

Jefferson Gas, LLC
220 Lexington Green, Bldg 2, Suite 130
P.O. Box 24032
Lexington, KY 40524-4032
Tele (859) 245-8193

September 28, 2012

Mr. Jeff Derouen
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

RECEIVED

SEP 28 2012

**PUBLIC SERVICE
COMMISSION**

RE: Jefferson Gas, LLC
Case No.
GCR Filing Proposed to Become
Effective November 1, 2012

Dear Mr. Derouen:

Enclosed are an original and ten copies of Jefferson Gas Transmission's Gas Cost Recovery (GCR) filing for rates proposed to become effective November 1, 2012. Also included are an original and ten copies of 48th revised sheet No. 1 of Jefferson's PSC Kentucky No. 1 Tariff, which is being filed pursuant to the Purchased Gas Adjustment provision of that Tariff.

This filing proposes a GCR rate of \$3.3347 per MCF of sales.

Sincerely,



Bert R. Layne

September 25, 2012

Kentucky Public Service Commission
P.O. Box 615
211 Sower Boulevard
Frankfort, Kentucky 40602-0615

Re: Substitution Index For Farm Tap Rate Calculations

Dear Sir or Madam:

Jefferson Gas (Jefferson) gathers gas from third party producer gas wells through its gathering system for resale in interstate commerce. It provides service to farm tap customers pursuant to KRS 278.485 according to an approved tariff that has been in place since 1999. The current tariff details a formula for setting prices that includes recovery of gas costs and non-gas costs associated with serving the farm taps. Jefferson respectfully applies to the Public Service Commission of Kentucky, pursuant to KRS 278.485, for an Index substitution to its gas cost determination for purposes of setting rates for gas service provided by its farm tap system. In support thereof, Jefferson states the following:

1. Jefferson serves approximately 250 farm tap customers widely dispersed across an eight county area. Those customers consumed approximately 29,000 Mcf in 2011. Jefferson collected roughly \$158,000 in gross billings from these customers in 2011.
2. Jefferson's non-gas cost of service charge is \$3.89 on the first Mcf and \$2.26 on all other Mcf. These non-gas service rates compare favorably with other similar entities in Kentucky. Jefferson is not proposing to change these non-gas rates at this time. However, Jefferson is calling attention to the fact that our current process for determining gas costs results in a substantially lower non-gas effective rate per Mcf.
3. In the past, our gas cost rate component determination has made by calculating the weighted average sales price paid to our third party producers. This calculation was interpreted to be a reflection of our true actual cost of gas. Because Jefferson sets producer sales prices below the market Indexes widely used in Kentucky to determine fair market value as a means of recovering a reasonable rate of return for owning/operating its gathering system, Jefferson has been passing through these gas cost discounts to farm tap customers without fair and reasonable consideration of the costs incurred to transmit gas molecules from the point of production to the point of consumption. In essence, every Mcf sold to a farm tap customer eliminates Jefferson's margin that would be gained if it sold its gas to any other market.

4. In addition, Jefferson has historically not included a conversion of heating units (MMBtu) to volumetric units (Mcf) in its gas cost determination. Gas molecules in the area of our farm taps typically carries a Btu factor of 1.13 so in practical terms, Jefferson has been undercharging farm tap customers by 13% from this rate component alone and subsidizes this real cost in its gas cost calculation. The effective rate currently charged by Jefferson works out to be roughly \$14.50 per month, per customer, received by Jefferson to cover all of its costs associated with farm tap service.
5. A majority of Jefferson's farm tap customers are located several counties away from the physical points where production is initiated. The real costs of moving gas from producer wells to marketable sales points includes the capital cost of laying pipelines, the placement and operation of compression, cathodic protection, right of way maintenance, line loss, general and administrative costs, metering, decontamination/processing, interstate transportation charges, and dehydration. We estimate these real gathering costs to be approximately \$1.00-1.50 per Mcf depending on where on our system each farm tap is located. There is also opportunity cost inherent in supplying a static fixed price to customers when weather determinants can cause the actual consumption (and market price) to vary widely within each month. Jefferson is not proposing to add these actual costs into the farm tap rate calculation at this time given that the PSC allows Jefferson to make the gas cost rate substitution/clarification stated herein without the requirement of a full rate case.
6. A market determined index such as *Platts* TCO Appalachian Index is often used to measure comparative value of gas in Kentucky at interconnection points into the interstate pipeline grid. This Index is expressed in terms of heating value (MMBtu) for known quantities of gas committed to sales approximately 2-5 days before the month of actual flow. This market Index has a high correlation to the futures price traded on the New York mercantile Exchange (NYMEX) which is also widely used to determine fair market price. The Columbia Gas of KY Estimated Gas Cost Recovery (EGC or GCR) is yet another independent means of calculating or capturing the market value of gas commodity that has been delivered to a point near the actual consumer.

