

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED GAS	)	CASE NO.
ADJUSTMENT FILING OF KENTUCKY	)	2022-00327
FRONTIER GAS, LLC	)	

ORDER

On October 10, 2022, Kentucky Frontier Gas, LLC (Kentucky Frontier) filed its Gas Cost Recovery (GCR) rate report for rates with a proposed effective date of November 1, 2022. In its GCR rate report Kentucky Frontier made a proposal to modify its GCR rate calculation and report structure by changing the five percent line loss limiter. The Commission issued an Order on October 31, 2022, that opened an investigation to determine the reasonableness of the proposed GCR rates, including their calculation methodology and the report structure. The Commission determined that the earliest the proposed GCR rate could be placed into effect would be November 9, 2022, as Kentucky Frontier did not provide the 30 days' notice required, pursuant to KRS 278.180, for its rates to be effective November 1, 2022.<sup>1</sup> In its October 31, 2022 Order, the Commission suspended Kentucky Frontier's proposed GCR rate for one day to give the Commission time to investigate the GCR rates but to allow Kentucky Frontier to begin charging the proposed rate on and after November 10, 2023, pending a final Order and subject to refund, provided it files written notice to the Commission of its intention to do so as

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<sup>1</sup> Kentucky Frontier filed a deviation from the 30 days' notice requirement set forth in KRS 278.180 but the denied the deviation as Kentucky Frontier did not provide a showing of good cause for the 30 days' notice period to be shortened.

required by KRS 278.190(2). On November 8, 2022, Kentucky Frontier provided the written notice pursuant to KRS 278.190(2) and began to charge its customers the proposed GCR rate. Kentucky Frontier was also directed to continue to file its GCR rates quarterly even if Case No. 2022-00327 was not closed before the next quarter period.

### LEGAL STANDARD

The Commission's standard of review for GCR rates is well settled as stated in KRS 278.274(1):

In determining whether proposed natural gas utility rates are just and reasonable, the commission shall review the utility's gas purchasing practices. The commission may disallow any costs or rates which are deemed to result from imprudent purchasing practices on the part of the utility.

Further, the utility has the burden to prove the rates are just and reasonable and the Commission may reduce the purchased gas component of the utility's rates or the rates charged by an affiliated company to the extent the amount is deemed to be unjust or unreasonable.<sup>2</sup>

### BACKGROUND

On October 2, 2022, Kentucky Frontier filed a motion for deviation from the 30-day notice requirement set forth in KRS 278.180. At the time, Kentucky Frontier had not yet filed its GCR rate report nor provided the Commission its proposed effective date for the proposed GCR rate. On October 6, 2022, Kentucky Frontier filed a motion to schedule an Informal Conference (IC) with Commission Staff. The IC was held on October 7, 2022, and Kentucky Frontier informed Commission Staff that it has been running a deficit in recovering its gas costs through its GCR rate mechanism and that the cumulative deficit

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<sup>2</sup> KRS 278.274(2); KRS 278.274(3)(c); and KRS 278.274(3)(d).

since November 2020 is over \$600,000. Commission Staff noted that they could not speak for the Commission but urged Kentucky Frontier to file its GCR rate report and provide any supplemental documentation to the Commission to support its claim.<sup>3</sup> Subsequently on October 10, 2022, Kentucky Frontier filed its GCR rate report for rates effective November 1, 2022.

### DISCUSSION

Kentucky Frontier, in its October 10, 2022 GCR rate report, included changes to the methodology used in the calculation of Kentucky Frontier's GCR rate, notably the removal of the 5 percent line loss limiter in the calculation of the Expected Gas Cost (EGC) calculation.<sup>4</sup> The filed GCR rate report uses the reporting period based on the 12-month period ended July 31, 2022. The report noted natural gas purchases of 396,256 Mcf and sales of 362,610 Mcf, which resulted in loss and unaccounted (L&U) gas of 8.5 percent. Based on the report, the Total Expected Cost of Purchases for the reporting period was \$4,171,582. When Kentucky Frontier calculated the EGC, it used the Total Expected Cost of Purchases amount as the numerator without any line loss limiter, which produced an EGC rate of \$11.5043 per Mcf. Under the approved methodology of the GCR rate, the Total Expected Gas Cost for the reporting period would be \$4,018,288,

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<sup>3</sup> IC Memo (filed on Oct. 20, 2022).

<sup>4</sup> The October 10, 2022 GCR rate report, schedule 2, Expected Gas Cost calculation sheet includes the header "5% LIMITER" which is misleading as Kentucky Frontier removed the 5% line loss limiter from its proposed EGC calculation.

which when divided by reporting period sales, produces a correct EGC rate of \$11.0816 per Mcf.<sup>5</sup>

The EGC rate is used as a forecasted base line rate for the upcoming quarter to help mitigate gas cost recovery during the true-up portion of the GCR, otherwise known as the Actual Adjustment (AA) component. The proposed (incorrect) EGC rate of \$11.5043 per Mcf was used in the AA quarter component approved by the Commission in Case No. 2023-00113 for rates effective May 1, 2023.<sup>6</sup> While the incorrect EGC rate was used in Case No. 2023-00113 because of an incorrect application of the line loss limiter, any under- or over-collection would have been corrected in the subsequent AA quarter component.

