

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN APPLICATION OF XEBEC GAS COMPANY FOR)	
PERMISSION TO INSTALL, OWN, AND OPERATE)	CASE NO.
CERTAIN "INTRASTATE PIPELINE" FACILITIES)	9370
IN THE COMMONWEALTH OF KENTUCKY)	

O R D E R

On December 9, 1987, Xebec Gas Company ("Xebec") filed a revised application in this case. Xebec states its revised application is necessary as a result of Administrative Case No. 297, An Investigation of the Impact of Federal Policy on Natural Gas to Kentucky Consumers and Suppliers.

On February 17, 1988, an Order was issued which established a procedural schedule for this case. Both Xebec and Western Kentucky Gas Company ("Western") were ordered to file testimony supporting their positions. Western operates the gas system into which Xebec proposes to install an interconnecting pipeline to transport gas to certain end-users on Western's system.

On February 22, 1988, Xebec filed testimony of Horace G. Winningham, president of Xebec, and on March 7, 1988, Western filed testimony of L. E. Van Meter II, vice-president and chief engineer of Western. Based upon a review of the filed testimony, it appears that Xebec and Western have maintained substantially the same position as represented in their initial filings. However, the Commission notes that Xebec no longer requests exemption

of its facilities from regulation as a utility pursuant to KRS 278.010(3). Further, the Federal Energy Regulatory Commission has continued to proceed with its efforts to achieve open access, nondiscriminatory gas transportation through the nation's interstate pipelines.

In order to reach a final determination in this case, the Commission is of the opinion and hereby finds that additional information is required from Xebec and Western.

IT IS THEREFORE ORDERED that Xebec and Western shall file the following information with the Commission, with a copy to all parties of record, no later than March 31, 1988. Include with each response the name of the person who will be responsible for responding to questions relating to the information filed.

QUESTIONS TO XEBEC

1. Who will operate the proposed tap and monitor its operations?
2. Does Xebec have any intention of constructing pipelines to directly serve any customers?
3. In information filed December 9, 1987, Xebec revised its application. Describe the substantive revisions and why they were made.
4. Does Xebec anticipate making additional interconnections in Kentucky?
5. Provide support for the charges proposed in each of the tariffs Xebec has filed.
6. Describe the type of transportation service, including whether it is firm or interruptible, Xebec will have on American

Natural Resources (ANR) or any other pipeline it uses to get gas to the proposed interconnection.

7. Based upon its revised application, is it correct to conclude that Xebec no longer proposes to sell gas to Western?

8. On October 25, 1985, Xebec filed its response to a Commission data request. Would Xebec presently answer these same questions in substantially the same manner?

9. On November 14, 1985, Xebec also filed certain exhibits depicting the delivery of 7,500 Mcf/day and 13,844 Mcf/day at Beulah under certain conditions.

a. Are these exhibits still applicable to the revised application filed December 9, 1987?

b. Are the calculations still accurate?

c. Refer to Exhibit "BA". Doesn't the proposed operating pressure of 380 pounds per square inch gauge (psig) on the 6-inch line exceed the established maximum operating pressure of 350 psig? Under this situation, wouldn't Western need to uprate the 6-inch Beulah line?

10. Xebec testified on November 14, 1985, that since the proposed interconnection is in a peak shaving area of Western's system, the proposal actually enhances the reliability and security of supply for customers served in the area. Explain the benefits.

11. Western testified on November 14, 1985, that since the pipeline on which the tap will occur is dedicated to storage, Xebec's proposal to tie in at Beulah would be detrimental to

Western's customers in that area. How do you reconcile this conclusion with your response to Question No. 10?

12. What will be the cost of construction of the Xebec pipeline, including all associated equipment? Who picks up what costs?

13. Western also testified on November 14, 1985, that to accept third party gas and/or to exchange volumes of gas at Beulah would jeopardize Western's peak shaving operation and "could result in cold homes if anything got fouled up by trying to handle somebody else's gas."

a. Why wouldn't this happen?

b. If Xebec was Western, how would a request from a Xebec-like company be resolved?

