COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

LIMITED RATE CHANGE OF WESTERN KENTUCKY GAS COMPANY) CASE NO. 92-558

O R D E R

On March 31, 1993, Western Kentucky Gas Company ("Western") proposed two new large volume sales services ("LVS-1" and "LVS-2"); revisions to its gas cost adjustment ("GCA") clause; and revisions to its curtailment plan and large volume transportation tariffs ("T-2" and "T-3"). The Utility and Rate Intervention Division of the Attorney General's Office ("AG") and Kentucky Industrial Utility Customers ("KIUC") intervened. A public hearing was conducted on October 18, 1993 at the Commission's offices.

LVS-1 and LVS-2 were proposed by Western as options for industrial customers currently transporting gas under Rate T-2. These customers would become sales customers and pay the same simple margin base rates and non-commodity gas cost rates as other sales customers. The difference between the LVS rates and Western's other sales service tariffs is the pricing mechanism for the commodity cost of gas. The rates under LVS would not be subject to Western's GCA clause. The commodity cost of gas included in LVS rates would be determined at the beginning of each month. Western expects the market pricing of the commodity portion of LVS rates to be particularly attractive to industrial customers who are accustomed to arranging for their supply and transporting

their own gas. LVS customers would also avoid pipeline transportation charges by becoming sales service customers of Western, which would represent a cost savings to them.

Western proposed to amend its GCA clause to establish monthly, as opposed to quarterly, filings. Citing distorted price signals caused by a mismatch between quarterly changes in customers' retail rates and monthly changes in its gas supply cost, Western proposed the monthly adjustment mechanism along with a semi-annual correction factor ("CF"). The CF would replace the current quarterly actual and balancing adjustments in compensating for the difference between expected gas cost and actual gas cost for prior periods.

Other proposed changes to the GCA clause include the addition of "no notice" service and transition costs to the definition of costs to be included in Expected Gas Cost ("EGC"); a proposed EGC credit for the recovery of demand and commodity costs from proposed LVS sales services; and refund factor language revisions reflecting the proposed monthly filing procedure.

Western also proposed revisions to its curtailment plan to incorporate the LVS-1 and LVS-2 services and add flex transportation transactions, which are not currently included, as the lowest priority. The proposal also provides for curtailment on a system segment only if it would provide relief to higher priority customers on that segment; rotating curtailment within a curtailment priority when gas supply is partially adequate; and defines when transportation service will be curtailed.

Western proposed to amend its T-2 and T-3 transportation tariffs to address imbalance problems caused by differences between pipeline deliveries to Western on behalf of a transportation customer and the volumes that customer actually takes. Western proposes to parallel "cash out" procedures of interstate pipelines which eliminate these imbalances monthly by "cashing out" at market prices. When deliveries to Western exceed actual amounts taken by the customer, Western would pay the transportation customer as though the excess deliveries were system supply. The price paid would be increasingly discounted as the size of the imbalance grows. Negative imbalances, which occur when the customer takes more gas from Western than was delivered, would be billed at the applicable sales rate under the T-2 tariff. Under Rate T-3, the negative imbalance would be billed at 110 percent of the G-2 sales rate unless there is a supply shortage or a curtailment order is in effect. Under either of these conditions, the $15 per Mcf imbalance penalty would still be imposed as currently authorized.

Western also proposed a flex rate provision for alternative fuel to be included in the T-3 tariff. The T-2 tariff currently contains a flex provision. The language of the proposed T-3 flex provision is identical to that of T-2.

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Western's proposed LVS-1 and LVS-2 tariffs should be approved on an experimental basis for a period of 3 years. The Commission is satisfied that the use of existing sales service base

rates will ensure a revenue contribution equal to that which these customers currently make. However, the automatic pricing provision must be monitored in a competitive market to ensure there is no detrimental effect on customers whose gas is priced through the GCA.

