

AUXIER ROAD GAS CO., INC.

Post Box 785
Prestonsburg, KY 41653

Sallye M. Branham, President

Phone: 606-886-2314
Facsimile: 606-889-9995

February 11, 2008

RECEIVED

FEB 12 2008

**PUBLIC SERVICE
COMMISSION**

Beth O'Donnell, Executive Director
Kentucky Public Service Commission
211 Sower Blvd.
P. O. Box 615
Frankfort, Kentucky 40602

CASE NO: 200800053

Dear Mrs. O'Donnell:

By this letter Auxier Road Gas Company, Inc. is requesting a deviation from provisions of the Gas Cost Adjustment ("GCA") Clause in its tariffs. Auxier Road requests a deviation to file an interim GCA that modifies the calculation of the Actual Adjustment ("AA") component of the GCA. Auxier also asks, under KRS 278.180, to shorten the notice period to implement this GCA to 20 days, to make it effective March 3, 2008.

In much of 2006 and 2007, Auxier Road over-recovered its gas costs through its GCA. This was due to market conditions, which caused gas prices to fall, and a meter reading error by Auxier Road's second largest gas supplier, which caused the supplier to under-bill the company for more than a year. As a result, the amounts recovered through the GCA were much greater than the actual gas costs.

The result of the over-recovery is a negative AA of \$2.98 per Mcf. Usually during the winter, Auxier Road builds up a cash balance that it uses to get through the summer when sales are lower. This \$2.98 AA credit is causing a negative cash flow during the winter. If this continues, the company will not be able to cover expenses this summer.

Auxier Road's last rate increase was in 1991 and we believe our base rates no longer fully recover its non-gas expenses. We plan to file an ARF application in the near future based on calendar year 2007. In the interim, we propose to revise the AA component of the GCA by combining the current factors into one AA factor that will be refunded over 24 months. This will reduce the AA credit to (\$.6788), which will improve cash flow and help cover expenses this coming summer.

Auxier Road asks to be allowed to deviate from its GCA clause and shorten the notice period for this GCA from 30 to 20 days. If you have any questions, please contact me.

Sincerely,

A handwritten signature in cursive script that reads "Sallye Branham".

Sallye M. Branham, President

SCHEDULE I

GAS COST RECOVERY RATE SUMMARY

<u>Component</u>	<u>Unit</u>	<u>Amount</u>
Expected Gas Cost (EGC)	\$/Mcf	10.1735
+ Refund Adjustment (RA)	\$/Mcf	
+ Actual Adjustment (AA)	\$/Mcf	(.6788)
+ Balance Adjustment (BA)	\$/Mcf	(.0289)
= Gas Cost Recovery Rate (GCR)	\$/Mcf	9.4658

GCR to be effective for service rendered from FEB to MAR

A.	<u>EXPECTED GAS COST CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
	Total Expected Gas Cost (Schedule II)	\$	1,007,286
	+ Sales for the 12 months ended <u>SEPT</u>	Mcf	99,011
	= Expected Gas Cost (EGC)	\$/Mcf	10.1735
B.	<u>REFUND ADJUSTMENT CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
	Supplier Refund Adjustment for Reporting Period (Sch. III)	\$/Mcf	
	+ Previous Quarter Supplier Refund Adjustment	\$/Mcf	
	+ Second Previous Quarter Supplier Refund Adjustment	\$/Mcf	
	+ Third Previous Quarter Supplier Refund Adjustment	\$/Mcf	
	= Refund Adjustment (RA)	\$/Mcf	
C.	<u>ACTUAL ADJUSTMENT CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
	Actual Adjustment for the Reporting Period (Schedule IV)	\$/Mcf	(.6788)
	+ Previous Quarter Reported Actual Adjustment	\$/Mcf	
	+ Second Previous Quarter Reported Actual Adjustment	\$/Mcf	
	+ Third Previous Quarter Reported Actual Adjustment	\$/Mcf	
	= Actual Adjustment (AA)	\$/Mcf	(.6788)
D.	<u>BALANCE ADJUSTMENT CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
	Balance Adjustment for the Reporting Period (Schedule V)	\$/Mcf	.0022
	+ Previous Quarter Reported Balance Adjustment	\$/Mcf	(.0250)
	+ Second Previous Quarter Reported Balance Adjustment	\$/Mcf	.0360
	+ Third Previous Quarter Reported Balance Adjustment	\$/Mcf	(.0421)
	= Balance Adjustment (BA)	\$/Mcf	(.0289)

