

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

ELECTRONIC APPLICATION FOR REVISED)	
QUARTERLY GAS COST RECOVERY SCHEDULES)	CASE NO.
FOR KENTUCKY FRONTIER GAS, LLC)	2023-00067

**SUPPLEMENTAL RESPONSES TO COMMISSION STAFF'S
SECOND REQUEST FOR INFORMATION TO
KENTUCKY FRONTIER GAS, LLC REQUEST FOUR DATED AUGUST 15, 2023**

Filed: October 12, 2023

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

ELECTRONIC APPLICATION FOR REVISED)	
QUARTERLY GAS COST RECOVERY)	CASE NO.
SCHEDULES OF KENTUCKY)	2023-00067
FRONTIER GAS, LLC)	


VERIFICATION OF STEVEN SHUTE

COMMONWEALTH OF KENTUCKY)
)
 COUNTY OF FAYETTE)

Steven Shute, Sole Member of Kentucky Frontier Gas, LLC, being duly sworn, states that he has supervised the preparation of the Responses to Staff's Second Request for Information in the above-referenced case and that the matters and things set forth therein are true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.


 Steven Shute

The foregoing Verification was signed, acknowledged and sworn to before me this 30th day of August, 2023, by Steven Shute.


 Notary Commission No. KYNP76517
 Commission expiration: 7-28-2027



KENTUCKY FRONTIER GAS, LLC
PSC CASE NO. 2023-00067
RESPONSE TO REQUEST FOR INFORMATION

PSC'S SECOND REQUEST FOR INFORMATION – 08/15/23
REQUEST 4

RESPONSIBLE PARTY: Steve Shute

Request 4. Refer to Application, pages 2–4, paragraphs 6–7, 9–10.

- a. Explain how Kentucky Frontier's proposed method for calculating the Balancing Adjustment differs from the method described in paragraph 9 of the Application.
- b. Explain in detail how Kentucky Frontier's proposed method for calculating the Balancing Adjustment more accurately "compensates for any under or over collections which have occurred as a result of prior adjustments."

Supplemental Response to 4a and 4b.

In addition to the Responses filed on August 30, 2023, Kentucky Frontier provides supplemental excel spreadsheets with detailed comments and information to provide the Commission and Commission Staff a real time comparison of the most recent Gas Cost Recovery quarterly filing, which was filed on September 29, 2023 in Case No. 2023-00329¹. The recent filing in Case No. 2023-00329 uses the Commission imposed method whereas the spreadsheets provided in this supplemental response use Kentucky Frontier's proposed method

¹ *In the Matter of: Electronic Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC*, Case No. 2023-00329, (Ky. P.S.C., Sept. 29, 2023).

for calculating the Balancing Adjustment. This should allow the Commission and Commission Staff to compare the two methods using the same timeframe. The proposed method adjusts the timing of the cost recovery, and it can mean a significant difference for a gas utility the size of Kentucky Frontier. The excel spreadsheets with details and comments are uploaded separately in the electronic filing system and Kentucky Frontier has filed a separate request for an informal conference or formal conference with Commission Staff to walk through the spreadsheets and explain or respond to any elements that are not clear to the Commission or Commission Staff.

For the most recent gas cost recovery quarterly filing, Kentucky Frontier will collect less than half of its gas costs over this next winter. Specifically, Frontier will incur expected costs of \$6.26 per MCF for \$1.13 million, but collect only \$3.02 per MCF or \$510,000. That creates a \$550,000 deficit in gas cost for just 3 months.

Kentucky Frontier will collect \$850,000 in margin plus base rate charges, less the \$550,000 gas losses. The resulting gross income of \$300,000 must pay for \$180,000 in payroll and one-fourth of the year's expenses. Kentucky Frontier will be running on savings in a time when most of the year's income is supposed to be collected.

Then, Frontier will have to run larger deficits for the next two quarters, because the \$1.94 adjustment continues. That will burn through a significant amount of cash, during the spring and summer periods when a gas utility is already relying on savings to get through the year. The proposed method would provide a Balancing Adjustment of \$1.13 as opposed to the \$3.24 penalty, and would not have caused the wild swings in the last 3 quarters. The Commission-imposed method takes the utility cash flow to dangerously low levels, before allowing it to recover enough to keep the utility functioning.

Responses provided August 30, 2023 included below:

Response 4a.

The prescribed current GCR procedure has never kept nor presented the actual balance of the Gas Balancing Account in the public record. The proposed GBA method will track the actual balance of the GBA, will react more quickly with every quarterly filing, and should mitigate large under-recovery and over-recovery balances that can run for years.

Response 4b.

The proposed GBA method considers the current balance, whether over or under-recovered, whether recent or distant, and amortizes with a Balance Adjustment over the next 12 months of sales. The GBA balance is projected to the end of the current rate cycle, not the last one. The last June 30 filing used April 30 figures, where the GBA method projects to July 31. (Similarly, the late September filing used July 31 figures, where the proposed GBA method projects to November 30.) In future quarterly filing, the updated GBA uses all known actual figures and good projections using known index prices and estimated volumes. The new GBA is again amortized for 12 months, which can be a small or large change to the present Balance Adjustment, but is an accurate snapshot of where GCR rates should be.

The current GCR method has many inaccuracies. The unrealistic 5% L&U is further worsened by applying the same penalty to the former Public Gas volumes, with low L&U but very high gas cost. The AA/BA adjustments can be substantial, but still have the overhang of the prior 5 quarters still setting the rates. (In the last filing for rates through October 2023, the AA/BA still included adjustments from May 2022.) In rapidly changing gas markets, this is a disaster.

As can be seen on the long-term GBA table in the proposed method XLS file, the GBA

balance went negative in November 2020, but the GCR method continued to impose large negative surcharges for 9 more months, ending at \$235,000 under-recovered.

The BA surcharge went positive in August 2021, but was reduced by the residual negative quarters that held back recovery. By August 2022, under-recovery was at a company-threatening \$600,000, and Frontier was forced to propose this change in methods. In any of the 6 quarterly filings from November 2021 to August 2022, the proposed GBA method would have been more nimble in making timely adjustments to avoid this large balance.

The improved timing of the proposed GBA keeps the running balance in the quarterly filings and allows the customers to view any adjustments required in billing in more relevant nexus with the changes in the gas market as well. The proposed GBA method will make adjustments next quarter for where we are headed, today. The old GCR method is still carrying grievances from 17 months ago.