

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF MONTGOMERY CREEK GAS) CASE NO.
COMPANY FOR FARM TAP RATE INCREASE) 2011-00388

O R D E R

On September 21, 2011, Montgomery Creek Gas Company ("Montgomery Creek"), filed an application to increase its retail rate pursuant to KRS 278.485 and 807 KAR 5:026, the statute and regulation governing gathering systems that provide service to retail customers who tap on to such systems ("farm tap customers"). On October 3, 2011, the application was rejected due to filing deficiencies. On October 10, 2011, Montgomery Creek filed additional information to cure its deficiencies. On November 4, 2011, the Commission sent a letter accepting Montgomery Creek's application for filing as of October 10, 2011.

Montgomery Creek supplied additional information on December 12, 2011 in response to a Commission Staff ("Staff") request for information and provided clarification of its responses in a January 9, 2012 conference call with Staff. There were no intervenors in this case.

BACKGROUND

KRS 278.485 requires every gas pipeline company obtaining gas from producing wells to provide service, upon request, to customers whose property is located within one-half air-mile of the company's producing gas well or gas gathering pipeline.

Montgomery Creek has 84 such farm tap customers connected to seven wells in Knott County.

Montgomery Creek proposes to adjust its farm tap rates which have not been adjusted in several years. Montgomery Creek proposes the following increase in its farm tap rates:

	<u>Current</u>	<u>Proposed</u>	<u>% Increase</u>
All Mcf (Minimum Bill)	\$ 3.50	\$ 5.00	42.9%

Montgomery Creek also proposed to increase its reconnect fee from \$20.00 to \$25.00.

807 KAR 5:026, Section 9, allows a farm tap operator to request an adjustment in rates if: 1) the percentage change in rates does not exceed the percentage change in the price index during the most recent 12-month period immediately preceding the date the proposed tariff is filed;¹ and 2) the proposed rate does not exceed the highest average volumetric rate of a local gas distribution utility approved by the Commission and in effect on the date the proposed tariff is filed. A review of the percentage change in the price index during the most recent 12-month period showed that it was a 2.8 percent decrease. Montgomery Creek's proposal for an increase of any amount would exceed a negative percentage change in the price index. Montgomery Creek's proposed rate does not exceed the highest average volumetric rate of a local gas distribution utility approved by the Commission.

¹ 807 KAR 5:026 defines price index as the average of the producer price index-utility natural gas (PPI-05-5) for the most recent 12-month period as published monthly by the United States Department of Labor, Bureau of Labor Statistics.

Because Montgomery Creek does not meet the test of the first cited criterion but does meet the second, the regulation requires that it provide its costs to provide service during the previous two years, current within 90 days of the date the proposed tariff is filed. Montgomery Creek supplied an analysis of its administrative and proposed gas costs. Its filing of December 12, 2011 updated its gas cost projection, using a 12-month New York Mercantile Exchange (“NYMEX”) price strip for the 12 months ending December 2012. The Commission notes that natural gas prices have been volatile since 2000 and finds that a rate based on NYMEX futures prices is more representative of current gas prices than a historical average. In prior cases involving other farm tap systems, the Commission has approved this pricing mechanism as a reasonable proxy for the requirements of the regulation.² The Commission will apply this method in determining the rate in this case. Montgomery Creek’s updated gas cost is \$4.20 per Mcf, including a 1.1490 BTU factor.

Montgomery Creek’s administrative cost consists of a \$9,600 annual management fee, which produces a volumetric rate as calculated by Montgomery Creek of \$1.83 per Mcf. Dividing by Montgomery Creek’s average annual sales volumes produces a volumetric rate of \$1.79. Adding this rate to the \$4.20 per Mcf proposed gas cost produces a rate of \$5.99 per Mcf, \$.99 per Mcf more than Montgomery Creek’s proposed \$5.00 per Mcf rate.

² Case No. 2009-00207, Application of Bear Fork Gas Company for Farm Tap Rate Increase (Ky. PSC Aug. 19, 2009); Case No. 2006-00460, Application of G.S. Knox Gas Company to Increase its Rates and Charges for Providing Farm Tap Service Pursuant to KRS 278.485 (Ky. PSC Jan. 22, 2007); Case No. 2006-00122, Notice of Proposed Rate Change for Interstate Natural Gas Company (Ky. PSC Dec. 20, 2006).

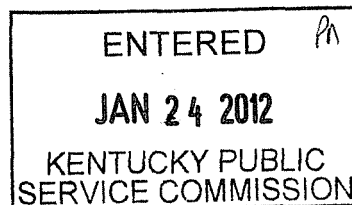
Montgomery Creek stated that its current reconnect fee was first set in 1995, and that the minimum wage has increased 70.58 percent since that time. Montgomery Creek also cited inflation in insurance and fuel expense in support of its proposed increase in its reconnect fee.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the rate and reconnect fee proposed by Montgomery Creek and included in the Appendix to this Order are fair, just, and reasonable, in the public interest, and should be approved effective for service rendered on and after the date of this Order.

IT IS THEREFORE ORDERED that:

1. Montgomery Creek's proposed rate and reconnect fee are approved.
2. The rates in the Appendix, attached hereto and incorporated herein, are approved for service rendered on and after the date of this Order.
3. Within 20 days of the date of this Order, Montgomery Creek shall file with this Commission its revised tariff showing the effective date, the date of issue, and a statement that it is issued pursuant to this Order.

By the Commission



ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2011-00388 DATED JAN 24 2012

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

All Mcf (Minimum Bill)	\$ 5.00
Reconnect Fee	\$25.00

Jed Weinberg
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