

**Brittany Hayes Koenig**  
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November 30, 2022

Ms. Linda C. Bridwell, P.E.  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, KY 40602

Re: *Tariff Revision*

Dear Ms. Bridwell:

Enclosed, please find for filing, Kentucky Frontier Gas LLC's (Kentucky Frontier or the company) 28th revised Tariff Sheet No. 4, canceling the 27<sup>th</sup> revised Tariff Sheet No. 4, including a gas cost reconciliation adjustment to address the extraordinary under-recovered balance through the current gas cost recovery mechanism (GCR) that has created a significant financial challenge for this small gas company. Please also find the supporting documents to show the company's efforts to identify the contributing factors to this financial problem and the efforts it has taken to reconfigure the recovery formula and present a reasonable solution for the Commission to review.

This gas reconciliation adjustment is the most prudent first step the company proposes to address the current problem in order to maintain service to its customers, understanding that further steps will be needed. The company will maintain its records to provide an accounting to recover the critical funds and to alert the company to when the Gas Balancing Account has recovered sufficiently to revoke the gas reconciliation adjustment to prevent over recovery. The company will also be closely monitoring the accounting for the data needed to reconfigure its gas cost recovery formula to prevent the current failure of the formula that allowed the significant under recovery. Kentucky Frontier will continue to review any necessary changes to its current GCR and propose any necessary changes.

Kentucky Frontier has put the Commission on notice of its critical financial condition in Case No. 2022-00327, *Electronic Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC*, and will file notice of this tariff revision in that pending matter. This filing is being made at least 30 days prior to the effective date of December 30, 2022, however Frontier requests expedited review of this gas reconciliation adjustment in light of its concerning under recovery and in order for the company to take every reasonable step to start correcting its gas cost recovery. The

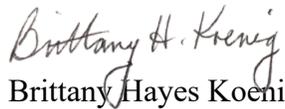
following are also enclosed for the Commission's review:

- 1) Revised Tariff with Gas Cost Reconciliation
- 2) Gas Cost Recovery Written Cost Justification
- 3) GBA Spreadsheet

This is to certify that the electronic filing has been transmitted to the Commission on November 30, 2022 and that there are currently no parties in this proceeding that the Commission has excused from participation by electronic means. Pursuant to the Commission's July 22, 2021 Order in Case No. 2020-00085 no paper copies of this filing will be made.

Please do not hesitate to contact me with any questions or concerns.

Sincerely,



Brittany Hayes Koenig  
HONAKER LAW OFFICE, PLLC

Enclosures

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**RATES & CHARGES**


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**I. RATES AND CHARGES****A. APPLICABILITY**

For all non-farm tap Residential and Commercial customers in all areas served by Kentucky Frontier Gas distribution systems, including Floyd; Pike; Magoffin; Lawrence; Knott; Johnson; Letcher, Martin, Perry, Lee, Morgan, Wolfe, Jackson, and Breathitt counties.

**B. MONTHLY CHARGES & COMMODITY RATES**

	<u>Base Rate</u>	<u>GCRR Gas Cost</u>	<u>Total</u>
<b>Residential &amp; Commercial</b>			
Monthly Customer charge			\$13.00 per month
All Ccf	\$0.42200	\$1.21678	\$1.63878 per Ccf
Gas Cost Reconciliation		\$0.10000	\$0.10000 per Ccf (I)
All Ccf Total			\$1.73878 per Ccf
<b>Large Commercial</b>			
Monthly Customer charge			\$50.00 per month
All Ccf	\$0.34454	\$1.21678	\$1.56132 per Ccf
Gas Cost Reconciliation		\$0.10000	\$0.10000 per Ccf (I)
All Ccf Total			\$1.66132 per Ccf
<b>Daysboro (All Customers):</b>			
<b>Residential</b>			
Monthly Customer charge			\$10.71 per month
All Ccf	\$0.45000	\$1.21678	\$1.66678 per Ccf
Gas Cost Reconciliation		\$0.10000	\$0.10000 per Ccf (I)
All Ccf Total			\$1.76678 per Ccf
<b>Daysboro Commercial</b>			
Monthly Customer charge			\$12.75 per month
All Ccf	\$0.85700	\$1.21678	\$2.07378 per Ccf
Gas Cost Reconciliation		\$0.10000	\$0.10000 per Ccf (I)
All Ccf Total			\$2.17378 per Ccf

**SERVICE CHARGES**

\$75.00 Service Charge Will Be Assessed For New Accounts

\$75.00 Service Charge For Reconnection Of Service

Tap Fees Will Be Calculated Per Individual Service By Cost Of Labor And Material

Service Calls - \$50.00

Returned Check Fee - \$25.00

Account Transfer Fee - \$25.00

**DATE OF ISSUE**            **November 30, 2022**  
**DATE EFFECTIVE**        **December 30, 2022**  
**ISSUED BY**                **/s/ Dennis Horner, Agent**