The Commission’s review of Kentucky Frontier’s October 10, 2022 GCR rate report and the rates placed into effect subject to refund by Kentucky Frontier on November 10, 2023, indicate that a refund is not necessary due to the proposed GCR rate report

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<sup>5</sup> The correct calculation should be as follows:

Schedule II: EXPECTED GAS COST sheet

	<u>Unit</u>	<u>Amount</u>
Total Expected Cost of Purchases (6)	\$	\$ 4,171,582
<u>/ Mcf Purchases (4)</u>	Mcf	396,256
= Average Expected Cost Per Mcf Purchased	\$/Mcf	\$ 10.5275
x Allowable Mcf Purchases (w/ 5% Limiter)	Mcf	381,695
= Total Expected Gas Cost (to Schedule 1A)	\$	\$ 4,018,288

Schedule I: GAS COST RECOVERY RATE SUMMARY sheet

A	<u>EXPECTED GAS COST CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
	Total Expected Gas Cost (Schedule II)	\$	\$ 4,018,288
	<u>/ Sales for the 12 months ended July 31, 2022</u>	Mcf	362,610
	= Expected Gas Cost (EGC)	\$/Mcf	\$ 11.0816

<sup>6</sup> Case No. 2023-00113, *Electronic Purchased Gas Adjustment Filing Of Kentucky Frontier Gas, LLC* (Ky. PSC Apr. 28, 2023).

calculation and the true-up component of proceeding GCR rate reports. Therefore, the Commission finds that while Kentucky Frontier placed its proposed GCR rates into effect subject to refund, GCR rates that were allowed to go into effect subject to refund do not need to be refunded and should not be refunded, but will be corrected through the true-up mechanism.

On February 24, 2023, Kentucky Frontier tendered an application and tariff in Case No. 2023-00067, with proposed calculation modifications to its Purchased Gas Cost Adjustment Tariff, which was rejected for filing due to lack of customer notice and certain filing deficiencies.<sup>7</sup> Kentucky Frontier subsequently filed proof of customer notice, cured the remaining filing deficiencies and the application was deemed filed on June 5, 2023. The Commission suspended Kentucky Frontier's proposed tariff and established a procedural schedule for the purpose of investigating the reasonableness of the proposed tariff. Included in the proposed tariff is a modification to Kentucky Frontier's 5 percent line loss limiter. On March 28, 2024 a final Order was issued in Case No. 2023-00067, where the Commission found that Kentucky Frontier's proposed modifications to its Purchased Gas Cost Adjustment Tariff should be denied as Kentucky Frontier has not demonstrated that its proposed changes to the Purchased Gas Cost Adjustment Tariff is needed or is a reasonable or efficient change to the GCR mechanism.<sup>8</sup> Furthermore, the Commission in that March 28, 2024 final Order granted Kentucky Frontier an interim deviation to its

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<sup>7</sup> Case No. 2023-00067, *Electronic Application for Revised Quarterly Gas Cost Recovery Schedules for Kentucky Frontier Gas, LLC* (filed June 5, 2023). On April 10, 2023, the Commission entered an Order rejecting the application but stated that it would accept the application in this matter if Kentucky Frontier filed a revised proposed final and redlined tariff in the form required by 807 KAR 5:011 reflecting Kentucky Frontier's proposed tariff changes, and provided notice pursuant to 807 KAR 5:011, Section 8, subject to certain deviations granted in the April 10, 2023 Order.

<sup>8</sup> Case No. 2023-00067, (Ky. PSC Mar. 28, 2024), Order.

line loss limiter from 5 percent to 7.5 percent for a period of two years and stated that the deviation is not intended to be permanent or recur indefinitely.<sup>9</sup>

The Commission finds that the issues instigated in this proceeding by Kentucky Frontier relating to the GCR rate report calculation methodology and the application of the line loss limiter have been resolved by the Commission in its March 28, 2024 Order in Case No. 2023-00067. Therefore, the Commission finds the matters in this case are now moot.

IT IS THEREFORE ORDERED that:

1. Kentucky Frontier's proposed changes to its GCR rate report calculation methodology is moot, accordingly, this case shall be dismissed.
2. The GCR rates that were allowed to go into effect subject to refund do not need to be refunded and shall not be refunded.
3. This case is closed and removed from the Commission's docket.

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<sup>9</sup> Case No. 2023-00067, Mar. 28, 2024 Order at 16–17.

PUBLIC SERVICE COMMISSION

Craig Hatton  
Chairman

*Signed on  
behalf of  
Chair w/permission*

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Vice Chairman

Mary Pat Keegan  
Commissioner

ENTERED  
AUG 21 2024  
rCS  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

*[Signature]* *For*  
Executive Director

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