COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF INCREASING WHOLESALE NATURAL GAS PRICES AND THE IMPACTS OF SUCH INCREASES ON THE RETAIL CUSTOMERS SERVED BY KENTUCKY'S JURISDICTIONAL NATURAL GAS DISTRIBUTION COMPANIES	)	ADMINISTRATIVE CASE NO. 384

O R D E R

This docket was opened September 12, 2000 in order for the Commission to investigate increases in wholesale natural gas prices and their impacts on customers served by Kentucky's jurisdictional natural gas distribution companies. After a series of public hearings involving the state's five largest Local Distribution Companies ("LDCs") - Columbia Gas of Kentucky, Inc. ("Columbia"), Delta Natural Gas Company, Inc. ("Delta"), Louisville Gas and Electric Company ("LG&E"), The Union Light, Heat and Power Company ("ULH&P"), and Western Kentucky Gas Company ("Western") - the Commission issued an Order on January 30, 2001 setting forth its findings on the issues raised throughout the course of this proceeding.

In its January 30, 2001 Order, the Commission required the five major LDCs to file reports addressing six issues within 60 days. The six issues to be addressed in the LDCs' reports included: (1) current gas procurement procedures; (2) analysis of greater use of storage; (3) analysis of performance-based rate-making mechanisms ("PBRs"); (4) analysis of financial hedging practices; (5) analysis of longer-term contracts; and (6) other - including changes to current gas procurement or gas cost recovery processes.

The Order also stated that after receipt of the LDCs' reports the Commission would explore the following areas: (1) whether gas cost adjustment ("GCA") mechanisms are working effectively in balancing the objectives of low gas costs, price risk, and reliability; (2) whether performance-based or incentive gas cost recovery plans should be encouraged; and (3) whether innovative mechanisms such as weather risk insurance and hedging should be encouraged.

The LDCs' reports have been received and comments on the reports have been filed by the Office of the Attorney General ("AG") and Metro Human Needs Alliance and People Organized and Working for Energy Reform ("MHNA and POWER"). Since the filing of the reports, some of the issues raised in this proceeding have been brought before the Commission in other proceedings outside this docket. Two of the LDCs, Western and ULH&P, have received Commission approval of pilot hedging programs. Delta has made a tariff filing to modify its GCA clause to include carrying charges on gas cost under-recovery amounts as a component of its gas cost.[1] Columbia has made application to modify its GCA tariff to address issues regarding gas cost under-recoveries experienced this past heating season.[2]

This Order addresses the issues identified in the January 30 Order, including the issues raised by the LDCs under the "Other" category included in Issue No. 6 above,

[1] Delta's tariff filing was suspended and docketed as Case No. 2001-163.

[2] Columbia's application was docketed as Case No. 2001-199.

and also includes a discussion of the three areas the Commission stated it would explore after receipt of the reports. The discussion of these issues follows.

ISSUES ADDRESSED BY THE LDCS

Current Gas Procurement Procedures

Each of the five LDCs described the manner in which it currently procures natural gas supplies. Delta, LG&E and Western all have on-system storage, which they supplement with purchases of pipeline storage capacity. Columbia and ULH&P, neither of which has on-system storage, rely entirely on pipeline storage capacity. All five LDCs purchase gas during the spring, summer and early fall for injection into storage with the intent of having their storage capacity at or near 100 percent by November 1 of any year, which is considered the start of the heating season.

Based on information provided in this proceeding, the Commission finds that, generally, the LDCs have developed sound planning and procurement procedures for meeting their customers' natural gas requirements through a combination of storage and purchases from reliable, financially sound suppliers. These procedures have provided consumers with a reliable supply of natural gas at reasonable costs over the period of time since wholesale natural gas prices were deregulated.

