

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

ELECTRONIC PURCHASED GAS ADJUSTMENT FILING)	CASE NO.
OF KENTUCKY FRONTIER GAS, LLC)	2022-00196

**MOTION TO AMEND THE CURRENT UNIFIED PURCHASED
GAS ADJUSTMENT OF KENTUCKY FRONTIER GAS, LLC
AND TO SCHEDULE AN INFORMAL CONFERENCE**

Comes now Kentucky Frontier Gas, LLC (“Kentucky Frontier”) by and through the undersigned counsel, and does hereby state as follows for its Motion to Amend the Purchased Gas Adjustment (“PGA”) tariff and to schedule an informal conference:

1. Kentucky Frontier is a Colorado Limited Liability Company in good standing and authorized to do business in Kentucky. Kentucky Frontier was organized in Kentucky on August 25, 2005 and a copy of its articles of organization was filed with the Kentucky Public Service Commission (“Commission”) in Case No. 2005-00348. Kentucky Frontier is in good standing and authorized to operate in Kentucky.
2. Kentucky Frontier is a natural gas utility as defined in KRS 278.010 and is under the jurisdiction of the Commission.
3. Kentucky Frontier’s corporate office is located in Prestonsburg and its office mailing address is 2963 Ky Rt. 321, P.O. Box 408, Prestonsburg, KY 41653.
4. Kentucky Frontier’s telephone number is (606) 886-2431 and its email address is steve@pipeline.group. Its web address is www.kyfrontiergas.com.

5. Kentucky Frontier owns and operates approximately 360 miles of gas distribution pipeline with customers in the following thirteen counties in Eastern Kentucky: Breathitt, Floyd, Johnson, Knott, Lawrence, Lee, Letcher, Magoffin, Martin, Morgan, Perry, Pike and Wolfe. Kentucky Frontier serves approximately 4900 retail customers along with approximately 500 farm tap customers.

6. Starting in 2008, Frontier began consolidating approximately twelve small gas utilities into one unified natural gas utility. This allowed Kentucky Frontier to take advantage of economies of scale in sharing the costs for operations, maintenance, branding and safety measures.

7. In Case No. 2011-00443, Kentucky Frontier was granted the authority to consolidate the gas costs for several of these smaller utility systems. Later in Case No. 2017-00263, Kentucky Frontier consolidated the gas costs of former Public Gas customers, after the merger was approved in Case No. 2015-00299. Since this time, Kentucky Frontier has filed a consolidated quarterly PGA filing.

8. Public Gas was the largest of the small utilities that has been merged into Kentucky Frontier. This incorporated approximately 1600 meters into the Kentucky Frontier system. All of these former Public Gas customers are located in close proximity to the former Jefferson Gas transmission system. For years, Public Gas and Jefferson Gas were commonly owned. The former Jefferson Gas system supplies one hundred percent of the gas supply for the former Public Gas customers.

9. In 2020, Jefferson Gas informed Kentucky Frontier that it was having financial difficulties and placed the Jefferson Gas system up for sale. In addition to placing the system on the market, Jefferson Gas informed Kentucky Frontier that the transportation charge from Jefferson Gas would be increased (almost doubled) for a short period for the transition.

10. In March 2021, Jefferson Gas informed Kentucky Frontier that it had indeed sold the system. The new entity with ownership of the Jefferson Gas system is East Kentucky Midstream, LLC (“EKM”). The transaction was effective March 1, 2021.

11. Kentucky Frontier and Jefferson Gas had a gas purchase agreement that expired on April 30, 2021 and at that time a new EKM gas supply contract continued under the same transportation fee with additional costs.

12. Kentucky Frontier purchases all of the natural gas for the former Public Gas customers from EKM. Since May 2021, Kentucky Frontier has paid an average of \$8.00/Mcf above index. Kentucky Frontier’s Commission approved commodity margin is only \$4.22 above gas cost.

13. Under the Kentucky Frontier unified gas cost adjustment tariff, former Public Gas residential customers paid approximately \$12.00/Mcf this past winter, from the time period of December 2021 through February 2022. During this same time period, EKM has charged Kentucky Frontier \$12.82/MCF, which is \$0.82/Mcf more than the residential customers have paid to Frontier.