Jefferson seeks PSC permission to substitute the *Platts* TCO Appalachian Index, adjusted for Btu factor and a portion of the true gathering costs, in place of the weighted average producer price in the determination of farm tap sales pricing effective November 1, 2012. We believe that this calculation component substitution can be accomplished without a full tariff filing given the ambiguity inherent in the current tariff. We also believe that a full tariff filing would result in higher costs for both Jefferson and its farm tap customers given the current operating cost of some of Jefferson's westernmost pipelines. An example of the proposed market driven formula is included below:

Example:

August 2012 TCO Index -	\$3.00 per MMBtu
Btu Factor (1.13) -	\$0.39 per Mcf
Gathering Costs -	\$0.00 per Mcf (See #5 above)
Non-Gas Service Charge -	\$2.26 per Mcf (\$3.89 for first Mcf)
Total Gas Cost per Mcf -	\$5.65 per Mcf

Jefferson would alternatively consider using the Columbia Gas of KY EGC rate as a substitute gas commodity rate.

Please call me at (513) 333-2173 if you have questions. Thank you.

Respectfully,

Gene Mapes, Jr.

Gene Mapes, Jr.
Managing Member

Jefferson Gas, LLC

Quarterly Report of Gas Cost
Recovery Rate Calculation

Date Filed: September 28, 2012

Date Rates to be Effective: November 1, 2012

Reporting Period is Calendar Quarter Ended: January 31, 2013

SCHEDULE I

GAS COST RECOVERY RATE SUMMARY

<u>Component</u>	<u>Unit</u>	<u>Amount</u>
Expected Gas Cost (EGC)	\$/Mcf	3.7173
+ Refund Adjustment (RA)	\$/Mcf	
+ Actual Adjustment (AA)	\$/Mcf	(.3826)
+ Balance Adjustment (BA)	\$/Mcf	
= Gas Cost Recovery Rate (GCR)		<u>3.3347</u>

GCR to be effective for service rendered from Nov 1, 2012 to Jan 31, 2013

A.	<u>EXPECTED GAS COST CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
	Total Expected Gas Cost (Schedule II)	\$	
÷	Sales for the 12 months ended _____	Mcf	
=	Expected Gas Cost (EGC)	\$/Mcf	

B.	<u>REFUND ADJUSTMENT CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
	Supplier Refund Adjustment for Reporting Period (Sch.III)		
+	Previous Quarter Supplier Refund Adjustment	\$/Mcf	
+	Second Previous Quarter Supplier Refund Adjustment	\$/Mcf	
+	Third Previous Quarter Supplier Refund Adjustment	\$/Mcf	
=	Refund Adjustment (RA)	\$/Mcf	

C.	<u>ACTUAL ADJUSTMENT CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
	Actual Adjustment for the Reporting Period (Schedule IV)	\$/Mcf	.0041
+	Previous Quarter Reported Actual Adjustment	\$/Mcf	(.2142)
+	Second Previous Quarter Reported Actual Adjustment	\$/Mcf	(.1381)
+	Third Previous Quarter Reported Actual Adjustment	\$/Mcf	(.0344)
=	Actual Adjustment (AA)	\$/Mcf	<u>(.3826)</u>

D.	<u>BALANCE ADJUSTMENT CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
	Balance Adjustment for the Reporting Period (Schedule V)	\$/Mcf	
+	Previous Quarter Reported Balance Adjustment	\$/Mcf	
+	Second Previous Quarter Reported Balance Adjustment	\$/Mcf	
+	Third Previous Quarter Reported Balance Adjustment	\$/Mcf	
=	Balance Adjustment (BA)		

SCHEDULE II
EXPECTED GAS COST

Actual * MCF Purchases for 12 months ended _____

(1)	(2)	(3)	(4)	(5)**	(6)
Supplier	Dth	BTU Conversion Factor	Mcf	Rate	(4) X (5) Cost

Totals _____

Line loss for 12 months ended _____ is _____ % based on purchases of
_____ Mcf and sales of _____ Mcf.

