COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

ORDER

On June 30, 2017, Kentucky Frontier Gas, LLC ("Frontier") tendered its application ("Application") to adjust its base gas rates pursuant to 807 KAR 5:076. Frontier is a Kentucky corporation regulated by the Commission as a utility under KRS 278.010(3)(b), and operates facilities that supply natural gas to approximately 5,117 customers residing in Breathitt, Floyd, Johnson, Knott, Lawrence, Lee, Letcher, Magoffin, Martin, Morgan, Perry, Pike, and Wolfe counties.[1] Frontier has acquired ten small gas systems since 2005 and has operated them as one company. Frontier most recently acquired Public Gas Company ("Public") and has been serving its customers under a separate tariff as approved by the Commission in Case No. 2015-00299.[2] Frontier seeks to increase its rates in this case and unify the rates for the former Public customers. Frontier also seeks to increase the surcharge in the Pipeline Replacement Program ("PRP").

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[1] *Annual Report of Kentucky Frontier Gas, LLC to the Public Service Commission for the Calendar Year Ended December 31, 2016* ("2016 Annual Report") at 4 and 5.

[2] 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).

Frontier determined that its pro forma operations support an increase in revenue requirement from base rates of $603,810.[3] Frontier's application set out proposed base rates which produced annual base rate revenues of $2,335,384 based on 5,049 customers,[4] an increase of $372,060, or 18.9 percent, over normalized test-year base rate revenues of $1,963,324.

PROCEDURAL

To ensure the orderly review of the Application, the Commission established a procedural schedule by Order dated July 28, 2017. The Commission found that pursuant to 807 KAR 5:076, Section 11, a staff report would not be issued, and that the information needed to process this case would be obtained through the Application and Commission Staff's Requests for Information.

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG") is the only intervenor in this proceeding. Frontier responded to four requests for information issued by Commission Staff, and to two requests for information issued by the AG. The procedural schedule provided Frontier and the AG until October 20, 2017, either to request a formal hearing or submit a statement that this case may be submitted for Commission decision based on the existing record. Neither Frontier nor the AG requested a hearing, although the AG requested to submit comments to further develop the record. On October 26, 2017, the Commission on its own motion scheduled a hearing on November 21, 2017. On October

[3] Application, ARF Form 1 – Attachment RR-OR – January 2014, Revenue Requirement Calculation – Operating Ratio Method.

[4] Response to the Commission's Order of July 28, 2017, Item 8.

31, 2017, Frontier filed a motion to reschedule the hearing, stating that one of its witnesses would be unavailable to attend the hearing. The Commission rescheduled the hearing for November 27, 2017. After the hearing, the Commission set a schedule for replying to post-hearing data requests and the filing of any briefs. On December 18, 2017, the AG and Frontier filed briefs.

BRIEFS

According to the record, Steve Shute, Robert Oxford, Larry Rich, and Industrial Gas Services ("IGS") are the member owners of Frontier. The AG asserted that businesses the member owners of Frontier own individually or jointly meet the definition of affiliates as defined in KRS 278.010(18): " 'Affiliate' means a person that controls or that is controlled by, or is under common control with, a utility." The AG argued in his brief that the Commission should require Frontier to provide evidence of compliance with the affiliate transaction statutes in KRS 278, as well as require proper documentation and allocation of those transactions in the future.

The AG stated that Steve Shute is the majority owner and a managing member of Frontier, and is also the sole owner of Pipeline Solutions, Inc., ("PSI") and the owner of Pinedale Natural Gas Company; Robert Oxford is a minority owner of Frontier, and the sole owner of IGS; and Larry Rich and IGS are member owners of Frontier. Further, Frontier is the sole owner of Auxier Road Gas Company, which it operates under contract. The four Frontier member owners own DLR Enterprises, Inc., which is operated under contract by Frontier, while PSI and IGS perform consulting services for Frontier. The AG argues that these companies are affiliates of Frontier based upon KRS Chapter 278, and that they should be required to comply with pricing requirements as described in KRS 278.2207. Finally, the AG contends that the Commission should place higher scrutiny on Frontier's PRP program, and that if any acceleration of the program is granted, to do so in accordance with the principles of gradualism.

