

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE NOTICE OF PROPOSED RATE CHANGE)	CASE NO.
FOR INTERSTATE NATURAL GAS COMPANY)	2006-00122

ORDER

Interstate Natural Gas Company (“Interstate”) has applied to the Commission for an adjustment in its rate for gas service provided pursuant to KRS 278.485. Based upon its review of the evidence, the Commission finds the proposed adjustment is reasonable and approves it.¹

KRS 278.485 requires every gas pipeline company that obtains natural gas from producing wells in Kentucky to provide gas service to any person whose property is located within one-half air-mile of the company’s producing gas well or gas gathering pipeline and who requests such service. Interstate serves 139 customers with such service from approximately 50 gas wells that are located in eastern Kentucky.²

Interstate asserts that it needs an increase in its rates for gas service pursuant to KRS 278.485 because of increases in the market cost of natural gas. It proposes to increase its rate from \$5.50 per Mcf to \$14.44 per Mcf. The proposed rate represents an increase of 163 percent.

¹ Interstate submitted its application to the Commission on April 11, 2006.

² Interstate serves customers in Pike, Floyd, Knott, Martin, Lawrence, Leslie, Letcher, Lee, Morgan, Magoffin, and Johnson counties.

Administrative Regulation 807 KAR 5:026 governs the operation of gas gathering pipelines and implements KRS 278.485. Section 9(a) permits a gas pipeline company to request an adjustment of its rates, without the submission of cost supporting data, if the percentage change in rates does not exceed the percentage change in the price index³ during the most recent 12 month period immediately preceding the filing of the proposed adjustment and the proposed rate is no greater than the highest current average volumetric rate of a local gas distribution utility in effect when the proposed rate is filed. Section 9(b), which applies to all gas pipeline suppliers whose proposed adjustment does not meet the criteria of Section 9(a), requires the submission of “cost data which support the proposed increase.” These supporting materials must “include the gas company's costs to provide the service during each of the previous two (2) years” and must be “current within ninety (90) days of the date the proposed tariff is filed.”

Interstate’s proposed rate adjustment does not meet the criteria of Section 9(a). The percentage change in the price index during the most recent 12-month period immediately preceding the proposed tariff was 23.43 percent, which Interstate’s proposal exceeds.

To support its application and to comply with Section 9(b), Interstate has supplied an analysis of its administrative costs and its gas sales for a 2-year period. Rather than base its proposed rate on historical gas prices, however, Interstate proposes that its

³ “Price index” means the average of the producer price index-utility natural gas (PPI 05-5) for the most recent twelve (12) month period as published monthly by the United States Department of Labor, Bureau of Labor Statistics.

cost of gas be determined using a 12-month New York Mercantile Exchange⁴ (“NYMEX”) strip⁵ and an average of the differential between the price of natural gas delivered to the Henry Hub in Louisiana and to the Appalachian area for the 24-month period prior to the filing of Interstate’s application.

In support of its use of NYMEX prices to determine the cost of natural gas, Interstate argues that, except for natural gas service provided pursuant to KRS 278.485, all of its natural gas sales are made in interstate commerce under contracts tied to NYMEX Appalachian pricing. For this reason, Interstate argues, the NYMEX strip, adjusted for the Appalachian differential, is “the only relevant index for pricing Interstate’s farm tap gas.”⁶

⁴ The NYMEX is the world’s largest physical commodities futures exchange. Its two principal divisions are the New York Mercantile Exchange and the New York Commodities Exchange (COMEX). It handles billions of dollars worth of energy products, metals, and other commodities being bought and sold on the trading floor and the overnight electronic trading computer systems, which were once independent companies but are now merged. The Commodity Futures Trading Commission, an agency of the United States Government, regulates the floor of the NYMEX. See <http://www.nymex.com/intro.aspx> (last visited Dec. 15, 2006).

⁵ A strip is defined as follows:

The simultaneous purchase (or sale) of an equal number of futures positions in consecutive months. The average of the prices for the futures contracts bought (or sold) is the price level of the hedge. A six-month strip, for example, consists of an equal number of futures contracts for each of six consecutive contract months. Also known as a calendar strip.

New York Mercantile Exchange, “Glossary of Terms” (found at <http://www.nymex.com/media/glossary.pdf>) (last visited Dec. 15, 2006) at 42.

⁶ Interstate Natural Gas Company’s Response to Commission Staff’s First Information Request, Item 5.

The Commission finds Interstate's use of NYMEX price is a reasonable basis for determining Interstate's cost of gas. This methodology is consistent with the methodology that the Commission has used in previous cases. We further find that, given the significant volatility in natural gas prices this century, a price based upon NYMEX futures is more representative of current natural gas prices than a 2-year historical average.

Having carefully reviewed the evidence of record and being otherwise sufficiently advised, the Commission finds that the rates set forth in the Appendix to this Order are fair, just, and reasonable and should be approved for service rendered on and after the date of this Order.

IT IS THEREFORE ORDERED that:

1. Interstate's proposed rate adjustment is approved.
2. The rates set forth in Appendix A to this Order are approved for natural gas service that Interstate renders on and after the date of this Order.
3. Within 20 days of the date, Interstate shall file with the Commission its revised tariff sheets setting forth the approved rate and conforming generally to Administrative Regulation 807 KAR 5:011.

Done at Frankfort, Kentucky, this 20th day of December, 2006.

By the Commission

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2006-00122 DECEMBER 20, 2006

The following rates and charges are prescribed for natural gas service that Interstate Natural Gas Company provides pursuant to KRS 278.485. 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.

Minimum Bill	\$14.44
All Additional Mcf	\$14.44