SEC
STAND ENERGY CORPORATION

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RECEIVED
JUN 29 2012
PUBLIC SERVICE COMMISSION

June 28, 2012

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602-0615

Re: Case No. 2012-00136

Dear Mr. Derouen:

Enclosed for filing in the above-captioned matter is Stand Energy Corporation's Original *Petition For Rehearing of the Order Denying Stand Energy's Motion To Intervene* totaling six (6) pages and 10 copies for filing with the Commission.

Thank you for your prompt attention to this filing. If you have any questions you may contact me at (513) 621-1113.

Sincerely,

John M. Dosker

John M. Dosker
General Counsel

Encls.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

JUN 29 2012

PUBLIC SERVICE COMMISSION

In The Matter of:

AN ADJUSTMENT OF THE PIPE REPLACEMENT PROGRAM RIDER OF DELTA NATURAL GAS COMPANY, INC.	)))	**CASE NO. 2012-00136**

PETITION FOR REHEARING OF THE ORDER DENYING STAND ENERGY CORPORATION'S MOTION TO INTERVENE.

Pursuant to KRS 278.400 and 807 KAR 5:001 §4(10), Stand Energy Corporation ("Stand Energy") petitions the Kentucky Public Service Commission for rehearing of the June 25, 2012 Order in the above-captioned and numbered action denying Stand Energy Corporation's Motion To Intervene. The grounds for this motion are that the Commission's Order inappropriately and incorrectly states or implies that Stand Energy Corporation is a "competitor" of Delta Natural Gas. Stand Energy Corporation files this Petition exclusively to correct the misconception that Stand Energy (or any gas marketer or supplier) "competes" at any level in any meaningful way with a regulated gas distribution utility like Delta Natural Gas. A memorandum in support of this motion is filed herewith.

Respectfully Submitted,

John M. Dosker

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CERTIFICATE OF SERVICE

I hereby certify that the foregoing was mailed, first class postage prepaid, this 28th day of June 2012, to the following parties of record:

Robert M. Watt, Esq.
Stoll, Keenon, Ogden, PLLC
300 West Vine Street
Suite 2100
Lexington, Kentucky 40507-1801

Matthew Wesolosky
Delta Natural Gas Company, Inc.
3617 Lexington Road
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Assistant Attorneys General
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John M. Dosker

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COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter of:

AN ADJUSTMENT OF THE PIPE REPLACEMENT PROGRAM RIDER OF DELTA NATURAL GAS COMPANY, INC.	)))	**CASE NO. 2012-00136**

MEMORANDUM SUPPORTING PETITION FOR REHEARING OF THE ORDER DENYING STAND ENERGY CORPORATION'S MOTION TO INTERVENE.

Stand Energy Corporation submits the following Memorandum in support of its Petition for Rehearing, filed to correct the misconception that a gas marketer or supplier ever "competes" with a regulated distribution utility.

1. Utilities Earn Money From Service, Not from Selling Gas

Gas Distribution utilities in Kentucky are not allowed to make a profit on the sale of natural gas. (See Attached Exhibit 1, "*The Purchased Gas Adjustment: Frequently Asked Questions, Item 3*" from the Commission's website.). Instead, the distribution utilities in Kentucky are allowed to collect their gas costs through the Purchased Gas Adjustment (PGA) mechanism. Utilities own the distribution pipe in the ground and other hard assets. Each distribution utility is authorized by the Commission to earn a specific rate of return on those assets or investments - - regardless of which entity is supplying the gas, the regulated company or a third party marketer/supplier.

According to this Commission's own website, utilities don't earn any money from the sale of natural gas itself. They simply pass the cost of gas straight through to the consumer. (Id.).

This simple explanation is consistent with the practice in Kentucky found in the Purchased Gas Adjustment (PGA) mechanism. (Quarterly or otherwise).

The sole exception to the general rule that utilities earn money from service, not gas is if the utility has unregulated affiliates/corporate subsidiaries in its corporate structure. Several examples exist in Kentucky. Delta Natural Gas and Atmos Energy Corporation both have unregulated marketing subsidiaries (affiliates) marketing natural gas in the service territory of the regulated LDC. Both of these unregulated subsidiaries compete with other "competitive natural gas marketers or suppliers" such as Stand Energy Corporation. Stand Energy admits that it competes with other "competitive suppliers" such as Delta Natural Gas Marketing and Atmos Energy Marketing. Stand Energy further submits and that it would be in the best interests of Delta's Industrial, Commercial and Governmental customers if there was much more competition involved in the supply of natural gas behind the Delta system.

However, Stand Energy Corporation does not compete with any regulated utility, natural gas or otherwise in any state. Stand Energy has never been found to compete with any regulated utility of any kind in any way in any state or by the Federal Energy Regulatory Commission. Therefore, Stand Energy either requests the Commission amend the Order herein to remove inappropriate references to "competition" between Delta the regulated utility and Stand Energy, or, in the alternative; Stand Energy requests a due process hearing to determine the facts surrounding the determination that "[t]he only interest that Stand arguably has in the natural gas rates and service of Delta is as a competitor . . ." (Order at p.5).

