COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

ELECTRONIC ALTERNATIVE RATE FILING	)	
OF KENTUCKY FRONTIER GAS, LLC PURSUANT	)	CASE NO.
TO 807 KAR 5:078 AND OTHER GENERAL RELIEF	)	2025-00277

SUPPLEMENTAL INFORMATION TO SUPPORT APPLICATION AND ADDITIONAL REQUESTS

Comes now Kentucky Frontier Gas, LLC, ("Kentucky Frontier") by the undersigned counsel, pursuant to 807 KAR 5:078 and other applicable law and hereby provides the following supplemental information related to requests in this above-styled case:

ADDITIONAL REASONS FOR APPLICATION

Kentucky Frontier understands that no customer wants to see a rate increase and Kentucky Frontier doesn't like to have to raise rates to its customers. This is confirmed by the fact that it has been more than eight years since Kentucky Frontier has requested an increase in its rates. However, all areas of Kentucky Frontier's business have seen significant increases in costs. Some of the key drivers for this rate case are 1) labor cost increases, including payroll and benefits; and, 2) insurance costs for auto and general liability insurances; as well as significant general inflation.

Labor costs have increased significantly from the last general rate case ("GRC") filed in June 2017 to the present, in line with the Consumer Price Index ("CPI") increasing 34%. In addition, Kentucky Frontier is feeling pressure from higher gas utility employee wages paid by the large utilities surrounding Kentucky Frontier, with urban-based, unionized workers. Kentucky Frontier compared its wages to some of the other utilities and realized that a wage increase was needed in order to keep its highly qualified work force. Kentucky Frontier's employees have exactly the same skills, training and Operator Qualifications ("OQ"), and the same risks as gas workers in the five large Kentucky gas utilities. The Kentucky Frontier technicians almost always have more OQs for more Covered Tasks than the five large local distribution companies ("LDCs") employees, since Kentucky Frontier has fewer highly-specialized workers, and everyone has to be qualified to do nearly everything. For these reasons, but only feasible with a substantial increase in general rates through this rate case, Frontier will raise its gas worker salaries by 32% from the Test Year. This increase will begin to bring Kentucky Frontier's compensation in line with the other gas utilities in the state. The increases in employee compensation is effective along with the filing in this case. In addition to wages and salary for labor, payroll and benefits also will proportionally increase.

In addition to the labor expenses and the items associated with those expenses, Kentucky Frontier's insurance cost has more than doubled since the 2017 GRC. The largest increase was included in the 2024 test year. In December 2023 Kentucky Frontier's insurance agent found limited quotes to renewal Kentucky Frontier's insurance policies, and the best quotes were 227% of the costs to renew the policies in December 2022. Auto insurance was doubled, General Liability insurance was +120%, and total 2024 Insurance costs were 224% of the previous 5-year average. Renewal in December 2025 is forecast by our agent to increase 15% over present cost, which is an increase above the 2024 Test Year.

REQUESTS IN THIS PROCEEDING

Consolidation of rates and tariffs for all Kentucky Frontier customers

Kentucky Frontier proposes to equalize the rates of all of the customers who are receiving the same level of service, both non-gas rates and Gas Cost Recovery ("GCR") Rates; to simplify the record keeping and regulatory costs of multiple rates and tariffs, to eliminate confusion among customers of inconsistent tariffs and to reduce the administrative costs of multiple rates and tariffs.

Most of Kentucky Frontier's customers are served under its utility customer rate schedule. This tariff has been in effect since January 2018. Kentucky Frontier has approximately 400 farm taps which are served under the Kentucky Frontier Farm Tap tariff which has remained unchanged since Kentucky Frontier's Case No. 2011-00513, where the tariff became effective in May 2012. Kentucky Frontier has thirty-seven customers in Daysboro which were acquired from West Liberty in 2019, and have continued under the West Liberty municipal rates. These different rate schedules are unnecessary for identical gas service and burdensome for Kentucky Frontier to maintain and account for. The Alternative Rate Filing ("ARF") analysis and cost study indicate the required revenue to be collected from all customers. When these costs are updated for 8-13 years of inflation, and allocated among all customers of the same size and type of service, the increase will be similar among all customers.

With this change, the service standards, conditions for service, deposits, special charges and all other rules will be uniform through the system. All customers will have the same level of service with one exception for Farm Taps, see below; and everyone will be subject to the same standards. This will eliminate any differences in service and any confusion about applicable rules.

