COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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DEC 20 2011

PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY FRONTIER GAS COMPANY, LLC AS BANK RUPTCY OPERATOR OF B.T.U.GAS COMPANY FOR APPROVAL OF AN INTERIM ADJUSTMENT OF THE GAS COST ADJUSTMENT TARIFF	) CASE NO. 2011-

PETITION FOR INTERIM GCR ADJUSTMENT

Kentucky Frontier Gas Company, LLC (Frontier), by counsel, petitions for an order approving an interim increase of the gas cost adjustment tariff for B.T.U. Gas Company.

In support of its petition the following information is provided.

1. Kentucky Frontier Gas, LLC is a Colorado company authorized to do business in Kentucky. Its address is 4891 Independence St., Wheat Ridge CO 80033. Managing partners are Robert Oxford and Steven Shute. A copy of its articles organization and its certificate to operate in Kentucky were filed in Case No. 2008-00394.

2. Frontier was appointed operator of B.T.U. Gas Company by the bankruptcy trustee in Case No. 10-70767-TNW on August 11, 2011.

3. Frontier as operator of B.T.U. filed a tariff for a Gas Cost Adjustment mechanism on October 31, 2011. The tariff was approved for rates effective on and after November 2, 2011 in Case No. 2011-00374.

4. Subsequent to the approval of the GCR rate of $4.30 per mcf on November 2, 2011, Frontier learned that the principal supplier had rejected the proposed price on the pending contract and actually billed to B.T.U. at the rate of

$5.00 per mcf. Since no other producer could supply adequate gas to B.T.U., Frontier was obligated to take this deal to continue service on B.T.U.

5. In addition to the higher price per MCF, Frontier has learned in 3 months of operating that the B.T.U. system runs at an inordinately high Lost & Unaccounted for gas (L&U).

Frontier has to date identified about 60 entities taking gas from B.T.U. Gas without meter or payment. Some of these "customers" claim to have a contract with B.T.U. or its former owner Richard Williams for free gas in exchange for a pipeline easement. Although most cannot produce a written document, the few written agreements presented to Frontier were mostly vague and unenforceable. No such right-of-way agreements were ever presented to or approved by the Commission. Some of these "customers" were simply stealing gas from B.T.U. Frontier has installed meters on these "customers" and has agreements with most to start paying for gas.

In addition to "customers" taking gas, Frontier has found that the B.T.U. system is interconnected with foreign pipelines. Three separate illicit connections to the Sigma system (now Frontier - Cow Creek) have been discovered and removed. These were direct and clandestine connections with no meter, both below- and above-ground, where B.T.U. was improperly stealing gas from Sigma. Area producers have similar stories, where B.T.U. concealed connections to take un-measured gas from producing wells and pipelines.

Frontier has also found two pipeline segments which have served B.T.U. customers for years, but which are now claimed by former owners Richard and Pam Williams as belonging to "Thompson Energy", for which there is no approved PSC tariff and no record of existence in Kentucky. These two segments at Oakley and Hendricks are still connected directly to B.T.U. mains with no meter, just a block valve separating the putative Thompson lines from B.T.U. Frontier has closed these valves but has later found them cracked slightly open and feeding gas to the "foreign" sections. Frontier will cut and cap off these segments and will pursue settlement of this ownership dispute.

Frontier has received numerous tips and leads to find and eliminate these foreign intrusions into B.T.U. In the meantime, the B.T.U. system is taking in 50-100% more gas from producers than it is selling to metered customers.

Under Commission policy, a gas utility cannot recover gas costs for more than 105% of its volumetric sales to customers. The B.T.U. losses were far in excess of 5% for Frontier's first 3 months of operations, and are not expected to fall to 5% any time soon, despite Frontier's best efforts to find all illicit customers and connections.

6. The discrepancy between the approved rate and the actual gas cost due to higher MCF cost and heavy gas losses results in a significant financial impact on Frontier. Because the gas rates do not recover the actual gas costs being paid by Frontier on a monthly basis, Frontier must subsidize the gas costs incurred by B.T.U.