14. EKM is the only source of natural gas that Kentucky Frontier has for these former Public Gas customers due to the location. Kentucky Frontier does not have the option of finding a different pipeline or supplier and believes the rates being charged by EKM are not fair, just and reasonable. The fact that Kentucky Frontier has a unified gas cost tariff, pushes the impact of these high rates onto all of Kentucky Frontier’s customers, even though they cannot benefit from the natural gas purchased from EKM.

15. Kentucky Frontier is attaching as Exhibit A to this Motion, its quarterly unified gas cost adjustment filing, with a blended gas cost of \$10.14 per MCF to all utility customers. Exhibit

B is the gas cost adjustment tariff sheet that would occur if the Commission grants Kentucky Frontier's Motion. The actual gas cost of supplying Public Gas customers through EKM is projected at \$15.14 per MCF. The gas cost to all other Frontier customers without EKM is \$8.64 per MCF. Clearly the impact to all Kentucky Frontier customers is significant.

16. Separating the gas costs will benefit 3300 of Kentucky Frontier's customers, and end the large subsidy for the 1600 former Public Gas customers. Kentucky Frontier believes that separating the gas costs will reveal the lopsided cost disparity, and will apply the gas costs of the higher EKM rates to the customers who actually use the EKM gas.

17. By continuing to file a unified gas cost adjustment, Kentucky Frontier will be diluting the impact these gas prices charged by EKM are having on all Kentucky Frontier customers. Kentucky Frontier is concerned that the gas cost rate passed on to remaining customers (outside the former Public Gas) is not fair, just and reasonable. When calculating the impact to Kentucky Frontier's other customers, it appears that these customers have paid a subsidy of nearly \$1 million for natural gas they are not able to use.

18. Splitting the gas cost calculations into two separate areas, will greatly impact the 1600 Public Gas customers, but will actually reflect the true cost to serve those customers. It will also reflect the true cost to serve the remaining Kentucky Frontier customers, whose bills have subsidized Public customers and will now reflect a decrease. The unified general rates established under Case No 2017-00263 should stay in effect until the next general rate case.

19. EKM does not have a tariff on file with the Commission. Jefferson Gas had a farm tap tariff on file with the Commission effective February 2013, however it does not appear that EKM has adopted that tariff. Furthermore, based on the nature and interconnection of the EKM system, Kentucky Frontier believes that EKM has farm tap customers as well as transmission

customers and possibly distribution customers. Kentucky Frontier is under the belief that EKM sells natural gas to Kentucky Frontier, Delta Natural Gas and the City of West Liberty.

20. Throughout KRS Chapter 278, the words fair and reasonable rates are used. For instance, EKM could be considered a common carrier under KRS 278.505 since it is an intrastate pipeline transporting natural gas to Kentucky Frontier and others. Pursuant to that statute, the rates charged by the intrastate pipeline to the regulated utility have to be fair and reasonable.

21. Please see the attached affidavit of Steven Shute, Exhibit C, with more detailed information on the history of the gas companies and the events that have led up to this filing.

22. Due to the complexity of this issue and the impact this has on Kentucky Frontier's customers, Kentucky Frontier requests an informal conference with Commission Staff.

WHEREFORE, based on the foregoing, Kentucky Frontier requests the Commission to separate the gas cost adjustment filing into two separate rate areas to separate the former Public Gas customers from the remaining Kentucky Frontier customers or in the alternative establish a rate that is fair, just and reasonable for the gas costs Kentucky Frontier pays to EKM for the gas supplied for the former Public Gas customers. The Commission should have jurisdiction over the rates charged to Kentucky Frontier, a regulated utility, by an intrastate pipeline company and to insure that the rates are fair, just and reasonable. Kentucky Frontier also requests an informal conference to be scheduled to discuss this issue.

Dated this ^{1st} day of July, 2022.

Respectfully submitted,



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Counsel for Kentucky Frontier Gas, LLC

CERTIFICATE OF SERVICE

This is to certify that foregoing electronic filing was transmitted to the Commission on July 1, 2022; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and that pursuant to the Commission's July 22, 2021 Order in Case No. 2020-00085, no paper copies of the filing will be made.



