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99-165

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COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

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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 INCENTIVE MECHANISMS, AND TO CONTINUE ITS CUSTOMER ASSISTANCE PROGRAM

CASE NO. 99-165

TRANSCRIPT OF EVIDENCE

DATE OF HEARING: October 12, 1999

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HON. GARY GILLIS, COMMISSIONER

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I N D E X (CONTINUED)

CHAIRWOMAN HELTON:

Good morning. We're here 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 incentive mechanisms, and to continue its customer assistance program, Case No. 99-165. Could I have the appearances of the parties, please?

MR. TAYLOR:

Madam Chairman and members of the Commission staff, for the applicant, Richard S. Taylor, 315 High Street, Frankfort, Kentucky 40601, and Amy L. Koncelik, 200 Civic Center Drive, P. O. Box 117, Columbus, Ohio 43216-0117.

MR. MARTIN:

My name is Anthony Martin. I'm appearing on behalf of the Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties. My address is P. O. Box 1812, Lexington 40588.

MR. DOSKER:

John Dosker on behalf of the Stand Energy Company. My address is 1077 Celestial Street, Cincinnati, Ohio, Rookwood Building, Suite 110, 45202.

MR. BROOKS:

Appearing on behalf of LG&E Corp., Douglas Brooks. My mailing address is P. O. Box 32010, Louisville, Kentucky 40232.

CHAIRWOMAN HELTON:

Ms. Cheuvront, are you going to enter an appearance?

MS. CHEUVRONT:

No, ma'am.

CHAIRWOMAN HELTON:

Thank you. Staff?

MR. GOFF:

James R. Goff, staff attorney.

CHAIRWOMAN HELTON:

Before we begin testimony, is there any member of the public that would like to make a public comment? Hearing none, I would give the witnesses the same admonition that we have been giving recently in cases and that is, if you could, please answer yes or no to the question and then if you would like to give an explanation you may do so, but, to the extent possible, please say yes or no first. Mr. Taylor, call your first witness.

MR. TAYLOR:

Amy is going to . . .

CHAIRWOMAN HELTON:

Okay.

MS. KONCELIK:

One administrative matter, Madam Commissioner, Columbia would like to file its Proof of Legal Notice. It has already been marked as Exhibit No. 1.

CHAIRWOMAN HELTON:

Thank you.

COLUMBIA GAS EXHIBIT 1

MS. KONCELIK:

Columbia would like to call Stephen Byars.

WITNESS SWORN

The witness, STEPHEN R. BYARS, after having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MS. KONCELIK:

Q. Mr. Byars, can you state your name and spell your last name for the record, please?

A. Stephen R. Byars. The last name is B-y-a-r-s.

Q. And by whom are you employed and in what position?

A. My title is Director of External Affairs for Columbia Gas of Kentucky.

Q. Did you prepare testimony that was prefiled in this docket on July 16 of this year?

A. Yes, I did.

Q. And do you have a copy with you of that testimony?

A. Yes, I do.

MS. KONCELIK:

I believe that's been marked as Exhibit No. 2.

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Q. Do you have any corrections or revisions to that testimony?
A. No.
Q. And, if I were to ask you the questions contained in your prefiled testimony, would your answers be the same today?
A. Yes.
MS. KONCELIK:
I move now for the admission of Exhibit No. 2 subject to cross examination by the other parties.
CHAIRWOMAN HELTON:
So ordered.
COLUMBIA GAS EXHIBIT 2
CHAIRWOMAN HELTON:
Mr. Goff? I'm sorry. Do the other parties have questions? I just assumed there were none. Mr. Goff?
CROSS EXAMINATION
BY MR. GOFF:
Q. Mr. Byars, I'm going to ask you several questions concerning your testimony and the other Responses to the Commission's Data Requests that were filed in this case, and you were marked as the witness on those questions in the Data Response. If you do not understand the question that I've asked, you know, please

ask me to repeat it, and I'll try to do that. The small volume transportation program that you have outlined herein calls for a 60 day marketer's moratorium after the tariffs have been approved. It says that ". . . the plan and materials would be developed," and that was for the educational part, "prior to the start of the moratorium so as to be available at the outset." At this point, has Columbia been developing the plans and materials?

A. No, we have not. Really, the reason we have not prepared in great detail and gone in advance and prepared the educational materials is we're waiting to see what happens in this proceeding, whether there's actually an Order that would approve the case or approve the proposed program and exactly what it will look like.

Q. Based upon what you said, do you have the time frame for that education plan development after the moratorium? Do you have a time plan for that development after it has been approved?

A. We think we can get that up and running pretty quickly. As we've indicated before, we would anticipate using a public relations consultant to help us particularly in media placement and maybe some design of some of the materials. We believe that we could probably get the materials done in a month or six weeks prior to the actual 60 day education moratorium.

Q. In the Responses and testimony, a couple of issues have surfaced as to customer confusion and transparency. Could you explain to the Commission Columbia's definition of transparency?

A. This idea of transparency really came about when taking a look at designing the program and designing it in a manner that will be successful. I don't think anyone wanted to go through this process and ultimately have a program that was doomed a failure from the start, and we felt that really what we're talking about here is the issue of using a surcharge on the customer bill to recover stranded costs versus a more transparent method, and transparent, from our perspective, is one that will help make the decision of a customer clearer, and we believe that a surcharge would cause confusion. Customers don't know what a stranded cost is. Those of us in this room kind of view that as something that is part of our normal every day vernacular. When somebody uses that term, we know what they're talking about. We thought a surcharge would be confusing to the customer and would probably kill the program even before it got started.

Q. You use a recovery pool. How would that be superior to

a surcharge in terms of this price transparency?
A. The methods of the revenue opportunities as indicated in the application that are designed for stranded cost recovery, by and large, will be transparent to the customer. There won't be surcharges on the bill, and we believe that will facilitate success of the program. It will allow customers to make a clear comparison between Columbia's sales rate and a marketer's gas cost offer, and we think that is important. There's education, as we all know, that is involved in getting the customers up to speed on what Customer Choice even is prior to this program beginning, and we think that the less confusing this is, the simpler the program is for the customer to understand a clear comparison between A and B, the better off we are, and we think that those methods of stranded cost recovery, those revenue opportunities, are transparent to the customer and will help facilitate enrollment in the program for customers.
Q. I take it you think that Columbia believes that confusion would result if it was listed as a surcharge.
A. Yes.
Q. Is that a fair statement?
A. Yes, and I should add that's something that, as we developed this program with the other Collaborative

members and the Collaborative discussed the various methods of stranded cost recovery, the Collaborative felt strongly that a surcharge would be confusing to the customer. Again, most customers won't know what a stranded cost is, won't have any idea what pipeline capacity contracts are, and things like that, and we believed strongly - and the reason we filed the program the way we did, with no opposition from anyone from the Collaborative, was that we thought the surcharge would be confusing and would prevent customers from ultimately participating in the program.

Q. Do you think that would also be less attractive to the customers if it was mentioned as a surcharge?

A. I think that's a fair assessment.

Q. I'll refer you to the July 2 Data Request, Question 5. Your Response indicated that Columbia and the Collaborative discussed various options for these revenue opportunities, but it seems that only the surcharge was mentioned. What other options were considered?

A. Really, you only have so many different options of stranded cost recovery. We talked in real general - well, I shouldn't say general terms, but you have really two general approaches as options for stranded cost recovery, one being a surcharge on the bill, which we discussed at length and the Collaborative dismissed. The other one were the various options employed as revenue opportunities in the model in the proposed program. There were various discussions about how each of those items work in the proposed program, but, I guess, in general, your options are fairly limited. You either go with a surcharge or you try to find a revenue stream from some other avenue that can be used to recover stranded costs.

Q. Also, in that same Data Response, Item 11, the second paragraph of your Response which has to do with rates, does that statement mean that Columbia believes that, once rates are found to be fair, just, and reasonable, they remain so regardless of changes in the industry or economic conditions?

A. We believe that this program does not change anything to do with Columbia's base rates. This program offers simply a gas cost alternative for its customers. The delivery portion or the base rate portion of Columbia's rates will not change, and we say primarily because we will be providing the same services for Choice customers as we provide for sales customers. So that statement was really designed to say that we don't see any reason, through this program, that this would have anything to do with a review of Columbia's base rates.

Q. The second sentence of that paragraph states that "Good management practices employed to provide quality service in a highly competitive environment should not be scrutinized simply because they result in higher returns." Can you tell us what you mean by, or define for us, good management practices, and do they in any way relate to rates?
A. I don't think that it relates to this program. Again, we don't see that the Customer Choice filing has any effect on base rates whatsoever. We still are proposing in the program to provide all the same services to our Choice customers as we provide to sales customers.
Q. Do you have an offer of definition of good management practices as contained in the Response?
A. Do I have a definition of good management practices?
Q. Yes, sir.
A. I think the statement was, again, trying to make the point that - I apologize for repeating myself, but I'm not sure there's any other way to answer the question. Really, the entire paragraph was designed to make the point that we didn't believe that the proposed program warranted a review of base rates.
Q. This Customer Choice program for small volume customers, the captive customers that provided nearly

90 percent of Columbia's retail revenues in '98, reference that. What was the highly competitive environment that you referred to?
A. I'm sorry. You've lost me. Are you referring to a statement someplace in this question?
Q. Yes. You referred to a highly competitive environment, and, considering that nearly 90 percent of, you know, Columbia's retail revenues in '98 were from captive customers, what is that you're referring to?
A. Well, . . .
Q. Is that only to the . . .
A. I'm sorry.
Q. . . . small Choice program or . . .
A. Now, we're in a highly competitive environment already and have been for several years. When a new subdivision is built - we live and work in a very high growth area. There's an awful lot of construction and there's an awful lot of competition for that business. When a residential subdivision is developed or a commercial entity is developed or an industrial development is developed, we compete for that business, and I haven't found the exact statement where you're referring to that, but I'm pretty sure that's what I was referring to.
Q. I refer you also to that Item 11. In the Request, it

was asked, "Has Columbia considered outright absorption of stranded costs up to a certain level of earnings?" I think your Response was you did not consider an outright absorption. Is that your total Response to the Request regarding absorption?

A. Yes. We took seriously when the Commission's Order in Administrative Case 367, last year, the case that closed out the unbundling collaborative, made it very clear that any proposal for a Customer Choice program should be taken or developed with the use of a collaborative, and we used that approach, and we discussed various methods of stranded cost recovery. Before actually sitting down with the Collaborative, we made it very clear that we didn't have too many preconceived ideas of how this should be shaped, but one was that we believed that Columbia needed to be able to recover stranded costs and that was an item that we discussed with each Collaborative member individually prior to actually assembling the group as a full Collaborative and that was one of the preconceived ideas or goals or objectives of the program that we went into from day one, and we haven't wavered from that.

Q. Also, as part of that Request regarding a return on equity, does the rest of the Response address that second part of the Request regarding what a fair return on equity would be under current conditions?

A. Could you tell me which paragraph in my Response you're referring to?

Q. Well, it would be under the first paragraph. You talked about stranded costs, and I was wondering if the rest of that paragraph is in response to the question on fair return of equity.

A. I think the rest of that paragraph is primarily in response to making the point that a measurement of fair return on equity and the recovery of stranded costs are two different issues; that the question of what Columbia considers to be a fair return on equity really doesn't have anything to do with the proposed program.

Q. Again, referring to Question 11 and the last paragraph of that Response, is it Columbia's position that the results of its financial performance in the form of higher returns should attach only to shareholders rather than be shared between shareholders and ratepayers?

A. Can you repeat the question?

Q. In the last paragraph of that Response, . . .

A. Uh-huh.

Q. . . . is it Columbia's position that the results of its financial performance in the form of higher returns should attach only to shareholders rather than be shared between shareholders and ratepayers?

A. The statement in that paragraph refers to that those two items that are referred to earlier in the Response really have nothing to do with base rates and goes back to the point we're trying to make and respond in this Response from the beginning is that we didn't believe that a review of rates as part of this filing was necessary.

Q. Let me refer you, then, to Question 10 of that same Data Request. Has Columbia made any attempt during the past four years, '95 to '98, to share with its rate-payers any of the financial benefits reflected in those higher returns?

A. No.

Q. When Columbia was planning the Customer . . .

A. I apologize . . .

Q. I'm sorry.

A. Do you mind if I add to my previous response?

Q. No. Go ahead.

A. I apologize. Part of the reason that some of those returns are where they are are due to the gas cost incentive program, and the sharing mechanism with the gas cost incentive program, part of those, the sharing mechanism, 65 percent of the dollars generated from

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that program are shared with customers.

Q. And the adjustments that are in the record will reflect that; is that correct?

A. Adjustments in . . .

Q. That have been filed in the record would reflect the revenue impact on that; is that correct, those records that have been filed?

A. Yes.

Q. Okay. When Columbia began planning the Customer Choice program and determined that the program should be revenue neutral to Columbia, did Columbia take into consideration its current level of earnings?

A. Yes.

Q. Has this same approach been taken in these Customer Choice programs implemented by Columbia in other jurisdictions?

A. You mean the objective of revenue neutrality?

Q. Yes, and taking into consideration the earnings.

A. The other programs, to the best of my knowledge, do not have a downside. In other words, Columbia is not absorbing stranded costs. I believe that at least one of the programs in other programs in Columbia jurisdictions includes an upside, a potential for increased revenues by the Columbia jurisdiction.

Q. Did those other plans adopted by those other

jurisdictions contain the proposed provisions that would make the plan revenue neutral?
A. Could you restate the question, please?
Q. Did the plan adopted by the Commissions in other states, other jurisdictions, contain all of the provisions that would make the plan revenue neutral?
A. Did it contain all the provisions? I apologize. I'm not sure I understand.
Q. I'm sorry. These provisions that are contained herein, which you, I think, just addressed, did they contain those provisions?
A. You mean the identical provisions?
Q. Yes, sir.
A. No.
Q. No. I want, again, to refer you to both of the two items we have been talking about, Items 10 and 11 of this Data Request. The Response, again, to Item 11, reflects that, in '96, '97, and '98, the returns on equity were enhanced by using revenues from non-traditional sources. The Response to Item 11 of the second Data Request - now, that would be the one of July 30, 1999, and you can see that that refers you to Responses of Items 10 and 11 of that first Request . . .
A. I'm sorry, Mr. Goff. Which number?

Q. No. 11 of the . . .
A. Of the July 30?
Q. . . . July 30 Data Request.
A. Okay.
Q. The Response to that Item 11 of that second Data Request of July 30 shows the impact of eliminating those nontraditional revenue sources. If I read that correctly, those results show that the '96 return is reduced by .5 percent to 15.6 percent. The '97 return is reduced by 1.4 percent to 15.9 percent, and the '98 return is reduced by 4.7 percent to 14.5 percent. Now, with those adjustments, the returns on equity for the five years beginning in '94 were, for 1994, 7.7 percent - well, you can read those down through there without having to lengthen the record any. Can you explain the increase of nearly 5 percent from '94 to '95?
A. I'm sorry; I can't. I didn't work for the company then.
Q. Okay. What about a 3 percent increase from '95 to '96?
A. I can only speculate.
Q. Well, I'm not sure if we want you to speculate too much but . . .
A. I'm not sure that I want to.
Q. With that in mind, can you go ahead and give us some

answer on that, sir?

A. I'm sorry. I really can't . . .

Q. Okay.

A. . . . without speculation. I'm sorry.

COMMISSIONER GILLIS:

Is there someone here that can that will be testifying later?

A. No, sir.

MS. KONCELIK:

If you would like to propose another Data Request, then we can get that in writing to the person at the company who could answer it.

MR. GOFF:

Okay. I'll come back to that later. Excuse me just a moment, if I might have a second.

CHAIRWOMAN HELTON:

While they're discussing, can you give us a time frame on when you will have the Data Request back?

MS. KONCELIK:

Probably within, I guess, two weeks, if that would be okay.

CHAIRWOMAN HELTON:

If you can get it sooner, it would help.

MS. KONCELIK:

Yes, and I might add it would probably be helpful to have something in writing so my notes aren't the . . .

CHAIRWOMAN HELTON:

I was going to suggest to Mr. Goff, at the break, that staff give you exactly what it is they want.

MS. KONCELIK:

Thank you.

MR. GOFF:

None of the other witnesses you think would be able to clarify this for us at this time?

MS. KONCELIK:

I don't believe so.

Q. Mr. Byars, I know you said you're not familiar with that, but would it surprise you that those increases came right after general rate cases?

A. I am aware that we had a rate case in 1994.

Q. Okay. Are you familiar with Phase I of the settlement in that case?

A. Not in intimate detail at all.

Q. Okay.

MR. GOFF:

Excuse me just a second.

CHAIRWOMAN HELTON:

Commissioner Gillis has some questions while they're conferring.

COMMISSIONER GILLIS:

I've got just a couple.

EXAMINATION

BY COMMISSIONER GILLIS:

Q. Mr. Byars, what is your definition of stranded costs?

A. Really two forms. Stranded cost is kind of an all encompassing term that we've used in the application, and it really encompasses two different things. The primary driver of stranded costs and the largest number included in the Financial Model are . . .

Q. I just want a definition.

A. Okay. Stranded costs would be those costs incurred by the development of and the implementation of the Customer Choice program that would not have occurred had not the Choice program occurred.

Q. In the context of utility regulation, I thought that stranded cost, the generic definition, was that that is regulatory imposed costs that cannot be recovered after deregulation. I thought that was what we, in the industry, viewed as stranded costs. It would be a loss in value of something that you cannot recover, and I'm having a hard time because isn't part of your definition the reduction in some of your pipeline contracts that you may have to pay for or some other costs such as that?

A. Yes, sir.
Q. And, even though you have that capacity, won't you be able to use that for someone else perhaps?
A. I'm going to probably refer that question to witness Scott Phelps from our Gas Supply Department who can probably answer that question better than I can.
Q. Generic other costs, is that the only one that we're talking about, or are there others that go into the stranded cost that you have computed in the application?
A. We have also included what we would term to be transition costs into this overall stranded cost number that's in the Financial Model. Transition costs would be those costs that have to be borne in order to transition such as education costs.
Q. So that's not really a stranded cost in the accepted definition?
A. Using the definition that you used, I wouldn't term it as a stranded cost. We termed it as a transition cost in our application, and, in the Financial Model, just for clarity sake and brevity, we have included it in the band of stranded costs, that category.
Q. So that those are costs that you're going to incur, just additional costs that you're going to incur to enter a Choice program, either pipeline or printing

costs, I guess, maybe other things; is that right?
A. Overall education costs, yes, sir.
Q. Okay. So those are nothing that regulation has imposed on you to create, neither of those?
A. Those were items that were part of the discussion and the development of the program with the Collaborative that we thought were critical to the ongoing success of a Customer Choice program.
Q. And I'm not disagreeing with that. I'm just trying to determine stranded cost and what it is and what is outside the bounds of what I thought it was.
A. Uh-huh.

EXAMINATION

BY CHAIRWOMAN HELTON:
Q. Are there stranded cost definitions in Columbia Gas programs in other states?
A. I honestly don't know. I apologize.
Q. I was interested to see if those was a definition of assets that become uneconomic in a competitive environment or if they are, as you are describing them, part of them, at least two of the ones, are transition costs.
A. Uh-huh. I think I understand your question. I can't answer for sure how those are defined in the other programs. I do know that the other Columbia

jurisdictions have had to - the development of the programs have caused these same kinds of costs, education costs and information technology costs, those kinds of things, and those were part of their overall plan going forward. I don't know exactly how they were defined as to whether they were stranded costs or not.

CHAIRWOMAN HELTON:

Okay.

EXAMINATION

BY VICE CHAIRMAN HOLMES:

Q. I have a couple of questions, and I apologize for having to step out of the room. If some of them have been asked, then you can just let me know. Who were the members of the Collaborative that you had spoke about?

A. The members were the Attorney General's Office, the Community Action Council, and the City of Lexington, the Lexington-Fayette Urban County Government, and we also relied heavily on input given to us by FSG which is a marketer subsidiary of Wisconsin Power and Light.

Q. So were the marketers a member of the Collaborative or they just advised you?

A. They were an invited member of the Collaborative, but, because they were not based in Kentucky, they were not able to physically be present at the Collaborative meetings, but we did rely on their advice, still.

Q. So did the marketer or I guess it was the FSG, did they provide you any background information or data on the best utilization for stranded costs or did they go into that in any aspects of it?

