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PUBLIC SERVICE
COMMISSION

February 27, 2013

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

Re: Gas Cost Adjustment
B.T.U. Gas Company

Dear Mr. Derouen:

Kentucky Frontier Gas, LLC (KFG) appointed as operator of B.T.U. Gas Company by the U.S. Bankruptcy Court, Case No. 10-70767-TNW, August 11, 2011. On behalf of BTU, KFG is filing for a Gas Cost Recovery for the period commencing April 1, 2013.

Enclosed is a GCA form and related calculations on which we base our request for rate changes. The cost of gas from suppliers varies from \$3.00/Mcf to \$6.00/Mcf. The B.T.U. system is currently experiencing high L&U as a result of unmetered users and potential interconnections to other systems not part of B.T.U.

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

FOR ENTIRE AREA SERVED

BTU Gas Company

P.S.C. KY. NO. _____

BTU Gas Company

(Name of Utility)

CANCELING P.S. KY. NO. _____

SHEET NO. _____

RATES AND CHARGES

APPLICABLE: Entire area served

AVAILABILITY OF SERVICE: Domestic and commercial in applicable areas.

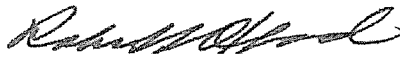
A. MONTHLY RATES:

	<u>Base Rate</u>	<u>GCRR</u>	<u>Total</u>
FIRST (1) MCF (MINIMUM BILL)	\$ 3.9000	8.0254	11.9254
OVER 1 MCF	\$ 2.9700	8.0254	10.9954

B. DEPOSITS:

DATE OF ISSUE February 27, 2013

DATE EFFECTIVE April 1, 2013

ISSUED BY 
(Signature of Officer)

TITLE Member

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. _____ DATED _____

BTU Gas Company

SCHEDULE I

GAS COST RECOVERY RATE SUMMARY

<u>Component</u>	<u>Unit</u>	<u>Amount</u>	
Expected Gas Cost (EGC)	\$/Mcf	\$8.0000	20% imputed L&U
Refund Adjustment (RA)	\$/Mcf	\$0.0000	
Actual Adjustment (AA)	\$/Mcf	\$0.0254	
Balance Adjustment (BA)	\$/Mcf	\$0.0000	
Gas Cost Recovery Rate (GCR)	\$/Mcf	\$8.0254	

Rates to be effective for service render April 1, 2013

Provided for informational purposes only

<u>A. EXPECTED GAS COST CALCULATION</u>	<u>Unit</u>	<u>Amount</u>	
Total Expected Gas Cost (Sch II)	\$/Mcf	\$114,824	5% Actual L&U \$181,805
/Sales for the 12 months ended December 31, 2012	\$/Mcf	26,524	26,524
Expected Gas Cost	\$/Mcf	\$4.3291	\$6.8543
<u>B. REFUND ADJUSTMENT CALCULATION</u>	<u>Unit</u>	<u>Amount</u>	
Supplier Refund Adjustment for Reporting Period (Sch III)	\$/Mcf	\$0.0000	
+Previous Quarter Supplier Refund Adjustment	\$/Mcf		
+Second Previous Quarter Supplier Refund Adjustment	\$/Mcf		
+Third Previous Quarter Supplier Refund Adjustment	\$/Mcf		
=Refund Adjustment (RA)	\$ Mcf	\$0.0000	
<u>C. ACTUAL ADJUSTMENT CALCULATION</u>	<u>Unit</u>	<u>Amount</u>	
Actual Adjustment for the Reporting Period (Sch IV)	\$/Mcf	(\$1.2534)	
+Previous Quarter Reported Actual Adjustment	\$/Mcf	\$0.0839	
+Second Previous Quarter Reported Actual Adjustment	\$/Mcf	\$0.1648	
+Third Previous Quarter Reported Actual Adjustment	\$/Mcf	\$1.0301	
=Actual Adjustment (AA)	\$ Mcf	\$0.0254	
<u>D. BALANCE ADJUSTMENT CALCULATION</u>	<u>Unit</u>	<u>Amount</u>	
Balance Adjustment for the Reporting Period (Sch V)	\$/Mcf	\$0.0000	
+Previous Quarter Reported Balance Adjustment	\$/Mcf		
+Second Previous Quarter Reported Balance Adjustment	\$/Mcf		
+Third Previous Quarter Reported Balance Adjustment	\$/Mcf		
=Balance Adjustment (BA)	\$ Mcf	\$0.0000	