Frontier argued in its brief that there is no affiliated interest among the independent companies owned by Frontier's member owners. Frontier further states that it has no ownership interest in or control over Pinedale Natural Gas, PSI, or IGS, and that similarly, none of those companies individually or collectively own any interest in Frontier or have any control over it. Frontier concludes that it has no affiliated interest in any of the previously discussed companies. In the alternative, Frontier states that if the Commission determined there were affiliated interests, it would then still be in compliance with the applicable statutes because it provided invoices verifying that the charges by Shute, Oxford, and IGS are all below market price. Finally, Frontier contends that the PRP program has contributed to the improvement of line loss and pipeline safety, and any increase in the proposed surcharge will only magnify the benefits of the program.

Since the AG is not requesting that any costs be disallowed in the current rate case due to his affiliate transactions argument, the Commission's Order on rates will not be affected. However, to properly address the AG's question of whether the various entities are affiliates of Frontier, and as such should be required to comply with the affiliate transaction rules, the present case will remain open in order to further develop the record on this issue. The Commission intends to issue a procedural schedule in the future to allow for further limited discovery on the affiliate transactions issue. Finally, with regard to the PRP, the Commission's finding concerning the need for greater scrutiny of the program and gradualism in granting increases in Frontier's fixed monthly charges are discussed later in this Order.

TEST YEAR

The calendar year ended December 31, 2016, is being used as the test year to determine the reasonableness of Frontier's existing and proposed base rates, as required by 807 KAR 5:076, Section 9.

INCOME STATEMENT

Frontier reported actual test-year operating revenues and expenses of $3,923,854 and $3,937,812, respectively.[5] Frontier proposes several adjustments to test-year revenues and expenses to reflect current and anticipated operating conditions, resulting in pro forma operating revenues of $3,828,976 and pro forma operating expenses of $3,984,205.[6] The Commission's review of Frontier's pro forma operating revenues and expenses are set forth below.

Gas Cost Revenues and Expenses

Frontier based its requested rate increase on its total gas service revenues and operating expenses of $3,717,294[7] and $3,984,205, respectively. Included in the gas service revenues are $1,753,970 of revenues that were recovered through Frontier's

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[5] Application, ARF Form 1 – Attachment RR-OR – January 2014, Revenue Requirement Calculation – Operating Ratio Method.

[6] *Id.* ARF Form 1 – Attachment SAO-G – September 2011, Schedule of Adjusted Operations – Gas Utility, TYE 12/31/2016.

[7] *Id.* $3,123,110 (Total Sales of Gas) + $594,184 (Revenue Customer Charge) = 3,717,294.

Gas Cost Recovery ("GCR") mechanism and operating expenses included natural gas purchases of $1,984,808.[8]

The Commission's established ratemaking practice is to exclude gas costs that are recovered through the GCR mechanism from the calculation of a gas utility's base rates. Consistent with this established ratemaking practice, the Commission is reducing operating revenues and expenses by $1,753,970 and $1,984,808, respectively.

Other Operating Revenues

Frontier reported other operating revenues of $111,682 in the test year. Based on the number of instances of Non-Recurring Charges being charged in the test year, and on the increase in the Reconnect Fee to $96 as approved herein, other operating revenues has been increased by $19,545.

Farm Tap Expense

In the Farm Tap Rate Case No. 2011-00513,[9] the Commission approved an allocation of $150,850, or 12 percent of the operating costs, to farm taps based on the ratio of farm-tap customers to the total gas customers. Frontier proposes to allocate the same amount to the farm taps in this case to reduce the cost of this current case and to simplify the filing.

