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April 21, 2006

Beth O'Donnell  
Executive Director  
Public Service Commission  
211 Sower Boulevard  
P. O. Box 615  
Frankfort KY 40602-0615

Case 2006-00168

RECEIVED

APR 24 2006

PUBLIC SERVICE  
COMMISSION

Re: In the Matter of Dema Gas Company Inc.'s Gas Cost Adjustment.

Dear Ms. O'Donnell:

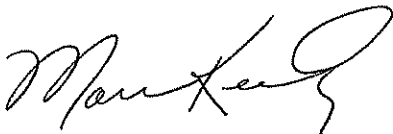
Enclosed please find an original and ten (10) copies of Dema Gas Company, Inc.'s proposed "17th Sheet No. 1" to its currently effective Public Service Commission tariff. This proposed tariff sheet would supersede Dema's "16th Sheet No. 1" contained in its tariff. This filing is made pursuant to the "Gas Cost Adjustment Clause" contained in Section (21) of Dema's tariff and reflects a rate increase based solely on an increase in wholesale gas costs imposed upon Dema by its supplier, Brushy Gap Coal and Gas Company.

Dema requests that its proposed 17th Sheet No. 1 and the new rates shown thereon become effective June 1, 2006.

Also enclosed for filing, and attached to the proposed tariff sheet, are copies of the gas sales contract from Brushy Gap Coal and Gas Company, together with all statements required under the terms of the Gas Cost Adjustment Clause.

Should you require anything further in this regard, please do not hesitate to contact me.

Sincerely,



Morris Kennedy

FOR ENTIRE AREA SERVED  
Community, Town or City

P.S.C. KY. NO. 1

17<sup>th</sup> SHEET NO. 1

DEMA GAS COMPANY  
(Name of Utility)

CANCELLING P.S.C. KY. NO. 1

16TH SHEET NO. 1

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RULES AND REGULATIONS

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RATE SCHEDULE: Applicable in all territory served by the Company.

AVAILABILITY OF SERVICE: For all residential and commercial purposes.

<u>RATE</u>	<u>BASE RATE</u>	<u>GAS COST RECOVERY</u>	
First 1 MCF	\$7.4648	\$10.00	\$17.4648
Over 1 MCF	\$ 6.2648	\$10.00	\$16.2648
<u>MINIMUM BILL</u>			\$17.4648

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DATE OF ISSUE \_\_\_\_\_  
Month / Date / Year

DATE EFFECTIVE June 1, 2006

ISSUED BY \_\_\_\_\_  
Month / Date / Year  
*James A. Harvey*  
(Signature of Officer)

TITLE President

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION  
IN CASE NO. \_\_\_\_\_ DATED \_\_\_\_\_

**BRUSHY GAP COAL & GAS COMPANY**  
**347 THOMPSON ROAD**  
**PO BOX 3385**  
**PIKEVILLE, KY 41502**  
**(606) 437-6147**

March 21, 2006

Dema Gas Company Inc.  
134 Mims Branch  
Pikeville, KY 41501

Gentlemen:

This letter sets forth the agreement between Brushy Gap Coal & Gas Company ("Seller") and Dema Gas Company, Inc. ("Buyer") as to the purchase price for natural gas to be paid by Buyer to Seller. Effective immediately, Buyer shall pay to Seller \$10 per Mcf for each Mcf of natural gas delivered by Seller into mutually agreed upon delivery points on Buyer's pipeline system. As we have agreed, this price reflects current market conditions and has been arrived at after due consideration of the increased costs of producing and delivering natural gas and of the increased value of natural gas in the wholesale market.

Should the foregoing accurately reflect Buyer's agreement as to the price to be paid to Seller for natural gas delivered on and after this date, please so indicate by executing this letter agreement on the space provided below.

Sincerely,



Dennis L. Rohrer, Vice President

**AGREED:**

Dema Gas Company, Inc.

By: *Jenna A. Perry*

Its: *President*

**DEMA GAS COMPANY INC.**  
**GAS PURCHASED FROM BRUSHY GAP COAL & GAS CO.**  
 FOR THE PERIOD 2/05 thru 2/28/06

Date	MCF	Supplier Rate	Purchases	New supplier rate	Purchases	Purchases new rates	Difference purchase price
Mar-05	129.35	\$3.44	\$444.96	\$10.00	\$1,293.50	\$1,293.50	\$848.54
Apr-05	92.95	\$3.44	\$319.75	\$10.00	\$929.50	\$929.50	\$609.75
May-05	40.41	\$3.44	\$139.01	\$10.00	\$404.10	\$404.10	\$265.09
Jun-05	30.27	\$3.44	\$104.13	\$10.00	\$302.70	\$302.70	\$198.57
Jul-05	11.10	\$3.44	\$38.18	\$10.00	\$111.00	\$111.00	\$72.82
Aug-05	4.38	\$3.44	\$15.07	\$10.00	\$43.80	\$43.80	\$28.73
Sep-05	7.06	\$3.44	\$24.29	\$10.00	\$70.60	\$70.60	\$46.31
Oct-05	8.05	\$3.44	\$27.69	\$10.00	\$80.50	\$80.50	\$52.81
Nov-05	11.10	\$3.44	\$38.18	\$10.00	\$111.00	\$111.00	\$72.82
Dec-05	43.00	\$3.44	\$147.92	\$10.00	\$430.00	\$430.00	\$282.08
Jan-06	104.99	\$3.44	\$361.17	\$10.00	\$1,049.90	\$1,049.90	\$688.73
Feb-06	87.00	\$3.44	\$299.28	\$10.00	\$870.00	\$870.00	\$570.72
<b>Totals</b>	<b>569.66</b>	<b>\$3.44</b>	<b>\$1,959.63</b>	<b>\$10.00</b>	<b>\$5,696.60</b>	<b>\$5,696.60</b>	<b>\$3,736.97</b>

Average

Average

Current Supplier Rate	New Supplier Rate	Gas Cost Adjustment		Base Rate	Gas Cost	Subtotal	Gas Cost Adjustment	2006 Proposed Rate
\$3.44	\$10.00	\$6.56	1st MCF	\$7.4648	\$3.44	\$10.9048	\$6.56	\$17.4648
			Over 1 MCF	\$6.2648	\$3.44	\$9.7048	\$6.56	\$16.2648