COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PURCHASED GAS ADJUSTMENT FILING OF KENTUCKY FRONTIER GAS, LLC	)))	CASE NO. 2014-00477

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 December 31, 2014, Frontier filed its PGA application for rates effective February 1, 2015. Frontier responded to one set of Commission Staff requests for information. In its cover letter, Frontier requested an extension of the deviation from the 5-percent limit for costs relating to Lost & Unaccounted for ("L&U") gas.

As a result of the relatively high level of L&U gas it has consistently experienced since May 2013, Frontier proposes to continue calculating its Expected Gas Cost ("EGC") and its Actual Adjustment ("AA") without limiting its gas cost recovery for L&U. This methodology was approved by the Commission in Case No. 2014-00304.[2] In the final Order in that proceeding, the Commission found that passing through line loss

[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 for Waiver* (Ky. PSC Oct. 31, 2014).

greater than 5 percent in the calculation of Frontier's EGC and AA 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 support of its request in the instant proceeding, Frontier stated that in 2014 it replaced approximately 8,000 feet of pipe in the part of its system formerly known as Belfry Gas, which, according to Frontier, represents more than 30 percent of its L&U. Frontier contends that additional losses have occurred due to road projects that resulted in numerous damaged lines, lost gas, and subsequent repairs.[3] In response to a Staff request for information, Frontier stated that from April 2013 through December 2014, it experienced 38 unreportable losses and one reportable loss due to "dig-ins," with incidents averaging two per month with an average loss of 36 Mcf per month. A failed fusion joint resulted in additional losses of 30,000 Mcf, according to Frontier, and was undetected for four months due to delayed billing from its supplier, EQT.

Frontier stated that it conducted aerial leak surveys in 2014 to identify problem areas in its system. Flame pack surveys are being used to confirm the aerial leak survey results, according to Frontier, and, based on the survey data, Frontier will focus its 2015 Pipe Replacement Program on the Belfry, Magoffin County, and Phelps areas. Frontier projects that it will replace a total of 15,000 feet of pipe in 2015.[4] Frontier

[3] *See* Cover letter to Application.

[4] Response to Commission Staff's Initial Request for Information (filed Jan. 21, 2015), Item 1.b., states that 8,000 feet is targeted for replacement in the Belfry area, 6,000 feet in the Magoffin County area, and 1,000 feet in the Phelps area.

states that the Belfry pipe replacements should make a noticeable difference in the L&U problem in that area in the future, but estimates that it may take three or four more years to reduce the system wide L&U to 5 percent.

As noted above, Frontier's proposed EGC calculation does not include the standard 5-percent line loss limit, but instead includes its actual 12-month, 20-percent line loss, which produces an EGC of $7.0313 per Mcf. Similarly, Frontier proposes to calculate its AA based on its actual cost of gas for the quarter, with no limit on L&U volumes. Based on purchase and sales volumes provided in Frontier's AA calculation, line losses for August, September, and October 2014 were 35 percent, 21 percent, and 24 percent respectively. Frontier further requests, in consideration of the on going negative financial impacts of line losses, that it be allowed to recover through the Balancing Adjustment ("BA") amounts formerly returned to its customers through past AAs in which recovery of L&U gas was limited.

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 and to recover its actual past cost of gas with no limit on L&U gas cost recovery.

2. Frontier's request for continuation of the deviation from its PGA tariff in passing through line loss greater than 5 percent in the calculation of its EGC and AA is reasonable and should be approved. Frontier's efforts to repair leaks and replace corroded sections of pipeline are documented, as is its goal to reduce line losses within three to four years. Frontier should continue to include, with any future requests for

similar deviation from its PGA tariff, detailed discussions of its efforts to decrease the incidence of gas loss on its system, as well as any updates to projections for when such losses are expected to decrease to 5 percent or below.

3. Frontier's revised notice sets out an EGC of $7.0313 per Mcf, a decrease of $.4771 per Mcf from the previous EGC of $7.5084 per Mcf.

4. Frontier's notice sets out no Refund Adjustment ("RA").

5. Frontier's revised notice sets out a current quarter AA of $.0141 per Mcf. Frontier's total AA is $1.2036 per Mcf, which is an increase of $.0087 per Mcf from its previous total AA of $1.1949 per Mcf.

6. Frontier's notice sets out a current quarter and total BA of $.0169 per Mcf[5] to reconcile its actual May through July 2013 gas cost with recoveries of gas cost through the ($.0610) AA over the 12 months ended October 31, 2014.[6]

7. Frontier's GCR is $8.2518 per Mcf, which is a decrease of $.4515 per Mcf from its previous rate of $8.7033 per Mcf

8. The rates in the Appendix to this Order are fair, just, and reasonable and should be approved for billing for service rendered by Frontier on and after February 1, 2015.

[5] The ($13,967) total cost difference used by Frontier to calculate the $.0169 BA is the actual over-recovered gas cost from May, June, and July 2013, as opposed to the ($18,802) over-recovered gas cost used to calculate the ($.0610) AA in Case No. 2013-00364, *Purchased Gas Adjustment Filing of Kentucky Frontier Gas* (Ky. PSC Oct. 30, 2013).

[6] In Case No. 2014-00304, *Kentucky Frontier Gas, LLC* (Ky. PSC Oct. 31, 2014), the Commission directed Frontier to request any further remedy with regard to gas cost losses going back to May 2013 through the BA mechanism.

IT IS THEREFORE ORDERED that:

1. The rates in the Appendix, attached hereto and incorporated herein, are approved for billing for service rendered on and after February 1, 2015.

2. 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.

3. Frontier shall provide detailed discussions of its efforts to decrease the incidence of gas loss on its system, as well as any updates to projections for when such losses are expected to decrease to 5 percent or below, with every future application in which gas cost recovery is proposed with no L&U limit.

By the Commission

ENTERED

JAN 3 0 2015

KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2014-00477 DATED JAN 30 2015

The following rates and charges are prescribed for the customers 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 Mcf	$ 4.2023	$8.2518	$ 12.4541

Large Commercial

	Base Rate	Gas Cost Rate	Total
Customer Charge	$50.00		
All Mcf	$ 3.4454	$8.2518	$ 11.6972

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