INDEX FOR CASE: 1999-447

KY. PUBLIC SERVICE COMMISSION
AS OF : 04/15/00

WESTERN KENTUCKY GAS COMPANY
Investigation - Service
REVIEW OF NORAM AGREEMENT & WOODWARD MARKETING, L.L.C. AGREEMENT

IN THE MATTER OF A FORMAL REVIEW OF WESTERN KENTUCKY GAS COMPANY'S DECISION TO TERMINATE A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH NORAM ENERGY SERVICES, INC. AND ENTER INTO A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH WOODWARD MARKETING, L.L.C.

SEQ NBR	ENTRY DATE	REMARKS
0001	11/05/1999	Order initiating a formal review & establishing a procedural schedule to follow.
0002	11/17/1999	Letter to parties of record with order enclosed.
M0001	11/19/1999	MONICA MCFARLIN AG-MOTION TO INTERVENE
0003	11/23/1999	Data Request Order; response due 12/13/99 from Western Kentucky Gas Company.
M0002	11/23/1999	WESTERN KY GAS JACK HUGHES-MOTION TO DIMISS
M0003	11/23/1999	WESTERN KY GAS JACK HUGHES-PETITION FOR CONFIDENTIALITY
0004	11/24/1999	Order granting motion of Attorney General to intervene.
M0004	12/09/1999	WESTERN KY GAS JACK HUGHES-MOTION FOR EXTENSION OF TIME
M0005	12/10/1999	[illegible]

CASE NUMBER:

99-447

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
211 SOWER BOULEVARD
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

CERTIFICATE OF SERVICE

RE: Case No. 1999-447
WESTERN KENTUCKY GAS COMPANY

I, Stephanie Bell, Secretary of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the following by U.S. Mail on April 14, 2000.

See attached parties of record.

Stephanie J. Bell
Secretary of the Commission

SB/hv
Enclosure

William J. Senter
V.P. Rates & Regulatory Affairs
Western Kentucky Gas Company
2401 New Hartford Road
Owensboro, KY. 42303 1312

Honorable Mark R. Hutchinson
Attorney for Western KY Gas
Sheffer-Hutchinson-Kinney
115 East Second Street
Owensboro, KY. 42303

Honorable Douglas Walther
Attorney for Western KY Gas
Atmos Energy Corporation
P.O. Box 650205
Dallas, TX. 75265

Honorable John N. Hughes
Attorney for Western KY Gas
124 W. Todd Street
Frankfort, KY. 40601

Honorable Monica M. McFarlin
Assistant Attorney General
Office of Rate Intervention
1024 Capital Center Drive
Frankfort, KY. 40601

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter:

A FORMAL REVIEW OF WESTERN KENTUCKY GAS COMPANY'S DECISION TO TERMINIATE A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH NORAM ENERGY SERVICES, INC. AND ENTER INTO A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH WOODWARD MARKETING, L.L.C.	)	CASE NO. 99-447

ORDER

On November 5, 1999, the Commission entered its Order in this proceeding initiating a formal review of Western Kentucky Gas Company's ("Western's") termination of its contract with NorAm Energy Services, Inc. ("NorAm") and its subsequent execution of a contract with its affiliate, Woodward Marketing, L.L.C. ("Woodward"). The Attorney General's Office ("AG") was granted intervention in this proceeding. On November 23, 1999, Western filed a motion to dismiss this review, which will be addressed herein. The AG filed a reply to Western's motion, stating that the review was properly initiated.

Data requests were issued on November 23, 1999 and January 14, 2000. Western provided responses on December 27, 1999 and January 31, 2000. The AG filed no testimony in this proceeding.

The Commission's Order of November 5, 1999 outlined its concerns to be addressed in this docket. Specifically, the Commission believed it to be imperative to determine whether a record of evidence existed supporting the reasonableness of the actions taken by Western, a division of Atmos Energy Corporation ("Atmos") in addressing necessary changes in its gas supply situation. Western has made several references to the fact that its Experimental Performance-Based Ratemaking mechanism ("PBR") is supposed to eliminate the need for after-the-fact prudence reviews. While under normal circumstances, a certain presumption of prudence is inherent in established benchmark standards of performance, Western's experience with NorAm and Woodward does not constitute normal circumstances. A contract involving the management of Western's sales, transportation, and storage was voluntarily terminated with one supplier and subsequently awarded to an affiliate who had originally offered a less favorable bid than the first supplier. This fact in itself is sufficient to indicate a need for detailed documentation of the origin of the problem with the first supplier, NorAm, the options available to Western, the decision-making process, the ultimate decision to award the contract to the affiliate, Woodward, and the expected impact on ratepayers.

Having considered the evidence of record in this case and being otherwise sufficiently advised, the Commission finds that:

1. Western's motion to dismiss should be denied.

2. Western acted reasonably and in the best interest of its customers and shareholders in regard to the termination of the NorAm contract. The possibility of NorAm, now Reliant Energy Services ("Reliant"), taking on an unacceptable level of risk in order to minimize its losses was a sufficient threat to supply reliability to explain Western's actions in the contract termination. Using industry articles from the time

period in question, Western has documented the market conditions that caused NorAm to experience financial distress as a result of the contractual arrangement with Western.

3. Western acted reasonably and in the best interest of its customers and shareholders in accepting Reliant's buy-out offer. Western has been able to show that customers and shareholders will share savings that are practically identical to those that would have been realized under the original NorAm agreement. These savings are a result of the combination of the Reliant buy-out and the gas cost savings offered by Woodward.

4. Western has provided sufficient information to support its belief that putting the contract out for bid again would most likely have resulted in gas costs significantly higher than they had been under the NorAm contract. Western expected that bidders would consider NorAm's failure as well as current market conditions in formulating their bids, and that as a result the bids would be less favorable. Western provided industry articles that described market conditions as they existed and changed from May 1998 through March of 1999. Storage inventory levels were high, the winter was considerably warmer than normal, gas prices were low, and there was low price volatility. The Commission agrees it was reasonable to assume that the same conditions that made the contract unprofitable for NorAm would make the opportunity to manage Western's assets less attractive for potential bidders as well. Woodward was willing to honor its original bid, which had been second best after NorAm's.

5. Western did not violate its code of conduct by awarding the contract to Woodward. Woodward had been the second best bidder as a result of the original competitive bid process, and its bid had been significantly better than the remaining

conforming bids. There was no reason to believe that Western would receive more favorable bids in a second round from bidders who had submitted higher cost bids under earlier, more favorable market conditions.

IT IS THEREFORE ORDERED that:

1. Western's motion to dismiss is denied.

2. The Commission is satisfied that Western acted reasonably and in the public interest, and this proceeding is closed.

Done at Frankfort, Kentucky, this 14th day of April, 2000.

By the Commission

ATTEST:

Executive Director

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
211 SOWER BOULEVARD
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

March 3, 2000

To: All parties of record

RE: Case No. 1999-447

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

Stephanie J. Bell

Stephanie Bell
Secretary of the Commission

SB/hv
Enclosure

William J. Senter
V.P. Rates & Regulatory Affairs
Western Kentucky Gas Company
2401 New Hartford Road
Owensboro, KY 42303 1312

Honorable Mark R. Hutchinson
Attorney for Western KY Gas
Sheffer-Hutchinson-Kinney
115 East Second Street
Owensboro, KY 42303

Honorable Douglas Walther
Attorney for Western KY Gas
Atmos Energy Corporation
P.O. Box 650205
Dallas, TX 75265

Honorable John N. Hughes
Attorney for Western KY Gas
124 W. Todd Street
Frankfort, KY 40601

Honorable Monica M. McFarlin
Assistant Attorney General
Office of Rate Intervention
1024 Capital Center Drive
Frankfort, KY 40601

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter:

A FORMAL REVIEW OF WESTERN KENTUCKY GAS COMPANY'S DECISION TO TERMINIATE A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH NORAM ENERGY SERVICES, INC. AND ENTER INTO A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH WOODWARD MARKETING, L.L.C.	))))))))	CASE NO. 99-447

ORDER

On November 5, 1999, the Commission initiated this case to review Western Kentucky Gas Company's ("WKG") actions concerning its source of supply and asset management contracts, specifically its decision to terminate its contract with NorAm Energy Services, Inc. ("NorAm") and enter into a replacement contract with its affiliate, Woodward Marketing, L.L.C. ("Woodward"). The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("Attorney General"), was granted intervention on November 24, 1999. The Commission established a procedural schedule in this case that allowed all parties to participate in discovery. Requests for information were propounded to WKG by both the Commission and the Attorney General. WKG timely responded to the requests.

Based on the evidence and being otherwise sufficiently advised, the Commission finds that the record in this case appears complete. Any party believing there are factual issues remaining to be explored should request a hearing within 7 days from the date of this Order stating in detail and with specificity the factual issues he plans to pursue at the hearing. If there are no requests received, the matter will stand submitted to the Commission for a decision on the record without further Order.

Done at Frankfort, Kentucky, this 3rd day of March, 2000.

By the Commission

ATTEST:

Deputy Executive Director

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
211 SOWER BOULEVARD
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

March 2, 2000

To: All parties of record

RE: Case No. 1999-447

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

Stephanie Bell

Stephanie Bell
Secretary of the Commission

SB/hv
Enclosure
cc: Honorable Robert M. Watt III
Honorable J. Mel Camenisch, Jr.
Counsel for Innovative Gas Services, Inc.
Stoll, Keenon & Park, LLP
201 East Main Street, Suite 1000
Lexington, Kentucky 40507-1380

William J. Senter
V.P. Rates & Regulatory Affairs
Western Kentucky Gas Company
2401 New Hartford Road
Owensboro, KY 42303 1312

Honorable Mark R. Hutchinson
Attorney for Western KY Gas
Sheffer-Hutchinson-Kinney
115 East Second Street
Owensboro, KY 42303

Honorable Douglas Walther
Attorney for Western KY Gas
Atmos Energy Corporation
P.O. Box 650205
Dallas, TX 75265

Honorable John N. Hughes
Attorney for Western KY Gas
124 W. Todd Street
Frankfort, KY 40601

Honorable Monica M. McFarlin
Assistant Attorney General
Office of Rate Intervention
1024 Capital Center Drive
Frankfort, KY 40601

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter:

A FORMAL REVIEW OF WESTERN KENTUCKY GAS COMPANY'S DECISION TO TERMINIATE A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH NORAM ENERGY SERVICES, INC. AND ENTER INTO A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH WOODWARD MARKETING, L.L.C.	))))))))	CASE NO. 99-447

O R D E R

On November 5, 1999, the Commission initiated this case to review Western Kentucky Gas Company's ("WKG") actions concerning its source of supply and asset management contracts, specifically its decision to terminate its contract with NorAm Energy Services, Inc. ("NorAm") and enter into a replacement contract with its affiliate, Woodward Marketing, L.L.C. ("Woodward").

On January 7, 2000, Innovative Gas Services, Inc. ("IGS"), by counsel, filed a motion with the Commission requesting full intervention in this proceeding. In support of its motion, IGS states that as a bidder on the original contract with NorAm and current competitor of Woodward it has a direct and substantial interest in this proceeding which cannot be represented by any other party. It further asserts that its participation in this proceeding may lead to the presentation of material issues regarding the impact of the affiliate relationship on competition in the marketplace and that its participation will not unduly complicate or disrupt the proceedings.

Commission Regulation 807 KAR 5:001, Section 3(8), governs intervention in Commission proceedings. "The regulation reposes in the Commission the responsibility for the exercise of sound discretion in the matter of affording permission to intervene." Inter-County Rural Electric Cooperative Corporation v. Public Service Commission, Ky., 407 S.W.2d 127, 130 (1966). Commission Regulation 807 KAR 5:001, Section 3(8) provides in part:

> If the commission determines that a person has a special interest in the proceeding which is not otherwise adequately represented or that full intervention by party is likely to present issues or to develop facts that assist the commission in fully considering the matter without unduly complicating or disrupting the proceedings, such person shall be granted full intervention.

Thus the regulation requires a person seeking to intervene to establish either (1) "a special interest" in the proceeding, or (2) that intervention is likely to develop facts and issues which will assist the Commission without unduly complicating or disrupting the proceeding. IGS's motion satisfies neither requirement.

The purpose of this proceeding is to ensure that WKG acted reasonably and in the best interest of its customers and its shareholders with regard to its termination of the NorAm contract and its execution of the agreement with Woodward. IGS has not expressed an interest that differs from that of the general public. The fact that IGS is a competitor does not enlarge or enhance its interest in this proceeding and it should not be permitted to intervene on that ground. See Lexington Retail Beverage Dealers Ass'n v. Alcoholic Beverage Control Bd., Ky., 303 S.W. 2d 268 (1957). Furthermore, the public's interest in this proceeding is adequately represented by the Attorney General who has intervened as a party for that purpose.

In addition, IGS has failed to demonstrate that its intervention will not unduly complicate or disrupt the proceedings. The Commission entered an Order on November 5, 1999 establishing the procedural schedule for this case. An Order amending the procedural schedule was subsequently entered by this Commission on December 13, 1999. IGS's motion for intervention was not filed with the Commission until January 7, 2000. Granting intervention to IGS would require the procedural schedule to be amended again to allow IGS adequate time to fully participate in the proceeding and thus unduly disrupt and delay the proceedings.

Based on a review of the motion and the applicable regulation, the Commission hereby finds that IGS has not met the requirements for full intervention and that its motion should be denied.

IT IS THEREFORE ORDERED that the motion of IGS to intervene is denied.

Done at Frankfort, Kentucky, this 2nd day of March, 2000.

By the Commission

ATTEST:

W H Bowker

Deputy Executive Director

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KENTUCKY 40602
www.psc.state.ky.us
(502) 564-3940

February 18, 2000

Mark R. Hutchinson, Esq.
Sheffer-Hutchinson-Kinney
115 East Second Street
Owensboro, KY 42303

RE: Western Kentucky Gas Company
Case No. 99-447
Petition for Confidential Protection

Dear Mr. Hutchinson:

The Commission has received your petition filed November 23, 1999, on behalf of Western Kentucky Gas Company to protect as confidential the Company's decision to terminate a Natural Gas Storage Sales, Transportation and Storage Agreement with Noram Energy Services, Inc. and enter into a Natural Gas Sales, Transportation and Storage Agreement with Woodward Marketing, LLC. A review of the information has determined that it is entitled to the protection requested on the grounds relied upon in the petition, and it will be withheld from public inspection.

If the information becomes publicly available or no longer warrants confidential treatment, you are required by 807 KAR 5:001, Section 7(9)(a) to inform the Commission so that the information may be placed in the public record.

Sincerely,

Martin J. Huelsmann
Executive Director

bcc: Parties of Record H.V.

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
211 SOWER BOULEVARD
POST OFFICE BOX 615
FRANKFORT, KENTUCKY 40602
www.psc.state.ky.us
(502) 564-3940
Fax (502) 564-3460

Paul E. Patton
Governor

Ronald B. McCloud, Secretary
Public Protection and
Regulation Cabinet

Martin J. Huelsmann
Executive Director
Public Service Commission

February 16, 2000

Mark R. Hutchinson, Esq.
Sheffer-Hutchinson-Kinney
115 East Second Street
Owensboro, KY 42303

RE: Western Kentucky Gas Company
Case No. 99-447
Petition for Confidential Protection

Dear Mr. Hutchinson:

The Commission has received your petition filed January 31, 2000, on behalf of Western Kentucky Gas Company to protect as confidential certain information provided in response to the Commission's request for information dated January 14, 2000. A review of the information has determined that it is entitled to the protection requested on the grounds relied upon in the petition, and it will be withheld from public inspection.

If the information becomes publicly available or no longer warrants confidential treatment, you are required by 807 KAR 5:001, Section 7(9)(a) to inform the Commission so that the information may be placed in the public record.

Sincerely,

Martin J. Huelsmann
Executive Director

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
FEB 01 2000
PUBLIC SERVICE COMMISSION

In the Matter Of:

AN ADJUSTMENT OF RATES OF DELTA NATURAL GAS COMPANY, INC.	))	**CASE NO. 99-176**

* * * * * * * * * *

RESPONSE OF DELTA NATURAL GAS COMPANY, INC. TO ATTORNEY GENERAL'S MOTION FOR REHEARING

Delta Natural Gas Company, Inc. ("Delta") respectfully submits this response to the Attorney General's Motion for Rehearing served on January 17, 2000, (and received by counsel for Delta on January 21, 2000) herein. The Motion for Rehearing is largely a rehash of matters argued to and decided by the Commission and should be denied.

The first item in the Motion for Rehearing is an alleged error in the product of the Gross-up Factor and the Revenue Deficiency on page 34 of the Order herein. Delta agrees that the arithmetic on page 34 of the Order should result in the sum of $2,941,142 if one assumes that the Gross-up Factor is correctly set forth. Delta did not utilize the Gross-up Factor approach that is set forth in the Order and cannot determine if the Gross-up Factor is correctly stated in the Order. If not, then the multiplier and not the product is in error. Moreover, Delta has already implemented the rates approved in the Order and the expense and customer confusion resulting from making the change the Attorney General proposes exceed the benefit the customers would receive.

The second item is the reargument of the proposal that property insurance be excluded from the expense ratio utilized in the revenue adjustment. The issue has been proposed and rejected by the Commission and the Attorney General offers no new evidence compelling the Commission to reverse its decision. On page 28 of the direct testimony of the Attorney General's witness, Mr. Henkes, the following testimony appears: "I also do not believe that regulatory, property insurance, outside services and miscellaneous general expense vary with the incremental sales recognized in the case as a result of the year end sales annualization adjustment." This is the extent of Mr. Henkes' testimony on the subject. There was no supporting analysis of this matter. The Commission considered the evidence offered and rejected Mr. Henkes' contention regarding property insurance.[1] See Order at 13-14 There was good reason for the rejection. Plant levels, and the related property insurance expense, clearly increase with growth in customers. It is impossible to add customers without adding plant. Property insurance expense is based on the value of the property, in this case, utility plant. Thus, if customer growth occurs, then property insurance expense will increase.

The third item in the Attorney General's Motion for Rehearing is a reargument of the treatment of the management audit expense. The Attorney General admits that he is rearguing an issue that Mr. Henkes addressed at the hearing (see page 3 of the Motion for Rehearing), but persists in presenting it again. The treatment of management audit expense is consistent with its treatment in Case No. 97-066 and consistent with the Commission's intentions when management audits were required of utilities. The Attorney General opposes the **Commission's** amortization of management audit expense, even though his witness, Mr. Henkes, argued in favor of amortization of management audit expense at the hearing. Transcript, Volume 2 at 140. Instead, he proposes amortization of the

[1]The Commission rejected Delta's proposal to include the full level of the salary of Delta's president in the face of much more compelling evidence than Mr. Henkes offered on the exclusion of property insurance expense from the expense ratio. See pages 16-17 of the Order.

amortized management audit expenses. This approach is inconsistent with the Commission's customary amortization methodology. The Attorney General, through Mr. Henkes, has previously presented the management audit expense argument contained in the Motion for Rehearing and the Commission has rejected it. It should not be accepted by way of Motion for Rehearing.

For the foregoing reasons, Delta respectfully submits that the Attorney General's Motion for Rehearing should be denied.

Respectfully submitted,

STOLL, KEENON & PARK, LLP

By Robert W Watt

Robert M. Watt, III
201 East Main Street, Suite 1000
Lexington, KY 40507
606-231-3000

Counsel for Delta Natural Gas Company, Inc.

CERTIFICATE OF SERVICE

This is to certify that the foregoing pleading has been served by mailing a copy of same, postage prepaid, to the following person on this 2d day of February 2000.

Elizabeth E. Blackford, Esq.
Assistant Attorney General
1024 Capital Center Drive
Frankfort, KY 40601-8204

Robert W Watt

Robert M. Watt, III

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter:

A FORMAL REVIEW OF WESTERN KENTUCKY GAS COMPANY'S DECISION TO TERMINATE A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH NORAM ENERGY SERVICES, INC. AND ENTER INTO A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH WOODWARD MARKETING, L.L.C.	)	CASE NO. 99-447

PETITION FOR CONFIDENTIALITY OF CERTAIN INFORMATION PROVIDED IN RESPONSE TO THE COMMISSION'S REQUEST FOR INFORMATION DATED JANUARY 14, 2000

Western Kentucky Gas Company ("Western"), petitions the Public Service Commission ("Commission") pursuant to 807 KAR 5:001, Section 7, and all other applicable law, for confidential treatment of the information which is described below and which is attached. In support of this Petition, Western states as follows:

1. On June 1, 1998 the Commission entered an Order approving Western's Proposed Experimental Performance Based Rate Making Mechanism ("PBR") for a period of three years (KPSC Proceeding No. 97-513). Following entry of that Order Western negotiated a gas supply agreement with NorAm Energy Services, Inc. ("NorAm Contract"). A copy of that agreement was filed with the Commission in Case No. 97-513 under a Petition for Confidentiality dated December 16, 1998. By letter dated February 2, 1999, the Commission granted confidentiality protection to the NorAm Contract.

2. Under a Petition for Confidentiality dated April 28, 1999, Western advised the Commission of various issues that had arisen concerning the NorAm Contract. Under Petition for Confidentiality filed July 2, 1999, Western advised the Commission that it had decided to allow Reliant (successor to NorAm) to buy out its contact and to award it to the next highest bidder,

Woodward Marketing, L.L.C. ("Woodward"). A copy of the new gas supply agreement with Woodward has previously been filed with the Commission in Case No. 97-513 under a Petition for Confidentiality (the "Woodward Contract"). By letter dated August 4, 1999 the Commission granted confidential protection to the Woodward Contract.

3. On November 5, 1999, the Commission entered its order in this proceeding initiating a formal review of Western's termination of the NorAm Contract and execution of the Woodward Contract.

4. On November 23, 1999, the Commission issued a data request in this proceeding Western's response to the Commission's data request was accompanied by a Petition for Confidentiality. By letter dated January 5, 2000, the Commission granted confidential protection to information relating to termination of the NorAm Contract and entry into the Woodward Contract contained in that response.

5. With the exception of certain information relating to confidential business transactions of other business units of Atmos Energy Corporation, all of the information sought to be protected as confidential in this Petition has previously been determined by the Commission (in this proceeding as well as in Case No. 99-070 and Case No. 97-513) to be entitled to confidential protection including: (1) the terms of the NorAm Contract and the Woodward Contract; (2) the identity of all other bidders; (3) the amount and terms of all bids; and (4) the terms of the NorAm Contract buyout. Nothing has occurred since the Commission granted confidential protection to this information that would now disqualify it from protection. Western accordingly petitions the Commission to again treat this information as confidential.

6. In response to the Commission's information request, Western has disclosed certain information concerning commercial transactions of other Atmos business units which are not subject to the jurisdiction of this Commission. The information sought to be protected herein has been treated as confidential in the jurisdictions in which the particular business units operate.

7. The information sought to be protected is proprietary, commercial information which if made public would create an unfair commercial advantage to competitors of Western and Atmos. Disclosure of the information sought to be protected would allow Western's and Atmos's competitors to gain confidential information about its gas purchasing and transportation costs and strategies. This information would enable competitor's of Western's sister companies to identify Amos's low cost suppliers and thereupon out bid or otherwise interfere with Atmos and it's suppliers. It could also enable those competitors to negotiate similar terms with other gas suppliers thereby depriving Atmos of the commercial benefits which have been derived by it's successful negotiations.

8. All of the information sought to be protected is not known outside Atmos and is not distributed within Atmos except to those employees with a legitimate need to know.

9. Pursuant to 807 KAR 5:001, Section 7 (3), temporary confidentiality of the information sought to be protected herein should be maintained until the Commission enters an order as to the Petition. Once the order regarding confidentiality has been issued, Western would have twenty (20) days to seek alternative remedies pursuant to 807 KAR 5:001, Section 7 (4).

WHEREFORE, Western petitions the Commission to treat as confidential the highlighted information which appears in the attached Responses to the Kentucky Public Service Commission data requests of January 14, 2000.

Respectfully submitted this 28 January , 2000

Mark R. Hutchinson
Sheffer Hutchinson Kinney
115 East Second Street
Owensboro, KY 42303

Douglas Walther
Atmos Energy Corporation
P.O. Box 650205
Dallas, TX 75265

John N. Hughes
124 West Todd Street
Frankfort, KY 40601

VERIFICATION

I, Gary Smith, being duly sworn under oath state that I am Vice President of Marketing for Western Kentucky Gas Company, a division of Atmos Energy Corporation, and the statements contained in the foregoing Petition are true as I verily believe.

Gary Smith

Gary Smith

CERTIFICATE OF SERVICE

I hereby certify that on the 21 day of January, 2000, the original of this petition, with the confidential information for which confidential treatment is sought, together with ten (10) copies of the petition without the confidential information, were filed with Kentucky Public Service Commission, 730 Schenkel Lane, Frankfort, Kentucky 40602 and a true copy thereof mailed by first class mail to the following named persons on this 21 day of January, 2000:

Mel Camenish, Jr.
201 East Main Street, Suite 1000
Lexington, KY 40507-1380

Monica M. McFarlin,
Assistant Attorney Generals
Officer of Rate Intervention
1024 Capital Center Drive
Frankfort, KY 40601

Mark R. Hutchinson

Mark R. Hutchinson

JOHN N. HUGHES
Attorney at Law
Professional Service Corporation
124 WEST TODD STREET
FRANKFORT, KENTUCKY 40601

Telephone:
(502) 227-7270

Telecopier:
(502) 875-7059

January 31, 2000

RECEIVED
JAN 31 2000
PUBLIC SERVICE
COMMISSION

RECEIVED
JAN 31 2000
PUBLIC SERVICE
COMMISSION

Martin J. Huelsmann, Jr.
Executive Director
Public Service Commission
Sower Blvd.
Frankfort, KY 40601

Re: Western Ky. Gas Co.
Case No. 99-447

Dear Mr. Huelsmann:

Please file the responses of Western Kentucky Gas Company to the Commission's order of January 14, 2000 and to the Attorney General's data request of that date. Included with the responses are motions for confidentiality for portions of each response.

If additional information is needed, please contact me. A copy of the responses and motions have been served on all parties.

Very truly yours,

John N. Hughes

Attorney for Western Kentucky
Gas Company

cc: Bill Senter
Randy Hutchinson
Mel Camenish
Monica McFarlin

RECEIVED
JAN 31 2000
PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter:

A FORMAL REVIEW OF WESTERN KENTUCKY GAS COMPANY'S DECISION TO TERMINATE A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH NORAM ENERGY SERVICES, INC. AND ENTER INTO A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH WOODWARD MARKETING, L.L.C.	))))))))	CASE NO. 99-447

PETITION FOR CONFIDENTIALITY OF CERTAIN INFORMATION PROVIDED IN RESPONSE TO THE ATTORNEY GENERAL'S REQUEST FOR INFORMATION DATED JANUARY 14, 2000

Western Kentucky Gas Company ("Western"), petitions the Public Service Commission ("Commission") pursuant to 807 KAR 5:001, Section 7, and all other applicable law, for confidential treatment of the information which is described below and which is attached. In support of this Petition, Western states as follows:

1. On June 1, 1998 the Commission entered an Order approving Western's Proposed Experimental Performance Based Rate Making Mechanism ("PBR") for a period of three years (KPSC Proceeding No. 97-513). Following entry of that Order Western negotiated a gas supply agreement with NorAm Energy Services, Inc. ("NorAm Contract"). A copy of that agreement was filed with the Commission in Case No. 97-513 under a Petition for Confidentiality dated December 16, 1998. By letter dated February 2, 1999, the Commission granted confidentiality protection to the NorAm Contract.

2. Under a Petition for Confidentiality dated April 28, 1999, Western advised the Commission of various issues that had arisen concerning the NorAm Contract. Under Petition for

Confidentiality filed July 2, 1999, Western advised the Commission that it had decided to allow Reliant (successor to NorAm) to buy out its contact and to award it to the next highest bidder, Woodward Marketing, L.L.C. ("Woodward"). A copy of the new gas supply agreement with Woodward has previously been filed with the Commission in Case No. 97-513 under a Petition for Confidentiality (the "Woodward Contract"). By letter dated August 4, 1999 the Commission granted confidential protection to the Woodward Contract.

3. On November 5, 1999, the Commission entered its order in this proceeding initiating a formal review of Western's termination of the NorAm Contract and execution of the Woodward Contract.

4. On November 23, 1999, the Commission issued a data request in this proceeding Western's response to the Commission's data request was accompanied by a Petition for Confidentiality. By letter dated January 5, 2000, the Commission granted confidential protection to information relating to termination of the NorAm Contract and entry into the Woodward Contract contained in that response.

5. All of the information sought to be protected as confidential in this Petition has previously been determined by the Commission (in this proceeding as well as in Case No. 99-070 and Case No. 97-513) to be entitled to confidential protection including the terms of the NorAm Contract and the Woodward Contract as well as the terms of the NorAm Contract buyout. Nothing has occurred since the Commission granted confidential protection to this information that would now disqualify it from protection. Western accordingly petitions the Commission to again treat this information as confidential.

6. Pursuant to 807 KAR 5:001, Section 7 (3), temporary confidentiality of the information sought to be protected herein should be maintained until the Commission enters an order as to the Petition. Once the order regarding confidentiality has been issued, Western would have twenty (20) days to seek alternative remedies pursuant to 807 KAR 5:001, Section 7 (4).

WHEREFORE, Western petitions the Commission to treat as confidential the highlighted information which appears in the attached Responses to the Attorney General's request for information dated January 14, 2000.

Respectfully submitted this 28 January, 2000

Mark R. Hutchinson
Sheffer Hutchinson Kinney
115 East Second Street
Owensboro, KY 42303

Douglas Walther
Atmos Energy Corporation
P.O. Box 650205
Dallas, TX 75265

John N. Hughes
124 West Todd Street
Frankfort, KY 40601

VERIFICATION

I, Gary Smith, being duly sworn under oath state that I am Vice President of Marketing for Western Kentucky Gas Company, a division of Atmos Energy Corporation, and the statements contained in the foregoing Petition are true as I verily believe.

Gary Smith

CERTIFICATE OF SERVICE

I hereby certify that on the 31 day of January, 2000, the original of this petition, with the confidential information for which confidential treatment is sought, together with ten (10) copies of the petition without the confidential information, were filed with Kentucky Public Service Commission, 730 Schenkel Lane, Frankfort, Kentucky 40602 and a true copy thereof mailed by first class mail to the following named persons on this 31 day of January, 2000:

Mel Camenish, Jr.
201 East Main Street, Suite 1000
Lexington, KY 40507-1380

Monica M. McFarlin,
Assistant Attorney Generals
Officer of Rate Intervention
1024 Capital Center Drive
Frankfort, KY 40601

Mark R. Hutchinson

Western Kentucky Gas Company
Case No. 99-447
Attorney General Data Request Dated January 14, 2000
DR Item 1
Witness: Bill Senter

Data Request

In Item No. 10 of the Motion to Dismiss filed by Western Kentucky Gas on November 23, 1999, it states that: "Western's selection of Option 2 has essentially retained all of the customer savings intended when Western originally contract with NorAm."

Please explain what the phrase "essentially retained all of the customer's savings" means. Specifically, what portion of the customer's savings was not retained when Western bought out the NorAm contract?

Response

As an initial point of clarification, Western did not buy out the contract. In reality, the contract was bought out by NorAm.

In effect, NorAm offered Western a portion of the contracted discount for the remainder of the term, in order to terminate the contract. Western's decision to accept the NorAm offer, Option 2, was predicated on whether the next highest bidder, which in this case was Woodward Marketing, would also guarantee the lesser but still significant discount embodied in its original bid. In combination, these two assurances would provide Western's customers post-NorAm savings equivalent to savings under the NorAm contract.

The NorAm discount was [redacted] The combined, post-NorAm discount is minus [redacted] The differential is [redacted]

The word "essentially" reflects (1) the slight differential between the original NorAm discount and the post-NorAm discount, and (2) the negation of this differential to Western's customers through the prepayment of the buy-out by NorAm and the immediate flow-through of the customers' share of the savings by Western.

The discount determines the savings to be shared. Since a portion of the discount was pre-paid (through the buy-out rather than paid out over the next 23 months), the customers' savings are "essentially" the same due to the time value of money. Western's response to KPSC DR 2-4 b. provides the relevant calculations and further clarifies the context of this statement.

Western Kentucky Gas Company
Case No. 99-447
Attorney General Data Request Dated January 14, 2000
DR Item 2
Witness: Gordon Roy

Data Request

In Attachment A to the Motion to Dismiss filed by Western, in responding to the first issue, Western states that the reason NorAm wanted to discontinue the contract with Western is because NorAm was "losing money … had overvalued the contract … and could not capture price differentials.

The reasons listed for NorAm's decision to breach the contract indicate that NorAm may have made a bad business decision. Should Western permit a supplier to breach a contract because that supplier made a bad business decision?

Response

The NorAm-Western asset management agreement contained a contract provision that allowed for early termination of the contract if mutually agreed to by the parties. NorAm proposed to Western to terminate the Agreement early and offered as consideration to Western [redacted] NorAm explained to Western that the reason it wanted out of the contract was because NorAm was losing a substantial amount of money on the contract each month. Western feared that the financial losses NorAm was incurring could lead NorAm to take some unacceptable risks managing Western's gas supply assets in order to mitigate its losses to the detriment of its customers. Therefore, NorAm did not breach the contract. It was terminated by the mutual consent of NorAm and Western.

Western Kentucky Gas Company
Case No. 99-447
Attorney General Data Request Dated January 14, 2000
DR Item 3
Witness: Bill Senter

Data Request

In the hearing in Case No. 97-513, the office of the Attorney General asked Catherine W. Meyer of Atmos Energy, if because of Atoms' (sp) ownership of Woodward, LLC, there was an incentive on the part of Atmos to purchase gas at and above market price. Ms. Meyer responded that prudency review by the Commission and the bidding process essentially prevents that situation from occurring. Transcript, p. 42.

Please explain in more detail what is meant by Ms. Meyer's response that the bidding process and regulatory review process protect that situation from occurring.

Response

Ms. Meyer is no longer employed by Atmos, so Western is unable to provide a detailed response from Ms. Meyer.

Regulation has traditionally supported the use of prudence reviews and competitive bidding to prevent out-of-market pricing deals. Under the goals outlined by Western in its PBR application, the PBR provides up-front regulatory oversight as opposed to after-the-fact prudence reviews. This was acknowledged by the Commission in its Order approving the PBR. Competitive bidding, such as that employed by Western, continues to be a valuable tool under a PBR. The record in this proceeding is clear that Western is acquiring gas supplies at a very large discount from the market price, in part, due to the use of competitive bidding.

Western Kentucky Gas Company
Case No. 99-447
KPSC Data Request Dated January 14, 2000
DR Item 1
Witness: Gordon Roy

Data Request:

1. Refer to Western's response to Item 1 of the Commission's Order of November 23, 1999, which includes Western's Motion to Dismiss filed in this proceeding on November 23, 1999. Specifically refer to Item 18 of the Motion to Dismiss which states that "Selecting Option 3, re-bidding, would have exposed customers to unfavorable market conditions and bidders' concerns over NorAm's failure. It was reasonable to expect significantly lower bids upon re-bid."

   a. This is one of numerous references made by Western to the unfavorable market conditions that existed at the time it was made aware of the problems NorAm was experiencing under its contract with Western. Provide all evidence relied upon by Western during this period of time which demonstrates that market conditions were unfavorable compared to the market conditions at the time it issued its original Request for Proposal ("RFP") in June 1998.

   b. That section of the Motion to Dismiss also refers to "bidders' concerns over NorAm's failure." Given the confidential nature of the communications between NorAm and Western, explain how potential bidders under Option 3 would have had knowledge of the circumstances under which the NorAm-Western agreement was terminated that would have raised concerns in their minds and possibly influenced their bids under Option 3, re-bidding.

Response:

a. Please refer to Western's April 23, 1999, letter to the Commission which has previously been submitted in response to the Commission's November 23, 1999, Data Request, Item 1, to Western. Western advised the Commission in Option 3, that it "believes bidders will be reluctant to take as much risk now knowing that NorAm opted out of the contract, and in reaction to the current market conditions." In response to this data request, Western is providing copies of ten articles that appeared in Gas Daily (GD) and Natural Gas Week (NGW) from May 20, 1998, through March 22, 1999. Western's PBR mechanism was approved to be effective on June 1, 1998, and Western's contract with NorAm commenced on July 1, 1998. The articles submitted with this response describe the market conditions as they existed at the time Western's PBR was approved, and they further describe how market conditions changed over time from the summer of 1998 through the spring of 1999. Western has underlined pertinent sections in these articles to describe the bullishness or optimism that existed in the marketplace at the time it released for bid its Request for Proposal (RFP) in the summer of 1998. At the time, the market was optimistic that conditions existed that could lead to higher gas prices and more price volatility, which would provide more profit opportunities for potential bidders. (See articles in GD May 20, 1998, NGW June 8, 1998, NGW June 22, 1998.) With this bullish market, Western expected to and did receive some aggressive bids to manage its gas supply assets including the bid from NorAm. After the bid evaluation process, Western and NorAm entered into a contract that commenced on July 1, 1998. In December of 1998, NorAm proposed to Western among other things that the contract be renegotiated. NorAm explained that the reason it was making the proposal was that it was hopeful that some additional value opportunities would help them offset the large losses that they were incurring with the Western asset management contract. They cited several reasons for the losses, which included unfavorable market conditions. By December of 1998, the perception in the marketplace had indeed changed from bullishness (optimism) to bearishness (pessimism). Reasons for this change in perception included historically high levels of storage inventory, no winter weather to speak of at that point, and a forecast of warmer than normal weather looking forward. (See attached underlined articles in GD December 1, 1998, NGW December 7, 1998, NGW December 14, 1998, NGW December 21, 1998.) Western explained in Option 3 of the April 23, 1999, letter referenced earlier that if it re-bid the asset management contract, at the result could be an increase in gas cost to the customers. With the perception in the market having changed from bullishness (optimism) in the summer of 1998 to bearishness (pessimism) in the spring of 1999, Western believed that a re-bid would produce much more conservative (lower) bids than it had received in June 1998. The rationale for this belief was based on high storage inventory levels, the 1998-1999 winter was the warmest in history, low gas prices and no price volatility. Western expected that re-bidders would factor in current market conditions in making their bids and that as a result the bids would be much lower. (See attached underlined articles in GD March 4, 1999, and NGW March 22, 1999, which describe market conditions as they existed in the spring of 1999.)

b. After Western and NorAm entered into the July 1, 1998 contract, articles appeared in the Natural Gas Week August 3, 1998, and the Gas Daily August 5, 1998, editions (copies attached) announcing the agreement between NorAm and Western. Both articles describe the contract as a three-year deal. Had Western attempted to re-bid in the spring of 1999, vendors would have known that the re-bid was occurring prematurely based on information already in the public domain as well as their awareness that the original RFP in June 1998 contained a requirement that bids submitted must be for a three-year term. The potential bidders on a re-bid could have interpreted the premature termination of the NorAm-Western contract as a sign of trouble with the contract, thus prompting potential re-bidders to be more conservative in their response to the RFP. Also, as NorAm was evaluating options to resolve their difficulty, NorAm informed Western that it was pursuing the possibility of assigning the contract to third parties. The contract between NorAm and Western contained a provision that allowed assignment with consent of both parties. NorAm informed Western that it was having or would have discussions with several parties to pursue this option. NorAm disclosed to Western that one of the parties it was discussing the contract assignment with was [redacted]s on Western's bid list and submitted a conforming bid in response to Western's June 1998 RFP. NorAm did not make a formal proposal to Western to assign the contract. As such, Western assumed that NorAm's discussions with potential replacement vendors were unsuccessful. Nevertheless, Western believed that the discussions NorAm had with their potential vendors including at least one vendor on Western's bid list, could be potentially detrimental to Western's customers on a re-bid.

Wednesday, May 20, 1998

Fax Edition — 6 pages

Attention: Ms. Lizabeth Marr

Gas Daily®

Daily Price Survey

Listed in the left column are the midpoints of the daily ranges for the most common prices, paid in $/mmBtu of a typical volume of 5 thousand mmBtu. The middle column shows absolute low-high prices for transactions reported on the date at the top of the column; the third column shows that day's ranges for the most common prices. The prices are generally for gas flowing today; weekends are usually priced using data collected Friday. Ranges are for deals done before nomination deadlines. Boldface indicates the price range is based on data reported the previous day. Plain type indicates insufficient data to reconfirm or change the previous range. The common range is built around the volume weighted average and the midpoint is calculated for the common range.

Trans. date	5/19	5/19	5/19
Flow date(s)	5/20	5/20	5/20
	Midpoint	Absolute	Common
Permian Basin Area			
El Paso	2.070	1.98-2.11	2.04-10
Northern (Mids 1-6)	1.995	1.94-2.07	1.96-2.03
Tex intras, Waha area	2.095	2.07-14	2.08-11
Transwestern	2.075	2.06-12	2.06-09
East Texas—North La. Area			
Carthage Hub tailgate	2.135	2.11-17	2.12-15
Koch (Zones 1&2)	2.020	2.00-03	2.01-03
Lone Star	2.000	1.98-2.02	1.99-2.01
MRT mainline	2.195	2.19-21	2.19-20
MRT west leg	2.150	2.14-17	2.14-16
NGPL TexOk (West)	2.130	2.11-15	2.12-14
NGPL TexOk (East)	2.135	2.11-16	2.12-15
Tennessee, 100 leg	2.110	2.10-12	2.10-12
Texas Eastern (ETX)	2.125	2.10-15	2.11-14
Texas Gas (entire Z 1)	2.165	2.13-23	2.14-19
East—Houston—Katy			
Houston Ship Channel	2.175	2.14-20	2.16-19
Katy plant tailgate	2.135	2.12-18	2.12-15
Trunkline North	2.130	2.11-15	2.12-14
North—Texas Panhandle			
NGPL (Permian)	2.070	2.06-08	2.06-08
Northern (Mid 10)	1.950	1.94-98	1.94-96
Transwestern	2.075	2.05-12	2.06-09
South—Corpus Christi			
Agua Dulce hub	2.100	2.09-12	2.09-11
Florida Gas	2.125	2.09-15	2.11-14
HPL	2.110	2.09-13	2.10-12
Koch (Zone 1)	2.050	2.01-10	2.03-07
MidCon Tex (UTTCO)	2.080	2.06-10	2.07-09
NGPL (STX)	2.105	2.08-14	2.09-12
Tennessee	2.105	2.07-14	2.09-12
Texas Eastern (STX)	2.105	2.07-13	2.09-12
Transco, St 30	2.125	2.10-17	2.11-14
Trunkline South	2.115	2.09-15	2.10-13
PG&E-GTT (Valero)	2.020	2.01-03	2.01-03
Louisiana—Onshore South			
ANR	2.095	2.05-14	2.07-12
Columbia	2.155	2.13-19	2.14-17
Columbia, Mainline	2.215	2.17-24	2.20-23
FGT Z1	2.125	2.09-16	2.11-14
Z2	2.175	2.13-23	2.15-20
Z3	2.160	2.12-19	2.14-18
Henry Hub	2.160	2.13-21	2.14-18
Koch (Zones 2&4)	2.085	2.05-11	2.07-10
La. intrastates	2.160	2.14-18	2.15-17
NGPL (La.)	2.125	2.09-16	2.11-14
Sonat	2.145	2.12-17	2.13-16
Tennessee, 500 leg	2.115	2.09-15	2.10-13
Tennessee, 800 leg	2.125	2.10-15	2.11-14
Texas E. (WLA)	2.120	2.10-16	2.10-14
Texas E. (ELA)	2.140	2.11-16	2.13-15
Texas Gas SL	2.155	2.12-19	2.14-17
Transco, St. 45	2.140	2.11-16	2.13-15
Transco, St. 65	2.160	2.12-20	2.14-18
Trunkline WLA	2.145	2.10-18	2.13-16
Trunkline ELA	2.115	2.09-15	2.10-13
Oklahoma			
ANR	2.095	2.06-13	2.08-11
NGPL (Midcont.)	2.095	2.06-13	2.08-11
orAm (North/South)	2.125	2.10-16	2.11-14
orAm (West)	2.095	2.07-12	2.08-11
orthern (Mid 11)	1.975	1.94-2.11	1.94-2.01
NG	2.095	2.06-12	2.08-11
PEPL	2.090	2.06-14	2.07-11
Williams	2.090	2.06-10	2.08-10

(Continued on next page)

Opposition to FERC's EDI rulemaking runs deep

The natural gas industry is nearly unified in its opposition to FERC's road map for taking electronic communication to the Internet through the use of Electronic Data Interchange (EDI) by a June 1, 1999 deadline.

