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 Gas Transportation Program Be Required To Accept A Mandatory Assignment Of Capacity.	)	**Case No. 2002-00117**

JOINT STIPULATION AND RECOMMENDATION

It is the intent and purpose of the signatory parties to this proceeding, namely Columbia Gas of Kentucky, Inc. ("Columbia") and Interstate Gas Supply, Inc. ("IGS") to express their agreement on a mutually satisfactory resolution of all of the issues in the instant proceeding.

It is understood by the signatory parties hereto that this Stipulation and Recommendation is not binding upon the Public Service Commission ("Commission"), nor does it represent agreement on any specific theory supporting the appropriateness of any recommended revisions to Columbia's tariffs. The parties have expended significant efforts to reach the agreements that form the basis of this Stipulation and Recommendation. The parties, representing diverse interests and divergent viewpoints, agree that this Stipulation and Recommendation, viewed in its entirety, constitutes a reasonable resolution of all issues in this proceeding.

In addition, the adoption of this Stipulation and Recommendation will eliminate the need for the Commission and the parties to expend significant resources in litigation of this proceeding, and eliminate the possibility of, and any need for, rehearing or appeals of the Commission's final order herein. It is the position of the parties hereto that this Stipulation and Recommendation is supported

by sufficient and adequate data and information, and is entitled to serious consideration by the Commission. Based upon the parties' participation in settlement conferences and the materials on file with the Commission, and upon the belief that these materials adequately support this Stipulation and Recommendation, the parties hereby stipulate and recommend the following:

1. As established, Columbia's Choice Program contemplated two phases: Phase I – an initial period during which Columbia would not require marketers to take assignment of capacity: and Phase II - a discretionary later period during which Columbia would require marketers to take assignment of capacity when customer participation exceeded the expectations set forth in the Financial Model included as part of the Application in Case No. 99-165. Under Phase II Columbia assigns its capacity to marketers for all new Choice customers in order to permit Columbia to manage the risk of financial exposure at the end of the program. The volumes of customers enrolled prior to the implementation of Phase II are "grandfathered" – i.e., the marketers do not have to take mandatory assignment of Columbia's capacity to serve such customers, but may continue to use other capacity. Columbia initiated Phase II of the Choice program effective July 1, 2001.

2. Sheets No. 36e-f of Columbia's existing tariff requires marketers to deliver on a firm basis, sufficient supplies of natural gas to meet the daily requirements of the marketers' Aggregation Pools. That same tariff also grants Columbia the right to require marketers to demonstrate either that they have scheduled sufficient supplies using firm capacity with primary point delivery entitlements at a Columbia city gate receipt point or using comparable capacity for deliveries to Columbia via alternative mechanisms at points of receipt acceptable to Columbia. As noted in the initial filing in this docket, Columbia, in its opinion, experienced some difficulty this past winter as it tried to verify that marketers had the required firm capacity. As a result, Colum-

bia made the initial filing in this docket in which it requested that the Commission eliminate the "grandfathering" of Phase I volumes, and permit Columbia to require marketers to take mandatory assignment of Columbia's capacity for all Choice volumes. As noted in IGS's Protest and Comments to Columbia's Proposal that were filed in this docket, IGS disputed Columbia's filing and expressed the necessity for balance between Columbia's needs and those of Choice suppliers to capture savings for end-users. In turn, IGS requested a prospective capacity audit procedure in advance of the winter heating seasons that will ensure reliability and obviate the need for mandatory capacity assignment for all volumes. The signatory parties now agree that Columbia's and IGS's concerns can be addressed and a balance between their needs achieved without requiring marketers to take mandatory assignment of Columbia's capacity for all Choice volumes.

3. Instead of requiring marketers to take mandatory assignment of Columbia's capacity for all Choice volumes, the signatory parties have agreed that Phase I volumes shall remain "grandfathered," and marketers will: (1) take assignment of the certain minimum levels of Columbia's storage capacity, as specified in the pro-forma tariffs attached hereto as Attachment A; and, (2) undergo a prospective capacity auditing procedure, as specified in the pro-forma tariffs attached hereto as Attachment A.

