

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DELTA NATURAL GAS )  
COMPANY, INC. TO EXTEND ITS NATURAL GAS ) CASE NO.  
SUPPLY HEDGING PLAN TO MARCH 31, 2015 ) 2012-00025

O R D E R

On January 23, 2012, Delta Natural Gas Company, Inc. ("Delta") filed an application requesting approval to extend its natural gas supply hedging plan ("plan") through March 31, 2015. Included in the application was a report on the results of Delta's plan for the 2011-2012 winter heating season. Delta also requested that its existing plan be continued for the 2012 injection season until such time as a Final Order can be issued in this proceeding. This request was granted by Commission Order issued March 16, 2012 which also included a request for information to which Delta responded on April 2, 2012. An Informal Conference ("IC") was held at the Commission's offices on March 12, 2012, between Delta and Staff. There are no intervenors in this proceeding.

DISCUSSION

Delta's 2011 hedging report filed with the Commission April 29, 2011, showed that it entered into forward contracts for the 2010-2011 heating season, reducing its gas cost \$39,500. Delta's report, included in the application in this proceeding, showed that it did not enter into any contracts for the 2011 injection season, and that it entered into forward contracts for the 2011-2012 heating season, increasing gas cost by \$112,950.

Delta explained in its April 2, 2012 response that it considers locking in forward pricing for storage injections when it deems that it is positive for its customers. Coming out of the 2010-2011 winter heating season, a winter that was colder than normal, NYMEX futures were trading in the \$3.75 to \$4.25 range for the 2011 injection season with projections of decreasing prices throughout the remainder of the season. Because of a risk that actual prices would decrease below the prices available in the forward contracts, Delta did not enter any forward contracts for the 2011 injection season.

During the March 12, 2012 IC and in its response to the request for information, Delta provided explanations concerning its existing plan, how it is implemented, and why continuing to have the ability to hedge natural gas prices is important. Delta believes the current relatively low gas prices and reduced volatility are due to a warmer than normal winter and a weak economy, with a corresponding decrease in demand. Greater availability of shale gas production is also contributing to lower prices and less volatility. Production cutbacks, an improving economy, and increasing use of natural gas to generate electricity could very well lead to higher prices and volatility in the future, according to Delta, with market indicators predicting higher prices in the months and years to come. Because of this, Delta believes its plan will continue to be a desirable tool in planning its gas supply mix.

The Commission has viewed limited price hedging programs favorably since it initially encouraged the Commonwealth's major gas distribution companies to consider such plans in Administrative Case No. 384.<sup>1</sup> In that case the Commission stated:

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<sup>1</sup> Administrative Case No. 384, An Investigation of Increasing Wholesale Natural Gas Prices and the Impacts of Such Increases on the Retail Customers Served by Kentucky's Jurisdictional Natural Gas Companies (Ky. PSC July 17, 2001).

In view of the fluctuation in wholesale natural gas prices over the past year, the Commission encourages the LDCs to consider limited hedging strategies as a means of mitigating some portion of the price risks to which consumers are subjected.<sup>2</sup>

In its initial request for approval of a price hedging plan, Delta's stated goal was to keep rates as low as possible while endeavoring to stabilize rates. As the forward contract into which it entered for the 2010-2011 heating season shows, hedging sometimes results in lower gas cost; as the report for the 2011-2012 heating season shows, this is not always the case. However, hedging has been and continues to be a tool with which Delta can mitigate price spikes, as well as price risks, for its customers. As such, forward contracts offer Delta an additional option in its portfolio of natural gas purchases which, along with its company-owned storage capacity, offer it the opportunity to better manage its gas purchasing function to the benefit of its customers. Accordingly, the Commission finds that Delta's natural gas hedging plan should be extended through March 31, 2015.

#### FINDINGS AND ORDERS

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Delta's request to extend its natural gas hedging plan through March 31, 2015 is reasonable and should be approved.
2. Delta should continue to report to the Commission in its regular quarterly Gas Cost Adjustment filings any forward contracts it has executed, stating the price, volume, delivery date, and counter party contained in the contract.

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<sup>2</sup> Id. at 8.

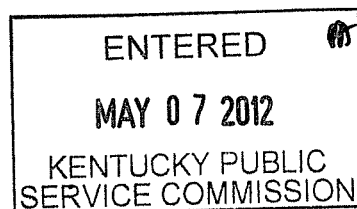
3. Delta should continue to file reports with the Commission no later than May 15, after each winter heating season, through March 2015, detailing the effect of any forward contracts that Delta entered into for the approved period and analyzing their impact on the price of gas to its customers.

4. To continue its plan beyond March 31, 2015, Delta should file a request to do so at least 45 days before March 31, 2015, and provide the information contained in paragraph 3 above to the extent that it is available at the time of the filing.

IT IS THEREFORE ORDERED that:

1. Delta's natural gas hedging plan is extended through March 31, 2015.
2. Delta shall comply with the requirements contained in finding paragraph numbers 2, 3, and 4 as if the same were individually so ordered.
3. Any documents filed in the future pursuant to finding paragraph 3 shall reference this case number and shall be retained in the utility's general correspondence file.

By the Commission



ATTEST:

  
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