

Montgomery Creek Gas Co.

P.O Box 783
Hindman, Kentucky 41822
Phone; (606) 785-0761

December 08, 2011

Mr. Jeff Derouen

Executive Director

Kentucky Public Service Commission

P.O. Box 615

Frankfort, KY 40602-0615

RE: Case No. 2011-00388

Dear Mr. Derouen:

In response to letter entitled, Commission Staff's First Request For Information To Montgomery Creek Gas Company. Enclosed you will find the original response and six copies. The responses in this letter will be numbered in accordance with the questions on your letter dated December 2, 2011.

- (1) Montgomery Creek Gas Company operates 7 wells all of these wells supply gas for the farm tap.
- (2) We have enclosed a copy of the BTU conversion rate test. We have recalculated our total cost per MCF based on this new rate. (See enclosed rate calculation)
- (2) We have enclosed the NYMEX futures strip for the 12 months ended September 2012. We have recalculated our total cost per MCF based on this information. (See enclosed Rate calculation)
- (3) (a) Historically the Appalachian basis adjustment was significant to this region and our other gas interest, this is no longer the case. The other gas entities we are involved in sell at least 90% of their gas on NYMEX based Contracts. To make our calculations accurate we omitted the basis differential adjustment.
- (4) The reconnect fee of \$20.00 was set on July 1, 1995, at that time Federal minimum wage was \$4.25 now it is \$7.25 that is an increase of 70.58%. The increase of our reconnect fee from \$20.00 to \$25.00 is 25.00%. We can show any number of examples of inflation in labor cost, insurance increases, and fuel expense, over the last 16 years if the P.S.C. deems necessary.
- (5) (a) We have enclosed the most recent Gas Management Contract between Montgomery Creek Gas Company and Consolidated Local Energy and Natural Gas Inc. Both companies involved in this contract are 100% owned by the Weinberg family.
(b) Management services under this contract began prior to 1990. An exact date may be determined if the P.S.C. deems necessary.

RECEIVED

DEC 12 2011

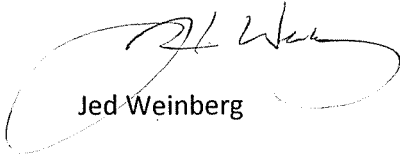
PUBLIC SERVICE
COMMISSION

Montgomery Creek Gas Co.

P.O Box 783
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(c) The management fees increased from \$7,200.00 annually to \$9,600.00 annually on December 12, 1993.

I affirm all information contained in this letter is correct and true to the best of my knowledge.



Jed Weinberg

Manager

MONTGOMERY CREEK GAS COMPANY
Rate Support Calculations

Assumption for Usage:

Anticipated customers	84
Average monthly use per customer (mcfs)	5.33
Average annual use per customer (mcfs)	63.94
Total average annual use (mcfs)	5,371

Rate Calculation

Schedule 1 - Gas Commodity Cost per Mcf	\$	4.20
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Projected Costs

Schedule 2 - Contracted management services		1.83
	\$	1.83

Total Cost per Mcf

\$	6.03
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MONTGOMERY CREEK GAS COMPANY
Schedule 1 - Gas Commodity Cost

NYMEX - Natural Gas Contract Month End Settlement Price
January, 2012 to December 2012

<u>Date</u>	<u>Dth</u>
Jan-12	3.425
Feb-12	3.463
Mar-12	3.475
Apr-12	3.521
May-12	3.564
Jun-12	3.608
Jul-12	3.658
Aug-12	3.689
Sep-12	3.695
Oct-12	3.729
Nov-12	3.873
Dec-12	<u>4.167</u>
Average for the 12 months	3.656
Btu	<u>1.1490</u>
Average per Mcf	\$ 4.20

MONTGOMERY CREEK GAS COMPANY
Schedule 2 - CONTRACTED MANAGEMENT SERVICES

For The Year	8/31/10 to 7/31/11	8/31/09 to 7/31/10
Management Fees per year	\$ 9,600.00	\$ 9,600.00
	<u>\$ 9,600.00</u>	<u>\$ 9,600.00</u>