Proposal for Farm Taps

In Case No. 2011-00513, Kentucky Frontier established farm tap rates and attributed 12% of the overall operating expense to operating the farm taps. This was extended in subsequent utility general rate cases No. 2011-00443 (April 2013) and No. 2017-00263 (January 2018). There, Frontier extended the allocation of shared operating costs to farm taps, deducted from operating costs for utility customers. Frontier promised in two past GRCs to revisit this practice in a future rate case, and the time to address this issue is now.

The Kentucky Frontier farm taps are scattered over most of the 13 counties served by Frontier. There is no Kentucky Frontier-owned pipeline or system cost associated with these customers, and they are generally isolated and harder to reach. Operating tasks like meter reading or service calls are more difficult to pair with other utility work, with quite a few assignments such as, "drive out 42 miles and do '*xxx*' then return to base". Farm taps are all supplied by producer pipelines not controlled by

Kentucky Frontier. Wells go down, lines and regulators get water and freeze off, which causes farm taps to suffer winter outages far more frequently than Company-owned utility systems.

After operating these farm taps and little scattered distribution systems more than 15 years, Frontier doesn't see much cost difference in serving one or the other. The Farm Tap rate is quite less than the utility rate, but if anything, farm taps are more expensive to operate. The segregation of accounting for cost-of-service and gas supply cost is time-consuming and costly, and not worth the effort for the relatively small number of farm taps on Kentucky Frontier's system (8.5% of customers). Frontier proposes to place the Farm Taps into the ratemaking class of like-sized Residential & Commercial customers. However, since these customers are not served from any Kentucky Frontier owned pipe, Kentucky Frontier has no control over the supply of gas to these customers. Kentucky Frontier will need to maintain the farm tap tariff in order to ensure that if something happens to the gas supply, then Kentucky Frontier would no longer have an obligation to serve these customers. However, due to the cost to serve these farm tap customers, Kentucky Frontier has calculated the farm tap rates to be virtually the same as the utility customers.

Further, under the original Farm Tap tariff in Case No. 2011-00513, the farm tap class was assigned a GCR rate of $3.60 per mcf. That cost has never been updated since its inception in May 2012, and has run high and low over the years, but annual volume (currently 25,600 mcf) wasn't enough to warrant deep analysis or a PSC filing. With this case and unification of rates, Frontier proposes to include Farm Taps in the entire Company pool of gas purchases and sales in determining a unified GCR.

General rate design

Frontier proposes no substantive changes to general rate design. Frontier has only 2 classes of customers. Frontier proposes to increase its monthly fixed charge to $25.00 for most customers, in line with the larger Kentucky gas utilities.

Frontier is too small for many layers of customers and has a very thin "middle class". Of the 4300 utility and 400 farm tap customers, all but a few are residential customers and small commercial customers that use less than 100 MCF per year, with an annual average of 45 MCF. Frontier has about 70 commercial meters sized >500 cfh with annual loads of 200-2000 MCF per year.

In the first general rate case, Case No. 2011-00443, Frontier created a new class for very Large Commercial customers. Frontier has two industrial-size users - a federal prison and two meters on the regional hospital and its adjoining medical office building. These 3 meters account for 19% of Frontier's annual load. Both of these are sprawling complexes with many employees and residents, and industrial-size loads for heating large spaces, for hot water heating and laundry and food preparation that use gas every day. These base loads result in a more level monthly load pattern, quite different than smaller users. The 2 large users are 12% of peak monthly demand.

Compared with the 2 large complexes at more than 20,000 mcf per year, the next largest customer is 3000 mcf. This middle-class level and most smaller users are predominately for space heating. Kentucky Frontier has analyzed various "slices" of larger and smaller customers and finds that none of them approach the flatter load pattern of the Large Commercial hospital and prison. Kentucky Frontier finds no clear and compelling reason to create another rate class.

Significant Known & Measurable changes

Labor and **Benefits** and other expense increases are discussed in **Reasons** and **SAO-G**, Schedule of Adjusted Operations. Since the 2017 GRC, these expenses have increased mostly due to inflation, or for widespread hyper-increases in Insurance due to litigation costs. The change to **Property Taxes** is more complicated.

Property Taxes have recently run about $70,000 among the 13 counties in which Frontier operates. Property taxes are paid 1-3 years in arrears of each county's valuation. Property tax estimates were disrupted in 2023-24, when a court decision characterized some Marathon interstate oil pipeline assets as tangible Personal property, after decades of status as Real property. The property tax implications are quite different for those classes, resulting in 30% increases in counties with Frontier's biggest exposure. Kentucky passed legislation to revert gas utility pipelines back to Real property, effective going forward, but didn't fully relieve the inflated taxes.

