

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY FRONTIER)	CASE NO.
GAS, LLC FOR ALTERNATIVE RATE)	2017-00263
ADJUSTMENT)	

ORDER

On June 30, 2017, Kentucky Frontier Gas, LLC ("Frontier") tendered its application ("Application") for an adjustment of its base gas rates pursuant to the procedures set forth in 807 KAR 5:076. Pursuant to 807 KAR 5:076, Section 11, the Commission hereby states that a Commission staff report will not be issued in this proceeding. The information needed in this case will be obtained through the Application and Commission Staff's Requests for Information. Frontier or any party to this proceeding may request a formal hearing pursuant to the procedural schedule appended hereto.

All requests for intervention should be filed by July 31, 2017. Any motion to intervene filed after July 31, 2017, should show a basis for intervention and good cause for being untimely. As set forth in 807 KAR 5:001, Section 4(11)(a), a person requesting permissive intervention in a Commission proceeding is required to demonstrate either (1) a special interest in the proceeding which is not adequately represented in the case, or (2) that the person requesting permissive intervention is likely to present issues or develop facts that will assist the Commission in fully considering the matter without unduly complicating or disrupting the proceedings. Further, KRS 278.040(2) requires that a

person seeking intervention must have an interest in the rates or service of a utility, as those are the only matters that are subject to the Commission's jurisdiction.

Based on the foregoing, the Commission further finds that any person requesting to intervene in a Commission proceeding must state with specificity the person's special interest that is not otherwise adequately represented, or the issues and facts the person will present that will assist the Commission in fully considering the matter. A mere recitation of the quantity of water consumed by the movant or a general statement regarding a potential impact of possible modification of rates will not be deemed sufficient to establish a special interest.

IT IS HEREBY ORDERED that:

1. The procedural schedule set forth in Appendix A, attached hereto and incorporated herein, shall be followed in this proceeding.

2. a. The information requested in Appendix B to this Order shall be filed by the date set forth in Appendix A. Responses to requests for information shall be appropriately bound, tabbed and indexed and shall include the name of the witness responsible for responding to the questions related to the information provided, with a copy to all parties of record and an original and ten copies to the Commission.

b. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

c. Frontier shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

d. For any request to which Frontier fails or refuses to furnish all or part of the requested information, Frontier shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

e. Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

f. When filing a paper containing personal information Frontier shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

3. The Commission does not look favorably upon motions for continuance. Accordingly, motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

4. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

By the Commission

ENTERED
JUL 28 2017
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Acting Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2017-00263 DATED **JUL 28 2017**

- Requests for intervention shall be filed no later than 07/31/2017
- Frontier shall file responses to the requests for information in Appendix B no later than 08/11/2017
- Requests for information to Frontier shall be filed no later than..... 08/25/2017
- Frontier shall file responses to requests for information no later than 09/08/2017
- Supplemental requests for information to Frontier shall be filed no later than..... 09/22/2017
- Frontier shall file responses to supplemental requests for information no later than 10/06/2017
- A request for a formal hearing or statement that this case may be submitted based on the existing record shall be filed no later than..... 10/20/2017

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00263 DATED **JUL 28 2017**

1. Refer to the second page of the customer notice. It appears that a \$15 instead of \$50 customer charge was used to calculate the average customer monthly cost at present and proposed rates for the Large Commercial class. State whether Frontier is willing to provide a revised notice to its two Large Commercial customers.

2. Refer to the Application, Item 7, Reasons for Application.

a. The response to Question 6 explains the objective of the Pipeline Replacement Program ("PRP"). Provide summary details concerning the PRP, including annual recovery through the PRP surcharge, the components replaced annually broken down by Frontier service area, annual spending by component by service area, and future component replacements and the associated cost expected by year by service area.

b. State for how many years Frontier expects the PRP to continue.

c. In its response to Question 6, Frontier explains that it has completed most PRP work to date with internal forces, but that it has limited ability on difficult and extended projects. Provide a detailed explanation of the PRP projects that would be considered extensive or complicated and state the reasons Frontier will be required to use an outside contractor for those projects.

d. In its response to Question 6, Frontier states that the proposed increase in the monthly PRP surcharge from \$1.25 to \$2.00 per customer will accelerate the progress of its PRP and reflects the higher per-foot construction costs. Quantify the impact the \$0.75 increase in the monthly surcharge will have on Frontier's PRP.

e. The response to Question 7 describes the pipeline replacement components that Frontier proposes to include in the PRP. State whether these are the same components already approved by the Commission for Frontier's and Public Gas Company's ("Public") PRP. If not, state how the components are different and the reason for the changes.

