

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

ORDER

On February 25, 2008, Gasco Distribution Systems, Inc. ("Gasco") submitted to the Commission its quarterly report, pursuant to its Gas Cost Recovery ("GCR") Rate Schedule, to update its GCR rate for the calendar quarter beginning April 1, 2008. In calculating the updated GCR rate, Gasco includes in the Actual Cost Adjustment ("ACA") component the difference between actual gas costs and recovered gas costs for the 2-year period ending June 30, 2007. This submission represents a modification of Gasco's earlier proposal for recovery of unrecovered gas costs, which had been the subject of a Commission investigation.¹

After review of Gasco's submission of February 25, 2008, the Commission finds that, pursuant to KRS 278.190, further proceedings are necessary to determine the reasonableness of the proposed GCR rate and that such proceedings cannot be completed prior to April 1, 2008. We further find that among the issues to be examined in this proceeding is the lawfulness and reasonableness of recovering the unrecovered gas costs through Gasco's GCR Rate Schedule and the appropriateness of using another rate mechanism, such as a surcharge, to recover such costs.

¹ Case No. 2007-00421, The Notice of Gas Cost Recovery Filing of Gasco Distribution Systems, Inc. (Ky.PSC Oct. 17, 2007).

IT IS THEREFORE ORDERED that:

1. Gasco's proposed updated GCR Rate is suspended for a period of 5 months from April 1, 2008 up to and including August 31, 2008.
2. The record of Case No. 2007-00421 is incorporated by reference into the record of this proceeding.
3. The Attorney General ("AG") is made a party to this proceeding.
4. The procedural schedule set forth in Appendix A to this Order shall be followed in this proceeding.
5. All documents that this Order requires to be filed with the Commission shall be served upon all other parties.
6. To be timely filed with the Commission, a document must be received by the Commission within the specified time for filing except that any document shall be deemed timely filed if it has been transmitted by United States express mail, or by other recognized mail carriers, with the date the transmitting agency received said document from the sender noted by the transmitting agency on the outside of the container used for transmitting, within the time allowed for filing.
7. Service of any document or pleading shall be made in accordance with Administrative Regulation 807 KAR 5:001, Section 3(7), and Kentucky Civil Rule 5.02.
8. Within 20 days of the date of this Order, Gasco shall publish notice to its customers in accordance with Administrative Regulation 807 KAR 5:011, Section 8, of its proposal to include in its proposed updated GCR Rate the difference between actual gas costs and recovered gas costs for the 2-year period ending June 30, 2007.

9. a. Gasco shall file with the Commission no later than April 7, 2008, the original and 5 copies of the information listed in Appendix B to this Order and shall serve a copy of this information upon all parties of record.

b. Gasco's response to this Order shall be appropriately bound, tabbed, and indexed and shall include the name of the witness responsible for responding to the questions related to the information provided.

c. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

d. Gasco shall make timely amendment to any prior responses if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

e. For any requests to which Gasco fails or refuses to furnish all or part of the requested information, Gasco shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

f. Gasco shall give careful attention to copied material to ensure its legibility.

g. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

10. Motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

Done at Frankfort, Kentucky, this 31st day of March, 2008.

By the Commission

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2008-00096 DATED MARCH 31, 2008.

Gasco shall file with the Commission and serve upon all parties
of record responses to the Commission's interrogatories and requests
for production of documents set forth in Appendix B no later than 04/07/08

Intervenors and Commission Staff may serve supplemental interrogatories
and requests for production of documents upon Gasco no later than.....04/18/08

Gasco shall file with the Commission and serve upon all parties of record
responses to supplemental interrogatories and requests for production
of documents no later than.....04/28/08

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2008-00096 DATED MARCH 31, 2008

1. Refer to Schedule I and II of Gasco's submission of February 25, 2008.

a. Describe how Gasco determined the average expected gas cost for the calendar quarter to be \$13.2335 per Mcf. This description should reflect whether the projected rate shown on Schedule II is based on a published indexed price and what, if any, basis, retainage or transportation fees are included in the expected gas cost.

b. Describe how Gasco derived the Actual Cost Adjustment component of \$4.5686 per Mcf. Provide all workpapers and state all assumptions used. This description should reflect the monthly over- and under-recovery calculations for the 24 months upon which the proposed factor is based and the 36 months' sales volumes used to derive the factor.

