COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE UNION LIGHT, HEAT AND POWER COMPANY FOR AUTHORITY TO MAKE MONTHLY ADJUSTMENTS TO THE EXPECTED GAS COST COMPONENT OF ITS GAS COST ADJUSTMENT RATE	))))))	CASE NO. 2003-00386

O R D E R

On October 2, 2003, The Union Light, Heat and Power Company (ULH&P) filed its application for authority to change the frequency of its Gas Cost Adjustment (GCA) filings. ULH&P proposes to file GCAs monthly, rather than quarterly, for a trial period of 18 months, beginning with the GCA filing for the December 2003 billing period. ULH&P proposes to revise its Expected Gas Cost (EGC) each month within 20 days of the proposed effective date, while retaining the existing quarterly schedule for adjustments to the Refund Adjustment (RA), the Actual Adjustment (AA), and the Balancing Adjustment (BA) components of its GCA. ULH&P also proposes the use of projected 12-month weather-normalized sales rather than 12-months historical sales in its calculations. On October 24, 2003, ULH&P filed a request for a waiver of the 30-day notice requirement for its next GCA filing, originally due on or before November 1, 2003. ULH&P s request was granted on November 3, 2003. The Attorney General (AG) requested and was granted intervention in this case.

DISCUSSION

ULH&P states that its proposal is consistent with previous Commission Orders and the recommendations of The Liberty Consulting Group (Liberty) in the Administrative Case No. 384 management audit.[1] Administrative Case No. 384 disclosed several GCA issues that gas companies face, with a major issue being how to maintain a market clearing price while attempting to reduce price volatility and prevent large over- and under-recoveries and uncollectible accounts. Since the winter of 2000-2001, the Commission and its jurisdictional gas companies have explored various means to mitigate the effect of high prices and large fluctuations in that price. Kentucky s gas distribution companies are currently using a portfolio approach, employing techniques such as financial and physical hedging instruments, storage gas and budget billing to reduce price volatility at a reasonable cost.

The large under-recoveries caused by the price spikes of December 2000 and February 2003 were incorporated into the GCA approximately 6 months after the period involved, which had the effect of spreading the price increase experienced during only a few months over a 12-month period. Liberty s concern with this facet of the GCA was the skewed price signal sent to customers paying a summer price that was higher than market, affecting the competition for commercial and industrial customers who may decide to go off the system. The delay in recovering the under-recovery also impacts the cash flow of the utility. As ULH&P states in its application, Liberty suggested the

[1] Administrative Case No. 384, An Investigation of Increasing Wholesale Natural Gas Prices and the Impacts of Such Increases on the Retail Customers Service by Kentucky s Jurisdictional Natural Gas Distribution Companies, Order dated January 30, 2001.

possibility of monthly GCAs as part of an effort to charge the customer a price that reflects the cost of providing service. The Commission did in fact order monthly GCAs from January 2001 thorough July 2001.

Another consideration for the Commission is the 18-month trial period proposed by ULH&P. Both the Commission Staff and the AG questioned ULH&P about the term of the trial period. ULH&P stated that it would take 24 months to remove all the determinants attributed to the quarterly filing period from the monthly GCA filings but recommends a 30-month, rather than a 24-month trial period, so that the trial period will end outside the heating season. The Commission agrees that a 30-month trial period, rather than an 18-month trial period, would give a more accurate view of the effect of the monthly filings on under and over-collections.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that ULH&P s request to file its GCA monthly within 20 days of the effective date, using projected 12 months sales is reasonable and should be approved. We also find that 30 months, rather than the 18 months as proposed by ULH&P, should be approved as the length of the trial period for filing monthly GCAs.

IT IS THEREFORE ORDERED that:

1. ULH&P s request to file its GCA monthly with at least 20 days notice is approved.

2. ULH&P s request to use projected 12-month weather-normalized sales rather than 12-months historical sales in its calculations is approved.

3. The trial period shall be 30 months, ending in June 2006.

Done at Frankfort, Kentucky, this 6th day of November, 2003.

By the Commission

ATTEST:

Executive Director