

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

|                                |   |            |
|--------------------------------|---|------------|
| THE FILING BY COLUMBIA GAS OF  | ) |            |
| KENTUCKY, INC. TO REQUIRE THAT | ) |            |
| MARKETERS IN THE SMALL VOLUME  | ) | CASE NO.   |
| GAS TRANSPORTATION PROGRAM BE  | ) | 2002-00117 |
| REQUIRED TO ACCEPT A MANDATORY | ) |            |
| ASSIGNMENT OF CAPACITY         | ) |            |

O R D E R

On March 15, 2002, Columbia Gas of Kentucky, Inc. ( Columbia ) filed proposed revisions to its Small Volume Aggregation Service ( SVAS ) tariff, which contains the terms and conditions applicable to marketers participating in Columbia s Small Volume Gas Transportation Program ( Customer Choice Program ). The proposed revisions, to be effective April 15, 2002, would require marketers in the Customer Choice Program to accept mandatory assignment of capacity from Columbia for all their Customer Choice customers. On April 11, 2002, the Commission suspended Columbia s proposed tariff in order to further investigate its reasonableness.

Interstate Gas Supply, Inc. ( IGS ) and the Lexington-Fayette Urban County Government ( LFUCG ) were granted intervenor status in this case. A procedural schedule was established that provided for two rounds of discovery and intervenor testimony. A formal hearing scheduled for October 23, 2002 was postponed at Columbia s request to allow Columbia and IGS to participate in settlement discussions. On November 13, 2002, Columbia filed a Joint Stipulation and Recommendation ( Settlement ) between it and IGS resolving the issues in this case.<sup>1</sup> The Settlement is

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<sup>1</sup> LFUCG filed a statement in support of the Settlement on November 21, 2002.

attached as Appendix A. Columbia and IGS state that the Settlement is not binding upon the Commission and does not represent agreement on any specific theory supporting the appropriateness of any recommended revision to Columbia's SVAS tariff.

Columbia's original SVAS tariff set out two phases for the Customer Choice Program. In Phase I marketers were not required to take assignment of capacity for customers participating in the Customer Choice Program. In Phase II Columbia, at its discretion, could require marketers to take assignment of capacity when customer participation levels in the Customer Choice Program exceeded the participation levels planned for by Columbia in Case No. 1999-00165<sup>2</sup> when the Customer Choice Program was first approved. Columbia could require marketers to take assignment of capacity only for those customers enrolled in the Customer Choice Program after Phase II was implemented.<sup>3</sup> Phase II was planned as part of the Customer Choice Program to allow Columbia to manage its risk of financial exposure at the end of the program.

The SVAS tariff also requires marketers to deliver firm supplies of natural gas to meet the daily requirements of their Aggregation Pools and allows Columbia to require marketers to demonstrate that they have scheduled sufficient natural gas supplies to meet their customers' loads. Columbia testified that it had difficulty verifying that marketers had scheduled sufficient supplies to serve their Phase I customers. The lack of such demonstrations by marketers prompted Columbia to make the March 15, 2002

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<sup>2</sup> Case No. 1999-00165, The Tariff Filing of Columbia Gas of Kentucky, Inc. to Implement a Small Volume Gas Transportation Service, to Continue Its Gas Cost Incentive Mechanisms, and to Continue Its Customer Assistance Program, Order dated January 27, 2000.

<sup>3</sup> Columbia initiated Phase II on July 1, 2001.

tariff filing, which would remove the Phase I grandfather clause and require marketers to take mandatory assignment of Columbia's capacity for all Customer Choice customers.

IGS opposed the proposed change in Columbia's SVAS tariff. As an alternative, it proposed that a prospective capacity audit, occurring prior to the winter heating season, be implemented to ensure reliability and to remove the need for mandatory capacity assignment for all Customer Choice volumes. The LFCUG did not state a position or actively participate in the case.

Under the Settlement, volumes for Phase I customers will continue to be grandfathered as in Columbia's existing SVAS tariff. Marketers will take assignment of minimum levels of Columbia's storage and transportation capacity and will undergo a prospective capacity audit. The storage capacity will be assigned based on the ratio of seasonal contract quantity to maximum daily storage quantity as contained in the contracts between Columbia and the marketer. If a marketer does not meet its capacity requirements, under the prospective audit procedure, Columbia can assign capacity to the marketer sufficient to meet the marketer's capacity shortfall. The Settlement also states that neither party will file an application for rehearing or an appeal to the Franklin County Circuit Court if the Commission issues an Order accepting the Settlement in its entirety. If the Commission does not accept the Settlement in its entirety, each party reserves the right to withdraw from the Settlement. If such right is exercised, this proceeding will continue as it was prior to the Settlement. Columbia and IGS state that the Settlement, viewed in its entirety, constitutes a reasonable resolution of all issues in this proceeding.

While the overall reasonableness of the Settlement is an important factor, the Commission is bound by law to act in the public interest and review all elements of the Settlement. In determining whether the results of the Settlement are in the public interest and beneficial to ratepayers, the Commission considered the fact that, with LFUCG's consent, the Settlement is unanimous.

Columbia stated in its response to Staff's post-Settlement information request that it expects to complete its ongoing evaluation of the Customer Choice Program in the first quarter of 2003. In Case No. 1999-00165, the Commission stated that it would review the program after the program's third year in order to scrutinize the costs and rates of the program before the end of the term of the pilot. The Commission also stated that it would retain an outside consultant to review all aspects of the issue of a competitive marketplace and conduct a fully allocated cost-of-service study.

After reviewing the Settlement, examining of the record, and being otherwise sufficiently advised, the Commission finds that the Settlement is reasonable. The Commission further finds that, to assist us in determining if the review we envisioned in Case No. 1999-00165 will be necessary, Columbia should file the results of its evaluation no later than the filing date of its next annual report on the Customer Choice Program, due on June 1, 2003. The filing should clearly show whether Columbia intends to continue the Customer Choice Program until October 2004 as approved in Case No. 1999-00165.

IT IS THEREFORE ORDERED that:

1. The Settlement set forth in Appendix A to this Order is hereby incorporated into this Order as if fully set forth herein.

2. The changes to Columbia's SVAS tariff set forth in the Settlement are approved.

3. If either Columbia or IGS wishes to exercise its right to withdraw from the Settlement, it shall notify the Commission in writing of its intent within 10 working days of the date of this Order. If LFUCG has any objection to the Settlement, it shall file its objection within 10 working days of the date of this Order.

4. If the Settlement is withdrawn due to either Columbia's or IGS's withdrawal from the Settlement, or if LFUCG files an objection to the Settlement, this Order is vacated without further Order of the Commission.

5. Columbia shall file with the Commission, no later than June 1, 2003, the results of the evaluation of its Customer Choice Program.

6. Within 20 days from the date of this Order, Columbia shall file with the Commission revised SVAS tariff sheets reflecting the changes approved herein. These tariff sheets shall show their date of issue, their effective date, and that they were issued by authority of this Order.

Done at Frankfort, Kentucky, this 13<sup>th</sup> day of January, 2003.

By the Commission

ATTEST:

  
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2002-00117 DATED January 13, 2003