

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter:

A FORMAL REVIEW OF WESTERN KENTUCKY )  
GAS COMPANY S DECISION TO TERMINIATE )  
A NATURAL GAS SALES, TRANSPORTATION )  
AND STORAGE AGREEMENT WITH NORAM ) CASE NO. 99-447  
ENERGY SERVICES, INC. AND ENTER INTO )  
A NATURAL GAS SALES, TRANSPORTATION )  
AND STORAGE AGREEMENT WITH )  
WOODWARD MARKETING, L.L.C. )

O R D E R

On October 1, 1999, Western Kentucky Gas Company ( Western ), a division of Atmos Energy Corporation ( Atmos ), filed with the Commission a Natural Gas Sales, Transportation and Storage Agreement ( Agreement ) it had negotiated and executed with Woodward Marketing, L.L.C. ( Woodward ). Western also petitioned that the Agreement be afforded confidential treatment in the same manner as had been granted for its previous Natural Gas Sales, Transportation and Storage Agreement with NorAm Energy Services, Inc. ( NorAm Agreement ).

Western stated that it had previously advised the Commission of various issues that had arisen concerning the NorAm Agreement. Western stated that it was in the best interests of Western and its ratepayers to terminate the NorAm Agreement and enter into a new agreement with a different entity, namely Woodward, which is an affiliate of Western. This information was provided in an April 23, 1999 letter from Western to the Commission s Executive Director.

The NorAm Agreement was executed in conjunction with Western's Experimental Performance-Based Ratemaking ( PBR ) Mechanism that the Commission approved in Case No. 97-513.<sup>1</sup> NorAm had submitted the lowest bid in response to a Request for Proposal ( RFP ) issued by Western for gas supply and management services after receiving the Commission's approval of its proposed PBR. By letter dated May 7, 1999, the Commission's Executive Director responded to Western, arranging a meeting between Commission Staff and representatives of Western and identifying specific issues that Western's representatives should be prepared to discuss with Commission Staff. At that meeting Commission Staff discussed issues that had been raised by Western's letter and also made Western aware of concerns the Commission had regarding the termination of the NorAm Agreement and Western's stated inclination to enter into a new agreement with Woodward. In a May 25, 1999 letter from the Commission's Executive Director, Western was advised that when it received future correspondence from NorAm regarding the termination of the NorAm Agreement it could forward such correspondence to the Commission and arrange another meeting with Commission Staff to discuss the issues further. The next correspondence filed by Western was a June 29, 1999 letter to the Commission's Executive Director announcing that Western had decided to terminate the Agreement with NorAm, now Reliant Energy Services ( Reliant ), and negotiate and execute a new agreement with Woodward. That was the last formal communication from Western on the matter until the October 1, 1999 filing of the new Agreement accompanied by the petition for confidential treatment.

---

<sup>1</sup> Case No. 97-513, The Petition of Western Kentucky Gas Company, a Division of Atmos Energy Corporation (WKG), Gas Cost Adjustment, to Incorporate an Experimental Performance-Based Ratemaking Mechanism.

The Commission has numerous concerns regarding Western's actions in reaching its decision to terminate the NorAm Agreement and enter into the new Agreement with Woodward. Some of those concerns are reflected in Exhibit A of this Order, which is the May 7, 1999 letter from the Commission's Executive Director to Western that identified the topics of concern that would be discussed at the meeting between Commission Staff and representatives of Western. Attached as Exhibit B, in redacted form, is Western's June 29, 1999 letter advising the Commission of its decision to terminate the NorAm Agreement and enter into the new Agreement with Woodward. That correspondence failed to address any of the topics of concern identified in the Executive Director's May 7, 1999 letter and, likewise, failed to address the matters Commission Staff discussed at its meeting with representatives of Western.

Therefore, based on the correspondence cited herein and entered into this record and the October 1, 1999 filing of the Agreement, the Commission finds that:

1. A formal review should be conducted of Western's actions regarding the matters identified herein concerning its source of supply and asset management contracts, specifically regarding the termination of the NorAm Agreement and the execution of the Agreement with Woodward.

2. Matters subject to review, shall include, but not be limited to:

- a. The appropriateness of Western's allowing Reliant to buy out the remaining years of the NorAm Agreement.

- b. The adequacy of Reliant's buy out offer, considering current market conditions, and the appropriate distribution of the payment.

c. The reasonableness of Western's efforts to secure a replacement source of supply and asset management contract.

d. Western's compliance with the rules of conduct imposed by the Commission in Case No. 97-513.

IT IS THEREFORE ORDERED that:

1. With the opening of this docket, the Commission is initiating a formal review of Western's termination of the NorAm Agreement and execution of a new Agreement with its affiliate, Woodward Marketing, L.L.C.

2. The formal review will follow the procedural schedule in Appendix A, attached hereto and incorporated herein.

3. At any formal hearing in this matter there will be no opening statements or summaries of written direct testimony allowed.

4. Nothing contained herein shall prohibit the Commission from issuing future Orders that could broaden the scope of the formal review.

Done at Frankfort, Kentucky, this 5<sup>th</sup> day of November, 1999.

By the Commission

ATTEST:

---

Executive Director

APPENDIX A

APPENDIX TO THE ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 99-447 DATED NOVEMBER 5, 1999

Staff's initial request for information to Western shall  
be filed no later than . . . . . 11/23/99

Western shall file responses to the initial request  
for information with the Commission no later than . . . . . 12/13/99

Additional requests for information to Western  
shall be filed no later than . . . . . 01/06/00

Western shall file responses to the additional  
requests for information with the Commission no later than . . . . . 01/21/00

Intervenor testimony, if any, shall be filed with the  
Commission in verified prepared form no later than . . . . . 02/04/00

All requests for information to Intervenors  
shall be filed no later than . . . . . 02/18/00

Intervenors shall file with the Commission  
responses to requests for information no later than . . . . . 03/03/00

Additional procedural dates will be established by future Order of the Commission.