COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PURCHASED GAS ADJUSTMENT FILING OF KENTUCKY FRONTIER GAS, LLC	)))	CASE NO. 2017-00401

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 September 29, 2017, Frontier filed its PGA application for rates effective November 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") in the calculation of its Actual Adjustment ("AA").

Due to the relatively high level of L&U gas that it has consistently experienced since May 2013, in each of Frontier's PGA cases beginning with Case No. 2014-00304,[2] the Commission has approved the calculation of Frontier's Expected Gas Cost ("EGC") without limiting recovery for L&U to 5 percent. 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 and AA, and in the final reconciliation of gas

[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).

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 system-wide L&U to be only at the 10 percent level instead of its earlier estimate of 5 percent by the end of 2017.

In Case No. 2017-00256,[5] Frontier reported that it had recently replaced approximately 1,300 feet of steel pipe in the Belfry portion of its system. It stated that its strategy to continue lowering L&U on its system included replacing 7,000 feet of pipe in 2017, and installing odorizers on large delivery points. 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 seemed out of reach.[7] In the cover letter to its application in the current proceeding,

[3] Cover letter to Application, Case No. 2017-00027, *Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (Ky. PSC Jan. 26, 2017).

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

[5] Case No. 2017-00256, *Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (Ky. PSC July 28, 2017).

[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] Case No. 2017-00256, Response to Staff's First Request for Information, Item 1.c.

Frontier describes its continuous process of surveying, identifying, and replacing numerous sections of pipe where quantifiable losses are occurring, and states that it has replaced approximately 1,800 feet of steel pipe in the weeks immediately preceding the filing of its application. According to Frontier, its goal of reducing L&U to 10 percent or less in 2017 appears achievable. Its cover letter references its EGC calculation, which for the first time in three years is calculated using the 5 percent allowable L&U due to its line loss for the 12 months ended July 31, 2017, being only a little over that level at 6.7 percent. Frontier also indicated that, although it is systematically finding and fixing leaks, it is unclear when L&U will be reduced to 5 percent or less.

Although Frontier's proposed EGC calculation includes the standard 5 percent line loss limit, Frontier proposes that its AA calculation for reconciliation of May through July 2017 gas cost be calculated with 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 July 31, 2017, was approximately 18.6 percent.

The Commission notes the 6.7 percent L&U level the Frontier system has experienced over the 12-month period ended July 31, 2017, and that this level was achieved in spite of the L&U that occurred due to the major butt fusion joint failure that was undetected during August 2016,[8] and in spite of the current quarter L&U of 18.6 percent. In light of Frontier's past progress in systematically finding and fixing leaks, and its projected efforts and investment through its Pipeline Replacement Program as

[8] 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.

described in Case No. 2017-00263,[9] the Commission does not believe that a continued waiver of 5 percent L&U will be necessary or reasonable in the long-term or that such approval should be indefinite. The Commission expects that the waiver of the 5 percent L&U limit for gas cost recovery through the EGC and the AA will not be approved on an ongoing basis past November 1, 2018.

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.

2. 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 whether it met its goal of reducing its L&U to 10 percent or below by the end of 2017.

3. Frontier's notice sets out an EGC of $4.7512 per Mcf, which is a decrease of $.3275 per Mcf from the previous EGC of $5.0787 per Mcf.

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

5. Frontier's notice sets out a current quarter AA of ($.0045) per Mcf. Frontier's total AA is $.2740 per Mcf, which is a decrease of $.0628 per Mcf from its previous total AA of $.3368 per Mcf. The Commission finds, in recognition of Frontier's continued projection of L&U reduction to 10 percent by late 2017, that L&U collected through the AA should be limited to no more than 10 percent beginning with Frontier's PGA application for rates effective May 1, 2018, absent Frontier's providing convincing support that L&U recovered through the AA should not be limited. Likewise, as

[9] Case No. 2017-00263, *Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment,* filed June 30, 2017.

discussed herein, recovery of L&U over 5 percent should continue only until November 1, 2018.

6. Frontier's notice sets out a current quarter BA of $.0147 per Mcf. Frontier failed to calculate its BA using the expired ($10,405) AA amount and ($31,497) BA amount from Case No. 2016-00227[10] that should be reconciled in this filing. Correcting this produces a current quarter BA of ($.0185) per Mcf. Frontier's corrected total BA is $.0404 per Mcf, which is an increase of $.0089 per Mcf from its previous total BA of $.0315 per Mcf.

7. Frontier's corrected Gas Cost Recovery ("GCR") rate is $.50656 per Ccf, or $5.0656 per Mcf, which is a decrease of $.3814 per Mcf from its previous rate of $5.4470 per Mcf.

8. 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 November 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 November 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.

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[10] Case No. 2016-00227, *Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (Ky. PSC July 21, 2016).

4. Frontier shall include in its next PGA application for rates to be effective February 1, 2018, a detailed update of its efforts to decrease the incidence of gas loss on its system, as well as a discussion of its success in reducing L&U to 10 percent or below by the end of 2017.

By the Commission

ENTERED

OCT 1 7 2017

KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Gwen R. Pinson

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00401 DATED OCT 17 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	$.50656	$.92679

Large Commercial

	Base Rate	Gas Cost Rate	Total
Customer Charge	$50.00		
All Ccf	$ .34454	$.50656	$.85110

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