EnerActive

In comments delivered to FERC in response to its April 16 final rule on electronic communication, industry representatives of distributors, producers and pipelines contend the commission's hurried push toward EDI to the exclusion of other Internet technologies is a mistake. Among other complaints, respondents said customers enjoy using the formats of existing electronic bulletin boards (EBBs), which pipelines can easily lift onto the Internet. Also, industry representatives point out FERC wants to mandate EDI technology even before it has fully standardized EDI data sets.

"The problem is that in trying to accomplish these goals [of moving the industry to the Internet], the commission has moved beyond creating industry standards into creating prescriptive rules that dictate what forms of communication pipelines and customers must use," the

(*) See page 4

(Continued on page 6)

Storage use to change radically in next decade

The way in which natural gas storage is used will change dramatically over the next decade as the deregulation of the retail electricity market opens up a wide variety of options for marketers, according to a leading industry consultant.

"We are going to go from a horizontal storage system to a vertical system," said Carol Freedenthal, president of Jofree Corp, speaking yesterday at a meeting of the Society of Professional Engineers in Houston. "Storage operators are going to be able to trade gas for oil or electricity."

He said government inaction has slowed down the pace of deregulation of the retail market for electricity and predicted that it would be five to 10 years before deregulation will have truly taken hold. When that happens, however, it will have the effect of encouraging gas storage operators to keep lower volumes of gas in storage than they currently think is necessary.

"Gas and electricity will go head-to-head and gas storage levels will go very low," he said. Storage operators will tend to want to keep the total level of gas in storage close to the working gas level, something they are hesitant to do now for fear of running out of gas during a very cold winter.

Freedenthal said too much gas in storage means marketers are losing their working capital.

(Continued on page 4)

Cash prices trail off despite sizzling spring

Gulf Coast and Midcontinent prices fell yesterday even as temperatures climbed into the 90s as far north as Michigan and New York State.

Traders said a soft futures market was enough to deflate fundamental pressures that would normally spell higher prices. But the late market saw more price strength as the hot weather finally worked its magic. "There were a lot of buyers out late who probably were waiting for the market to crap out," one Gulf trader said.

The Market

With temperatures well into air-conditioning ranges in Texas and with a futures market that was not moving much, the spread between prices for gas into intrastates at Waha in West Texas and prices at the Katy plant tailgate tightened up yesterday. For the month so far, a marketer said, that spread has just been adequate at around 7¢. "It's not super, but enough to make something happen," he said. Yesterday, the spread was closer to 4¢ to 5¢.

The lack of volatility at NYMEX helped squelch the kind of movement that allows traders to "get in between deals," the marketer said. The NYMEX June Henry Hub contract opened at $2.14, up less than a cent. After trading in a range between $2.17 and $2.126, the contract came back to $2.14 by early afternoon. It settled at $2.149, up 1.5¢.

One Midcontinent and Permian Basin trader said he sat out Tuesday's trading because

Coastal ups interest in Midland

Coastal now owns a 15.4% interest in the Midland Cogeneration Venture after buying 100% of the interest of the Micogen Limited Partnership from Fluor Corp. Micogen held a 4.5% interest in Midland. Midland a gas-fired, combined cycle cogen plant in Midland County, Mich., generates about 1,370 MW of electricity. MH

FUTURES
NYMEX ● Henry Hub

Results from Tuesday

	Settlement	High	Low	Change	Volume
June	2.149	2.170	2.128	+1.5	22,460
July	2.185	2.210	2.165	+1.1	9,868
August	2.235	2.255	2.225	+0.4	4,514
September	2.279	2.295	2.265	+0.5	1,699
October	2.330	2.345	2.320	+0.3	2,037
November	2.477	2.495	2.475	+0.3	1,865
December	2.620	2.635	2.615	+0.3	1,941
Jan. 1999	2.649	2.665	2.640	+0.2	1,411
February	2.529	2.546	2.530	-0.1	645
March	2.414	2.430	2.415	-0.1	368
April	2.309	2.325	2.305	-0.1	187
May	2.263	2.280	2.264	-0.1	90
June	2.264	2.280	2.270	-0.1	119
July	2.268	2.285	2.270	-0.1	57
August	2.285	2.301	2.286	-0.1	50
September	2.299	2.310	2.300	-0.1	46
October	2.330	2.335	2.331	-0.1	56
November	2.468	2.459	2.459	-0.1	60
December	2.593	—	—	-0.2	0
Jan. 2000	2.613	2.525	2.610	-0.2	122
February	2.490	—	—	-0.2	50
March	2.364	2.378	2.368	-0.4	216
April	2.244	2.248	2.243	-0.4	353
May	2.229	2.233	2.233	-0.4	25
June	2.234	—	—	-0.4	30
July	2.237	—	—	-0.4	30
August	2.240	—	—	-0.4	30
September	2.240	—	—	-0.4	30
October	2.261	—	—	-0.4	30
November	2.389	—	—	-0.4	0
December	2.528	—	—	-0.4	0
Jan. 2001	2.548	—	—	-0.4	0
February	2.431	—	—	-0.4	0
March	2.338	—	—	-0.4	0
April	2.238	—	—	-0.4	0
May	2.226	—	—	-0.4	0

Volume of contracts (unofficial) 48,186

Front-months open interest Monday June, 39,684; July, 31,850. August, 23,684

Total open interest Monday 263,569

KCBT ● Waha

	*Settlement	High	Low	Change	Volume
June	2.065	2.080	2.050	+0.5	65
July	2.105	2.110	2.080	+0.5	47
August	2.155	2.150	2.140	+1.0	5
September	2.186	—	—	+0.6	0
October	2.245	—	—	+1.0	0
November	2.350	2.350	2.360	-0.8	31
December	2.490	2.490	2.465	-0.5	9
Jan. 1999	2.514	2.515	2.510	-0.6	11
February	2.400	2.400	2.400	-0.5	1
March	2.295	2.296	2.295	-0.5	1
April	2.155	—	—	—	1
May	2.112	—	—	—	0
June	2.110	—	—	—	0

Volume of contracts (unofficial*) 190

Open Interest Monday 8,027

*Not all months reported

Weighted average of x number of trades in the last two minutes of trading. Change is from previous settlement price.

OPTIONS
NYMEX ●Henry Hub

Results from Tuesday

Strike Price	Calls-Settle June	July	Aug	Puts-Settle June	July	Aug
2.00	16.2¢	—	—	1.3¢	4.1¢	6.2¢
2.05	12.2¢	—	26.1¢	2.3¢	5.6¢	7.7¢
2.10	8.9¢	16.0¢	22.8¢	3.9¢	7.5¢	9.4¢
2.15	5.5¢	13.2¢	19.9¢	6.0¢	9.7¢	11.4¢
2.20	3.4¢	10.9¢	17.2¢	8.5¢	12.3¢	13.7¢
2.25	2.2¢	8.8¢	14.9¢	12.3¢	15.3¢	16.3¢
2.30	1.3¢	7.1¢	13.0¢	16.4¢	18.6¢	19.5¢
2.35	0.7¢	5.7¢	11.2¢	20.8¢	22.1¢	22.6¢
2.40	0.4¢	4.6¢	9.7¢	25.5¢	26.0¢	26.1¢

Estimated Volume: Calls: n/a Puts: n/a

Open Interest (Mon.) Calls: 168,728 Puts: 136,206

Not all strike and settlement prices listed.

Implied Volatility for at-the-money strike price

Calls: 46.79% Puts: 50.17% Source: Bloomberg

convert the sites into useful brownfield spots, they will likely violate safety rules, Lacey said.

The rules would provide "a disincentive to dig wastes up and reuse the [MGP] properties for productive uses," she said. The rifle-shot effort seeks not to reform everything in an RCRA bill but to set up the exemptions the utilities need, Lacey said. JP

Canadian gas producers urged to drill more

A major Canadian natural gas producer insists more drilling will be needed to fill export pipelines and meet expected U.S. demand.

"We could ship all the additional gas [being produced] and we wouldn't even meet the U.S. increase in demand," said Michael Lang, vice chairman of Beau Canada Exploration. U.S. demand is increasing by 2% annually with growth areas seen to be in electric generation.

Canadian pipelines now move about 9 billion cfd, but when TransCanada PipeLines expands its line and Alliance gets built in 2000, total capacity for exports to the United States will be 11.7 billion cfd, a 30% boost. To meet that capacity, "we've got to drill a lot more wells," Lang said.

In 1997, a record year, about 4,700 new gas wells were drilled. As many as 6,000 wells will have to be drilled just to meet new export capacity, he said.

Lang said Beau Canada is trying to position itself for a boom in gas processing in Alberta. It just bought APL Oil and Gas assets, including four gas plants with a combined capacity of 40 million cfd. Like other producers, it is shifting its focus to gas production and shutting in oil.

The Petroleum Services Assn. of Canada said it expects 12,850 holes to be drilled this year, down from an original estimate of 16,000 and the 1997 record of 16,500 wells. PM

Canada tops list of oil exporters to United States

Already the top natural gas supplier, Canada is pushing out Venezuela as the number one supplier of oil to the United States, according to a new study by the Canadian Assn. of Petroleum Producers (CAPP).

An increase in Canadian oil export capacity, coupled with a rising heavy oil refining capacity in the United States is expected to make Canada the main supplier of oil to the United States in six months, followed by Venezuela, Saudi Arabia and Mexico.

"They like our stuff. They are set up for it and there are pipelines in place," CAPP President David Manning said.

Canada led in January and February, when average daily oil exports to the United States were 1.7 million barrels per day, an increase of 200,000 barrels per day from 1997. During the same period, U.S. imports from Venezuela declined to 1.65 million barrels per day, from an average of 1.73 million barrels per day in 1997.

Canadian gas exports hit 2.91 trillion cf last year out of a total production of 5.6 trillion cf, according to Canada's National Energy Board. That is expected to increase sharply once new and expanded capacity comes onstream starting next year. PM

Storage patterns to change ... *(from page 1)*

The current working gas storage levels of approximately 1.4 trillion cf, are at 43% of total U.S. storage capacity and about 407 billion cf ahead of last year. "We should be at 90% of where we were last year," he said.

Contrary to traditional industry opinion, Freedenthal doesn't think the amount of gas in storage has a big impact on daily spot prices. If it did, "right now gas would be cheap."

Freedenthal said that some gas marketing companies are predicting future shortages of gas, which is one reason storage operators are injecting gas so vigorously. He said this school of thought points to anticipated post-El Nino weather phenomena such as an active hurricane season and colder-than-normal winter.

Even if these events occur, Freedenthal said there is little chance of a systemwide gas shortage. In years in which hurricanes entered the Gulf of Mexico, the effects on production have not lasted more than a few days or weeks, he said. During the winter of 1994-95, one of the coldest on record, there were no significant shortages of gas, he noted.

The introduction of new gas supplies from western Canada into the Chicago market would in the short term increase the demand for storage facilities in the gas-consuming regions of the Northeast and Midwest. "Storage is going to get big for a while," he said. In the longer term, the need for new storage will ease as the market demand grows and absorbs the new Canadian supplies. JM

Natural Gas Week

VOLUME 14, NUMBER 23 JUNE 8, 1998

Late News...

What's brewing. Colorado State University hurricane forecaster William Gray expects to see 10 tropical storms form in the Atlantic Ocean through Nov. 6, six of which likely will become hurricanes. Two of those will likely pack winds in excess of 111 mph. Basis of the forecast is that El Nino, which may have suppressed hurricane activity this year, is fading and should have dissipated by the start of the active part of the hurricane season in mid-August, Gray said.

* * *

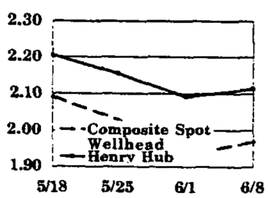
Need for speed. Joe Mezquita drives Natural Gasser III to national drag racing title May 31 with victory at the Fram Nationals at Route 66 Raceway near Chicago. "Anyone who had any doubts about the power of natural gas engines would have become a believer in Chicago," says Mezquita, a resident of East Sparta, Ohio, and an employee of East Ohio Gas Co., subsidiary of Consolidated Natural Gas Co. Mezquita's 700-horsepower fuel-injected natural gas engine posts perfect 8.900 times in quarter-mile qualifying heats, and races at speeds up to 170 mph.

* * *

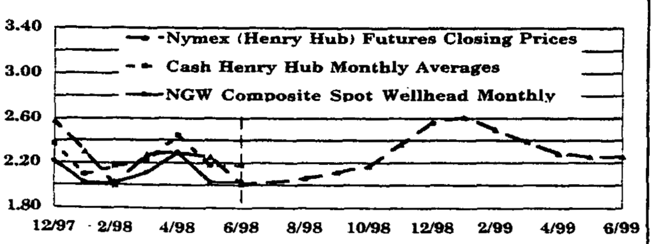
Wheel and deal. TransAlta Energy Corp. wins chance to build $400 million, 500 Mw cogeneration facility in Sarnia region of Ontario, Canada. Would be largest cogeneration project in the country and fit with province's move toward restructuring of the Ontario electricity industry, said Dawn Farrell, executive vice president of Independent Power Projects. Start-up date would be early 2001.

* * *

Average Cash Prices & Futures Strip



Yet another increase in the current storage surplus inspired a deep late-week price drop as players watch for changes in the weather.



Acquisition-Hungry Producers Fill Plates with Canadian Gas

A veritable Yankee invasion is under way in Canada's gas and oil patch, and industry analysts say the trend shows no sign of abating.

Through its US$1.1 billion bid last week for Calgary-based Tarragon Oil and Gas Ltd., USX Corp.'s Marathon Oil Co. joined a wave of American acquisitions or acquisition offers for Canadian natural gas and oil companies (see story, p.5), offering further proof that U.S. producers are taking notice of their neighbors to the North and the potentially lucrative deals that await.

In what one analyst called "a coming fire sale", a conflu-

(continued on page 8)

Analysts: Gas, Oil Decoupling As Earlier Price Links Weaken

Natural gas producers have been waiting for years to see gas prices "decouple" from crude oil, and for once in favor of gas.

In the past, an oil price drop usually brought a comparable slide in gas prices, while an oil price rise might not have much impact on gas at all. However, in spite of a 25% drop in oil prices in the past year, natural gas prices have stayed relatively firm.

During May 1997, the New York Mercantile Exchange (Nymex) price for light, sweet crude averaged about $20.50/bbl, while Nymex gas traded at about $2.25/MMB-

(continued on page 10)

*

Traders Wonder If Hurricanes Will Blow Away Price Doldrums

The first week of the traditional hurricane season failed to produce even a minor tropical depression, but producers and traders are starting to believe that it will take a hurricane in the Gulf of Mexico for a significant near-term natural gas price recovery.

With the current 466 Bcf storage surplus compared with last year — representing more than a week of total U.S. natural gas consumption — and with gas prices still trending down, gas sellers now believe that prices may not spike until July without weather-related production curtailment or sharply rising temperatures in much of the country.

(continued on page 10)

See Page 10

Published by Energy Intelligence Group

Power...

(continued from page 9)

switch to resid for power generation this year has all but vanished on the Gulf as storage gas levels have grown to a 466 Bcf year-on-year surplus.

In the Northeast, it appears the price differential will keep narrowing if current market conditions continue. Central to the issue is that the resid market has tightened enough to prop up prices despite the U.S. crude oil market being glutted.

The 60¢/MMBtu discount for burning 1% sulfur fuel oil in the New York Harbor (NYH) market seen in early April has now shrunk to about 20¢/MMBtu compared to New York city gate spot gas.

Comparing spot gas and resid on the Gulf Coast shows the price gap is more of a hairline fracture.

Gas delivered to Texas utilities has dropped in price by more than 20¢ since early April — to about $2.20/MMBtu as of June 1. In contrast, the price for 0.7% sulfur resid on the Gulf Coast rose 14¢ on a MMBtu basis during that period to $2.14/MMBtu as of June 1.

Several factors are to responsible for the change in the price differentials:

- An overall tightening in the resid market has developed due to heavy demand from Mexico.

El Nino-inspired droughts have plagued hydroelectric power generation in Mexico, forcing the country to increase its use of resid to keep meeting electricity demand. Making matters worse, Mexico's plan to convert its power plants to run on gas have been behind schedule, and refinery conversion capacity has increased, which lowers resid ouput.

Incremental resid demand from U.S. utilities has helped prop prices as well. Additionally, Venezuela has also had a hand in tightening the resid market.

Both Mexico and Venezuela use resid as a significant component in their pricing formulas for exported oil. By propping up resid prices through spot market purchases, the price for Mexican and Venezuelan heavy oil is also given a lift. Compared to the year-ago period, resid stocks on the U.S. Gulf Coast are some 12% lower at about 14.6 million bbl.

- Earlier fuel-switching by utilities suppressed demand for high-priced gas. This conspired with the effects of a mild winter and magnified the amount of gas being injected into storage.

The contango in the gas futures market has also added to this.

With gas futures prices lower in the near-month than in the forward months, traders have had incentive to store gas now and sell at a later date when prices are higher.

The prospects for resid prices to increase — possibly to a premium to gas on a Btu basis — increased last week when major oil producers announced additional cuts in hopes of shoring up oil markets worldwide.

As the summer progresses, the production cuts should start to have some — albeit not much — affect on crude supplies because crude oil storage in the United States is essentially full.

While inventories will have to be worked down quite a bit before oil prices can rise significantly, resid demand from Mexico is expected to remain strong for quite some time.

—Eric Kronenwetter

Traders...

(continued from page 1)

"I'm checking every weather map I can get my hands on," one Houston-based trader said. "But the only place that's hot is here."

Strategic Weather Services said last week that hot temperatures in the near future will be confined to Texas and other parts of the U.S. South, much as has been the case in the past two weeks.

The mild weather, combined with the contango in the gas futures market at the New York Mercantile Exchange (Nymex) offering significant arbitrage opportunities, has inspired strong injections into U.S. underground storage facilities for the last two months.

During the week ending May 29, 106 Bcf, or 15.1 Bcfd, was injected into storage to bring total U.S. stocks to 1,667 Bcf, or 52% full, according to the American Gas Association (AGA).

AGA said that injections in all three regions resulted in surpluses in the eastern consuming region (283 Bcf), producing region (169 Bcf), and western consuming region (14 Bcf).

With five months left in the traditional injection season, storage capacity holders are now in a position to take advantage of arbitrage opportunities due to the flexibility created through heavy early injections at relatively low prices.

Capacity holders can inject gas now at $2/MMBtu and sell an out futures month contract at $2.12-$2.15/MMBtu and pocket the difference — less the per unit cost of the storage. Parties owning their own storage facility have even greater flexibility to enter into such deals.

Aside from offering profit opportunities, the storage surplus has also had the effect on the market of stemming any upward movement in prices due to short-term factors.

Psychologically, market players know that the 466 Bcf surplus exists and aren't willing to trade gas up on a short period of hot temperatures when they can just as easily slow injections and use baseload supplies to satisfy near-term demand.

Until a period of extended hot weather in several regions arises — or a hurricane spins its way into the Gulf — prices will continue to be vulnerable to slip below $2/MMBtu as they did late last week.

Even the July Nymex gas futures contract for delivery to the Henry Hub traded below $2/MMBtu for periods last Friday.

* * *

Nymex last week announced that it will launch its Cinergy and Entergy electricity futures contracts on July 10, with the September contract being the first traded.

Nymex President R. Patrick Thompson said the launch could encourage growth in the volume traded on its currently-operating Western electricity futures contracts.

The exchange board has also approved an electricity futures contract for delivery through the Pennsylvania-New Jersey-Maryland Interconnection, but has not yet sent the contract to the Commodity Futures Trading Commission.

—Scott C. Speaker

Analysts...

(continued from page 1)

tu. The price ratio was 9:1, slightly better than the traditional oil-gas price ratio of 10:1, but still off from the energy conversion ratio of 6 MMBtu of gas to 1 bbl of oil.

(continued on page 11)

GAS SUPPLY

Natural Gas Week

VOLUME 14, NUMBER 25 JUNE 22, 1998

Late News...

Monica factor. Bill Richardson, who will move from United Nations to DOE if Senate agrees, has something in common with many Washington types: he has been enmeshed in l'Affaire Monica. The New Mexican has admitted offering job in New York to Lewinsky after her days as White House intern. Insiders say connection likely won't come up at Richardson confirmation hearings.

* * *

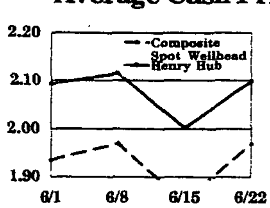
Find the weak link. Natural Gas Council last week during quarterly meeting appoints Jim Rubright, executive vice president of Sonat Inc., to head Year 2000 working group to coordinate communications between producers, pipeline companies and LDCs for dealing with computer problems related to new century.

* * *

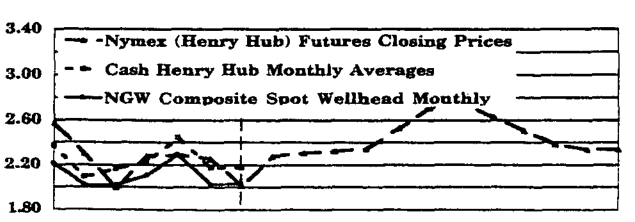
The dotted line. CMS Energy Corp. says GasAtacama pipeline and power plant project signed long-term natural gas transportation contracts totaling 1.5 MMcfd with Chilean gas distribution company Chilquinta S.A. and another Chilean firm. GasAtacama, integrated $750 million pipeline-power project that would flow natural gas from northwestern Argentina to power plants, gas users in northern Chile is being developed by Dearborn, Mich.-based CMS (40%), Empresa Nacional de Electricidad S.A. (40%), Pluspetrol Energy S.A. (16%) and Astra Compania Argentina Petroleo S.A. (4%).

* * *

Average Cash Prices & Futures Strip



Natural gas prices get a boost last week from some higher temperatures and nuclear outages, but the storage surplus grew again.



Petro-Canada Hinting at Its Plans For Major Expansion, Experts Say

Petro-Canada has set Calgary buzzing with speculation that the oil and gas giant is looking to expand. Speculation was sparked after the company last week pulled out of an upcoming Canadian Association of Petroleum Producers (CAPP) investment symposium.

Petro-Canada, Canada's third largest producer of both oil and gas, has confirmed that it will not attend the CAPP conference, which is being held from June 22-24 and will draw delegates from more than 100 oil and gas companies from Canada, the United States and Europe.

Its absence shall certainly be noted. Because symposium

(continued on page 11)

Cinergy Leaps into Marketing With Acquisition of ProEnergy

Cinergy Corp. is moving into the top ranks of major gas marketers through the $42.5 million acquisition of Producers Energy Marketing LLC (ProEnergy) from Apache Corp. and Oryx Energy Co.

Though Cincinnati, Ohio-based Cinergy has been a large electricity wholesaler for several years, it hasn't had a gas presence outside of its local distribution operations. With ProEnergy, it gains an enterprise that sold 1.7 Bcfd in 1997 and is backed with 10-year firm supply commitments from its former owners, which produce about 1.1 Bcfd in North America.

(continued on page 9)

Arrival of Summer Temperatures May Signal Upward Price Shift

Forecasts of hot weather starting to take hold through much of the nation trumps a large injection of natural gas into storage, so many traders appear to be shedding their bearish take on prices for a more optimistic outlook.

Although the American Gas Association (AGA) reported last week that the surplus of working gas in U.S. underground storage facilities is growing (see story, p.12), summer officially has begun, and cash and futures prices are poised for upward movement.

Prices for the New York Mercantile Exchange (Nymex) Henry Hub gas futures contract for delivery in July slipped

(continued on page 10)

Published by Energy Intelligence Group

Cinergy...

(continued from page 9)

Oryx will receive $18 million and record a net gain of $10 million. Apache's proceeds will total $24.5 million, with a net of more than $13 million. Apache will receive most of its compensation in the form of Cinergy stock.

The decision to sell ProEnergy and get out of gas marketing was based on changes in the industry in the past three years, Apache President G. Steven Farris told *Natural Gas Week*. Consolidations among producers and marketers, as well as marketers expansion into the broader energy services and multi-commodities business, has required strategy revisions by all.

"We're primarily an upstream business, an [exploration and production] company," Farris said. "The bottom line is [Cinergy does] real well in their core competencies, and we hope we do well in our core competencies."

He cited Apache's exploration successes in Australia and Egypt and its recent entry into Poland as examples of its ability to capitalize on core competencies.

The arrangement with Cinergy has been a year in development, he said, and it represents the beginning of a long-term alliance. "In our minds, this isn't a transaction; it's building a relationship," Farris said.

Cinergy's Energy Commodities Business Unit traded 56.6 million MwH of power last year. The company owns two U.S. utilities, Cincinnati Gas & Electric Co. and PSI Energy Inc., that serve more than 1.4 million electric customers and 455,000 gas customers in Indiana, Ohio and Kentucky.

The company also owns a 50% interest in Midlands Electricity plc, a regional electric company in the United Kingdom.

—Barbara Shook

Apache, Plank Get Big Paydays From Marketing Company Deals

Raymond Plank, chairman and CEO of Apache Corp., has never made any secret of his dislike of natural gas marketing companies, charging them with market manipulation and other evils.

Nevertheless, Apache has made a lot of money over the years from its participation in two major marketing companies.

Last week, the company said it would receive $24.5 million for its 57% stake in Producers Energy Marketing LLC, or a net gain of more than $13 million (see story, p.1). Partner Oryx Energy Co. will get $18 million for its 43% share, or a net of $10 million. Cinergy Corp. is buying the 1.7 Bcfd gas marketer to complement its existing power trading business.

Apache, Oryx and Parker & Parsley Petroleum Co. formed ProEnergy in 1995, not long after Plank had initiated a campaign for gas producers to reclaim the profits he charged independent marketing companies were raking off from the suppliers.

The natural gas market was "controlled by middlemen and arbitrageurs whose earnings derive not from investment and work, but from gambling with a stacked deck," he said in a February 1995 address to the Houston Producers Forum.

"We need producer-friendly, producer-owned marketing companies," Plank said.

"The natural gas industry has been milling around like sheep waiting to have mutton chops made of us. A lot of industry members have been washed out to sea. We need to put our oars in the water and start pulling in the same direction," he said.

Plank called for natural gas producers to join him in a lobbying effort for passage of legislation that would permit the formation of marketing cooperatives similar to those in the agriculture sector.

The gas-marketing co-ops bill never went anywhere, but ProEnergy did. It was one of the 30 largest gas marketers in North America during 1997.

Parker & Parsley sold its interest in ProEnergy after its merger with Mesa Inc. last year to form Pioneer Natural Resources Co.

Before forming ProEnergy, Apache once owned 50% of Natural Gas Clearinghouse (NGC), predecessor to Dynegy Inc. Apache and co-owners Noble Affiliates Inc. and Dekalb Energy sold out to British Gas and LG&E Energy Systems in 1992 for $107.5 million.

Apache's take on that deal was more than $50 million, almost nine times its original $5.8 million investment after only three years.

The company continued to sell NGC 400 MMcfd of gas for several years after the British Gas-LG&E transaction, while charging that NGC was one of the "huge marketing companies" whose earnings were derived "not from marketing gas, but from arbitrage-speculating on wide and frequent price swings."

—Barbara Shook

[redacted]

Arrival...

(continued from page 1)

only 3¢ the day after the storage report — after rising more than 18¢ Wednesday from below $2/MMBtu Tuesday — and then jumped on Friday.

Open interest was again growing in the contract last week, but, unlike other recent buildups, the expected move in price is likely to be upward.

Recent heat has been limited to the southern United States, but Wayne, Pa.-based Strategic Weather Services (SWS) said last week that warmer temperatures can be expected to move into much of the United States.

(continued on page 11)

(continued from page 10)
"Temperature predictions by the model show 96 to 103 degrees [Fahrenheit] dominating much of the Central Plains and western Mississippi Valley plus the southern half of Illinois," SWS said. Texas and Oklahoma will be blanketed by 100 degree readings and the deep South will see upper 90s and low 100s, the forecasters said.

Along with warmer weather, another factor that likely will drive up prices as summer goes on is the level of current and scheduled nuclear power plant outages in New England and Texas.

Outages in New England last week caused prices on the Cinergy Corp. power system to soar above $100/MwH, inspiring some utilities in the region to ramp up more expensive gas- and fuel oil-fired generators to sell power into the inflated market.

Situations such as this probably will occur during each period of extended heat — further influenced by nuclear outages — and cause heavier demand for natural gas, and thus, higher prices.

Another factor that may push up prices in Texas and California this week is the El Paso Natural Gas Co. shutdown of its Gallup C turbine in the San Juan Basin for repairs.

The shutdown will occur on Tuesday and Wednesday and reduce capacity on the San Juan line by about 245 MMcfd.

When shippers need to draw supplies from regions other than their traditional supply basins, it causes more significant spikes because in such a tight market any shift in producing region-to-market area paths draws on supplies normally satisfying other demand.

If a shipper who normally buys gas in the San Juan Basin to ship to California needs to go to the Permian Basin in West Texas to satisfy the California demand, it could cause a chain reaction of higher prices in Texas and into the Mid-Continent.

One signal to look for this week is Wednesday's AGA storage report which — in the face of warming temperatures — could show a slight reduction in the year-on-year storage surplus.

If storage capacity holders fail to meet last year's comparable week injections of 97 Bcf, traders may take it as a sign that the trend has reversed, and the surplus will be reduced as it is used to shave price peaks in the market.

* * *

Nymex last week announced it would decrease the margins on its Henry Hub natural gas futures contract and increase the margins on its Palo Verde electricity futures contract.

A margin, or the amount of money deposited with a member or the clearinghouse to ensure the broker or the clearinghouse against adverse price movements on open futures contracts, usually is lower during periods of low volatility and raised during periods of high volatility (NGW, 2-16-98, p.1).

Electricity prices have been extremely volatile in recent days as the country gets its first taste in 1998 of extended summer heat.

—Scott C. Speaker

Petro-Canada...

(continued from page 1)
participants must reveal forward-looking information, Petro-Canada's withdrawal suggests that the company is engaged in deal-making on a grand scale. It also has postponed a planned tour of Europe to promote its company to institutional buyers.

Analysts are speculating about rumors of possible acquisitions, ranging from a takeover of Ranger Oil Ltd., Shell Canada Ltd. or Canadian Occidental Petroleum Ltd. (CanOxy), to a possible sell-off of the Canadian government's 18.3% stake in the formerly state-owned company.

Adding grist to the rumor mill are statements made by Petro-Canada President and CEO Jim Stanford in January, in which he suggested that the company will accelerate its acquisitions of natural gas properties in its core area of Western Canada in order to reduce its traditional reliance on light oil.

"They've made no secret that they have acquisitions in mind, and they have told people in the past that they would like a larger international presence. They have the size to make a significant investment," said Brian Dutton, an analyst with Bunting Warburg Inc.

Amidst the ruminations, what everyone seems to agree upon is that no one really knows what is in the works.

"I heard a pretty strong rumor that they will make a bid for Ranger, but I have no confirmation on that," said Doug Managhan, an analyst with Scotia Capital Markets.

"I've heard that they might be working on the Ekofisk gas project with [Phillips Petroleum Co.]," said F. LLoyd Byrne, an analyst with Morgan Stanley Dean Witter. Phillips, along with a host of European oil and gas companies, last year signed a depletion contract to tap the giant Ekofisk gas field, located in Norway's section of the North Sea.

Byrne said that the government's sell-off of its stake in Petro-Canada is the most unlikely of scenarios, as the company would not be compelled to pull out of the CAPP conference over such a move. Other analysts noted that with the recent slump in oil prices, it would be foolhardy for the Canadian government to divest its stake at any time in the near future.

Martin Molyneaux, an analyst at First Energy Capital in Calgary, admitted that "I've been digging, but I can't find anything concrete." That, however, has led Molyneaux to believe that Petro-Canada's clandestine dealings may involve overseas assets.

"Look, Calgary is a small community. They are a large company and to keep something this quiet in Calgary means that it would have to be outside of the circle."

Molyneaux is placing his bets on a deal in the North Sea, noting that Petro-Canada has had several representatives traveling back and forth to the United Kingdom.

Molyneaux also argued that Petro-Canada is targeting natural gas assets, and many of the companies labeled as takeover targets — namely, Ranger Oil and CanOxy — have significant stakes in heavy oil which would be unattractive to Petro-Canada.

Ranger, however, holds significant interests in numerous oil and gas properties in the North Sea, and some analysts speculate that Petro-Canada is looking to augment its expertise in that area. Petro-Canada is the operator of the Terra Nova oilfield offshore Newfoundland — which is scheduled to come onstream within two years — and a 20% partner in the massive Hibernia oil project.

—Andrew H. Ware

FINANCIAL TIMES
Energy

Gas Daily®

Tuesday, December 1, 1998

Fax Edition — 6 pages

Attention: Lizabeth Marr

Daily Price Survey

Listed in the left column are the midpoints of the daily ranges for the most common prices, paid in $/mmBtu of a typical volume of 5 thousand mmBtu. The middle column shows absolute low-high prices for transactions reported on the date at the top of the column; the third column shows that day's ranges for the most common prices. The prices are generally for gas flowing today; weekends are usually priced using data collected Friday. Ranges are for deals done before nomination deadlines. Boldface indicates the price range is based on data reported the previous day. Plain type indicates insufficient data to reconfirm or change the previous range. The common range is built around the volume weighted average and the midpoint is calculated for the common range. Data in this table is Copyright 1998 by Pasha Publications Inc.

NATIONAL AVERAGE PRICE: $1.705****

Trans. date	11/30	11/30	11/30/
Flow date(s)	12/1	12/1	12/1
	Midpoint	Absolute	Common
Permian Basin Area			
El Paso	1.595	1.43-93	1.47-72
Northern (Mids 1-6)	1.485	1.46-64	1.46-51
Tex intras, Waha area	1.650	1.50-2.10	1.50-80
Transwestern	1.590	1.47-74	1.52-66
East Texas—North La. Area			
Carthage Hub tailgate	1.580	1.54-70	1.54-62
Koch (Zones 1&2)	1.400	1.39-41	1.39-41
Lone Star	1.490	1.48-50	1.48-50
MRT mainline	1.595	1.56-62	1.58-61
MRT west leg	1.550	1.54-56	1.54-56
NGPL TexOk (West)	1.735	1.51-96	1.62-85
NGPL TexOk (East)	1.645	1.50-2.04	1.51-78
Tennessee, 100 leg	1.530	1.47-63	1.49-57
Texas Eastern (ETX)	1.625	1.46-99	1.49-76
Texas Gas (entire Z 1)	1.700	1.46-2.08	1.54-86
East—Houston—Katy			
Houston Ship Channel	1.670	1.55-2.15	1.55-79
Katy plant tailgate	1.625	1.50-99	1.50-75
Trunkline North	1.635	1.60-66	1.62-65
North—Texas Panhandle			
NGPL (Permian)	1.630	1.42-85	1.52-74
Northern (Mid 10)	1.505	1.43-57	1.47-54
Transwestern	1.590	1.47-74	1.52-66
South—Corpus Christi			
Agua Dulce hub	1.565	1.50-65	1.53-60
Florida Gas	1.580	1.48-72	1.52-64
HPL	1.555	1.50-60	1.53-58
Koch (Zone 1)	1.420	1.41-43	1.41-43
MidCon Tex (UTTCO)	1.580	1.57-59	1.57-59
NGPL (STX)	1.585	1.45-79	1.50-67
Tennessee	1.515	1.40-2.01	1.40-63
Texas Eastern (STX)	1.595	1.40-2.06	1.43-76
Transco, St 30	1.465	1.38-68	1.39-54
Trunkline South	1.480	1.47-49	1.47-49
PG&E-GTT (Valero)	1.480	1.47-52	1.47-49
Louisiana—Onshore South			
ANR	1.505	1.39-73	1.42-59
Columbia	1.570	1.40-2.09	1.40-74
Columbia, Mainline	1.565	1.45-76	1.49-64
FGT Z1	1.530	1.45-65	1.48-58
Z2	1.580	1.48-72	1.52-64
Z3	1.535	1.48-70	1.48-59
Henry Hub	1.645	1.50-2.00	1.52-77
Koch (Zones 2&4)	1.450	1.44-46	1.44-46
La intrastates	1.635	1.60-66	1.62-65
NGPL (La.)	1.625	1.45-95	1.50-75
Sonat	1.605	1.50-72	1.55-66
Tennessee, 500 leg	1.530	1.40-2.08	1.40-66
Tennessee, 800 leg	1.495	1.39-2.05	1.39-60
Texas E. (WLA)	1.590	1.41-2.08	1.42-76
Texas E. (ELA)	1.575	1.42-2.08	1.42-73
Texas Gas SL	1.525	1.42-2.04	1.42-63
Transco, St. 45	1.535	1.40-66	1.47-60
Transco, St. 65	1.560	1.40-2.08	1.40-72
Trunkline WLA	1.585	1.43-92	1.46-71
Trunkline ELA	1.475	1.39-65	1.41-54
Oklahoma			
ANR	1.625	1.50-88	1.53-72
NGPL (Midcont.)	1.610	1.50-95	1.50-72
NorAm (North/South)	1.610	1.53-2.01	1.53-69
NorAm (West)	1.505	1.50-66	1.50-51
Northern (Mid 11)	1.495	1.41-58	1.45-54
ONG	1.610	1.55-68	1.58-64
PEPL	1.610	1.40-2.00	1.46-76
Williams	1.575	1.52-65	1.54-61
New Mexico—San Juan Basin			
El Paso, Bondad	1.620	1.61-63	1.61-63
El Paso, non-Bondad	1.600	1.45-80	1.51-69
TW (Ignacio, pts south)	1.570	1.56-58	1.56-58

continued on next page

Gas to assume key role in Exxon-Mobil merger

Exxon and Mobil are expected to unveil today plans for a merger that would create the largest oil and gas company in the world.

In a joint statement Friday, the two oil giants confirmed reports first published in the *Financial Times* on Thursday, that they were involved in merger negotiations. "No definitive agreement has been reached. We can not give any assurance that an agreement will be reached. Beyond this statement, we have no further comment," the statement read.

If a merger takes place, it would represent the largest industrial merger in history, exceeding the proposed $54 billion acquisition of Amoco by British Petroleum.

Henry Linden, the director of the Illinois Institute of Technology, Energy & Power, said the merger would re-unite two parts of John Rockefeller's old Standard Oil trust, which the government broke up back in 1911. "This is putting back together what the antitrust laws put asunder. I think it's a very positive move," Linden said.

He said the merger would represent the two companies' response to the worldwide low oil prices and the need to consolidate resources to save money. "My expectation of world oil sup-

* See Page 5

(continued on page 6)

Louisiana pipes, Midcontinent markets hit $1.40s

The Market

As most of the country continued to bask in warm temperatures, making the first weeks of the heating season look more like the middle of spring, the market took the hint and went further south.

Swing prices for the first day of December on several Louisiana interstate pipelines broke below the $1.50 level, and some Midcontinent pipelines reached into the low-$1.40s. A late deal reportedly hit $1.40 at the Chicago citygate.

And, with more bad news for sellers, a Rockies pipeline and Midcontinent pipeline maintained warnings of possible restrictions because of high inventories. Northern Natural Gas issued a critical system overrun limitation for zones A-F in its market area effective through today at 8 a.m.

With its four storage fields more than 95% full, Colorado Interstate Gas (CIG) issued a warning before Thanksgiving, asking shippers to keep supply and nominations in balance. "We're not curtailing capacity on the pipe, but large injections are limited at this point," a CIG spokesman said. He said he couldn't comment on the possibility of an operational flow order but noted the warning would remain on the bulletin board until further notice. "The situation hasn't changed.

(continued on page 5)

Millennium urges prompt action on application

In the annual rush to get business taken care of before regulators adjourn for the holidays, Millennium Pipeline contends FERC should put its concerns first in line.

The pipeline, which would be operated by Columbia Energy Group, is urging FERC to act promptly on its application to construct a new $650 million line from Dawn, Ontario, across Lake Erie to the New York citygate. With only one meeting left before the end of the year, Millennium is asking for a place on the agenda.

"It has now been almost a year since the applications in these proceedings were filed with the commission," Millennium attorney Frederic Berner said in a letter to FERC. "Moreover, those applications seek commission approval of an important, fully subscribed pipeline project that presents comparatively few substantive issues for commission resolution."

Millennium had requested approval by Sept. 30 (*GD 6/4*). But well past that date, FERC was evidently still sorting through the issues presented by the application — enough so to send out two additional data requests.