However, the events of the past year have resulted in changes in natural gas markets that may call for modifying some of the procurement strategies employed by the LDCs. This applies particularly to the strategy of obtaining gas at market clearing prices, which was the Commission's directive to the LDCs in Administrative Case No. 297, and which has been central to their procurement decisions since that proceeding.[3]

---

[3] Administrative Case No. 297, An Investigation of the Impact of Federal Policy on Natural Gas to Kentucky Consumers and Suppliers, Order dated May 29, 1987.

In consideration of the recent and ongoing changes in wholesale natural gas markets, the Commission intends to evaluate the LDCs' gas planning and procurement strategies in greater depth than it has in the course of this proceeding. In order to accomplish this task, the Commission has determined that it should retain an outside consultant, under the authority of KRS 278.255, who, along with Commission Staff, will conduct a focused audit of the LDCs' gas planning and procurement strategies. Such an audit would assist the Commission in evaluating whether the LDCs' planning and procurement strategies are appropriate in today's more volatile wholesale markets with a primary focus on the development of a balanced portfolio that effectively addresses cost issues, price risk and reliability.

Recent and ongoing changes within the natural gas industry are sufficient reason to call on outside expertise for the purposes discussed herein. The consultant and Commission Staff will evaluate the LDCs' planning, strategies, and processes in order to provide the Commission an in-depth understanding of same and to provide a framework for future reviews by the Commission. The costs of the consultant would initially be borne by the LDCs, and would ultimately be passed on to ratepayers, consistent with the provisions of the statute.

Increased Use of Storage

All five LDCs cited storage as a natural hedge against winter price increases under conditions where summer season injection prices are lower than winter prices. Storage not only aids in mitigating price swings experienced in the wholesale market but is also important for operational reasons. Columbia and ULH&P both utilize pipeline storage facilities exclusively because neither has the required geological formations in its service territory to develop on-system storage fields in a cost-effective manner. Delta, LG&E and Western, all of which have on-system storage, noted that increasing existing storage capacity would involve incurring additional costs. LG&E has pending before the Commission, in Case No. 2001-017, a proposed modification of its gas cost PBR that includes recovery of the costs of increasing or enhancing its existing storage capacity on a real-time basis through its GCA.[4] Delta and Western both stated that they support this method of cost recovery as an important incentive for LDCs to invest in increases or improvements in on-system storage capacity.

In commenting on the LDC reports, MHNA and POWER stated that the costs of developing on-system storage are traditionally considered within general rate cases involving the LDCs' base rates and that such costs should remain in base rates rather than be shifted to the GCA. MHNA and POWER went on to say that such a shift would result in higher rates, which is not the result it believes the Commission intended when it opened this proceeding.

The AG comments that LDCs already have a responsibility to use prudent measures in procuring gas to keep the price to their consumers fair and reasonable. While the AG did not specifically make a statement regarding storage, he did state that he would not support a program for which ratepayers would be required to bear all of the associated costs.

The Commission recognizes the importance of storage from an operational standpoint and as a means of mitigating the impact of winter price increases on

[4] Case No. 2001-017, Modifications to Louisville Gas and Electric Company's Gas Supply Clause to Incorporate an Experimental Performance-Based Rate-Making Mechanism.

consumers. The Commission encourages the LDCs to evaluate the costs and benefits of increased storage, be it on-system or pipeline storage capacity, on an ongoing basis, in response to changes in wholesale market conditions. Because Case No. 2001-017, which involves LG&E's proposal for the development of additional storage and related cost recovery issues, is pending, we find it inappropriate to make further conclusions on this subject at this time. The Commission will consider such matters prospectively on a case-by-case basis.

Performance-Based Rate-Making

LG&E and Western currently have pilot PBRs in place and Columbia has a limited gas cost incentive mechanism operating in conjunction with its Customer Choice Program.[5] All three LDCs offered comments in support of the use of PBRs in lieu of traditional regulation. Delta discussed the need to establish objective benchmarks within a PBR and stressed that different circumstances faced by LDCs and differences between LDCs require that PBRs be flexible. ULH&P discussed the potential for decreased reliability if, due to the existence of a PBR, operating decisions were based on economics rather than operational integrity.

