Kentucky FRONTIER GAS

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AUG 28 2014
PUBLIC SERVICE COMMISSION

August 27, 2014

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

Re: Gas Cost Adjustment
Kentucky Frontier Gas, LLC

Dear Mr. Derouen:

On behalf of Kentucky Frontier Gas, LLC, we are filing a unified GCA application pursuant to the Commission's order of April 30, 2013 in Case No. 2011-00443. Please see attached Expected Gas Cost for the combined systems. The unified GCA will be added to the tracker adjustments calculated in this filing for each of KFG's individual utilities for four quarters.

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

Sincerely,

KENTUCKY FRONTIER GAS, LLC

Dennis R Horner

Dennis R. Horner
Kentucky Frontier Gas, LLC

Enclosures

COMMISSION
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Kentucky Frontier Gas, LLC
4891 Independence Street, Suite 200, Wheat Ridge, CO 80033
igsinc@att.net 303-422-3400 Fax 303-422-6105

FOR ENTIRE AREA SERVED
KENTUCKY FRONTIER GAS, LLC

P.S.C. KY. NO. 1

Original SHEET NO. 1

Kentucky Frontier Gas, LLC
(Name of Utility)

CANCELING P.S. KY.NO.

SHEET NO.

RATES AND CHARGES

APPLICABLE: Entire area served

Residential and Small Commercial

	Base Rate	Gas Cost Rate	Total
CUSTOMER CHARGE	$ 10.0000		$ 10.0000
ALL MCF	$ 4.2023	$ 8.7467	$ 12.9490

Large Commercial

	Base Rate	Gas Cost Rate	Total
CUSTOMER CHARGE	$ 50.0000		$ 50.0000
ALL MCF	$ 3.4454	$ 8.7467	$ 12.1921

DATE OF ISSUE August 28, 2014
Month/Date/Year

DATE EFFECTIVE October 1, 2014

ISSUED BY
(Signature of Officer)

TITLE Member

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

KFG UNIFIED GAS COST RECOVERY RATE

SCHEDULE I

GAS COST RECOVERY RATE SUMMARY

	Component	Unit		Amount
	Expected Gas Cost (EGC)	$/Mcf	$	7.4672
+	Refund Adjustment (RA)	$/Mcf	$	-
+	Actual Adjustment (AA)	$/Mcf	$	1.2795
+	Balance Adjustment (BA)	$/Mcf	$	-
=	Gas Cost Recovery Rate (GCR)			8.7467
	GCR to be effective for service rendered from:	August 1, 2014		

A	EXPECTED GAS COST CALCULATION	Unit		Amount
	Total Expected Gas Cost (Schedule II)	$	$	2,400,726
/	Sales for the 12 months ended June 30, 2014	Mcf		321,501
=	Expected Gas Cost (EGC)	$/Mcf	$	7.4672

B	REFUND ADJUSTMENT CALCULATION	Unit		Amount
	Supplier Refund Adjustment for Reporting Period (Sch. III)		$	-
+	Previous Quarter Supplier Refund Adjustment	$/Mcf	$	-
+	Second Previous Quarter Supplier Refund Adjustment	$/Mcf	$	-
+	Third Previous Quarter Supplier Refund Adjustment	$/Mcf	$	-
=	Refund Adjustment (RA)	$/Mcf	$	-

C	ACTUAL ADJUSTMENT CALCULATION	Unit		Amount	
	Actual Adjustment for the **Current** Reporting Period (Sch. IV)	$/Mcf	$	0.2374	
	Actual Adjustment for the **Interim** Reporting Period	$/Mcf	$	0.2354	expires 7/31/2015
+	Previous Quarter Reported Actual Adjustment	$/Mcf	$	0.4388	expires 5/31/2015
+	Second Previous Quarter Reported Actual Adjustment	$/Mcf	$	0.4235	expires 4/30/2015
+	Third Previous Quarter Reported Actual Adjustment	$/Mcf	$	0.0054	expires 1/31/2015
+	Third Previous Quarter Reported Actual Adjustment	$/Mcf	$	(0.0610)	expires 10/31/2014
=	Actual Adjustment (AA)	$/Mcf	$	1.2795	

D	BALANCE ADJUSTMENT CALCULATION	Unit		Amount
	Balance Adjustment for the Reporting Period (Sch. V)	$/Mcf	$	-
+		$/Mcf	$	-
+	Second Previous Quarter Reported Balance Adjustment	$/Mcf	$	-
+	Third Previous Quarter Reported Balance Adjustment	$/Mcf	$	-
=	Balance Adjustment (BA)	$/Mcf	$	-