	<u>Unit</u>	<u>Amount</u>
Total Expected Cost of Purchases (6)	\$	_____
÷ Mcf Purchases (4)	Mcf	_____
= Average Expected Cost Per Mcf Purchased	\$/Mcf	_____
x Allowable Mcf Purchases (must not exceed Mcf sales ÷ .95)	Mcf	_____
= Total Expected Gas Cost (to Schedule IA)	\$	_____

*Or adjusted pursuant to Gas Cost Adjustment Clause and explained herein.

**Supplier's tariff sheets or notices are attached.

\$3.7173 Per Attached Schedule

Jefferson Gas, LLC
Natural Gas Sales Price Calculations

Estimated sales price for the three months ending January 31, 2013:

Col A	Col B	Col C	Col D (Col B + Col C)	Col E (Btu Factor Per Mcf)	Col F (Col D * Col E)
Period	NYMEX Futures Settle Price*	TCO Basis Adjustment	Expected Appalachian Index Per Mmbtu	Mmbtu/Mcf Conversion Factor - Estimated	Expected Appalachian Index Per Mcf
Nov-12	\$ 3.033	\$ 0.050	\$ 3.083	1.116	\$ 3.441
Dec-12	\$ 3.325	\$ 0.050	\$ 3.375	1.116	\$ 3.767
Jan-13	\$ 3.484	\$ 0.050	\$ 3.534	1.116	\$ 3.944

3.441000*
3.767000*
3.944000*
11.152000*+

11.152000÷
3. =
3.717333*+

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Trade Date

Monday, September 24 2012

Daily Settlements for Henry Hub Natural Gas Futures (PRELIMINARY)

Trade Date: 09/24/2012

Month	Open	High	Low	Last	Change	Settle	Estimated Volume	Prior Day Open Interest
OCT 12	2.900	2.903	2.814	-	-048	2.837	75,983	35,556
NOV 12	3.078	3.083	3.000	3.050	-038	3.033	92,732	277,614
DEC 12	3.356	3.361	3.285	3.335	-031	3.325	25,463	115,047
JAN 13	3.508	3.508	3.438	-	-025	3.484	31,808	179,827
FEB 13	3.533	3.536	3.469	3.520	-022	3.514	8,778	34,344
MAR 13	3.497	3.520	3.458	-	-019	3.501	10,094	72,481
APR 13	3.489	3.517	3.453	-	-017	3.497	9,648	74,609
MAY 13	3.505	3.546	3.494	-	-017	3.537	1,695	27,396
JUN 13	3.591	3.598	3.539	-	-017	3.581	1,417	14,769
JLY 13	3.619	3.642	3.587	3.640	-017	3.625	1,270	18,372
AUG 13	3.637	3.660	3.616	3.655	-016	3.648	637	13,247
SEP 13	3.644	3.665	3.615	3.665	-017	3.650	689	11,127
OCT 13	3.707	3.707	3.649A	-	-017	3.685	2,849	52,325
NOV 13	3.780	3.794	3.763A	-	-016	3.792	279	23,470
DEC 13	3.981	4.005	3.959	-	-015	3.996	334	20,506
JAN 14	4.074	4.111	4.062	-	-014	4.099	490	36,736
FEB 14	4.077	4.077	4.077	-	-014	4.087	9	3,982
MAR 14	4.031	4.031	3.997A	-	-017	4.032	50	8,785
APR 14	3.893	3.920	3.891	-	-017	3.915	144	13,433
MAY 14	3.900	3.923B	3.892	-	-017	3.925	26	2,627
JUN 14	3.949	3.950	3.930	-	-017	3.947	9	1,848
JLY 14	-	-	-	-	-017	3.986	-	3,694
AUG 14	-	-	-	-	-017	4.005	-	1,751
SEP 14	4.000	4.016B	3.995	4.000	-017	4.008	25	2,037
OCT 14	-	-	-	-	-017	4.045	21	6,854
NOV 14	4.112	4.130	4.112	-	-016	4.130	19	2,371
DEC 14	4.315	4.316	4.315	-	-016	4.311	8	2,389
JAN 15	4.415	4.415	4.415	-	-016	4.411	1	1,908
FEB 15	-	-	-	-	-016	4.378	-	439