A. The way it actually turned out working was that the Collaborative worked out some of the details of the Financial Model that's included in the program, the proposed program, and we consulted with FSG to get their reaction on how that was completed, and they signed off and thought that was an appropriate approach.

Q. You talked about the program was designed to be revenue neutral in terms it would recover your stranded costs, and you talk about the band, I guess the $3 million plus or minus band, where the - if it's less than - if you lose money up to $3 million, Columbia will recover that portion; if it's over $3 million, then Columbia gets to keep up to $3 million, I think. Is that it?

A. The deadband, as we refer to it, was designed so that there wouldn't be some kind of a complicated true-up mechanism at the end of the program. The Financial Model is designed so that stranded costs and the revenue opportunities put in place to recover those stranded costs will match exactly, but we all

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acknowledge that that's unlikely that will be an exact match. We were then faced with the situation of what happens at the end of the program, what happens on October 31, 2004, if there's an imbalance one way or the other, and the concept of the deadband was developed so that, if costs were overrecovered, then Columbia would take those; if they were under-recovered, then Columbia would eat those, and we felt that the $3 million deadband was sufficient enough so that that overrecovery or underrecovery would fall within that band.

Q. So, if it goes over $3 million, then that's returned to the customers?

A. Yes.

Q. Okay. What if it goes more than $3 million on the negative side, if you lose?

A. The way we've approached it in our application is that there would have to be some kind of a true-up mechanism, should that happen, to make it whole.

Q. You talked about codes of conduct for marketers and affiliates. Have you developed a set of codes currently or are you proposing any?

A. In the application, there is a code of conduct and standard of conduct, both; one for Columbia's marketing affiliate to adhere to and the other one for all marketers to adhere to.

Q. And, as I understand, the Attorney General has taken no position or what is the AG's position?

A. The Attorney General was very clear, when we first invited them to the Collaborative, in that they would like to be involved in the development of the process, but they were clear that they did not intend to support a program like this. They wanted to be involved in the development and that the two possible outcomes were either one where they would intervene and actively oppose the application or one where they would take no position whatsoever, and they've obviously taken the second position.

Q. Community Action has proposed that they will aggregate the CAP customers. Are those customers - will they have the ability to - if they choose not to be aggregated by Community Action, can they opt out of that or they don't have a choice?

A. I don't know that we've completely addressed that, to be honest with you. You might refer that question to Mr. Burch. I think it was the intent, though, that, if the Community Action Council were able to aggregate those customers and save money for each of those customers on their gas bills, that that would be an appropriate approach.

Q. One more question, on the deadband, has the other Columbia programs, do they have a similar deadband? What has been the history of those? You know, has it been a plus or minus or where has it fallen?
A. I honestly don't know if there has been a deadband approach. I'm not aware of one. That was something that we developed within our Collaborative, but, if one has one, it would be too early to tell what the history was anyway.
VICE CHAIRMAN HOLMES:
Thank you. That's all.
CHAIRWOMAN HELTON:
Mr. Goff?
CROSS EXAMINATION CONTINUED
BY MR. GOFF:
Q. Mr. Byars, you said you were not intimately familiar with that settlement in Columbia's last rate case, Case No. 94-179. Are you aware that there was a $6 million increase that went into effect November 1 of 1994 as a result of that settlement?
A. Yes.
Q. And are you also aware that Phase II of the settlement provided for an additional increase of $2.25 million to go into effect October 1 of 1995?
A. Yes.

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Q. And, as a Phase III of that settlement, an additional increase of $1 million to go into effect October 1 of '96?
A. Yes.
Q. Well, based upon that, would it be correct to say that, to the large extent, Columbia's higher returns in recent years can be attributed to the rate increases from that case, Case 94-179?
A. I hate to be disagreeable, but I would really rather have us respond to that with the appropriate personnel.
Q. And let me ask you this; do you believe that Columbia's management practices contributed to those increases?
A. Again, I would like to refer to the appropriate personnel to provide the appropriate response. Sorry.
Q. Okay. Who would you refer us to as the appropriate personnel?
A. We'll go to our financial people to be able to look at the numbers and that's where we'll start.
Q. Do you know what the earnings were for the 12 months ended April of '99?
A. I don't. Sorry.
Q. Do you know what Columbia's earnings were for the most recent period reported?
A. I don't. I apologize. I know we give the Commission numbers 12 month ended, kind of on a rolling basis,

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but, quite honestly, that's not how we look at the numbers internally. We operate on a calendar basis, and I know the those numbers are reported to the Commission that way, but those aren't numbers that I'm familiar with.

COMMISSIONER GILLIS:

Is someone else here that can answer that?

A. I don't know.

COMMISSIONER GILLIS:

Is there someone else that's going to talk about the application that would know?

A. Witness Cooper might be able to respond to that question, but I don't know if she has the number off the top of her head or not. We can certainly get it, obviously. I just don't know if we have it.

COMMISSIONER GILLIS:

In time for this hearing?

A. Probably not. We can get it to respond, though. I apologize. We just don't have those numbers. I don't have that number off the top of my head.

Q. Mr. Byars, would you accept that earnings were 13.8 percent, subject to check?

A. Subject to check.

Q. Subject to check. Okay.

MR. TAYLOR:

For when?

MR. GOFF:

The most recent period.

COMMISSIONER GILLIS:

1998.

CHAIRWOMAN HELTON:

April of 1999.

MR. GOFF:

April of 1999.

A. Twelve months ended April, '99?

Q. Yes, sir. As regards the Customer Choice program, if the program costs are minimized and revenue opportunities are maximized, Columbia would stand to gain up to $3 million in additional earnings over the course of the Customer Choice program. In consideration of Columbia's current level of earnings, why do you believe it is fair to the customers of Columbia to pay all the stranded costs of the program and up to $3 million more?

A. That's kind of a multiple part question. Let me start, first, I guess, with the deadband itself. The deadband is not designed to be a reward for Columbia. The deadband was designed simply to avoid a complicated true-up mechanism at the end of the program when that

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exact match doesn't occur. The second part of that question implies or maybe more than implies that Columbia needs to pick up stranded costs for some reason. We believe very strongly that this program offers a gas cost alternative for our customers and that Columbia - the program was not designed for Columbia to benefit directly from the implementation of this program. When you design a program like this, you're faced with some very basic questions, one of which is who pays for stranded costs, and the second of which is how do they do it, and we think that the approach developed by the Collaborative is a good one. We think that it will be one that will encourage participation by customers because of the easiness of them understanding comparisons between Columbia's offer and a marketer's offer. We think it's fair. We think it is a darn good model, and I guess, as evidenced by the fact that the application has received no opposition, we would take that as a vindication that that's the case.

Q. To the extent that Columbia is collecting more through the proposed revenue opportunities than it would under the normal recovery of costs through these mechanisms, are customers experiencing a rate increase under this program?

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A. No.
Q. Could you elaborate just a little bit on that?
A. I'm not exactly sure how.
Q. As an example, under the proposed revenue opportunities, Columbia's customers would have received incentive credits through the GCA under existing incentive mechanisms; right? Under this proposal, that income would now be used to offset stranded costs of Columbia.
A. Stranded costs of the program.
Q. Okay. So, in effect, the customers are really realizing an increase in rates while Columbia's revenues are neutral? Is that . . .
A. I would disagree.
Q. All right, sir.
A. It might help if I could provide a little perspective on how we developed the Financial Model itself. When you sit down and try to create a program like this, you kind of look at some basic objectives, first, and one that we thought was very important was, if we're going to do it, we might as well do it right and that means provide an opportunity for customers to save money on their gas bills. One of the main ways you do that is by giving as much flexibility to the marketers as you can to allow them to bring their own capacity to the

market to serve customers. When you do that, that's obviously when the stranded costs kick in and that's when those number have to be recovered. We believed - you know, at that point, it comes down to how the stranded costs are recovered and again how they're done or how they are recovered, and we looked at - or who and how. As I said before, this is a program that we believe customers will benefit from. We also took some encouragement by the Commission's Order in the Administrative Case 367 where the Commission supported the concept of Customer Choice and also saw that there would be benefits through innovation in products and services to customers that competition inevitably brings. We were encouraged by those statements and also agree with them. So, at that point, you decide the best way to actually recover the stranded costs. The Collaborative looked at a surcharge, discussed how a surcharge might affect the success of the program, and decided early on that that did not make sense; that that would discourage participation by customers. So then we switched our focus to look at a different set of dollars or a different set of revenue stream by which we could use to recover stranded costs. The gas cost incentive program provided the best opportunity for that, and it also provided an obligation on

Columbia's part to actually go out and make these transactions occur. The gas cost incentive dollars or the dollars that come from those programs, the transactions don't just happen and dollars just don't happen. Columbia has to dedicate resources and actually has to go out and make deals happen to generate the dollars from the gas cost incentive program. For that reason, we thought it was a natural to simply take the existing gas cost incentive program and fit it within the Financial Model of our Customer Choice program and that was a way for Customer Choice to succeed, and it was the best way that we felt for the program to work in a beneficial manner. I think, too, it's important to understand that it's a transition period. We're talking about a few short years. If we were designing the way a gas purchasing program might work from the ground up, I don't think this is where you would start, but transitioning from a completely regulated market to a competitive market, there are some hard decisions that have to be made, and the Collaborative believed that this was the best way to make that transition to a competitive market.

EXAMINATION BY COMMISSION

COMMISSIONER GILLIS:

What would you say to someone who makes the comment as far as having the option of changing gas suppliers when someone says, "I don't want the confusion, and I don't want the additional costs"? What would you say to them?

A. I would say that the beauty of this program is that, if a customer chooses to remain with Columbia as a sales customer, they have that option and that we designed the program so they won't be overly burdened or they will not incur any additional charges as a result of the program. So this truly is a free choice on the customer's part.

VICE CHAIRMAN HOLMES:

So a customer that elects to stay with Columbia will not see an increase in costs as compared to that customer there?

A. We designed the program very carefully with those customers who did not choose to go with the marketer in mind; (1) to make sure they didn't see a surcharge on their bill and (2) that they would not have to be burdened with paying for some of the demand charges left over by customers going to the Customer Choice program.

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CHAIRWOMAN HELTON:

But, in their rates, their base rate may not increase but do they not lose the opportunity through the GCI of any revenue opportunities that is split between shareholders and customers?

A. Yes.

VICE CHAIRMAN HOLMES:

Will they see an increase in costs in terms of the technology in advertisement or the marketing of the program to cover those costs?

A. Really, that's obviously rolled into all of Customer Choice, the entire plan, the Financial Model. We designed the program, really, so that Choice customers pick up a greater share of those stranded and transition costs than do customers that decide just to remain with Columbia. Again, it kind of comes down to deciding who should pay - there's going to be, in transition, who should pay and what's the best way to do it to facilitate a competitive market.

CHAIRWOMAN HELTON:

Mr. Goff?

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CROSS EXAMINATION CONTINUED

BY MR. GOFF:

Q. Mr. Byars, the potential then exists for Columbia's net income to increase if the revenue opportunities exceed the stranded costs; is that correct?

A. Yes, and the reverse would also be true.

Q. Why is this more reasonable to the customers of Columbia than an approach were Columbia's stockholders would at least share a portion of the stranded costs.

A. The company's shareholders are not going to receive benefit from the implementation of this program. So we did not believe - and, at the risk of repeating myself, the application that was submitted didn't receive any opposition from this either. We believed that this was the appropriate way to facilitate the transition to a competitive market.

EXAMINATION

BY COMMISSIONER GILLIS:

Q. But I thought you just said that the shareholder is not going to benefit. Is that what I just heard you say?

A. Yes.

Q. So, if Columbia's shareholders are not going to benefit, customers are not going to benefit much, and it's going to be confusing, why bother?

A. If I implied that the customers were not going to benefit or customers were going to be confused, I didn't mean to do that.

Q. Well, I asked that question awhile ago and didn't hear a response as far as the confusion portion of it. So I was just assuming that the confusion stood.

A. I apologize. Somebody could make that statement. I guess I took your question that somebody may make that statement, that this is confusing, and my initial reply really should be to that person that this program is not confusing. We have designed it in a manner that a customer can make a clear comparison. We're actually going to provide materials where they can compare apples to apples. Here's a marketer's offer, and here's Columbia's sales rate. So I don't believe that the program will be confusing to customers. I also think that there will be a benefit for customers. I think there are opportunities for customers to save money on their gas bills, and we agreed with the statement made in the Commission's Order in Administrative Case 367; that their competition brings other kinds of benefits through innovations and products and services and things like that. So I apologize. I didn't mean to imply that I thought it would be confusing to customers or there would not be any benefit to customers.

CROSS EXAMINATION CONTINUED

MR. GOFF:

I have an Exhibit. I would like to have it noted as Staff Exhibit No. 1.

CHAIRWOMAN HELTON:

So ordered.

STAFF EXHIBIT 1

Q. Mr. Byars, this handout shows, for a period of 1983 to 1994, with case number, when the application was filed and Columbia's overall rate of return on base rate as calculated in the application. From 1983 to 1990, Columbia filed six rate cases. Apparently, the overall rate of return was not good, and it impacted its ratepayers. With Columbia's higher returns in recent years, it appears the benefits of its financial performance have been enjoyed by its shareholders. Why is this so? Why is there a discrepancy here?

A. I'm not sure I understand the question. I apologize.

MR. TAYLOR:

Madam Chairman, I would like to point out also, if you want to go back to all of these records, I find this a little bit irrelevant, but, if you want to go back to all those records, you'll find that Columbia Gas never made what this Commission gave them on its allowed rate of return. In fact, . . .

CHAIRWOMAN HELTON:

We have that information in a database, Mr. Taylor.

MR. TAYLOR:

All right.

CHAIRWOMAN HELTON:

We have ready access to it.

Q. You're not familiar with this? You can't . . .

A. I didn't understand the question. I apologize.

Q. Okay. It shows, from these cases, your rate of return was not very good - okay? - and that it impacted your ratepayers, but, with Columbia's higher rate of returns, in recent years, it has only benefited the shareholders. Can you explain that?

A. I don't understand. I guess you say that these only impacted ratepayers?

Q. Yes, sir.

A. What do you mean by that statement?

Q. These filed cases showed your overall rate of return was low. Do you understand what we're saying there?

A. Yes.

Q. All right. These other returns in Question No. 11, the Response, show that there was a greater return. Do those rates of return only inure to your shareholders?

Were they shared by the ratepayers?

A. You're saying - the question really doesn't have anything to do with what you handed out, I guess. What you're referring to are the returns on equity in the last few years, and you're asking whether the shareholders benefited from those returns?

Q. Yes.

A. Yes, they did.

Q. They did. Did the ratepayers benefit from those returns?

A. I think you can say that the fact that, between 1983 and '94, we came in for a rate case seven times and we haven't been in in the last few years has benefited the ratepayer, our customers, we call them. We have not increased rates since 1994, in the '94 case.

CHAIRWOMAN HELTON:

Mr. Goff, could I ask a clarifying question, since you've entered this into the record?

MR. GOFF:

Yes, ma'am.

CHAIRWOMAN HELTON:

Is this correctly labeled "R-O-R," or is this ROE?

MR. GOFF:

R-O-R, rate of return.

CHAIRWOMAN HELTON:

And, in the information that you are referencing which was Questions 10 and 11, is ROE; is that correct?

MR. GOFF:

Yes.

CHAIRWOMAN HELTON:

Okay.

MR. GOFF:

Excuse me just a moment.

CHAIRWOMAN HELTON:

Okay. Since he needs a minute, we'll take a ten minute break.

OFF THE RECORD

MR. TAYLOR:

Madam Chairman, just for the record, if I could, I would like to also enter the appearance of Stephen B. Seiple as the Senior Attorney for Columbia Gas, who sits on my right. His address is the same address I gave you earlier in Columbus, Connie.

CHAIRWOMAN HELTON:

Thank you. Mr. Goff, proceed.

MR. GOFF:

Thank you, Madam Chairman.

A. Before you proceed, . . .

Q. Go ahead, sir.
A. . . . the number that was subject to check, I did not have the opportunity to actually check it, but we will for a later date.
Q. All right, sir. Mr. Byars, you assume in Columbia's last case in which it was allowed return on equity in 1989 was 13 percent. Do you have any knowledge of that or disagree with that?
A. I have no knowledge of that and also fail to see the relevance to the case.
Q. Well, let me ask you this; are you familiar with Regulatory Research Associates reports as to national averages of rates of return on equity?
A. I am not.
Q. You're not familiar with that? Would any other of your staff members that are going to testify here today be familiar with that?
A. No.
Q. Okay. Are you familiar that Columbia's rate of return on equity has been above the national average for at least the last four years?
A. I'm not, but, again, I fail to see the relevance to the case.
Q. If it were true that Columbia's return on equity were above the national average as much as 2 percent or

3 percent, would Columbia consider absorbing any of the costs of the Customer Choice program?

A. No. The program that has been proposed, at the risk of repeating myself, we took very seriously the charge in the Order of the Commission in Administrative Case 367 to develop this program with the support in a collaborative setting, and we've done that. We have submitted it to the Commission, filed an application with no opposition. We think this is a darn good program, one that will facilitate Customer Choice in Kentucky, and we see no reason to make major overhauls to it.

COMMISSIONER GILLIS:

And what's the total amount of your transition costs, as you call them Columbia stranded costs, but the transition costs? What's the total per year for that?

CHAIRWOMAN HELTON:

Thirty-two million over five years, I believe.

A. Yes, ma'am, that's correct. Through October 31, 2004, it will be just shy of $32 million.

Q. Did Columbia, within the Collaborative, consider Columbia's weather normalization adjustment mechanism in place, insulating it largely from weather fluctuations that it could absorb any cost with that mechanism in place?

A. No. I don't see any relevance with weather normalization at all. Again, that's a base rate item and we've stated on the record numerous times that this is not a base rate case. This is simply offering a gas cost alternative that doesn't exist today.

Q. Mr. Byars, the Commission has before it several performance-based ratemaking cases involving LG&E and KU. In those cases, the companies that I've just mentioned were cited as superior cost performers for being low cost providers of electricity while maintaining quality service. The Response to Item 11 of the Commission's first Data Request - that would be of July 2 - refers to Columbia providing quality service and maintaining high customer satisfaction ratings. I'll let you find that. Does Columbia conduct surveys of its customers to measure customer satisfaction?

A. Yes.

Q. Do those surveys include any questions regarding Columbia's rate levels?

A. I'm not familiar with the individual questions that are asked. Again, I fail to see the relevance to the case.

Q. Well, do you have those surveys? Can you furnish the Commission a copy of them or at least your findings from them?

A. Sure.

MS. KONCELIK:

Madam Commissioner, we could provide those. I'm sure we have those, but, as Mr. Byars has stated, we fail to see the relevance of that. Unless there are surveys regarding the Choice program or what customers think about the implementation of a Choice program, we fail to see what the relevance would be in this case.

CHAIRWOMAN HELTON:

I believe that customer satisfaction has to do with whether the customer is already pleased with the service that they are getting, and I see no reason why Columbia wouldn't want to provide a survey that would show that customers are satisfied with their current service. That doesn't mean that they might not like other options to their current service but a level of satisfaction with current service certainly goes to the credibility of the company.

MR. GOFF:

I have another which has been labeled "Staff Hand-out No. 2" and would like to have that marked as Staff Exhibit No. 2 for purposes of identification.

CHAIRWOMAN HELTON:

So ordered.

STAFF EXHIBIT 2

Q. This handout reflects the results of a rate survey of the five major LDCs operating in Kentucky: Columbia, Delta, Union Light, Heat and Power, Western, and LG&E. That survey indicates, at current rates, the customer's bill based on the usage of 10 Mcf per month and the gas component of each company's per Mcf rate. This survey indicates a higher bill for Columbia customers than for customers of any of the other LDCs. Can you explain why Columbia appears to have the highest residential rates among Kentucky's major LDCs?

A. It's really outside the area of my expertise.

Q. Okay. All right. Mr. Byars, let me refer you, again, back to the Data Request which would be the first Request of July 2, 1999, Item 21, and that last sentence states that Columbia's base rates and, as a result, its proposed transportation service rates have already been cost-justified and approved by the Commission. Now, let me refer you to the Commission's second Information Request of July 30 and that would be Item 19 of that Request in which you stated that the Commission approved Columbia's rates as fair, just, and reasonable in Case 94-179. Can you tell us in what fashion the rates were cost-justified being that that was a settlement case?

