

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF WESTERN	)	
KENTUCKY GAS COMPANY	)	CASE NO. 99-070
FOR AN ADJUSTMENT OF RATES	)	

O R D E R

On June 23, 1999, Western Kentucky Gas Company ( Western ), a division of Atmos Energy Corporation, filed a general rate application based on a forecasted test year ending December 31, 2000. Western proposed an increase in revenues of \$14,127,666, an increase of approximately 11.7 percent over its existing revenues.

To determine the reasonableness of the request, the Commission suspended the proposed rates for six months from their effective date pursuant to KRS 278.190(2) up to and including January 23, 2000. The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and WBI Southern, Inc. ( WBI ) intervened. The Commission established a procedural schedule that afforded all parties the opportunity to file direct testimony and engage in discovery.

On December 3, 1999, the parties filed a Joint Stipulation and Settlement ( Settlement ) resolving, to their satisfaction, the issues in this case. The Settlement is attached as Appendix A. On December 6, 1999, the Commission ordered the parties to file evidence in support of the reasonableness of the Settlement. The parties filed their responses to this Order on December 9, 1999. After review of the Settlement, direct testimony, extensive discovery and the information submitted by the parties to

support the settlement, the Commission determined the record to be sufficient to render a decision and cancelled the hearing on Western's rate application scheduled to begin on December 14, 1999.

The parties agree that the Settlement is for the purposes of this case only and shall not be binding on the parties in any other proceeding before this Commission or in any court and shall not be offered or relied upon in any other proceeding involving Western or any other utility regulated by this Commission.

The parties urge the Commission to review and accept the Settlement in its entirety as a reasonable resolution of the issues in this proceeding. While the overall reasonableness of the Settlement is an important factor, the Commission is bound by law to act in the public interest and review all elements of the Settlement. In determining whether the results of the Settlement are in the public interest and beneficial to the ratepayers, the Commission considered the fact that the Settlement is a unanimous agreement of the parties.

After review of the Settlement, an examination of the record, and being otherwise sufficiently advised, the Commission finds that the Settlement is generally reasonable, but that certain modifications should be made. Although acceptance of the Settlement is conditioned on certain modifications, the modifications described herein should not significantly affect the agreement.

The following is a synopsis of the terms of the Settlement and together with comments and descriptions of modifications the Commission finds necessary.

1. The parties agree that Western will receive additional annual revenues of approximately \$9,940,000, an overall revenue increase of 8.24 percent. The rate

increase will be effective December 15, 1999 and will be allocated among Western's customer classes as follows:

Residential	\$ 6,238,259
Commercial	2,385,006
Industrial	901,580
Other revenues	415,089

In determining the overall reasonableness of the proposed increase in annual revenues, the Commission has evaluated all revenue and expense adjustments proposed by Western in light of its traditional rate-making treatment. In addition, it has considered the current economic conditions and the rates of return on common equity that have been authorized in recent cases. Based on a review of all these factors and the evidence of record, the Commission finds that the \$9,940,000 revenue increase will result in earnings that fall within a range reasonable to both Western and its customers and result in rates that are fair, just and reasonable. The Commission finds the rates included in Exhibit A of the Settlement, which is attached as Appendix B of this Order, to be fair, just and reasonable. However, we find the effective date of the rates agreed to by the parties of December 15, 1999 to be untenable. Therefore, the effective date of the rates should be for services rendered on and after the date of this Order.

2. Western will recover its demand side management program expenses prospectively for three years beginning in January 2000.

3. Western will adjust and establish certain non-recurring charges, including a new late payment charge of 5 percent applicable to all customers served under Rate G-1 that fail to pay for services by the due date shown on their bill. Western will implement this late payment charge in April of 2000. This will provide Western sufficient time to educate its customers on this new provision. The Commission finds that, in order

for it to be familiar with Western's education program and be better prepared to respond to possible customer inquiries, all educational materials should be submitted to the Commission at the same time they are disseminated to Western's customers.

4. Western will implement, as a pilot program for a period of five years, the weather normalization adjustment ( WNA ) tariff included in its application, commencing November 1, 2000. Under the terms of the Settlement, Western will submit a monthly report to the Commission summarizing the effect of its WNA on customer bills by cycle for each customer class as well as actual and normal degree days and the number of days in a normal cycle. In addition Western will report a WNA factor and actual total revenues for each cycle.

The Commission finds that a greater amount of information than Western proposes to file on the WNA is necessary, but finds that annual reports, rather than monthly reports, should be filed. Western should file annual reports on the WNA, including the information set out in Appendix C, as soon after each heating season as possible but no later than June 30<sup>th</sup> of the following summer.

The Commission finds that the commencement date of November 1, 2000 affords Western an opportunity to educate its customers on this new provision and that Western should prepare and disseminate information on this new provision to its customers no later than 90 days prior to the implementation. The Commission further finds that all educational materials and information disseminated by Western to its customers on the WNA should be filed with the Commission for the same reasons enumerated above in Paragraph 3.

