

INTERSTATE NATURAL GAS COMPANY
347 THOMPSON ROAD
P. O. BOX 3385
PIKEVILLE, KY 41502-3385
(606) 437-6147

2/25/2005

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

RECEIVED

MAR 25 2005

PUBLIC SERVICE
COMMISSION

Re: Case No. 2004-00356
Cost Justification
Application/Tariff Request
Pike, Floyd, Knott, Martin, Lawrence, Leslie, Letcher, Lee,
Morgan, Magoffin, Johnson and other counties in KY

Dear Ms. O'Donnell:

Please find enclosed an original and five (5) copies of the cost justification and other information that was requested by you.

1.a., 1.b., 1.c., 1.d., and 1.e. **Cost justification for rates charged in proposed tariff.**

The calculated gas price is \$12.57/Mcf (flat rate). Interstate assumes usage of 7.4 Mcf/mo/customer (89 Mcf/yr) based on usage over the past 12 months.

Gas Price Calculation

<u>Description</u>	<u>Amount</u>
12 month NYMEX Strip (as of 2/10/2005)	\$6.607/Dth
Appalachian Differential	<u>\$0.272/Dth</u>
	\$6.879 /Dth
BTU conversion based on 1253 Btu/cf (See sch 6)	<u>x 1.253</u>
	\$8.62Mcf
Well Operator (See schedule 1)	\$2.17/Mcf
Administrative Personnel (See sch 2)	\$0.45/Mcf
Methanol, Paint & Supplies (See sch 3)	\$0.99/Mcf
Mileage (See sch 4)	\$0.26/Mcf
Postage & Office Supplies (See sch 5)	<u>\$0.08/Mcf</u>
	<u>\$3.95/Mcf</u>
TOTAL	\$12.57/Mcf

2. a. **Cost justification for \$25 service charge imposed for returned checks.**

Bank charge for deposit items that are NSF	\$5.00
Assume: Accountant at Interstate main office gets notice and reviews notice of return deposit item, accountant then calls A/R-Billing clerk at field office, Clerk then contacts house customer to collect on item (it often takes several attempts). If payment is received, then a new deposit is prepared and taken to the bank. If payment isn't received, then clerk has to contact the customer again. Total Interstate employee time required = 2 hours 2 hours x \$10.00 per hour =	<u>\$20.00</u>
Total cost to handle returned checks	\$25.00

2. b. **\$15.00 charge for trips to collect delinquent bills.**

Assume: Twenty-five miles to collect delinquent bills 25 x \$0.375 =	\$ 9.38
Employee time for trip = 2 hours at \$14.32/hour	<u>\$28.64</u>
Total cost for trip to collect delinquent bills	\$38.02

2. c. **\$30.00 charge for service calls.**

Assume: Twenty-five miles to service call 25 x \$0.375 =	\$ 9.38
Employee time for trip = 2 hours at \$14.32 / hour	\$28.64
Employee time to load & unload proper tools and supplies on the service truck = .5 hour at \$14.32/hour	<u>\$ 7.16</u>
Total cost for service call	\$45.18

3. **The \$30.00 service call charge is in addition to the charge for any service performed during the call.**

4. **The number of customers belonging to each rate classification:**

Number of customers by classification in the original application	
Buffalo Horn (formerly Baiden) customers	57
Colony Coal & Coke wells	8
Myrtle Polley wells	8
Donald Cohen & Eli Schneider wells (Lawrence Co.)	14
Home Branch customers	3
All other farm-tap customers	<u>74</u>
	164

Interstate is requesting a flat rate for all customers with this amendment to the original application 164

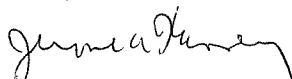
5. **Were provisions of existing contracts between customers and other suppliers honored when those customers were acquired by Interstate?** N/A
- a. If yes, provide copies of contracts. No contracts were existing. Pricing structure of previous suppliers continued.
 - b. If no, provide copies of new contracts entered into with Interstate. Interstate does not use a contract for house customers. It has used the pricing structure of the predecessor supplier and now plans to follow the rates, charges, rules and regulations as contained in the proposed tariff filing.
6. **Provide the date that Interstate began serving customers.** April 1999
7. **State whether Interstate is aware that, pursuant to 807 kar 5:026, Section 3(3), it is required to notify the Commission each time it connects a farm-tap customer to its system.** Yes, at this time.