A. As far as I'm concerned, if the Commission approves rates as fair, just, and reasonable, then they're cost-justified.

Q. But you have no information that you can share with us to show how those rates were cost-justified in that case; is that correct?

A. Beyond the Commission's Order that said these rates are fair, just, and reasonable, no.

Q. You were asked previously about stranded costs. What would Columbia's position be with regard to implementing the Customer Choice program without the provision for recovery of stranded costs in the way that Columbia has proposed in this program or, I guess, in the tariff?

A. I'll answer that question the same way that I answered it before, and I apologize in advance for repeating myself, but we took direction from the Commission on how a program like this should be developed. We took that seriously, and we filed an application with no opposition. We don't see any reason to make major overhauls to the program because we think it's a darn good one the way it is.

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Q. Could you tell us, in other jurisdictions served by Columbia distribution companies, how stranded costs have been recovered?
A. Various mechanisms have been used. The largest of the Columbia distribution companies of the five is Columbia of Ohio, and one of their primary mechanisms for recovery in stranded costs is a gas cost incentive program that is very similar to the program that we have inserted within the proposed program.

EXAMINATION BY COMMISSION

VICE CHAIRMAN HOLMES:
Did Ohio use a surcharge for implementing the gas cost incentive program?
A. The initial pilot program, which was only in the City of Toledo, used a surcharge on customers to recover stranded costs, but that was changed when the program was rolled out to all their customers statewide.
COMMISSIONER GILLIS:
Do you have the same pipeline recovery charge included in your transition costs in Ohio as you do here?
A. Yes.
COMMISSIONER GILLIS:
Is there any provision for true-up, and, if you recover those costs in other ways, is there a true-up to offset that transition cost?

A. I'm not sure I understand the question.

COMMISSIONER GILLIS:

If you have pipeline capacity that you released that you're now recovering, as you say, through the stranded costs, if you're able to sell that to someone else or to recover that cost in another manner, is that revenue offset against this transition cost in Ohio?

A. I apologize. I'm not intimately familiar with it. Scott Phelps, one of our witnesses, could answer that question better than I could. I apologize.

CROSS EXAMINATION CONTINUED

BY MR. GOFF:

Q. Could you tell us, to your knowledge, if all the recovery mechanisms in those other jurisdictions provided for recovery of 100 percent of the costs from the ratepayers?

A. I'm not intimately familiar with each and every program. To my knowledge, there is something in place in each jurisdiction that will allow for recovery of stranded costs.

Q. You don't know how that's divided?

A. I don't know all the details, the intimate details, of each individual program.

Q. Mr. Byars, could you explore that and furnish the Commission with maybe a brief synopsis of how those jurisdictions' recovery mechanisms provide for the recovery of those costs?

A. We can do that. I would like to preface or it's too late to preface, but I would like to add to that by saying that, when we developed the program for Columbia Gas of Kentucky, we did look at items of the other programs developed in other Columbia jurisdictions, and we tried to take elements that worked and tried to eliminate elements that didn't appear to have worked yet, but, in the end, the proposed program, the one that has been filed, is a program that has been designed for Columbia Gas and Columbia Gas of Kentucky customers. It's a comparison and a contrast of Columbia of Kentucky's program with the other four jurisdictions. It might be kind of an apples to apples comparison. There are concerns expressed here by Collaborative members. It might not have been concerns of customers in other jurisdictions or vice versa. So I just want to make that point on the record, that we'll be happy to provide that information but it may be comparing apples to oranges a little bit.

EXAMINATION BY COMMISSION

COMMISSIONER GILLIS:

But you would agree that it would not be right for Kentucky customers to pay for costs that you're also

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getting from another source in case you're able to sell that capacity release somewhere else?

A. There's no way that we're - any place in the application we're not trying to double dip. We're not trying to overrecover stranded costs.

VICE CHAIRMAN HOLMES:

But you're going to or are you going to, at this point, because you have provided the last resort, going to maintain or reserve that capacity?

A. We will maintain capacity to serve those customers that remain . . .

VICE CHAIRMAN HOLMES:

Who remain with you; right.

A. . . . as sales customers, and we obviously have to maintain the integrity of our distribution system as well, as the supplier of last resort, to make sure that, if a marketer did not bring gas to our system, that every customer will still be able to be served their gas.

VICE CHAIRMAN HOLMES:

So you'll have to . . .

A. Those provisions are all there.

VICE CHAIRMAN HOLMES:

So you'll have to retain that capacity to ensure that, if the marketer wasn't able to deliver gas, then you would have the capacity?

A. We have to be prepared to do that, to step in; yes.

CHAIRWOMAN HELTON:

So you're going to have voluntary assignment of about 60 percent of your existing capacity, and the rest of it you would keep in reserve?

A. Again, I'll probably refer that question to the witness Phelps. He can probably answer that a lot better than I can.

CROSS EXAMINATION CONTINUED

BY MR. GOFF:

Q. Mr. Byars, I refer you to the Commission's Data Request dated July 2, 1999, Question 37.

A. Apparently, I was not the respondent to that question.

Q. Okay. Let me refer you to Question 37d. Columbia was asked for cost support of the $50 fee to determine the marketer credit worthiness, and I understand that Mr. Consentino, I believe, is the gentleman that responded to that. The Response was that the $50 fee was determined by the Collaborative to be reasonable. That same Response indicates that Columbia's staff would review the marketer program on a monthly basis, and there would be no cost shifts. If new tasks, such as these, are performed as part of the provision of a new service, how can there be no cost shifts?

A. We don't intend to add staff to perform these functions. That would simply be added on to the workload of existing complement. The Commission is probably familiar with that concept, I would imagine.
Q. Okay. Then, assuming there is, like you say, no new cost as a result of that small volume transportation program, why would the $50 charge be necessary?
A. Would you repeat the question, please? You're on "d"?
Q. Yeah. If there are going to be no new costs, why would the $50 charge be necessary?
A. I was not the respondent to this question, you understand.
Q. Yes, sir, I understand that.
A. So there's some speculation involved here, but I am searching my memory bank on how that number was arrived at. I believe it was a cost to the marketer to make sure that they had to go through an actual review to get into the program. It was intended to make sure that anybody that wanted to sign up couldn't just sign up, but they actually had to apply and jump through some hoops, if you will. You know, if we have a $50 credit check on, say, ten marketers, we're talking about pretty low dollars here.
Q. Again, referring to the July 2 Data Request, Question 21, . . .

A. Was I the respondent to this question?

Q. I believe you were, sir.

A. Okay.

Q. The question was that Columbia was asked to provide a cost report for the use of the existing delivery charge as a rate for providing the proposed small volume transportation program service. It requested details showing the charge that represented the cost to provide small volume transportation service, and it asked Columbia to identify cost shifts and their anticipated magnitude. Your Response stated that Columbia would provide all the same services to Choice customers as to sales customers - I think that's what you've consistently said in this proceeding - that the rate of delivery of gas to all sales and Choice customers will be the same and that Columbia has already cost-justified its rates, and you further responded that Columbia could find no basis on which to justify differing rates for delivery of gas under this program. Is that an explanation as to why you did not propose these different rates, or are you saying that the Commission does not have the authority or the obligation to require any cost-justification?

A. First of all, I don't think it's relevant in the case. The purpose of the Response was to make the statement that, and this is partly in follow-up to the discussion with staff in an informal conference prior to this round of Data Requests regarding this issue where they asked us to cost-justify or possibly even go to the extent of performing a full-blown cost of service study that would justify applying the same delivery charge rate to Choice customers as we are to sales customers even though there will be no change, and the statement here is simply a reiteration of our statement in the informal conference, that, again, as you said, we can find no basis on which to justify offering different rates.

Q. Well, obviously, Columbia was aware of staff's concern. You've alluded to that as to the conversation in the informal conference and these Data Requests as to staff's concern about the cost-justification?

A. Aware of it but disagree with it.

Q. All right, sir. Again, the Data Requests and Responses dated July 2, this is in reference to question No. 40. In response to that question, you discussed the 97.5 percent multiplier which will be applied to marketer revenues. The result of this application will be that 2.5 percent of marketer revenues will be retained by Columbia. What is the purpose of that retention?

A. We're actually pretty proud of this, to tell you the truth. This was something the Collaborative worked a while on. Some of the Collaborative members had a concern that marketers, if allowed to bill customers themselves and if this provision was not in place, may come into the program and to cherry pick customers, to come in and try to look at the credit ratings, if you will, of certain customers and avoid low-income customers, and we decided that, in order to make the plane level even for the marketers among customers, that Columbia would continue to do the billing for the marketers. Columbia would take on the responsibilities for the marketers of credit and collection activities. That way, if a marketer is guaranteed to get paid 97.5 cents on the dollar for any revenues billed to their customers, then it doesn't matter or it shouldn't matter to them whether the customer has bad credit or no credit or anything else. That way everybody can participate in the program no matter what their credit history is and, again, that's something that the Collaborative was rather proud about, and we think it's a good outcome for the program.

EXAMINATION BY COMMISSION

COMMISSIONER GILLIS:

Well, I have a follow-up question on that. You're familiar with the terms "slamming" and "spamming," as they relate to the telephone industry. How is Columbia going to ensure themselves and their customers that no slamming or spamming will occur?

A. There are provisions in the application that marketers have to go through, including date stamped copies of their conversations with customers. They have to have the actual account number from the customer themselves. The provisions are fairly I don't want to say complicated but the protections we think are there to help avoid that problem.

COMMISSIONER GILLIS:

And I think certainly those provisions are in place for telephone companies, but it still occurs and particularly on slamming or spamming the addition of other nonmarketers to put something on the bill. Is it Columbia's position that they're not going to allow anything other than the marketer for that particular customer to add to that bill?

A. Yes. As Columbia will continue to do the billing for customers, that's the natural fire wall, I guess, if you will, to prevent a marketer to - I'm not familiar with the term "spamming." I had not heard that before, but, to add something else on to a bill, it would really be impossible as Columbia will continue to do the billing for the marketer.

VICE CHAIRMAN HOLMES:

So, if the marketer decides not to serve a customer, then Columbia would take that customer back, say, if it was a no pay or a slow pay customer?

A. There are no restrictions in the program for a customer switching from a marketer back to Columbia and even back to another marketer at some point. That's up to the customer and the marketer.

VICE CHAIRMAN HOLMES:

Even if that customer has an outstanding obligation to the marketer?

A. If there's a contract between the customer and the marketer, then obviously there's a binding contract there. A customer just can't leave, but, if a customer doesn't have a binding contract or their contract has expired, there are no restrictions on them migrating back to being a Columbia sales customer.

VICE CHAIRMAN HOLMES:

Who handles disputes with the customer and the marketer?

A. Columbia Gas of Kentucky would handle the disputes, and we have talked, in general terms, with the members of the Collaborative of establishing a more formal dispute resolution process where we might even use a third party - I just throw this out as an example - but possibly the Better Business Bureau or someone like that, who is used to handling disputes like this, to help arbitrate in some of these cases.

VICE CHAIRMAN HOLMES:

So you would handle or arbitrate disputes with Columbia's marketer or affiliate?

A. The way it is designed today; yes.

COMMISSIONER GILLIS:

So I heard you correctly that Columbia would assume the 97 percent bad debt for those customers you cannot collect; is that correct?

A. We purchase the receivables, in a sense, of the marketers. To use a very bland example, if the marketer were to have customers with - if the marketer were owed $100 from their customers, they would submit that bill to Columbia Gas. We would be responsible for collecting those revenues from customers. We would then pay the marketer $97.50 on that $100 amount that they were owed.

COMMISSIONER GILLIS:

So you're assuming that potential bad debt?

A. Yes.

VICE CHAIRMAN HOLMES:

Does the marketer factor that 2.5 percent into their rates? Do you know how that works?

A.	I would assume they would. One reason that the Collaborative felt that the 97.5 cents on the dollar was a reasonable number and that FSG also thought it was a reasonable number was that, at least according to FSG, that 2.5 percent was cheaper than what they could provide that service themselves. They didn't have to worry about having a full scale Credit and Collection Department to worry about things like that.

COMMISSIONER GILLIS:

Will you all have interconnection agreements with all the marketers or some type of agreement with the marketers having all of these things in the contract that we're talking about?

A.	Yes, that would be in the Aggregation Agreement between Columbia and the marketer.

CROSS EXAMINATION CONTINUED

BY MR. GOFF:

Q.	Mr. Byars, so you would be able to track that particular cost associated with this program?

A.	Yes.

Q.	Okay. Do you anticipate it to be different from the collection cost embedded in your rates?

A.	Hard to tell, to be very blunt. The 97.5 cents on a dollar is an estimate with the understanding that it will have to be tracked once the program is implemented.

Q. Okay. What if there was an underrecovery in spite of this 2.5 percent? How would that underrecovered cost be recovered, I guess?

A. Meaning if collections cost Columbia more than 2.5 percent?

Q. Yes. Yes.

A. The way the application is submitted is that's on the shoulders of Columbia Gas.

COMMISSIONER GILLIS:

Do you know what the situation in other states has been as far as that particular aspect of the collection fee versus the bad debt?

A. We kind of borrowed this idea from our sister company in Pennsylvania, and they've employed this, but it's really too early to tell how it's working yet. No real data is back yet.

COMMISSIONER GILLIS:

So, this is not patterned after anything you've done in Toledo?

A. No, it's not.

Q. Mr. Byars, I refer you to that same Data Request, the next question, Question 41, which has to do with the 5 cents. I think, when asked for the cost support of that, the reply was, in effect, it was the Customer

Choice customers' contribution to stranded costs. Is there any other basis for that charge other than the selection by the Collaborative of the 5 cent level?
A. No. It's really not a cost-based charge. As the Response indicates, we refer to it as a pay-to-play mechanism. It's a way for - I think I responded to a question by Vice Chairman Holmes earlier for whether Choice customers would be picking up their share of stranded costs, and I responded by saying that they would actually be probably picking up more than their share of stranded costs, and this is part of the reason why, is that this 5 cent per Mcf marketer contribution we would assume would be passed on to Choice customers, and it's simply a mechanism to make sure that Choice customers are contributing to the recovery of stranded costs.
Q. Okay. Well, let me ask you. When stranded costs are no longer at issue, will Columbia continue to charge the 5 cent fee?
A. We would expect not; no. When the program expires in 2004, there's no need to recover stranded costs any more, and the marketer contribution, we would anticipate, would go away with that.

EXAMINATION BY COMMISSION

COMMISSIONER GILLIS:

Do you assume there would be a cost true-up, at that time, of stranded costs versus recoveries and matching dollar for dollar and then some type of credit or charge would be subsequent to 2004?

A. That's really the purpose of that deadband that we talked about before, is to avoid having some kind of a true-up mechanism. There's kind of a risk on Columbia's shoulders that, if stranded costs are underrecovered by $3 million or less, that we would eat those costs, and the reverse would be true if stranded costs are overrecovered. So that's really the purpose of the concept of that deadband. It gets us to the same place, but it avoids some kind of a true-up mechanism the customer has to understand at that point.

COMMISSIONER GILLIS:

I'm not talking about the customer understanding. I'm talking about the Commission understanding.

A. Both, I guess. That's the purpose of the deadband, to make sure that, at October 31, 2004, when the program has expired, that we're even at that point. As long as the stranded costs and the recovery mechanisms have landed within that $3 million deadband, then the marketer contribution disappears, and there is no true-up mechanism.

COMMISSIONER GILLIS:

Well, help me with this a little bit. Is there going to be a true-up each year, or how are you going to true it up? How is the Commission going to know that it's trued up? Now, that's where I'm getting to.

A. That would be part of a review by the Commission, a report submitted by Columbia to the Commission at the end of the program.

VICE CHAIRMAN HOLMES:

So, then, the true-up . . .

COMMISSIONER GILLIS:

A true-up report, for lack of a better term?

A. Sure.

VICE CHAIRMAN HOLMES:

So the true-up wouldn't occur until after 2004?

A. October 31, 2004, when the program ends, and then the report would be subsequent to that at some point.

CHAIRWOMAN HELTON:

And Columbia would provide any justification to make sure that that true-up is accurate and their figures to back it up?

A. Yes, ma'am.

VICE CHAIRMAN HOLMES:

Just to briefly follow up, so that what you're saying is, after 2004, that's when a true-up, if there is a true-up, will occur, is at that point. So there shouldn't be any stranded costs after 2004?

A. Exactly. The way we've designed it with that deadband concept is to avoid a true-up mechanism. Hopefully, and we believe, that, at the end of the program, it's time to start over, in a sense. Whether Customer Choice continues, whether other kinds of decisions are made, that's coincident with the expiration of the bulk of Columbia's pipeline contracts. So, at that point, Columbia would have a better feel, along with the members of the Collaborative and the Commission, whether pipeline capacity should be contracted for by Columbia, again, or at what level, but, essentially, we would be starting from ground zero again, at that point, with no stranded costs.

COMMISSIONER GILLIS:

Can you take me from right now through 2004 with this scenario? If you have $30 million in stranded costs, the $3 million deadband mechanism, and assume that you collect, during this period of time, $20 million of pipeline capacity release, now, can you go from now to 2004 on how they work?

A. Help me, if I'm misunderstanding your question, but, if, at the end of the program, - let's just use round numbers - there actually were $32 million in stranded costs incurred over the program and that's due, in part, to the participation in the program - obviously, the more customers that choose to purchase their gas from a marketer, the more costs will be left stranded. Pipeline capacity costs will be left stranded. If we assume that number is correct in our estimates and, using your scenario of only having $20 million worth of revenue opportunities actually realized during the term of the program to recover stranded costs, then we're going to have a gap of $12 million at the end of the program. The first $3 million of that will be eaten by Columbia. The remaining $9 million of that will need to be trued up in some way using some kind of a mechanism to allow for those $9 million to be recovered by Columbia. Stop me if I'm boring you, but the deadband, again, the reason we set it at $3 million was that we believed that those two elements, the stranded costs and the recovery mechanisms, would fall within that $3 million deadband. Provided the model is able to go forward the way it's presented, we don't think it'll fall outside that deadband. We don't think that your example would occur where there would be under-recovery of $12 million.

VICE CHAIRMAN HOLMES:

So that deadband . . .

COMMISSIONER GILLIS:

No. No. Wait a minute. Wait a minute. You'll have $32 million recovery from the 5 cents?

VICE CHAIRMAN HOLMES:

No.

A. No. The Financial Model - it might help to actually look at it for me. The Financial Model, under the revenue opportunities, . . .

COMMISSIONER GILLIS:

Uh-huh.

A. . . . the marketer contribution on Line 5F . . .

COMMISSIONER GILLIS:

Okay.

A. . . . is that 5 cent per Mcf contribution . . .

COMMISSIONER GILLIS:

Okay.

A. . . . by marketers in the program, and you can see, at the far right-hand corner, that a little over a million dollars over the life of the program will be recovered from that revenue opportunity. The other mechanisms listed between Lines 5A and 5E are the other revenue opportunities or the other mechanisms employed by Columbia to recover those stranded costs, and those

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are - well, does that help?
COMMISSIONER GILLIS:
Yes, it does. Good. Thanks.
A. Okay.
CHAIRWOMAN HELTON:
Commissioner Holmes?
VICE CHAIRMAN HOLMES:
Oh, I've forgotten now.
CHAIRWOMAN HELTON:
I have one while you're thinking. Mr. Byars, the revenue opportunities, you're taking the current GCI and you're taking off-system sales and capacity release revenues from that and putting in the Stranded Cost/Recovery Pool. You're also assigning capacity to marketers, voluntary assignment at capacity with recall rights; correct?
A. I believe that's correct. Again, our gas supply witness can answer that question better.
CHAIRWOMAN HELTON:
Okay. So I'm assuming that any capacity release revenues that come from those recall rights also go into the Stranded Cost/Recovery Pool.
A. I apologize. I'm going to have to defer that question to witness Phelps.

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CHAIRWOMAN HELTON:
Okay.
A. Sorry.
CHAIRWOMAN HELTON:
Mr. Goff? We're kind of jumping around; aren't we, Connie?