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**ISSUED BY** /s/ Dennis Horner, Agent

**Kentucky Frontier Gas, LLC.  
November 30, 2022 Tariff Filing  
Gas Cost Reconciliation Adjustment Justification**

**Overview:**

Kentucky Frontier Gas LLC (“Kentucky Frontier” or “the company”) proposes a revision to its tariff including an gas reconciliation adjustment to address the failure to recover approximately \$600,000.00 through the current gas cost recovery mechanism (“GCR”) that has created a financial challenge for this small gas company. In addition, Kentucky Frontier is providing spreadsheets and supporting documents showing the company’s efforts to identify the contributing factors to this problem and the efforts it has taken to reconfigure the recovery formula and present a reasonable solution for the Commission to review.

This gas reconciliation adjustment is the most prudent first step the company proposes to address the current financial challenge to maintain service to its customers. The company will maintain its records to provide an accounting to recover the critical funds and to alert the company to when the Gas Balancing Account has recovered sufficiently to revoke the gas reconciliation adjustment to prevent over recovery. The company will also be closely monitoring the accounting for the data needed to reconfigure its gas cost recovery formula to prevent the current failure of the formula that allowed the extraordinary under recovery and propose any additional necessary changes to its current formula. In support of the gas cost reconciliation adjustment, Kentucky Frontier further states:

1. Kentucky Frontier has followed its tariff for calculating Purchased Gas Adjustments (“PGA”). The current Tariff No. 3 was updated in June 2013 as a result of 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*, which was a rate case to consolidate several small gas utilities under Kentucky Frontier. The PGA procedure is described at Tariff Sheets 29-31. The actual calculation forms were spreadsheets given to Kentucky Frontier by Commission Staff at the outset of Kentucky Frontier’s acquisition of several small gas utilities.
2. Kentucky Frontier acquired the assets of Public Gas in Case No. 2015-00299, *Joint Application of Kentucky Frontier Gas, LLC and Public Gas Company for Approval of Transfer and Transfer and Acquisition of Assets and Financing*, then consolidated rates among all Kentucky Frontier entities in Case No. 2017-00263, *Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment*. The new general rates were effective January 1, 2018.
3. In Case No. 2018-00334, *Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC*, the rates were effective November 1, 2018 and the Commission limited the pass-through of the cost of purchased gas volumes when the system’s gas losses exceed 5% over sales. The Commission’s October 30, 2018 Order stated that “Frontier’s amended application for rates effective November 1, 2018 returned to using the standard five percent L&U limit in the calculation of its EGC rate”. The Kentucky Frontier PGA tariff, however, does not contain language that refers to a 5 percent limit.

4. Between October 2015 and 2020, the supplier, Jefferson Gas, essentially *quadrupled* its pipeline transportation fee to Kentucky Frontier customers formerly served as Public Gas. Jefferson Gas was acquired by East Kentucky Midstream, LLC (“EKM”) in 2021, which is subject to Case No. 2022-00238, *Electronic Investigation of Jurisdictional Status of East Kentucky Midstream, LLC, and of its Compliance with KRS Chapter 278, 807 KAR Chapter 005, and 49 CFR Parts 191 and 192*, which is an active investigation regarding whether the Commission has jurisdiction over its pipeline safety and rates.
5. Kentucky Frontier discovered in mid-2022 that its tariffed PGA procedure did not properly allow it to recover gas costs, either fully, or at all timely. After a long analysis, Kentucky Frontier determined that its Gas Balancing Account was severely under-recovered by about \$600,000 over an approximate eighteen-month period. The key reasons appear to be the significant increase in the natural gas markets due to Russia’s war on Ukraine and world energy markets starting October 2021; excessive charges by Jefferson Gas / EKM for about 1/3 of Kentucky Frontier customers; and the inadequacy of the prescribed GCR procedures for calculating Expected Gas Cost (“EGC”), especially with the limitation on gas losses over 5 percent.
6. The concept of a Gas Balancing Account is simple, although implementation is complicated:
  - Gas utility purchases gas from several sources, at different costs;
  - Those gas costs are passed on to customers through rates;
  - Periodic filings adjust the EGC; and
  - Any Over / Under-recoveries are adjusted with surcharges such as the AA+BA.
7. In its review of gas cost under-recovery, Kentucky Frontier found that the prescribed PGA procedure never kept nor presented the *actual* balance of the Gas Balancing Account (“GBA”). Every calculation, rate and surcharge is stated in terms of \$ per MCF or other sales unit, with no cumulative total of gas cost recovery. This seems odd: the GBA is somewhat like a gas cost bank account, for which the long-term balance should average near zero. But over years of many monthly deposits and payments, the “bank” accounting never shows its actual balance, and neither the utility (nor Commission) can see its progress or sufficiency.
8. In this recent analysis, Kentucky Frontier developed a GBA spreadsheet to track the monthly gas costs and recoveries. This document is attached as a supporting document. The document is explained as follows:
  - The analysis starts at January 2018, the first month of combined Kentucky Frontier & Public Gas rates after the 2017 consolidating general rate case.
  - Beginning January 1, 2018, both Kentucky Frontier & Public Gas GBA balances are assumed to be zero.
  - Each month shows the math for Gas Cost Recovery.
  - Rate components are shown at far right; GCA is before any margin.
  - The purchased gas section has MCF volumes, total cost and unit cost for gas purchases.
  - The sales section has MCF volumes, Gas Sales value (MCF times GCA Rate) and the monthly L&U.
  - In this spreadsheet, Public Gas is analyzed separately from Kentucky Frontier due to excessive gas costs, see below.

