

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY	)	
FRONTIER GAS, LLC FOR AN ALTERNATIVE	)	CASE NO.
RATE FILING PURSUANT TO 807 KAR 5:076	)	2025-00277
AND OTHER GENERAL RELIEF	)	

ORDER

On September 19, 2025, Kentucky Frontier Gas, LLC (Kentucky Frontier) filed its Application (Application) for an alternative rate adjustment also known as an alternative rate filing (ARF) pursuant to 807 KAR 5:076.<sup>1</sup> Kentucky Frontier is a Colorado Limited Liability Company and licensed in Kentucky as a Foreign Limited Liability Company. Kentucky Frontier is regulated by the Commission as a utility pursuant to KRS 278.010(3)(b), and operates facilities that supply natural gas to approximately 4,703 customers across Breathitt, Floyd, Johnson, Knott, Lawrence, Lee, Letcher, Magoffin, Maitin, Morgan, Perry, Pike and Wolfe counties, Kentucky,<sup>2</sup> of which approximately 4,303 are utility customers and approximately 400 are farm tap customers pursuant to KRS 278.485.<sup>3</sup> Kentucky Frontier acquired approximately 37 to 40 customers in Daysboro

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<sup>1</sup> Kentucky Frontier tendered its application on August 29, 2025. By letter dated September 9, 2025, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed by Order issued on September 19, 2025. Pursuant to 807 KAR 5:076 Section 7(1), the proposed rates were suspended six months from the date of the filing of the application or until a Commission Order approving, whichever occurred first.

<sup>2</sup> Case No 2017-00263, *Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment* (filed Dec. 22, 2017), Order at 1.

<sup>3</sup> Application (filed Aug. 29, 2025) unnumbered pages Billing Analysis Revenue from Present/Proposed Rates.

(Daysboro system) from West Liberty in 2019 and adopted the West Liberty rates for Daysboro customers effective September 23, 2019.<sup>4</sup>

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, (Attorney General) is the only intervenor in this proceeding.<sup>5</sup> By Order dated September 26, 2025, the Commission established a procedural schedule to ensure the orderly review of the Application. The Commission found that pursuant to 807 KAR 5:076, Section 11, a staff report would not be issued, and the information needed to process this case would be obtained through the Application, Commission Staff's Requests for Information and a formal hearing. Kentucky Frontier responded to three pre-hearing requests for information issued by Commission Staff,<sup>6</sup> and two pre-hearing requests for information issued by the Attorney General.<sup>7</sup> The Attorney General responded to one pre-hearing request for information by Kentucky Frontier.<sup>8</sup> By Order dated December 4, 2025, the Commission amended the September 26, 2025, schedule allowing Intervenor testimony and scheduling a public hearing to be held on February 3, 2026.<sup>9</sup> On December 19, 2025, the Attorney General filed its Direct Testimony.<sup>10</sup>

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<sup>4</sup> Application, Reasons for Application at pdf page 7.

<sup>5</sup> Order (Ky. PSC Sept. 11, 2025).

<sup>6</sup> Kentucky Frontier's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Oct. 17, 2025); Kentucky Frontier's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Nov. 19, 2025) and Kentucky Frontier's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed Dec. 12, 2025).

<sup>7</sup> Kentucky Frontier's Response to Attorney General's First Request for Information (Attorney General's First Request) (filed Nov. 19, 2025) and Kentucky Frontier's Response to Attorney General's Second Request for Information (Attorney General's Second Request) (filed Dec. 12, 2025).

<sup>8</sup> Attorney General's Response to Kentucky Frontier's First Request for Information (Kentucky Frontier's First Request) (filed Jan. 16, 2026).

<sup>9</sup> Order (Ky. PSC Dec. 4, 2025), Appendix A.

<sup>10</sup> Direct Testimony of John Defever (Defever Direct) (filed Dec 19, 2025).

On January 23, 2026, Kentucky Frontier filed the Rebuttal Testimony of Steven Shute, and a Corrected Rebuttal Testimony of Steven Shute was filed on January 30, 2026. According to Kentucky Frontier, the rebuttal testimony included revised exhibits to reflect Kentucky Frontier's rebuttal position.<sup>11</sup> The attachments included a revised System of Adjusted Operations, Revenue Requirement Calculation, and a change in rates.<sup>12</sup> At the February 3, 2026 hearing, counsel for Kentucky Frontier asserted the corrected rebuttal testimony was not an amendment to Kentucky Frontier's application, even though it increased the amount of the revenue requirement increase requested in the case by approximately 1.85 percent.<sup>13</sup>

On February 6, 2026, the Commission set a schedule for replying to post-hearing request for information and the filing of any briefs.<sup>14</sup> On that same date, Commission Staff as well as the Attorney General issued a post-hearing information request to Kentucky Frontier. On February 16, 2026, Kentucky Frontier responded to both post-hearing information requests and filed a motion for deviation of the affiliate rules requesting relief from requirements related to a particular transaction or class of transactions involving Pinedale pursuant to KRS 278.2207(2). Kentucky Frontier requested a deviation for the prior transactions (since the 2017 case) involving Kentucky

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<sup>11</sup> Hearing Video Testimony (HVT) of Feb. 3, 2025 Hearing, Allyson Honaker at 09:06:52–09:08:24.

<sup>12</sup> Rebuttal Testimony of Steven Shute on Behalf of Kentucky Frontier Gas, LLC, (Shute Rebuttal Testimony) (filed Jan 23, 2026) attachments.

<sup>13</sup> HVT of Feb. 3, 2026 Hearing at 09:06:52–09:08:24.

<sup>14</sup> Order (Ky. PSC Feb. 6, 2026) at 2.

Frontier and Pinedale and for all future transactions, which will be discussed in the affiliates section below.<sup>15</sup>

On February 20, 2026, the Attorney General and Kentucky Frontier filed briefs and on February 27, 2026, Kentucky Frontier filed a memorandum in response to the Attorney General's initial brief. The matter now stands submitted for a decision.

#### APPLICATION SUMMARY

In its application, Kentucky Frontier sought to consolidate the Daysboro System into Kentucky Frontier's rate structure by unifying the rates and tariffs for all Kentucky Frontier customers.<sup>16</sup> Kentucky Frontier proposed to end the Automated Meter Reading (AMR) program, and its \$1.00 per month surcharge, as the meter reading process has been upgraded.<sup>17</sup> Kentucky Frontier also sought to consolidate its farm tap customer rates to match its utility service customer rates with the exception that the Pipeline Replacement Program (PRP) surcharge would not apply to farm tap customers.<sup>18</sup> Kentucky Frontier proposed to modify its PRP surcharge from \$5.00 per month to \$2.50 per month with a \$0.37 per Mcf volumetric surcharge but maintain same annual level of investment.<sup>19</sup> The shift from a fully fixed charge to the proposed hybrid of fixed and volumetric charges would allow Kentucky Frontier to collect a portion of the amount related to the surcharge based on a customer's usage.

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<sup>15</sup> Motion for Deviation (filed Feb. 16, 2026) at 3.

<sup>16</sup> Application, Reasons for Application at 2.

<sup>17</sup> Application, Reasons for Application at 2.

<sup>18</sup> Application, Reasons for Application at 2.

<sup>19</sup> Application, Notice at 2.

Kentucky Frontier requested additional revenues of \$1,162,024 and total revenues from rates of \$5,325,460, or an overall increase of 27.91 percent.<sup>20</sup> In its rebuttal testimony, Kentucky Frontier filed a revised Statement of Adjusted Operations requesting additional revenues of \$1,239,213 and total revenues from rates of \$5,402,648 or an overall increase of 29.76 percent.<sup>21</sup> During the hearing, Kentucky Frontier indicated this amount was not intended to be an amendment to the application, so the Commission finds that the original application amounts should be the basis for adjustments.

#### INITIAL CORRECTION

The Commission notes the calculation of the percentage increase to the revenue requirement was incorrect in both Kentucky Frontier's request and the Attorney General's testimony because the revenues at current rates were calculated with the inclusion of Other Operating Revenues that should not have been included. Both Kentucky Frontier's requests and the Attorney General's testimony also included Gas Cost Recovery (GCR) revenues and purchased gas expenses. The Commission's established ratemaking practice excludes gas costs and the revenues recovered through the GCR mechanism from the calculation of a gas utility's base rates. A comparison of Kentucky Frontier's application, its application corrected for current revenues and removal of gas revenues and expenses, and its rebuttal are shown in the table below.

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<sup>20</sup> Application, Review Requirement Calculation unnumbered pdf page, 14.

<sup>21</sup> This was the result of an increase to Kentucky Frontier's state and federal income tax from \$30,673 to \$88,713 and a decrease in non-operating revenue of \$10,000. See Rebuttal Testimony of Steven Shute on Behalf of Kentucky Frontier Gas, LLC, (Shute Rebuttal Testimony) (filed Jan 23, 2026) at ARF FORM 1 – Attachment RR -OR – January 2014 Sheet 1 of 1 and Rebuttal Testimony at 8, respectively.

Description	Kentucky Frontier	Kentucky Frontier (Corrected)	Kentucky Frontier Rebuttal
Pro Forma Operating Expenses Before Income Taxes	\$ 2,700,041	\$ 2,700,041	\$ 2,725,692
Operating Ratio	0.88	0.88	0.88
Sub - Total	3,068,228	3,068,228	3,097,377
Less: Pro Forma Operating Expenses Before Income Taxes	(2,700,041)	(2,700,041)	(2,725,692)
Net Income Allowable	368,187	368,187	371,685
Add: Provision for State and Federal Income Taxes, If applicable	30,673	30,673	88,713
Interest Expense	108,483	108,483	108,483
Pro Forma Operating Expenses Before Taxes	2,700,041	2,700,041	2,725,692
Cost of Natural Gas	2,233,755		2,233,755
Total Revenue Requirement	5,441,139	3,207,384	5,528,328
Less: Other Operating Revenue	(115,680)	(115,680)	(115,680)
Non - Operating Revenue (Gain on Sale of Assets)		-	(10,000)
Total Revenue Required from Rates for Service	5,325,460	3,091,704	5,402,648
Less: Revenue from Sales at Present Rates	(4,163,435)	(2,244,534)	(4,163,435)
Required Revenue Increase	\$ 1,162,024	\$ 847,170	\$ 1,239,213
Required Revenue Increase Percentage	27.91%	37.74%	29.76%

### SUMMARY OF BRIEFS

In its post-hearing brief, Kentucky Frontier argued that its requested rate relief is “fair, just and reasonable”, primarily driven by significantly higher revenue requirements, and because this is Kentucky Frontier's first general rate case in nearly a decade.<sup>22</sup> Kentucky Frontier argued that a major justification for the increase is the need to pay competitive labor wages to retain skilled workers who are currently leaving for higher-paying competitors.<sup>23</sup> Additionally, the Kentucky Frontier contended it faced a dramatic surge in insurance costs, which have increased to five times the value used in the 2017 rate case.<sup>24</sup> Kentucky Frontier also included a pro-forma adjustment for income taxes,

<sup>22</sup> Kentucky Frontier's Brief (filed Feb. 20, 2025) (Kentucky Frontier's Brief) at 3.

<sup>23</sup> Kentucky Frontier's Brief at 3.

<sup>24</sup> Kentucky Frontier's Brief at 3.

identifying it as the third-largest non-gas operating expense.<sup>25</sup> Regarding rate design, Kentucky Frontier proposed to equalize and consolidate rates across its service areas to simplify administration and eliminate unnecessary burdens from outdated tariffs.<sup>26</sup> Kentucky Frontier advocated for a \$25 customer charge, and argued that fixed costs are naturally higher when serving farm tap customers who reside in low-density rural areas.<sup>27</sup> Kentucky Frontier opposed creating a separate class for commercial customers, noting that most of these users have demand patterns nearly identical to residential customers.<sup>28</sup> Finally, Kentucky Frontier sought to end the AMR surcharge, continue the PRP surcharge under a new hybrid rate structure to fund ongoing leak repairs, and address under-recovery issues caused by current Gas Cost Recovery (GCR) calculation limits.<sup>29</sup>

The Attorney General requested that the Commission deny the rate increase sought by Kentucky Frontier, or, in the alternative, limit any such increase to amounts supported by known and measurable evidence.<sup>30</sup> A primary contention is that Kentucky Frontier failed to provide proper public notice for the additional revenue increase requested in its rebuttal testimony.<sup>31</sup> The Attorney General argued that because the revised rates materially exceed those disclosed in the initial public notice, approving them would be inherently unfair to ratepayers and a violation of the notice requirements set

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<sup>25</sup> Kentucky Frontier's Brief at 8.