f. The final Order in Case No. 2011-00443¹ included the following description of the PRP:

Frontier proposed an accelerated Pipeline Replacement Program ("PRP") and associated tariff to replace more than 26 miles of bare steel pipe on the systems of some of the LDCs it has acquired, beginning with the Belfry and Mike Little systems. It has targeted 22 miles of unprotected steel pipe on the Belfry system for immediate replacement, and four miles of bare steel on the Mike Little system. Frontier estimates the pipe targeted for replacement to be 40 to 50 years old. It plans to replace this pipe over 10 to 12 years with an average annual expenditure level of \$50,000. This estimate is based on a \$4 per foot cost of replacing 12,500 feet per year, with Frontier performing the work. The proposed program 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 current standards, and may also include other services not appropriately designed or sized.

Provide an update of this information based on the operation of the PRP since it was approved.

g. The response to Question 10 generally discusses the Automated Meter Reading ("AMR") program and surcharge. Provide summary details concerning

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).

annual recovery through the AMR surcharge for both distribution and farm tap customers; number of distribution and farm tap meters replaced or upgraded by Frontier service area; annual spending for farm tap meters and distribution meters by Frontier distribution service area; and the number of future AMR distribution and farm tap replacements and upgrades and the associated cost expected by year by service area.

h. In its response to Question 10, Frontier explains that in 2016 the AMR and PRP surcharges produced revenues of \$102,000, but Frontier spent \$150,000 on the projects.

(1) For each year the AMR surcharge has been in place, provide the total annual cost of the AMR project, the amount that was funded by the AMR surcharge, and the amount that was funded by Frontier.

(2) For each year the PRP surcharge has been in place, provide the total annual cost of the PRP project, the amount that was funded by the PRP surcharge, and the amount that was funded by Frontier.

i. Confirm that the pipeline replacement that Frontier funded with its PRP surcharge is not included in the calculation of test-year depreciation. If plant investment funded by the PRP is included in the depreciation calculation, identify the test-year depreciation associated with this plant.

j. Confirm that the AMR installations that Frontier funded with its AMR surcharge is not included in the calculation of test-year depreciation. If plant investment funded by the AMR is included in the depreciation calculation, identify the test-year depreciation associated with this plant.

3. In Case No. 2011-00443, Frontier estimated the total cost of the meter upgrade plus the AMR Program as approximately \$400,000, to be spread over eight years. Provide an update of Frontier's estimates for the meter upgrade and AMR program.

4. Refer to the Application, ARF Form 1, Schedule of Adjusted Operations. State what is included in Miscellaneous Service Revenues of \$40,055.

5. Refer to the Application, Item 10, Statement of Adjusted Operations, References.

a. Under the heading OGR Other Gas Revenues, it states, "This item includes mostly Monthly Charges of \$593,680." Provide a breakdown of the components of the monthly charges that total \$593,680, and state what additional gas revenues are included in the pro forma Other Gas Revenues of \$594,184.10 shown on the Schedule of Adjusted Operations and the Revenue Requirement Calculation.

b. Under the heading TRX Transmission Expense, it states, "In the Farm Tap rate Case No. 2011-00513, Frontier attributed \$150,850 or 12% of then-operating costs to the farm taps. In keeping with that case, and to simplify this case without revisiting farm tap rates, Frontier allocates \$150,850 of shared operating costs to farm taps, thus reducing expenses for the consolidated utility operations. This method preserves the intent of cost allocation between FTs and utility customers, which Frontier will revisit in a future rate case." Provide details concerning annual operating costs that can be attributed to the operation of the farm tap system since the 2011 rate cases.

c. Provide a detailed explanation as to why the \$150,850 of operating costs that was attributable to farm taps in Case No. 2011-00513² remains reasonable. In

² Case No. 2011-00513, *Application of Kentucky Frontier Gas Company, LLC for Approval of Adjustment of Farm Tap Rates* (Ky. PSC May 30, 2012).

Case No. 2011-00513, 12 percent of the operating costs were allocated to the farm taps. Provide the 12 percent calculation using the pro forma operating expenses in this current case. Include copies of all work papers, assumptions, and calculations used by Frontier in its response.

6. Refer to the Application, Item 11, Rate Design.

a. The response to Q1 states, "Prestonsburg technicians read all AMR meters in Public Gas areas." Explain in detail Frontier's AMR deployment and state why the AMR meters are being manually read.

b. Refer to the response to Q2. State how many distribution customers would be described as "seasonal with no water heaters."

c. State whether Frontier has considered revising its Turn On Fee to discourage customers from disconnecting from the system in the summer and reconnecting in less than eight months.³

d. Refer to the response to Q3. Clarify which large gas utilities are referenced in the response.

e. Refer to the response to Q4, which references revenues from non-recurring charges of \$111,700. For each non-recurring charge listed in the customer notice, provide a breakdown of how many times each was charged during the test year and the revenues associated with each charge.

