

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE ESTABLISHMENT OF A COLLABORATIVE)	
FORUM TO DISCUSS THE ISSUES RELATED)	
TO NATURAL GAS UNBUNDLING AND THE)	ADMINISTRATIVE
INTRODUCTION OF COMPETITION TO THE)	CASE NO. 367
RESIDENTIAL NATURAL GAS MARKET)	

ORDER

On September 26, 1997, the Commission initiated this proceeding to provide an organized framework within which issues related to natural gas unbundling and retail competition could be discussed among interested parties. A collaborative forum composed of representatives from utilities, marketers, public interest groups, and the Attorney General's office was established to address these issues in anticipation of draft legislation relating to gas unbundling. The collaborative members met on four occasions at the Commission's offices. In a related educational effort, the Commission staff conducted five public meetings in different locations around the state in an attempt to gauge the level of customer awareness of, and interest in, customer choice programs.

During the collaborative meetings the utilities, for the most part, expressed an interest in pursuing retail unbundling for small volume customers through customer choice programs. To this end, unbundling legislation was introduced during the 1998 General Session of the Kentucky General Assembly. The bill was not reported out of the committee to which it was assigned. Representatives of marketing companies were

very much in favor of retail unbundling, and of having residential markets in Kentucky opened up to competition. However, the collaborative meetings did not produce a consensus of opinion concerning the desirability of unbundled retail gas services. Representatives of low income consumers expressed concern that their constituents could be harmed by retail competition in the residential gas market. Likewise, residential customers attending the Commission's public meetings expressed concerns about the level of benefits to be expected from having the ability to choose an alternate gas supplier.

While the extent of customer benefit is not yet clear, the Commission supports the concept of customer choice programs targeted at residential and small commercial customers. Such customer choice programs are ongoing in a number of other states. In most of these programs, the local distribution companies continue to provide natural gas within their current pricing and operating parameters. The Commission believes that it can continue to ensure the integrity of the merchant function as well as the distribution function through the parameters of a customer choice program and existing tariffs, regulations, and statutes. As long as customers continue to receive safe and reliable gas service, the reasonableness of gas commodity cost as provided in a competitive environment can be determined by the market. Customers may fare better with the addition of alternative suppliers of the commodity, and will have the added benefit of the innovation in products and services that competition inevitably brings.

The Commission finds that to adequately protect the public interest any customer choice program must address several issues, including: obligation to serve and supplier of last resort; non-discriminatory access to services offered; codes of conduct for

marketers and affiliates of regulated utilities; the pricing of services; and billing. A definition of what will be considered evidence of workable competition will also be of the utmost importance, because of the necessity for the Commission to review on an on-going basis that a sufficient number of alternative and unaffiliated suppliers exists. Utilities intending to file such a proposal for the Commission's consideration are encouraged to seek in-put from their stakeholders. As part of its review in any proceeding involving a proposed customer choice or unbundling program, the Commission will make a determination as to whether there has been sufficient stakeholder participation in the formulation of the program. Unanimity on all issues may not be possible, but an effort to reach compromise consistent with the public and utility shareholder interest will be considered crucial in the Commission's final decision regarding a utility's proposed customer choice program.

One of the few areas in which collaborative members were in agreement was that of the necessity of customer education. A utility proposing a customer choice program should also be prepared to show details of educational efforts aimed at familiarizing affected customers with the issues involved in customer choice. To the extent that utilities intend to seek recovery of education expenses in rates, whether it be in base rates or by surcharge, they should be prepared to show that their choices of method and media were cost effective in relation to raising the level of customer understanding. Likewise, marketers who would seek to offer competitive services to Kentucky consumers will be expected to participate in the education process and to "foot the bill" for their own efforts.

Other issues which utilities should address in any proposed programs include certification of suppliers, transition costs, stranded costs, uncollectibles and disconnections, balancing requirements designed to maintain system integrity, and access to pipeline and storage capacity.

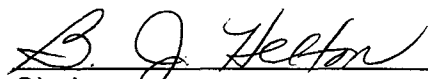
The Commission commends all participants in the collaborative process for their involvement and spirit of cooperation.


The Commission finds that this proceeding has met the objectives for which it was established.

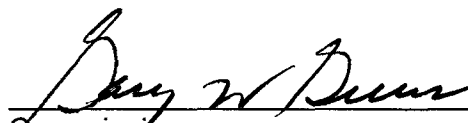
IT IS THEREFORE ORDERED that this proceeding be closed and removed from the Commission's docket.

Done at Frankfort, Kentucky, this 1st day of July, 1998.

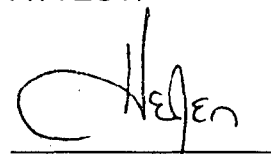
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ATTEST:


Executive Director

