ATTACHMENT A

ARKANSAS
PUBLIC SERVICE COMMISSION

NATURAL GAS PROCUREMENT PLAN RULES

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Section 1: Background

In Order No. 3 of Docket No. 01-023-NOI styled *In the Matter of a Notice of Inquiry into Whether Arkansas Gas Utilities Should Integrate Gas Price Hedging, Fixed Price Options, and Other Alternative Mechanisms into Gas Procurement Plans*, the Arkansas Public Service Commission ("Commission") adopted ***Policy Principles for Gas Procurement Plans of Utilities*** ("Policy Principles"). The Policy Principles provide as follows:

> The Commission intends that these will guide gas utilities in their purchasing decisions as such decisions relate to the issues that were under review in the NOI. The Commission interprets these policy principles as being consistent with Ark. Code Ann. §23-15-103, the "Least Cost Purchasing Statute." Modifications to these principles and/or rules may be required as more experience is gained in these areas.
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> 1. Each gas utility is expected to take all reasonable and prudent steps necessary to develop a diversified gas supply portfolio. The portfolio should consist of an appropriate combination of different types of gas purchase contracts and/or financial hedging instruments that is designed to yield the optimum balance of reliability, reduced volatility and reasonable price. In so doing, each utility should take into consideration various factors including, but not limited to, its particular circumstances, the demographics of its customers, the then-current market projections of both volatility and price, supply/demand estimates, and other relevant information that is available in the industry.
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> 2. On an annual basis, each utility should submit its gas supply portfolio plan, along with its contracting and/or hedging objectives, to the General Staff for Staff's review and determination as to whether or not it appears to be consistent with these policy principles. The reasonableness and prudence of each utility's contracting and hedging decisions shall be judged by the market circumstances and pertinent information that was available to the utility at the time it made those decisions.
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> 3. Each gas utility should submit proposed revisions to its PGA or GSR, as appropriate, to reflect the flowthrough of any costs associated with hedging transactions.
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> 4. To the extent that there are fee-based costs associated with a particular financial risk

management instrument, as those costs relate to the acquisition of natural gas supplies, such costs may be recovered through the utility's Purchased Gas Adjustment Clause (PGA).

5. Each gas utility should maintain records for any hedging programs it chooses to utilize that document the following:

   A. The overall risk management plan, including the utility-specific goals and guidelines.
   B. A Policy and Procedures Manual.
   C. Corporate (including management and Board of Directors) reporting, monitoring, and tracking requirements.
   D. An evaluation mechanism to measure hedging program performance.
   E. Accounting information to determine: (1) the fees, gains, and losses that have flowed through the PGA, and (2) the FAS and IRS accounting treatment for hedging transactions.

6. Each gas utility should engage in appropriate consumer education efforts to inform as many of its customers as practical concerning the utility's good-faith estimate of gas prices for each upcoming winter heating season.

7. Levelized billing or average payment plans should be made available to all residential and small business customers. Implementation of this principle should include sufficient customer education efforts to encourage maximum customer participation with particular attention to low income, fixed income, and elderly customers. Any gas utility needing assistance with efforts to identify, educate and inform low income, fixed income, and elderly customers should contact the Commission for help and suggestions for designing an education plan designed to reach these customer groups.

8. The Commission encourages each gas utility to explore and, if appropriate, develop and implement fixed-commodity gas supply options for its customers.

The Commission stated in Order No. 4 in Docket No. 01-023-NOI that the purpose of the Policy Principles was to encourage gas utilities to take reasonable and prudent steps to diversify their supply portfolios, procure reasonably-priced gas supplies, mitigate gas price volatility, and increase both educational efforts and supply pricing options for gas consumers. On November 20, 2001, the

Commission issued Order No. 4 in this docket, initiating proceedings to develop rules to implement the Policy Principles.

Section 2: Purpose of Rules

The purpose of these rules is to implement the Commission's Policy Principles as referenced in Section One. Each gas utility is expected to take all reasonable and prudent steps necessary to develop a diversified gas supply portfolio. The portfolio should consist of an appropriate combination of different types of gas purchase contracts and/or financial hedging instruments designed to yield an appropriate balance of reliability, reduced volatility and reasonable price. In so doing, each utility should take into consideration various factors including, but not limited to, its particular circumstances, the demographics of its customers, the then-current market projections of both volatility and price, supply/demand estimates, and other relevant information that is available in the industry. These rules are intended to be consistent with Ark. Code Ann. §23-15-103.

