COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE NOTICE OF PURCHASED GAS ADJUSTMENT FILING OF COLUMBIA GAS OF KENTUCKY, INC.	) CASE NO. 9554-C

O R D E R

On August 2, 1988, Columbia Gas of Kentucky, Inc. ("Columbia"), filed its semi-annual gas cost adjustment ("GCA") which was to become effective September 1, 1988. That filing included a proposed methodology for recovering take-or-pay and contract reformation charges through its GCA, as well as a tariff revision providing for take-or-pay recovery from transportation customers. An Interim Order was issued in this case on August 30, 1988 withholding approval of the proposed fixed charge recovery mechanism and the related tariff change until a hearing could be held. Columbia presented its case supporting the proposed methodology at a hearing held on September 27, 1988. On that same day, Columbia filed a revised application in this case which proposed to annualize its fixed charge recovery, eliminating the 5-year amortization period originally proposed; it also proposed to recover actual fixed charges as they are incurred instead of using estimated billings.

After considering the evidence in this case and being advised, the Commission is of the opinion and finds that:

1. Columbia's revised proposal to recover actual fixed charges as they are incurred and on an annualized basis is consistent with methodologies approved for other companies under the Commission's jurisdiction and should be approved for Columbia. In future filings, Columbia should provide sufficient supporting documentation to enable the Commission to verify reported charges.

2. In its filing of August 2, 1988 and in its revised filing of September 27, 1988, Columbia proposed to separate contract reformation and take-or-pay costs. It allocated contract reformation costs to tariff sales customers only, and spread take-or-pay costs over total throughput, excluding flex transportation volumes. Columbia supported this distinction between costs by stating that contract reformation benefitted only the tariff sales customers and that several pipeline suppliers differentiated between the two types of costs in proceedings at the Federal Energy Regulatory Commission. Columbia also pointed out that at this time it was the only Kentucky local distribution company that had received material and distinct contract reformation billings from its pipeline suppliers. Therefore, treatment consistent with that of the other companies is not necessarily appropriate, according to Columbia. Columbia's arguments for the separation of costs are reasonable, especially in light of the fact that Columbia has assumed that any costs not labeled as take-or-pay or contract reformation are take-or-pay costs and, therefore, not to be passed on to tariff sales customers alone. Columbia's proposal to separate and allocate contract reformation costs to tariff sales customers and

take-or-pay costs to tariff sales and transportation customers should be approved.

3. Columbia proposed to spread take-or-pay costs over total throughput, including fixed rate transportation customers, with recovery from these transportation customers taking place as the market allows. Any recovery from these customers would be credited back to tariff sales customers through the actual adjustment. This methodology ensures speedy recovery of costs for Columbia and the most favorable treatment for transportation customers who may never bear any of the take-or-pay burden if the market "does not allow." It also ensures that the tariff sales customers will bear the initial, and possibly the ultimate, burden and that any crediting back of recovery will be a lengthy process. If it is appropriate for transportation customers to pay a portion of take-or-pay costs, and the Commission has found and does find that it is, then it is appropriate that this payment be made on an equal footing with that of tariff sales customers. Therefore, Columbia's calculation of the fixed charge recovery rate per Mcf for tariff customers should be revised to spread the take-or-pay portion of billings over throughput of 23,187,983 Mcf; the fixed charge recovery rate would then be $.0505 per Mcf instead of $.0579 per Mcf as Columbia proposed. The adjusted fixed charge recovery rate, net of the refund adjustment, should be ($.0041). The delivery service fixed charge recovery rate is appropriately calculated and should be charged with each Mcf of gas transported at the time it is transported.

4. Columbia's proposed revision to its tariff PSC KY No. 4 Sheet No. 82, which would modify its GCA clause to allo take-or-pay recovery from transportation customers, should be modified to reflect the approved methodology contained herein.

5. Columbia proposed to exclude flex transportation customers from any take-or-pay liability on the grounds that they were not responsible, on a deficiency basis, for any significant incurrence of take-or-pay cost. Columbia also stated that the addition of a take-or-pay surcharge to flex transportation charges would tend to drive these customers off the system. Columbia did indicate its willingness to make some recovery from these customers if market conditions allowed. Flex transportation rates are negotiated prices between the utility and the customer. They are intended to keep price-sensitive customers with dual fuel capability on the system in order to recover some part of the system's fixed costs. Lower flex rates to transportation customers are subsidized by both the utility and its system customers. Subsidy by system customers results from imputing flex rate revenue at less than the fixed transportation rate in rate cases. To the extent that market conditions allow Columbia to charge flex rates above the per Mcf revenue allocated in the most recent rate case, the Commission will assume that some take-or-pay recovery can be made from these customers. In these instances, the customer should be charged the delivery service fixed charge recovery rate per Mcf. Any recovery of fixed charges from flex customers should be netted against the take-or-pay billings for the next period.

6. Columbia should file any tariff revisions necessary to implement take-or-pay recovery from flex transportation customers as set out herein.

7. Columbia's adjustment in rates under the purchased gas adjustment provisions approved by the Commission in its Order in Case No. 10201, An Adjustment of Rates of Columbia Gas of Kentucky, Inc., dated October 21, 1988, is fair, just, and reasonable and in the public interest and should be effective with gas supplied on and after the date of this Order.

8. Any under-recovery of fixed charges that results from the delay in approving Columbia's recovery methodology should be recovered through the actual adjustment.

IT IS THEREFORE ORDERED that:

1. The revised rates proposed by Columbia be and they hereby are denied. The rates in the Appendix to this Order be and they hereby are authorized effective with gas supplied on and after the date of this Order.

2. Columbia's recovery of fixed charges using the methodology contained herein be and it hereby is approved.

3. Within 30 days of the date of this Order, Columbia shall file with this Commission its revised tariffs setting out the rates and modifications as directed herein.

Done at Frankfort, Kentucky, this 14th day of November, 1988.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 9554-C DATED 11/14/88

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

CURRENTLY EFFECTIVE BILLING RATES

	Base Rate Charge $	Gas Cost Adjustment 1/ $	Total Billing Rate $
RATE SCHEDULE GS			
Customer Charge:			
Residential	4.00		4.00
Commercial or Industrial	10.00		10.00
Volumetric:			
First 2 Mcf/Month	1.3633	3.3854	4.7487
Next 48 Mcf/Month	1.3333	3.3854	4.7187
Next 150 Mcf/Month	1.3033	3.3854	4.6887
All Over 200 Mcf/Month	1.2733	3.3854	4.6587
Delivery Service:			
Demand Charge			
Demand Charge times Firm Mcf Volume in Customer Service Agreement		6.6358	6.6358
Firm	1.2733	.0280	1.2032
Interruptible	0.6500	.0280	.3992

RATE SCHEDULE FI

Customer Charge:	105.00		105.00
Customer Demand Charge: Demand Charge times Firm Mcf Volume in Customer Service Agreement		6.6358	6.6358
Commodity Charge-All Volumes	0.4282	3.3854	3.8136
Delivery Service: Interruptible	0.4282	.0280	.4562

RATE SCHEDULE IS

Customer Charge:	105.00		105.00
Commodity Charge	0.4282	3.3854	3.8136
Delivery Service Interruptible	0.4282	0.0280	0.4562

RATE SCHEDULE IUS

For all Volumes Delivered each Month	0.1143	3.3854	3.4997

1/ The Gas Cost Recovery Rate, as shown, is an adjustment per Mcf determined in accordance with the "Semi-Annual Gas Cost Adjustment Clause" as set forth on Sheets 80 through 82 of this tariff.