

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY FRONTIER GAS,)	
LLC FOR APPROVAL OF MODIFICATION OF AMR)	CASE NO.
AND PIPELINE REPLACEMENT PROGRAMS,)	2016-00132
SURCHARGES AND TARIFFS TO INCLUDE THE)	
FORMER PUBLIC GAS SYSTEM)	

ORDER

On May 25, 2016, Kentucky Frontier Gas, LLC ("Frontier") tendered an application with the Commission in this matter, requesting modification of its Automated Meter Reading ("AMR") program and Pipeline Replacement Program ("PRP") tariffs and associated surcharges to include customers formerly served by Public Gas Company ("Public"). Public was acquired by Frontier effective December 1, 2015, after receiving Commission approval of the acquisition in Case No. 2015-00299.¹ Frontier provided notice to the customers in the former Public system of the proposed extension of its programs and surcharges.² The application proposed that the AMR and PRP surcharge rates become effective for Public customers on July 1, 2016. Frontier requested, pursuant to 807 KAR 5:001(22), a waiver from certain filing requirements and subparts of 807 KAR 5:001. On June 6, 2016, the Commission issued its Order granting Frontier's requests for deviation from the filing requirements contained in 807 KAR 5:001, Sections 16(4)(g)-(j), 16(4)(l-n), 16(4)(r), and 16(4)(u), but denying its request for

¹ Case No. 2015-00299, *Joint Application of Kentucky Frontier Gas, LLC and Public Gas Company for Approval of Transfer and Acquisition of Assets and Financing* (Ky. PSC Nov. 24, 2015).

² Application at Exhibit 4.

waiver of 807 KAR 5:001, Section 16(4)(k). On June 8, 2016, Frontier filed a response renewing its request to deviate from the filing requirements of 807 KAR 5:001, Section 16(4)(k), providing clarifying information in support of its request, and asking that its application be accepted for filing. On June 15, 2016, the Commission issued an Order finding that Frontier had shown good cause to permit it to deviate from the filing requirements of 807 KAR 5:001, Section 16(4)(k), and accepting Frontier's application for filing as of June 8, 2016. On July 8, 2016, the Commission issued an Order suspending Frontier's proposed rates for five months from July 8, 2016, up to and including December 7, 2016, and establishing a procedural schedule for the processing of this case. Frontier responded to one Commission Staff Request for Information. There are no intervenors in this proceeding, and the matter now stands submitted to the Commission for a decision.

BACKGROUND

In Case No. 2011-00443,³ the Commission approved consolidated tariffs and rates for all the Local Distribution Companies that Frontier had previously acquired. The approval included a PRP to replace aging pipeline infrastructure pursuant to KRS 278.509, and a Certificate of Public Convenience and Necessity ("CPCN") for a meter program to replace or upgrade old and ineffective meters and equip them with AMR capabilities. Tariffs and monthly surcharges were approved for both of the PRP and AMR programs.

³ 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, June 21, 2013).

Frontier's PRP includes planning, design, replacement, construction, investment, and retirement costs of steel pipe and piping to meters, curb valves, risers, and meter sets that are not to standard. The program may also include other services not appropriately designed or sized. The PRP is funded by a \$1.25 monthly surcharge applied to the bills of distribution system customers.

The AMR program includes the installation of an Itron AMR system with standard temperature compensating meters, as well as meter replacements and upgrades. The AMR program was intended to: (1) reduce meter reading costs; (2) significantly reduce the need to re-read meters; (3) assure the timeliness of readings; and (4) assure the accuracy of meter readings.⁴ The program is funded by a \$1.00 monthly surcharge billed to all distribution system and farm tap customers served by Frontier.

DISCUSSION

Frontier states that it will seek Commission approval in a future application to consolidate Public into the rates and tariffs with which it serves the remainder of its customers.⁵ Frontier proposes to begin the consolidation by extending the PRP and AMR programs to Public customers, and to charge the same \$1.25 monthly surcharge to recover the cost of replacing all existing bare steel within the Public system. Frontier estimates that approximately 7,000 feet of bare steel pipe will be replaced. It further proposes to upgrade and replace mains and services of several low-pressure portions of the system, investigate the state of cathodic protection of four miles of pipe that is

⁴ *Id.*, April 30, 2013 Order, at 15.