Counsel for Kentucky Frontier Gas, LLC



July 1, 2022

Ms. Linda C. Bridwell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40602-0615

Re: Purchased Gas Adjustment
Case No. 2022-00196
Effective Date of August 1, 2022
Kentucky Frontier Gas, LLC

Dear Ms. Bridwell:

Kentucky Frontier Gas, LLC, is filing a unified GCA application pursuant to the Commission's order of December 22, 2017 in Case No. 2017-00263.

Please see attached Purchased Gas Adjustment Application for Case No. 2022-00196.

Sincerely,

KENTUCKY FRONTIER GAS, LLC

Dennis R. Horner
Enclosures

Kentucky Frontier Gas, LLC
2963 Ky Rt. 321, P.O. Box 408, Prestonsburg, KY 41653
(606) 886-2431

EXHIBIT A

FOR ENTIRE AREA SERVED
KENTUCKY FRONTIER GAS, LLC

P.S.C. KY. NO. 1

Original SHEET NO. 1

Kentucky Frontier Gas, LLC
(Name of Utility)

CANCELING P.S. KY.NO.

SHEET NO.

RATES AND CHARGES

APPLICABLE: Entire area served

Frontier Residential and Small Commercial

	Gas Cost		
	<u>Base Rate</u>	<u>Rate</u>	<u>Total</u>
CUSTOMER CHARGE	\$ 13.0000		\$ 13.0000
ALL CCF	\$ 0.42200	\$ 1.01394	\$ 1.43594

Frontier Large Commercial

	Gas Cost		
	<u>Base Rate</u>	<u>Rate</u>	<u>Total</u>
CUSTOMER CHARGE	\$ 50.0000		\$ 50.0000
ALL CCF	\$ 0.34454	\$ 1.01394	\$ 1.35848

Daysboro Residential

	Gas Cost		
	<u>Base Rate</u>	<u>Rate</u>	<u>Total</u>
CUSTOMER CHARGE	\$ 10.7100		\$ 10.7100
ALL CCF	\$ 0.45000	\$ 1.01394	\$ 1.46394

Daysboro Commercial

	Gas Cost		
	<u>Base Rate</u>	<u>Rate</u>	<u>Total</u>
CUSTOMER CHARGE	\$ 12.7500		\$ 12.7500
ALL CCF	\$ 0.85700	\$ 1.01394	\$ 1.87094

DATE OF ISSUE July 1, 2022
Month/Date/Year

DATE EFFECTIVE August 1, 2022

ISSUED BY 

TITLE Agent

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. 2022-00196 DATED June 27, 2022

KFG UNIFIED GAS COST RECOVERY RATE

SCHEDULE I

GAS COST RECOVERY RATE SUMMARY

<u>Component</u>	<u>Unit</u>	<u>Amount</u>
Expected Gas Cost (EGC)	\$/Mcf	\$ 9.5959
+ Refund Adjustment (RA)	\$/Mcf	\$ -
+ Actual Adjustment (AA)	\$/Mcf	\$ 0.5459
+ Balance Adjustment (BA)	\$/Mcf	\$ (0.0023)
= Gas Cost Recovery Rate (GCR)		\$ 10.1394

GCR to be effective for service rendered from: August 1, 2022

A	<u>EXPECTED GAS COST CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
	Total Expected Gas Cost (Schedule II)	\$	\$ 3,516,155
/	Sales for the 12 months ended <u>April 30, 2022</u>	Mcf	366,424
=	Expected Gas Cost (EGC)	\$/Mcf	\$ 9.5959

B	<u>REFUND ADJUSTMENT CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
	Supplier Refund Adjustment for Reporting Period (Sch. III)	\$	-
+	Previous Quarter Supplier Refund Adjustment	\$/Mcf	\$ -
+	Second Previous Quarter Supplier Refund Adjustment	\$/Mcf	\$ -
+	Third Previous Quarter Supplier Refund Adjustment	\$/Mcf	\$ -
=	Refund Adjustment (RA)	\$/Mcf	\$ -