CROSS EXAMINATION CONTINUED

BY MR. GOFF:
Q. Let me ask you a question, again, on stranded costs. Which customers create stranded costs in this program, the Choice program; the Choice customers? Is that correct?
A. Yes.
Q. Well, if they cause all this stranded cost, how can they be paying more than their share if the 5 cents only produces this $1.134 million?
A. The bulk of the revenues that will be generated to recover stranded costs are coming from the gas cost incentive program, the program with the sharing mechanism and the program that - or Columbia actually has to go out and create transactions and make deals to make those dollars work. As you've indicated earlier, those credits that used to go back to customers through the gas cost adjustment will now be credited toward the Stranded Cost/Recovery Pool. Choice customers, when

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they move to a marketer, when the program is implemented, will give up those incentive credits just as sales customers did.

Q. Mr. Byars, let me refer you to both the first Request, which is July 2, and the second Commission Request, July 30, both Item 17. The Request was posed as a hypothetical and, based upon that, asked for a definition of competitive marketplace, and I think you indicated that it was necessary - why was it necessary, given the hypothetical, to consult with the Collaborative?

A. I think my Response indicated that today, under the proposed program, the definition of a competitive marketplace really doesn't come into play. Where it would come into play would be if Columbia proposed to exit the merchant function at some time. We haven't made the decision whether we would do that or not, but, at that time, it would certainly be appropriate to have a definition of what a competitive marketplace is in order for the Commission to determine whether or not it was appropriate for Columbia to exit the merchant function. If, prior to us making that application with the Commission or asking the Commission to exit the merchant function, that definition would have to be developed, we would do that in the setting of the

Collaborative just as we did with the design with the rest of the program.

Q. Did you pose that question to the Collaborative?

A. We didn't talk about it because it really didn't have any bearing on the program that's been proposed.

Q. Let me refer you now to the second Data Request, July 30, I believe, and, in Response to Item 1c., since the Choice program would be available to residential, commercial, and industrial customers that meet those eligibility requirements, why did Columbia believe that most issues related to the program would directly affect only residential customers?

A. We established the members of the Collaborative or asked members of the Collaborative to participate in the development of the program based on their interest in previous Columbia cases, and there really wasn't any representative of commercial interest that had spent any time on Columbia cases in the past. We thought the issues between residential and commercial customers were largely the same. So we didn't believe that the commercial customers were really being left out of the equation or the discussions. The industrial customers, rather, we did not believe that the industrial customers really had a - that this proposed program had any bearing on them. We did meet with the group of

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industrial customers or a representative of them prior to making the filing, and they agreed that this was not something that applied to their clients.

Q. That is the reason, really, you didn't invite any to come, because of what you just explained?

A. Yes.

Q. All right. Let me refer you now to the first Data Request, July 2, Item 67,

A. I'm sorry; Item 67?

Q. Item 67, yes, sir, which, I believe, is just about the last one.

A. Yes, sir.

Q. And, in the second Data Request, I believe that would be Item 47. Now, those Responses that were filed refer to developing a program using a collaborative and the consequences of the Commission not approving a program developed by the Collaborative. Item 47 of the second Request, beginning at Line 5 of that Response, could you please read that into the record for us, please, sir, from there to the end?

A. Just that sentence or all the way to the end of the Response?

Q. All the way to the end of the Response.

A. "Columbia followed the direction of the Commission's Order in Administrative Case No. 367 on July 1, 1998

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and developed a program in a collaborative setting where there was 'an effort to reach compromise consistent with the public and utility shareholder interest' as the Order directs on Page 3. Furthermore, the Order states on the same page that this 'will be considered crucial in the Commission's final decision regarding a utility's proposed customer choice program.' Columbia maintains that an alternative plan to the one agreed upon by the Collaborative would contradict the Commission's Order and render all collaborative arrangements in the future useless."

Q. Now, does this mean that Columbia believes the Commission should simply approve any program developed by a collaborative?

A. We took the Commission's Order in Administrative Case 367 very seriously. We tried to follow all the elements that the Commission said to address within that Order. In terms of individual elements of a program, if a company should file one or develop a program, we followed the list of those elements as closely as we could possibly do. We were encouraged by their support of a Customer Choice program concept in general, and we paid attention to the fact that they told us, at that time, to develop this program within a collaborative setting. Within that, we've filed a

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program without any opposition, and we believe we've followed the direction of the Commission's Order in that to the greatest extent possible and don't see any reason for the program to be overhauled in any major way because of those reasons.

Q. But does Columbia believe that, if the Collaborative presents a program, the Commission should automatically approve it just because it was developed?

A. I think certainly that the Commission - I don't mean to imply in any way that this is take it or leave it but simply trying to say that this is a program that has been developed balancing all the interests that the Commission asked to be balanced, and I think we've come up with, as I've said before, a darn good program and one certainly without any opposition but also one that people feel good will succeed, which was really the aim of this developing a program in the first place, and don't see any reason for major overhaul of it.

Q. I was actually looking for a yes or no, but I'm not going to put words in your . . .

COMMISSIONER GILLIS:

Is it possible to answer yes or no?

Q. Is it possible?

A. I've forgotten the question now.

Q. Does Columbia believe that, because this program or any program is developed by a Collaborative, that it should be automatically approved by the Commission?

A. I don't know that I'm ready to make a blanket statement for every case in the world, but, for this case, I don't believe that a major overhaul is appropriate.

Q. As part of that Collaborative, did any of the members have any Financial Adviser employed, or did they submit any financial data to you or to the other members of the Collaborative?

A. Submit financial data to Columbia?

Q. No, to the Collaborative. Did anyone have any Financial Adviser employed to do that?

A. I am under the impression that the AG did; yes.

Q. You think the AG did?

A. Yes.

Q. Anyone other than the AG, to your knowledge?

A. Yes, it was someone other than the AG.

CHAIRWOMAN HELTON:

No. Any other member of the Collaborative.

A. Oh, I'm sorry. I'm sorry.

Q. Other member of the Collaborative.

A. Not to my knowledge.

Q. I believe, in your testimony, you indicated that you had knowledge of eight marketers that may be interested in joining this program. Can you identify those marketers?

A. I can't off the top of my head. We've received phone calls from, actually now - at the time of that writing, it was eight. We've received nine phone calls now. We've received an additional phone call from marketers expressing interest in participating in the program. We know who those are, but I don't have them off the top of my head.

Q. Okay. Can you supply those to us, the names, if you have them?

A. Assuming that the marketer doesn't have a problem with that, . . .

Q. Right.

A. . . . yes.

Q. All right. Thank you. Will Columbia's marketing affiliate be involved in competition with Columbia for customers?

A. Well, number one, we've received a phone call from our marketing affiliate expressing an interest in the program, but we've had no more communication with them than we've had with any other marketer, so we don't know for a fact that they will participate in the program. We've assumed they would. We don't look at Customer Choice, from Columbia of Kentucky's perspective, as competing with marketers at all. We don't make any money today by marking up natural gas costs and, if a marketer can supply gas to our customers less expensively than Columbia of Kentucky can, then that's good for our customers. That's fine.

Q. How does the price, I guess, of gas sold by Columbia Energy Services compare to the price of gas of Columbia of Kentucky?

A. I don't have the expertise, and, beyond that, I think that any marketer would have to price their product based upon the rules or the parameters of an individual Customer Choice program. I'm not sure that any marketer could even give you a flat answer to that question today about what they would without knowing exactly what the program will look like and what market conditions look like. So I'm not sure there's anybody that can answer that question beyond simple speculation.

CHAIRWOMAN HELTON:

Mr. Byars, is there a separate code of conduct for the affiliate that is separate from the marketers?

A. Yes, ma'am.

Q. Does the marketing affiliate of Columbia and the distribution companies operate independently?

A. Yes.

Q. Where are the offices of Columbia Energy Services in relation to the offices of Columbia of Kentucky?

A. Columbia of Kentucky headquarters are in Lexington, Kentucky, and the headquarters of Columbia Energy Services, to my knowledge, are in Herndon, Virginia.

Q. Does Columbia of Kentucky or the Columbia distribution companies have their own gas procurement staff?

A. Yeah, Columbia Gas of Kentucky has their own gas procurement staff that - yes, is the answer to that question.

Q. How do these two organizations, how do they communicate, if they do, and how do they conduct their business in a separate fashion, Columbia and Columbia Energy?

A. Absolutely arm's length transactions or arm's length management, separate management, separate locations. Everything is separate.

Q. You stated that Columbia Energy was in Virginia. Will any of their offices be located in Kentucky?

A. I can't answer that. Again, I don't know what their plans are.

MR. GOFF:

Excuse me just a second.

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EXAMINATION

BY CHAIRWOMAN HELTON:

Q. Mr. Byars, just for the record, this Choice program you've stated was developed as a reaction to the Order in Administrative Case 367; is that correct?

A. I wouldn't say in response to; I would say encouraged by.

Q. So this is a company proposed program? It is not based on a consumer demand for program?

A. It was a company initiative and, in Kentucky, developed largely through seeing the positive experiences of customers in other Columbia jurisdictions, savings on bills and number of customers enrolled in the programs, and we thought that that made sense in Kentucky as well and then were encouraged further by the Order of the Commission in 367.

Q. Okay. And the formation of the Collaborative, you said, was based upon parties that have previously been involved in cases before this Commission?

A. Yes.

Q. But there's no marketer involvement in the Collaborative. There were marketers involved in the Administrative Case 367. Would you explain why there were no marketers invited to be a member of the Collaborative?

A. We purposely did that. When selecting a marketer to help provide input to the development of this program, we purposely avoided our own marketer affiliate, I think for obvious reasons, and avoided marketers that were affiliates of other Kentucky distribution companies and of marketers that had customers - I'm trying to think of the right word - in Kentucky today from the industrial side. We were trying to look for a marketer that was independent and had experience on the retail side and that's why we landed with FSG.

Q. Okay. In the Collaborative, there is no one who actually has ratemaking experience or expertise. Did you give the Collaborative any advice as to the fact that they might want to obtain some services of someone who had some experience with Choice programs and/or ratemaking experiences?

A. Well, the Collaborative members, again, have been involved in our rate cases in years past in other cases that we have had before the Commission. I think they know that, first of all, they were very involved in developing concepts for the program, and we believe that they had every option, if they wanted to, and I believe that one did employ someone with some particular expertise with Customer Choice programs, but they have been involved with other rate case proceedings in the past. So we assumed they either had that expertise or, if they felt they needed to get it, would know where to go get it.

Q. One last question before we go back to Mr. Goff. Of the $32 million stranded costs, the $3 million deadband is about 10 percent of that. How did you come up with a 10 percent figure?

A. It was largely developed because we thought that stranded costs and the revenue opportunities would fall within that range. We discussed a little bit larger, a little bit smaller, and, since we felt we could fall within that $3 million deadband, there seemed no reason to expand the deadband larger. We were concerned, if it were made a little bit smaller, that we would still be stuck with having to employ some kind of a true-up mechanism at the end. So it's simply an educated guess on our part or educated calculation on our part that that deadband would enable us to avoid the true-up mechanism at the end of the program.

Q. And there's no experience from other states' programs that would actually give you factual data to tell you whether it should fall within that 10 percent?

A. Well, since no program has run its course like this one is proposed, no, but our Gas Supply Department has an awful lot of expertise in the development and in the running of Choice programs in the other Columbia jurisdictions and, for that reason, have pretty good knowledge and pretty good history on customer participation, what that does with demand charges and stranded costs, what the resulting effects are with gas cost incentive programs, how that affects the ability to make off-system sales transactions and capacity release transactions. So this is not just a shot in the dark on our part. It was a concept that was developed and then refined through some pretty good information and some experience through our Gas Supply folks.

CHAIRWOMAN HELTON:

Mr. Goff?

CROSS EXAMINATION CONTINUED

BY MR. GOFF:

Q. Mr. Byars, I'll refer you to Page 2 of the application. Actually, the footnote, at Page 2, refers to the registered service mark of Columbia Gas of Ohio and it has been licensed to Columbia Gas of Kentucky. Does Columbia Gas pay a license fee to Columbia of Ohio for use of that mark?

A. We paid a one time fee of a dollar for use of that trademark.

Q. Is there any license agreement for that that would contain any other information as to any other arrangements?

A. I apologize. I don't know the answer to that question.

Q. Okay. Is there a license agreement, to your knowledge?

A. I would assume there would be.

Q. Would you, subject to any objection, provide a copy of that license agreement?

A. Yes.

Q. I now refer you to the July 30 Data Response, Question 7.

A. Question 7?

Q. Question 7. The last sentence of your Response says, "This method," and I believe you're referring to the GCR incentive credits to the Stranded Cost/Recovery Pool, "removes an artificial reduction of Columbia's gas costs against which marketers would have to compete." Is it your opinion that the gas cost incentive plan creates inappropriate price signals when combined with the competitive situation visualized in the Customer Choice program?

A. No.

Q. Could you elaborate on that, why you do not think that it does?

A. I guess I would feel more comfortable - it might be more appropriate, rather, if either - the second

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witness or the third witness might do a little bit better job on that than myself.

Q. All right, sir. Again, referring to that same Response, I guess one sentence up, "Columbia and the Collaborative agree that transferring their credits from the GCR rate to the Stranded Cost/Recovery Pool is the best method because of its transparency to the customer." Can you explain the meaning of that sentence? I realize I've asked you about transparency in the beginning of this but what the Collaborative wants to make transparent. How does it define transparency itself?

A. I don't know that we have an absolute definition of transparency, but I think the best working example is the comparison between kind of overall general methods of stranded cost recovery. There really aren't that many options out there. You either have a surcharge to be employed - and I think I've described the reasons why we all felt it was important to avoid a customer surcharge for the recovery of stranded costs. At that point, you come up with the mechanisms which we have which the customer then doesn't have to have a degree in engineering and gas supply to figure out how to participate and how to benefit from a Customer Choice program. It's very simple. They can make a clear cut comparison between our offer and a marketer's offer and not worry themselves about definitions that are sometimes complicated, about stranded costs, and gas cost incentives, and all those other kinds of things that we're even having some difficulty defining around this table. So we clearly believe that the method employed is the best way for that reason because it enables the program to succeed and that was the aim of the program, the aim of the design of the program.

CHAIRWOMAN HELTON:

When you say the Collaborative discussed surcharge, is the Collaborative provided information about competitive transition charges that are being imposed in electric restructuring markets where the customer chooses to go with a new supplier and has a CTC assigned to the customer?

A. We didn't talk about the electric market at all.

Q. Now, sir, I wish to refer you to the Commission's Data Request of August 27, Item 16, with regard to taxes. The Response indicated that you had requested an opinion from the Kentucky Revenue Cabinet regarding the ability to collect and remit gross receipts and sales taxes from this Choice program. Have you received any response to that request?

A. We have not, sir.

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Q. Okay. Will you share that response with the Commission when you do receive one?

A. I'll be happy to.

Q. Is Columbia, then, intending to continue collecting the currently assessed taxes and fees until this opinion says yes or no?

A. Assuming that the program is implemented prior to getting an opinion from Revenue; is that what you mean?

Q. Yes.

A. I would hope that that would not be the case that we would have to do. I would hope that Revenue could get us an opinion before we had to implement the program.

Q. If you do not, do you intend to continue to collect those taxes?

A. I don't know that I can answer that question. We're very hopeful that, with the time still to receive an Order on the program and time to develop educational materials, and the 60 day education moratorium, that Revenue has more than enough time to supply us with an opinion, and we would certainly hope they would do that before we were forced to make that decision. We don't think that's too much to ask of the Revenue Cabinet.

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EXAMINATION BY COMMISSION

COMMISSIONER GILLIS:

Have you had a meeting with them?

A. Yes, we have.

VICE CHAIRMAN HOLMES:

In your discussion, I guess, with your marketer advising the Collaborative, did the marketer discuss their intent to pay any type of gross receipts or sales taxes or did they expect to be avoided?

A. We didn't discuss it. I don't know if they even looked into that. The discussions we had with the marketer, they were very blunt in saying that they would examine a program on their ability to come in and compete and make money, and we didn't get the impression that savings from taxes was an area where they thought they would make money at some point. So it really wasn't part of the equation that they were taking into consideration when deciding whether to participate in the program or not.

VICE CHAIRMAN HOLMES:

Do you think that would have an effect on participation level if the marketers expected to pay gross receipts or sales tax?

A. I don't believe so. I think that - I mean, customers are paying those taxes and fees today. It would simply be a transfer and they would be paying the same thing under a Choice program. I think it probably comes out as a wash. You know, this is something that we're big supporters of public education, and we're very concerned about this issue, just as the Commission is and just as some members of the staff are as well, and really thought, when we developed the program initially, that the fact that we would continue to do the billing - that was not the only reason that we made a decision to continue doing the billing, but we hoped that would enable us to continue collecting gross receipts and sales taxes, and we're still hopeful that that opinion will hold true, but we just want to get that backed up by the Revenue Cabinet before we actually employ the program.

COMMISSIONER GILLIS:

And, following up on that, I believe in published reports, Amway is one of your marketers in different areas. Do you know what their position is as far as paying taxes in Ohio, for instance?

A. I sure don't. I know very little - I probably know about as much as you do or less about the relationship between Amway and Columbia Energy Services.

CHAIRWOMAN HELTON:

Was there any consideration in developing the tariffs or the code of conduct or any other agreement that you would subsequently sign with marketers to ensuring that they meet the nexus standard for taxation in the State of Kentucky?

A. No, we didn't discuss that. We assumed, or I should say I assumed that they would meet the nexus standard by having to have an office in the state in order to participate in the program, have employees in the state to market to customers.

CHAIRWOMAN HELTON:

But there's nothing in the agreements that says they have to have an office in the State of Kentucky?

A. That's right.

COMMISSIONER GILLIS:

But it's possible, if you're the billing agent in Kentucky, that you would assume that nexus for them?

A. I can't answer that question. I don't know for sure. That's an interesting question.

CHAIRWOMAN HELTON:

Mr. Goff?

CROSS EXAMINATION CONTINUED

BY MR. GOFF:

Q. Mr. Byars, the first Data Request of July 2, Item 61, and that is a reference to the CAP plan, in your Response to Part (b), are you referring to benefits to the CAP participants collectively because more customers will participate if gas costs are lowered?

A. Yes.

Q. Okay. I'm sorry, but I'll ask you to refer now to the application on Page 10. It's a continuation from Page 9 concerning the CAP program. Is it correct that the statement at the top of Page 10 of the application does not mean that the current CAP participants will benefit from the Customer Choice program since their payments are unaffected by gas cost, weather, or other factors that impact the amount of their bills?

A. No, that's not true. CAP customers' payments are affected by the cost of gas, and, if those CAP customers can be aggregated and they can see a decrease in their cost of gas and, as a result, their cost of their bill, their bills will be lowered, they'll benefit from the Customer Choice program.

MR. GOFF:

Excuse me just a second. I'm sorry.

Q. Let me refer you to the first Request of July 2, Item 64, which relates to the three year pilot for the CAP plan and the results of the third-party evaluator's report. Part (a) of the Request and Part (a) of the Response, the initial pilot program was for three years. The Commission then allowed a one year extension to give Columbia and the Collaborative time to conduct a review of the three years. Now, it is requested that it continue for five more years. That's going to make it a total of nine now. While you're not proposing a permanent program, couldn't this program with, you know, this nine year lifetime almost be considered permanent?

A. I think, since we will still be submitting reports to the Commission for their review and there's no expansion of the program, that that would not constitute a permanent program.

CHAIRWOMAN HELTON:

There's no proposal to create a tariff for this particular class of customers; correct, which would, in essence, create it as a separate class?

A. I'm trying to remember how they are. That's correct.

Q. Mr. Byars, let me refer you back to a question I asked you just a moment ago about the CAP participants and how they will benefit from the Customer Choice program or whether they will benefit since the required payments are unaffected by the gas cost, the weather, or other impacts. Since the CAP customers pay a percentage of their income regardless of the level of the bills and the cost of gas, how do they benefit from this Choice program?

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A. I may have misunderstood your previous question. I apologize. The CAP customers, as we said before, the Community Action Council will aggregate those customers. Those customers will then, supposedly, see, hopefully see, a reduction in gas costs in order to serve those customers. Possibly more customers can be served and that will ultimately benefit the CAP customers as that will help ensure the ongoing life of the program at least through the term indicated.

Q. Let me refer you back, now, to Part (b) of that Request and Part (b) of your Response. It's Question 64, I believe, and I would ask you also to look at the second Request dated July 30, which would be Item 44, Question 44. Is it correct, using either the annual amounts of program costs and benefits to nonparticipants or the three year totals, that the result based on the numbers in the third-party evaluator's report is a cost-to-benefit ratio in excess of twelve to one?

