COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PURCHASED GAS ADJUSTMENT FILING OF KENTUCKY FRONTIER GAS, LLC	)))	CASE NO. 2017-00256

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 June 29, 2017, Frontier filed its PGA application for rates effective August 1, 2017. 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"). Frontier responded to one Commission Staff Request for Information ("Staff's First Request").

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") by limiting its gas cost recovery for L&U to 10 percent instead of 5 percent. Similar treatment has been approved by the Commission in each of Frontier's PGA cases beginning with Case No. 2014-00304.[2] In the final Orders in each of those proceedings, the Commission found that passing through line loss greater than 5

[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. 2014-00304, *Kentucky Frontier Gas, LLC Purchased Gas Adjustment Filing and Petition for Waiver* (Ky. PSC Oct. 31, 2014).

percent in the calculation of Frontier's EGC and Actual Adjustment ("AA"), and in the final reconciliation of gas cost through the Balance Adjustment ("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 Case No. 2017-00027, Frontier stated that it is continuing its intensive effort to reduce L&U, and that the Belfry portion of its system continues to be an area of major concern and effort. [3] In Case No. 2017-00159,[4] Frontier revised its estimate for systemwide L&U to be reduced only to the 10 percent level instead of to 5 percent by yearend 2017. Its current application reflects L&U for the 12 months ended April 30, 2017, of 15.6 percent, partially due to a major butt fusion joint failure that was undetected during July and August 2016.[5]

In the cover letter to its application, Frontier reports that it has recently replaced approximately 1,300 feet of steel pipe in the Belfry portion of its system. It stated that while the current quarter upon which its AA is based experienced line loss of less than 5 percent and that its L&U is slowly trending down, its Pipe Replacement Program ("PRP") expenditures continue to be greater than its recovery through the PRP surcharge. Frontier's strategy to continue lowering L&U on its system includes

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[3] Cover letter to Application, Case No. 2017-00027, *Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (Filed Jan. 3, 2017).

[4] Case No. 2017-00159, *Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (Ky. PSC Apr. 27, 2017).

[5] Case No. 2016-00348, *Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (Ky. PSC Oct. 27, 2016). Response to Commission Staff's First Request for Information, Item 1.a.

replacing 7,000 feet of pipe in 2017 and installing odorizers on large delivery points. It reported that in 2016, it installed odorizers and piping for three of its largest delivery systems, and that electronics for an additional three newly installed odorizers should be operational by August. Frontier concluded that there is a reasonable chance of lowering L&U to 10 percent on its combined system, including the Public Gas Company portion,[6] in 2017, or 2018, but that attainment of 5 percent L&U seems out of reach.[7]

As noted above, Frontier's proposed EGC calculation does not include the standard 5 percent line loss limit, but instead limits its 15.6 percent 12-month L&U to 10 percent. Frontier's AA calculation for reconciliation of February through April 2017 gas cost requires no limit on L&U volumes. Based on purchase and sales volumes provided in Frontier's AA calculation, L&U for the three months ended April 30, 2017, was approximately 3.5 percent.[8]

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 with a 10 percent instead of 5 percent 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 and

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[6] In Case No. 2015-00299, *Joint Application of Kentucky Frontier Gas, LLC and Public Gas Company for Approval of Transfer and Acquisition of Assets and Financing* (Ky. PSC Nov. 24, 2015), the Commission entered an Order approving the transfer of Public's assets to Frontier.

[7] Response to Staff's First Request, Item 1.c.

[8] The Commission notes that Frontier's L&U for the February through March quarter has historically been the lowest that it experiences annually. *See* Response to Staff's First Request, Item 1.b.

instead limiting its 15.6 percent line loss to 10 percent is reasonable and should be approved. Based on Frontier's intent to continue efforts in the Belfry portion of its system and with odorization equipment installation, an L&U limit of 10 percent appears reasonable for projecting Frontier's gas cost through the EGC. This is consistent with our findings in previous PGA Orders. As stated in the Commission's final Order in Case No. 2017-00159, it is anticipated that L&U collected through the AA for the three months ended January 1, 2018, will be limited to no more than 10 percent beginning with Frontier's PGA application for rates effective May 1. 2018. Irrespective of its recovery of the cost of L&U through the PGA mechanism, the Commission is concerned with the progress of Frontier's PRP, and that it is effective in reducing line losses on the system for the benefit of Frontier and its customers. Based on Frontier's statement in this proceeding that there is a reasonable chance line loss can be lowered to 10 percent in 2017 or 2018, the Commission will continue to monitor its progress toward realizing sustained average annual losses of no more than 10 percent by the end of 2018. As it continues to evaluate the necessity of waiving the 5 percent L&U limit.

3. Frontier's next PGA application should include a detailed update of its efforts to decrease the incidence of gas loss on its system, and a discussion of its progress in reducing its L&U to 10 percent or below by the end of this year. Frontier should also provide an estimate for when its L&U will be reduced to 5 percent or below.

4. Frontier's corrected notice sets out an EGC of $5.0787 per Mcf, which is a decrease of $.4622 per Mcf from the previous EGC of $5.5409 per Mcf.

5. Frontier's notice sets out no current Refund Adjustment.

6. Frontier's corrected notice sets out a current quarter AA of ($.4299) per Mcf. Frontier's total AA is $.3368 per Mcf, which is a decrease of $.3882 per Mcf from its previous total AA of $.7250 per Mcf.

7. Frontier's corrected notice sets out a current quarter BA of ($.0054) per Mcf, which does not include the expired balance adjustment amount of $624 that should be reconciled in this filing. Correcting this produces a current quarter BA of ($.0050) per Mcf. Frontier's corrected total BA is $.0315 per Mcf, which is an increase of $.1213 per Mcf from its previous total BA of ($.0898) per Mcf.

8. Frontier's corrected Gas Cost Recovery ("GCR") rate is $.54470 per Ccf or $5.4470 per Mcf, which is a decrease of $.7291 per Mcf from its previous rate of $6.1761 per Mcf.

9. The revised rates as set forth in the Appendix to this Order are fair, just and reasonable, and should be approved for service rendered by Frontier on and after August 1, 2017.

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 by Frontier on and after August 1, 2017.

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 include in its next PGA application for rates to be effective November 1, 2017, a detailed update of its efforts to decrease the incidence of gas loss on its system, a discussion of the likelihood that its sustained average annual L&U will be reduced to 10 percent or below by the end of 2018, and an estimate for when its 12-month L&U will be reduced to 5 percent or below.

By the Commission

ENTERED
JUL 28 2017
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Acting Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00256 DATED JUL 28 2017

The following rates and charges are prescribed for the customers in the area 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 Ccf	$ .42023	$.54470	$.96493

Large Commercial

	Base Rate	Gas Cost Rate	Total
Customer Charge	$50.00		
All Ccf	$ .34454	$.54470	$.88924

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