

VALLEY GAS, INC.

P.O. BOX 55
IRVINGTON, KENTUCKY 40146
(270) 547-2455 • (270) 877-2661

January 6, 2006

Ms. Elizabeth O' Donnell
Executive Director
KY Public Service Commission
P.O. Box 615
Frankfort, KY 40602

RECEIVED

JAN 9 2006

PUBLIC SERVICE
COMMISSION

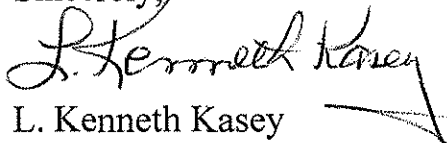
RE: The Application of Valley Gas, Inc. for Approval of the
Proposed Increase in Rates – Case No. ~~2005-00373~~ 2006-00017

Dear Ms. O'Donnell:

Valley Gas, Inc. requests a deviation from Administrative Regulation 807 KAR 5:076, the Alternative Rate Filing Procedure for Small Utilities regarding the number of customers and the gross annual revenue level. The regulation limits the number of customers to 500 and the gross annual revenues to \$300,000. At year-end 2004, Valley Gas had 505 customers and gross annual revenues of \$383,649. For the same time period, Valley Gas had annual gas purchases of \$309,374. Since recovery of its wholesale gas cost through the Gas Cost Adjustment accounts for a majority of these gross annual revenues, Valley Gas believes such a deviation is warranted. In addition, granting the requested deviation is necessary in order to allow Valley Gas to file an ARF and lessen the financial burden of filing general rate case.

Should you have any questions concerning the enclosed, please contact me.

Sincerely,



L. Kenneth Kasey
President

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JAN 09 2006

PUBLIC SERVICE
COMMISSION

APPLICATION FOR RATE ADJUSTMENT
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

Case No. 2006-00012

For Small Utilities
Pursuant to 807 KAR 5:076
(Alternative Rate Filing)

Valley Gas, Inc.
Name of Utility

P. O. Box 55
Irvington, KY 40146

Business Mailing Address

Telephone Number: (270) 547-2455

I. Basic Information

NAME, TITLE, ADDRESS and telephone number of the person to whom correspondence or communication concerning this application should be directed:

Name: L. Kenneth Kasey, President
Address: Same as above
Telephone Number: Same as above

- 1) Do you have 500 customers or fewer? Yes No
- 2) Do you have \$300,000 in Gross Annual Revenue or less? Yes No
- 3) Has the utility filed an annual report with this Commission for the past year and the two previous years? Yes No
- 4) Are the utility's records kept separate from any other commonly-owned enterprise? Yes No

NOTICE: To be eligible for consideration of the rate adjustment under this regulation, you must have answered yes to either question 1 or 2 and yes to both questions 3 and 4 above. If you answered no to questions 3 or 4, you must obtain written approval from the Commission prior to filing this Application. If these requirements are not met, you must file under the Commission's procedural rules, 807 KAR 5:001.

Valley Gas, Inc. has requested a deviation from the Commission's procedural rules, 807 KAR 5:076 with respect to the number of customers and gross annual revenues to be eligible to file pursuant to the Alternative Rate Filing Administrative Regulation.

II. Increased Cost Information

- (1) The most recent Annual Report will be used as the basic test period data in order to determine the reasonableness of the proposed rates. The Annual Report used as the basis for this rate revision is the one filed with the Commission for the 12 months ending December 31, 2004.
- a. If you have reason to believe some of the items of revenue and expense listed in the Annual Report will increase or decrease, please list each item, the expected increase or decrease and the adjusted amount.

See Attachment A

- b. Please describe each item that you adjusted on page 2 and how you know it will change. (Please attach invoices, letters, contracts or receipts which will help in proving the change in cost).

