COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE IMPLEMENTATION BY THE UNION LIGHT, HEAT AND POWER COMPANY OF EXPERIMENTAL GAS TARIFFS	)	CASE NO. 9371

O R D E R

On June 21, 1985, Union Light, Heat and Power Company ("ULH&P") filed an application of Notice of Implementation of Experimental Gas Tariffs. ULH&P proposed to experiment until September 1, 1986, with 3 new services: Rate FT, Experimental Firm Transportation Service; Rate UG, Experimental Uncommitted Gas Service; and Rate CF, Experimental Competitive Fuel Service.

Rate FT would provide a higher priority transportation service than existing Rate TS, Transportation Service. The higher priority transportation service is directed at large volume, general service customers who have their own source of gas, do not have an available alternate fuel and who may want to use ULH&P as a backup source of supply. The proposed transportation charge is approximately equal to the off-peak rate plus a calculated supplier demand component. The supplier demand component would be credited to the Gas Cost Adjustment rate. ULH&P has not provided an estimate of the revenue effect from general service sales shifting to this service.

Rate UG would provide access to lower cost spot market gas during the non-heating season. This service is directed at seasonal customers currently on firm service that would not generally use a large volume of gas during the winter season. The proposed gas cost would be based on the average of all spot market gas purchased by ULH&P. A transportation rate approximately equal to the firm gas rate plus a calculated supplier demand component is charged. The supplier demand component would be credited to the Gas Cost Adjustment rate. ULH&P has not provided an estimate of the revenue effect from firm sales shifting to this service.

Rate CF would provide gas brokerage services to individual customers on a "best efforts" basis. The service is directed at off-peak customers with alternative fuel capabilities, who have limited access to an inexpensive supply of gas. The proposed gas cost would be based on the average cost of all spot market gas purchased by ULH&P. A variable transportation rate based on the customers' cost of a competitive fuel would be charged within a range of 30 cents per Mcf to $2.50 per Mcf.

The Commission is concerned about local gas distribution companies losing sales to alternate fuels in the light of recent declining oil prices. The Commission is of the opinion that ULH&P should have reasonable tools available to meet this competition. Existing tariff TS provides flexibility in transportation rates to meet alternate fuel competition. The proposed CF tariff provides an additional tool by addressing customers who are unable to obtain transportation capacity on interstate pipelines and making available a lower cost of gas than that applied to ULH&P's general system sales. Proposed Rates UG and FT are not designed to meet alternate fuel competition. The Commission is currently considering a range of gas regulation issues in Administrative Case No. 297, An Investigation of the Impact of Federal Policy on Natural Gas to Kentucky Consumers and Suppliers. The Commission finds no compelling reason to implement proposed Rates UG and FT at this time.

Under proposed Rate CF, ULH&P would purchase gas as agent for individual customers, as well as purchasing gas for system supply. The Commission is concerned that this purchasing practice could present a potential conflict of interest. The Commission is also concerned that in procuring lower cost gas for individual customers, any cost reductions be those necessary to retain load and not so great as to eliminate any benefit to the system of retaining the load. The proposal to charge brokerage customers a rate based on the average cost of all spot market purchases provides some limitation on conflict of interest problems. The Commission is of the opinion that a restriction requiring ULH&P to charge brokerage customers a rate no less than that of the highest cost portion of its spot market purchases plus an agency fee of 5 cents per Mcf provides a more suitable safeguard. Revenues from the agency fee should be credited to ULH&P's quarterly gas cost adjustment.

Proposed Rate CF allows transportation charges substantially in excess of the 76 cents per Mcf maximum under Rate

TS. ULH&P stated that there was no specific cost basis for this proposed rate. The Commission is of the opinion that ULH&P has not supported a transportation rate other than the already approved, flexible Rate TS.

ULH&P's access to firm transportation service on the Columbia Transmission System as a result of the Omnibus Settlement Agreement approved by FERC in 1985 places the Distribution Company in a unique position. Since Columbia Transmission is one of the few interstate pipelines to declare itself a transporter under Order 436, all transportation capacity has been fully allocated. At this time there is not any transportation capacity available directly to commercial and industrial customers in Kentucky. Through the proposed CF tariff, ULH&P will be permitting commercial and industrial customers to use transportation capacity on the interstate pipeline that would not be used by ULH&P for general system supply. This unique access to firm transportation service on the interstate pipeline should be considered in determining the appropriate transportation rate.

The Commission is approving tariffs for ULH&P to compete in the market for commercial and industrial customers with alternate fuel capability. The risks, as well as the rewards, of competition in such a market must, to a great extent, fall to ULH&P's shareholders. The Commission is of the opinion that when loads are lost to alternate fuels, the lost contribution to fixed costs will not necessarily be borne by captive customers.

As ULH&P increases the variety of services it offers to be competitive with alternate fuels, it should also increase its efforts to obtain the lowest cost supply available for its captive customers. ULH&P should be evaluating alternate suppliers and considering innovative supply and transportation contracts to obtain the benefits of natural gas supply competition for all its customers.

The degree to which the risks of competition will be borne by ULH&P's shareholders and customers will be affected by the extent of the Company's efforts to decrease cost to all customers.

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

1. ULH&P's proposed FT and UG tariffs should be denied.

2. ULH&P's proposed CF tariffs should be approved on an experimental basis for 1 year effective with the date of this Order and with the following modifications. The rate should be no less than that of the highest cost portion of ULH&P's spot market purchases plus a nominal agency fee of 5 cents per Mcf plus a transportation fee. The transportation fee should be based on Rate TS. All revenues from agency fees should be credited to ULH&P's quarterly gas cost adjustment.

3. ULH&P should file monthly reports detailing the operation of Rate CF and including participating customers, their alternate fuels and prices per mmbtu, volumes nominated, price per Mcf and per mmbtu, agency fees billed and transportation fees and revenues. At the end of each quarter the report should include an estimate of the costs to provide this service.

IT IS THEREFORE ORDERED that:

1. ULH&P's proposed FT and UG tariffs be and they hereby are denied.

2. ULH&P's proposed CF tariff be and it hereby is authorized with the modifications found reasonable herein on an experimental basis for 1 year effective with the date of this Order.

3. ULH&P shall file with this Commission monthly reports including such information as found reasonable herein.

4. Within 30 days of the date of this Order ULH&P shall file with this Commission tariffs for Rate CF as authorized herein.

Done at Frankfort, Kentucky, this 18th day of April, 1986.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary