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James W. Gardner
Chairman

Daniel E. Logsdon Jr.
Vice Chairman

J. Roger Thomas.
Commissioner

January 21, 2016

PARTIES OF RECORD

Re: Case No. 2015-00367

An Investigation of the Gas Costs of B & H Gas Company Pursuant to KRS 278.2207 and the Wholesale Gas Price it is Charged by Its Affiliate, B & S Oil and Gas Company, Pursuant to KRS 278.274

Attached is a copy of a memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the memorandum please do so within five days of receipt of this letter. If you have any questions, please contact Virginia Gregg, Commission Staff Attorney, at 502-782-2584.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jeff Derouen".

Jeff Derouen
Executive Director

VG/ph

Attachments

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File

FROM: Virginia W. Gregg, Staff Attorney

DATE: January 20, 2016

RE: Case No. 2015-00367
An Investigation of the Gas Costs of B & H Gas Company Pursuant to KRS 278.2207 and the Wholesale Gas Price it is Charged by Its Affiliate, B & S Oil and Gas Company, Pursuant to KRS 278.274

Pursuant to Commission Staff's Notice of January 6, 2016, an informal conference was held on January 14, 2016, at the Commission's offices in Frankfort, Kentucky for the purpose of discussing the issues in this case. B&H Gas Company ("B&H"), and B&S Oil and Gas Company ("B&S"), by and through Bud Rife, President of each entity, requested the informal conference. A list of the attendees is attached hereto.

The conference began with Mr. Rife explaining why B&H and B&S had not produced certain documents that had been requested by the Commission in its November 24, 2015 Order. Mr. Rife stated that two separate fires, one in December of 2014 and the other in January of 2015, had destroyed the shared offices of B&H and B&S, including most of the records of both companies.

Mr. Rife indicated that while the gas cost included in B&H's rates had not decreased since 2008, the utility's base rates are so low that B&H's customers' bills are very reasonable and appear to be lower than other utilities' customer bills. He stated that he had never received any complaints from customers regarding their bills. He further stated that when B&H has cash flow problems, which generally occurs because of its relatively low base rates, the affiliate relationship with B&S allows B&H to delay paying for the gas it purchases from B&S which helps the utility and its customers.

Joe Childers, counsel for B&H and B&S, stated that although the price that B&H pays B&S for natural gas pursuant to its gas supply contract has not changed since 2008, the overall price charged to B&H's customers still produces insufficient funds to meet the revenue requirements of B&H. Staff noted that approximately one year ago an employee of B&H had contacted Staff regarding the possibility of B&H seeking an increase in rates through the alternative rate adjustment procedures available to small utilities ("ARF"), but that B&H had not followed up on this inquiry. Mr. Rife acknowledged that B&H had not made an ARF filing and stated that the fire damage to

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B&H's office and records had diverted the company's attention. He stated that prior to the fires, B&H had been actively working on the documents required for an ARF application but that all of that previous work had been lost.

There was further discussion regarding B&S's infrastructure, which includes 10 natural gas wells and 1.25 inch to 2-inch trunk lines. Mr. Rife stated that there are no other wells in the area and that the reason B&S does not sell any gas to third parties is to maintain adequate pressure in the winter to supply the needs of B&H. Mr. Rife further stated that the gas sold by B&S has a high heat content with a BTU of 1350, and is delivered at a higher pressure than is typical for gas utilities. Staff stated that heat content is a relevant factor in determining appropriate gas cost, and that such BTU factors are routinely used as an adjustment to gas cost rates. Staff further stated that other small gas companies regulated by the Commission regularly file for gas cost adjustments, and that some are contractually tied to the market price of gas.

Mr. Childers stated that he understood the reason for the Commission's investigation of the cost of gas charged to B&H by B&S, given the affiliate relationship between the two companies. He indicated that the Commission's order initiating this investigation had encouraged B&H to begin working towards an ARF application again, and that in the interest of preserving B&H's cash flow until new base rates could be approved by the Commission, he hoped the Commission would delay any adjustment of B&S's cost of gas to B&H. He discussed with Staff the possibility of filing a motion to hold this proceeding in abeyance until such time that B&H could file an ARF application, in the hope that an increase in base rates could be coordinated to some extent with a decrease in B&H's gas cost rate. Staff stressed that any such motion for the Commission's consideration should include a date certain by which B&H could commit to filing an ARF application. Mr. Childers further stated that he, B&H, and B&S will be considering options to address the concerns raised by the Commission, and that they would file additional documents responsive to the Commission's November 24, 2015 Order if they are able to locate them.

There being no further discussions, the informal conference was adjourned.

Attachment

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Betsy Layne, KY 41605

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P.O. Box 155
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*Bud Rife
President
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