In Frontier's response to a Commission Staff request for information, Frontier stated that in the test year, farm taps represent 10.2 percent of its total customer base.[10] Using its test-year unadjusted operating expenses and including only 25 percent of

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[8] Application, Pro Forma Operations

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

[10] Response to Staff's Second Request, Item 8

distribution expenses in the calculation, Frontier estimates that a farm tap allocation would be $149,958, less than a 1 percent difference from the proposed adjustment.

The Commission finds that the reduction for the farm tap expense should be $162,920 as follows:

Commission Pro Forma Operating Expenses	$	1,597,258
Multiplied by: Farm Tap Customer Ratio		-10.2%
Farm Tap Adjustment	$	(162,920)

Uncollectible expenses

Frontier recorded an uncollectible expense of $35,701 in the test year. Frontier states that its test-year level was lower than the amounts that it had recorded in the prior years because the employee responsible for administering bad debts retired, and that some of the debts that were subsequently not timely written off. Frontier proposes to adjust uncollectible debts by $14,432 to reflect a five-year average for this account. The Commission finds that this adjustment is reasonable and should be accepted.

Wage Adjustments

Frontier proposes an adjustment to wages of $7,051. Frontier explains that only $602,648 of wages are included in expenses after $45,995 was capitalized, and its W-2 data indicates that it incurred a total of $655,694. In response to Staff's First Request for Information, Frontier shows total wages paid of $662,089.[11] Additionally, the annual report for Frontier for 2016 shows $654,981.

Frontier also proposes to normalize wages for partial-year workers. One employee was out on disability for two months and then ceased employment. A

[11] Frontier's response to Staff's First Request for Information, Item 23.

temporary employee was hired to replace the worker and Frontier proposes to add $8,169 in wages for the worker plus a gross-up of 8.35 percent for a total of $8,851. Frontier proposes to offset this adjustment by crediting the outside services account.

Frontier also proposes to adjust wages by $5,442 for an employee who left in October but was replaced in 2017. This adjustment would normalize wages to reflect 12 months of employment. Frontier also had a human resources contractor that is now an employee and proposes to adjust wages by $25,000 with a corresponding offset to outside services account.

Frontier also proposes to adjust wages for pay increases that were awarded in 2017. Frontier states that no raises had been awarded since 2015. The amount of the increase is $34,380 and with tax gross-up equals $40,689.

Outside Services

As discussed above, Frontier proposes to offset two of the wage adjustments with credits to outside services expense ($4,086) for the temporary employee and ($25,110) for the human resources contractor for a total wage adjustment of ($29,196).

Frontier also proposes to increase outside services expense by $30,000 to reflect its amortizing of estimated rate case expense of $90,000 over three years. In its response to a post hearing interrogatory, Frontier provided documentation to show that its actual rate case expense is $113,462.

In reviewing the general ledger, the Commission determined that Frontier had incorrectly recorded as an operating expense legal fees of $24,716 that were incurred for its PRP. The Commission finds that PRP legal fees should be removed from test-year outside services expense and amortized over three years.

Amortizing the PRP legal fees and the rate case expense over three years results in an increase to Frontier's pro forma outside services expense $16,059.[12] The net adjustment to outside services expense is a decrease of $8,117.[13]

Employee Health and Dental Insurance

In the test year, Frontier reported paying $68,198 in employee health insurance premiums. Frontier paid 100 percent of the premium for employee health insurance coverage, while coverage for a spouse or child is paid for by the employee.[14] Frontier proposed an adjustment of $37,896. The adjustment is due to an increase in the number of employees taking health insurance; this totaled $14,000. Additionally Frontier added Life-Disability-Dental coverage for $16,000; however, this was offset by an adjustment of ($13,725) to accidental death and disability insurance that was replaced. The new rates are projected to be $110,839 per year.

