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July 8, 2004

Ms. Beth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
PO Box 615
Frankfort, KY 40602

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JUL 9 2004

**PUBLIC SERVICE
COMMISSION**

RE: Equitable Gas Company
Case No. 2004-002555

Dear Ms. O'Donnell:

We enclose for filing an original and five copies of the Response of Equitable Gas Company to the First Data Request of the Commission Staff in the above-captioned case.

Yours truly,

Robert M. Narkevic
Manager, Rates

Enclosures

Equitable Gas Company
Case No. 2004-00255
Prepared by: Robert M. Narkevic
Title: Manager, Rates
Item: STAFF-I-1

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PUBLIC SERVICE
COMMISSION

Response to Interrogatories
Public Service Commission of Kentucky

Item: STAFF-I-1

Equitable states that it developed its price by averaging the 12-month NYMEX strip beginning with August 2004 and adding a Columbia Gas Transmission Corporation ("TCO") basis of 27 cents.

- a. Explain why Equitable believes it is appropriate to use an average of 12 months of data when the rates will be in effect for only three months.
- b. Provide the calculation of the 27-cent adjustment for the TCO basis.
- c. Equitable typically provides *Platts Inside FERC's Gas Market Report* with its gas cost adjustment ("GCA") application. Explain why Equitable did not provide FERC's report in this application.

Response:

- a. Equitable believes it is appropriate to use an average of 12 months of data to estimate future gas costs on Schedule 2 of the filing because the 12 months of data more accurately reflects market conditions. Using only one month or three months of data may artificially inflate or deflate the gas cost estimates. The Company previously utilized the most recent Inside FERC, Columbia Gas Transmission Corp., Appalachia Index to estimate future gas costs. The Company does not believe that this method accurately identifies future gas costs.
- b. The \$0.27 adjustment is an estimate of the 12-month average difference between the market price of gas at Columbia Gas Transmission Corp., Appalachia, i.e., TCO POOL, and the NYMEX pricing at the Henry Hub location. The \$0.27 adjustment is more commonly referred to as the basis differential.
- c. Equitable did not provide the *Platts Inside FERC's Gas Market Report* in this application because it did not utilize that document or source for the calculation of future gas costs on Schedule 2 of the filing. Instead, Equitable provided a copy of the NYMEX futures settlement price used in the calculation of the gas cost estimate on Schedule 2 of the filing, published in Platt's, Gas Daily June 15, 2004 edition.

For reference please see the attached copy of the *Platts Inside FERC's Gas Market Report* for June which shows a price of \$6.96 for the Appalachian Index for Columbia Gas Transmission Co. The 12 month average Nymex price plus the \$0.27 TCO basis used in the filing was lower at \$6.64. Please see also a schedule showing the calculation of the average pricing of \$6.64.

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www.platts.com

Inside FERC's Gas Market Report

June 2004

Prices of spot gas delivered to pipelines, June 1 (\$/MMBtu)

	Range	Index	Tier
ANR Pipeline Co.			
Louisiana	\$6.48 to \$6.64	\$6.63	2
Oklahoma	\$6.13 to \$6.29	\$6.21	1
Colorado Interstate Gas Co.			
Rocky Mountains	\$5.40 to \$5.67	\$5.61	1
Columbia Gas Transmission Corp.			
Appalachia	\$6.66 to \$7.07	\$6.96	1
Columbia Gulf Transmission Co.			
Louisiana	\$6.50 to \$6.67	\$6.64	2
Dominion Transmission Inc.			
Appalachia	\$6.82 to \$7.13	\$7.09	2
El Paso Natural Gas Co.			
Permian Basin	\$6.02 to \$6.32	\$6.19	1
San Juan Basin	\$5.50 to \$5.79	\$5.71	1
EPGT Texas Pipeline, L.P.			
Texas	N.A. to N.A.	N.A.	
Florida Gas Transmission Co.			
Zone 1	\$6.62 to \$6.65	\$6.64	2
Zone 2	\$6.69 to \$6.72	\$6.71	3
Zone 3	\$6.71 to \$6.76	\$6.73	2
Gulf South Pipeline Co., L.P.			
South Louisiana/East Side	\$6.54 to \$6.55	\$6.54	3
Kern River Gas Transmission Co.			
Wyoming	\$5.52 to \$5.73	\$5.66	1
Mississippi River Transmission Corp.			
Mainline	\$6.67 to \$6.67	\$6.67	3
West leg	\$6.53 to \$6.59	\$6.58	3
Natural Gas Pipeline Co. of America			
Midcontinent zone	\$5.95 to \$6.24	\$6.11	1
Louisiana zone	\$6.61 to \$6.61	\$6.61	3
Texok zone	\$6.31 to \$6.60	\$6.49	1
South Texas zone	\$6.44 to \$6.54	\$6.51	1
Northern Natural Gas Co.			
Texas, Oklahoma, Kansas	N.A. to N.A.	N.A.	
Demarcation	\$6.01 to \$6.26	\$6.13	1
Ventura, Iowa	\$6.01 to \$6.36	\$6.17	1