A. Could you point me to those numbers again within the question?

Q. It would be Question 44; okay?

A. I'm with you.

Q. The estimated total annual benefits to nonparticipants is $26,419?

A. Yes, sir.

Q. Roughly $80,000 in benefits over a period of three years. In the same paragraph on Page 14 of the report, the third-party evaluator states that costs of the CAP program for the third year was $332,707 and that the three year pilot cost of the program was $972,515 and the amount charged to the nonparticipants was $452,851. Based on this analysis, the program benefits do not outweigh the program costs. Would it be twelve to one?
A. We take the approach with regard to the customer assistance program that part of the inherent value of the program is the fact that you're helping to change behavior. You're helping to teach people to learn how to pay their gas bill, be responsible for that payment, and, as they have an opportunity to transition into the work force or get a job that will pay for all of their bills a little bit better, transition out of the program, and we think the program is being successful in achieving those goals.
Q. In the Response, you indicate that Columbia believes that modifications to the program along with their participation in the Customer Choice program will help close the gap between the program's costs and benefits. Has any analysis been performed to support that?
A. The Collaborative has met a couple of times since we have filed the application, and we have looked at

various modifications that can be done to run the program more efficiently and serve more participants but do a cost benefit analysis, at the same time, to make sure that the costs to implement the changes don't outweigh the actual benefits. Quite frankly, we're still working on those and don't have a final document in hand that will show exactly what those modifications would be.

Q. The CAP plan was introduced as part of the settlement in the 94-179 case. Do you have any knowledge of whether Columbia or any party had any analysis to evaluate the potential costs and benefits of the program at that time?

A. I'm not aware. I'm sorry. I don't know. I'm not qualified to answer that.

Q. Now, in reference to the third-party evaluator's report reflecting these results of the three year pilot, under the program's annual budget with the proposed modifications and the implementation of the Customer Choice program, would it be realistic to anticipate an increase of 50 percent of the number of participants?

A. I don't know that I could flat out say what a real number would be. I apologize.

Q. If the number of participants were, say, doubled, would you expect lower participant costs?

A. Lower per unit participant costs?
Q. Yes.
A. Yes.
Q. And would that still have the same approximate level of annual cost for the program of $350,000?
A. We've not proposed to modify the financial part or the funding mechanism for the program at all; simply a continuation of the CAP program as it exists today with some efforts with the Collaborative to make the program more efficient and try to get some benefit out of the Customer Choice program itself.
CHAIRWOMAN HELTON:
Mr. Byars, there's about four hundred and eighty some participants currently in the CAP program?
A. Ball park.
CHAIRWOMAN HELTON:
And, in the aggregation tariff, marketers are limited to serving 100 customers or 25,000 Mcf, any combination that gets to 25,000 Mcf, and then they have to go to a new aggregation pool. What was the rationale for allowing the CAP program to serve all the participants and limiting marketers to 100 or even one customer that reaches 25,000 Mcf?
A. I think that's a minimum if I'm not mistaken; not a

maximum.

CHAIRWOMAN HELTON:

Right. Yeah.

A. I'm not sure I understand your question. I'm sorry.

CHAIRWOMAN HELTON:

Well, you can have 100 customers as long as that pool reaches or is up to 25,000 Mcf. Then they would have to go with the next rate. They would have to go to a different customer class; correct, different tariff service?

A. I apologize. I'm going to have to refer that question to the next witness.

CHAIRWOMAN HELTON:

Okay. I'll ask Ms. Cooper. Okay.

A. Sorry.

Q. If you were able to double the benefits to the non-participants, your result would be maybe six to one rather than twelve to one, as we discussed earlier. Does that close the gap enough, in your terms or your belief, to justify continuing the program?

A. Absolutely. We think the program is a good program today.

MR. GOFF:

Thank you, Mr. Byars. I have no further questions.

CHAIRWOMAN HELTON:

Commissioner Holmes? Commissioner Gillis? You may be excused, and we will . . .

MR. TAYLOR:

We may have some redirect.

CHAIRWOMAN HELTON:

Oh, I'm sorry.

MR. TAYLOR:

We'll do it after lunch if you would like.

CHAIRWOMAN HELTON:

Is it short?

MS. KONCELIK:

It's very short.

CHAIRWOMAN HELTON:

Okay.

MS. KONCELIK:

Yes.

REDIRECT EXAMINATION

BY MS. KONCELIK:

Q. Mr. Byars, there have been some questions, I believe, from Commissioner Gillis regarding customer confusion and savings levels, lack of savings. Do you have any knowledge of experience in other Columbia jurisdictions regarding how many customers switched to alternate suppliers?

A. As I said before, in response to the Chair's question, we were encouraged by the Commission's Order to proceed with a Customer Choice program in Kentucky, but the main reason that we decided to develop a program for Kentucky customers was based on the experience of the benefits they've seen from these programs in other Columbia jurisdictions. Ohio, for instance, has large numbers of participation, upwards of 36 or 37 percent, that have seen customer savings on their gas bills, from a residential standpoint, of close to 10 percent and on a commercial side of upwards of 12 percent, and we were encouraged as well by the results of those programs.

Q. Another question, I think, following up on Commissioner Gillis' earlier question, are you aware if slamming or spamming, as he said, has been a problem in other Columbia Choice programs?

A. We're not aware that that has been a problem. The safeguards that we have employed in the Kentucky program are based on the safeguards that were employed in other jurisdictions, and they were not experiencing those kinds of problems. We hope that the safeguards will work the same way in Kentucky.

MS. KONCELIK:

That's all I have, Madam Chairman. Staff has not moved for the admission of Exhibit Nos. 1 and 2, but Columbia would like to address those at the time that they do move for their admission.

MR. GOFF:

I'm sorry, Your Honor.

CHAIRWOMAN HELTON:

She's calling your attention to the fact that you did not move for admission of Exhibits 1 and 2, and they have some comments when you do so.

MR. GOFF:

Oh! I so move.

CHAIRWOMAN HELTON:

I ordered them entered when he . . .

MS. KONCELIK:

Oh! I thought they had only been marked for identification.

MR. TAYLOR:

That's what I thought, too.

CHAIRWOMAN HELTON:

He marked them for identification, but then I entered them into the record.

MR. TAYLOR:

I would like for the Commission, if you would, especially in Staff Handout No. 2, to note, of the five utilities, that two of those, Delta and

Western, have rate cases pending before this Commission.

CHAIRWOMAN HELTON:

So noted. Mr. Goff, do you have any recross?

MR. GOFF:

No, ma'am.

CHAIRWOMAN HELTON:

Okay.

MR. GOFF:

Nothing further.

CHAIRWOMAN HELTON:

You may be excused, and we'll take our lunch break and come back at 1:30.

MR. TAYLOR:

Okay.

OFF THE RECORD

CHAIRWOMAN HELTON:

Mr. Taylor, are you going to call your next witness or is Mr. Seiple?

MR. TAYLOR:

I can start, I think.

CHAIRWOMAN HELTON:

Sure.

MR. TAYLOR:

We'll call as our next witness, Judy Cooper.

WITNESS SWORN

The witness, JUDY COOPER, after having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. TAYLOR:

Q. Ms. Cooper, will you tell us who you're employed by and what position you occupy in the company?

A. Columbia Gas of Kentucky. I'm the Manager of Regulatory Services.

Q. And have you prefiled testimony in the case that's before the Commission today?

A. I am adopting the testimony of Kimra Cole.

Q. All right. And have you read that testimony?

A. Yes, I have.

Q. You've read the questions and the answers, and, if you were asked those questions, would your answers be the same as Ms. Cole responded?

A. Yes.

Q. Are there any additions, deletions, or corrections to your testimony?

A. No.

MR. TAYLOR:

She's submitted for cross examination.

CHAIRWOMAN HELTON:

Thank you.

MR. TAYLOR:

We've already given them the prefiled testimony and if you could mark that and we could move that it be filed.

CHAIRWOMAN HELTON:

So ordered.

COLUMBIA GAS EXHIBIT 3

CHAIRWOMAN HELTON:

Mr. Goff?

CROSS EXAMINATION

BY MR. GOFF:

Q. Ms. Cooper, I would refer you to the August 27 filing of Data Requests, Question No. 4. It says in the Response that Columbia does not anticipate demand charges decreasing as customers migrate to alternate suppliers, but Line 3A of the Financial Model shows demand with choices being lower. Mr. Phelps' testimony - are you aware of Mr. Phelps' testimony also?

A. Yes.

Q. It discusses the cancellation of upstream capacity contracts due to customer migration. Can you reconcile the seemingly inconsistencies in those statements?

A. The migration of the customers themselves does not allow the contracts to be reduced. The contracts that are on Line 3A, those are reflective of contracts that

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would naturally terminate and, if the Choice participation has increased to the point that Columbia can feel comfortable in assuring the reliability of the remaining customers and allow those contracts to naturally expire, then those contracts would be allowed to naturally expire, but, as customers migrate or make a Choice selection, we cannot reduce the contracts.

Q. I refer you to the Data Request and the Response of July 2, Question 14. The Response indicates that the capacity release benchmark in the gas cost incentive plan should be fixed through October 31, 2004. It was testified that the Collaborative believed the reestablishing the benchmark would inappropriately mix capacity previously available to be released with capacity that becomes available due to Choice. Is there some way that the effect of inappropriately mixing these volumes could be avoided other than freezing the benchmark?

A. Could you repeat that one more time, please?

Q. All right. The Response indicates that the capacity release benchmark in the gas cost incentive plan should be fixed through October 31 of 2004. Your testimony indicates that the Collaborative believed the reestablishing the benchmark would inappropriately mix capacity previously available to be released with

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capacity that becomes available due to Choice. Is there some other way that the effect of this inappropriate mixing of these volumes could be avoided other than freezing the benchmark?

A. I don't know of any other way.

Q. Freezing the benchmark would be the only way that that could be done?

A. The purpose of freezing the benchmark was that the capacity that's available to be released historically while Columbia maintains the merchant function for 100 percent of customers that is a relatively set amount of capacity. As customers migrate to Choice, then there are incremental amounts of capacity that we can release at that point in time, but, as long as we had 100 percent responsibility for the customers, we could not release that capacity. So there's a definite amount of capacity that's available for release now. As Choice is put forth and goes forward, there will be additional capacity that will be available to be released, but, if it were not for Choice, that capacity could not be released.

Q. Could the benchmark be reestablished by isolating and subtracting out capacity that becomes available due to the Choice program?

A. I might should defer the particulars to this to Mr.

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Phelps, but the capacity is not earmarked so that you can say, "This amount is exactly because of Choice, and this amount is because the weather is warm, and we don't need it at this particular time." You can't put a tag on the capacity. Therefore, we thought the benchmark was the way to establish what historically Columbia has been able to achieve based on the resources that were available to be used absent Choice versus what we might be able to release after Choice is put in place.

Q. The 35 cent balancing charge to be charged to marketers represents Columbia's cost to provide balancing based on pipeline storage charges; is that basically correct?

A. Basically.

Q. All right. So, ordinarily, the costs which this charge represents would be collected through the GCA mechanism; is that correct?

A. Yes.

Q. And, under ordinary circumstances, again, if Columbia were not proposing to use the revenues from this charge as a revenue opportunity, the revenues would flow through the GCA as an offset to gas cost; is that correct?

A. Well, right now there's not a balancing charge.

Q. Okay. If you were not proposing to use the revenues from this charge, the revenues would flow through the GCA as an offset to gas cost; is that . . .

A. I'm sorry.

Q. That's the question.

A. You lost me.

Q. Okay. If Columbia were not proposing to use the revenues from this charge, the balancing charge, as a revenue opportunity, those revenues would flow through the GCA as an offset to gas cost; is that correct?

A. If we were not proposing to use the revenues as a revenue opportunity for Choice, I presume that we would not be in here proposing a 35 cent balancing charge, because there would be no purpose in that. We're already recovering the charges for balancing through our GCR.

Q. Okay.

A. I might add that the 35 cents, that that is to ensure that the Choice customers pay that balancing charge. It is an offset to the stranded costs to the demand charges that are being paid by the remaining customers to make sure that it's recovered one time and that the Choice customers pay part for the balancing and the sales customers pay for balancing. It's not being recovered twice because an amount is set forth in the stranded costs but then the balancing charge pays that back to the remaining customers so that they are, in essence, made whole.

Q. Then they were removed from the EGC and reflected in the stranded costs; is that what you were saying?

A. Yes. Uh-huh.

Q. Yes. Okay. They're not recovered twice?

A. No.

Q. I believe the tariff filing referring to the proposed tariff - and I believe that is (c), Sheet 58 . . .

A. Sheet 58?

Q. Yes, ma'am.

A. Okay.

Q. Listed Stranded Cost/Recovery Pool. Staff could not find where Columbia's proposed tariff - apparently, it does not list the revenues from the proposed 5 cent marketer contribution as part of the Stranded Cost/Recovery Pool. Is that intentionally not included or is that left out?

A. It is to be included in the Financial Model under Tab A, 5(f), the marketer contribution. It is to be included in the Stranded Cost/Recovery Pool.

VICE CHAIRMAN HOLMES:

So 5(f) is the marketer's contribution and that would be the 5 cents?

A. That's the five cents, yes, and that addition should be made probably on Sheet 59. All of the items under the revenue opportunities in the Financial Model under Tab A should also be reflected in the narrative given on Sheets 58 and 59 of the tariff. The addition on Sheet 59 is Item 10, which no amounts are shown under the Financial Model for Item 10.

Q. I'm sorry. I'm a little confused here. That's not a penalty, is it, the 5 cents, . . .

A. No.

Q. . . . under No. 10?

A. No. That's what I'm saying. It should be added. There should be, . . .

Q. Oh, okay.

A. . . . like, a 9(a) or 11 or something.

Q. All right.

A. That looks like an omission on the tariff.

Q. Okay.

A. It is separate and apart from the penalty. It is not a penalty.

Q. All right.

A. No.

Q. I refer you to the Data Request of July 30, No. 34, the last line of the Response, "If taking advantage of this opportunity includes becoming a utility, that may eliminate the enthusiasm for participation by

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marketers." Do you agree with that statement?

A. This question asks about the regulatory requirements of new market entrants. We interpreted that to mean the marketers and this was one of the goals of the program, that, for the marketers to have the most access to our customers, we wanted to make it as easy as possible, still for them to recognize their obligations and responsibilities, but we wanted them to find Kentucky an attractive market, and the consensus of the Collaborative was that, for a marketer to potentially become a utility, they would not find Kentucky an attractive market.

Q. Do you believe that the marketers will not participate in the proposed program if they are required to file any information with the Commission?

A. For me to say exactly what the marketers might do would be a guess, but I think that marketers want as much independence - the more independence they have, the greater likelihood of their finding Kentucky an attractive market. Columbia is still going to be responsible for the supplier of last resort in making sure that our customers receive gas supply if a marketer has some kind of a problem and Columbia is still going to be out there and is still responsible for those customers. So, you know, where the dividing

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line is, I don't know exactly, but the Collaborative decided that, for Columbia, since we are still responsible for those customers, that, you know, for us to certify the marketers, that that would be an appropriate sharing of the responsibility and making sure that Kentucky was an attractive market to the marketers.

Q. Ms. Cooper, you're aware that the Commission exercised some limited jurisdiction over telecommunications resalers; are you not?

A. Yes.

Q. Would you believe that a similar oversight would be needed in this natural gas market over these marketers?

A. I think it's a very different market. I mean, the telecommunications market is one where the whole state is out there and available to the market to the resalers. You know, they're coming in and looking at the whole state as a potential market. Here, we're looking at only the customers of Columbia of Kentucky, a relatively small market compared to the state as a whole. There are some marketers that are already providing service to our customers and providing gas supply. They have done that without being required to file anything with the Commission for the roughly 20 years that they have been in existence. So I think

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there are two separate markets and two separate industries.

Q. What about, in line with telecommunications resalers, filing annual gross receipts reports and therefore paying the Public Service Commission assessments? Do you have any comment on that? Do you think that that would be an appropriate regulation of these marketers?

A. Well, I say again, that, in forming this application and the Collaborative sitting down and putting all of the elements together, you know, we discussed the potential for a marketer to be subject to the Commission's regulation in filing some kind of reports, but the overriding concern was that we make it a successful program and that, to ensure the marketers their desire to come here, that that's another step that might be the straw to break the camel's back for a marketer.

EXAMINATION BY COMMISSION

VICE CHAIRMAN HOLMES:

But, if a consumer has, say, a problem or a complaint with the marketer, who do they go to?

A. At this point, depending on the nature of the problem, the Commission's complaint proceedings would still be open by virtue of the fact that the marketer is going to be bound by the operating guidelines in our tariff,

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and, if the customer has a problem with something that is going on with the marketer and it is within the boundaries of our tariff, then I would think that a customer could complain to the marketer. They would first come to Columbia, and, if that is still not a remedy for them, the Commission's complaint procedure would still be open to that customer by virtue of coming through Columbia. They could also go to the Attorney General's Office or, you know, depending on what the nature of the complaint was, you know, if it was a - I don't know. Depending on what the nature of the complaint was, I guess the Attorney General's Office might be another avenue for them.

VICE CHAIRMAN HOLMES:

Do you envision, then, the consumer giving up this right to come to the Commission if the marketers aren't on file so that we would know who the marketers are in Kentucky?

A. No, because Columbia will report to you, to the Commission, who the marketers are, make available their address, telephone number, and a contact person for complaints. So you will have that information. You just won't be getting it from the marketer directly. It will come to you via Columbia.

COMMISSIONER GILLIS:

But the Commission will have no recourse to the marketers, as I understand it. Are you saying that Columbia will assume some responsibility for those marketers that perhaps might be bad actors that would be subject to fines in cases if they were subject to Commission regulation?

A. Well, if the marketer is not abiding by the standards of conduct that are set forth in our tariff and which they sign as part of their Aggregation Agreement, then I would think that the remedies that are available for their failure to comply with those requirements can go so far as being kicked out of the program and that is what is set forth.

COMMISSIONER GILLIS:

And that would have to be done by you?

A. Yes.

VICE CHAIRMAN HOLMES:

Not by the Commission.

COMMISSIONER GILLIS:

Not by the Commission.

A. Correct, but . . .

CHAIRWOMAN HELTON:

They're not subject to fines and violations by this Commission.

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A. Correct. An avenue which the Collaborative did explore and is willing to explore further is - I think Mr. Byars mentioned it in his testimony - the possibility of using an arbitrator, a third party, such as the Better Business Bureau was a name that came up if there were some kind of a dispute. That is another avenue that might be open, but, I guess, depending on the nature of what the problem might be with the marketer, the recourse is through Columbia, and, depending on the magnitude of the problem, the ultimate penalty is being kicked out of the program.

COMMISSIONER GILLIS:

So, I guess, if there were a complaint, it would be up to Columbia to respond and address the complaint and, if not, then Columbia would be subject to fines in that case, in that hypothetical.

A. Well, that's kind of hard for me to say. You know, I . . .

CHAIRWOMAN HELTON:

Well, it's your tariff that's on file.

A. That's right.

CHAIRWOMAN HELTON:

Therefore, . . .

MR. TAYLOR:

And you're asking for legal conclusions, I believe, also, from this witness who's not a lawyer.

COMMISSIONER GILLIS:

That's a good point.

CHAIRWOMAN HELTON:

That's true, but surely the Collaborative discussed some of these things; did they not?

A. Not in this kind of detail. You know, we discussed the dispute process and, if a customer had a complaint, that they would go to the marketer first, and then it could come through Columbia and go to the Commission, but, beyond that, not in any further detail.

COMMISSIONER GILLIS:

Did your legal counsel discuss any of this with you, or have you asked this of them?

A. There were attorneys in the room as part of the Collaborative discussions. So their input is reflected in the filing.

COMMISSIONER GILLIS:

I was just responding to your counsel. He said it is a legal conclusion. I agree, but I wondered if you had addressed it with them; that's all.

MR. TAYLOR:

Commissioner Gillis, I wasn't there.

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CHAIRWOMAN HELTON:

Well, could I ask it from another standpoint? If this program is approved and when you're developing your educational materials, surely there's going to be some reference in those educational materials as to where customers go if they have a problem. Now, traditionally, in this state, customers either go - for a utility complaint or some sort of consumer protection measure, they go to the Public Service Commission or to the Attorney General's Office. Are you telling us now that you're going to suggest that they go to a different party, like the Better Business Bureau? Are they going to know where the process goes? If they know that they can complain to the marketer and then they could complain to Columbia Gas, in the regulated environment and monopoly environment where they don't have Choice, they know where they go. So how is that going to be addressed in your educational materials, and isn't it confusing if you also introduce a third party into this process now?