<sup>26</sup> Kentucky Frontier's Brief at 9.

<sup>27</sup> Kentucky Frontier's Brief at 11-12.

<sup>28</sup> Kentucky Frontier's Brief at 12-13.

<sup>29</sup> Kentucky Frontier's Brief at 14, 16-17.

<sup>30</sup> Attorney General's Post-Hearing Brief (filed Feb. 20, 2026) (Attorney General's Brief) at unnumbered PDF 11.

<sup>31</sup> Attorney General's Brief at unnumbered PDF 5-6.

forth in 807 KAR 5:0076.<sup>32</sup> Furthermore, the Attorney General emphasized that the proposed increases contradict the principle of gradualism.<sup>33</sup> Given that Kentucky Frontier's rates have remained relatively unchanged since 2017 and that its service territory includes counties with extreme poverty, the Attorney General warned that the substantial proposed increases could result in significant rate shock.<sup>34</sup> Citing evidence of high late fees incurred by customers since 2021 as a primary concern, the Attorney General argued that the Commission should continue its historical adherence to gradualism to mitigate the financial impact on vulnerable customers.<sup>35</sup> The Attorney General also challenged several specific components of Kentucky Frontier's proposed revenue requirement due to a lack of supporting documentation or improper classification.<sup>36</sup> Specifically, the Attorney General argued that Kentucky Frontier failed to meet its burden of proof regarding a requested \$233,000 wage increase, as Kentucky Frontier did not provide workpapers or a comparative analysis of duties and hours.<sup>37</sup> Additionally, the Attorney General objected to the inclusion of income tax expenses, noting that Kentucky Frontier is a pass-through entity where tax liability resides at the owner level, and the Attorney General recommended the disallowance of discretionary

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<sup>32</sup> Attorney General's Brief at unnumbered PDF 6.

<sup>33</sup> Attorney General's Brief at unnumbered PDF 6-7.

<sup>34</sup> Attorney General's Brief at unnumbered PDF 6-7.

<sup>35</sup> Attorney General's Brief at unnumbered PDF 7.

<sup>36</sup> Attorney General's Brief at unnumbered PDF 3-11.

<sup>37</sup> Attorney General's Brief at unnumbered PDF 8.

expenses such as employee gift cards and certain legal fees that are more appropriately recovered through other filings.<sup>38</sup>

In response, Kentucky Frontier argued that its customer notice was sufficient under 807 KAR 5:076, as the regulation allows for the Commission to order rates that differ from those initially proposed.<sup>39</sup> Kentucky Frontier further contended that its rate request does not violate the principles of gradualism, noting that it has not sought a general adjustment since 2017 despite a 34 percent increase in inflation and rising operating costs.<sup>40</sup> To support its proposed wage increases, Kentucky Frontier maintained it provided adequate documentation through internal spreadsheets and comparative data from larger utilities like Columbia Gas of Kentucky and Duke Energy Kentucky.<sup>41</sup> Additionally, Kentucky Frontier asserted that legal expenses related to East Kentucky Midstream, LLC (EKM) should be included in the revenue requirement because regulation of EKM will benefit customers.<sup>42</sup> Finally, Kentucky Frontier argued that it should be permitted to recover pass-through income taxes, which represent its third-largest non-gas operating expense, despite the limitations of the standard ARF filing form for Sub S corporations.<sup>43</sup>

### LEGAL STANDARD

The Commission has exclusive jurisdiction over the regulation of rates and services of utilities in Kentucky KRS 278.040(2). Rates and minimum monthly charges

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<sup>38</sup> Attorney General's Brief at unnumbered PDF 9-11.

<sup>39</sup> Kentucky Frontier's Reply Brief (file Feb. 27, 2026) at 1.

<sup>40</sup> Kentucky Frontier's Reply Brief at 2.

<sup>41</sup> Kentucky Frontier's Reply Brief at 2-3.

<sup>42</sup> Kentucky Frontier's Reply Brief at 4.

<sup>43</sup> Kentucky Frontier's Reply Brief at 5.

for a gathering system shall be determined by the Commission, KRS 278.485. Alternative rate adjustment proceedings, such as this one, are governed by Commission regulation 807 KAR 5:076, which establishes a simplified process for small utilities to use to request rate adjustments, with the process designed to be less costly to the utility and the utility ratepayers. The Commission's standard of review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, the utility is allowed to charge its customers "only fair, just and reasonable rates."<sup>44</sup> Further, the utility bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.030.

Affiliate transaction rules and requirements are governed by KRS 278.2201 through KRS 278.2213. A waiver or deviation from affiliate transactions are governed by KRS 278.2219. Homeowners living near natural gas pipelines (gathering lines) have the right to access that gas for personal use pursuant to KRS 278.485. The Commission may allow recovery of costs for investment in natural gas pipeline replacement programs which are not already recovered in the existing rates of the regulated utility, KRS 278.509.

#### DISCUSSION OF AFFILIATES

In Case No. 2017-00263, the Commission reviewed Kentucky Frontier's business transactions and found Kentucky Frontier to be affiliated with Pipeline Solutions Inc. (PSI), DLR Enterprises, Inc. (DLR) and Pinedale.<sup>45</sup> Steve Shute, the managing member of Kentucky Frontier, owns 100 percent of Kentucky Frontier, Auxier Road Gas Company

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<sup>44</sup> *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); *Public Service Comm'n v. Dewitt Water District*, 720 S.W.2d 725 (Ky. 1986); and *Kentucky American Water Co. v. Commonwealth ex rel. Cowan*, 847 S. W.2d 737, 741 (Ky. 1993).

<sup>45</sup> Case No. 2017-00263, July 2, 2021 Order at 3-4.

(Auxier Road), DLR and Pinedale.<sup>46</sup> The Commission did not address the transactions between Auxier Gas and Kentucky Frontier.

In response to a request for information in Case No. 2017-00263, Kentucky Frontier stated that Auxier Road is a separate entity yet operates under Kentucky Frontier.<sup>47</sup> In addition, Kentucky Frontier stated that Auxier Road is a C-Corporation, is solely owned and operated under contract by Kentucky Frontier.<sup>48</sup> The response notes

DLR Enterprises, Inc. is a gas gathering and transmission company owned by the four Frontier Owners and is operated under contract by Frontier. DLR transports gas from the Auxier Road gas system to Frontier's gas system at Ivyton and the Royalton area of Magoffin County.<sup>49</sup>

Kentucky Frontier claimed its expenses are allocated on a percentage basis with Auxier Road based on the number of customers.<sup>50</sup> Lastly, “[b]ecause of the relationship of KFG and Auxier, there is no written agreement detailing shared costs. As explained in Q. 13, the allocation of all operating costs among Auxier and KFG is based on number of customers.”<sup>51</sup>

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<sup>46</sup> Case No. 2017-00263, *Electronic Application of Kentucky Frontier Gas LLC For Alternative Rate Adjustment* (Ky. PSC July 2, 2021), Order at 2-3.

<sup>47</sup> Case No. 2017-00263, Kentucky Frontier’s Response to Commission Staff’s First Request for Information (filed Aug. 11, 2017), Item 12.

<sup>48</sup> Case No. 2017-00263, Kentucky Frontier’s Response to Commission Staff’s First Request for Information, Item 12.

<sup>49</sup> Case No. 2017-00263, Kentucky Frontier’s Response to Commission Staff’s First Request for Information, Item 12.

<sup>50</sup> Case No. 2017-00263, Kentucky Frontier’s Response to Commission Staff’s First Request for Information, Item 13.

<sup>51</sup> Case No. 2017-00263, Kentucky Frontier’s Response to Commission Staff’s First Request for Information, Item 15.

Kentucky Frontier purchased the assets of Auxier Gas.<sup>52</sup> In the acquisition Order, the Commission noted that Auxier Gas was a utility subject to the Commission's jurisdiction, the transfer of the stock to Kentucky Frontier requires Commission approval, and the Commission granted approval for the indebtedness and acquisition.<sup>53</sup> Kentucky Frontier holds Auxier Gas as a wholly owned subsidiary<sup>54</sup> and operates Auxier Gas systems with Kentucky Frontier employees and vehicles for which it then bills Auxier Gas customers under Kentucky Frontier's brand.<sup>55</sup>

Kentucky Frontier stated that DLR provided natural gas, and those transactions were reflected in the quarterly purchase gas adjustment applications.<sup>56</sup> Additionally, Kentucky Frontier shared a financial analyst employed by Pinedale, as they have since at least 2017.<sup>57</sup> In addition to the testimony,<sup>58</sup> Kentucky Frontier argued in its responses the following:

Frontier does not believe that these entities should be considered affiliates for the purposes of affiliate transaction rules. The entities are not wholesale providers for each other, they do not have employees that regularly perform work for each other, they do not share costs of corporate overhead or outside services, or other items that are typically seen

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<sup>52</sup> Case No. 2009-00442, *Application of Kentucky Frontier Gas Company, LLC For Approval of Transfer of Auxier Road Corporation Stock* (Ky. PSC Feb. 22, 2010).

<sup>53</sup> Case No. 2009-00442, Feb. 22, 2010 Order.

<sup>54</sup> Kentucky Frontier's Response to Staff's Second Request, Item 6. See also Case No. 2011-00443, *Application of Kentucky Frontier Gas, LLC for Approval of Consolidation of and Adjustment of Rates, Approval of AMR Equipment And A Certificate of Convenience And Necessity For Installation of AMR, Pipeline Replacement Program, Revision of Non-Recurring Fees and Revision of Tariffs* (Ky. PSC Apr. 30, 2013), Order at 2, footnote 4.

<sup>55</sup> Kentucky Frontier's Response to Staff's Second Request, Item 6.

<sup>56</sup> Kentucky Frontier's Response to Staff's Post-Hearing Request, Item 23(a).

<sup>57</sup> Kentucky Frontier's Response to Staff's Post-Hearing Request, Item 23(a).

<sup>58</sup> HVT of Feb. 3, 2026 Hearing, Steve Shute 10:18:54–13:33:13; 14:20:03–14:27:21.

between affiliated companies. Their connection is solely common ownership.<sup>59</sup>

In addition to a post-hearing brief, Kentucky Frontier filed a motion for a deviation pursuant to KRS 278.2207(2) for all transactions involving Kentucky Frontier and Pinedale for all transactions between the Order in Case No. 2017-00263 and the present case as well as all future transactions involving the entities.<sup>60</sup> In support of the request, Kentucky Frontier noted the \$75 per hour rate paid for the financial analyst<sup>61</sup> as well as the continued disagreement that Kentucky Frontier should be subject to the governing statutes for affiliates.<sup>62</sup>

The Commission notes that its prior findings that DLR, Pinedale and PSI were not challenged nor have any circumstances changed regarding DLR and Pinedale. According to Steve Shute, Kentucky Frontier does not transact business with PSI as it has been administratively dissolved.<sup>63</sup> Having reviewed the record, the Commission finds that Auxier Gas is also an affiliate of Kentucky Frontier. Auxier Gas is a wholly owned subsidiary of Kentucky Frontier Gas LLC.<sup>64</sup> Pursuant to KRS 278.010, an "affiliate" of a utility is defined as any person or entity that controls, is controlled by, or is under common control with that utility. Control is defined as the power to direct management or policies

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<sup>59</sup> Kentucky Frontier's Response to Staff's Post-Hearing Request, Item 23(c).