C	<u>ACTUAL ADJUSTMENT CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
	Actual Adjustment for the Current Reporting Period (Sch. IV)	\$/Mcf	\$ 0.5462
+	Previous Quarter Reported Actual Adjustment	\$/Mcf	\$ (0.1394)
+	Second Previous Quarter Reported Actual Adjustment	\$/Mcf	\$ 0.0997
+	Third Previous Quarter Reported Actual Adjustment	\$/Mcf	\$ 0.0394
=	Actual Adjustment (AA)	\$/Mcf	\$ 0.5459

D	<u>BALANCE ADJUSTMENT CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
	Balance Adjustment for the Reporting Period (Sch. V)	\$/Mcf	\$ 0.0010
+	Previous Quarter Reported Balance Adjustment	\$/Mcf	\$ 0.0415
+	Second Previous Quarter Reported Balance Adjustment	\$/Mcf	\$ (0.0626)
+	Third Previous Quarter Reported Balance Adjustment	\$/Mcf	\$ 0.0178
=	Balance Adjustment (BA)	\$/Mcf	\$ (0.0023)

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Kentucky Frontier Gas, LLC - Unified

SCHEDULE II
EXPECTED GAS COST

MCF Purchases for 12 months ended:

April 30, 2022

Supplier	5% LIMITER Dth	Btu Factor	Mcf	Rate	(4) x (5) Cost
Columbia (Goble Roberts, Peoples)		N/A	10,589	\$ 7.8157	\$82,760
Cumberland Valley (Auxier)		1.1000	102,623	\$ 6.9001	\$708,107
Cumberland Valley (Sigma) includes \$1.25/Mcf DLR trans		1.1000	1,734	\$ 8.1501	\$14,132
Diversified Energy (39-E,181-S)		1.0000	13	\$ 7.8020	\$101
* HI-Energy		1.0031	9,653	\$ 4.5979	\$44,384
** HTC (Sigma) includes \$1.25/Mcf DLR trans		1.0758	8,148	\$ 6.1964	\$50,488
Jefferson (Sigma) rate includes \$1.25/Mcf DLR trans		1.1184	0	\$ 15.0030	\$0
Jefferson (Public and Daysboro)		1.1184	104,423	\$ 13.7530	\$1,436,134
Magnum Drilling, Inc.		N/A	4,152	\$ 10.5000	\$43,596
Nytis (Auxier)		1.0962	7,002	\$ 6.3003	\$44,115
Nytis (Sigma) includes \$1.25/Mcf DLR trans		1.0962	4,322	\$ 6.2902	\$27,186
Quality (Belfry)		1.1999	39,572	\$ 7.0163	\$277,649
** Slone Energy		1.0714	5,528	\$ 4.9262	\$27,232
Southern Energy (EQU,MLG,Price)		1.2066	58,305	\$ 8.3224	\$485,238
Southern Energy (Sigma) includes \$1.25/Mcf DLR trans		1.2066	43,357	\$ 9.5724	\$415,031
** Spirit		1.1178	3,773	\$ 5.1395	\$19,391
** Tacket		1.0745	0	\$ 4.9404	\$0
Totals			403,194	\$ 9.1161	\$3,675,545

Line loss 12 months ended: and sales of	<u>Apr-22</u> 366,424	based on purchases of Mcf.	403,194 Mcf	L&U	Unit	Amount
		9.1%			\$	\$ 3,675,545
Total Expected Cost of Purchases (6)					Mcf	403,194
/ Mcf Purchases (4)					\$/Mcf	\$ 9.1161
= Average Expected Cost Per Mcf Purchased					Mcf	385,709
x Allowable Mcf Purchases (5% Limiter)					\$	\$ 3,516,155
= Total Expected Gas Cost (to Schedule 1A)						

Estimated Avg TCo for Aug, Sep, Oct = \$6.4677/Dth (NYMEX Avg + \$-0.7203/Dth (TCo Appal Basis) = **\$5.7474/Dth**