A. I think that's an element that still needs to be refined because, before the customer education materials are printed and the information is disseminated, that has to be finalized so that customers do know where to go, because we do not want

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to confuse our customers either. We want to make this simple.

CROSS EXAMINATION CONTINUED

BY MR. GOFF:

Q. Ms. Cooper, I had asked Mr. Byars previously a question about the July 30 Data Request, Question 7.

MR. TAYLOR:

I'm sorry; July 30, what number?

MR. GOFF:

Question 7.

MR. TAYLOR:

Thank you.

Q. In the last sentence of that Response, "This method of transferring those incentive credits to the cost recovery pool removes an artificial reduction to Columbia's gas costs against which marketers would have to compete," are you able to respond to that?

A. Mr. Phelps is the appropriate witness.

Q. All right. I'll save that one for him.

A. Okay.

MR. GOFF:

Thank you, Ms. Cooper. That's all the questions I have.

CHAIRWOMAN HELTON:

Redirect?

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MR. TAYLOR:

No.

CHAIRWOMAN HELTON:

Okay. Commissioner Holmes?

VICE CHAIRMAN HOLMES:

No.

CHAIRWOMAN HELTON:

Commissioner Gillis?

COMMISSIONER GILLIS:

No.

CHAIRWOMAN HELTON:

You may be excused.

A. Thank you.

CHAIRWOMAN HELTON:

Call your next witness.

MS. KONCELIK:

Columbia calls Mr. Scott Phelps.

WITNESS SWORN

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The witness, SCOTT D. PHELPS, after having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MS. KONCELIK:

Q. Mr. Phelps, can you spell your last name for the record?

A. P-h-e-l-p-s.

Q. By whom are you employed and in what position?

A. By Columbia Gas of Kentucky. I'm the Director of Gas Procurement.

Q. Did you prepare testimony that was prefiled in this docket on July 16, 1999?

A. Yes, I did.

Q. And do you have a copy of that testimony with you today?

A. I do.

MS. KONCELIK:

I would ask that it be marked for identification as Exhibit No. 4.

Q. Do you have any corrections or revisions to your testimony?

A. No, I don't.

Q. And, if I were to ask you the same questions today that are contained in that testimony, would you answers be the same?

A. Yes, they would.

MS. KONCELIK:

I move for the admission of Exhibit No. 4, subject to cross examination by the other parties.

CHAIRWOMAN HELTON:

So ordered.

COLUMBIA GAS EXHIBIT 4

CHAIRWOMAN HELTON:

Mr. Goff?

CROSS EXAMINATION

BY MR. GOFF:

Q. Mr. Phelps, I refer you to the Financial Model of the application, I believe Attachment A.

A. I have it.

Q. All right, sir, Line 4A. Does the stranded GCR demand cost projected on Line 4A assume mandatory capacity assignment at some point?

A. No, I don't believe it does.

Q. If there is mandatory assignment through Columbia's proposed Phase II, then would those stranded costs be less?

A. Less than what's presented here?

Q. Yes.

A. Mathematically, it would; yes.

Q. On Line 3A, . . .

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A. Uh-huh.

Q. . . . GCR demand with Choice appears to staff to show that Columbia expects demand costs to be lower with Choice than without Choice; is that correct?

A. Line 3A shows the result of a few contract cancellations that could be expected to occur if Choice rolls out as the model shows and . . .

Q. All right. Then it assumes that - I'm sorry.

A. That's okay.

Q. Then it assumes that some contracts will have been canceled but still divides the remaining contract demand cost by total volumes for all customers eligible for the small volume transportation program service?

A. If you would just give me a minute, I want to get back to . . .

Q. Okay. Sure.

A. This can be complicated. Right, the denominator hasn't changed. It's still the total volume of the customers that could choose if they wanted to, that class.

Q. All right. Is it your understanding, then, that, in the GCR calculations of expected gas costs, EGC demand will be calculated using the methodology in Line 3 as though all contracts are still in place?

A. That's my understanding; yes.

Q. And, in that way, the revenue stream for Line 5C would

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be created?
A. Yes.
Q. Now, Line 4D identifies lost standby revenues as stranded costs; is that . . .
A. That's correct.
Q. That's correct. Currently, aren't these revenues flowing through the GCR to offset costs associated with providing standby service?
A. We have to retain assets to provide the standby service. Those customers are billed those costs.
Q. Okay.
A. That's all part of the GCR mechanism.
Q. But the revenues, don't they flow through the GCR to offset these costs?
A. The revenues come into the GCR; yes.
Q. All right. All right. And these costs are recovered through the GCR. I think that's what you said.
A. The costs are recovered through the standby charge.
Q. All right. Is Columbia proposing to remove these costs from the GCR so that sales customers are not paying for this cost that Columbia is proposing to include in the stranded costs?
A. No. We expect - I'm not sure I followed your question, but . . .
Q. Okay.

A. . . . what we expect is the standby revenues to, as a result of more choice for certain of these customers, that they will make different choices than they have made in the past because of their new Customer Choice or small volume opportunity here, a choice of service. They can continue to remain on standby if they would like to. If they go to the new program, they would come off of standby charges, and this is our forecast of which of those customers will make that new choice based on their economics.

Q. When they make that choice, do these associated costs go to the stranded cost?

A. The standby revenues that they would no longer pay would be added into the stranded costs. The costs that they begin to pay under the new program would then also go on to the page lower down as a revenue opportunity, because they will pick up costs whichever way they go.

Q. What about the demand costs associated with the capacity? What will happen to it?

A. The demand costs associated with the capacity, in this example, is the $85,000 a year in the model that you are referring to on Line 4D. I mean, just to use a number . . .

Q. Okay.

A. Those costs, as I stated a minute ago, are part of stranded costs.

Q. Okay.

A. That's where they go, under this proposal.

Q. Mr. Phelps, I refer you to your direct testimony.

A. Uh-huh.

Q. I believe on Page 5, sir. I believe you testified that, to calculate GCR demand stranded costs, you multiply the small volume transportation volumes from Line 1 by the value in 3A. Is that basically correct?

A. Yes.

Q. Now, on Page 58 of Columbia's tariff, it's stated that stranded GCR demand costs will be determined by multiplying the expected demand gas cost component of Columbia's GCA times the volumes delivered under the Rate Schedule SVG-TS. Is there or is there not a conflict here between those two?

A. Are you in Attachment C, Page 58 of the tariffs? Is that where you're looking?

Q. Yes, sir.

A. Could you point, again, where on Page 58 you're reading that?

Q. It would be under No. 1, GCR demand. Would it be Columbia's proposal, then, for the demand component of the EGC to be calculated using the methodology in Line 3? I'm bouncing you around there a little bit, but

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Line 3 would be of the Financial Model.

A. My testimony is that the Line 1 multiplied by Line 3A, we multiplied by the lower volume to reflect the actual stranded costs of those customers leaving. I'm not sure right now, in reading the first line, how to interpret that. I would refer it back to Judy because she was the tariff witness, but I'm not sure if I'm that familiar with this Page 58 to answer your question.

Q. Okay. I take it what you're saying is that your direct testimony is what you believe that to represent to the Commission?

A. Yes.

Q. If there is an inconsistency in there from whatever purpose, would you please inform the Commission of which one or if there is an error in either?

A. Certainly.

Q. I don't know if it would be better to put that in writing or - we'll do that. We'll put the question in writing and then . . .

A. Yeah, we would appreciate that.

Q. Mr. Phelps, I asked Mr. Byars a question, and he demurred, and asked Ms. Cooper, and she passed it off to you. So I'll ask you and see if you can answer it, sir.

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A. Okay. Which one is this?
Q. Refer to the Data Request dated July 30, Question 7. The last sentence states that "This method," and that refers to those incentive credits to the recovery pool, "removes an artificial reduction to Columbia's gas costs against which marketers would have to compete." Are you able to address that question or that statement?
A. I can address it.
Q. Give it a try?
A. Yeah.
Q. All right. Is it your opinion, then, that the gas cost incentive plan creates inappropriate price signals when combined with the competitive situation visualized in the Customer Choice program?
A. I really don't know what an appropriate or an inappropriate price signal might be in this context. I know that the Collaborative and Columbia Gas wanted to put together a program that worked for the different parties and that's a difficult thing to do. The statement that any of these costs to marketers have an impact in the attractiveness of Kentucky's program is where I would go to answer that question. Now, whether that's this particular revenue or cost or any of the others, it's the same thinking that went into why

capacity is just not mandatorily assigned because we've seen programs like that fail. So I think the statement was meant to go to that. Whether it's an artificial reduction or not, I can't address. I didn't write this, but I think that it's an added benefit to really the important parts of the Response which probably came up above that last statement.

MR. GOFF:

Excuse me just a moment.

OFF THE RECORD

MR. GOFF:

I have no further questions of this witness.

CHAIRWOMAN HELTON:

Commissioner Holmes? Commissioner Gillis? Redirect?

MS. KONCELIK:

No.

CHAIRWOMAN HELTON:

Okay. You may be dismissed. Mr. Martin, call your witness.

MR. MARTIN:

Yes. I'll call Mr. Jack Burch to the stand.

WITNESS SWORN

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CHAIRWOMAN HELTON:

Mr. Martin?

The witness, JACK BURCH, after having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. MARTIN:

Q. Would you state your name and occupation for the record, please?

A. Jack Burch. I'm the Executive Director of the Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties.

Q. Mr. Burch, did you cause to be filed in this case prefiled testimony?

A. Yes, I did.

Q. And do you have any additions or corrections to that testimony to make at this time?

A. No, I don't.

Q. If I asked you the same questions that are contained therein, would your answers be the same today?

A. Yes, they would.

MR. MARTIN:

Your Honor, I would move the admission of Mr. Burch's prefiled testimony into the record, and he's available for examination.

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CHAIRWOMAN HELTON:
So ordered. Mr. Goff?
MR. GOFF:
I have no questions of the witness.
CHAIRWOMAN HELTON:
Commissioner Holmes?
VICE CHAIRMAN HOLMES:
Yeah, I just have a clarification.

EXAMINATION BY COMMISSION

VICE CHAIRMAN HOLMES:
Now, you represent the Counties of, what, Fayette, Bourbon, and Harrison?
A. Fayette, Bourbon, Harrison, and Nicholas as a Community Action Agency. We have an affiliate corporation called the WinterCare Energy Fund which, in collaboration with other Community Action Agencies, covers the balance of Columbia Gas' territory. I'm the President/CEO of the WinterCare Energy Fund as well as Executive Director of the Community Action Council.
VICE CHAIRMAN HOLMES:
Oh! That was my next question. What about those counties that Columbia serves that you don't represent with Community Action? Would they be represented?
A. Yeah, under the current CAP program, those counties are now being served through subcontracts to Big Sandy

Community Action Agency and what's called the Kentucky River Foothills Development Council.

COMMISSIONER GILLIS:

You have approximately 480 families or participants in this program; is that correct?

A. That has been the approximate number.

COMMISSIONER GILLIS:

What's the total number possible, the total number that could be?

A. Under the current program design for the initial pilot, it's 500, but we think there's some elements that can be introduced that can expand those numbers within the costs. We are examining and have done some preliminary analysis, but haven't completed it, of increasing the percentage of income that a household pays. We initially were very cautious for the lowest income levels and recommended 5 percent. Members of my staff have recommended but I have not yet made a final decision but what they recommend to the company is that they think we can go to 6 percent. That would produce about a 20 percent increase. We believe, by aggregating these customers and the Council negotiating with marketers for a group of people, we'll be able to cut a pretty good deal, because the company will be willing to buy the receivables. That will generate savings which all of them permit an expansion of the number of customers who can participate in the CAP program, too.

COMMISSIONER GILLIS:

So 500 initial customers at, let's say, four members per household, so 2,000 total people who will benefit from this program. Is the income very, very small, or what is the income limit?

A. The design was to bring income up to the same level as the Low Income Home Energy Assistance Program, but, when we introduced this model, we ran into some resistance from staff in my organization, who interact with these households, if we use the mathematical model, you know, just random selection. "You get to be in control. You get to be in . . ." So we opened it up a little bit, and what we ended up doing was pulling actually the households with the very worst incomes and the very worst payment history into the group that's participating and somewhat distorted, then, the ability to compare the control to the participating group. As a deliverer of social services, I'm glad we did that. As someone who tries to do research, I wish we hadn't done it quite that way.

VICE CHAIRMAN HOLMES:

You talked about or alluded to the fact that you think by aggregating that there will be some savings. Do you have any information on what percent of savings that tend to result by aggregating?

A. I do not. I have today, for the first time, just been able to talk informally to a marketer, and I believe this would appeal to a marketer because it reduces their costs if they can negotiate for a block of customers, but I don't have any numbers at this point.

VICE CHAIRMAN HOLMES:

Well, I guess, during the Collaborative process, then, what led you to think that there would be savings?

A. I came to the conclusion that we can get savings by aggregating based on research by the National Consumer Law Center and some of the work that they've done examining similar models in other parts of the country.

VICE CHAIRMAN HOLMES:

But did they provide any type of percentage of the savings they produced?

A. There were percentages provided for specific programs in specific states, you know. Then there's enough variance between those programs with each other and this one that, you know, I haven't come to any conclusions other than everybody seemed to be producing some kind of savings.

VICE CHAIRMAN HOLMES:

Okay. So that would be the factual basis, then?

A. Uh-huh.

COMMISSIONER GILLIS:

You mentioned the possibility of increasing from 5 to 6 percent a while ago and that would be a 20 percent increase in that. Was the 20 percent also how much you're anticipating in the savings percentage?

A. It should translate that way.

COMMISSIONER GILLIS:

And is that reasonable, from the national studies, to come up with a 20 percent savings?

A. The recommendation is that the households can afford to pay another 20 percent. When you translate it into dollar terms for these households, you're not talking about a whole lot of cash, actually.

VICE CHAIRMAN HOLMES:

I had asked Mr. Byars, also, what if a CAP customer had wanted to leave your program or not be in the aggregation pool; would they be permitted to go elsewhere?

A. Not under the current proposal and I'll try to explain to you why. It's very similar to a requirement right now that, if you participate in CAP, you must participate in the Low Income Home Energy Assistance

Program subsidy. In other words, our computer program automatically enrolls you in that federal program. The intent is to reduce the costs to other ratepayers by having the federal government pay a portion. In recommending that CAP customers be required to be in an aggregated group, the same rationale is in place. If we're going to ask the shareholders and the ratepayers to be supportive of these customers, then these customers need to do everything they can to keep those external costs down. It's not a make or break thing with me, but I think that that's a reasonable expectation to place on the CAP customer.

VICE CHAIRMAN HOLMES:

I guess I would assume, then, that you should be able, by aggregating that number of customers, beat some of the other marketers that are going to be providing gas services to the other ratepayers.

A. I think that's a reasonable assumption. If we can't produce that, then . . .

VICE CHAIRMAN HOLMES:

But, if you can't produce that, the advantage would be, with the CAP customer, that you can beat the marketer's cost?

A. Absolutely. I mean, I think, if we cannot, by aggregating these customers, produce a better value, then there's no reason to force them to be in the group that's aggregated.

VICE CHAIRMAN HOLMES:

Right.

CHAIRWOMAN HELTON:

Mr. Burch, of the number of people that have applied to the program and those that were accepted, approximately half are participating. Is that because they didn't - can you give us some rationale for that? Was there not enough funds there in the money that's allocated to this program, or was it because they didn't want to comply with the requirements, or was it because that they felt, at that percentage, their income wasn't significant enough to cause them to want to be in the program?

A. There are multiple reasons, and I don't have the data with me, but actually I've seen some breakdowns. You have folks who've moved out of the area. You have folks whose incomes have advanced to the point that they're better off paying the actual bill than a percentage of income. A very small percentage of people were asked to leave the program for non-participation but a multitude of social and economic factors. There's an assumption, sometimes incorrectly, that low-income people stay below the poverty level all their lives but that's not always the case. In many cases, you have single-family households where the other adult left the household. Through the economic crisis, the remaining parent, the custodian of the children, goes to school, gets a job, and gets to a point where - you know, this is not a good program for you if you start paying more as a percentage of income than your actual bill.

CHAIRWOMAN HELTON:

Mr. Gillis asked you, and I think you said that right now you're anticipating about 500 in the program. You currently have four hundred and twenty some active. So, since the amount of this fund is going to stay the same, are you expecting to be able to accommodate those seventy some customers in the CAP program through cost savings since the amount of the fund is not going to increase?

A. Well, right now, we're under a constraint. We are not to enroll more than 500. So you always have a gap. As people leave and people come in on any day of the week, you can't hit 500 under that constraint. It's my understanding that the current proposal would be to place a constraint in terms of dollars, and my intent will be to be maximum enrolled as much as we can. We also had to be very cautious during the pilot, because a lot of the overhead costs were only estimated, not known, and again, with a dollar cap on the program, you had to be fairly cautious, but I don't think we'll have any problem at all.

CHAIRWOMAN HELTON:

Questions?

VICE CHAIRMAN HOLMES:

Are you going to participate in any type of customer or consumer awareness with Columbia?

A. Yes. During the Collaborative discussions, that was one of two areas that we had a lot of interest in. We think a lot of our concerns were addressed by the way the program was ultimately designed, for example, the company agreeing to buy the receivables, but I'm still concerned about the communications education efforts and the company has been very agreeable to working with us in terms of both the media and the content of information that go to low-income folks. You can't run an ad in the Herald-Leader, for example. There are just certain things that we know about this population.

VICE CHAIRMAN HOLMES:

That's all.

CHAIRWOMAN HELTON:

Okay. Mr. Burch, thank you.

A. Thank you.

CHAIRWOMAN HELTON:

I don't have a procedural schedule immediately before me. Did it call for briefs?

MR. MARTIN:

I believe there's a date on there.

MR. GOFF:

I believe it did; yes.

CHAIRWOMAN HELTON:

Okay.

MS. KONCELIK:

Yes.

MR. TAYLOR:

I have it right here.

CHAIRWOMAN HELTON:

Okay.

MS. KONCELIK:

I believe it was November 12.

CHAIRWOMAN HELTON:

And when will the transcript be ready?

REPORTER:

Start counting tomorrow and count ten working days.

MR. GOFF:

11-12.

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REPORTER:

The 26th.

CHAIRWOMAN HELTON:

The transcripts will be ready on the 26th, and the briefs, if necessary and the parties want to . . .

MR. GOFF:

Shall be served on 11-12.

CHAIRWOMAN HELTON:

Okay.

MR. DOSKER:

Madam Chairman, . . .

CHAIRWOMAN HELTON:

Yes.

MR. DOSKER:

. . . John Dosker of Stand Energy. We did intervene in this case. I think the Commission and the staff might benefit from hearing some comments if I could call one witness very briefly and the parties might have an opportunity to ask some questions. We've been a marketer for 13 or 14 years in various states. We have a lot of experience with Columbia, and, like I said, I believe the Commission and the staff would benefit from Mr. Borchert's comments.

CHAIRWOMAN HELTON:

Any other parties have any objection?

MS. KONCELIK:

No.

CHAIRWOMAN HELTON:

If you'll call your witness, please.

MR. DOSKER:

I'll call Jerry Borchert to the stand.

WITNESS SWORN

The witness, GERALD BORCHERT, after having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. DOSKER:

Q. Jerry, state your name and spell your last name for the record.

A. Gerald Borchert, B-o-r-c-h-e-r-t.

Q. Where are you employed?

A. I work for Stand Energy Corporation, as you mentioned, an intervenor in this case.

Q. In what capacity are you employed at Stand Energy?

A. At present, I am involved in primarily Contract Administration and Regulatory Affairs.

Q. And what other positions have you held at Stand Energy?

A. I have been Director of Gas Transportation, a Sales Trainer, a Sales Representative, a little bit of everything over the past 13 years.

Q. So you've been employed at Stand for 13 years?

A. Yes.

Q. What have your experiences been with Columbia Customer Choice programs?

A. I would say nothing but positive things. We are involved at Stand Energy in four programs, from smallest to largest, Columbia Gas of Virginia, East Ohio Gas, which is the Akron/Canton area, Cincinnati Gas & Electric, and, of course, Columbia Gas of Ohio.