<sup>60</sup> Motion for Deviation.

<sup>61</sup> Motion for Deviation at 2-3.

<sup>62</sup> Motion for Deviation at 2-3.

<sup>63</sup> HVT of Feb. 3, 2026 Hearing, Steve Shute, 10:11:34–10:12:04.

<sup>64</sup> Case No. 2017-00263, July 2, 2021 Order at 2.

through ownership, contract, or otherwise.<sup>65</sup> The Commission finds, as supported by the evidence, that Auxier Gas is an affiliate.

The Commission notes the affiliate transaction rules found in KRS 278.2201 to 278.2213 apply. Specifically, KRS 278.2207, KRS 278.2209 and KRS 278.2219 are particularly relevant. Having reviewed the record and the hearing, the Commission grants Kentucky Frontier's motion for a deviation pursuant to KRS 278.2207(2) for Pinedale only until such time as Kentucky Frontier files an application for another rate adjustment pursuant to 807 KAR 5:001 Section 16 or 17 or, in the alternative, 807 KAR 5:076. Future requests for a deviation or waiver must be filed with each request for a rate adjustment.

The Commission, on its own motion, grants a deviation for Kentucky Frontier and Auxier Gas for transactions prior to the finding of affiliation made in this Order and up until the next application for a rate adjustment. At that time, the Commission expects Kentucky Frontier to provide evidence that it has eliminated the affiliated transactions for Pinedale and Auxier Gas or has brought those transactions into compliance with KRS 278.2201 through KRS 278.2213. In addition, the Commission expects Kentucky Frontier to provide information necessary to evaluate whether a continued deviation is appropriate, such as set forth in KRS.2207(1) and KRS 278.2209.

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<sup>65</sup> 807 KAR 5:001 Section1.

## TEST YEAR

The calendar year ended December 31, 2024, is being used as the test year to determine the reasonableness of Kentucky Frontier's existing and proposed base rates, as required by 807 KAR 5:076, Section 9.<sup>66</sup>

## INCOME STATEMENT

Kentucky Frontier reported actual test-year total operating revenues and operating expenses of \$4,163,435 and \$4,687,752, respectively.<sup>67</sup> Kentucky Frontier proposed adjustments to test-year revenues and expenses to reflect current and anticipated operating conditions, resulting in pro forma total operating revenues of \$5,010,596 and pro forma total operating expenses of \$5,072,952.<sup>68</sup> In its application Kentucky Frontier included total administrative and general expenses of \$1,829,718<sup>69</sup> which the Commission has split up to better discuss issues in this proceeding. The Commission made adjustments to remove expenses from operating expenses (income tax, interest expense, and purchased gas costs) that should not be included in the calculation of the Pro forma Operating Expenses Before Income Taxes when using the Operating Ratio Method.<sup>70</sup> The Commission's review of Kentucky Frontier's pro forma operating revenues and expenses are set forth below.

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<sup>66</sup> Application, ARF Form 1 - Attachment SR- September 2011.

<sup>67</sup> Application, ARF Form 1 - Attachment RR-OR January 2014 Schedule of Adjusted Operations – Gas Utility (SAO).

<sup>68</sup> Application, SAO.

<sup>69</sup> Application, SAO Administrative and General Expenses.

<sup>70</sup> Utility Forms, ARF Form 1, Attachment RR-OR Revenue Requirement Calculation.

Description	Test Year	KY Frontier Adjustment	AG Adjustment	Commission Approved Adjustment	Commission Approved Pro Forma
<b>Metered Sales</b>					
Residential	\$ 1,382,151	\$ 68,366		\$ (750,723)	\$ 631,428
Commercial & Industrial	1,906,693	83,003		(1,147,364)	759,329
Customer Charge	-			737,805	737,805
Billing Analysis Adjustment				115,972	115,972
Interdepartmental (DLR Management)	10,000			(10,000)	-
<b>Total Metered Sales</b>	<b>3,298,844</b>	<b>151,369</b>	<b>-</b>	<b>(1,054,310)</b>	<b>2,244,534</b>
<b>Other Operating Revenues</b>					
Forfeited Discounts	73,284			30,747	104,031
Miscellaneous Service Revenues (NRCs)	42,397			-	42,397
Other Gas Revenues	748,910	695,792		-	
				(737,805)	11,105
Interdepartmental (DLR Management)				10,000	10,000
<b>Total Other Operating Revenues</b>	<b>864,591</b>	<b>695,792</b>	<b>-</b>	<b>(697,058)</b>	<b>167,533</b>
<b>Total Operating Revenues</b>	<b>4,163,435</b>	<b>847,161</b>	<b>-</b>	<b>(1,751,368)</b>	<b>2,412,067</b>
<b>Operating Expenses</b>					
<b>Operating and Maintenance Expenses</b>					
Other Gas Supply Expenses (Gas Purchases)	2,233,755			(2,233,755)	-
Transmission Expenses	3,724				3,724
Distribution Expenses	178,320	3,000		-	178,320
Customer Accounts Expenses	88,510			(14,507)	74,003
Customer Service and Informational Expenses	16,052				16,052
<b>Administrative and General Expenses</b>					
Wages	641,633	233,000	-	305,037	844,844
				(101,826)	844,844
Payroll Admin Expense	8,430				8,430
Payroll Taxes	58,638	21,100	-	17,352	75,990
Employee Benefits	289,229	14,600		14,357	303,586
Office Supplies	179,711		(5,415)	(5,415)	174,296
Outside Services	224,755	5,000		-	
			(9,300)	(9,300)	215,455
Insurance Expense	271,627	10,000	-	28,696	300,323
Rent	44,399				44,399
Interest Expense	108,483			(108,483)	-
Amortization Expense (Rate Case)	-	30,000		14,364	
				3,100	17,464
Miscellaneous General Expenses	2,814		(1,279)	(1,279)	1,535
<b>Total Administrative and General Expenses</b>	<b>1,829,719</b>	<b>313,700</b>	<b>(15,994)</b>	<b>156,603</b>	<b>1,986,322</b>
<b>Total Operation and Maintenance Expenses</b>	<b>4,350,080</b>	<b>316,700</b>	<b>(15,994)</b>	<b>(2,091,659)</b>	<b>2,258,421</b>
Depreciation Expense	257,288			2,546	259,834
Amortization Expense	4,808				4,808
Taxes Other Than Income	44,904	68,500		61,500	103,109
			(3,295)	(3,295)	
Income Tax Expense	30,673			(30,673)	-
<b>Total Operating Expenses</b>	<b>\$ 4,687,753</b>	<b>\$ 385,200</b>	<b>\$ (19,289)</b>	<b>\$ (2,061,581)</b>	<b>\$ 2,626,172</b>

### Gas Cost Revenues and Expenses

Kentucky Frontier based its requested rate increase on its total gas service revenues and operating expenses of \$4,163,435 and \$4,687,752, respectively.<sup>71</sup> Included in the gas service revenues are \$1,898,087 of revenues that were recovered through Kentucky Frontier's Gas Cost Recovery (GCR) mechanism and operating expenses included natural gas purchases of \$2,233,755.<sup>72</sup> The revenues from the GCR were determined using Kentucky Frontier's trial balance amounts.<sup>73</sup>

As discussed above, the Commission's established ratemaking practice is to exclude gas costs, and the associated revenues, that are recovered through the GCR mechanism from the calculation of a gas utility's base rates. Consistent with this established ratemaking practice, the Commission is reducing operating revenues and expenses by \$1,898,087 and \$2,233,755 respectively.

### Revenue Adjustments

#### Sales of Gas Revenues

Kentucky Frontier reported total Sales of Gas Revenues of \$3,298,844 during the test year and proposed two adjustments to add volumetric revenue from proposed rates.<sup>74</sup> The proposed adjustments reflect the rates proposed by Kentucky Frontier and the impacts they would have on current revenues.

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<sup>71</sup> Application, ARF Form 1 - Attachment RR-OR January 2014 Schedule of Adjusted Operations – Gas Utility (SAO).

<sup>72</sup> Application, SAO.

<sup>73</sup> Kentucky Frontier's Response to Staff's First Request, Item 6, PSC 25-277 GR1 (003) Excel Document, DR1-6 TrialBal KFG24 Tab, Accounts 480, 481, 482 and 483, GCR Revenues in Cells D322, D323, D324, D329, D330, D331, D336, D337, D338, D342, D343, D344, and D345 and DR1-6 TrialBal AUX24, Accounts 480, 481, and 482, GCR Revenues in Cells E56, E58, E60, and E62.

<sup>74</sup> Application, SAO, Total Sales of Gas Test Year, and References J and K.

The Commission finds Kentucky Frontier’s proposed adjustments should be denied as they reflect a proposed rate structure for the current application and should not be included as a pro forma amount.

The Commission determined four additional adjustments were necessary. First, as discussed above, the Commission determined GCR revenues should be removed from test year amounts to calculate the base revenue requirement increases. The total amount removed was \$1,898,807 but was split between residential and commercial/industrial and farm tap in the amounts \$750,723 and \$1,147,364 respectively, as shown in the table below.<sup>75</sup>

Description	Kentucky Frontier	Auxier Road	Total
Res GCR Rev	\$ 661,596	\$ 89,128	\$ 750,723
Com GCR Rev	527,906	388,986	916,892
Farm Tap Rev (GCR)	230,472		230,472
Res Base Rev	552,028	79,400	631,428
Com Base Rev	454,916	304,413	759,329
Total Revenues	<u>\$2,426,917</u>	<u>\$ 861,927</u>	<u>\$3,288,844</u>

Second, the Commission finds an additional adjustment of \$737,805 to reclassify customer charges from other gas revenues to metered sales is necessary. This customer charge revenue was calculated using the trial balance account balances provided by

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<sup>75</sup> Kentucky Frontier’s Response to Staff’s First Request, Item 6, PSC 25-277 GR1 (003) Excel Document, DR1-6 TrialBal KFG24 Tab, Accounts 480, 481, 482 and 483, GCR Revenues in Cells D322, D323, D324, D329, D330, D331, D336, D337, D338, D342, D343, D344, and D345 and DR1-6 TrialBal AUX24, Accounts 480, 481, and 482, GCR Revenues in Cells E56, E58, E60, and E62.

Kentucky Frontier.<sup>76</sup> Third, the Commission finds a billing analysis adjustment of \$115,972 is necessary to reach the reported billing analysis amount of \$2,244,534.<sup>77</sup> Finally, the Commission finds the DLR management fee should be reclassified to Other Operating Revenues as it is not based on metered sales.

The Commission finds these adjustments are reasonable as they are based on known and measurable information in the case record.

#### Other Operating Revenues

Kentucky Frontier reported \$864,591 in Other Operating Revenues during the test year.<sup>78</sup> This amount was comprised of \$73,284 in Forfeited Discounts,<sup>79</sup> \$42,397 in Miscellaneous Service Revenues (for Nonrecurring Charges revenue),<sup>80</sup> and \$748,910 in Other Gas Revenues.<sup>81</sup> Kentucky Frontier proposed one adjustment to increase Other Gas Revenues by \$695,792 to account for the added revenue from proposed increases to monthly charges.<sup>82</sup> Similar to the discussion above, the proposed adjustments reflect

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<sup>76</sup> Kentucky Frontier's Response to Staff's First Request, Item 6, PSC 25-277 GR1 (003) Excel Document, DR1-6 TrialBal KFG24 Tab, Account 491 Customer Charge Cell D355 and DR1-6 TrialBal AUX24, Account 491 Customer Charge, E71 and Account 493, Customer Charge – Lg, Cell E72.

<sup>77</sup> Application, Revenues from Sales at Present Rates, PDF pages 17-19. (Sum of \$150,400, \$1,853,568, and \$240,566 = \$2,244,534.)