4. The signatory parties have agreed upon a prospective capacity audit procedure in advance of the winter heating seasons that would obviate the need for mandatory capacity assignment for the Phase I Choice volumes. To the extent that the prospective capacity audit demonstrates that a marketer(s) does not have the all of the capacity required by the tariff, then in such event Columbia may assign the marketer(s) capacity sufficient to make up any design peak day shortfall noted in the prospective capacity audit. Such assignments will be made pursuant to the terms detailed in the tariff, as if the marketer(s) had voluntarily elected the capacity. The prospective

audit procedure will be conducted as set forth in the pro-forma tariff sheets attached hereto as Attachment A.

5. The attached pro-forma tariff sheets are to be effective immediately upon Columbia's filing of final tariff sheets subsequent to the Commission's issuance of an Order approving this Joint Stipulation and Recommendation.

6. Each signatory party hereto waives all cross-examination of the witnesses of the other parties hereto unless the Commission disapproves this Stipulation and Recommendation, and each party further stipulates and recommends that all filings in this proceeding be admitted into the record, including but limited to Columbia's Application, IGS's Protest and Comments, and the testimony, pleadings, and responses to data requests filed in this proceeding by the signatory parties.

7. This Stipulation and Recommendation is submitted for purposes of this case only and is not deemed binding upon the parties hereto in any other proceeding.

8. If the Commission issues an order adopting this Stipulation and Recommendation in its entirety, each of the parties hereto agrees that it shall file neither an application for rehearing with the Commission, nor an appeal to the Franklin County Circuit Court with respect to such order.

9. If this Stipulation and Recommendation is not adopted in its entirety, each party reserves the right to withdraw from it and require that hearings go forward upon any or all matters involved herein, and that in such event the terms of this Stipulation and Recommendation shall not be deemed binding upon the parties hereto, nor shall such Stipulation and Recommendation be admitted into evidence, or referred to, or relied upon in any manner by any party hereto, the Commission, or its Staff in any such hearing.

10. The signatory parties hereto agree that the foregoing Stipulation and Recommendation strikes a fair balance between the needs of Columbia and the needs of Choice

suppliers and consumers, is reasonable and in the best interests of all concerned, would serve judicial economy and conserve the parties' resources by ending ongoing litigation, and urge the Commission to adopt the Stipulation and Recommendation in its entirety.

AGREED, this 13th day of November, 2002.

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ATTACHMENT A

TARIFFS

SMALL VOLUME AGGREGATION SERVICE
(SVAS)
RATE SCHEDULE (Continued)

DAILY BALANCING

Daily balancing is the adjustment of volumes delivered to match the demand estimated for the Customer Group at the actual temperature. The balancing occurs retroactively the morning after the conclusion of the gas day, when the actual temperature is known. On the Columbia system, storage capacity provides the daily balancing. Deliveries in excess of estimated demand are injected retroactively into storage. If deliveries are less than demand, the deficiency is withdrawn retroactively from storage and delivered to the city gate.

ASSIGNMENT OF CAPACITY

In Phase 1, the optional assignment phase of the program, Marketers will be required to take the minimum level of Columbia's storage capacity, as determined by Columbia, but will not be required to take assignment of interstate pipeline transportation capacity from Columbia in order to serve customers under Rate Schedule SVGTS. However, should program participation rise to such levels that Columbia's stranded cost projections exceed its Stranded Cost Recovery Pool revenue projections over the term of the small volume gas transportation program, Columbia reserves the right to implement Phase 2, the mandatory assignment phase, during which Columbia will require assignment of both transportation and storage capacity for any additional customers. Columbia shall notify the Commission and all certified Marketers ninety (90) days in advance of Columbia's intention to require such mandatory capacity assignment. Said notice will describe the terms under which Marketers must accept assignment of Columbia's capacity and will describe the duration of the required assignment.

