COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE INVESTIGATION INTO THE REASONABLENESS OF THE GAS COST RECOVERY FILING OF GASCO DISTRIBUTION SYSTEMS, INC.	) CASE NO. 2008-00096

SECOND DATA RESPONSE OF GASCO DISTRIBUTION SYSTEMS, INC.

Gasco Distribution Systems, Inc., by counsel, submits the attached responses to the Commission's order of April 30, 2008.

Submitted by:

John N. Hughes
124 West Todd St.
Frankfort, KY 40601
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Attorney for Gasco Distribution Systems, Inc.

Certificate:

I certify that a copy of this response was delivered to the Attorney General, 1024 Capital Center Dr., Frankfort, KY 40601.

John N. Hughes

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1. Refer to the responses to Items 1(a) and 2(e) of the Commission's March 31, 2008 Order. Provide workpapers, spreadsheets, etc. showing how the 7 percent retainage and $0.60 transportation fee charged Gasco for gas transported through the Titan Energy Group, Inc. ("Titan") pipeline are derived. Include a narrative description of the calculations that identifies the specific expense accounts, as shown in the Titan income statements, which are included in the derivation of the fees. Also, identify all assumptions included in deriving the fees.

Witness: Steele

1. Response: The specific expense accounts included in the calculations for deriving the transportation and retainage are the Well and Pipeline Operating Expenses account, Contract Labor account, Insurance account, Management Fees account, Depreciation account, Repair and Maintenance account, and the Fuel and Auto Expense account. There were no work papers or calculations made, but the transportation and retainage fees were based on an annual budget of the operations of the B & W line prepared by the Titan Energy Group when it was acquired. The seven percent shrinkage and $.60 transportation fee were arrived at by reviewing the historical data available to The Titan Energy Group, Inc at the time of the acquisition of the B&W pipeline. The budget included costs for direct labor, repairs and maintenance, general and administrative, insurance and taxes. The initial budget used projections of between 80,000 and 100,000 MCF's per year in determining the revenue for the B&W pipeline from sales with flow through to be approximately 150,000 MCF's per year by the end of the tenth year of operation.

2. Refer to the response to Item 2(a) of the Commission's March 31, 2008 Order. Provide the percentage ownership interests of Mr. Steele and Ms. King in Titan. If any non-officers have ownership interests in Titan, provide their names and their percentage ownership interests in Titan.

Witness: Steele

Response: The Titan Energy Group, Inc. is wholly owned subsidiary of Gasco Distribution Systems, Inc. Fred A. Steele and Trina L. King do not own any shares of The Titan Energy Group, Inc.

3. Refer to the responses to Items 2(b) and 2(c) of the Commission's March 31, 2008 Order which states that Gasco has no gas supply contract with Titan.

a. If there is any contract or written agreement that governs the transactions between the two companies, provide copies of it.

b. Provide the locations of Titan's pipeline and its oil and gas wells, by state and by county. Describe where the pipeline is located relative to Gasco's system.

c. Gasco's GCA filings prior to 2007 showed that it paid retainage and transportation fees to an entity identified as B & W. Provide a description of B & W including any relationship it may have had with Titan or Gasco, or their owners.

Witness: Steele

Response:

3.a. There is no contract or written agreement.

3.b. The B & W pipeline is located in Morgan, Fentress, and Pickett Counties in Tennessee. (See attached map) Titan's oil and gas wells are located in Morgan and Fentress Counties in Tennessee at various points along the B & W pipeline. Gas is purchased by Titan at Meter Station #3 located at the bottom of the map and delivered along with local production to the other end of the pipeline marked "Start" at the top of the map and just below the border between Tennessee and Kentucky.

3.c. B & W is the name of the intrastate pipeline owned by Titan, not a separate entity. It is the same pipeline that has transported gas to the Gasco-Albany system the entire time Gasco has owned the Albany system. There has been no change in supplier for the Gasco-Albany system.

4. Refer to the Titan income statements attached to the response to Item 2 of the Commission's March 31, 2008 Order.

a. For each of the three fiscal years included in the attachment, provide the amount of revenue Titan derived from its services to Gasco.

b. Identify the specific accounts in which the revenue from Gasco was included in the three income statements.

c. In general, identify and describe the factors or circumstances that have contributed to Titan's annual revenue declining by $95,000, or 35 percent, from the fiscal year ended June 30, 2005 to the fiscal year ended June 30, 2007.

Witness: Steele

Response:

4.a. The total revenue Titan derived from its services to Gasco are $21,443.84 for the fiscal year ended June 30, 2005, $21,402.58 for the fiscal year ended June 30, 2006, and $23,648.98 for the fiscal year ended June 30, 2007.

4.b. The revenue amounts included in the three income statements are recorded in the Transportation and Transmission account and the Compression account.