<sup>78</sup> Total of the forfeited discounts, miscellaneous service revenues and other gas revenues in the test year. Application, ARF Form 1 - Attachment SAO-G - September 2011, Schedule of Adjusted Operations Gas Utility, TYE 12/31/20 24.

<sup>79</sup> Application, ARF Form 1 - Attachment SAO-G - September 2011, Schedule of Adjusted Operations Gas Utility, TYE 12/31/20 24.

<sup>80</sup> Application, ARF Form 1 - Attachment SAO-G - September 2011, Schedule of Adjusted Operations Gas Utility, TYE 12/31/20 24.

<sup>81</sup> Application, ARF Form 1 - Attachment SAO-G - September 2011, Schedule of Adjusted Operations Gas Utility, TYE 12/31/20 24.

<sup>82</sup> Application, ARF Form 1 - Attachment SAO-G - September 2011, Schedule of Adjusted Operations Gas Utility, TYE 12/31/20 24.

the rates proposed by Kentucky Frontier and the impacts those changes would have on current revenues. The Commission finds Kentucky Frontier's proposed adjustment should be denied as it reflects a proposed rate structure for the current application and should not be included as a pro forma amount.

As discussed above, the Commission finds a reclassification of customer charge revenues in the amount \$737,805 was necessary to properly record revenues from the sale of gas. This results in a decrease of \$737,805 to other Gas Revenues and results in Pro Forma Other Gas Revenues of \$11,105.<sup>83</sup> The Commission also reclassified DLR Management revenues in the amount \$10,000 to Other Operating Revenues.

Kentucky Frontier provided year-to-date late fees as of September 2025 that showed revenues from Forfeited Discounts of \$93,090, which were already higher than the amount recorded during the test year.<sup>84</sup> Kentucky Frontier provided the Forfeited Discounts for the years 2021-2025 shown in the table below.<sup>85</sup> The Commission finds Forfeited Discounts should be normalized to the 5-year average provided by Kentucky Frontier to more accurately represent the expected revenues rather than the lower than average amount experienced during the test year. This results in a \$30,747 increase in revenues.

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<sup>83</sup> \$748,910 - \$737,805 = \$11,105.

<sup>84</sup> Kentucky Frontier's Response to Staff's First Request, Item 15, PSC 25-277 GR1 (003) Excel Document, DR1-15 Late fees tab.

<sup>85</sup> Response to Attorney General's Second Request, Item 16.

Year	Amount
2021	\$ 55,829
2022	131,915
2023	141,357
2024	73,284
2025	117,767
Average	104,031
Test Year ( )	(73,284)
Difference	<u>\$ 30,747</u>

The denial of Kentucky Frontier’s proposed adjustment and the Commission’s two further adjustments result in total Other Operating Revenues of \$167,533 as shown in the table below. The Commission finds these adjustments are reasonable as they are based on known and measurable information in the case record.

Description	Test Year	KY Frontier Adjustment	AG Adjustments	Commission Approved Adjustments	Pro Forma
Forfeited Discounts	\$ 73,284			\$ 30,747	\$ 104,031
Miscellaneous Service Revenues					
Reconnection Fee	12,438				12,438
Transfer Fee	3,150				3,150
Service Charges	18,100				18,100
Relocate Meter Charge	1,269				1,269
NSF	1,740				1,740
Connection Fee	5,700				5,700
Other Gas Revenues					
Sales Tax Commission	567				567
Other Income	10,422				10,422
Customer Charge	737,805	695,792		(737,805)	-
Interest Income	116				116
DLR Management	0			10,000	10,000
Total Other Revenues	<u>\$ 864,591</u>	<u>\$ 695,792</u>	<u>\$ -</u>	<u>\$ (707,058)</u>	<u>\$ 167,533</u>

### Gain on Sale of Assets

The Attorney General proposed an increase in Kentucky Frontier's revenues due to gains on sales of assets during the test year.<sup>86</sup> These gains are the result of the sales of old vehicles and the recapture of depreciation.<sup>87</sup> Kentucky Frontier provided a chart showing it had experienced gains on sales of assets for the previous five years. The average over these five years was \$17,505, which the Attorney General used as the proposed increase to other revenues.<sup>88</sup> Kentucky Frontier provided a new chart in the rebuttal testimony using adjusted numbers showing an average gain on assets from 2022-2025 was \$11,213.<sup>89</sup> Kentucky Frontier stated that \$10,000 would be an appropriate amount to include in revenues.<sup>90</sup> The Commission finds that an adjustment is needed to account for the gain/loss on sales of assets and finds Kentucky Frontier's adjusted chart should be used to calculate the adjustment. Since the amount is based on known and measurable information, the Commission finds the average of \$11,213 should be included in Kentucky Frontier's revenues. This amount is included as a separate line item in the calculation of the revenue requirement as it is a new addition, not originally in the test year amounts. Kentucky Frontier's proposal to use \$10,000 as an average is not based on actual numbers and is therefore unreasonable.

### **Expense Adjustments**

#### Distribution Expenses

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<sup>86</sup> Direct Testimony of John Defever (Defever Direct Testimony) (filed Dec. 19, 2025) at 8-11.

<sup>87</sup> Defever Direct Testimony at 8-11.

<sup>88</sup> Defever Direct Testimony at 9.

<sup>89</sup> Rebuttal Testimony of Steven Shute (Shute Rebuttal Testimony) (filed Jan. 23, 2026) at 8.

<sup>90</sup> Shute Rebuttal Testimony at 8.

Kentucky Frontier reported \$178,320 in Distribution Expenses during the test year and proposed an adjustment increase of \$3,000 to reflect travel for its members being less than typical.<sup>91</sup> Kentucky Frontier was asked to provide further explanation and support for this adjustment but only said they are as stated and the best estimates available.<sup>92</sup> The Commission finds that this does not meet the criteria of “known and measurable” pursuant to 807 KAR 5:001 Section 16 and therefore denies the adjustment.

Wage Adjustments, Payroll Adjustment and Payroll Administrative Expense

Kentucky Frontier reported \$641,633 in Wages during the test year and proposed an increase of \$233,000 to reflect wage increases in order to retain employees.<sup>93</sup> The test year amount of \$641,633 was calculated using the trial balances provided by Kentucky Frontier.<sup>94</sup> The Attorney General recommended the Commission deny the amount proposed by Kentucky Frontier and alleged that Kentucky Frontier did not provide sufficient documentation regarding the increase.<sup>95</sup> Kentucky Frontier has not provided a detailed calculation of the amount, including how it got to its requested increase, but did individually provide wages for each employee,<sup>96</sup> hours worked during the test year,<sup>97</sup>

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<sup>91</sup> Application, SAO, Reference F.

<sup>92</sup> Kentucky Frontier’s Responses to Staff’s First Request, Item 4.

<sup>93</sup> Application, ARF Form 1 - Attachment SAO-G - September 2011, Schedule of Adjusted Operations Gas Utility, TYE 12/31/20 24, References.

<sup>94</sup> Kentucky Frontier’s Response to Staff’s First Request, Item 6, PSC 25-277 GR1 (003) Excel Document, DR1-6 TrialBal KFG24 Tab, Accounts 990, 991, and 996, Payroll, Cells D471, B472, and B477.

<sup>95</sup> Defever Direct Testimony at 3-4.

<sup>96</sup> Kentucky Frontier’s Response to Staff’s First Request, Item 6, PSC 25-277 GR1 (003) Excel Document, DR1-9 Payroll Tab.

<sup>97</sup> Kentucky Frontier’s Response to Staff’s First Request, Item 6, PSC 25-277 GR1 (003) Excel Document, DR1-9 Payroll Tab.

expected hours going forward,<sup>98</sup> and job descriptions and roles.<sup>99</sup> In addition, Mr. Shute provided evidence during the hearing regarding the need for the increases as well as the need to retain its employees.<sup>100</sup>

Kentucky Frontier has provided enough evidence to support a wage increase, but because it could not determine the reasonableness of Kentucky Frontier's proposed adjustment without supporting workpapers, the Commission calculated its own wage adjustment. The Commission finds that the employee wages provided by Kentucky Frontier<sup>101</sup> are comparable to other gas utilities, using 2,080 hours as proposed by Kentucky Frontier, results in calculated wages of \$946,670, as shown in the table below. This results in an increase to wages of \$305,037 which is a \$72,037 increase from Kentucky Frontier's proposed increase. The Commission finds there is sufficient evidence in the record to support its calculated amounts, and the amounts are reasonable because they are based on known staffing numbers and pay rates. In addition, the Commission recognizes the need to keep trained employees familiar with the Kentucky Frontier system.

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<sup>98</sup> Kentucky Frontier's Response to Staff's Third Request, Item 11a.

<sup>99</sup> Kentucky Frontier's Response to Staff's Post-Hearing Request, Item 2.

<sup>100</sup> HVT of Feb. 3, 2026 Hearing at 09:48:57–09:52:00.

<sup>101</sup> Kentucky Frontier's Response to Staff's First Request, Item 6, PSC 25-277 GR1 (003) Excel Document, DR1-9 Payroll Tab.

Employee	Wage Rate	Wages at 2080 Hours
Position 1	\$ 40.87	\$ 85,010
Position 2	\$ 36.06	75,005
Position 3	\$ 29.00	60,320
Position 4	\$ 20.70	43,056
Position 5	\$ 18.50	38,480
Position 6	\$ 25.00	52,000
Position 7	\$ 30.00	62,400
Position 8	\$ 28.00	58,240
Position 9	\$ 28.00	58,240
Position 10	\$ 28.00	58,240
Position 11	\$ 24.00	49,920
Position 12	\$ 28.00	58,240
Position 13	\$ 23.00	47,840
Position 14	\$ 24.00	49,920
Position 15	\$ 25.00	52,000
Position 16	\$ 25.00	52,000
Position 17	\$ 22.00	45,760
	Total	<u>946,670</u>
	Test Year	641,633
	Adjustment	<u><u>\$ 305,037</u></u>

The Commission also calculated its own adjustment regarding capitalization of PRP related wages. During the test year, Kentucky Frontier confirmed its test year reduction in wages of \$79,364 was for capitalization of employee work as set forth in the PRP program<sup>102</sup> and later confirmed an adjustment should be made in this case using the

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<sup>102</sup> Kentucky Frontier's Corrected Rebuttal Testimony, Labor Adjustments on pdf page 22, 990 Payroll – Other.

same capitalization rate.<sup>103</sup> It also stated the majority of this labor is for construction workers with a small portion of office work to track the PRP.

The Commission finds the test year adjustment should be increased due to the increased wages approved by the Commission above. The Commission calculated the average wage increase for field technicians was 28.30 percent from the test year amounts and increased the test year capitalization adjustment by that percentage. This results in a decrease in Salaries and Wages Expense of \$101,826. There is also a resulting Depreciation Expense increase to account for the increase in capitalization of wages. The Commission depreciated the capitalized wages over 40 years; the useful life Kentucky Frontier has been using for its pipeline assets. This results in an increase to Depreciation Expense of \$2,546 as shown in the table below. The Commission finds the wage capitalization and resulting Depreciation Expense are reasonable because they represent proper accounting treatment according to the Uniform System of Accounts<sup>104</sup> and because the amounts are based on known and measurable information in the case record.

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<sup>103</sup> HVT of Feb. 3, 2026 Hearing, Shute at 10:48:56 and Kentucky Frontier's Response to Staff's Post-Hearing Request, Item 17a.

<sup>104</sup> USofA, Gas Plant Instructions, Item 8 Structures and Improvements.

Description	Amount
Test Year Adjustment	\$ 79,364
Average Wage Increase for Field Employees	28.30%
Pro Forma Adjustment	<u>\$ 101,826</u>
Depreciable Life	40
Depreciation Expense	<u>\$ 2,546</u>

### Payroll Taxes

Kentucky Frontier reported Payroll Taxes of \$58,638 and proposed an increase of \$21,100 to account for the increased wages proposed above.<sup>105</sup> The test year amount of \$58,638 was calculated using the trial balances provided by Kentucky Frontier.<sup>106</sup> The Commission calculated the taxes using the updated wages information and determined an increase of \$17,352 was necessary to reach the pro forma amount shown in the tables below.

