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Mark David Goss  
Chairman

Gregory Coker  
Commissioner

August 11, 2005

RE: Case No. 2005-00160

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

A handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell  
Executive Director

BOD/jc  
Enclosure

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COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF EQUITABLE )  
PRODUCTION COMPANY TO INCREASE )  
RATES PURSUANT TO KRS 278.485 AND ) CASE NO. 2005-00160  
807 KAR 5:026, SECTION 9 )

INTERIM ORDER

On April 15, 2005, Equitable Production Company ("Equitable Production") applied to increase rates to customers it serves under KRS 278.485. On May 3, 2005, the Commission established this proceeding to investigate the reasonableness of the proposed rates. On May 27 and June 20, 2005, Equitable Production submitted additional information in response to Commission Staff data requests. Three customers requested and were granted intervention in this case.

Equitable Production proposes to adjust only the gas cost portion of its commodity rate, leaving the non-gas portion of the rate the same as approved by the Commission in its last rate case.<sup>1</sup> In addition, Equitable Production proposes a Gas Cost Adjustment Clause ("GCA"), which would allow it to adjust the gas cost portion of its rate quarterly. In support of its proposed gas cost, Equitable Production compared its requested increase against the Producer Price Index for Residential Natural Gas, and the highest rate approved by the Commission for a local gas distribution company. It also supplied 24 months of Appalachian Index prices, which showed a price per Mcf

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<sup>1</sup> Case No. 2003-00317, The Application of Equitable Production Company, Successor to Blazer Energy Corp., Inc., and Southeastern Gas Company to Adjust Rates, Order dated December 11, 2003.

as low as \$5.47 and as high as \$11.02.<sup>2</sup> Other gas price indices, such as the New York Mercantile Exchange, experienced similar price variations over the same time period.

The Commission received 40 letters from customers opposing any increase in the rates. The protests focused on the low-income levels in the service area and the detrimental effect the rate increase would have on household budgets.

In evaluating Equitable Production's rate request, the Commission must consider the requirements of 807 KAR 5:026 which govern, among other things, the conditions under which a gathering system may request an increase in rates. One consideration set forth in the regulation is how the proposed increase compares to the percentage change in the Producer Price Index during the most recent 12-month period immediately preceding the date the proposed tariff was filed. The Producer Price Index for Residential Natural Gas showed a 7.15 percent increase at the time that Equitable Production made its request for the information.<sup>3</sup> Equitable Production's proposed rate is a 33.49 percent increase, which is greater than the increase in the Producer Price Index.

A second consideration is whether the proposed rate exceeds the highest average volumetric rate of a local gas distribution utility at the time of the filing. The highest rate approved by the Commission as of October 2004 was \$14.8691 per Mcf, which is not exceeded by Equitable Production's proposed rate of \$8.5340.

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<sup>2</sup> Schedule B.1 of application.

<sup>3</sup> U.S. Department of Labor, Bureau of Labor Statistics, Producer Price Index-Commodities, available at <http://data.bls.gov/servlet/SurveyOutputServlet>, (last visited December 2004).

A third consideration is the cost data submitted to support the proposed increase. Equitable Production supplied 24 months of gas prices, using the 2-year weighted average price of \$7.07 per Mcf as its proposed gas cost. This gas cost appears reasonable in light of the volatility and magnitude of natural gas prices in recent years. Equitable Production's existing retail rate of \$6.394 has been less than the wholesale price of natural gas on several occasions over the last year.

As Equitable Production's request to include a GCA clause in its tariff requires further review, we defer ruling on the proposed GCA clause. To permit Equitable Production to implement its revised rates for the upcoming winter heating season, the Commission is issuing an Interim Order at this time addressing only the proposed rate for gas service.

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

2. Within 20 days of the date of this Order, Equitable Production 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 without reference to the GCA clause.

Done at Frankfort, Kentucky, this 11th day of August, 2005.

By the Commission

ATTEST:

A large, stylized handwritten signature in black ink, consisting of several overlapping loops and flourishes, positioned over the printed text 'Executive Director'.

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2005-00160 DATED AUGUST 11, 2005.

The following rates and charges are prescribed for the customers served by Equitable Production 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:

	Base Rate	Gas Cost	Total Rate
All Mcf	\$1.464	\$7.07	\$8.534