4. c. Total revenues declined from $267,165 at June 30 2005 to $181,684 at June 30, 2007 which is a decline of $85,478. This decline is primarily due to the decrease in revenues from transportation of $48,879, compression $19,590 and management fees $12,000. Additionally there was a $6,000 gain on the sale of an asset on 2005 and a $4,307 loss on the sale of an asset in 2007.

5. Refer to the response to Item 5 of the Commission's March 31, 2008 Order, specifically the draft language with which Gasco states it will amend its tariff. The language reads as follows: "If actual gas costs were not billed during the period incurred or were not included in a gas cost recovery filing within the quarterly period referenced in the tariff, the company may recover its actual unbilled gas costs for any period through its gas cost adjustment mechanism consistent with the provisions of KRS 278.225 or other applicable statute."

a. Given that Gasco's gas cost adjustment mechanism ("GCA") is designed to recover estimated gas costs prospectively and true-up that recovery with actual gas costs incurred on an after-the-fact basis, explain the reasoning for the first clause in the draft language – "If actual gas costs were not billed during the period incurred."

b. The draft language, starting after the comma, reads "the company may recover its actual unbilled gas costs for any period." Since gas cost recovery is subject to Commission review of a GCA filing, explain why the first part of the clause should not read "the company may *seek to* recover." (Emphasis added).

c. The next section of the clause reads "its actual unbilled gas costs for any period through its gas cost adjustment mechanism consistent with the provisions of KRS 278.225." Given the after-the-fact nature of the recovery of actual gas costs under Gasco's GCA, and the 24-month limit in KRS 278.225, explain why amending this section to read "its unrecovered gas costs through its gas cost adjustment mechanism consistent with the provisions of KRS 278.225" would not be more appropriate. This would replace "actual unbilled" with "unrecovered" and eliminate "for any period."

Witness: Steele

Response: Gasco has no objection to revising the tariff to address these comments. The draft tariff was proposed to attempt to respond the concerns reflected in the data requests about the limitations of the existing tariff. Gasco is willing to revise the language to address the issues raised in this question. The final language of the tariff can be agreed upon by the parties to conform to any changes necessary to resolve the under-recovery of the gas cost.

6. Refer to the responses to Item 5 of the Commission's March 31, 2008 Order. Explain how KRS 278.225 could be considered to allow any type of gas cost recovery when the statute is one of limitation for customer liability.

Witness: Steele

Response: There is no statute or regulation limiting the recovery of a gas purchase expense. KRS 278.255 does not address recovery of gas costs. The limitation on recovery of gas cost was raised by the Attorney General, who asserts that KRS 278.255 imposes a two year limit on billing. If KRS 278.255 does not apply to this situation, then there is no limitation on the ability of the company to recover gas costs for prior periods.

7. Refer to the response to Item 6 of the Commission's March 31, 2008 Order. Explain how KRS 278.225 could be considered to allow any type of gas cost recovery when KRS 278.160(2) prohibits the recovery of any amount greater than prescribed in a utility's filed tariff.

Witness: Steele

Response: See Response 6. Gasco has not filed a tariff reflecting the unbilled gas costs. The current Gas Cost Tariff rate is being billed, which reflects the most current approved rate. If recovery of the unbilled cost is approved, a new tariff will be filed. Customers will be billed the newly approved tariffed rate. That billing would be consistent with the requirements of KRS 278.160(2).

8. Refer to the response to Item 8 of the Commission's March 31, 2008 Order which states in part: "Revenue collected through a surcharge will be reflected as operating income and will be included in the calculations of revenue requirements if a rate case should be filed during the collection period."

In Case No. 2003-00494, the Commission imposed a surcharge for costs which were not included in the calculations for revenue requirements. If surcharge revenues were not to be so included in a Gasco rate adjustment filing, would your answer be any different? Explain the response.

Witness: Steele

Response: The revenue from the surcharge approved in that case was determined to be a "contribution" and treated as such for accounting and ratemaking as such. It was also considered to be a "rate" and subject to adjustment only as a result of a filing pursuant to KRS 278.180. It was also not subject to the restrictions of KRS 278.255. The gas cost involved in this case is not a rate and is not included in rate case proceedings, so to that extent the cases are not comparable. However, to the extent that the designation of the recovery of the gas cost is classified as a surcharge, it should be recoverable in its entirety and unaffected by KRS 278.255. Gasco would agree to that designation.

AFFIDAVIT

State of Ohio

County of Muskingum

I, Fred A. Steele, President, after being sworn, state that the responses to Second Data Response to an order of the Kentucky Public Service Commission in Case No. 2008-00096, dated April 30, 2008, on behalf of Gasco Distribution Systems, Inc. are true and accurate to the best of my knowledge, information and belief formed after a reasonable inquiry.

Sworn to before me by Fred A. Steele on this 15th day of May, 2008.

Fred A Steele

Fred A. Steele

Twila D. Wright

Notary Public

TWILA D. WRIGHT
Notary Public, State of Ohio
My Commission Expires May 15, 2010