COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION FOR REVISED QUARTERLY GAS COST RECOVERY SCHEDULES FOR KENTUCKY FRONTIER GAS, LLC.	))))	CASE NO. 2023-00067

O R D E R

On February 24, 2023, Kentucky Frontier Gas, LLC (Kentucky Frontier) tendered an application and tariff with proposed calculation modifications to its Purchased Gas Cost Adjustment Tariff along with a motion for a deviation from certain filing requirements. On April 10, 2023, the Commission entered an Order rejecting the application but stated that it would accept the application in this matter if Kentucky Frontier filed a revised proposed final and redlined tariff in the form required by 807 KAR 5:011 reflecting Kentucky Frontier's proposed tariff changes, and provided notice pursuant to 807 KAR 5:011, Section 8, subject to certain deviations granted in the April 10, 2023 Order.

On June 5, 2023, Kentucky Frontier filed a revised Purchased Gas Cost Adjustment Tariff through the tariff filing system with a proposed effective date of July 5, 2023, that proposed to change the calculation methodology of its Gas Cost Recovery (GCR) rate and made a filing in this case noting the filing of the tariff and providing proof that customer notice was provided. Based on that filing, the Commission deemed Kentucky Frontier's application and tariff filed as of June 5, 2023.

On July 3, 2023, the Commission, pursuant to KRS 278.190(2), issued an Order suspending the proposed tariff for five months up to and including December 5, 2023, to investigate the reasonableness of the proposed tariff. Kentucky Frontier responded to two rounds of discovery and an Informal Conference (IC) with Commission Staff was held virtually on December 14, 2023.[1] On December 28, 2023, Kentucky Frontier issued a letter stating that it would be placing the proposed tariff into effect following the suspension date. In Case No. 2023-00427, on December 29, 2023, Kentucky Frontier filed a GCR rate report with a February 1, 2024, effective date using its proposed GCR rate mechanism methodology.[2] The Commission suspended Case No. 2023-00427 citing that the findings in that case would be dependent on the Commission's determination in this proceeding.[3] There are no intervenors in this proceeding. This matter now stands submitted to the Commission for a decision.

LEGAL STANDARD

Commission regulations prescribe that a utility's schedule showing all rates and conditions for service be filed in the form of a tariff, or in the form of a special contract establishing rates, charges, or conditions of service not contained in its tariff.[4] The Commission has exclusive jurisdiction over the regulation of rates and service of utilities

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[1] IC Memo was filed into the case record on February 7, 2024. Kentucky Frontier filed the Handouts discussed during the IC on February 1, 2024, and subsequently its response to the filed IC memo on February 8, 2024.

[2] Case No. 2023-00427, *Electronic Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (filed. Dec. 29, 2023).

[3] Case No. 2023-00427, *Electronic Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (Ky. PSC Jan. 30, 2024). The Commission suspend the effective date of the proposed GCR rates for one day until February 2, 2024. In a letter filed on February 8, 2024, Kentucky Frontier notified the Commission of its intension to place its proposed GCR rate into effect subject to refund pursuant to KRS 278.190(2).

[4] See 807 KAR 5:011 (generally setting forth the requirement that schedules containing rates be filed in the form of a tariff); 807 KAR 5:011, Section 13 (requiring that utilities file a copy of any "special contract" establishing rates, charges, or conditions of service not contained in its tariff); see also 807 KAR 5:001, Section 16 (requiring that tariffs be filed with any application for a general rate adjustment).

in Kentucky under KRS 278.040(2). Pursuant to KRS 278.030(1), a utility may demand, collect, and receive fair, just and reasonable rates and, pursuant to KRS 278.030(2), that the service rendered and conditions under which service is to be rendered by the utility must be adequate, efficient and reasonable. KRS 278.190 permits the Commission to investigate any schedule of new rates to determine its reasonableness. The Commission, like a court, acts and speaks only through its written orders and the representations of Commission Staff members are not binding upon the Commission.[5] Commission Staff's actions also do not substitute for an Order of this Commission.[6]

BACKGROUND

Kentucky Frontier initially proposed its consolidated GCR mechanism in Case No. 2011-00443.[7] Kentucky Frontier, among other things, proposed a consolidated GCR mechanism with an expected gas cost component, an actual adjustment, a refund adjustment, and an adjustment to limit recovery of lost and unaccounted for gas to five percent,[8] which was included in some form in many of the GCR mechanism tariffs Kentucky Frontier was seeking to consolidate.[9] The Commission ordered Kentucky Frontier to add a balancing adjustment to track any under/over-recoveries that remained

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[5] KRS 278.370; *Union Light, Heat & Power Co. v. Public Serv. Comm'n*, 271 S.W.2d 361, 365 (Ky. App. 1954).