The Commission is placing greater emphasis on evaluating employee total compensation packages, including both salary and benefits programs, for market and geographic competitiveness to ensure fair rate development and has determined that in most cases, 100 percent employer-funded health and dental care does not meet that criteria. Frontier should establish a policy of reasonably limiting its employer contributions to health and dental insurance costs by requiring that all employees pay a portion of those premiums. Accordingly, for ratemaking purposes, the Commission will

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[12] $113,462 (Actual Rate Case Expense) + $24,716 (PRP Legal Fes) = $138,178 ÷ 3-Years = $46,059 - $30,000 (Frontier's Rate Case Amortization) = $16,059.

[13] $16,059 (Amortization Increase) - $24,716 (PRP Legal Fees) = ($8,117).

[14] Frontier's response to Staff's Second Request, Item 9.

adjust test-year health and dental expenses for all employees based on the national average of employee contribution rates.

The Commission has reduced health insurance cost by $18,104,[15] based on a 21 percent employee contribution rate for single health insurance coverage.[16] The Commission has also reduced dental insurance by $1,365,[17] based on a 60 percent employee contribution rate for single health insurance coverage.[18]

<u>Depreciation</u>

Frontier reported a test-year depreciation expense of $357,013.[19] Frontier proposed to adjust depreciation expense by a total of ($115,979). Included in the adjustment was ($81,489) for depreciation re-categorized as amortization, ($8,333) for depreciation proposed as amortization for Public Gas, and ($26,157) for depreciation adjustments. The Commission agrees with these adjustments and is decreasing test-year depreciation expense by ($115,979).

<u>Amortization</u>

Frontier proposed to increase operating expense by $166,062 to reflect reclassifying $81,489 of amortization that was incorrectly recorded as depreciation; the amortization of the $63,196 Auxier acquisition adjustment that was not included in its

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[15] $86,211 (Health Insurance) x 21%(Emp. Contribution Rate) = $18,104

[16] Bureau of Labor Statistics, Healthcare Benefits, March 2017, Table 10, private industry workers. (https://www.bls.gov/ncs/ebs/benefits/2017/ownership/private/table10a.pdf)

[17] $2,275 (Dental) x 60% (Emp. Contribution Rate) = $1,365.

[18] The Willis Benchmarking Survey, 2015, at 62-63. (https://www.willis.com/Documents/publications/Services/Employee_Benefits/20151230_2015WillisBenefitsBenchmarkingSurveyReport.pdf)

[19] Application at ARF Form 1 – Attachment SAO-G.

annual report; a $12,500 proposed amortization of the Public Gas acquisition adjustment; and the amortization of loan fees of $8,877. The Commission finds that Frontier's proposed adjustment to amortization expense is reasonable and is increasing amortization expense by $166,062.

Summary Impact of Adjustments

After considering the test-year operating revenues and expenses, including appropriate adjustments found reasonable herein, the Commission has determined that the financial results of Frontier's pro forma test-year operations are as follows:

	Test Year	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	$ 3,828,976	$ (1,734,424)	$ 2,094,552
Operating Expenses	3,984,205	(2,024,865)	1,959,340
Net Operating Income	$ (155,229)	$ 290,441	$ 135,212

REVENUE REQUIREMENT DETERMINATION

The Commission has historically used an operating-ratio approach to determine revenue requirements for small, privately owned utilities.[20] This approach is used because either no basis for rate-of-return determination exists or the cost of the utility has been fully or largely recovered through the receipt of contributions. Given that

[20] An operating ratio measures the difference between operating revenues and operating expenses. It is defined by the following equation.

$$\text{Operating ratio} = \frac{\text{Operation \& Maintenance Exp.} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

The Commission has found that the operating ratio is a reasonable and necessary alternative to the rate of return method for calculating the allowable net operating income for small investor owned utilities. Specifically, it has found that the rate-of-return method cannot be used because there is "no basis" upon which to determine a rate of return for these utilities, Case No. 95-236, *Application of Thelma Waste Control, Inc. for a Rate Adjustment Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Apr. 15, 1996) at 6. Further, it has found that the operating-ratio method is appropriate when plant investment is low and operating expenses are high, Case No. 7982, *Notice of Application of Fern Lake Company* (Ky. PSC Aug. 27, 1981) at 3.

