

BEFORE THE TENNESSEE PUBLIC SERVICE COMMISSION

March 14 , 1996

Nashville, Tennessee

IN RE: PETITION OF UNITED CITIES GAS)
 COMPANY FOR APPROVAL OF A) DOCKET NO. 95-04184
 DEVELOPMENTAL RATE SCHEDULE)

ORDER

This matter is before the Commission upon the Petition of United Cities Gas Company (United Cities or Company) for approval of a Developmental Rate Schedule related to the York Triathlon Unit, a new high efficiency natural gas heating unit which also uses natural gas for cooling. The proposed rate schedule is identified as Rate Schedule 211.

Over the past few years, the electric distribution industry has introduced various technologies designed to penetrate the space heating market. These include the electric heat pump, the add-on heat pump, and the water source heat pump. This has placed the gas industry in a defensive posture due to the fact that it relies on the space heating market for a substantial portion of its revenues.

Moreover, the National Appliance Energy Conservation Act (NAECA) requires increased efficiencies in new appliances. These NAECA requirements, coupled with more efficient residential construction, means that there should be declining residential space heating gas consumption per customer.

The York Triathlon Unit, with its space heating efficiency and use of gas for cooling, can, if placed into wide service, preserve

the gas industry's space heating market while expanding the use of gas during the cooling season. This dual ability--to protect the existing space heating market while expanding into the cooling market--is crucial to the long term health of the natural gas distribution industry.

United Cities' proposed Rate Schedule 211 is a tariff designed to promote the Triathlon equipment in the State of Tennessee. Because of the cost of the equipment, it is necessary to have discounted margins. In its Original Petition United Cities also sought to apply to this tariff the optional PGA, which does not contain cost items associated with firm service. The Commission's Staff, after review of the Original Petition, suggested that there should be some contribution to demand since customers on the proposed developmental rate will be using gas during winter periods. In response to this suggestion, United Cities amended its proposal to add a demand component to the optional PGA for this tariff only. Specifically, this amended proposal calls for the Company to add to the optional PGA a demand component calculated at a 100% load factor rate, based on the annual demand dollars associated with daily deliverability. A component equivalent to the component paid by all other firm rate payers for annual space and capacity charges related to storage will be added to the 100% load factor demand rate. With each PGA filing, this rate will be calculated and submitted to the Commission.

In addition to the foregoing provisions, Rate Schedule 211 will be strictly limited. Under its express terms, the tariff will expire when either of the following criteria has been met:

- "(1) Fifty (50) customers have qualified for this service;
- (2) The service expires for new customers ten (10) years after the effective date of this tariff."

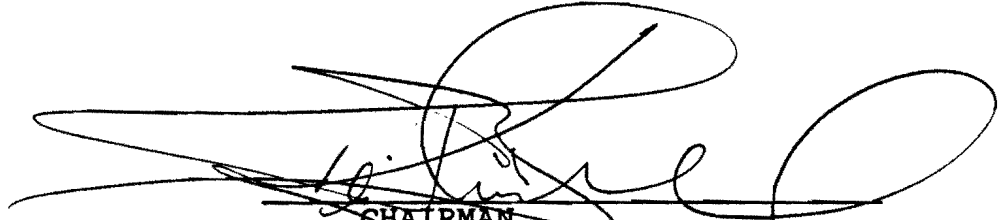

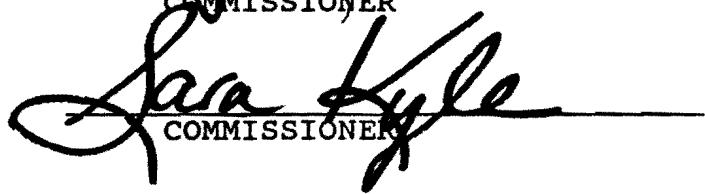
The Commission considered this matter at its regularly scheduled Commission Conference on January 30, 1996. The Commission was of the opinion that the Company's proposed tariff, as amended, was appropriate and should be approved.

IT IS, THEREFORE, ORDERED:

1. That the tariff representing Rate Schedule 211, as amended, be and the same hereby is approved. United Cities shall make appropriate filings with the Commission as described in the body of this Order.

2. That any party aggrieved with the Commission's decision in this docket 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

FORMS/ORDTRIAT