MORRIS KENNEDY
ATTORNEY AT LAW
2332 OLD HICKORY LANE
LEXINGTON KY 40515

(859) 245-1546
(859) 245-4312 (fax)

May 19, 2006

RECEIVED
MAY 23 2006
PUBLIC SERVICE
COMMISSION

Beth O'Donnell
Executive Director
Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort KY 40602-0615

Re: In the Matter of Cow Creek Gas, Inc.'s Application for Authority to Adjust Rates Pursuant to Alternative Rate Filing Procedure for Small Utilities, Case No. 2006-00171

Dear Ms. O'Donnell:

Enclosed please find an original and five (5) copies of Cow Creek Gas Inc.'s responses to Commission Staff's First Data Request in the referenced matter.

Should you require anything further in this regard, please do not hesitate to contact me.

Sincerely,

Morris Kennedy

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF COW CREEK GAS, INC. FOR AUTHORITY TO ADJUST ITS RATES PURSUANT TO THE ALTERNATIVE RATE FILING PROCEDURE FOR SMALL UTILITIES	**CASE NO. 2006-00171**

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**RESPONSES OF COW CREEK GAS, INC.
TO
FIRST DATA REQUEST OF COMMISSION STAFF**

Comes Cow Creek Gas, Inc. ("Cow Creek"), by counsel, and for its Responses to the First Data Request of Commission Staff herein states as follows:

Request No. 1: Refer to the letter agreement between Interstate Natural Gas Company ("Interstate") and Cow Creek.

a. Provide the term (length) of the contract and describe the process under which it can be amended, extended or cancelled.

Response: Pursuant to the agreement of the parties, no term provision is set forth in the gas sales contract. Therefore, the contract may be terminated at any time by either party. The contract can be amended, extended or cancelled upon the mutual agreement of the parties.

b. Explain in detail how Interstate and Cow Creek arrived at the $10.00 per Mcf price.

Response: With the exception of natural gas sold to Cow Creek and other relatively small amounts of gas sold to certain farm tap constomers and local distribution companies, all of Interstate's produced gas is sold on the interstate market. In order to arrive at a just and reasonable rate for gas diverted from the interstate market to Cow Creek, Interstate looked to the

New York Mercantile Exchange ("NYMEX") twelve month strip price as of March 16, 2006, adjusted by the Appalachian Basis of +$0.36/Dth. The adjusted NYMEX strip price as of March 16, 2006, was $9.16/Dth. Interstate then applied a Btu factor of 1.286 (this factor based on a recent analysis made on gas from the wells which supply Cow Creek) to $9.16/Dth to arrive at an adjusted Mcf rate of $11.78/Mcf. However, in an effort to keep the gas cost component of Cow Creek's rate lower than the maximum rate which could have been found just and reasonable, yet still provide Interstate with a sales price more reflective of today's market, the parties agreed to a sales/purchase price of $10.00/Mcf.

c. Does Interstate have a physical connection to Cow Creek's system or is a third party transporter involved in the delivery of gas to Cow Creek? If a third party is involved, identify the third party and describe the functions it performs.

Response: Cow Creek receives its gas from two pipeline interconnects directly into the Interstate gathering system. No third party transporter is involved.

d. Does Cow Creek have the ability to purchase gas from suppliers other than Interstate? If no, explain why. If yes, identify the other suppliers.

Response: No. The Cow Creek system is comprised of two physically separate service areas. Both service areas are supplied by gas wells owned by Interstate which are physically connected to the Cow Creek pipelines. Even if Cow Creek could locate another supplier willing to sell it gas at the discounted rate agreed to by Interstate, Cow Creek would have to construct a pipeline to that supplier and then integrate its pipeline system by constructing connections between the various segments of its system. Only by so integrating its pipeline system would Cow Creek be able to take delivery of gas from a new supplier. Given the relatively few customers on the Cow Creek system, and the relatively small amount of gas consumed by those customers, such a construction project would be economically impossible.

Request No. 2: Cow Creek does not have a Gas Cost Adjustment ("GCA") clause in its tariff. In this case, absent a GCA clause, Cow Creek is proposing to reflect an increase in wholesale gas costs through the Commission's Alternative Rate Filing ("ARF") procedure.

a. Explain why Cow Creek has not sought Commission approval of a GCA clause.

Response: This proceeding marks the first rate adjustment sought by the current management of Cow Creek. Establishment of a GCA clause, or any other method of adjusting rates, had not been considered by the management prior to instituting this proceeding.

b. Explain whether Cow Creek's owners and/or operators are familiar with the purpose and workings of a GCA mechanism.

Response: Yes. Cow Creek's current owners also own and operate Dema Gas Company, Inc. ("Dema") which has a GCA in its tariff.

c. Explain whether Cow Creek's owners and/or operators are aware that the purpose of the ARF procedure is to address, in the case of a small gas utility, changes in operating costs other than the wholesale cost of natural gas.

Response: Cow Creek's owners are aware that the ARF procedure can be utilized to address changes in utility operating costs other than gas costs, but a review of the procedure did not indicate that a change in rates to reflect increased gas costs was precluded by the ARF procedure. Cow Creek respectfully requests that the Commission allow the use of the ARF procedure for the rate adjustment sought in this proceeding.

d. Is Cow Creek opposed to establishing a GCA clause as part of its filed tariff? If yes, explain why.

