

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF FOREXCO, INC. FOR FARM)	CASE NO.
TAP RATE ADJUSTMENT)	2012-00022

O R D E R

On January 19, 2012, Forexco, Inc. ("Forexco") filed an application to establish initial retail rates, rules and regulations 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 onto such systems ("farm tap customers"). On February 8, 2012, Commission Staff issued a request for information to Forexco which, among other things, sought clarification of Forexco's status as a proposed supplier of natural gas pursuant to KRS 278.485. The requested information was filed February 22, 2012. There are no intervenors in this case.

BACKGROUND

Forexco is an oil and gas exploration company, headquartered in Greensboro, North Carolina, that wants to extend gathering lines in Bell County, Kentucky. It currently has no free gas or farm tap customers, but estimates that there are 25 to 40 houses located within one-half air-mile of its existing gathering lines, with 12 houses along the proposed gathering line.¹ Forexco has close to 40 gas wells, approximately

¹ Response to Commission Staff's First Request for Information, Item 1.c.

76,000 feet of installed pipeline of varying sizes, and approximately 18,000 feet of proposed 8-inch pipeline.²

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. Forexco anticipates that it will initially serve one such farm tap customer located along its proposed gathering line in Bell County,³ and intends to contact the other affected residents informing them of their right to obtain farm tap service.⁴

As a farm tap company, Forexco's rates and charges will be governed by 807 KAR 5:026, Section 9. This regulation provides for such companies to charge rates filed with and approved by the Commission. The regulation does not specifically establish a review process for initial rates, but provides for changes 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;
2. The proposed rate does not exceed the highest average volumetric rate of a local gas distribution utility ("LDC") approved by the Commission and in effect on the date the proposed tariff is filed; and
3. If the proposed percentage increase in rates exceeds the percentage change in the price index but the proposed rate remains below the highest prevailing gas rate approved by the

² Application, attached map "Forexco, Inc. Farm Tap and Pipeline Map, Bell County, Kentucky."

³ The only potential customer with whom Forexco has discussed tap service is J. Christopher Gibbs of Diversified Investments & Development, LLC. Mr. Gibbs provided an affidavit that was attached to Forexco's Application, saying that he was requesting to tap on to Forexco's proposed gathering line. The facility located on Mr. Gibbs' property for which he desires service is a horse barn with an office and apartment, with estimated usage of 5 Mcf monthly (standard residential natural gas usage).

⁴ Response to Commission Staff's First Request for Information, Item 1.c.

Commission, the company must provide two years of cost data for its proposed increase.

Forexco's proposed rates are:

Minimum Bill (0 to 1 Mcf)	\$9.98
All additional Mcf	\$9.98
Tap-on fee	\$150.00
Reconnect fee	\$25.00

In evaluating Forexco's request for initial farm tap rates, the Commission considered the applicable requirements of 807 KAR 5:026, Section 9, as set out above and found that Forexco's proposal is below the highest Commission-approved average LDC volumetric rate of \$16.26 per Mcf.

Because this is an application for initial rates and not for an increase of existing rates, Forexco supplied estimates of its non-gas costs associated with customers served under KRS 278.485. It based its gas cost on the New York Mercantile Exchange ("NYMEX") 12-month strip for February 2012 through January 2013. The 12-month NYMEX strip adjusted for a 1.2 Btu conversion factor as proposed by Forexco is \$4.08 per Mcf.

Cost support estimates provided by Forexco consist of the cost of estimated labor and maintenance to serve the customer requesting service. Forexco proposed a \$5.90 per Mcf base rate, which is calculated to cover the cost of two hours of labor and travel reimbursement in the amount of \$29.50 per customer per month, using an estimated customer usage of 5 Mcf per month.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the rates proposed by Forexco 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. In addition, the Commission finds that Forexco should file within 30 days of the date of this Order a list of potential customers to whom informational notices are sent regarding the availability of farm tap service, and should file 60 days after that (or within 90 days of the date of the Order in this case) the names of customers who responded. Any requests made for service connections with gas producing wells or pipelines, regardless of when the request is made, should be filed with the Commission as they occur. This will insure that the construction of each service line and the installation of automatic gas regulators and gas meter or meters shall be under the supervision of the Commission and shall conform to such standards of safety, location, and convenience as may be prescribed by the Commission.

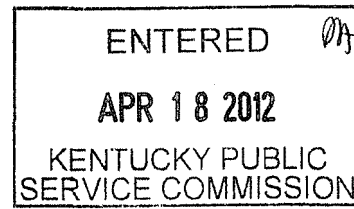
IT IS THEREFORE ORDERED that:

1. Forexco's proposed tariff and rates 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, Forexco shall file with the Commission its revised tariff showing the effective date, the date of issue, and a statement that it is issued pursuant to this Order.
4. Within 30 days of the date of this Order, Forexco shall file with the Commission a list of potential customers to whom informational notices have been sent regarding the availability of farm tap service.

5. Within 90 days of the date of this Order, Forexco shall file with the Commission the names and addresses of potential customers who responded to the informational notices.

6. Forexco shall file with the Commission any future requests made for service connections with gas producing wells or pipelines as they occur.

By the Commission



ATTEST:

Cassandra D. Brummett
Executive Director

Case No. 2012-00022

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00022 DATED APR 18 2012

The following rates and charges are prescribed for the customers served by
Forexco, Inc., effective the date of this Order.

Minimum Bill (0 to 1 Mcf)	\$9.98
All additional Mcf	\$9.98
Initial Tap-on fee	\$150.00
Reconnect fee	\$25.00

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