

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF JETTA OPERATING)	
APPALACHIA, LLC FOR INITIAL RULES,)	CASE NO.
REGULATIONS, AND RATES FOR FURNISHING)	2018-00212
GAS SERVICE PURSUANT TO KRS 278.485)	

ORDER

On June 4, 2018, Jetta Operating Appalachia, LLC (Jetta), filed an application to establish initial rules, regulations, and rates pursuant to KRS 278.485 and 807 KAR 5:026, which govern gathering systems that provide service to retail customers who tap onto such systems (farm tap systems). On June 29, 2018, the Commission issued an Order finding that further proceedings were necessary to determine whether Jetta's proposed tariff that established initial rules, regulations, and rates to operate a farm tap system was reasonable and in the public interest. In the June 29, 2018 Order, the Commission also set a deadline of July 15, 2018, for a party to file a request to intervene, but no party intervened in the pending case. The Commission issued three rounds of discovery requests to which Jetta filed responses into the record. Jetta did not request a hearing, and the matter now stands submitted for a decision on the record.

BACKGROUND

Jetta is a wholly owned subsidiary of Jetta Operating Company, Inc., that has wells and gathering lines in Leslie, Perry, and Letcher counties in Kentucky.¹ Jetta asserts in

¹ Application at 1.

its application that in 2011 an affiliate of Jetta purchased oil and gas assets from Equitable Production Company,² and Jetta operates those assets.³ At the time of the acquisition, there was at least one existing farm tap customer on the pipelines included in those assets.⁴ Jetta continued to provide natural gas service to the pre-existing farm tap customer under Equitable Production Company's tariff, but only charged \$8.00 per Mcf⁵ instead of the tariffed rate of \$8.534.⁶

Since that time, Jetta has constructed additional gathering line infrastructure and received requests from individuals for access to natural gas from Jetta's gathering lines.⁷ Jetta's personnel provided information to the farm tap applicants regarding the standards for installing the natural gas facilities and advised them of the requirement for the installation of the natural gas lines to be inspected by the Commission.⁸ Jetta currently provides natural gas service to 12 farm tap customers.⁹ Jetta asserted in response to discovery that because its wells and pipelines are largely in remote areas with little

² Jetta's response to Commission Staff's Second Request for Information (Staff's Second Request), Item 2.

³ Application at 1.

⁴ In the application, Jetta initially asserted that at the time of the acquisition there were no farm taps installed pursuant to KRS 278.485, on the pipelines included in the acquired assets. However, in responses to discovery, Jetta confirms that there was at least one existing farm tap customer that Jetta inherited with the acquisition of the assets.⁴

⁵ Application at 1; Jetta's response to Staff's Second Request, Item 11.

⁶ Jetta's response to Staff's Second Request, Item 2, Tab 2.

⁷ Application at 1.

⁸ *Id.*

⁹ Jetta's response to Commission Staff's First Request for Information (Staff's First Request), Item 1.

existing population, Jetta does not anticipate receiving a significant number of additional applications to access the natural gas gathering lines.¹⁰

Jetta states that it has been providing natural gas service to the new farm tap customers and charging a rate of \$8.00 per Mcf. Jetta filed the pending application because it discovered that it needed to have a tariff on file with the Commission in order to provide service to the farm tap customers.¹¹ Further, Jetta acknowledges that it did not comply with KRS 278.485(1) because it did not have furnished rates and monthly charges approved by the Commission before providing natural gas to new farm tap customers.¹² Jetta contends that notwithstanding the fact that it did not have an approved tariff filed in its own name, Jetta did follow the requirements of KRS 278.485 and 807 KAR 5:026 by giving notice to the Commission and having the new natural gas pipeline installations inspected by representatives of the Commission.¹³

ANALYSIS AND FINDINGS

KRS 278.485 requires every gas pipeline company obtaining gas from producing wells located within the state of Kentucky to provide service, upon request, to an owner whose property is located within one-half air mile of the company's producing gas well or gas gathering pipeline. As a farm tap system, Jetta's rates and charges will be governed by 807 KAR 5:026, Section 9. This regulation provides for farm tap companies to charge rates filed with and approved by the Commission, but it does not specifically establish a

¹⁰ Jetta's response to Staff's First Request, Item 4.

¹¹ Application at 1.

¹² Jetta's response to Staff's Second Request, Item 3.

