COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PURCHASED GAS ADJUSTMENT FILING OF KENTUCKY FRONTIER GAS, LLC	)))	CASE NO. 2016-00227

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 July 1, 2016, Frontier filed its PGA application ("Appplication") for rates effective August 1, 2016. In its cover letter, Frontier requested an extension of the deviation from the 5 percent limit for costs relating to Lost & Unaccounted for gas ("L&U").

As a result of the relatively high level of L&U that it has consistently experienced since May 2013, Frontier proposes to continue calculating its Expected Gas Cost ("EGC") and Actual Adjustment ("AA") without limiting its gas cost recovery for L&U. This methodology has been approved by the Commission in each of Frontier's PGA cases beginning with Case No. 2014-00304.[2] In the final Orders in each of those proceedings, the Commission found that passing through line loss greater than 5

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

percent in the calculation of Frontier's EGC and AA, and in the final reconciliation of gas cost through the Balance Adjustment ("BA") 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.

Frontier reported in the cover letter to its last PGA application in Case No. 2016-00135[3] that in an effort to improve the pace of its Pipe Replacement Program ("PRP"), it had upgraded its construction equipment by adding a boring machine. In support of its request in the instant proceeding, Frontier stated that the addition of the boring machine for the 2016 construction season has enabled it to replace several thousand feet of pipe in the Belfry portion of its system. Pipe replacement in this area, according to Frontier, is expected to provide the best results for reducing L&U on its system. Based on current progress, Frontier continues to believe it is reasonable to estimate that L&U could be 5 percent by late 2017.[4]

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 line loss in the amount of 16 percent, which produces a proposed EGC of $5.4177 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

[3] Case No. 2016-00135, *Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (Ky. PSC Apr. 7, 2016).

[4] Cover letter to Application.

in Frontier's AA calculation, line losses for the three months ended April 30, 2016, were actually 4.1 percent, slightly below the standard 5 percent L&U limit.

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 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 is reasonable and should be approved, although not at the 16 percent level proposed in this case. In spite of the 12-month L&U of 16 percent, the most recent quarterly L&U below 5 percent indicates that approving a 16 percent L&U in the EGC calculation may not be reasonable. Given the 4.1 percent line loss for February through April 2016, Frontier's most recent efforts in the Belfry portion of its system, and its continued belief that annual L&U can be reduced to 5 percent or below by late 2017, an L&U limit of 10 percent appears more reasonable for projecting Frontier's gas cost through the EGC. The Commission further finds that Frontier's request to include L&U greater than 5 percent in the calculation of its current quarter AA is unnecessary, since L&U for the current quarter is below 5 percent. 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 further updates to projections for when such losses are expected to decrease to 5 percent or below.

3. Frontier's notice sets out an EGC of $5.4177 per Mcf. Applying a 10 percent L&U limit to Allowable Mcf Purchases on Schedule II produces an EGC of $4.8134 per Mcf, which is an increase of $.5894 per Mcf from the previous EGC of $4.2240 per Mcf.

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

5. Frontier's notice sets out a current quarter AA of ($.0417) per Mcf. Frontier included a Second Previous Quarter Actual Adjustment of ($.0103) per Mcf instead of $.0103 per Mcf in the calculation of its total AA. Correcting this produces a total AA of ($.0962) per Mcf, which is an increase of $.8490 per Mcf from its previous total AA of ($.9452) per Mcf.

6. Frontier's notice sets out a current quarter BA of ($.0417) per Mcf. Frontier used in its calculation the 302,422 Mcf 12-month sales volume that was used in the calculation of the ($.5936) per Mcf expired BA, instead of the 249,376 Mcf sales for the 12 months ended April 30, 2016, which was the time period over which the expired BA was included in Frontier's PGA. Correcting this produces a current quarter BA of ($.1263) per Mcf. Frontier's revised total BA of $.1720 per Mcf is a decrease of $.8993 per Mcf from its previous total BA of $1.0713 per Mcf.

7. Frontier's corrected Gas Cost Recovery ("GCR") rate is $.48892 per Ccf, or $4.8892 per Mcf, which is an increase of $.5391 per Mcf from its previous GCR rate of $4.3501 per Mcf.

8. The corrected rates as set forth in the Appendix to this Order are fair, just, and reasonable and should be approved for final meter readings by Frontier on and after August 1, 2016.

IT IS THEREFORE ORDERED that:

1. The rates proposed by Frontier are denied.

2. The rates set forth in the Appendix to this Order are approved for final meter readings by Frontier on and after August 1, 2016.

3. 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.

4. 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 5 percent L&U limit.

By the Commission

ENTERED
JUL 21 2016
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Talina R. Mathews
Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2016-00227 DATED JUL 2 1 2016

The following rates and charges are prescribed for the customers in the area 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 Ccf	$ .42023	$.48892	$.90915

Large Commercial

	Base Rate	Gas Cost Rate	Total
Customer Charge	$50.00		
All Ccf	$ .34454	$.48892	$.83346

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