COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| THE APPLICATION OF COLUMBIA GAS OF KENTUCKY, INC., FOR APPROVAL OF A SPECIAL INTERIM AGENCY SERVICE | ) ) ) ) | CASE NO. 9529 |

O R D E R

On March 18, 1986, Columbia Gas of Kentucky, Inc., ("Columbia") filed an application for approval of a Special Interim Agency Service. Columbia intends the proposed service to serve commercial and industrial customers that have installed alternate fuel capability. Columbia proposes to purchase gas as agent for customers that elect to use this service. The volumes purchased represent volumes over and above purchases for system supply. The price of the gas will be equal to or greater than the highest cost portion of Columbia's "shopping volumes" during any given month. Shopping volumes are spot market purchases for system supply. In addition, an agency fee of 5 cents per Mcf will be charged on all volume purchases pursuant to this service. The agency fee will be credited to Columbia's Semiannual Gas Adjustment.

Under this proposal Columbia 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 of the opinion, however, that the proposal to charge brokerage customers a commodity rate no less than that of the highest cost portion of Columbia's shopping volumes may provide a reasonable safeguard against conflict of interest problems. For these reasons, the Commission will follow the operation of this service closely.

The Commission is concerned about local gas distribution companies losing sales to alternate fuels in light of recent declining oil prices. The Commission is of the opinion that Columbia should have reasonable tools available to meet this competition. Existing tariffs AFDS-2 and DS provide flexibility in sales rates and transportation rates to meet alternate fuel competition. The proposed tariff provides an additional tool by serving alternate fuel customers who are unable to obtain transportation capacity on interstate pipelines. It will also provide access to lower cost gas than that available through Columbia's general system sales.

Columbia'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, Final Rule in Federal Energy Regulatory Commission Docket No. RM85-1-000, Regulation of Natural Gas Pipelines after Partial Wellhead Decontrol, 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 Special Interim Agency Service, Columbia Gas of Kentucky will be permitting commercial and industrial customers to use transportation capacity on the interstate pipeline that would not be used by Columbia of Kentucky for general system supply. This unique access to firm transportation service on the interstate pipeline should be considered in determining the appropriate transportation rate.

With regard to procuring lower cost gas for individual customers, the Commission is concerned that any cost reduction be necessary to retain load but not so great as to eliminate any benefit to the system of retaining the load. The Commission is of the opinion that the proposed pricing for this service, including the agency fee, should be approved on an experimental basis.

The Commission does not agree with Columbia's statement in its application that when loads are lost to alternate fuels, the lost contribution to fixed cost will ultimately be borne by other customers. The Commission is approving tariffs for Columbia to use to compete in the market for commercial and industrial customers with alternate fuel capability. The risks of competition in such a market must, to a great extent, be borne by Columbia's shareholders.

As Columbia 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. Columbia of Kentucky 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 Columbia'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. Columbia's SIAS, Special Interim Agency Service, tariff should be approved as filed on an experimental basis for 1 year effective with the date of this Order.

2. Columbia should file monthly reports detailing the operation of this service, including customers participating, their alternate fuels and prices per mmbtu, volumes nominated, price per Mcf and per mmbtu, agency fees billed and related transportation revenues and prices. 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. Columbia's SIAS, Special Interim Agency Service, tariff be and it hereby is authorized on an experimental basis for 1 year effective with the date of this Order.

2. Columbia shall file with this Commission monthly reports including such information as found reasonable herein.

3. Within 30 days of the date of this Order Columbia shall file with this Commission tariffs for Special Interim Agency Service as authorized herein.

Done at Frankfort, Kentucky, this 2nd day of May, 1986.

PUBLIC SERVICE COMMISSION

Richard D. Heman Jr.
Chairman

Vice Chairman

George N. Williams
Commissioner

ATTEST:

Secretary