[6] *Bee's Old Reliable Shows, Inc. v. Kentucky Power Co.*, 334 S.W.2d 765 (Ky. 1960).

[7] Case No. 2011-00443, *Application of Kentucky Frontier Gas, LLC for Approval of the 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* (filed Aug. 9, 2012), Application.

[8] Case No. 2011-00443, *Kentucky Frontier Rate Case* (filed Aug. 9, 2012) Application, Proposed Tariffs.

[9] Case No. 2011-00443, *Kentucky Frontier Rate Case* (filed Aug. 9, 2012) Application, Current Tariffs.

following the expiration of any refund adjustment and actual adjustment and ordered Kentucky Frontier to track existing under/over-recoveries separately by system but otherwise approved Kentucky Frontier's consolidated GCR mechanism as proposed.[10] Kentucky Frontier added the Public Gas system to its consolidated GCR mechanism in 2017.[11]

Before Kentucky Frontier's consolidated GCR mechanism was first approved, Kentucky Frontier requested, and the Commission granted, waivers to the 5 percent lost and unaccounted for gas limit for certain of its acquired systems. In Case No. 2014-00304, the Commission granted a broad waiver of the 5 percent limit for the consolidated GCR mechanism based on the condition of systems Kentucky Frontier purchased and its efforts to repair the systems to reduce line loss but the Commission noted that the waiver would be subject to review.[12] In Case No. 2017-00401, the Commission discussed Kentucky Frontier's past efforts to limit line loss and the waiver that had been granted, and expressed that it would be expected that the waiver of the 5 percent line loss limit for gas cost recovery would not be approved on an ongoing basis past November 1, 2018.[13] In Case No. 2018-00013, the Commission stated that the waiver of the 5 percent limit

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[10] Case No. 2011-00443, *Kentucky Frontier Rate Case* (Ky. PSC Apr. 30, 2013), Order at 10-11.

[11] Case No. 2017-00263, *Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment* (Ky. PSC Dec. 22, 2017), Order. The Commission approved a system-wide gas cost and GCR mechanism to include the acquired Public gas system for rates to be effective February 1, 2018. The first consolidated system-wide GCR rate report that included the Public gas system was approved by the Commission in Case No. 2018-00013, *Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (Ky. PSC Jan. 30, 2018), Order.

[12] Case No. 2014-00304, *Kentucky Frontier Gas, LLC Purchased Gas Adjustment Filing and Petition for Waiver* (Ky. PSC. Oct. 31, 2014), Order.

[13] Case No. 2017-00401, *Kentucky Frontier Gas, LLC Purchased Gas Adjustment Filing* (Ky. PSC. Oct. 17, 2017), Order at 4.

should not extend past November 1, 2018,[14] and in Case No. 2018-00334, the Commission began applying the 5 percent limit for GCR rates effective on or after November 1, 2018.[15]

Except for the early waiver of the 5 percent line loss limit, Kentucky Frontier's consolidated GCR mechanism has generally been applied in the same manner since it was first approved in 2013. Kentucky Frontier's current Purchased Gas Cost Adjustment Tariff calculates the GCR rate as: Expected Gas Cost (EGC); plus a supplier Refund Adjustment (RA) component; plus four quarters of Actual Adjustment (AA) equating to a total AA component; and, plus four quarters of an Balancing Adjustment (BA) equating to a total BA component. The tariff establishes a 30 days' notice filing period and sets forth the calendar quarters for which each quarterly GCR rate, comprised of its respective components, are to be in effect. While the tariff may not provide an explicit mathematical expression, each component is designated with its own purpose related to the dollar-for-dollar pass through of gas costs.[16]

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[14] Case No. 2018-00013, *Kentucky Frontier Gas, LLC Purchased Gas Adjustment Filing* (Ky. PSC. Jan. 30, 2018), Order.

[15] Case No. 2018-00334, *Kentucky Frontier Gas, LLC Purchased Gas Adjustment Filing* (Ky. PSC. Oct. 30, 2018), Order.