LG&E stated that a properly constructed PBR better simulates a competitive environment than traditional regulation by encouraging LDCs to purchase gas and pipeline transportation at costs below predetermined benchmarks. PBRs encourage this with a balance of risks and rewards that create benefits for both customers and shareholders. According to LG&E, the risk and reward should be symmetrical but should not jeopardize reliability or encourage aberrant behavior. LG&E and Western

[5] The review of LG&E's pilot PBR is pending. The review of Western's PBR will commence upon the filing of Western's report on its pilot PBR in September 2001.

both emphasized that PBRs can eliminate the potential need for after-the-fact prudence reviews. They pointed to this elimination as a means of improving the regulation and oversight of LDCs in a manner that is less costly and litigious than after-the-fact reviews.

The Commission encourages the LDCs to consider innovative approaches, such as PBRs, as a means of improving their existing gas procurement performance. The Commission recognizes that LDCs face different circumstances and that differences in operating characteristics among LDCs mean that there is not one PBR approach that is right for all of them. Any development of PBRs will require flexibility, on the part of both the Commission and the LDC. In order to maintain flexibility and adequately consider the unique characteristics of a given LDC, we conclude that PBR issues will require Commission review and consideration on a case-by-case basis.

Hedging / Weather Risk Insurance

All five LDCs addressed hedging in general, although Delta included a fairly detailed discussion of weather risk insurance. Columbia and LG&E both state that a generic hedging policy must be broad and flexible and that it should be coordinated with policies on PBRs. They state that hedging could expose LDCs to increased risks and could send false price signals to consumers. They also state that if the Commission's goals, as enunciated in Administrative Case No. 297, have changed, those changes need to be clearly communicated.

Delta expressed an interest in pursuing possible hedging strategies and indicated it was considering developing a menu of price options for its customers. It suggested three options: (1) allow market prices to flow-through to customers absent any hedging;

(2) allow customers to conduct hedging or price mitigation strategies of their own; or (3) use a hedging strategy to create a fixed price option for customers.

Based on the premise that the additional costs associated with hedging instruments would be recoverable from customers, Western and ULH&P indicated an interest in implementing pilot hedging programs for a portion of their winter heating season gas supplies. Western and ULH&P followed up on their comments by filing proposals for pilot hedging programs which were recently approved by the Commission.[6]

In view of the fluctuation in wholesale natural gas prices over the past year, the Commission encourages the LDCs to consider limited hedging strategies as a means of mitigating some portion of the price risks to which consumers are subjected. As is evident from the LDCs' filings in this proceeding and the hedging proposals submitted by Western and ULH&P, LDCs have never been precluded from engaging in hedging. However, because hedging could result in prices that are above market, they have chosen not to pursue hedging strategies because of the potential that the resulting costs could be subject to disallowance as part of after-the-fact reviews by the Commission.

The Commission believes LDCs should consider limited hedging strategies as a means of mitigating price risk. Such limited strategies should create little in the way of increased costs or risks for either the LDCs or their customers. While the hedging programs recently approved for Western and ULH&P can be cited as examples of such

[6] See Case No. 99-513, Modification to Western Kentucky Gas Company, a Division of Atmos Energy Corporation, Gas Cost Adjustment to Incorporate an Experimental Performance-Based Rate-making Mechanism, Order dated June 15, 2001, and Case No. 2001-128, The Application of The Union Light, Heat and Power Company to Implement a Pilot Program to Evaluate the use of a Hedging Program to Mitigate Price Volatility in the Procurement of Natural Gas.

strategies, the Commission recognizes the need for flexibility and will not foreclose giving serious consideration to other types of hedging proposals submitted by any of Kentucky's jurisdictional LDCs, be they large or small.

