

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PURCHASED GAS ADJUSTMENT FILING )  
OF KENTUCKY FRONTIER GAS, LLC D/B/A ) CASE NO. 2013-00085  
B.T.U. GAS COMPANY, INC. )

ORDER

On October 31, 2011, in Case No. 2011-00374,<sup>1</sup> the Commission approved a Gas Cost Recovery (“GCR”) clause for B.T.U. Gas Company (“BTU”) providing for the quarterly adjustment of BTU’s rates to reflect its most current wholesale gas supply cost. On June 1, 2012, Kentucky Frontier Gas Company, LLC (“Kentucky Frontier”) acquired the assets of BTU pursuant to the Commission’s approval of the transfer, and adopted BTU’s tariffs.<sup>2</sup>

On March 1, 2013, BTU filed its GCR to be effective April 1, 2013, and included with its application a Petition for Waiver of GCR Adjustment. BTU requested an interim waiver of the 5-percent limit for lost gas costs, and a deviation from its GCR tariff and the filing requirements of the GCR tariff because its proposed rate is not calculated based on actual gas costs and standard adjustments. BTU’s proposal is to continue to charge its Expected Gas Cost (“EGC”) rate of \$8.00 per Mcf which was approved in its previous Gas Cost Adjustment cases, and to calculate its Actual Adjustment for October

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<sup>1</sup> Case No. 2011-00374, Filing of B.T.U. Gas Company, Inc. for Approval of a Gas Cost Recovery Tariff (Ky. PSC Oct. 31, 2011).

<sup>2</sup> Case No. 2012-00099, Application of Kentucky Frontier Gas, LLC for Approval of Transfer of Assets of the Former B.T.U. Gas Company and Approval of Financing of Acquisition (Ky. PSC June 1, 2012).

through December 2012 using actual sales volumes as opposed to limiting Lost & Unaccounted for gas (“L&U”) volumes to 5 percent.

In support of its request for waiver of the 5-percent limit on gas cost losses, BTU’s application provided information concerning its L&U, which remains “unacceptably high” despite Kentucky Frontier’s efforts to eliminate it. According to BTU’s application, Kentucky Frontier has installed meters on numerous previously unmetered connections and had a block valve installed in the southern area of the BTU system which reduced the L&U in that area by approximately 15 Mcf per day. It reports that Kentucky Frontier is working with customers who have previously not allowed utility personnel on their property to eliminate losses, and is attempting to eliminate unmetered connections related to right-of-way claims which are the subject of ongoing litigation in Magoffin County. Despite the fact that its losses have been reduced significantly by its efforts to eliminate L&U and theft, Kentucky Frontier maintains that its losses remain well over 5 percent; Kentucky Frontier reports that for October, November, and December its losses were 33 percent, 18 percent, and 16 percent, respectively. Kentucky Frontier estimates the losses will remain well over the 5 percent ordinarily flowed through the GCR mechanism.

BTU provided with its GCR application, for example purposes only, a sample calculation of its EGC including its actual 40 percent line loss for the 12-month period ending December 31, 2012. Correcting BTU’s sample calculation to include actual purchase volumes of 44,517 Mcf produces an EGC of \$6.9025 per Mcf. For informational purposes, BTU also provided an EGC calculation based on the standard methodology of excluding all L&U volumes over 5 percent, which results in an EGC of

\$4.3291 per Mcf. Similarly, BTU provided an AA calculation for informational purposes only which showed the effect of limiting gas cost recovery through the AA to 5-percent L&U volumes. Due to the actual line losses experienced in October through December 2012, excluding losses in excess of 5 percent would result in a current quarter AA of (\$1.5640) per Mcf. BTU states that if it is not able to recover the additional gas cost represented by the L&U volumes, there will be a negative impact on Kentucky Frontier's financial condition, and may threaten its ability to pay gas supply cost and to supply gas to BTU's customers.

BTU is proposing to deviate from the GCR tariff in its calculation and from the filing requirements of its GCR by continuing to use an \$8.00 per Mcf EGC rate for the quarter beginning April 1, 2013. The deviation from limiting L&U to 5 percent is reflected in the AA calculation as well, which is calculated to recover all of its gas cost for the months October through December 2012 as opposed to limiting gas cost losses to 5 percent. BTU states that approval of the requested GCR methodology will allow Kentucky Frontier to immediately begin to recover a greater portion of its actual gas cost from prior months' under-billings over the next several quarters.

