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May 8, 2006

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

RECEIVED
MAY 10 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 five (5) copies of the "Responses of Dema Gas Company, Inc. to First Data Request of Commission Staff".

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

Sincerely,



Morris Kennedy

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**DEMA GAS COMPANY INC.'S GAS
COST ADJUSTMENT**

CASE NO. 2006-00168

**RESPONSES OF DEMA GAS COMPANY, INC.
TO
FIRST DATA REQUEST OF COMMISSION STAFF**

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Comes Dema Gas Company, Inc. ("Dema"), by counsel, and for its Responses to the First Data Request of Commission Staff herein states as follows:

Request No. 1: Refer to the letter stating the agreement between Brushy Gap Coal and Gas Company ("Brushy Gap") and Dema.

a. Provide the terms of the contract and describe the process under which it can be amended, extended or cancelled.

Response: The letter agreement dated March 21, 2006, between Brushy Gap and Dema sets forth the entire written agreement between Brushy Gap and Dema pertaining to sales of natural gas by Brushy Gap to Dema. This contract can be amended, extended or cancelled upon the mutual agreement of the parties.

b. Explain in detail how Brushy Gap and Dema arrived at the \$10.00 per Mcf price.

Response: With the exception of natural gas sold to Dema, all of Brushy Gap's produced gas is sold on the interstate market. In order to arrive at a just and reasonable rate for gas diverted from the interstate market to Dema, Brushy Gap looked to the New York Mercantile Exchange ("NYMEX") twelve month strip price as of March 16, 2006, adjusted by the Appalachian Basis of +\$0.36/Dth. The adjusted NYMEX strip price as of March 16, 2006, was \$9.16/Dth. Brushy Gap then applied a Btu factor of 1.329 (this factor as calculated by Equitable

Energy LLC, a purchaser of Brushy Gap's gas) to \$9.16/Dth to arrive at an adjusted Mcf rate of \$12.17/Mcf. However, in an effort to keep the gas cost component of Dema's rate lower than the maximum rate which could have been found just and reasonable, yet still provide Brushy Gap with a sales price more reflective of today's market, the parties agreed to a sales/purchase price of \$10.00/Mcf.

c. Does Brushy Gap have a physical connection to Dema's system or is a third party transporter involved? If a third party is involved, identify the third party and describe the functions it performs.

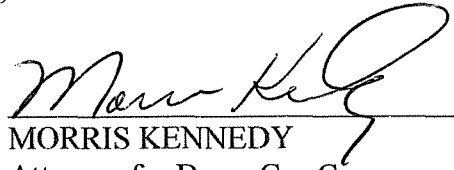
Response: Dema's system is comprised of various pipeline interconnects directly into the Brushy Gap gathering system. No third party transporter is involved.

d. Can Dema purchase gas from suppliers other than Brushy Gap? If no, explain why. If yes, identify the other suppliers.

Response: No. As stated above, Dema's system is comprised of various pipeline interconnects directly into the Brushy Gap gathering system. Even if Dema could locate another supplier willing to sell it gas at the discounted rate agreed to by Brushy Gap, Dema would have to construct a pipeline to that supplier and then integrate its pipeline system by constructing connections between the various segments of its system. Only by so integrating its pipeline system would Dema be able to take delivery of gas from a new supplier. Given the relatively few customers on the Dema system, and the relatively small amount of gas consumed by those customers, such a construction project would be economically impossible.

The information upon which the foregoing Responses were based was provided by Jerome A. Kanney, President, Dema Gas Company, Inc.

Respectfully submitted this 8th day of May, 2006.

A handwritten signature in black ink, appearing to read "Morris Kennedy", written over a horizontal line.

MORRIS KENNEDY
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(859) 245-4312

CC: All Parties