

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF THE GAS COSTS OF B&H)	
GAS COMPANY PURSUANT TO KRS 278.2207 AND)	CASE NO.
THE WHOLESALE GAS PRICE IT IS CHARGED)	2015-00367
BY ITS AFFILIATE, B&S OIL AND GAS COMPANY,)	
PURSUANT TO KRS 278.274)	

ORDER

B & H Gas Company ("B&H") is a local gas distribution company ("LDC") subject to the Commission's jurisdiction pursuant to KRS 278.040. Bud Rife is the president and owner of 100 percent of the stock of B&H, having acquired B&H pursuant to the approval granted by the Commission in Case No. 89-018.¹ B&H's tariff approved by and on file with the Commission contains a Gas Cost Adjustment ("GCA") clause which requires that B&H file certain information with the Commission in order to revise the retail rates charged to its customers to reflect any changes in its wholesale gas cost.² In addition to owning B&H, Mr. Rife owns B&H's primary wholesale gas supplier, B&S Oil & Gas Company ("B&S").³ From October 2004 to March 2008, B&H entered into a

¹ Case No. 89-018, *The Joint Application of Ulice Bud Rife, Jr., and John M. Bradley and Debbie L. Bradley for the Approval of the Acquisition of B & H Gas Company, Inc. of Stanville, Floyd County, Kentucky, by Ulice Bud Rife, Jr.* (Ky. PSC May 17, 1989). All annual reports filed with the Commission by B&H since 1989 identify Mr. Rife as president and owner of 100 percent of B&H's stock.

² The issue date of B&H's tariffed GCA clause is June 1, 1995. Its effective date is July 1, 1995.

³ The record of Case No. 89-018 indicates that Mr. Rife was the owner of Bradley & Son Oil & Gas Company ("Bradley & Son"), the predecessor of B&S, at the time he was authorized to acquire B&H. At that time, Bradley & Son provided roughly 70 percent of B&H's gas supply. All sales agreements between B&S and B&H filed with the Commission since 2000 show Mr. Rife as the signatory for both parties. Its most recent annual reports show B&S supplying between 95 and 100 percent of B&H's gas supply.

series of four gas purchase agreements with B&S, each of which reflected an increase in the wholesale price charged by B&S.⁴

B&H's March 19, 2008 GCA filing stated that the proposed increase reflected

the significantly higher market price conditions for natural gas around the country. The rate is lower than the current NYMEX natural gas futures price (attached) . . . B&H is aware that Columbia Gas of Kentucky's IUS rate is currently \$13.47 per MCF and Equitable Gas Company's most current expected gas cost is \$12.00. B&H believes B&S contract rate to be very reasonable in comparison. Through the contract with B&S, B&H will have the benefit of a fixed price through the heating season while gas costs around the country are predicted to rise in the coming months.

Market prices for natural gas have declined since B&H's current GCA of \$9.38 became effective in April of 2008⁵ such that the 11 small LDCs that file quarterly GCAs with the Commission currently have gas cost rate components no greater than \$5.31 per Mcf, excluding pipeline transportation costs.⁶ These 11 small LDCs have reported gas costs in their annual reports filed with the Commission for the years 2012 through 2014 that averaged \$4.84 per Mcf.⁷ Moreover, the Intrastate Utility Service rate of Columbia Gas of Kentucky and the gas cost rate of Peoples Gas KY, LLC, formerly

⁴ While four agreements were filed with the Commission, only the 2004 and 2008 agreements were implemented and resulted in an actual increase in B&H's wholesale cost of gas. Those increases were approved in Case No. 2004-00449, *The Notice of Purchased Gas Adjustment Filing of B & H Gas Company, Inc.* (Ky. PSC Dec. 6, 2004) and Case No. 2008-00101, *The Notice of Purchased Gas Adjustment Filing of B&H Gas Company, Inc.* (Ky. PSC Apr. 15, 2008).

⁵ Case No. 2008-00101, *The Notice of Purchased Gas Adjustment Filing of B&H Gas Company, Inc.* (Ky. PSC Apr. 15, 2008).

⁶ Two of the 11 LDCs, Burkesville Gas Company, Inc. and Navitas KY NG, LLC, currently have approved GCAs of \$7.26 and \$5.725 per Mcf, which include, respectively, pipeline charges of approximately \$2.50 and \$1.50 per Mcf.

⁷ Of the 11 small LDCs that file quarterly GCAs with the Commission, none reported annual gas costs greater than \$6.76 per Mcf in any year from 2012 through 2014, and the average gas costs of all 11 small LDCs during this three-year period was \$4.84 per Mcf.

Equitable Gas company, both of which were used for comparison purposes in B&H's 2008 application, are currently \$3.5340 and \$4.9390 per Mcf, respectively. Since April 2008, B&H has made no GCA filings to reflect decreases in its wholesale price from B&S, although market prices for natural gas around the country have been for the last few years and continue to be significantly lower than in 2008.⁸

The affiliated nature of B&H's gas supply falls within the scope of KRS 278.2207, which governs the pricing requirements of transactions between utilities and affiliates.

This statute requires that:

Services and products provided to the utility by an affiliate shall be priced at the affiliate's fully distributed cost but in no event greater than market or in compliance with the utility's existing USDA, SEC, or FERC approved cost allocation methodology.

The affiliated nature of B&H's gas supply also falls within the scope of KRS 278.274, which, as Sections (3)(c) and (d) indicate below, allows the Commission to reduce the utility's rates by the portion of its purchased gas costs found to be unjust or unreasonable and reduce the affiliated supplier's rate to the utility by the same amount.

(3)(c) If the commission determines that the rates charged by the utility are not just and reasonable in that the cost of natural gas purchased from the affiliated company is unjust and unreasonable, the commission may reduce the purchased gas component of the utility's rates by the amount deemed to be unjust or unreasonable.