2. At an informal conference held on January 29, 2008 in Case No. 2007-00421, Gasco representatives stated that Titan Energy Group, Inc. ("Titan") is an affiliate organization. KRS 278.272 and 278.274 permit the Commission to consider the reasonableness of the rates and level of profit, or return, of the affiliate supplier of a regulated natural gas utility in reviewing the utility's rates and its gas purchasing practices.

a. List all of Titan's officers and employees. For each officer or employee, state whether he or she has an ownership interest in Titan.

b. Provide a copy of Gasco's gas supply contract with Titan.

c. Describe the nature of Titan's business operation (e.g., natural gas marketer, a pipeline operator, a gas producer). State the location of all pipelines, gas wells, and other gas industry assets which Titan owns.

d. Provide Titan's income statement and balance sheet for its three most recent fiscal years.

e. Explain how Gasco's gas supply contract with Titan demonstrates compliance with KRS 278.2207.

3. At an informal conference held on January 29, 2008 in Case No. 2007-00421, Commission Staff advised representatives of Gasco that the Kentucky Secretary of State had revoked Gasco's Certificate of Authority to Transact Business in the Commonwealth of Kentucky as of November 2, 2006. As of the date of this Order, Gasco is still without a Certificate of Authority to Transact Business in this state. KRS 271.B.15-020(1) bars a foreign corporation without a Certificate of Authority from maintaining a proceeding in this state until it obtains such a certificate. Explain why the Commission should not reject Gasco's present submission in light of its failure to have a valid certificate of authority.

4. The AG, in his response to Gasco's motion to dismiss, has requested that Gasco consider a provision for a 5-year billing plan for those customers who might demonstrate severe economic hardship as a result of the gas cost increase. 807 KAR 5:006, Section 13(2)(a) requires a gas utility to develop and offer residential customers a budget payment plan and to include the provisions of such plan in its tariffed rules. Section 13(2) also requires a partial payment plan for customers facing termination of

service for non-payment of bills. Gasco's current tariff fails to include provisions for budget plans or partial payment plans.

a. Prepare and submit a partial payment plan and a budget payment plan that complies with 807 KAR 5:006, Section 13(2).

b. State whether Gasco is willing to negotiate and accept a 5-year payment plan for customers who demonstrate a severe economic hardship as a result of the gas cost increase. Explain.

5. Gasco proposes to recover the difference between actual gas costs and recovered gas costs for the 2-year period ending June 30, 2007 through the ACA component of its GCR Rate. Explain how this proposal is consistent with the provisions of Gasco's present GCR Rate Schedule which limits the ACA component to the difference between the previous quarter's expected gas cost and the actual cost of gas during that quarter on a dollar per Mcf basis.

6. State whether, if Gasco's GCR Rate Schedule does not permit the inclusion of Gasco's unrecovered gas costs for the 2-year period ending June 30, 2007 in its ACA component, KRS 278.160(2) would prohibit the recovery of those costs through Gasco's GCR Rate. Explain.

7. State whether Gasco's proposal to recover the difference between actual gas costs and recovered gas costs for the 2-year period ending June 30, 2007 requires modifications to Gasco's existing GCR Rate Schedule. Explain.

8. Explain why a temporary surcharge, unrelated to Gasco's GCR Rate Schedule is not a more appropriate mechanism for recovery of the difference between actual gas costs and recovered gas costs for the 2-year period ending June 30, 2007.

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2008-00096 DATED MARCH 31, 2008

NOTICE

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

On February 25, 2008, Gasco Distribution Systems, Inc. ("Gasco") submitted to the Kentucky Public Service Commission a quarterly report, pursuant to its Gas Cost Recovery ("GCR") Rate Schedule, to update its GCR rate for the calendar quarter beginning April 1, 2008. In this report, Gasco's calculation of the updated GCR rate includes in the Actual Cost Adjustment ("ACA") component the difference between actual gas costs and recovered gas costs for the 2-year period ending June 30, 2007. The inclusion of these costs will increase Gasco's GCR rate by \$4.5686 per Mcf of natural gas purchased.

The Kentucky Public Service Commission has initiated an investigation to determine the reasonableness of the proposed updated GCR Rate, the lawfulness and reasonableness of recovering the unrecovered gas costs through Gasco's GCR Rate Schedule, and the appropriateness of using another rate mechanism, such as a surcharge, to recover such costs.

Any corporation, association, or person with a substantial interest in the matter may, by written request to the Kentucky Public Service Commission, within thirty (30) days after publication of this notice request to intervene in this proceeding. Intervention may be granted beyond the thirty (30) day period for good cause shown.

Any corporation, association, or person who wishes to submit comments on the proposed updated GCR rate should submit such comments to Ms. Stephanie Stumbo, Executive Director, Kentucky Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602.

Any person may examine the application and any other filings made by the utility at the Commission's office at 211 Sower Boulevard, Frankfort, Kentucky between 8:30 a.m. and 4:00 p.m. on weekdays or by visiting the Public Service Commission's website at <http://psc.ky.gov/pscscf/2008-00096/>.

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