¹³ *Id.*

review process for initial rates.¹⁴ Section 9 of 807 KAR 5:026, does provide for an adjustment in rates through a proposed tariff submitted at least 60 days prior to its proposed effective date 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;¹⁵ and,

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.¹⁶

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 Commission, the gas company must provide two years of cost data for its proposed increase.¹⁷

In the pending application, Jetta's proposed initial rates are:

Total Gas Price per Mcf	\$ 8.25 ¹⁸
New Installations/Tap-On Fee	\$150.00
Reinstatement of Service/Turn-On Fee	\$ 25.00
Deposit	Equal to an estimated three months of gas usage

In evaluating Jetta'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

¹⁴ 807 KAR 5:026, Section 9(1).

¹⁵ 807 KAR 5:026, Section 9(1)(a)(1).

¹⁶ 807 KAR 5:026, Section 9(1)(a)(2).

¹⁷ 807 KAR 5:026, Section 9(1)(b).

¹⁸ Jetta initially requested \$8.65 per Mcf, but through discovery responses revised the requested rate to \$8.25 per Mcf; Jetta's responses to Staff's Second Request, Items 15 and 16.

that Jetta's proposal is below the highest Commission-approved average LDC volumetric rate of \$15.6933 per Mcf. Because this is an application for initial rates and not for an increase of existing rates, Jetta supplied estimates of its non-gas costs associated with customers served under KRS 278.485. Jetta based its gas cost on the New York Mercantile Exchange (NYMEX) 12-Month Strip for March 27, 2018, which was \$2.87/DTH, which it reduced by \$0.26/DTH to recognize the difference in price of the 12-month Columbia Gas TCO Strip as of March 27, 2018.¹⁹ Jetta then used a 1.370 Btu conversion factor resulting in a proposed total gas cost of \$3.58 per Mcf.²⁰

Cost support estimates provided by Jetta consist of the cost of estimated labor and maintenance to serve the farm tap customers. Based upon the cost support, Jetta could have requested to charge \$11.20 per Mcf.²¹ However, Jetta only proposed a total cost of \$8.25 per Mcf, which is calculated to cover the cost of the gas, well operator, administrative personnel, and office supplies and postage.²²

Jetta's proposed tariff initially contained a provision that stated Jetta would only send a bill to a customer when the aggregate amount of the bill was more than \$30.00. Pursuant to 807 KAR 5:026, Section 7(1), bills must be rendered to customers at regular monthly or bimonthly intervals. In response to Staff's Second Request, Item 4, Jetta indicated that it would bill its customers monthly.²³ Jetta's proposed tariff also contained

¹⁹ Application, Tariff Exhibit, Gas Price Calculations, page 4.

²⁰ *Id.*

²¹ Jetta's response to Staff's Second Request, Item 5, Tab 4.

²² *Id.*

²³ Jetta's response to Staff's Second Request, Item 4.

a provision indicating that the gas it supplies is not odorized. During the pendency of this case, 807 KAR 5:026 was amended to require combustible gas in a distribution line to contain a natural odorant or be odorized so that at a concentration in air of one-fifth of the lower explosive limit, the gas is readily detectable by a person with a normal sense of smell.²⁴

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the rates proposed by Jetta 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. The Commission also finds that Jetta shall issue bills to its customers on a monthly basis and, in order to comply with 807 KAR 5:026, Section 6(12), the combustible gas in the distribution lines shall contain a natural odorant or be odorized.

The Commission further finds that Jetta should file, within 30 days of the date of this Order, a list of potential customers to whom informational notices have been sent, or will be sent, regarding the availability of farm tap service, and should file within 60 days of the date of this Order, the names of customers who have 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 ensure 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.

²⁴ 807 KAR 5:026, Section 6(12).

IT IS THEREFORE ORDERED that:

1. Jetta's revised proposed tariff and rates are approved with the modifications discussed herein.

2. The rates and charges, as set forth in the Appendix to this Order, attached hereto and incorporated herein, are approved as fair, just, and reasonable rates for Jetta and these rates and charges are approved for service rendered on and after the date of this Order.

3. Within 20 days of the date of this Order, Jetta shall file with the Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates, charges, and modifications approved or as required herein and reflecting their effective date and that they were authorized by this Order.

4. Within 30 days of the date of this Order, Jetta 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 60 days of the date of this Order, Jetta shall file with the Commission the names and addresses of potential customers who responded to the informational notices.

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

7. Any documents filed in the future pursuant to ordering paragraphs 4, 5, and 6 shall reference this case number and shall be retained in the post-case correspondence file.

8. This case is hereby closed and will be removed from the Commission's docket.

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APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2018-00212 DATED **APR 02 2019**

Total Gas Price per Mcf	\$ 8.25
New Installations/Tap-On Fee	\$150.00
Reinstatement of Service/Turn-On Fee	\$ 25.00
Deposit	Equal to an estimated three months of gas usage

By the Commission

ENTERED
APR 02 2019
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2018-00212

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