Columbia of KY (Case No. 2020-00026) = **\$7.8157**

Diversified = \$5.7474/Dth (TCo) + \$0.8046 (14% Fuel) + \$1.05 (Commodity) + \$0.20 (Demand) = **\$7.8020/Dth**

Jefferson contract = \$5.7474/Dth (TCo) + \$5.75/Dth cost factor + \$0.80/Dth L&U = **\$12.2974/Dth**

CVR = \$5.7474 (TCo) + \$0.1147/Dth (1.996% Fuel) + \$0.0190/Dth Commodity + \$0.3417/Dth (TCo Demand) +

\$0.05/Dth CVR Fee = **\$6.2728/Dth**

* HI-Energy contract = **\$4.5979**

** HI-Energy, HTC, Spirit, Tacket contract = **\$4.5979**

Magnum Drilling contract = **\$10.50/Mcf**

Nytis (Auxier) = **\$5.7474/Dth (TCo)**

Nytis (Sigma) = \$5.7474/Dth (TCo) x .8 = **\$4.5979/Dth**

** Slone contract = **\$4.5979/Dth**

Southern Energy = \$5.7474/Dth (TCo) + \$1.1500/Dth = **\$6.8974/Dth**

Quality (Belfry) = \$5.7474/Dth (TCo) + \$0.10 = **\$5.8474/Dth**

DLR Trans for Cow Creek (Sigma) = \$1.25/Mcf on volumes from CVR, EQT, HTC, ING, Jefferson, Nytis, Plateau, Southern Energy

* Estimated 3 mo. TCo = \$5.7474/Dth x .8 = \$4.5979/Dth > \$4.25/Dth; **\$4.5979/Dth**

** Estimated 3 mo. TCo = \$5.7474/Dth x .8 = \$4.5979/Dth > \$4.00/Dth; **\$4.5979/Dth**

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Revised 02-26-04

EXHIBIT A

KFG UnifiedSchedule IV
Actual Adjustment

For the 3 month period ending:

April 30, 2022

5% LIMITER

<u>Particulars</u>	<u>Unit</u>	<u>Feb-22</u>	<u>Mar-22</u>	<u>Apr-22</u>
Total Supply Volumes Purchased	Mcf	66,829	48,335	32,796
Total Cost of Volumes Purchased	\$	\$ 639,220	\$ 339,511	\$ 219,623
(divide by) Total Sales (5% Limiter)	Mcf	69,445	48,026	31,156
(equals) Unit Cost of Gas	\$/Mcf	\$ 9.2047	\$ 7.0694	\$ 7.0491
(minus) EGC in effect for month	\$/Mcf	\$ 6.7129	\$ 6.7129	\$ 6.7129
(equals) Difference	\$/Mcf	\$ 2.4918	\$ 0.3565	\$ 0.3362
(times) Actual sales during month	Mcf	69,445	48,026	29,645
(equals) Monthly cost difference	\$	\$ 173,041	\$ 17,119	\$ 9,967

	<u>Unit</u>	<u>Amount</u>
Total cost difference for the 12 months ended April 30, 2022	\$	\$ 200,126.44
(divide by) Sales for 12 months ended April 30, 2022	Mcf	366,424
(equals) Actual Adjustment for the Reporting Period	\$	0.5462
(plus) Over-recovery component from collections through expired AAs	\$	-
(equals) Total Actual Adjustment for the Reporting Period (to Schedule I C)	\$	0.5462

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SCHEDULE V
BALANCE ADJUSTMENT
For the Effective Date August 1, 2022

