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Kent A. Chandler
Chairman

Mary Pat Regan
Commissioner

October 19, 2022

PARTIES OF RECORD

Re: Case No. 2022-00327

Attached is a copy of a memorandum, which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the memorandum, please do so within five days of receipt of this letter.

If you have any questions, please contact Benjamin Bellamy at ben.bellamy@ky.gov.

Sincerely,

A handwritten signature in blue ink that reads "Linda C. Bridwell".

Linda C. Bridwell, PE
Executive Director

Attachment

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case No. 2022-00327

FROM: Ben Bellamy, Staff Attorney III

DATE: October 19, 2022

RE: Informal Conference of October 7, 2022

Pursuant to Order issued on October 6, 2022, an informal conference (IC) was conducted virtually via video conference on October 7, 2022 at 10:00 a.m. Eastern Daylight Time. A sign-in/attendance sheet identifying each person who attended the virtual IC and their affiliation is attached hereto.

The purpose of the IC was to discuss an issue Kentucky Frontier Gas, LLC (Kentucky Frontier) indicated it discovered in its quarterly gas cost recovery rate reports. At the beginning of the IC, Commission Staff identified themselves and their role at the Commission, asked representatives from Kentucky Frontier to identify themselves, noted the purpose of the IC, and indicated that this memorandum broadly summarizing the IC would be filed into the record in the case. Commission Staff also noted that they could not speak for the Commission. Commission Staff then gave Kentucky Frontier the opportunity to discuss the issue for which they requested the IC.

Kentucky Frontier's representatives noted that prior to November 2020 Kentucky Frontier would occasionally be behind and then ahead in recovering its gas costs through its Purchased Gas Cost Adjustment tariff. However, they indicated that since November 2020 Kentucky Frontier has been running a deficit in recovering its gas costs through its Gas Cost Recovery (GCR) rate and that the cumulative deficit since that time is over \$600,000. They requested that Commission Staff explain why the mechanism in their Purchased Gas Cost Adjustment tariff is resulting in such a deficit and how to correct it.

Commission Staff initially explained that until Kentucky Frontier makes its quarterly GCR rate filing or a proposal in a case that Commission Staff was not really in a position to review or suggest a change in the mechanism. Commission Staff explained that it might be possible for a change to be made in how Kentucky Frontier recovers gas costs in its quarterly GCR rate case but explained that it would be up to the Commission and that there may be legal limits on what could be done in that case. Commission Staff stated that Kentucky Frontier has a current Purchased Gas Cost Adjustment tariff and that if it believes that the current mechanism is not allowing it to recover its gas costs in a reasonable manner that it should propose to change the mechanism pursuant to KRS Chapter 278 and the relevant regulations. Commission Staff noted that until its current mechanism is modified that it would continue to apply.

Kentucky Frontier's representatives explained that based on their projections that Kentucky Frontier is only expected to make up about \$200,000 of the deficit in about the next year, which they stated could jeopardize Kentucky Frontier's financial condition and its ability to provide service. They noted that their mechanism in other states includes a tracker such that they always know if they are ahead or behind in recovering their gas costs. They sought guidance on how they might adjust their own mechanism to better recover gas costs incurred.

Commission Staff generally discussed the GCR mechanisms of other local gas distribution companies and pointed out that if Kentucky Frontier wanted to know how they worked in more detail that they could look at the quarterly cases for those utilities and the spreadsheets filed therein. Commission Staff also generally discussed procedural options that the Commission might have if Kentucky Frontier proposed a change to its GCR mechanism, such as suspending the rate for a single day and allowing to go into effect subject to refund or suspending the rate for 5 or 6 months, depending on the filing, but noted Kentucky Frontier should discuss potential procedural issues with their counsel to determine the options available to them. Commission Staff requested that Kentucky Frontier file its actual invoices with its quarterly filing and requested that Kentucky Frontier provide information informally regarding how its mechanism works in other states. However, Commission Staff reiterated that if Kentucky Frontier believes that the current mechanism is not allowing it to recover its gas costs in a reasonable manner that it should propose to change the mechanism pursuant to KRS Chapter 278 and the relevant regulations.

There being no further material issues discussed, and the IC was then adjourned.

cc: Parties of Record

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