

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE NOTICE OF PURCHASED GAS       )  
ADJUSTMENT FILING OF WESTERN       )   CASE NO. 8839-U  
KENTUCKY GAS COMPANY                )

O R D E R

On December 1, 1983, the Commission issued its Order in Case No. 8839 approving certain adjustments in rates and providing under certain conditions for the further adjustment of such rates when the wholesale cost of gas is increased or decreased or a refund is received.

On December 4, 1985, Western Kentucky Gas Company ("Western") notified the Commission that a series of orders and opinions of the Federal Energy Regulatory Commission ("FERC") has resulted in various refunds and back billings by Western's pipeline suppliers, Texas Gas Transmission Corporation ("Texas Gas") and Tennessee Gas Pipeline Company ("Tennessee Gas").

After reviewing the record in this case and being advised, the Commission is of the opinion and finds that:

(1) As a result of a court order reversing the FERC interpretation of BTU measurement as applied to maximum prices permitted under the NGPA, the FERC issued Order No. 93 directing pipeline companies to recover excess payments made to producers as a result of the difference between wet and dry BTU measurements.

As a result of this Order, Texas Gas issued Western two refund checks totaling \$4,040,562.28 and Tennessee Gas issued five checks totaling \$651,874.66. Western, at this time, is holding in its refund account a total of \$4,692,436.94 attributable to Order 93 BTU refunds.

(2) As a result of a court order reversing FERC treatment of gathering and compression allowances under Section 110 of the NGPA, the FERC issued Order No. 94 directing pipelines to pay to producers "production-related cost" allowances in addition to the otherwise applicable maximum lawful ceiling price for a retroactive period from August 1, 1980, through December 31, 1984. In Docket No. 85-181, Texas Gas was authorized to bill its customers directly for their prorated share of these costs, effective November 1, 1985. On November 1, 1985, Texas Gas billed Western \$3,973,971.24 as its share of these costs through November 1, 1985. Then on November 30, 1985, Texas Gas billed Western an additional \$1,148,422.76 for cost paid producers in November, 1985. Tennessee Gas estimates its payments to producers under Order No. 94 will be \$142,045,000 and Western's share of this payment will be \$716,829.32. Tennessee Gas intends to bill Western for this payment on January 1, 1986. Western's total obligation under Order No. 94 will be \$5,839,223.32.

(3) On June 12, 1985, Tennessee Gas submitted to FERC a unanimous settlement agreement which settled a number of litigated rate cases. In reliance on the settlement Tennessee Gas filed its

July 1, 1985, PGA reflecting a zero surcharge. On July 22, in Opinion No. 240, FERC rejected the settlement. Tennessee Gas and its customers filed for a rehearing and reconsideration of this decision, but the FERC on September 3 issued Opinion No. 240-A, rejecting these requests and directing Tennessee Gas to file revised rates reflecting a \$1.25 per dth surcharge effective July 1. On September 9 Tennessee Gas refiled July 1 rates but asked for consideration of alternative rates reflecting an amortization of the surcharge over 24 months. On October 8, 1985, in Opinion No. 240-B, the FERC rejected the amortization alternative and set up a refund schedule. As the result of a dramatic loss of sales resulting from this increase in rates, Tennessee Gas, on October 15, filed an out-of-time PGA in which Tennessee Gas agreed to absorb part of the deferred gas cost balance. This PGA, which reflected a zero surcharge, was approved by FERC on October 18, 1985. As a result of this complex series of events, Tennessee Gas billed Western a total of \$887,540.52 which reflected the higher rates effective for the period July 1, 1985, to October 18, 1985. For the period October 18 through October 31, Western collected \$33,319.99 excess revenues as a result of the approved Tennessee Gas rate effective October 18, 1985. The refund ordered by FERC in Opinion 240-B is estimated at \$745,723.

(4) Western's notice of December 4, 1985, set out a surcharge which Western proposed to place into effect, said surcharge being designed to recover Western's net liability to its suppliers of \$1,255,284 or 3.37 cents per Mcf.

(5) The surcharge should remain in effect for 12 months or until such time as Western's liability to its suppliers is discharged.

(6) The surcharge should begin with meter readings taken on and after January 1, 1986, or as soon as possible thereafter.

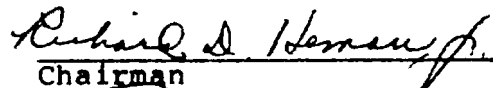
IT IS THEREFORE ORDERED that Western shall apply a surcharge in the amount of 3.37 cents per Mcf as an increase in the approved purchased gas adjustment beginning with meter readings taken on January 1, 1986, or as soon as possible thereafter, and this surcharge shall remain in effect for 12 months or until such time as the amount received reflects the amount owed.

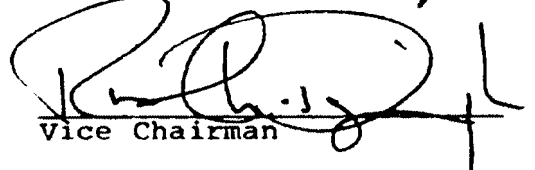
IT IS FURTHER ORDERED that within 30 days from the date the surcharge is terminated Western shall file with this Commission a summary statement showing a reconciliation of customer billings and the amounts paid and owed.

IT IS FURTHER ORDERED that within 30 days of the date of this Order Western shall file with this Commission its revised tariffs setting out the rates authorized herein. All other rates and charges shall remain in full force and effect.

Done at Frankfort, Kentucky, this 13th day of December, 1985.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Secretary