COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF EAST KENTUCKY MIDSTREAM, LLC FOR APPROVAL OF PROPOSED TARIFF UNDER 807 KAR 5:026, SECTION 9	))))	Case No. 2023-00112

Response to Commission Staff's Second Request for Information

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East Kentucky Midstream herewith submits its Response to the Commission Staff's Second Request for Information. A signed, notarized verification for this Response appears on the following page.

Respectfully submitted,

/s/ Kathryn A. Eckert

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Certification

This is to certify that I have supervised the preparation of the Response to the Commission Staff's Second Request for Information to East Kentucky Midstream on behalf of the corporate respondent and that the responses from myself and the other witness(es) are true and accurate to the best of my knowledge, information and belief after reasonable inquiry.

DATE: 9/27/23

Jack Justice, Member

Request

1. Refer to East Kentucky Midstream's response to Commission Staff's First Request for Information (Staff's First Request), Item 2. For each charge, fill out the following form attached as an Appendix, providing all relevant calculations.

Response

Please see attached Nonrecurring Charge Cost Justification forms for:

- Installation/Reconnection Fee ($25 – existing)
- Seasonal/Temporary Disconnect Fee ($100 – proposed)

NONRECURRING CHARGE COST JUSTIFICATION

Type of Charge: **Seasonal/Temporary Disconnect Fee** (for each customer-requested disconnection with subsequent reconnection) — PROPOSED ($100)

	Range:	Low	High
1. Field Expense			
A. Materials	(N/A)	0.00	0.00
B. Labor	@ $23.07/hour[1]		
disconnect	0.75 hours[1]	17.30	17.30
reconnect	0.75 hours[1]	17.30	17.30
	Total Field Expense	**34.60**	**34.60**
2. Clerical and Office Expense			
A. Materials	(N/A)	0.00	0.00
B. Labor	@ $14.00/hour		
disconnect	10 to 15 minutes	2.33	3.50
reconnect	10 to 15 minutes	2.33	3.50
	Total Clerical and Office Expense	**4.66**	**7.00**
3. Miscellaneous Expense			
A. Transportation	@ $0.655/mile		
disconnect	40 to 45 miles[1] to service location	26.20	29.48
reconnect	40 to 45 miles[1] to service location	26.20	29.48
B. Other	allocated pipeline repairs expense of $21.28 per farm-tap customer per month[2] for 2.5-5.0 months[3]	53.20	106.40
	Total Miscellaneous Expense	105.60	165.36
	TOTAL Nonrecurring Charge Expense	**144.86**	**206.96**

[1] The disconnection and then reconnection have identical expenses. For detail, please see footnotes 1 & 2 to the Nonrecurring Charge Cost Justification for the Installation/Reconnection Fee.

[2] Pipeline Repairs expense (Acct 67201) for CY 2022 was $525,719.66, of which 0.153 ($80,435.11) is allocated to farm-tap service. *See* Suppl./Rev'd Appl. Exh. D; 1 PSC 09(a) & 09(b) attachment. The per-month, per-customer contribution to this facilities expense is $21.28 ($80,435.11/ 12 months/ 315 farm-tap customers).

[3] A residential customer would see no savings in having service disconnected and then reconnected for less than 2.5 months, given the $25 re-connection fee and a $11/month customer charge. A temporary disconnect could be longer than 5.0 months, but that period would encompass the warmest months (May-September) or wintering in a warmer climate.

NONRECURRING CHARGE COST JUSTIFICATION

Type of Charge: **Installation/Reconnection Fee** (for initial activation or restoration of service) — EXISTING ($25)

		Range:	Low	High
1. Field Expense				
A. Materials	(N/A)		0.00	0.00
B. Labor	0.75 hours @ $23.07/hour[1]		17.30	17.30
		Total Field Expense	**17.30**	**17.30**
2. Clerical and Office Expense				
A. Materials	(N/A)		0.00	0.00
B. Labor	10 to 15 minutes @ $14.00/hour		2.33	3.50
		Total Clerical and Office Expense	**2.33**	**3.50**
3. Miscellaneous Expense				
A. Transportation	40 to 45 miles[2] @ $0.655/mile		26.20	29.48
B. Other	(N/A)		0.00	0.00
		Total Miscellaneous Expense	**26.20**	**29.48**
		TOTAL Nonrecurring Charge Expense	**45.84**	**50.28**

[1] The time is an estimate of the median time for travel to and opening the shut-off valve at farm-tap customer service location. The hourly rate includes allocation of Workers Compensation premium cost, adding $0.65/hour.

[2] Estimated average mileage to drive to service location shut-off valve for a farm-tap customer.

Request

2. Refer to East Kentucky Midstream's response to Staff's First Request, Item 9(a). Generally describe East Kentucky Midstream's total business operations, including how gas is produced or purchased, services provided, and customers of East Kentucky Midstream.

Response

Southern Gas markets locally produced gas for EKM to customers purchasing gas on TCO via the Van Lear meter. EKM also delivers natural gas to its 315 farm-tap customers and its wholesale customers (City of West Liberty and Kentucky Frontier).

Request

3. Refer to East Kentucky Midstream's response to Staff's First Request, Item 9(c). Explain why East Kentucky Midstream does not propose to include margins in its rates.

Response

EKM did not use a margin to justify its proposed rates and, as explained in response to 1 PSC 08(d) and 2 PSC 09(c), does not expect the proposed rates to recover all its operating expenses plus gas costs. EKM intends to transition over time to rates that do recover more costs, including a margin.