(3)(d) The commission may also reduce the rate charged by the affiliated company by the same amount.

⁸ B&H's annual reports filed with the Commission reflect a wholesale gas cost on its purchases from B&S of at least \$9.30 per Mcf each year from 2008 through 2014, except in 2012, when the cost was reported as \$8.67 per Mcf. The highest cost of \$9.85 per Mcf was reported in 2010. The average cost of B&H's purchases from B&S during the period from 2008 through 2014 was \$9.34 per Mcf.

Based on the facts that B&H (1) has made no GCA filings since 2008 to reflect decreases in its wholesale cost for gas purchased from B&S after having previously filed applications to reflect increases in the cost of gas purchased from B&S, and (2) has reported gas costs on average of \$9.34 per Mcf for purchases from B&S in its annual reports for the years 2008 through 2014, the Commission finds that B&H's gas procurement activities may be in violation of KRS 278.2207(1)(b), which requires that:

Services and products provided to the utility by an affiliate shall be priced at the affiliate's fully distributed cost but in no event greater than market or in compliance with the utility's existing USDA, SEC, or FERC approved cost allocation methodology.⁹

Having reviewed the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. B&H's wholesale gas supply is provided by its affiliated gas supplier, B&S.
2. B&H has not made a GCA filing since March of 2008 when, based on the market conditions at that time, it was authorized to implement a GCA of \$9.38 per Mcf.
3. Market conditions in the natural gas industry have changed greatly since 2008 such that the gas costs reported in their annual reports by the small LDCs that file quarterly GCAs averaged \$4.84 per Mcf from 2012 through 2014.
4. B&H's cost for purchases from B&S, as reflected in its annual reports filed with the Commission, has been at least \$9.30 per Mcf in all years from 2008 through

⁹ There is nothing in the Commission's records indicating that B&H utilizes a cost allocation methodology approved by the USDA (United States Department of Agriculture), the SEC (Securities and Exchange Commission), or the FERC (Federal Energy Regulatory Commission).

2014, except for 2012, when the reported cost was \$8.67 per Mcf, with the highest cost reported being \$9.85 per Mcf in 2010.

5. B&H's purchases from B&S are governed by KRS 278.2207, which governs the pricing of transactions between a utility and a non-regulated affiliate and which requires that services or products provided to a utility by an affiliate be priced at no greater than the market price or in a manner that complies with the utility's existing allocation methodology approved by either the United States Department of Agriculture, the Securities and Exchange Commission, or Federal Energy Regulatory Commission.

6. B&H's purchases from B&S are governed by KRS 278.274, which requires the Commission to exert jurisdiction over an intrastate affiliate gas supplier as though it were a utility subject to the Commission's jurisdiction.

7. Pursuant to KRS 278.274(3)(b) and (c), when a utility is purchasing natural gas from an affiliate, the Commission is required to ensure that the rates charged the utility and ultimately to the consumers are just and reasonable, and the Commission may reduce the purchased gas component of the utility's rates by the amount deemed unjust and unreasonable.

8. Based on the evidence of gas prices in this record, a prima facie showing has been made that: (a) B&S's gas costs to B&H are not equal to or less than market as required by KRS 278.2207(1)(b), which governs the pricing of transactions between a regulated utility and a non-regulated affiliate; and (b) the gas rates charged by B&S to B&H as included in B&H's rates are significantly above market and are not just and reasonable as required by KRS 278.274. For these reasons, the GCA component of

B&H's rates should be collected subject to refund as of the date of this Order and until further Commission Order.

The Commission, on its own motion, HEREBY ORDERS that:

1. This investigation is opened to provide B&H and B&S an opportunity to present evidence to demonstrate that: (a) the cost of gas sold to B&H by its affiliate B&S is no greater than market as required by KRS 278.2207(1)(b); and (b) the GCA component of B&H's rates and the rates charged by B&S to B&H are just and reasonable as required by KRS 278.274 for natural gas purchased by a utility from an intrastate affiliate; and to provide (c) any reason why the GCA component of B&H's rates should not be reduced to market, along with a corresponding reduction to the cost of gas sold by B&S to B&H under KRS 278.274.

2. B&H and B&S shall be parties to this case.

3. B&H shall collect the GCA component of its rates subject to refund effective for bills rendered after the date of this Order until further Commission Order.

4. B&H and B&S shall individually or jointly file, within 20 days of the date of this Order, responses to the requests for information attached hereto as Appendix A and any other information relevant to B&H's cost of gas purchases from B&S.

a. Responses to requests for information 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, with copies to all parties of record, and the original and six copies to the Commission.

b. 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.

c. Any party shall make timely amendment to any prior response 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.

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

e. A party filing a paper containing personal information shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

5. B&H's March 19, 2008 GCA filing, which was docketed as Case No. 2008-00101, is attached hereto as Appendix B.

6. The Commission's April 15, 2008 final Order in Case No. 2008-00101 is attached hereto as Appendix C.

7. The October 1, 2004, October 1, 2005, and September 6, 2007 sales agreements between B&H and B&S are attached hereto as Appendix D.

8. KRS 278.2207 and 278.274 are attached hereto as Appendix E.

9. The case number and Order date of the other jurisdictional LDCs' currently approved GCAs are attached hereto as Appendix F.

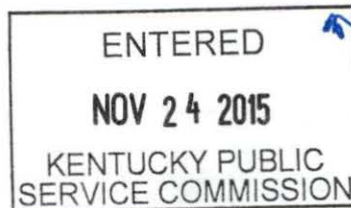
10. The annual gas costs reported by the smaller jurisdictional LDCs are attached hereto as Appendix G.

11. Within 20 days of the date of this Order, B&H and B&S shall file written responses to the Commission concerning the allegations contained herein.