Section 3: Annual Submission of Gas Supply Portfolio Plan Required

No later than May 15 of each year, each gas utility shall submit its gas supply portfolio plan, along with its contracting and hedging objectives, to the General Staff for its review and a determination as to its consistency with the Policy Principles and these rules. Specific minimum filing requirements are listed in the Appendix to these rules. In general, the supply plan should identify projected peak and annual gas supply requirements under various weather conditions, and should detail how those requirements will be met. Also, the utility should submit a quantitative analysis demonstrating that the plan will achieve an appropriate balance of reliability, reduced volatility and reasonable price. The utility should describe the options it offers its customers to respond to the prices that are projected to result from its strategy as well as the customer education efforts it will employ to inform customers of the projected prices and customer options. The reasonableness and prudence of each utility's gas supply portfolio plan shall be judged relative to the market circumstances, contracting and hedging instruments, and other pertinent information available to the utility at the time it was prepared. Staff contemplates that its review will be completed within sixty (60) days.

Section 4: Recovery of Hedging Costs

Gas utilities shall have the opportunity to recover reasonable and prudent explicit costs associated with financial risk management instruments used in the acquisition of natural gas supplies. Utilities have the right to seek recovery of these costs through the Purchased Gas Adjustment Clause (PGA) or Gas Supply Rate (GSR), as appropriate. Utilities who wish to exercise this right must submit proposed revisions to the provisions of its PGA or GSR, as appropriate, to allow for the flow-through of costs associated with hedging transactions.

To the extent that a gas utility reasonably and prudently incurs explicit costs to use financial risk management instruments during the acquisition of natural gas supplies, it may file for recovery of those costs through its PGA or GSR. On and after the effective date of these rules, utilities will be at risk for disallowance of costs associated with hedging transactions which are not incurred pursuant to a gas purchasing plan and hedging program that has been reviewed by Staff. The Commission retains authority for post-implementation investigation to ensure that the practices actually utilized were consistent with the utility's strategy and program design as reviewed by Staff or otherwise consistent with the Policy Principles and Ark. Code Ann. §23-15-103. The reasonableness and prudence of each utility's contracting and hedging decisions shall be judged relative to the market circumstances, contracting and hedging instruments, and pertinent information available to the utility at the time it made those decisions.

Section 5: Recordkeeping Requirements

Each gas utility is required to maintain records for any hedging programs it chooses to utilize that document the following:

A. The overall risk management plan, including the utility-specific goals and guidelines, as more fully described in Section 4 and in the Appendix to these rules.

B. A Policy and Procedures Manual.

C. Corporate (including management and Board of Directors) reporting, monitoring, and tracking requirements.

D. An evaluation mechanism to measure hedging program performance. Documentation shall include, but is not limited to, price forecasts and quantitative analyses for the selected supply mix of gas in storage, physical contracts, and financial instruments in its portfolio relative to a published index or a referenced mix with no hedging.

E. Accounting information to determine: (1) the fees, gains, and losses associated with the hedging program, and (2) the FAS and IRS accounting treatment for hedging transactions.

Section 6: Customer Education

Each gas utility shall engage in appropriate customer education efforts concerning the utility's good-faith estimate of gas prices for each upcoming winter heating season and options available to customers for responding to those prices. Each gas utility shall engage in appropriate customer education efforts concerning the availability and benefits of levelized billing or average payment plans. Education efforts regarding customer options should give due weight to the needs of low income, fixed income, and elderly customers. Each gas utility should contact the Staff for help and suggestions for designing an education plan designed to reach these customer groups. The customer education efforts should begin on or before October 1 of each year using bill inserts and other appropriate media.

Section 7: Customer Options

Within 60 days of the effective date of these rules, levelized billing or average payment plans shall be made available to all qualified residential and small business customers. Each gas utility should assess the demand for, and feasibility of, fixed-price gas commodity supply options for its customers at least once every two years.

ARKANSAS PUBLIC SERVICE COMMISSION
MINIMUM FILING REQUIREMENTS
FOR ANNUAL SUBMISSION OF GAS SUPPLY PORTFOLIO PLAN

APPENDIX TO NATURAL GAS PROCUREMENT PLAN RULES

(a) Overall gas supply objectives, identifying key strategies and planning parameters and measures of performance (such as weighted average cost of gas (WACOG), volatility of WACOG).

(b) Options offered to customers to respond to the prices projected to result from its strategy, and customer education efforts employed to inform customers of the projected prices and options.

(c) Actuals for prior year
- Performance of strategy in prior year, including comparison of actual to projected levels of requirements and WACOG.
- Prior year bid and contract administration, including RFPs sent and bids received.
- Prior year spot market purchases[1] by month (quantity, cost).
- Prior year cost of purchases by month[2] compared to the appropriate market index for each utility.
- Prior year demand forecast compared to actual results.

(d) Projections for plan year
- Projected peak day and annual supply requirements for both transportation capacity and gas supply, and associated projected resource mix.
- Market intelligence (such as projections of wellhead prices, costs of various hedging instruments).
- Bidding/negotiating parameters as established by each utility.
- Projected gas supply costs by month, including costs for hedging.

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[1] For purposes of these rules, "spot market purchases" are defined as gas purchased for a term of one month or less.

[2] Commodity cost plus fuel.