Kentucky Frontier Gas, LLC - Unified
SCHEDULE II
EXPECTED GAS COST

MCF Purchases for 12 months ended: June 30, 2014

	Supplier	Dth	Btu Factor	Mcf		Rate		(4) x (5) Cost
	AEI-KAARS		N/A	2,150	$	3.1000	$	6,665
**	Chattaco		1.0916	5,942	$	3.8206	$	22,702
	Chesepeake		N/A	4,949	$	5.1500	$	25,487
	Columbia (Goble Roberts,Peoples)		N/A	14,047	$	6.4961	$	91,251
	Cumberland Valley (Auxier)		1.2350	102,061	$	5.3886	$	549,961
	Cumberland Valley (Sigma) includes $1.25/Mcf DLR trans		1.2350	20,563	$	6.6386	$	136,509
	EQT (EKU,MLG,Price) 10/1/13 to 12/31/14		1.2820	105,414	$	7.4305	$	783,276
*	Gray		1.0520	13,480	$	4.2080	$	56,724
*	HI-Energy		1.0090	5,479	$	4.0360	$	22,113
***	HTC		1.1079	1,017	$	3.5344	$	3,595
***	Interstate NG (Sigma) rate includes $1.25/Mcf DLR trans		1.2499	1,394	$	5.2374	$	7,301
	Jefferson (Sigma) rate includes $1.25/Mcf DLR trans		N/A	14,715	$	6.1377	$	90,316
	Magnum Drilling, Inc.		N/A	3,780	$	10.5000	$	39,690
	Nytis (Auxier)		1.0962	3,931	$	3.9454	$	15,510
***	Nytis (Sigma) includes $1.25/Mcf DLR trans		1.0962	14,445	$	4.7471	$	68,572
**	Plateau		1.1200	2,187	$	3.9200	$	8,573
	Quality (Belfry)		1.2499	64,629	$	5.7483	$	371,506
	Quality (EKU,MLG,Price)		1.2560	2,394	$	5.9895	$	14,339
**	Slone Energy		1.1753	10,684	$	4.1136	$	43,949
**	Spirit		1.0458	1,302	$	3.6603	$	4,766
*	Tackett & Sons Drilling		1.1305	2,675	$	4.5220	$	12,096
***	Walker Resources		1.1344	799	$	3.6190	$	2,892
	Totals			398,037	$	5.9738	$	2,377,791

Line loss 12 months ended:	Jun-14	based on purchases of		398,037	Mcf
and sales of	321,501	Mcf.	19%		

		Unit		Amount
	Total Expected Cost of Purchases (6)	$	$	2,377,791
/	Mcf Purchases (4)	Mcf		398,037
=	Average Expected Cost Per Mcf Purchased	$/Mcf	$	5.9738
x	Allowable Mcf Purchases (must not exceed Mcf sales / .80)	Mcf		401,876
=	Total Expected Gas Cost (to Schedule 1A)	$	$	2,400,726

Estimated Avg Tco for Oct, Nov, Dec = $4.0357/Dth (NYMEX Future - $0.0480/Dth (TCo Appal Basis) = $3.9877/Dth
AEI-KAARS contract = $3.10/Mcf
EQT = TCo + $0.5583 (14% Fuel) + $1.05 (Commodity) + $0.20 (Demand) = $5.7960/Dth
Jefferson contract = TCo + $0.90 cost factor = $3.9877/Dth + $0.90 = $4.8877/Mcf
CVR = TCo + $0.0190/Dth Commodity + $0.2427/Dth TCo Demand + $0.0638/Dth Fuel + $0.05/Dth CVR Fee = $4.3632/Dth
HTC, ING, Nytis, Tackett & Walker contract = $3.00/Dth or 80% of TCo, whichever is greater
Nytis Sigma contract = 80% of Tco = $4.499/Dth x .8 = $3.5992/Dth
Slone,Spirit,Plateau,Chattaco contract = $3.50/Dth or 80% TCo, whichever is greater
Gray,HI-Energy,Tackett contract = $4.00/Dth or 80% TCo, whichever is greater
Quality (Belfry) = Tco + $0.10 = $4.499/Dth + $0.10/Dth = $4.599/Dth
Quality (EKU,MLG) = TCo x 80% + $0.725/Dth (Gathering) + $0.4445/Dth (12.35% Fuel) = $4.7687/Dth
DLR Transportation for Cow Creek (Sigma) = $1.25/Mcf on volumes from Auxier,ING,Jefferson,Nytis

