

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF INCREASING)	
WHOLESALE NATURAL GAS PRICES)	
AND THE IMPACTS OF SUCH)	
INCREASES ON THE RETAIL)	ADMINISTRATIVE
CUSTOMERS SERVED BY)	CASE NO. 384
KENTUCKY'S JURISDICTIONAL)	
NATURAL GAS DISTRIBUTION)	
COMPANIES)	

O R D E R

This proceeding was initiated by the Commission on September 12, 2000 to investigate increasing wholesale natural gas prices and their impacts on the customers of Kentucky's jurisdictional gas distribution companies. On January 30, 2001, the Commission entered an Order setting forth its findings on several issues related to natural gas price increases and the ways in which Kentucky's major local gas distribution companies ("LDCs") have dealt with these increases. In Ordering Paragraph 1 of that Order the Commission required the LDCs to immediately begin making monthly Gas Cost Adjustment ("GCA") filings in order to pass decreases in wholesale natural gas prices on to their customers as expeditiously as possible. Normally, the LDCs make GCA filings on a quarterly basis consistent with the provisions of the GCA clauses contained in their approved tariffs.

On February 14, 2001, Commission Staff gave notice of an informal conference, to be held at the Commission's offices on February 22, 2001, for the purpose of discussing how the LDCs were to implement the requirement to immediately begin

making monthly GCA filings. The LDCs in attendance at the conference were Columbia Gas of Kentucky, Inc. ("Columbia"), Delta Natural Gas Company, Inc. ("Delta"), Louisville Gas and Electric Company ("LG&E"), The Union Light, Heat and Power Company ("ULH&P"), and Western Kentucky Gas Company ("Western"). Intervenors attending the conference were the Attorney General of the Commonwealth of Kentucky, the Community Action Council, Inc., Metro Human Needs Alliance and People Organized and Working for Energy Reform.

Four primary issues have been identified with regard to implementation of Ordering Paragraph 1 of the Commission's January 30, 2001 Order. The first issue concerns the date upon which the LDCs are required to begin monthly GCA filings. The other three issues, which are related, concern how the monthly filings are to be prepared. These issues are as follows: (1) whether monthly filings are to be made to pass on changes in wholesale gas costs irrespective of whether the change increases or decreases the GCA; (2) whether monthly filings are to reflect changes in all components of the GCA or just the Expected Gas Cost ("EGC") component; and (3) the manner in which monthly GCA filings should take place in order to minimize the volatility in the gas cost component of retail customers' natural gas bills.

On the first issue, the Commission's directive to immediately begin making monthly filings requires some clarification. At the time the Order was issued, three of the LDCs, Delta, LG&E and Western, had just received Orders authorizing changes in their GCA amounts to become effective February 1, 2001. Columbia and ULH&P had made filings the day the Order was issued to request changes in their GCAs to become effective March 1, 2001. Western, which had made monthly filings for several years

prior to changing to a quarterly GCA in 2000, made a monthly filing February 9, 2001, in order to pass a decrease in wholesale gas costs on to its customers effective March 1, 2001.

Recognizing that a GCA application takes time to prepare and being aware that Columbia and ULH&P were due to file applications proposing rates effective March 1, 2001, the Commission intended for the major LDCs to begin making monthly filings in order to implement changes in their GCAs effective April 1, 2001. KRS 278.180 requires that a utility provide the Commission a 30-day notice of a proposed rate adjustment. However, it also provides for a reduction in the notice to 20 days, for good cause and, in an instance of a decrease in rates, authorizes the Commission to implement a rate adjustment upon an even shorter notice. In order to clarify its previous Order with regard to the commencement of monthly filings, the Commission approves the February 28, 2001 date discussed by Staff and parties at the informal conference to implement a change in rates effective April 1, 2001. However, as the LDCs have been uncertain as to the date upon which these filings were to begin, the Commission will allow an additional five days, until March 5, 2001, for the initial filings.

On the issues concerning the manner in which the monthly GCA filings are to be prepared, the Commission must consider what is in the best interests of both the customers and the LDCs. Accordingly, the Commission finds that monthly filings should be made without regard to whether the filing results in an increase or decrease in the GCA. Limiting the filings to only those instances when the result is a GCA decrease could impair the ability of the LDCs to track changes in wholesale prices and, as a result, could contribute to additional under-recoveries of wholesale gas costs above and

beyond the under-recoveries anticipated in prior GCA filings and addressed in the quarterly filing framework set out in the LDCs' approved tariffs.

On the issue of the components of the GCA to be adjusted, the Commission finds that only the EGC should be subject to change in the monthly filings. The monthly filings were intended to track current changes in wholesale prices and reflect those changes in retail rates as quickly as possible. Since current changes in wholesale prices are reflected only in the EGC, the Commission finds that monthly filings should be limited to changes in that particular component of the GCA. To require monthly adjustments of the Actual Adjustment, Balance Adjustment, Correction Factor, or other components of the different LDCs' GCAs would be to depart from that intent and possibly cause greater volatility in retail customers' bills than would result solely from changes in the EGC. Monthly adjustments of GCA components other than the EGC would be a departure from the periodic adjustment framework presently in effect and would create significant administrative problems while producing no positive benefit to retail customers.

Making changes monthly to reflect either increases or decreases in wholesale natural gas prices by recognizing changes only in the EGC component of the GCA should balance the interests at stake, reflect wholesale price changes in retail customers' bills in an expeditious manner, and minimize volatility in retail rates. Monthly filings will result in incremental changes in the EGC component of the LDC's GCA that differ from what they would be if such changes were made quarterly. Maintaining the existing framework for implementing changes in the other GCA components ensures that any increase in volatility resulting from monthly filings will not be exacerbated.

SUMMARY

The Commission, being sufficiently advised, finds that:

1. The major LDCs should begin monthly filings by February 28, 2001 or, if necessary, by March 5, 2001, in order to implement changes in the gas cost component of their retail rates effective April 1, 2001.

2. Monthly GCA filings should be made to track changes in wholesale prices and reflect those changes in retail rates as expeditiously as possible regardless of whether the changes result in increases or decreases in retail rates.

3. In order to expeditiously track changes in wholesale gas prices while minimizing the potential for increased volatility in retail customers' natural gas bills, the monthly filings should only reflect changes in the Expected Gas Cost component of the LDCs' GCAs. Changes in the other components of the LDCs' GCAs should continue to be reflected in the LDCs' quarterly filings as required by their approved tariffs.

IT IS THEREFORE ORDERED that:

1. The major LDCs shall submit monthly GCA filings beginning February 28, 2001 or, if necessary, by March 5, 2001, for the purpose of implementing rate changes to be effective April 1, 2001.

2. Commencing with the initial round of filings and continuing thereafter until otherwise ordered by the Commission, the LDCs shall file GCAs monthly to reflect changes in wholesale natural gas prices irrespective of whether the change results in an increase or decrease in the LDC's GCA.

3. The monthly filings shall only reflect changes in the Expected Gas Component of the LDCs' GCAs. All other components will be subject to change as set out in the LDCs' approved tariffs.

Done at Frankfort, Kentucky, this 2nd day of March, 2001.

By the Commission

ATTEST:


Executive Director