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July 19, 2016

Talina Mathews  
Executive Director  
Public Service Commission  
PO Box 615  
Frankfort, Kentucky 40602-0615

RECEIVED

JUL 19 2016

PUBLIC SERVICE  
COMMISSION

RE: Purchased Gas Adjustment Filing of Valley Gas, Inc., Case No. 2016-00200

Dear Ms. Mathews,

Please accept for filing on behalf of Valley Gas, Inc. the enclosed documents, including a Petition for Confidentiality, confidential documents, and eight copies plus an original of the responses to Staff's First Request for Information. Please feel free to contact me if you have any questions about anything contained herein.

Very truly yours,

A handwritten signature in blue ink that reads 'Gregory T. Dutton'.

Gregory T. Dutton  
Goldberg Simpson, LLC

Purchased Gas Adjustment Filing of Valley Gas, Inc.  
Case No 2016-00200  
Valley Gas, Inc. Response to Staff's First Request for Information.

Question 1: Refer to the cover letter attached to the application. Explain in detail Valley Gas's natural gas storage arrangements with Constellation Energy ("Constellation").

Answer 1: With the addition of the industrial customer and the switch of gas suppliers, our gas accounting for the purposes of the Purchased Gas Adjustment Filing changed. We may have inadvertently made some errors in our filing, as a result of the new supplier and customer. This is likely the source of the confusion. We have attempted to clear up any discrepancies in these responses.

There are no special arrangements with Constellation. Valley Gas has tried to lock in some future pricing with Constellation to avoid higher prices. Valley Gas has contracted gas only during the winter months for our residential customers. The industrial customer makes a good summer time load, but has no activity during the winter months for heating. When figuring the expected gas cost, Valley Gas added the volumes purchased for storage into the totals. This was making line loss high because those volumes were not sold yet. Sales from the industrial customer were omitted, but not the purchases going into storage.

Valley Gas recently made a supplier change from Atmos to Constellation after twenty years, because the new industrial customer had a relationship with Constellation and Constellation helped the industrial customer pay for the running of the gas main to its plant. The remainder of the cost of running the gas main was paid by the industrial customer.

Since adding this industrial customer, Valley Gas has been able to make upgrades on our 50 year old city gate regulator stations. We have also added another line feed to most of the city in order to avoid a situation where line damage would force us to shut the entire city down to fix the damaged line. These actions should ensure reliable continuity of service to our customers.

Sponsor: Kerry Kasey

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Question 2: Provide all contracts related to gas supply, storage, and transportation between Valley Gas and Constellation.

Answer 2: See attachment A.

Sponsor: Kerry Kasey

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Question 3: Provide monthly invoices from Constellation since Valley Gas began procuring its gas from Constellation in 2015. Indicate on each invoice the amount of gas actually sold to Valley Gas's customers each month.

Answer 3: See chart below and attachment B.

2015 - 2016	Resid/Comm Sold Mcf	Industrial Sold Mcf	Amt Thru City Gate Dth	Purchase Volume Dth
January	████	████	████	████
February	████	████	████	████
March	████	████	████	████
April	████	████	████	████
May	████	████	████	████
June	████	████	████	████
July	████	████	████	████
August	████	████	████	████
Sept	████	████	████	████
October	████	████	████	████
November	████	████	████	████
December	████	████	████	████
January	████	████	████	████
February	████	████	████	████
March	████	████	████	████
April	████	████	████	████
May	████	████	████	████

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Question 4: Explain how Valley Gas manages its gas in storage to ensure it does not contract for more storage gas than it needs annually for its system supply.

Answer 4: Constellation discusses with Valley Gas before contracting any gas. When locking in fixed future prices for future months/years, Valley Gas looks at the average monthly usages for each month and fix a price no more than 50% of the average gas brought to "CITY GATE" for those months. This is done because, that gas has to be used first. Any gas over and above the fix price gas for that month would be at market rate. Valley Gas doesn't want to hedge more gas for a given month than it uses. There are fees charged if that happens. So if Valley Gas has a month were it uses 1000 Mcf's and 500 Mcf's was hedged, then the other 500 Mcf's could come from storage or off the open market.

Sponsor: Kerry Kasey

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Question 5: Refer to the application, Schedule IV, Actual Adjustment. Explain the discrepancy between total supply volumes purchased and actual sales during the months of January through March 2016.

Answer 5: Volumes purchased was used in error instead of the amounts thru the Valley Gas city gate.

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Question 6: Refer to the application, Rate Sheet for July through September 2016.

Question 6a: Explain the differences between Nomination volumes and costs, Volume Hedged and associated cost, and Storage Injections or Withdrawals volumes and cost.

Question 6b: State why the overall per Mcf rates for Storage Injections/Withdrawals at the bottom of the page are the same as those for Volume Hedged, and why those rates are more appropriate to use for the Expected Gas Cost calculation than rates in the "Mcf Conversion" row under the "Nomination" heading.

Answer 6a:

**Nomination Volume** is a historical average of prior year's usage and planned storage injection/withdrawal. Settlement / Market Price is NYMEX FutureSource data + Transport.

**Volume Hedged** is Contracted Quantity at a contracted price + Transport.

**Storage Injection / Withdrawal** is the projected volume to maintain storage at the pipe + Transport. Inject: April - October. Withdraw: November - March (pipe dictates percent). This is part of the nomination volume. Weighted Average Cost of Goods (WACOG) is price of Nomination, Volume Hedged, and Transport.

Answer 6b: Valley Gas uses the Volume Hedged (Contracted Quantity) as the monthly nomination (same volume). They are the same rate.

Sponsor: Kerry Kasey

Commonwealth of Kentucky

Before the Public Service Commission

In the Matter of:

PURCHASED GAS ADJUSTMENT )  
FILING OF VALLEY GAS, INC. )

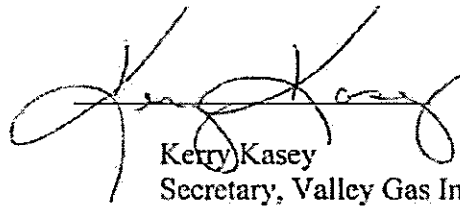
Case No.  
2016-00200

CERTIFICATION OF RESPONSES TO INFORMATION REQUESTS

This is to certify that I have supervised the preparation of Valley Gas Inc.'s responses to the Commission Staff's First Request for Information, dated June 17, 2016, and that the responses are true and accurate to the best of my knowledge, information and belief formed after reasonable inquiry.

7-13-16

Date

  
Kerry Kasey  
Secretary, Valley Gas Inc.