

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LOUISVILLE GAS)	
AND ELECTRIC COMPANY TO IMPLEMENT A)	CASE NO. 2002-00136
NATURAL GAS SUPPLY HEDGE PLAN)	

ORDER

On April 16, 2002, Louisville Gas and Electric Company (LG&E) filed its proposed hedging plan for the upcoming winter season. LG&E s application proposes three alternatives: 1) A hedge plan for 2002-2003 featuring call options, 2) A hedge plan for 2002-2003 and 2003-2004 featuring call options, and 3) No hedge plan for 2002-2003. The sole intervenor in this proceeding is the Attorney General of the Commonwealth of Kentucky, through his Office of Rate Intervention (AG). On May 28, 2002, LG&E filed a request for an Informal Conference. Representatives of LG&E, the AG and Staff met on June 5, 2002 to discuss settlement proposals. On July 3, 2002, LG&E filed a settlement agreement in which LG&E and the AG agreed on Alternative 3, no hedging activity for the winter of 2002-2003. In the event the Commission rejected their agreement to adopt Alternative 3, the parties agreed to support Alternative 1 with modifications.

DISCUSSION

In Administrative Case No. 384, which investigated the increase in gas prices over the summer and fall of 2000, the Commission encouraged gas distribution companies to explore various methods for mitigating the effect of volatile gas prices on the consumer. Several options were discussed during the case, such as budget billing

plans, storage gas, and hedging. The Commission understands that hedging is only one technique for achieving this goal and therefore accepts the parties agreement to adopt Alternative 3. However, the Commission continues to encourage LG&E and other gas distribution companies in Kentucky to investigate ways to create price stability for their customers in the future.

FINDINGS AND ORDERS

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that the settlement agreement between LG&E and the AG should be approved.

IT IS THEREFORE ORDERED that the settlement agreement between LG&E and the AG is approved.

Done at Frankfort, Kentucky, this 20th day of August, 2002.

By the Commission

ATTEST:


Executive Director