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March 24, 2006

CERTIFICATE OF SERVICE

RE: Case No. 2005-00478

I, Beth O'Donnell, Executive Director of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the addressee by U.S. Mail on March 24, 2006.

Executive Director

BOD/sh
Enclosure



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P.O. Box 155
Allen, KY 41601

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

J. W. KINZER DRILLING COMPANY'S)	
REQUEST TO INCREASE ITS FARM)	CASE NO.
TAP GAS RATES)	2005-00478

O R D E R

On November 28, 2005, J.W. Kinzer Drilling Co. ("Kinzer") filed an application to adjust its retail rate pursuant to KRS 278.485 and 807 KAR 5:026, Section 9. Kinzer proposes the following increase:

	<u>Proposed</u>	<u>Current</u>	<u>Increase</u>	<u>%</u>
Residential Rate per Mcf	\$ 15.31	\$7.45	\$7.86	106%
Minimum Monthly Charge	\$ 15.31	\$7.45	\$7.86	106%

(Up to 1 Mcf)

On December 8, 2005, Kinzer filed its required Notice to Customers and a request to waive filing the 2 years of gas cost data required for farm tap applications under 807 KAR 5:026, Section 9(2)(b). Kinzer requested permission to instead use an average of 12 months of futures prices as traded on the New York Mercantile Exchange ("NYMEX") in order to better represent the gas portion of its rate.¹ On December 1, 2005, Timothy C. Bates, one of Kinzer's customers, requested and was subsequently granted intervention in this case. During the discovery portion of this case, both Commission Staff and Mr. Bates submitted interrogatories to Kinzer. In response,

¹ On December 20, 2005, the Commission granted Kinzer's request for a waiver.

Kinzer objected to several of Mr. Bates' questions and refused to provide answers to those questions. Mr. Bates responded on January 26, 2006 by filing a motion to compel and a request for an informal conference and/or a formal hearing. On February 1, 2006, Kinzer filed a response opposing Mr. Bates' motion. On February 15, 2006, the Commission granted Mr. Bates' motion for an informal conference and deferred a decision on his motion to compel. Before the informal conference, Mr. Bates informally notified the Staff that he was withdrawing his request for intervention. The Commission issued an order on March 10, 2006, accepting Mr. Bates' informal request to withdraw from the case and submitting this case for a decision.

DISCUSSION

Kinzer argued, in its request for a waiver, that a 2-year trailing average would not be an accurate representation of future gas costs. Given the natural gas wholesale price spike experienced in late 2005 as a result of Hurricanes Katrina and Rita, a 2-year historical average would have produced a price substantially below the post-hurricane wholesale price of natural gas. Kinzer instead based its gas cost on the NYMEX 12-month strip as of November 2, 2005 plus a 2-year average of the Appalachian basis.² Kinzer then used a 1.2 conversion factor to develop its proposed per Mcf gas cost.

² Basis is the difference between the NYMEX futures price and the price actually paid for the physical commodity.

The Commission agrees, based on the unprecedented price levels experienced in 2005, that a price based on the NYMEX futures is more representative of current gas prices than a 2-year historical average. However, we also note that NYMEX futures prices have declined since the time that Kinzer applied for its rate increase. Using a more current NYMEX 12-month strip, as of March 16, 2006, and the Appalachian basis and conversion factor provided in Kinzer's application, produces a gas cost component of \$10.9967. Since a great deal of both the increases and the volatility in wholesale natural gas prices during late 2005 were due to the supply disruptions caused by Hurricanes Katrina and Rita, the Commission does not believe that it is appropriate to set the gas portion of Kinzer's retail rate based on the NYMEX 12-month strip as it was approximately 2 months after the hurricanes. The Commission believes that it is more appropriate to set the gas portion of the rate based on a more current NYMEX 12-month strip, which is also more in line with futures prices prior to the hurricane-related supply disruptions. Therefore, the Commission finds that the revised retail rate should be \$13.0537, which reflects the non-gas cost component of Kinzer's rate plus the \$10.9967 gas cost component.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the rates, charges, and terms in the Appendix to this Order are fair, just, and reasonable, in the public interest, and should be approved effective with the date of this Order.

IT IS THEREFORE ORDERED that:

1. Kinzer's proposed rate and minimum monthly charge are denied.

2. The rates in the Appendix, attached hereto and incorporated herein, are approved for service rendered on and after the date of this Order.

3. Within 20 days of the date of this Order, Kinzer shall file with this Commission its revised tariff showing the effective date, the date of issue, and that it is issued pursuant to this Order.

Done at Frankfort, Kentucky, this 24th day of March, 2006.

By the Commission

ATTEST



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2005-00478 DATED March 24, 2006.

The following rates and charges are prescribed for the customers served by J.W. Kinzer Drilling Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

Minimum Monthly Charge	\$ 13.05
All Additional Mcf	\$ 13.0537