

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)	ADMINISTRATIVE
CUSTOMERS SERVED BY)	CASE NO. 384
KENTUCKY'S JURISDICTIONAL)	
NATURAL GAS DISTRIBUTION)	
COMPANIES)	

O R D E R

Since the end of the 1999-2000 heating season, wholesale prices in the natural gas industry have undergone a significant increase resulting in commodity prices in July 2000 being more than double what they were at the same time in 1999. Coming after the heating season, the increase reflects a departure from the seasonal changes typically experienced in the gas industry whereby prices decline in conjunction with the decrease in the demand for natural gas that accompanies the end of winter's colder temperatures. The larger natural gas local distribution companies ("LDCs") under the jurisdiction of the Commission have all made Gas Cost Adjustment ("GCA") filings that reflect these higher prices in the rates charged to their retail customers. Many of the smaller LDCs regulated by the Commission have also made GCA filings to reflect these higher wholesale prices in their retail rates.

The increase in wholesale prices may result in retail customers paying 30 to 50 percent more on their heating bills this coming winter compared to what they paid this past winter. Increases of this magnitude are a matter of great interest and concern to

the Commission, and we find it to be in the best interests of the LDCs, their customers, and the Commonwealth to investigate this situation in a public forum. The Commission finds, therefore, that this is a matter that should be explored in an administrative proceeding and by issuance of this Order the Commission hereby initiates such a proceeding.

The Commission expects to develop a record in this proceeding that identifies the underlying causes of the recent increase in natural gas prices and whether there is reason to be concerned about the availability of supply for the upcoming heating season. To the extent possible, the Commission intends to ascertain current expectations for possible further price increases and the length of time until prices are expected to be impacted by recent increases in industry drilling and production activities. We also expect to determine whether the LDCs operating in Kentucky are extending their best efforts to ensure that they are acquiring natural gas for resale to their retail customers at reasonable costs and that natural gas purchases from affiliate producers are being conducted in an arm's-length manner.

The Commission expects the record developed herein to reflect the extent to which LDCs are providing information to help customers, low-income customer assistance program providers, and governmental agencies that oversee assistance programs to be better prepared for the upcoming heating season. We will also examine possible strategies the LDCs can adopt to try to mitigate higher gas prices and whether there are regulatory options available to lessen the impact on customers while ensuring that LDCs are able to recover all reasonable levels of gas costs.

Although the Commission obtains a great deal of information regarding wholesale gas prices from the LDCs as part of their GCA filings, we believe additional information is needed in order to explore adequately the issues relevant to this proceeding. Therefore, attached as Appendix A to this Order is an information request to which the following utilities are to respond: Columbia Gas of Kentucky, Inc., Delta Natural Gas Company, Inc., Louisville Gas and Electric Company, The Union, Light and Power Company, and Western Kentucky Gas Company. An original and 10 copies of written responses shall be filed with the Commission within 10 days from the date of this Order. Each company shall make copies of its responses available to other parties upon request.

The Commission intends to conduct public hearings on this matter at locations within the service territory of each of the five LDCs responding to this Order. The dates, times, and locations for these hearings are set out in Appendix B of this Order. After these hearings the Commission expects to issue an Order enumerating its findings on the issues developed through this proceeding.

IT IS THEREFORE ORDERED that:

1. An investigation of the recent increases in natural gas prices and the potential impacts those increases will have on retail natural gas customers is hereby instituted. The local gas distribution companies identified herein shall be parties to this proceeding. Other interested parties may intervene and participate; however, formal intervention is not a prerequisite to filing comments on matters addressed within this proceeding. Interested parties are encouraged to speak at the hearing and to file comments with the Commission.

2. The five local gas distribution companies identified in the body of this Order shall file responses to the information requests contained in the attached Appendix A. The original and 10 copies of the responses shall be filed with the Commission within 10 days from the date of this Order.

3. All requests for intervention shall be made within 15 days from the date of this Order. Any party that intends to participate by filing comments but that chooses not to intervene shall file a notice informing the Commission of those intentions within 30 days from the date of this Order.

4. Public hearings for the purposes of receiving comments from intervenors, customers, local officials and other interested parties, and questioning representatives of the local gas distribution companies will be held in the service territories of each of the local distribution companies identified herein as parties to this proceeding. Individuals within the local gas distribution companies responsible for natural gas procurement decisions and/or involved in day-to-day natural gas procurement functions shall be present at these hearings to answer questions from the Commission and intervenors. The dates and times for these hearings are set out in Appendix B to this Order. The specific locations will be announced in a subsequent Order.

Done at Frankfort, Kentucky, this

By the Commission

ATTEST:


Executive Director

APPENDIX A

AN APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN ADMINISTRATIVE CASE NO. 384 DATED SEPTEMBER 12, 2000

The original and each copy of the information requested herein shall be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 2(b), Sheet 1 of 3. Include with each response the name of the person responsible for responding to questions relating to the information provided.