To protect against unknowable tax bills, Kentucky Frontier in 2023 accrued a larger-than-normal property tax reserve. This reserve paid the taxes due in 2023 and most of those invoiced in 2024, so that the actual taxes paid in 2024 were only $1500. Going forward, property taxes seem to be back to normal, at a known & measurable level about $68,500 more than paid in 2024.

Proposal to significantly increase the Monthly Charge

Operating costs for most customers are not seasonal or dependent on sales volume. A minimal-use customer costs much the same as serving 100 or 1000 mcf to a large school, with monthly meter readings and billings, and maintaining gas facilities, workers, trucks and equipment. More than 4200 customers have the same small 250 or 425-series gas meters and similar load profiles. Only the 70 largest customers require significantly larger and more expensive meters and facilities designed to carry peak day capacity. Frontier has a Large Commercial rate for the two largest customers, the Appalachian Regional Hospital and the Big Sandy Federal Prison, including a higher monthly customer charge.

When most operating costs are incurred per-month and per-meter, the rate design should be allocated more to Fixed costs by the monthly charge, rather than Variable costs by MCF volume used. However, that is politically impractical because most gas customers expect to pay more in the winter and almost nothing in summer. In the last GRC 2017-00263, Frontier proposed a $16.00 monthly charge, in line with other utilities at the time. Frontier also proposed to bump the Pipeline Replacement Program ("PRP") fee from $1.25 to $2.00 per month. Instead, the Commission ordered a $13.00 monthly service charge and a $5.00 PRP charge.

In this case, Kentucky Frontier proposes a monthly fixed charge of $25.00 that will generate enough cash flow in summer months to meet fixed payroll and financing costs that are a challenge to meet with the current rate. This charge allocates about 46% of revenue to these fixed costs. The five large LDCs in Kentucky have greatly increased their monthly charges since Kentucky Frontier's 2017 rate case. These charges currently average $22.44 monthly for Residential customers, and $74.08 for small Commercial (or non-residential) customers. The five large LDCs serve about 800,000 customers. Three of these – Atmos, Columbia and Delta – finalized GRCs in 2025. For these 3, the weighted average monthly charge is $24.22 per month for Residentials, and $85.61 for smaller non-residentials. As noted with the recent Atmos GRC No. 2024-00276, increasing the Residential charge to $25.00 (pg 54):

> *"The Commission recognizes that Atmos will have a higher-than-average residential customer charge compared to other LDCs in Kentucky. However, the Commission also recognizes that Atmos's fixed costs have increased and that fixed costs can be higher for a utility that primarily serves rural customers, such as Atmos, due to serving low density areas where the number of meters per mile would be lower than those in higher density areas."*

Frontier has argued this math for years, in the calculation of Lost and Unaccounted for ("L&U") percentages used by the Commission in GCR proceedings. When comparing Kentucky Frontier to the large LDCs, Kentucky Frontier has 13 meters per mile of main, whereas the large LDCs have 25 to 70. Kentucky Frontier sells 1000 mcf per mile, whereas the five large LDS sell 2000 to 10,000 mcf per mile. In the case of lost gas, a leak on a Kentucky Frontier pipeline has a 5-10 times larger impact on Kentucky Frontier's L&U, than the same, identical leak on an Atmos or Louisville G&E pipeline. Atmos serves more rural communities, and runs about 44 meters and 4000 mcf per mile. Kentucky Frontier is *4 times more rural* than Atmos, using these metrics.

Kentucky Frontier's fixed costs are substantially higher per meter and per mile than any of the five large LDCs, and should reflect that reality. In addition, the proposed $25.00 fixed charge is in line with the average for the five large LDCs, however, Kentucky Frontier's commercial customers are lower than the five large LDCs' rates by approximately 70%. The Large Commercial class has a larger monthly charge reflective of the higher cost of the meter facilities and upstream pipelines. Charges for such large customers among the five large LDCs are much higher at $200-300 per month. But with only two customers in this class in Frontier, there is scarce data to accurately calculate a monthly charge. Frontier proposes to raise this charge to $150.00, more in tune with the Big 5 charges.

Proposal to end the AMR program

Pursuant to the automated meter reading system ("AMR") plan approved in Case No. 2011-00433 in April 2013, then extended to Public Gas customers in Case No. 2016-00132, Frontier installed an AMR for remote radio reading up to one half mile away. Transmitters were installed on nearly all meters: first on all farm taps and far-flung, hard-to-read customers, then the rural utility systems, then the towns. Kentucky Frontier has automated the meter reading process for all but a few large commercial meters. The AMR system seamlessly integrates with the customer billing system, so that AMR meter readings go directly into billing calculations without any human transcription. This project significantly reduced meter reading manpower & mileage, and time spent investigating errors and correcting manual readings.

