

J.W. Kinzer Drilling Co.

PO Box 155
Allen, KY 41601

606-874-8041 ext 27
606-874-2203 fax

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PUBLIC SERVICE
COMMISSION

November 23, 2005

Beth O'Donnell
Kentucky Public Service Commission
PO Box 615
Frankfort, KY 40602

RE: Cost Justification/ Rate increase

Case No. 2005-00478

Dear Mrs. O'Donnell:

Due to the increase in the cost of natural gas our company must increase our farm tap gas rates. We currently have 182 customers on various gathering lines throughout eastern Kentucky that consume an average of 7.65 Mcf per month per customer (91.8 Mcf annually).

We have itemized the different components of the rate below. Please note that there is no profit built into this rate. We only want to recoup what the gas cost us to deliver to the customer. We realize that the rates will vary throughout the year and there may be a gain or loss to us since we are producing the gas.

Gas Rate - \$15.31/Mcf

12 Month NYMEX Strip (as of 11/2/2005 close)	\$10.68/dth
Appalachian Basis (Differential based on 2 year history)	+ .36/dth
	\$11.04/dth
BTU factor (average Kinzer BTU factor 1200 btu/cf)	1.20
Gas Price/Mcf	\$13.25/Mcf
Labor costs (Operator & Administrative) ¹	\$ 1.731/Mcf
Vehicle costs ²	\$.196/Mcf
Postage (\$.23/customer/month) ³	\$.030/Mcf
Tools ⁴	\$.014/Mcf
Supplies/Overhead (Bill cards, ink, paper, telephone, etc) ⁵	\$.014/Mcf
Rent (\$100 per month) ⁶	\$.072/Mcf
Company Costs/Mcf	\$ 2.057/Mcf
Gas rate	\$ 15.31/Mcf

We feel this is a very reasonable rate considering the current market conditions. We respectfully request your approval of this rate.

Sincerely,



Patrick G. McNamee
Controller
J.W. Kinzer Drilling Company

¹ Labor Costs – We have ten employee well operators, two contract meter readers and one administrative employee that are involved in the farm tap readings, maintenance, callouts and billing. These employees have other responsibilities in the company so we only charged the cost of each employee to each customer for twenty minutes per customer per month. The total cost of each employee includes the following: Wages, Employer FICA, Employer Medicare, SUTA, FUTA, Health Insurance, Pension, Life Insurance and Vacation. The average hourly cost per employee is \$24.25. The average cost per customer (18 customers) per month for the contract meter readers is \$15.56.

² We normally charge \$65/day/pickup truck to a job. We are only charging \$50/day/pickup (\$5/hr – 10 hour day) for this gas rate. The rate per mcf is computed as follows: 164 customers (182 less the 18 customers read by contract meter readers) X \$5/hr (\$50 / day divided by 10 hours) X .333333 (20 minutes per customer) = \$273.33 truck cost per month related to farm tap readings. Divide 273.33 by 1,392 (average mcf per month) = \$.196/mcf.

³ Postage is calculated as follows: \$.23 X 182 (# of customers) / 1392 (average mcf per month) = .03

⁴ We recently purchased 4 gas detectors for use with our domestic customers. They cost \$300 each. The rate was computed as follows: 4 X 300 / 60 (five year life) = \$20/month divided by 1392 = .014/mcf.

⁵ Miscellaneous supplies/overhead was estimated to cost \$20/month. \$20 divided by 1392 mcf = .014/mcf.

⁶ Rent is estimated to be \$100/month. J.W. Kinzer pays rent for the land used by the drilling company. This amount represents 1.67 percent of the total cost of rent.



J.W. KINZER DRILLING COMPANY

P. O. BOX 155
ALLEN, KY 41601-0155

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