

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PURCHASED GAS ADJUSTMENT FILING)
OF B.T.U. GAS COMPANY, INC.) CASE NO. 2012-00214

ORDER

On October 31, 2011, in Case No. 2011-00374,¹ the Commission approved a Gas Cost Recovery (“GCR”) clause for B.T.U. Gas Company (“BTU”) providing for the quarterly adjustment of BTU’s rates to reflect its most current wholesale gas supply cost. On June 1, 2012, Kentucky Frontier Gas Company, LLC (“Kentucky Frontier”) acquired the assets of BTU pursuant to the Commission’s approval of the transfer, and adopted BTU’s tariffs.²

On May 31, 2012, BTU filed its GCR to be effective July 1, 2012. On June 18, 2012, BTU filed an amended GCR application and a Petition for Waiver of GCR Adjustment. In its application, BTU requested an interim waiver of the five percent limit for lost gas costs; and a deviation from its GCR tariff and the filing requirements of the GCR tariff because its proposed rate is not calculated based on actual gas costs and standard adjustments. BTU’s proposal is to continue to charge its Expected Gas Cost

¹ Case No. 2011-00374, Filing of B.T.U. Gas Company, Inc. for Approval of a Gas Cost Recovery Tariff (Ky. PSC Oct. 31, 2011).

² Case No. 2012-00099, Application of Kentucky Frontier Gas, LLC for Approval of Transfer of Assets of the Former B.T.U. Gas Company and Approval of Financing of Acquisition (Ky. PSC June 1, 2012).

“EGC”) rate of \$8.00 per Mcf which was approved in Case Nos. 2011-00512³ effective January 9, 2012, and 2012-00076⁴ effective April 1, 2012, and to calculate its Actual Adjustment for November 2011 through March 2012 using actual sales volumes as opposed to limiting Lost & Unaccounted-for (“L&U”) volumes to five percent.

In support of its request for waiver of the five percent limit on gas cost losses, BTU’s application provided information concerning the continuation of an “inordinately high” rate of L&U gas. According to BTU’s application, Kentucky Frontier has identified numerous entities taking unmetered gas, as well as several illicit and unmetered connections with other pipelines. It has installed meters on previously unmetered individuals taking gas off the BTU system, and has agreements with most to start paying for their service. Two “foreign” and improper interconnections that it has discovered are the subject of Case No. 2012-00028.⁵ Despite the fact that its losses have been reduced significantly by its efforts to eliminate L&U gas and theft, Kentucky Frontier maintains that its losses remain unacceptably high and it estimates the losses will remain in the 30 to 50 percent range, well over the five percent ordinarily flowed through the GCR mechanism.

BTU provided with its GCR application a sample calculation of its EGC, including its actual 12 month 56.72 percent line lost, which would produce an EGC of \$11.9159

³ Case No. 2011-00512, Application of Kentucky Frontier Gas Company, LLC as Bankruptcy Operator of B.T.U. Gas Company for Approval of an Interim Adjustment of the Gas Cost Adjustment Tariff (Ky. PSC Jan. 3, 2012).

⁴ Case No. 2012-00076, Purchased Gas Adjustment Filing of B.T.U. Gas Company, Inc. (Ky. PSC Mar. 27, 2012).

⁵ Case No. 2012-00028, Application of Kentucky Frontier Gas Company, LLC as Bankruptcy Operator of B.T.U. Gas Company vs. Harry Thompson, Thompson Energy, et. al., and Other Unknown Entities, filed Jan. 18, 2012.

per Mcf. For informational purposes, BTU also provided an EGC calculation based on the standard methodology of excluding all L&U volumes over five percent, which results in an EGC of \$5.4287 per Mcf. Similarly, BTU provided an AA calculation, for informational purposes only, which showed the effect of limiting gas cost recovery through the AA to five percent L&U volumes. Due to line losses of approximately 62 percent and 54 percent for November and December 2011; and 72 percent, 36 percent, and 16 percent for January, February, and March 2012, respectively, excluding losses in excess of five percent would result in a current quarter AA of (\$3.0947) per Mcf. BTU states that if it is not able to recover the additional gas cost represented by the L&U volumes, there will be a negative impact on Kentucky Frontier's financial condition, and may threaten its ability to pay gas supply cost and gas supply to BTU's customers.