Interstate Natural Gas Company would like to amend the rates and charges section of the original application to read as follows:

Rates: Monthly	
Minimum Bill (1 Mcf)	\$9.50
All additional Mcf	\$9.50

The notice to customers required by 807 KAR 5.026.9(d) was mailed on this same day. The person to contact concerning the information provided above is Michael Burke and you may contact him at (606) 437-6147.

Sincerely,



Jerome A. Kanney, General Partner
Interstate Natural Gas Company

**SCHEDULE 1
WELL OPERATOR COST
INTERSTATE NATURAL GAS COMPANY**

Base Pay	12.60
Social Security/Medicare	0.96
FUTA/SUTA	0.38
Workers Compensation	<u>0.38</u>
	14.32

ASSUME:

Meter reading - 15 minutes/customer/month x 12	3 hrs/year/customer
Call-outs, maintenance, etc.	6 hrs/year/customer
Overtime	<u>3 hrs overtime</u>
Total hours	12
Total hours with overtime	13.5 hrs/year/customer

LABOR COST PER MCF CALCULATION

13.5hrs x \$14.32 = \$193.32	
\$193.32/89mcf/customer/year = \$2.17/mcf	<u><u>\$2.17</u></u> per mcf

**SCHEDULE 2
ADMINISTRATIVE PERSONNEL COST
INTERSTATE NATURAL GAS COMPANY**

Base Pay	9.00
Social Security/Medicare	0.69
FUTA/SUTA	0.27
Workers Compensation	<u>0.03</u>
	9.99

ASSUME:

Preparing, Reviewing, & Inputting Invoices	8 hrs/month
Processing Cash Receipts & Depositing in Bank	8 hrs/month
Collections and Customer Questions	4 hrs/month
Total hours	20 hrs/month

ADMINISTRATIVE PERSONNEL COST PER MCF CALCULATION

20hrs x \$9.99 = \$199.80

\$199.80 x 12 months / 5,332 mcf (prior 12 months use) **\$0.45** per mcf

SCHEDULE 3
METHANOL, PAINT, METER REPLACEMENT, SUPPLIES, ETC.
INTERSTATE NATURAL GAS COMPANY

New Meter and/or regulators (including odorant bottle, lock valve, saddle, fittings, etc.) every five years \$326.00/5 =	\$65.20 per year
Paint, methanol, odorant, supplies, etc.	<u>22.72 per year</u>
	\$87.92 per year
\$87.92/89mcf =	<u><u>\$0.99</u></u> Mcf/customer/year

**SCHEDULE 4
MILEAGE FOR OPERATOR
INTERSTATE NATURAL GAS COMPANY**

Estimate 3 days meter reading per month at 165 miles per day
and 25 miles per year per customer for call outs.

Meter reading = 165 miles x 3 days x 12 months

Call Outs = 25 miles x 164 customers =

5,940 miles per year

4,100 miles per year

10,040 miles per year

10,040 miles x \$0.375/mile (IRS allowable) = \$3,765

\$3,765 yr / 164 customers = \$22.96 / 89 mcf =

\$0.26 Mcf

**SCHEDULE 5
POSTAGE AND OFFICE SUPPLIES
INTERSTATE NATURAL GAS COMPANY**

Assume \$0.37 per customer per month plus \$0.20 Other office supplies for a total of \$0.57 per customer per month or \$6.84 per customer per year.

\$6.84 per customer / 89 mcf usage per year =

\$0.08 Mcf

**SCHEDULE 6
AVERAGE BTU CALCULATION
INTERSTATE NATURAL GAS COMPANY**

	# Customers	BTU	Weighted Average
Buffalo Horn (formerly Baiden) customers	57	1.250	0.434
Colony Coal & Coke Wells	8	1.26	0.061
Myrtle Polley Wells	8	1.109	0.054
Donald Cohen & Eli Schneider wells (Lawrence County)	14	1.186	0.101
Home Branch customers	3	1.304	0.024
All other farm-tap customers	74	1.281	0.578
	<u>164</u>		<u>1.253</u>

41502
Natural Gas Company

★ ★ ★ UNITED STATES POSTAGE
112 8456 # 02.440 MAR 24 05
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MAR 25 2005

PUBLIC SERVICE
COMMISSION

Ms. Beth O'Donnell
Executive Director