BTU Gas Company

SCHEDULE II

EXPECTED GAS COST

Provided for informational purposes only

Actual Mcf Purchases for 12 months ended December 31, 2012

(1) Supplier	(2) Dth	(3) Btu Conversion Factor	(4) Mcf	(5) Rate	(6) (4) x (5) Cost
Gibraltar			538	\$ 2.96	\$ 1,592
Gray			12,130	\$ 4.00	\$ 48,520
HI-Energy			2,954	\$ 4.00	\$ 11,816
KY Reserves			13,242	\$ 4.50	\$ 59,589
Slone			5,330	\$ 3.95	\$ 21,054
Spirit			2,609	\$ 6.00	\$ 15,654
Tackett			7,361	\$ 3.22	\$ 23,719
Walker			353	\$ 3.22	\$ 1,137
				\$ -	\$ -

Totals			44,517		\$ 183,081
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Line loss for 12 months ended 12/31/12 is based on purchases of
and sales of 26,524 Mcf.

44,517
40%

	Using 5% limit	Using actual L&U
	<u>Unit</u>	<u>Amount</u>
Total Expected Cost of Purchases (6) / Mcf Purchases (4)	\$183,081 44,517	\$183,081 44,517
= Average Expected Cost Per Mcf Purchased	\$4.1126	\$4.1126
x Allowable Mcf Purchases (must not exceed Mcf sales / .95)	27,920.00	44,206.67
= Total Expected Gas Cost (to Schedule IA)	\$114,824	\$181,805

BTU Gas Company

SCHEDULE IV

ACTUAL ADJUSTMENT

For the 12 month period ended December 31, 2012

For information purposes only - Using 5 percent line loss limiter

Particulars	Unit	Oct-12	Nov-12	Dec-12
Total Supply Volumes Purchased	Mcf	2491	5210	5684
Total Cost of Volumes Purchased	\$	\$9,409.00	\$20,620.00	\$22,341.00
/ Total Sales *	Mcf	2,366.5	4,949.5	5,399.8
= Unit Cost of Gas	\$/Mcf	\$3.9760	\$4.1661	\$4.1374
- EGC in Effect for Month	\$/Mcf	\$8.0000	\$8.0000	\$8.0000
= Difference	\$/Mcf	(\$4.0240)	(\$3.8339)	(\$3.8626)
x Actual Sales during Month	Mcf	1,665.0	4,270.0	4,767.0
= Monthly Cost Difference	\$	(\$6,699.96)	(\$16,370.85)	(\$18,413.13)

Total Cost Difference	\$	(\$41,483.94)
/ Sales for 12 months ended <u>December 31, 2012</u>	Mcf	26,524
= Actual Adjustment for the Reporting Period (to Sch IC)		(\$1.5640)

* May not be less than 95% of supply volume

Proposed - Using actual sales with no line loss limiter

Particulars	Unit	Oct-12	Nov-12	Dec-12
Total Supply Volumes Purchased	Mcf	2491	5210	5684
Total Cost of Volumes Purchased	\$	\$9,409.00	\$20,620.00	\$22,341.00
/ Total Sales *	Mcf	1,665.0	4,270.0	4,767.0
= Unit Cost of Gas	\$/Mcf	\$5.6511	\$4.8290	\$4.6866
- EGC in Effect for Month	\$/Mcf	\$8.0000	\$8.0000	\$8.0000
= Difference	\$/Mcf	(\$2.3489)	(\$3.1710)	(\$3.3134)
x Actual Sales during Month	Mcf	1,665.0	4,270.0	4,767.0
= Monthly Cost Difference	\$	(\$3,911.00)	(\$13,540.00)	(\$15,795.00)

Total Cost Difference	\$	(\$33,246.00)
/ Sales for 12 months ended <u>December 31, 2012</u>	Mcf	26,524
= Actual Adjustment for the Reporting Period (to Sch IC)		(\$1.2534)

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY FRONTIER GAS)	
COMPANY, LLC FOR APPROVAL)	CASE NO. 2012-
OF AN ADJUSTMENT OF THE GAS)	00214
COST ADJUSTMENT TARIFF OF BTU GAS)	
COMPANY)	

PETITION FOR WAIVER FOR GCR ADJUSTMENT

Kentucky Frontier Gas Company, LLC (Frontier), by counsel, petitions for an order approving an increase of the gas cost adjustment tariff for B.T.U. Gas Company, 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. An order of the PSC in Case No. 2012-00099 dated June 1, 2012 approved the transfer of BTU to Frontier. Closing and completion of the transaction have been finalized.