	Range	Index	Tier
Northwest Pipeline Corp.			
Rocky Mountains	\$5.52 to \$5.73	\$5.65	1
Canadian border	\$5.50 to \$5.67	\$5.58	1
Oneok Gas Transportation LLC			
Oklahoma	\$6.10 to \$6.23	\$6.19	2
Panhandle Eastern Pipe Line Co.			
Texas, Oklahoma (mainline)	\$5.96 to \$6.30	\$6.10	1
Questar Pipeline Co.			
Rocky Mountains	\$5.30 to \$5.65	\$5.52	2
Reliant Energy Gas Transmission Co.			
East	\$6.28 to \$6.52	\$6.47	2
West	\$6.13 to \$6.25	\$6.18	2
Southern Natural Gas Co.			
Louisiana	\$6.63 to \$6.68	\$6.66	1
Tennessee Gas Pipeline Co.			
Louisiana, 500 leg	\$6.59 to \$6.62	\$6.61	2
Louisiana, 800 leg	\$6.60 to \$6.61	\$6.60	2
Texas, zone 0	\$6.52 to \$6.54	\$6.53	1
Texas Eastern Transmission Corp.			
East Louisiana zone	\$6.64 to \$6.68	\$6.64	1
West Louisiana zone	\$6.62 to \$6.64	\$6.63	2
East Texas zone	N.A. to N.A.	N.A.	
South Texas zone	\$6.50 to \$6.52	\$6.51	1
Texas Gas Transmission Corp.			
Zone 1	\$6.54 to \$6.67	\$6.62	2
Zone SL	\$6.48 to \$6.67	\$6.66	2
Transcontinental Gas Pipe Line Corp.			
Zone 1	\$6.52 to \$6.58	\$6.56	2
Zone 2	\$6.70 to \$6.71	\$6.70	3
Zone 3	\$6.61 to \$6.76	\$6.72	1
Zone 4	\$6.73 to \$6.76	\$6.75	2
Transwestern Pipeline Co.			
Permian Basin	\$6.01 to \$6.14	\$6.09	3
Trunkline Gas Co.			
Louisiana	\$6.41 to \$6.65	\$6.59	1
Texas	\$6.50 to \$6.58	\$6.56	3
Williams Gas Pipelines Central Inc.			
Texas, Oklahoma, Kansas	\$5.96 to \$6.15	\$6.09	2

Attachment 1-B

Calculation of Average NYMEX pricing

	<u>Nymex</u>	<u>TCO Basis</u>		
2004				
August	\$ 6.312	\$ 0.270	\$ 6.582	
September	\$ 6.337	\$ 0.270	\$ 6.607	
October	\$ 6.362	\$ 0.270	\$ 6.632	
November	\$ 6.580	\$ 0.270	\$ 6.850	
December	\$ 6.783	\$ 0.270	\$ 7.053	
2005				
January	\$ 6.911	\$ 0.270	\$ 7.181	
February	\$ 6.860	\$ 0.270	\$ 7.130	
March	\$ 6.695	\$ 0.270	\$ 6.965	
April	\$ 6.020	\$ 0.270	\$ 6.290	
May	\$ 5.845	\$ 0.270	\$ 6.115	
June	\$ 5.850	\$ 0.270	\$ 6.120	
July	\$ 5.880	\$ 0.270	\$ 6.150	
			<u>\$ 79.675</u>	
			\$ 6.64	Estimated 12 month average

Response to Interrogatories
Public Service Commission of Kentucky

Item: STAFF-I-2

Refer to Schedule 2.