[16] The ECG is used to estimate the expected cost of gas during the upcoming quarter (e.g. Nov.—Jan. for an application filed in Oct.). The AA is used to true-up the difference between the expected and actual gas costs for the quarter preceding the filing of the GCR report, but the true-up of each quarter is spread across an entire year based on annual sales such that the total AA is made up of four quarterly AA components. The RA is used to true-up refunds received from suppliers in the quarter preceding the filing of the GCR report, but like the AA, the true-up of each quarter is spread across an entire year based on annual sales such that the total RA adjustment is made up of four quarterly RA adjustments. Finally, the BA is used to true-up the AA, RA, and BA adjustments that ended in the quarter preceding the filing of the GCR report based on differences in actual sales that occurred during the year they were in effect and the sales used to calculate the adjustment. However, recognizing the adjustment is trued-up over a year such that the total BA is made up of four quarterly BAs. For reference, see, Case No. 2014-00477, *Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (filed Dec. 31, 2014), Application; Case No. 2017-00401, *Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (filed Sept. 29, 2017), Application;

On November 30, 2022, Kentucky Frontier filed a revised tariff to establish a gas cost reconciliation charge of $0.10 per Ccf with a proposed effective date of December 30, 2022, to recover under-recoveries in its GCR mechanism. The Commission established Case No. 2022-00428, and suspended the proposed tariff for five months, up to an including May 29, 2023, in order to investigate the reasonableness of the proposed tariff.[17] Because Kentucky Frontier had a pending proceeding, Case No. 2022-00327,[18] regarding its quarterly purchased gas cost adjustment that related to the gas cost reconciliation charge on the proposed tariff sheet, the Commission directed that the record of Case No. 2022-00428 be combined into Case No. 2022-00327 for processing.

On December 30, 2022, Kentucky Frontier filed a GCR rate report in Case No. 2022-00434,[19] in which it proposed to change its GCR mechanism in a manner similar to the changes proposed in this matter and also proposed the $0.10 Ccf gas cost reconciliation charge. Kentucky Frontier filed a revised tariff sheet in that matter which included the specific charge that would arise from the proposed mechanism and the $0.10 Ccf gas cost reconciliation charge. However, Kentucky Frontier did not file a tariff that proposed to change the mechanism and did not provide customer notice of the proposed change. The final Order in Case No. 2022-00434, among other issues, rejected the proposed change in the mechanism both because Kentucky Frontier did not propose a

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Case No. 2022- 00196, *Electronic Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (filed July 1, 2022), Application.

[17] Case No. 2022-00428, *Electronic Tariff Filing of Kentucky Frontier Gas Cost Reconciliation Charge* (Ky. PSC Dec. 28, 2022).

[18] Case No. 2022-00327, *Electronic Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (filed Nov. 30, 2022).

[19] Case No. 2022-00434, *Electronic Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (filed Dec. 30, 2022).

change to the tariff describing the GCR rate calculation or provide the required customer notice pursuant to 807 KAR 5:011, Section 8.[20] Following the Order in Case No. 2022-00434, Kentucky Frontier filed a motion to withdraw its tariff that was under investigation in Case No. 2022-00428. The Commission granted that motion on March 22, 2023, and dismissed that case.[21]

Throughout this and prior proceedings, Kentucky Frontier sought resources and guidance from Commission Staff on occasion either through Informal Conferences or email correspondence,[22] however Commission Staff cannot speak for the Commission and the Commission only speaks through its Orders.

PROPOSED TARIFF

Kentucky Frontier's proposed changes to its Purchased Gas Cost Adjustment Tariff include modifying the calculation of the GCR rate as: EGC plus a Gas Balancing Account (GBA) component. Kentucky Frontier only made a minor change to its existing EGC to remove the line loss limiter. Kentucky Frontier is seeking two fundamental changes to its GCR rate mechanism: (1) redefining the AA and BA inputs in the tariffed GCR equation to reflect the "actual balance of the gas balancing account" as the GBA

[20] Case No. 2022-00434, *Electronic Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (Ky. PSC Jan. 31, 2023), Order; *see also Bullitt Utilities, Inc. v. Kentucky Public Service Commission,* 2018-CA-000559-MR, 2019 WL 2157926 (Ky. App. May 17, 2019) (unpublished) (noting that KRS 278.160 gives the Commission the authority to establish the manner in which a schedule, i.e. a tariff, containing rates should be filed and indicating that the Commission acted within its authority in determining that an application for a surcharge should not be deemed filed until the application complied with Commission regulations).

[21] Case No. 2022-00428, *Electronic Tariff Filing of Kentucky Frontier Gas Cost Reconciliation Charge* (Ky. PSC Mar. 22, 2022).