<u>Particulars</u>	<u>Unit</u>	<u>Amount</u>
Total cost difference used to compute AA of the GCR effective 4 quarters prior to the effective date of the currently effective GCR	\$	\$ (19,429)
Less: Dollar amount resulting from the AA of _____ (0.0539) \$/Mcf as used to compute the GCR in effect four quarters prior to the effective date of the currently effective GCR times the sales of _____ 366,424 Mcf during the 12 month period the AA was in effect	\$	_____ (\$19,750)
Equals: Balance Adjustment of the AA	\$	_____ \$321
Total supplier refund adjustment including interest used to compute RA of the GCR effective 4 quarters prior to the effective date of the currently effective GCR	\$	\$0
Less: Dollar amount resulting from the RA of _____ \$/Mcf as used to compute the GCR in effect four quarters prior to the effective date of the currently effective GCR times the sales of _____ Mcf during the 12 month period the RA was in effect	\$	_____ \$0
Equals: Balance Adjustment of the RA	\$	_____ \$0
Total balance adjustment used to compute BA of the GCR effective 4 quarters prior to the effective date of the currently effective GCR	\$	_____ (\$1,176)
Less: Dollar amount resulting from the BA of _____ (0.0033) \$/Mcf as used to compute the GCR in effect four quarters prior to the effective date of the currently effective GCR times the sales of _____ 366,424 Mcf during the 12 month period the BA was in effect	\$	_____ (\$1,209)
Equals: Balance Adjustment of the BA	\$	_____ \$33
Total Balance Adjustment Amount (1) + (2) + (3)	\$	\$354
Divide: Sales for 12 months ended April, 2022	Mcf	_____ 366,424
Equals: Balance Adjustment for the reporting period (to Schedule I, part D)	\$/Mcf	_____ \$0.0010

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EXHIBIT A

AFFIDAVIT

The affiant, Steve Shute, being first duly sworn states the following under oath:

1. I am the owner and managing member of Kentucky Frontier Gas, LLC (“Kentucky Frontier”).

2. As part of my duties as owner and managing member of Kentucky Frontier, I interact with East Kentucky Midstream (“EKM”), the recent purchasers of the gas transmission system formerly operated as Jefferson Gas.

3. Kentucky Frontier purchased the Public Gas system in 2015 and the system was merged into Kentucky Frontier in Case No. 2015-00299. Public Gas had 1600 meters when merged. Kentucky Frontier currently serves approximately 1620 meters from the former Public Gas system.

4. The Public Gas system is composed of approximately fifty (50) miles of pipeline in eleven (11) separate systems. It serves the communities of Jackson, Campton, Pine Ridge, Cliffview, Hazel Green and other rural areas. These include several rural homes that are served as farm taps, directly off of the Jefferson Gas/EKM pipeline. The largest community, Jackson, has had gas service since the 1960s. Jackson was never connected to the interstate pipeline grid and was originally only supplied with locally produced gas. The former Public Gas system is not located near any other Kentucky Frontier system and there is no other supply of natural gas to serve the former Public Gas customer.

5. In 1980 Public Gas adopted the rates and tariffs on file with the Commission of its predecessor, Panbowl Gas Company. In addition, a tariff for Capitol Oil & Gas Company was approved by the Commission in 1987 for delivery of area production to Jackson and Hazel Green. This Capitol Oil tariff was adopted by Jefferson Gas in 1996 as part of its consolidated pipeline

system. Jefferson Gas continued to add additional pipelines to its systems, including the Ashland pipelines (still referred to as A-1 and A-2) which supply the Campton area and other Public Gas customers.

6. Public Gas and Jefferson Gas were mutually owned for many years. Public Gas' system expanded along and around the Jefferson Gas system. This same ownership group also operated oil & gas production in this same area near the Jefferson Gas system. Once production declined, the gas volume on the Jefferson Gas system declined and the group sold its wells. In 2012 it sold Public Gas to a Cleveland-based utility and was approved by the Commission in Case No. 2012-00029.

7. When Jefferson Gas was supplying the natural gas to Public Gas, the rate was the local index rate, plus a transportation charge. In 2015, Public Gas was merged into the Kentucky Frontier system. During the transition from Public Gas to Kentucky Frontier, Jefferson Gas demanded an increase in its margin, from \$1.50 to \$2.00 per DTh. Kentucky Frontier provided this information in a response to Commission Staff's Request for Information (1-3b) in the merger case, Case No. 2015-00299. At the time the increase was demanded, Jefferson Gas was no longer relying on locally produced gas, such as a gathering system would do, but rather was delivering gas from Columbia Gulf Transmission for most of the year. In January 2018, Jefferson Gas again raised its margin from \$2.00 to \$3.25/DTh without giving any notice to Kentucky Frontier. In October 2020, Jefferson Gas informed Kentucky Frontier that it was in dire financial condition and that the owners of Jefferson Gas were going to place the system on the market for sale. The owners indicated that to survive and to continue supplying gas to the former Public Gas system, the transportation rate would be increased to \$5.75/DTh for the transition period.