BTU is proposing to deviate from the GCR tariff in its calculation, and from the filing requirements of its GCR, by continuing to use an \$8.00 per Mcf EGC rate for the quarter beginning July 1, 2012. BTU states that the \$8.00 gas cost represents an average L&U of 35.5 percent, which it says is the amount actually lost for the prior several months of Kentucky Frontier's operation of BTU. A review of the information provided by BTU shows that the actual L&U for the quarter ending March 31, 2012, was 50 percent. The deviation from limiting L&U to five percent is reflected in the AA calculation as well, which is calculated to recover all of its gas cost for the months November 2011 through March 2012, as opposed to limiting gas cost losses to five percent. BTU states that approval of the requested GCR methodology will allow Kentucky Frontier to immediately begin to recover a greater portion of its actual gas cost from prior months' under-billings over the next several quarters.

After reviewing the record in this case and being otherwise sufficiently advised, the Commission finds that:

1. BTU's request for a deviation from its GCR tariff in continuing its \$8.00 per Mcf EGC is not unreasonable given the extreme nature of the BTU system's continuing losses, and Kentucky Frontier's efforts to install meters for previously unmetered individuals and to locate improper interconnections with the BTU system. Any future request for deviation from BTU's GCR tariff should include information concerning Kentucky Frontier's efforts to decrease the incidence of gas loss on the BTU system.

2. BTU's request to recover its actual cost of gas through the AA as opposed to reducing gas cost recovery by imposing a five percent L&U limit is reasonable and should be approved. BTU's current and total AA is \$1.0301 per Mcf, and is calculated to recover under-recoveries of gas cost from November 2011 through March 2012.

3. BTUs GCR is \$9.0301 per Mcf, which represents an increase of \$1.0301 per Mcf from its previous gas cost rate of \$8.0000 per Mcf.

IT IS THEREFORE ORDERED that:

1. BTU shall be granted an interim waiver of the five percent limit for L&U gas costs.

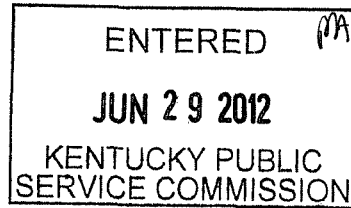
2. BTU shall be granted a deviation from its GCR tariff and its filing requirements and standard methodologies as they pertain to the calculation of the EGC and the AA, as specifically outlined herein.

3. In any future request for similar deviations, BTU shall include sufficient information for the Commission to determine its progress in addressing excessive gas losses.

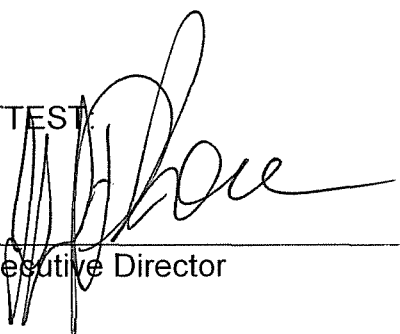
4. The rates in the Appendix, attached hereto and incorporated herein, are approved for service rendered on and after July 1, 2012.

5. Within 20 days of the date of this Order, BTU shall file its revised tariff sheets with this Commission setting out the rates approved herein and reflecting that they were approved pursuant to this Order.

By the Commission



Commissioner Breathitt is abstaining from this proceeding.

ATTEST


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00214 DATED JUN 29 2012

The following rates and charges are prescribed for the customers in the area formerly served by B.T.U. Gas Company, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

RATE SCHEDULES

	<u>Base Rate</u>	<u>Gas Cost Recovery Rate</u>	<u>Total Rate</u>
First Mcf (Minimum Bill)	\$ 3.9000	\$9.0301	\$12.9301
Over 1 Mcf	\$ 2.9700	\$9.0301	\$12.0001

Dennis R Horner
Kentucky Frontier Gas, LLC
4891 Independence Street, Suite 200
Wheat Ridge, COLORADO 80033