



February 29, 2012

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40602-0615

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PUBLIC SERVICE
COMMISSION

Re: Petition for Waiver for GCR Adjustment
B.T.U. Gas Company

Dear Mr. Derouen:

Please find the attached Petition for Waiver for GCR Adjustment as Frontier continues to experience excessive lost and unaccounted for gas and is requesting a continuation of the tariff approved on January 3, 2012 in Case No. 2011-00512.

Supporting documentation is included.

If you have any questions, please call me at 303-422-3400.

Sincerely,

KENTUCKY FRONTIER GAS, LLC

Dennis R. Horner
Kentucky Frontier Gas, LLC

Enclosures

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | |
|---|------------------|
| THE APPLICATION OF KENTUCKY FRONTIER GAS, |) |
| LLC AS BANKRUPTCY OPERATOR |) |
| OF B.T.U. GAS COMPANY FOR APPROVAL |) CASE NO. 2012- |
| OF AN ADJUSTMENT OF THE GAS |) |
| COST ADJUSTMENT TARIFF |) |

PETITION FOR WAIVER FOR GCR ADJUSTMENT

Kentucky Frontier Gas, LLC (Frontier), by counsel, petitions for an order approving an increase of the gas cost adjustment tariff for B.T.U. Gas Company, Inc. (BTU), but waiving the exclusion of gas loss in excess of five percent.

In support of its petition the following information is provided.

1. Kentucky Frontier Gas, LLC is a Colorado company authorized to do business in Kentucky. Its address is 4891 Independence St., Wheat Ridge CO 80033. Managing partners are Robert Oxford and Steven Shute. A copy of its articles organization and its certificate to operate in Kentucky were filed in Case No. 2008-00394.

2. Frontier was appointed operator of B.T.U. Gas Company by the bankruptcy trustee in Case No. 10-70767-TNW on August 11, 2011. It continues to operate the company pending an application for acquisition pursuant to an order of the bankruptcy Trustee.

3. Frontier as operator of B.T.U. filed a tariff for an Interim Gas Cost Adjustment on December 20, 2011. The tariff was approved for on January 3, 2012 in Case No. 2011-00512.

4. The last GCR rate increase was partially due to a higher than expected

price. The principal supplier rejected the proposed \$4.30 per mcf price on the pending contract and raised it to \$5.00 per Dth. Since no other producer could supply adequate gas to B.T.U., Frontier was obligated to take this deal to continue service on B.T.U., resulting in GCR losses.

5. In addition to the higher price per MCF, Frontier has learned in 8 months of operating that the B.T.U. system runs at an inordinately high Lost & Unaccounted for gas (L&U).

Frontier identified numerous entities taking gas from B.T.U. Gas without meter or payment. Some of these “customers” claim to have a contract with B.T.U. for free gas in exchange for a pipeline easement, but many were simply stealing gas from B.T.U. Frontier has installed meters on these users and has agreements with most to start paying for gas.

In addition to “customers” taking gas, Frontier has found that the B.T.U. system is interconnected with foreign pipelines, including Sigma (now Frontier - Cow Creek), and nearby gathering systems.

Frontier found two pipeline segments which have served B.T.U. customers for years that are now claimed by former owners Richard and Pam Williams as belonging to “Thompson Energy”, for which there is no approved PSC tariff and no record of existence in Kentucky. Case No. 2012-00028 is pending before the Commission to investigate these improper connections to BTU.

Frontier has spent hundreds of man-hours searching for and responding to numerous tips and leads to find and eliminate these foreign intrusions into B.T.U. Frontier is working to segment the B.T.U. system and to analyze gas use and sales in smaller parcels. In the meantime, the B.T.U. system receives 50-100% more gas from producers than it is selling to metered customers.

Under Commission policy, a gas utility cannot recover gas costs for more than 105% of its volumetric sales to customers. The B.T.U. losses were far in

excess of 5% for Frontier's first 8 months of operations, and are not expected to fall to 5% any time soon, despite Frontier's best efforts to find all illicit customers and connections.

6. The discrepancy between the approved rates and the actual gas cost due to heavy gas losses resulted in a significant financial impact on Frontier in 2011. Because the gas rates did not recover the actual gas costs incurred by B.T.U., Frontier was forced to subsidize the gas costs. The estimated loss to Frontier was about \$41,000 for August through December, 2011.