8. Over the winter months of 2020-2021, Kentucky Frontier was evaluating whether to attempt to purchase the Jefferson Gas system. Jefferson Gas hired a consultant to summarize and provide data to potential buyers, including Kentucky Frontier. A marketing brochure was provided to Kentucky Frontier during the first conversation and was followed up with additional data and a non-disclosure agreement.

9. Information provided in the marketing brochure described its system as a 235-mile, low-pressure natural gas *transmission* line. However, Jefferson Gas apparently designated only a small fraction of these as transmission lines under the federal pipeline safety regulations. Jefferson Gas designated all other pipelines as gathering pipelines. Designating the pipelines as *gathering* limited the jurisdiction of PHMSA or the Commission.

10. Kentucky Frontier does not believe that the system is a gathering system. The short segments designated as transmission are interconnected with all the other pipeline segments in the former Jefferson Gas system. They all have the same pressures, same gas sources, similar pipeline sizes, and each transports gas back and forth between the segments. There are also gathering systems owned by producers that feed into the former Jefferson Gas system. These are normally delineated by a change of custody meter and more times than not, a compressor.

11. Years ago, Jefferson Gas had mostly gathered and transported locally produced gas to various distribution sales points. Jefferson Gas then sold any excess gas to interstate pipelines. However, this has significantly changed with declining local production. For most months of the year, the former Jefferson Gas system is predominantly a transmission system supplying gas taken from the Columbia Gulf Transmission system and supplying this gas supply to distribution systems, regulated utilities and customers.

12. When Kentucky Frontier was evaluating whether to purchase the Jefferson Gas system, Kentucky Frontier believed that, due to the nature of these pipelines, the Commission would deem these pipelines as being under the jurisdiction of PHMSA and the Commission. Furthermore, the condition of the Jefferson pipelines would have cost Kentucky Frontier more to replace and repair than the Public Gas system was worth. However, Kentucky Frontier never got the chance to make an offer to purchase a portion of the Jefferson Gas system. In March 2021, Jefferson Gas informed Kentucky Frontier that it had sold the system to East Kentucky Midstream, LLC (“EKM”). EKM took over operation on March 1, 2021, and Kentucky Frontier’s gas purchase contract with Jefferson Gas expired on April 30, 2021. After this contract expired, the new EKM contract continued the margin of \$5.75/Dth but EKM also added a Lost and Unaccounted For (“LAUF”) gas component to the rate of up to 15% of the sales volume. This rate was set at the local index rate.

13. Kentucky Frontier has paid an average of \$7.72/Mcf above index for transportation fees to EKM since May 2021. As a comparison, Kentucky Frontier’s approved commodity distribution rate on file with the Commission is \$4.22/Mcf above the gas cost. Further, the interstate pipelines deliver gas from the Gulf Coast or the far West for under \$1.00/Mcf. From the time period of December 2021 through February 2022, the former Public Gas customers paid the unified residential rate of Kentucky Frontier. This rate was \$12.00/Mcf. During this same time period, EKM charged Kentucky Frontier \$12.82/Mcf for the gas used by those former Public Gas customers, which was \$0.82/Mcf more than Frontier collected in gross revenue.

14. Most of the gas deliveries to the Kentucky Frontier system, other than the gas deliveries from EKM, are priced at the TCO Appalachian Index. Kentucky Frontier receives approximately 55% of its natural gas supply off the TCE (Columbia) P-20 and Diversified (KWV-

EQT) pipelines. These pipelines gather, process and compress gas from many different production sources for delivery to interstate pipelines. These pipelines are at full capacity so the gas movement is subject to firm transportation charges and marketing fees from those entities that control capacity. The average price paid by Kentucky Frontier over the past year for gas received from these pipelines, had an added cost of approximately \$1.00/Mcf over the TCO Index. It has been Kentucky Frontier's experience that most local producers add little to no margin above the TCO Index, for gas delivered directly to Frontier. However, EKM's added cost is approximately \$7.70/Mcf above TCO Index.