- a. Footnote (a) reports the VTS rate as \$.7251 per Dth. Explain why the VTS rate differs from Equitable's previous GCA filings.
- b. Provide the Kentucky West Virginia Gas Company ("Kentucky West") tariff sheet that supports the VTS rate.
- c. Footnote (a) reports the retainage adjustment as 11 percent. Explain why the retainage percentage differs from Equitable's previous GCA filings.
- d. Provide the Kentucky West tariff sheet that supports the 11 percent retainage rate.

Response:

- a. The VTS rate of \$.7251 is actually the same as the pricing used in previous GCA filings. Previous filings utilized the following from the Kentucky West tariff sheet effective October 1, 1997, of which copies were provided with each GCA filing:

\$.4221 VTS Gathering
\$.2828 Transportation
\$.02 GRI surcharge
\$.0022 ACA surcharge

\$.7271 Total Rate

Effective January 1, 1999 the GRI surcharge was changed from \$.02 to \$.018. This reduced GRI surcharge changed the total rate to \$.7251. The current VTS rate for Kentucky West is still \$.7251.

Also, please see the attached copies of invoices from Kentucky West Virginia Gas Company for the months of January 2004, February 2004, and March 2004, showing the VTS rate of \$.7251 and retainage percentage of 11%.

- b. Please see the attached copy of the Kentucky West Virginia Gas Company tariff effective January 1, 1999. It should be noted that Kentucky West Virginia Gas Company is no longer an interstate pipeline, having been decertified by the FERC in 1999. As a gathering company, it is not required to have a tariff, however, it has continued to use the same tariff sheets that it had when it was a pipeline company, for the ease of comparison.
- c. The retainage percentage for Kentucky West Virginia Gas Company was increased to 11% effective January 1, 2004. The retainage percentage is currently 11%.
- d. As discussed previously, Kentucky West Virginia Gas Company is not required to have a tariff, therefore please see the attached copies of invoices from Kentucky West Virginia Gas Company for the months of January 2004, February 2004, and March 2004, showing the VTS rate of \$.7251 and retainage percentage of 11%.

CURRENTLY EFFECTIVE RATES

The following rates for transportation and sales services under the indicated Rate Schedules and for gathering service, if applicable, shall apply and may be adjusted from time to time. Pipeline may, in its sole discretion, agree to discount gathering or transportation rates between the maximum rate and the minimum rate. Any amounts related to surcharges to recover costs identified in Section 31 are in addition to the rates contained in this section:

Transportation Services			
	Base Tariff Rates (Per Dth)	FERC ACA (Per Dth)	Total Rates (Per Dth)
1. RATE SCHEDULE - FTS Firm Transportation			
(a) Maximum Rate			
Reservation Charge	\$6.7597	-	\$6.7597
Commodity Charge	\$.0341	\$.0022	\$.0363
Capacity Release			
Volumetric Charge	\$.2563	\$.0022	\$.2585
(b) Minimum Rate			
Commodity Charge	\$.0341	\$.0022	\$.0363
2. RATE SCHEDULE - ITS Interruptible Transportation			
(a) Maximum Rate			
Commodity Charge	\$.2563	\$.0022	\$.2585
(b) Minimum Rate			
Commodity Charge	\$.0341	\$.0022	\$.0363
3. RATE SCHEDULE - VTS Volumetric Transportation			
(a) Maximum Rate			
Commodity Charge	\$.2828	\$.0022	\$.2850
(b) Minimum Rate			
Commodity Charge	\$.0341	\$.0022	\$.0363

GRI Surcharge to applicable customers, pursuant to Section 28 of the General Terms and Conditions.

