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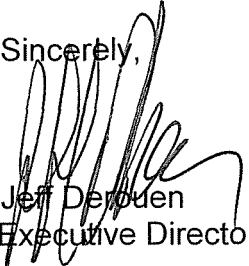
July 16, 2012

PARTIES OF RECORD

Re: Case No. 2012-00227

Attached is a copy of the memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of this memorandum, please do so within seven days of receipt of this letter. If you have any questions, please contact Allyson Honaker at 502-564-3940, Extension 265, or by e-mail at Allyson.Honaker@ky.gov.

Sincerely,



Jeff Derouen
Executive Director

AH/kar

Attachment

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File

FROM: Leah Faulkner, Team Leader
Allyson Honaker, Staff Attorney

DATE: July 16, 2012

RE: Site visit
Case No. 2012-00227
Purchased Gas Adjustment Filing of Johnson County Gas Company

On July 5, 2012, Commission Staff conducted a site visit at the offices of Johnson County Gas Company ("Johnson County") in Betsy Layne, Kentucky. The purpose of the site visit was to discuss the status of Johnson County's gas supply contracting as well as the First Data Request of Commission Staff set out in the Commission's Order of June 29, 2012.

Mr. Bud Rife, president of Johnson County, confirmed that he had an Interruptible Contract for transportation service with NiSource, and that he was confident that there was little possibility of an interruption of service on the Columbia Transmission ("TCO") pipeline. He also stated that, in the unlikely event of service interruption, Johnson County has back-up supplies for any gas volumes that might be interrupted. He said that the volumes of gas delivered by NiSource through the TCO pipeline could be supplied by EQT should any volumes be interrupted. To Mr. Rife's knowledge, the volumes delivered by NiSource on TCO under the Interruptible contract have never been interrupted, and interruptible service has the advantage of being cheaper for Johnson County's customers than firm service.

The source of the gas supplied by NiSource via TCO is Hall, Stephens, & Hall, a production company in which Mr. Rife states he owns approximately 29 percent interest. Hall, Stephens, & Hall had previously sold gas to EQT for a very low price, according to Mr. Rife, and then Johnson County purchased gas from EQT for its system supply at a relatively high price. In order to lower the price of gas to Johnson County and secure a fairer price for Hall, Stephens, & Hall's production, Mr. Rife stated that Hall, Stephens, & Hall terminated its sales agreement with EQT and executed a sales contract directly with Johnson County, with EQT as transporter. According to Mr. Rife, Johnson County will purchase approximately 12,000 Mcf of Hall, Stephens, & Hall's 14,000 Mcf per year production. Hall, Stephens, & Hall is not currently billing Johnson County for the gas the system is using. Hall, Stephens, & Hall is replacing gas on the NiSource system

that Johnson County owes from past use of TCO pool gas. Mr. Rife anticipates some kind of true-up in the future for gas cost owed by Johnson County to Hall, Stephens, & Hall.

Mr. Rife had previously provided the TCO Interruptible contract to Commission Staff. The EQT transportation contract is in the final processes of execution and Mr. Rife agreed to provide a copy of it as soon as it was available. Mr. Rife was under the impression that Johnson County had already provided a copy of the contract Johnson County had executed with Hall, Stephens, & Hall, but was informed by Staff that it had not been provided. Mr. Rife and the office personnel of Johnson County were unable to locate the Hall, Stephens, & Hall contract, and Mr. Rife provided his assurance that it would be provided to the Commission as soon as possible.

According to the terms of the contract with Hall, Stephens, & Hall, Johnson County is to pay \$6.00 per Mcf, which includes EQT transportation and 12 percent retainage for shrinkage. Gas will be transported by EQT from Hall, Stephens, & Hall to NiSource and delivered to Johnson County via TCO.

The remaining source of Johnson County's system supply is Bradco, whose current rate to Johnson County is \$8.50 per Mcf. According to Mr. Rife, Bradco is willing to lower the rate to Johnson County and has contracted for a \$6.00 per Mcf rate, but is not willing to accept the \$6.00 rate until Johnson County has completed its rate case. Bradco is concerned, as a creditor in Johnson County's bankruptcy, that if Johnson County does not receive its increase in rates it will eventually not be paid for the gas it sells Johnson County on an ongoing basis, and therefore is still charging the \$8.50 per Mcf rate.

Commission Staff discussed with Johnson County office personnel the information request to which Johnson County must respond, and made recommendations concerning best practices in compiling information for future Gas Cost Adjustment applications.

The site visit then concluded.