Management Fees per mcf		
Management Fees	9,600.00	9,600.00
Total MCF's	<u>5,676</u>	<u>4,885</u>
Fees per MCF	1.69	1.97

Rate Component \$ 1.83

MONTGOMERY CREEK GAS COMPANY

Schedule 3 - TOTAL MCF'S SOLD For Two Preceding Years

AUGUST 1, 2010 to JULY 31, 2011

AUGUST 1, 2009 to JULY 31, 2010

	MCF		MCF
8/31/2010	80	8/31/2009	57
9/30/2010	137	9/30/2009	113
10/31/2010	228	10/31/2009	156
11/30/2010	581	11/30/2009	723
12/31/2010	966	12/31/2009	809
1/31/2011	1223	1/31/2010	781
2/28/2011	879	2/28/2010	723
3/31/2011	737	3/31/2010	740
4/30/2011	388	4/30/2010	419
5/31/2011	192	5/31/2010	198
6/30/2011	157	6/30/2010	81
7/31/2011	108	7/31/2010	85
TOTAL MCF	5676	TOTAL MCF	4885

Number of Customers	84	81
Average annual use per customer	67.57	60.31
Months	12	12
Average monthly use per customer	5.63	5.03 mcf

Two Year Average

Average annual use per customer year ending 7/31/11	67.57
Average annual use per customer year ending 7/31/10	60.31
Weighted Total	127.88
Months	24
Average monthly use per customer	5.33 mcf

GAS MANAGEMENT CONTRACT GENERAL TERMS & CONDITIONS

This Gas Management Contract (“Contract”) shall govern the provision of services by Consolidated Local Energy and Natural Gas, Inc., a Kentucky Corporation, d/b/a Clean Gas, Inc. (“CGI” or “Contractor”) to Montgomery Creek Gas Company, LLC, a Kentucky Limited Liability Company, (“Producer”), for management services, as that term is defined below.

ARTICLE I – DEFINITIONS

Except where the context otherwise indicates another meaning or intent, the following terms are intended and shall be construed to have meanings as follows:

- 1.1 The term “management services” includes serving as operator of record, routine accounting and distribution functions, marketing services, well-tending and maintenance duties and other day to day activities necessary to the ongoing operation of Producer’s wells and pipelines. Fees paid to CGI for management services under Article III hereof shall not be deemed to include the cost of yearly tax services, costs routinely associated with AFE’s or other third party or extraordinary costs incurred by CGI in fulfilling its duties hereunder.
- 1.2 The term “pipelines” shall mean the interstate pipeline(s), intrastate pipeline(s), third party gatherer, and/or local distribution companies through which gas sold hereunder is transported.
- 1.3 The term “producing well” shall mean any well from which there has been income during the 12 months preceding the payment month in question. Whether a well has produced income shall be determined without regard to whether the income resulted in a profit for the well.

ARTICLE II – SCOPE OF CONTRACT

- 2.1 CGI, in exchange for the consideration as hereinafter set forth, agrees to serve as operator of record in drilling wells for Producer and to perform all maintenance, distribution, accounting, marketing, well-tending and other related management services to Producer, necessary to achieve effective and efficient operation of its wells and pipelines. The duties of CGI shall include all functions necessary to maintain and service Producer’s wells and pipelines including but not limited to (1) ordinary maintenance of all wells, (2) blowing of all drip valves, (3) testing and maintenance of appropriate line pressure, (4) maintenance, location and service of all compressors, regulators, meters and all other appurtenances of the pipelines and wells, (5) the day to day accounting and distribution activities necessary to the distribution of money to Producer and to the royalty owners, (6) establishment of marketing contracts necessary to get Producer’s gas to market, and (7) any and all other functions, in accordance with the standards and customs of the oil and natural gas industry for the effective and efficient operation of the pipelines and all wells connected thereto.