7. The latest GCR took effect January 9. Due to the waiver for exclusion of gas losses above 5%. Frontier estimates gas cost recovery for January and February was about even with gas purchases, and expects the same for March. If the waiver is not extended, Frontier expects losses of \$25,000 for April, May and June 2012 volumes. These high losses are expected to decline based on Frontier's continued efforts, but likely will continue at 30 to 50% for the next quarter. This is in addition to unreimbursed operating costs, which are much higher than usual while Frontier tries to solve the problems of gas theft and loss. A schedule is attached of projected losses for the next quarter, assuming the typical 105% limit.

8. Any unrecovered gas cost will have a negative impact on Frontier's financial condition and may threaten its ability to pay the higher gas costs to the suppliers. Failure to pay suppliers could result in discontinuance of gas supply to B.T.U.'s customers.

9. To avoid additional harm to Frontier and to attempt to avoid disconnection of gas supply to B.T.U., Frontier proposes to adjust its gas cost recovery mechanism on an interim basis. **Frontier asks for an interim waiver of the 5% limit for lost gas costs.** Without the waiver, Frontier cannot foresee continued operation of the system due to the excessive financial impact.

10. Frontier has filed with this application a GCR adjustment to reflect the

actual current gas cost of \$8.00 per MCF. The expected gas cost is calculated based on 56% lost and unaccounted gas, which is lower than actual losses for the months of Frontier's operation of B.T.U. Because Frontier is proposing a rate that is not calculated based on actual gas costs and adjustments, **it requests a deviation from the GCR tariff and the filing requirements of the GCR.**

11. The GCR does not attempt to recover gas cost losses for the months of August through December, 2011. This under-recovery will be addressed in a future GCR, when gas losses have stabilized at an acceptable rate. Any losses not recoverable by the GCR are expected to be recovered from proceeds of the sale of B.T.U. by the bankruptcy Trustee.

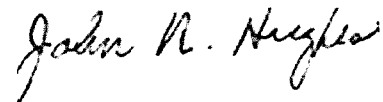
12. The approval of this GCR will allow Frontier to immediately begin to recover a greater portion of its actual gas costs and allow it to eventually recover the lost revenue from the prior months' under-billings over the next several quarters.

13. Because of the timing of the bankruptcy proceedings and the financial impact the loss of revenue from the unrecovered gas costs will have on Frontier, this matter necessitates immediate action.

For these reasons, Frontier requests:

1. A deviation from the B.T.U. GCR tariff
2. A deviation from the GCR filing requirements
3. Approval of the proposed GCR rate

SUBMITTED BY:

A handwritten signature in black ink that reads "John N. Hughes". The signature is written in a cursive style with a large initial 'J' and 'H'.

John N. Hughes
124 W. Todd St.
Frankfort, KY 40601
502-227-7270

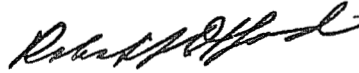
Attorney for
Applicant

AFFIDAVIT

County of Jefferson

State of Colorado

Affiant, Robert Oxford, after being sworn, states that he is Managing Partner of Kentucky Frontier Gas, LLC and that the information contained in this Application is true and correct to the best of his knowledge.

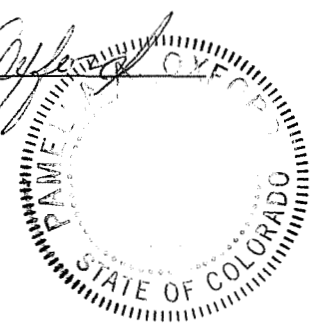


Robert Oxford

Sworn and subscribed before me by Robert Oxford, the day of February, 2012.


Notary Public

My commission expires: 12-30-12



Projected BTU Losses at 56% L&U

| Month | Estimated Sales Vol (Mcf) | Est Purch Vol. @ 5% L&U | Est Costs @ | Est Purch Vol. @ 56% L&U | Est Costs @ | Estimated Loss (\$) |
|-----------------------------|------------------------------|----------------------------|------------------------------|-----------------------------|---------------------|------------------------|
| | | | \$5.1548/Mcf (2011-00405) | | \$4.50/Mcf (ECG) | |
| Apr | 2816 | 2,957 | \$15,242 | 6,400 | \$28,800 | \$13,558 |
| May | 1408 | 1,478 | \$7,621 | 3,200 | \$14,400 | \$6,779 |
| Jun | 1056 | 1,109 | \$5,716 | 2,400 | \$10,800 | \$5,084 |
| Total Projected Loss | | | | | | \$25,421 |