Longer-Term Contracts

Delta cites the potential for after-the-fact prudence reviews as one risk of entering into longer-term contracts that contain fixed price terms for the purpose of mitigating price volatility. Delta, LG&E and Columbia all state that the price impacts of these types of contracts are similar to the impacts of purchasing financial derivatives. Such contracts generally provide price stability, but at a higher overall price. Using longer-term contracts instead of financial derivatives has the advantage of avoiding the need to develop additional accounts with brokers or new administrative systems. Plus, there is a clear accounting mechanism in place for all associated gas costs within the GCA structure. The negative aspect of such contracts is that they do not allow the LDC and ratepayers to participate in market price decreases. In addition, longer-term contracts can also create the potential for stranded costs for LDCs if they are required to implement a rate unbundling program.

Given the Commission's directive in Administrative Case No. 297 that LDCs should purchase gas at market clearing prices, Delta states that the Commission must provide specific guidance if it now desires that the LDCs develop a portfolio approach to gas procurement. LG&E echoed this sentiment and also stated that the terms and conditions contained in its contracts are more important than the length of the contracts.

While the LDCs have addressed certain advantages and disadvantages associated with longer-term contracts, the Commission recognizes that obtaining gas supplies at market clearing prices produces lower overall long-run costs and does not suggest that the LDCs turn away from their historic, and current, procurement strategies. However, in view of the price fluctuations experienced since the summer of 2000, the Commission considers mitigating price volatility an objective that should also be central to any LDC's gas procurement strategy. To that end, the Commission encourages the LDCs to pursue a balanced portfolio of gas supply contracts with different terms and conditions, such as market prices, fixed prices, etc., regardless of the lengths of the contracts. Staggered lengths and expiration dates of gas supply contracts, which some of the LDCs currently have, should also be pursued as part of such a portfolio strategy. Contracts' lengths, as well as their terms and conditions, will be an obvious area of focus by the consultant retained to review the LDCs' procurement activities.

Other Issues – Gas Procurement and Gas Cost Recovery

Some of the LDCs included further discussion on hedging strategies in this section of their reports. They also cited a number of considerations relevant to gas cost recovery. Those include: (1) requiring residential and small commercial customers to enroll in budget payment plans; (2) achieving greater price stability in retail prices through a return to quarterly GCA filings; (3) providing fixed price and/or fixed bill options to customers; and (4) including carrying charges on gas cost over- and under-recoveries in the calculation of the GCA.

In light of the experience of the LDCs and their customers over the course of the 2000-2001 heating season, increased price stability is clearly a goal of the Commission.

Any one of the factors cited by the LDCs might, in some fashion, serve as a means to promote price stability. Each is addressed in the following paragraphs.

Required Enrollment in Budget Payment Plans. This proposal is cited as a means of reducing volatility in customers' bills and reducing payment problems in peak usage months during the heating season. There are obvious benefits to budget plans and many of the LDCs have indicated that the number of customers opting for budget billing, or levelized billing, increased significantly over the course of this past heating season. However, many customers make the choice to not enroll in budget payment plans, for a number of reasons. Generally, we believe, it is the customer's prerogative to make that choice. In addition, Administrative Regulation 807 KAR 5:006, Section 13(2)(a), requires only that energy utilities make available and offer a budget payment plan to their customers. It does not mandate that customers enroll in such plans.

We do believe, however, that the problems of customers with chronic payment problems could be mitigated by budget billing. Therefore, we will require the LDCs to provide education and counseling on their budget billing plans to such customers at the time they apply to have their service restored. Further, for customers that have chronic payment problems resulting in disconnections, the LDCs may consider putting the customer on notice that if the situation is repeated, the customer will be required to switch to budget billing unless the customer signs a form prepared by the LDC refusing the option. Such actions should assist in reducing the number and frequency of non-payment situations that ultimately result in service disconnections.