12. Any motion requesting an informal conference with Commission Staff to consider any matter that would aid in the handling or disposition of this proceeding shall be filed with the Commission no later than 20 days from the date of this Order.

13. Pursuant to KRS 278.360, the record of any formal hearing shall be kept by videotape.

By the Commission



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2015-00367 DATED **NOV 24 2015**

1. Provide the number of connections/receipt points between B&S and B&H.
 - a. Indicate if any of these connections/receipt points are currently not in use.
 - b. Identify the locations of all such connections/receipt points on the B&H distribution system.
 - c. Provide the number of natural gas wells owned and operated by B&S in each of the following calendar years: 2008, 2009, 2010, 2011, 2012, 2013, 2014, and 2015.
 - d. Provide the production output of the natural gas wells owned and operated by B&S in each of the years 2008, 2009, 2010, 2011, 2012, 2013, 2014, and 2015.
 - e. For each of the years from 2008 up to and including 2015, provide the names of all parties to whom B&S supplied natural gas, the volumes supplied, and the prices charged for all such volumes.
2. B&H's annual reports on file with the Commission indicate, in most years, that B&H's sole wholesale natural gas supplier was B&S. However, in 2009, 2010, and 2011, Equitable Gas ("Equitable") was identified as a second wholesale natural gas supplier.
 - a. Explain why B&H purchased a small volume of natural gas from Equitable in 2009 (58 Mcf), 2010 (732 Mcf), and 2011 (499 Mcf).

b. Provide the names of all other entities, in addition to Equitable, from whom B&H has had the ability to purchase some portion of its wholesale gas supply during the period beginning in 2008, up to and including 2015.

3. The February 14, 2008 agreement between B&H and B&S submitted with B&H's March 19, 2008 GCA included a wholesale price of \$9.38 per Mcf for B&H's purchases from B&S. Based on that price, the volumes purchased from, and amounts paid to, B&S as shown in B&H's annual reports filed with the Commission produced an average wholesale cost ranging from \$9.30 to \$9.47 per Mcf in all years since 2008, except for 2009 and 2012, years in which the purchases from B&S and amounts paid to B&S produced per Mcf costs of \$9.85 and \$8.67, respectively. Explain why the average per MCF costs for purchases by B&H from B&S in those years vary so greatly from the established \$9.38 per Mcf purchase price.

4. From 2004 to 2008, a time of "significantly higher market price conditions for natural gas around the country,"¹⁰ four agreements which established a price at which B&H would purchase gas from B&S were filed with the Commission. In chronological order, these four agreements included per Mcf prices of \$7.00, \$8.00, \$9.00, and \$9.38. The most recent of these agreements, which was filed with B&H's 2008 GCA filing, Case No. 2008-00101, had an expiration date of September 1, 2008. Explain why no subsequent agreements to reflect current "market price conditions around the country" have been entered into by B&H and B&S and filed with the Commission.

¹⁰ See B&H's 2008 GCA filing, Case No. 2008-00101, *The Notice of Purchased Gas Adjustment Filing of B&H Gas Company, Inc.* (Ky. PSC Apr. 15, 2008) at 2.

5. Describe the process used by B&H to evaluate its cost of gas and whether to renegotiate its price with B&S, including how often the appropriateness of the contract price is reviewed and the information B&H considers in its review.

6. State whether B&H's \$9.38 per Mcf contract price with B&S continues to reflect the market price conditions around the country. If so, provide support for that price similar to the support that B&H provided in previous GCA cases. If not, indicate an appropriate price based on current market conditions and provide support for the indicated amount.

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2015-00367 DATED **NOV 24 2015**

2008-101

B & H GAS COMPANY

P. O. Box 339
Harold, KY 41635
Phone (606) 478-5851
Fax (606) 478-5266

March 18, 2008

RECEIVED

MAR 19 2008

PUBLIC SERVICE
COMMISSION

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

Dear Ms. O'Donnell;

Please find enclosed one original and three copies B & H Gas Company's proposed Gas Cost Adjustment and supporting calculations.

B & H Gas Company respectfully requests that the Commission approve the enclosed Gas Cost Adjustments

Sincerely,



Bud Rife
President B & H Gas Company
attachments

br/db

B & H Gas Company
Cost of Gas Purchased Based on Wholesale Rates
Effective March 1, 2008

Purchased gas adjustment filing reflects changes in rates to be effective March 1, 2008 based on supplier rates effective February 2008 calculated on purchases ** from January 1, 2007 through December 31, 2007

		Cost effective October 1, 2004	
<u>Supplier</u>	<u>MCF</u>	<u>Rate/MCF</u>	<u>Cost of Purchases</u>
B & S Oil And Gas Co.	24,384	\$7.00	\$170,688.00

		Cost effective March 1, 2008	
B & S Oil	24,384	\$9.38	\$228,271.92
Increase in rates		\$2.38	

*Attached is a copy of the February 2008 agreement between B & H and B & S Oil and Gas Company. The increased rate reflects the significantly higher market price conditions for natural gas around the country. The rate is lower than the current NYMEX natural gas futures prices (attached). NYMEX prices are prone to wide fluctuations from week to week. B & H Gas is aware that Columbia Gas of Kentucky's IUS rate is currently \$13.47 per MCF and that Equitable Gas Company's most current expected gas cost is \$12.00. B & H believes B & S contract rate to be very reasonable in comparison. Through the contract with B & S, B & H will have the benefit of a fixed price through the heating season while gas costs around the country are predicted to rise in the coming months. B & S has not increased its rate to B & H in three and half (3 ½) years.

** MCF sales volume for B & H is used for the purchase volume because line loss is so minimal.

P.S.C. Ky. No.