[22] Case No. 2022-00196, *Electronic Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (filed July 13, 2022), IC Memo, and Case No. 2022-00327, *Electronic Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (filed July 13, 2022), IC Memo.

component; and (2) increasing the gas cost line loss limiter from five percent to 7.5 percent and changing limiter application from monthly to annually.

For the GBA true-up component, Kentucky Frontier stated that it developed a balancing account spreadsheet that tracks total under/over recoveries since January 2018.[23] Kentucky Frontier proposes to calculate the "balancing adjustment," which will now be the only adjustment to the EGC, on an ongoing basis based on the balance of that balancing account. A line loss limiter would be applied to the GBA annually following each 12-month period ending in October. Kentucky Frontier's proposal would increase the line loss limiter from 5 percent to 7.5 percent. Kentucky Frontier also proposed that the 7.5 percent line loss limiter would be applied retroactively to the GBA dating back three years once it initially became effective.[24]

Kentucky Frontier argues that the line loss limiter of 5 percent used by the Commission is unreasonable as it is not included in the Purchased Gas Cost Adjustment Tariff and that there is no Commission rule setting the line loss limiter as a standard.[25] Furthermore, Kentucky Frontier explained that its gas system would necessarily have more gas leaks because the relative remoteness of its customers meaning that Kentucky Frontier has significantly more feet of pipeline per customer and therefore more gas loss than other systems. Kentucky Frontier states that while it has made progress in reducing gas leaks and losses, the current system needs more work to try to achieve a line loss

[23] Kentucky Frontier's Response to Commission Staff's First Request of Information (Staff's First Request) (filed Aug. 2, 2023), Item 5.

[24] IC Memo, page 2.

[25] Kentucky Frontier Attachment B to Notice filed June 5, 2023, page 10 of 14, Direct Testimony of Steven Shute, page 9.

below 5 percent.[26] Kentucky Frontier argues that since acquiring its most recent gas system, it had significantly curtailed leakage, resulting in improvement in its line loss from 24 percent in 2010 to 6.2 percent in 2022.[27]

Kentucky Frontier is also proposing to change its established calendar quarters from: (1) August, September, and October; (2) November, December and, January; (3) February, March, and April; and (4) May, June, and July, to a more standard calendar year cycle of: (1) January, February, and March; (2) April, May, and June; (3) July, August, and September; and (4) October, November, and December. Kentucky Frontier states that this change in the calendar quarters is only for administrative purposes.[28] Kentucky Frontier is also proposing that rather than use the Commission standard of Mcf in its Tariff, that the Tariff use Ccf, because Ccf is the unit of measurement Kentucky Frontier uses for its billing.[29]

DISCUSSION AND ANALYSIS

Input Variables

Kentucky Frontier's proposed mechanism uses a figure not based on historical sales but an estimate of forecasted sales for the next 12 months based in part on sales over a five-year period, then rounded.[30] This total is to be used as the divisor for its GBA

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[26] Kentucky Frontier Attachment B to Notice filed June 5, 2023, page 12 of 14, Direct Testimony of Steven Shute, page 11.

[27] IC Memo, page 2.

[28] Kentucky Frontier's Response to Staff's First Request, Item 1b.

[29] Kentucky Frontier Attachment B to Notice filed June 5, 2023, page 7 of 14, Direct Testimony of Steven Shute, page 6.

[30] IC Memo, page 1 and 2.

component to determine the usage rate.[31] The Commission has historically considered a recent 12-month period as the best indicator of sales that will occur in the near future, and this continues to be the case given the recent experience of warmer than normal winters. The Commission is especially reluctant to approve depending on an estimation, such as the one proposed, without the necessary justification for any part of its standard automatic recovery mechanism. An automatic recovery mechanism, such as the GCR rate, relies on updated inputs that should be justifiable and readily available in the case records of current and previous cases. This remains true for any forecasted variables which may be based on a market equivalent rate such as the NYMEX or an intended wholesale rate provided in advance by a supplier. Because the Commission and Commission Staff are occasionally required to access information from past cases to correct calculation errors, actual data is highly preferable to estimated data. This has occurred recently in a case involving Kentucky Frontier, in which it did not follow the approved calculation methodology.[32] Thus, the Commission finds Kentucky Frontier's use of an estimated variable to be unreasonable.

