

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of

PURCHASED GAS ADJUSTMENT)	
FILING OF WESTERN)	CASE NO. 8227-G
KENTUCKY GAS COMPANY)	

O R D E R

This is another one of those federally-mandated pass-throughs of higher gas prices in which upon the record this Commission has no discretion. The evidence presented at the hearing establishes that Western Kentucky Gas Company ("Western") will not realize even one cent of profit but simply will turn over to its suppliers the increased amounts which it must collect from its consumers.

On October 9, 1981, the Commission issued its Order in Case No. 8227, authorizing certain adjustments in rates and providing under certain conditions for the further adjustment of such rates when the wholesale cost of gas is increased or decreased.

On July 7, 1982, Western filed with the Commission its notice of an increase in rates from one of its suppliers, Texas Gas Transmission Corporation ("Texas Gas") and a decrease from another supplier, Tennessee Gas Pipeline Company ("Tennessee Gas"). It also seeks to recover local production costs.

On June 29, 1982, Texas Gas filed Second Substitute Thirty-Sixth Revised Sheet No. 7 to its FPC Gas Tariff, Third Revised, Volume No. 1. The purpose of this filing is to reflect changes in the cost of purchased gas pursuant to Texas Gas' Purchased Gas Adjustment Clause approved by FERC Order issued July 31, 1972, in Docket No. RP72-156. This tariff sheet also reflects a special surcharge to recover, over a 12-month period, retroactive payments by Texas Gas to producers pursuant to FERC Order Nos. 93 and 93A. The filing also reflects changes in costs associated with advance payments, and the cost of transportation of gas by others pursuant to the provisions of Articles VII and IX of the Stipulation and Agreement approved by FERC Order issued June 8, 1981, in Docket No. RP80-101. Texas Gas has requested that the revised tariff sheet become effective August 1, 1982.

On June 23, 1982, FERC issued its Order in Docket Nos. 81-54, et al., accepting and approving the Stipulation and Agreement in the Tennessee Gas rate case, As a result of this Order, the Tennessee Gas rates have been reduced retroactively to June 1, 1982.

As a result of the changes effective as aforesaid the cost of gas to Western for the 12 months ended May 31, 1982, will increase \$15,868,612. Western has requested that this adjustment become effective for service rendered on and after August 1, 1982.

An evidentiary hearing on this matter was held on July 21, 1982, at the Commission's offices in Frankfort, Kentucky. At this hearing, a representative of Western testified that it could not absorb the \$15.8 million in additional gas costs without being forced into bankruptcy. A representative of Texas Gas testified regarding that

company's overall gas procurement policy and emphasized that the small amount of unregulated high price gas that it purchased in the past 2 years was procured to insure a more reliable gas supply for its customers.

After reviewing this evidence of record and being advised, the Commission is of the opinion and finds that:

(1) The Public Service Commission is being asked to authorize a pass-through of a price increase already approved by FERC. Failure to allow this increase to be passed through to its retail consumers on a timely basis would impair Western's ability to continue to render adequate service to its customers and would be unfair and unjust to Western, and would ultimately result in high rates to its consumers. The Commission has (in writing) indicated its opposition to the procedures and regulations used by FERC since 1975 to approve these supplier increases.

We are also actively presenting our views to FERC and to our Kentucky Congressional delegation concerning revisions to the Natural Gas Policy Act of 1978, which allows gas suppliers to raise their gas prices without regard to costs. Because of Natural Gas Policy Act formulas allowing producers to so raise their prices and because of the action of FERC in allowing such increases to pass through to the transmission company and through it to the distributing company, in this case Western, this Commission has no real authority in the matter. Under federal law and actions, this Commission serves merely as the conduit for the final pass-through of the increased cost of gas to the consumers when, as here, the distributing utility

makes no profit from the increased prices which it must pay for gas purchased from the transmission company.

(2) Western's supplier, Texas Gas, has filed revised tariff sheets with FERC reflecting an increase in rates to become effective August 1, 1982, and that Tennessee Gas rates have been reduced retroactively to June 1, 1982.

(3) The application filed July 7, 1982, reflected Texas Gas' rates as filed with FERC, to be effective July 1, 1982, and Tennessee Gas rates effective retroactively to June 1, 1982.

(4) The proposed rate will allow Western to recover only the increased cost of wholesale gas and will not permit it to make any profit in doing so. The magnitude of this filing exposes Western to substantial under-recovery of its gas costs if the rates are not implemented in a timely manner.

(5) The Commission should waive its policy of requiring evidence of FERC acceptance in this case and allow Western to place into effect subject to refund the rates in Appendix A.

(6) Western's adjustment in rates under the purchased gas adjustment clause, as set out in Exhibit D, page 1, of its notice herein, in the amount of 89.84 cents per Mcf, is fair, just and reasonable, in the public interest, and should be allowed to become effective subject to refund for service rendered on and after August 1, 1982.

(7) Western's Base Supplier Rate of purchased gas should be as follows:

	<u>Demand/Mcf</u>	<u>Commodity/Mcf</u>
Texas Gas Transmission Corporation		
G-2	\$2.39	\$3.4972
G-3	2.79	3.5442
G-4	3.17	3.5807

	<u>Commodity</u>	<u>Gas Rate</u>
Tennessee Gas Pipeline Company		
G-2	\$.3476	\$3.0952
GS-2	.7332	3.0952
Local Producers	--	3.6359

IT IS THEREFORE ORDERED that the purchased gas adjustment contained in Appendix A be and it hereby is authorized to be effective subject to refund on and after August 1, 1982.

IT IS FURTHER ORDERED that Western shall maintain its records in such a manner as will enable it, any of its customers, or the Commission to determine the amounts to be refunded and to whom due in the event a refund is ordered by the Commission.

IT IS FURTHER ORDERED that for the purpose of the future application of the purchased gas adjustment clause of Western the base rate of purchased gas shall be:

	<u>Demand/Mcf</u>	<u>Commodity/Mcf</u>
Texas Gas Transmission Corporation		
G-2	\$2.39	\$3.4972
G-3	2.79	3.5442
G-4	3.17	3.5807

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8227-G DATED
JULY 30, 1982

The following rates are prescribed for the customers in the area served by Western Kentucky Gas Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

RATES:

Applicable to all rate schedules

Purchased Gas Adjustment

To each bill rendered under all rate schedules there shall be added an amount equal to: 89.84 cents per Mcf of gas used during the billing period.