FERC sent out requests for more information on Oct. 7 and Nov. 10, and "Millennium provided expedited responses to those data requests on Oct. 20, 1998 and Nov. 13, 1998, re-

Union Gas measures interest

Union Gas Storage & Transportation Services is holding an open season on firm transportation across its system for capacity that would be available next year through 2001, the company said yesterday.

On the downstream side, Union Gas is soliciting bids on firm capacity from its Dawn storage facility to Parkway, Ontario and Kirkwall, Ontario. On the upstream side, Union Gas is soliciting interest between its two St. Clair River points and Dawn, which would cover interest the company has received for expanding capacity out of Chicago. The company also is accepting bids on firm transportation from its interconnection with Panhandle Eastern Pipe Line at Ojibway to Dawn.

In addition, the company wants to find out how much interest there is in new transportation from Dawn to the TransCanada PipeLines' export points of Niagara, Chippawa, Wadddington and East Hereford.

"The demand for gas in the U.S. Northeast is growing at a rate faster than anywhere in the U.S.," said Garry Black, Union Gas' general manager of storage and transportation services.

The Dawn facility has 126 billion cf of working gas capacity and a deliverability of 2 billion cfd.

Union Gas plans to use the results of each of these solicitations as the basis for expansion applications with the Ontario Energy Board next year. All bids are due by Feb. 16. Union Gas will announce the status of the bids by March 12.

For more information, contact Union Gas' Mike Morrison at 519-436-5352. MH

TEPPCO closes on Duke purchase

TEPPCO Partners yesterday said it has completed its acquisition of Duke Energy Transport and Trading from Duke Energy.

"These assets provide a first step into the crude oil gathering, transportation, storage and marketing business with the necessary infrastructure and personnel to grow this segment of the energy industry," said William Thacker, chairman, president and CEO of TEPPCO. MH

Canadian Gas Assn. storage survey - Nov. 20

in Bcf	East	West	Total
Working gas	234.8	254.5	489.3
Weekly Change	-1.6	-7.5	-9.1
% of capacity	96.6%	92.2%	94.3%
Working Gas Nov. 21, 1997	203.7	218.0	421.7

Notes: Survey includes liquefied natural gas, Canadian operators of storage and Canadian companies contracting storage in the United States. East/West division based on Manitoba/Saskatchewan and N. Dakota/Minnesota borders. Although the CGA has made every effort to ensure the accuracy of the data in this report, the CGA cannot assume any responsibility for inaccuracies that may occur. Copyright 1998 CGA

La Nina still may pack a wallop, WEFA says

The current scenario of warm temperatures, full storage and low gas prices shouldn't fool the market into a false sense of security, warns consultant WEFA in its latest monthly look at gas market trends.

"The only clear message from history is that weather can swamp almost any level of storage," WEFA noted in its Natural Gas Monthly report.

While past La Nina winters have had normal temperatures on average, the weather pattern is usually highly variable, meaning there's a greater likelihood of price spikes this winter, WEFA explained.

WEFA predicts an average December Henry Hub price of \$2.25/mmBtu in the aftermarket and a three-day average close of \$2.10-\$2.25/mmBtu. Through the winter, WEFA expects the AECO-Henry Hub basis to average 25¢, while the basis for all of 1999 is predicted at about 45¢. That 1999 basis depends largely on how quickly Canadian production rises, the consultant added. SGS

Prices sink into the \$1.40s ... *(from page 1)*

If anything, it was exacerbated a little by the warm holiday weekend."

"It was pathetic," said a marketer who struggled to find market in zone SL on Texas Gas Transmission (TGT).

While Henry Hub spiraled down 20¢ into the low-\$1.50s, one trader saw cash prices at Station 65 on Transcontinental Gas Pipe Line, in zone SL on TGT, and on both Louisiana legs of Tennessee Gas Pipeline plummet into the low-\$1.40s. "I traded Henry Hub gas at \$1.65 and then at \$1.56 a couple of minutes later," he said. "I thought I was going dyslexic."

Most Gulf pipes weren't allowing payback over the weekend, said one trader who saw Monday baseload prices slide more than a nickel on some pipes. But the price movement was minimal compared to the volatility of swing prices.

One Gulf Coast marketer-producer said he only found buyers for a third of his incremental volume yesterday. "You don't very often see an inability to sell gas. ... It was hard to find people to take it at any price," he said. "Temperatures in the burn belt are 20 to 25 degrees above average."

"We did not do very much, thank goodness," said another Gulf trader. After seeing production area prices in the \$1.40s and market area prices in the \$1.60s-70s, she said they got out of the market quickly. "It was like a flashback to the 1980s," she said.

Discussion for some traders began to focus on inter-fuel spreads and speculation as to where the bottom could be for natural gas prices. Seasoned traders were drawing comparisons to the 1991-1992 winter heating season that culminated in the February contract settling at \$1.046 and cash trading below a dollar on some pipes.

Pipeline operational update

National Fuel Gas Supply has restricted its northern system points to their primary path due to current system conditions. The points included in this restriction are Niagara (010902); East Aurora (020077) and Grand Island (012003010).

Deliveries are at capacity for **Natural Gas Pipeline of America's** (NGPL) Sabine Henry Plant Vermilion (PIN 3592) located in Vermilion Parish, La. Shippers can nominate gas at the point, but NGPL will schedule the nominations on a priority basis. NGPL will notify shippers if all nominations cannot be accepted. NGPL also reached capacity at its interconnection with Texas Gas Transmission Texas Lowry, located in Cameron Parish, La.

Due to an automation upgrade, no injections are being accepted at **Northwest Pipeline's** Clay Basin until Dec. 13. Since temperatures are cooler in the Pacific Northwest, Northwest's line has recovered and is operating at a reasonable level of line pack. Northwest continues to ask shippers not to bank or draft on the system and to use storage accounts when available. RAS

"We will still have a winter, but I'm afraid it's already too late," said one Gulf Coast trader.

Futures market traders got the picture, too. On opening trades, the NYMEX January Henry Hub contract gapped down almost 14¢ yesterday to \$2.06. It bounced back to a high of \$2.22, then plummeted to a low of \$1.97. Later in the afternoon, it slipped several more cents before climbing back to \$1.976, down 22¢ from last Wednesday's close.

Thinking prices would fall off early, one Western marketer said he traded gas early on El Paso Natural Gas in the Permian Basin in the mid-\$1.70s. When he went back to trade on Transwestern Pipeline in the Permian Basin, prices on that pipe had slid into the \$1.40s.

With most Northeast utilities turning back or selling gas, prices tumbled at Columbia Gas Transmission Appalachian pool into the low-\$1.70s and into the \$1.90s for zone 6 New York

DEC - 7 1998

GAS SUPPLY

Natural Gas Week

VOLUME 14, NUMBER 49 DECEMBER 7, 1998

Late News...

Global coup. International Energy Agency (IEA) reiterates that barring implementation of new environmental policies to restrict carbon emissions, global natural gas demand will grow by 2.6% annually through 2020. If new policies are put in place, growth could be even greater.

* * *

Takes one to know... Phillip R. Sharp, who headed up Energy Department's Electricity Reliability Task Force, tells conference in Annapolis, Md., that only in Washington "would they put a politician anywhere near something called reliability." A former Democratic congressman from Indiana, Sharp now lectures at Harvard.

* * *

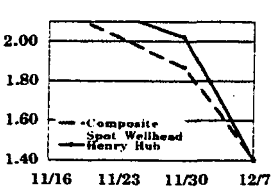
He's baaaack. Newly appointed GOPers on the panel recommend Sen. Frank H. Murkowski be chosen for third term as chairman of Senate Energy and Natural Resources Committee. Nod must be ratified by Republican Conference next month. New lawmakers added to panel — Jim Bunning, R-Ky.; Peter G. Fitzgerald, R-Ill.; Evan Bayh, D-Ind.; and Blanche Lambert Lincoln, D-Ark.

* * *

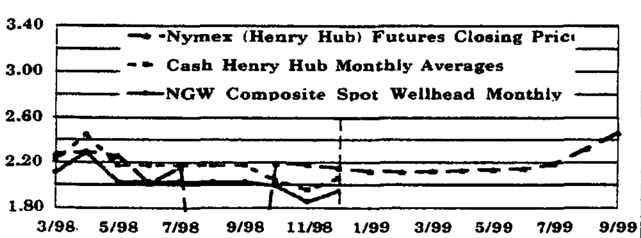
Fat chance. Branko Terzic, former member of FERC and ex-CEO of Yankee Energy Services, says of FERC proposals to liberalize secondary market at Washington conference: "I think you have a better chance of estimating rates in a market dynamic than you have of estimating what a future FERC would do."

* * *

Average Cash Prices & Futures Strip



Prices declined drastically following a stronger-than-November bid-week, and a continued soft market is expected this week.



Henry Hub Gas Falls Below $1 As Producers Hope for Frost

With every near-term factor in the natural gas market currently bearish — including plummeting oil prices quashing most opportunities for fuel switching to gas — producers now must pin all hope for rising prices on some sustained and seasonal winter weather arriving soon.

A number of bearish factors have converged. Mild weather, a large surplus of working gas in storage as compared to years past, pipelines restricting flows onto their systems due to bloated linepacks (see story, p.3), and the prospect for further increases in the storage surplus have brought about comparisons to the winter of 1994-95 when a similar situa-

See Pages 2 and 3 (continued on page 2)

Gas-Thirsty Southeast States Wait for New Pipeline Projects

While Florida is poised for an imminent boom in natural gas demand, the rest of the U.S. Southeast — with its burgeoning populations and fast-rising economies — may not be far behind in developing new gas markets.

Reacting to likely gas supply constraints in the state, the Williams Companies Inc.'s TransContinental Gas Pipe Line Corp. (Transco) is developing a new Florida pipeline system, dubbed the Buccaneer Pipeline (see story, p.16). Industry sources have speculated that the line would need around 500 MMcfd of capacity to be feasible (NGW, 10-26-98, p.5).

Florida Gas Transmission Co. (FGT) — which controls

(continued on page 8)

Pairing of 2 Big Oil Companies Also Forms Global Gas Gorilla

The pending $75 billion merger of Exxon Corp. and Mobil Corp. has generated a spate of superlatives in describing its magnitude, but somewhat overlooked so far is where the new combination ranks in the global hierarchy of natural gas players.

Mobil already is big, with global gas reserves of 17 Tcf. Exxon is gargantuan, holding some 42 Tcf. Together they create the largest privately owned gas company in the world and the only nongovernment-owned company among the top 15 reserves owners.

Already, both are major participants in North America,

(continued on page 18)

Published by Energy Intelligence Group

Exxon and Mobil Shake Hands As the Industry Gasps Aloud

Principals in the $80 billion takeover of Mobil Corp. by Exxon Corp. would shrink from the comparison, but a persuasive argument can be made that the mega-deal that rocked the petroleum industry last week is the most major defining event for Big Oil since the *Exxon Valdez* ran aground off Alaska in 1989.

There is little doubt that that environmental disaster nearly a decade ago changed the rules of the game for Big Oil. That mammoth oil spill splashed all over the public perception of the petroleum industry, marking it in the eyes of many as the global despoiler. The Alaskan oil spill remains the single biggest reason for the continuation of offshore drilling moratoria imposed by President Bush.

It isn't simply the size of the Exxon-Mobil deal that makes it so remarkable, although it is mammoth and had energy journalists last week scrambling for their thesauruses, in search of synonyms for big. Nor is it necessarily that Exxon's takeover of Mobil represents a reuniting of the two most significant entities that emerged from the Standard Oil Trust breakup in 1911, although the irony is striking.

The Exxon-Mobil pairing isn't even a seminal event — British Petroleum plc's $48 billion acquisition of Amoco Corp. is pending review by both the Federal Trade Commission and the European Commission.

What makes Exxon-Mobil a defining event is that it represents incontrovertible confirmation that Big Oil's landscape is changing — BP and Amoco wasn't a fluke — to a sector in which a few colossal companies will be able to do the deals and make the profits in an environment dominated by crushingly low oil prices.

The natural gas implications of the Exxon-Mobil pairing are considerable (see story, p.1). The merger will result in the new company emerging as the dominant gas player in the Pacific Rim. The merger also puts a potentially interesting twist in how Big Oil responds to environmental concerns, and in particular, to the global warming issue, in which gas has a ponderous stake.

Some fissures in Big Oil's solid front against environmentally driven inroads appeared to be developing into even bigger cracks with BP's emergence as an environmentally conscious company. The consensus was that those who would seek cooperative solutions with environmentalists grew stronger as a result of the BP-Amoco deal.

Exxon Chairman Lee R. Raymond, on the other hand, has been an opponent of efforts to limit carbon dioxide emissions, and a foe of global warming zealots, consistently questioning the science as well as the motivations of the loudest green doomsayers. As chairman, CEO and president of Exxon Mobil, Raymond would bring even more clout to his side in the global warming debate.

Nobody left as the winner in the *Exxon Valdez* debacle. One suspects in this case there will be winners, albeit just a few and of gigantic proportions.

—Michael K. Zastudil

Henry...

(continued from page 1)

tion weighed heavily on prices throughout 1995.

That year, the storage surplus as compared to the year before increased throughout the winter to top out at 472 Bcf on Feb. 3, 1995. Prices at the wellhead went on to average $1.45/MMBtu for that year.

Prices at the Henry Hub fell last week below the $1/MMBtu level by Friday, more than $1 less than December bid-week prices. Bid-week prices declined throughout, but still came in higher than November's bid-week.

While prices at the New York Mercantile Exchange (Nymex) for January gas are still around the $1.90-$2/MMBtu level — a far cry from the $1.65/MMBtu close of the January 1995 contract — that is still nearly 25¢ lower than when January became the near-month on Nov. 25.

Though producers can find some hope in current weather forecasts, which call for more seasonal temperatures to arrive in some areas this week, the near-term for prices will still be ugly.

Last week, several producers said that current prices were too low to sell their gas, but most talk of shut-ins is extremely preliminary.

"Our problem is, these prices are lower than the price at which we injected gas," said one Houston-based trader. "People have to withdraw their storage gas, and there's nowhere for it to go."

Though many local distribution companies (LDCs) must stick to fairly inflexible storage injection/withdrawal schedules and are currently in the midst of the traditional withdrawal season, the American Gas Association (AGA) said that during the week ending Nov. 27 a total of 8 Bcf was *injected* into U.S. underground natural gas storage facilities.

The eastern consuming region — where many strategic LDCs are located — did report a net withdrawal of 7 Bcf, but both the western consuming region and producing region reported net injections.

AGA said that stocks currently stand at 3,077 Bcf, or 95% full, and at that level there is 471 Bcf more in storage than at the same time last year. That's the equivalent of nearly eight days of total U.S. gas consumption.

That surplus should grow this week, and possibly the following week, as the comparable withdrawals for those weeks last year were 69 Bcf and 136 Bcf, respectively. By Dec. 11, the surplus will likely be more than 500 Bcf, with the total amount of working gas in storage likely higher than 2,950 Bcf. Little cold weather is expected to arrive prior to that time.

Omaha, Neb.-based Strategic Weather Services (SWS) said that colder weather will arrive Dec. 11-15.

"This will bring very cold conditions to the eastern two-thirds of the nation, which will be the first major cold outbreak of the season," SWS said. "At the same time, mild weather will dominate the West Coast."

Though this news should give some optimism to producers about price increases during that period, the expansion of the Northern Border Pipeline Co. system is expected to come on line around the same time and bring increased incremental Canadian gas supplies into the U.S. Midwest.

But there are some intermediate- and long-term fundamental factors that 0should quiet talk of a repeat of 1995.

Simmons & Co. International said that Gulf of Mexico well de-

(continued on page 3)

(continued from page 2)
pletion rates are increasing rapidly creating a necessity for increased drilling to sustain current deliverability, and the increased demand predicted for the years to come (see story, p.4).

Also, the Colorado State University hurricane forecast team said that the June 1-Nov. 30, 1999 hurricane season will be as active as the one that just ended, with 14 named storms, nine hurricanes and four intense hurricanes to form in the Atlantic Basin.

—Scott C. Speaker

Flood of Gas, Little Demand Prompt Pipelines to Issue OFOs

Too little demand in the East Coast consuming regions and too much supply coming out of the producing areas has forced several major interstate pipelines to issue operational flow orders (OFO) requiring that receipts into their systems match deliveries off the pipeline.

Texas Eastern Transmission Co. (Tetco) cannot absorb any more gas than customers take for consumption, said Richard Kruse, vice president and general counsel. Tetco is a unit of Duke Energy Corp. Consequently, the company issued a system-wide OFO.

"Because of the lack of cold weather, storage is full, and linepack is at the maximum," Kruse told *Natural Gas Week*. The OFO was scheduled to go into effect at 9 a.m. CST on Saturday.

An OFO was to become effective at the same time on the Tennessee Gas Pipeline system.

"Our pipeline and storage are packed to the rafters," said Paula Delaney, spokeswoman for El Paso Energy Corp., Tennessee's parent.

For producers and other shippers, their options are limited to shutting in gas or finding another market. "For us the issue is 'just put in what you can take out'," said Bin Halverson, general manager of marketing for Duke's northeastern pipelines group.

Tetco said supply on its system was exceeding demand by about 200 MMcfd to 250 MMcfd. The pipeline had issued alerts and informal requests to reduce deliveries to keep the system in balance, but by Thursday night, the company determined that formal action had to be taken.

"We very reluctantly issued the operational flow order," Kruse said. "It was our first in more than a year."

Penalties for failing to comply with the OFO should provide an adequate incentive to shippers. The fee on the Tetco system is $25/Dth, to be assessed daily. If a shipper, say a large marketer, is out of balance by 1 MMcfd, the penalty would be $25,000 for each day of non-compliance.

Tennessee will charge violators $15/Dth, plus other charges.

The Tetco system runs from South Texas and the Gulf of Mexico, through Louisiana, Mississippi, Tennessee, Kentucky, Pennsylvania, New Jersey and into New York City.

The Tennessee system extends from the Gulf Coast-Gulf of Mexico to Boston.

Other pipeline companies said they are monitoring their systems closely and have alerted shippers to potential problems, particularly as industrial demand drops off over the weekend.

ANR Pipeline Co., a subsidiary of the Coastal Corp., has been operating on "critical" status since Dec. 2, spokesman Joe Martucci said. Interruptible customers of ANR Storage Co. are no longer allowed to inject volumes into storage facilities.

The ANR system runs from the Midcontinent and Gulf of Mexico to Michigan and the Upper Midwest.

Southern Natural Gas Co., the pipeline unit of Sonat Inc., also was operating on "critical" status. "There's a lot of supply, and it's more than we can handle. We are trying to work within the limits of the system," spokesman Bruce Connery said.

Transcontinental Gas Pipeline Co., a subsidiary of the Williams Companies Inc., had "alerted" customers to monitor their receipts and deliveries.

Strong gas prices are one cause of the excess supply situation. Even though prices are well below year-ago levels, 30-day and longer-term gas remain above the producers' break-even threshold.

The cash market for day-to-day and shorter-term deals is much lower, around $1-$1.25/Mcf, but very small volumes are flowing at these prices.

—Barbara Shook

Inside This Issue...

Natural Gas Week

VOLUME 14, NUMBER 50 — DECEMBER 14, 1998

Late News...

Play ball. Enron Energy Services at bat as exclusive provider of electricity and energy and facilities management services for San Francisco Giants. Company signs 10-year pact for commodity component and 15-year management deal covering Pacific Bell Park in San Francisco.

* * *

Dereg strikes out. Energy Department report concluding electricity prices in Idaho would rise drastically under retail competition enough for state legislative committee to punt on restructuring. After two years of study, state lawmakers conclude retail competition won't benefit Idaho's customers.

* * *

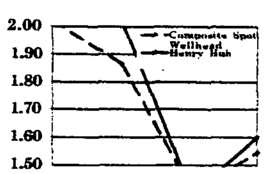
Sobering event. Nicholas J. Bush, president of Natural Gas Supply Association, tells public utility conference in Williamsburg, Va., that his first reaction to FERC Notice of Proposed Rulemaking (NOPR) in July "was to get drunk and go sit in a dark room." Bush says since NOPR, feared by some as potentially harmful to producers, is prompting discussion of key issues among all segments of gas industry, he feels much better about the initiative aimed at reviewing the short-term and long-term transportation market.

* * *

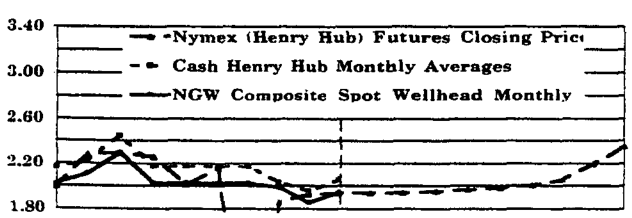
Appeal to ump. FERC this week decides whether it erred in determining Amoco Production Co. has interest in Trailblazer Pipeline Co. case. Amoco says it controlled 9% of firm capacity under capacity release that expired Oct. 31.

* * *

Average Cash Prices & Futures Strip



Though average gas prices were up for the week, prices remain weak due to record high storage levels.



FERC's Proposals Muddy Waters In Busy Northeast Gas Market

Federal Energy Regulatory Commission (FERC) proposals to radically alter the secondary pipeline capacity market likely are causing more than a few ulcers among major players in the active Northeast gas market, complicating an already complex future gas supply scenario in the region.

The Northeast is a prime example of where efforts by FERC to liberalize the gas transportation market put in peril strategies — by both pipelines and shippers — which had been decided under an already half-baked free economic scheme.

A host of new pipeline projects are in the works to feed

(continued on page 6)

Korean Need for U.S. Dollars Gives Enron Passage to Asia

Enron Corp. is expanding its presence in Asia by entering the natural gas utility business in South Korea.

The company said last week that its Enron International subsidiary had formed a joint venture with Korean industrial SK Corp., operator of Korea's largest gas distribution business and one of its major refiners.

The joint venture will own five city gas companies and a liquefied petroleum gas (LPG) importing business. The city gas companies distribute regassified liquefied natural gas (LNG). Since Korea has no domestic gas production, the LNG has to be imported.

(continued on page 5)

* See Page 2

Another Price Downturn Likely As Bullishness Melting Away

Optimism for higher prices for natural gas in 1999 is melting amid persistently mild — almost spring-like weather — throughout much of the United States, including key gas consuming regions.

After shippers got caught in a "long squeeze" when pipelines ordered them to get their accounts in balance for operational purposes (see story, p.2), prices rebounded last week, but the near-term fundamentals are still mainly bearish.

Storage stocks are at a record level for mid-December, and the surplus to last year likely will grow over the next

(continued on page 2)

Published by Energy Intelligence Group

(continued from page 1)

two weeks as last year's comparable storage reports showed large withdrawals.

Over the next two weeks — as warm temperatures and low fuel prices generally continue — the storage surplus could reach 650 Bcf as the American Gas Association (AGA) reported a net withdrawal of 271 Bcf for the same period a year ago.

The surplus currently totals 567 Bcf, or the equivalent of about nine days of total U.S. consumption, after AGA reported a seasonally unusual net *injection* of 27 Bcf, or 3.9 Bcfd, during the week ending Dec. 4.

AGA said that stocks now total 3,104 Bcf, or 96% full, after 14 Bcf injections were reported in the eastern consuming region and the producing region. Storage capacity holders reported a 1 Bcf withdrawal in the western consuming region, but even in the West — were prices have been a bit stronger than in the East — stocks are 107 Bcf higher than last year.

"If [cold] weather doesn't pick up, we could still have 3 Tcf [in storage] in January," said one trader in the Northeast. "And I don't care how cold it gets, I don't even think the deliverability is there" to get all the gas out of storage facilities by the end of March.

The Energy Information Administration (EIA), in its most recent Short-Term Energy Outlook, said that the warm weather of November and December will bring about considerably larger storage inventories for the first half of 1999.

"Given this inventory overhang, we are lowering our price projections from an annual average wellhead price of $2.10/Mcf in the previous outlook, to about $1.90/Mcf," EIA said.

Explosion Kills 2 in Minnesota

A natural gas explosion rocked a section of downtown St. Cloud, Minn., late Friday morning, leveling three buildings in the Courthouse Square area, killing two and causing numerous injuries.

The blast occurred on a Northern States Power Co. gas main. In addition to the three buildings being leveled on the northeast corner of the 100 block of 9th Ave. North, an adjacent building had its second floor blown off, according to a report by the St. Cloud Police Department.

Other buildings within a one-to-two block area also suffered broken windows and sustained superficial damage, the report said.

At press time, Northern States officials had not yet determined the cause of the blast.

"We really aren't far enough along to say why it happened," said Northern States spokeswoman Mary Heimstead.

As rescue operations got under way, Heimstead said all power and gas in the area was shut off to "make the site safe."

—**Steve Parezo**

... are not expected to appear until the fourth quarter of next year."

More bad news for producers: Lexington, Mass.-based Weather Services Corp. said that warmer-than-normal temperatures are expected in the northeastern and upper midwestern regions of the United States through this weekend.

Temperatures last week fell in some regions to more seasonal temperatures, but most sources said that storage capacity holders were pulling gas to satisfy current demand, but then injecting low-cost gas in its place.

This could lead to another lighter-than-expected withdrawal from U.S. underground storage facilities this week.

In addition to the announcement from Northern Border Pipeline Co. that its expansion pipeline will come on line this week — adding supplies to an already over-supplied short-term market — market-area sources said that many fuel switchable facilities are shunning natural gas in favor of burning cheap residual fuel oil.

Not only is resid cheap in light of the currently record-low crude oil prices, but environmental restrictions on burning that fuel are eased in the U.S. Northeast during the winter.

The convergence of these factors has put a damper on the intermediate-term optimism that market players looking for higher prices earlier voiced.

Prices at the New York Mercantile Exchange (Nymex) futures market for gas contracts for delivery in January have fallen steadily since January became the near-month.

Spot prices are now in the $1.60-$1.75/MMBtu range, while January futures prices are stuck below $1.90/MMBtu.

* * *

The "long squeeze" that occurred on Dec. 4 was largely as a result of shippers putting gas on pipes in anticipation of normal December market demand arriving.

When that demand did not arrive and pipelines noticed several over-nominated shippers when pipes and storage facilities were already packed full, those shippers were forced to take the gas off the pipes and essentially flooded the market.

Though the shippers took a nominal loss on the gas after purchasing it at around the $1.60/MMBtu level and being forced to sell it around the $1/MMBtu level, they avoid the penalties involved in being out-of-balance during an operational flow order (OFO).

—**Scott C. Speaker**

Small Boost in Demand for Gas Enables Pipelines to Lift OFOs

A drop in temperatures on the East Coast and the corresponding increase in natural gas consumption have allowed natural gas pipeline companies to lift orders limiting deliveries into their systems.

Texas Eastern Transmission Co. (Tetco), a unit of Duke Energy Corp., and Tennessee Gas Pipeline Co., a subsidiary of El Paso Energy Corp., had activated operational flow or-

(continued on page 3)

Natural Gas Week

VOLUME 14, NUMBER 51 DECEMBER 21, 1998

Late News...

Holiday shopping. Duke Energy International, international development and asset management arm of Duke Energy Corp., says it will buy Australia's BHP Power for $315 million. Jewel of acquisition is nearly 400 Mw of power generation and transmission assets in Western Australia, New Zealand.

* * *

Yule sale. Unocal Corp. sells its 9% interest in Alliance Pipeline Project to Vancouver-based Westcoast Energy Inc. for $50 million. Company cites "need to channel...cash flow and capital dollars into our core oil and gas exploration and development projects."

* * *

Part-time Grinch. FERC welcomes James J. (Jim) Apperson, former NARUC official, to ombudsman post. Acknowledging his occasional grumpiness, Commissioner Curt Hebert, in supporting pick of Apperson, says: "Whereas I *am* one to bat people over the head, I also am one to pat them on the back."

* * *

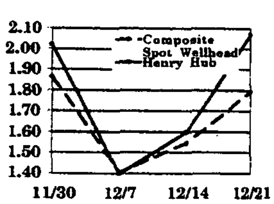
Admiral Santa. Texas Public Utility Commission says Navy can be considered wholesale customer when buying power for Texas bases. Military division can now shop for cheapest supplier rather than purchase it retail at set rate from local utility.

* * *

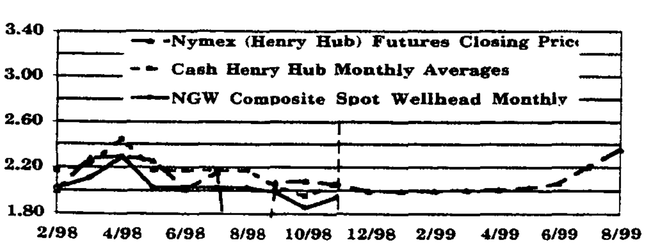
For daily gas prices and more, visit us on the World Wide Web: *www.energyintel.com*

* * *

Average Cash Prices & Futures Strip



Natural gas prices moved higher last week, but record storage levels continue to exert downward pressure on prices.



Expanded Flow of Canadian Gas Likely to Dampen Price Gains

The 700-MMcfd Northern Border Pipeline Co. expansion will begin flooding the Chicago market with natural gas this week, just in time to restrain the upward impact that colder weather normally would have on gas prices.

According to a Northern Border spokesman, the pipeline will start accepting nominations today, with delivery scheduled for start-up on Tuesday.

The new Canadian supplies, coupled with persistently bearish fundamentals represented by the gas storage overhang, likely will cancel out — or at least diminish — price gains caused by colder weather in the key consuming re-

(continued on page 6)

See Pages 6 and 7

Cash-Strapped Canada Producers Brace for Renewed Burst of M&A

The Canadian gas and oil patch is bracing for a new wave of consolidation, mirroring a trend unfolding in the United States.

While previous deals were driven largely by the expectation of higher natural gas prices, new ones will come by desperation as companies run short of cash, Calgary executives said.

Dramatic changes have occurred in the Canadian energy market, thanks to the oil price slump and the 700-MMcfd Northern Border Pipeline Co. expansion and proposed 1.3-Bcfd Alliance Pipeline project providing new export markets — and higher asset valuations — for natural gas.

(continued on page 9)

Reports Hint at E&P Pullout As Enron Focuses on Marketing

Indications that Enron Corp. may be leaning toward selling its 53.5% stake in Enron Oil and Gas Corp. (EOG) have prompted analysts to conclude that Enron has decided to abandon its involvement in exploration and production (E&P) to focus on its natural gas and power marketing businesses at home and abroad.

In a filing last week with the Securities and Exchange Commission (SEC), Enron said it had "received an unsolicited indication of interest from a third party" to acquire its stake in EOG.

Since the filing, speculation about potential buyers has fo-

(continued on page 7)

Published by Energy Intelligence Group

F-T Fuels...

(continued from page 5)

crudes and other solids and heavy liquids, speakers at the conference used "F-T products" to describe the output of the process rather than GTLs.

Integrating F-T projects with existing infrastructure is vital in a low-oil-price environment, speakers stressed. This is an even greater imperative for facilities that use solids and heavy liquids as feedstocks, but gas-based projects also gain substantial cost-related benefits.

Zeus Development Corp. of Houston sponsored the gas monetization conference.

—Barbara Shook

FERC Defends Settlement Policy, Denies Call for 'Valet Service'

The Federal Energy Regulatory Commission (FERC) painstakingly clarified last week how it handles and resolves proposed settlements where not all parties agree on the outcome.

"Contrary to the assertions of the parties on rehearing, [last week's] order does not adopt a new standard for ruling on contested settlements, but is consistent with the standards...for Commission rulings on settlements," FERC said in its draft order. The Commission reaffirmed a prior order in the case and denied requests for rehearing.

The case involves proposed rates and a subsequent settlement filed by Trailblazer Pipeline Co., which serves the Midwest gas market from southwestern Wyoming to central Nebraska.

The settlement was contested by Amoco Production Co. — which owns production behind the pipeline and has an economic interest in Trailblazer's rates — and was remanded by FERC to an administrative law judge (ALJ) because of lingering objections (NGW, 10-19-98, p.2). But parties, including Trailblazer and the Interstate Natural Gas Association of America, requested rehearing of the October order because they thought it represented a change in FERC's policy for dealing with contested settlements.

FERC's draft order contains a comprehensive review of the Commission's regulations and court decisions on cases involving settlements. It also describes several approaches FERC has taken when ruling on contested settlements.

Generally, FERC must decide if there's an adequate record on which to make a decision, whether the settlement's outcome will be "just and reasonable," whether its benefits outweigh the objections by contested parties and whether it's better to sever a contesting party from the settlement. FERC said this last approach gives contesting parties "a litigated result on the merits, while contesting parties receive the benefits of their bargain."

Despite these considerations, however, FERC decided that comments it received from the parties involved didn't provide "an adequate basis to approve the settlement under any of the four possible approaches."

Given FERC's reaffirmation of its order and rehearing denials, Lawrence Brenner, the ALJ assigned to the case, suggested in a Dec. 16 letter that parties file supplemental comments on FERC's order by Jan. 5, 1999. He also suggested that if the parties want to revise the settlement or propose a different solution, they must do so as soon as possible.

Also last week, FERC:

- Rejected a rate schedule and proposed valet service sought by Transwestern Pipeline Co. that would have given shippers more flexibility in transporting natural gas supplies. The service would "allow shippers on Transwestern to hold a confirmed receipt for a short period of time until they are able to link up receipt nominations with a corresponding market."

But marketers on the pipeline, namely Dynegy, argued the service would degrade transportation service and interfere with the nomination process. "[T]he proposed valet service is in essence a repackaged title-transfer service designed to rectify a recent problem that has arisen due to a lack of cooperation between pipelines and point operators," said FERC's draft order.

—Victoria K. Green

Expanded...

(continued from page 1)

gions of the Northeast and Midwest.

Although much has been made of an expected gas supply shortfall in the Western Canadian producing region, analysts agree that enough Canadian gas remains in storage — supplies there are brimming at over 90% of storage capacity — to keep the expansion filled through the winter heating season.

Forecasters are calling for a downturn in temperatures. According to Lexington, Mass.-based Weather Services Corp., temperatures in the Midwest will average 10-20 degrees below normal through the week.

In the long term, the Northern Border expansion is expected to have a multilayered effect on gas prices. Most analysts have called for a "squeezing of the differentials" between Alberta and Henry Hub prices — historically around 80¢ — to between 30¢-60¢ (NGW, 9-14-98, p.1), as prices rise in Alberta and fall at the Henry Hub from less demand for its gas.

While Alberta producers will reap the benefits of new outlets for their gas, suppliers in the Mid-Continent, South Texas and Gulf Coast producing regions likely will bear the brunt of turn-backs — and lower prices — as the new Canadian gas displaces supplies otherwise headed for the Midwest.

(continued on page 7)

MAJOR MARKET PRICES

December 21, 1998
($/MMBtu)

	This Week	Weekly Change	Bid Week for December
Chicago City Gate	1.97	+0.21	2.27
New York City Gate	2.18	+0.25	2.25
Houston Ship Channel	1.94	+0.25	2.03

NOTES: (1) Chicago City Gate prices are for gas delivered via interstate pipelines to Chicago's local distribution companies. (2) New York City Gate prices are for gas delivered to local distribution companies in New York City via interstate pipelines. (3) Houston Ship Channel prices are for gas delivered to the Houston Ship Channel. All prices are volume-weighted.

Prices in the Rockies, meanwhile, should receive a lift as they increasingly penetrate West Coast markets. A decrease of Canadian exports along the Pacific Gas Transmission Co. and Northwest Pipeline Corp. systems is expected as those supplies now head for Midwest markets.

The effects of the Northern Border expansion aside, the most dominant factor in the market remains the bulging storage surplus, which has mitigated any near-term bullish sentiment related to more seasonal weather-driven demand.

After an unprecedented two-week net injection, the American Gas Association (AGA) reported a 49 Bcf net withdrawal from storage stocks for the week ending Dec. 11. AGA said stocks now total 3,055 Bcf, or 94% full.

Storage capacity holders reported a 19 Bcf withdrawal in the eastern consuming region, while storage supplies fell 16 Bcf in the producing regions. Storage in the western consuming region — the only area of the country to have experienced extensive colder-than-average weather — fell 14 Bcf, and now stands at 89% of capacity.

Most sources had expected a net 20-30 Bcf withdrawal before the storage numbers were announced. Yet the higher-than anticipated storage pull had an only marginal positive effect on prices, reflecting the prevailing bearish sentiment of the market.

The year-over-year storage surplus now totals 654 Bcf, or the equivalent of about 10 days of total U.S. consumption. Although last week's colder weather likely will produce a larger withdrawal in the newest survey, the surplus should continue to rise as AGA reported a hefty 135 Bcf withdrawal for the corresponding period last year.

Market watchers can at least take solace in the arrival of near-term colder weather. Along with significantly colder weather in the Midwest, the key Northeast consuming region will see temperatures 5 to 10 degrees below normal by the end of the week, according to Weather Service Corp.

The 30-day forecast calls for average to above-average temperatures across the country, with only the low-consuming Northwest region to see higher-than-average temperatures.

The impact of the storage overhang and bearish sentiment is most prominent in the futures markets. Only about 6¢ separates the price at the New York Mercantile Exchange (Nymex) for gas delivery in January and February versus uninterrupted delivery in June, indicating that the market has thoroughly discounted the beneficial effects of any heavy weather-driven price spikes this winter.

Spot prices are now in the $1.85-$2/MMBtu range, while January future prices are trading around $2.06/MMBtu.

—Andrew H. Ware

Report...

(continued from page 1)

cused on Burlington Resources Inc. But Enron and Burlington both said they wouldn't comment on market rumors.

Industry analysts also theorized how Enron — a highly diversified company — would spend the proceeds if a sale was made.

In addition to its gas and power marketing businesses, Enron also has moved into the global water business with its Azurix subsidiary. The company also continues to expand abroad with its Enron International subsidiary. And Enron Communications is building fiber-optic networks throughout the United States.

But it's in the gas and power marketing businesses where the company dominates.

Enron continues to rank among the top North American gas and power marketers. According to *Natural Gas Week*'s third-quarter rankings (NGW, 11-16-98, p.1), Enron had gas sales of 11.4 Bcfd, ahead of PG&E Corp.'s 11.1 Bfcd. On the electric side, Enron's wholesale power volumes of 163 million MwH were only slightly less than the combined sales of the next three largest electricity marketers.

Enron said in the filing that a potential deal would involve a third party acquiring Enron's shares of EOG and all the remaining outstanding shares of the subsidiary. In addition, Enron said a deal would involve selling "certain other assets" not owned by EOG to the third party.

Burlington is at the top of a list of potential buyers, said Stephen A. Smith, an analyst with Dain Rauscher Inc. The company has recently expressed interest in making an acquisition, Smith added.

In the filing with the SEC, the interested party expressed interest in certain other assets not owned by the Enron subsidiary.

Bob Morris, a managing director and E&P company analyst for PaineWebber Inc., said because these other assets were mentioned in the filing, the bidder obviously is interested in non-E&P related assets. And Burlington wouldn't be interested in anything but E&P assets, he added.

EOG's likely suitor is probably not another independent E&P company, he said. The interested party may be an international company that is interested in the "other" assets not owned by EOG.

Analysts expect a successful bid for EOG to require a handsome premium. Many analysts say Enron would probably demand a price of at least $20/share. The company's stock currently is trading at about $16/share.

If a sale is announced and eventually completed, there is-

(continued on page 8)

1998 Gas Price Outlook

December 21/Week 51

Wellhead	Delivered-to-Pipeline
$1.98	$2.15

NOTES: (1) Prices are in $/MMBtu and are for the calendar year. The cash-price component comes from volume-weighted averages. (2) The **Delivered-to-Pipeline Outlook** price is based on *Natural Gas Week*'s monthly and weekly composite spot delivered-to-pipeline prices (published the first Monday of each month) for historical prices; the natural gas futures current month closing price; and each Friday's futures settlement prices for whatever months remain in the year. (3) The **Wellhead Outlook** price is constructed similarly, using monthly and weekly composite spot wellhead prices for past months and weeks, plus futures-contract prices for the out months, minus a historical differential (13¢) between delivered-to-Henry Hub prices and wellhead prices as published in *Natural Gas Week*. (4) Futures prices are provided by the New York Mercantile Exchange and published weekly in this newsletter.

12-Month Natural Gas Futures Strip

NYMEX	KCBT
$2.077	1.914

NOTES: The "12-Month Natural Gas Futures Strip" is a simple average of one year's worth of futures settlement prices. The average price indicated is based on Friday afternoon closing prices for the next 12 contract months.

FINANCIAL TIMES Energy

Thursday, March 4, 1999

Fax Edition — 6 pages

Gas Daily®

Attention: Lizabeth Marr

Daily Price Survey

Listed in the left column are the midpoints of the daily ranges for the most common prices, paid in $/mmBtu of a typical volume of 5 thousand mmBtu. The middle column shows absolute low-high prices for transactions reported on the date at the top of the column; the third column shows that day's ranges for the most common prices. The prices are generally for gas flowing today; weekends are usually priced using data collected Friday. Ranges are for deals done before nomination deadlines. Boldface indicates the price range is based on data reported the previous day. Plain type indicates insufficient data to reconfirm or change the previous range. The common range is built around the volume weighted average and the midpoint is calculated for the common range. Data in this table is Copyright 1999 by FT Energy.