SCHEDULE III
SUPPLIER REFUND ADJUSTMENT

Details for the 3 months ended _____ (reporting period) _____

<u>Particulars</u>	<u>Unit</u>	<u>Amount</u>
Total supplier refunds received	\$	
+ Interest	\$	
<hr/>		<hr/>
= Refund Adjustment including interest	\$	
÷ Sales for 12 months ended	Mcf	
<hr/>		<hr/>
= Supplier Refund Adjustment for the Reporting Period (to Schedule IB.)	\$/Mcf	

SCHEDULE IV

ACTUAL ADJUSTMENT

For the 3 month period ended July 31, 2012

<u>Particulars</u>	<u>Unit</u>	<u>Month 1 (May 12)</u>	<u>Month 2 (Jun 12)</u>	<u>Month 3 (Jul 12)</u>
Total Supply Volumes Purchased	Mcf	794	609	566
Total Cost of Volumes Purchased	\$	1,445.08	1,132.74	1,188.60
÷ Total Sales (may not be less than 95% of supply volumes)	Mcf	794	609	566
= Unit Cost of Gas	\$/Mcf	1.8200	1.8600	2.1000
- EGC in effect for month	\$/Mcf	1.8580	1.8580	1.8580
= Difference [(over-)/Under-Recovery]	\$/Mcf	(.0380)	.0020	.2420
x Actual sales during month	Mcf	794	609	566
= Monthly cost difference	\$	(30.17)	1.22	136.97
			<u>Unit</u>	<u>Amount</u>
Total cost difference (Month 1 + Month 2 + Month 3)			\$	108.02
÷ Sales for 12 months ended June 30, 2012			Mcf	26,367
= Actual Adjustment for the Reporting Period (to Schedule IC.)			\$/Mcf	.0041

Jefferson Gas, LLC

Mcfs Sold Last 12 Months

07/31/11	408
08/31/11	414
09/30/11	597
10/31/11	1,474
11/30/11	3,087
12/31/11	4,259
01/31/12	5,425
02/29/12	5,513
03/31/12	2,194
04/30/12	1,593
05/31/12	794
06/30/12	609

26,367

SCHEDULE V
BALANCE ADJUSTMENT

For the 3 month period ended _____ (reporting period)

	<u>Particulars</u>	<u>Unit</u>	<u>Amount</u>
(1)	Total Cost Difference used to compute AA of the GCR effective four quarters prior to the effective date of the currently effective GCR Less: Dollar amount resulting from the AA of _____ \$/Mcf as used to compute the GCR in effect four quarters prior to the effective date of the currently effective GCR times the sales of _____ Mcf during the 12-month period the AA was in effect. Equals: Balance Adjustment for the AA.	\$ \$ \$	 _____ _____
(2)	Total Supplier Refund Adjustment including interest used to compute RA of the GCR effective four quarters prior to the effective date of the currently effective GCR. Less: Dollar amount resulting from the RA of _____ \$/Mcf as used to compute the GCR in effect four quarters prior to the effective date of the currently effective GCR times the sales of _____ Mcf during the 12-month period the RA was in effect. Equals: Balance Adjustment for the RA	\$ \$ \$	 _____ _____
(3)	Total Balance Adjustment used to compute BA of the GCR effective four quarters prior to the effective date of the currently effective GCR Less: Dollar amount resulting from the BA of _____ \$/Mcf as used to compute the GCR in effect four quarters prior to the effective date of the currently effective GCR times the sales of _____ Mcf during the 12-month period the BA was in effect. Equals: Balance Adjustment for the BA.	\$ \$ \$	 _____ _____
	Total Balance Adjustment Amount (1) + (2) + (3)	\$	_____
÷	Sales for 12 months ended _____	Mcf	_____
=	Balance Adjustment for the Reporting Period (to Schedule ID.)	\$/Mcf	_____

Entire Service Area

FOR _____

PSC KY NO. _____

48th Revised SHEET NO. 1

Jefferson Gas, LLC

(NAME OF UTILITY)

CANCELLING PSC KY NO. _____

47th Revised SHEET NO. 1

Applies to: All Customers

Rate, Monthly:

			Base Rate	Gas Cost	Rate per Unit (Mcf)
First	0 to 1 Mcf	Minimum Bill	3.8900	3.3347	7.2247
All Over	1 Mcf		2.2600	3.3347	5.5947

DATE OF ISSUE September 28, 2012
MONTH / DATE / YEAR

DATE EFFECTIVE November 1, 2012
MONTH / DATE / YEAR

ISSUED BY Bert R. Layne
SIGNATURE OF OFFICER

TITLE Treasurer

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. _____ DATED _____