Return to Quarterly GCA Filings. While budget payment plans are governed by regulation, the timing of GCA filings is governed solely by Commission Orders and the terms of the LDCs' tariffs, which contain their GCA clauses. Quarterly filings are another means of providing additional stability by lessening the frequency of rate changes for retail customers. In the January 30, 2001 Order, we required monthly GCA filings by the LDCs and the reasons for that requirement were stated therein. We find, now, however, that a return to quarterly GCA filings, in conjunction with other changes discussed elsewhere in this Order, is appropriate in order to balance the goals of minimizing volatility, to more accurately reflect current gas costs, and to reduce the need for out-of-time, or interim, GCA filings.[7]

We find that the LDCs should discontinue monthly GCA filings and return to quarterly GCA filings effective with each LDC's next scheduled quarterly filing cycle. We also find that the LDCs should base the Expected Gas Cost included in their GCA filings on prices forecasted for the 3-month period in which the GCA will be in effect. Traditionally, although different LDCs used 1 month, 3 months, or 12 months of forecasted prices in their GCA filings, the conditions in the wholesale market were stable enough that the use of different time periods resulted in no significant differences in the LDCs' forecasted price levels. However, the conditions of the past year lead us to conclude that matching the forecast period to the period in which the rates will be in effect will be beneficial to the LDCs as well as their customers.

Obviously, recognizing price changes on a monthly basis lends itself to more accurately tracking such changes, although it is anathema to reducing volatility. Conversely, recognizing price changes annually is consistent with the goal of minimizing

[7] We do not intend to discourage, or look unfavorably upon, such filings when they appear to be necessary. We are merely indicating that the necessity for such filings appears to have lessened.

volatility but does not permit accurate tracking of costs, particularly when wholesale prices are subject to significant fluctuation. While no one can predict with certainty whether the price volatility of the past year is a one-time occurrence or is likely to become commonplace, the consistent use of a 3-month price forecast as a means of balancing the goals of accurately reflecting current prices and minimizing volatility should, in our opinion, improve the quarterly filing process.

Fixed Price / Fixed Bill Options. Fixed price and fixed bill options were suggested as means of stabilizing retail customers' monthly natural gas bills. These both reflect extensions of the reasoning behind the budget payment plan option for customers. As the names imply, the options are different in that the fixed price option locks in price only, and can still produce changes in bills due to changes in consumption, with a year-end reconciliation much the same as under a budget plan. The fixed bill option, on the other hand, based on normal temperatures and normal consumption, fixes the amount of the monthly bill regardless of changes in price or consumption levels with no reconciliation. Since the ability to provide such options to customers does not come without costs, customers would pay a greater total amount in exchange for the stability provided under these options.

The Commission is encouraged by the different approaches presented by the LDCs as a means of addressing price volatility and is willing to consider proposals for making such options available to customers on a voluntary basis. Any such proposals must be supported by an estimate of the magnitude of the costs associated with such options. Moreover, those costs should be borne by customers who choose those options or by the utility, not by the general body of customers.

Carrying Charges on Over – or Under-Recoveries. A number of LDCs raised the issue of including carrying charges on gas cost over- and under-recoveries in the Actual Adjustment ("AA") component of the GCA. They cite the pace and magnitude of increases in wholesale gas costs during the past heating season as having resulted in under-recovery balances significantly larger than what the LDCs typically "carry" during the time prior to their being recovered through the AA component. MHNA and POWER oppose including carrying charges in the GCA, stating that the addition of these financing costs will result in higher overall costs to ratepayers.

Generally, the Commission has held that the GCA should only reflect the various components of the LDCs' actual gas costs, nothing else. However, the level of price volatility over the past heating season and the magnitude of the under-recoveries experienced by the LDCs justify reevaluation of this opinion.