Cancels P.S.C. Ky. No. 2004-00449

B & H Gas Company

Of

Harold, Kentucky 41635

Rates, Rules and Regulations for Furnishing Gas

At

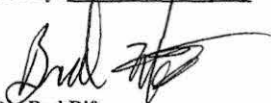
Betsy Layne, Stanville, Ivel, Mare Creek, Ivy Creek

**Filed With Public Service Commission
Of Kentucky**

Issued March 4, 2008

Effective March 31st, 2008

Issued By: B & H Gas Company


By: Bud Rife
President/Manager

BETSY LAYNE, STANVILLE, IVEL, MARE CREEK, IVY CREEK

P.S.C. NO

CANCELLING P.S.C. NO 2004-00449

B&H GAS COMPANY

CLASSIFICATION OF SERVICE

Proposed rates:

Residential

First 2 MCF (minimum bill)	\$23.5538
Next 8 MCF	\$11.3588
Next 20	\$10.9444
Next 30	\$10.7403

DATE OF ISSUE March 4, 2008 DATE EFFECTIVE March 31st, 2008

Issued By: Bud Rife President / Manager P.O. Box 339 Harold, Ky 41653

Issued by authority of an order of the public service commission of Kentucky.

B & S OIL AND GAS COMPANY
PO BOX 155
HAROLD, KY 41635

AGREEMENT

THIS AGREEMENT, Made and entered into this 14th, day of February, 2008 by and between B & S Oil and Gas Company of Harold, KY; and B & H Gas Company, a Kentucky Corporation of Harold, KY.

WHEREAS, the B & S Oil and Gas Company is the owner of producing gas wells, and

WEREAS, B & H Gas Company is desirous of purchasing gas for resale in the Floyd and Pike County areas.

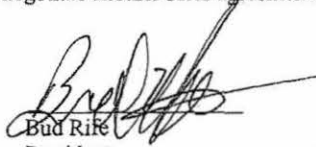
IT IS NOW, THEREFORE AGREED, by and between the parties that in consideration of the sum of nine dollars & thirty eight cents (\$9.38) per MCF. B & S Oil and Gas Company will sell to B & H Gas Company, a Kentucky Corporation, such amount of natural gas as the B & H Gas Company may desire; provided that said B & S Oil and Gas Company has such amount of natural gas available. Kentucky West VA meter charge for B & H Gas Company is .38 cents per MCF. With the total charge to the customer to be \$9.38 per MCF.

B & H Gas Company is to accept delivery of said gas at the metering point of each of the producing wells which B & S Oil and Gas Company own and said B & H Gas Company shall be responsible for maintaining the lines from the metering point.

It is understood that B & S Oil and Gas Company agree to furnish gas up to the extent of the production available at such wells, which are or may hereafter be connect to the lines of B & H Gas Company.

Payments shall be made no later than the 20th of each month following the month in which the gas is delivered.

The terms of this agreement shall be for one (1) year from the date of execution of the agreement. At the expiration of one (1) year, September 1, 2008, the parties hereto may negotiate another sales agreement.


Bud Rife
President
B & S Oil and Gas Company


PUBLIC SERVICE COMMISSION
Bud Rife OF KENTUCKY
President EFFECTIVE
B & H Gas Company 3/22/2008
PURSUANT TO 807 KAR 5:011
SECTION 9 (1)
By 
Executive Director

Gas Bill

Residential Service

Account Number
10751731 002 000 0
Statement Date
02/12/2008
6211

Page 1 of 2

Billing & Payment Summary

Billing & Payment Notes
See back of bill for Detail of Charges for Gas Service.

Customer Name Bud Rife	
Previous Amount Due on 01/28/2008	\$109.69
Payments Received by 02/07/2008	- \$109.69
Balance on 02/12/2008	= \$0.00
Charges for Gas Service This Period	+ \$118.50
Amount Due by 02/26/2008	= \$118.50

118.50 ÷
0.9 =
13.17 *

online billing and payment services, assistance, and other useful tools.

Billing Options

Budget Payment Plan Reduce the impact of higher, unstable natural gas prices by spreading the cost of winter heating more evenly throughout the year. Know how much to expect to pay each month.

Customer CHOICE Purchase your natural gas from an unregulated supplier and have more control over the gas cost portion of your bill, which amounts to nearly two-thirds of your bill. Columbia Gas will still deliver the gas and provide safe, reliable service.

Payment Options

E-bill Receive and pay your bill online. To enroll, visit our Web site, www.columbiagas.com.

ZipCheck Authorize your bank to pay your bill automatically each month.

Phone Call NCO EasyPay at 1-800-284-8572 or link from our Web site to pay by credit card, debit card or electronic check. NCO charges a convenience fee for each transaction.

Authorized Payment Centers Visit DirectLink e-Services on our Web site or call for the location of an authorized payment center near you. The agent charges a service fee for each transaction.

Mail Detach and return the coupon below with payment to:

Columbia Gas of Kentucky
P.O. Box 2200
Lexington, KY 40588-2200

Gas Meter Information

Actual Reading A meter reader has read the meter. You're required to provide us access to read the meter at least once a year or risk shut-off. Please contact us to make arrangements if access is required.

Estimated Reading During the months we don't read the meter, we accurately estimate your reading based on the history of usage at the service address and normal temperatures for the billing period. We verify the reading the next time we read the meter to make sure you pay only for the energy you've used.

Gas Usage We measure your gas usage in Mcf equal to 1,000 cubic feet.