Marketer shall, at Columbia's request, provide the necessary assistance required to complete assignment transactions.

REASSIGNMENT OF CAPACITY

Marketers may reassign capacity subject to recall by the Company. The assignee shall remain subject to all operational flow orders and recall provisions invoked by Columbia. The assignee continues to be responsible to Columbia for payment of all upstream pipeline charges associated with the assigned capacity, including but not limited to demand and commodity charges, shrinkage, injection and withdrawal charges, GRI charges, cashouts, transition costs, pipeline overrun, actual cost adjustments and all other applicable charges.

INITIAL PHASE: OPTIONAL ASSIGNMENT OF CAPACITY

Certified Marketers may elect the assignment of firm capacity from Columbia under Columbia Gas Transmission Corporation's Rate Schedules Firm Transportation Service ("FTS"), and Columbia Gulf Transmission Corporation's Rate Schedule FTS-1. Marketers are required to take assignment of the minimum level of storage assignment offered from Columbia under Columbia Gas Transmission Corporation's Rate Schedule Firm Storage Service ("FSS") including Storage Service Transportation ("SST"). Transportation and storage capacities are offered in the same proportion as contracted for by Columbia to serve its existing peak day requirements. Total transportation and storage capacity offered will be equal to the sum of the Phase I peak day demands for each Aggregation Pool, as estimated by Columbia. Marketers may elect to take up to the maximum capacity offered but not less than the required minimum.

SMALL VOLUME AGGREGATION SERVICE
(SVAS)
RATE SCHEDULE (Continued)

Marketers are required to take the minimum level of storage capacity offered by Columbia and may elect the assignment of firm transportation and up to the maximum level of storage capacity offered by Columbia, provided capacity is assigned in accordance with the following provisions:

1. Assignment of firm capacity on Columbia Gulf Transmission Corporation will be provided only if the Marketer accepts an equal volume of firm transportation capacity on Columbia Gas Transmission Corporation, adjusted for retention.

2. Columbia will assign firm storage and associated transportation capacity under Columbia Gas Transmission Corporation's Rate Schedules FSS and SST based on the operational requirements of the market area in which the Marketer(s) is serving Phase I customers. Firm Storage Service capacity will be assigned in the same ratio of seasonal contract quantity ("SCQ") to maximum daily storage quantity ("MDSQ") as contained in the Company's contracts with Columbia Gas Transmission. Marketers must also accept Columbia Gas Transmission Corporation's SST capacity equal to the MDSQ of the storage assignment. Marketers must meet an annual minimum prescribed storage inventory level of 98% of SCQ at November 1; a minimum inventory level of 30% of SCQ at February 11; and a minimum inventory level of 2% at March 31. Marketers must pre-authorize Columbia Gas Transmission Corporation to provide this inventory information to Columbia for these dates.

3. Columbia's assignment of firm transportation capacities, if any, will be in twelve (12) month increments. Columbia's assignment of firm storage and associated SST transportation capacity shall be effective from the first of the month following the requested assignment through the following March 31st. Adjustments for demand costs paid by Columbia on assigned storage and SST capacity from April 1st through the date of an assignment shall be determined in accordance with the provisions as set forth on Sheet 36a.

4. Marketers assigned capacity by Columbia are subject to the terms and conditions of the tariffs of those pipeline companies on whose facilities capacity is assigned.

5. A Marketer shall serve the total daily demands of its Phase I customers through any combination of flowing supply and storage withdrawals, subject only to limitation of the pipeline tariffs.

6. Columbia may recall any capacity assigned to Marketers pursuant to this paragraph, to resume service to customers in any instance where a Marketer fails to serve the daily demands of its customers.

CHANGES IN TRANSPORTATION ASSIGNMENT: OPTIONAL ASSIGNMENT PHASE

Columbia will increase at the Marketer's request, assignment of transportation capacity monthly to reflect increases in peak day requirements resulting from gains of customers.