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<sup>105</sup> Application, SAO, Reference B.

<sup>106</sup> Kentucky Frontier's Response to Staff's First Request, Item 6, PSC 25-277 GR1 (003) Excel Document, DR1-6 TrialBal KFG24 Tab, Accounts 992, 993, 994 and 995, Cells B473, B474, B475 and B476.

FICA Taxes	
Description	Pro Forma
Wages	\$ 946,670
FICA Rate	7.650%
Total Payroll Taxes	<u>\$ 72,420</u>

Unemployment Taxes	
Description	Amount
SUTA Per Employee	\$ 168
FUTA Per Employee	42
Total Per Employee	<u>210</u>
Times # of Employees	17
Total Cost	<u>\$ 3,570</u>

Description	Total Taxes		
	Test	Adjustment	Pro Forma
FICA	\$ 57,158	\$ 15,262	\$ 72,420
SUTA/FUTA	1,480	2,090	3,570
Total	<u>\$ 58,638</u>	<u>\$ 17,352</u>	<u>\$ 75,990</u>

### Employee Benefits

Kentucky Frontier reported \$289,229 in benefits during the test year and proposed an increase of \$14,600 based on 2025 YTD numbers.<sup>107</sup> The test year amount was calculated using the trial balances provided by Kentucky Frontier.<sup>108</sup> Kentucky Frontier's employees receive medical, dental, life, vision, and AD&D insurance. Kentucky Frontier's employees contribute \$80 per employee per month for employee-only health insurance

<sup>107</sup> Application, ARF Form 1 - Attachment SAO-G - September 2011, Schedule of Adjusted Operations Gas Utility, TYE 12/31/20 24, References, Reference C.

<sup>108</sup> Kentucky Frontier's Response to Staff's First Request, Item 6, PSC 25-277 GR1 (003) Excel Document, DR1-6 TrialBal KFG24 Tab, Account 926, Employee Pension and Benefits, Cell B445 and DR1-6 Tab TrialBal AUX24 Tab, Account 926, Employee Benefits, Cell C109.

and are responsible for any additional costs for beneficiaries beyond the employee.<sup>109</sup> The Commission reviewed the recent invoices<sup>110</sup> provided by Kentucky Frontier and calculated employee health insurance benefits of \$161,580.

Type of Premium	Monthly Cost	Current Employee Contribution Amount	Pro Forma Monthly Premium
Medical Insurance	\$ 12,697	\$ 1,360	\$ 11,337
Dental Insurance	374	-	374
Life Insurance	404	-	404
Vision	112	-	112
AD&D / Disability	1,238	-	1,238
Total Monthly Pro Forma Premium	14,825	1,360	13,465
Multiplied by: 12 Months	12	12	12
Total Annual Gross Health Insurance Cost	<u>\$ 177,900</u>	<u>\$ 16,320</u>	<u>\$ 161,580</u>

Kentucky Frontier stated it has and will continue to contribute 15 percent of wages to a Simplified Employee Pension (SEP).<sup>111</sup> There is no match required for the employee.<sup>112</sup> Kentucky Frontier stated it can contribute up to 25 percent per IRS rulings.<sup>113</sup> This amount is estimated at \$96,245 during the test year shown in the chart below, which is included in the total \$289,229 above. The increase in wages discussed above results in an increase to retirement expenses of \$45,756 shown in the table below.

<sup>109</sup> Kentucky Frontier’s Response to Staff’s First Request, Item 10, PSC 25-277 GR1 (003) Excel Document, DR1-10 Benefits Tab.

<sup>110</sup> Kentucky Frontier’s Response to Staff’s Second Request, Item 3.

<sup>111</sup> Kentucky Frontier’s Response to Staff’s First Request, Item 8.

<sup>112</sup> Kentucky Frontier’s Response to Staff’s First Request, Item 8.

<sup>113</sup> Kentucky Frontier’s Response to Staff’s First Request, Item 8.

Description	Test Year	Pro Forma
Wages	\$ 641,633	\$ 946,670
Contribution Rate	15.00%	15.00%
Contributions	96,245	142,001
Increase		\$ 45,756

The Commission finds its calculated total benefits of \$305,586 shown in the table below, an increase of \$14,357 from Kentucky Frontier's test year amount, is reasonable because it is based on known and measurable information in the case record.

Benefit Offered	Pro Forma Amount
Medical Insurance	\$ 136,048
Dental Insurance	4,491
Life Insurance	4,851
Vision	1,344
AD&D / Disability	14,851
Retirement	142,001
Total	303,586
Test Year ( )	(289,229)
Adjustments	\$ 14,357

#### Office Supplies Expense

Kentucky Frontier reported \$179,711 in Office Supplies Expense during the test year, which was calculated using the trial balances provided by Kentucky Frontier.<sup>114</sup> The Attorney General recommended a reduction of \$5,415 for removal of expenses related to holiday parties and employee gifts stating the costs are not necessary for the provision of

<sup>114</sup> Kentucky Frontier's Response to Staff's First Request, Item 6, PSC 25-277 GR1 (003) Excel Document, DR1-6 TrialBal KFG24 Tab, Accounts 920 and 921 Office Supplies Expenses, Cells B425-432 and DR1-6 TrialBal AUX24 Tab, Account 921 and 922, Office Supplies Expenses, Cells C91-C98.

service and provide little benefit to ratepayers.<sup>115</sup> Kentucky Frontier stated \$2,739 of the expenses were gift cards given to employees that would be reclassified as employee benefits.<sup>116</sup> Kentucky Frontier stated the remaining amounts helped to improve employee morale at minimal costs which created a customer benefit but was aware the Commission has disallowed these expenses and accepted part of the Attorney General's recommendation for the remaining \$2,676.<sup>117</sup>

The Commission agrees with the Attorney General's recommendation and decreases the test year expense by \$5,415. In addition to the \$2,676 amount agreed to by Kentucky Frontier, the Commission finds that the \$2,739 in employee gift cards and its justification neither provides sufficient evidence of benefit to customers nor is it supported by written employee benefit policies; thus, it should also be removed. Kentucky Frontier also indicated it does not have any written policies regarding use of the company credit cards.<sup>118</sup> The Commission encourages Kentucky Frontier to develop written policies/procedures for the appropriate use of the company credit card.

### Outside Services

Kentucky Frontier reported \$224,755 in Outside Services expenses and proposed an increase of \$5,000 to reflect added cost to employ outside service providers.<sup>119</sup> The test year amount was calculated using the trial balances provided by Kentucky Frontier.<sup>120</sup>

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<sup>115</sup> Defever Direct Testimony at 6.

<sup>116</sup> Kentucky Frontier Rebuttal Testimony, Page 6.

<sup>117</sup> Kentucky Frontier Rebuttal Testimony, Page 6.

<sup>118</sup> Kentucky Frontier's Response to Staff's Third Request, Item 5d.

<sup>119</sup> Application, SAO, Reference D.

<sup>120</sup> Kentucky Frontier's Response to Staff's First Request, Item 6, PSC 25-277 GR1 (003) Excel Document, DR1-6 TrialBal KFG24 Tab, Account 923, Outside Services, Cells B434-B437and D433, and

Kentucky Frontier was asked to provide further explanation and support for this adjustment but only said they are as stated and the best estimates available.<sup>121</sup> The Commission finds that this does not meet the criteria of “known and measurable” pursuant to 807 KAR 5:001 Section 16 and therefore denies the adjustment.

The Attorney General recommended a reduction of \$9,300 to remove legal fees related to a dispute with Kentucky Frontier’s gas supplier East Kentucky Midstream (EKM).<sup>122</sup> It stated the amounts should not be included in rates and should be recovered through Kentucky Frontier’s GCR.<sup>123</sup> Kentucky Frontier initially stated it would not be opposed to including this in its GCR filings,<sup>124</sup> but later stated the EKM legal expenses should be included in the revenue requirement.<sup>125</sup> The Commission finds the amount should be included in the revenue requirement as the only costs to be included in the GCR filings should be the cost of purchasing gas. The Commission also finds an adjustment should be made to amortize the legal fee expenses as it is not a recurring expense. Therefore, the entire \$9,300 amount should be removed from Outside Services and reclassified to Amortization Expense. The Commission finds the expense should be amortized over 3 years, which results in an increase of \$3,100 to Amortization Expense

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DR1-6 TrialBal AUX24 Tab, Account 763 and 923, Contract Labor and Outside Services, Cells C763 and C101-C103.

<sup>121</sup> Kentucky Frontier’s Responses to Staff’s First Request, Item 4.

<sup>122</sup> Defever Direct Testimony at 7.

<sup>123</sup> Defever Direct Testimony at 8.

<sup>124</sup> Shute Rebuttal Testimony at 7.

<sup>125</sup> Kentucky Frontier’s Reply Brief at 4.

as discussed in that section below.<sup>126</sup> The Commission finds this adjustment is reasonable because it is based on known and measurable information in the case record.

### Insurance Expense

Kentucky Frontier reported \$271,627 in Insurance Expense during the test year and proposed an increase of \$10,000 based on 2025 actuals.<sup>127</sup> The test year amount was calculated using the trial balances provided by Kentucky Frontier.<sup>128</sup> Kentucky Frontier stated it has experienced a large increase in the cost of its insurance in recent years due to litigation costs.<sup>129</sup> Kentucky Frontier stated this was largely because of “numerous frivolous lawsuits”.<sup>130</sup> Kentucky Frontier stated it is currently paying almost \$8,000 per year to insure a single vehicle worth \$20,000 and stated that Pinedale is only paying \$1,700 to insure a similar truck.<sup>131</sup> Overall, Kentucky Frontier has stated that its insurance costs are almost seven times higher than those paid by Pinedale.<sup>132</sup>

As part of its rebuttal testimony, Kentucky Frontier requested a \$42,917 increase for the actual numbers received in December 2025.<sup>133</sup> Kentucky Frontier stated its

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<sup>126</sup>  $\$9,300 / 3 = \$3,100$ .  $\$9,300 - \$3,100 = \$6,200$ .

<sup>127</sup> Application, SAO, Reference G.

<sup>128</sup> Kentucky Frontier’s Response to Staff’s First Request, Item 6, PSC 25-277 GR1 (003) Excel Document, DR1-6 TrialBal KFG24 Tab, Account 924, Insurance, Cells B438-B444 and DR1-6 TrialBal AUX24 Tab, Account 924, Cells C103-C108.

<sup>129</sup> Application, Supplemental Info to File at 5.

<sup>130</sup> Kentucky Frontier’s Response to Attorney General’s First Request, Item 97.

<sup>131</sup> Kentucky Frontier’s Response to Attorney General’s Second Request, Item 6.

<sup>132</sup> Kentucky Frontier’s Response to Staff’s Third Request, Item 42b.

<sup>133</sup> Shute Rebuttal Testimony, Rebuttal SAO-G at 23.

original proposed adjustment was based on estimated costs; since it had received quotes, the actual amounts should be used.

The Attorney General recommended denying Kentucky Frontier's proposed increase as the amount was not supported by the case record.<sup>134</sup> Kentucky Frontier responded to the Attorney General's request stating that invoices received for 2025 show an increase of 14 percent or \$37,000 but did not provide the invoices at that time.<sup>135</sup>

Kentucky Frontier provided 2025 insurance quotes as part of its response to Commission Staff's Post Hearing Request for Information.<sup>136</sup> Based upon the actual quotes provided, the Commission finds an increase of \$28,696 is necessary. The Commission finds this adjustment is reasonable because the amount is based on known and measurable information in the case record.

#### Amortization Expense

In its application, Kentucky Frontier proposed an increase to Rate Case Expense of \$30,000.<sup>137</sup> This cost was based upon an expected \$90,000 in rate case expenses amortized over a three-year period.<sup>138</sup> Kentucky Frontier was requested to include updates to rate case expenses, including invoices showing the amounts, throughout this proceeding.<sup>139</sup> Based upon the invoices received at the time of this Order, Kentucky

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<sup>134</sup> Defever Direct Testimony at 9.