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. In addition to all the supporting statements made by Frontier in the filing

made on December 6, 2012, the following actions continue to be taken to reduce the high Loss & Unaccounted (L&U) gas in the BTU system:

- a. Found numerous connections on the Fontaine Williams Gas Gathering System (FWGGS) that were made by Richard Williams. The FWGGS, acquired by Bob Carlson from Williams is transporting gas for Frontier to 13 former BTU customers that were connected without meters by Williams. Meters have now been installed and the L&U related to this volume has been eliminated.
- b. Frontier connected the Puncheon gas system to the FWGGS reducing L&U that was occurring, but recently learned of numerous connections southeast of Puncheon that were connected by Williams that were taking gas that Frontier had delivered into the FWGGS for its paying customers. A block valve was installed in the FWGGS at Puncheon by Carlson and the L&U that was occurring in the southern area of the BTU system dropped by about 15 MCFD.
- c. Losses continue in the Bull Branch lateral and the Old Petro line where BTU customers will not allow Frontier personnel on their property to make repairs, operate the gas lines, and read meters. We are working with them to reconcile these problems.
- d. Frontier has notified the PSC about several lawsuits that have been filed in Magoffin County court against it by parties that have unmetered connections to the FWGGS. The claims are for free gas in exchange for ROWs for the FWGGS. Frontier has answered some of these claims with the court stating that Frontier has no ownership in the FWGGS and that Frontier has no free gas. The court has ordered Frontier to deliver gas to one party and has taken no action to acknowledge our responses. Frontier is in contact with Carlson about the ROW claims and he has a pending agreement with a gas

producer to furnish gas to some of the parties southeast of Puncheon, but no such solution has been found for other claims.

5. Frontier, as operator of the BTU system, has sold 37,720 MCF of gas for \$419,701 to customers of record from August, 2011 through December, 2012. During this period Frontier has paid gas suppliers \$318,876 for 74,265 MCF. By projecting 2013 2nd Quarter L&U to be 20%, the second quarter loss would be ~900 MCF for over \$4,400.

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 6 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 rate and the actual gas cost due to higher MCF cost and heavy gas losses results in a significant financial impact on Frontier. Because the gas rates do not recover the actual gas costs being paid by Frontier on a monthly basis, Frontier must subsidize the gas costs incurred by B.T.U.

7. The actual loss to Frontier over the last few quarters has been reduced significantly due to Frontier's efforts to eliminate line loss and theft. However, it remains unacceptably high. The estimated loss for the next quarter is over \$4,400.00. A schedule of losses for the last quarter and projected for the next quarter is attached.

8. The additional unexpected 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 per MCF, but recovery of \$8.00 per MCF based on current line loss. The expected gas cost is calculated based on an average quarter's loss of 20% lost and unaccounted gas. The most recent quarter's losses were: October 33%; November 18%; December 16%. While Frontier has made progress in locating and eliminating many of the sources of lost gas, the former BTU system continues to present unexpected problems.

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. Any other losses not recovered 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 recover the lost revenue from the prior months' under-billings over the next several quarters.

13. Because of 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:

John N. Hughes

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

Attorney for
Applicant

BTU Estimated 2013 2nd Quarter Loss

Month	Est. Sales (Mcf)	Est. Purch. MCF (5% L&U)	Est. Cost (\$5.00/MCF)	Est. Purch. MCF (20% L&U)	Est. Costs (\$5.00/MCF)	Est. Loss
APR	2,400	2,526	\$ 12,632	3,000	\$ 15,000	\$ 2,368
MAY	1,200	1,263	\$ 6,316	1,500	\$ 7,500	\$ 1,184
JUN	900	947	\$ 4,737	1,125	\$ 5,625	\$ 888
TOTAL	4,500	4,737	\$ 23,684	5,625	\$ 28,125	\$ 4,441