14. Regarding the transportation of gas, what is the status of ANR as an open access, nondiscriminatory transporter?

15. What is the status of any rights-of-way with ANR that Xebec may require?

16. Does Xebec currently have any customers under contract? If so, who are they, and what kind of services are provided?

17. Does Xebec own or lease any gas production? If so, where and how much (Mcf)?

18. Does Xebec have any signed gas supply commitments from any producers at present? If so, with whom?

19. On page 2 of the prepared testimony of Western, it is mentioned that the facilities of Western and ANR currently intersect.

a. What is your knowledge of such an intersection?

b. If the purpose of Xebec's proposed pipeline is to provide an interconnection between the systems of Western and ANR as stated on page 3 of your testimony, and Western and ANR are already interconnected, what would then be the purpose of Xebec's facility?

20. Western states on page 6 of its testimony that Xebec's proposed facility would not encourage competitive pricing of natural gas.

a. What is your response to this statement?

b. Explain how Xebec's proposed pipeline will encourage competitive pricing.

21. Will Xebec assume title to any gas which is ultimately delivered under this proposal?

22. Is Xebec affiliated in any way with any production or pipeline companies?

QUESTIONS TO WESTERN

1. The following questions refer to Exhibits 1-4 filed by Western in response to a Commission data request of October 10, 1985.

a. What are the principal purposes of the St. Charles and Kirkwood Springs storage fields?

b. What is the length (feet) of the 6-inch line on which the interconnection is proposed, from the point of the tap, eastward, to the point where this line interconnects with 8- and 10-inch pipelines?

c. At the established maximum allowable operating pressure (MAOP) of 425 psig, what would be the maximum capacity

(Mcf) of this 6-inch line, assuming both Western's operating philosophy as expressed in this proceeding and operating this portion of the system under Xebec's proposal of 7,500 Mcf/day?

d. Historically, what has been the highest Mcf/day figure recorded on this line?

e. At the proposed interconnection, can a tap be allowed which would allow gas to flow in both directions? Describe how this would interfere with Western's needs in summer or during normal or peak winter conditions.

2. Is it Western's position that the proposed interconnection would cause Western problems with pressure and volumes deliverability in this portion of its system? Describe what problems would arise.

3. Can Xebec's proposed point of interconnection be accomplished elsewhere in the system without causing such problems?

4. Currently, do Western's facilities intersect with the ANR interstate pipeline?

5. Does an interconnection currently exist between Western and ANR? If so, what is its proximity to Xebec's proposed facilities, and could this be utilized for Xebec's purposes? What is the purpose of this interconnection?

6. On November 14, 1985, Western testified that during operation in an average summer condition 100 percent of the gas flowing through the Beulah area is locally-produced gas. Does this mean that the 6-inch line, and other lines in the Beulah area, are at full capacity relative to the MAOP on each line?

7. Don't Xebec Exhibits "AA" and "BA" filed on November 14, 1985, for the average summer condition demonstrate that additional volumes, up to 13,000 Mcf/day, can be accepted under a certain operating scenario? If not, why?

8. Why can't Western operate this part of its system in that manner and still achieve its own needs?

9. On November 14, 1985, Western stated that Xebec's proposal under average summer conditions is not feasible because it takes about 800 pounds of pressure to inject gas into the St. Charles storage area through the route Xebec shows.

a. Does Western still maintain this position?

b. Since the 8-inch line has a MAOP of 920 psig, isn't it designed to accommodate pressures in excess of 800 psig if necessary?

c. On November 14, 1985, Western stated that this line is not used as an injection line into the St. Charles storage field. Since the MAOP is 920 psig, could this line be used for injection? If not, why?

10. On November 14, 1985, Western testified that if it accepts third party gas and/or exchanges volumes in the Beulah area, problems could occur which would result "in cold homes if anything got fouled up trying to handle somebody else's gas."

a. Describe what types of problems could arise to cause this result.

b. Can't these problems be resolved and still allow the proposed interconnection?

11. Western also testified on November 14, 1985, that in order to accept gas from Xebec or ANR it would have "to be delivered to a spot in Western's system where we can physically move the gas to that end-user . . . it cannot go into an area that will interfere with our storage field operations."

a. Is Western stating that it is physically impossible to achieve Xebec's goal under any operating conditions? If not, under what conditions is it possible?

b. Are the restrictions above necessary due to physical limitations of the system, or are these restrictions the result of a management decision to operate this part of the system in a certain manner?