2. Gas Marketers/Suppliers Earn Money From Selling Gas, Not Service.

Gas Marketers/Suppliers do not routinely own pipe in the ground or other assets utilized in the delivery of natural gas. Gas Marketers/Suppliers generally make profits by buying natural gas and arranging for its delivery to the consumer via interstate and intrastate pipelines and the pipes of the local distribution company. Some marketers perform their own billing (dual billing) while some utilities will perform the billing for marketers so customers only receive one bill. There are various models used in the states that promote gas competition but they are all very similar.

There is no evidence in this case, or any case that Stand Energy has been a party to before the Kentucky Public Service Commission, or any other state or federal regulatory or judicial body, that would support the conclusion that Stand Energy and any utility, much less Delta Natural Gas, "compete" on any level for anything.

WHEREFORE, Stand Energy Corporation respectfully requests that the Commission grant this Petition for Rehearing to amend the Order to remove inappropriate references to competition or schedule a due process hearing to determine the facts surrounding the Commission determination that "[t]he only interest that Stand arguably has in the natural gas rates and service of Delta is as a competitor . . ." (Order at p.5).

Respectfully Submitted,

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Assistant Attorneys General
Utility & Rate Intervention Division

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Exhibit 1

THE PURCHASED GAS ADJUSTMENT: FREQUENTLY ASKED QUESTIONS

What is the Purchased Gas Adjustment?
The Purchased Gas Adjustment (PGA), also known as the Gas Cost Adjustment (GCA), is a mechanism that permits jurisdictional natural gas distribution utilities to regularly adjust the price of natural gas supplied to consumers to reflect the utility's cost of purchasing that gas and transporting it via pipeline to their system.

Why is the PGA necessary?
By federal law, the wholesale price of natural gas is unregulated and fluctuates with market conditions. The PGA enables utilities to adjust on a regular basis the amount they charge their customers to reflect the actual cost of the gas used by those customers. Without the PGA, natural gas distribution companies would have to adjust their base rates much more frequently and those adjustments would be much greater.

Do utilities earn a profit on the PGA?
No. The PGA serves strictly as a mechanism for reflecting the costs of natural gas and pipeline transportation costs on a dollar-for-dollar basis.

How often does the PGA change?
Four of Kentucky's five large natural gas distribution companies – Louisville Gas and Electric, Atmos Gas, Columbia Gas and Delta Gas – adjust their PGAs every three months. Duke Energy Kentucky adjusts its PGA on a monthly basis. Most smaller gas distribution companies adjust their PGAs quarterly, although some make less frequent adjustments.

How is the PGA amount determined?
The PGA includes both prospective and retrospective calculations. The largest portion of the PGA represents a company's best estimate of its natural gas costs for the next period. This amount is based on the known costs of gas it has contracted to buy during that time and gas it has already purchased and will withdraw from storage, as well as the estimated cost of gas that will be purchased at market prices during the period. It also includes the cost of storage and pipeline transportation for that gas. Because this amount includes estimates, it usually turns out to be either above or below the actual cost in any given period. The retrospective portion of the PGA provides for a "true up" that insures that customers pay no more or no less for gas than the utility's actual costs. If a utility overestimated its costs, the difference is returned to customers by a reduction in the PGA. Conversely, if market conditions lead to an underestimation of costs, the company recovers the difference through an increase in the PGA. In order to reduce the size of fluctuations in the PGA, the true-up portion is spread over a 12-month period and adjusted each time the PGA changes.

Source: http://www.psc.ky.gov/agencies/psc/consumer/PGA%20QandA.pdf

Why doesn't the PGA drop right away when the wholesale cost of gas declines?
Because most companies adjust costs on a prospective three-month cycle, the PGA will not reflect market fluctuations that occur within that period. Furthermore, because companies purchase gas in advance – either through storage or by contract – those prices also will not necessarily reflect current market prices. The 12-month true-up in the PGA corrects for any mismatches between the amount charged to consumers and the actual gas cost. Over the long term, the PGA will reflect changes in overall natural gas wholesale prices, but will lag behind to some degree. In the final analysis, however, prices paid by consumers will be no more or no less than the amount paid by the distribution company for purchase, storage and transportation of the gas.

Does the Kentucky Public Service Commission (PSC) review the PGA amounts for each utility?
Yes. Every PGA filing is reviewed by the PSC to insure that the price consumers pay for natural gas reflects appropriate estimates of future costs, based on published indices of future wholesale prices, and after-the-fact true-ups based on the utility's actual costs.

How does the PSC know if the PGA accurately reflects gas costs for a utility?
Utilities are required to fully document all of their natural gas costs, including purchase, storage and transportation. This includes providing contracts and other materials to the PSC. By statute, (KRS 278.274), the PSC has the authority to review a natural gas utility's purchasing practices and disallow costs that are the result of imprudent purchasing practices.

Can the public access PGA information?
Yes. Those documents provided to the PSC that do not involve confidential business information (such as the names of suppliers) become public records.

What is the legal authority for the PGA?
The statutory foundations for the PGA are KRS 278.040, which gives the Commission exclusive jurisdiction over the regulation of rates and services of utilities, and KRS 278.030(1), which grants the PSC the authority to set rates that are fair, just and reasonable.