The GBA component of the proposed mechanism as filed by Kentucky Frontier[33] includes gas costs as far back as January 2018 and applies the 7.5 percent line loss

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[31] IC Handout (filed. Feb. 1, 2024), File name: "PSC_23-0329_GBA_compare_Oct23.xlsx", tab: "Sched I Rate Dtrm", cell E5 and cell F29.

[32] See Case No. 2023-00329, *Electronic Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (Ky. PSC Oct. 31, 2023), Order at 2 and 3. The Commission had to rely on the record in the proceeding and the record of Kentucky Frontier's prior GCR rate report filings to determine the correct GCR rate due to Kentucky Frontier's failure to follow the correct calculation methodology.

[33] Multiple version of the proposed application was filed in the case record. The most recent full version was filed as IC Handout (filed. Feb. 1, 2024), File name: "PSC_23-0329_GBA_compare_Oct23.xlsx". IC Handout GBA_Oct23 showed Kentucky Frontier's recommended GCR calculation versus the current method as well as its GCR over- and under-recovery dating back to January 2018. GBA_Dec23 updated the GBA component through January 2024.

limiter annually to these gas costs beginning with the calendar quarter ending October 2019. The gas costs included in this proposed GCR rate report are those that the Commission had previously disallowed for recovery through the implementation of the 5 percent line loss limiter in the AA true up portion of the current GCR rate mechanism. The Commission, like a court, acts and speaks only through its written orders and those gas costs in excess of the 5 percent line loss limiter were not included in the gas costs allowed by the Commission for pass through to Kentucky Frontier ratepayers. In Case No. 2018-00013, the Commission approved a waiver of the 5 percent line loss limiter and stated that Kentucky Frontier could recover a line loss of up to 10 percent, but only until November 1, 2018.[34] In Case No. 2018-00334, Kentucky Frontier returned to using the 5 percent limiter in its EGC and current quarter AA calculations.[35] In the succeeding cases, Kentucky Frontier made no motion for deviation and provided no showing of good cause for why the 5 percent line loss limiter should not be applied to its gas purchases for those quarterly filings. Given that this proceeding is for a proposed change to the calculation methodology established in a tariff, the Commission finds that the previous disallowed gas costs should not be considered for recovery in this proceeding. If Kentucky Frontier were to modify its GCR rate report calculation, the changes would be applied prospectively rather than retrospectively. Thus, the Commission finds Kentucky Frontier's actions to recover costs previously disallowed to be unreasonable and should be denied.

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[34] Case No. 2018-00013, *Purchased Gas Adjustment Filing Of Kentucky Frontier Gas, LLC* (Ky. PSC Jan. 30, 2018).

[35] Case No. 2018-00334, *Purchased Gas Adjustment Filing Of Kentucky Frontier Gas, LLC* (Ky. PSC Oct. 30, 2018).

Kentucky Frontier also states that the GBA's inclusion of prior gas costs allows for Kentucky Frontier to make retroactive changes to its purchased gas costs should its supplier need to issue a refund due to over billing.[36] According to Kentucky Frontier, the most recent corrections to the reported sales and/or purchases occurred every month between January and October 2023.[37] The Commission notes that during this period when these months were being included in the reporting period of the GCR, Kentucky Frontier failed to notify the Commission of these necessary corrections in its cover letters. The Commission finds that Kentucky Frontier should be more transparent with the Commission when this over billing by a supplier occurs. Failure to communicate these issues in writing when they occur raises questions concerning the quality, accuracy, and completeness of the information Kentucky Frontier is filing in its quarterly reports. Such concerns may lead the Commission to open an investigation for a more complete review into the reasonableness of components of Kentucky Frontier's GCR rates, up to a reconsideration of rate in its entirety as fair, just and reasonable. Thus, the Commission finds that Kentucky Frontier should take considerable care to ensure that its GCR rate report and the information supplied in its report are thorough and transparent to the Commission and to its ratepayers. The Commission finds that in instances of over/under-billing or other circumstances impacting gas cost recovery, Kentucky Frontier should explain the occurrence in the cover letter of its future quarterly GCR rate report filings, provide the difference in the supplier invoice, provide the new invoice, and request that the difference be accounted for in the GCR rate report. Failure to do so may impede the

[36] IC Memo, page 2.

[37] See IC Handouts (filed. Feb. 1, 2024), File Name: "IC_Handouts_Supp_Filing_2-1-24.pdf", Exhibit A, green highlights.

Commission's ability to timely process Kentucky Frontier's quarterly GCR rate report filings.