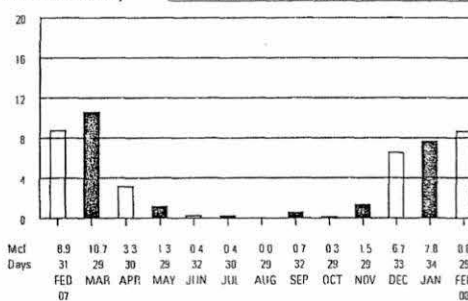
Service Summary

Service Summary Notes

Service Location Main St Harold KY 41635	
Meter Number M4202228	Meter Readings (29 Billing Days)
	Estimated Reading on 2/12 1409
	Actual Reading on 1/14 1321
	Gas Used (Mcf) = 8.8

Your next actual meter reading date is between 03/10/2008 - 03/14/2008

Gas Use History



Daily Comparisons

Month	Avg Daily Temp	Avg Daily Usage
Feb '08	32.3°	0.3
Jan '08	39.7°	0.2
Feb '07	28.9°	0.3

Your Average Monthly Usage is 3.5 Mcf

Your Total Annual Usage is 41.9 Mcf

Gas Bill

Residential Service

Account Number
10751731 002 000 0
Statement Date
02/12/2008
6211

Page 2 of 2

Detail of Charges for Gas Service

Service Charges Notes

Customer Charge	\$9.30
Gas Delivery Charge	\$15.35
Gas Supply Cost 8.8 Mcf at \$10.58910 per Mcf	\$93.19
Research & Development Factor	\$0.13
Energy Assistance Program Surcharge	\$0.53
Total Charges for Service This Period	\$118.50

The Customer Charge covers a portion of the fixed costs required to ensure that natural gas service is available to your home. This amount is the same with each bill.

Gas Delivery Charges are the costs of delivering the gas to retail customers. The charges for these services...

Payment Coupon

Turn Me Over for more details about your account.



EQUITABLE ENERGY LLC

Confirmation Date January 31, 2008 14:53

Transaction Confirmation - EXHIBIT A			
<p>This Confirmation Letter is being provided in accordance with the North American Energy Standards Board Base Contract for Sale and Purchase of Natural Gas or the Gas Industry Standards Board Base Contract for Short-Term Sale and Purchase of Natural Gas ("Contract"), which ever is applicable, between Equitable Energy, LLC ("EEC") and Counterparty, and constitutes part of and is subject to all terms and provisions of the Contract. In the event the Parties have not executed a Contract, the terms and conditions of the North American Energy Standards Board Base Contract for Sale and Purchase of Natural Gas and Equitable Energy's Special Provisions (attached if applicable) and this Confirmation Letter shall apply to this Transaction.</p> <p>Please sign and return one copy of the attached Confirmation to EEC within two (2) Business Days of receipt to the fax number set forth below. The terms of this Confirmation Letter are binding on EEC and Counterparty unless Counterparty objects to EEC in writing within said two (2) Business Days. If you are not in agreement with the above terms, please contact Theresa L. Petersen at 412.395.2635.</p>			
Seller		Buyer	
EQUITABLE ENERGY LLC 4TH FLOOR 225 NORTH SHORE DRIVE PITTSBURGH, PA 15212-5861		B & H GAS COMPANY PO BOX 155 HAROLD, KY 41635-0155	
Deal Maker	BRIAN SHAFRANEK	Attn	BUD RIFE
Phone	Phone: 412.395.2627	Phone	Phone: (606) 478-5851
Email	Not available - Fax# 412.395.2675	Email	Not available - Fax# (606) 478-5266
Transaction ID			
S-B&HGASCO-0004			
Delivery Term and Pricing Detail			
Service Level	From	To	Price
FIRM	02/01/2008 10:00 am	03/01/2008 10:00 am	\$10.4500
Delivery Point Detail and Volumes			
Pipeline	Meter	Total/Avg Daily	Description
KENTUCKY.WV	42Y	175/ 6 Dth	B & H GAS COMPANY
KENTUCKY.WV	42T	175/ 6 Dth	B & H GAS COMPANY
Special Conditions			
<p>Buyer shall be required to remit to Seller a prepayment for all natural gas supply in immediately available funds by wire transfer no later than 4 p.m. Eastern Standard Time on January 31, 2008. In the event Buyer fails to remit the Prepayment Amount on the date and time specified above, Seller shall not be required to deliver scheduled quantities to Buyer.</p>			
Seller		Buyer	
EQUITABLE ENERGY LLC		B & H GAS COMPANY	
By Authorized Signer		By Authorized Signer	
Title		Title	
Sr. Market Specialist		President	
Date	January 31, 2008	Date	



EQUITABLE ENERGY LLC

Confirmation Date March 03,2008 09:06

Transaction Confirmation – EXHIBIT A			
<p>This Confirmation Letter is being provided in accordance with the North American Energy Standards Board Base Contract for Sale and Purchase of Natural Gas or the Gas Industry Standards Board Base Contract for Short-Term Sale and Purchase of Natural Gas ("Contract"), which ever is applicable, between Equitable Energy, LLC ("EEC") and Counterparty, and constitutes part of and is subject to all terms and provisions of the Contract. In the event the Parties have not executed a Contract, the terms and conditions of the North American Energy Standards Board Base Contract for Sale and Purchase of Natural Gas and Equitable Energy's Special Provisions (attached if applicable) and this Confirmation Letter shall apply to this Transaction.</p> <p>Please sign and return one copy of the attached Confirmation to EEC within two (2) Business Days of receipt to the fax number set forth below. The terms of this Confirmation Letter are binding on EEC and Counterparty unless Counterparty objects to EEC in writing within said two (2) Business Days. If you are not in agreement with the above terms, please contact Theresa L. Petersen at 412.395.2635.</p>			
Seller		Buyer	
EQUITABLE ENERGY LLC 4TH FLOOR 225 NORTH SHORE DRIVE PITTSBURGH,PA 15212-5861		B & H GAS COMPANY PO BOX 155 HAROLD,KY 41635-0155	
Deal Maker	BRIAN SHAFRANEK	Attn	BUD RIFE
Phone	Phone: 412.395.2627	Phone	Phone: (806) 478-5851
Email	Not available – Fax# 412.395.2675	Email	Not available – Fax# (606) 478-5268
Transaction ID			
S-B&HGASCO-0005			
Delivery Term and Pricing Detail			
Service Level	From	To	Price
FIRM	03/01/2008 10:00 am	04/01/2008 10:00 am	\$12.0000
Delivery Point Detail and Volumes			
Pipeline	Meter	Total/AvgDaily	Description
KENTUCKY,WV	42Y	37/ 1 Dth	B & H GAS COMPANY
KENTUCKY,WV	42T	38/ 1 Dth	B & H GAS COMPANY
Special Conditions			
Seller		Buyer	
EQUITABLE ENERGY LLC		B & H GAS COMPANY	
By Authorized Signer		By Authorized Signer	
Title		Title	
Sr. Market Specialist			
Date	March 03,2008	Date	