After reviewing the record in this case, and being otherwise sufficiently advised, the Commission finds that:

1. BTU's request for a deviation from its GCR tariff by continuing its \$8.00 per Mcf EGC is not reasonable given its progress in reducing its system line loss to 40 percent for the 12 months ended December 31, 2012, and the relatively low gas prices it has achieved for its gas supply. Approving an \$8.00 per Mcf would have the effect of collecting \$212,192 from its customers based on 2012 sales volumes ( $\$8.00 \times 26,524$

Mcf) when the projected 12-month gas cost based on expected supplier rates is only \$183,081. BTU's gas cost should therefore be calculated based on actual 40-percent line loss, which produces an EGC of \$6.9025 per Mcf. This calculation is shown below:

Total Expected Cost of Purchases	\$183,081
<u>Divided by Mcf Purchases</u>	<u>44,517</u>
= Average Expected Cost per Mcf Purchased	\$4.1126
<u>x Allowable Mcf Purchases (actual line loss)</u>	<u>44,517</u>
= Total Expected Gas Cost	\$183,081
<u>Divided by Sales for the 12 months ending 12/31/2012</u>	<u>26,524</u>
= Expected Gas Cost/Mcf	\$6.9025

The EGC of \$6.9025 per Mcf is a decrease of \$1.0975 per Mcf from the previous EGC of \$8.00 per Mcf. Any future request for deviation from BTU's GCR tariff in passing through line loss greater than 5 percent should include information concerning Kentucky Frontier's efforts to decrease the incidence of gas loss on the BTU system.

2. BTU's request to recover its actual cost of gas through the AA as opposed to reducing gas cost recovery by imposing a 5-percent L&U limit is reasonable and should be approved. BTU's current AA is (\$1.2534) per Mcf. BTU's total AA is \$.0254 per Mcf, a decrease of \$1.2534 per Mcf from the previous total AA of \$1.2788 per Mcf.

3. BTU's GCR is \$6.9279 per Mcf, which represents a decrease of \$2.3509 per Mcf from its previous gas cost rate of \$9.2788 per Mcf.

IT IS THEREFORE ORDERED that:

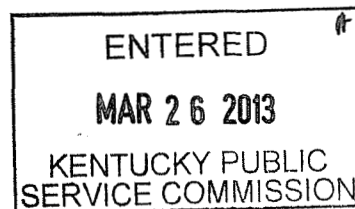
1. The rates proposed by BTU are denied.
2. BTU shall be granted a waiver of the 5-percent limit for L&U costs.

3. BTU shall be granted a deviation from its GCR tariff and its filing requirements and standard methodologies as they pertain to the calculation of the EGC and the AA, as specifically outlined herein.

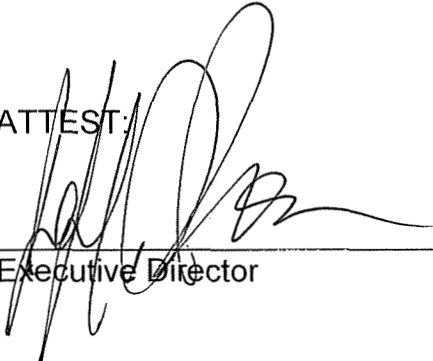
4. In any future request for similar deviations, BTU shall include sufficient information for the Commission to determine its progress in addressing excessive gas losses. The rates in the Appendix, attached hereto and incorporated herein, are approved for service rendered on and after April 1, 2013.

5. Within 20 days of the date of this Order, BTU shall file with this Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets setting out the rates approved herein and reflecting that they were approved pursuant to this Order.

By the Commission



ATTEST:

  
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Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2013-00085 DATED **MAR 26 2013**

The following rates and charges are prescribed for the customers in the area formerly served by B.T.U. Gas Company, Inc. and now served by Kentucky Frontier Gas Company, LLC. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

RATE SCHEDULES

	<u>Base Rate</u>	<u>Gas Cost Recovery Rate</u>	<u>Total Rate</u>
First Mcf (Minimum Bill)	\$ 3.9000	\$6.9279	\$10.8279
Over 1 Mcf	\$ 2.9700	\$6.9279	\$ 9.8979

Dennis Horner  
Kentucky Frontier Gas  
4891 Independence Street, Suite 200  
Wheat Ridge, COLORADO 80033