

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

MODIFICATION OF THE GAS COST)
ADJUSTMENT CLAUSE OF WESTERN)
KENTUCKY GAS COMPANY TO) CASE NO. 10190
PROVIDE FOR RECOVERY OF FIXED)
TAKE-OR-PAY CHARGES FROM)
INTERSTATE PIPELINE SUPPLIERS)

O R D E R

On March 9, 1988, Western Kentucky Gas Company ("Western") filed a proposed revision to its General Tariff Rate T-2 ("T-2") Transportation Tariff, Sheets No. 15 and 17. The revision would replace the term "Demand Component" in the rate definition section with the term "Non-Commodity Components" to provide for the addition of fixed take-or-pay charges from interstate pipeline suppliers. According to Western, no other tariff revision is necessary because, as part of the rate of its pipeline suppliers, any take-or-pay charges will be included in the tariff definition of expected gas cost. The T-2 revision would ensure that transportation customers, who pay no part of the expected gas cost, would share in the charges borne by all Western's other customers. In its filing, Western also included a sample of the proposed methodology as it would be set out in its quarterly Gas Cost Adjustment ("GCA") filing.

On March 18, 1988, the Attorney General of the Commonwealth of Kentucky ("AG"), by and through his Utility and Rate

Intervention Division, filed a Motion for Full Intervention in this proceeding. On March 21, 1988, the Commission granted that Motion. On April 13, 1988, the AG submitted his position statement concerning Western's application. The AG's position is to accept whatever methodology of recovery the Commission should approve as proper, but to oppose the setting of any implementation date. According to the AG, the ultimate disposition of Western's pipeline suppliers' take-or-pay charges is still unknown and, therefore, the setting of any implementation date would be premature.

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

(1) The Federal Energy Regulatory Commission in Dockets No. RP 88-27-000 and RP 86-119-000, has been considering take-or-pay issues which deal directly with pipeline suppliers of Western. The Commission recognizes the fact that the outcome of these and other proceedings could result in the incurrence by Western of substantial take-or-pay liabilities.

(2) Western's replacement of "Demand Component" with "Non-Commodity Components" in its T-2 tariff will not cause take-or-pay billings to be passed along prematurely. The proposed effective date of May 1, 1988, applies only to the tariff revision, not to the passing along of any cost which has not yet been incurred. Western's existing and proposed supporting calculations in its GCA filing clearly set out the origin of each cost that is passed along through the GCA, and Western will be required, as a routine matter, to provide proof of billing of any

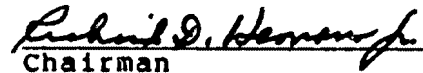
take-or-pay charges from its suppliers. The setting of an effective date poses no practical problem and is, in fact, necessary from a procedural viewpoint.

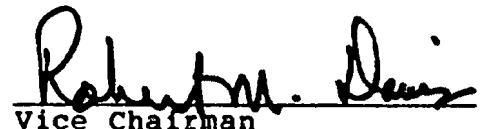
(3) Western's proposal to revise its T-2 tariff to provide for the pass-through of take-or-pay billings to its transportation customers is fair, just, and reasonable and in the public interest and should be approved effective May 1, 1988.

IT IS THEREFORE ORDERED that Westerns' proposed revisions to Sheets No. 15 and 17 of its T-2 transportation tariff be and they hereby are granted effective May 1, 1988.

Done at Frankfort, Kentucky, this 25th day of April, 1988.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director