⁵ Application at 3.

reportedly coated and protected steel, and include mandatory relocations of its pipelines.⁶

Frontier proposes to replace pipe and convert the low-pressure systems over seven years. Frontier estimates that the PRP surcharge will produce approximately \$24,000 annually that can be applied to these projects, based on approximately 1,600 distribution customers. The estimated cost of replacing the bare steel pipe over seven years is \$140,000.⁷ Frontier states that the cost of upgrading and pipe replacement in the low-pressure portions of the Public system, which it indicated is difficult to predict at this point, is not included in the \$140,000 estimate.⁸ The existing \$1.25 monthly surcharge, which Frontier proposes to apply to Public customers, will produce approximately \$168,000 over seven years. Frontier states that, at this early stage of reviewing the needs of the Public portion of its system, the Public projects appear to involve the same priority schemes and justify using the same surcharge.⁹

Frontier likewise proposes to use its existing \$1.00 monthly surcharge to fund the meter upgrade and replacement and AMR program for the Public system. According to Frontier, as it tests Public's meters, it will refurbish or replace them as necessary so that they are from a single manufacturer, are temperature compensating, have direct-read

⁶ Application, Prefiled Testimony of Steve Shute, P.E. ("Shute Testimony") at 6–7.

⁷ *Id.* at 8–9.

⁸ Response to Commission Staff's First Request for Information ("Staff's First Request"), Item 7.

⁹ *Id.*

indexes and not dials, will be circa 1980 or newer, and have the same size piping connections.¹⁰ Frontier states that at the time of acquisition, Public's records showed that its system included approximately 1,800 meters, including spare meters and meters which have since been retired.¹¹ Of the remaining 1,700 meters, Frontier estimates it will replace approximately 500 old meters over seven years at a total cost of approximately \$35,000. About 350 of those meters, which Frontier characterizes as small meters from the 1960s and 1970s, are no longer made and have not been supported for 20 years.¹² It proposes to upgrade other meters as necessary.

Frontier proposes to install the AMR system it is currently using in the rest of its system on the Public system, at a cost of \$65 per meter for the 1,700 meters to which it expects to add Itron Encoder Receiver Transmitters ("ERTs"). It also proposes to add an additional mobile reader at a cost of \$10,000. The total estimated cost of the AMR/meter replacement project over seven years is \$155,500. Total AMR surcharges over that period are estimated to produce around \$135,000, based on 1,600 customers on the Public system.¹³ Frontier states that its goal is to replace or upgrade all meters and fit them with AMR in order to assure accurate monthly meter readings; eliminate meter reading errors and re-reading; improve timeliness of meter reading; and reduce meter reading cost.¹⁴

¹⁰ Application at 3–4.

¹¹ Response to Staff's First Request, Item 1.

¹² Shute Testimony, at 4.

¹³ *Id.* at 3.

¹⁴ *Id.* at 4–5.

FINDINGS

The Commission finds that the proposed extension of both the PRP and meter programs to Public's customers is reasonable and should be approved for the same reasons they were originally approved for the remainder of Frontier's customers. The improvements in gas delivery, reduction in line loss, and improvements in meter and therefore billing accuracy will accrue to the benefit of all of Frontier's customers, including those in the Public system, and to Frontier itself. In addition to these benefits, the safety aspect of the replacement of bare steel pipe is paramount. Based on the future consolidation of Public rates and tariffs with those of the rest of the Frontier system, it appears reasonable that the same surcharge rates be used in all of Frontier's acquired systems.

In response to Frontier's request for an expansion of its CPCN, if required, the Commission finds, pursuant to KRS 278.020 and 807 KAR 5:001, Section 15, that the facility addition represented by the proposed AMR program expansion is necessary to the public convenience and necessity, that a CPCN is required, and that a CPCN should be granted.

The Commission further finds that Frontier should report annually on surcharge collections from Public's customers and should include detailed descriptions of PRP/AMR/meter replacement activity in the Public portion of its system. The reports should be filed at the same time Frontier files its reports for the remainder of its system's surcharge collections and activities.

IT IS THEREFORE ORDERED that:

1. Frontier's PRP and related surcharge, including the filing of annual reports as described in this Order, are approved to be expanded to include the Public portion of its system, for a period of seven years, on and after the date of this Order.

2. Frontier's AMR program and related surcharge, including the filing of annual updates as described in this Order, are approved to be expanded to include the Public portion of its system, for a period of seven years, on and after the date of this Order.

3. Frontier's proposed tariff modifications to incorporate the addition of Public to its PRP and AMR programs are approved.

4. Frontier's request for an expanded CPCN to include the extension of its AMR program to Public is approved.

5. 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 tariffs and rates as approved herein and reflecting that they were approved pursuant to this Order.

6. Any documents filed in the future pursuant to ordering paragraphs 1 and 2 herein shall reference this case number and shall be retained in the utility's general correspondence file.

By the Commission

ENTERED
OCT 06 2016
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Jalina R. Mathews

Executive Director

Case No. 2016-00132

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