* Estimated 3 mo. TCo = $3.9877/Dth x .8 = $3.1902/Dth < $4.00/Dth; $4.00/Dth
** Estimated 3 mo. TCo = $3.9877/Dth x .8 = $3.1902/Dth < $3.50/Dth; $3.3.50/Dth
*** Estimated 3 mo. TCo = $3.9877/Dth x .8 = $3.1902/Dth > $3.00/Dth; $3.1902/Dth

KFG Unified

Schedule IV
Actual Adjustment

For the 2 month period ending: June 30, 2014

Particulars	Unit	May-14	Jun-14
Total Supply Volumes Purchased	Mcf	12,948	9,217
Total Cost of Volumes Purchased	$	$ 75,569	$ 56,647
(divide by) Total Sales			
(not less than 80% of supply)	Mcf	10,045	6,448
(equals) Unit Cost of Gas	$/Mcf	$ 7.5230	$ 8.7852
(minus) EGC in effect for month	$/Mcf	$ 6.6368	$ 6.9978
(equals) Difference	$/Mcf	$ 0.8862	$ 1.7874
(times) Actual sales during month	Mcf	40,526	22,606
(equals) Monthly cost difference	$	$ 35,916.02	$ 40,406.07

		Unit	Amount
Total cost difference		$	$ 76,322.09
(divide by) Sales for 12 Months ended:	June 30, 2014	Mcf	321,501
(equals) Actual Adjustment for the Reporting Period			$ 0.2374
(plus) Over-recovery component from collections through expired AAs			$ -
(equals) Total Actual Adjustment for the Reporting Period (to Schedule I C)			$ 0.2374

KY Frontier/Individual utilities' trailing tracking adjustments

		12 months sales	Tracker
Auxier	[illegible]	102797	$ (0.2666)
Belfry	$ 12,906.69	41437	$ 0.3115
BTU	[illegible]	28320	$ (1.0690)
Cow Creek	[illegible]	47244	$ (0.1377)
East KY	$ 12,309.20	52435	$ 0.2348
Mike Little	$ 1,334.68	20181	$ 0.0661
Peoples Gas	$ 590.85	7753	$ 0.0762

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

Re: Petition for Waiver for GCR Adjustment
Kentucky Frontier Gas, LLC

Dear Mr. Derouen:

Please find the attached Petition for Waiver for GCR Adjustment. Frontier continues to experience excessive lost and unaccounted for gas which is causing significant financial impact. In addition to the L&U losses, Frontier is still trying to recover financially from the impact of extraordinary fluctuations in gas market prices during the last heating season.

Supporting documentation is included.

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

Sincerely,

KENTUCKY FRONTIER GAS, LLC

Dennis R Horner

Dennis R. Horner
Kentucky Frontier Gas, LLC

Enclosures

Kentucky Frontier Gas, LLC
4891 Independence Street, Suite 200, Wheat Ridge, CO 80033
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PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY FRONTIER GAS	)
COMPANY, LLC FOR APPROVAL	) CASE NO. 2014-
OF AN ADJUSTMENT OF THE GAS	)
COST ADJUSTMENT TARIFF	)

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 with a waiver of 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. Its contact information is:

Steve Shute
Kentucky Frontier Gas, LLC
Box 408
Prestonsburg, KY 41653
970-928-9208
pipeline@rof.net

Dennis Horner
Industrial Gas Services, Inc.
4891 Independence Street, Ste 200
Wheat Ridge, CO 80033-6714
ph 303.422.3400
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2. Frontier owns and operates East Kentucky Gas (Floyd County Gas), Belfry Gas, Alert Gas Farm Tap System, Kinzer Farm Taps, Mike Little Gas Company pursuant to the order in Case No. 2008-00394 issued on November 25, 2008. It also owns the stock of Auxier Road Gas Company, which was approved in Case No. 2009-00442. It acquired the assets of Cow Creek Gas Company (formerly Sigma Gas Company) and Dema Gas Company in Case 2010-00076. It acquired the assets of People's Gas in Case No. 2009-00492 on January 29, 2010. Approval to acquire B.T.U. Gas Company was issued on June 1, 2012 in Case No. 2012-0099. It acquired the municipal gas system of Blaine effective August 1, 2012. Frontier has consolidated the farm tap customers of Interstate Gas Company, Kinzer Gas Company, Alert Oil and Gas Company, Quality Gas Company, and KLC Enterprises into its operations. The farm tap rates are separate from the distribution rates.