Should Western wish to continue the WNA pilot beyond the five year period or implement the WNA on a permanent basis, Western should make such a request in the form of a formal application to be submitted to the Commission when it files its annual WNA report in June 2005.

5. Western will adjust its base customer charges as follows: (1) the residential customer charge will increase from \$5.10 to \$7.50; (2) the commercial customer charge will increase from \$13.60 to \$20.00; and (3) the industrial customer charge will increase from \$150.00 to \$220.00.

6. Western will implement the industrial margin loss recovery ( MLR ) mechanism proposed in its application with one modification. Per the terms of the Settlement the parties agree on a 50-50 sharing of the lost revenue between shareholders and residential customers rather than the originally proposed sharing ratio of 10-90. Western will make semi-annual filings with the Commission, in January and July, that reflect the discounts implemented during the six months ended November and May, respectively.

The Commission finds that this proposal is one of first impression before this Commission and, as such, should be implemented as a pilot for a period of three years. Western should file semi-annual reports on the MLR with the Commission as agreed to in the Settlement with the first report filed in July 2000 reflecting all discounts implemented from the date of this Order through May of 2000. Should Western wish to continue the MLR pilot beyond the three year period or implement the MLR on a permanent basis, Western should make such a request in the form of a formal

application to be submitted to the Commission when it makes its semi-annual MLR filing in July 2003.

The Commission finds that there is an unintended discrepancy between the text of the Settlement and the MLR tariff as to the applicability of the 50-50 sharing of lost revenues. Per the MLR tariff attached to the Settlement the 50-50 sharing of lost revenues is to be between the shareholders and all G-1, G-2, LVS-1 and LVS-2 customers. The proposed MLR tariff in Western's application also identified these rate classes as the classes that were to share in the lost revenues. The sharing of lost revenues is approved to apply to all customers served under these rate schedules, as stated in the tariff at Tariff Sheet 29L, not to residential customers only.

7. Western will separate its gas cost from base rates by bifurcating its commodity charge into a distribution charge and a gas charge. However, the parties agree that Western is not bound by this provision in future cases.

8. Western will begin filing its gas cost adjustment on a quarterly basis beginning with the first quarter following the Commission's ruling on the Settlement.

9. Western will begin collecting a Gas Research Institute research and development surcharge.

10. Western will modify its proposal on the Alternative Receipt Point T-5 Tariff. It will change the net monthly rate of \$0.10 per Mcf it originally proposed to a \$50.00 monthly administrative fee per customer. The fee will be waived if, during the month, the Alternate Receipt Point represents the only point of receipt utilized by the customer.

11. With regard to the interconnection of the East Diamond Field into Western's system, WBI or its subsidiary Kentucky Pipeline and Storage Company will

contract for and install facilities in accordance with Western's specifications. Western will take title to the facilities and operate and maintain the facilities as the parties agree to and outline in a finalized interconnection agreement.

IT IS THEREFORE ORDERED that:

1. The Settlement set forth in Appendix A to this Order is hereby incorporated into this Order as if fully set forth herein.

2. The terms and conditions set forth in the Settlement are approved as modified in this Order.

3. The rates and charges, and all other tariff changes included in Exhibit A of the Settlement and attached hereto as Appendix B to this Order are fair, just and reasonable and are approved for service on and after the date of this Order.

4. Any party wishing to exercise its right to withdraw from the Settlement because of modifications ordered herein shall notify the Commission in writing of its intent within 10 working days of the date of this Order.

5. If the Settlement is withdrawn due to any party's withdrawal from the Settlement, this Order will be vacated.

6. Western shall disseminate educational materials to its customers on the WNA beginning at least 90 days before its implementation on November 1, 2000.

7. Western shall file annual reports on the WNA as soon after each heating season as possible but no later than June 30<sup>th</sup> of the following summer in the format shown in Appendix C.

8. Western shall provide the Commission with all educational materials it provides its customers with regard to the late payment penalty and the WNA at the time such materials are provided to its customers.

9. Should Western seek to continue the WNA beyond the pilot period it shall do so only after filing a formal application requesting Commission approval of its proposal to continue the WNA.

10. The MLR proposed in the Settlement is approved as a pilot program for a period of three years and shall be applicable to all customers served under Western's G-1, G-2, LVS-1 and LVS-2 rate schedules.

11. Western shall file its first MLR report with the Commission in July 2000. The July 2000 MLR report shall reflect all discounts implemented from the date of this Order through May 31, 2000.

12. Should Western seek to continue the MLR beyond the pilot period it shall do so only after filing a formal application requesting Commission approval of its proposal to continue the MLR.

13. Within 20 days from the date of this Order, Western shall file with the Commission revised tariff sheets setting out the rates and tariffs approved herein for service rendered on and after the date of this Order. These tariff sheets shall show their date of issue, the effective date, and that they were issued by authority of this Order.



Done at Frankfort, Kentucky, this 21<sup>st</sup> day of December, 1999.

By the Commission

ATTEST:

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Executive Director