The AMR project also helped standardize and update the diverse and often ancient meter fleet from the various small systems, with 21 models from 5 different manufacturers, many of which are no longer made or supported. The meter upgrade also included the addition of Temperature Compensation ("TC") to all meters. Kentucky Frontier plans to replace the last of its 175-size meters and add another mobile reader unit, and proposes to end the AMR program and surcharges after the June 2026 billing cycle.

Proposal to continue the Pipe Replacement Program.

Kentucky Frontier proposes to continue its PRP and surcharge, as approved in Case No. 2011-00443, then extended to Public Gas customers in Case No. 2016-00132. The PRP project has made great progress since 2013, with the replacement of miles of leaking bare steel pipe, focused attention to problem areas identified by increased leak surveys, and installation of gas odorizers to better draw attention to leaks.

Kentucky Frontier inherited several systems with decades-old, leaking pipe. The worst was the Belfry system, now greatly improved with 16 miles of new pipe and new service lines, and significant improvement in L&U. The PRP has replaced short sections of leaking pipe in Mike Little, EKU and BTU Gas, as well as failed water crossings and sub-standard sections in various systems.

Public Gas was acquired in 2015 and added to PRP, with several large PRP replacements and upgrades, including conversion of low-pressure systems that run at ½ psig, with no house regulators.

Under the PRP, Kentucky Frontier has purchased better leak detection equipment, a directional drilling rig, a hydro-vac trailer for exposing lines with no means of detection, and other tools for finding, replacing and upgrading facilities. Kentucky Frontier has increased leak surveys of the problematic sections to 1 or 2 years, rather than 5 years as required by DOT Part 192 regulations. As a big side benefit of PRP, Frontier moved all mapping and many operating data to a Geographical Information System ("GIS") that every gas operator can access and often update in real time, using a smartphone or tablet. The overall Lost & Unaccounted for gas index has improved significantly under the PRP.

The cost of this program was initially recovered through a $1.25 monthly surcharge on each utility customer's bill (not applicable to farm taps). After review of results from 2013-16, Frontier proposed in Case No. 2017-00263 to accelerate the pace of PRP and to reflect higher per-foot construction costs as the projects got more difficult in denser populated areas. The Commission raised the PRP surcharge to $5.00 per month.

In reviewing PRP for this rate case, Frontier finds acceptable the annual level of projects, at about $250,000 per year. Frontier proposes to change to a hybrid surcharge of $2.50 per meter per month, or half of the present surcharge; and $0.037 per ccf volume. This method would require more PRP contribution from the larger customers, which is appropriate when their supply demands more of the pipeline system. Farm Tap customers will not pay any PRP surcharge.

Timing of Filing and Size of Increase

Kentucky Frontier expected to file a GRC in 2023, or 5 years after the last GRC 2017-00263 was effective in January 2018. But the owner and company suffered a terrible personal tragedy, putting off the case for a year. Then in mid-2024, as GRC and ARF numbers were coming together, Frontier resources were diverted in its near-existential dispute with unrestrained gas supplier EKM in investigation Case No. 2022-00238, which should be resolved soon.

The effects of the too-long, too-low rates were masked by the wild up-and-down swings in revenue caused by the Gas Cost Adjustment ("GCA") calculation method dictated by the Commission. The GCA is very insensitive, smearing rapidly changing gas costs out over 2 years. The cost of gas should be insulated from general returns on investment, but it is not. As a result, Kentucky Frontier has seen wild changes of millions of dollars in over- and under-recovery, with significant negative impact to customers, as well as on cash flow and return on investment. Kentucky Frontier has lobbied for years to use a simpler system. The significant loss in 2024 was very unexpected due to the camouflage of GCA.

Rate Case Expense

Kentucky Frontier has incurred expenses in conjunction of the preparation of this case along with the mailing of customer notice to its customers. Kentucky Frontier chose to mail notices to its customers with the August billing, both to save money on the cost of publication in newspapers of general circulation throughout its service territory, and also to increase customer attention to the rate changes . Kentucky Frontier proposes to recover its actual rate case expenses and to amortize those costs over a three-year period. This is consistent with past Commission precedent on rate case expense.

CONCLUSION

This GRC 2025 case is filed 2 years later than expected, now with large changes to the CPI and most operating costs, which are causing Kentucky Frontier to suffer financially. This wasn't our plan, to affect customers with a large increase, but big events outside our control caused the delay. Frontier customers had a 2-year break, at Frontier's expense, and the rates need to catch up.

Dated this 29th day of August 2025.

Respectfully submitted,

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CERTIFICATE OF SERVICE

This is to certify that foregoing electronic filing was transmitted to the Commission on August 29, 2025; 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.