Lag of Recovery

In the cover letter to its GCR rate report in Case No. 2022-00327, filed on October 10, 2022, Kentucky Frontier stated that it has been unable to recover the dollar-for-dollar cost of purchased gas for the past 18 months.[38] Specifically, Kentucky Frontier estimates that from November 2020 to July 2022 it had more than $600,000 of unrecovered total purchased gas costs. In its application in the current proceeding, Kentucky Frontier states that it has recovered the amount identified in Case No. 2022-00327.[39]

The provisional under recovery that occurs during a period of high volatility is an unfortunate byproduct of the recovery lag that is the inherent risk to the energy and fuel market. Further, the high volatility is often fueled by extreme weather events, which compounds the recovery lag inherent to automatic recovery mechanisms. An automatic recovery mechanism, such as the GCR and or he Fuel Adjustment Clause (FAC), rely on an established baseline usage rate in conjunction with a true-up factor for actual costs and occasionally an additional true-up factor to account for sales differences. During periods of volatile market gas pricing this baseline may not reflect an accurate estimate of gas cost for the upcoming quarter which also leads to a lag in full gas cost recovery. The Commission notes that Kentucky Frontier's current Purchased Gas Cost Adjustment

[38] Case No. 2022-00327, *Electronic Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (filed. Oct. 10, 2022), Cover Letter.

[39] Kentucky Frontier Attachment B to Notice filed June 5, 2023, page12 of 14, Direct Testimony of Steve Shute, page 11.

Tariff includes a provision for Interim Gas Cost Adjustments.[40] This section grants Kentucky Frontier the means to apply to the Commission for interim adjustments to the GCR rate should any significant change in supplier rates occur between the regularly scheduled quarterly adjustments. Kentucky Frontier has the ability to file with the Commission a request for an interim adjustment to its GCR rate which may be granted upon a showing of good cause.[41] The Commission has historically approved such requests for deviation to the GCR rate mechanism as long as the utility provides a showing of good cause.[42]

Line Loss Limiter

As noted above, the Commission speaks through its Orders. The Commission has applied, for a significant amount of time, the 5 percent line loss limiter to Kentucky Frontier's GCR rate reports and the GCR rate reports of other Kentucky gas local distribution companies (LDC) for decades. Kentucky Frontier's argument that the 5 percent line loss limiter is not established by Commission rule or that there is no such standard or parameter fails to acknowledge the Commission's longstanding practice. The Commission's rule is implemented through its Orders. The 5 percent line loss limiter has

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[40] Kentucky Frontier Tariff, PSC No. 3, Sheet Original No. 31, Purchased Gas Cost Adjustment Tariff, Section D. Interim Gas Cost Adjustment.

[41] In Case No. 2023-00049, *Electronic Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (Ky. PSC Feb. 28, 2023). Kentucky Frontier proposed a GCR rate to be effective out of the calendar quarters established in its Purchased Gas Cost Adjustment Tariff. The Commission denied Kentucky Frontier's GCR rate report stating that while Kentucky Frontier had the means of filing a GCR rate report out of the calendar quarters through an Interim Gas Cost Adjustment report, Kentucky Frontier had failed to indicate that it was such a request, failed to provide evidence that significant change in the supplier rate has occurred between the regularly-scheduled quarterly adjustment, and did not update the correct GCR rate components.

[42] Case No. 2014-00049, *Purchased Gas Adjustment Filing of Western Lewis-Rectorville Water & Gas* (Ky. PSC Mar. 5, 2014), Order.

been standard practice historically at the Commission, and was introduced as a means of incentivizing an LDC to maintain system infrastructure and correct excess line loss on its system by limiting the recovery of lost and unaccounted for gas cost that could be passed to ratepayers. Prior GCR rate report cases filed by Kentucky Frontier included a request for deviation to the line loss limiter in its applications. At the time, the Commission granted Kentucky Frontier's request for deviation upon the showing of good cause for a set period with the expectation that Kentucky Frontier would make the needed improvements to the line loss of its system.[43] Kentucky Frontier has a Pipeline Replacement Program (PRP) established in Case No. 2011-00443[44]; expanded in Case No. 2016-00132[45]; then continued with an increase in PRP rates in Case No. 2017-00263[46]. The purpose of a PRP surcharge is to collect funds for actively replacing problematic pipeline on a gas distribution system that may lead to leaks. The Commission, in its December 22, 2017 Order issued in Case No. 2017-00263, clearly placed emphasis on the replacement of unsafe and deteriorating bare steel pipeline, and

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[43] See Case No. 2014-00304, *Kentucky Frontier Gas, LLC Purchased Gas Adjustment Filing and Petition for Waiver* (Ky. PSC. Oct. 31, 2014), Order; Case No. 2017-00401, *Kentucky Frontier Gas, LLC Purchased Gas Adjustment Filing* (Ky. PSC. Oct. 17, 2017), Order at 4; Case No. 2018-00013, *Kentucky Frontier Gas, LLC Purchased Gas Adjustment Filing* (Ky. PSC. Jan. 30, 2018), Order; and Case No. 2018-00334, *Kentucky Frontier Gas, LLC Purchased Gas Adjustment Filing* (Ky. PSC. Oct. 30, 2018), Order.

