COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| PURCHASED GAS ADJUSTMENT FILING OF KENTUCKY FRONTIER GAS, LLC | ) ) ) | CASE NO. 2015-00330 |

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 October 1, 2015, Frontier filed its PGA application for rates effective November 1, 2015. In its cover letter, Frontier requested an extension of the deviation from the 5 percent limit for costs relating to Lost & Unaccounted for gas ("L&U").

As a result of the relatively high level of L&U gas that it has consistently experienced since May 2013, Frontier proposes to continue calculating its Expected Gas Cost ("EGC"), Actual Adjustment ("AA"), and Balancing Adjustment ("BA") without limiting its gas cost recovery for L&U. This methodology has been approved by the Commission in each of Frontier's PGA cases beginning with Case No. 2014-00477.[2] In the final Orders in each of those proceedings, the Commission found that passing through line loss greater than 5 percent in the calculation of Frontier's EGC, AA, and in

[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).

[2] Case No. 2014-00477, *Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (Ky. PSC Jan. 30, 2015).

the final reconciliation of gas cost through the BA was reasonable, but concluded that any future request for deviation from its PGA tariff in passing through line loss greater than 5 percent should include a detailed discussion of Frontier's 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 below.

In support of its request in the instant proceeding, Frontier stated that its system-wide L&U remains around 12 percent for the 12 months ended July 2015, approximately the same level as the 12 months ended April 30, 2015. It indicated that the primary areas of line loss continue to be localized in the Belfry and Phelps areas, and to a lesser degree in the area of the former Mike Little Gas portion of its system. Frontier states that it recently replaced 3,500 feet of pipe in the Belfry part of its system. Frontier estimates that L&U could be between 5 and 10 percent by this time next year, and by this time in 2017 could be 5 percent or less.[3]

As noted above, Frontier's proposed EGC calculation does not include the standard 5 percent line loss limit, but instead includes its actual 12-month line loss in the amount of 12 percent, which produces an EGC of $4.8385 per Mcf. Similarly, Frontier proposes to calculate its AA based on its actual cost of gas for the quarter, with no limit on L&U volumes. Based on purchase and sales volumes provided in Frontier's AA calculation, line losses for the three months ended April 30, 2015, were 22 percent. Frontier further requests that it be allowed to continue to recover through the BA amounts formerly returned to its customers through past AAs in which recovery of L&U gas was limited.

[3] *See* Cover letter to Application.

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 and to recover its actual past cost of gas with no limit on L&U cost recovery.

2. Frontier's request for continuation of the deviation from its PGA tariff in passing through line loss greater than 5 percent in the calculation of its EGC, AA, and BA is reasonable and should be approved. Frontier's efforts to repair leaks and replace corroded sections of pipeline are documented in this proceeding and in its annual Pipeline Replacement Program surcharge report filed with the Commission on August 6, 2015 as required in Case No. 2011-00443, as is its goal to reduce line losses within the next two years. Frontier should continue to include with any future requests for similar deviation from its PGA tariff detailed discussions of its efforts to decrease the incidence of gas loss on its system, as well as any further updates to projections for when such losses are expected to decrease to 5 percent or below.

3. Frontier's notice sets out an EGC of $4.8385 per Mcf, a decrease of $.2557 per Mcf from the previous EGC of $5.0942 per Mcf.

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

5. Frontier's revised notice sets out a current quarter AA of ($.0340) per Mcf. Frontier did not include the ($.8907) per Mcf previous quarter AA in the calculation of its total AA. Correcting this produces a total AA of ($1.5042) per Mcf, which is a decrease of $.1258 per Mcf from its previous total AA of ($1.3784) per Mcf.

6. Frontier's notice sets out a current quarter BA of $.3257 per Mcf to reconcile its actual February through April 2014 gas cost with recoveries of gas cost through the $.4388 and $.2354 per Mcf AAs over the 12 months ended July 31, 2015.[4] Frontier incorrectly used $.6591 per Mcf as the combined AA in the calculation of its current quarter BA, instead of the sum of $.4388 and $.2354, which is $.6742. Frontier also failed to include the additional two months of collections from its $.4388 AA, which was charged in June and July 2014 and from August 1, 2014, through July 31, 2015. Correcting this produces a current quarter BA of $.2924 per Mcf. Frontier did not include the $.7730 per Mcf previous quarter BA in the calculation of its total BA. Correcting this produces a total BA of $1.2365 per Mcf, which is an increase of $.2924 per Mcf from its previous total AA of $.9441 per Mcf.

7. Frontier's corrected GCR rate is $4.5708 per Mcf, which is a decrease of $.0891 per Mcf from its previous rate of $4.6599 per Mcf.

8. The rates as set forth in the Appendix to this Order are fair, just and reasonable, and should be approved for final meter readings by Frontier on and after November 1, 2015.

IT IS THEREFORE ORDERED that:

1. The rates proposed by Frontier are denied.

2. The rates set forth in the Appendix to this Order are approved for final meter readings on and after November 1, 2015.

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[4] The $303,183 total cost difference used by Frontier in the calculation of its proposed current quarter BA is the actual under-recovered gas cost from February through April 2014, as opposed to using the line-loss limited total under-recovered gas cost of $220,926, consisting of $142,031 used to calculate the $.4388 per Mcf AA for February 2014 in the interim PGA, Case No. 2014-00158, *Purchased Gas Adjustment Filing of Kentucky Frontier Gas* (Ky. PSC May 9, 2014), and the $78,895 used to calculate the $.2354 per Mcf AA in Case No. 2014-00216, *Purchased Gas Adjustment Filing of Kentucky Frontier Gas* (Ky. PSC July 9, 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.

4. Frontier shall provide detailed discussions of its efforts to decrease the incidence of gas loss on its system as well as any updates to projections for when such losses are expected to decrease to 5 percent or below, with every future application in which gas cost recovery is proposed with no L&U limit.

By the Commission

ENTERED

OCT 20 2015

KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Executive Director

# APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2015-00330 DATED OCT 20 2015

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 | $4.5708 | $8.7731 |

## Large Commercial

| | Base Rate | Gas Cost Rate | Total |
|---|---|---|---|
| Customer Charge | $50.00 | | |
| All Mcf | $ 3.4454 | $4.5708 | $8.0162 |

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