

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PURCHASED GAS ADJUSTMENT	)	
FILING OF KENTUCKY FRONTIER GAS,	)	CASE NO.
LLC	)	2018-00013

ORDER

On December 22, 2017, in Case No. 2017-00263, 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.<sup>1</sup>

On January 10, 2018, Frontier filed its PGA application for rates effective February 1, 2018, pursuant to the Commission’s Order in Case No. 2017-00263 requiring Frontier to file its first unified PGA application reflecting the consolidation of the gas cost of the former Public Gas Company (“Public”) no later than January 11, 2018, for rates to be effective February 1, 2018. This application establishes the first change in Expected Gas Cost (“EGC”) for Frontier’s combined system.<sup>2</sup>

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 EGC. Due to the relatively high level of L&U gas that it has consistently

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<sup>1</sup> Case No. 2017-00263, *Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment* (Ky. PSC Dec. 22, 2017).

<sup>2</sup> 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.

experienced since May 2013, Frontier proposes to calculate its EGC by limiting its gas cost recovery 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<sup>3</sup>. 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 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 the cover letters to PGA applications prior to 2017, Frontier stated that it believed it was reasonable to estimate that L&U could be 5 percent by late 2017. In Case No. 2017-00159,<sup>4</sup> Frontier revised its estimate for system-wide L&U to be only at the 10 percent level by the end of 2017 instead of its earlier estimate of 5 percent.

In Case No. 2017-00256,<sup>5</sup> Frontier 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 was a reasonable chance of

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<sup>3</sup> Case No. 2014-00304, *Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (Ky. PSC Oct. 31, 2014).

<sup>4</sup> Case No. 2017-00159, *Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (Ky. PSC April 27, 2017).

<sup>5</sup> Case No. 2017-00256, *Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (Ky. PSC July 28, 2017).

lowering L&U to 10 percent on its combined system, including the Public portion, in 2017 or 2018, but that attainment of 5 percent L&U seemed out of reach.<sup>6</sup>

In the cover letter to its last PGA application, Case No. 2017-00401,<sup>7</sup> Frontier stated that its goal of reducing L&U to 10 percent or less in 2017 appeared achievable. Its cover letter referenced the EGC calculation in that proceeding, which for the first time in three years was calculated using the 5 percent allowable L&U due to its line loss. For the 12 months ended July 31, 2017, the L&U was 6.7 percent, only slightly above the allowable level. 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.

The Commission found in the final Order of Case No. 2017-00401 that a continued waiver of the 5 percent L&U should not be necessary and would not be reasonable in the long term, and that such approval should not be indefinite. The Commission concluded in that Order that it did not expect the waiver of the 5 percent L&U limit for gas cost recovery through the EGC and the Actual Adjustment to be approved on an ongoing basis past November 1, 2018. However, in recognition of the magnitude of the safety and financial problems inherent in the L&U levels of Frontier's combined system, the Commission, in the final Order in Case No. 2017-00263, ordered an increase in Frontier's Pipeline Replacement Program ("PRP") monthly surcharge to \$5.00. In the cover letter to its application in the current proceeding, Frontier states that it is in the process of planning the necessary increases in manpower and infrastructure to implement PRP projects that will be enabled by the increase in surcharge collections.

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<sup>6</sup> Case No. 2017-00256, Response to Staff's First Request, Item 1.c.

<sup>7</sup> Case No. 2017-00401, *Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (Ky. PSC Oct. 17, 2017).

As noted above, Frontier's proposed EGC calculation does not include the standard 5 percent L&U limit. Its application reflects L&U for the 12 months ended October 31, 2017, of 12.1 percent. In light of Frontier's past progress in systematically finding and fixing leaks, and its projected efforts and investment through its PRP as described in Case No. 2017-00263 and as funded through the larger-than-requested surcharge increase, the Commission finds it reasonable to limit L&U to 10 percent, but reiterates that the waiver of the 5 percent L&U limit should not extend 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 notice sets out a consolidated EGC, including the gas cost for the Public Gas portion of its system, of \$5.4742 per Mcf. Frontier's calculation of its EGC includes an error in the calculation of one of its supplier's gas cost. The corrected EGC is \$5.4899 per Mcf, which is an increase of \$.0263 per Mcf from the combined system gas cost of \$5.4636 per Mcf which was approved in Case No. 2017-00263.
3. Frontier's notice sets out no current Refund Adjustment.
4. Frontier's notice sets out current quarter and total AAs and BAs based on a combination of previously approved reconciling adjustments for Frontier and Public. The Commission finds that the AA will not be available to Frontier for purposes of reconciling gas cost under/over-recoveries of its combined system until it files its PGA application for rates effective August 1, 2018, which will reconcile expected and actual

gas cost for the four-month period January through April 2018.<sup>8</sup> Individual tracking adjustments to reconcile the remaining unexpired AAs and BAs previously approved by the Commission before the gas cost of Frontier was consolidated with that of Public effective January 1, 2018, will be established in Frontier's PGA application for rates effective May 1, 2018.<sup>9</sup> Those adjustments will be charged in the pre-existing Frontier and Public systems for one year, in the same manner as individual gas cost reconciliation rates were calculated and approved in Case No. 2013-00364<sup>10</sup> for Frontier's various systems following the consolidation of its rates and tariffs in Case No. 2011-00443.<sup>11</sup>

5. Frontier's corrected Gas Cost Recovery ("GCR") rate is \$.54899 per Ccf or \$5.4899 per Mcf, which is an increase of \$.0263 per Mcf from its previous rate of \$5.4636 per Mcf approved in Case No. 2017-00263.

6. 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 February 1, 2018.

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<sup>8</sup> Case No. 2017-00263, December 22, 2017 Order at 16.

<sup>9</sup> *Id.* at 17.

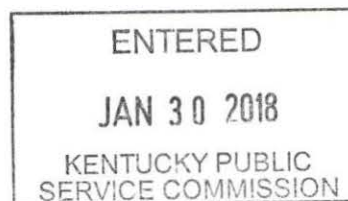
<sup>10</sup> Case No. 2013-00364, *Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (Ky. PSC Oct. 30, 2013).

<sup>11</sup> 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 Public Convenience and Necessity for Installation of AMR, Pipeline Replacement Program, Revision of Non-Recurring Fees, and Revision of Tariffs* (Ky. PSC April 30, 2013).

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 February 1, 2018.
3. Within 20 days of the date of entry 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



ATTEST:

  
Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2018-00013 DATED **JAN 30 2018**

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

	<u>Base Rate</u>	<u>Gas Cost Rate</u>	<u>Total</u>
Customer Charge	\$13.00		
All Ccf	\$ .422	\$.54899	\$.97099

Large Commercial

	<u>Base Rate</u>	<u>Gas Cost Rate</u>	<u>Total</u>
Customer Charge	\$50.00		
All Ccf	\$ .34454	\$.54899	\$.89353

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