

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF DELTA NATURAL GAS)
COMPANY, INC. TO EXTEND ITS NATURAL GAS) CASE NO.
SUPPLY HEDGING PLAN TO MARCH 31, 2012) 2009-00066

ORDER

On February 13, 2009, Delta Natural Gas Company, Inc. ("Delta") filed an application requesting approval to extend its natural gas price mitigation hedging plan ("plan") to March 31, 2012.¹ Included in the application was a report on the results of Delta's plan for the 2008 storage injection season and the 2008-2009 winter heating season. Commission Staff issued a data request on March 3, 2009 to which Delta responded on March 19, 2009.

On March 2, 2009, Delta submitted an Amended Application and Request for an Interim Order in which it asked that its plan be immediately continued for the 2009 injection season and 2009-2010 heating season or until such time as a final Order was

¹ The Commission approved the extension of Delta's plan through March 31, 2009 in Case No. 2006-00071, *The Application of Delta Natural Gas Company, Inc.'s Request for Natural Gas Hedging Plan to be Extended Until 3/31/2009* (Ky. PSC April 4, 2006).

entered in this proceeding.² An Interim Order approving Delta's request was issued on March 10, 2009.

DISCUSSION

Delta's responses to Commission Staff's data request show that approximately 38 percent of its winter gas supply came from storage for the period November 2006 through March 2007 and approximately 34 percent of its winter gas supply came from storage for the period November 2007 through March 2008.

Delta entered into only one forward contract during the three-year period ending March 31, 2009. The use of this forward contract resulted in an increase in Delta's cost of gas in storage by \$68,727 over what they would have been if the contract had not been executed.³ Delta states that it did not enter any forward contracts for the 2007 storage injection season or the 2007-2008 or 2008-2009 winter heating seasons due to the high levels of monthly prices and forward prices during those periods.

Delta requests that it be allowed to retain the flexibility to enter forward contracts for future storage injection and winter heating seasons if forward prices are favorable. The Commission has viewed limited price hedging programs favorably since it initially

² Delta filed a supplement to its amended application on March 4, 2009, in which it stated that it wished to be able to take advantage of the current favorable natural gas prices. It noted therein that prices posted for the summer 2009 injection season on the New York Mercantile Exchange were lower than the prices at which it purchased gas for the 2008 injection season.

³ Delta's May 11, 2007 filing in Case No. 2006-00071.

encouraged the Commonwealth's major gas distribution companies to consider such plans in Administrative Case No. 384.⁴ In that case the Commission stated:

In view of the fluctuation in wholesale natural gas prices over the past year, the Commission encourages the LDCs to consider limited hedging strategies as a means of mitigating some portion of the price risks to which consumers are subjected.⁵

In its initial request for approval of a price hedging plan, Delta's stated goal was to keep rates as low as possible while endeavoring to stabilize rates. As the single forward contract into which it entered for gas deliveries during the three years ended March 31, 2009 shows, hedging does not always result in the lowest rates. However, it has been and continues to be a tool with which Delta can mitigate price spikes, as well as price risks, for its customers. As such, forward contracts offer Delta an additional option in its portfolio of natural gas purchases which, along with its company-owned storage capacity, offer it the opportunity to better manage its gas purchasing function to the benefit of its customers. Accordingly, the Commission finds that Delta's natural gas price mitigation hedging plan should be extended through March 31, 2012.

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, 2012 is reasonable and should be approved.

⁴ Administrative Case No. 384, *An Investigation of Increasing Wholesale Natural Gas Prices and the Impacts of Such Increases on the Retail Customers Served by Kentucky's Jurisdictional Natural Gas Companies* (Ky. PSC July 17, 2001).

⁵ Id. at 8.

2. 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.

3. Delta should file reports with the Commission, by no later than May 15 after each winter heating season through March 2012, 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.

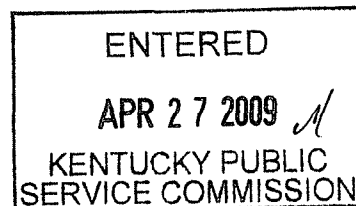
4. To continue its plan beyond March 31, 2012, Delta should file a request to do so at least 45 days before March 31, 2012, and provide the information contained in paragraph 3 to the extent that it is available at the time of the filing.

IT IS THEREFORE ORDERED that:

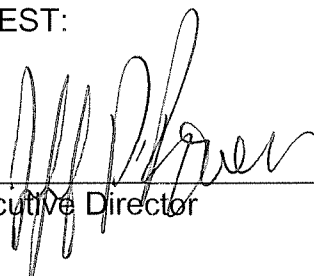
1. Delta's natural gas price mitigation plan is extended through March 31, 2012.

2. Delta shall comply with the requirements contained in Finding Paragraphs 2, 3 and 4 as if same were individually so ordered.

By the Commission



ATTEST:



Executive Director

Honorable Robert M Watt, III
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