COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

KENTUCKY FRONTIER GAS, LLC PURCHASED GAS ADJUSTMENT FILING AND PETITION FOR WAIVER	)))	CASE NO. 2014-00304

ORDER

On April 30, 2013, in Case No. 2011-00443, the Commission approved rates for Kentucky Frontier Gas, LLC ("Frontier") and provided for their further adjustment in accordance with Frontier's Purchased Gas Adjustment ("PGA") clause.[1]

On August 28, 2014, Frontier filed its PGA application requesting an effective date of October 1, 2014. In its application, Frontier requested an interim waiver of the 5 percent limit for costs relating to Lost & Unaccounted for ("L&U") gas and a deviation from the filing requirements of its PGA tariff because its proposed rate is not calculated based on actual gas costs and standard adjustments. On September 12, 2014, Frontier filed a letter requesting an effective date of November 1, 2014, in conformity with its PGA tariff. On October 6, 2014, Frontier filed to revise its application and supplement the record in this proceeding. On October 21, 2014, Frontier participated in a telephonic Informal Conference ("IC") with Commission Staff ("Staff") to discuss its application,

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[1] Case No. 2011-00443, *Application of Kentucky Frontier Gas, LLC for Approval of Consolidation of and Adjustment of Rates, Approval of AMR Equipment and a Certificate of Convenience and Necessity for Installation of AMR, Pipeline Replacement Program, Revision of Non-Recurring Fees, and Revision of Tariffs* (Ky. PSC Apr. 30, 2013).

its proposed methodology and supporting calculations, and its request for waiver and deviation from PGA tariff filing requirements.

Frontier provided information sufficient to show that from May 2013 through April 2014, it experienced average L&U of 20 percent, with annual purchase volumes of 411,577 Mcf and annual sales volumes of 330,343 Mcf.[2] The table provided by Frontier in the October 6, 2014 revision of its application included a calculation showing that, as a result of the 5 percent line loss limit used in the Commission's standard PGA methodology, it had unrecovered gas cost in the amount of $364,748 over the 12-month period. Because Frontier used in its calculations the Expected Gas Cost ("EGC") in effect during the 12 months, as opposed to the total PGA rates in effect during those months, Frontier miscalculated its actual unrecovered gas cost, which was $720,944, or 30 percent of its $2,403,846 gas cost.[3]

As a result of the request for an interim waiver of the 5 percent limit for L&U gas, Frontier proposes to use a PGA rate of $8.80 per Mcf, which is higher than the $8.7033 rate produced by its calculations as revised through the course of this proceeding. Frontier stated that the $8.80 per Mcf rate would provide it with a greater ability to collect its actual gas cost. In support of its request for a higher PGA rate than is produced by suspending the standard 5 percent limit on gas cost losses, Frontier provided information concerning continued unforeseen and undisclosed problems with certain of the gas systems it has acquired, the consolidation of which was the subject of Case No. 2011-00443. Frontier reported that the part of its system formerly known as

[2] Table attached as last page of supplemental information provided October 6, 2014.

[3] Attachment 2 to Commission Staff Informal Conference Memorandum, October 23, 2014.

Belfry Gas was responsible for approximately one-third of the total system L&U for calendar year 2013, with Auxier Road Gas Company and the former East Kentucky Utilities and BTU Gas Company ("BTU") also contributing to the excessive losses.[4] Frontier states that most of the leaks it has experienced are due to excavation damage, which is often unreported, along with corrosion, and material and weld defects.[5] Frontier recounted its efforts to reduce losses on its system, and its compliance with Department of Transportation safety requirements.

Frontier's proposed EGC calculation does not include the standard 5 percent line loss limit, but includes its actual 12-month, 20 percent line loss, which produces an EGC of $7.5084 per Mcf.[6] Similarly, during the IC, Frontier confirmed its proposal to calculate its Actual Adjustment ("AA") with no 5 percent limit on L&U volumes.[7] Based on purchase and sales volumes provided in Frontier's AA calculation, line losses for May, June, and July 2014 were 22 percent, 31 percent, and 27 percent respectively. Frontier 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 its financial condition, which may threaten its ability to pay gas supply cost and result in discontinuance of gas supply.

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

1. Frontier's notice includes revised rates designed to pass on to its customers its expected change in wholesale gas costs.

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[4] August 28, 2014 Application, Petition for Waiver for GCR Adjustment, paragraph 4.