Frontier is a small gas distribution system, the Commission finds that this method should be used to determine Frontier's revenue requirement.

As shown in the table below, Frontier's pro forma operations combined with an 88 percent operating ratio results in a revenue requirement from base rates of $2,271,232, which is an increase of 15.7 percent, or $307,907, over normalized revenues from existing base rates of $1,963,324.

Pro Forma Operating Expenses	$ 1,959,340
Divide by: Operating Ratio	88%
Revenue to Cover Operating Ratio	2,226,523
Interest Expense	175,936
Total Revenue Requirement	2,402,459
Less: Other Operating Revenues	(131,227)
Revenue Requirement Base Rates	2,271,232
Less: Operating Revenues	(1,963,324)
Revenue Increase	$ 307,907
% Increase	15.7%

PIPELINE REPLACEMENT PROGRAM

Frontier proposed to increase its PRP surcharge from $1.25 to $2.00. The Commission is concerned with the progress Frontier is making toward replacing bare steel pipeline on its system. When Frontier's PRP was approved in Case No. 2011-00443,[21] Frontier estimated that it had approximately 27 miles of bare steel pipeline on its system. Frontier replaced 8,700 feet in 2013, 12,255 feet in 2014, 8,966 feet in 2015, and 8,178 feet in 2016 for a total of approximately 7.2 miles since the program was

[21] 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).

approved.[22] This level of replacement is well behind Frontier's intent to replace 2.5 miles of pipeline per year. The Commission notes that when Frontier's PRP was approved, it was estimated to last 10–12 years. Due to the slower than expected pace of replacements and the discovery of additional pipeline that qualified for replacement, Frontier estimates that it will take ten years to complete the program, extending the original timeframe for completion of the PRP by an additional two to four years.

The Commission has placed an emphasis on the replacement of unsafe and deteriorating bare steel pipeline, and the safety and integrity of Frontier's system is of great concern. Therefore, the Commission finds that granting an increase in the PRP surcharge from the current $1.25 per customer per month to $5.00 per customer per month is warranted and is reasonable,[23] and that the AG's concern regarding gradualism is better addressed through a lower increase granted to the fixed monthly customer charge. Frontier should use any methods at its disposal, including the hiring of outside contractors, to ensure that bare steel pipeline is removed from its system in the original timeframe as was approved in Case No. 2011-00443.

Furthermore, the Commission will require Frontier to establish an interest-bearing escrow account in which to deposit its PRP surcharge revenues. The revenues in this account should be used for the sole purpose of replacing bare steel pipeline on the Frontier system. The Commission agrees with the AG's conclusion in his brief regarding the need for higher scrutiny of the PRP, and finds that Frontier should be required to

[22] Response to Commission Staff's third request for information, Item 1.c.

[23] Frontier stated in response to Staff's Fourth Request for Information, Item 2.b., that a surcharge of approximately $5.00 would be necessary to finish the pipeline replacements in six more seasons to meet the original PRP target.

submit detailed reports for each upcoming year summarizing the projects it expects to replace in that year. At a minimum, the reports should show plant additions, retirements, and removals for each year, separately identified, and including their locations, length, and size of mains and service lines, and associated costs. Frontier should submit these reports for Commission review by December 31 each year. Likewise, Frontier should submit a similar report listing actual projects completed during the previous year. This report should be filed for Commission review at the same time Frontier files its Annual Report. Furthermore, Frontier should submit concurrently with its Gas Cost Adjustment filings a bank statement setting forth the deposits and withdrawals from the escrow account required to be established herein.

