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Kentucky Public Service Commission
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Thank you.

It is a pleasure to be with you today to offer a Kentucky perspective on energy restructuring.

As you know, Kentucky is not among those states that have moved to fully restructure their energy markets. I can tell you that, with respect to electric utilities, there is no interest in Kentucky at this time to move away from our historically successful regulatory scheme of vertically integrated and fully regulated utilities.

Our electric rates consistently are among the lowest in the nation. Based on the experience of states that have moved to restructure electric markets, Kentucky has seen very little upside to the idea of following suit.

Natural gas is a somewhat different matter, and one to which I will devote most of my time today.

The Kentucky Public Service Commission is about to embark on its third examination of natural gas retail competition. I'd like to tell you where we've been, where we are and what the next steps will be, though I cannot tell you where we will end.

In 1987, the Commission conducted an administrative proceeding to examine the effect of federal natural gas policy on Kentucky suppliers and consumers. This administrative case produced several policy directives.

The most significant of these was the requirement that the five major local gas distribution companies file open access transportation tariffs. These tariffs permit large-volume customers – mostly industrial or

large commercial enterprises, as well as some government entities - to purchase either firm or interruptible service.

The Commission also opted not to regulate gas marketers and created a category of “transporting utility” for companies which own pipelines and related facilities but not the gas transported through them.

Subsequent Commission proceeding examined the effects of various federal regulatory actions on the natural gas market in Kentucky. These culminated in a 1998 administrative case that focused on unbundling the commodity costs from the delivery charges, creating a competitive market at the residential customer level. The proceeding had participation from a full range of stakeholders, including marketers, large and small distribution companies, representatives of various consumer interests and other state agencies.

At the conclusion of that process, the Commission’s position was that Kentucky law grants the Commission the discretion to permit local gas distribution companies to open their service territories to retail competition for all customers. However, Kentucky’s statutes do not mandate such competition.

To date, only Columbia Gas of Kentucky has chosen to initiate a program which permits customers to choose a gas supplier. Columbia Choice has been in place for nearly a decade as an ongoing pilot program. It has seen marketers come and go. The number of retail customers participating has fluctuated as well, but has never risen to a majority of those within Columbia’s service territory.

No other natural gas distributor in Kentucky has chosen to initiate a similar program.

But that does not mean that the Kentucky Public Service Commission has taken a hands-off approach to the natural gas market in Kentucky. Following the gas price spike late in the winter of 2000-2001, the Commission looked at what steps natural gas distribution companies might take in response to the changing wholesale market. As an outgrowth of that administrative proceeding, a number of the LDCs instituted either physical or financial hedging programs that were intended to reduce volatility in retail prices.

As we all know only too well, the last decade has been marked both by an overall upward trend in wholesale natural gas prices and a considerable amount of instability and fluctuation around that trend line. This has created difficulty for natural gas distributors and their customers. And, based on what we have seen in some of our neighboring states, it has not been easy for marketers either.

Kentucky has a long-standing mechanism that provides for customers to pay no more or no less than the actual cost of the gas supplied to them by their local distribution companies. All of our large distribution companies adjust their gas costs at least on a quarterly basis, and one does so every month. There is also a rolling true-up mechanism that spreads over- or under-collections over a 12-month period. The result is that prices at the retail level not only reflect the actual cost of gas over the long term, but also are less subject to sharp fluctuations. Although they are not immune to them – as we saw in the sharp increases after the 2005 hurricanes and during the 2008 speculative bubble in commodity prices, and the equally precipitous decline when that bubble collapsed last year.

On the whole, however, the gas cost adjustments have worked as intended and, as a result of concerted public information efforts over the last eight years, retail customers in Kentucky have a reasonably good understanding of how their natural gas costs are determined.

Interest in opening the natural gas retail market to competition also has fluctuated over the past decade, although not necessarily in concert with wholesale prices. Over the past two years, the Commission has provided information to the Kentucky General Assembly regarding the issue. In 2008, the Commission formulated a list of 21 necessary market safeguards, including rules for marketers and utilities alike. Last years the PSC set forth the three broad subject areas for any study of a move toward competitive markets. These are:

- ❖ The relationship between third-party suppliers and existing utilities that will provide delivery service.
- ❖ The relationship between third-party suppliers and retail customers.
- ❖ The relationship between third-party suppliers and the Commission.

Earlier this month, the Kentucky General Assembly enacted and Governor Steve Beshear signed a resolution directing the Commission to undertake a study to “determine whether natural gas retail competition programs could be crafted to benefit Kentucky consumers.” The resolution spells out 15 subjects that should be addressed.

Just last week, the Commission entered an order initiating the study. The case number is 2010-00146 and all of the records in the case will be on our Web site, psc.ky.gov, for those of you interested in keeping track of the proceeding.

We expect that this proceeding will draw the same broad cross-section of stakeholders that participated in our earlier administrative cases. I am certain they will bring a great deal of information and many interesting ideas to the table.

The Commission is to complete this study by November 1, so we have a considerable amount of work to do in a relatively brief amount of time. I certainly cannot predict what the ultimate result of this process will be, but I can assure you that we intend to afford all parties an opportunity to make their views known to the Commission. I am fully confident that the PSC staff will produce a thorough and balanced report at the conclusion of this process.

Finally, I want to emphasize that, as in everything we do, the Kentucky Public Service Commission will conduct an open and transparent process in its evaluation of retail market competition in natural gas. We invite all of you to follow our progress and, should you be so inclined, to participate in it by providing us with your comments on information.

Once again, thank you for inviting me to be with you today.