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October 7, 2005

Tivis and Esther Newsom
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CERTIFICATE OF SERVICE

RE: Case No. 2005-00160

I, Beth O'Donnell, Executive Director of the Public Service Commission, hereby certify that the enclosed attested copy of the Cammission's Order in the above case was served upon the addressee by U.S. Mail on October 7,2005.

Executive Director

BOD/jc
Enclosure

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COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF EQUITABLE PRODUCTION COMPANY TO INCREASE RATES PURSUANT TO KRS 278.485 AND 807 KAR 5:026, SECTION 9	)))))	CASE NO. 2005-00160

O R D E R

On April 15, 2005, Equitable Production Company ("Equitable Production") filed an application for approval to increase its rates to customers served under KRS 278.485 and to add a Gas Cost Adjustment ("GCA") clause *to* its tariff. On August 11, 2005, the Commission issued an Interim Order in which we approved the proposed rate increase, but deferred a decision on the GCA clause. Although the Commission granted intervention to three customers and received over 40 letters from customers, all opposing Equitable Production's proposed rate increase, no customer offered any opinion on the proposed GCA clause.

Equitable Production's ability to increase its rates is currently governed by 807 KAR 5:026, Section 9(2)(c). This regulation provides that "[a] proposed tariff increasing rates shall not be filed with a proposed effective date less than one (1) year later than the last commission approved increase." Given the Commission's recent approval of Equitable Production's rate increase, this regulation prohibits Equitable Production from increasing its rates until August 11, 2006. Equitable Production's request for a GCA would potentially permit it to circumvent this restriction since the proposed tariff change would allow Equitable Production to adjust its retail rate every quarter

Equitable Production presented several arguments in support of its request for a GCA mechanism. First, it argues that its purchases of third party gas to serve its retail customers allow the use of a published independent market price to establish an appropriate gas cost rate for retail customers. Second, it argues that market prices for natural gas have been extremely volatile over the last several years and that a GCA mechanism would ensure that an appropriate market price signal is provided to retail customers. Third, Equitable Production argues that by eliminating the risk of it over or under recovering gas costs and cross subsidization, a GCA mechanism allows more efficient budgeting of resources. Lastly, it argues that a GCA mechanism would eliminate the need for frequent rate cases to capture and reflect a more current market price.’

Equitable Production states that it purchases gas from a third party for sale to its retail customers. The Commission, however, is not persuaded that such purchases are required for Equitable Production to serve these customers. Equitable Production’s gas production, purchases and sales data indicate Equitable Production historically purchases more gas than is required to serve its farm tap customers and that Equitable Production can easily serve these customers from its own gas production.’ The third party from which it currently purchases gas is in fact an affiliate, Equitable Energy, LLC, with whom it entered a gas purchase agreement effective January 1, 2005.

[1] Equitable Production’s Response to Initial Data Request of Commission Staff, Item 1(d).

[2] Id., Item 1(a).

Local distribution campanies ("LDCs") employ GCA mechanisms to recover the cost of the gas purchased to serve their retail customers. While an LDC has no control over its wholesale gas casts, a production company such as Equitable Production is not required to make third-party purchases to provide farm tap service. As such, Equitable Production's wholesale gas costs, unlike those of an LDC, are within its control.

The Commission has previously authorized a GCA mechanism only in situations in which a gathering system owns no production and hence has no control over its gas costs. The Commission finds that in this instance where the party that has requested relaxation of the pricing requirements of 807 KAR 5:026, Section 9(2)(c), has significant production capability, relaxation of those requirements is inappropriate and unwarranted.

We further find that Equitable Production's proposed GCA clause should be denied.

IT IS THEREFORE ORDERED that Equitable Production's proposed GCA clause is denied.

Done at Frankfort, Kentucky, this 7th day of October, 2005.

By the Commission

ATTEST:

Robert A. Amato for the

Executive Director