RATES AND RATE DESIGN

Frontier proposed to increase its monthly customer charges for its Residential and Commercial classes from $10 to $16, and to decrease those classes' volumetric charges from $.42023 per ccf to $.38430 per ccf for existing Frontier customers, and to increase the volumetric charges of customers on the former Public system from $.30914 per ccf to $.38430 per ccf. Frontier proposed no change in the monthly customer charge for its Large Commercial class, but did propose a decrease in the volumetric charge from $.34454 per ccf to $.33970 per ccf. Frontier also proposed to unify the rates of the former Public Residential and Commercial classes to match the proposed rates listed above.

Given the increase in the PRP surcharge, as well as the existing $1.00 AMR surcharge, the Commission finds that for the Residential and Small Commercial classes, granting the requested increase in the customer charge would lead to those customers' paying $22.00 in fixed costs regardless of gas use. In addition, the proposed 60 percent increase in the monthly customer charge does not comport with the Commission's long-held principle of gradualism. The Commission finds that granting a $3.00 increase in the monthly customer charge to $13.00 is reasonable, and results in the same $18.00 in residential and small commercial monthly fixed charges contained in Frontier's notice to its customers. The difference in revenue collection caused by not allowing the full increase proposed for the customer charge should be offset by increases to the volumetric charges. Therefore, the Commission finds that a volumetric charge of $.422 per ccf for the Residential and Small Commercial classes is reasonable and should be approved.

For Frontier's Large Commercial class, the Commission finds that maintaining the monthly customer charge at $50.00 is reasonable. However, given the magnitude of the increase being proposed for Frontier's Residential and Small Commercial classes, the Commission does not find it reasonable at this time to grant a reduction in Frontier's Large Commercial volumetric rate. Therefore, the rates for the Large Commercial class should remain unchanged.

NON-RECURRING CHARGES

The Commission finds that Frontier's proposal to unify its non-recurring charges so that former Public Gas customers' charges are the same charges as those already approved for Frontier is reasonable and should be approved. In Frontier's response to Staff's Second Request, Item 4, Frontier proposed to increase its reconnect fee to $96.00. Frontier stated that it has had issues with customers disconnecting service during the summer with unpaid bills, and then reapplying for service in the winter.[24]

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[24] Frontier's response to the Commissions, July 28, 2017 Order, Item 6.c.

Furthermore, Frontier stated that it levied its current reconnect fee 397 times during the 2016 test year.[25] The Commission has reviewed the cost justification that was included in Frontier's previous ARF application,[26] which estimated the actual cost to perform a reconnection is $99.23. Therefore, the Commission finds Frontier's proposal to increase its reconnect fee to $96.00 is reasonable and should be approved.

Gas Cost Rate and Purchased Gas Adjustment

With respect to the commodity cost of gas, concurrent with the Commission's approval of unified, system-wide rates for the Frontier system including Public Gas, there will be one system-wide gas cost and one Purchased Gas Adjustment ("PGA") tariff for the combined system. The Appendix to this Order reflects one system-wide gas cost of $5.4636 per Mcf for Frontier based on the most current Expected Gas Cost ("EGC") rates for the Frontier and Public Gas systems. The Commission finds that Frontier should file its first unified PGA application no later than January 11, 2018, for rates to be effective February 1, 2018,[27] pursuant to the PGA tariff approved herein. The January 2018 PGA filing will establish a current EGC for the combined system. The first Actual Adjustment to track under/over-recoveries for the combined system will be included in Frontier's PGA application for rates effective August 1, 2018, and will reconcile expected and actual gas cost for the four-month period January through April 2018.

As Frontier and Public currently have their own PGA mechanisms through which they track under/over-recoveries of gas cost, Frontier should continue to charge

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[25] Frontier's response to Staff's Second Request, Item 4.

[26] Case No. 2011-00443, Application.

[27] Assuming that its PGA application for rates effective February 1, 2018, is received after January 2, 2018, Frontier should request a waiver of the 30-day notice requirement contained in its PGA tariff so that its change in rates may be effective with 20 days' notice.

customers in each of those systems separate trackers to reconcile any remaining under/over-recoveries of gas cost through December 31, 2017. Those individual tracking adjustments, which will be charged in the pre-existing Frontier and Public systems for one year, will be established in Frontier's PGA application for rates effective May 1, 2018, which should be filed no later than April 2, 2018.

