

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF G.S. KNOX GAS)	
COMPANY TO INCREASE ITS RATES)	
AND CHARGES FOR PROVIDING)	CASE NO. 2006-00460
FARM TAP SERVICE PURSUANT TO)	
KRS 278.485)	

ORDER

On October 31, 2006, G.S. Knox Gas Company (“G.S. Knox”) filed an application to increase the rate it charges its KRS 278.485 customers (“farm tap customers”). In addition to the information provided in the application, G.S. Knox supplied additional information in response to a Commission Staff’s (“Staff”) information request. 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. G.S. Knox has 29 such farm tap customers connected to 5 wells in Knox County, Kentucky.

G.S. Knox states that due to the increase in the market cost of gas, it must adjust its farm tap rates. G.S. Knox proposes the following increase in its farm tap rates:

	<u>Current</u>	<u>Proposed</u>	<u>% Increase</u>
Minimum Bill (1 Mcf)	\$5.00	\$13.13	162.6%
All Additional Mcf	\$6.00	\$13.13	118.8%

807 KAR 5:026, Section 9, allows a farm tap operator to request an adjustment 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,¹ 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 percentage change in the price index during the most recent 12-month period immediately preceding the proposed tariff was a 10.9 percent decrease. G.S. Knox's proposal, which represents a 118.83 percent increase, exceeds this percentage change in the price index. If this situation occurs, the regulation requires the utility to provide its costs to provide service during the previous 2 years, ending not more than 90 days from the date the proposed tariff is filed. G.S. Knox supplied an analysis of its administrative and proposed gas costs but, rather than using the criteria set forth in 807 KAR 5:026, G.S. Knox proposes to use a 12-month New York Mercantile Exchange ("NYMEX") price strip and an average of the 24-month Appalachian differential to calculate the gas cost portion of its rate. The Commission notes that natural gas prices have been volatile since 2000 and finds that a price based on the NYMEX futures is more representative of current gas prices than a two-year historical average.

The Commission has accepted and approved this pricing mechanism in many prior farm tap cases, as a reasonable proxy for the requirements of the regulation. The

¹ 807 KAR 5:026 defines price index as the average of the producer price index-utility natural gas (PPI-05) for the most recent 12 month period as published monthly by the United States Department of Labor, Bureau of Labor Statistics.

most recent accepting this methodology being Case No. 2006-00122.² Therefore we will continue to accept this method in determining the rate.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the rates, charges, and terms in the Appendix to this Order are fair, just, and reasonable, in the public interest, and should be approved effective with the date of this Order.

IT IS THEREFORE ORDERED that:

1. G.S. Knox's proposed rate is 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, G.S. Knox 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.

² Case No. 2006-00122, The Notice of Proposed Rate Change for G. S. Knox Natural Gas Company, Order dated December 20, 2006.

Done at Frankfort, Kentucky, this 22nd day of January, 2007.

By the Commission

ATTEST:



Executive Director

Case No. 2006-00460

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2006-00460 DATED January 22, 2007

The following rates and charges are prescribed for the customers served by G.S. Knox 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.

Minimum Bill (1 Mcf)	\$ 13.13
All Additional Mcf	\$ 13.13