Q. All of those are in the State of Ohio?

A. No. Columbia Gas of Virginia is obviously in Virginia.

Q. Oh, well, obviously in Virginia. Relative to Cincinnati Gas & Electric and East Ohio Gas, how does Columbia match up with those two companies?

A. A far superior program. From the very beginning, it was a well conceived plan. The interface with the marketers was vastly superior to any of the other programs that we've come across.

Q. Mr. Byars testified earlier about savings of 10 percent. What have Stand Energy customers' experiences been relative to Choice savings?

A. I think we have to raise our prices. We've been about 20 percent for the past 12 months and, going back to the initial pilot program in Toledo, about 19 percent.

Q. And Stand . . .

COMMISSIONER GILLIS:

Now, that's just the gas cost portion of the total bill?

A. No. That's against the entire bill.

COMMISSIONER GILLIS:

That's the entire bill?

A. Yes.

VICE CHAIRMAN HOLMES:

Does that include taxes or . . .

A. Yes. Let me qualify that; I'm sorry. That does not include the entire bill. That is just against the gas cost recovery.

VICE CHAIRMAN HOLMES:

Okay.

Q. And Stand Energy is still able to make apparently a profit? We're able to stay in business at that rate of savings?

A. As far as I know.

Q. There was a lot of discussion of slamming. Would you share with the Commission and the staff your experiences with slamming with other marketers and how that has been dealt with in Ohio?

A. Well, we haven't actually seen it. The key issue here is that, in order for a customer to be enrolled in the

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program, they have to first be disenrolled by the current supplier. In the case of Columbia Gas of Ohio, it's on the 15th of each month. All the enrollments and withdrawals are taking place at that time. So, if I were to enroll you in the program, if you were signed with another marketer, you would be rejected.

Q. There was also apparently some concern about Columbia's relationship with its marketing affiliate. What have your experiences been with Columbia's relationship with Columbia Energy Services?

A. We have had experiences with a number of affiliates of utilities; not all of them have been good. In the case of Columbia, it has been wonderful. I think, from the very beginning, Columbia Energy Services was set up as a model of FERC Order 497. I don't recall any time since CES was formed that there was ever a sharing of personnel or facilities or anything. So I have nothing but high regard.

Q. The code of conduct that Columbia Gas, under which we operate under their system, again, what have your experiences been relative to the code of conduct with other marketers or with other LDCs?

A. When that issue comes up - and I was a participant, and perhaps Commissioner Holmes remembers from a year ago, on the collaborative that was held here that Ralph

Dennis led and that was an issue that came up, and there seemed to be a presumption that marketers were evil entities that were just trying to damage the state, when, in fact, nothing could be further from the truth. It is in every marketers best interest to have a viable program and abide by the rules and so that has been the case. It's, in many cases, self-policing. I know we had an experience at Stand where one of our field sales people - we found out about it, and we gave them a warning, and the next time we found out something he was terminated. We will just not tolerate abuses to the system, and I believe one company, and I think perhaps you can confirm this, has been either suspended or terminated from the program for abuses; is that correct?

Q. In Ohio.

A. In Ohio?

Q. Right. Yeah, I believe that's correct. What about the dispute resolution process; how is that handled currently in Ohio?

A. That one works very well, also. Part of the issue that came up in Ohio, in the Staff Report to the Commission, had to do with the definition of a complaint. In many cases, when the Consumer Services Department got a call, it could have been an inquiry about "How do I read my bill?" That was not registered as an inquiry. It was just all registered under a lump sum complaint. The most typical complaint that I have seen is where husband, unbeknownst to wife, signs with one company and she is simultaneously signing with another company, and they said, "Who do we go with?" Then they get into a fight.

Q. There was a lot of discussion earlier about a surcharge being on the bill. What is your opinion relative to putting a surcharge on a bill, whether that would cause marketers more or less problems than other forms of . . .

A. I think it would cause more problems simply because it's another line item. If there was some way to embed it, then there wouldn't be a problem, but, beyond that, a surcharge is a difficult item. I know, at Cincinnati Gas & Electric, there is a line item, and, until the learning curve came through, we were getting multiple calls every hour: "What does that line item mean?"

Q. And so . . .

A. People are starting to understand it now.

Q. And, with Cincinnati Gas & Electric, we were doing the billing, so we were required to pay staff to answer those phone calls and to explain all of that stuff?

A. We did some of the billing. Cincinnati Gas & Electric

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did most of it, but, even at that, there was still a line item.

Q. All right. And someone was having to answer those calls and explain that surcharge?

A. Yes.

Q. Okay. Generally, again, Stand's overall experience with Columbia Gas has been excellent . . .

A. Yes. Absolutely.

Q. . . . relative to other companies?

A. Oh, absolutely.

MR. DOSKER:

Okay. I think that's all the questions I've got.

CHAIRWOMAN HELTON:

Do you have any questions?

EXAMINATION BY COMMISSION

VICE CHAIRMAN HOLMES:

Does Stand provide any other services other than the gas to its customers?

A. Oh, we have volume management services. We have wholesale electricity.

VICE CHAIRMAN HOLMES:

I mean to the customers. Do you market any other type of services or . . .

A. Volume balancing or load monitoring in appropriate cases; yeah.

COMMISSIONER GILLIS:
Maybe Commissioner Holmes is talking about cable or direct mail or . . .
VICE CHAIRMAN HOLMES:
Credit cards?
A. No.
COMMISSIONER GILLIS:
. . . selling AOL or . . .
A. No.
COMMISSIONER GILLIS:
Okay. How do you all market to customers?
A. We do have independent sales representatives in several metropolitan areas that do go door to door. By the rules of the Public Utilities Commission of Ohio, we cannot initiate a phone call to sign up a customer. So, if there is a telephone sign-up, first of all, it has to be digitally recorded and time and date stamped, but also we have to preface it to tell the potential customer that they are being recorded, have to confirm that they initiated the call to us; we did not call them. It's a tight program, and it works.
COMMISSIONER GILLIS:
If you were to get a city, for instance, and let a city aggregate their water customers, for an example, would they be under the same rules that you are as far as

telephone solicitation, or would they be able to solicit by phone?

A. No. They would be under the same rules, . . .

COMMISSIONER GILLIS:

The same rules, okay.

A. . . . because they're working on our behalf. I'm not a lawyer, but I would hesitate to call them employees.

COMMISSIONER GILLIS:

All right. How many different plans do you have available, or . . .

A. Wow!

COMMISSIONER GILLIS:

. . . can you script a plan as you talk to someone?

A. No. The plan is pretty well defined by the Commission, and it has to be spelled out in our literature. The contract, it's a three-fold brochure that we mail out or hand out, and it has to have the terms of the contract. It has the complaint process. If a complaint should come in that's legitimate, if it can't be resolved immediately, it's referred to a supervisor. If the supervisor can't resolve it, they also have the listing of the Commission and of the Consumers Council. I don't know of any cases that have had to go that far yet. Again, most people have a vested interest in seeing a successful program.

COMMISSIONER GILLIS:

What about the contract itself? What do you sell, is what I'm trying to ask. Do you sell a fixed amount per therm for a year basis, three year basis, or is that one plan, or do you sell 10 percent below a standard of some type or . . .

A. No. We have two plans. There's one that's a fixed price. We typically go with a one year contract. We also have a variable price that's market sensitive.

COMMISSIONER GILLIS:

And the 15 to 20 percent you mentioned a while ago, was that on both plans or one or the other or . . .

A. That's interesting. After 13 years, unfortunately, my crystal ball has a lot of cracks in it, but, at the outset of the program, I recommended a fixed price and it worked very well, and then, as the industry moved forward, now we're going primarily variable.

CHAIRWOMAN HELTON:

Does staff have any questions?

MR. GOFF:

Yes.

CROSS EXAMINATION

BY MR. GOFF:

Q. In regard to the 20 percent that the Commissioner asked you about, is that based on a current rate comparison

or a comparison of historical charges on total bills?
A. It is month by month what the GCR was versus what we were selling for and then averaged.
Q. And what would . . .
A. The difference?
Q. Okay. The 20 percent represents that difference?
A. Yes. Now, in any given month over the past year, I think our worst month was, like, 5 percent and one month we were 40 percent, but it averages out to about 20 percent.
Q. You had stated that Columbia's program was, I think, far superior to others. Can you tell us what others you had compared them . . .
A. Cincinnati Gas & Electric and East Ohio Gas.
Q. Those two?
A. Yeah, and we also have Columbia Gas of Virginia, but our participation is just getting started there and I really can't comment on it, but I would suspect that they used the same computer program.

CHAIRWOMAN HELTON:

So you're not involved in Maryland or Bay State or Northern Indiana, any of those programs?
A. No.

COMMISSIONER GILLIS:

In a recent copy of the U.S. News, in the last week or two, the reporter, I believe, was a Columbia Gas of Ohio customer, and he indicated that, over nine months, his bill was $4.60 more than what it had been or more than if he had not changed.

A. I could not respond to that. I did not see the article.

COMMISSIONER GILLIS:

I guess the question is, do you have some customers that are paying more now than under prior . . .

A. Sometimes, in a particular month, it might be higher. It has not happened in Columbia. I think it has happened one month - it was a few pennies higher - in Cincinnati. There have been a couple of months in East Ohio Gas up in the Canton, Ohio area, but, in the long run, I know, in the past, we had done some business on Northern Illinois Gas Company and typically there was one quarter a year that, just as sure as I'm sitting here, they were going to beat us. The other three quarters we more than made up for it, but that's just the way the GCR cycle ran.

MR. DOSKER:

If I may . . .

REDIRECT EXAMINATION

BY MR. DOSKER:

Q. Mr. Borchert, has it been your experience that, after the education process that the LDC puts the consumers through, that they do, in fact, become educated consumers and would not tolerate paying more than the LDC price?

A. I think it's safe to say that they would not tolerate paying the LDC price. From our experience, though, the nature of the public information, that two month period, is absolutely vital to the success of the program. If the LDC does not strongly support it from the top down, it's doomed and, even at that, the biggest question we have is, "Well, how can I get my gas from you and the people next door get their gas from somebody else?" You know, you have to go explain commingling. It doesn't know. It's an accounting function and that seems to get the - they resolve - they respect that.

Q. Has it been Stand's experience in our home city of Cincinnati that Cincinnati Gas & Electric's failure to support the program from the top down has caused very small participation in that Choice program?

A. I would think that's probably one of the reasons for the small turnout in Cincinnati. I think some of it also has to do with just the mind-set of Cincinnati. It's almost a siege mentality, us versus them.

Q. Okay.

VICE CHAIRMAN HOLMES:

If we're talking just straight gas costs, . . .

A. Uh-huh.

VICE CHAIRMAN HOLMES:

. . . I mean, cost of gas that a customer - it seems like that, that customer, all he has to look at is, if you've got four or five marketers, who's going to provide the lowest cost gas and that's how you make your determination. I mean, if there are no other services that are being provided, then it's who's offering the lowest price at the time.

A. That's pretty much the way it works. The Public Utilities Commission of Ohio, on their Web site has a posting that goes up every month. It's called the apples to apples comparison, and it shows all the marketers that are approved to take part, which goes back to some of the other testimony about "How do you get approved?" and that's part of the code of conduct, part of what you sign on with the LDC. You agree to those rules, and they're quick to respond if you break them.

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Q. Has it also been our experience that our affiliates' relationship with the end user oftentimes enables us to keep customers in spite of the fact that we may be a little bit higher than the LDC occasionally?

A. Yes, that's true. It's like anything in sales. It's the person that you're shaking hands with and looking across the desk at is your contact. It's not the name of a company, and, of course, in a program like this, it has also been my experience that there are some people that will leave the utility no matter what, just on general principles, and there are others who will not leave just on general principles. So . . .

CHAIRWOMAN HELTON:

Mr. Goff?

RECROSS EXAMINATION

BY MR. GOFF:

Q. Getting back to those programs that you referred to, could you provide a description of Columbia's and these other programs?

A. Well, that's the tough part here, because the three of them are all obviously in Ohio, and they have the same set of rules. It's just how the programs are established. In the case of East Ohio Gas, part of the problem with that system is that they had just horrendous billing problems. There were some customers

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who didn't receive a bill for, like, ten months, because they couldn't pick them up, and so East Ohio was sending out notices, "Start budgeting because you're going to get a big bill," and so, for a while, we just refused to take anybody else on East Ohio's System, and it was just because of the computer problem. In Cincinnati, I want to say that we're aggressive there, but we're not. We just don't have enough support from the utility to make the people want to do it.

REDIRECT EXAMINATION

BY MR. DOSKER:

Q. Perhaps if you explained some of the specific problems we have had with CG&E the staff would understand your comparison of the three LDCs a little better.

A. Well, some of it has to do with the data that is exchanged. Like I mentioned, the Columbia computer program, the interphase is very user-friendly. It's done like clock work, and it has not caused us problems. On the CG&E system, sometimes we'll get the data; sometimes we won't; sometimes it'll be repeated, and it's just a fundamental flaw in the computer system that is really required. I mean, we're a fairly small marketer in the grand scheme of things, and I guess, on Columbia's system, we probably have 12,000 or 13,000 customers, which is not big in terms of the entire program.

Q. What about the ongoing problem we have with CG&E's forecasting nominations?

A. That's something else that is similar to Columbia's system in which their forecasting model predicts, based on weather forecasts, how much gas we, as a marketer, are expected to have at the city gate tomorrow. In the case of Cincinnati Gas & Electric, their model was less than accurate. I know of at least one marketer who shall remain nameless but was very concerned because, at the end of the first 12 months, they had under-delivered, based on what CG&E told them to deliver, by about 450,000 decatherms, and the rule of the program was you have to make it back up in three months, and so the attorneys came up, and I believe there was something that was resolved there, but the model was off. We were off but nowhere near that kind of number.

Q. And we're required, under the tariff, to inject the exact amount . . .

A. Yes.

Q. . . . that the LDC tells us to nominate on a daily basis?

A. Yes.

Q. Whether it's right or wrong?

A. Exactly.

RECROSS EXAMINATION

BY MR. GOFF:

Q. If I understand you, you weren't referring, then, to the interworkings of these programs but to the implementation of the various aspects of it, how they worked and after they were put into effect?

A. Pretty much so, although back - and I'm going to guess this is seven or eight years ago, I was invited by Columbia to visit their office in Columbus and sit down with one or two other marketing companies plus the Consumers Council plus the Gas Control Department from Columbia and that's where the seeds of this Customer Choice program were formed, in a series of meetings in Columbus, and it was just a vision, at the time, that finally came to pass in, like - was it November of '97? Help me, the pilot program in Toledo, but it began about seven years ago.

Q. Let me ask you just a couple more questions.

A. Sure.

Q. As a marketer, do you file information with regulatory bodies in any jurisdiction where you sell these commodities?

A. Yes.

Q. What type of information do you file? Would you file the type of contracts offered for the natural gas consumers?

A. I'm not sure. The one issue that was discussed earlier, and I can tell you that, is we are not regulated.

Q. All right.

A. Somebody testified about the effects there, and it would certainly have a dampening effect, because we are nonregulated entities, and I think that's the operative expression.

Q. But, again, do you know what types of information you do file with these regulatory bodies?

A. The contract that we have and promotional materials get routed through staff and the Consumers Council.

Q. Would you believe that filing your gross revenue would be . . .

A. Detrimental to the program.

VICE CHAIRMAN HOLMES:

Why is that?

Q. You think it would be detrimental to the program?

A. Yes.

Q. May I ask why? I'm sorry.

A. Well, I don't think it's the marketer's responsibility to pay taxes - well, I guess we pay taxes on behalf of some customers.

BY MR. DOSKER:

Do you believe Stand management considers that information proprietary and confidential?

A. I would think so; yes.

MR. DOSKER:

Do you believe it might give some of our competing marketers a competitive advantage to know how much business we were doing in any particular state?

A. It could.

Q. If that information were kept confidential - there are assessments made by this Commission on gross revenue to utilities. If that information were kept confidential, do you think that that would be detrimental to your participating in the program?

A. It might. I think I would probably have to spend a little time with the attorneys and the accountants to come up with a good answer.

MR. GOFF:

Okay.

CHAIRWOMAN HELTON:

Any other questions? You may be dismissed?

COMMISSIONER GILLIS:

Thank you.

CHAIRWOMAN HELTON:

Thank you.

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A. Thank you.

CHAIRWOMAN HELTON:

I don't think there are any other matters to come before the Commission. Are we clear on all of the Data Requests and Responses?

MS. KONCELIK:

Actually, I believe that staff is going to submit those in writing, the follow-up Data Requests, and we'll respond to those within two weeks.

CHAIRWOMAN HELTON:

Thank you. If there's nothing further, this hearing is dismissed.

FURTHER THE WITNESSES SAITH NOT

HEARING ADJOURNED

OFF THE RECORD

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STATE OF KENTUCKY

COUNTY OF FRANKLIN

I, Connie Sewell, the undersigned Notary Public, in and for the State of Kentucky at Large, do hereby certify the foregoing transcript is a complete and accurate transcript, to the best of my ability, of the hearing taken down by me in this matter, as styled on the first page of this transcript; that said hearing was first taken down by me in shorthand and mechanically recorded and later transcribed under my supervision; that the witnesses were first duly sworn before testifying.

My commission will expire November 19, 2001.

Given under my hand at Frankfort, Kentucky, this the 19th day of May, 1999.

Connie Sewell

Connie Sewell, Notary Public
State of Kentucky at Large
1705 South Benson Road
Frankfort, Kentucky 40601
Phone: (502) 875-4272

CROSS EXAMINATION

STAFF HAND-OUT NO. 1

CASE NO. 99-165

CASE NO.	DATE FILED	OVERALL R-O-R
8738	1-14-1983	2.64%
9003	4-30-1984	4.34%
9554	5-27-1986	6.13%
10201	4-21-1988	5.42%
10498	2-13-1989	6.73%
90-063	3-16-1990	5.78%
94-179	6-01-1994	7.06%

SOURCE: COLUMBIA'S APPLICATION FOR INCREASED RATES OR COMMISSION'S FINAL ORDER APPROVING RATE INCREASE

PENGAD-Bayonne, N. J.
EXHIBIT
Staff
1

CROSS EXAMINATION

STAFF HAND-OUT NO. 2

CASE NO. 99-165

COMPANY	BILL @ 10 MCF	GAS COST / MCF
COLUMBIA	$77.36	$4.9638
DELTA	$74.66	$3.9554
ULH&P	$63.40	$3.5110
WESTERN	$47.12	$3.1914
LG&E	$44.94	$2.9410

SOURCE: CURRENT TARIFFS OR MOST RECENT ORDER APPROVING MOST RECENT GAS COST RECOVERY CHANGES

PENGAD-Bayonne, N. J.
EXHIBIT
Staff
2

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) CASE NO. 99-165
VOLUME GAS TRANSPORTATION SERVICE,)
TO CONTINUE ITS GAS COST INCENTIVE)
MECHANISMS, AND TO CONTINUE ITS)
CUSTOMER ASSISTANCE PROGRAM.)

PROOF OF LEGAL NOTICE

Columbia Gas of Kentucky, Inc., in accordance with the provisions of 807 Kentucky Administrative Regulation 5:011, Section 8(5), has given legal notice in the manner authorized by the Commission in its Order of June 24, 1999, and hereby files proof of publication as follows:

	Newspaper	Publication Date
1.	The Daily Independent	September 25, 1999
2.	The Floyd County Times	October 1, 1999
3.	The Ledger Independent	September 25, 1999
4.	Lexington Herald-Leader	September 30, 1999

Respectfully submitted,

COLUMBIA GAS OF KENTUCKY, INC.

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Fax: (502) 226-6383

Attorneys for Columbia Gas of Kentucky, Inc.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Proof of Legal Notice was served upon all parties on the attached service list by regular U.S. Mail this 12th day of October, 1999.

Amy L. Koncelik

Amy L. Koncelik
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THE DAILY Independent

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606-329-1717 / 1-800-955-5860

COLUMBIA GAS OF KY INC
PO BOX 117
200 CIVIC CENTER DR
COLUMBUS OH 43216

NOTICE OF HEARING

NOTICe is hereby given that the Public Service Commission of the Commonwealth of Kentucky has scheduled a hearing on 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 for 9:00 A.M., Eastern Daylight Time, October 12, 1999 in Hearing Room 1 of the Commission's offices at 730 Schenkel Lane, Frankfort, Kentucky, for the purpose of cross-examination of witnesses and presentation of rebuttal testimony, if any.

