

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF JAKES BRANCH GAS COMPANY) CASE NO.
FOR FARM TAP RATE INCREASE) 2011-00387

O R D E R

On September 21, 2011, Jakes Branch Gas Company (“Jakes Branch”), 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, Jakes Branch filed additional information to cure its deficiencies. On November 4, 2011, the Commission sent a letter accepting Jakes Branch’s application for filing as of October 10, 2011.

Jakes Branch 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. Jakes Branch has 73 such farm tap customers connected to seven wells in Perry County.

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

| | <u>Current</u> | <u>Proposed</u> | <u>% Increase</u> |
|------------------------|----------------|-----------------|-------------------|
| All Mcf (Minimum Bill) | \$ 4.00 | \$ 6.00 | 50% |

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. Jakes Branch's proposal for an increase of any amount would exceed a negative percentage change in the price index. Jakes Branch's proposed rate does not exceed the highest average volumetric rate of a local gas distribution utility approved by the Commission.

Because Jakes Branch 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. Jakes Branch 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

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.

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. Jakes Branch’s updated gas cost is \$5.08 per Mcf, including a 1.3895 BTU factor.

Jakes Branch’s administrative cost consists of a \$12,000 annual management fee, which produces a volumetric rate of \$2.21 per Mcf when divided by Jakes Branch’s average annual sales volumes. Adding this rate to the \$5.08 per Mcf proposed gas cost produces a rate of \$7.29 per Mcf, \$1.29 per Mcf more than Jakes Branch’s proposed \$6.00 per Mcf rate.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the rate proposed by Jakes Branch and included in the Appendix to this Order is 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:

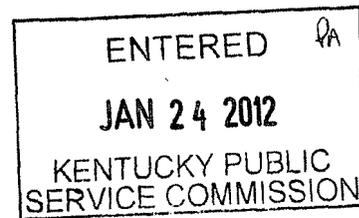
1. Jakes Branch’s proposed rate is approved.

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 dated Dec. 20, 2006).

2. The rate in the Appendix, attached hereto and incorporated herein, is approved for service rendered on and after the date of this Order.

3. Within 20 days of the date of this Order, Jakes Branch 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:

Carroll D. Greenwell for
Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2011-00387 DATED JAN 24 2012

The following rates and charges are prescribed for the customers served by Jakes Branch 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)

\$ 6.00

Jed Weinberg
Manager
Jakes Branch Gas Company, Inc.
P. O. Box 783
Hindman, KY 41822