Western should use its GCA filings as the vehicle for reporting the prices charged to LVS customers, along with calculations showing that a weighted average pricing methodology was used. At the end of the 3-year period, Western should submit an analysis of the LVS program including data concerning the number of customers and associated volumes, the level of participation relative to other tariff services, a report of customer satisfaction, and Western's recommendations concerning continued offering of the services. It should also include data showing whether the cost of gas purchased for these customers was fully recovered and any impact on gas cost of other customers, including any discernible or perceived benefits of improved load factors and buying power. At that time, the Commission will consider the continuation of these services.

2. Western's proposed revisions to implement monthly GCA filings should be approved on an experimental basis for 1 year. It is not immediately apparent that the Commission's and Western's increased administrative burden of processing these filings and setting rates is off-set by corresponding benefits to Western and its ratepayers. However, Western's argument concerning the current inadequate pricing of "swing" sales volumes to T-2 customers

supports implementation of a more timely sales rate to ensure recovery of gas cost from these customers. If, after 1 year, the monthly filing provision proves unworkable, the Commission will revisit Western's alternative proposal to price the underlying sales service to T-2 customers at the LVS commodity rate.

3. Western's proposal to include no notice service and transition costs in its definition of EGC should be approved, with the understanding that pipeline transition costs will continue to be reviewed for the appropriateness of recovery through the GCA, pursuant to the Commission's Order in Administrative Case No. 346.[1]

4. Western's proposal to include LVS-1 and LVS-2 demand and commodity recovery credits in its EGC should be approved for the duration of the LVS services.

5. Western's proposed curtailment plan revision should be approved.

6. Western's proposed "imbalance" provisions for T-2 and T-3 services should be approved.

7. Western's proposed flex rate provision for alternative fuels should be approved for Rate T-3, with foregone revenues treated in the same manner as those under Rate T-2.

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[1] Administrative Case No. 346, An Investigation of the Impact of the Federal Energy Regulatory Commission's Order 636 on Kentucky Consumers and Suppliers of Natural Gas, Order dated December 22, 1993.

IT IS THEREFORE ORDERED that:

1. Western's proposed Original Sheets No. 21 through No. 25, Large Volume Sales Tariff, shall be approved as filed on an experimental basis for 3 years effective with the date of this Order.

2. Within 30 days of the expiration of the 3 year period, Western shall file its analysis of the LVS services as directed herein. The Commission will consider any motions to extend the 3 year approval on a month-by-month basis pending its ultimate decision regarding final approval.

3. Western's proposed First Revised Sheets No. 27 through No. 29, Gas Cost Adjustment Tariff, shall be approved as filed on an experimental basis for one year effective with the date of this Order. The Commission will consider any motions to extend the one-year approval on a month-by-month basis pending its ultimate decision regarding final approval.

4. Western's proposed First Revised Sheets No. 34 and No. 35, Original Sheets No. 35A and No. 35B, and First Revised Sheets No. 36 through No. 38, General Transportation Service Tariff, shall be approved effective on and after the date of this Order.

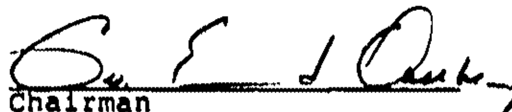
5. Western's proposed First Revised Sheets No. 40 and No. 41, Original Sheets No. 41A and No. 41B, First Revised Sheets No. 42 through No. 44, and Original Sheet No. 45, Carriage Service, shall be approved as filed effective on and after the date of this Order.

6. Western's proposed First Revised Sheets No. 85 and No. 86, Original Sheet No. 86A, and First Revised Sheet No. 87, Rules and Regulations, shall be approved as filed effective on and after the date of this Order.

7. Within 20 days of the date of this Order, Western shall file its tariff sheets as approved herein.

Done at Frankfort, Kentucky, this 22nd day of December, 1993.

PUBLIC SERVICE COMMISSION



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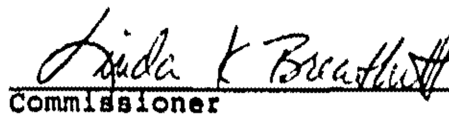

Commissioner

ATTEST:

Executive Director