Energy Information Administration

U.S. Energy Information Administration

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Natural Gas Navigator

Summary	Prices	Exploration & Reserves	Production	Imports/Exports & Pipelines	Storage	Consumption	Publications & Analysis
-------------------------	------------------------	--------------------------------------------	----------------------------	-------------------------------------------------	-------------------------	-----------------------------	---------------------------------------------

Natural Gas Futures Prices (NYMEX)

(Dollars per Million BTU)

Period: Daily

Contract	03/04/08	03/05/08	03/06/08	03/07/08	03/10/08	03/11/08	View History
Contract 1	9.353	9.741	9.742	9.769	10.024	10	1994-2008
Contract 2	9.393	9.776	9.792	9.819	10.075	10.064	1994-2008
Contract 3	9.443	9.819	9.851	9.88	10.136	10.134	1994-2008
Contract 4	9.516	9.884	9.915	9.948	10.214	10.222	1993-2008

Last Updated 03/12/2008

- = No Data Reported; NA = Not Available; W = Withheld to avoid disclosure of individual company data.

Notes: Prices are based on delivery at the Henry Hub in Louisiana. Official daily closing prices at 2:30 p.m. from the trading floor of the New York Mercantile Exchange (NYMEX) for a specific delivery month. See [Definitions](#), [Sources](#), and [Notes](#) link above for more information on this table.

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[Glossary](#)

[Home](#) > [Forecasts & Analyses](#) > [Short-Term Energy Outlook](#) > [STEO Table Browser](#)

STEO Table Browser

Date Published : March 11, 2008

Next Update : April 8, 2008

Select another STEO Table to view :

Table **5c. U.S. Regional Natural Gas Prices**

Frequency: Start Year: End Year:

Annual
 Monthly
 Quarterly

Table 5c. U.S. Regional Natural Gas Prices	
Dollars per Thousand Cubic Feet	
	2008
Wholesale/Spot	
U.S. Average Wellhead	7.24
Henry Hub Spot Price	8.18
Residential	
New England	17.49
Middle Atlantic	15.91
East North Central	12.50
West North Central	12.85
South Atlantic	17.26
East South Central	15.02
West South Central	13.31
Mountain	11.79
Pacific	12.71
U.S. Average	13.84
Commercial	
New England	14.66
Middle Atlantic	13.08
East North Central	11.55
West North Central	11.43
South Atlantic	13.95
East South Central	13.27
West South Central	11.06
Mountain	10.73
Pacific	11.56
U.S. Average	12.26
Industrial	
New England	13.21
Middle Atlantic	11.57
East North Central	10.33
West North Central	8.91
South Atlantic	10.24
East South Central	9.66
West South Central	7.92
Mountain	9.63
Pacific	9.08

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2015-00367 DATED **NOV 24 2015**

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE NOTICE OF PURCHASED GAS)
ADJUSTMENT FILING OF B & H GAS) CASE NO. 2008-00101
COMPANY, INC.)

O R D E R

On January 13, 1992, in Case No. 1991-00127,¹ the Commission approved certain adjusted rates for B & H Gas Company, Inc. ("B & H") and provided for their further adjustment in accordance with its Gas Cost Adjustment ("GCA") clause.

On March 19, 2008, B & H filed its GCA to be effective March 31, 2008.

After reviewing the record in this case and being otherwise sufficiently advised, the Commission finds that:

1. B & H's notice includes revised rates designed to pass on to its customers its expected change in wholesale gas costs.
2. B & H's proposed Expected Gas Cost ("EGC") is \$9.38 per Mcf, which is \$2.38 per Mcf more than the prior EGC of \$7.00.
3. B & H's Gas Cost Recovery Rate is \$9.38 per Mcf, which is \$2.38 per Mcf more than the previous rate of \$7.00.
4. The rates in the Appendix to this Order are fair, just, and reasonable, and should be approved for billing for service rendered by B & H on and after April 18, 2008.

¹ Case No. 1991-00127, The Application of B & H Gas Company, Inc. for A Rate Adjustment Pursuant to the Alternative Rate Filing Procedure for Small Utilities.

B & H's tariff does not permit an effective date of less than 30 days from the date of filing unless it requests and receives a waiver.² B & H did not request such a waiver and therefore the Commission finds that the effective date should be 30 days after the date the GCA was filed.

IT IS THEREFORE ORDERED that:

1. The rates in the Appendix to this Order are approved for billing for service rendered on and after April 18, 2008.
2. Within 20 days of the date of this Order, B & H shall file with the Commission its revised tariffs setting out the rates authorized herein.

Done at Frankfort, Kentucky, this 15th day of April, 2008.

By the Commission

ATTEST:


Stephanie Dumbo
Executive Director

² B & H Gas Company tariff, P.S.C. KY. NO. 1, Original Sheet No. 1, Gas Cost Adjustment Clause, paragraph 4.

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2008-00101 DATED APRIL 15, 2008

The following rates and charges are prescribed for the customers served by B & H. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Gas Cost Adjustment

The Gas Cost Adjustment shall be \$9.38 per Mcf during the period covered by the bill. A surcharge in the amount of 3 cents per Mcf shall be added to the above rates until the obligation owed Kentucky-West Virginia Gas Company has been discharged or is recalculated.