See Attachment B

- c. Please list your present and proposed rates for each class (i.e., residential, commercial, etc.) of customer and the percentage of increase proposed for each class:

| <u>Customer Class</u> | <u>Present Rates</u> | <u>Proposed Rates</u> | <u>% Increase</u> |
|-----------------------|----------------------|-----------------------|-------------------|
| All Customers: | | | |
| Customer Charge | \$6.50 | \$8.50 | 30.77% |
| Base Rate per Mcf | \$2.3819 | \$3.1272 | 31.29% |
| Collection Fee | \$7.50 | \$15.00 | 100.00% |
| Returned Check Charge | | \$25.00 | 100.00% |

III. Other Information

- a. Please complete the following questions:
- 1) Please describe any events or occurrences which may have an effect on this rate review that should be brought to the Commission's attention (e.g., excessive line losses, major repairs, planned construction).
- 2) Total number of customers as of the date of filing: 492
- 3) Total amount of increased revenue requested: \$44,365

4) Please circle Yes or No:

- a) Does the utility have outstanding indebtedness? Yes No

If yes, attach a copy of any documents such as promissory notes, bond resolutions, mortgage agreements, etc.

- b) Were all revenues and expenses listed in the Annual Report for 2004 incurred and collected from January 1 to December 31 of that year? Yes No

If no, list total revenue and total expense incurred prior to or subsequent to this period and attach invoices or other analysis which show how amounts were calculated.

- 5) Attach a copy of the utility's depreciation schedule of utility plant in service. Reconcile any differences between total depreciation shown on the Annual Report for 2004 and the amount shown on this schedule.

See Attachment C

- 6) If utility is a sewer utility: *N/A*

- a) Attach a copy of the latest State and Federal Income Tax Returns.
- b) How much of the utility plant was recovered through the sale of lots or other contributions? If unknown, state the reason.

b. Please state the reason or reasons why a rate adjustment is requested. (Attach additional pages if necessary).

A rate adjustment is necessary to meet current operating costs.

IV. Billing Analysis

The billing analysis is the chart reflecting the usage by the customers as well as the revenue generated by a specific level of rates. A billing analysis of both the current and proposed rates is mandatory for analysis of this rate filing.

See Attachment D

V. General Information/Customer Notice

1) Filing Requirements:

a. If the applicant is a corporation, a certified copy of its articles of incorporation must be attached to this application. If the articles and any amendments thereto have already been filed with the Commission in a prior proceeding, it will be sufficient to state that fact in the application and refer to the style and case number of the prior proceeding.

b. An original and 10 copies of the completed application should be sent to:

Executive Director
Kentucky Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40601
Telephone: (502) 564-3940

c. One copy of the completed application should also be sent at the same time to:

Public Service Litigation Branch
Office of the Attorney General
P.O. Box 2000

2) A copy of the customer notice must be filed with this application. Proper notice must comply with Section 4 of this regulation.

3) Copies of this form and the regulation may be obtained from the Commission's Office of Executive Director; or by calling (502) 564-3940

4) I have read and completed this application, and to the best of my knowledge all the information contained in this application is true and correct.

Commonwealth of Kentucky

Department of State



Office of Secretary of State

HENRY H. CARTER, SECRETARY

ARTICLES OF INCORPORATION

I, HENRY H. CARTER, Secretary of State of the Commonwealth of Kentucky, do hereby certify that Articles of Incorporation of

VALLEY GAS, INC.

Irvington, Kentucky

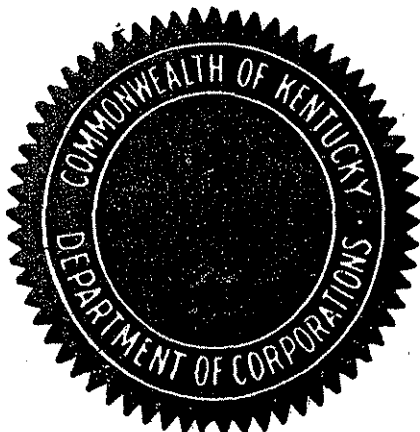
duly signed and acknowledged according to law, have this day been filed in my office. I further certify that all taxes, fees and charges payable upon the filing of said Articles of Incorporation have been paid

Witness my official signature this 14th day

of May, 1962.

