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NEWS RELEASE

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PSC Orders Lower Prices and Refunds for B&H Gas Customers *Natural gas costs to drop by two-thirds to correct substantial overcharges*

FRANKFORT, Ky. (May 4, 2017) – The Kentucky Public Service Commission (PSC) has determined that B&H Gas Co. has been overcharging for natural gas and must both reduce the amount it charges and make refunds to customers.

As a result of the PSC action, B&H's customers will see the amount they pay for natural gas immediately reduced by more than two-thirds. B&H has about 260 customers in Floyd County.

In an order issued today, the PSC found that B&H could not justify the amount it was charging customers for natural gas. B&H has been charging much more than comparable utilities and has not reduced the amount at a time when natural gas prices have been falling.

By law, natural gas distribution utilities such as B&H may not charge customers more for natural gas than the amount paid by the company. The cost of distributing the gas is calculated separately and reflected in base rates, rather than the commodity cost.

B&H purchases most of the gas it provides to its customers from B&S Oil & Gas Co. The two companies are affiliates owned by the same individual. Because of the joint ownership, B&S is required to sell gas to B&H at cost and in no case for more than the market price.

The PSC in November 2015 opened an investigation to determine whether B&H was paying an appropriate amount to B&S. Much of the investigation centered on whether B&S could justify, on a basis of actual cost, the amount it was charging B&H.

In today's order, the PSC noted that "efforts to determine B&S's fully distributed cost, however, have been resisted by (B&H and B&S) during this proceeding." At various points, the companies said the costs were not relevant, that records had been destroyed in two fires in two separate offices, and gave inconsistent or incomplete answers to requests for information.

The two companies and their owner were each fined \$500 for failing to comply with the PSC's orders to produce information requested by the PSC and by the Kentucky Office of Attorney General, which was a party to the case. The fines were levied through a separate PSC action in 2016.

In today's order, the PSC found that records ultimately produced by B&H and B&S did not provide sufficient evidence to justify the wholesale cost of gas charged by B&S to B&H.

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The PSC noted that B&H had not adjusted its commodity cost of natural gas – which stands at \$9.38 per 1,000 cubic feet (Mcf) - since 2008, although wholesale prices for natural gas have fallen significantly since then and have remained low. Eleven other small natural gas distribution companies, all of which adjust their commodity costs every three months, have gas costs of no more than \$5.31 per Mcf, with most at or below \$4.65 per Mcf.

When B&H last adjusted its gas cost, in 2008, it based its request for a higher amount on a number of comparisons to other companies and various market indicators.

Using the factors proposed by B&H in 2008, the PSC determined that B&H's current gas cost, and the amount it pays to B&S, should be set at \$5.99 per Mcf, a decrease of 36 percent.

The PSC then used the same factors to determine the excess amount that B&H has collected from its customers since Nov. 24, 2015. That is the date on which the PSC opened its investigation and put B&H on notice that any over-collections would be subject to refund.

The total amount B&H over-collected comes to about \$102,000. The PSC ordered that amount to be refunded over a 24-month period by means of a further reduction of \$3 per Mcf in B&H's commodity cost of gas.

The reduction and refund together produce a gas cost of \$2.99 per Mcf, which B&H is to begin charging as of its next monthly billing cycle.

B&H also was ordered to begin adjusting its natural gas commodity costs on a quarterly basis, beginning in October. B&H is to file for the first adjustment no later than September 1 and is to use the same factors it proposed in 2008 and used by the PSC to determine the new gas costs.

A hearing in the case was held December 5, 2016. A hearing in the case regarding the failure to produce records was held July 5, 2016.

Records in both cases, including today's order, videos of the hearings, and other records in the case are available on the PSC website, psc.ky.gov. The case number in the price investigation is 2015-00367. The case number in the proceeding regarding production of records is 2016-00204.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in Kentucky and has approximately 75 employees.

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