.6603	\$ 4,766
* Tackett & Sons Drilling		1.1305	2,711	\$ 4.5220	\$ 12,259
*** Walker Resources		1.1344	454	\$ 3.7045	\$ 1,682
<b>Totals</b>			<b>398,762</b>	<b>\$ 6.0047</b>	<b>\$ 2,394,450</b>
Line loss 12 months ended: and sales of	<u>Jul-14</u> 318,903	based on purchases of Mcf.	398,762	Mcf	
		20%			
Total Expected Cost of Purchases (6)			Unit	Amount	
/ Mcf Purchases (4)			\$	\$ 2,394,450	
= Average Expected Cost Per Mcf Purchased			Mcf	398,762	
x Allowable Mcf Purchases (must not exceed Mcf sales / .80)			\$/Mcf	\$ 6.0047	
= Total Expected Gas Cost (to Schedule 1A)			Mcf	398,629	
			\$	\$ 2,393,650	

Estimated Avg Tco for Nov, Dec, Jan = \$4.0990/Dth (NYMEX Future - \$0.0170/Dth (TCo Appal Basis) = \$4.0820/Dth

AEI-KAARS contract = \$3.10/Mcf

EQT = TCo + \$0.6123 (14% Fuel) + \$1.05 (Commodity) + \$0.20 (Demand) = \$5.9443/Dth

Jefferson contract = TCo + \$0.90 cost factor = \$4.082/Dth + \$0.90 = \$4.9820/Mcf

CVR = TCo + \$0.0190/Dth Commodity + \$0.2427/Dth TCo Demand + \$0.0638/Dth Fuel + \$0.05/Dth CVR Fee = \$4.4575/Dth

HTC, ING, Nytis, Tackett & Walker contract = \$3.00/Dth or 80% of TCo, whichever is greater

Nytis Sigma contract = 80% of Tco = \$4.082/Dth x .8 = \$3.2656/Dth

Slone,Spirit,Plateau,Chattaco contract = \$3.50/Dth or 80% TCo, whichever is greater

Gray,HI-Energy,Tackett contract = \$4.00/Dth or 80% TCo, whichever is greater

Quality (Belfry) = Tco + \$0.10 = \$4.0820/Dth + \$0.10/Dth = \$4.1820/Dth

Quality (EKU,MLG) = TCo x 80% + \$0.725/Dth (Gathering) + \$0.4033/Dth (12.35% Fuel) = \$4.3939/Dth

DLR Transportation for Cow Creek (Sigma) = \$1.25/Mcf on volumes from Auxier,ING,Jefferson,Nytis

\* Estimated 3 mo. TCo = \$4.0820/Dth x .8 = \$3.2656/Dth < \$4.00/Dth; \$4.00/Dth

\*\* Estimated 3 mo. TCo = \$4.0820/Dth x .8 = \$3.2656/Dth < \$3.50/Dth; \$3.350/Dth

\*\*\* Estimated 3 mo. TCo = \$4.0820/Dth x .8 = \$3.2656/Dth > \$3.00/Dth; \$3.2656/Dth

## Attachment 2

KFG Actual Losses May 2013 to April 2014

Month	Sales (a)	GCR rate effective (b)	Gas Cost		Unrecovered Gas Cost (e)=(d)-(c)
			Revenue (c)=(a)x(b)	Gas Cost (d)	
May	15,919	\$ 5.2251	\$ 83,178	\$ 71,507	\$ (11,671)
June	6,846	\$ 5.2251	\$ 35,771	\$ 41,910	\$ 6,139
July	10,213	\$ 5.2251	\$ 53,364	\$ 44,929	\$ (8,435)
August	6,545	\$ 4.9465	\$ 32,375	\$ 47,564	\$ 15,189
September	7,049	\$ 4.9465	\$ 34,868	\$ 47,248	\$ 12,380
October	14,629	\$ 4.9465	\$ 72,362	\$ 93,072	\$ 20,710
November	32,382	\$ 4.9634	\$ 160,725	\$ 242,444	\$ 81,719
December	50,711	\$ 4.9634	\$ 251,699	\$ 381,131	\$ 129,432
January	67,866	\$ 4.9634	\$ 336,846	\$ 502,574	\$ 165,728
February	55,051	\$ 5.2606	\$ 289,601	\$ 456,797	\$ 167,196
March	40,526	\$ 5.2606	\$ 213,191	\$ 320,397	\$ 107,206
April	22,606	\$ 5.2606	\$ 118,921	\$ 154,273	\$ 35,352
	<u>330,343</u>		<u>\$ 1,682,902</u>	<u>\$2,403,846</u>	<u>\$ 720,944</u>