ARTICLE III – COMPENSATION

- 3.1 In exchange for the duties and services to be performed by CGI as otherwise set forth herein, CGI shall receive a monthly fee from Producer, or where Producer holds only a fractional interest in the well, it shall pay its *pro rata* portion of the monthly fee. Where this fee is not

set or governed by a third party agreement (e.g., Farmout, Operating Agreement, etc...), the fee is hereby set at \$800.00, subject to modification under the terms of this paragraph. This fee shall be paid in the aggregate based on the total number of producing wells held by Producer, regardless of whether any individual well is producing income sufficient to pay its corresponding monthly fee. CGI may, at its option, increase the monthly per well fee on an annual basis, provided that it may not increase more than twice during the initial term of this Contract or during any successive five year period following the initial term. Further, no single increase, whether made during or following the initial term, may be greater than 20% of the then-existing monthly fee.

- 3.2 In addition, CGI shall be reimbursed at actual cost for any third party, as set forth on any AFE or for extraordinary expenses incurred in fulfilling its duties under this Contract. Any and all charges by CGI to Producer for services rendered shall be arms-length transactions at customary and reasonable rates in the oil and gas industry for said services.

ARTICLE IV – RELATIONSHIP OF THE PARTIES

- 4.1 CGI shall be an independent contractor and shall fulfill its responsibility under this Contract in accordance with that status. Producer shall not exercise control over the manner or method by which CGI performs its duties under this Contract, but shall have the right to inspect the work at any time throughout the term of this Contract to verify that CGI is performing in accordance with the terms herein. CGI agrees to perform its duties under this Contract in compliance with all local, state and federal government regulations applicable to the work performed hereunder.

ARTICLE V – TERM

- 5.1 The initial term of this Contract shall be five (5) years from the effective date below. At the end of said initial term, this Contract shall be extended for successive one (1) year periods until either party gives the other party thirty (30) days written notice of Contract termination.

ARTICLE VI – INSURANCE

- 6.1 CGI shall maintain throughout the term of this Contract liability insurance with minimum limits of \$5,000,000 that offers personal and property liability coverage for injuries resulting from CGI's performance under the terms of this Contract.

ARTICLE VII – MARKETING

- 7.1 Both Parties understand and agree that Producer's gas will be sold to third parties under marketing contracts held by CGI. CGI agrees that it is merely serving as an agent for Producer with regard to these marketing contracts and that any money due Producer as a result of oil and gas sold through the contracts must be promptly turned over to Producer upon receipt by CGI.
- 7.2 Producer and CGI understand and agree that CGI will not take title to gas produced by Producer; provided, however, CGI will have the right to possess said gas, to transport said gas to the purchaser and to act as Producer's authorized agent for the purpose of selling and transferring title to said gas.

ARTICLE VIII – INDEMNIFICATION

8.1 Producer shall defend, indemnify and hold Contractor, its Affiliates and assigns, and their respective agents, employees, directors and officers, harmless from and against any and all losses incurred by any person or party, for injury to or illness or death of any person, or damage to property of any such person, which injury, illness, death or damage arises out of or is incident to the management services performed under this Contract, excepting for such injury, illness, death or damage which is caused by the gross negligence or willful misconduct of Contractor.

ARTICLE IX – NOTICES

9.1 Any notices, requests or demands shall be in writing and sent to the parties in this Contract to the addresses specified below.

ARTICLE X – MISCELLANEOUS PROVISIONS

10.1 The provision of services hereunder shall be deemed to have occurred within and be governed by the laws of the Commonwealth of Kentucky.

10.2 It is expressly agreed between the parties that this Contract embraces the entire understanding and agreement between the parties.