VIOLATIONS OF STATUTE

Frontier included in its long-term debt obligations five auto loans totaling $96,378 that it had secured in 2015 and 2016. Frontier confirmed in response to an AG interrogatory that it had not received Commission approval for the indebtedness.[28] Commission Staff also questioned Frontier's witness at the hearing about the loans. The witness stated that Frontier was aware of the requirement to receive Commission approval of financing, but did not think that it applied to auto loans.[29]

Under KRS 278.300, a utility must receive Commission approval prior to issuing any evidence of indebtedness with a term longer than 24 months. Based on Frontier's having entered the aforementioned promissory notes, the Commission finds that it should open a proceeding to permit Frontier to show cause why it should not be penalized for violating KRS 278.300.

SUMMARY

The Commission, after consideration of the evidence of record and being sufficiently advised, finds that:

[28] Response to the AG's Supplemental Request for Information, Item 11.

[29] Hearing video at 11:11:30

1. The rates proposed by Frontier would produce revenues in excess of the amount found reasonable herein and should be denied.

2. The rates set forth in the Appendix to this Order are fair, just, and reasonable and should be approved.

3. A system-wide gas cost and single PGA mechanism should be approved for Frontier as discussed herein.

4. A proceeding should be initiated to permit Frontier to show cause why it should not be penalized for violating KRS 278.300.

5. A procedural schedule should be established to allow for further limited discovery on the affiliate transactions issue.

IT IS THEREFORE ORDERED that:

1. The rates proposed by Frontier are denied

2. The rates and charges found reasonable herein and set forth in the Appendix to this Order are approved for service rendered by Frontier on and after January 1, 2018.

3. A system-wide gas cost and PGA mechanism is approved for Frontier as described in this Order.

4. Frontier shall establish a separate interest-bearing escrow account into which all PRP revenue shall be deposited.

5. Frontier shall file within 30 days of the date of this Order a copy of the escrow agreement establishing the escrow account for deposit of all PRP surcharge revenue.

6. Frontier shall file the reports concerning its PRP as discussed in the body of this Order.

7. An investigation shall be opened to provide Frontier an opportunity to present evidence to demonstrate that it should not be penalized for violating KRS 278.300.

8. A procedural schedule will be issued in the near future to allow for further limited discovery on the affiliate transactions issue.

9. Within 20 days of the date of this Order, Frontier shall file with this Commission, using the Commission's electronic Tariff Filling System, revised tariff sheets setting out the rates approved herein and reflecting that they were approved pursuant to this Order.

By the Commission

ENTERED

DEC 22 2017

KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Gwen R. Pinson

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00263 DATED DEC 2 2 2017

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

	Base Rate	Gas Cost Recovery Rate	Total
Customer Charge	$13.00		
All ccf	$ .422	$.54636	$.96836

SMALL COMMERCIAL

	Base Rate	Gas Cost Recovery Rate*	Total
Customer Charge	$13.00		
All ccf	$ .422	$.54636	$.96836

LARGE COMMERCIAL

	Base Rate	Gas Cost Recovery Rate*	Total
Customer Charge	$50.00		
All ccf	$ .34454	$.54636	$.89090

PIPELINE REPLACEMENT PROGRAM

All Classes:	$5.00 per month

AMR

All Classes:	$1.00 per month

NON-RECURRING CHARGES:

Returned check fee	$ 30.00
Turn on fee	$ 50.00
Customer deposit	2/12 annual bill
Special meter read	$ 50.00
Late payment	10%
Relocate meter	$150.00
Transfer service	$ 30.00
Trip charge	$ 50.00
Meter test fee	$225.00
Reconnection fee	$ 96.00

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