APPENDIX D

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2015-00367 DATED **NOV 24 2015**

B. & S. Oil & Gas Company
P.O. Box 155
Harold, KY 41635

AGREEMENT

THIS AGREEMENT, Made and entered into this 1st. day of October, 2004 by and between B.& S. Oil & Gas Company of Harold, Kentucky, and B. & H. Gas Company, a Kentucky Corporation of Stanville, Kentucky.

WHEREAS, B. & S. Oil & Gas Company is the owner of producing gas wells, and

WHEREAS, the B. & H. Gas Company is desirous of purchasing gas for resale in the Floyd and Pike county areas.

IT IS NOW, THEREFORE AGREED, by and between the parties that in consideration of the sum of seven dollars (\$7.00) per MCF, B. & S. Oil & Gas Company will sell to B. & H. Gas Company, a Kentucky Corporation, such amount of natural gas as the B. & H. Gas Company may desire provided the said B. & S. Oil & Gas Company have such amount of natural gas available.

B. & H. Gas Company is to accept delivery of said gas at the metering point of each of the producing wells which B. & S. Oil & Gas Company own and said B. & H. Gas Company shall be responsible for maintaining the lines from the metering point.

It is understood that B. & S. Oil & Gas Company agree to furnish gas up to the extent of the production available at such wells which are or may hereafter be connected to the lines of B. & H. Gas Company.

Payments shall be made no later than the 20th of each month following the month in which the gas is delivered.

The terms of this agreement shall be for one (1) year from the date of execution of this agreement. At the expiration of one (1) year, the parties hereto may negotiate another sales agreement.

Bud Rife

B. & S. Oil & Gas Company
PUBLIC SERVICE COMMISSION
OF KENTUCKY
EXECUTIVE DIRECTOR
11/10/2004
Bud Rife, President 007 KAR 5:011
B. & H. Gas Company (1)

By

Executive Director

**B. & S. OIL & GAS COMPANY
P.O. BOX 155
HAROLD, KY 41635**

AGREEMENT

THIS AGREEMENT, Made and entered into this 1st, day of October, 2005 by and between B. & S. Oil & Gas Company of Harold, Kentucky, and B. & H. Gas Company, a Kentucky Corporation of Stanville, Kentucky.

WHEREAS, B. & S. Oil & Gas Company is the owner of producing gas wells,
and

WHEREAS, the B. & H. Gas Company is desirous of purchasing gas for resale in the Floyd and Pike county areas.


IT IS NOW, THEREFORE AGREED, by and between the parties that in consideration of the sum of eight dollars (\$8.00) per MCF, B. & S. Oil & Gas Company will sell to B. & H. Gas Company, a Kentucky Corporation, such amount of natural gas as the B. & H. Gas Company may desire; provided the said B. & S. Oil & Gas Company have such amount of natural gas available.

B. & H. Gas Company is to accept delivery of said gas at the metering point of each of the producing wells which B. & S. Oil & Gas Company own and said B. & H. Gas Company shall be responsible for maintaining the lines from the metering point.


It is understood that B. & S. Oil & Gas Company agree to furnish gas up to the extent of the production available at such wells, which are or may hereafter be connected to the lines of B. & H. Gas Company.

Payments shall be made no later than the 20th of each month following the month in which the gas is delivered.

The terms of this agreement shall be for one (1) year from the date of execution of this agreement. At the expiration of one (1) year, October 1st 2006, the parties hereto may negotiate another sales agreement.




Bud Rife
President
B. & S. Oil & Gas Company



Bud Rife
President
B. & H. Gas Company

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE
9/30/2005
PURSUANT TO 807 KAR 5:011
SECTION 9 (1)

By 

Executive Director

B & S OIL AND GAS COMPANY
PO BOX 155
HAROLD, KY 41635

RECEIVED
SEP 07 2007
PUBLIC SERVICE
COMMISSION

AGREEMENT

THIS AGREEMENT, Made and entered into this 6th, day of September, 2007 by and between B & S Oil and Gas Company of Harold, KY; and B & H Gas Company, a Kentucky Corporation of Harold, KY.

WHEREAS, the B & S Oil and Gas Company is the owner of producing gas wells, and

WEREAS, B & H Gas Company is desirous of purchasing gas for resale in the Floyd and Pike County areas.

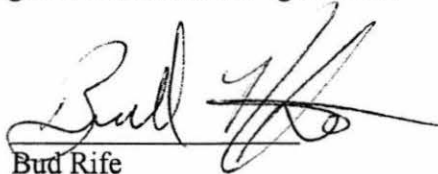
IT IS NOW, THEREFORE AGREED, by and between the parties that in consideration of the sum of nine dollars (\$9.00) per MCF. B & S Oil and Gas Company will sell to B & H Gas Company, a Kentucky Corporation, such amount of natural gas as the B & H Gas Company may desire; provided that said B & S Oil and Gas Company has such amount of natural gas available.

B & H Gas Company is to accept delivery of said gas at the metering point of each of the producing wells which B & S Oil and Gas Company own and said B & H Gas Company shall be responsible for maintaining the lines from the metering point.

It is understood that B & S Oil and Gas Company agree to furnish gas up to the extent of the production available at such wells, which are or may hereafter be connect to the lines of B & H Gas Company.

Payments shall be made no later than the 20th of each month following the month in which the gas is delivered.

The terms of this agreement shall be for one (1) year from the date of execution of the agreement. At the expiration of one (1) year, September 1, 2008, the parties hereto may negotiate another sales agreement.