<sup>135</sup> Kentucky Frontier's Response to Attorney General's Second Request, Item 4.

<sup>136</sup> Confidential Filing, Kentucky Frontier's Response to Staff's Post Hearing Request, Item 16.

<sup>137</sup> Application, SAO, Reference H.

<sup>138</sup> Application, SAO, Reference H.

<sup>139</sup> Staff's Second Request for Information, Item 8 and Staff's Post Hearing Request, Item 27.

Frontier has incurred \$24,394 in expenses related to this rate case.<sup>140</sup> The Commission finds an adjustment is necessary to account for the difference between the estimated and actual rate case expenses. The Commission finds the proposed 3-year amortization period to be reasonable, which results in an annual rate case expense of \$8,131 when using the \$24,394 actual expenses. This is a \$21,869 reduction from Kentucky Frontier's proposed adjustment. The Commission finds the \$8,131 adjustment should be approved as it is based on known and measurable information in the case record.

As discussed above, the Commission finds the legal fees from the dispute with EKM should be reclassified to Amortization Expense to amortize those costs over 3 years. This results in an increase to Amortization Expense of \$3,100. The Commission finds this adjustment should be approved as it is based on known and measurable information in the case record.

#### Miscellaneous General Expenses

Kentucky Frontier reported \$2,814 in Miscellaneous General Expenses during the test year and proposed no adjustments, which was calculated using the trial balances provided by Kentucky Frontier.<sup>141</sup> The Attorney General proposed a decrease of \$1,279 for donations reported in the test year as they do not provide a benefit to customers and should not be included for ratemaking purposes.<sup>142</sup>

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<sup>140</sup> Staff's Second Request for Information, Item 8 and Staff's Post Hearing Request, Item 27.

<sup>141</sup> Kentucky Frontier's Response to Staff's First Request, Item 6, PSC 25-277 GR1 (003) Excel Document, DR1-6 TrialBal KFG24 Tab, Account 924, Insurance, Cells B438-B444 and DR1-6 TrialBal AUX24 Tab, Account 924, Cells C103-C108.

<sup>142</sup> Defever Direct Testimony at 5.

Kentucky Frontier stated it believed it would be appropriate to include donations in the revenue requirement but accepted the Attorney General's recommendation.<sup>143</sup> The Commission finds the Attorney General's adjustment should be accepted as the amount is known and measurable. While donations are a part of community outreach for a utility and small business, the expense is a benefit solely for the shareholders and should not be recovered through rates.

#### Depreciation Expense

The Commission reviewed the depreciation schedule submitted by Kentucky Frontier and had no adjustments.<sup>144</sup> As discussed in the wages section above, an increase of \$2,546 was necessary to account for the capitalization of wages. The Commission finds this adjustment is reasonable because it is proper accounting treatment and because the amounts are known and measurable.

#### Provision for State and Federal Income Taxes

In its application, Kentucky Frontier requested recovery of \$30,673 as a provision for Income Taxes although the table calculating the amount showed taxes equaling \$87,772.<sup>145</sup> The \$30,673 amount reflected the actual income tax paid during the test year.<sup>146</sup> Kentucky Frontier does not pay income tax as it is treated as an S-corporation and is taxed on the personal return on the owner.<sup>147</sup> Kentucky Frontier also owns Auxier

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<sup>143</sup> Shute Rebuttal Testimony at 5.

<sup>144</sup> Application, Depreciation Schedules at pdf page 27.

<sup>145</sup> Application, Revenue Requirement Calculation at pdf page 14.

<sup>146</sup> Kentucky Frontier's Response to Staff's Third Request, Item 27.

<sup>147</sup> Kentucky Frontier's Response to Staff's Third Request, Item 27.

Road, which is a C-corporation and pays taxes directly unlikely Kentucky Frontier.<sup>148</sup> Kentucky Frontier stated it only used Auxier Road's actual taxes as the form indicates that only utilities that pay taxes should receive the provision and Kentucky Frontier does not pay the taxes itself as an S-Corporation and is instead taxed through its owner, Steven Shute.<sup>149</sup>

As part of its rebuttal testimony, Kentucky Frontier requested to include \$88,713 in the revenue requirement as an updated amount inclusive of Kentucky Frontier's portion of the provision for income tax.<sup>150</sup> The Attorney General disagreed with this adjustment, and recommended the Commission deny Kentucky Frontier's adjustment.<sup>151</sup> The Commission finds Kentucky Frontier's adjustment should be denied. The ARF form provided by the Commission states that the provision for income taxes should only be included for utilities that file tax returns and are liable for the payment of state and federal income taxes.<sup>152</sup> Because Kentucky Frontier does not pay income tax, it does not fall into this category and therefore, a provision for income taxes should only apply to Auxier Gas. The Commission finds the test year amount of \$30,673 is reasonable as it is based on known and measurable information and there is no indication the amount will change dramatically.

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<sup>148</sup> Kentucky Frontier's Response to Staff's Third Request, Item 27.

<sup>149</sup> Kentucky Frontier's Response to Staff's Third Request, Item 27.

<sup>150</sup> Shute Rebuttal Testimony, Revenue Requirement Calculation at 27.

<sup>151</sup> Attorney General Brief's at 9.

<sup>152</sup> Provision for Income Taxes Calculation, Note 10.

### Overall Revenue Requirement

The Operating Ratio (OR) methodology is used when there is no basis for a rate of return determination, the cost of the utility has largely been funded through contributions, or there is little or no outstanding long-term debt. The OR is a method to provide the utility with necessary working capital to operate effectively. Kentucky Frontier proposed to use an Operating Ratio of 88 percent in its application.<sup>153</sup> The Commission is of the opinion that an operating ratio of 88 percent will allow Kentucky Frontier necessary working capital and revenues to cover its reasonable operating expenses to operate and provide for reasonable equity growth.

By applying the OR method, Kentucky Frontier determined that a revenue increase of \$1,162,024, or 27.91 percent,<sup>154</sup> was necessary to achieve the revenue requirement as shown in the table below. With the initial corrections noted at the beginning of the Order, Kentucky Frontier's proposed increase was \$847,170 or 37.74 percent. Kentucky Frontier's rebuttal position proposed an increase of \$1,239,213 or 29.76 percent, although the rebuttal position does not contain the corrections made to the application amounts. The Commission finds that with the adjustments to operating expenses and correction to revenues from current sales, Kentucky Frontier's revenue increase is \$693,079 or 30.88 percent as shown in the table below.

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<sup>153</sup> Application, ARF Form 1 – Attachment RR-OR – January 2014, Revenue Requirement Calculation – Operating Ratio Method.

<sup>154</sup> Application, ARF Form 1 - Attachment RR-OR January 2014 Schedule of Adjusted Operations – Gas Utility.

Description	Kentucky Frontier	Kentucky Frontier (Corrected)	Attorney General	Kentucky Frontier Rebuttal	Commission Approved
Pro Forma Operating Expenses Before Income Taxes	\$ 2,700,041	\$ 2,700,041	\$ 2,416,652	\$ 2,725,692	\$ 2,619,939
Operating Ratio	0.88	0.88	0.88	0.88	0.88
Sub - Total	3,068,228	3,068,228	2,746,195	3,097,377	2,977,203
Less: Pro Forma Operating Expenses Before Income Taxes	(2,700,041)	(2,700,041)	(2,416,652)	(2,725,692)	(2,619,939)
Net Income Allowable	368,187	368,187	329,543	371,685	357,264
Add: Provision for State and Federal Income Taxes, If applicable	30,673	30,673	30,673	88,713	30,673
Interest Expense	108,483	108,483	108,483	108,483	108,483
Pro Forma Operating Expenses Before Taxes	2,700,041	2,700,041	2,416,652	2,725,692	2,619,939
Cost of Natural Gas	2,233,755		2,233,755	2,233,755	
Total Revenue Requirement	5,441,139	3,207,384	5,119,106	5,528,328	3,116,359
Less: Other Operating Revenue	(115,680)	(115,680)	(115,680)	(115,680)	(167,533)
Non - Operating Revenue (Gain on Sale of Assets)		-	(17,505)	(10,000)	(11,213)
Total Revenue Required from Rates for Service	5,325,460	3,091,704	4,985,921	5,402,648	2,937,613
Less: Revenue from Sales at Present Rates	(4,163,435)	(2,244,534)	(4,163,435)	(4,163,435)	(2,244,534)
Required Revenue Increase	\$ 1,162,024	\$ 847,170	\$ 822,486	\$ 1,239,213	\$ 693,079
Required Revenue Increase Percentage	27.91%	37.74%	19.75%	29.76%	30.88%

## REVENUE ALLOCATION AND RATE DESIGN

Kentucky Frontier proposed increasing its monthly customer charge for its Residential & Commercial class from \$13.00 to \$25.00,<sup>155</sup> and to increase its volumetric charge from \$4.2200 per Mcf to \$4.6492 per Mcf.<sup>156</sup> For its Large Commercial rate class, Kentucky Frontier proposed to increase its monthly customer charge from \$50.00 to \$150.00<sup>157</sup> and increase its volumetric charge from \$3.4454 per Mcf to \$3.8680 per Mcf.<sup>158</sup> Furthermore, Kentucky Frontier also proposed consolidating the Daysboro System into its Residential & Commercial rate structure and to set farm tap customers rates to match its utility service customer rates.<sup>159</sup>

<sup>155</sup> Supplemental Information and Requests at 4.

<sup>156</sup> Application, Current and Proposed Rates.

<sup>157</sup> Supplemental Information and Requests at 7.

<sup>158</sup> Application, Current and Proposed Rates.

<sup>159</sup> Supplemental Information and Requests at 3.

### Consolidation of the Daysboro System

Kentucky Frontier proposed to maintain its two distinctive rate classes by consolidating the Daysboro Residential and Daysboro Commercial customers into the Residential & Commercial rate classification. Kentucky Frontier has approximately 37 to 40 customers<sup>160</sup> in Daysboro which were acquired in 2019 from West Liberty and adopted the West Liberty rates for Daysboro customers effective September 23, 2019 under filing No. TFS2019-00635.<sup>161</sup> Kentucky Frontier states holding separate rates for the Daysboro Residential and Daysboro Commercial customers is unnecessary given that they are provided identical gas service to Kentucky Frontier's Residential & Commercial rate classification and it is administratively burdensome for Kentucky Frontier to maintain those separate billing accounts.<sup>162</sup> For the benefit of maintaining Kentucky Frontier's rate design and to alleviate administrative burden the Commission finds the incorporation of the Daysboro System customers into Kentucky Frontier's Residential & Commercial rate class to be reasonable.

### Farm Tap Base Rates

Kentucky Frontier proposed a change in rates to its Farm Tap customers served pursuant to KRS 278.485. Kentucky Frontier's proposal would set its Farm Tap rates at the same monthly customer charge and volumetric rate as its Residential & Commercial utility service class. Kentucky Frontier has approximately 400 farm taps<sup>163</sup> which are

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<sup>160</sup> Application, Reasons for Application at pdf page 7.

<sup>161</sup> TFS2019-00635 (Ky. PSC Nov. 19, 2019); the tariff was accepted for filing by the Commission by letter dated Dec. 13, 2019.

<sup>162</sup> Supplemental Information and Requests at 3.