[44] 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), Order. The Commission approved a PRP Surcharge at $1.25 per meter per month.

[45] Case No. 2016-00132, *Application of Kentucky Frontier Gas, LLC for Approval of Modification of AMR and Pipeline Replacement Programs, Surcharges and Tariffs to Include the Former Public Gas System* (Ky. PSC Oct. 6, 2016), Order. The Commission approved an expansion of the PRP Surcharge to include the Public gas system previously acquired by Kentucky Frontier.

[46] Case No. 2017-00263, *Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment* (Ky. PSC Dec. 22, 2017), Order. The Commission approved an increase to PRP Surcharge at $5.00 per meter per month.

that the safety and integrity of Kentucky Frontier's system is of great concern.[47] The Commission further stated that Kentucky Frontier should consider using "any methods at its disposal, including the hiring of outside contractors, to ensure that bare steel pipeline is removed from its system in the original timeframe as was approved in Case No. 2011-00443."[48] Kentucky Frontier has not filed with the Commission for any additional adjustments to its PRP surcharge since Case No. 2017-00263.

However, based on the record and the PRP quarterly reports filed into the record in Case No. 2017-00263,[49] Kentucky Frontier has attempted curtailing its line loss resulting in improvement in its line loss since 2017. Therefore, the Commission finds that Kentucky Frontier should be granted an interim increase to its line loss limiter from 5 percent to 7.5 percent for a period of up to two years. The deviation should be included in the next GCR rate report filed by Kentucky Frontier with a proposed effective date of May 1, 2024, and should remain in effect up to and including the GCR rate report with the 12-month reporting period ended April 30, 2026. Kentucky Frontier may then request another deviation and increase to its line loss limiter, if necessary, along with a showing of good cause. The Commission further finds that Kentucky Frontier's Purchased Gas Cost Adjustment Tariff should be updated to include language that states that Kentucky Frontier shall use the 5 percent line loss limiter in its EGC and AA calculation but may request a deviation from the Commission only upon a showing of good cause. The

[47] Case No. 2017-00263, *Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment* (Ky. PSC Dec. 22, 2017), Order at 13.

[48] Case No. 2017-00263, *Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment* (Ky. PSC Dec. 22, 2017), Order at 13.

[49] See Case No. 2017-00263, *Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment*, Post-Case Correspondence.

Commission reminds Kentucky Frontier that it should continue to make necessary replacements of unsafe and deteriorating pipeline on its system, and that the Commission's current approval of an interim increase of the five percent line loss limiter is not intended to be permanent or recur indefinitely. Kentucky Frontier should be on notice that the Commission views line loss as a primary indicator of ongoing maintenance of the system which is critical to the safety to Kentucky Frontier's customers and the public.

Having reviewed the record and being sufficiently advised, the Commission finds that Kentucky Frontier's proposed modifications to its Purchased Gas Cost Adjustment Tariff should be denied. Kentucky Frontier has not demonstrated that its proposed changes to the Purchased Gas Cost Adjustment Tariff is needed or is a reasonable or efficient change to the GCR mechanism. The Commission finds that the current GCR mechanism works as intended and the evidence supplied in the record supports this finding. The current mechanism allows the utility to pass through a Commission approved amount of gas costs to its customers using prospective and retrospective calculations based on verifiable inputs on a quarterly basis. The Tariff for the GCR rate mechanism also permits utilities to request to the Commission for deviations to its mechanisms only upon a showing of good cause. Kentucky Frontier is the master of its own application and carries the burden of proof should it wish to request deviation from the established standard practice that has already been approved by the Commission.

