

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE TARIFF FILING OF COLUMBIA GAS)	
OF KENTUCKY, INC. TO IMPLEMENT A)	
SMALL VOLUME GAS TRANSPORTATION)	
SERVICE, TO CONTINUE ITS GAS COST)	CASE NO. 99-165
INCENTIVE MECHANISMS, AND TO)	
CONTINUE ITS CUSTOMER ASSISTANCE)	
PROGRAM)	

ORDER

On February 18, 2000, Columbia Gas of Kentucky, Inc. ("Columbia") filed its petition for rehearing of the Commission's Order of January 27, 2000. Columbia asked that the Commission reconsider, revise, and clarify its Order. In the alternative, Columbia requested that it be allowed to withdraw its April 22, 1999 application if the Commission does not grant the requested relief. On March 1, 2000, the Community Action Council for Lexington-Fayette, Bourbon, and Nicholas Counties ("CAC") and the Lexington-Fayette Urban County Government ("LFUCG") filed a joint response to Columbia's petition for rehearing. CAC/LFUCG urge the Commission to grant Columbia's petition and to grant the relief sought therein.

Columbia requested that the Commission clarify that it intends to make Columbia whole with respect to stranded costs and incremental program costs, and that it did not mean to imply that Columbia might be prohibited from recovering all its costs. Columbia asked that the Commission expressly state that the part of the Order dealing with the true up of program costs is intended to make the program revenue neutral. As a matter

of clarification, the Commission did not intend to prohibit Columbia from recovery of its program costs. All program costs will be reviewed, and all stranded costs that are determined to be prudently incurred and that could not be mitigated will be eligible for recovery.

Columbia states that the stranded cost/recovery pool is under-funded without the inclusion of expiring contract revenues. It also makes the point that using expiring contract revenue to offset stranded costs does not cause sales customers to pay any more under the Customer Choice proposal than they would absent the program. Columbia states that there is no compelling reason that sales customers choosing to remain with Columbia should receive any of the benefits generated by expiring contracts. The implication is that the Commission should reconsider Columbia's original proposal to dedicate expiring contract revenue and possibly capacity release revenue to offset stranded cost. However, no specific request for reconsideration or rehearing is made for this issue. As a matter of clarification, the Commission did not intend sales customers to receive any benefit except paying gas contract demand cost that is representative of the cost to secure their own gas supply. Contract demand costs associated with Customer Choice customers should be reflected in the stranded cost/recovery pool for recovery through approved revenue opportunities. Likewise, the Commission did not intend that sales customers be required to pay higher rates as a result of the Customer Choice program. The proposal to include expiring contracts in the determination of the Gas Cost Adjustment ("GCA") component of sales customers' rates results in increased costs per Mcf for those customers. The Commission finds no compelling reason for why sales customers should bear such an increase.

Columbia requests that the Commission reconsider its findings regarding the gas cost incentive program. In order for the Customer Choice program to be successful, Columbia states that it should include incentives for Columbia, as well as for customers and marketers, and that the off-system sales and capacity release revenue sharing mechanisms should be restored. The Commission finds that rehearing of the gas cost incentive issue should be granted and that continuation of the sharing mechanisms should be reconsidered.

Columbia asks that the Commission reconsider the effective dates of the Customer Choice program. It requests that the dates be adjusted so that the effective date initiating the program be established as 60 days following the issuance of a final Order. It further requests that the termination date be established as October 31, 2004 as originally proposed. In support of its requests, Columbia states that the 60-day delay in the effective date is necessary to perform customer education, and that the October 31, 2004 termination corresponds to the expiration of most of its long-term capacity contracts and avoids the complications of mid-winter termination. The Commission finds Columbia's arguments reasonable and compelling. The relief requested by Columbia should be granted. The effective date of the program should be 60 days following a final Order in this proceeding. The termination date should be October 31, 2004.

