Kentucky FRONTIER GAS

September 5, 2012

RECEIVED
SEP 06 2012
PUBLIC SERVICE COMMISSION

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40602-0615

Re: Gas Cost Adjustment
B.T.U. Gas Company

Dear Mr. Derouen:

Kentucky Frontier Gas, LLC (KFG) appointed as operator of B.T.U. Gas Company by the U.S. Bankruptcy Court, Case No. 10-70767-TNW, August 11, 2011. On behalf of BTU, KFG is filing for a Gas Cost Recovery for the period commencing October 1, 2012.

Enclosed is a GCA form and related calculations on which we base our request for rate changes. The cost of gas from suppliers varies from \$3.60/Mcf to \$6.00/Mcf. The B.T.U. system is currently experiencing high L&U as a result of unmetered users and potential interconnections to other systems not part of B.T.U.

If you have any questions, please call me at 303-422-3400.

Sincerely,

KENTUCKY FRONTIER GAS, LLC

Dennis R. Horner

Dennis R. Horner
Kentucky Frontier Gas, LLC

Enclosures

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

<table>
<tr><td>THE APPLICATION OF KENTUCKY FRONTIER GAS
COMPANY, LLC FOR APPROVAL
OF AN ADJUSTMENT OF THE GAS
COST ADJUSTMENT TARIFF OF BTU GAS
COMPANY</td><td>)
) CASE NO. 2012-
) 00214
)
)</td></tr>
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PETITION FOR WAIVER FOR GCR ADJUSTMENT

Kentucky Frontier Gas Company, LLC (Frontier), by counsel, petitions for an order approving an increase of the gas cost adjustment tariff for B.T.U. Gas Company, but waiving the exclusion of gas loss in excess of five percent.

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. An order of the PSC in Case No. 2012-00099 dated June 1, 2012 approved the transfer of BTU to Frontier. Closing and completion of the transaction have been finalized.

3. Frontier as operator of B.T.U. filed a tariff for an Interim Gas Cost Adjustment on December 20, 2011. The tariff was approved for on January 3, 2012 in Case No. 2011-00512.

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 operating the B.T.U. system that it has an inordinately high Lost & Unaccounted for gas (L&U).

Frontier has to date identified numerous 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. A case is pending before the Commission to investigate these improper connections to BTU – Case No. 2012-00028.

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 35-70% 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 6 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 actual loss to Frontier over the last few quarters has been reduced significantly due to Frontier's efforts to eliminate line loss and theft. However, it remains unacceptably high. The estimated loss for the next quarter is over $7,000.00. 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. A schedule of losses for the last quarter and projected for the next quarter is attached.

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 per MCF, but recovery of $8.00 per MCF based on current line loss. The expected gas cost is calculated based on an average quarter's loss of 40% lost and unaccounted gas. The most recent quarter's loses were: April 36%; May 66%; June 83%. While Frontier has made progress in locating and eliminating many of the sources of lost gas, the former BTU system continues to present unexpected problems. During the last quarter, a number of new leaks were discovered and repaired. A large leak (90 MCFD) was found and repaired on the Bull Creek lateral in June. The southern part of the system has been surveyed in August with two leaks discovered. There is a 25MCFD leak on the Old Petro line south of the Parkway. This line has been isolated at the Parkway and at Hwy 1099. There are no customers on the portion of the line. There is a 10 MCFD leak in the Royalton area which may be in the Old Inland G-39 line. We plan to isolate this lateral the first week of September and locate the leak and repair it. Leaks have been found in the Dixie area and have been repaired. There was a problem with the Tackett delivery lateral caused by a failed regulator at the Tackett well. The relief valve functioned but an inspection of the lateral revealed several leaks that have been repaired. Frontier is making every effort to limit these losses, but the problems with the poor workmanship of the installed lines, old age of the system and inadequate or non-existent maintenance of the facilities makes progress slow.

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. 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. 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.

For these reasons, Frontier requests:

1. A deviation from the B.T.U. GCR tariff
2. A deviation from the GCR filing requirements
3. Approval of the proposed GCR rate

SUBMITTED BY:

John N. Hughes

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

Attorney for
Applicant

BTU Estimated 4 Quarter Loss

Month	Est. Sales (Mcf)	Est. Purch. MCF (5% L&U)	Est. Cost ($5.05/MCF)	Est. Purch. MCF (40% L&U)	Est. Costs ($5.05/MCF)	Est. Loss
OCT	1,720	1,811	$ 9,149	2,048	$ 10,347	$ 1,198
NOV	2,890	3,042	$ 15,373	3,440	$ 17,386	$ 2,013
DEC	5,632	5,928	$ 29,959	6,705	$ 33,882	$ 3,923
TOTAL	**10,242**	**10,781**	**$ 54,481**	**12,193**	**$ 61,615**	**$ 7,134**

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	9.1949	13.0949
OVER 1 MCF	$	2.9700	9.1949	12.1649

B. DEPOSITS:

DATE OF ISSUE September 5, 2012

DATE EFFECTIVE October 1, 2012

ISSUED BY [signature]
(Signature of Officer)

TITLE Member

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

SCHEDULE I

GAS COST RECOVERY RATE SUMMARY

Component	Unit	Amount	
Expected Gas Cost (EGC)	$/Mcf	$8.0000	40% imputed L&U
Refund Adjustment (RA)	$/Mcf	$0.0000	
Actual Adjustment (AA)	$/Mcf	$1.1949	
Balance Adjustment (BA)	$/Mcf	$0.0000	
Gas Cost Recovery Rate (GCR)	$/Mcf	$9.1949	