Reservation - High load factor customers	\$0.2300/Dth/Month
- Low load factor customers	\$0.1420/Dth/Month
Commodity	\$0.0075/Dth
VTS Customers	\$0.0180/Dth

Issued by: Daniel L. Frutchay, V P. & General Counsel
 Issued on: November 13, 1998

Effective: January 1, 1999

Kentucky West Virginia Gas Company
 FERC Gas Tariff
 Third Revised Volume No. 1

Fifth Revised Sheet No. 5
 Superseding
 2nd Sub Fourth Revised Sheet No. 5

CURRENTLY EFFECTIVE RATES
 Gathering Service

If gathering services are provided under Rate Schedules FTS, ITS or VTS, the following charges will be assessed:

	Base Tariff Rates (Per Dth)	FERC ACA (Per Dth)	Total Rates (Per Dth)
FTS Gathering:			
(a) Maximum Rate			
Reservation Charge	\$11.4347	-	\$11.4347
Commodity Charge	\$.0013	\$.0022	\$.0035
Capacity Release			
Volumetric Charge	\$.3772	\$.0022	\$.3794
(b) Minimum Rate			
Commodity Charge	\$.0013	\$.0022	\$.0035
ITS Gathering:			
(a) Maximum Rate			
Commodity Charge	\$.3772	\$.0022	\$.3794
(b) Minimum Rate			
Commodity Charge	\$.0013	\$.0022	\$.0035
VTS Gathering:			
(a) Maximum Rate			
Commodity Charge	\$.4221	\$.0022	\$.4243
(b) Minimum Rate			
Commodity Charge	\$.0013	\$.0022	\$.0035

GRI Surcharge to applicable customers, pursuant to Section 28 of the General Terms and Conditions.

Reservation - High load factor customers	\$0.2300/Dth/Month
- Low load factor customers	\$0.1420/Dth/Month
Commodity	\$0.0075/Dth
VTS customers	\$0.0180/Dth

Customers with both gathering and transportation services will be billed the ACA and GRI charge on only one service.

Note: In addition to the transportation and gathering charges stated above, the following levels of retainage must be added:

gathering only:	3.40%
transportation only:	6.22%
combined gathering and transportation:	6.39%

Issued by: Daniel L. Frutchey, V. P. & General Counsel

Issued on: November 13, 1998

Effective: January 1, 1999

INVOICE
KENTUCKY WEST VIRGINIA GAS COMPANY
748 NORTH LAKE DRIVE
PRESTONSBURG, KY 41653

ACCOUNT WITH

Equitable Gas Company
200 Allegheny Center Mall
Pittsburgh, PA 15212-5352
Attn: Russell Rykaczewski

February 29, 2004

ACCOUNT #41097

GAS TRANSPORTED, JANUARY 2004

Volumes Received	89,111 dth
Retainage - 11.00%	9,802 dth
Volumes Delivered	79,309 dth

RATE SCHEDULE VTS

79,309 DTH @ \$.7251

\$57,506.96

TOTAL INVOICE

\$57,506.96

PAYMENT IS DUE ON OR BEFORE THE 25TH OF MARCH, 2004

INVOICE
KENTUCKY WEST VIRGINIA GAS COMPANY
748 NORTH LAKE DRIVE
PRESTONSBURG, KY 41653

ACCOUNT WITH

Equitable Gas Company
200 Allegheny Center Mall
Pittsburgh, PA 15212-5352
Attn: Russell Rykaczewski

March 29, 2004

ACCOUNT #41097

GAS TRANSPORTED, FEBRUARY 2004

Volumes Received	60,045 dth
Retainage - 11.00%	6,605 dth
Volumes Delivered	53,440 dth

RATE SCHEDULE VTS

53,440 DTH @ \$.7251

\$38,749.34

TOTAL INVOICE

\$38,749.34

PAYMENT IS DUE ON OR BEFORE THE 25TH OF APRIL, 2004

INVOICE
KENTUCKY WEST VIRGINIA GAS COMPANY
748 NORTH LAKE DRIVE
PRESTONSBURG, KY 41653

ACCOUNT WITH

Equitable Gas Company
200 Allegheny Center Mall
Pittsburgh, PA 15212-5352
Attn: Russell Rykaczewski

April 30, 2004

ACCOUNT #41097

GAS TRANSPORTED, MARCH 2004

Volumes Received	63,910 dth
Retainage - 11.00%	7,030 dth
Volumes Delivered	56,880 dth

RATE SCHEDULE VTS

56,880 DTH @ \$.7251

\$41,243.69

TOTAL INVOICE

\$41,243.69

PAYMENT IS DUE ON OR BEFORE THE 25TH OF MAY, 2004