

BEFORE THE TENNESSEE PUBLIC SERVICE COMMISSION
May 3, 1996 Nashville, Tennessee

IN RE: APPLICATION OF UNITED CITIES GAS COMPANY TO
ESTABLISH AN EXPERIMENTAL PERFORMANCE-BASED
RATEMAKING MECHANISM

DOCKET NO. 95-01134

O R D E R

This matter involves an application of United Cities Gas Company (United Cities or Company) to implement an experimental performance-based ratemaking mechanism. This application was approved, subject to certain conditions, by this Commission's Order of May 12, 1995. One of the conditions imposed by said Order was that the Company should contract with an independent consulting firm to review this mechanism and report to the Commission annually during this experimental two-year period. Guidelines were set forth in said Order for the reports of said independent consultant.

By a separate Order in this docket, this Commission approved a contract for the aforementioned consulting work between United Cities and Mr. Frank Creamer of Anderson Consulting. Under date of February 2, 1996, Mr. Creamer filed a report with the Commission in which a number of modifications to United Cities' existing program were suggested. One of the principal suggestions was to raise the revenue limits imposed by the May 12, 1995 Order from a maximum of \$25,000 per month to \$600,000

per year. Other suggestions dealt with the percentage of sharing between the Company and ratepayers on various mechanisms. Reference is hereby made to the files of the Commission for the details of these suggested modifications.

Following the filing of this report, a hearing was conducted before the Commission on March 7, 1996. Testimony from both the Company and the Consumer Advocate was received, as well as Mr. Creamer's report as described above. Statements of counsel were also considered.

The Commission further considered this matter at its regularly scheduled Commission Conference on March 19, 1996. After consideration of all factors, including the consultant's report mentioned hereinabove, the testimony and the statements of counsel, the Commission was of the opinion that the incentive ratemaking program should be continued for another year, but with the modifications suggested by Mr. Creamer's report. The Commission was also of the opinion that these modifications or changes should take place effective April 1, 1996.

IT IS, THEREFORE, ORDERED:

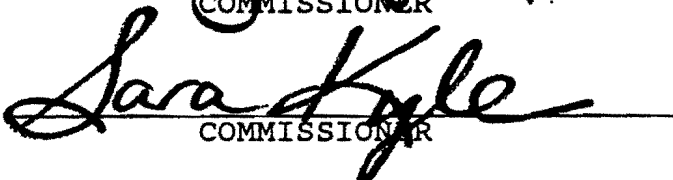
1. That United Cities' Incentive Ratemaking Program is continued for another year subject to the same review and reporting conditions as originally contained in this Commission's Order of May 12, 1995, but that the Program is hereby modified in accordance with Mr. Creamer's report of February 2, 1996 to which reference is hereby made. Said modifications shall be effective as of April 1, 1996.

2. That any party aggrieved with the Commission's decision in this may file a Petition for Reconsideration with the Commission within ten (10) days from and after the date of this Order; and

3. That any party aggrieved with the Commission's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from and after the date of this Order.


CHAIRMAN


COMMISSIONER


COMMISSIONER

ATTEST:


EXECUTIVE DIRECTOR