7. The estimated loss to Frontier is $30,000 for December 2011, $25,000 for January 2012 and $17,000 for February 2012 volumes at the current GCR rate. This is in addition to unreimbursed operating costs, which are much higher than usual while Frontier tries to solve the problems of gas theft and loss.

8. The additional unexpected gas cost will have a negative impact on Frontier's financial condition and may threaten its ability to pay the higher gas costs to the suppliers. Failure to pay suppliers could result in discontinuance of gas supply to B.T.U.'s customers.

9. To avoid additional harm to Frontier and to attempt to avoid disconnection of gas supply to B.T.U., Frontier proposes to adjust its gas cost recovery mechanism on an interim basis. **Frontier asks for an interim waiver of the 5%**

limit for lost gas costs. Without the waiver, Frontier cannot foresee continued operation of the system due to the excessive financial impact.

10. Frontier has filed with this application a GCR adjustment to reflect the actual current gas cost from $4.299 to $25.8925 per MCF. The expected gas cost is calculated based on 67% lost and unaccounted gas – the amount actually lost for the prior several months of Frontier's operation of B.T.U. The attached GCR calculation included approximately $50,000 in line losses for September through November sales versus purchases and amortizes those losses in the January through March quarter.

The resulting rate is approximately six times the current rate, which is an unreasonable increase on the customers. To mitigate the impact of the long term gas cost losses and mismanagement of the B.T.U. system, Frontier proposes to increase rates only a portion of the amount needed to actually recover its costs.

Frontier proposes to increase the gas cost to $8.00 per mcf effective for billings on and after January 1, 2012. Without this change, lost revenue to Frontier for December will be approximately $30,000. This imputes approximately 40% line loss. Frontier expects the actual gas cost will from its primary supplier be about $5.00 per MCF, adjusted for 33% L&U. This loss is lower than actual August-November experience, but Frontier believes it will improve this figure with further diligence. To avoid rate shock and in anticipation of continued reduction of line losses due to metering unmetered customers, Frontier proposes to include this gas cost in its rates for service billed on and after January 1, 2012. Because Frontier is proposing a rate that is not calculated based on actual gas costs and adjustments, **it requests a deviation from the GCR tariff and the filing requirements of the GCR.**

11. The GCR does not attempt to recover gas cost losses for the months of September through November, 2011. This under-recovery will be addressed in a

GCR to be filed in the second quarter of 2012 with an amortization of prior losses spread over twelve months. Any other losses not recovered by the GCR are expected to be recovered from proceeds of the sale of B.T.U. by the bankruptcy Trustee.

12. The approval of this GCR will allow Frontier to immediately begin to recover a greater portion of its actual gas costs and allow it to recover the lost revenue from the prior months' under-billings over the next several quarters.

13. **Frontier requests a deviation from the 30 day notice period and from the quarterly filing period provided for in the tariff.** Because of the timing of the bankruptcy proceedings and the financial impact the loss of revenue from the unrecovered gas costs will have on Frontier, this matter necessitates immediate action.

14. In Case No. 92-346FF Union, Light, Heat and Power Company filed an application for interim adjustment of its GCR similar to Frontier. The application, filed on December 7, 2000, cited an unexpected increase in wholesale gas costs. Based on the impact on ULH&P's rates, the company requested a waiver of the 30 day notice and an adjustment of the GCR effective January 1, 2000. The Commission approved the waiver and increase in the GCR on December 20, 2000.

For these reasons, Frontier requests:

1. A waiver of the 30 day notice period;
2. Approval of an $8.00 per mcf rate on an interim basis;
3. A deviation from the B.T.U. GCR tariff; and
4. A deviation from the GCR filing requirements.

SUBMITTED BY:

John N. Hughes
124 W. Todd St.
Frankfort, KY 40601
502-227-7270

Attorney for
Applicant

FOR ENTIRE AREA SERVED
Community, Town or City

P.S.C. KY. NO. ____________

____________ SHEET NO. ____________

BTU Gas Company, Inc.
(Name of Utility)

CANCELING P.S. KY.NO. ____________

____________ SHEET NO. ____________

RATES AND CHARGES

APPLICABLE: Entire area served

AVAILABILITY OF SERVICE: Domestic and commercial use in applicable areas.

