



Valley Gas, Inc.
PO Box 366
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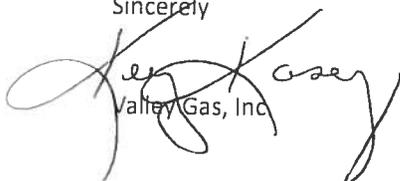
Jeff Derouen
Executive Director
Public Service Commission
PO Box 615
Frankfort, Kentucky 40602-0615

This special contract is being filed for Commission approval pursuant to 807 KAR 5:011, Section 13. The contract sets out the terms and conditions of Valley's future service to Mago Construction Company (Mago) which does not presently take service from Valley. Among other things, Mago produces asphalt for road construction and until now has used other fuels in its production process. Due to several projects in the local area, the Mago facility Valley intends to serve, (at the Liters Quarry off of Highway #477 near the City of Irvington.) plans on a large increase in its asphalt production in the near future and needs an additional fuel supply to meet the expected demand. The new 6" gas line needed to serve Mago will be constructed by Martin Contracting at an estimated cost of \$200,000. Mago has agreed to pay Valley Gas for 100% of the cost and the line will be owned by Valley Gas as part of their system.

The confidentiality request is being made pursuant to KRS 61.878, Section (1)(c)1. The information for which confidentiality is requested is included in Articles 2 and 4 of contract. It is considered proprietary and public disclosure of it would be detrimental to Valley. The information includes the term of the contract and the price at which Valley has agreed to deliver gas to Mago. Public disclosure of the term of the contract would allow Mago's other fuel suppliers, competitors of Valley, to know the extent of Valley's commitment to Mago. Public disclosure of the price would allow other potential large volume customers to use that information as the "ceiling" in any future contract negotiations they might have with Valley. Knowledge of this information would give those customers the ability to drive a "harder bargain" for terms more advantageous to them than the terms in this agreement. This in turn, would be less advantageous to Valley and its tariffed customers. Based on the contract's term, Valley requests that the information remain confidential for a period of five years.

The deviation request is being made pursuant to 807 KAR 5:011, Section 15. Valley is requesting approval to deviate from the Purchased Gas Cost Adjustment Clause ("Clause") in its filed tariff. The language in the Clause states that "The Gas Cost Recovery Rate is comprised of: 1. The Expected Gas Cost component (EGC) on a dollar-per-Mcf basis, which represents the average expected cost of purchased gas." Under the contract the gas purchased to serve Mago will be provided by Valley's supplier, Constellation Energy, specifically for Mago and will not be included in the average cost calculation of Valley's EGC. It is expected that the gas cost for Mago will be consistently less than the average gas cost used in calculating the EGC that will apply to Valley's other customers. Therefore, a deviation is required. Valley understands that the Commission has permitted Atmos Energy and Columbia Gas to charge a lower EGC to their large volume interruptible customers than is charged their other customers. While Mago's service will not be interruptible, it will be the largest customer by far on Valley's system with annual usage estimated to be equal to nearly one-half of Valley's average annual Mcf sales of 33,000 to its approximately 480 existing customers. The margins on the sales to Mago will improve Valley's finances and should allow Valley to delay filing for a base rate increase for a period of time beyond when it would otherwise need to make such a filing. For these reasons, Valley believes its deviation request should be granted

Sincerely


Valley Gas, Inc.