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January 24, 2006

Ms. Yvonne L. Kennedy
Post Office Box 101
Irvington, KY 40146

Job-00012

Dear Ms. Kennedy:

I am responding to the letters you sent to Governor Fletcher and the members of the Kentucky Public Service Commission regarding the increased home heating costs affecting natural gas consumers in your area.

The Kentucky Public Service Commission shares your concerns and understands the difficulties that high energy costs are creating for many Kentucky families this winter.

Unfortunately, there is very little that the Kentucky Public Service Commission can do to bring down the high cost of natural gas. The cost has increased because the wholesale price of natural gas has increased dramatically. That is in large part because of the damage that hurricanes Katrina and Rita did to natural gas facilities on the Gulf Coast, where most of the gas used in Kentucky is produced. Prices have been coming down as the damage is repaired, and these decreases will be reflected in your coming bills.

Under federal law, the wholesale price of natural gas is not regulated. It rises or falls based on supply and demand. Local gas companies in Kentucky are allowed to charge their customers only as much as it costs the companies to buy the gas on the wholesale market. The PSC makes sure that your family and others do not pay more for natural gas than is allowed.

Valley Gas and other local distribution companies adjust their gas costs periodically to reflect their anticipated cost of purchasing gas to supply their customers. If the actual gas costs turn out to be either lower or higher than expected, customer bills are adjusted over the next 12 months to ensure that the company, over the course of a year, collects no more or less than it paid for gas on the wholesale market.

The projected higher costs we all heard about in the fall assumed no change in energy usage. However, the bills received in late December and early this month reflect not only the increase in the wholesale cost of natural gas during the billing period, but also higher consumption. November was relatively warm, while the first two weeks of December were much colder than normal.

As you know, the principal program that helps people pay their heating bills is the Low-Income Home Energy Assistance Program, or LIHEAP. The amount of money available for LIHEAP depends on how much money Congress chooses to give to the states. It is possible that there will not be enough federal money this year. That is why Governor Fletcher is working very hard to find state money that could be used to supplement the federal LIHEAP allocation this winter.

Eligible Kentucky residents also can receive assistance in weatherizing their homes as a way of reducing energy consumption. State-funded weatherization programs are administered through the Cabinet for Health and Family Services.

PSC regulations place restrictions on the ability of utilities to disconnect service to low-income consumers or consumers with health problems during the heating season. Many utilities voluntarily go beyond the PSC requirements with respect to cold-weather disconnections.

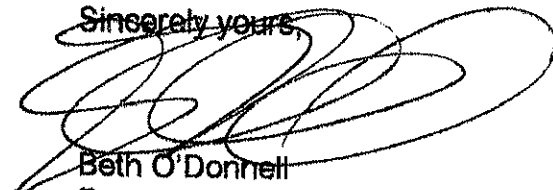
The adjustment Valley Gas is seeking to its base rates is separate from the pass-through adjustments of its wholesale costs. Because the rate request matter is pending before the PSC, it would be improper for me to comment on it. But I can assure you that the request by Valley Gas will be examined thoroughly by the Commission before any decision is made on whether an increase should be granted.

Your letters to the Commission will be placed into the case file for their consideration in this matter. For your future reference, the case number is 2006-00012. The case records may be viewed on the PSC Web site, psc.ky.org.

I have enclosed a recent press release from the PSC about natural gas prices. It includes more information for consumers and some helpful Web sites.

Thank you for your letter and your concern about this matter.

Sincerely yours,



Beth O'Donnell
Executive Director

Enc: news release 12-5-05
CC: Case file 2006-00012