

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION AND TARIFF REQUEST)	
OF K. PETROLEUM, INC. TO INCREASE ITS)	CASE NO.
RATES AND CHARGES FOR PROVIDING FARM)	2004-00436
TAP SERVICE PURSUANT TO KRS 278.485)	

O R D E R

On October 29, 2004, K. Petroleum, Inc. ("KPI") submitted a proposal to increase its rates and charges to customers taking service from its system under the provisions of KRS 278.485. The proposal includes a volumetric rate of \$12.00 per Mcf, a \$10.00 minimum monthly charge, a \$150.00 tap fee, a \$165.00 deposit, and a \$25.00 reconnection fee. As the filing did not include a tariff, on November 17, 2004, the Commission notified KPI that the filing was deficient. On December 1, 2004, KPI cured its filing deficiencies and on January 28, 2005 it filed additional information in response to the December 17, 2004 data request of the Commission Staff.

BACKGROUND

KPI's existing rates and charges include a \$6.00 per Mcf volumetric rate, a \$10.00 minimum monthly charge, \$100.00 tap fee, \$75.00 deposit, and \$20.00 reconnection fee. KPI currently serves 45 customers and averaged 43 customers from 2002 through 2004. Its filing indicates the average customer uses 7 Mcf per month, which equates to 84 Mcf annually per customer, or 3,780 Mcf on a system-wide basis. KPI's response to the Commission Staff's data request states, among other things, that its annual gas production has averaged 693,000 Mcf for the period 2002 through 2004, with its 2004 production in excess of 707,000 Mcf.

PROPOSAL

KPI based its proposed \$12.00 volumetric rate on the 12-month NYMEX strip price of \$7.12 per dekatherm (“dth”) as of October 27, 2004, which it increased to \$7.27 to reflect a contract differential of \$0.15 per dth. It then multiplied this amount by a factor of 1.25 based on a heat content of 1,250 btu per cubic foot, resulting in a gas cost of \$9.09 per Mcf. To this gas cost it added \$1.88 for well operator costs, \$0.95 for administrative personnel costs, \$0.37 for methanol and supplies, and \$0.16 for mileage, for a total price of \$12.45 per Mcf, which it rounded down to \$12.00. The \$10.00 proposed minimum monthly charge represents no change from KPI’s existing minimum monthly charge.

KPI calculated an amount of \$239.11 for its tap fee. This fee included \$90.00 for the saddle, nipple, and first valve, \$65.00 for the cost of a meter, \$70.36 in installation labor costs, \$3.76 in mileage costs, and \$10.00 for administrative time. Pursuant to 807 KAR 5:026, Section 9(1), tap fees are limited to a maximum amount of \$150.00, which is the amount that KPI proposed.

Based on its proposed volumetric rate of \$12.00 per Mcf and average monthly usage of 7 Mcf, KPI calculated, at two-twelfths of an average annual bill, a deposit amount of \$168.00, which it rounded to the proposed amount of \$165.00. KPI calculated a reconnection charge of \$31.35 based on its estimate of labor costs, mileage, and administrative time. Based on the limitations set forth in 807 KAR 5:026, Section 7(1), it proposed the maximum allowable charge of \$25.00.

DISCUSSION

807 KAR 5:026, Section 9, governs the establishment of rates for natural gas gathering systems. For KPI, the proposed change in its volumetric rate exceeds the percentage change in the U.S. Department of Labor’s Producer Price Index – Utility – Natural

Gas, as set forth in the regulation. Therefore, its application falls under Section 9(1)(b) of the regulation, which requires an applicant to provide cost data, including its cost to provide service, during the two previous years. KPI provided some of this data in its application and provided the remainder in its response to the Commission Staff's data request.

Gas Cost

In its application, KPI reflected a 12-month NYMEX strip price of \$7.12 per dth as of October 27, 2004. Its response to the Commission Staff's data request showed that on January 17, 2005 the 12-month average strip price was \$6.51. The response also showed that the NYMEX final settlement price was \$5.39 for 2003 and \$6.14 for 2004. For those two years the final settlement price averaged \$5.76. Given the level and volatility in gas prices during this period of time, the Commission finds that it is more reasonable and strikes a better balance between the interests of the utility and its customers to base rates on the two-year average settlement price. Therefore, the average settlement price of \$5.76 per dth is the gas cost that will be used in determining KPI's volumetric rate. Reflecting KPI's \$0.15 contract differential increases this amount to \$5.91. KPI's data response also reflects that 1.185, not 1.25, should be used as the conversion factor to reflect the heat content of its gas. Multiplying this factor by \$5.91 results in a gas cost of \$7.00 per Mcf.

The Commission finds that the personnel, mileage, and supply costs that KPI proposes to add to its gas cost are reasonable, except for the well operator cost of \$1.88 per Mcf. According to KPI's application, this amount is based on an estimate of 9 hours per customer per year. This equates to a system total of 405 hours, which is approximately 20 percent of the typical annual work hours of 2,080. For a system with annual gas production of roughly 700,000 Mcf, it does not appear reasonable that the provision of service to 45 customers with an annual consumption of roughly 3,800 Mcf should bear 20 percent of the

total annual cost of a well operator. Based on our review of similar systems, the Commission finds that half of the proposed amount, or 10 percent of the annual well operator cost, should be used to determine the total volumetric rate for KPI. The resulting amount of personnel, mileage and supply costs is \$2.42, which, when added to the \$7.00 gas cost previously discussed, results in a total volumetric rate of \$9.42 per Mcf.

Deposit

Based on a volumetric rate of \$9.42 per Mcf and an average monthly usage of 7 Mcf, two-twelfths of an average customer's annual bill will be \$132.00. For purposes of establishing a new deposit amount, this amount will be rounded to \$130.00 per customer.

Tap Fee

KPI's calculated tap fee erroneously includes the \$65.00 cost of a customer's meter. Eliminating this cost reduces the calculated result from \$239.00 to \$174.00, which includes \$70.00 in installation labor for the meter plus the saddle, nipple, and first valve. Allocating the labor cost based on the meter cost and the \$90.00 cost of these other items and eliminating the meter-related portion results in an amount of \$145.00. Due to the somewhat imprecise nature of this allocation method, and recognizing that KPI proposed the \$150.00 amount to which it is limited by the regulation, we will approve the proposed tap fee of \$150.00.

Reconnection Charge

KPI provided cost support for a reconnection charge of \$31.35, which exceeds the \$25.00 maximum amount set forth in the regulation. We therefore find that the proposed reconnection charge of \$25.00 is reasonable and should be approved.

IT IS THEREFORE ORDERED that:

1. KPI's proposed volumetric rate and customer deposit are denied. Its proposed minimum monthly charge, tap fee, and reconnection charge are approved.

2. A volumetric rate of \$9.42 per Mcf and a customer deposit of \$130.00 are approved.


3. The rates and charges contained in Appendix A of this Order are approved for service rendered by KPI on and after the date of this Order.

4. Within 20 days from the date of this Order, KPI shall file its revised tariff sheets showing the rates and charges approved herein, their effective date, their date of issue, and that they were issued pursuant to this Order.

Done at Frankfort, Kentucky, this 25th day of February, 2005.

By the Commission

ATTEST:

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the end, positioned above the text 'Executive Director'.

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2004-00436 DATED February 25, 2005

The following rates and charges are prescribed for the customers in the area served by K. Petroleum, Inc. 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.

SERVICE RATES

\$9.42 per Mcf for all Mcf sold

\$10.00 minimum monthly charge

OTHER CHARGES

\$150.00 tap fee

\$130.00 customer deposit

\$25.00 reconnection charge