3. There are about 3330 distribution customers and 630 farm tap customers. Most Frontier utility customers are concentrated in specific areas of Floyd-Pike-Magoffin counties. However, the Frontier farm taps are widely scattered over at least seven counties. Frontier consolidated all of the customers of all of the gas systems into one operating company – Kentucky Frontier Gas, LLC in Case No. 2011-00443, which allowed for a single rate structure, tariffs and operating procedures for all of the customers.

4. Since the issuance of the final order in Case No. 2011-00443 in April of 2013, consolidating the rates and operations of Frontier's gas systems, Frontier has continued to find unforeseen and undisclosed problems with certain gas systems related to lost and unaccounted (L&U) for gas. For example, Belfry has experienced 8,000,11,000, 34,000 and 17,500 MCF of L&U over the 2010-13 calendar years. An unexplained billing error in January, 2012 seemed to cause

three to four thousand of the 34,000 MCF loss.

For calendar 2013, Belfry was about 1/3 of the total system L&U. Auxier and Sigma had combined 30,000 MCF losses; EKU was 16,000 entirely due to one unreported line break; and BTU was 20% or 6,600 MCF. Not all of this is leakage, but can include inaccurate measurement and unauthorized connections to foreign facilities and wells

5. A schedule showing the actual gas loses for May, 2013 through April, 2014 is attached. Under Commission policy, a gas utility cannot recover gas costs for more than 105% of its volumetric sales to customers. The L&U losses were far in excess of 5% for Frontier's first year of consolidated operations and are not expected to fall to 5% any time soon, despite Frontier's best efforts to reduce and eliminate leaks and illicit customers and connections.

6. The attached schedule shows 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 unrecovered gas costs. It cannot continue to do so without severe financial repercussions. 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 twelve months is over $200,000.00.

7. Most Frontier leak repairs (about 80 in last 3 years) are in response to excavation damage. Frontier attempts to collect losses from the source of the damage, but many do not report the breaks or are not known. The next two causes are corrosion (57) and material and weld defects (27). Over the six years of operations of the various acquired systems, Frontier has found and fixed many other system leaks, mostly on the Belfry system, but some in all systems. Some of these were significant enough to leak several MCFD; some were evidently long-term leaks, others like the EKU Dwale fusion break in November were sudden and

short-term.

Frontier has spent thousands of man-hours and as much as $200,000 over the last four years on line replacement in Belfry. There has been no obvious tangible reduction yet in losses, but this will pay off soon, as the worst corroded sections are replaced. (Corrosion is hardly ever "general" and evenly spread throughout the steel system. It is usually concentrated on 10% or less in hot-spots.)

Frontier complies with the DOT 192 requirement to leak survey distribution systems every five years or three years for corroding steel pipe (Belfry). Frontier has done more than required on Belfry with leak surveying in targeted areas with higher suspected leakage. There have also been many flow tests on Belfry and BTU the past three summers, shutting off sections in sequence and watching the flow rate; with actual gas sales nearly zero on hot summer afternoons, any measurable flow is mostly leakage.

In June, 2014 a helicopter-based laser leak survey of 63 miles of pipeline in Belfry, BTU and Mike Little (high loss systems) with part of Auxier's low loss system as a control was performed. The survey found eleven leak indications, including four large and one medium indication, which Frontier has spent the summer investigating and fixing.

8. The additional gas cost from the continuing L&U 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.

9. To avoid additional harm to Frontier, 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 to allow recovery of 120% of gas costs from April, 2013, the first month of Frontier's consolidated gas rate, through March, 2017**. Without the waiver, Frontier cannot foresee continued

operation of the system as currently structured due to the excessive financial impact. In Case No. 2011-00512, GCR for B.T.U. Gas Company, Order of January 3, 2012, the Commission approved a similar waiver for the B.T.U. gas system. In that order, it said that any future request for a waiver should be fully supported by the facts. Frontier believes that the precedent in that case as well as the facts presented in this application, justify the requested waiver.

10. Frontier has filed with this application a GCR adjustment to reflect the actual current gas cost per MCF, but recovery of $8.80 per MCF. The expected gas cost is calculated based on an average quarter's 20% lost and unaccounted gas. While Frontier has made progress in locating and eliminating many of the sources of lost gas, several of the acquired systems continue to present chronic and persistent 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. 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.

12. 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 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
jnhughes@fewpb.net
Attorney for
Kentucky Frontier Gas LLC