³ The tariff of Columbia Gas of Kentucky, Inc. includes the following provision for seasonal reconnection of service: If service is discontinued at the request of any Customer, Company may refuse service to such Customer, at the same premises within 8 months, unless it shall first receive payment of \$128.00 (current minimum charge of \$16.00 times 8 months) for residential customers' reconnect fee and \$357.52 (current customer charge of \$44.69 times 8 months) for commercial customers' reconnect fee.

7. Provide the Meters & Volumes History spreadsheet in Excel format with all cells unprotected and all formulas intact.

8. Refer to the spreadsheet entitled Pro-Forma Rate, Revenue and Income Reconciliation. Confirm that revenue at old rates was calculated using 5,049 total customers, and that revenue from proposed new rates was calculated using 5,053 customers. Provide this spreadsheet in Excel format with all cells unprotected and all formulas intact, and with necessary corrections so that the appropriate number of customers is used in both calculations.

9. Provide the number of distribution customers and associated sales, broken down by customer class, for the last five years. Public customers and sales should be shown separately as appropriate for years before the systems were combined.

10. Provide a copy of the Cost of Service study in Excel format with all cells unprotected and all formulas intact.

11. Refer to Frontier's 2016 Annual Report.

a. The schedule showing Revenues, Customers and Mcf Sales shows sales of 203,861 Mcf sales for residential customers and 101,913 Mcf sales for Commercial customers. Provide the portion of the 101,913 Mcf 2016 Annual Report sales volumes that are attributable to the three large commercial customers.

b. Explain why Frontier is proposing to use 361,800 Mcf as its test-year distribution sales volume when its Annual Report shows 2016 sales of 305,774 Mcf.

12. Provide a copy of the current organizational chart that identifies the parent and shows the relationship between Frontier and all affiliated companies. Include the relative positions of all entities and affiliates with which Frontier routinely has business

transactions. Also, provide a detailed description of the relationships between the affiliates.

13. List all joint or shared affiliate costs incurred during the calendar years 2015 and 2016 that are allocated to Frontier and to the other affiliates. For each cost, list the vendor, total expense amount, amounts allocated per affiliate, and the basis for allocation.

14. Describe the procedures that are used to allocate joint and shared costs among the various affiliates for the calendar years 2015 and 2016.

15. Provide all internal memorandums, policy statements, correspondence and documents related to the allocation of joint and shared costs.

16. Provide Frontier's general ledger and trial balance for the calendar years 2015 and 2016 in paper medium and Excel spreadsheet format with all columns and rows unprotected and accessible

17. Provide copies of Frontier's cash receipts and cash disbursement journals for the calendar years 2015 and 2016.

18. Provide Frontier's aged schedule of accounts receivable at December 31, 2014, December 31, 2015, and December 31, 2016.

19. Provide Frontier's schedule of accounts payable by vendor at December 31, 2014, December 31, 2015, and December 31, 2016.

20. Provide Frontier's payroll and related tax information for the calendar year 2016 and supporting time records.

21. Provide job titles, job descriptions, and the length of employment of each employee that was employed in 2015 and 2016.

22. a. Using the following table format, provide the actual wage rate information for each employee, identified by employee number, for the years 2012 through 2016.

(a) Employee Identification	(b) Wage Type Salary/Hourly	(c) 2012	(d) 2013	(e) 2013 Wage Increase		(q) 2014	(h) 2014 Wage Increase		(j) 2015	(k) 2015 Wage Increase		(m) 2016	(n) 2016 Wage Increase	
				\$	%		\$	%		\$	%		\$	%
				(d) - (c)	(e) ÷ (c)		(g) - (d)	(h) ÷ (d)		(j) - (g)	(k) ÷ (g)		(m) - (j)	(n) ÷ (j)

b. Provide the table(s) requested in 22.a. in Microsoft Excel format with all cells unprotected and all formulas intact.

23. a. Using the following table format, provide the actual full-year salary information for each employee, identified by employee number and job title, for the years 2012 through 2016 (in gross dollars — not hourly or monthly rates). The employee salary information for each year shall be provided in a separate table.

Employee Identification	Title	Year						Totals
		Regular	Overtime	Vacation Payout	Standby	Bonus	Other	
TOTALS								

b. Provide the table(s) requested in 23.a. in Microsoft Excel format with all cells unprotected and all formulas intact.