We note that, as cited by Western, many state commissions allow carrying charges on over- and under-recoveries of gas costs. We also note that some states that allow carrying charges have established provisions that provide for adjustments to the gas cost component of the LDCs' rates on an annual or semi-annual basis, but have not established a provision for any type of interim adjustment.[8]

Obviously, if carrying charges are added to the amounts already included in the AA calculation, the rate per Mcf charged to consumers will increase, all other things being equal. Increasing rates is not a desired outcome. However, the Commission recognizes that the ability to recover carrying charges could mitigate the LDCs'

[8] We note that some states that allow carrying charges also allow either quarterly adjustments or interim adjustments. Obviously, the less frequently adjustments are permitted, the greater the need for allowing some form of carrying charges.

concerns about rapid escalations in wholesale prices. The inclusion of carrying charges could also mitigate the need for interim GCA filings to address such escalations or the need to return to monthly filings to address rapid decreases in wholesale prices at some point in the future. This is an additional factor for consideration in the context of reducing volatility in retail customers' bills.

We conclude that recovery of carrying charges is permissible but only if the LDC extends the recovery period for the AA component of its GCA by an additional 12 months. In essence, the total dollar amount of the over- or under-recoveries would be spread over 2 years of sales volumes rather than 1 year, as is presently the case. Such an approach will effectively result in halving the rate per Mcf for the AA prior to calculating carrying charges.

The Commission finds that the recovery of carrying charges on over- and under-recoveries should be an option for the LDCs, but only in conjunction with an extension of the period over which the over- or under-recoveries are charged to ratepayers. This docket was initiated as an investigation of wholesale price increases. We did not, and do not, believe that increases in rates beyond what has occurred due to increased wholesale prices should be an outcome of this proceeding.

As previously mentioned, allowing carrying charges is not without precedent in other jurisdictions. We note that such carrying charges are typically calculated based on either a fixed interest rate, such as the rate calculated for customer deposits, or is tied to a published rate or index. Columbia and Western both explain that their GCA tariffs presently include an interest cost component for amounts received as refunds from wholesale suppliers or pipeline transportation providers.[9] A published rate or index that is easily verified and that can be applicable to all the LDCs is a necessity in order to ensure administrative efficiency on the part of the Commission in processing GCA filings that include carrying charges. It may be practical to use a rate other than the 3-month commercial paper rate; however, the same rate or index will be applicable to all LDCs. Therefore, this is an issue upon which the Commission expects the LDCs to come to agreement prior to making any proposals to the Commission. Any such proposal must be made in the form of a request to modify the LDC's existing GCA clause to include a carrying charge component.[10]

SUMMARY

Sometime after the issuance of this Order, the Commission will begin the process of selecting an outside consultant to review, with Commission Staff, the LDCs' gas procurement procedures with particular focus on a gas procurement portfolio mix that addresses cost issues, price risk, and reliability issues. We encourage the LDCs to look at storage development, PBRs, limited hedging strategies, contract length and structure, fixed price, and fixed bill options as ways of improving performance while minimizing risk and providing choices to their customers. The LDCs are given notice that the Commission will consider requests to add carrying charges to the amounts of over- or under-recoveries included in the GCA calculation with the understanding that

[9] The rate is the 3-month commercial paper rate. This rate has also been used for refunds in general rate cases when utilities have put rates in effect subject to refund, as permitted by statute, at the end of the suspension period.

[10] Delta, which has submitted a tariff filing based on its short-term borrowing costs, should take part in discussions with the other LDCs and make the necessary revisions to its filing. In addition, the Commission reserves the right to select a rate or index other than that agreed upon by the LDCs.

the recovery period will be extended from 1 year to 2 years in order to avoid increasing customers' rates.

Although the issues addressed herein are numerous, they all relate to the subject of mitigating price risk and price volatility. The Commission and the LDCs are all well aware of the significance of this subject based on the experiences of this past heating season. Reinstating quarterly GCA filings while requiring that LDCs match their projected wholesale prices to the quarter in which the proposed GCA will be in effect is one means of addressing this subject.

While it is possible that the prices experienced during the 2000-2001 winter will not recur in coming years, the Commission finds that some form of preparedness and risk mitigation strategy should be in place in the event of a recurrence. Inasmuch as customers bear the full risk of wholesale price changes, it is appropriate that they bear the full cost, within reason, of any Commission-approved price mitigation strategies. Conversely, LDCs that forego developing such strategies may place themselves in the position of sharing some of the price risk to which customers have been exposed in the past.