The Commission further finds that because Case No. 2023-00427 is an ongoing proceeding with the final decision in that case dependent on the Commission final Order in this case,[50] Kentucky Frontier should re-file the quarterly GCR rate report in Case No. 2023-00427 using the Commission approved GCR rate report mechanism discussed herein. Kentucky Frontier should also file a statement describing how Kentucky Frontier intends to refund or collect any over/under-collections resulting from it placing the suspended GCR rates of Case No. 2023-00427 into effect, subject to refund, on and after February 2, 2024.[51]

Despite denying the proposed Tariff modifications, the Commission invites Kentucky Frontier to continue tracking its gas costs and sales through its proposed mechanism independently while it continues to file its quarterly GCR rate reports. After tracking the results for a period of up to five years, if Kentucky Frontier has sufficient evidence that supports its desired mechanism change, it may re-file its application with such updated information with the Commission for consideration. The Commission notes that should Kentucky Frontier decide to continue tracking the operation of its proposed mechanism independent of the current approved GCR rate mechanism, then it should start with its most current gas cost going forward, rather than attempt to recover those gas costs previously disallowed by the Commission through the line loss limiter.

While the Commission acknowledges the issues indicated by Kentucky Frontier there is an inherent benefit for Kentucky's utilities to follow a comprehensive established calculation methodology for its automatic recovery mechanisms. The Commission

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[50] Case No. 2023-00427, *Electronic Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (Ky. PSC Jan. 30, 2024), Order.

[51] Case No. 2023-00427, *Electronic Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (filed, Feb. 8, 2024), Notice of Rates in Effect.

provides the standard GCR[52] rate report as a utility form readily available on the Commission website.[53] Over the years as LDCs' gas procurement practices have changed and expanded the Commission has granted slight changes to an LDC's GCR rate report to better reflect the individual gas system. However, the established mechanism of GCR = RA + AA + BA, remains homogeneous across Kentucky's LDCs with the occasional exception being the absence of the BA component.[54]

While the Commission considers each individual utility's unique market and system circumstances, it must also take into consideration the overall impact of changes to the mechanism and the Commission's ability to conduct sufficient evaluation of the filed reports for the review period allotted. The Commission also requires the ability to access verifiable historical data from previous filings as it reviews automatic recovery rate calculations should it find the application does not follow the approved calculation methodology. Kentucky Frontier is strongly encouraged to utilize the approved calculation method in its next GCR rate report filing.

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[52] The term Gas Cost Recovery or "GCR" is interchangeable with Gas Cost Adjustment "GCA"; and Purchased Gas Adjustment "PGA". The term Actual Cost Adjustment "ACA" and Actual Adjustment "AA" are also interchangeable terms and both refer to the true-up component of the GCR. For the sake of consistency, the Commission uses "GCR" in its final Orders unless otherwise stated. The Commission also universally reports the usage rate for natural gas using Mcf.

[53] Blank GCR rate reports in pdf and word format are available on the Commission's Website at www.psc.ky.gov under Utility Information > Utility Forms > Natural Gas > File Name: "Quarterly Report of Gas Cost Recovery Rate Calculation: Blank form in Word format, Blank form in PDF format"

[54] Some gas cost adjustment tariffs for the smaller Kentucky LDCs do not have the BA as a part of the calculation of the GCR rate. The BA compensates for any under or over collections that have occurred as a result of prior adjustments. For some LDCs the differences are minimal and have chosen to opt out of using the BA.

IT IS HEREBY ORDERED that:

1. Kentucky Frontier's proposed changes to its Gas Cost Adjustment Tariff is denied.

2. Within 20 days of the date of service of this Order, Kentucky Frontier shall file with this Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets setting out the line loss language as a part of its Purchased Gas Cost Adjustment Tariff as discussed herein and reflecting that they were approved pursuant to this Order.

3. Kentucky Frontier is granted a deviation to the line loss limiter from 5 percent to 7.5 percent in its GCR rate reports for a period of up to two years. The deviation to the line loss limiter will become effective in Kentucky Frontier's next quarterly GCR rate report filing with a proposed effective date of May 1, 2024.

4. Within 20 days of the date of service of this Order, Kentucky Frontier shall refile the quarterly GCR rate report in Case No. 2023-00427 using the Commission approved GCR rate report mechanism.

5. Within 30 days of the date of service of this Order, Kentucky Frontier shall file in Case No. 2023-00427, a statement describing how Kentucky Frontier intends to refund or collect any over/under-collection resulting from placing into effect, subject to refund, the suspended GCR rates of Case No. 2023-00427 on and after February 2, 2024.

6. This case is closed and removed from the Commission's Docket.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ENTERED

MAR 28 2024 bsb

KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Executive Director

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