<sup>163</sup> Application, Kentucky Frontier Gas Cost of Service Allocation.

approximately 8.5 percent of the total customer count.<sup>164</sup> These Farm Tap customers are served under Kentucky Frontier's Farm Tap tariff which has remained unchanged since Case No. 2011-00513.<sup>165</sup> There is no Kentucky Frontier owned pipeline or system cost associated with these customers, and they are generally isolated and harder to reach.<sup>166</sup> These Farm taps are all supplied by producer pipelines not controlled by Kentucky Frontier; thus, Kentucky Frontier has no control over the supply of gas to these customers.<sup>167</sup>

Kentucky Frontier argued that after 15 years of service it does not see much cost difference in serving its utility customers versus serving its farm tap customers.<sup>168</sup> However, Kentucky Frontier also claims that Farm Taps are more expensive due to the scattered nature of these customers,<sup>169</sup> which are located over most of the 13 counties served by Kentucky Frontier.<sup>170</sup> Kentucky Frontier admitted that labor and other expenses related to the service of its Farm Tap customers were not tracked but claimed that it should be similar to service provided to other utility customers.<sup>171</sup>

The Commission finds that an increase to the Farm Tap monthly customer charge to match the Residential & Commercial customer charge is reasonable. Kentucky

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<sup>164</sup> Supplemental Information and Requests at 4.

<sup>165</sup> Case No. 2011-00513, *Application of Kentucky Frontier Gas Company, LLC for Approval of Farm Tap Rates*, (Ky. PSC May 30, 2012) Order.

<sup>166</sup> Supplemental Information and Requests at 3.

<sup>167</sup> Supplemental Information and Requests at 4.

<sup>168</sup> Supplemental Information and Requests at 4.

<sup>169</sup> Supplemental Information and Requests at 4.

<sup>170</sup> Kentucky Frontier's Response to Staff's Second Request, Item 2.

<sup>171</sup> Kentucky Frontier's Response to Staff's Second Request, Item 13, at 2 of 3, Response 13 (b).

Frontier's failure to track expenses and a lack of a formal Cost of Service Study (COSS) makes it difficult to distinguish between the fixed costs and variable costs in serving these Farm Tap customers. However, the Commission has recognized in other cases<sup>172</sup> that fixed costs can be higher for a utility that primarily serves rural customers, including Farm Taps, such as Kentucky Frontier, due to serving low density areas where the meters per mile would be lower than those in higher density areas. Therefore, the Commission finds that although it is appropriate to allow the customer charge to increase, the current volumetric charge should be maintained. Additionally, any future rate filing must have the appropriate cost justification in order to constitute a further increase to the Farm Tap rate class.

#### Cost of Service Study (COSS) and Allocation of Revenue Increase

Kentucky Frontier did not perform a formal COSS in this proceeding. Instead, Kentucky Frontier proposed a modified method to allocate costs among rate classes. The proposed monthly charges contribute 46 percent<sup>173</sup> of the revenue required from rates after gas cost. Remaining revenues are recovered from variable, volumetric charges, allocated between two rate classes, 40 percent by peak monthly demand and 60 percent by commodity usage.<sup>174</sup> Kentucky Frontier's proposed allocation in this case is 46 percent

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<sup>172</sup> See, Case No. 2024-00346, *Electronic Application of Delta Natural Gas Company, Inc. For An Adjustment of Gas Rates* (Ky. PSC July 1, 2025) at 23; and Case No. 2024-00276, *Electronic Application of Atmos Energy Corporation for An Adjustment of Rates; Approval of Tariff Revisions; And Other General Relief* (Ky. PSC Aug. 11, 2025) at 54.

<sup>173</sup> Application, ARF\_FORM-1\_app\_final\_to\_file\_Redacted.pdf, Cost of Service Allocation, Unnumbered page 15.

<sup>174</sup> Application, ARF\_FORM-1\_app\_final\_to\_file\_Redacted.pdf, Cost of Service Allocation, Unnumbered page 16.

customer, 22 percent demand, and 32 percent commodity charges<sup>175</sup>. The Attorney General did not provide testimony on rate design or revenue allocation.

In support of its proposed monthly customer charges, Kentucky Frontier stated that it averaged<sup>176</sup> the Commission approved monthly charges for other rural Kentucky Local Distribution Companies (LDCs) of Delta Natural Gas Company, Inc. in Case No. 2024-00346;<sup>177</sup> and of Atmos Energy Corporation in Case No. 2024-00276.<sup>178</sup> Kentucky Frontier asserted that its monthly charge should be higher than those LDCs, “since Kentucky Frontier is much more spread out and more expensive to operate per meter than those more urban systems.”<sup>179</sup> Kentucky Frontier failed to provide sufficient evidence of its claim when requested.<sup>180</sup> The Commission notes that its determination in those proceedings relied on the COSS performed by those LDCs as justification for the revenue allocation of the proposed rates. A COSS is an analysis of costs for assigning to each customer or rate class its proportionate share of a utility’s total cost of service. The results of a COSS are utilized as a guideline to help determine the relative cost of service for each customer or rate classification. A utility’s COSS should be an accurate reflection of the linkage between that utility’s customers and the particular costs incurred by that utility in serving those customers. Kentucky Frontier’s costs are not dependent

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<sup>175</sup> Application, ARF\_FORM-1\_app\_final\_to\_file\_Redacted.pdf, Cost of Service Allocation, Unnumbered page 15 & 16.

<sup>176</sup> Kentucky Frontier’s Response to Staff’s Second Request, Item 1c.

<sup>177</sup> Case No. 2024-00346, *Electronic Application of Delta Natural Gas Company, Inc. For An Adjustment of Gas Rates* (Ky. PSC July 1, 2025), final Order.

<sup>178</sup> Case No. 2024-00276, *Electronic Application of Atmos Energy Corporation for An Adjustment of Rates; Approval of Tariff Revisions; And Other General Relief* (Ky. PSC Aug. 11, 2025), final Order.

<sup>179</sup> Kentucky Frontier’s Response to Staff’s Second Request, Item 1c.

<sup>180</sup> Kentucky Frontier’s Response to Staff’s Third Request, Item 1.

upon or directly affected by the rates of other LDCs. Identifying rates approved by the Commission of similar LDCs for similar rate classes can be used as a paradigm for a proposed rate design but not as the sole justification for the rate design. Kentucky Frontier's utilization of the rates of other Kentucky LDCs as its sole justification for its proposed customer charges is therefore unreasonable.

The Commission has previously found that the allocation of a revenue adjustment evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable in the absence of a COSS.<sup>181</sup> Based on the 30.88 percent increase recommended above, the Commission finds reasonable to allocate the revenue increase of \$693,079 uniformly across the customer classes. For Residential and Commercial customers, the Commission finds reasonable a monthly customer charge of \$17.36, reflecting an increase of \$4.36, and a volumetric charge of \$5.5573 per Mcf, an increase of \$1.3373 per Mcf. For Large Commercial customers, the Commission finds reasonable a monthly customer charge of \$71.50, representing an increase of \$21.50, and a volumetric charge of \$4.5093 per Mcf, an increase of \$1.0639 per Mcf. The Commission finds reasonable a monthly customer charge of \$17.36 for Farm Tap customers, representing an increase of \$7.36, and a volumetric charge of \$4.0000 per Mcf. The rates set forth in the Appendix to this Order are based upon the revenue requirement as calculated and will produce sufficient revenues to recover the \$693,079 increase to the revenue requirement from rates. These rates will increase the gas bill of a typical residential customer using an

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<sup>181</sup> Case No. 2021-00218, *Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Jan. 5, 2022).

average of 37.5 Ccf per month, or 3.75 Mcf per month, from \$28.83 to \$38.20, an increase of \$9.37, or 33 percent.

Upon review of Kentucky Frontier’s annual reports, a shift has occurred with the Residential purposed gas sales contributing to 70.5 percent of the total revenue in 2016 to 59.5 percent in 2024.<sup>182</sup> The Commission finds that a COSS will need to be performed by Kentucky Frontier in its next base rate case filing to ensure that a subsidization in rates does not occur. Furthermore, the Commission finds that Kentucky Frontier should consider the rate separation of the Residential and Commercial classes<sup>183</sup> to ensure a subsidization in rates does not occur and that the cost of service is allocated to the appropriate end users. The Commission finds that Kentucky Frontier should either propose a separation of the classes’ rates in its next base rate case based on the findings of a formal COSS or, at the very least, provide reasonable justification through a COSS for maintaining its current rate design with its combined Residential and Commercial class. The Commission finds that refusal to perform a COSS due to cost in its next base

<sup>182</sup> *Annual Report of Kentucky Frontier Gas, LLC to the Public Service Commission for the Calendar Year Ended December 31, 2016, through Annual Report of Kentucky Frontier Gas, LLC to the Public Service Commission for the Calendar Year Ended December 31, 2024:*

		Annual Report of Kentucky Frontier Gas, LLC to the Public Service Commission								
		2024	2023	2022	2021	2020	2019	2018	2017	2016
Total	Customers	4,337	4,385	4,870	4,956	5,204	5,098	5,302	5,164	5,117
	Mcf	281,806	271,674	324,236	313,089	296,752	307,390	325,252	283,493	305,774
	Revenue	\$ 2,426,917	\$3,241,378	\$4,080,875	\$3,082,246	\$2,556,343	\$2,836,118	\$3,067,068	\$2,656,848	\$2,945,795
Residential	Customers	3,511	3,562	4,477	4,271	4,492	4,412	4,615	4,499	4,474
	Mcf	159,868	158,209	199,741	194,522	112,151	191,524	202,463	182,428	203,861
	Revenue	\$ 1,444,095	\$1,979,275	\$2,503,310	\$1,915,494	\$ 962,114	\$1,778,636	\$1,908,006	\$1,717,305	\$2,075,795
Revenue Contribution Residential Rate Class		59.5%	61.1%	61.3%	62.1%	37.6%	62.7%	62.2%	64.6%	70.5%

<sup>183</sup> Kentucky Frontier’s Tariff already provides the necessary distinction between Residential, Commercial, Large Commercial and Transportation service. See Kentucky Frontier’s Tariff, PSC No. 3, Sheet Original No. 22, and 23.

rate case would be considered unreasonable given that those reasonable costs related to performing a COSS can be requested for recovery under rate case expense.

## SURCHARGES

### Automated Meter Reading System (AMR)

Kentucky Frontier proposed to end its AMR program and the related surcharge on April 1, 2026.<sup>184</sup> Kentucky Frontier's AMR program, and the related \$1.00 per month surcharge charged to its utility service and farm tap system customers, was approved in Case No. 2011-00443, effective April 2013.<sup>185</sup> The AMR program and related surcharge was extended to the new Public Gas portion of its system in Case No. 2016-00132, effective October 2016.<sup>186</sup> Kentucky Frontier stated that since the inception of the AMR program, \$686,809 in surcharges have been collected and \$764,048 has been spent on replacing 2,050 meters and refurbishing another 2,000 in-service meters.<sup>187</sup> Kentucky Frontier provided evidence to support these collection amounts and meter replacement numbers.<sup>188</sup>

The Commission finds it reasonable for Kentucky Frontier to end the AMR project and related surcharge for service rendered on and after the date of entry of this Order.

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<sup>184</sup> Kentucky Frontier's Response to Staff's Post-Hearing Request, Item 13.

<sup>185</sup> Case No.2011-00443, *Application of Kentucky Frontier Gas, LLC for Approval of Consolidation of and Adjustment of Rates, Approval of AMR Equipment and a Certificate of Convenience and Necessity for Installation of AMR, Pipeline Replacement Program, Revision of Non-Recurring Fees and Revision of Tariffs* (Ky. PSC Apr. 30, 2013), Order at 17.

<sup>186</sup> Case No. 2016-00132, *Application of Kentucky Frontier Gas, LLC for Approval of Modification of MAR and Pipeline Replacement Programs, Surcharges and Tariffs to Include the Former Public Gas System* (Ky. PSC Oct. 6, 2016), Order at 7.

<sup>187</sup> Kentucky Frontier's Response to Staff's Post-Hearing Request, Item 13; Kentucky Frontier's Response to Staff's Third Request, Item 37.

<sup>188</sup> Kentucky Frontier's Response to Staff's Post-Hearing Request, Item 11; Kentucky Frontier's Response to Staff's Post-Hearing Request, Item 12.

