

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KYTX OIL & GAS, LLC FOR) CASE NO.
APPROVAL TO OPERATE A FARM TAP SYSTEM) 2011-00507

O R D E R

On December 12, 2011, KYTX Oil & Gas, LLC 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"). The January 30, 2012 response to Commission Staff's ("Staff") request for information indicated a clerical error was made in the name of the Applicant in the December 12, 2011 application, and that the name should be changed to KYTX Pipeline, LLC ("KYTX"), which is the owner of the gas production. There were no intervenors in this case.

BACKGROUND

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. KYTX anticipates serving one such commercial farm tap customer located along its gathering lines in Knox County.

KYTX's proposed tariff includes a monthly residential Minimum Bill of \$10.00 and a monthly commercial Minimum Bill of \$60.00, both minimum bills for usage of 0 to 1

Mcf, and a rate of \$10.00 per Mcf for all additional Mcf for all customers. It also proposed to establish a \$20.00 reconnect fee and a cash deposit of \$100.00.

Staff issued two data requests to KYTX which, among other things, asked for cost justification for the proposed rates.¹ A telephonic Informal Conference was held between KYTX and Staff on February 28, 2012 to further clarify issues concerning KYTX's proposed rates and the potential commercial customer.

In response to a Staff data request, KYTX stated that its proposed rates included a gas cost rate of \$5.30 per Mcf, which was based on a 12-month NYMEX Strip price of \$3.97 per Dth, plus a two-year average Appalachian differential of \$.34 per Dth, and was adjusted for a Btu conversion factor of 1.230. Later in the same data response, KYTX stated that the \$3.97 was a historical average of the selling price of its gas to Cumberland Valley Resources LLC.

The Commission finds that it is more appropriate to base KYTX's gas cost rate on an actual NYMEX future rate, which will be more indicative of the cost of gas in future months than the historical rate used by KYTX. Substituting a \$3.40 per Dth 12-month NYMEX strip for February 2012 through January 2013 in order to implement a forward-looking gas cost, and adding the Appalachian differential and adjusting for the Btu conversion results in a gas cost rate of \$4.60 per Mcf.

Cost support provided by KYTX for its base rate consisted of estimated hours required for meter reading, maintenance, billing, and clerical functions. To

¹ The cost justification submitted by KYTX supported a total rate of \$9.50 per Mcf, as opposed to its proposed rate of \$10.00 per Mcf.

cover these costs, plus postage, office supplies, and depreciation on meters, KYTX proposed a \$4.20 per Mcf base rate. Adjusting KYTX's calculations based on a comparison to the actual required hours other farm tap systems have provided in rate applications, and using 15 years to depreciate meters rather than five years as proposed by KYTX, produces a \$3.48 per Mcf base rate. Adding the \$3.48 base rate to the \$4.60 gas cost produces a volumetric rate of \$8.08 per Mcf, as opposed to the \$10.00 per Mcf rate proposed by KYTX. This will be the rate for all Mcf usage above the first Mcf which is covered by the \$10.00 minimum for residential customers and the \$60.00 minimum for the anticipated commercial customer.

KYTX's proposed \$60.00 Minimum Bill for commercial customers was based on the cost to provide satellite communications for the one commercial customer it anticipates serving. KYTX stated in a data response that the rate charged to the commercial customer will be based on a special contract executed with that customer. There are no other potential commercial or residential customers.

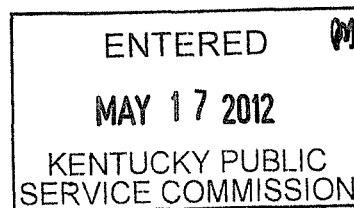
The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the rates included in the Appendix to this Order are fair, just, and reasonable, in the public interest, and should be approved effective for service rendered on and after the date of this Order. In the event KYTX receives requests for farm tap service from eligible residential or commercial customers, they are to be charged the rates approved by the Commission in this case. Otherwise, the potential commercial customer may be charged a rate established by special contract. Within 20 days of its execution, the special contract should be filed with this Commission. The

\$60.00 commercial customer charge should be reserved for that special contract, since that rate is specific to the one customer needing satellite communications.

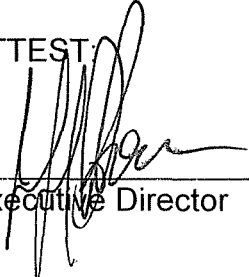
IT IS THEREFORE ORDERED that:

1. The rates proposed by KYTX are denied.
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, KYTX shall file with this 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 20 days of executing the contract with the one potential commercial customer, it should be filed with the Commission.

By the Commission



ATTEST:



Executive Director

Case No. 2011-00507

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2011-00507 DATED **MAY 17 2012**

The following rates and charges are prescribed for the customers served by KYTX Pipeline, LLC. 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.

All Customers:

Minimum Bill (0 – 1 Mcf)	\$ 10.00
All additional Mcf	\$ 8.08
Reconnect charge:	\$ 20.00
Cash Deposit:	\$100.00
Tap fee:	\$150.00

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