Rates to be effective for service render October 1, 2012

Provided for informational purposes only

A. EXPECTED GAS COST CALCULATION		Unit	Amount	
			5%	***Actual L&U***
Total Expected Gas Cost (Sch II)		$/Mcf	$128,047	$289,631
/Sales for the 12 months ended	June 30, 2012	$/Mcf	25,339	25,339
Expected Gas Cost		$/Mcf	$5.0534	$11.4302

B. REFUND ADJUSTMENT CALCULATION	Unit	Amount
Supplier Refund Adjustment for Reporting Period (Sch III)	$/Mcf	$0.0000
+Previous Quarter Supplier Refund Adjustment	$/Mcf	
+Second Previous Quarter Supplier Refund Adjustment	$/Mcf	
+Third Previous Quarter Supplier Refund Adjustment	$/Mcf	
=Refund Adjustment (RA)	$ Mcf	$0.0000

C. ACTUAL ADJUSTMENT CALCULATION	Unit	Amount
Actual Adjustment for the Reporting Period (Sch IV)	$/Mcf	$0.1648
+Previous Quarter Reported Actual Adjustment	$/Mcf	$1.0301
+Second Previous Quarter Reported Actual Adjustment	$/Mcf	
+Third Previous Quarter Reported Actual Adjustment	$/Mcf	
=Actual Adjustment (AA)	$ Mcf	$1.1949

D. BALANCE ADJUSTMENT CALCULATION	Unit	Amount
Balance Adjustment for the Reporting Period (Sch V)	$/Mcf	$0.0000
+Previous Quarter Reported Balance Adjustment	$/Mcf	
+Second Previous Quarter Reported Balance Adjustment	$/Mcf	
+Third Previous Quarter Reported Balance Adjustment	$/Mcf	
=Balance Adjustment (BA)	$ Mcf	$0.0000

SCHEDULE II

EXPECTED GAS COST

Provided for informational purposes only

Actual Mcf Purchases for 12 months ended June 30, 2012

(1) Supplier	(2) Dth	(3) Btu Conversion Factor	(4) Mcf	(5) Rate	(6) (4) x (5) Cost
Gibraltar			2,566	$ 3.07	$ 7,880
Gray			5,417	$ 4.17	$ 22,589
HI-Energy			1,836	$ 4.00	$ 7,344
KY Reserves			17,814	$ 4.73	$ 84,260
Slone			409	$ 3.50	$ 1,432
Spirit			22,247	$ 6.00	$ 133,482
Tackett			6,782	$ 3.22	$ 21,854
Walker			3,074	$ 3.22	$ 9,898
				$ 3.60	$ -
Totals			60,145		$288,738

Line loss for 12 months ended 6/30/12 is based on purchases of 60,145 and sales of 25,339 Mcf. 58%

	Unit	Using 5% limit Amount	Using actual L&U
Total Expected Cost of Purchases (6)		$288,738	$288,738
/ Mcf Purchases (4)		60,145	60,145
= Average Expected Cost Per Mcf Purchased		$4.8007	$4.8007
x Allowable Mcf Purchases (must not exceed Mcf sales / .95)		26,672.63	60,330.95
= Total Expected Gas Cost (to Schedule IA)		$128,047	$289,631

SCHEDULE IV

ACTUAL ADJUSTMENT

For the 12 month period ended June 30, 2012

For information purposes only - Using 5 percent line loss limiter

Particulars	Unit	Apr-12	May-12	Jun-12
Total Supply Volumes Purchased	Mcf	2062	1750	1338
Total Cost of Volumes Purchased	$	$8,505.00	$6,434.00	$4,918.00
/ Total Sales *	Mcf	1,958.9	1,662.5	1,271.1
= Unit Cost of Gas	$/Mcf	$4.3417	$3.8701	$3.8691
- EGC in Effect for Month	$/Mcf	$8.0000	$8.0000	$8.0000
= Difference	$/Mcf	($3.6583)	($4.1299)	($4.1309)
x Actual Sales during Month	Mcf	1,249.0	487.0	224.0
= Monthly Cost Difference	$	($4,569.19)	($2,011.27)	($925.32)

Total Cost Difference	$	($7,505.79)
/ Sales for 12 months ended June 30, 2012	Mcf	25,339
= Actual Adjustment for the Reporting Period (to Sch IC)		($0.2962)

* May not be less than 95% of supply volume

Proposed - Using actual sales with no line loss limiter

Particulars	Unit	Apr-12	May-12	Jun-12
Total Supply Volumes Purchased	Mcf	2062	1750	1338
Total Cost of Volumes Purchased	$	$8,505.00	$6,434.00	$4,918.00
/ Total Sales *	Mcf	1,249.0	487.0	224.0
= Unit Cost of Gas	$/Mcf	$6.8094	$13.2115	$21.9554
- EGC in Effect for Month	$/Mcf	$8.0000	$8.0000	$8.0000
= Difference	$/Mcf	($1.1906)	$5.2115	$13.9554
x Actual Sales during Month	Mcf	1,249.0	487.0	224.0
= Monthly Cost Difference	$	($1,487.00)	$2,538.00	$3,126.00

Total Cost Difference	$	$4,177.00
/ Sales for 12 months ended June 30, 2012	Mcf	25,339
= Actual Adjustment for the Reporting Period (to Sch IC)		$0.1648