12. In the prefiled testimony of L. E. Van Meter II on March 8, 1988, it is stated that Western transports gas for 80 of its industrial and commercial customers.

a. Does Western still require each end-user for whom it transports gas to sign an "agency agreement"? If so, please submit a copy of this document.

b. Who arranges for the purchase and transportation of the gas?

c. In practice, does Western restrict or control in any way the movement of this gas through certain intrastate or interstate pipelines from the point of purchase to the point of delivery?

13. Xebec testified on November 14, 1985, that its proposal actually enhances the operation of Western's system in this area since it would allow operating pressures to be balanced and

prevent local production from being shut-in at certain times. Does Western agree with this assessment? If not, why?

14. If the Xebec line is constructed, is Western's direct access to ANR blocked?

15. Assuming that the proposed interconnection is approved and Xebec delivers an average of 7,500 Mcf/day:

a. Describe the nature of any flow restrictions that would result, including on which facilities such restrictions would occur.

b. Presumably, a displacement or exchange of gas volumes would occur at the tap or receipt point between Xebec and Western. Doesn't such displacement or exchange provide any advantages to Western towards meeting its supply needs?

c. At any time during summer, winter, or peak conditions, would Western ever need to utilize gas in storage to accommodate the exchange with Xebec?

d. To the extent that gas volumes between Xebec and Western are displaced and Western utilizes gas in storage for displacement, what impact would this have on Western's supply responsibilities?

e. Regarding displacement or exchange of volumes, is the potential cost differential between Western's storage gas and Xebec's volumes, or the cost of storage gas specifically, an issue with Western in this proceeding?

f. Will displacement to accommodate Xebec expose Western to additional take-or-pay obligations to any supplier?

g. If Western utilized the proposed interconnection to acquire gas supplies from other than its current sources, would Western experience any take-or-pay obligations or suffer any other repercussions from its current suppliers?

h. Describe what additional personnel Western would require and provide an estimate of the additional costs to be incurred by Western to monitor and account for the delivery of Xebec's volumes into Western's system.

16. How does the Xebec proposal:

a. Interfere with Western's operations of its storage fields?

b. Jeopardize the security of supply for Texas Gas Zone 3 customers?

c. Result in Western incurring peak day overrun penalties?

17. If Western was proposing the interconnection at Beulah to accept 7,500 Mcf/day through ANR, how would Western accommodate the additional volumes without incurring the problems raised herein?

18. On page 4, line 23, of Mr. Van Meter's testimony, contracts between Western and Tennessee Gas Pipeline Company are referenced.

a. To what extent are these contracts negotiable?

b. How do the terms (and rates) of these contracts compare to the arrangement proposed by Xebec?

c. It is stated that the main advantage of these sole requirement contracts is that the price per unit is currently

determined using a 62 percent "imputed" load factor resulting in a pricing advantage designed for "small" customers.

(1) Describe the methodology used in determining the price per unit.

(2) What advantages and disadvantages are currently experienced by commercial and industrial customers as a result of the sole requirement contracts?

19. On page 5, line 11, of Mr. Van Meter's testimony, it is stated that Western is currently working with Xebec.

a. Describe in detail all past and current business dealings between Western and Xebec.

b. Have there been any problems in the business relationship between Western and Xebec? If yes, provide an explanation.

20. Describe in general the current business relationship between Western and ANR.

21. On page 6, line 19, of Mr. Van Meter's testimony, it is stated:

Comparable incremental transportation rates by Western Kentucky for the same or similar facilities and services would be considerably less than the maximum rate of \$.12 per dekatherm for the "interruptible" service offered by Xebec.

a. Provide support for this statement.

b. If this is a maximum rate, as stated in the testimony, how does the response to part a. differ if a lower rate is considered?

Done at Frankfort, Kentucky, this 18th day of March, 1988.

PUBLIC SERVICE COMMISSION

Richard D. Hanes, Jr.
For the Commission

ATTEST:

Executive Director