**ACTUAL ADJUSTMENT WORKSHEET
SCHEDULE IV**

2007-00086 Effective April 1, 2007

	Sales	AA Factor	Refunded	Balance
Beg Balance				(\$110,969)
April 2007	8,970	(\$1.1510)	(\$10,324.47)	(\$100,645)
May 2007	4,557	(\$1.1510)	(\$5,245.11)	(\$95,399)
June 2007	3,728	(\$1.1510)	(\$4,290.93)	(\$91,108)
July 2007	3,410	(\$1.1510)	(\$3,924.91)	(\$87,184)
Aug 2007	3,272	(\$1.1510)	(\$3,766.07)	(\$83,418)
Sept 2007	3,523	(\$1.1510)	(\$4,054.97)	(\$79,363)
Oct 2007	5,207	(\$1.1510)	(\$5,993.26)	(\$73,369)
Nov 2007	9,749	(\$1.1510)	(\$11,221.10)	(\$62,148)
Dec 2007	12,427	(\$1.1510)	(\$14,303.48)	(\$47,845)
Jan 2008	16,656	(\$1.1510)	(\$19,171.06)	(\$28,674)
	<u>71,499</u>		<u>(\$82,295.35)</u>	<u>(\$28,674)</u>

2007-00086 Effective July 1, 2007

	Sales	AA Factor	Refunded	Balance
Beg Balance				(\$123,830)
Jul 2007	3,410	(\$1.2526)	(\$4,271.37)	(\$119,559)
Aug 2007	3,272	(\$1.2526)	(\$4,098.51)	(\$115,460)
Sep 2007	3,523	(\$1.2526)	(\$4,412.91)	(\$111,047)
Oct 2007	5,207	(\$1.2526)	(\$6,522.29)	(\$104,525)
Nov 2007	9,749	(\$1.2526)	(\$12,211.60)	(\$92,313)
Dec 2007	12,427	(\$1.2526)	(\$15,566.06)	(\$76,747)
Jan 2008	16,656	(\$1.2526)	(\$20,863.31)	(\$55,884)
	<u>54,244</u>		<u>(\$67,946.03)</u>	<u>(\$55,884)</u>

2007-00086 Effective Oct 1, 2007

	Sales	AA Factor	Refunded	Balance
Beg Balance				\$8,858
Oct 2007	5,207	\$0.0886	\$461.34	\$8,397
Nov 2007	9,749	\$0.0886	\$863.76	\$7,533
Dec 2007	12,427	\$0.0886	\$1,101.03	\$6,432
Jan 2008	16,656	\$0.0886	\$1,475.72	\$4,956
	<u>44,039</u>		<u>\$3,901.86</u>	<u>\$4,956</u>

2007-00086 Effective Jan 1, 2008

	Sales	AA Factor	Refunded	Balance
Beg Balance				(\$61,474)
Jan 2008	16,656	(\$0.6209)	(\$10,341.71)	(\$51,132)
	<u>16,656</u>		<u>(\$10,341.71)</u>	<u>(\$51,132)</u>

Calculations

(79,602) / 192,605* = (0.4133)

(51,132) / 192,605* = (0.2655)

ACTUAL ADJ FOR REPORTING PERIOD (0.6788)

*192,605 is 2006-2007, 24 months of mcf sales

Auxier Road Gas Company, Inc.

Box 785
Prestonsburg, Kentucky 41653

Sallye Branham
President

Office (606) 886-2314
Fax (606) 889-9995

	<u>BASE RATE</u>	<u>GAS COST REC</u>	<u>TOTAL</u>
FIRST MCF (MINIMUM BILL)	5.11	9.4658	14.5758
ALL OVER FIRST MCF	4.2599	9.4658	13.7257