Columbia characterizes the timing of the required rate review and the hiring of an outside consultant as inefficient. It suggests that the rate review should be held after the end of the program following an ongoing program review by the collaborative, as opposed to engaging an outside consultant to perform a mid-course review. Columbia's

petition makes reference to mid-course corrections resulting from the review. As a point of clarification, the Commission does not intend to make any mid-course changes in the program. The review was designed to begin “mid-course” so that it will terminate coincident with the end of the program. The Commission encourages the Collaborative to perform its own review and share the results with the Commission. It is still the Commission’s intention, however, to retain an outside consultant to perform a review, the results of which will be considered following the termination of the program period.

Columbia requested that the Commission permit it to amend its tariff so that it may implement Phase II of capacity assignment due to escalating unfounded transition costs, as opposed to tying it to the level of unanticipated customer participation. This is a practical matter that would allow the tariff to comport with the Customer Choice program as modified by the Commission. The Commission finds that the requested relief should be granted and the tariff be so modified.

Columbia requested that the Commission not require it to revise its tariffs to reflect the representation of marketers as agents of Columbia. According to Columbia this is inaccurate, despite the designation, which appears to be to the contrary, in the Aggregation Agreement and in other portions of the Application. Columbia also asks that the Commission clarify whether it intends to regulate marketers and, if it does not, to unequivocally state that fact. The Commission finds that rehearing of the marketer as agent issue should be granted so that Columbia’s claim that it does not intend marketers to be considered as its agents may be developed further. The intention of the Commission with regard to the regulation of marketers will be clarified as part of that reconsideration.

Columbia suggests that the Commission consider the effect of the program as modified on the incentive to marketer participation. Reference is made to the “artificial” reduction to the GCA rates due to the treatment of expiring contract revenues and capacity release revenues, making it difficult for marketers to compete. Columbia advocates the restructuring of the funding of the stranded cost/recovery pool so that Phase II of capacity assignment does not have to be implemented early due to underfunding of transition costs. The Commission finds that rehearing of this issue be granted as it relates to capacity release revenues within the context of the ability of marketers to compete. However, consistent with our earlier ruling, we will not grant rehearing on the issue of expiring contracts.

Finally, Columbia requests that the Commission permit it to withdraw its application of April 22, 1999 if the requested relief is not granted. Because the Customer Choice program was filed voluntarily, the Commission finds that it is within Columbia’s discretion to go forward with the program as approved or to abandon it.

IT IS THEREFORE ORDERED that:

1. The Commission’s Order of January 27, 2000 be clarified to state that Columbia will not be prohibited from recovering all prudent program costs that could not be mitigated, and that sales customers should pay only demand costs representative of their own supply requirements without any unreasonable benefit.
2. Columbia’s request for rehearing of the gas cost incentive program and associated sharing mechanisms shall be granted.
3. The relief requested by Columbia in regard to the program’s effective dates shall be granted. The Customer Choice program shall be approved effective 60

days following the final Order in this proceeding. The termination date shall be October 31, 2004.

4. The Commission's Order of January 27, 2000 shall be clarified to state that the consultant's review is intended to terminate coincident with the October 31, 2004 program termination date, and that no mid-course corrections are contemplated.

5. Columbia's requested relief regarding Phase II of capacity assignment shall be granted. Original Sheet No. 35, "Assignment of Capacity," shall be revised to reflect the language proposed by Columbia so that Phase II may be implemented due to stranded cost projections exceeding its revenue projections.

6. Columbia's request for rehearing of the marketer as agent issue shall be granted. Any clarification of the Commission's regulation of marketers will be made in the final determination of this matter.

7. The Commission shall reconsider the effect of the program as modified on the incentive to marketer participation as it relates to capacity release revenues. Rehearing is denied on this issue as it relates to expiring contract revenues.

8. Columbia shall be permitted to withdraw its April 22, 1999 Application if it chooses to do so.

9. Within 10 days from the date of this Order Columbia shall either file testimony on the issues on which rehearing has been granted or inform the Commission of its decision to withdraw its application of April 22, 1999. If applicable, a procedural schedule for the rehearing phase of this proceeding will be developed after receipt of Columbia's testimony.

Done at Frankfort, Kentucky, this 6th day of March, 2000.

By the Commission

ATTEST:

Executive Director