COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF THE IMPACT OF THE FEDERAL ENERGY REGULATORY COMMISSION'S ORDER 636 ON KENTUCKY CONSUMERS AND SUPPLIERS OF NATURAL GAS	)	ADMINISTRATIVE CASE NO. 346

O R D E R

On April 8, 1992, the Federal Energy Regulatory Commission ("FERC") issued its pipeline restructuring rule, Order 636. Pipeline restructuring is intended to benefit the public and all segments of the natural gas industry by providing equal access to pipeline transportation services for all suppliers of gas. In order to fulfill its obligation to protect the interests of ratepayers and local distribution companies ("LDCs"), the Commission finds it necessary to establish an administrative proceeding whereby it may investigate the reasonableness of current state regulatory practices, in particular purchased gas cost recovery mechanisms in light of Order 636. To that end, all LDCs should be made parties to this proceeding and should submit the following information:

1. As of January 1, 1993, describe your company's source of gas supply in such detail that the Commission may know the percent of system supply purchased from each source and the duration of contract terms, either individually or generally if a large, homogeneous group of sources exists.

2. As of January 1, 1993, for each individual source or group of sources identified above, give the price of the gas contracted for and indicate if, when, and how often that price is subject to change.

3. As of January 1, 1993, for each source or group of sources identified above, describe the transportation arrangements made including such information as duration of contract term, volumes, price, whether such service is firm or interruptible, etcetera.

4. Describe your efforts to date to secure adequate gas supplies with the most reasonable price given reliability. What plans for changes in procurement practices are being considered in light of Order 636? When are these changes expected to occur?

5. Is it your opinion that there is any need for change in the gas cost recovery procedures currently in place? Describe in detail.

6. Assuming no change in current gas cost recovery procedures, what costs do you foresee should be included in future filings?

7. When there are no longer any FERC-approved rates for gas sales, there will no longer be a filed rate doctrine to which the Commission must prescribe in reviewing an LDC's purchases. Considering 1) the Commission's statutory obligation to assure fair, just, and reasonable rates; 2) the Commission's desire to have in place the most efficient gas cost recovery mechanism and procedure possible; and 3) the Commission's desire to see that all

parties, including ratepayers, benefit from pipeline restructuring: (a) is current gas procurement review sufficiently in-depth? (b) should the Commission hold hearings as part of its review? (c) outline possible alternatives to the gas cost recovery procedures that currently exist.

(The majority of gas cost recovery clauses for Kentucky LDCs involve quarterly filings of gas cost recovery rates consisting of an expected gas cost component and an actual adjustment component which tracks or "trues-up" past over- or under-recoveries.)

8. What are the ratemaking implications of automatic adjustment clauses in a competitive natural gas industry? Are they compatible with the more open market environment? Should they be abolished? Do automatic adjustment clauses in their current form provide sufficient incentive to promote the most efficient behavior on the part of utilities to act in their own best interest to engage in least-cost procurement while passing through benefits of decreased fuel costs to customers?

9. Should a utility's participation in an interstate pipeline's capacity release program be subject to review in a purchased gas adjustment filing? Explain. Should revenues be an offset to gas costs or how should revenues be treated?

10. How often should demand forecasts be prepared by LDCs? How often does your company currently prepare demand forecasts? Is

the data sufficiently identifiable to evaluate interruptible and firm load, temperature sensitivities and responses, and intermediate peaks in shoulder months of the heating season?

11. Should demand forecasts be subject to review in a purchased gas adjustment filing? Explain.

12. How should Order 636 transition costs be treated? Should this be the subject of a purchased gas adjustment filing, a general rate case or some other forum? Explain.

13. What, if any, additional personnel, equipment, or training will be necessary in your gas procurement department?

14. To what extent do you foresee competitive bidding as a means to secure natural gas and/or transportation as opposed to one-on-one negotiations? Would gas supply and transportation be separate commodities? What kind of economic analysis do you envision in order to compare price vs. deliverability? Would bid specifications be absolute or could you allow flexibility as to term, price redetermination, etcetera?

15. Would it be appropriate for the Commission to consider some form of incentive regulation solely for gas costs? In supporting your answer, define "gas costs," along with the benefits and drawbacks of any such incentive regulation.

16. Do you foresee any proposed changes in tariffs or rates other than those having to do with gas costs as a result of Order 636?

17. Do you foresee any changes to curtailment plans?

IT IS THEREFORE ORDERED that:

1. An investigation into the impact of the FERC's Order 636 on Kentucky consumers and suppliers of natural gas be and it hereby is initiated.

2. All LDCs subject to the Commission's jurisdiction are hereby made parties to this investigation.

3. The above-named parties to this investigation shall file an original and twelve copies of their responses to the information requested herein within 45 days of the date of this Order.

4. Any other entity that desires to participate in this investigation shall file a motion to intervene pursuant to 807 KAR 5:001, Section 3(8). An original and twelve copies of any responses by intervenors shall be filed within 30 days of the date intervention is granted by the Commission.

Done at Frankfort, Kentucky, this 29th day of January, 1993.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director