[5] *Id.*, paragraph 7.

[6] Commission Staff Informal Conference Memorandum, October 23, 2014.

[7] *Id.*

2. Frontier's request for a deviation from its PGA tariff in passing through line loss greater than 5 percent in the calculation of its EGC and AA, although unusual in light of the Commission's standard practice in establishing gas cost recovery for natural gas local distribution companies, is reasonable and should be approved. As Frontier points out in its request for waiver, the Commission approved similar waivers for the former BTU, beginning in Case No. 2011-00512.[8] Frontier's efforts to repair leaks and replace corroded sections of pipeline are documented, not only in this proceeding, but also in its Pipeline Replacement Program surcharge report filed with the Commission as required in Case No. 2011-00443. The Commission, while appreciative of the circumstances giving rise to Frontier's relatively high level of L&U gas, does not grant this deviation lightly. Any future request for deviation from Frontier's PGA tariff in passing through line loss greater than 5 percent should include a detailed discussion concerning its efforts to decrease the incidence of gas loss on its system, and projections for when such losses are expected to decrease to 5 percent or less.

3. Frontier's revised notice sets out an EGC of $7.4672 per Mcf. During the course of correcting and clarifying its proposed methodology, Frontier indicated that the EGC should be $7.5084 per Mcf,[9] an increase of $.7239 per Mcf from the previous EGC of $6.7845 per Mcf.

4. Frontier's notice sets out no Refund Adjustment ("RA").

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[8] Case No. 2011-00512, *Application of Kentucky Frontier Gas, LLC as Bankruptcy Operator of B.T.U. Gas Company for Approval of an Interim Adjustment of the Gas Cost Adjustment Tariff* (Ky. PSC Jan. 3, 2012).

[9] Commission Staff Informal Conference Memorandum, October 23, 2014.

5. Frontier's revised notice sets out a current quarter AA of $.0226 per Mcf. During the course of correcting and clarifying its proposed methodology of recovering the cost of its L&U gas, Frontier indicated that the current quarter AA should be $.0918 per Mcf.[10] Frontier included in its calculation of the total AA an expiring previous quarter AA of ($.0610) per Mcf. Correcting this produces a total AA of $1.1949 per Mcf, which is an increase of $.1528 per Mcf from its previous total AA of $1.0421 per Mcf.

6. Frontier's notice sets out no Balancing Adjustment ("BA"). The BA will not be available to Frontier until Frontier's next PGA application for rates effective February 1, 2015, at which time the Total Cost Difference from the AA effective November 1, 2013, will be reconciled with actual recoveries of gas cost through the AA over the 12 months ended October 31, 2014.

7. Frontier's request to pass through actual L&U instead of limiting it to 5 percent, which is found reasonable herein, is sufficient to address any future gas cost recovery issues. Any further remedy with regard to gas cost losses going back to May 2013 should be addressed through Frontier's future use of its BA mechanism.[11] Frontier's request to implement a $8.80 per Mcf PGA rate not calculated based on actual gas costs should therefore be denied. Frontier's PGA rate as revised through the course of this proceeding to recover the cost of its L&U gas is $8.7033 per Mcf,[12] which is an increase of $.8767 per Mcf from its previous rate of $7.8266 per Mcf.

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[10] *Id.*

[11] According to the terms of Frontier's PGA tariff, the Balancing Adjustment compensates for any under or over collections which have occurred as a result of prior adjustments.

[12] Commission Staff Informal Conference Memorandum, October 23, 2014.

8. The rates in the Appendix to this Order are fair, just, and reasonable, and should be approved for billing for service rendered by Frontier on and after November 1, 2014.

IT IS THEREFORE ORDERED that:

1. The PGA rate proposed by Frontier is denied.

2. The rates in the Appendix, attached hereto and incorporated herein, are approved for billing for service rendered on and after November 1, 2014.

3. Within 20 days of the date of this Order, Frontier 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

ENTERED
OCT 31 2014
KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Executive Director

Case No. 2014-00304

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2014-00304 DATED OCT 3 1 2014

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

Residential and Small Commercial

	Base Rate	Gas Cost Rate	Total
Customer Charge	$10.00		
All Mcf	$ 4.2023	$8.7033	$ 12.9056

Large Commercial

	Base Rate	Gas Cost Rate	Total
Customer Charge	$50.00		
All Mcf	$ 3.4454	$8.7033	$ 12.1487

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