The Commission directs Kentucky Frontier to file revised tariff sheets removing the AMR surcharge from its Utility Service tariff and Farm Tap service tariff for service rendered on and after the date of entry of this Order.

Pipeline Replacement Program (PRP)

Kentucky Frontier proposed a new methodology for administering its PRP surcharge. While the current structure utilizes a fixed monthly charge of \$5.00 for Residential and Commercial, as well as Industrial customers, the proposed hybrid surcharge introduces a two-tier charge that will consist of a fixed monthly charge of \$2.50 combined with a \$0.037 per Ccf, or \$0.37 per Mcf volumetric rate.<sup>189</sup> Kentucky Frontier stated that the proposed change will result in larger contributions from the higher demand customers,<sup>190</sup> which the Commission finds justifiable because supplying high volume users demands more of the pipeline system. The fixed \$2.50 component of the proposed surcharge will also allow Kentucky Frontier to receive PRP revenue in the summer months, when gas usage is low and replacement of pipe generally occurs.<sup>191</sup> Kentucky Frontier estimated that, with the current designated projects, seven more years is required to finish the PRP.<sup>192</sup> The PRP surcharge is not applicable to farm tap service customers.<sup>193</sup>

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<sup>189</sup> Supplemental Information and Requests at 9.

<sup>190</sup> Supplemental Information and Requests at 9.

<sup>191</sup> Kentucky Frontier's Response to Staff's Third Request, Item 26.

<sup>192</sup> Kentucky Frontier's Response to Staff's Third Request, Item 24.

<sup>193</sup> Supplemental Information and Requests at 9.

The Commission initially approved Kentucky Frontier's PRP in Case No. 2011-00443, authorizing Kentucky Frontier to recover costs associated with the replacement of bare steel pipeline that presented a safety risk. The Commission found that:<sup>194</sup>

[Kentucky] Frontier plans to file an annual update to its PRP to reflect the amount of its net plant additions. The Commission finds that such filings should include the amount of PRP net plant additions, the miles of pipe replaced, where the replacements occurred on the Frontier system, and net plant additions scheduled for the following year along with expected cost of those additions. Such updates, based on the specific information contained therein, may result in revisions to Frontier's PRP surcharge.

In Case No. 2017-00263, the Commission found that greater scrutiny should be placed on Kentucky Frontier's PRP and found that Kentucky Frontier should be required to submit detailed reports for each upcoming year summarizing the projects it expects to replace that year.<sup>195</sup> The Commission found that the reports, at a minimum, should separately identify the plant additions, retirements, and removals while also detailing their locations, length, and size of mains and service lines that were replaced along with the associated costs.<sup>196</sup> Kentucky Frontier has been filing these reports, not as separate cases that require Commission review and approval but as post-case correspondence in Case No. 2011-00443 and Case No. 2017-00263.

The Commission finds that Kentucky Frontier has been diligent in the replacement of problematic pipes since the inception of its PRP program in Case No. 2011-00443 and its expansion of the program in Case No. 2016-00132. The Commission is in support of

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<sup>194</sup> Case No. 2011-00443, April 30, 2013 Order at 14.

<sup>195</sup> Case No. 2017-00263, Dec. 22, 2017 Order at 13-14.

<sup>196</sup> Case No. 2017-00263, Dec. 22, 2017 Order at 14.

Kentucky Frontier's judgement on the status of its current PRP projects. Given the utility's familiarity with the system and its PRP needs, the Commission finds it reasonable to rely on Kentucky Frontier's expertise in determining the appropriate prioritization of pipe replacement at this time.

The Commission finds that the proposed surcharge methodology of a fixed monthly charge of \$2.50 per meter and \$0.037 per Ccf, or \$0.37 per Mcf volumetric charge is reasonable and should be approved as proposed. Going forward, the Commission finds that Kentucky Frontier should file its annual PRP reports as a separate application, subject to Commission review, to ensure that it is making steady progress to meet the proposed seven-year timeline as well as recovering the expenses appropriately. In the event Kentucky Frontier requires additional time to complete designated projects, acquires an additional system, or emergency projects arise that extend the PRP timeline, it can file for an extension through its annual PRP report filing. The Commission directs Kentucky Frontier to file a revised tariff to reflect the annual filing of the PRP as a separate case. Kentucky Frontier's current PRP tariff states that, "[s]uch adjustment to the Rider will become effective with meter readings on and after the first billing cycle of May, and will reflect allocation of the required increase based on the distribution approved by the Commission."<sup>197</sup> Thus the Commission finds that the revised PRP tariff should also state that Kentucky Frontier will file its annual PRP applications no later than end of February of each year. The revised tariff should also include language stating that any further extensions, in addition to the current seven-year estimated timeline, will be granted only upon a showing of good cause, through Kentucky Frontier's annual PRP filing. In filing

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<sup>197</sup> Kentucky Frontier's Tariff, PSC No. 3, 1<sup>st</sup> Revised Sheet No. 32.

its annual PRP cases, Kentucky Frontier should be prepared to provide the Commission with its actual projects completed and the associated costs for the prior calendar year, its estimated projects and estimated associated costs for the upcoming calendar year, the timeline of existing projects, and impact of net plant additions from pipeline replacements.

### Farm Tap Gas Cost Adjustment Tariff

In its Application, Kentucky Frontier made mention of a request to incorporate its Farm Tap customers into its GCR rate mechanism used by its utility service customers,<sup>198</sup> but did not include the proposed change in the customer notice and did not provide revised tariff sheets with the proposed changes. Kentucky Frontier currently has a separate Gas Cost Adjustment Clause (Farm Tap GCA)<sup>199</sup> mechanism and Tariff for its Farm Tap customers.<sup>200</sup> Kentucky Frontier's Farm Tap GCA Tariff was approved in Case Nos. 2011-00443,<sup>201</sup> and 2011-00513,<sup>202</sup> and sets the gas cost rate at a \$3.6 per Mcf fixed volumetric charge and includes explicit language on how the Farm Tap GCA rate is to be updated. The Commission approved the fixed Farm Tap GCA rate due to Kentucky

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<sup>198</sup> Application, ARF FORM 1 – ATTACHMENT SR – September 2011, Reason for Application, Proposals in this Case, number 2, Unnumbered page 7.

<sup>199</sup> The term Gas Cost Recovery or “GCR” is interchangeable with Gas Cost Adjustment “GCA”; and Purchased Gas Adjustment “PGA”. For the sake of consistency, the Commission uses “GCR” in its final Orders unless otherwise stated. For the purpose of discussing the distinction between the Gas Cost Recovery mechanism of Kentucky Frontier’s utility service and farm tap service customers the Commission will use Farm Tap GCA for Farm Tap and GCR for utility service.

<sup>200</sup> Application, ARF FORM 1 – ATTACHMENT SR – September 2011, Reason for Application, Proposals in this Case, number 2, Unnumbered page 7.

<sup>201</sup> Case No. 2011-00443, *Application of Kentucky Frontier Gas, LLC For Approval Of Consolidation Of And Adjustment Of Rates, Approval Of Amr Equipment And A Certificate Of Convenience And Necessity For Installation Of Amr, Pipeline Replacement Program, Revision Of Non-Recurring Fees And Revision Of Tariffs* (Ky. PSC Apr. 30, 2013), Order.

<sup>202</sup> Case No. 2011-00513, *Electronic Application of Kentucky Frontier Gas LLC For Approval of Adjustment Of farm Tap Rates* (Ky. PSC May 30, 2012), final Order.

Frontier acquiring gas for its Farm Tap customers under fixed price contracts.<sup>203</sup> Unlike Kentucky Frontier's utility service customers which have a standard quarterly GCR formula based on quarters and adjustment components which generally warrant quarterly rate reports to be filed with the Commission, Kentucky Frontier's proposed Farm Tap GCA was to be based on known, fixed prices, which would only warrant an update following the change in the contract price.<sup>204</sup> If the supply of gas to Farm Tap customers has changed since the Commission's findings in Case Nos. 2011-00443, and 2011-00513, then Kentucky Frontier would need to provide sufficient evidence to support a change in its Farm Tap GCA mechanism.

The Commission finds that Kentucky Frontier's proposed incorporation of its Farm Tap customers into its GCR rate mechanism used by its utility service customers should be denied without prejudice. The Commission considers the rate for gas cost to be the calculation methodology set forth in a utility's tariff and established through the Commission's Orders, and thus a proposed change in the rate calculation methodology requires proper customer notice to be provided. The Commission finds that Kentucky Frontier should make a formal request in a subsequent case with proper notice given, or a request to waive notice; revised tariff sheets for both the utility serviced Tariff and Farm Tap tariff; and an explanation for how the farm tap gas costs would be properly incorporated into the current GCR mechanism.

IT IS THEREFORE ordered that:

1. The rates proposed by Kentucky Frontier are denied.

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<sup>203</sup> Case No. 2011-00513, May 30, 2012 final Order at 6-7.

<sup>204</sup> Case No. 2011-00513, May 30, 2012 final Order at 6.

2. The rates and charges as set forth in Appendix to this Order are approved as fair, just and reasonable rates for Kentucky Frontier, and these rates and charges are approved for service rendered on and after the date of entry of this Order.

3. Auxier Gas is an affiliate of Kentucky Frontier.

4. Kentucky Frontier's motion for deviation of the affiliate rules requesting a deviation or waiver of a particular transaction or class of transactions involving Pinedale pursuant to KRS 278.2207(2) is granted until the next rate case.

5. The Commission, on its own motion, grants a deviation of the affiliate rules involving the transactions between Kentucky Frontier and Auxier Gas until the next rate case.

6. Kentucky Frontier proposal to end its AMR program and the related surcharge on and after the date of entry of this Order, is approved.

7. Kentucky Frontier's proposal to extend its PRP program for an additional period of seven years is approved.

8. Kentucky Frontier's proposal to incorporate its Farm Tap customers into its GCR rate mechanism used by its utility service customers is denied.

9. Within 20 days of the date of service this Order, Kentucky Frontier shall file with this Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets setting out the rates, charges, and modifications approved or as required herein and reflecting their effective date and that they were authorized by this Order.


10. In its next base rate case, Kentucky Frontier shall ensure it has reviewed the Commission's determinations in this proceeding and complied with the findings as discussed herein.

11. This case is closed and removed from the Commission's docket.

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Entered on this 29th day of April, 2026.

PUBLIC SERVICE COMMISSION




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Angie Hatton  
Chair



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Mary Pat Regan  
Commissioner



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Andrew W. Wood  
Commissioner

ATTEST:



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Linda C. Bridwell, PE  
Executive Director

Case No. 2025-00277

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2025-00277 DATED APR 29 2026

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

Utility Service:

MONTHLY CHARGES & COMMODITY RATES

	<u>Base Rate</u>	<u>Gas Cost Recovery</u> <sup>1</sup>	<u>Total</u>
RESIDENTIAL & COMMERCIAL			
Customer Charge per month All Ccf	\$0.55573	\$0.64988	\$17.36 \$1.20561
LARGE COMMERCIAL			
Customer Charge per month All Ccf	\$0.45093	\$0.64988	\$71.50 \$1.10081

OTHER CHARGES

Pipeline Replacement Program      \$2.50 per distribution customer per month  
\$0.037 per Ccf

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<sup>1</sup> Case No. 2025-00403, *Electronic Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (Ky. PSC Jan. 26, 2026), final Order at 6.

Farm Tap Service:

MONTHLY CHARGES & COMMODITY RATES

	<u>Base Rate</u>	<u>Gas Cost Recovery</u> <sup>2</sup>	<u>Total</u>
RESIDENTIAL & COMMERCIAL FARM TAPS			
Customer Charge per month			\$17.36
All Ccf	\$0.40000	\$0.36000	\$0.76000

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<sup>2</sup> Case No. 2011-00513, *Application of Kentucky Frontier Gas Company, LLC for Approval Of Adjustment Of Farm Tap Rates* (Ky. PSC May 30, 2012), final Order at 6.

## Service List for 2025-00277

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