Henry H. Carter
Secretary of State

S. S. Lyon
Assistant Secretary of State



SECRETARY OF STATE



**Valley Gas, Inc.
NOTICE**

Notice is hereby given that Valley Gas, Inc. is seeking approval by the Kentucky Public Service Commission, Frankfort, Kentucky, for an adjustment of rates to become effective on or after 02/01/06, in the total amount of \$44,365 on an annual basis. The proposed rates reflect an increase in revenues of approximately 9.82 percent to Valley Gas, Inc. The proposed amount of increase to the existing rates and charges is as follows:

| | <u>Existing</u> | <u>Proposed</u> | <u>Dollar Amt. of Increase</u> | <u>Percentage Increase</u> |
|--------------------------------|-----------------|-----------------|------------------------------------|--------------------------------|
| Customer Charge | \$6.50 | \$8.50 | \$2.00 | 30.77% |
| Base Rate per Mcf ¹ | \$2.3189 | \$3.1272 | \$0.8083 | 31.29% |
| Collection Fee | \$7.50 | \$15.00 | \$7.50 | 100.00% |
| Returned Check Charge | | \$25.00 | \$25.00 | 100.00% |

¹ This does not include the gas cost adjustment which recovers the cost of Valley Gas Inc.'s wholesale natural gas purchases.

The effect of the proposed increase on the bill of an average customer using 7 McF per month is an increase per month of \$7.67. Based on Valley Gas Inc.'s latest gas cost adjustment filing, an average customer's bill will increase from \$122.24 to \$129.91.

The rates contained in this notice are the rates proposed by Valley Gas, Inc. However, the Public Service Commission may order rates to be charged that are higher or lower than the rates proposed in this notice.

Any corporation, association, body politic or person may request leave to intervene by motion within thirty (30) days after notice of the proposed rate changes is given. A motion to intervene shall be in writing, shall be submitted to the Executive Director, Public Service Commission, 211 Sower Boulevard, P.O. Box 615, Frankfort, Kentucky 40602, and shall set forth the grounds for the motion, including the status and interest of the party moving.

Copies of the application may be obtained at no charge from Valley Gas, Inc., P.O. Box 55, Irvington, KY 40146. Upon request from an intervenor, the applicant shall furnish to the intervenor a copy of the application and supporting documents.

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Depreciation and Amortization (Including Information on Listed Property)

Department of the Treasury Internal Revenue Service

See separate instructions.

Attach to your tax return.

MARLEY GAS, INC.

Business or activity to which this form relates

GENERAL DEPRECIATION AND AMORTIZATION

Part I Election To Expense Certain Property Under Section 179

Note: If you have any listed property, complete Part V before you complete Part I.

Table with 5 rows for lines 1-5 and 7-13. Columns include (a) Description of property, (b) Cost, (c) Elected cost, and line numbers. Includes instructions for maximum amount, cost, and limitation.

Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.)

Table with 3 rows for lines 14-16. Columns include description, line number, and amount. Line 14 amount is 1,324.

Part III MACRS Depreciation (Do not include listed property.) (See page 5 of the instructions.)

Section A

Table with 2 rows for lines 17-18. Columns include description, line number, and amount. Line 17 amount is 2,277.

Section B - Assets Placed in Service During 2004 Tax Year Using the General Depreciation System

Table with 7 columns: (a) Classification of property, (b) Month and year placed in service, (c) Basis for depreciation, (d) Recovery period, (e) Convention, (f) Method, (g) Depreciation deduction.

Section C - Assets Placed in Service During 2004 Tax Year Using the Alternative Depreciation System

Table with 5 rows for lines 19-23. Columns include description, line number, and amount.

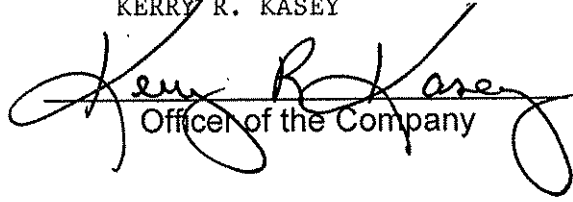
Part IV Summary (see page 8 of the instructions)

Table with 2 rows for lines 21-22. Columns include description, line number, and amount. Line 21 amount is 3,450. Line 22 amount is 7,240.

Mark Reduction Act Notice, see separate instructions.