NATIONAL AVERAGE PRICE: $1.620***

Trans. date	3/3	3/3	3/3
Flow date(s)	3/4	3/4	3/4
	Midpoint	**Absolute**	**Common**
Permian Basin Area			
El Paso	1.525	1.48-64	1.51-54
Northern (Mids 1-6)	1.490	1.45-57	1.46-52
Tex intras, Waha area	1.565	1.54-60	1.55-58
Transwestern	1.540	1.51-55	1.53-55
East Texas—North La. Area			
Carthage Hub tailgate	1.600	1.59-63	1.59-61
Koch (Zones 1&2)	1.515	1.48-61	1.48-55
Lone Star	1.510	1.48-52	1.50-52
MRT mainline	1.665	1.65-68	1.66-67
MRT west leg	1.620	1.60-64	1.61-63
NGPL TexOk (West)	1.620	1.60-64	1.61-63
NGPL TexOk (East)	1.615	1.56-63	1.60-63
Tennessee, 100 leg	1.625	1.61-64	1.62-63
Texas Eastern (ETX)	1.595	1.58-64	1.58-61
Texas Gas (entire Z 1)	1.650	1.64-67	1.64-66
East—Houston—Katy			
Houston Ship Channel	1.650	1.60-68	1.63-67
Katy plant tailgate	1.605	1.57-63	1.59-62
Trunkline North	1.635	1.62-65	1.63-64
North—Texas Panhandle			
NGPL (Permian)	1.540	1.53-56	1.53-55
Northern (Mid 10)	1.470	1.46-50	1.46-48
Transwestern	1.540	1.51-65	1.53-55
South—Corpus Christi			
Agua Dulce hub	1.600	1.59-63	1.59-61
Florida Gas	1.635	1.62-66	1.63-64
HPL	1.600	1.58-62	1.59-61
Koch (Zone 1)	1.525	1.51-54	1.52-53
MidCon Tex (UTTCO)	1.580	1.57-59	1.57-59
NGPL (STX)	1.610	1.58-62	1.60-62
Tennessee	1.590	1.56-62	1.58-60
Texas Eastern (STX)	1.570	1.56-68	1.56-58
Transco, St 30	1.610	1.58-62	1.60-62
Trunkline South	1.625	1.59-64	1.61-64
PG&E-GTT	1.530	1.52-54	1.52-54
Louisiana—Onshore South			
ANR	1.625	1.60-66	1.61-64
Columbia	1.645	1.62-68	1.63-66
Columbia, Mainline	1.690	1.68-70	1.68-70
FGT Z1	1.635	1.62-66	1.63-64
Z2	1.680	1.65-69	1.67-69
Z3	1.640	1.62-66	1.63-65
Henry Hub	1.670	1.66-70	1.66-68
Koch (Zones 2&4)	1.555	1.53-59	1.54-57
La. intrastates	1.675	1.67-68	1.67-68
NGPL (La.)	1.635	1.59-65	1.62-65
Sonat	1.685	1.66-71	1.67-70
Tennessee, 500 leg	1.615	1.59-65	1.60-63
Tennessee, 800 leg	1.610	1.59-64	1.60-62
Texas E. (WLA)	1.595	1.57-63	1.58-61
Texas E. (ELA)	1.605	1.57-63	1.59-62
Texas Gas SL	1.650	1.63-68	1.64-66
Transco, St. 45	1.645	1.63-67	1.64-65
Transco, St. 65	1.675	1.65-71	1.66-69
Trunkline WLA	1.665	1.66-68	1.66-67
Trunkline ELA	1.600	1.57-64	1.58-62
Oklahoma			
ANR	1.580	1.52-61	1.56-60
NGPL (Midcont.)	1.570	1.53-61	1.56-59
NorAm (North/South)	1.560	1.53-62	1.54-58
NorAm (West)	1.545	1.51-58	1.53-56
Northern (Mid 11)	1.490	1.47-55	1.47-51
OGT	1.570	1.55-59	1.56-58
PEPL	1.575	1.51-61	1.55-60
Williams	1.570	1.53-60	1.55-59
New Mexico—San Juan Basin			
El Paso, Bondad	1.480	1.47-49	1.47-49
El Paso, non-Bondad	1.480	1.45-60	1.47-49
TW (Ignacio, pts south)	1.460	1.45-47	1.46-47

continued on next page

Palmetto to reach south-central N.C. by 2002

Power generation demand should bring natural gas service to parts of the Carolinas for the first time after Southern Natural Gas (Sonat) and Carolina Power & Light (CP&L) said yesterday they would build a new 175-mile interstate system, the Palmetto Interstate Pipeline.

Palmetto will stretch from the terminus of Sonat's system in Aiken, S.C., northward to an interconnection with North Carolina Natural Gas (NCNG) in Robeson County, N.C. The 30-inch pipeline is expected to carry 200 million-300 million cfd initially, and be on-line in April 2002. Sonat and CP&L are 50/50 joint venture partners in the project, which is expected to cost $200 million-$250 million.

Palmetto will bring pipeline competition to the region for the first time, with eastern North Carolina historically served by laterals off Transcontinental Gas Pipe Line.

CP&L is driving the Palmetto project with its ambitious plans for expanding power

(continued on page 6)

Cash, futures traders fight to stay awake

The Market

Traders yesterday reported a lackluster, uneventful day ("spelled b-o-r-i-n-g," one trader said), with little movement in prices in the production areas or in the market areas.

Prices held pretty steady with Tuesday's indices across North America. A Gulf Coast trader noted that one distinction yesterday was prices held up at the end of trading instead of softening.

"Prices seemed to start at yesterday's midpoint," said a Gulf Coast trader. "There seems to be very little movement."

"It's a three-cent range, baby," said another Gulf Coast marketer. "Once the first trade of the day is done, prices seem to settle into a three-cent range and stay there for that day."

A team of Northeastern traders working the Gulf Coast and the market areas spent the day looking at flat numbers and a lack of volatility. "Everything is remarkably tight by historical

See Page 5

(continued on page 5)

Nicor files for performance-based rates

Nicor Gas is once again proposing a performance-based rate (PBR) mechanism to state regulators, after some changes to state law made such experimental rate programs more attractive to Illinois utilities.

Nicor proposes to compare its actual yearly gas costs to a market-sensitive benchmark. Amounts above and below the benchmark, up to $30 million, would be shared with customers. Amounts in excess of that amount, either savings or losses, would be split 90% customers/10% shareholders.

"The $30 million threshold reflects Nicor Gas' judgment as to the level of risk that the company can reasonably assume under this program," the distributor told the Illinois Com-

(continued on page 5)

PG&E Gas Transmission lays off 10% of staff

PG&E Gas Transmission (PG&E GT) has laid off approximately 100 employees, about 10% of its workforce, as part of a reorganization of its gas transmission business in the Texas and Pacific Northwest regions.

A PG&E GT spokesperson said the layoffs affected employees in the company's Portland, Ore., San Antonio and Houston offices. She said the job cuts did not focus on any particular group of employees, but were made across the board.

The job reductions grew out of PG&E GT's restructuring program conducted under Thomas King, who was named as president and chief operating officer of the company last November (*GD 3/1*). "That was not the focus of this effort," she said. "We were looking at where efficiencies could be achieved."

The company provided severance packages and job counseling to the laid-off employees.

Workers to rally in Santa Fe

Oilfield service workers and independent oil and gas producers in New Mexico are planning a rally at the state Capitol in Santa Fe on Saturday to call attention to their industry's plight.

Tom Nance, executive director of the Independent Petroleum Assn. of New Mexico, said the event is being billed as "the Rally at the Roundhouse," after the nickname for the Capitol building.

The state legislature has scheduled a joint session of the House and Senate to consider the crisis facing the oil and gas industry, Nance said.

The rally comes on the heels of a gathering of workers and former workers from the oilfield supply and service industry on Feb. 27 in Hobbes, N.M.

Organizers expect the Santa Fe rally will attract 2,500 from all segments of the industry. "A publicity campaign is being put together by oilfield workers and supply company personnel," he said.

Organizers hope to attract representatives from across the state. New Mexico is home to two distinct producing areas.

The Permian Basin in the southeastern portion of the state is a predominantly oil-producing region, while the Four Corners region in the northwestern part of the state is primarily a gas-producing region.

State-level oil and gas associations in the nation's producing regions are beginning to get organized around a call for political action to address the industry's troubles. Earlier this year, gas and oilfield workers rallied at the Texas state Capitol in Austin.

In addition, the Louisiana Independent Oil and Gas Assn. is planning a similar event in Baton Rouge on March 31, aimed at sending a message to politicians both on the state and national levels. JM

Big Bear seeks protection

Canadian natural gas producer Big Bear Exploration has asked Canadian courts for protection from its banking creditors as it tries to reorganize in the wake of plummeting stock prices.

The Calgary-based company has seen its market capitalization fall 92% to just $15 million following its hostile takeover of Blue Range Resources for $134 million two months ago. At the time of the takeover, the two were worth $176 million.

Big Bear will be seeking the Canadian equivalent of Chapter 11, called the Companies' Creditor Arrangement Act, that would keep at bay its major creditors — the National Bank of Canada, the Royal Bank of Canada and First National Bank of Chicago. PM

Nicor petitions for PBR ... *(from page 1)*

merce Commission (ICC). "Sharing would provide significant benefits to customers from savings and would impose substantial penalties on the company for performance which is not up to benchmark levels."

The benchmark includes four components: published Chicago citygate index prices: Nicor storage injections and withdrawals; annual fixed costs to reserve firm transportation and buy storage services; and an adjustment to reflect the historical variation between the actual annual commodity gas costs and market index costs after removing the variation due to storage and fixed delivery costs.

Nicor said it had three major objectives under a PBR program:

- Provide economic incentives for the distributor to provide customers with the best gas prices available, while continuing reliability and security of supply.
- Encourage the use of competitive market opportunities and risk management mechanisms for procurement of gas supply, transportation and storage services.
- Lower regulatory costs by establishing an objective standard for evaluating gas supply purchasing, planning and management, which would eliminate after-the-fact prudence reviews.

Under the PBR, an annual prudence review would not be necessary, and Nicor proposed its elimination. Nicor requested the program be made effective beginning Jan. 1. SGS

Cash trades flat to Tuesday ... *(from page 1)*

standards," one trader explained, "mainly because the market areas are so low due to mild weather and the huge storage overhang."

"Supply seemed to be a little tighter on Transcontinental Gas Pipe Line (Transco) Station 65 and Columbia Gulf onshore," a Gulf Coast trader said. "Everything else is trading like last month, in a real narrow range."

The promise of colder weather in the Midwest this weekend did not lift cash in the Midcontinent, where gas traded at prices about flat to Tuesday. A trader saw plenty of buyers on ANR Pipeline southwest and Panhandle Eastern Pipe Line, adding, "a lot of people went short into the month." But otherwise, the day was a "blah" one, he added.

In an equally dull day of little activity, the NYMEX April Henry Hub contract opened at $1.71, up 1.4¢. During the morning, the contract hit a high of $1.72, up 2.4¢, and a low of $1.685, down 1.1¢. Around noon the contract hit a new high of $1.722, up 2.6¢. Later in the afternoon, it faded a couple cents, and then made a late run up to a new high of $1.725 before settling at $1.723, up 2.7¢.

The Western cash market got a midmorning kick yesterday when Pacific Gas & Electric called an operational flow order (OFO) for today's gas flow. The OFO, called for low linepack, has a 7% tolerance and carries a $1/dth penalty.

Word of the OFO had traders prowling the San Juan for supply and gave a slight boost to prices on El Paso Natural Gas. In the San Juan Basin, a trader said that offers started at around $1.47-48 while bids were at $1.44-45, and most of the activity was around $1.46-465. Some of those who were holding out for lower prices were squeezed at the end when it went up to $1.49.

Little effect was reported in the Permian Basin and at the California Border. "It was kind of unusual. You'd have thought it would have done something late," said one trader. But it didn't surprise others. "I don't think you're going to see a lot of movement this month unless it's on the downside," another trader said.

Many traders said the most surprising thing about the OFO was the cause — low receipts

Pipeline operational update

Last October Hurricane Georges led **Southern Natural Gas** to implement a type 1 operational flow order (OFO) for various receipt points upstream of the Toca compressor station. Southern has canceled the OFO for Main Pass 151. The following receipt points, however, must remain under the OFO: Coquille Bay No. 3; Coquille Bay No. 4 and Main Pass 77.

A 26-inch line failure occurred last week on Williams' **Northwest Pipeline** near Stevenson, Wash., due to land movement from heavy rainfall. Williams restored service to Northwest Natural Gas and Avista Utilities Monday. Northwest Natural customers, however, continue to receive alternate energy supplies from Northwest Natural.

In order to restore service to Northwest Natural in the North Bonneville, Wash., area, Williams is installing a temporary 16-inch pipeline. At the same time, Williams continues to work with geo-technical experts to create a permanent reroute of the 26-inch pipe away from the land movement. RAS

Ameren enters retail market

Ameren Energy said yesterday it is entering the industrial/small commercial retail market by offering gas-related services and products in eastern Missouri and southern Illinois.

The range of services offered by the St. Louis-based firm includes transportation brokering and risk management services through indexed, basis, swap and hedge pricing vehicles.

Ameren Corp. was formed two years ago by the merger of Union Electric and Central Illinois Public Service, and its Ameren Energy unregulated business unit was formed about a year ago. SGS

El Paso closes generation deal

With FERC's qualifying facility (QF) recertification in hand, CalEnergy yesterday completed the sale of 50% of its ownership stake in subsidiary CE Generation's generation assets for $259.6 million to El Paso Energy.

At least 50% of CalEnergy's stake in 14 QFs had to be sold under FERC's approval of the company's planned merger with MidAmerican Energy. The plants offer a capacity of 896 MW in facilities located in southern California, New York, Pennsylvania, Texas and Arizona.

El Paso will also assume 50% of CalEnergy's required project equity contributions totaling $23.5 million for two CE Generation facilities currently under construction.

"Through the CE Generation acquisition, we have effectively tripled the size of our domestic power generation assets," said Greg Jenkins, president of El Paso Services Holding Company, which will operate the facilities. CS

Alcoa buys into C.C. Pace

Alcoa, the aluminum manufacturer, has acquired a 50% interest in privately held C.C. Pace Energy Services, an energy management and consulting firm headquartered in Fairfax, Va. The joint venture company will be called Pace Global Energy Services. Terms of the deal were not disclosed.

"Alcoa has always been proud of its heritage as a leader in energy issues within the industrial sector. This step further recognizes the strategic importance of energy to Alcoa," said Randy Overbey, president of the Energy Division, within Alcoa's Primary Metals business unit. "Our joint venture with Pace will enable us to implement innovative cost-reduction strategies for our own facilities and participate in the growing market for value-added energy services."

Founded in 1979, Pace's staff of 125 provides energy management and consulting services to industrial clients, power developers and operators, municipals, lending institutions, and energy companies. MH

into the system. But Pacific Northwest players said Canadian supplies are thinning because of depressed Northern California prices. As long as Malin is only about a dime over AECO-C, it will be hard to justify the transportation costs. Also, cooler weather has increased demand in western Canada, keeping more supply at home.

Rockies prices at Opal, Wyo., rose in late trading as the spread with Sumas, Wash., widened to about a dime.

Meanwhile, this week's weather may continue eating into the storage overhang, sources said. More seasonal temperatures are expected in the market areas today through Sunday with highs only reaching into the mid- to high-30s in Chicago for the period. Snow is forecast there for the weekend. The Northeast should top out in the 40s in the New York area and go even lower over the weekend in Boston, where snow flurries are possible on Saturday.

The long-term forecasts call for below-normal temperatures in the Eastern markets through most of next week.

April basis continues to weaken in the Northeast as it has for the past couple of days in light trading. "Nobody wants to step out and take a position," said one broker.

Transco zone 6 for New York delivery bid-ask is being quoted at plus 23.75¢-24.5¢ for paper. "It's pretty anemic," said another trader.

"Look what's happening in the crude oil market today," said a futures trader. "Then get ready. We should see the same kind of thing in natural gas. Domestic production of marginal oil wells is down significantly," he added. "The same kind of thing is happening in natural gas. As always when trying to find the bottom of a market, timing will be the difficult thing."

Prices for gas into Transco zone 6 for New York delivery were attractive enough that a buyer paid $1.96 in a rest-of-the-month deal. RS/TH/KB/DMB/ER/MK

Sonat, CP&L unveil Palmetto ... *(from page 1)*

generation capacity in the Carolinas, particularly after it closes a planned purchase of NCNG by the middle of this year. CP&L says it plans to add some 4,000 MW of new gas-fired generation capacity to the region by 2007, and will subscribe to about half the volume of the Palmetto system.

Palmetto's success "really is about CP&L's commitment to power generation in the region," said Sonat's Bruce Connery. "It provides the demand necessary to make this project work."

Sonat will hold an open season for Palmetto soon, with a FERC filing expected by the end of the year. Final capacity and routing will be determined after the open season.

To provide the Palmetto capacity, Sonat plans to add pipeline looping and new compression along its existing system from Mississippi to South Carolina at a price tag of about $200 million.

"The development of the Palmetto Pipeline reflects the nationwide movement to fuel new power plants with natural gas. This movement is particularly strong in the Southeast," said Sonat President Jim Yardley. "Expansion to North Carolina has been a key part of our strategic plan for some time, and we're proud to partner with CP&L in this project."

In an unrelated development yesterday, Sonat told stock analysts at a New York energy conference it expected to take a $200 million charge to its first quarter 1999 earnings due to lower reserve values related to the drop in natural gas prices since December. The company's full-cost accounting requires that oil and natural gas reserves be valued quarterly against current prices.

Sonat also detailed the company's future pipeline strategy as taking advantage of burgeoning power demand throughout the Southeast.

CP&L said it is considering sites in North Carolina and northeastern South Carolina for new electric generation served by Palmetto. The utility is building peaking generation at existing sites in Wayne and Buncombe counties in North Carolina. The company announced last month it is considering adding peaking plants in Richmond and Rowan counties, N.C. CP&L also is surveying sites in the Carolinas for natural gas-fueled combined-cycle plants, and expects to make an announcement on a plant in the near future.

"Ensuring that we have a reliable supply of efficiently priced and environmentally compatible natural gas is important for our customers because those efficiencies help keep their electric rates stable," said Tom Kilgore, CP&L's senior vice president for power operations.

For more information on Palmetto and the open season, call 1-800-224-9918, or see the companies' Web sites at www.sonat.com and www.cplc.com. SGS

Natural Gas Week

VOLUME 15, NUMBER 12 MARCH 22, 1999

Late News...

Final hurdle. Federal Trade Commission (FTC) gives thumbs-up to CMS Energy Corp.'s $2.2 billion acquisition of Panhandle Eastern Pipe Line Co., Trunkline Gas Co. and Trunkline LNG Co. from Duke Energy Corp.

* * *

Live from Houston. Altra Energy Technologies Inc. demonstrates fully integrated physical, administrative, financial management system after announcing agreement to acquire Atlanta-based Energy Imperium, provider of energy-related commodity trading, risk management software.

* * *

Deputized. Federal Energy Regulatory Commission (FERC) names Cynthia A. Marlette deputy general counsel, replacing David N. Cook, who left last month to become general counsel of North American Electric Reliability Council. Marlette at FERC since 1979, most recently as associate general counsel for hydroelectric, electric issues.

* * *

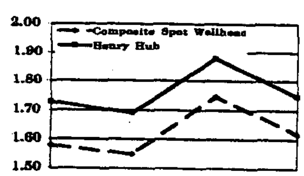
Filling big shoes. Senate confirms T. James Glauthier, Clinton administration pick for Department of Energy deputy secretary. Glauthier replaces Elizabeth Anne Moler, now partner at Vinson & Elkins law firm in Washington.

* * *

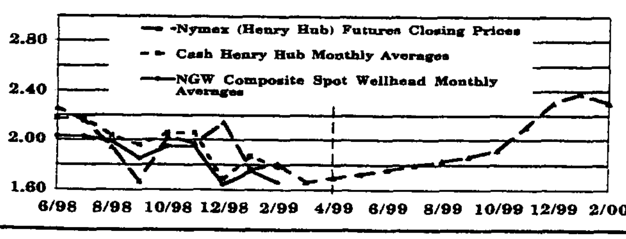
Take that. El Paso Natural Gas Co. slaps back at regulators' charge that Dynegy Inc. capacity hoarding caused California border price runup in second-half 1998. El Paso says regulators ignore facts in forming opinion, give undue preference to LDCs.

* * *

Average Cash Prices & Futures Strip



Gas prices took a downturn last week on milder weather and the continuing storage surplus. Expect more of the same.



Restructuring of Gas Industry Whittles Roster of Companies

First, the midstream gas companies, the gatherers-marketers-processors, started to disappear. Either they were acquired, like TPC Corp., Tejas Energy Corp. and the Valero Energy Corp. natural gas operations, or they evolved into energy services companies along the lines of Dynegy Inc.

Now, it's the integrated natural gas pipeline companies whose ranks are diminishing. In the past month alone, three interstate pipelines have been acquired by bigger energy partners.

Most recently, El Paso Energy Corp. is acquiring its sec-

(continued on page 2)

Pipeline Capacity's True Value Key to Picking Right Proposals

How is pipeline capacity accurately valued? The answer holds far-reaching consequences in determining which pipeline proposals the future gas market can support, as well as in gauging the impact of proposed changes by the Federal Energy Regulatory Commission (FERC) to the secondary capacity markets.

One means of measuring the potential need of new pipeline capacity is through the basis differential between a consuming and producing region. If the basis is wider than the reservation and maximum tolling charges of new capacity, then this demonstrates the need for new pipe infrastructure.

(continued on page 18)

Bulls Eye Summertime Demand As Winter Loses Hold on Market

With winter of 1998-99 having arrived at its meteorological finish line over the past weekend, and chances diminishing of much more cold weather on the immediate horizon, the market's attention is getting ready to shift to expectations of warmer temperatures to help drive natural gas demand.

Prices are likely to snooze in the $1.60s/MMBtu and $1.70s until the mild weather of spring is overtaken by summertime heat in regions where peaking needs are met by natural gas.

But those days are not yet on the radar screen.

(continued on page 7)

Published by Energy Intelligence Group

(continued from page 6)
customers, companies have been scrambling to make their sales pitches heard. Marketers have been hitting the airwaves, going door-to-door and even trying on-line promotions in an attempt to sign up customers.

Shell may have the brand name, but name recognition and brand awareness can be built fairly quickly, said Roger Schrum, general manager of marketing communications for Scana Energy Marketing Inc., another Shell competitor in Georgia.

"Brand name is significant, but we've had a very strong offer," he said.

One year ago, most of Georgia didn't know who Scana was, he said. But through aggressive advertising efforts, coupled with loose sign-up terms and a discounted first month gas bill, Scana has quickly created name recognition, Schrum said.

Scana's strongest sales tool, he said, is its offer to reduce a new customer's first bill by $50. Scana has about 220,000 customers out of the 1.4 million in the program, numbers that point to the success of the company's advertising efforts and $50 offer. Scana has been receiving about 40%-50% of those customers that have been switching gas suppliers, he estimated.

"People recognize the value of a $50 offer," he said.

Shell has been very aggressive on the commercial side, Schrum admitted, but its offer on the residential side hasn't been as strong. Upon sign up, new Shell gas customers can choose between free video rentals from Blockbuster Video or a home-safety kit.

In recent years, Chevron Corp., Mobil Corp. and Atlantic Richfield Co. pulled out of the direct marketing business through joint ventures or asset sales with Dynegy Inc., Duke Energy Trading & Marketing and Southern Company Energy Marketing, respectively.

And last year, Texaco Natural Gas put its national retail strategy on hold, saying that retail strategies are built around numbers and economies of scale, and those numbers won't be there for a while.

The major oils are not the only big companies taking a pass at the developing retail market. In Georgia, for example, one of the big stories was that several big-name marketers, such as Enron Capital & Trade Corp. and Aquila Energy Marketing, decided not to offer retail gas service, saying the market is still too young.

—Jeff Gosmano

Bulls...

(continued from page 1)

Weather forecasts for this week call for seasonal temperatures in key eastern consuming regions, and only slightly warmer-than-normal temperatures in the Midwest and West.

Those forecasts, combined with the more than 300 Bcf surplus of working gas in storage as compared to last year (see story, p.8), have led to significantly declining futures prices and a spot market waiting for some news on which to pin bullishness.

Declining rig counts recently have brightened producers' hopes for higher prices, but observers believe that it will take at least six months before any decline in drilling is reflected in increased gas prices.

The number of rigs drilling for natural gas in the United States has been declining since January 1998 — according to Baker Hughes Inc. — but the demand that was expected to expose the supply tightness has yet to fully appear.

Producers have been able to satisfy current demand and fill storage facilities even though — as of March 20 — there are 201 fewer rigs drilling for gas than were drilling at the same time last year.

In the current environment with low oil prices, gas rigs account for more than 78% of the total rigs drilling even though the number of rigs is significantly lower than last year.

One result of the current market sentiment has been a clear contango in futures prices as demand is expected to arrive months down the road.

July futures contracts at the New York Mercantile Exchange are trading at a 10¢ premium to the April contract, while July 2000 prices are more than 40¢ higher than the near-month.

April futures prices have been declining steadily since the March 10 settlement high of $1.941/MMBtu, as spot traders began concentrating on locking in summer supplies to the detriment of the current spot market.

"They've completely given up on March and April," a source at a production company said. "We can't unload gas now so it's going into storage, but we've got no problem selling for this summer. We could actually sell summer 2000 gas now if we wanted to lock in a price."

—Scott C. Speaker

Companies Report Added Reserves

Ascot Energy Resources Ltd. reported year-end 1998 reserves of 2.4 Bcf of natural gas and 360,000 bbl of oil and natural gas liquids, an increase 65% from 1997.

Another Calgary-based company, Diaz Resources Ltd., posted year-end reserves of 2.5 Bcfe of natural gas. The company is currently active in acquiring land and reserves, and drilling new gas wells in southern Alberta areas.

Also last year, Diaz increased its interest in approximately 2,400 acres of land in the Iron Springs area of Alberta, including 10 gas wells and a gas gathering and processing system.

SPOT PRICES ON INTRASTATE PIPELINE SYSTEMS
Delivered-to-Pipeline ($/MMBtu)
March 22, 1999

Pipeline	This Week	Weekly Change	Bid Week for Mar.
Louisiana Intrastates LIG, Bridgeline, LRC, Acadian	1.69	-0.13	1.62
Oklahoma Intrastates ONG, Transok, Enogex	1.64	-0.12	1.55
South Texas Intrastates HPL, Tejas, MidCon	1.66	-0.08	1.56
West Texas Intrastates Valero, Oasis, Delhi, Lonestar, Westar	1.66	-0.10	1.53

NOTES: (1) "Delivered-to-Pipeline" represents the volume-weighted average price paid for gas delivered into an intrastate transmission system. Prices include processing, gathering and transportation fees. (2) "This Week" is the average price of spot contracts with durations of 31 days or less. R = Revised.

Attachments to Response to 1 b.

(continued from page 16)
500 MMcfd to multiple pipeline interconnects there, enhancing the natural gas transportation options available for Permian Basin and Central Texas shippers and producers.

A 574-mile, 36-inch diameter Texas intrastate pipeline system, Oasis extends from the Waha area of the Permian Basin to Katy in Waller County, Texas, and is owned by **Aquila Gas Pipeline Corp.** (35%), **El Paso Energy Corp.** (35%) and **Dow Hydrocarbons & Resources Inc.** (30%).

Oasis owners have also elected to return their firm capacity to Oasis as part of an agreement to restructure the company effective Aug. 1. Under this agreement, producers and shippers will have the option of arranging for transportation services directly with Oasis or continuing to do business with Aquila, El Paso Energy or Dow.

The Oasis restructuring will allow the company to sell about 850 MMcfd of transportation capacity, said Thomas B. Simpson III, commercial vice president for Oasis.

Kentucky:

NorAm Energy Services Inc. (NES) said it has signed a three-year asset management contract with Owensboro, Ky.-based **Western Kentucky Gas Co.** that includes gas supply, transportation, storage and city gate delivery asset management services.

Terms of the agreement were not released.

NES is a unit of **Houston Industries Trading and Transportation Group** that provides transportation, gathering, trading and risk management services.

Western Kentucky Gas, a division of Dallas-based **Atmos Energy Corp.**, provides local gas distribution services to 180,000 customers in Kentucky.

Kansas:

TransCoastal Marine Services Inc. said it has recently won three contracts having a combined value of more than $11 million for pipelaying services.

The largest contract is for **Koch Pipeline Southeast Inc.** and involves laying and burying 40 miles of 12-inch diamater pipeline from a pumping station in St. Tammany Parish, La., to the eastern bank of the Mississippi River in St. Charles Parish.

Two smaller contracts are also in the Louisiana area. All of the projects are to be completed this year.

—Steve Parezo

SPOT PRICES ON INTERSTATE PIPELINE SYSTEMS — PART 2

Delivered-to-Pipeline ($/MMBtu)
August 3, 1998

Pipeline	This Week	Weekly Change	Bid Week for July	Bid Week for June	1997 Avg.	Jul 1997	Aug 1997	Sep 1997	Oct 1997	Nov 1997	Dec 1997	Jan 1998	Feb 1998	Mar 1998	Apr 1998	May 1998	Jun 1998
Northwest Pipeline Corp.																	
Sumas, Wash.	1.55	+0.05	1.57	1.43	1.64	1.12	1.26	1.52	1.51	1.72	2.04	1.32	1.32	1.74	1.51	1.37	1.48
Green River, Wyo.	1.79	–0.01	1.74	1.62	1.99	1.39	1.74	2.05	2.72	2.05	1.98	1.77	1.94	2.10	1.88	1.53	1.71
Pacific Gas Transmission Co.																	
Kingsgate	1.66	+0.03	1.62	1.57	1.70	1.25	1.40	1.62	1.92	1.53	1.69	1.43	1.60	1.84	1.50	1.41	1.60
Stanfield	1.81	+0.01	1.68	1.62	1.83	1.38	1.79	1.94	2.38	1.81	2.01	1.72	1.88	2.08	1.73	1.50	1.73
Malin, Ore.	2.07	+0.01	2.04	1.81	1.99	1.65	2.02	2.28	2.69	2.02	2.10	1.79	2.00	2.19	1.86	1.69	1.95
Panhandle Eastern Pipe Line Co.																	
Kansas/Oklahoma Field Zone	1.88	–0.11	1.87	2.28	2.44	2.27	2.68	2.88	3.12	2.24	2.07	2.05	2.17	2.34	2.12	2.02	2.16
Questar Pipeline Co.																	
Kanda, Wyo.	1.81	+0.06	1.82	1.62	2.03	1.41	1.66	2.06	2.77	2.03	1.99	1.73	1.91	1.98	1.88	1.49	1.67
Southern Natural Gas Co.																	
St. Mary Parish, La.	1.96	–0.11	1.92	2.37	2.54	2.35	2.73	2.96	3.17	2.37	2.19	2.14	2.22	2.38	2.17	2.14	2.27
Tennessee Gas Pipeline Co.																	
Zone 1: South Louisiana	1.91	–0.10	1.88	2.29	2.44	2.29	2.69	2.90	3.18	2.33	2.11	2.10	2.17	2.37	2.15	2.07	2.19
Zone 0: South Texas	1.88	–0.11	1.85	2.26	2.43	2.35	2.62	2.95	3.08	2.22	2.06	2.08	2.16	2.36	2.12	2.04	2.17
Texas Eastern Transmission Corp.																	
East Texas	1.91	–0.11	1.87	2.28	2.41	2.28	2.70	2.95	3.07	2.26	2.07	2.08	2.15	2.38	2.16	2.05	2.20
South Texas	1.88	–0.11	1.85	2.27	2.47	2.31	2.65	2.92	3.06	2.25	2.06	2.04	2.14	2.35	2.13	2.05	2.20
West Louisiana	1.92	–0.10	1.88	2.30	2.47	2.29	2.68	2.92	3.16	2.31	2.11	2.10	2.16	2.38	2.16	2.06	2.20
East Louisiana	1.93	–0.12	1.88	2.29	2.55	2.30	2.69	2.95	3.18	2.33	2.16	2.11	2.17	2.38	2.17	2.09	2.23
Market Zone 1: Mississippi	2.01	–0.09	1.98	2.40	2.57	2.42	2.77	3.12	3.23	2.48	2.47	2.21	2.30	2.47	2.25	2.16	2.26
Texas Gas Transmission Corp.																	
Zone 1: North Louisiana	1.96	–0.12	1.91	2.33	2.46	2.40	2.75	2.92	3.17	2.35	2.13	2.13	2.24	2.45	2.20	2.16	2.28
Zone SL: South Louisiana	1.96	–0.06	1.92	2.33	2.59	2.38	2.78	2.95	3.21	2.38	2.15	2.13	2.22	2.40	2.18	2.13	2.25
Transcontinental Gas Pipe Line Corp.																	
Station #30 (Wharton County, Texas/Zone 1)	1.90	–0.15	1.88	2.29	2.45	2.32	2.67	2.89	3.11	2.26	2.09	2.15	2.16	2.37	2.16	2.07	2.26
Station #45 (Texas–La. border/Zone 2)	1.97	–0.08	1.92	2.35	2.47	2.25	2.77	2.96	3.19	2.32	2.12	2.14	2.20	2.42	2.19	2.11	2.25
Stations #50, 62, 65 (South La./Zone 3)	1.99	–0.08	1.94	2.37	2.64	2.36	2.77	3.00	3.23	2.43	2.15	2.18	2.23	2.45	2.21	2.14	2.27
Holmesville, Miss.	2.00	–0.11	1.96	2.37	2.76	2.43	2.75	2.98	3.28	2.40	2.17	2.18	2.24	2.44	2.22	2.15	2.27
Transwestern Pipeline Co.																	
East of Thoreau	1.97	–0.04	1.97	2.21	2.41	2.30	2.63	2.79	3.07	2.15	2.03	2.03	2.13	2.30	2.07	1.93	2.18
California border: Mohave County, Ariz.	2.32	–0.12	2.28	2.24	2.47	2.45	2.84	3.03	3.20	2.28	2.29	2.17	2.35	2.49	2.24	2.05	2.40
Trunkline Gas Co.																	
East La.	1.91	–0.09	1.84	2.28	2.41	2.31	2.71	2.93	3.15	2.29	2.09	2.11	2.18	2.36	2.15	2.10	2.19
Bee County, TX	1.88	–0.16	1.86	2.28	2.46	2.27	2.67	2.93	3.06	2.26	2.07	2.05	2.15	2.30	2.16	2.09	2.22
West La.	1.95	–0.07	1.92	2.33	2.55	2.39	2.79	3.00	3.22	2.37	2.11	2.16	2.22	2.43	2.18	2.13	2.25
Williams Natural Gas Co.																	
Mainline, Kan./Okla.	1.93	–0.13	1.88	2.31	2.39	2.26	2.62	2.88	3.08	2.24	2.03	2.04	2.17	2.34	2.11	2.08	2.19

NOTES: (1) Average price paid for spot contracts with durations of 31 days or less. Prices include wellhead price plus processing, gathering and transportation fees. Prices are volume-weighted and reflect deals done the week before publication, regardless of time of delivery. (2) A dash (—) means insufficient price quotes for meaningful average. (3) Bid Week: These averages, updated the first issue of each month, reflect prices collected during entire nomination period. R = Revised.

Canadian gas pipeline bombed

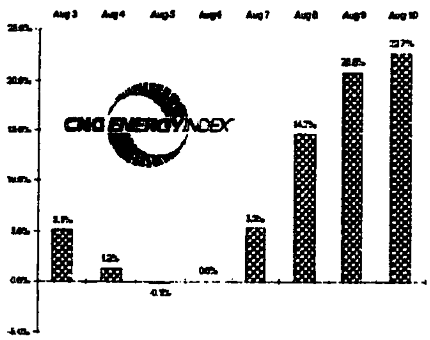
Canadian police are blaming a group of militant environmentalists for two weekend bomb attacks on natural gas installations near Beaverlodge, Alberta, 300 miles northwest of Edmonton.

A sweet gas well was destroyed Friday and a sour gas pipeline was damaged Sunday night in separate bomb attacks. Both the well and the pipeline are owned by Alberta Energy. Several area farms were evacuated although the gas well was not operating when Friday's explosion occurred, and an automatic valve shut off the pipeline late Sunday. No one was hurt in the bombings.

Beaverlodge Royal Canadian Mounted Police Sgt. Don MacKay said he believes the bombers are a small group of environmentalists trying to protect the Peace River area's natural resources.

Alberta Energy spokesperson Dick Wilson said extra security, damage and lost production have cost his company more than $700,000 over the past two years. PM

U.S. Energy use forecast



The full version of the CNG Energy Index is available to enhanced Gas Daily online subscribers. For information about becoming an enhanced Gas Daily subscriber, phone 713-939-5800.

The baseline of 0 represents normal for that day based on historical data.

Electronic Trading System Prices

Daily index prices in this table are supplied by the electronic trading services indicated. The prices are volume weighted averages, in $/mmBtu, for deals done on the column date. Boldface prices indicate new data.

August	8/3 Index	8/4 Index
QuickTrade		
Chicago	1.876	**1.966**
Streamline		
Transco St. 65	1.847	**1.905**

Crude futures up a nickel

Change is from day before
Dow Jones reported Tuesday
Prices are in dollar per barrel when not in Btus

	Buy	Sell	Change
West Texas Intermediate			
Spot Crude	13.70	13.80	+5¢
Crude futures (Sept.)*	13.75	—	+5¢
#6 resid, max 1%:			
East Coast	11.50	11.75	—
	$1.87/mmBtu		
Gulf Coast	12.25	12.50	—
	$1.98/mmBtu		
Low-sulfur waxy resid:			
FOB Singapore	11.40	11.70	-10¢
	$1.95/mmBtu		

will bring supplies from the Midwest as will Transco's Independence Pipeline.

Duke and Williams will "provide the foundation for delivering reliable gas supplies to the New York metropolitan area. MarketSpan provides access to this growing gas market," said Robert Evans, president of Texas Eastern and Algonquin Gas Transmission.

The sponsors will hold an open season this month and expect to file an application with FERC in November 1998. DJG

Northern Border delays expansion service

Northern Border Pipeline has delayed the in-service date for its Chicago expansion project from the scheduled date of Nov. 1 to early December because of construction delays due to rain, the pipeline said.

"It is our current projection, based on the best information available, that an early December 1998 in-service date is the probable result of the interruption of construction caused by the abnormally heavy rainfall, which occurred in Iowa," Northern Border said in a notice on its electronic bulletin board. "Although measures, including additional crews and modified work plans are being implemented, the projected in-service date remains sensitive to weather conditions."

Elaine Thomas, a spokesperson for Northern Border, said the construction delays occurred along the portion of the construction project that runs through central Iowa. "We've looked at our target and where we are and where we need to be. It didn't look like Nov. 1 was doable," she said.

The $839 million expansion and extension project consists of the construction of 243 miles of 36- and 30-inch pipeline from Harper, Iowa, to Manhattan, Ill.; the addition of 147 miles of 36-inch line looping; and the construction of eight new compression stations and the retrofitting of five existing stations. JM

NorAm signs asset deal with W. Kentucky Gas

NorAm Energy Services (NES) has signed a three-year asset management deal with Western Kentucky Gas that covers about 60 billion cf of annual firm transportation, 8 billion cf of storage capacity and 26 billion cf in annual gas supply, NES said late last week.

NES launched its gas supply and asset management program in 1996. "NES has a proven track record in the industry, and we are confident in their ability to manage our asset portfolio," said Gordon Roy, vice president of gas supply for Atmos Energy, Western Kentucky's parent company.

Opportunities for marketers to offer asset management services are knocking with the onset of unbundling at the local distribution company level. But the asset management business also has become increasingly competitive as more marketers view it as a profit-making strategy. Perhaps the best-known and biggest asset management deal so far is the Enron Capital & Trade Resources contract with Brooklyn Union Gas to manage the distributor's supply transportation and storage contracts (*GD 2/17*).

Western Kentucky distributes gas to about 180,000 customers in the state. The contract, which also includes citygate delivery asset management services, became effective July 1. Financial terms of the deal were not disclosed.

The arrangement with Western Kentucky is the first asset management deal for NES of such magnitude, said Dan Tipton, NES' vice president of energy origination. The company has asset management contracts with about six other companies that are much smaller in scale, Tipton said. MH

West receives a premium ... (from page 1)

only climbed 3¢-5¢ over Monday, possibly because so many suppliers were trying to move gas west, where it could fetch premium prices, traders said.

On Monday some production in the San Juan and Permian basins was trading at a premium to Henry Hub gas, and the spread yesterday was tight. "If it was really hot in Chicago, there's no telling what California prices would be," said one source. "It could be $3 right now."

Planned maintenance at Pacific Gas Transmission's Station 8 near Kingsgate caused a squeeze at Malin, with reported prices at the point moving well into the $2-teens yesterday.

An Oasis Pipeline spokesman yesterday morning said the leak discovered Sunday on its 36-inch mainline in Guadalupe County, Texas, has been repaired and the section taken out of service was expected to be operating by early afternoon. The leak was at a crack that had developed near a valve setting.

A trader said while Waha supplies were long and Katy supplies were short Monday, by

2

Western Kentucky Gas Company
Case No. 99-447
KPSC Data Request Dated January 14, 2000
DR Item 2
Witness: Gordon Roy

Data Request:

2. Refer to Attachment A of the Motion to Dismiss, specifically to the statement that it is not uncommon practice for a high bid to be rejected and a second best bid accepted if performance is an issue.

   a. Cite and document all instances of Western's experience during the past 10 years (1990 through 1999) in which it encountered a similar situation and accepted a second best bid when performance was at issue.

   b. Provide any documentation in Western's possession, identifying other instances outside of Western's own experience, but of which Western is aware, which supports the statement referenced in the lead-in to this request.

   c. Provide any documentation in Western's possession that indicates that selecting the second best bid, rather than re-bidding a contract, is a common practice when one-third of the term of the original contract has already expired.

Response:

a. Western has not ever experienced a situation identical to the NorAm situation. Western has been fortunate through the years that its suppliers have performed according to the contract requirements. However, Western has experienced instances during its RFP process where it did not contract with the best bidder and instead contracted with the second best bidder due to the vendor's inability to physically deliver gas to Western at Western's pipeline receipt points. In Western's 1997 winter RFP process, Western solicited bids from vendors for its various requirements including base, high load factor and swing requirements. [redacted] submitted a low bid for some of Western's swing requirements. Western would have contracted with [redacted] for these requirements. However, Western in discussions with [redacted] learned that [redacted] could not deliver gas to certain pipeline receipt points since [redacted] had no gas under contract behind those points. Consequently, Western rejected the [redacted] bid and contracted for these swing requirements with another supplier. Western also rejected a bid from [redacted] in June 1997. The RFP for this bid was for Western's Paducah, KY, area served off of Trunkline Pipeline. Western rejected the [redacted] bid because [redacted] had no prior experience shipping gas on Trunkline. Western similarly rejected a bid from [redacted] submitted on May 30, 1997, in response to its 1997-1998 winter requirements RFP. Western's RFP pertained to requirements served off of Texas Gas Pipeline and Tennessee Gas Pipeline. The RFP issued was for "firm requirements." Although the [redacted] bid was the low bid, it was rejected because it contained a condition which gave [redacted] the right but not the obligation to provide Western with its swing requirements. In essence, the service being proposed was interruptible rather than firm in nature as required by the RFP.

b. Greeley Gas Company, a sister division of Western, in bidding part of its 1999-2000 winter requirements in the summer of 1999 rejected a best bid from a subsidiary of [redacted] for performance risk. The bid proposed [redacted] Greeley Gas also rejected a low bid submitted on September 22, 1998, by [redacted] The bid was to serve Greeley requirements [redacted] Thus, under peak load conditions, Greeley was concerned that [redacted] could not deliver the necessary quantities to meet its firm requirements (see attached [redacted].

c. Western states in its response 2.a. that it has never experienced a situation identical to the NorAm situation and Western has provided documentation in response to 2.a. that it has gone to the second best bid when performance was an issue.

