

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF PURCHASED GAS)
ADJUSTMENT FILING OF DELTA) CASE NO. 9331-R
NATURAL GAS COMPANY, INC.)

INTERIM ORDER

On December 19, 1985, the Commission issued its Order in Case No. 9331 approving certain adjustments in rates and providing under certain conditions for the further adjustment of such rates on a quarterly basis in accordance with the provisions of the Gas Cost Adjustment ("GCA") Clause set forth therein.

On March 30, 1990, Delta Natural Gas Company, Inc. ("Delta") filed its quarterly GCA, which is to become effective May 1, 1990 and is to remain in effect until August 1, 1990.

After reviewing the record in this case and being otherwise sufficiently advised, the Commission finds that:

1. Delta's notice of March 30, 1990 set out certain revisions in rates which Delta proposed to place into effect, said rates being designed to pass on to its customers the wholesale decrease in gas costs from its suppliers in the amount of 6.06 cents per Mcf, excluding take-or-pay billings. Delta's expected gas cost for the quarter beginning May 1, 1990 is \$3.1293 per Mcf.

2. Delta's notice set out a total refund adjustment of 4.96 cents per Mcf. This adjustment is composed of past refund adjustments that are still in effect, with a refund adjustment of

4.6 cents to return \$183,568 in supplier refunds for the current quarter. The change in the total refund adjustment from the previous to the current GCA filing results in a 4.52 cent per Mcf decrease in Delta's retail rates.

3. Delta's notice set out a current quarter actual adjustment in the amount of 38.52 cents per Mcf to compensate for under-recovery of gas cost by the company through the operation of its gas cost recovery procedure during the months of November and December 1989, and January 1990. The total actual adjustment of 7.5 cents per Mcf, which is designed to correct the current under-collection as well as under- and over-collections from three previous quarters, results in an 11.88 cent per Mcf increase in Delta's retail rates.

Delta purchases some volumes of gas from its subsidiary, Delta Resources, which makes purchases from several different producers at a range of wholesale rates. It shall be presumed, pursuant to KRS 278.274(3), that Delta's purchases from Delta Resources are not conducted at arm's length. In the past, Delta has allocated gas cost from Delta Resources to itself by applying the percentage it took of Delta Resources' available volumes each month to the volumes Delta Resources purchased from each individual supplier. This proration appeared reasonable, allowing Delta's ratepayers to participate in the savings in gas cost enjoyed by Delta Resources' customers. In the instant filing, however, Delta has not allocated to itself any of the cheapest volumes available from Delta Resources, and in 2 of the 3 months has allocated to itself 100 percent of the most expensive volumes.

Both the cheapest volumes and the most expensive volumes were purchased by Delta Resources from another Delta subsidiary, Delgasco. This deviation from Delta's customary equitable methodology is of great concern to this Commission.

The Commission finds that further investigation is necessary to determine if the cost of natural gas purchased from the affiliated company is unjust or unreasonable and should be reduced pursuant to KRS 278.274. Delta should file with this Commission its support and explanation for the allocation methodology used in this case; a revised schedule VI using Delta's customary proration methodology; a comparative exhibit showing the dollar impact on the actual adjustment of each of the allocation methodologies; and the amount of the actual adjustment if the customary allocation is used. If the Commission then determines that the cost of Delta Resources' volumes to Delta in the instant case is unreasonable, it may require Delta to further adjust its rates. Delta's proposed actual adjustment should be accepted, subject to refund, pending the Commission's findings in this case.

4. Delta's notice set out a balance adjustment of (6.53) cents per Mcf, to replace the previous adjustment of (.51) cents per Mcf. This balance adjustment compensates for overcollections which occurred as a result of previous gas cost, actual, refund, and balance adjustments. The effect on retail rates is a 6.02 cent per Mcf decrease.

5. The combined effect of the above adjustments is Delta's gas cost recovery rate ("GCR") in the amount of \$3.1678 per Mcf, which is a decrease from its last approved GCR in the amount of

5.49 cents per Mcf. This includes a take-or-pay recovery component of 7.84 cents per Mcf, which decreased .77 cents per Mcf from its last GCR filing. Delta should be prepared to support the amount of its take-or-pay actual adjustments at the time of its GCR field reviews.

6. Delta's adjustment in rates contained in the Appendix to this Order is made pursuant to the GCA provisions approved by the Commission in its Order in Case No. 9331 dated December 19, 1985 and should be approved to be effective with final meter readings on and after May 1, 1990, subject to refund.

7. In Delta's filing dated March 30, 1990, Delta requested confidentiality for Schedule VI. Confidentiality will be granted on an interim basis pending the Commission's review of all gas supply confidentiality requests.

IT IS THEREFORE ORDERED that:

1. The rates in the Appendix, attached hereto and incorporated herein, are hereby approved effective with final meter readings on and after May 1, 1990, subject to refund.

2. The GCR shall be \$3.1678 per Mcf effective with final meter readings on and after May 1, 1990, subject to refund.

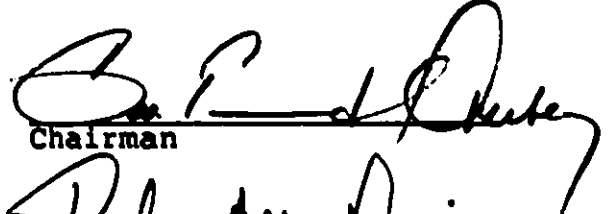
3. Within 30 days of the date of this Order, Delta shall file with this Commission its revised tariffs setting out the rates authorized herein.

4. Delta's request for confidentiality is hereby granted on an interim basis pending Commission review of all gas supply confidentiality requests.

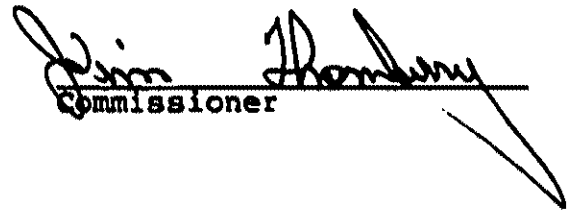
5. Within 20 days of the date of this Order, Delta shall file with this Commission the information pertaining to the actual adjustment requested herein.

Done at Frankfort, Kentucky, this 2nd day of May, 1990.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9331-R DATED 5/02/90

The following rates and charges are prescribed for the customers served by Delta Natural Gas Company, 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.

RATE SCHEDULES

AVAILABILITY

Available for general use by residential, commercial, and industrial customers who purchase their entire natural gas requirements from Delta.

RATES

	<u>Base Rate</u>	<u>Gas Cost Recovery Rate</u>	<u>Total</u> equals
General Service			
Monthly Customer Charge			\$3.98
1 - 1,000 Mcf	\$2.0379	\$3.1678	5.2057 per Mcf
1,001 - 5,000 Mcf	1.8920	3.1678	5.0598 per Mcf
5,001 - 10,000 Mcf	1.5858	3.1678	4.7536 per Mcf
Over 10,000 Mcf	1.2795	3.1678	4.4473 per Mcf
Interruptible (2)			
1 - 1,000 Mcf	\$1.7826	\$3.1678	\$4.9504 per Mcf
1,001 - 5,000 Mcf	1.6368	3.1678	4.8046 per Mcf
5,001 - 10,000 Mcf	1.3306	3.1678	4.4984 per Mcf
Over 10,000 Mcf	1.0243	3.1678	4.1921 per Mcf
Transportation of Gas for Others On-System Utilization			

To the applicable rates and charges in effect for on-system transportation customers shall be added a take-or-pay recovery component of \$.0784 per Mcf.