- Over / Under Recovered Cost is the monthly difference between gas costs recovered from Sales, compared with Purchased gas costs.
  - Under-recovered values are (negative), where customers owe Kentucky Frontier.
  - Cumulative Over / Under shows a running, cumulative Balance in the Gas Balance Account; please note that this was never shown on PGA calculations
  - GBA went permanently negative, immediately after Jefferson Gas increased its rates effective November 2020.
  - And yet AAs were negative (and relatively large) for 8 more months.
  - Now the GBA balance is about \$600,000 under-recovered, following the standard GCR regime
9. Public Gas no longer exists as a separate entity and its customers are now branded Kentucky Frontier. But the former Public Gas customers are tracked separately in this analysis, to show the stark reality of the excessive Jefferson Gas / EKM charges. Since the extraordinary Jefferson rate increase effective November 2020, former Public Gas customers have paid back \$1.055 million *less* than Kentucky Frontier paid for their gas supply. This deficit was (partially) subsidized by all remaining Kentucky Frontier customers, although Kentucky Frontier has inadvertently funded much of this through the GBA deficit.
  10. In the first couple of years with low gas costs, the GCR-calculated EGC and AA+BA rates allowed the gas balancing account to fluctuate somewhat normally. The ending balance in October 2020 was nearly zero. Then Jefferson Gas raised its rates, and after that, the standard GCR math couldn't keep up with rising gas costs. This was further exacerbated by Russia's war on Ukraine and world energy markets starting October 2021.
  11. In both November 2021 and February 2022, each the first month of a new PGA rate, Kentucky Frontier under-recovered \$150,000-160,000 in a single month, which is a huge number for Kentucky Frontier. With annual sales of 400,000 MCF, in each of these months Kentucky Frontier lost about 40¢ per MCF on an entire *year* of sales.
  12. The Commission's October 30, 2018 Order, in Case No. 2018-00334 approved the amended application and ordered that Frontier return to the "standard" five percent limit on L&U. Kentucky Frontier does not have this limit in its tariff although it was included in the original spreadsheets provided by Staff. Kentucky Frontier was pre-penalizing itself in each quarterly PGA filing, for future L&U on future gas costs. This handicap slowed the response to rising gas index prices, and added to the negative GBA.
  13. Based upon the data, instead of pre-loading L&U and falling behind rising prices, Kentucky Frontier proposes to analyze L&U annually, not monthly or quarterly, and after the fact. This removes the futures handicap, the seasonal variations in customers and usage patterns, and almost negates the small gap between the meter reading period and the monthly supplier invoice.
  14. To that end, the GBA analysis shows an annual L&U calculation for each period ending October 31. This is sometimes termed as a Gas Year, beginning with the upcoming heating season. Each year shows the calculation of the "Sales / 0.95" limited volume prescribed by the Commission; then the Purchase volume that exceeded this limit; and the value of that excess volume, at the average purchase price per MCF.

15. Since the first such adjustment was due in November 2019, the total cost of “Excess L&U” was \$193,000, which was only a fraction of the approximate \$600,000 total under-recovery.

From the recent history, it is painfully apparent that the present GCR procedure is not working. The proposed Gas Cost Reconciliation will help plug a large hole that developed in the Gas Balancing Account over the last 2 years. Kentucky Frontier will file regular PGAs at the end of December and again in March, and can then review the effectiveness and level of this Reconciliation. Kentucky Frontier will also evaluate changes to the GCR-PGA procedure more in keeping with its operations in other jurisdictions and propose any necessary changes.