15. In addition to these unreasonable rates, EKM has overstated over the TCO Index. Kentucky Frontier noticed this error in April 2022. This error resulted in excess gas costs of \$59,000 from EKM. Kentucky Frontier has disputed these excess charges with EKM, but to date there has been no resolution. EKM's response to Kentucky Frontier's dispute was to invoice Kentucky Frontier an additional \$150,000 for locally produced gas that was *available* on EKM's system but that Kentucky Frontier never received through a meter. Kentucky Frontier believes that EKM is interpreting a contract provision incorrectly and will dispute this issue as well. If EKM prevails in this dispute, the result will be approximately \$9.00/Mcf for transportation charges to Kentucky Frontier.

16. Kentucky Frontier's gas costs are shared equally among its 4900 customers so the amounts charged by EKM do not just affect the Public Gas customer that use the gas provided by EKM. Over the past year, Kentucky Frontier paid to EKM alone approximately \$830,000. When this is spread equally over the total 374,000 Mcf sales to Kentucky Frontier customers, the charges from EKM have raised the gas costs to all Kentucky Frontier customers by approximately \$2.22/Mcf.

17. In preparation for the 3rd quarter Gas Cost Adjustment filing due July 1, calculations show the stark disparity in gas costs:

- a. Unified gas cost for all Frontier customers \$ 10.14 /MCF
- b. Cost of supplying Public Gas customers through EKM \$ 15.14/MCF
- c. Gas cost to all other Frontier customers without EKM \$ 8.64/MCF

18. With Unified rates, the effect on a typical Frontier customer, not in the Public Gas system, with average usage of 60 Mcf/year, would be approximately \$90/year.

19. These rates have been non-negotiable for Kentucky Frontier even though these gas deliveries are under gas purchase contracts. Kentucky Frontier does not have another alternative for gas supply to the former Public Gas customers and since the rates are not on file with the Commission or any other entity, EKM has been free to charge whatever amounts it wants. Kentucky Frontier has actually evaluated the alternatives of Compressed Natural Gas (“CNG”) or Liquefied Natural Gas (“LNG”). These schemes (including truck transportation) could reduce gas costs in Jackson, but are not feasible for the other 1000 Public customers.

20. EKM supplies gas to Kentucky Frontier at more than 500 locations. EKM also supplies approximately 200 of its own farm tap customers. Some of these were old Capitol Oil customers. Capitol Oil had a tariff on file with the Commission, which was adopted by Jefferson Gas, but Kentucky Frontier has been unable to locate anything regarding EKM adopting this tariff. EKM also provides wholesale natural gas to the City of West Liberty, which was the former Elam Gas Utility. The City of West Liberty administers gas service to the Eastern Kentucky Correctional Complex off of a direct EKM meter. EKM serves Delta at Frenchburg as a result of a FERC order granting Jefferson Gas the Columbia KZ pipeline.

21. At one point Jefferson Gas was a gathering system, however it has emerged into a transmission system by depending on major market sources for gas supply. EKM's name "Midstream" even indicates that this is a transmission company.


22. After nearly forty years of amenable co-operation of the former Public Gas and the former Jefferson Gas, the arrangement is no longer viable. EKM charges more for gas supply to the former Public Gas customers than Kentucky Frontier is allowed to collect in gross revenues from its tariffed rates. These charges by EKM are not fair, just and reasonable and have a profoundly adverse effect on all Kentucky Frontier customers.

FURTHER, the affiant sayeth naught.

DECLARATION OF STEVEN SHUTE

I, Steven Shute, am a Member of Kentucky Frontier Gas, LLC, the Applicant in the referenced matter. I have read the Motion and Affidavit and I have full authority to sign this declaration. The facts set forth therein are true and correct to the best of my knowledge, information and belief. Pursuant to KRS 523.020-040, I certify under penalty of false swearing that the foregoing is true and correct.

Dated this 1st day of July, 2022



Steven Shute, Member,
Kentucky Frontier Gas, LLC