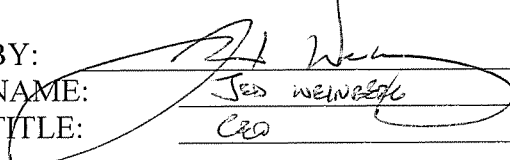
EFFECTIVE DATE: March 1, 2011


CONTRACTOR: Clean Gas, Inc.
ADDRESS: 35 Kentucky River Rd.
Emmalena, KY 41740

PRODUCER: Montgomery Creek Gas Co., LLC
ADDRESS: P.O. Box 783
Hindman, KY 41822

PHONE: (606) 785-0761
FAX: (606) 785-0013
TAX I.D. #: 61-1207255

PHONE: (606) 785-0761
FAX: (606) 785-0013
TAX I.D. # 61-0657808

BY: 
NAME: Jess Weinberg
TITLE: CEO

BY: 
NAME: Zach Weinberg
TITLE: Member

DATE: 12/8/11

DATE: 12/8/11

CHANDLER ENGINEERING CO.
Model 292/2920 BTU Analyzer

Test time: Dec.08 11 09:21
Test #:1

Calibration #: 5
Location No. :1070

	Standard/Dry Analysis				Saturated/Wet Analysis		
	Mole%	BTU*	R.Den.*	GPM**	Mole%	BTU*	R.Den.*
Methane	82.955	839.81	0.4595	--	81.512	825.19	0.4515
Ethane	5.893	104.54	0.0612	1.5751	5.791	102.72	0.0601
Propane	3.440	86.75	0.0524	0.9471	3.380	85.24	0.0515
i-Butane	0.379	12.36	0.0076	0.1240	0.373	12.14	0.0075
n-Butane	1.056	34.54	0.0212	0.3330	1.038	33.94	0.0208
i-Pentane	0.236	9.47	0.0059	0.0864	0.232	9.30	0.0058
n-Pentane	0.293	11.78	0.0073	0.1062	0.288	11.57	0.0072
(C6+)	1.289	65.47	0.0410	0.5553	1.267	64.33	0.0402
Moisture	0.000	0.00	0.0000	--	1.740	0.88	0.0108
Nitrogen	4.318	0.00	0.0418	--	4.243	0.00	0.0410
(CO2)	0.140	0.00	0.0021	--	0.137	0.00	0.0021
Ideal	100.00	1164.7	0.6999	3.7270			

* : Uncorrected for compressibility at 60.0F & 14.730PSIA.

** : Liquid Volume reported at 60.0F.

	Standard/Dry Analysis	Saturated/Wet Analysis
Molar Mass	= 20.270	20.231
Relative Density	= 0.7018	0.7005
Compressibility Factor	= 0.9969	0.9968
Gross Heating Value	= 21755. Btu/lb	21434. Btu/lb
Gross Heating Value	= 1168.3 Btu/CF	1149.0 Btu/CF
Absolute Gas Density	= 53.7042 lbm/1000CF	53.6051 lbm/1000CF
Wobbe Index	= 1371.57	
Innormalized Total :	98.094	
Last Calibrated with Calgas of	1053.0 Btu/CF	Aug.18 10 10:26
C6+ Last Update: GPA 2261-90.		
C6+ BTU/CF	5065.8, C6+ lbm/Gal 5.64250, and C6+ Mol.Wt. 92.00.	