KERRY R. KASEY

Signed



Officer of the Company

Title

Secretary

Date

01/06/06

**ATTACHMENT B
VALLEY GAS, INC - ADJUSTMENTS**

| | | |
|----------|---|---|
| A | Account 480, 481 - Retail Sales | |
| | <u>\$ 77,579.37</u> | Normalization of test year retail sales revenues |
| B | Account 921 - Office Supplies and Expenses | |
| | \$ 1,160.57 | Actual cellular expense included in test year |
| | <u>2,100.00</u> | Annualized cellular expense based on contract renewal as of October 3, 2005. Amount shared with non-regulated company (Irvington Gas Company) |
| | <u>\$ 939.43</u> | Adjustment to annualize Telephone Expense |
| | <u>\$ (95.00)</u> | Remove dues paid to Meade County Chamber of Commerce |
| | <u>\$ 463.20</u> | Adjustment to annualize after-hours message service not included in the test year. |
| | <u>\$ 1,307.63</u> | Total Adjustment to Account 921 - Office Supplies and Expenses |
| C | Account No. 923 - Outside Services Employed | |
| | | Legal and Professional Services |
| | \$ 772.68 | Actual expense for payroll services included in test year; includes payment for 13 months of payroll services expense |
| | <u>732.60</u> | Annualized payroll services expense based on current expense level |
| | <u>\$ (40.08)</u> | Adjustment to normalize payroll services expense |
| | | Computer Billing Services |
| | \$ 965.00 | Actual expense for computer billing maintenance agreement |
| | <u>1,260.00</u> | Annualized computer billing services expense based on current level |
| | <u>\$ 295.00</u> | Adjustment to normalize computer billing services |
| | <u>\$ 254.92</u> | Total Adjustment to Account No. 923 - Outside Services Employed |
| D | Account No. 924 - Property Insurance | |
| | <u>\$ (6,156.24)</u> | Reclassify employee benefits from Account 924 to Account 926 |
| | <u>\$ 8,991.00</u> | Property/Liability Insurance based on quote |
| | <u>\$ 2,834.76</u> | Total Adjustment to Account No. 924 - Property Insurance |
| E | Account No. 926 - Employee Pensions and Benefits | |
| | <u>\$ 6,156.24</u> | Reclassify employee benefits from Account 924 to Account 926 |
| F | Account No. 930.1 - General Advertising Expenses | |
| | <u>\$ (488.42)</u> | Remove general advertising expenses |
| G | Account No. 408.1 - Taxes Other than Income | |
| | \$ 451,847 | Retail Revenues subject to PSC Assessment |
| | <u>(x) 0.00167</u> | Rate of 1.6700 per \$1,000 revenue |
| | 754.58 | PSC Assessment Computed |
| | <u>709.27</u> | Test Year PSC Assessment |
| | <u>\$ 45.31</u> | Adjustment to PSC Assessment |
| H | Account 426.0 - Donations | |
| | <u>\$ 100.00</u> | Remove charitable donation |

COLLECTION FEE

| | |
|--------------------------------------|-------------|
| Avg. Travel Time, Round Trip (Hours) | 0.25 |
| Time to Turn On/Off | 0.25 |
| Administrative Work | 0.50 |
| <u>Total Time</u> | <u>1.00</u> |

| | |
|--------------------------|----------------|
| Hourly Rate, w/ benefits | \$15.00 |
| x Total Time | 1.00 |
| <u>Personnel Cost</u> | <u>\$15.00</u> |

| | |
|----------------------------------|---------------|
| Avg. Mileage (Miles), Round Trip | 2 |
| x IRS rate mileage rate | \$0.485 |
| <u>Mileage Cost</u> | <u>\$0.97</u> |



| | |
|------------------------------|----------------|
| Total Collection Cost | \$15.97 |
|------------------------------|----------------|

Mileage based on farthest point of system
at 2 miles. Avg. Mileage = (2mi out + 2 mi back)/2

U.S. POSTAGE
PAID
IRVINGTON, KY
40146
JAN 06 '06
00025290-03
40602

AMOUNT
\$1.84

0000



MEDIA MAIL
(Subject to Inspection)

VALLEY GAS, INC.
P.O. BOX 55
401 FIRST STREET
IRVINGTON, KY 40146

TO:
Ms. Elizabeth O'Donnell
Executive Director
KY Public Service Commission
P O Box 615
Frankfort, KY 40602

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