COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PURCHASED GAS ADJUSTMENT FILING OF KENTUCKY FRONTIER GAS, LLC	)))	CASE NO. 2016-00348

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 September 27, 2016, Frontier filed its PGA application for rates effective November 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"). Frontier responded to one Commission Staff request for information.

As a result of the relatively high level of L&U gas 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, *Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (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 PGA application in Case No. 2016-00135[3] that it had upgraded its construction equipment by adding a boring machine, in an effort to improve the pace of its Pipe Replacement Program ("PRP"). Frontier further stated in Case No. 2016-00227[4] that the addition of the boring machine for the 2016 construction season enabled it to replace several thousand feet of pipe in the Belfry portion of its system, which it expected to provide the best results for reducing L&U on its system. In response to the Commission Staff's First Request for Information ("Staff's First Request"), Frontier stated that it expects to replace approximately 10,000 additional feet of pipe in 2017, with an anticipated 90 percent in the Belfry portion of its system.[5]

In the cover letter to its PGA application in this proceeding, Frontier estimated that, by the end of the 2016 construction season, it will have replaced approximately 10,000 feet of pipe. Based on current progress, Frontier continues to believe it is reasonable to estimate that L&U could be 5 percent by late 2017. Frontier also reported

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

[4] Case No. 2016-00227, *Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (Ky. PSC July 21, 2016).

[5] Response to Staff's First Request, Item 4.

in its cover letter that a major butt fusion joint failure that was undetected during July and August was a major contributor to its current 17 percent line loss, and that it will likewise impact reported line loss in its next quarterly application.[6] In response to Staff's First Request, Frontier elaborated that the joint failure involved a section of early 1980s Aldyl-A pipe and a section of mid-1980s polyethylene pipe, and that the butt fusion joint was approximately 30 years old. Frontier states that the joint failure and leak occurred in the Auxier portion of its system, which is not included in its PRP plans. According to Frontier, the presence of Aldyl-A pipe and poor fusion practices are identified as known risks in its Distribution Integrity Management Plan, and its leakage history of these two risks show that they pose less risk of losses than corroding steel pipe pose.[7]

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 17 percent, which produces its revised proposed EGC of $5.8955[8] per Mcf based on its use of a Columbia Gas of Kentucky ("Columbia") Intrastate Utility Service ("IUS") rate that is no longer in effect and has since been increased.[9] 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 the three months ended July 31, 2016, were

[6] Cover letter to Application.

[7] Response to Staff's First Request, Item 1.a.

[8] Response to Staff's First Request, Item 2, revised Schedule I.

[9] *See* Case No. 2016-00285, *Purchased Gas Adjustment Filing of Columbia Gas of Kentucky, Inc.* (Ky. PSC Aug. 25, 2016).

approximately 33 percent, which Frontier attributes in large part to the previously discussed joint fusion failure.[10]

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 17 percent level proposed in this case. Based on Frontier's continued expectation that its PRP program will be successful in reducing its systemwide L&U gas by the end of next year, approving a 17 percent L&U in the EGC calculation does not appear reasonable. Given the 4.1 percent line loss for February through April 2016 that was included in Case No. 2016-00227, combined with Frontier's most recent efforts in the Belfry portion of its system and the repair of the leak in the Auxier 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. This is consistent with our finding in Case No. 2016-00227. 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 reasonable based on the leak and subsequent repair of the Aldyl-A pipe. 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

[10] Response to Staff's First Request, Item 1.c.

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 as revised through discovery sets out an EGC of $5.8955 per Mcf. Using the $5.3184 per Mcf Columbia IUS rate that was effective August 29, 2016, and applying a 10 percent L&U limit to Allowable Mcf Purchases on Schedule II produces an EGC of $5.5407 per Mcf, which is an increase of $.7273 per Mcf from the previous EGC of $4.8134 per Mcf.

4. Frontier's notice sets out no current Refund Adjustment.

5. Frontier's notice sets out a current quarter AA of $.0658 per Mcf. Frontier did not use the correct $4.2240 per Mcf "EGC in effect for month" for May through July 2016 in calculating its monthly cost difference for each month. Correcting this produces a current quarter AA of $.0583 per Mcf. Frontier's total AA is ($.0039) per Mcf, which is an increase of $.0923 per Mcf from its previous total AA of ($.0962) per Mcf.

6. Frontier's notice mistakenly omitted the calculation of a current quarter BA, and it did not include its ($.1263) per Mcf previous quarter BA in its total BA calculation.[11] Frontier's response to Staff's First Request set out a current quarter BA of ($.2070) per Mcf. The Commission notes that Frontier also omitted to include its expired $.7730 previous quarter BA in its BA calculation. Correcting this produces a current quarter BA of ($.0274) per Mcf. Frontier's revised total BA of ($.1478) per Mcf is a decrease of $.3198 per Mcf from its previous total BA of $.1720 per Mcf.

[11] Response to Staff's First Request, Items 2 and 3.

7. Frontier's approved Gas Cost Recovery ("GCR") rate is \$.53890 per Ccf, or \$5.3890 per Mcf, which is an increase of \$.4998 per Mcf from its previous rate of \$4.8892 per Mcf.

8. The revised 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 November 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 November 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 L&U limit.

By the Commission

ENTERED

OCT 2 7 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. 2016-00348 DATED OCT 2 7 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	$.53890	$.95913

Large Commercial

	Base Rate	Gas Cost Rate	Total
Customer Charge	$50.00		
All Ccf	$ .34454	$.53890	$.88344

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