Mont
Creek

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Futures

Symbol	Month	Last	Chg	Bid	Ask	Day High	Day Low	Vol	OpInt	Action
NGF12	JAN 2012	3.425	▼-0.062	3.423	3.425	3.504	3.409	98,423	253,841	Trade Chart Options
NGG12	FEB 2012	3.463	▼-0.06	3.46	3.463	3.536	3.451	45,336	97,439	Trade Chart Options
NGH12	MAR 2012	3.475	▼-0.058	3.472	3.475	3.546	3.462	55,977	134,479	Trade Chart Options
NGJ12	APR 2012	3.521	▼-0.056	3.52	3.523	3.589	3.506	31,061	97,992	Trade Chart Options
NGK12	MAY 2012	3.564	▼-0.054	3.562	3.565	3.628	3.547	10,779	43,664	Trade Chart Options
NGM12	JUN 2012	3.608	▼-0.052	3.604	3.608	3.675	3.588	3,611	25,580	Trade Chart Options
NGN12	JUL 2012	3.658	▼-0.055	3.657	3.66	3.727	3.647	2,855	21,177	Trade Chart Options
NGQ12	AUG 2012	3.689	▼-0.053	3.685	3.689	3.729	3.67	1,652	15,637	Trade Chart Options
NGU12	SEP 2012	3.695	▼-0.052	3.69	3.694	3.749	3.676	2,119	15,828	Trade Chart Options
NGV12	OCT 2012	3.729	▼-0.056	3.728	3.732	3.781	3.714	6,969	56,914	Trade Chart Options
NGX12	NOV 2012	3.873	▼-0.057	3.873	3.877	3.898	3.859	2,149	25,501	Trade Chart Options
NGZ12	DEC 2012	4.167	▼-0.052	4.163	4.167	4.23	4.148	1,784	24,154	Trade Chart Options
NGF13	JAN 2013	4.295	▼-0.054	4.294	4.297	4.326	4.282	2,580	32,201	Trade Chart Options
NGG13	FEB 2013	4.271	▼-0.067	4.282	4.289	4.325	4.271	146	6,821	Trade Chart Options
NGH13	MAR 2013	4.239	▼-0.05	4.235	4.24	4.252	4.239	227	14,658	Trade Chart Options
NGJ13	APR 2013	4.156	▼-0.054	4.156	4.161	4.187	4.145	352	22,812	Trade Chart Options
NGK13	MAY 2013	4.181	▼-0.05	4.172	4.184	4.195	4.181	30	3,295	Trade Chart Options
NGM13	JUN 2013	4.215	▼-0.047	4.204	4.215	4.23	4.215	20	1,887	Trade Chart Options
NGN13	JUL 2013	4.259	▼-0.046	4.243	4.261	4.26	4.257	10	1,949	Trade Chart Options
NGQ13	AUG 2013	4.278	▼-0.045	4.266	4.279	4.29	4.278	19	2,085	Trade Chart Options
NGU13	SEP 2013	4.281	▼-0.045	4.271	4.279	4.295	4.281	22	1,651	Trade Chart Options
NGV13	OCT 2013	4.316	▼-0.046	4.303	4.316	4.328	4.297	232	8,794	Trade Chart Options
NGX13	NOV 2013	4.41	▼-0.063	4.412	4.423	4.433	4.395	48	1,538	Trade Chart Options
NGZ13	DEC 2013	4.618	▼-0.081	4.637	4.653	4.66	4.618	34	6,414	Trade Chart Options
NGF14	JAN 2014	4.765	▼-0.047	4.747	4.768	4.765	4.765	07	3,929	Trade Chart Options
NGG14	FEB 2014	4.745	▼-0.046	4.73	4.751	4.745	4.745	02	576	Trade Chart Options
NGH14	MAR 2014	4.668	▼-0.052	4.657	4.685	4.668	4.668	01	1,057	Trade Chart Options
NGJ14	APR 2014	4.556	0	4.466	4.75	0	0	02	3,621	Trade Chart Options

Federal Minimum Wage Rates, 1955–2011

Value of the minimum wage			Value of the minimum wage		
Year	Current dollars	Constant (1996) dollars ¹	Year	Current dollars	Constant (1996) dollars ¹
1955	\$0.75	\$4.39	1983	3.35	5.28
1956	1.00	5.77	1984	3.35	5.06
1957	1.00	5.58	1985	3.35	4.88
1958	1.00	5.43	1986	3.35	4.80
1959	1.00	5.39	1987	3.35	4.63
1960	1.00	5.30	1988	3.35	4.44
1961	1.15	6.03	1989	3.35	4.24
1962	1.15	5.97	1990	3.80	4.56
1963	1.25	6.41	1991	4.25	4.90
1964	1.25	6.33	1992	4.25	4.75
1965	1.25	6.23	1993	4.25	4.61
1966	1.25	6.05	1994	\$4.25	\$4.50
1967	1.40	6.58	1995	4.25	4.38
1968	\$1.60	\$7.21	1996	4.75	4.75
1969	1.60	6.84	1997	5.15	5.03
1970	1.60	6.47	1998	5.15	4.96
1971	1.60	6.20	1999	5.15	4.85
1972	1.60	6.01	2000	5.15	4.69
1973	1.60	5.65	2001	5.15	4.56
1974	2.00	6.37	2002	5.15	4.49
1975	2.10	6.12	2003	5.15	4.39
1976	2.30	6.34	2004	5.15	4.28
1977	2.30	5.95	2005	5.15	4.14
1978	2.65	6.38	2006	5.15	4.04
1979	2.90	6.27	2007	5.85	4.41
1980	3.10	5.90	2008	6.55	
1981	\$3.35	\$5.78	2009	7.25	
1982	\$3.35	\$5.78	2010–2011	\$7.25	