<u>**Attachments to Response to 2 b.**</u>

All Pages Redacted

Notes

3

Western Kentucky Gas Company
Case No. 99-447
KPSC Data Request Dated January 14, 2000
DR Item 3
Witness: Gordon Roy

Data Request:

3. Refer to the "Standards of Conduct' included in the "Rules of Conduct for Affiliate Transactions" submitted by Western in Case No. 97-513, under which Western agreed to conduct itself during the operation of its experimental performance-based rate plan, specifically Item (d) which states "The Utility may not give its marketing affiliate preference over non-affiliated companies in natural gas supply procurement activities."

   a. Explain why Western's contact with Woodward regarding whether Woodward would honor its original bid did not result in giving preference to an affiliate in violation of above-cited standard of conduct.

   b. Identify and elaborate on the reasons why Western did not contact all the other original bidders, including Woodward, for the purpose of making them aware that it was considering terminating the NorAm agreement for reasons of performance and inquiring whether they might be able to improve their original bids in order to be more favorably considered as a potential replacement for NorAm.

Response:

a. Western's contract with Woodward does not constitute a preference to an affiliate. As discussed in detail in the response to DR Item 1(a), market conditions changed from the time NorAm was awarded the contract in July 1998 and the time it was terminated. As a result of these changed conditions, Western had every reason to be concerned that re-bidding would result in a lower bid to the detriment of its customers. Consequently, Western contacted Woodward which had provided the second highest bid behind NorAm to determine if Woodward would honor that bid. Woodward said it would and Western determined that it would be in the best interests of its customers to enter into a contract with Woodward whose price was based on market conditions in June/July of 1998. The decision to contract with Woodward was based solely on what was in the best interest of Western's customers, not Woodward.

b. Once Western was informed by NorAm of its desire to renegotiate or terminate the agreement, Western developed three options to explore as potential courses of action to address what it considered to be a very serious situation. These options are explained in detail in the April 23, 1999, letter to the Commission. Faced with the unacceptable risks outlined in Option 1, Western carefully considered Options

2 and 3. Western believed that choosing Option 3 would cause economic harm to its customers. Western explained why it came to this conclusion in the April 23, 1999, letter to the Commission and in its response to the Commission's January 14 Data Request No. 1.a. Western believed that Option 2 would maintain the greatest level of economic benefit for its customers. However, Western does not believe that this benefit could be preserved without Woodward honoring its original bid. Western's purpose in contacting Woodward was to determine whether it would honor its original bid and nothing more. Western did not contact Woodward to give Woodward the opportunity to change its original bid or to submit a re-bid. Due to the unfavorable market conditions that existed at the time as explained in response to Data Request 1.a. herein, Western did not contact any of the other bidders because there was absolutely no reason to expect that they would improve upon their original bids. In fact, Western believes it is likely they would have lowered their bids.

Notes

4

Western Kentucky Gas Company
Case No. 99-447
KPSC Data Request Dated January 14, 2000
DR Item 4
Witness: Bill Senter

Data Request:

4. Refer to Attachments C-3 and B of the Motion to Dismiss, specifically the response provided to Issue B of the Commission's Order dated November 5, 1999.

a. Provide the following:

(1) The calculations that support Western's contention that its customers would have received gas costs reductions through its Gas Cost Adjustment ("GCA") mechanism of approximately $2.6 million for the remaining 23 months of the original contract had it continued for the full term.
(2) The calculations supporting Western's contention that combining the benefits of the Woodward replacement contract with the amount of the NorAm/Reliant buy-out will provide customers with gas cost savings of approximately $2.5 million over the remaining term of the original contract.

b. Provide any calculations that support Western's contention that "based on the time value of money associated with the up-front buy-out, the customers receive no less total benefit under Option 2 than under the NorAm contract."

Response:

a. See the April 23, 1999 letter to the Commission. The NorAm discount [redacted] The Woodward discount [redacted] The effect of the NorAm buyout is [redacted] By combining the Woodward discount with the NorAm buyout the effective post-NorAm discount over the remaining two years is [redacted] The difference between the NorAm discount of [redacted] and the combined post-NorAm discount of [redacted]

(1) The $2.6 million in customer savings for the last 23 months of the NorAm contract was roughly estimated as follows: [redacted]

(2) The $2.5 million of customer savings for the last 23 months of the post-NorAm term was roughly estimated as follows: [redacted]

b. The difference in customer savings between items a. and b. above is calculated as follows: [redacted]

This statement was originally put forth in the Motion to Dismiss filed on November 23, 1999. It was based on the following assumptions:

NorAm buyout amount	[redacted]
Customer share (50%) of NorAm buyout (Present value)	[redacted]
Amortization Period	23 months
Discount Factor	10 %
Future value after 23 months	[redacted]
Difference (Future value – Present value)	
Excess above [redacted]	

In Western's GCA filing (Case No. 95-010 ZZ) on November 30, 1999, an immediate flow-through of [redacted] was actually made to Western's customers. Applying the same discount rate and amortization period assumptions, the actual benefit of this flow-through to customers is:

Immediate Flow-Through to Customers (Present value)	[redacted]
Amortization Period	23 months
Discount Factor	10 %
Future value after 23 months	[redacted]
Difference (Future value – Present value)	
Excess above [redacted]	

Of course, different assumptions regarding the discount rate, compounding periods and cash flow streams can produce different results.

The point of the statement, however, is that the customer's share of the buyout would normally flow-through to customers beginning with the May 2000 Correction Factor subject to the time lag inherent in the Correction Factor and subsequent seasonality of usage. Given the lagged, unequal and highly seasonal stream of cash flows over which the buyout would normally flow-through to customers, there is time value associated with the up-front flow-through to customers.

Notes

5

Western Kentucky Gas Company
Case No. 99-447
KPSC Data Request Dated January 14, 2000
DR Item 5
Witness: Gordon Roy

Data Request:

5. Refer to the response to Item 10 of the Commission's Order of November 23, 1999, which states that "Western had no reason to believe that Reliant could not perform. Reliant had previously provided to Atmos acceptable and reliable gas commodity service."

   a. Explain if this statement means that Western performed no due diligence assessment in evaluating NorAm/Reliant's ability to perform the duties set out in Western's June 1998 RFP prior to entering into its agreement with NorAm.

   b. Identify any efforts undertaken by Western to determine the amount of NorAm's prior experience in energy supply asset management.

   c. Provide all information Western obtained during its assessment of NorAm's ability to perform that show the level of experience NorAm had in energy supply asset management and explain the degree to which Western relied on that information in making its decision to select NorAm.

Response:

a. The statement does not mean that Western performed no assessment of NorAm's ability to perform the duties set out in Western's June 1998 RFP.

b. In response to Western's June 1998 RFP NorAm submitted its proposal outlining its understanding of Western's RFP as well as its bid. In addition, NorAm, as well as many of the other respondents, submitted supplier qualifications which described gas supply assets owned, managed and controlled, market size, volumes handled, number of customers served, financial size and levels of gas industry experience. This information was provided to the Commission in response to KPSC Data Request Dated November 23, 1999, DR Item 9. Additionally, in meetings between Western and NorAm, Western questioned NorAm about their previous experience managing gas supply assets. NorAm indicated to Western that it was currently managing several other similar but smaller deals it had entered into since 1996. NorAm confirms these other deals in the August 5, 1998, edition of Gas Daily, a copy of which is attached to Data Request Item No. 1.b.

c. Please refer to response 5.b. above. Western did rely on information provided by NorAm as well as NorAm's responses to questions about NorAm's prior experience in selecting NorAm as the winning bidder. Additionally, Western had previous experience with NorAm as a commodity supplier wherein NorAm provided service to Western according to the terms of the contract.

Notes

Western Kentucky Gas Company
Case No. 99-447
KPSC Data Request Dated January 14, 2000
DR Item 6
Witness: Gordon Roy

Data Request:

6. Refer to the responses to Items 9 and 10 of the Commission's Order of November 23, 1999, related to the bids received by Western in response to its June 1998 RFP and its evaluation of those bids.

   a. The 13th proposal included in the response to Item 9 offered a price that was less than the price proposed by Woodward. That proposal was deemed to be a "non-conformance" bid on the tally sheets included in the response to Item 10 and is the 5th bid so identified. Explain in detail the reasons why that proposal was deemed not to conform to Western's RFP.

   b. Describe the modifications of that proposal that would have been necessary for Western to accept it as conforming to its RFP.

   c. Identify and document any efforts made by Western to contact that bidder to attempt to negotiate the modifications to the proposal that Western believed were required in order to make it a conforming bid.

Response:

a. [redacted]

[redacted]

b. The vendor would have had to remove all of the non-conforming features to its bid, which are described in the response to 6.a. above.

c. Western did not contact the bidder to negotiate modifications to its non-conforming bid. As discussed in the response to Item 6(a), the bid was totally unacceptable to Western.

Notes

7

Western Kentucky Gas Company
Case No. 99-447
KPSC Data Request Dated January 14, 2000
DR Item 7
Witness: Bill Senter

Data Request:

7. Western's GCA filing of December 1, 1999, Case No. 95-010-ZZ, contained an estimate of Expected Commodity Gas Cost ("EGC") for the month of January 2000. The estimate of $2.75 per Mmbtu was adjusted for the one-time effect of the NorAm contract buy-out, and was discounted to $2.58 per MMbtu.

   a. Explain how Western derived the rate of $2.58 per MMbtu, and provide calculations showing the amount Western expects to be flowed through to customers via the reduced EGC estimate.

   b. Explain whether Western expects the entire amount of the buy-out to flow-through to customers during January of 2000. If not, explain how Western proposes to flow-through the remainder.

   c. Explain whether Western anticipates using the correction Factor that will be effective April 1, 2000 to reconcile the actual flow-through to customers with the buy-out amount. If not, explain how Western intends to accomplish the reconciliation.

Response:

a. The $2.58, actually $2.575, is based upon a reduction of $0.175 from the $2.75 Expected Cost of Gas (per Mmbtu) for January 2000.

   $0.175 is derived by dividing [redacted] However, the usage in this calculation is in error. The correct usage as applied in the GCA is [redacted] Therefore, the reduction to the ECG should have been [redacted] Consequently, Western has passed along to its customers an up-front amount [redacted] the NorAm buyout payment.

b. Since the buyout is, in effect, a pre-paid discount, half will go to customers and half to shareholders. That is how savings below the benchmark are intended to be shared under the PBR. Western is just ensuring the customers' half of the buyout payment flows through as soon as possible. [redacted] was flowed through in January 2000.

c. As a point of clarification, please note that the effective date of Western's next correction factor is May not April. Tariff Sheet 29, under Correction Factor, footnote 1, indicates that the next GCA filing for Western is due April for rates effective in May. This Correction Factor covers the seven-month period ending January 2000. This is a one-time occurrence that reflects the change from monthly to quarterly GCA filings approved by the Commission in our recent rate case, Case No. 99-070. Thereafter, all Correction Factors will be based on six months of gas purchases.

The flow-through of all gas costs, including discounts/savings achieved under the PBR, follows the process outlined in our Gas Cost Adjustment (GCA) rider whereby gas costs each period are flowed-through as estimated. A bi-annual Correction Factor adjusts for normal under/over collection of gas costs. This will occur again with our April filing for the Correction Factor effective in May. Any difference between estimated and incurred gas costs will be corrected in this filing, including the NorAm buyout – that is, [redacted] The Company will collect its share of the NorAm buyout through the PBR Recovery Factor (PBRRF).

The PBRRF is not a component of the Correction Factor. It is a separate component of the GCA. The PBRRF collects the Company's share of PBR savings. The PBRRF collects the Company's share over the 12 months from February to January following the previous PBR plan year. A PBR plan year runs from November to October. For example, the Company's share of total gas cost savings incurred during the November 1998 to October 1999 plan year are recovered via the PBRRF from February 2000 to January 2001. Therefore, the Company's share of the savings is essentially collected a year in arrears, including its share of the NorAm buyout payment.

Notes

Western Kentucky Gas Company
Case No. 99-447
KPSC Data Request Dated January 14, 2000
DR Item 8
Witness: Gordon Roy

Data Request:

8. Western's GCA filing of December 30, 1999, Case No. 99-070-A, includes as Exhibit E a summary of its Performance Based Rate activity for the period from November 1998 through October 1999. Included in that summary is an amount identified as the "NorAm Contract Buy-Out Reduction." Explain why the amount so identified is $62,500 less than the buy-out amount identified in other correspondence that has been supplied by Western in the course of this proceeding.

Response:

[redacted]

Notes

Western Kentucky Gas Company
Case No. 99-447
KPSC Data Request Dated January 14, 2000
DR Item 9
Witness: Gordon Roy

Data Request:

9. Refer to the response to Item 13 of the Commission's Order of November 23, 1999, specifically the statement that "Western had no reason to believe that Woodward could not perform. Woodward had previously provided to Atmos acceptable and reliable gas commodity service."

   a. Explain if this statement means that Western performed no due diligence assessment in determining Woodward's ability to perform the duties set out in Western's June 1998 RFP prior to entering into its agreement with Woodward.

   b. Identify any efforts undertaken by Western to determine the amount of Woodward's prior experience in energy supply asset management.

   c. Provide all information Western obtained during its assessment of Woodward's ability to perform that show the level of experience Woodward had in energy supply asset management and explain the degree to which Western relied on that information in making its decision to select Woodward to replace NorAm.

Response:

a. The statement does not mean that Western performed no due diligence assessment in determining Woodward's ability to perform the duties set out in Western's June 1998 RFP.

b. Western was aware of considerable prior experience Woodward has in gas supply asset management. Woodward is currently providing to United Cities Gas Company (Franklin, TN), a sister division of Western, gas supply asset management services for United Cities' Georgia, Tennessee and Kansas properties. Woodward is also providing to Trans Louisiana Gas Company (Lafayette, LA), a sister division of Western, gas supply asset management services for its Louisiana properties. The Woodward-United Cities Tennessee agreement currently in effect commenced on April 1, 1996. Woodward has performed according to the terms of the contracts in each and every agreement. Based on this experience with Woodward, Western was confident in the ability of Woodward to provide acceptable and reliable gas supply asset management service.

c. See response to 9.b.

COMOMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
JAN 14 2000
PUBLIC SERVICE
COMMISSION

In the Matter:

A FORMAL REVIEW OF WESTERN KENTUCKY GAS COMPANY'S DECISION TO TERMINATE A NATURAL GAS STORAGE SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH NORAM ENERGY SERVICES, INC. AND ENTER INTO A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH WOODWARD MARKETING, LLC.	)	Case No. 99-447

REQUESTS FOR INFORMATION
BY THE ATTORNEY GENERAL

FILED JANUARY 14, 2000

REQUESTS FOR INFORMATION
OF THE ATTORNEY GENERAL

Instructions

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and submits these Requests for Information to Western Kentucky Gas (WKG) to be answered by the date specified in the Commission's Order of Procedure, and in accord with the following:

(1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.

(2) Please identify the company and witness who will be prepared to answer questions concerning each request.

(3) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.

(4) If any request appears confusing, please request clarification directly from the Office of Attorney General.

(5) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(6) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

(7) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

Request for Information

1. In Item No. 10 of the Motion to Dismiss filed by Western Kentucky Gas on November 23, 1999, it states that: "Western's selection of Option 2 has essentially retained all of the customer savings intended when Western originally contracted with NorAm."

   Please explain what the phrase "essentially retained all of the customer's savings" means. Specifically, what portion of the customer's savings was not retained when Western bought out the NorAm contract?

2. In Attachment A to the Motion to Dismiss filed by Western, in responding to the first issue, Western states that the reason NorAm wanted to discontinue the contract with Western is because NorAm was "losing money . . . had overvalued the contract . . . and could not capture price differentials."

   The reasons listed for NorAm's decision to breach the contract indicate that NorAm may have made a bad business decision. Should Western permit a supplier to breach a contract because that supplier made a bad business decision?

3. In the hearing in Case No. 97-513, the Office of the Attorney General asked Catherine W. Meyer of Atmos Energy, if because of Atoms' ownership of Woodward, LLC, there was an incentive on the part of Atmos to purchase gas at and above market price. Ms. Meyer responded that prudency review by the Commission and the bidding process essentially prevents that situation from occurring. Transcript, p. 42.

   Please explain in more detail what is meant by Ms. Meyer's response that the bidding process and regulatory review process protect that situation from occurring.

RESPECTFULLY SUBMITTED,

A.B. CHANDLER, III
ATTORNEY GENERAL

MONICA M. McFARLIN
ASSISTANT ATTORNEY GENERAL
OFFICE OF RATE INTERVENTION
1024 CAPITAL CENTER DRIVE
FRANKFORT, KY 40601
TELEPHONE (502) 696-5453
FAX (502) 573-8314

CERTIFICATE OF SERVICE AND OF FILING

I hereby certify that on the 14th day of January, 2000, I have filed the original and ten copies of these Requests for Information with Ms. Helen C. Helton, Executive Director, Public Service Commission, 730 Schenkel Lane, Frankfort, KY 40602 and that I have served the parties of record by mailing a true copy of same, postage prepaid to:

DOUGLAS WALTHER
ATMOS ENERGY CORPORATION
P O BOX 65020
DALLAS TX 75265

JOHN N HUGHES
ATTORNEY FOR WKG
124 WEST TODD ST
FRANKFORT KY 40601

MARK R. HUTCHINSON
SHEFFER-HUTCHINSON-KINNEY
115 EAST SECOND STREET
OWENSBORO KY 42303

ASSISTANT ATTORNEY GENERAL

S:\UTILITY\WKYGAS\99\99-447_Request for Information.doc

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

January 14, 2000

To: All parties of record

RE: Case No. 1999-447

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

Stephanie J. Bell

Stephanie Bell
Secretary of the Commission

SB/sa
Enclosure

William J. Senter
V.P. Rates & Regulatory Affairs
Western Kentucky Gas Company
2401 New Hartford Road
Owensboro, KY 42303 1312

Honorable Mark R. Hutchinson
Attorney for Western KY Gas
Sheffer-Hutchinson-Kinney
115 East Second Street
Owensboro, KY 42303

Honorable Douglas Walther
Attorney for Western KY Gas
Atmos Energy Corporation
P.O. Box 650205
Dallas, TX 75265

Honorable John N. Hughes
Attorney for Western KY Gas
124 W. Todd Street
Frankfort, KY 40601

Honorable Monica M. McFarlin
Assistant Attorney General
Office of Rate Intervention
1024 Capital Center Drive
Frankfort, KY 40601

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter:

A FORMAL REVIEW OF WESTERN KENTUCKY GAS COMPANY'S DECISION TO TERMINIATE A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH NORAM ENERGY SERVICES, INC. AND ENTER INTO A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH WOODWARD MARKETING, L.L.C.	)	CASE NO. 99-447

O R D E R

IT IS ORDERED that Western Kentucky Gas Company ("Western") shall file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due no later than January 28, 2000. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the person who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible.

1. Refer to Western's response to Item 1 of the Commission's Order of November 23, 1999, which includes Western's Motion to Dismiss filed in this proceeding on November 23, 1999. Specifically refer to Item 18 of the Motion to Dismiss which

states that "Selecting Option 3, re-bidding, would have exposed customers to unfavorable current market conditions and bidders' concerns over NorAm's failure. It was reasonable to expect significantly lower bids upon re-bid."

a. This is one of numerous references made by Western to the unfavorable market conditions that existed at the time it was made aware of the problems NorAm was experiencing under its contract with Western. Provide all evidence relied upon by Western during this period of time which demonstrates that market conditions were unfavorable compared to the market conditions at the time it issued its original Request for Proposal ("RFP") in June 1998.

b. That section of the Motion to Dismiss also refers to "bidders' concerns over NorAm's failure." Given the confidential nature of the communications between NorAm and Western, explain how potential bidders under Option 3 would have had knowledge of the circumstances under which the NorAm – Western agreement was terminated that would have raised concerns in their minds and possibly influenced their bids under Option 3, re-bidding.

2. Refer to Attachment A of the Motion to Dismiss, specifically to the statement that it is not uncommon practice for a high bid to be rejected and a second best bid accepted if performance is an issue.

a. Cite and document all instances of Western's experience during the past 10 years (1990 through 1999) in which it encountered a similar situation and accepted a second best bid when performance was at issue.

b. Provide any documentation in Western's possession, identifying other instances outside of Western's own experience, but of which Western is aware, which supports the statement referenced in the lead-in to this request.

c. Provide any documentation in Western's possession that indicates that selecting the second best bid, rather than re-bidding a contract, is a common practice when one-third of the term of the original contract has already expired.

3. Refer to the "Standards of Conduct" included in the "Rules of Conduct for Affiliate Transactions" submitted by Western in Case No. 97-513,[1] under which Western agreed to conduct itself during the operation of its experimental performance-based rate plan, specifically Item (d) which states "The Utility may not give its marketing affiliate preference over non-affiliated companies in natural gas supply procurement activities."

a. Explain why Western's contact with Woodward regarding whether Woodward would honor its original bid did not result in giving preference to an affiliate in violation of above-cited standard of conduct.

b. Identify and elaborate on the reasons why Western did not contact all the other original bidders, including Woodward, for the purpose of making them aware that it was considering terminating the NorAm agreement for reasons of performance and inquiring whether they might be able to improve their original bids in order to be more favorably considered as a potential replacement for NorAm.

[1] Case No. 97-513, In the Matter of Modification to Western Kentucky Gas Company, a Division of Atmos Energy Corporation (WKG) Gas Cost Adjustment to Incorporate an Experimental Performance-Based Ratemaking Mechanism (PBR).

4. Refer to Attachments C-3 and B of the Motion to Dismiss, specifically the response provided to Issue B of the Commission's Order dated November 5, 1999.

a. Provide the following:

(1) The calculations that support Western's contention that its customers would have received gas cost reductions through its Gas Cost Adjustment ("GCA") mechanism of approximately $2.6 million for the remaining 23 months of the original contract had it continued for the full term.

(2) The calculations supporting Western's contention that combining the benefits of the Woodward replacement contract with the amount of the NorAm/Reliant buy-out will provide customers with gas cost savings of approximately $2.5 million over the remaining term of the original contract.

b. Provide any calculations that support Western's contention that "based on the time value of money associated with the up-front buy-out, the customers receive no less total benefit under Option 2 than under the NorAm contract."

5. Refer to the response to Item 10 of the Commission's Order of November 23, 1999, which states that "Western had no reason to believe that Reliant could not perform. Reliant had previously provided to Atmos acceptable and reliable gas commodity service."

a. Explain if this statement means that Western performed no due diligence assessment in evaluating NorAm/Reliant's ability to perform the duties set out in Western's June 1998 RFP prior to entering into its agreement with NorAm.

b. Identify any efforts undertaken by Western to determine the amount of NorAm's prior experience in energy supply asset management.

c. Provide all information Western obtained during its assessment of NorAm's ability to perform that show the level of experience NorAm had in energy supply asset management and explain the degree to which Western relied on that information in making its decision to select NorAm.

6. Refer to the responses to Items 9 and 10 of the Commission's Order of November 23, 1999, related to the bids received by Western in response to its June 1998 RFP and its evaluation of those bids.

a. The 13th proposal included in the response to Item 9 offered a price that was less than the price proposed by Woodward. That proposal was deemed to be a "non-conformance" bid in the tally sheets included in the response to Item 10 and is the 5th bid so identified. Explain in detail the reasons why that proposal was deemed not to conform to Western's RFP.

b. Describe the modifications to that proposal that would have been necessary for Western to accept it as conforming to its RFP.

c. Identify and document any efforts made by Western to contact that bidder to attempt to negotiate the modifications to the proposal that Western believed were required in order to make it a conforming bid.

7. Western's GCA filing of December 1, 1999, Case No. 95-010-ZZ,[2] contained an estimate of Expected Commodity Gas Cost ("EGC") for the month of January 2000. The estimate of $2.75 per MMbtu was adjusted for the one-time effect of the NorAm contract buy-out, and was discounted to $2.58 per MMbtu.

a. Explain how Western derived the rate of $2.58 per MMbtu, and provide calculations showing the amount Western expects to be flowed through to customers via the reduced EGC estimate.

b. Explain whether Western expects the entire amount of the buy-out to flow-through to customers during January of 2000. If not, explain how Western proposes to flow-through the remainder.

c. Explain whether Western anticipates using the Correction Factor that will be effective April 1, 2000 to reconcile the actual flow-through to customers with the buy-out amount. If not, explain how Western intends to accomplish the reconciliation.

8. Western's GCA filing of December 30, 1999, Case No. 99-070-A,[3] includes as Exhibit E a summary of its Performance Based Rate activity for the period from November 1998 through October 1999. Included in that summary is an amount identified as the "NorAm Contract Buy-Out Reduction." Explain why the amount so

---

[2] Case No. 95-010-ZZ, In the Matter of the Notice of Purchased Gas Adjustment Filing of Western Kentucky Gas Company.

[3] Case No. 99-070-A, In the Matter of Gas Cost Adjustment Filing of Western Kentucky Gas Company.

identified is $62,500 less than the buy-out amount identified in other correspondence that has been supplied by Western in the course of this proceeding.

9. Refer to the response to Item 13 of the Commission's Order of November 23, 1999, specifically the statement that "Western had no reason to believe that Woodward could not perform. Woodward had previously provided to Atmos acceptable and reliable gas commodity service."

a. Explain if this statement means that Western performed no due diligence assessment in determining Woodward's ability to perform the duties set out in Western's June 1998 RFP prior to entering into its agreement with Woodward.

b. Identify any efforts undertaken by Western to determine the amount of Woodward's prior experience in energy supply asset management.

c. Provide all information Western obtained during its assessment of Woodward's ability to perform that show the level of experience Woodward had in energy supply asset management and explain the degree to which Western relied on that information in making its decision to select Woodward to replace NorAm.

Done at Frankfort, Kentucky, this 14th day of January, 2000.

By the Commission

ATTEST:

Helen C. Helton

Executive Director

STOLL, KEENON & PARK, LLP

201 EAST MAIN STREET
SUITE 1000
LEXINGTON, KENTUCKY 40507-1380

(606) 231-3000
FAX: (606) 253-1093

*FRANKFORT OFFICE:
307 WASHINGTON STREET
FRANKFORT, KY. 40601-1823
(502) 875-6220
FAX: (502) 875-6235

**WESTERN KENTUCKY OFFICE:
201 C NORTH MAIN STREET
HENDERSON, KY. 42420-3103
(270) 831-1900
FAX: (270) 827-4060

***LOUISVILLE OFFICE:
2650 AEGON CENTER
400 WEST MARKET
LOUISVILLE, KY. 40202-3377
(502) 568-9100
FAX: (502) 568-5700

INTERNET: www.skp.com

January 7, 2000

VIA HAND DELIVERY

Hon. Helen Helton
Executive Director
Public Service Commission
730 Schenkel Lane
P.O. Box 615
Frankfort, Kentucky 40602

Re: Western Kentucky Gas, Case No. 99-447

Dear Ms. Helton:

Enclosed herewith please find the original and ten copies of an Entry of Appearance and of a Motion of Innovative Gas Services, Inc. for Full Intervention, which I would appreciate you filing in the record of the above-referenced action.

If you have any questions regarding the enclosed, or if I can be of any other assistance, please do not hesitate to give me a call.

Sincerely,

J. Mel Camenisch, Jr.

JMC/das
Enclosures
(320)C:\Work\069\20Ltrs\Helton

RECEIVED
JAN 07 2000
PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

A FORMAL REVIEW OF WESTERN KENTUCKY GAS COMPANY'S DECISION TO TERMINATE A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH NORAM ENERGY SERVICES, INC. AND ENTER INTO A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH WOODWARD MARKETING, L.L.C.	)	CASE NO. 99-447

ENTRY OF APPEARANCE

** ** ** **

Comes now Robert M. Watt, Jr. and J. Mel Camenisch, Jr., Stoll, Keenon & Park, LLP, 201 East Main Street, Suite 1000, Lexington, Kentucky 40507-1380, and hereby enter their appearance herein for the Intervenor, Innovative Gas Services, Inc., and request that all future correspondence and pleadings be served upon them as counsel for the Intervenor. It is further requested that all future correspondence and pleadings in this case also be served upon the following: Robert M. Berry, Innovative Gas Services, Inc., 101 East Second Street, Suite 100, Owensboro, Kentucky 42303.

This the 7th day of January, 2000.

Robert M. Watt, Jr.
J. Mel Camenisch, Jr.
STOLL, KEENON & PARK, LLP
201 E. Main Street, Suite 1000
Lexington, Kentucky 40507-1380
(606) 231-3000

By:______________________________
Counsel for Innovative Gas Services, Inc.

CERTIFICATE OF SERVICE AND FILING

Undersigned counsel hereby certifies that an original and ten (10) photocopies of the foregoing Entry of Appearance was served and filed by mail to:

Hon. Helen C. Helton
Executive Director
Public Service Commission
730 Schenkel Lane
Frankfort, Kentucky 40601

and served by mailing a true and correct copy of the same, first class postage prepaid, to:

William J. Senter
Western Kentucky Gas Company
2401 New Hartford Road
Owensboro, Kentucky 42303

Mark R. Hutchinson
Sheffer, Hutchinson & Kinney
115 East Second Street
Owensboro, Kentucky 42303

John N. Hughes
124 West Todd Street
Frankfort, Kentucky 40601

Honorable Monica M. McFarlin
Assistant Attorney General
Office of Rate Intervention
1024 Capital Center Drive
Frankfort, Kentucky 40601

Douglas Walther
Atmos Energy Corporation
P.O. Box 650205
Dallas, Texas 75265

all on this the 7th day of January, 2000.

Counsel for Innovative Gas Services, Inc.

 (320)C:\Work\069\IGS\Entry of Appearance-IGS

RECEIVED
JAN 07 2000
PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter:

A FORMAL REVIEW OF WESTERN KENTUCKY GAS COMPANY'S DECISION TO TERMINATE A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH NORAM ENERGY SERVICES, INC. AND ENTER INTO A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH WOODWARD MARKETING, L.L.C.	)	CASE NO. 99-447

MOTION OF INNOVATIVE GAS SERVICES, INC. FOR FULL INTERVENTION

** ** ** **

Pursuant to 807 KAR 5:001, Section 3(8), Innovative Gas Services, Inc. ("IGS") hereby submits its motion for full intervention herein. In connection herewith, IGS requests that it be served with filed testimony, exhibits, pleadings, correspondence and all other documents submitted by the parties and that it be certified as a party for the purposes of receiving service of all orders and any petition for rehearing or petition for judicial review.

In support of this Motion, IGS states as follows: IGS is a Kentucky corporation involved in the marketing, sale and management of natural gas and related services. In 1998, IGS submitted a bid to Western Kentucky for the management of Western Kentucky's natural gas service but that contract was ultimately granted to NorAm Energy Services, Inc. ("NorAm"). IGS has learned that Western Kentucky has terminated the agreement with NorAm and has entered into a new agreement with Woodward Marketing, LLC ("Woodward"), a company that is affiliated with Western Kentucky. Additionally, IGS is a competitor of Woodward in the marketing of natural gas throughout the region. Accordingly, the agreement between these affiliated companies, Western Kentucky and Woodward, may have significant impact on the market and on IGS's ability to compete with Woodward for service on Western Kentucky's system.

Therefore, since IGS was a bidder on the original contract with NorAm and since IGS is currently a competitor of Woodward's, IGS has a direct and substantial interest in this proceeding which cannot be represented by any other party except IGS.

Further, the full intervention and participation in these proceedings by IGS may lead to the presentation of material issues regarding the impact of the Western Kentucky/Woodward relationship on competition in the marketplace, which would assist the Commission in its evaluation of the Woodward Contract. There is no basis on which to find that a full intervention by IGS would unduly complicate or disrupt these proceedings.

Accordingly, IGS believes that the requirements for full intervention under 807 KAR 5:001, Section 3(8) have been met, and requests that the Commission permit IGS, Inc. to fully intervene in these proceedings.

Respectfully submitted,

Robert M. Watt III
J. Mel Camenisch, Jr.
STOLL, KEENON & PARK, LLP
201 East Main Street, Suite 1000
Lexington, Kentucky 40507-1380
(606) 231-3000

By: ______________________________
Counsel for Innovative Gas Services, Inc.

CERTIFICATE OF SERVICE AND FILING

Undersigned counsel hereby certifies that an original and ten (10) photocopies of the foregoing Motion was served and filed by mail to:

Hon. Helen C. Helton
Executive Director
Public Service Commission
730 Schenkel Lane
Frankfort, Kentucky 40601

and served by mailing a true and correct copy of the same, first class postage prepaid, to:

William J. Senter
Western Kentucky Gas Company
2401 New Hartford Road
Owensboro, Kentucky 42303

Mark R. Hutchinson
Sheffer, Hutchinson & Kinney
115 East Second Street
Owensboro, Kentucky 42303

John N. Hughes
124 West Todd Street
Frankfort, Kentucky 40601

Honorable Monica M. McFarlin
Assistant Attorney General
Office of Rate Intervention
1024 Capital Center Drive
Frankfort, KY. 40601

Douglas Walther
Atmos Energy Corporation
P.O. Box 650205
Dallas, Texas 75265

all on this the 7th day of January, 2000.

Counsel for Innovative Gas Services, Inc.

(320)C:\work\WBI\IGS Intervention

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KENTUCKY 40602
www.psc.state.ky.us
(502) 564-3940
Fax (502) 564-1582

Paul E. Patton
Governor

Ronald B. McCloud, Secretary
Public Protection and
Regulation Cabinet

Helen Helton
Executive Director
Public Service Commission

January 5, 2000

Mark R. Hutchinson, Esq.
Sheffer-Hutchinson-Kinney
115 East Second Street
Owensboro, Kentucky 42303

RE: Western Kentucky Gas Company
Case No. 99-447
Petition for Confidential Protection

Dear Mr. Hutchinson:

The Commission has received the petition filed December 27, 1999, on behalf of Western Kentucky Gas Company to protect as confidential information pertaining to termination of a special contract with Noram Energy and entry of a special contract with Woodward Marketing. A review of the information has determined that it is entitled to the protection requested on the grounds relied upon in the petition, and it shall be withheld from public inspection.

If the information becomes publicly available or no longer warrants confidential treatment, you are required by 807 KAR 5:001, Section 7(9)(a) to inform the Commission so that the information may be placed in the public record.

Sincerely,

Helen C. Helton
Executive Director

bcc: Parties of Record (hv)

January 5, 2000

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

FILED
DEC 27 1999
PUBLIC SERVICE COMMISSION

In the Matter:

A FORMAL REVIEW OF WESTERN KENTUCKY GAS COMPANY'S DECISION TO TERMINATE A NATURAL GAS STORAGE SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH NORAM ENERGY SERVICES, INC. AND ENTER INTO A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH WOODWARD MARKETING, LLC.	)	Case No. 99-447

PETITION FOR CONFIDENTIALITY

Western Kentucky Gas Company ("Western") petitions the Public Service Commission ("Commission") pursuant to 807 KAR 5:001 §7, and all other applicable law, for confidential treatment of the information which is described below and which is attached. In support of this Petition, Western states as follows:

1. On June 1, 1998 the Commission entered an order approving Western's Proposed Experimental Performance Based Ratemaking Mechanism ("PBR") for a period of three years. Following entry of that order Western negotiated a gas supply agreement with NorAm Energy Services, Inc. ("NorAm Contract"). A copy of that agreement was filed with the Commission under a petition for confidentiality dated December 16, 1998. By letter dated February 2, 1999, the Commission granted confidential protection to the NorAm contract.

2. Under a Petition for Confidentiality dated April 28, 1999, Western advised the Commission of various issues that had arisen concerning the NorAm Contract. Under Petition for Confidentiality filed July 2, 1999, Western advised the Commission that it had decided to

allow Reliant (successor to NorAm) to buy out its contract and to award it to the next highest bidder, Woodward Marketing,LLC ("Woodward"). A copy of the new gas supply agreement with Woodward has previously been filed with the Commission under a Petition for Confidentiality (the "Woodward Contract"). By letter dated August 4, 1999 the Commission granted confidential protection to the Woodward Contract.

3. On November 5, 1999, the Commission entered its order in this proceeding initiating a formal review of Western's termination of the NorAm Contract and execution of the Woodward Contract.

4. Western has filed a motion requesting the Commission to dismiss the formal review. In order to fully set forth the reasons for seeking dismissal of the formal review, it was necessary for Western to disclose information which has previously been determined by the Commission to be entitled to confidential protection.

5. On November 23, 1999, after Western's filing of its motion to dismiss, the Commission issued a data request seeking additional information. These responses are being filed pursuant to that order. Some of the same information that was filed with the motion to dismiss and previously had been granted confidential protection is included with these responses.

6. Nothing has occurred since the Commission granted confidential protection to this information that would disqualify it from protection. Western accordingly petitions the Commission to again treat this information as confidential for the same reasons as are set forth in Western's prior Petitions for Confidentiality in this proceeding.

7. Pursuant to 807 KAR 5:001, Section 7 (3), temporary confidentiality of the attached redacted information should be maintained until the Commission enters an order as

to the Petition. Once the order regarding confidentiality has been issued, Western would have twenty (20) days to seek alternative remedies pursuant to 807 KAR 5:001, Section 7 (4).

WHEREFORE, Western petitions the Commission to treat as confidential the redacted information which appears in the attached Response to the Commission's Order of November 23, 1999.

Respectfully submitted:

Douglas Walther
Atmos Energy Corporation
P.O. Box 650205
Dallas, TX 75265

Mark R. Hutchinson
SHEFFER HUTCHINSON
KINNEY
115 E. Second St.
Owensboro, KY 42303

John N. Hughes
John N. Hughes
124 West Todd Street
Frankfort, KY 40601
(502) 227-7270
Attorneys for Western Kentucky
Gas Company

Certificate of Service:

I certify that a copy of this Response was served on Monica McFarlin, 1024 Capitol Center Dr. Frankfort, Ky. 40601 the 27th day of December, 1999.

John N. Hughes
John N. Hughes

VERIFICATION

I, William J. Senter, being duly sworn under oath, state that I am Vice President of Rates and Regulatory Affairs of Western Kentucky Gas Company, and that the foregoing statements are true of my own knowledge except as to those matters therein stated on information and belief, and as to those matters I believe them to be true.

William J. Senter

William J. Senter

STATE OF TENNESSEE
COUNTY OF WILLIAMSON

SUBSCRIBED AND SWORN to before me by William J. Senter on this the 21st day of December, 1999.

Teresa Morris

NOTARY PUBLIC
My Commission Expires: 3/25/2000

FILED

DEC 27 1999

PUBLIC SERVICE COMMISSION

1

Western Kentucky Gas Company
Case No. 99-447
KPSC Data Request Dated November 23, 1999
DR Item 1
Witness: Gordon Roy

Data Request:

Provide a detailed description of the issues and circumstances that led to Western's decision to terminate the Natural Gas Sales, Transportation and Storage Agreement between it and Reliant Energy Services, formerly NorAm Energy Services, Inc. ("Reliant").

Response:

This response was previously provided in Western's Motion to Dismiss and the related attachments, including the description of Western's options in the April 23, 1999 and June 29,1999 letters to the Commission. The April 23 and June 29 letters have been previously provided to the Commission and were referenced in the Commission's order initiating this prudence review.

The complete Motion to Dismiss and related attachments are enclosed.

FILED
DEC 27 1999
PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter:

A FORMAL REVIEW OF WESTERN KENTUCKY GAS COMPANY'S DECISION TO TERMINATE A NATURAL GAS STORAGE SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH NORAM ENERGY SERVICES, INC. AND ENTER INTO A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH WOODWARD MARKETING, LLC.	)	CASE NO. 99-447

MOTION TO DISMISS

Comes now Western Kentucky Gas Company ("Western") and respectfully requests the Commission to dismiss the formal review established by the Commission's Order in the above-styled matter. In support of its request Western offers the following:

1. On November 5, 1999, the Commission issued an Order establishing a formal review of Western's gas supply purchase decisions involving NorAm Energy Services, Inc, ("NorAm"), now Reliant Energy, and Woodward Marketing, LLC ("Woodward").

2. The Order asserts that Western, in terminating its contract with NorAm and entering into a replacement contract with Woodward raises "numerous concerns" for the Commission.

3. The Order asserts that Western has not addressed the issues raised in either:

   (a) The letter to Western from the Executive Director, Ms. Helen Helton, dated May 7, 1999; or
   (b) The matters subject to review, items a. through d., as referenced on pages 3-4 of the Commission's Order.

4. Respectfully, Western asserts that it has been proactive in addressing these issues, through its correspondence and by initiating a meeting held with the Staff. The May 25 letter from Ms. Helton acknowledges Western's attempt to be collaborative. A copy is attached as Attachment C-1.

5. Western specifically addressed these issues in its letter to Ms. Helton on April 23, 1999, which laid out Western's three options as a result of the NorAm situation.

Notably, a copy of that letter was not attached to the Commission's Order. A copy of Western's April 23 letter is attached hereto as Attachment C-2.

6. Western also addressed these issues in its meeting with the Staff on May 12, Mr. Senter's letter of June 29, and on October 4 in Western's response to the Commission's data requests (KPSC DR 3-1) on this subject in Case No. 99-070, Western's pending rate case.

7. None of the issues raised in Ms. Helton's letter or the Commission's Order addressed what Western believes should be the fundamental concern: **What is the impact on customers?** In the responses attached to this Motion, Western makes clear that the impact on customers was the primary question Western was asking throughout its decision-making in this matter. The result of that focus is that Western's decisions have maximized customer savings while eliminating unnecessary risks.

8. Western selected Option 2 as defined in the April 23 letter. Option 2 was to accept the NorAm buy-out offer and contract with Woodward, the second highest bidder by far, if Woodward would honor its original bid price.

9. Woodward's bid was submitted in a fair, open and competitive bidding process. That bidding process was initiated by Western in response to the Commission's Order in Case No. 97-513, Western's Performance-Based Ratemaking ("PBR") Mechanism.

10. Western's selection of Option 2 has essentially retained all of the customer savings intended when Western originally contracted with NorAm.

11. The Order in Case No. 97-513 indicated that, "During a three-year experimental period, the proposed PBR would provide an incentive for Western to ***lower its gas cost to the fullest extent possible*** (emphasis added)."

12. The Order in Case No. 97-513 acknowledged that the goals of the PBR included lower regulatory costs, providing up-front regulatory oversight as opposed to after-the-fact prudence reviews, and promoting successful cost management through gas cost incentives.

13. The Commission's PBR decision was designed to provide incentives to Western to make gas supply purchase decisions that would minimize the gas costs to be borne by Western's ratepayers, and eliminate costly after-the-fact prudence reviews.