The fact that the proposed rates may be justified without reliance on a margin over operating expenses strengthens the justification for the rates. Dividing the 0.88 margin from the PSC's Revenue Requirement Calculation – Operating Ratio Method (RR-OR) form used for alternative rate filing cases[1] into the $207,930.24 total of the subset of CY 2022 operating expenses allocated to farm-tap customer service yields **$236,284.36**. That would leave $193,384.24 ($236,284.24 - $42,900.00) in operating expenses plus "net income allowable" to be recovered through the usage (volumetric) charge. This implies a $8.34/Mcf "base rate" over the 23,193 Mcf metered for farm-tap customers in 2022 ($193,384.24 ÷ 23,193 Mcf), leaving only $4.66/Mcf of the proposed $13.00 usage (volumetric) charge to contribute toward gas cost.[2]

[1] The reference is to ARF Form 1 – Attachment RR-OR – Revenue Requirement Calculation Form - Operating Ratio Method, https://psc.ky.gov/agencies/psc/forms/ARFForms/Attachment%20RR-OR_2014_0115.pdf (last visited Sep. 25, 2023).

[2] Compare with calculations shown in Suppl./Rev'd Appl. Exh. D and 2 PSC 08(d).

EKM notes again that its cost justification provided in Supplemental/Revised Application Exhibit D is with a subset of operating expenses, and that if a full ARF analysis were done, the revenue requirement would likely be significantly increased. The 16 categories of operating expenses used in the cost justification (*see* Suppl./Rev'd Appl. Exh. D; 2 PSC 9(b) attachment) are among the Operation and Maintenance Expenses covered by the Schedule of Adjusted Operations – Gas Utility ("SAO") form used in alternative rate filing cases[3]; however, neither EKM's depreciation nor amortization expenses are included in those 16 categories — both of which are included in the Operating Expenses on the SAO form and subject to the 0.88 operating ratio on the RR-OR form. Their inclusion would have increased even more the operating expenses plus net income allowable to be recovered through the usage (volumetric) charge.

[3] The reference is to ARF Form 1 – Attachment SAO-G – Scheduled of Adjusted Operations – Gas Utility, https://psc.ky.gov/agencies/psc/forms/ARFForms/Attachment%20SAO-G_20110912.pdf (last visited Sep. 25, 2023). Three expense categories listed on the SAO form — Manufactured Gas Production, Exploration and Development, and Storage Expenses — are not among the expenses incurred by EKM and are not included among the 16 categories used in the cost justification.

Request

4. Refer to East Kentucky Midstream's response to Staff's First Request, Item 11.
   a. Provide the amounts of "second through the meter: marketer gas purchased to serve farm tap customers for all months for which East Kentucky Midstream has records.
   b. State whether there are specific areas for which East Kentucky Midstream needs to occasionally purchase marketer gas to supplement supply from producers, and if so, identify the areas.
   c. Provide the ultimate market for producer gas supplied to East Kentucky Midstream's gathering system and identify any producing wells on East Kentucky Midstream's system

Response

a. EKM has searched out data from its records to calculate the amount of "second-through-the-meter" marketer gas delivered to its farm-tap customers (FTCs) for the months from January 2022 through May 2023, inclusive (see table below). EKM has records from which it could possibly pull data and perform the calculations for other months, but estimates that the same pattern from the 17 months presented below would hold for those other months — that marketer gas was delivered to FTCs only in the coldest months and was a relatively small proportion of the gas delivered in those months.

Month	FTC Deliveries (Mcf)	Marketer Gas 2nd thru meter (Mcf)
Jan-22	4749	647
Feb-22	4839	0
Mar-22	2210	0
Apr-22	635	0
May-22	664	0
Jun-22	440	0
Jul-22	286	0
Aug-22	402	0
Sep-22	407	0

Month	FTC Deliveries (Mcf)	Marketer Gas 2^{nd} thru meter (Mcf)
Oct-22	1362	0
Nov-22	3093	0
Dec-22	4106	399
Jan-23	3603	12
Feb-23	4013	0
Mar-23	3044	0
Apr-23	1668	0
May-23	810	0

b. EKM has only one source of supplemental gas supply. These supplies are obtained from Columbia Gas Transmission Company (TCo) through Southern Energy, LLC, a marketer at TCo's Means Measuring Station near the Menifee-Montgomery County line. During times of high demand or low production, the gas from Southern Energy is used to "pack" the line to maintain sufficient operating pressures. The operation of the system is such that individual segments rely on the system as a whole to function properly.

c. Ultimate Market: Southern Gas markets locally produced gas for EKM to customers purchasing gas on TCO via the Van Lear meter. After fulfilling local farm tap and wholesale customer obligations, TCO's interstate pipeline is the ultimate market for EKM gas.

   Producing Wells on EKM System: EKM does not have any information as to the location and number of wells that deliver gas to the twenty-eight (28) purchase meters listed in the response to 1 PSC 11.

Request

5. Refer to East Kentucky Midstream's response to Staff's First Request, Item 13. Explain who uses the gas in the situation(s) described and whether the users are within one half air-mile. If not, explain why they are eligible for farm tap service.

Response

All current EKM farm-taps were previously installed by Jefferson Gas, LLC. EKM acquired these farm-taps from Jefferson Gas "AS IS". Owners of property entitled by statute to farm tap service occasionally have tenants using gas.

Upon further review of the Highlands Elementary School, EKM has determined that the school is located at a distance greater than one half air-mile from EKM's gathering line. This farm-tap was installed in 2005 or 2006 by a third-party contractor at the request of local public officials. It replaced a farm tap gas service from another local producer with a line adjacent to the school that had previously been abandoned. See, Affidavit of Jack Banks filed on August 11, 2023, in Ky. PSC Case No. 2022-00238 (*Electronic Investigation of Jurisdictional Status of East Kentucky Midstream, LLC*).