

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PURCHASED GAS ADJUSTMENT FILING )  
OF KENTUCKY FRONTIER GAS COMPANY, ) CASE NO. 2012-00408  
LLC D/B/A B.T.U. GAS COMPANY, INC. )

ORDER

On October 31, 2011, in Case No. 2011-00374,<sup>1</sup> the Commission approved a Gas Cost Recovery (“GCR”) clause for B.T.U. Gas Company, Inc. (“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.<sup>2</sup>

On September 6, 2012, BTU filed its GCR to be effective October 1, 2012, and included with its application a Petition for Waiver of GCR Adjustment. 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 (“EGC”) rate of \$8.00 per Mcf which was

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<sup>1</sup> 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).

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

approved in Case Nos. 2011-00512,<sup>3</sup> effective January 9, 2012; 2012-00076,<sup>4</sup> effective April 1, 2012; and 2012-00214,<sup>5</sup> effective July 1, 2012. BTU also proposes to calculate its Actual Adjustment (“AA”) for April through June 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.<sup>6</sup> 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; Kentucky Frontier reports that for April, May, and June, its losses were 36 percent, 66 percent, and 83 percent respectively. In spite of its continuing efforts, Kentucky Frontier estimates the losses will remain well over the five percent ordinarily flowed through the GCR mechanism.

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

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

<sup>5</sup> Case No. 2012-00214, Purchased Gas Adjustment Filing of B.T.U. Gas Company, Inc. (Ky. PSC June 29, 2012).

<sup>6</sup> Case No. 2012-00028, Application of Kentucky Frontier Gas Company, LLC as Bankruptcy Operator for B.T.U. Gas Company, Inc. vs. Harry Thompson, Thompson Energy, et al., and Other Unknown Entities, filed Jan. 18, 2012.

BTU provided with its GCR application, for example purposes only, a sample calculation of its EGC including its actual 12 month 57.87 percent line lost, which would produce an EGC of \$11.4302 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 \$5.0534 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 the actual line losses experienced April through June 2012, excluding losses in excess of five percent would result in a current quarter AA of (\$.2962) 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 to supply gas 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 October 1, 2012. BTU states that the \$8.00 gas cost represents an average L&U of 40 percent, which it says is an average quarter's losses. 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 April through June 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, locate improper interconnections with the BTU system, and repair leaks. 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 quarter AA is \$.1648 per Mcf. BTU's total AA is \$1.1949 per Mcf, an increase of \$.1648 per Mcf from the previous total AA of \$1.0301 per Mcf.

3. BTU's GCR is \$9.1949 per Mcf, which represents an increase of \$.1648 per Mcf from its previous gas cost rate of \$9.0301 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.

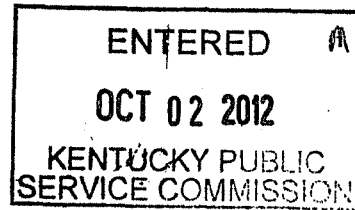
2. BTU shall be granted a deviation from its GCR tariff and its filing requirements and standard methodologies as they pertain to the calculation of the EGC and the AA, as specifically outlined herein.

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. The rates in the Appendix, attached hereto and incorporated herein, are approved for billing for service rendered on and after October 6, 2012. BTU did not provide the 30 days' notice required for its increase in rates to be effective October 1, 2012.

4. 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:

  
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Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2012-00408 DATED OCT 02 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	\$9.1949	\$13.0949
Over 1 Mcf	\$ 2.9700	\$9.1949	\$12.1649

SUMMARY OF PURCHASED GAS ADJUSTMENT FILING  
For BTU Gas Company

Case No.: 2012-00408  
Filing Date: September 6, 2012  
Proposed Effective Date: October 1, 2012  
Approved Effective Date: October 6, 2012

Wholesale Gas Suppliers: Spirit Energy, Kentucky Reserves, Tackett, Walker

Wholesale Rate: Increased \$0 per Mcf  
Retail Rate: Increased \$.1648 per Mcf

Gas Cost Components

EGC	\$ 8.0000
RA	-----
AA	<u>1.1949</u>
GCR	\$ 9.1949

Prepared by: Leah Faulkner

Date: September 28, 2012

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