14. The incentives established by the Commission established benchmark standards of performance and prudency for Western in making its gas supply decisions.

These standards provide for the "up-front regulatory oversight" which eliminates the need for prudence reviews, because the standards set by the Commission rewards or penalizes Western for its gas purchasing performance.

15. Western has held itself to the acknowledged, pre-determined, benchmark standard of performance – **lowering its gas costs to the fullest extent possible** – as established in the PBR in direct response to the incentives provided by the Commission.

16. The formal review established in this proceeding amounts to the kind of costly and burdensome after-the-fact prudence review the PBR was intended to avoid by establishing the benchmark standards embodied in the incentives. This after-the-fact prudence review holds a cloud over Western's gas purchase decision-making and undermines the incentives approved in Case No. 97-513.

17. In direct response to the incentives established by the Commission, Western's gas purchase decisions are estimated to have already saved Western's customers over $3,000,000 since the commencement of the PBR in July 1998. Western has filed PBR performance reports with the Commission each quarter. The decisions at question in this review were designed to produce significant savings and, if unaltered by regulatory action, will continue to produce such savings for Western's customers in the future despite the challenges developing out of the NorAm situation.

18. Selection of Option 3, re-bidding, would have exposed customers to unfavorable current market conditions and bidders' concerns over NorAm's failure. It was reasonable to expect significantly lower bids upon re-bid. Selection of Option 3 would have harmed customers and denied them the lowest gas costs possible.

19. Western's actions have not only been prudent and in accordance with the benchmark standards established by the Commission in Case No. 97-513, but the best course of action on behalf of its customers given the circumstances surrounding the NorAm agreement.

20. With respect to the code of conduct adopted in Western's Performance-Based Ratemaking ("PBR") Mechanism, Western is unaware of a complaint by any customer or marketer leading to this review. Western is unaware that any customer or marketer has been harmed or believes it has been harmed by Western's actions. Western is unaware that any customer or marketer has alleged Western's non-compliance with the code of conduct, nor does the Commission's Order in this matter indicate any such allegations by a customer or marketer.

21. The Woodward bid was derived in a fair and open bidding process. None of the rules outlined in the code of conduct are violated by Western's selection of Option

2. The code of conduct was designed to prohibit preferential treatment toward affiliates, not prohibit affiliate transactions altogether.

22. The code of conduct was not intended to deny customers the best price of gas.

23. The best time to enter into a new gas supply contract is during the summer months when any delivery disruption resulting from a change in suppliers will be minimized. If Western was going to negotiate a satisfactory termination agreement with NorAm and secure the best replacement contract, as proposed in the April 12 letter, Western believed a decision would have to be made soon after the May 12 meeting. The Staff emphasized that the Commission would not pre-approve any gas supply purchase decisions. The May 25 letter from Ms. Helton indicated that it could be inappropriate for the Staff to offer its opinion on the matter. Time was a factor and Western did not believe that it could expect further guidance from, or that it was under any requirement to hold, further meetings with the Staff. Western did provide the information requested by the Staff as soon as it became available.

24. The Commission had already established the benchmark standards of performance in the PBR to which Western was adhering. Nonetheless, Western advised the Commission of its options and elicited feedback given the unique circumstances arising from the NorAm situation.

25. Attached as Attachments A & B are responses which more than adequately supplement the information provided to the Commission in previous letters, meetings and data requests. Collectively, this information fully answers the questions raised in the Commission's Order and demonstrates the appropriateness, adequacy, and reasonableness of Western's decisions in this matter.

26. Western's gas supply purchase decisions were prudent, guided by the PBR incentives established by the Commission in Case No. 97-513, and have maximized customer savings.

The foregoing facts recognize and support the proactive nature in which Western advised the Commission of its options; the benefit of Western's actions in lowering its gas costs to the fullest extent; the degree to which Western properly responded to the incentives embodied and established by the Commission in the PBR; the extent to which this formal review would constitute the type of costly, after-the-fact prudence review the PBR was designed to avoid; and, Western's compliance with the code of conduct.

Respectfully, therefore, Western requests that the Commission dismiss this formal review and allow the incentives, and the spirit of the incentives, it has put in place to continue to work efficiently and beneficially for Western's customers.

If the Commission believes that oral arguments would be beneficial in resolving this matter, Western is willing to participate at the Commission's earliest convenience.

Respectfully submitted this 23 day of November, 1999.

Douglas Walther
Atmos Energy Corporation
P.O. Box 650250
Dallas, Texas 75265

John N. Hughes
124 W. Todd Street
Frankfort, Kentucky 40601

Mark R. Hutchinson
SHEFFER-HUTCHINSON-KINNEY
115 East Second Street
Owensboro, Kentucky 42303

By: ____________________

Attorneys for Atmos Energy

VERIFICATION

I, William J. Senter, being duly sworn under oath state that I am Vice President of Rates and Regulatory Affairs for Western Kentucky Gas Company, a Division of Atmos Energy Corporation, and that the statements contained in the foregoing Petition are true as I verily believe.

William J. Senter

CERTIFICATE OF SERVICE

I hereby certify that on the 23 day of November, 1999, the original of this Motion to Dismiss, together with ten (10) copies, were filed with the Kentucky Public Service Commission, 730 Schenkel Lane, Frankfort, Kentucky 40602, and a true copy thereof mailed by first class mail to the following named persons on this the 23 day of November, 1999:

Attorney General
1024 Capitol Center Drive
Frankfort, Kentucky 40601

Mark R. Hutchinson

Attachment A

Western's Response to the Issues Outlined in Ms. Helton's Letter

Issue: Your supplier's reasons for wanting to discontinue your current arrangement;

Response: The April 23 letter indicates that NorAm (Reliant) was losing money, that they had over-valued the contract, and that due to market conditions that there had been almost no opportunity to capture pricing differentials via various strategies such as hedging. This letter points out that NorAm believed it was starting out each month with [redacted] and that the contract's true value was no more than [redacted] compared to the [redacted] in the contract.

Issue: The reasonableness of your supplier's buy-out offer, in terms of reparation for Western's loss of gas cost savings as well as from the perspective of the supplier's loss mitigation;

Response: The reasonableness of the buy-out is clarified in the April 23 letter. Western was concerned that NorAm could begin to take unnecessary risks that would jeopardize supply delivery and reliability, in order to cut its losses under the contract. Since Woodward had indicated its willingness to honor it original bid, the net price combined with the buy-out would be [redacted] versus [redacted] in the contract. This represented a net reduction in savings to the customer of about $150,000, a relatively small amount compared to the over $4,000,000 of customer savings [redacted] anticipated under the NorAm contract alone over the three-year experimental PBR. Indeed, via other gas cost management decisions also made by Western but unrelated to the contract, even further savings will accrue to the customer through the various PBR mechanisms.

Accepting NorAm's offer eliminated any NorAm related risks while protecting over 96 percent of the value of customer savings under the original contract. Given the time value of money associated with the up-front payment of NorAm's buy-out, customers will receive no less total benefit under Option 2 than under the original NorAm contract. Western's decision was extremely prudent.

Issue: The pros and con of the options as out-lined in your letter;

Response:	The purpose of the April 23 letter was to advise the Commission of the matter, and present the pros and cons. Ultimately, the pros and cons get down to issue of whether it is wise hold NorAm captive to the contract and risk non-performance and protracted litigation, or whether there is a financial solution which is reasonably fair to all parties concerned but particularly the customer. Option 1 held out performance and litigation risks that a prudent decision-maker would avoid given the attractiveness of the alternatives. Option 3 eliminated these risks but lacked the maximum financial benefit for the customer. Option 2 ensured the maximum benefit for the customer while eliminating these risks.
Issue:	The level of deliverability and reliability risk associated with Option 1;
Response:	While Western could not put a probability factor on the risk associated with Option 1, in Western's conversations with the Commission Staff on May 12, Western did indicate that any risk was too high if an alternative solution would eliminate those risks while providing nearly the same savings for its customers. Western exchanged the opportunities and risks inherent in a full requirements supply arrangement for a significantly discounted price. NorAm indicated it was starting with [redacted] Such an admission was unprecedented in our experience, and led us to conclude that the level of risk, both supply risk and financial risk, was too high for Western and its customers. Western did not want NorAm taking unnecessary risks to cut its losses. A prudent decision-maker eliminates unnecessary and avoidable risks, and our experience as a provider of service to the public tells us that any degree of deliverability and reliability risk should be avoided if reasonably priced alternatives exist. Option 2 retained all of the savings of the original supply arrangement without the risks associated with NorAm.
Issue:	How Option 2 comports with the code of conduct established in Case No. 97-513;
Response:	Per our letter of April 23, we wanted to discuss this issue with the Staff. We were advised of the history of another utility's fuel contracts, and discussed at length the issue of taking the next highest bid (Option 2) versus re-bidding (Option 3). The Staff did acknowledge that Option 2 was a better deal for customers than Option 3 because it appeared to maximize customer savings. The Staff also indicated that the Commission could not pre-approve gas supply decisions. We indicated that time was a factor if we were going to switch suppliers. The Staff requested written documentation of the NorAm buy-out offer, something we did not have at the time. The issue relates to item (d) in the code of conduct. That is, did Western give its affiliate preference over non-affiliated companies? The answer is

no. Western's decision comports with the code of conduct because the Woodward bid was submitted along with seven others in response to our Request for Proposal. In the April 23 letter, we discussed that it is not uncommon practice for a high bid to be rejected and a second best bid accepted if performance is an issue. That is exactly what has happened here. On top of that, Option 2 maximized customer savings while avoiding unnecessary risks.

Western is unaware of any customer or marketer which come forward to claim they have been harmed by this decision. Without such a claim, and given that the Woodward bid was fairly submitted and that the maximum benefit has been derived for customers, there is no code of conduct issue.

Issue: Provisions of the existing supply contract;
Response: Western had previously filed copies of the NorAm contract with the Commission.

Issue: Correspondence between Western and the supplier concerning these issues.
Response: There was no correspondence between Western and NorAm until we requested a written buy-out request from NorAm after the May 12 meeting with Staff. That letter was not received from NorAm until June 25, and was submitted to the Commission on June 29.

Attachment B

Western's Response to the Issues Outlined in the Commission's Order Dated November 5, 1999

Issue a. The appropriateness of Western's allowing NorAm (Reliant) to buy out of the remaining years of the NorAm agreement.

Response: The April 23 letter discusses the risks of deliverability and reliability and protracted litigation. Avoiding these risks is appropriate if a reasonable alternative exists. The contract itself provides for mutual termination of the contract if both parties agree. The Commission's Order in Case No. 97-513 did not require Western to obtain the Commission's approval to enter into or terminate any gas supply purchase contracts entered into as a result of the incentives established under the PBR mechanism. Western filed a copy of the NorAm contract with the Commission. Although Western did seek the Commission's guidance as a result of the NorAm situation, Western was told by the Staff that the Commission does not pre-approve gas supply purchase contracts.

Issue b. The adequacy of NorAm's (Reliant's) buy-out offer, considering current market conditions, and the appropriate distribution of the payment.

Response: The buy-out amount, in combination with the new price, retains over 96 percent of the intended customer savings while eliminating unnecessary risks and potential litigation. Based on the time value of money associated with the up-front buy-out, the customers receive no less total benefit under Option 2 than under the original NorAm contract. Given current market conditions, such savings would not be possible without both the sizeable NorAm buy-out and Woodward's willingness to honor its original bid price. This was described in the April 23 letter. If the issue is prudency, it should be pointed out that the customer's share of the buy-out amount is being passed along to ratepayers up-front via the Gas Cost Adjustment. Indeed, because these savings come "pre-paid" as a result of the buy-out payment, the flow-through of savings to customers is accelerated.

Issue c. The reasonableness of Western's efforts to secure a replacement source of supply and asset management contract.

Response: Given current market conditions, the NorAm buy-out amount, and Woodward's willingness to honor its original bid price, the final price to customers is reasonable. Absent Woodward's willingness to honor its original bid price, Western would have had to request new bids that clearly would have been below the original Woodward price. Aside from less favorable current market conditions, the remaining bidders would also have devalued their next bids in reaction to the failed NorAm experience. Selection of Option 3 would have harmed customers and denied them the lowest gas costs possible. Option 2 was the means to secure the highest valued replacement contract and consistent with the incentives established under the PBR.

Issue d. Western's compliance with the rules of conduct imposed by the Commission in Case No. 97-513.

Response: The Woodward bid was derived in a fair and open bidding process. Western selection of Option 2 is in full compliance with the rules outlined in the code of conduct. The code of conduct was designed to prohibit preferential treatment toward affiliates, not prohibit affiliate transactions or trigger after-the-fact gas prudency reviews. Western is unaware of any party which has come forward to claim they have been harmed by this decision. Without such a claim there is no code of conduct issue. The code of conduct was not intended to deny customers the best price of gas.

Western reasonably believed that no other prospective bid would have come close to the original bid the should the bidding have been re-opened. Woodward could not be obligated nor expected to submit the same bid given the current market conditions and the failed NorAm experience. As indicated in our response to KPSC DR 3-1 in Case No. 99-070, Western could not use the original Woodward bid as a back up (Response attached). Option 2 was the most prudent choice available to Western and its customers and is in compliance with the code of conduct.

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KENTUCKY 40602
www.psc.state.ky.us
(502) 564-3940
Fax (502) 564-3460

Paul E. Patton
Governor

Ronald B. McCloud, Secretary
Public Protection and
Regulation Cabinet

Helen Helton
Executive Director
Public Service Commission

May 25, 1999

Mr. Bill Senter
Vice President - Rates & Regulatory Affairs
Western Kentucky Gas Company
2401 New Hartford Road
Owensboro, Kentucky 42302

Dear Mr. Senter:

I understand that at your May 12, 1999 meeting with staff you discussed the issues outlined in my earlier letter. I have been advised that as of the date of that meeting Western had not received any written correspondence from its supplier concerning its supply contract with Western and related problems. I appreciate your keeping the Commission and the staff informed of Western's emerging supply concerns. While I know that your initial meeting with staff was deemed to have been very instructive, until you have something in writing from your supplier, the staff cannot give you an opinion on Western's best course of action, to the extent that such direction is appropriate at all.

If you would like to forward future correspondence from your supplier and seek additional staff input, we may arrange a future meeting. Information concerning any such arrangements will also be conveyed to the Attorney General's Office.

Sincerely,

Helen C. Helton
Executive Director

cc: Monica McFarlin

ATTACHMENT C-1

Western Kentucky Gas Company

WESTERN KENTUCKY GAS

April 23, 1999

Honorable Helen C. Helton
Executive Director
Kentucky Public Service Commission
730 Schenkel Drive
Frankfort, Kentucky 40602

Subject: **KPSC Case No. 97-513 – Western Kentucky Gas Company Experimental Performance-Based Ratemaking Mechanism**

Gas Supply Management Contract

Dear Ms. Helton:

THIS LETTER CONTAINS INFORMATION WHICH THE COMMISSION HAS PREVIOUSLY DETERMINED IS ENTITLED TO CONFIDENTIAL PROTECTION AND SHALL BE WITHHELD FROM PUBLIC INSPECTION. WE ASK THAT THE SAME PROTECTION BE AFFORDED THIS LETTER.

As you may recall, during 1997 Western Kentucky Gas Company requested authorization from the Commission to implement an Experimental Performance-Based Ratemaking Mechanism (PBR). In KPSC Case No. 97-513 which was finalized in June 1998, the Commission authorized the Western Kentucky Gas Company Experimental Performance-Based Ratemaking Mechanism for a three-year period beginning July 1, 1998.

After learning that the PBR mechanism had been approved, WKG distributed a Request for Proposal (RFP) to more than forty suppliers seeking to obtain competitive bids to manage WKG's commodity, pipeline transportation and storage requirements. Of the original forty-three vendors solicited for bids, only eight vendors submitted bids that were accepted as qualifying bids. That is, the bids submitted fully complied with the requirements outlined in the RFP. Each vendor was requested to submit bids for commodity purchases on a plus or minus basis per MMBtu for the appropriate supply area index. A listing of the vendors who submitted conforming bids and the amounts bid follows:

Company	Index Price +/- per MMBtu
[redacted]	[redacted]

For clarification purposes, the above bids are listed in ascending to descending order with the best bid listed first and the least favorable bid listed last.

WKG determined that the best bid submitted at the time was the [redacted] bid of Noram and proceeded to enter into a 3-year contract with Noram with a contract term that mirrored the term of the PBR. The contract with Noram became effective on July 1, 1998, and Noram immediately began to supply WKG with commodity, pipeline transportation and gas storage management services.

Everything appeared to be going well with the Noram contract until November 1998. During November of 1998, Noram approached WKG to inform WKG that they were really struggling financially with the WKG contract. [redacted] They indicated to us that they may have significantly over-valued WKG's assets (WKG storage, pipeline storage, pipeline transportation, etc.) when preparing their bid. Furthermore, they stated that there had been very little volatility in the market and there had been almost no opportunity to capture pricing differentials both on an intra-month and a month-to-month basis for the actual commodity purchases as well as hedging opportunities. Also, there had been very little cold weather through November 1998 so gas storage inventories remained high. These high inventory levels combined with the warm winter worked together to maintain commodity price stability and prevent volatility. [redacted]

It was at this point that Noram asked WKG to consider reforming the contract. Specifically, Noram asked WKG to forego some of the discount it was receiving on commodity purchases. Noram also stated that if WKG could not or would not reform the contract, that Noram would like to propose a buyout to WKG for the last two years of the contract. WKG responded to Noram that reforming the contract could present significant negative consequences including a reduction of benefits to WKG's customers as well as possibly compromising the integrity of WKG's competitive bid process. With this response, WKG asked Noram to propose a contract buyout offer. Noram then responded with an offer to buy out the remaining two years of the contract for [redacted]

WKG believes it is important to consider Noram's request. With the financial difficulty Noram is having with this contract, we do not want Noram taking risks unnecessarily if these risks jeopardize supply delivery and reliability. Also, Noram has been a very good supplier to WKG in the past, and it seems prudent to try to resolve this in a satisfactory manner for all of the affected parties.

With the above in mind, WKG has identified three options to resolve this:

Option 1. WKG could take the position that a contract is a contract and hold Noram's feet to the fire. If WKG takes this position, Noram may determine that the best thing for them to do is to default on the contract and not perform. WKG would then probably pursue litigation. If we go that route, not only would the benefits to ratepayers and the Company alike cease, but this matter would probably be tied up in court for two or three years.

Option 2. Another option we have is to accept the Noram buyout offer and go to the second best bid we received last summer when the RFP for this contract was first issued. This is a

standard industry practice under competitive bidding where the top bid, under more careful review, is determined not to be superior to the next highest bid under the complete terms of the RFP. The second best bid received was from [redacted] has indicated its willingness to serve as the asset manager for the remaining two years of the PBR, from July 1, 1999, to June 30, 2001. It also has said that it will honor its bid of last summer at the same commodity rate of [redacted] subject to the negotiation of a mutually agreeable contract.

The Noram bid was [redacted] The effect of the buyout by Noram over the last two years of the contract is approximately [redacted] if you assume annual purchase volumes of 26 Bcf. By combining the Noram buyout with the [redacted] bid, we would end up with a [redacted] on a per unit basis compared to Noram's [redacted] The net reduction of PBR benefit for the remaining two years of the experimental PBR program would amount to [redacted] for customers and an equal amount for the Company.

Option 3. If we accept the Noram buyout, we could also re-bid the contract. This could result in an increase in gas cost to the customer. WKG has no reason to believe that it can achieve a price in rebidding the contract better than the [redacted] We believe bidders will be reluctant to take as much risk now knowing that Noram opted out of the contract, and in reaction to the current market conditions. While we would expect [redacted] to re-bid, there are certainly no guarantees that [redacted] would bid the same amount as last time. [redacted] With 52 MMBtu of purchase requirements, this amounts to more than a [redacted] reduction in savings, more than [redacted] less each for customers and shareholders.

WKG believes that Option 2 is the best overall option and proposes to pursue this option. However, we want to be sure that the Commission and Commission staff are satisfied [redacted] We believe WKG is in compliance. We would like to meet with Commission staff as soon as possible to have some dialogue on this development, and I will call the Commission within the next few days to try to schedule a meeting.

If you have any questions, please feel free to call me at 502-685-8072.

Sincerely yours,

Bill Senter

William J. Senter
VP Rates & Regulatory Affairs

cc: Ms. Becky Phillips

Western Kentucky Gas Company
Case No. 99-070
KPSC Data Request #3 Dated September 20, 1999
DR Item 1-a, b, c, d, e, f
Witness: Hack

__Data Request:__

Refer to the response to Item 42 of the Commission's August 19, 1999, Order. The original agreement between Western and Reliant Energy Services ("Reliant") had been filed with the Commission by Western.

a. Has Western filed the replacement agreement of Woodward Marketing, LLC ("Woodward") with the Commission at this time?

b. When does Western expect to file the new agreement with the Commission?

c. Provide a detailed explanation for why Western decided to go with the next best proposal from the original vendors rather than re-open the process by requesting new bids.

d. Explain whether Western could have re-opened the process by requesting new bids from vendors other than Woodward, and then gone back to Woodward if its original proposal was still better than the new bids.

e. What is the corporate relationship between Western and Woodward?

f. The original agreement between Western and Reliant was terminated by mutual agreement of the parties. Provide the terms

of the termination of the agreement and the impact that the termination has had, or will have, on the costs recovered through Western's Gas Cost Adjustment ("GCA") clause.

Response:

a. - b. Western expects to file the Woodward replacement agreement with the Commission by October 4, 1999.

c. See the attached redacted letters explaining why Western decided to go with the next best proposal from the original vendors. Original copies of these letters are being provided in this case under Petition for Confidentiality. These letters were granted confidentiality when previously submitted to the Commission in Case No. 97-513.

d. No. In order for Western to maintain fairness and complete integrity of its bid process, had it decided to re-bid its requirements, it would have had to reopen the bidding to <u>all</u> of the qualified suppliers on its active bid list except for Reliant Energy.

e. Atmos, through its acquisition of United Cities Gas Company in 1997, owns a 45% interest in Woodward Marketing, LLC. See KPSC #1 - DR 1

f. The Reliant/WKG agreement was terminated July 31, 1999, with 23 months remaining on the original 3-year term. See attached redacted termination agreement, the original of which is being

provided in this case under Petition for Confidentiality. Had the Reliant contract continued for the entire term, Western's customers would have received gas cost reductions through its GCA mechanism of approximately $2.6 million for the remaining 23 months. Combining the benefits of the Woodward replacement agreement with the Reliant Contract buyout, Western's customers will receive approximately $2.5 million in gas cost reductions through the GCA mechanism over the remaining term.

Western Kentucky Gas Company
Case No. 99-447
KPSC Data Request Dated November 23, 1999
DR Item 2
Witness: Gordon Roy

Data Request:

Provide, in chronological order, all correspondence, telephone notes, electronic mail messages, and any other forms of communication between Western and Reliant that Western has in its possession that support the description of the circumstances outlined in the response to item 1 of this request.

Response:

The only correspondence to this effect was the December 16, 1998 letter from NorAm to Western and letters relating to the buy-out offer itself. All other communication between NorAm and Western was verbal by means of the telephone. The NorAm buy-out offer, in the letter dated June 25, 1999, has been previously provided to the Commission and was referenced in the Commission's order initiating this prudence review.

See attached letters dated December 16, 1998, June 9, 1999, June 21, 1999, and June 25, 1999.

NorAm Energy Services, Inc.

A Subsidiary of Houston Industries Incorporated

December 16, 1998

Mr. Gordon Roy
Atmos Energy Corporation
P.O. Box 650205
Dallas, TX 75265

Re: Concept Proposals

Dear Gordon:

Pursuant to our discussions with John Hack on December 14th, NES would like to put forth some concepts that would hopefully benefit both parties. The first issue regarding pricing of Midwestern Supply is of immediate concern and needs to be addressed prior to January 1st. We would like to resolve this point first and then pursue the other concepts as soon as practicable.

Please consider these options and provide some guidance as to feasibility of each.

WKG Midwestern Supply - For a quantity of 10,000 MMBtu/d, establish a commodity price equal to the pricing set forth in Article VI of our Asset Management Contract plus the maximum tariff firm transportation rate for Tennessee Gas Pipeline from Zone 1/ Louisiana to Zone 1/ Portland. Our understanding is that the proposed contract between Atmos and Midwestern is for one year. NES would like for Atmos to consider a three-year Midwestern commitment that would mirror the term of our contract.

Once the Midwestern pricing issue is settled, NES would like to immediately begin discussions on other value concepts (i.e., Atmos allowing NES to manage additional Atmos-owned storage/transportation assets, purchase and sale of Location/seasonal options, Atmos allowing NES to match the best offer received for gas supply by the various Atmos utilities, renegotiation of the current contract pricing).

Gordon, we appreciate your cooperation in this matter. NES desires to continue the strong partnership relationship that exists with Atmos. As such, we are anxious to find a mutually satisfactory solution that provides the "win-win" outcome both companies desire.

Please contact me at (713) 207-5373 at your earliest convenience to discuss these ideas.

Sincerely,

Russell E. Murrell

Russell E. Murrell

Cc: John Hack, Atmos Energy Corporation

P.O. Box 4455 • Houston, TX 77210-4455 • 713 / 207-5072 • FAX 713 / 207-9626

Reliant Energy

Wholesale Group

P.O. Box 4455
Houston, Texas 77210-4455
713 207 1300

Gordon Roy
ATMOS Energy Corp.
700 Three Lincoln Centre
5430 LBJ Fwy
Dallas, Tx. 75240

Dear Gordon,

Per our previous conversation, Reliant Energy Services (RES) would propose the cancellation of the remaining two (2) years of the present storage and transportation management agreement dated July 1 1999. 1998

In consideration for such, RES would pay Western Kentucky Gas Services a one-time payment [redacted] This offer is contingent to final board of directors and management approval.

Sincerely,

Ken Bradley

Ken Bradley

Gordon J. Roy
Vice President, Gas Supply

June 21, 1999

ATMOS

RELIANT ENERGY SERVICES, INC.
Attn: Mr. Ken Bradley
P.O. Box 4455
Houston, Texas 77210-4455

Re: Natural Gas Sales, Purchase, Transportation and Storage Agreement dated July 1, 1998

Gentlemen:

Western Kentucky Gas Company, a division of Atmos Energy Corporation ("WKG") and Reliant Energy Services, Inc. (as successor in interest to Noram Energy Services, Inc.) ("Reliant") are parties to the above referenced Agreement. Pursuant to an undated letter that WKG received on June 9, 1999, Reliant requested that the Agreement be terminated. As consideration for such termination, Reliant will make a one-time non-recoupable payment of [redacted] The purpose of this letter is to confirm such offer.

If such is the case and you concur with the forgoing, please so indicate and return one copy of this Letter Agreement to WKG at the noted address.

Yours very truly,

Gordon J. Roy

GJR/rd

Accepted and Agreed to this the _____ day of ______________, 1999.

RELIANT ENERGY SERVICES, INC.

By: ____________________________

Its: ____________________________

ATMOS

FAX TRANSMITTAL SHEET

TO:	Ken Bradley
COMPANY:	Reliant Energy Services, Inc.
FAX NO:	713-207-1177

NO. PAGES (INCLUDING THIS PAGE): 2

FROM: Gordon Roy
ATMOS ENERGY CORPORATION
P.O. BOX 650205
DALLAS, TX 75265-0205

PHONE: 972-855-3780 FAX: 972-855-3070

DATE: June 22, 1999 OPERATOR: Roberta DeMoss

ATMOS

FAX TRANSMITTAL SHEET

TO: Ken Bradley

COMPANY: Reliant Energy Services, Inc.

FAX NO: 713-207 1177

NO. PAGES (INCLUDING THIS PAGE): 2

FROM: Gordon Roy
ATMOS ENERGY CORPORATION
P.O. BOX 650205
DALLAS, TX 75205-0205

PHONE: 972 855-3780 FAX: 972-855-3070

DATE: June 22, 1999 OPERATOR: Roberta DeMoss

CONFIRMATION REPORT

06-22-99 07:49A ID: 972 855 3070 NAME: ATMOS ENERGY CORP

TYPE : TRANSMISSION

NO.	TIME	DIAL NO.	REMOTE STATION	PAGES	JOB NO.	RESULT
01	07:48A	MANUAL	817132071177	2/ 2	243	OK

Reliant Energy™

June 25, 1999

Atmos Energy Corporation
Mr. Gordon J. Roy
Vice President, Gas Supply

Re: Natural Gas Sales, Purchase, Transportation and Storage Agreement dated July 1, 1998.

Dear Sir;

We appreciate your response to our letter which you referenced as having received on June 9, 1999, regarding the agreement between Western Kentucky Gas Company, a division of Atmos Energy Corporation ("WKG"), and Reliant Energy Services, Inc. (as successor in interest to Noram Energy Services, Inc.) ("Reliant").

Your understanding of our proposal is fundamentally correct; Termination of the Agreement for [redacted] consideration to be paid by Reliant to WKG. In addition, we would require "excess" gas in storage to be purchased from Reliant by WKG at the then current market price.

Our proposal is contingent on our management's final approval.

We welcome your interest in our proposal and look forward to your response.

Sincerely,

Ken Bradley

Ken Bradley
Managing Director, Storage, Transportation and Asset Optimization
Reliant Energy Services

This proposal is not intended to create a binding offer or contract of purchase and sale of gas between Buyer and Seller. Moreover, this document does not in any way whatsoever obligate either of the parties to enter into any agreements or to proceed with any possible relationship or transaction under the terms and conditions set forth herein. The terms and conditions set forth are subject to negotiation, completion and incorporation into and the execution by both parties of a definitive agreement. Either party may terminate discussions and/or negotiations regarding this document at any time.

P O BOX 4455 • HOUSTON, TX 77210-4455 • 713 / 207-1300

Western Kentucky Gas Company
Case No. 99-447
KPSC Data Request Dated November 23, 1999
DR Item 3
Witness: Gordon Roy

Data Request:

Identify and provide a detailed description of any other options that were considered by Western, under the circumstances described in response to item 1 of this request, as an alternative to the decision to terminate the Reliant agreement.

Response:

The only other option considered was Option 1, whereby NorAm (Reliant) would continue as our supplier under the original contract. A full description of this option has already been provided to the Commission in the April 23, 1999 letter and further expounded upon in the Motion to Dismiss and related attachments A and B. Attachment A included responses to two issues directly related to Western's consideration of Option 1. In addition, the December 16, 1998 letter attached to our response to DR Item 2 above demonstrates the measures NorAm was considering in order to cut its losses. Such measures were wholly unacceptable to Western because they would have unnecessarily increased costs to Western's customers or introduced unnecessary risks associated with gas supply deliverability or reliability.

Again, given the beneficial aspects of Option 2 (eliminating the supply deliverability and reliability risks associate with holding NorAm captive, and the equivalent financial effects on customers of Option 2), Option 1 appeared less than the best course of action.

Option 3 would have reduced customer savings.

Western Kentucky Gas Company
Case No. 99-447
KPSC Data Request Dated November 23, 1999
DR Item 4
Witness: Gordon Roy

Data Request:

Provide a detailed explanation of the analysis and reasoning that led Western to conclude that terminating its contract with Reliant and entering into a new contract with Woodward Marketing, L.L.C. ("Woodward") was the best course of action it could take under the circumstances.

Response:

This request asks for justification of Western's selection of Option 2. This response has already been provided in Western's Motion to Dismiss and related attachments, particularly Attachment B. The letter dated December 16, 1998 attached in response to DR Item 2 above supports Western's determination that maintaining NorAm as Western's supplier was no longer considered an acceptable option.

Western Kentucky Gas Company
Case No. 99-447
KPSC Data Request Dated November 23, 1999
DR Item 5
Witness: Gordon Roy

Data Request:

Explain whether Western considered requiring Reliant to comply with the terms of its contract with Western. If Western did not consider this option, explain why not. If this option was considered by Western, identify an explain the reasons that led Western to conclude that it was in the best interest of Western and its customers to terminate the Reliant contract.

Response:

This response has already been provided in Western's Motion to Dismiss and related attachments, particularly Attachment A.

Western did consider retaining NorAm. However, as the letter dated December 16, 1998 attached in response to DR Item 2 indicates, NorAm's consideration of measures to mitigate its losses were unacceptable to Western. Western believes that (1) eliminating these risks while (2) securing a reasonable buy-out plus (3) securing the next best bidder as NorAm's replacement supplier, was by far the best and most appropriate resolution of the problem.

Western Kentucky Gas Company
Case No. 99-447
KPSC Data Request Dated November 23, 1999
DR Item 6
Witness: Gordon Roy

Data Request:

Provide all the details, including financial arrangements, of the terms under which Western and Reliant agreed to the termination of their agreement.

Response:

See Termination Agreement previously provided in response to KPSC DR 3-1 in Case No. 99-070. That response is attached.

The check from NorAm (Reliant) was received on October 8, 1999.

Western Kentucky Gas Company
Case No. 99-070
KPSC Data Request #3 Dated September 20, 1999
DR Item 1-a, b, c, d, e, f
Witness: Hack

Data Request:

Refer to the response to Item 42 of the Commission's August 19, 1999, Order. The original agreement between Western and Reliant Energy Services ("Reliant") had been filed with the Commission by Western.

a. Has Western filed the replacement agreement of Woodward Marketing, LLC ("Woodward") with the Commission at this time?

b. When does Western expect to file the new agreement with the Commission?

c. Provide a detailed explanation for why Western decided to go with the next best proposal from the original vendors rather than re-open the process by requesting new bids.

d. Explain whether Western could have re-opened the process by requesting new bids from vendors other than Woodward, and then gone back to Woodward if its original proposal was still better than the new bids.

e. What is the corporate relationship between Western and Woodward?

f. The original agreement between Western and Reliant was terminated by mutual agreement of the parties. Provide the terms

of the termination of the agreement and the impact that the termination has had, or will have, on the costs recovered through Western's Gas Cost Adjustment ("GCA") clause.

Response:

a. - b. Western expects to file the Woodward replacement agreement with the Commission by October 4, 1999.

c. See the attached redacted letters explaining why Western decided to go with the next best proposal from the original vendors. Original copies of these letters are being provided in this case under Petition for Confidentiality. These letters were granted confidentiality when previously submitted to the Commission in Case No. 97-513.

d. No. In order for Western to maintain fairness and complete integrity of its bid process, had it decided to re-bid its requirements, it would have had to reopen the bidding to all of the qualified suppliers on its active bid list except for Reliant Energy.

e. Atmos, through its acquisition of United Cities Gas Company in 1997, owns a 45% interest in Woodward Marketing, LLC. See KPSC #1 - DR 1

f. The Reliant/WKG agreement was terminated July 31, 1999, with 23 months remaining on the original 3-year term. See attached redacted termination agreement, the original of which is being

provided in this case under Petition for Confidentiality. Had the Reliant contract continued for the entire term, Western's customers would have received gas cost reductions through its GCA mechanism of approximately $2.6 million for the remaining 23 months. Combining the benefits of the Woodward replacement agreement with the Reliant Contract buyout, Western's customers will receive approximately $2.5 million in gas cost reductions through the GCA mechanism over the remaining term.

Western Kentucky Gas Company

WESTERN KENTUCKY GAS

April 23, 1999

Honorable Helen C. Helton
Executive Director
Kentucky Public Service Commission
730 Schenkel Drive
Frankfort, Kentucky 40602

Subject: **KPSC Case No. 97-513 – Western Kentucky Gas Company Experimental Performance-Based Ratemaking Mechanism**

Gas Supply Management Contract

Dear Ms. Helton:

THIS LETTER CONTAINS INFORMATION WHICH THE COMMISSION HAS PREVIOUSLY DETERMINED IS ENTITLED TO CONFIDENTIAL PROTECTION AND SHALL BE WITHHELD FROM PUBLIC INSPECTION. WE ASK THAT THE SAME PROTECTION BE AFFORDED THIS LETTER.

As you may recall, during 1997 Western Kentucky Gas Company requested authorization from the Commission to implement an Experimental Performance-Based Ratemaking Mechanism (PBR). In KPSC Case No. 97-513 which was finalized in June 1998, the Commission authorized the Western Kentucky Gas Company Experimental Performance-Based Ratemaking Mechanism for a three-year period beginning July 1, 1998.

After learning that the PBR mechanism had been approved, WKG distributed a Request for Proposal (RFP) to more than forty suppliers seeking to obtain competitive bids to manage WKG's commodity, pipeline transportation and storage requirements. Of the original forty-three vendors solicited for bids, only eight vendors submitted bids that were accepted as qualifying bids. That is, the bids submitted fully complied with the requirements outlined in the RFP. Each vendor was requested to submit bids for commodity purchases on a plus or minus basis per MMBtu for the appropriate supply area index. A listing of the vendors who submitted conforming bids and the amounts bid follows:

Company	Index Price +/- per MMBtu
[redacted]	[redacted]

standard industry practice under competitive bidding where the top bid, under more careful review, is determined not to be superior to the next highest bid under the complete terms of the RFP. The second best bid received was from [redacted] has indicated its willingness to serve as the asset manager for the remaining two years of the PBR, from July 1, 1999, to June 30, 2001. It also has said that it will honor its bid of last summer at the same commodity rate of [redacted] subject to the negotiation of a mutually agreeable contract.

The Noram bid was [redacted] The effect of the buyout by Noram over the last two years of the contract is approximately [redacted] if you assume annual purchase volumes of 26 Bcf. By combining the Noram buyout with the [redacted] bid, we would end up with a [redacted] on a per unit basis compared to Noram's [redacted] The net reduction of PBR benefit for the remaining two years of the experimental PBR program would amount to [redacted] for customers and an equal amount for the Company.

Option 3. If we accept the Noram buyout, we could also re-bid the contract. This could result in an increase in gas cost to the customer. WKG has no reason to believe that it can achieve a price in rebidding the contract better than the [redacted] We believe bidders will be reluctant to take as much risk now knowing that Noram opted out of the contract, and in reaction to the current market conditions. While we would expect [redacted] to re-bid, there are certainly no guarantees that [redacted] would bid the same amount as last time. [redacted] With 52 MMBtu of purchase requirements, this amounts to more than a [redacted] reduction in savings, more than [redacted] less each for customers and shareholders.

WKG believes that Option 2 is the best overall option and proposes to pursue this option. However, we want to be sure that the Commission and Commission staff are satisfied [redacted] We believe WKG is in compliance. We would like to meet with Commission staff as soon as possible to have some dialogue on this development, and I will call the Commission within the next few days to try to schedule a meeting.

If you have any questions, please feel free to call me at 502-685-8072.

Sincerely yours,

Bill Senter

William J. Senter
VP Rates & Regulatory Affairs

cc: Ms. Becky Phillips

Western Kentucky Gas Company

WESTERN KENTUCKY GAS

June 29, 1999

Honorable Helen C. Helton
Executive Director
Kentucky Public Service Commission
730 Schenkel Drive
Frankfort, Kentucky 40602

Subject: **KPSC Case No. 97-513 – Western Kentucky Gas Company Experimental Performance-Based Ratemaking Mechanism**

Gas Supply Management Contract

Dear Ms. Helton:

THIS LETTER CONTAINS INFORMATION WHICH THE COMMISSION HAS PREVIOUSLY DETERMINED IS ENTITLED TO CONFIDENTIAL PROTECTION AND SHALL BE WITHHELD FROM PUBLIC INSPECTION. WE ASK THAT THE SAME PROTECTION BE AFFORDED THIS LETTER.

In my April 23, 1999 letter to you and a subsequent meeting held May 12 with the Staff and the Attorney General's office, Western Kentucky Gas Company outlined the situation that has developed whereby our present gas supplier under our Performance-Based Ratemaking Mechanism (PBR), Reliant Energy Services (formerly NorAm), has expressed the desire to buy out the remaining term of their contract with us. Reliant's purpose is to eliminate continuing losses to Reliant resulting from an over-aggressive bid last year. Reliant's proposal is summarized in the attached letter of confirmation.

As discussed in my letter and in person with the Staff and Attorney General's office, Western's goal has always been to achieve the maximum benefit for our customers and Western under the PBR. Given the various options faced by Western as a result of the Reliant situation, Western believes the best decision is to allow Reliant to buy out its contract and award the remaining term to the next highest bidder, Woodward Marketing (Option 2). Woodward's bid was far superior to the other bids received and Woodward has indicated its willingness to honor its original bid. Additionally, we have no concerns about Woodward's ability and intent to perform through the end of the original contract term. Given the uncertainty associated with Reliant and considering that overall market conditions are less favorable today compared to when the original bids were received, we are confident that this decision will achieve the goal of maximum customer benefit under the PBR.

2401 New Hartford Road Owensboro, KY 42303 Phone: (502) 685-8150 Fax: (502) 685-8052

Our purpose with this letter was to simply inform you of our decision. We appreciate the Staff's willingness to listen to our concerns and discuss the issue with us. Please feel free to contact me at 270-685-8072 should you have any questions. Upon successful negotiation and execution of all the terms of the contract with Woodward, we will file a copy with the Commission.

Sincerely,.

William J. Senter /jp

William J. Senter
Vice President – Rates & Regulatory Affairs

Attachment

Cc: Mr. Conrad Gruber
Mr. Gordon Roy
Mr. Randy Hutchinson
Mr. Jack Hughes

Reliant Energy™

June 25, 1999

Atmos Energy Corporation
Mr. Gordon J. Roy
Vice President, Gas Supply

Re: Natural Gas Sales, Purchase, Transportation and Storage Agreement dated July 1, 1998.

Dear Sir;

We appreciate your response to our letter which you referenced as having received on June 9, 1999, regarding the agreement between Western Kentucky Gas Company, a division of Atmos Energy Corporation ("WKG"), and Reliant Energy Services, Inc. (as successor in interest to Noram Energy ...rvices, Inc.) ("Reliant").

Your understanding of our proposal is fundamentally correct; Termination of the Agreement for [redacted] consideration to be paid by Reliant to WKG. In addition, we would require "excess" gas in storage to be purchased from Reliant by WKG at the then current market price.

Our proposal is contingent on our management's final approval.

We welcome your interest in our proposal and look forward to your response.

Sincerely,

Ken Bradley

Ken Bradley
Managing Director, Storage, Transportation and Asset Optimization
Reliant Energy Services

This proposal is not intended to create a binding offer or contract of purchase and sale of gas between Buyer and Seller. Moreover, this document does not in any way whatsoever obligate either of the parties to enter into any agreements or to proceed with any possible relationship or transaction under the terms and conditions set forth herein. The terms and conditions s... rth are subject to negotiation, completion and incorporation into and the execution by both parties of a definitive a... ent. Either party may terminate discussions and/or negotiations regarding this document at any time.