Response: No. Cow Creek agrees that a GCA clause would be an efficient mechanism for future rate adjustments. In this regard, Cow Creek proposes that, as part of any Order issued in this proceeding, the Commission approve for inclusion in Cow Creek's tariff a GCA with terms identical to the GCA appearing as Section (21) of Dema's currently effective tariff, a copy of which is attached hereto as Exhibit"A".

The information upon which the foregoing Responses were based was provided by Jerome A. Kanney, President, Cow Creek Gas, Inc.

Respectfully submitted this 19th day of May, 2006.

MORRIS KENNEDY
Attorney for Cow Creek Gas, Inc.
2332 Old Hickory Lane
Lexington KY 40515
(859) 245-4312

CC: All Parties

FOR ENTIRE AREA SERVED

P.S.C. KY. NO. 1

2ND SHEET NO. 6

DEMA GAS COMPANY, INC.

Canceling P.S.C. KY NO. 1

1ST SHEET NO. 6

RULES AND REGULATIONS

4. If the cause for the usage deviation cannot be determined from analysis of the customer's meter reading and billing records, the Company will contact the customer by telephone or in writing to determine whether there have been changes such as different number of household members or work staff, additional or different appliances, changes in business volume, or known leaks in the customer's service line.

5. Where the deviation is not otherwise explained, the Company will test the customer's meter to determine whether it shows an average error greater than 2 percent fast or slow.

6. The Company will notify the customers of the investigation, its findings, and any refunds or back billing in accordance with 807 KAR 5:006, Section 10(4) and (5).

In addition to the annual monitoring, the Company will immediately investigate usage deviations brought to its attention as a result of its on-going meter reading or billing processes or customer inquiry.

(21) Gas Cost Adjustment Clause

The rates authorized herein are based upon the wholesale cost of gas to Dema as computed using rates of its wholesale suppliers currently in effect. In the event there is an increase or decrease in wholesale gas cost, Dema shall file with this Commission the following information within 30 days:

1. A copy of the contract or wholesale supplier notification effecting the change in rate and a statement relative to the effective date of such proposed change.

2. A statement setting out gas sales for the most recent 12 months.

3. A statement setting out the details of gas purchased for the most recent 12 months showing billing from the supplier(s) under the most recent rate(s) and under the proposed supplier rate. The difference between the amounts so determined shall be divided by Dema's sales for the most recent 12 months, provided Dema's line loss for the same 12 months period does not exceed 5%. If line loss exceeds 5%, the difference shall be divided by allowable sales calculated as (purchases x .95).

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

OCT 23 1993

PURSUANT TO 807 KAR 5:011,
SECTION 9 (1)
BY: [signature]
PUBLIC SERVICE COMMISSION MANAGER

DATE OF ISSUE September 21, 1993 (MONTH DAY YEAR) DATE EFFECTIVE September 30, 1993 (MONTH DAY YEAR)

ISSUED BY [signature] (NAME OF OFFICER) Manager (TITLE) P. O. Box 820 Prestonsburg, KY 41653 (ADDRESS)

FOR ENTIRE AREA SERVED

P.S.C. KY. NO. 1

2ND SHEET NO. 7

DEMA GAS COMPANY, INC.

Canceling P.S.C. KY NO. 1

1ST SHEET NO. 7

RULES AND REGULATIONS

4. A signed and dated tariff sheet showing Dema's proposed rates for service based on the change in supplier rate. An increase in rates shall not be effective with less than 30 days notice unless a waiver is requested and granted.

5. Such other information as this Commission may request for a proper determination of the purchased gas adjustment.

In the event that Dema receives from its supplier a refund, bill adjustment or credit of amounts paid to such supplier in respect of a prior period, Dema will apply to the Commission within 30 days for authority to make adjustments on the rates charged to its customers under this provision as follows:

1. The "refundable amount" shall be the amount received by Dema as a refund. Such refundable amount shall be divided by the Mcfs of gas that Dema estimates it will sell to its customers during the four-month period commencing with the first day of the month following receipt of the refunds, thus determining a "refund factor."

2. Upon Commission approval, Dema will reduce by the refund factor any purchased gas adjustment that would otherwise be applicable during such period.

3. In the event of any large or unusual refunds, Dema may apply to the Commission for the right to depart from the refund procedure herein set forth.

Upon receipt of the required information, the Commission shall review the proposed increase, reduction, or refund and, within 30 days from receipt of the information required, issue its Order setting out the proper revised rates or otherwise acting to investigate or suspend the proposed rates.

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

OCT 23 1993

PURSUANT TO 807 KAR 5:011,
SECTION 9 (1)

DATE OF ISSUE September 21, 1993 — MONTH DAY YEAR

DATE EFFECTIVE September 21, 1993 — MONTH DAY YEAR

BY: [signature]
PUBLIC SERVICE COMMISSION MANAGER

ISSUED BY [signature] — NAME OF OFFICER

Manager — TITLE

P. O. Box 820 Prestonsburg, KY 41653 — ADDRESS