

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EQUITABLE GAS)
COMPANY FOR AN ADJUSTMENT OF) CASE NO. 2003-00411
RATES)

ORDER

On November 3, 2003, Equitable Gas Company (“Equitable Gas”) filed an application pursuant to KRS 278.485 to increase rates for customers served through its gathering line (“farm tap”) system. Equitable Gas is a division of Equitable Resources, Inc. and operates in Kentucky as a farm tap system using the lines of its affiliate, Kentucky West Virginia Gas Company (“Kentucky West”).¹ A farm tap system is a gas system that produces natural gas from wells or acquires natural gas through gathering lines for the purpose of transporting the gas to market and is not a “utility” as defined by Kentucky statute. Therefore, the Commission’s jurisdiction over such system is limited.

KRS 278.485, which defines the Commission’s jurisdiction over such systems, requires that gathering systems allow customers located within one-half air mile of a well or gathering line to tap onto the system. The gas received by these customers is typically untreated gas and customers receive minimum service in exchange for a Commission-approved rate.

¹ Item 4 of Equitable Gas’s Response to First Data Request of Commission Staff, dated December 19, 2003.

In several ways, however, Equitable Gas is not typical of most of the small farm tap systems that the Commission oversees. Equitable Gas serves over 3,800 customers. The gas that it delivers to those customers is not its own production, but is purchased from third-party suppliers through its affiliate, Equitable Energy. It files quarterly Gas Cost Adjustments (“GCA”) with the Commission. Because of its physical configuration and its relationship with its affiliate, Kentucky West, Equitable Gas has historically been regulated for rate-making purposes as if it were a local distribution company (“LDC”).

Equitable Gas proposes an increase in base rates that includes a change in rate design from a multi-tiered structure to a flat rate structure as shown below:

	<u>Current Base Rate</u>	<u>Proposed Base Rate</u>
Customer Charge	\$4.45	\$7.50
First 2 Mcf	\$1.0399	
Next 18 Mcf	\$.8178	
Next 30 Mcf	\$.7179	
Next 50 Mcf	\$.629	
All over 100 Mcf	\$.5513	
All Mcf		\$2.1322

Pursuant to Section 9 of 807 KAR 5:026, a farm tap system may request a change in rates if:

1. The percentage change in rates does not exceed the percentage change in the price index during the most recent twelve (12) month period immediately preceding the date the proposed tariff is filed; and
2. The proposed rate does not exceed the highest average volumetric rate of a local gas distribution utility approved by the commission and in effect on the date the proposed tariff is filed. The

commission shall provide the current percentage change in the price index and the highest prevailing rate upon written request.

Equitable Gas requested the percentage change in the price index and the highest prevailing rate from the Commission in September 2003. At that time, the Producer Price Index ("PPI") for Residential Natural Gas² showed an increase of 31 percent for the 12 months ending July 2003 and the highest average volumetric rate approved by the Commission for an LDC was \$16.9636 per Mcf. Equitable Gas's proposed percentage increase is below the PPI increase and its proposed volumetric rate is below the highest LDC rate approved by the Commission.

The Commission received 55 comment letters from Equitable Gas customers, all opposing the rate increase. The letters discussed, among other things, the allegedly high rates already being charged. One customer, Grant Newsome, requested and was granted intervention. There were no other intervenors in this case.

Equitable Gas's application meets the requirements of the relevant statutes and regulations and the Commission finds that the base rates proposed therein are reasonable and should be approved. However, when the proposed base rates are combined with its GCA, Equitable Gas will have one of the highest overall retail rates among the jurisdictional gas systems operating in Kentucky. Over 80 percent of Equitable Gas's total volumetric rate is attributable to its GCA, which it files even though

² U.S. Department of Labor, Bureau of Labor Statistics, Producer Price Index-Commodities. *Available at* <http://data.bls.gov/cgi-bin/dsrv> (last visited on February 25, 2004).

it is not an LDC.³ Equitable Gas's overall retail gas rates are cause for concern on the part of the Commission.

One concern involves the suppliers from whom Equitable Gas purchases its gas supplies. For a number of years, Equitable Gas has listed Kentucky West as its natural gas supplier in its GCA filings. However, in response to a Staff data request in this proceeding Equitable Gas stated that it does not purchase gas from Kentucky West, but purchases third-party gas supplies from its affiliate Equitable Energy.⁴ Although it is not Equitable Gas's gas supplier, Kentucky West operates as the transporter and charges Equitable Gas its Federal Energy Regulatory Commission ("FERC") approved maximum transportation rates. At a minimum, Equitable Gas should correctly report its suppliers in its GCA filings.

A second, and more significant concern, is the level of gas costs that Equitable passes on to its customers, which is reflected in the consistency with which its GCA has been the highest of the gas systems filing GCAs with the Commission over the past 15 months. Equitable Gas has no obligation to provide the same quality of service as an LDC. Thus, its customers are not assured of receiving the same level of service as LDC customers. Even so, the gas cost component of Equitable Gas's retail rates has, since late 2002, consistently exceeded the gas cost component included in the rates of any regulated LDCs.

³ Jefferson Gas, the other farm tap system that files GCAs, consistently has among the lowest gas costs of the companies that make regular GCA filings.

⁴ Item 1 of Equitable Gas's Response to Second Data Request of Commission Staff, dated January 16, 2004.

The Commission recognizes that the heat content of Equitable Gas's gas supply is a contributing factor in its higher per Mcf gas costs. However, Equitable Gas's choice of gas price index and its willingness to incur and pass on to its customers Kentucky West's maximum FERC-approved transportation rates are also factors that contribute to its higher gas costs.

The Commission finds that, given the magnitude of Equitable Gas's overall retail gas rates, a concerted effort should be made outside of this proceeding to explore possible avenues to reduce Equitable Gas's gas costs. We therefore direct the Commission's Executive Director to arrange, within 30 days of this Order, a conference between representatives of Equitable Gas and Commission Staff for the purpose of discussing possible avenues for long-term reductions in Equitable Gas's total (commodity and transportation) gas supply costs and developing a plan to achieve such results.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the base rates proposed by Equitable Gas and set out in Appendix A of this Order, are fair, just, and reasonable and should be approved effective with the date of this Order.

IT IS THEREFORE ORDERED that:

1. The rates proposed by Equitable Gas are approved effective with the date of this Order.
2. Within 20 days of the date of this Order, Equitable Gas shall file with this Commission its revised tariff showing its effective date, the date of issue, and that it is issued pursuant to this Order.

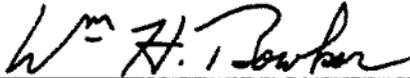
3. Within 30 days of the date of this Order, the Commission's Executive Director shall arrange a conference between Commission Staff and representatives of Equitable Gas for the purpose of discussing possible avenues for long-term reductions in Equitable Gas's total (commodity and transportation) gas supply costs and developing a plan to achieve such results.

Done at Frankfort, Kentucky, this 29th day of April, 2004.

By the Commission

ATTEST:

Deputy



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2003-00411 DATED APRIL 29, 2004

The following rates and charges are prescribed for the customers served by Equitable Gas Company. 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:

	<u>Base Rate</u>
Customer Charge	\$7.50
All Mcf	\$2.1322