A. MONTHLY RATES:

		Base Rate	GCRR	Total
FIRST (1) MCF (MINIMUM BILL)	$	3.9000	25.8945	29.7945
OVER 1 MCF	$	2.9700	25.8945	28.8645

B. DEPOSITS:

DATE OF ISSUE December 19, 2011

DATE EFFECTIVE January 1, 2012

ISSUED BY ____________
(Signature of Officer)

TITLE Member

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMINSSION
IN CASE NO. ____________ DATED ____________

Company Name

BTU Gas Company, Inc.

3 Month Report of Gas Cost
Recovery Rate Calculation

Date filed: December 19, 2011

Date Rates to be Effective: January 1, 2012

Reporting Period Ending: November 30, 2011

BTU Gas Company, Inc. - GAS COST RECOVERY RATE

SCHEDULE I

GAS COST RECOVERY RATE SUMMARY

	Component	Unit		Amount
	Expected Gas Cost (EGC)	$/Mcf	$	14.8012
+	Refund Adjustment (RA)	$/Mcf	$	-
+	Actual Adjustment (AA)	$/Mcf	$	11.0933
+	Balance Adjustment (BA)	$/Mcf	$	-
=	Gas Cost Recovery Rate (GCR)		$	25.8945

GCR to be effective for service rendered from Jan 1, 2012 to Mar 31, 2012

A	EXPECTED GAS COST CALCULATION	Unit		Amount
	Total Expected Gas Cost (Schedule II)	$	$	75,649
/	Sales for the 3 months ended: November 30, 2011	Mcf		5,111
=	Expected Gas Cost (EGC)	$/Mcf	$	14.8012

B	REFUND ADJUSTMENT CALCULATION	Unit		Amount
	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	ACTUAL ADJUSTMENT CALCULATION	Unit		Amount
	Actual Adjustment for the Reporting Period (Sch. IV)	$/Mcf	$	11.0933
+	Previous Quarter Reported Actual Adjustment	$/Mcf	$	-
+	Second Previous Quarter Reported Actual Adjustment	$/Mcf	$	-
+	Third Previous Quarter Reported Actual Adjustment	$/Mcf	$	-
=	Actual Adjustment (AA)	$/Mcf	$	11.0933

D	BALANCE ADJUSTMENT CALCULATION	Unit		Amount
	Balance Adjustment for the Reporting Period (Sch. V)	$/Mcf	$	-
+	Previous Quarter Reported Balance Adjustment	$/Mcf	$	-
+	Second Previous Quarter Reported Balance Adjustment	$/Mcf	$	-
+	Third Previous Quarter Reported Balance Adjustment	$/Mcf	$	-
=	Balance Adjustment (BA)	$/Mcf	$	-

BTU Gas Company, Inc. - GAS COST RECOVERY RATE

SCHEDULE II

EXPECTED GAS COST

Actual *MCF Purchases for 3 months ended: November 30, 2011

(1)	(2)	(3)	(4)		(5)*		(6)
							(4) x (5)
Supplier	Dth	Conversion Fact	Mcf		Rate		Cost
Spirit Energy			13,463	$	5.0000	$	67,315
Kentucky Reserves			1,326	$	4.5000	$	5,967
Tackett			598	$	3.2442	$	1,940
Walker			40	$	3.2442	$	130
Totals			15,427			$	75,352

% Loss for 3 mos ended	Nov-11	based on purchases of		15,427
and sales of	5,111	Mcf.	67% **	

		Unit		Amount
	Total Expected Cost of Purchases (6)	$	$	75,352
/	Mcf Purchases (4)	Mcf		15,427
=	Average Expected Cost Per Mcf Purchased	$/Mcf	$	4.8844
x	Mcf Purchases based on 67% line loss	Mcf		15,488
=	Total Expected Gas Cost (to Schedule 1A)	$	$	75,649

* Spirit Energy contract = $5.00/Mcf
Kentucky Reserves contract = $4.50/Mcf
EGC 3 month avg. TCO Appa futures : Jan ($3.288/Dth); Feb ($3.330/Dth); Mar ($3.520/Dth)
= $3.3793/Dth x .8 = $2.7035/Dthx 1.2 Mcf/Dth = $3.2442/Mcf