Some of the LDCs have expressed concerns regarding the risks associated with hedging programs and other price mitigation strategies and regarding whether the goals of such strategies are in conflict with the goals of PBRs. The Commission agrees that there is some inherent conflict between those goals. However, on a limited basis, as demonstrated in the recent hedging programs approved for Western and ULH&P, the costs and risks of such programs can be minimized. In addition, as the Western program shows, a hedging program can be implemented so as to be separate from a

PBR.[11] The Commission wishes to emphasize that it will consider different types of hedging, or price mitigation, proposals from the LDCs and that it recognizes fully the need for flexibility and for coordination of such proposals with PBR policies.

LDCs should pursue a balanced natural gas procurement strategy that addresses the objectives of obtaining low cost gas supplies, minimizing price volatility and maintaining reliability of supply. We believe that all of these objectives can be part of a coordinated gas procurement strategy that incorporates performance-based rate-making with hedging and other price mitigation programs.

FINDINGS AND ORDERS

The Commission, based on the evidence of record and being otherwise sufficiently advised, finds that:

1. An outside consultant should be retained by the Commission, pursuant to KRS 287.255, to conduct a focused audit of the LDCs' gas procurement activities.

2. The LDCs should maintain their objective of procuring wholesale natural gas supplies at market clearing prices, within the context of maintaining a balanced natural gas supply portfolio that balances the objectives of obtaining low cost gas supplies, minimizing price volatility and maintaining reliability of supply.

3. The LDCs should consider storage development, performance-based rate-making, limited hedging programs, and contract length and structure as strategies for attaining the objectives identified herein. Proposals developed by the LDCs should be considered by the Commission on a case-by-case basis.

[11] This is not a blanket endorsement of the approach used in the Western proposal. It is merely cited as an example. Different approaches may be appropriate for different situations and different LDCs.

4. The LDCS should provide education materials and counseling on budget billing plans to customers who have repeatedly had service terminated for non-payment and may consider requiring those customers to enroll in such plans unless they indicate in writing that they refuse the option of budget billing.

5. The LDCs should return to quarterly GCA filings at the time of their next scheduled quarterly filing. In that filing, and all future quarterly filings, the LDCs should base their expected gas cost on projected wholesale gas prices during the 3 months in which the proposed rates will be in effect.

6. The LDCs should consider offering customers choices as to the manner in which they receive and pay for natural gas service, including fixed price and fixed bill options and allowing customers to develop their own price mitigation strategies.

7. The Commission should consider proposals to include carrying charges on gas cost over- and under-recoveries in the actual adjustment included in the LDCs' calculation of their GCA when the proposal is based on a 2-year recovery period and the carrying charges are calculated based on a verifiable, publicly available cost rate.

IT IS THEREFORE ORDERED that:

1. The LDCs shall provide education materials and counseling on budget billing plans to customers who have repeatedly had service terminated for non-payment and consider requiring those customers to enroll in such plans unless they indicate in writing that they refuse the option of budget billing.

2. The LDCs shall immediately discontinue monthly GCA filings and return to quarterly GCA filings. The LDCs' quarterly filings shall be based on the same filing cycles they were using prior to the Commission's Order requiring monthly GCA filings

and shall project wholesale gas costs for the 3 months during which the proposed rates will be in effect.

3. Any proposals made by a utility to include carrying charges on gas cost over- and under-recoveries in the actual adjustment included in an LDC's calculation of its GCA shall be based on a 2-year recovery period, and the carrying charges shall be calculated based on a verifiable, publicly available cost rate that can be applied for all the LDCs. The proposals shall be in the form of a request to modify the LDC's existing GCA clause to include a carrying charge component.

Done at Frankfort, Kentucky, this 17th day of July, 2001.

By the Commission

ATTEST:

Wm H Fowler

Deputy Executive Director