Bud Rife
President
B & S Oil and Gas Company



Bud Rife
President
B & H Gas Company
PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE
10/7/2007
PURSUANT TO 807 KAR 5:011
SECTION 9 (1)

By 
Executive Director

APPENDIX E

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2015-00367 DATED **NOV 24 2015**

278.2207 Transactions between utility and affiliate -- Pricing requirements -- Request for deviation.

- (1) The terms for transactions between a utility and its affiliates shall be in accordance with the following:
 - (a) Services and products provided to an affiliate by the utility pursuant to a tariff shall be at the tariffed rate, with nontariffed items priced at the utility's fully distributed cost but in no event less than market, or in compliance with the utility's existing USDA, SEC, or FERC approved cost allocation methodology.
 - (b) Services and products provided to the utility by an affiliate shall be priced at the affiliate's fully distributed cost but in no event greater than market or in compliance with the utility's existing USDA, SEC, or FERC approved cost allocation methodology.
- (2) A utility may file an application with the commission requesting a deviation from the requirements of this section for a particular transaction or class of transactions. The utility shall have the burden of demonstrating that the requested pricing is reasonable. The commission may grant the deviation if it determines the deviation is in the public interest.
- (3) Nothing in this section shall be construed to interfere with the commission's requirement to ensure fair, just, and reasonable rates for utility services.

Effective: July 14, 2000

History: Created 2000 Ky. Acts ch. 511, sec. 5, effective July 14, 2000.

278.274 Review of natural gas utility's purchasing practices in determining reasonableness of proposed rates -- Reduction of rates by commission.

- (1) In determining whether proposed natural gas utility rates are just and reasonable, the commission shall review the utility's gas purchasing practices. The commission may disallow any costs or rates which are deemed to result from imprudent purchasing practices on the part of the utility.
- (2) When proposing new rates, the utility shall be required to prove that the proposal is just and reasonable in accordance with the requirements of this section.
- (3) It shall be presumed that natural gas purchases from affiliated companies are not conducted at arm's length.
 - (a) For purposes of this subsection, affiliated companies shall be defined as those in which one (1) or more of the owners control or have the right to control the business affairs of all affected companies.
 - (b) In instances in which a utility purchases natural gas from an intrastate affiliate, the commission shall assume jurisdiction of the affiliated company as though it were a utility as defined in KRS 278.010. The commission's jurisdiction shall extend to that extent necessary to ensure that the rates charged the utility and ultimately to the consumer are just and reasonable.
 - (c) If the commission determines that the rates charged by the utility are not just and reasonable in that the cost of natural gas purchased from the affiliated company is unjust or unreasonable, the commission may reduce the purchased gas component of the utility's rates by the amount deemed to be unjust or unreasonable.
 - (d) The commission may also reduce the rate charged by the affiliated company by the same amount.

Effective: July 13, 1984

History: Created 1984 Ky. Acts ch. 40, sec. 1, effective July 13, 1984.

APPENDIX F

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2015-00367 DATED **NOV 24 2015**

1. Bluegrass Gas Sales, Inc., *Case No. 2015-00297* – Order issued Sept. 22, 2015
2. Burkesville Gas Company, Inc., *Case No. 2015-00293* – Order issued Sept. 3, 2015
3. Citipower, LLC, *Case No. 2015-00303* – Order issued Sept. 22, 2015
4. Kentucky Frontier Gas, LLC, *Case No. 2015-00330* – Order issued Oct. 20, 2015
5. Martin Gas, Inc., *Case No. 2015-00289* – Order issued Sept. 11, 2015
6. Millennium Energy, Inc., *Case No. 2015-00292* – Order issued Sept. 11, 2015
7. Natural Energy Utility Corporation, *Case No. 2015-00294* – Order issued Sept. 11, 2015
8. Navitas KY NG, LLC, *Case No. 2015-00319* – Order issued Oct. 12, 2015
9. Public Gas Company, *Case No. 2015-00338* – Order issued Oct. 20, 2015
10. Valley Gas, Inc., *Case No. 2015-00321* – Order issued Oct. 9, 2015
11. Western Lewis-Rectorville Water and Gas, *Case No. 2015-0029* – Order issued Sept. 11, 2015

APPENDIX G

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2015-00367 DATED **NOV 24 2015**

Annual Gas Cost (\$ per Mcf) as
Reported in Smaller LDC Annual Reports*

<u>LDC Name</u>	<u>2008</u> [♦]	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>3-yr ave.</u>	<u>B&H ave.</u> [^]
Bluegrass	9.00				3.59	4.62	6.00	5.14	
Burkesville	9.51				4.81	5.66	6.72	5.98	
Citipower	11.48				4.12	4.69	6.36	5.41	
Ky. Frontier	9.67 [#]				4.10	3.93	6.45	5.11	
Martin Gas	5.02				5.00	5.02	5.11	5.06	
Millennium	10.08				3.49	4.04	5.93	4.82	
NEUC	7.45				2.86	3.71	4.43	3.98	
Navitas	10.61				3.90	5.02	6.36	5.67	
Public Gas	9.00				4.47	5.32	5.76	5.50	
Valley Gas	9.57				4.69	4.55	5.16	4.88	
W-L-R	9.62				4.55	4.36	5.75	5.09	
Average	9.18				4.14	4.63	5.75	4.84	
B&H Gas	9.37	9.32	9.85	9.47	8.67	9.30	9.38	9.27	9.34

* Includes smaller LDCs that file periodic (typically quarterly) PGAs with the Commission. Amounts were calculated based on purchase volumes and costs reported on Gas Purchases Schedule (Accts. 804,805).

[♦] 2008 is the year of the last B&H Gas PGA. 3-year average is for 2012–2014 three most recent years.

[^] Average of B&H gas costs on purchases from B&S for period from 2008 through 2014 (seven years).

[#] Ky. Frontier did not file a 2008 annual report. \$9.67 is the average of the LDCs it later acquired.

*B & H Gas Company
P. O. Box 447
Betsy Layne, KY 41605

*Bud Rife
President
B & H Gas Company
P. O. Box 447
Betsy Layne, KY 41605