P O BOX 4455 • HOUSTON, TX 77210-4455 • 713 / 207-1300

TERMINATION AGREEMENT

This Termination Agreement is made and shall be effective as of the 31st day of July, 1999 by and between Reliant Energy Services Corporation ("Reliant") whose address is P. O. Box 4455, Houston, Texas 77210-4455 and Western Kentucky Gas Company, a division of Atmos Energy Corporation ("WKG") whose address is P. O. Box 650205, Dallas, Texas 75265-0205.

WHEREAS, Noram Energy Services, Inc. and WKG are parties to that certain Natural Gas Sales, Purchase, Transportation and Storage Agreement ("Agreement") that became effective as of July 1, 1998; and

WHEREAS, Reliant has succeeded to the rights, title and interests of Noram Energy Services, Inc., with respect to the Agreement; and

WHEREAS, Reliant and WKG now wish to terminate the Agreement pursuant to the terms and conditions contained in the Agreement as such terms are further described herein:

NOW THEREFORE, in considerations of the mutual promises, covenants and agreements herein contained Reliant and WKG agree as follows:

1. Pursuant to Article XIV, "TERMINATION AND EARLY TERMINATION," the Agreement shall be terminated as of July 31, 1999. Upon such termination, neither party shall have any further duty to the other party pursuant to the Agreement except as such duty is described herein.

2. As consideration for such termination, Reliant shall pay to WKG a one time, non-recoupable payment in the amount of [redacted] Reliant shall pay such sum to WKG upon execution by WKG hereof.

3. Upon execution hereof, the parties shall immediately proceed to "wind up" all existing outstanding transactions. As of July 1, 1999, the parties estimate that there is an imbalance of 3,921,071 Mcf for which WKG owes Reliant the price described in Article VI, Section 1 of the Agreement plus applicable transportation cost pursuant to the Storage Plan Schedule (the "Plan"). The parties will agree upon the actual amount of such imbalance as of July 31, 1999, and WKG will pay Reliant for such volume at the price described in said Article VI and according to the Plan as such has been agreed to pursuant to the Agreement as follows: (a) on or before August 31, 1999, WKG shall pay Reliant for ~~1,559,000~~ MMBtu; (b) on 1,340,000
or before September 30, 1999, WKG shall pay Reliant for ~~1,340,000~~ MMBtu; (c) 1,028,000
if the agreed upon imbalance has not been satisfied as of September 30, 1999, WKG shall pay Reliant for any such remaining imbalance pursuant to the Plan. All other matters pertaining to the Agreement between the parties shall be done

pursuant to Section 1, "Winding Up Arrangements" of Article XVI "MISCELLANEOUS" of the Agreement.

IN WITNESS THEREOF, the parties have executed this Agreement as of the date first written above.

Reliant Energy Services, Inc.	Western Kentucky Gas Company, a Division of Atmos Energy Corporation
By: Patrick J. Strange	By: Gordon J. Fay
Title: **PATRICK J. STRANGE** Vice President Gas Trading and Operations	Title: VICE-PRESIDENT
Date: 7/16/99	Date: 7-23-99

Western Kentucky Gas Company
Case No. 99-447
KPSC Data Request Dated November 23, 1999
DR Item 7
Witness: Gordon Roy

Data Request:

Provide the calculations, along with a detailed narrative explanation, of any rate impact on Western's customers as a result of its decision to terminate the Reliant agreement and enter into the new agreement with Woodward. Also identify and describe any impact on Western's earnings resulting from that decision.

Response:

This response has already been provided in Western's Motion to Dismiss and related attachments, particularly Attachment A, and the April 23, 1999 letter.

As a result of the 50/50 sharing provisions, the impact on Western's earnings is equivalent to the impact on customers.

Western Kentucky Gas Company
Case No. 99-447
KPSC Data Request Dated November 23, 1999
DR Item 8
Witness: Gordon Roy

Data Request:

Provide the Request for Proposal ("RFP") that Western sent to prospective gas supply management firms in 1998 that resulted in its selection of Reliant as Western's gas supply manager and a list of the parties to which Western sent the RFP.

Response:

See attached Request for Proposal (RFP) letter and vendor bid list.

June 9, 1998

Western Kentucky Gas Company (WKG), a division of Atmos Energy Corporation is requesting proposals for firm gas supply requirements and management of WKG's storage and transportation contracts for a three-year term from July 1, 1998 through June 30, 2001.

WKG Firm Gas Supply Requirements

The successful bidder ("Agent") will be responsible for providing all of WKG's firm system supply requirements on any day, with the exception of a base load firm supply contract for 6,000 MMBtu/day which expires on October 31, 1998 and existing local production contracts (less than 3% of requirements). The Agent will be responsible for all costs associated with the acquisition of gas supplies, as well as all penalties, charges, fees, and any other costs or liabilities that are incurred as a result of management of the gas supply, storage and transportation contracts.

WKG's annual purchase requirements are approximately 26 Bcf, which include 8.3 Bcf of pipeline and on-system storage activity. Historical purchase volumes and typical storage injection and withdrawal volumes are provided to assist in the preparation of your proposal (Exhibit 1). These volumes may or may not be indicative of future requirements.

WKG Storage and Transportation Contracts

All of WKG's firm transportation and storage contracts on Texas Gas, Tennessee Gas and Trunkline will be assigned to the Agent as detailed in Exhibit 2. In addition, WKG is in the process of obtaining an interconnection and firm capacity of 10,000 MMBtu/day with Midwestern Pipeline. This should be complete by late summer 1998 and will be included in this agreement.

WKG also has two interconnects with ANR pipeline. WKG does not hold firm capacity on ANR, but has used these interconnections to inject gas into WKG's Bon Harbor and Kirkwood storage fields.

The Agent will have the responsibility of maximizing the release of unused capacity on these contracts when WKG's customers do not require the space. WKG will be credited for 90% of the released capacity revenues, allowing the Agent to retain 10%. Capacity utilized by Agent will be priced at current market value for the appropriate pipeline and path of capacity.

Special Conditions

WKG will retain operational control of the on-system storage assets to ensure system integrity.

All bidders are subject to proof of creditworthiness and financial strength commensurate with this type and term of arrangement.

Non-performance remedies as well as other terms and conditions will be negotiated and included in the agreement between the parties.

The Proposal

WKG expects all proposals to be submitted as follows:

All bids shall be submitted with the commodity price at a plus (+) or minus (-) basis of the simple arithmetic average of all four indices listed below to establish a per unit price for all the requirements:

1) the average of the weekly Natural Gas Week postings for the appropriate pipeline and receipt zone during the applicable month
2) the average of the daily midpoint Gas Daily postings for the appropriate pipeline and receipt zone during the applicable month
3) the Inside FERC Gas Market Report first-of-the-month posting for the appropriate pipeline and receipt zone
4) the Nymex settled closing price for the applicable month

WKG will retain the right to trigger a fixed commodity price based on Nymex for any future month(s) at mutually agreeable terms and conditions.

WKG will provide the Agent with seasonal injection and withdrawal storage plans prior to each season. WKG will purchase storage injection volumes from the Agent as provided in the seasonal storage plan. Withdrawal volumes contained in the plan will be credited to the applicable month's requirements and assumed to be withdrawn from storage inventory. Storage inventory levels should be substantially full by October 31st of each injection season. Due to operational conditions, WKG reserves the right to change storage injection or withdrawal parameters with fifteen (15) day's notice prior to the start of any applicable month.

All agency proposals must be received no later than June 18, 1998 at 5:00 p.m. CST. No late bids will be accepted. WKG reserves the right to reject any and all bids.

Your bid must be in writing, and may be faxed to (972) 855-3773 or mailed to:

Western Kentucky Gas Company,
a division of Atmos Energy Corporation
Attention: Director Gas Supply Operations
P.O. Box 650205
Dallas, Texas 75265-0205

If you have any questions, any of the three people listed below will assist you:

John Hack (972) 855-3758
David Lord (972) 855-3747
Phil Davis (972) 855-3756

I look forward to hearing from you.

Sincerely,

John W. Hack
Director, Gas Supply Operations

JWH:lam

Enclosures

COMPANY	CONTACT	ADDRESS	PHONE / FAX
AMOCO ENERGY TRADING	Mr. Matt Galosi	550 Westlake Park Blvd. Houston, TX 77079-2696	281/366-4938 281/366-4929
ANADARKO PETROLEUM CORPORATION	Mr. Darryl Kennedy Marketing Account Mgr.	17001 Northchase Drive Houston, TX 77251-1330	281/874-3263 281/874-3354
AQUILA ENERGY CORP.	Mr. Gil Muhl ("mule") VP of Marketing	2 Houston Center, Suite 1850 909 Fannin Street Houston, TX 77010	713/336-7450 713/336-7403
BURLINGTON RESOURCES	Mr. Ray Thompson	5051 Westheimer, Suite 1400 Houston, TX 77056	713/624-9063 713/624-9608
CATEX/CORAL ENERGY, LLC	Ms. Kristy Harrell	909 Fannin Street, Suite 700 Houston, TX 77010	713/767-5400 713/767-5455
CMS MARKETING SERVICES & TRADING COMPANY	Mr. Stan McDivitt	810-B Princeton Parkway Owensboro, KY 42301	502/686-8833 502/686-8835
COLUMBIA ENERGY SVCS.	Eric McMurray	1330 Post Oak Blvd., 20th Floor Houston, TX 77056	713/693-2821 713/621-5392
COMMONWEALTH ENERGY	Mr. Coley McDevitt	745 West Main Street, Suite 100 Louisville, KY 40202	502/584-0599 502/584-1794
CONOCO, INC.	Mr. James Prewitt	600 North Dairy Ashford Houston, TX 77079	281/293-5791 281/293-3525
DUKE ENERGY	Mr. Mark Evans	10777 Westheimer, Suite 650 Houston, TX 77042	713/260-8579 713/260-1850
DYNEGY (formerly NGC)	Mr. Steve Wilson	1000 Louisiana Street, Suite 5800 Houston, TX 77002-5050	713/507-6410 713/507-6539
EL PASO ENERGY MKTG.	Mr. Allan Bounds	1001 Louisiana Street, 25th Floor Houston, TX 77002	713/757-7226 713/757-7816

COMPANY	CONTACT	ADDRESS	PHONE / FAX
ENGAGE ENERGY	Mr. Jerry Campbell	Five Greenway Plaza, Suite 1200 Houston, TX 77046-0995	713/877-7457 713/877-3905
ENRON CAPITAL & TRADE RESOURCES CORP.	Mr. Oscar Dalton, Manager	1400 Smith Street, Suite 3122-F Houston, TX 77002-7361	713/853-0361 713/646-4940
e-prime	Mr. Don Krattenmaker	1331 17th Street, Suite 601 Denver, CO 80202	303/296-3416 303/296-3659
ERI ENERGY SUPPLY AND TRADING	Mr. Bryant Winn	5555 San Felipe, Suite 2100 Houston, TX 77056	713/548-2222 713/548-2095
HIGHLAND ENERGY CO.	Mr. Scott Williams	700 North Pearl Street, Suite 1060 Plaza of the Americas, LB #305 Dallas, TX 75201	214/720-0033 214/720-0314
ICC ENERGY	Mr. John Butler	302 North Market Street, Suite 500 Dallas, TX 75202	214/744-2204 214/744-2206
INNOVATIVE GAS SERVICES	Mr. Steve Menke	3032 Alvey Park Drive West Owensboro, KY 42303	502/684-0459 502/684-8418
KCS ENERGY MARKETING	Mr. Harry Stout	1800 West Loop South, Suite 1400 Houston, TX 77027-3210	713/964-9444 713/877-1394
KN ENERGY (formerly MidCon)	Mr. Chris Johnson	One Allen Center, Suite 500 500 Dallas Street Houston, TX 77002	713/739-6684 713/739-6697
LG&E ENERGY MARKETING	Mr. Chuck Tanner	220 West Main Street, 7th Floor Louisville, KY 40202	502/540-7579 502/627-4177
MARATHON OIL COMPANY	Mr. Gary D. Satterfield	5555 San Felipe Street Houston, TX 77056	713/296-3706 713/296-4480
MOBIL / PAN ENERGY	Mr. Scott Shadrach	10777 Westheimer, Suite 650 Houston, TX 77042	713/260-6598 713/260-1850

COMPANY	CONTACT	ADDRESS	PHONE / FAX
NGTS, Inc.	Mr. Lonnie Brown	8150 North Central Expy., Suite 525 Dallas, TX 75206	214/365-0600 214/365-9670
NORAM ENERGY	Ms. Connie Carlile	1111 Louisiana Street, 8th Floor Houston, TX 77002	713/654-7575 713/207-9626
ONEOK Gas Marketing Co.	Mr. Mark Quinlan	100 West Fifth Street, Suite 1100 Tulsa, OK 74103	918/591-5176 918/585-9254
OXY / USA	Mr. Alan Killion	5 East Greenway Plaza, Suite 2400 Houston, TX 77046	713/215-7096 713/215-7485
PG&E ENERGY TRADING	Mr. Jim Zirngibl Account Representative	12444 Powerscourt Drive, Suite 300 St. Louis, Missouri 63131	314/984-6834 314/984-6823
PHILLIPS PETROLEUM CO.	Mr. Steve Alleman	6330 West Loop South Bellaire, TX 77401	713/669-3666 713/669-3689
PNM ENERGY MARKETING	Mr. Paul Andrae	320 Gold Southwest, Fifth Floor Albuquerque, New Mexico 68102	505/241-4287 505/241-4305
PRODUCERS ENERGY MARKETING	Mr. Keith Sawyer	616 FM 1960 West, Suite 800 Houston, TX 77090	281/583-6275 281/583-4353
SONAT MARKETING	Ms. Monica Wescom	4 Greenway Plaza, Suite 1800 Houston, TX 77046	713/693-6245 713/693-6007
SOUTHERN COMPANY ENERGY MARKETING	Mr. Randy Courtney	200 Westlake Park Blvd., Suite 200 Houston, TX 77079	281/584-6975 281/584-3906
TEXACO NATURAL GAS, INC.	Ms. Donna Tomlin	1111 Bagby Street, Suite 2900 Houston, TX 77002	713/752-7822 713/752-4032

COMPANY	CONTACT	ADDRESS	PHONE / FAX
TPC CORPORATION (Tejas)	Mr. Lee Fascetti	200 Westlake Park Blvd., Suite 1000 Houston, TX 77079	281/597-6259 281/597-6520
TRANSCANADA ENERGY	Mr. Dave Dulak Marketing Representative	4 Greenspoint Plaza, Suite 1200 16945 Northchase Drive Houston, TX 77070	281/774-5652 281/875-2571
UNION OIL CO. OF CAL.	Darla Spengeman	14141 Southwest Freeway Sugarland, TX 77478	281/287-7503 281/287-5395
UNION PACIFIC FUELS	Mr. Abel Gutierrez	801 Cherry Street, M.S. 3200 Fort Worth, TX 76102	817/255-6543 817/877-6539
WESCO (Wms. Energy Svcs.)	Mr. Steve Perrin Account Director	3800 Frederica, Suite 300 Owensboro, KY 42301	502/686-3642 502/926-0909
WESTERN GAS RESOURCES	Ms. Karen LaCombe	10333 Richmond Avenue, Suite 930 Houston, TX 77042	713/454-5338 713/954-5342
WOODWARD GAS MKTG.	Mr. Mark Tronzo (Extension 144)	11251 Northwest Freeway, Suite 400 Houston, TX 77092	713/688-7771 713/688-6668
NOBLE GAS MARKETING, INC.	Mr. Wallace Keim	350 Glenborough, Suite 180 Houston, Texas 77067	281/876-8817 281/876-8845

Western Kentucky Gas Company
Case No. 99-447
KPSC Data Request Dated November 23, 1999
DR Item 9
Witness: Gordon Roy

Data Request:

Provide all the responses Western received to the RFP referenced in Item 8 of this request.

Response:

See attached responses to the RFP.

All of the responses to the RFP have been separately filed under a Petition for Confidentiality and omitted from this redacted copy.

Western Kentucky Gas Company
Case No. 99-447
KPSC Data Request Dated November 23, 1999
DR Item 10
Witness: Gordon Roy

Data Request:

Provide all bid tabulation sheets, references from other energy providers in support of any of the RFP respondents, Western's analyses of the experience and past performance of each RFP respondent in energy supply asset management, and all other analytical tools used by Western in the process that led it to select Reliant as its gas supply manager.

Response:

See attached bid tabulation sheets.

Western selected Reliant because Reliant submitted a conforming bid, the bid was the best bid submitted, and Western had no reason to believe that Reliant could not perform. Reliant previously provided to Atmos acceptable and reliable gas commodity service.

All of the bid tabulation sheets have been separately filed under a Petition for Confidentiality and omitted from this redacted copy.

Western Kentucky Gas Company
Case No. 99-447
KPSC Data Request Dated November 23, 1999
DR Item 11
Witness: Gordon Roy

Data Request:

Explain in detail the basis for Western's decision to select Reliant as its energy supply manager.

Response:

See response to DR Item 10 above.

Western Kentucky Gas Company
Case No. 99-447
KPSC Data Request Dated November 23, 1999
DR Item 12
Witness: Gordon Roy

Data Request:

Describe in detail Western's efforts to secure a replacement contract once it has determined that terminating the agreement with Reliant was in its customers' best interests.

Response:

This response has already been provided in Western's Motion to Dismiss and related attachments, particularly Attachment B, and the discussion of Option 2 in the April 23, 1999 and the June 29, 1999 letters.

Western Kentucky Gas Company
Case No. 99-447
KPSC Data Request Dated November 23, 1999
DR Item 13
Witness: Gordon Roy

<u>Data Request:</u>

Provide a detailed description of the corporate relationship between Western and Woodward.

a. Describe in detail the process undertaken by Western in determining that it should choose Woodward as its new gas supply manager.
b. Explain the basis for Western's decision to select Woodward as its new gas supply manager.

<u>Response:</u>

A subsidiary of the Company, Atmos Energy Marketing, LLC, a Delaware limited liability company, owns a 45% interest in Woodward Marketing, LLC ("WMLLC"), a Delaware limited liability company, with headquarters in Houston, Texas. The Company acquired the interest in Woodward as a result of the merger of United Cities Gas Company with and into the Company on July 31, 1997. WMLLC provides gas marketing and gas supply management services to industrial customers, municipalities and local distribution companies in the Southeast, Midwest and California, including the Company's five regulated utility divisions.

See Atmos organizational chart previously provided in Case No. 99-070, KPSC DR Item 1-1.

a. This response has already been provided in Western's Motion to Dismiss and related attachments, including Attachment B, and the discussion of Option 2 in the April 23, 1999 and June 29, 1999 letters.
b. This response has already been provided in Western's Motion to Dismiss and related attachments, including Attachment B and the discussion of Option 2 in the April 23, 1999 and June 29, 1999 letters.

   Western selected Woodward because Woodward had previously submitted a conforming bid, the bid was the next-best bid submitted, Woodward was willing to honor its bid, and because Western had no reason to believe that Woodward could not perform. Woodward has previously provided to Atmos acceptable and reliable gas commodity service.

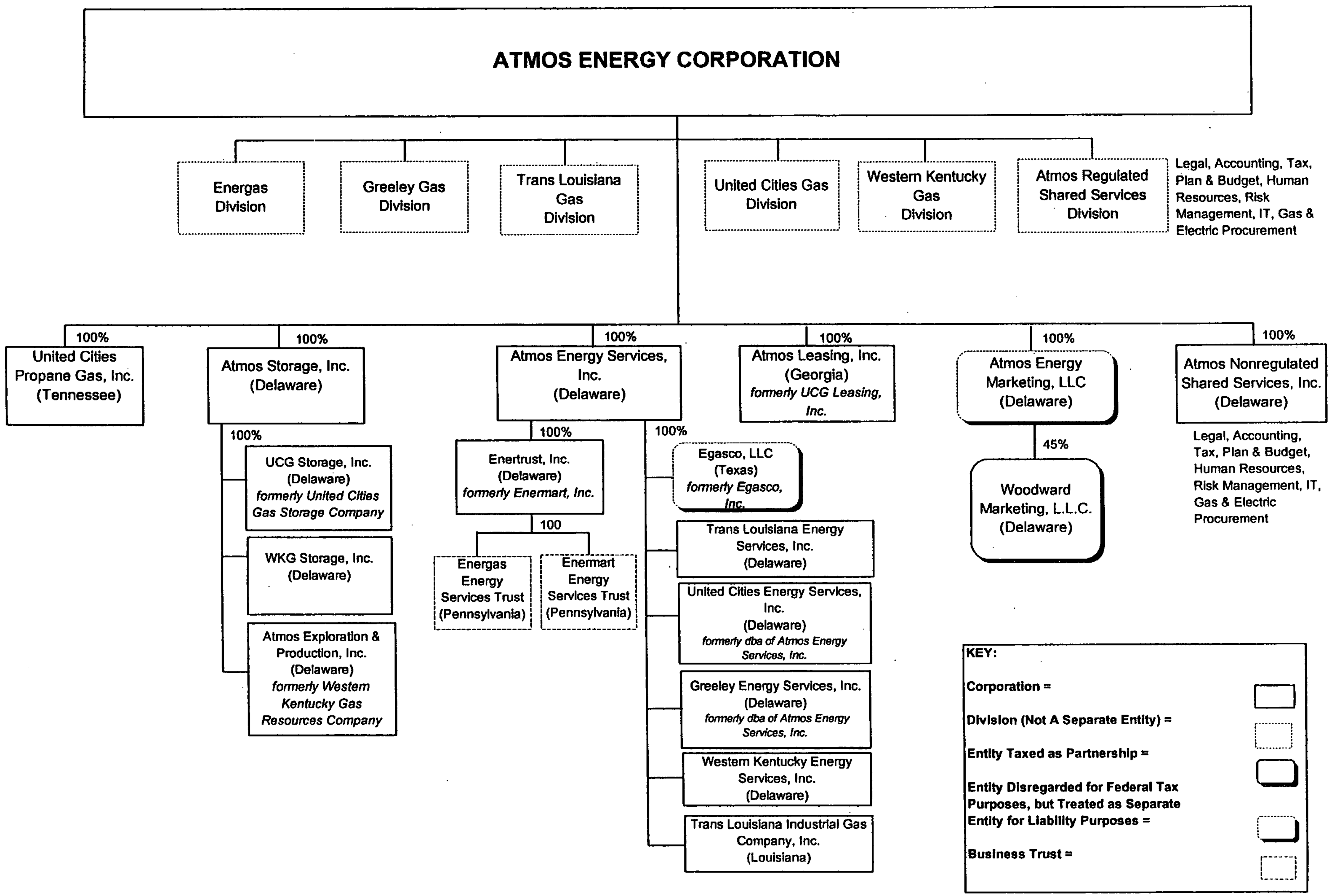
Western Kentucky Gas Company
Case No. 99-070
KPSC Data Request Dated July 16, 1999
DR Item 1
Witness: Gruber

Data Request:

Provide an organization chart for Atmos Energy Corporation ("Atmos") as of June 1, 1999. The chart should show all regulated utility divisions and non-regulated businesses.

Response:

See attached Atmos organization chart.



ATMOS ENERGY CORPORATION
Energas Division
Greeley Gas Division
Trans Louisiana Gas Division
United Cities Gas Division
Western Kentucky Gas Division
Atmos Regulated Shared Services Division
Legal, Accounting, Tax, Plan & Budget, Human Resources, Risk Management, IT, Gas & Electric Procurement
100%
United Cities Propane Gas, Inc. (Tennessee)
100%
Atmos Storage, Inc. (Delaware)
100%
UCG Storage, Inc. (Delaware) formerly United Cities Gas Storage Company
WKG Storage, Inc. (Delaware)
Atmos Exploration & Production, Inc. (Delaware) formerly Western Kentucky Gas Resources Company
100%
Atmos Energy Services, Inc. (Delaware)
100%
Enertrust, Inc. (Delaware) formerly Enermart, Inc.
100
Energas Energy Services Trust (Pennsylvania)
Enermart Energy Services Trust (Pennsylvania)
100%
Egasco, LLC (Texas) formerly Egasco, Inc.
Trans Louisiana Energy Services, Inc. (Delaware)
United Cities Energy Services, Inc. (Delaware) formerly dba of Atmos Energy Services, Inc.
Greeley Energy Services, Inc. (Delaware) formerly dba of Atmos Energy Services, Inc.
Western Kentucky Energy Services, Inc. (Delaware)
Trans Louisiana Industrial Gas Company, Inc. (Louisiana)
100%
Atmos Leasing, Inc. (Georgia) formerly UCG Leasing, Inc.
100%
Atmos Energy Marketing, LLC (Delaware)
45%
Woodward Marketing, L.L.C. (Delaware)
100%
Atmos Nonregulated Shared Services, Inc. (Delaware)
Legal, Accounting, Tax, Plan & Budget, Human Resources, Risk Management, IT, Gas & Electric Procurement
KEY:
Corporation =
Division (Not A Separate Entity) =
Entity Taxed as Partnership =
Entity Disregarded for Federal Tax Purposes, but Treated as Separate Entity for Liability Purposes =
Business Trust =

Western Kentucky Gas Company
Case No. 99-447
KPSC Data Request Dated November 23, 1999
DR Item 14
Witness: Gordon Roy

Data Request:

In Case No. 97-513 Western states that it voluntarily followed a "Code of Affiliate Conduct" under which an affiliate operated in the state of Georgia. In its June 1, 1998 Order in that case approving Western's Performance-Based Rate-making plan, the Commission found that, pending its adoption of an appropriate code of conduct for affiliates, that "Western should comply with every section of the Code of Affiliate Conduct which is required by the Georgia Public Service Commission."

a. Describe the manner in which Western complied with the restrictions included in the "Standards of Conduct" section of the Code of Affiliate Conduct that it submitted in Case No. 97-513 regarding preferences to marketing affiliates when it made its decision to select Woodward as its new gas supply manager.
b. Explain the manner in which Western made the terms of the Code of Affiliate Conduct under which it had committed to operate, and under which it had been required by the Commission to operate, available to the non-affiliated marketers which responded to the RFP referenced in Items 8 and 9 of this request.

Response:

a. This response has been already provided in Western's Motion to Dismiss and related Attachments A and B. The contract award was made to the highest eligible bidder, regardless of its affiliate status.
b. No specific action was taken to make the terms of the Code of Conduct available to non-affiliate marketers. The Order in the Case No. 97-513 is a public document accessible to any interested party. Western's RFP was submitted to a variety of marketers for bid including its affiliate. The contract award reflected the highest eligible bidder, regardless of its affiliate status.

Western Kentucky Gas Company
Case No. 99-447
KPSC Data Request Dated November 23, 1999
DR Item 15
Witness: Gordon Roy

Data Request:

Identify any local distribution companies with which Western is affiliated that have encountered a situation similar to what Western encountered under its contract with Reliant. If any of Western's affiliates experienced circumstances similar to those outlined in Western's response to Item 1 of this request, describe the manner in which they dealt with that situation.

Response:

No Atmos business unit has encountered a similar situation to the NorAm situation faced by Western.

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

December 13, 1999

To: All parties of record

RE: Case No. 1999-447

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

Stephanie Bell
Secretary of the Commission

SB/hv
Enclosure

William J. Senter
V.P. Rates & Regulatory Affairs
Western Kentucky Gas Company
2401 New Hartford Road
Owensboro, KY 42303 1312

Honorable Mark R. Hutchinson
Attorney for Western KY Gas
Sheffer-Hutchinson-Kinney
115 East Second Street
Owensboro, KY 42303

Honorable Douglas Walther
Attorney for Western KY Gas
Atmos Energy Corporation
P.O. Box 650250
Dallas, TX 75265

Honorable John N. Hughes
Attorney for Western KY Gas
124 W. Todd Street
Frankfort, KY 40601

Honorable Monica M. McFarlin
Assistant Attorney General
Office of Rate Intervention
1024 Capital Center Drive
Frankfort, KY 40601

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

A FORMAL REVIEW OF WESTERN KENTUCKY GAS COMPANY'S DECISION TO TERMINATE A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH NORAM ENERGY AND ENTER INTO A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH WOODWARD WARKETING, L.L.C.	)))))))	CASE NO. 99-447

O R D E R

On December 9, 1999, Western Kentucky Gas Company ("Western") submitted a request for an extension of time, from December 13, 1999 to December 23, 1999, in which to file its response to the Commission's Order in this proceeding issued November 23, 1999. Western cites the time and effort involved in: (1) preparing for a rate hearing in Case No. 99-070;[1] (2) the settlement negotiations in that case; and (3) preparing responses to Orders related to the Joint Stipulation and Settlement submitted in that case as its reasons for being unable to prepare the information necessary to adequately respond by the December 13, 1999 due date. Western requests an extension until December 23, 1999 in which to file its response, although it states that it believes it can respond prior to that date and will make every effort to do so.

[1] Case No. 99-070, The Application of Western Kentucky Gas Company for an Adjustment of rates.

The Commission has carefully considered Western's request and is well aware of the recent activities involving Western's pending rate case, Case No. 99-070. Therefore, the Commission finds that an extension is reasonable; however, it cannot grant the specific extension requested by Western because the Commission will be closed on December 23, 1999 due to the Christmas holidays. The Commission will be open on December 27, 1999, and we find no compelling reason not to allow an extension until that date. Such extension will, of course, require modifying the procedural schedule established for this case. The modified procedural schedule is set out in the appendix to this Order.

IT IS THEREFORE ORDERED that:

1. Western's request for an extension of time until December 23, 1999, in which to respond to the Commission' Order of November 23, 1999 is denied.

2. Western shall be granted an extension until December 27, 1999, in which to file its response to the Commission's Order of November 23, 1999.

3. The procedural schedule for this case shall be modified as set forth in the Appendix to this Order, attached hereto and incorporated herein.

Done at Frankfort, Kentucky, this 13th day of December, 1999.

By the Commission

ATTEST:

Helen C. Helton

Executive Director

APPENDIX

APPENDIX TO THE ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 99-447 DATED 12/13/99

Western shall file responses to the initial request for information with the Commission no later than 12/27/99

Additional data requests for information to Western shall be filed no later than 01/14/00

Western shall file responses to the additional requests for information with the Commission no later than 01/28/00

Intervenor testimony, if any, shall be filed with the Commission in verified prepared form no later than 02/14/00

All requests for information to Intervenors shall be filed no later than. 02/28/00

Intervenors shall file with the Commission responses to requests for information no later than 03/14/00

Additional procedural dates will be established by future Order of the Commission.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
DEC 1 0 1999
PUBLIC SERVICE
COMMISSION

In the Matter:

A FORMAL REVIEW OF WESTERN KENTUCKY GAS COMPANY'S DECISION TO TERMINATE A NATURAL GAS STORAGE SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH NORAM ENERGY SERVICES, INC. AND ENTER INTO A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH WOODWARD MARKETING, LLC.	)	**CASE NO. 99-447**

REPLY TO MOTION TO DISMISS

Comes now the Attorney General for the Commonwealth of Kentucky, through the Office of Rate Intervention, and requests that the Commission deny Western Kentucky Gas Company's (Western's) Motion to Dismiss. The Public Service Commission properly initiated this present action in order to review Western's decision involving NorAm Energy Services, Inc., now Reliant Energy, and Woodward Marketing, LLC.

A formal review will enable the parties the opportunity to raise and resolve any questions regarding Western's decision to terminate its contract with NorAm and enter into a replacement contract with its affiliate, Woodward, LLC. The Office of the Attorney General respectfully requests that Western's Motion to Dismiss be denied.

Respectfully submitted,

A. B. Chandler, III
Attorney General

Monica M. McFarlin

Monica M. McFarlin
Assistant Attorney General
Office of the Attorney General
Office of Rate Intervention
1024 Capital Center Drive
Frankfort, Kentucky 40601
(502) 696-5300

CERTIFICATE OF SERVICE AND FILING

Undersigned counsel hereby certifies that an original and ten (10) photocopies of the foregoing Reply to Motion to Dismiss were served and filed by hand delivery to the Hon. Helen C. Helton, Executive Director, Public Service Commission, 730 Schenkel Lane, Frankfort, Kentucky 40601; furthermore, it was served by mailing a true and correct copy of the same, first class postage prepaid, to William Senter, Vice President, Rates and Regulatory Affairs, Western Kentucky Gas Co., P.O. Box 866, Owensboro, Kentucky 42302 and to Mr. John Hughes, 124 West Todd Street, Frankfort, Kentucky 40601 on the 10th day of December, 1999.

Thomas M. McGill
Assistant Attorney General

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
DEC 0 9 1999
PUBLIC SERVICE COMMISSION

In the Matter Of:

A FORMAL REVIEW OF WESTERN KENTUCKY GAS COMPANY'S DECISION TO TERMINATE A NATURAL GAS SALES TRANSPORTATION AND STORAGE AGREEMENT WITH NORAM ENERGY SERVICES AND ENTER INTO A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH WOODWARD MARKETING, L.L.C.	)	CASE NO. 99-447

MOTION FOR EXTENSION OF TIME

Western Kentucky Gas Company, (Western), by counsel, requests that it be granted an extension of time to file the response to the Commission's order of November 23, 1999, due to be filed on December 13, 1999.

Because of the time and effort involved in preparing for a rate hearing in Case No. 99-070, settlement negotiations and responses to orders related to the Joint Stipulation and Settlement in that case, Western has not had adequate time to prepare the information requested.

An extension to and including December 23 is requested. Western believes that it can submit its response prior to that date and will make every effort to do so, but needs this additional time to adequately respond.

For these reasons, Western requests that the response due December 13th be rescheduled for December 23, 1999.

Respectfully submitted:

Douglas Walther
Atmos Energy Corporation
P.O. Box 650205
Dallas, TX 75265

Mark R. Hutchinson
SHEFFER - HUTCHINSON - KINNEY
115 E. Second St.
Owensboro, KY 42303

John N. Hughes
124 West Todd Street
Frankfort, KY 40601
(502) 227-7270

By: John N. Hughes
Attorneys for Western Kentucky Gas Company

Certification:
I certify that a copy of this motion was served on the Attorney General, 1024 Capital Center Dr., Frankfort, KY 40602, by first class mail, the 9th day of December, 1999.

John N. Hughes

John N. Hughes

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

November 24, 1999

To: All parties of record

RE: Case No. 1999-447

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

Stephanie J. Bell

Stephanie Bell
Secretary of the Commission

SB/hv
Enclosure

William J. Senter
V.P. Rates & Regulatory Affairs
Western Kentucky Gas Company
2401 New Hartford Road
Owensboro, KY 42303 1312

Honorable Mark R. Hutchinson
Attorney for Western KY Gas
Sheffer-Hutchinson-Kinney
115 East Second Street
Owensboro, KY 42303

Honorable Douglas Walther
Attorney for Western KY Gas
Atmos Energy Corporation
P.O. Box 650250
Dallas, TX 75265

Honorable John N. Hughes
Attorney for Western KY Gas
124 W. Todd Street
Frankfort, KY 40601

Honorable Monica M. McFarlin
Assistant Attorney General
Office of Rate Intervention
1024 Capital Center Drive
Frankfort, KY 40601

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

A FORMAL REVIEW OF WESTERN KENTUCKY GAS COMPANY'S DECISION TO TERMINATE A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH NORAM ENERGY SERVICES, INC. AND ENTER INTO A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH WOODWARD MARKETING, L.L.C.	)	CASE NO. 99-447

O R D E R

This matter arising upon the motion of the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("Attorney General"), filed November 19, 1999, pursuant to KRS 367.150(8), for full intervention, such intervention being authorized by statute, and this Commission being otherwise sufficiently advised,

IT IS HEREBY ORDERED that the motion is granted, and the Attorney General is hereby made a party to these proceedings.

Done at Frankfort, Kentucky, this 24th day of November, 1999.

By the Commission

ATTEST:

Helen C. Helton

Executive Director

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

November 23, 1999

William J. Senter
V.P. Rates & Regulatory Affairs
Western Kentucky Gas Company
2401 New Hartford Road
Owensboro, KY. 42303 1312

RE: Case No. 1999-447

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

Stephanie Bell

Stephanie Bell
Secretary of the Commission

SB/hv
Enclosure

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter:

A FORMAL REVIEW OF WESTERN KENTUCKY GAS COMPANY'S DECISION TO TERMINIATE A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH NORAM ENERGY SERVICES, INC. AND ENTER INTO A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH WOODWARD MARKETING, L.L.C.	)	CASE NO. 99-447

<u>O R D E R</u>

IT IS ORDERED that Western Kentucky Gas Company ("Western") shall file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due no later than December 13, 1999. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the person who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible.

1. Provide a detailed description of the issues and circumstances that led to Western's decision to terminate the Natural Gas Sales, Transportation and Storage

Agreement between it and Reliant Energy Services, formerly NorAm Energy Services, Inc. ("Reliant").

2. Provide, in chronological order, all correspondence, telephone notes, electronic mail messages, and any other forms of communication between Western and Reliant that Western has in its possession that support the description of the circumstances outlined in the response to Item 1 of this request.

3. Identify and provide a detailed description of any other options that were considered by Western, under the circumstances described in response to Item 1 of this request, as an alternative to the decision to terminate the Reliant agreement.

4. Provide a detailed explanation of the analysis and reasoning that led Western to conclude that terminating its contract with Reliant and entering into a new contract with Woodward Marketing, L.L.C. ("Woodward") was the best course of action it could take under the circumstances.

5. Explain whether Western considered requiring Reliant to comply with the terms of its contract with Western. If Western did not consider this option, explain why not. If this option was considered by Western, identify and explain the reasons that led Western to conclude that it was in the best interest of Western and its customers to terminate the Reliant contract.

6. Provide all the details, including financial arrangements, of the terms under which Western and Reliant agreed to the termination of their agreement.

7. Provide the calculations, along with a detailed narrative explanation, of any rate impact on Western's customers as a result of its decision to terminate the

Reliant agreement and enter into the new agreement with Woodward. Also identify and describe any impact on Western's earnings resulting from that decision.

8. Provide the Request for Proposals ("RFP") that Western sent to prospective gas supply management firms in 1998 that resulted in its selection of Reliant as Western's gas supply manager and a list of the parties to which Western sent the RFP.

9. Provide all the responses Western received to the RFP referenced in Item 8 of this request.

10. Provide all bid tabulation sheets, references from other energy providers in support of any of the RFP respondents, Western's analyses of the experience and past performance of each RFP respondent in energy supply asset management, and all other analytical tools used by Western in the process that led it to select Reliant as its gas supply manager.

11. Explain in detail the basis for Western's decision to select Reliant as its energy supply manager.

12. Describe in detail Western's efforts to secure a replacement contract once it had determined that terminating the agreement with Reliant was in its customers' best interests.

13. Provide a detailed description of the corporate relationship between Western and Woodward.

a. Describe in detail the process undertaken by Western in determining that it should choose Woodward as its new gas supply manager.

b. Explain the basis for Western's decision to select Woodward as its new gas supply manager.

14. In Case No. 97-513[1] Western stated that it voluntarily followed a "Code of Affiliate Conduct" under which an affiliate operated in the state of Georgia. In its June 1, 1998 Order in that case approving Western's Performance-Based Rate-making plan, the Commission found that, pending its adoption of an appropriate code of conduct for affiliates, that "Western should comply with every section of the Code of Affiliate Conduct which is required by the Georgia Public Service Commission."

a. Describe the manner in which Western complied with the restrictions included in the "Standards of Conduct" section of the Code of Affiliate Conduct that it submitted in Case No. 97-513 regarding preferences to marketing affiliates when it made its decision to select Woodward as its new gas supply manager.

b. Explain the manner in which Western made the terms of the Code of Affiliate Conduct under which it had committed to operate, and under which it had been required by the Commission to operate, available to the non-affiliated marketers which responded to the RFP referenced in Items 8 and 9 of this request.

15. Identify any local distribution companies with which Western is affiliated that have encountered a situation similar to what Western encountered under its contract with Reliant. If any of Western's affiliates experienced circumstances similar to

---

[1] Case No. 97-513, The Petition of Western Kentucky Gas Company, a Division of Atmos Energy Corporation (WKG), Gas Cost Adjustment, to Incorporate an Experimental Performance-Based Ratemaking Mechanism.

those outlined in Western's response to Item 1 of this request, describe the manner in which they dealt with that situation.

Done at Frankfort, Kentucky, this 23rd day of November, 1999.

By the Commission

ATTEST:

Helen C. Helton

Executive Director

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
NOV 23 1999
PUBLIC SERVICE COMMISSION

In the Matter:

A FORMAL REVIEW OF WESTERN KENTUCKY GAS COMPANY'S DECISION TO TERMINATE A NATURAL GAS STORAGE SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH NORAM ENERGY SERVICES, INC. AND ENTER INTO A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH WOODWARD MARKETING, LLC.	)	**CASE NO. 99-447**

PETITION FOR CONFIDENTIALITY

Western Kentucky Gas Company ("Western") respectively petitions the Kentucky Public Service Commission ("Commission") pursuant to 807 KAR 5:001 §7, and all other applicable law, for confidential treatment of the information which is described below and which is attached hereto. In support of this Petition, Western states as follows:

1. On June 1, 1998 the Commission entered an order approving Western's Proposed Experimental Performance Based Ratemaking Mechanism ("PBR") for a period of three years. Following entry of that order Western negotiated a gas supply agreement with NorAm Energy Services, Inc. ("NorAm Contract"). A copy of that agreement was filed with the Commission under a petition for confidentiality dated December 16, 1998. By letter dated February 2, 1999, the Commission granted confidential protection to the NorAm contract.

2. Under a Petition for Confidentiality dated April 28, 1999, Western advised the Commission of various issues that had arisen concerning the NorAm Contract. Under Petition

for Confidentiality filed July 2, 1999, Western advised the Commission that it had decided to allow Reliant (successor to NorAm) to buy out its contract and to award it to the next highest bidder, Woodward Marketing,LLC ("Woodward"). A copy of the new gas supply agreement with Woodward has previously been filed with the Commission under a Petition for Confidentiality (the "Woodward Contract"). By letter dated August 4, 1999 the Commission granted confidential protection to the Woodward Contract.

3. On November 5, 1999, the Commission entered its order in this proceeding initiating a formal review of Western's termination of the NorAm Contract and execution of the Woodward Contract.

4. Western has filed a motion requesting the Commission to dismiss the formal review. In order to fully set forth the reasons for seeking dismissal of the formal review, it was necessary for Western to disclose information which has previously been determined by the Commission to be entitled to confidential protection.

5. Nothing has occurred since the Commission granted confidential protection to this information that would disqualify it from protection. Western accordingly petitions the Commission to again treat this information as confidential for the same reasons as are set forth in Western's prior Petitions for Confidentiality in this proceeding.