24. Using a table format, provide the regular hours and overtime hours for each employee identified by employee number for the years 2012 through 2016. The employee hour information for each year shall be provided in a separate table. Also, provide a copy of the table(s) in Microsoft Excel format with all cells unprotected and all formulas intact.

25. Refer to the Application, Schedule of Adjusted Operations – Gas Utility.

a. Provide a copy of the work papers and calculations that Frontier used to develop its pro forma test-year financial information.

b. State all assumptions that Frontier used to develop its pro forma test-year financial information.

c. Provide the work papers, calculations, and assumptions requested in Item 25.a. and 25.b in Microsoft Excel format with all cells unprotected and all formulas intact.

26. Refer to the Application, Item 10, Statement of Adjusted Operations, CAX Customer Accounts Expense.

a. Explain in detail why the “retirement of the keeper of Bad Debts” would materially impact the level of bad debt expense recorded in the test year.

b. Provide an itemized list of the bad debts for Public Gas and Frontier that “weren’t timely disposed of” and explain why these uncollectibles would not be considered non-recurring costs.

27. Provide for the calendar years 2007 through 2016 the following information for Frontier. Also, include the information for the pro forma test year.

a. The reported uncollectibles;

b. The total gas sales; and

c. Its uncollectibles stated as a percentage of total gas sales.

28. Refer to the Application, Item 10, Statement of Adjusted Operations, AGX Administrative & General Expense. Frontier states that it has announced employee wage increases that will be effective July 28.

a. Confirm that the referenced wage increase on July 28 is in the

calendar year 2017.

b. Provide all studies and analysis that Frontier and/or any affiliate has conducted on prevailing wages in the Frontier service territory or the state of Kentucky.

c. If no studies or analysis have been conducted or commissioned, explain why not.

d. Explain why, in light of the present economic conditions, both locally and nationally, the July 28 wage increases are reasonable and appropriate.

29. a. Using the following table format, provide the full-year employee benefit information for the calendar years 2012 through 2016. Provide the employee benefit information for each year in a separate table.

Employee Identification	Year												Total Cost			
	Health Benefits Cost		Dental Benefits		Vision		Life Insurance		AD&D		Totals					
	Utility	Emp.	Utility	Emp.	Utility	Emp.	Utility	Emp.	Utility	Emp.	Utility	Emp.				
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Totals	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____

b. Provide the table(s) requested in 29.a. in Microsoft Excel format with all cells unprotected and all formulas intact.

30. a. Using the following table format, provide the full-year employee retirement plan information for the calendar years 2012 through 2016. Provide the employee benefit information for each year in a separate table.

Employee Identification	Year							
	401k		Defined Benefit Retirement		Any Other	Totals		
	Utility	Emp.	Utility	Emp.		Utility	Emp.	Total Cost
_____	_____	_____	_____	_____	_____	_____	_____	_____
Totals	=====	=====	=====	=====	=====	=====	=====	=====

b. Provide the table(s) requested in 30.a. in Microsoft Excel format with all cells unprotected and all formulas intact.

31. Provide copies of all Frontier's Pension plans, including but not limited to, defined benefit, defined contribution-401(k), and post-employment retirement.

32. Provide the minutes from Board of Director meetings for the calendar years 2015 and 2016.

33. Explain what types or kinds of meters are installed on customers' premises and how the cost of the meters is accounted for.

34. Explain whether Frontier has measuring and regulating equipment on its system; if so, provide a description of this equipment and how it is used and how the cost of the measuring and regulating equipment is accounted for.

35. Provide the operating pressure of the natural gas delivered to residential and commercial customers.

36. Provide the amount of lost and unaccounted for gas in Mcf for 2012–2016.

37. Refer to the Application, Revenue Requirement Calculation – Operating Ratio Method.

a. Confirm the Pro Forma Operating Expenses before Income Taxes of

\$1,999,397 does not include the cost of purchased gas.

b. Provide a revised Revenue Requirement Calculation that excludes the cost of purchased gas from the calculation and only includes the revenues generated from Frontier's base gas rates.

38. Refer to the Application, Statement of Disclosure of Related Party Transactions. List each expenditure included in the following related party compensations and provide a detailed description of that expenditure and all invoices related to that expenditure.

a.	Steven Shute, PSI – util consulting, engg, mgmt	\$ 108,700
b.	Robert Oxford, IGS – gas supply, engg, mgmt	\$ 64,700
c.	Larry Rich, Management	\$ 4,200
d.	Industrial Gas Services, Gas supply, filings; admin-HR	\$ 169,412

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