1. Provide a detailed explanation, with appropriate references to all sources upon which you relied, for why wholesale natural gas prices have increased through the spring and summer of calendar year 2000.

2. Some published sources indicate that storage injections so far in 2000 are lagging behind where they would normally be at this time of year and that, in case of a cold 2000-2001 winter, supplies could be hard-pressed to meet the heating season demand.

a. Describe your company's assessment of the availability of gas supplies necessary to meet your customers' demands for the upcoming heating season with references to all sources upon which you relied.

b. Provide a detailed narrative description of where your company stands as of September 1, 2000, regarding, as applicable, its own storage injections and/or the storage injections of the pipelines with which it has contracted for storage.

Include comparisons to your storage level as of September 1, 1999, and to your September 1st 5-year storage level average for the 1995-1999 period.

c. Describe any efforts on the part of your company to remind customers receiving interruptible service of the potential for interruption during the upcoming heating season.

3. Provide your company's current assessment, or the third-party assessment upon which your company relies, of the extent to which wholesale natural gas prices are expected to increase above current levels in the near-term future (over the next 12 months) and your expectations for when, and if, prices will be impacted by the industry's recent increases in drilling and production activities.

4. Provide a bill comparison for each sales customer classification in your company's tariffs showing the average bill for January 2000, based on the average customer usage and the rates in effect at that time, compared to a bill based on that same usage level and the rates in effect as of September 1, 2000.

5. For each producer, marketer, or other entity which supplied a portion of the natural gas purchased by the LDC during calendar years 1999 and 2000 or from which the LDC expects to purchase natural gas between September 1, 2000 and August 31, 2001, provide the following information:

- a. The name of the natural gas supplier.
- b. The nature of any affiliate relationship.
- c. The historical period (months or years) during which the LDC purchased from the supplier and/or the future time period in which the LDC expects to purchase from the supplier – based on current contracts or agreements.

d. The annual volumes purchased from the supplier, whether the volumes are historical or projected, the period covered if historical, and the basis for the projection if projected.

e. The current commodity price, the average commodity prices for the periods January through April 2000 and May through August 2000, and a description of how the price is determined (i.e., fixed price contract, indexed to market prices, etc).

f. Whether the supply is long-term (more than one year), short-term, or a combination thereof, with an explanation for the current mix of long-term and short-term supplies.

6. Three of the LDCs operating in Kentucky have recent or current experience with incentive or performance-based mechanisms as part of their gas procurement practices and GCA mechanisms. Based on your company's experience or knowledge of other companies' experiences, provide an assessment of such incentive mechanisms. Include discussion of both the positive and negative aspects of these mechanisms.

7. Provide a detailed listing and description of the assistance programs for low-income customers presently offered in the areas in which your company provides retail natural gas service, as well as information on any new programs your company presently has under consideration or in the planning stages. Provide a detailed narrative description of your company's efforts to inform customers of the availability of these programs.

8. The recent increases in wholesale natural gas prices have been publicized within the natural gas industry for the past several months. Identify and describe your

company's efforts to communicate the potential impacts of these increases for the upcoming heating season to customers, providers of low-income assistance programs, and governmental agencies that oversee such programs.

9. Given the potential impacts of the recent increases in wholesale natural gas prices on home heating bills in the upcoming heating season, particularly for low-income customers, describe any consideration on the part of your company as to whether the development of some type of universal service fund should be explored as a means of helping customers maintain service and help the company reduce the incidence of disconnecting and reconnecting service, establishing partial payments plans, writing off bad debts, etc.

10. Identify and describe any strategies that LDCs could possibly adopt in order to mitigate the impacts of higher wholesale natural gas prices. Identify and describe any such strategies that your company has considered in recent months.

11. Identify and describe any regulatory alternatives that might have the potential for lessening the impact of higher wholesale natural gas prices on retail customers while ensuring that LDCs are still able to recover all reasonable levels of gas costs.

APPENDIX B

AN APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN ADMINISTRATIVE CASE NO. 384 DATED SEPTEMBER 12, 2000

Public hearings will be held in the areas served by each of the gas distribution utilities directed to respond to the questions contained in Appendix A according to the following schedule. All hearings will begin at 6:00 p.m. local time. The specific locations for the hearings will be announced in a subsequent Order.

- October 2, 2000 - Columbia Gas of Kentucky, Inc.
- October 5, 2000 – Delta Natural Gas Company, Inc.
- October 10, 2000 - The Union Light, Heat & Power Company.
- October 16, 2000 – Louisville Gas and Electric Company.
- October 19, 2000 – Western Kentucky Gas Company.