6. Pursuant to 807 KAR 5:001, Section 7 (3), temporary confidentiality of the attached redacted information should be maintained until the Commission enters an order as to the Petition. Once the order regarding confidentiality has been issued, Western would have twenty (20) days to seek alternative remedies pursuant to 807 KAR 5:001, Section 7 (4).

WHEREFORE, Western petitions the Commission to treat as confidential the redacted information which appears in Attachment A to Western's Motion to Dismiss and is stamped:

"CONFIDENTIAL".

Respectfully submitted this 23 day of November, 1999.

Mark R. Hutchinson
SHEFFER-HUTCHINSON-KINNEY
115 East Second Street
Owensboro, Kentucky 42303
(502) 684-3700

Douglas Walther
Atmos Energy Corporation
P.O. Box 650250
Dallas, Texas 75265

John N. Hughes
124 W. Todd Street
Frankfort, Kentucky 40601

Attorneys for Atmos Energy

VERIFICATION

I, William J. Senter, being duly sworn under oath state that I am Vice President of Rates and Regulatory Affairs for Western Kentucky Gas Company, a Division of Atmos Energy Corporation, and that the statements contained in the foregoing Petition are true as I verily believe.

William J. Senter

CERTIFICATE OF SERVICE

I hereby certify that on the 23 day of November, 1999, the original of this Petition, with the Confidential Information for which confidential treatment is sought, together with ten (10) copies of the Petition without the confidential information, were filed with the Kentucky Public Service Commission, 730 Schenkel Lane, Frankfort, Kentucky 40602, and a true copy thereof mailed by first class mail to the following named persons on this the 23 day of November, 1999:

Hon. Monica M. McFarlin
Hon. Edwin Clark
Hon. David Spenard
Assistant Attorney Generals
Office of Rate Intervention
1024 Capitol Center Drive
Frankfort, Kentucky 40601

Mark R. Hutchinson

wkg\psc\woodward pet for confidentiality 99447

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
NOV 23 1999
PUBLIC SERVICE COMMISSION

In the Matter:

A FORMAL REVIEW OF WESTERN KENTUCKY GAS COMPANY'S DECISION TO TERMINATE A NATURAL GAS STORAGE SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH NORAM ENERGY SERVICES, INC. AND ENTER INTO A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH WOODWARD MARKETING, LLC.	)	CASE NO. 99-447

MOTION TO DISMISS

Comes now Western Kentucky Gas Company ("Western") and respectfully requests the Commission to dismiss the formal review established by the Commission's Order in the above-styled matter. In support of its request Western offers the following:

1. On November 5, 1999, the Commission issued an Order establishing a formal review of Western's gas supply purchase decisions involving NorAm Energy Services, Inc, ("NorAm"), now Reliant Energy, and Woodward Marketing, LLC ("Woodward").

2. The Order asserts that Western, in terminating its contract with NorAm and entering into a replacement contract with Woodward raises "numerous concerns" for the Commission.

3. The Order asserts that Western has not addressed the issues raised in either:

   (a) The letter to Western from the Executive Director, Ms. Helen Helton, dated May 7, 1999; or
   (b) The matters subject to review, items a. through d., as referenced on pages 3-4 of the Commission's Order.

4. Respectfully, Western asserts that it has been proactive in addressing these issues, through its correspondence and by initiating a meeting held with the Staff. The May 25 letter from Ms. Helton acknowledges Western's attempt to be collaborative. A copy is attached as Attachment C-1.

5. Western specifically addressed these issues in its letter to Ms. Helton on April 23, 1999, which laid out Western's three options as a result of the NorAm situation.

Notably, a copy of that letter was not attached to the Commission"s Order. A copy of Western's April 23 letter is attached hereto as Attachment C-2.

6. Western also addressed these issues in its meeting with the Staff on May 12, Mr. Senter's letter of June 29, and on October 4 in Western's response to the Commission's data requests (KPSC DR 3-1) on this subject in Case No. 99-070, Western's pending rate case, (a copy of which is attached as Attachment C-3).

7. None of the issues raised in Ms. Helton's letter or the Commission's Order addressed what Western believes should be the fundamental concern: What is the impact on customers? In the responses attached to this Motion, Western makes clear that the impact on customers was the primary question Western was asking throughout its decision-making in this matter. The result of that focus is that Western's decisions have maximized customer savings while eliminating unnecessary risks.

8. Western selected Option 2 as defined in the April 23 letter. Option 2 was to accept the NorAm buy-out offer and contract with Woodward,the second highest bidder by far, if Woodward would honor its original bid price.

9. Woodward's bid was submitted in a fair, open and competitive bidding process. That bidding process was initiated by Western in response to the Commission's Order in Case No. 97-513, Western's Performance-Based Ratemaking ("PBR") Mechanism.

10. Western's selection of Option 2 has essentially retained all of the customer savings intended when Western originally contracted with NorAm.

11. The Order in Case No. 97-513 indicated that, "During a three-year experimental period, the proposed PBR would provide an incentive for Western to **lower its gas cost to the fullest extent possible** (emphasis added)."

12. The Order in Case No. 97-513 acknowledged that the goals of the PBR included lower regulatory costs, providing up-front regulatory oversight as opposed to after-the-fact prudence reviews, and promoting successful cost management through gas cost incentives.

13. The Commission's PBR decision was designed to provide incentives to Western to make gas supply purchase decisions that would minimize the gas costs to be borne by Western's ratepayers, and eliminate costly after-the-fact prudence reviews.

14. The incentives established by the Commission established benchmark standards of performance and prudency for Western in making its gas supply decisions.

These standards provide for the "up-front regulatory oversight" which eliminates the need for prudence reviews, because the standards set by the Commission rewards or penalizes Western for its gas purchasing performance.

15. Western has held itself to the acknowledged, pre-determined, benchmark standard of performance – **lowering its gas costs to the fullest extent possible** – as established in the PBR in direct response to the incentives provided by the Commission.

16. The formal review established in this proceeding amounts to the kind of costly and burdensome after-the-fact prudence review the PBR was intended to avoid by establishing the benchmark standards embodied in the incentives. This after-the-fact prudence review holds a cloud over Western's gas purchase decision-making and undermines the incentives approved in Case No. 97-513.

17. In direct response to the incentives established by the Commission, Western's gas purchase decisions are estimated to have already saved Western's customers over $3,000,000 since the commencement of the PBR in July 1998. Western has filed PBR performance reports with the Commission each quarter. The decisions at question in this review were designed to produce significant savings and, if unaltered by regulatory action, will continue to produce such savings for Western's customers in the future despite the challenges developing out of the NorAm situation.

18. Selection of Option 3, re-bidding, would have exposed customers to unfavorable current market conditions and bidders' concerns over NorAm's failure. It was reasonable to expect significantly lower bids upon re-bid. Selection of Option 3 would have harmed customers and denied them the lowest gas costs possible.

19. Western's actions have not only been prudent and in accordance with the benchmark standards established by the Commission in Case No. 97-513, but the best course of action on behalf of its customers given the circumstances surrounding the NorAm agreement.

20. With respect to the code of conduct adopted in Western's Performance-Based Ratemaking ("PBR") Mechanism, Western is unaware of a complaint by any customer or marketer leading to this review. Western is unaware that any customer or marketer has been harmed or believes it has been harmed by Western's actions. Western is unaware that any customer or marketer has alleged Western's non-compliance with the code of conduct, nor does the Commission's Order in this matter indicate any such allegations by a customer or marketer.

21. The Woodward bid was derived in a fair and open bidding process. None of the rules outlined in the code of conduct are violated by Western's selection of Option

2. The code of conduct was designed to prohibit preferential treatment toward affiliates, not prohibit affiliate transactions altogether.

22. The code of conduct was not intended to deny customers the best price of gas.

23. The best time to enter into a new gas supply contract is during the summer months when any delivery disruption resulting from a change in suppliers will be minimized. If Western was going to negotiate a satisfactory termination agreement with NorAm and secure the best replacement contract, as proposed in the April 12 letter, Western believed a decision would have to be made soon after the May 12 meeting. The Staff emphasized that the Commission would not pre-approve any gas supply purchase decisions. The May 25 letter from Ms. Helton indicated that it could be inappropriate for the Staff to offer its opinion on the matter. Time was a factor and Western did not believe that it could expect further guidance from, or that it was under any requirement to hold, further meetings with the Staff. Western did provide the information requested by the Staff as soon as it became available.

24. The Commission had already established the benchmark standards of performance in the PBR to which Western was adhering. Nonetheless, Western advised the Commission of its options and elicited feedback given the unique circumstances arising from the NorAm situation.

25. Attached as Attachments A & B are responses which more than adequately supplement the information provided to the Commission in previous letters, meetings and data requests. Collectively, this information fully answers the questions raised in the Commission's Order and demonstrates the appropriateness, adequacy, and reasonableness of Western's decisions in this matter.

26. Western's gas supply purchase decisions were prudent, guided by the PBR incentives established by the Commission in Case No. 97-513, and have maximized customer savings.

The foregoing facts recognize and support the proactive nature in which Western advised the Commission of its options; the benefit of Western's actions in lowering its gas costs to the fullest extent; the degree to which Western properly responded to the incentives embodied and established by the Commission in the PBR; the extent to which this formal review would constitute the type of costly, after-the-fact prudence review the PBR was designed to avoid; and, Western's compliance with the code of conduct.

Respectfully, therefore, Western requests that the Commission dismiss this formal review and allow the incentives, and the spirit of the incentives, it has put in place to continue to work efficiently and beneficially for Western's customers.

If the Commission believes that oral arguments would be beneficial in resolving this matter, Western is willing to participate at the Commission's earliest convenience.

Respectfully submitted this 23 day of November, 1999.

Douglas Walther
Atmos Energy Corporation
P.O. Box 650250
Dallas, Texas 75265

John N. Hughes
124 W. Todd Street
Frankfort, Kentucky 40601

Mark R. Hutchinson
SHEFFER-HUTCHINSON-KINNEY
115 East Second Street
Owensboro, Kentucky 42303

By: ______________________

Attorneys for Atmos Energy

VERIFICATION

I, William J. Senter, being duly sworn under oath state that I am Vice President of Rates and Regulatory Affairs for Western Kentucky Gas Company, a Division of Atmos Energy Corporation, and that the statements contained in the foregoing Petition are true as I verily believe.

William J. Senter

CERTIFICATE OF SERVICE

I hereby certify that on the 23 day of November, 1999, the original of this Motion to Dismiss, together with ten (10) copies, were filed with the Kentucky Public Service Commission, 730 Schenkel Lane, Frankfort, Kentucky 40602, and a true copy thereof mailed by first class mail to the following named persons on this the 23 day of November, 1999:

Attorney General
1024 Capitol Center Drive
Frankfort, Kentucky 40601

Mark R. Hutchinson

Attachment A

Western's Response to the Issues Outlined in Ms. Helton's Letter

Issue: Your supplier's reasons for wanting to discontinue your current arrangement;

Response: The April 23 letter indicates that NorAm (Reliant) was losing money, that they had over-valued the contract, and that due to market conditions that there had been almost no opportunity to capture pricing differentials via various strategies such as hedging. This letter points out that NorAm believed it was starting out each month with a [redacted] loss and that the contract's true value was no more than -[redacted] compared to the [redacted] the contract.

Issue: The reasonableness of your supplier's buy-out offer, in terms of reparation for Western's loss of gas cost savings as well as from the perspective of the supplier's loss mitigation;

Response: The reasonableness of the buy-out is clarified in the April 23 letter. Western was concerned that NorAm could begin to take unnecessary risks that would jeopardize supply delivery and reliability, in order to cut its losses under the contract. Since Woodward had indicated its willingness to honor it original bid, the net price combined with the buy-out would be minus [redacted] versus minus [redacted] in the contract. This represented a net reduction in savings to the customer of about $150,000, a relatively small amount compared to the over $4,000,000 of customer savings [redacted] anticipated under the NorAm contract alone over the three-year experimental PBR. Indeed, via other gas cost management decisions also made by Western but unrelated to the contract, even further savings will accrue to the customer through the various PBR mechanisms.

Accepting NorAm's offer eliminated any NorAm related risks while protecting over 96 percent of the value of customer savings under the original contract. Given the time value of money associated with the up-front payment of NorAm's buy-out, customers will receive no less total benefit under Option 2 than under the original NorAm contract. Western's decision was extremely prudent.

Issue: The pros and con of the options as out-lined in your letter;

Response: The purpose of the April 23 letter was to advise the Commission of the matter, and present the pros and cons. Ultimately, the pros and cons get down to issue of whether it is wise hold NorAm captive to the contract and risk non-performance and protracted litigation, or whether there is a financial solution which is reasonably fair to all parties concerned but particularly the customer. Option 1 held out performance and litigation risks that a prudent decision-maker would avoid given the attractiveness of the alternatives. Option 3 eliminated these risks but lacked the maximum financial benefit for the customer. Option 2 ensured the maximum benefit for the customer while eliminating these risks.

Issue: The level of deliverability and reliability risk associated with Option 1;

Response: While Western could not put a probability factor on the risk associated with Option 1, in Western's conversations with the Commission Staff on May 12, Western did indicate that any risk was too high if an alternative solution would eliminate those risks while providing nearly the same savings for its customers. Western exchanged the opportunities and risks inherent in a full requirements supply arrangement for a significantly discounted price. NorAm indicated it was starting with a loss of [redacted] each month - a staggering amount. Such an admission was unprecedented in our experience, and led us to conclude that the level of risk, both supply risk and financial risk, was too high for Western and its customers. Western did not want NorAm taking unnecessary risks to cut its losses.

A prudent decision-maker eliminates unnecessary and avoidable risks, and our experience as a provider of service to the public tells us that any degree of deliverability and reliability risk should be avoided if reasonably priced alternatives exist. Option 2 retained all of the savings of the original supply arrangement without the risks associated with NorAm.

Issue: How Option 2 comports with the code of conduct established in Case No. 97-513;

Response: Per our letter of April 23, we wanted to discuss this issue with the Staff. We were advised of the history of another utility's fuel contracts, and discussed at length the issue of taking the next highest bid (Option 2) versus re-bidding (Option 3). The Staff did acknowledge that Option 2 was a better deal for customers than Option 3 because it appeared to maximize customer savings. The Staff also indicated that the Commission could not pre-approve gas supply decisions. We indicated that time was a factor if we were going to switch suppliers. The Staff requested written documentation of the NorAm buy-out offer, something we did not have at the time.

The issue relates to item (d) in the code of conduct. That is, did Western give its affiliate preference over non-affiliated companies? The answer is no. Western's decision comports with the code of conduct because the Woodward bid was submitted along with seven others in response to our Request for Proposal. In the April 23 letter, we discussed that it is not uncommon practice for a high bid to be rejected and a second best bid accepted if performance is an issue. That is exactly what has happened here. On top of that, Option 2 maximized customer savings while avoiding unnecessary risks.

Western is unaware of any customer or marketer which come forward to claim they have been harmed by this decision. Without such a claim, and given that the Woodward bid was fairly submitted and that the maximum benefit has been derived for customers, there is no code of conduct issue.

Issue: Provisions of the existing supply contract;
Response: Western had previously filed copies of the NorAm contract with the Commission.

Issue: Correspondence between Western and the supplier concerning these issues.
Response: There was no correspondence between Western and NorAm until we requested a written buy-out request from NorAm after the May 12 meeting with Staff. That letter was not received from NorAm until June 25, and was submitted to the Commission on June 29.

Attachment B

Western's Response to the Issues Outlined in the Commission's Order Dated November 5, 1999

Issue a. The appropriateness of Western's allowing NorAm (Reliant) to buy out of the remaining years of the NorAm agreement.

Response: The April 23 letter discusses the risks of deliverability and reliability and protracted litigation. Avoiding these risks is appropriate if a reasonable alternative exists. The contract itself provides for mutual termination of the contract if both parties agree. The Commission's Order in Case No. 97-513 did not require Western to obtain the Commission's approval to enter into or terminate any gas supply purchase contracts entered into as a result of the incentives established under the PBR mechanism. Western filed a copy of the NorAm contract with the Commission. Although Western did seek the Commission's guidance as a result of the NorAm situation, Western was told by the Staff that the Commission does not pre-approve gas supply purchase contracts.

Issue b. The adequacy of NorAm's (Reliant's) buy-out offer, considering current market conditions, and the appropriate distribution of the payment.

Response: The buy-out amount, in combination with the new price, retains over 96 percent of the intended customer savings while eliminating unnecessary risks and potential litigation. Based on the time value of money associated with the up-front buy-out, the customers receive no less total benefit under Option 2 than under the original NorAm contract. Given current market conditions, such savings would not be possible without both the sizeable NorAm buy-out and Woodward's willingness to honor its original bid price. This was described in the April 23 letter. If the issue is prudency, it should be pointed out that the customer's share of the buy-out amount is being passed along to ratepayers up-front via the Gas Cost Adjustment. Indeed, because these savings come "pre-paid" as a result of the buy-out payment, the flow-through of savings to customers is accelerated.

Issue c. The reasonableness of Western's efforts to secure a replacement source of supply and asset management contract.

Response: Given current market conditions, the NorAm buy-out amount, and Woodward's willingness to honor its original bid price, the final price to customers is reasonable. Absent Woodward's willingness to honor its original bid price, Western would have had to request new bids that clearly would have been below the original Woodward price. Aside from less favorable current market conditions, the remaining bidders would also have devalued their next bids in reaction to the failed NorAm experience. Selection of Option 3 would have harmed customers and denied them the lowest gas costs possible. Option 2 was the means to secure the highest valued replacement contract and consistent with the incentives established under the PBR.

Issue d. Western's compliance with the rules of conduct imposed by the Commission in Case No. 97-513.

Response: The Woodward bid was derived in a fair and open bidding process. Western selection of Option 2 is in full compliance with the rules outlined in the code of conduct. The code of conduct was designed to prohibit preferential treatment toward affiliates, not prohibit affiliate transactions or trigger after-the-fact gas prudency reviews. Western is unaware of any party which has come forward to claim they have been harmed by this decision. Without such a claim there is no code of conduct issue. The code of conduct was not intended to deny customers the best price of gas.

Western reasonably believed that no other prospective bid would have come close to the original bid the should the bidding have been re-opened. Woodward could not be obligated nor expected to submit the same bid given the current market conditions and the failed NorAm experience. As indicated in our response to KPSC DR 3-1 in Case No. 99-070, Western could not use the original Woodward bid as a back up (Response attached). Option 2 was the most prudent choice available to Western and its customers and is in compliance with the code of conduct.

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KENTUCKY 40602
www.psc.state.ky.us
(502) 564-3940
Fax (502) 564-3460

Paul E. Patton
Governor

Ronald B. McCloud, Secretary
Public Protection and
Regulation Cabinet

Helen Helton
Executive Director
Public Service Commission

May 25, 1999

Mr. Bill Senter
Vice President - Rates & Regulatory Affairs
Western Kentucky Gas Company
2401 New Hartford Road
Owensboro, Kentucky 42302

Dear Mr. Senter:

I understand that at your May 12, 1999 meeting with staff you discussed the issues outlined in my earlier letter. I have been advised that as of the date of that meeting Western had not received any written correspondence from its supplier concerning its supply contract with Western and related problems. I appreciate your keeping the Commission and the staff informed of Western's emerging supply concerns. While I know that your initial meeting with staff was deemed to have been very instructive, until you have something in writing from your supplier, the staff cannot give you an opinion on Western's best course of action, to the extent that such direction is appropriate at all.

If you would like to forward future correspondence from your supplier and seek additional staff input, we may arrange a future meeting. Information concerning any such arrangements will also be conveyed to the Attorney General's Office.

Sincerely,

Helen C. Helton

Helen C. Helton
Executive Director

cc: Monica McFarlin

Western Kentucky Gas Company

WESTERN
KENTUCKY
GAS

April 23, 1999

Honorable Helen C. Helton
Executive Director
Kentucky Public Service Commission
730 Schenkel Drive
Frankfort, Kentucky 40602

Subject: **KPSC Case No. 97-513 – Western Kentucky Gas Company Experimental Performance-Based Ratemaking Mechanism**

Gas Supply Management Contract

Dear Ms. Helton:

THIS LETTER CONTAINS INFORMATION WHICH THE COMMISSION HAS PREVIOUSLY DETERMINED IS ENTITLED TO CONFIDENTIAL PROTECTION AND SHALL BE WITHHELD FROM PUBLIC INSPECTION. WE ASK THAT THE SAME PROTECTION BE AFFORDED THIS LETTER.

As you may recall, during 1997 Western Kentucky Gas Company requested authorization from the Commission to implement an Experimental Performance-Based Ratemaking Mechanism (PBR). In KPSC Case No. 97-513 which was finalized in June 1998, the Commission authorized the Western Kentucky Gas Company Experimental Performance-Based Ratemaking Mechanism for a three-year period beginning July 1, 1998.

After learning that the PBR mechanism had been approved, WKG distributed a Request for Proposal (RFP) to more than forty suppliers seeking to obtain competitive bids to manage WKG's commodity, pipeline transportation and storage requirements. Of the original forty-three vendors solicited for bids, only eight vendors submitted bids that were accepted as qualifying bids. That is, the bids submitted fully complied with the requirements outlined in the RFP. Each vendor was requested to submit bids for commodity purchases on a plus or minus basis per MMBtu for the appropriate supply area index. A listing of the vendors who submitted conforming bids and the amounts bid follows:

Company	Index Price +/- per MMBtu
[redacted]	[redacted]

For clarification purposes, the above bids are listed in ascending to descending order with the best bid listed first and the least favorable bid listed last.

WKG determined that the best bid submitted at the time was the [redacted] bid of Noram and proceeded to enter into a 3-year contract with Noram with a contract term that mirrored the term of the PBR. The contract with Noram became effective on July 1, 1998, and Noram immediately began to supply WKG with commodity, pipeline transportation and gas storage management services.

Everything appeared to be going well with the Noram contract until November 1998. During November of 1998, Noram approached WKG to inform WKG that they were really struggling financially with the WKG contract. [redacted] They indicated to us that they may have significantly over-valued WKG's assets (WKG storage, pipeline storage, pipeline transportation, etc.) when preparing their bid. Furthermore, they stated that there had been very little volatility in the market and there had been almost no opportunity to capture pricing differentials both on an intra-month and a month-to-month basis for the actual commodity purchases as well as hedging opportunities. Also, there had been very little cold weather through November 1998 so gas storage inventories remained high. These high inventory levels combined with the warm winter worked together to maintain commodity price stability and prevent volatility. [redacted]

It was at this point that Noram asked WKG to consider reforming the contract. Specifically, Noram asked WKG to forego some of the discount it was receiving on commodity purchases. Noram also stated that if WKG could not or would not reform the contract, that Noram would like to propose a buyout to WKG for the last two years of the contract. WKG responded to Noram that reforming the contract could present significant negative consequences including a reduction of benefits to WKG's customers as well as possibly compromising the integrity of WKG's competitive bid process. With this response, WKG asked Noram to propose a contract buyout offer. Noram then responded with an offer to buy out the remaining two years of the contract for [redacted]

WKG believes it is important to consider Noram's request. With the financial difficulty Noram is having with this contract, we do not want Noram taking risks unnecessarily if these risks jeopardize supply delivery and reliability. Also, Noram has been a very good supplier to WKG in the past, and it seems prudent to try to resolve this in a satisfactory manner for all of the affected parties.

With the above in mind, WKG has identified three options to resolve this:

Option 1. WKG could take the position that a contract is a contract and hold Noram's feet to the fire. If WKG takes this position, Noram may determine that the best thing for them to do is to default on the contract and not perform. WKG would then probably pursue litigation. If we go that route, not only would the benefits to ratepayers and the Company alike cease, but this matter would probably be tied up in court for two or three years.

Option 2. Another option we have is to accept the Noram buyout offer and go to the second best bid we received last summer when the RFP for this contract was first issued. This is a

standard industry practice under competitive bidding where the top bid, under more careful review, is determined not to be superior to the next highest bid under the complete terms of the RFP. The second best bid received was from [redacted] has indicated its willingness to serve as the asset manager for the remaining two years of the PBR, from July 1, 1999, to June 30, 2001. It also has said that it will honor its bid of last summer at the same commodity rate of [redacted] subject to the negotiation of a mutually agreeable contract.

The Noram bid was [redacted] The effect of the buyout by Noram over the last two years of the contract is approximately [redacted] if you assume annual purchase volumes of 26 Bcf. By combining the Noram buyout with the [redacted] bid, we would end up with a [redacted] on a per unit basis compared to Noram's [redacted] The net reduction of PBR benefit for the remaining two years of the experimental PBR program would amount to [redacted] for customers and an equal amount for the Company.

Option 3. If we accept the Noram buyout, we could also re-bid the contract. This could result in an increase in gas cost to the customer. WKG has no reason to believe that it can achieve a price in rebidding the contract better than the [redacted] We believe bidders will be reluctant to take as much risk now knowing that Noram opted out of the contract, and in reaction to the current market conditions. While we would expect [redacted] to re-bid, there are certainly no guarantees that [redacted] would bid the same amount as last time. [redacted] With 52 MMBtu of purchase requirements, this amounts to more than a [redacted] reduction in savings, more than [redacted] less each for customers and shareholders.

WKG believes that Option 2 is the best overall option and proposes to pursue this option. However, we want to be sure that the Commission and Commission staff are satisfied [redacted] We believe WKG is in compliance. We would like to meet with Commission staff as soon as possible to have some dialogue on this development, and I will call the Commission within the next few days to try to schedule a meeting.

If you have any questions, please feel free to call me at 502-685-8072.

Sincerely yours,

Bill Senter

William J. Senter
VP Rates & Regulatory Affairs

cc: Ms. Becky Phillips

Western Kentucky Gas Company
Case No. 99-070
KPSC Data Request #3 Dated September 20, 1999
DR Item 1-a, b, c, d, e, f
Witness: Hack

Data Request:

Refer to the response to Item 42 of the Commission's August 19, 1999, Order. The original agreement between Western and Reliant Energy Services ("Reliant") had been filed with the Commission by Western.

a. Has Western filed the replacement agreement of Woodward Marketing, LLC ("Woodward") with the Commission at this time?

b. When does Western expect to file the new agreement with the Commission?

c. Provide a detailed explanation for why Western decided to go with the next best proposal from the original vendors rather than re-open the process by requesting new bids.

d. Explain whether Western could have re-opened the process by requesting new bids from vendors other than Woodward, and then gone back to Woodward if its original proposal was still better than the new bids.

e. What is the corporate relationship between Western and Woodward?

f. The original agreement between Western and Reliant was terminated by mutual agreement of the parties. Provide the terms

of the termination of the agreement and the impact that the termination has had, or will have, on the costs recovered through Western's Gas Cost Adjustment ("GCA") clause.

Response:

a. - b. Western expects to file the Woodward replacement agreement with the Commission by October 4, 1999.

c. See the attached redacted letters explaining why Western decided to go with the next best proposal from the original vendors. Original copies of these letters are being provided in this case under Petition for Confidentiality. These letters were granted confidentiality when previously submitted to the Commission in Case No. 97-513.

d. No. In order for Western to maintain fairness and complete integrity of its bid process, had it decided to re-bid its requirements, it would have had to reopen the bidding to all of the qualified suppliers on its active bid list except for Reliant Energy.

e. Atmos, through its acquisition of United Cities Gas Company in 1997, owns a 45% interest in Woodward Marketing, LLC. See KPSC #1 - DR 1

f. The Reliant/WKG agreement was terminated July 31, 1999, with 23 months remaining on the original 3-year term. See attached redacted termination agreement, the original of which is being

provided in this case under Petition for Confidentiality. Had the Reliant contract continued for the entire term, Western's customers would have received gas cost reductions through its GCA mechanism of approximately $2.6 million for the remaining 23 months. Combining the benefits of the Woodward replacement agreement with the Reliant Contract buyout, Western's customers will receive approximately $2.5 million in gas cost reductions through the GCA mechanism over the remaining term.

COMMONWEALTH OF KENTUCKY

PUBLIC SERVICE COMMISSION

RECEIVED
NOV 1 9 1999
PUBLIC SERVICE COMMISSION

In the Matter:

A FORMAL REVIEW OF WESTERN KENTUCKY GAS COMPANY'S DECISION TO TERMINATE A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH NORAM ENERGY SERVICES, INC. AND ENTER INTO A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH WOODWARD MARKETING, L.L.C.	)	CASE NO. 99-447

MOTION TO INTERVENE

Comes now the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and moves to intervene in the above-styled proceeding.

Respectfully submitted,

A.B. CHANDLER III
ATTORNEY GENERAL

Monica M. McFarlin

MONICA M. McFARLIN
ASSISTANT ATTORNEY GENERAL
OFFICE OF ATTORNEY GENERAL
OFFICE OF RATE INTERVENTION
1024 CAPITAL CENTER DRIVE
FRANKFORT, KENTUCKY 40601

CERTIFICATE OF SERVICE AND FILING

Undersigned counsel hereby certifies that an original and ten (10) photocopies of the foregoing Motion to Intervene were served and filed by hand delivery to the Hon. Helen C. Helton, Executive Director, Public Service Commission, 730 Schenkel Lane, Frankfort, Kentucky 40601; furthermore, it was served by mailing a true and correct copy of the same, first class postage prepaid, to William Senter, Vice President , Rates and Regulatory Affairs, Western Kentucky Gas Co., P.O. Box 866, Owensboro, Kentucky 42302 and to Mr. John Hughes, 124 West Todd Street, Frankfort Kentucky 40601.

Assistant Attorney General

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KENTUCKY 40602
www.psc.state.ky.us
(502) 564-3940
Fax (502) 564-1582

Paul E. Patton
Governor

Ronald B. McCloud, Secretary
Public Protection and
Regulation Cabinet

Helen Helton
Executive Director
Public Service Commission

November 17, 1999

The Honorable John N. Hughes
124 West Todd St.
Frankfort, KY 40601

Re: Case No. 99-447

Dear Mr. Hughes:

I have enclosed a copy of the Commission's Final Order for your information.

Sincerely,

Stephanie Bell

Stephanie Bell
Secretary of the Commission

SB/lc

enclosure

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KENTUCKY 40602
www.psc.state.ky.us
(502) 564-3940
Fax (502) 564-1582

Paul E. Patton
Governor

Ronald B. McCloud, Secretary
Public Protection and
Regulation Cabinet

Helen Helton
Executive Director
Public Service Commission

November 17, 1999

Ms. Monica M. McFarlin
Assistant Attorney General
1024 Capital Center Dr.
Frankfort, KY 40601

Re: Case No. 99-447

Dear Ms. McFarlin:

I have enclosed a copy of the Commission's Final Order for your information.

Sincerely,

Stephanie J. Bell

Stephanie Bell
Secretary of the Commission

SB/lc

enclosure

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KENTUCKY 40602
www.psc.state.ky.us
(502) 564-3940
Fax (502) 564-1582

Paul E. Patton
Governor

Ronald B. McCloud, Secretary
Public Protection and
Regulation Cabinet

Helen Helton
Executive Director
Public Service Commission

November 17, 1999

Mr. David F. Boehm, Esq.
Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY
2110 CBLD Center
36 East Seventh St.
Cincinnati, OH·45202

Re: Case No. 99-447

Dear Gentlemen:

I have enclosed a copy of the Commission's Final Order for your information.

Sincerely,

Stephanie Bell

Stephanie Bell
Secretary of the Commission

SB/lc

enclosure

EDUCATION PAYS

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KENTUCKY 40602
www.psc.state.ky.us
(502) 564-3940
Fax (502) 564-1582

Paul E. Patton
Governor

Ronald B. McCloud, Secretary
Public Protection and
Regulation Cabinet

Helen Helton
Executive Director
Public Service Commission

November 17, 1999

Mr. Conrad Gruber
President
Western Kentucky Gas Company
2401 New Hartford Rd.
Owensboro, KY 42303-1312

RE: Case 99-447

Dear Mr. Gruber:

I have enclosed a copy of the Commission's Final Order for your information.

Sincerely,

Stephanie Bell

Stephanie Bell
Secretary of the Commission

SB/lc

enclosure

Enclosure

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

November 5, 1999

William J. Senter
V.P. Rates & Regulatory Affairs
Western Kentucky Gas Company
2401 New Hartford Road
Owensboro, KY. 42303 1312

RE: Case No. 99-447

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

Stephanie Bell

Stephanie Bell
Secretary of the Commission

SB/hv
Enclosure

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter:

A FORMAL REVIEW OF WESTERN KENTUCKY GAS COMPANY'S DECISION TO TERMINIATE A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH NORAM ENERGY SERVICES, INC. AND ENTER INTO A NATURAL GAS SALES, TRANSPORTATION AND STORAGE AGREEMENT WITH WOODWARD MARKETING, L.L.C.	)	CASE NO. 99-447

O R D E R

On October 1, 1999, Western Kentucky Gas Company ("Western"), a division of Atmos Energy Corporation ("Atmos"), filed with the Commission a Natural Gas Sales, Transportation and Storage Agreement ("Agreement") it had negotiated and executed with Woodward Marketing, L.L.C. ("Woodward"). Western also petitioned that the Agreement be afforded confidential treatment in the same manner as had been granted for its previous Natural Gas Sales, Transportation and Storage Agreement with NorAm Energy Services, Inc. ("NorAm Agreement").

Western stated that it had previously advised the Commission of various issues that had arisen concerning the NorAm Agreement. Western stated that it was in the best interests of Western and its ratepayers to terminate the NorAm Agreement and enter into a new agreement with a different entity, namely Woodward, which is an affiliate of Western. This information was provided in an April 23, 1999 letter from Western to the Commission's Executive Director.

The NorAm Agreement was executed in conjunction with Western's Experimental Performance-Based Ratemaking ("PBR") Mechanism that the Commission approved in Case No. 97-513.[1] NorAm had submitted the lowest bid in response to a Request for Proposal ("RFP") issued by Western for gas supply and management services after receiving the Commission's approval of its proposed PBR. By letter dated May 7, 1999, the Commission's Executive Director responded to Western, arranging a meeting between Commission Staff and representatives of Western and identifying specific issues that Western's representatives should be prepared to discuss with Commission Staff. At that meeting Commission Staff discussed issues that had been raised by Western's letter and also made Western aware of concerns the Commission had regarding the termination of the NorAm Agreement and Western's stated inclination to enter into a new agreement with Woodward. In a May 25, 1999 letter from the Commission's Executive Director, Western was advised that when it received future correspondence from NorAm regarding the termination of the NorAm Agreement it could forward such correspondence to the Commission and arrange another meeting with Commission Staff to discuss the issues further. The next correspondence filed by Western was a June 29, 1999 letter to the Commission's Executive Director announcing that Western had decided to terminate the Agreement with NorAm, now Reliant Energy Services ("Reliant"), and negotiate and execute a new agreement with Woodward. That was the last formal communication from Western on the matter until the October 1, 1999 filing of the new Agreement accompanied by the petition for confidential treatment.

[1] Case No. 97-513, The Petition of Western Kentucky Gas Company, a Division of Atmos Energy Corporation (WKG), Gas Cost Adjustment, to Incorporate an Experimental Performance-Based Ratemaking Mechanism.

The Commission has numerous concerns regarding Western's actions in reaching its decision to terminate the NorAm Agreement and enter into the new Agreement with Woodward. Some of those concerns are reflected in Exhibit A of this Order, which is the May 7, 1999 letter from the Commission's Executive Director to Western that identified the topics of concern that would be discussed at the meeting between Commission Staff and representatives of Western. Attached as Exhibit B, in redacted form, is Western's June 29, 1999 letter advising the Commission of its decision to terminate the NorAm Agreement and enter into the new Agreement with Woodward. That correspondence failed to address any of the topics of concern identified in the Executive Director's May 7, 1999 letter and, likewise, failed to address the matters Commission Staff discussed at its meeting with representatives of Western.

Therefore, based on the correspondence cited herein and entered into this record and the October 1, 1999 filing of the Agreement, the Commission finds that:

1. A formal review should be conducted of Western's actions regarding the matters identified herein concerning its source of supply and asset management contracts, specifically regarding the termination of the NorAm Agreement and the execution of the Agreement with Woodward.

2. Matters subject to review, shall include, but not be limited to:

a. The appropriateness of Western's allowing Reliant to buy out the remaining years of the NorAm Agreement.

b. The adequacy of Reliant's buy out offer, considering current market conditions, and the appropriate distribution of the payment.

c. The reasonableness of Western's efforts to secure a replacement source of supply and asset management contract.

d. Western's compliance with the rules of conduct imposed by the Commission in Case No. 97-513.

IT IS THEREFORE ORDERED that:

1. With the opening of this docket, the Commission is initiating a formal review of Western's termination of the NorAm Agreement and execution of a new Agreement with its affiliate, Woodward Marketing, L.L.C.

2. The formal review will follow the procedural schedule in Appendix A, attached hereto and incorporated herein.

3. At any formal hearing in this matter there will be no opening statements or summaries of written direct testimony allowed.

4. Nothing contained herein shall prohibit the Commission from issuing future Orders that could broaden the scope of the formal review.

Done at Frankfort, Kentucky, this 5th day of November, 1999.

By the Commission

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO THE ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 99-447 DATED 11/5/99

Staff's initial request for information to Western shall be filed no later than 11/23/99

Western shall file responses to the initial request for information with the Commission no later than 12/13/99

Additional requests for information to Western shall be filed no later than 01/06/00

Western shall file responses to the additional requests for information with the Commission no later than 01/21/00

Intervenor testimony, if any, shall be filed with the Commission in verified prepared form no later than 02/04/00

All requests for information to Intervenors shall be filed no later than 02/18/00

Intervenors shall file with the Commission responses to requests for information no later than 03/03/00

Additional procedural dates will be established by future Order of the Commission.

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KENTUCKY 40602
www.psc.state.ky.us
(502) 564-3940
Fax (502) 564-3460

Paul E. Patton
Governor

Ronald B. McCloud, Secretary
Public Protection and
Regulation Cabinet

Helen Helton
Executive Director
Public Service Commission

May 7, 1999

Mr. Bill Senter
Vice President - Rates & Regulatory Affairs
Western Kentucky Gas Company
P.O. Box 866
Owensboro, Kentucky 42302

Dear Mr. Senter:

Thank you for your letter of April 23, 1999, informing the Commission of a problem regarding Western's gas supply arrangements and outlining a number of possible alternatives. You had requested a meeting with staff to discuss Western's gas supply situation. That meeting has been scheduled for Wednesday, May 12th, at 10:00 in Conference Room 1.

At the meeting on Wednesday, please be prepared to discuss the following topics:

- Your supplier's reasons for wanting to discontinue your current arrangement;

- The reasonableness of your supplier's buy-out offer, in terms of reparation for Western's loss of gas cost savings as well as from the perspective of the supplier's loss mitigation;

- The pros and cons of the options as out-lined in your letter;

- The level of deliverability and reliability risk associated with Option 1;

- How Option 2 comports with the code of conduct established in Case No. 97-513.

- Provisions of the existing supply contract (please bring a copy of the contract with you).

- Correspondence between Western and the supplier concerning these issues.

EXHIBIT A

I'm sure other items of interest will develop and be discussed at Wednesday's meeting, but these topics are of particular interest.

I appreciate your efforts in keeping the Commission informed about Western's gas supply situation. If you have any questions concerning the meeting or the topics out-lined above, please contact Aaron Greenwell, Director of the Financial Analysis Division at (502)564-3940, ext. 226.

Sincerely,

Helen C. Helton
Executive Director

Western Kentucky Gas Company

WESTERN KENTUCKY GAS

June 29, 1999

Honorable Helen C. Helton
Executive Director
Kentucky Public Service Commission
730 Schenkel Drive
Frankfort, Kentucky 40602

Subject: **KPSC Case No. 97-513 – Western Kentucky Gas Company Experimental Performance-Based Ratemaking Mechanism**

Gas Supply Management Contract

Dear Ms. Helton:

THIS LETTER CONTAINS INFORMATION WHICH THE COMMISSION HAS PREVIOUSLY DETERMINED IS ENTITLED TO CONFIDENTIAL PROTECTION AND SHALL BE WITHHELD FROM PUBLIC INSPECTION. WE ASK THAT THE SAME PROTECTION BE AFFORDED THIS LETTER.

In my April 23, 1999 letter to you and a subsequent meeting held May 12 with the Staff and the Attorney General's office, Western Kentucky Gas Company outlined the situation that has developed whereby our present gas supplier under our Performance-Based Ratemaking Mechanism (PBR), Reliant Energy Services (formerly NorAm), has expressed the desire to buy out the remaining term of their contract with us. [redacted] Reliant's proposal is summarized in the attached letter of confirmation.

As discussed in my letter and in person with the Staff and Attorney General's office, Western's goal has always been to achieve the maximum benefit for our customers and Western under the PBR. Given the various options faced by Western as a result of the Reliant situation, [redacted]

[redacted]

EXHIBIT B

Our purpose with this letter was to simply inform you of our decision. We appreciate the Staff's willingness to listen to our concerns and discuss the issue with us. Please feel free to contact me at 270-685-8072 should you have any questions. Upon successful negotiation and execution of all the terms of the contract with [redacted] we will file a copy with the Commission.

Sincerely,

William J. Senter jp

William J. Senter
Vice President – Rates & Regulatory Affairs

Attachment

Cc: Mr. Conrad Gruber
Mr. Gordon Roy
Mr. Randy Hutchinson
Mr. Jack Hughes

Reliant Energy

June 25, 1999

Atmos Energy Corporation
Mr. Gordon J. Roy
Vice President, Gas Supply

Re: Natural Gas Sales, Purchase, Transportation and Storage Agreement dated July 1, 1998.

Dear Sir;

We appreciate your response to our letter which you referenced as having received on June 9, 1999, regarding the agreement between Western Kentucky Gas Company, a division of Atmos Energy Corporation ("WKG"), and Reliant Energy Services, Inc. (as successor in interest to Noram Energy Services, Inc.) ("Reliant").

Your understanding of our proposal is fundamentally correct; [redacted]

Our proposal is contingent on our management's final approval.

We welcome your interest in our proposal and look forward to your response.

Sincerely,

Ken Bradley

Ken Bradley
Managing Director, Storage, Transportation and Asset Optimization
Reliant Energy Services

This proposal is not intended to create a binding offer or contract of purchase and sale of gas between Buyer and Seller. Moreover, this document does not in any way whatsoever obligate either of the parties to enter into any agreements or to proceed with any possible relationship or transaction under the terms and conditions set forth herein. The terms and conditions set forth are subject to negotiation, completion and incorporation into and the execution by both parties of a definitive agreement. Either party may terminate discussions and/or negotiations regarding this document at any time.