

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF DELTA NATURAL)	
GAS COMPANY, INC. TO EXTEND ITS)	CASE NO.
EXISTING NATURAL GAS MITIGATION PLAN)	2004-00046
THROUGH MARCH 31, 2006)	

ORDER

On February 11, 2004, Delta Natural Gas Company, Inc. ("Delta") filed its report on the results of its price mitigation activities for the 2003-2004 winter heating season. Delta's report also includes a request to extend its natural gas price mitigation plan, with modifications, through March 31, 2006.

Delta reports that it entered into forward priced contracts only for the month of December 2003, purchasing 139,000 Dekatherms ("Dth") at \$4.70 per Dth. Compared to its customary pricing mechanism which uses the Inside FERC index, Delta realized a savings of \$.12 per Dth for a total gas cost savings of \$16,680. The annualized impact on rates to customers is \$.004 per Mcf saved. Using an average monthly usage of 10 Mcf per month per customer, each customer saved, on average, 4 cents per month or 48 cents annually.

Delta is considering using forward contracts again for some of its purchases for the 2004-2005 winter heating season and it requests that its existing price mitigation plan be extended through March 31, 2006 to cover the next two heating seasons. Delta would like to remove the \$5.00 threshold approved in its current plan and also include purchases for storage gas in its forward contracts. Previously, Delta had used a

threshold price of \$5.00, above which it would not enter into any contracts. Delta states that \$5.00 may not be representative of future prices and trends in the upcoming winter heating season, and therefore it would be inappropriate to use such a price to limit transactions.

DISCUSSION

Delta's hedging activities during the last winter heating season had a negligible effect on its customers' bills or on the price stability of winter bills, mainly because it covered such a small portion of its requirements with forward contracts. Delta's total anticipated winter requirements for the upcoming winter heating season are 3,675,000 Dth. Of those requirements, Delta anticipates using forward contracts to purchase up to 560,000 Dth on the Tennessee Gas pipeline system and up to 260,000 Dth on the Columbia pipeline system. At these volumes, Delta will cover approximately 22 percent of its winter season requirements with forward contracts. Combined with the 50 percent of its winter season requirements that Delta supplies with storage gas, its customers should see a greater effect on their bills in the upcoming winter season.

Delta has proposed two modifications to its plan: removing the \$5.00 threshold and including storage purchases in its forward contracts. The \$5.00 threshold was established for the 2003-2004 winter season based on conditions in the natural gas market at the time the plan was developed. The Commission believes that it would be inappropriate to continue using a price limit that relies on outdated market information and that this modification should be approved. The second modification, which would allow Delta to cover purchases for storage injection with forward contracts, when

combined with removing the price threshold, will allow Delta more flexibility in its purchasing decisions, also is reasonable and should be approved.

FINDINGS AND ORDERS

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Delta's request to extend its natural gas price mitigation plan through March 31, 2006 should be approved.

2. Delta's modifications to its plan should be approved.

3. Included with its regular quarterly Gas Cost Adjustment filing, Delta should report to the Commission on any forward contracts it has executed, stating the price, volume, delivery date, and counter party contained in the contract.

4. Delta should file reports with the Commission, by no later than May 15, 2005, for the first winter heating season, and May 15, 2006, for the second winter heating season, detailing the effect of any forward contracts that Delta entered into for the approved period and an analysis of their impact on the price of gas to its customers.

5. To continue its program beyond March 31, 2006, Delta should file a request to do so at least 45 days before March 31, 2006, and provide the information contained in paragraph 4 to the extent that it is available at the time of filing.

IT IS THEREFORE ORDERED that:

1. Delta's natural gas price mitigation plan is extended through March 31, 2006.

2. Delta's modifications to its plan are approved.

3. Delta shall comply with the requirements contained in Finding Paragraphs 3, 4 and 5 as if same were individually so ordered.

Done at Frankfort, Kentucky, this 23rd day of March, 2004.

By the Commission

ATTEST:


Executive Director