** L&U is on-going issue due to unmetered connections.

BTU Gas Company, Inc. - GAS COST RECOVERY RATE

Schedule IV
Estimated Adjustment

For the 3 month period ending: November 30, 2011

Particulars	Unit	Month 1 Sep-11	Month 2 Oct-11	Month 2 Nov-11
Actual Supply Volumes Purchased	Mcf	3,016	6,638	6,825
Actual Cost of Volumes Purchased	$	$ 14,780	$ 32,616	$ 31,939
(divide by) Total Sales (based on actual L&U)	Mcf	400	1,859	2,890
(equals) Unit Cost of Gas	$/Mcf	$ 36.9500	$ 17.5483	$ 11.0516
(minus) EGC in effect for month	$/Mcf	$ 4.2999	$ 4.2999	$ 4.2999
(equals) Difference	$/Mcf	$ 32.6501	$ 13.2484	$ 6.7517
(times) Actual sales during month	Mcf	400	1,821	2,890
(equals) Monthly cost difference	$	$ 13,060	$ 24,125	$ 19,512

	Unit	Amount
Estimated cost difference	$	$ 56,698
(÷ by) Sales for 3 Months ended: November 30, 2011	Mcf	5,111
(equals) Estimated Adjustment for the Reporting Period		$ 11.0933
(plus) Over-recovery component from collections through expired AAs		$ -
(equals) Total Estimated Adjustment for the Reporting Period (to Schedule I C)		$ 11.0933

Revised 02-26-04

John N. Hughes

From: Steven Shute <pipeline@rof.net>
Sent: Monday, December 19, 2011 8:22 PM
To: Jack Hughes
Cc: Dennis Horner - Frontier; Bob Oxford
Subject: BTU GCR

Jack,

Dennis and I discussed the GCR calcs for BTU Gas, as he was finishing up late today.

As I suspected, the "Usual PSC Formula" resulted in a jump from $4.30 to $23.00 per mcf gas cost. This assumes that we are not held to the 5% limit on L&U, for which I have asked for a waiver.

Dennis' calc takes about $50k losses on Sep-Nov sales vs purchases, and amortizes them over Jan-Feb-Mar gas bills as we normally would.

But the resulting 6x increase is outlandish, and the resulting customer-public-press outrage will harm Frontier-BTU-PSC.

November loss was about 58%. I believe Carty's bill for gas had 2 large errors that may get this down to 40-50%. We also have now connected ~60 "free" meters and the large church which contributed to these large L&Us, and should see these on Dec bills.

I earlier suggested we ignore the normal GCRR calcs and set Gas Cost at about $8.00 per mcf, which would impute ~40% loss. We will file the calcs as an exhibit, but ask for the lower number. As we grind through winter, we should see improvement in L&U through Dec-Jan to where $8 will work. We can file another GCRR in Feb, then amortize the cumulative losses over 12 months Mar12-Feb13.

If Frontier doesn't buy BTU, we will collect the under-recovery from the sale.

And we have to make this new rate effective for billing after January 1, or
we'll be down another $30,000 in December.

Nothing about BTU is "normal". Richard Williams operated completely outside the parameters of "normal" utilities, and the PSC allowed him to. This 20yr mess cannot now be restored by "normal" means. This is as serious an emergency as a KY utility will ever see, we must press the PSC to act quickly and outside their "normal" comfort zone:

1) Waiver on 5% gas loss limit.

2) Waiver on typical GCRR calculations & procedure.

3) Assume $8.00 gas cost for now

4) Effective for billings after Jan 1

5) Frontier will file GCRR for effective March 2012 and amortize losses over 12 months

None of these are really negotiable, we can't stand $50k per month in lost gas and all employees working on BTU for more than a few weeks.

Steven Shute
970-928-9208

John N. Hughes

From: Kentucky Frontier Gas LLC <dhorner@kyfrontiergas.com>
Sent: Monday, December 19, 2011 7:37 PM
To: John Hughes
Subject: BTU GCA

Jack,

As a matter of explanation for the $14.80 EGC, it is based on continued losses of 67%. I'm out of the office until Jan 3 but can be reached on my cell phone (303) 594-6307.

Thanks,

Dennis