Published Sept. 25, 1999

NEWSPAPER AFFIDAVIT

I, JOE VANDERHOOF, PRESIDENT AND PUBLISHER, OF THE DAILY INDEPENDENT NEWSPAPER, PUBLISHED IN ASHLAND, AND HAVING THE LARGEST CIRCULATION OF ANY NEWSPAPER IN BOYD COUNTY, KENTUCKY, DO HEREBY CERTIFY THAT FROM MY OWN KNOWLEDGE AND A CHECK OF THE FILES OF THIS NEWSPAPER THAT THE FOLLOWING ADVERTISMENT WAS INSERTED IN THE DAILY INDEPENDENT.

SIGNATURE Joe Vanderhoof

SUBSCRIBED AND SWORN TO BEFORE ME BY THE ABOVE, THIS THE 29 DAY OF September ,1999

NOTARY PUBLIC Paula Cornette

MY COMMISSION EXPIRES

My commission expires June 5, 2002

PUBLICATION	EXPIRE DATE	AD CAPTION	# TIMES	AMOUNT
THE DAILY INDEPENDENT 9/25/99	9/25/99	NOTICE OF HEARI	1	33.10

Application No.:________________

NEWSPAPER AFFIDAVIT

I, Tammy Goble, of **The Floyd County Times**, published at **Prestonsburg** and having the largest general circulation of any newspaper in **Floyd County, Kentucky,** do hereby certify that from my own knowledge and a check of the files of this newspaper that the advertisement of Notice of Hearing for Tariff Filing of Columbia Gas of Kentucky was inserted in **The Floyd County Times** on the following dates:

Date: 10-1 Page No. B7 Column No. 9

Date:________ Page No.________ Column No.________

Date:________ Page No.________ Column No.________

Date:________ Page No.________ Column No.________

Signature: Tammy Goble

Subscribed and sworn to before me by Tammy Goble this the 6th day of Oct, 1999.

Notary Public: [signature]

My Commission Expires: 7-14-03

FRIDAY, OCTOBER 1, 1999 B7

NOTICE OF HEARING

NOTICE is hereby given that the Public Service Commission of the Commonwealth of Kentucky has scheduled a hearing on 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 for 9:00 A.M. Eastern Daylight Time, October 12, 1999, in Hearing Room 1, of the Commission's office at 730 Schenkel Lane, Frankfort, Kentucky, for the purpose of cross-examination of witnesses and presentation of rebuttal testimony, if any.

PROOF OF PUBLICATION

State of Kentucky

SS:

County of Mason

I, Margaret Wallingford, being first duly sworn, say that I am Business Manager (Title) of The Ledger Independent, a newspaper printed in Mason, Lewis, Brackon, Fleming, Robertson, and Rowan counties, and of general circulation in said counties, and that the notice attached was published in this newspaper one time on Sept 25, 1999.

Margaret Wallingford

Sworn to and subscribed before me this 11th day of October, 1999.

Notary Public

My Commission expires: May 23, 2000

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205 Legals

NOTICE OF HEARING
NOTICE is hereby given that the Public Service Commission of the Commonwealth of Kentucky has scheduled a hearing of 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 for 9:00AM, eastern daylight time, October 12, 1999 in Hearing Room 1 of the Commission's offices at 730 Schenkel Lane, Frankfort, Kentucky, for the purpose of cross-examination of witnesses and presentation of rebuttal testimony, if any.

240 Meetings

ALCOHOLICS ANONYMOUS meets at the Hunter House, Episcopal Church, 3rd and Limestone Streets, every Friday 8-9PM. Call AA at 937-392-4489, 392-1273, or 606-882-3641.

ALCOHOLICS ANONYMOUS - "BEGINNERS GROUP meets every Thursday night at the Hunter House, 7-8PM, call 606-735-3070, 937-392-4048, or 606-882-3641

ALCOHOLICS ANONYMOUS meets at the Presbyterian Church, 21 W. 3rd St., Ripley.Oh, every Sunday at 6PM. 12/12 Program 5pm, 937-392-4489.

ALCOHOLICS ANONYMOUS - AUGUSTA, meets every Wednesday, 8pm, St. Augustine School. 606-735-3215, 747-5433 or 606-882-3641.

FRIDAY 7-8PM, West Union Presbyterian Church, Walnut & 2nd St.

Narcotics Anonymous meets every Monday at 8:00 pm & Saturday at 7:00 pm at the Hunter House, 3rd & Limestone Sts., Maysville. For information call 513-549-3601; 606-882-3641; 513-392-4380.

245 Notices

ADVERTISEMENT FOR BID
The Maysville Utility Commission is now accepting sealed bids for the demolition of 3 water storage tanks. Bids will be opened on Oct. 12, 1999 at 10:00 A.M. at the City of Maysville Municipal Building. Mailed bids can be submitted to Mr. Eddie Wenz, Utility Manager at: 216 Bridge Street, Maysville, Ky 41056. For more information.

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OCT 04 1999
AMY L. KONCELIK

Before me, a Notary Public, in and for said County and State, this 29 day of September, 19__ came Tim Redwine, personally known to me, who, being duly sworn, states as follows: That he/she is ADS Copy Coordinator of the Lexington Herald-Leader and that said publication of date September 30, 1999 carried the advertising of Columbia Gas of Kentucky occupying the following space. 38 lines.

By Tim Redwine

(SEAL)

Lee H. Napier
Notary Public

E6 Lexington Herald-Leader
Thursday, September 30, 1999

018082

NOTICE OF HEARING

NOTICE is hereby given that the Public Service Commission of the Commonwealth of Kentucky has scheduled a hearing on 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 for 9:00 A.M., Eastern Daylight Time, October 12, 1999 in Hearing Room 1 of the Commission's offices at 730 Schenkel Lane, Frankfort, Kentucky, for the purpose of cross-examination of witnesses and presentation of rebuttal testimony, if any.

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	)	CASE NO. 99-165
VOLUME GAS TRANSPORTATION SERVICE,	)	
TO CONTINUE ITS GAS COST INCENTIVE	)	
MECHANISMS, AND TO CONTINUE ITS	)	
CUSTOMER ASSISTANCE PROGRAM	)	

PREPARED DIRECT TESTIMONY OF
STEPHEN R. BYARS
ON BEHALF OF
COLUMBIA GAS OF KENTUCKY, INC.

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July 16, 1999

EXHIBIT
2

PENGAD-Bayonne, N. J.

Prepared Direct Testimony of Stephen R. Byars

Q. Please state your name and business address.

A. Stephen R. Byars, Columbia Gas of Kentucky, Inc. 2001 Mercer Road, Lexington, Kentucky, 40512.

Q. What is your position at Columbia Gas of Kentucky?

A. I am the Director of External Affairs with responsibilities for regulatory affairs, governmental affairs, communications and economic development.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to recommend the approval of Columbia's application to implement a small volume gas transportation program, and the continuation of its gas cost incentive mechanisms and its Customer Assistance Program. The testimony will provide a general overview and background on the application filed in this case on April 22, 1999.

Q. Why did Columbia request Commission approval of a small volume gas transportation program?

A. Columbia first offered a gas supply alternative to its large volume customers almost twenty years ago. Those large volume customers have seen their commodity cost of gas decrease with the opportunity to choose their supplier and Columbia believes that all of its customers should enjoy this same opportunity to choose their supplier and save money. In addition, other Columbia Energy Group distribution companies have witnessed the success of residential and commercial gas transportation programs in other jurisdictions and Columbia believes that Kentucky customers can achieve similar benefits. Columbia was further encouraged by the July 1, 1998 Commission Order closing Administrative Case No. 367. That Order stated on page 2 that, "the Commission supports the concept of customer choice programs targeted at residential and small commercial customers."

Q. What are the goals of the proposed program?

A. The goals are as follows:

1) The program must provide an opportunity for customers to save money on their gas bills;

2) The program should provide marketers with as much flexibility as is possible to provide customers savings by allowing them to serve customers using their own interstate pipeline capacity;

3) The program should be revenue neutral for Columbia, and must allow Columbia to recover its stranded costs and incremental program expenses;

4) The recovery of stranded costs must be as transparent to the customer as possible to permit the customer to make a clear and understandable choice between the marketer's offer and Columbia's sales rate;

5) Customers who choose to continue to purchase their gas supply using Columbia's traditional sales service should not incur any additional charges because of the implementation of a small volume gas transportation program; and,

6) Customer education is critical to the success of the program and customers must have an opportunity to learn about the program for a period of time before they begin to receive offers from marketers.

Q. How did Columbia develop these goals?

A. Columbia has had an opportunity over the last two years to observe closely small volume gas transportation programs in other Columbia-served jurisdictions. The experience has allowed Columbia to determine which features of these programs have worked and which features have not.

In addition, Columbia actively sought the opinions of other stakeholders in developing the goals for the program. Columbia established a collaborative of parties that had previously intervened in Columbia's cases before the Commission. This collaborative consisted of the Office of the Attorney General of the Commonwealth of Kentucky, the Lexington-Fayette Urban County Government, and the Community Action Council for Fayette, Bourbon, Harrison and Nicholas Counties. In addition, Columbia solicited and received valuable input from FSG Energy Services, a marketing subsidiary of Wisconsin Public Service Resources Corporation. Columbia established this collaborative with the recommendation of the Commission's Order in Administrative Case No. 367 that encouraged any applicant utility to seek input from its stakeholders and to develop a program that would reach compromise with both public and utility shareholder interests. The collaborative also served to create great value by bringing together customer choice program experience with the unique perspectives of Kentucky customers to help craft a program that reaches the goal that the Commission's Order envisions. Based upon its review of other small volume transportation programs, input from its Collaborative, and Columbia's understanding of its customers, Columbia developed the above goals for its program.

Q. Why is it important that one of Columbia's goals is to permit marketers to use their own interstate pipeline capacity to the maximum extent possible?

A. Columbia arrived at this position after observing programs that provided this flexibility to marketers and those that did not. Using Ohio as an example, programs that have not provided this flexibility – e.g., that of The East Ohio Gas Company – have not fared nearly as well as programs that do – that of Columbia Gas of Ohio. The East Ohio Gas Company has enrolled approximately 17.9% of its eligible residential customers, and 20.6% of its eligible commercial customers, while Columbia Gas of Ohio, Inc. has enrolled approximately 31.4% of its eligible residential customers and 41.8% of its eligible commercial customers.

Q. Why is the goal of cost recovery important?

A. The goal of Columbia's proposed program is to offer customers a choice as to their commodity supplier. With an opportunity to choose their supplier, customers should have an opportunity to save money. The proposed program is designed simply to offer a gas supply alternative for its customers and not to generate additional revenue for Columbia. Since the program is not designed to create revenue opportunities for Columbia, Columbia should not be penalized by being required to absorb stranded costs or incremental program expenses.

Q. Please explain further why the recovery of costs should be as transparent as possible to customers, and why sales customers should not incur any additional costs.

A. Some programs in other states recover stranded costs through customer surcharges. Columbia believes that such surcharges prevent customers from making a simple comparison between Columbia's gas cost and a marketer's gas cost offer. If a customer, however, makes this simple comparison of commodity costs under Columbia's proposed program and chooses to remain a Columbia sales customers, the customer will pay the same gas cost as if Columbia did not offer them a choice. Based on observations from other jurisdictions, members of Columbia's program Collaborative supported this model conclusively.

Q. Once the goals for the proposed program had been established, how did Columbia develop the proposed program?

A. Columbia used the Commission's Order in Administrative Case No. 367 as a guide when developing its proposed program. The Order listed several issues that should be addressed in any customer choice program including: obligation to serve and supplier of last resort; non-discriminatory access to services offered; codes of conducts for marketers and affiliates of regulated utilities; the pricing of services; billing; certification of suppliers; transition costs; stranded costs; uncollectibles and disconnections; balancing requirements to maintain system integrity; and, access to pipeline and storage capacity. These issues are all addressed within Columbia's application, including the Program Description and the proposed tariffs.

After developing an outline for development of the program, Columbia developed a financial model that guided us in drafting a more detailed proposal. This financial model is discussed further in my testimony below, and in the testimony of Columbia witnesses Kimra Cole and Scott Phelps.

Once we had a draft proposal we met with our Collaborative and reviewed the proposal with its members. These meetings enabled us to better understand the concerns of other stakeholders, and we worked with the Collaborative to revise our proposal to address their concerns. After a series of meetings, and iterative revisions to the proposed program, Columbia and the Collaborative collectively crafted the proposal filed with the Commission for approval.

As a result of this collaborative process, Columbia's proposed program is not opposed by any member of the Collaborative, and to the best of Columbia's knowledge no other parties are opposed to the proposal.

Q. Who will be eligible for the small volume gas transportation program?

A. Columbia's proposed program will allow customers with annual usage below 25,000 Mcf to transport their volumes on Columbia's distribution system and choose an alternative supplier for the actual supply of the gas commodity. Customer participation is completely voluntary. The program simply presents an opportunity for small volume customers to choose an alternate commodity supplier. Columbia will continue to provide all levels of distribution services for program customers as well as for Columbia's sales customers. Columbia will remain the supplier of last resort for all customers. The program is designed to be effective November 1, 1999 and to continue through October 31, 2004.

Q. Does the application request authority for Columbia to exit the merchant function?

A. No. Most of Columbia's long term pipeline capacity contracts expire in 2004. Columbia has not yet formulated its position regarding action on those contracts once they expire. Prior to the expiration of those contracts, Columbia will finalize its position regarding merchant function issues, and seek dialogue with the Commission, Staff and interested stakeholders.

Q. Please provide a general overview of the proposed program's financial model.

A. The financial model was designed, and refined through the work of the Collaborative, to establish mechanisms to recover stranded costs and incremental program expenses incurred under the program. As described earlier, these recovery mechanisms were chosen so that customers could make a simple, clear comparison between Columbia's gas cost and a marketer's gas cost offer and so that they would be transparent to the customer. The model reflects a perfect theoretical match between stranded costs and revenue opportunities at the conclusion of the proposed program. While this is the goal of the program it is admittedly unlikely that such an exact match will occur. The Collaborative agreed that Columbia should accept some risk in exchange for the opportunity to recover stranded costs. Thus, to the extent that the difference between stranded costs and revenue opportunities is $3,000,000 or less at October 31, 2004, Columbia will either absorb the loss or be entitled to retain the gain. This amount is roughly 10% of the stranded costs resulting from the program. The financial model is discussed further in the testimony of Columbia witnesses Cole and Phelps.

Q. Why are information technology costs and education costs included in the financial plan as stranded costs?

A. Information technology costs are incremental expenses incurred by Columbia as a result of implementing the proposed program. These costs are largely computer programming costs that will be incurred. Education costs are those costs of educating customers about the proposed program. A more detailed plan describing the proposed education activities is included in the Program Description on Pages One and Two.

Q. How does Columbia's gas cost incentive program work within the proposed small volume gas transportation program?

A. Columbia has operated a gas cost incentive program for three years, approved by Order of the Commission in Case No. 96-079. On page 2 of its July 27, 1998 Order the Commission required Columbia to file a petition, "to continue or discontinue these programs effective August 1, 1999. Any petition for continuance shall be accompanied by a more comprehensive gas cost incentive program..." The application filed in this case, seeking approval of the small volume gas transportation program, is Columbia's proposal for a "more comprehensive gas incentive program" as envisioned by the Commission's Order. Columbia's specific proposals for the incentive revenues are further addressed in the testimony of Columbia witness Phelps.

Q. Please provide a general overview of the proposed continuation of the Customer Assistance Program ("CAP").

A. As part of its application, Columbia proposes to continue the CAP program through the term of the small volume gas transportation program. The Collaborative has agreed that the program is benefiting those that the program is intended to assist and that it should continue in its current form. The program will be administered by the Community Action Council ("CAC") and will operate using a $175,000 annual contribution from Columbia's shareholders and the continuation of the current 1.5 cent per Mcf charge on all residential, non-CAP throughput. Approximately 450, but as many as possible, participants will be served within this budget of approximately $350,000 per year. To further decrease the costs to serve CAP customers, the CAC will aggregate the CAP participants and take bids from certified marketers to serve these customers under the small volume gas transportation program, thereby ensuring that CAP customers will benefit from the program as well.

Q. Does this complete your prepared direct testimony in this proceeding?

A. Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Prepared Direct Testimony of Stephen R. Byars was served upon all parties of record by regular U.S. Mail this 16th day of July, 1999.

Stephen B. Seiple / SRB

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COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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

PREPARED DIRECT TESTIMONY OF
KIMRA H. COLE
ON BEHALF OF
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Attorneys for
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July 16, 1999

PREPARED DIRECT TESTIMONY OF KIMRA H. COLE

Q: Please state your name and business address.

A: Kimra Cole, 2001 Mercer Road, Lexington, Kentucky.

Q: By whom are you employed?

A: I am employed by Columbia Gas of Kentucky, Inc. ("Columbia")

Q: What is your position with Columbia?

A: I am Director of Sales & Marketing.

Q: Please describe your employment history with Columbia.

A: I began my employment with Columbia Gas of Kentucky in 1987 as an Industrial Marketing Engineer. In this position, I was directly responsible for the Industrial Market. I was promoted to District Marketing Manager in 1991. As District Marketing Manager I was responsible for the overseeing the department that provided direct marketing to residential, commercial, and industrial accounts. I was promoted to Director of Sales and Marketing in 1995. In this role I have direct oversight for all Sales, Marketing, and New Business activities for Columbia.

Q: Please describe your professional training and industry affiliations.

A: I have a Master in Business Administration and a Bachelors of Science in Chemical Engineering from the University of Kentucky. I am a member of the Kentucky Gas Association's Marketing committee, American Gas Association, American Society of Heating, Refrigeration, and Air Conditioning Engineers and Southern Gas Association .

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to explain the proposed tariffs that provide the ability for customers to choose whether they purchase their natural gas from Columbia or from an alternative supplier.

Q: Please describe the tariffs that provide this choice.

A: There are three new tariff sections that are the nucleus of Columbia's program. They are the Small Volume Gas Transportation Service ("Rate Schedule SVGTS"), Small Volume Aggregation Service ("Rate Schedule SVAS") and the Stranded Cost/Recovery Pool. There are also modifications to five sections of Columbia's existing tariff to incorporate and properly reference the additions.

Q: What is the purpose of Rate Schedule SVGTS?

A: Rate Schedule SVGTS will be the applicable service classification for customers that decide to choose an alternative supplier under this program. These customers would otherwise be classified under General Service, Inland 6 or Intrastate Utility Service Rate Schedules if they remained traditional sales service customers of Columbia. In essence, the provisions of the customer's otherwise applicable sales tariff remain the same except SVGTS customers are exempt from the Gas Cost Adjustment ("GCA"). The GCA is replaced with a marketer's rate for the commodity. Original Sheets No. 30, 31 and 32 are proposed to consolidate the otherwise applicable sales service terms, with the availability requirement for SVGTS that a customer be a member of a marketer's customer group and have average annual usage of less than 25,000 Mcf.

Q: What is the purpose of Rate Schedule SVAS?

A: Rate Schedule SVAS, including the General Terms and Conditions specifically attached to Rate Schedule SVAS, will be applicable to marketers providing the supply of natural gas to customers that choose to select an alternative supplier. Rate Schedule SVAS includes a new rate that will be charged the marketer for all volumes Columbia delivers to the marketer's customer group each billing month. Rate Schedule SVAS is set forth as Original Sheets No. 33 through 33f in Columbia's tariff. The General Terms and Conditions are set forth as Original Sheets No. 37 through 37l.

Q: What is the purpose of the Stranded Cost/Recovery Pool tariff?

A: The proposed Stranded Cost/Recovery Pool tariff establishes the tracking mechanism for specified charges and revenue opportunities that are a result of this program. It is the financial model, as described by Columbia witness Scott Phelps, reduced to writing and set forth on Original Sheets No. 58 and 59.

Q: Why does Columbia propose that Rate Schedule SVGTS be available to customers with annual requirements less than 25,000 Mcf? Are not customers with usage of 6,000 Mcf or more already eligible for transportation?

A: Customers with annual requirements of not less than 6,000 Mcf are transportation under Rate Schedule DS. However, customers with a' below 25,000 Mcf are considered firm customers and must contract .. from Columbia for that portion of their requirements not protected by an alternate energy source. Rate Schedule SVGTS inherently provides firm standby because it is firm transportation and Columbia remains the supplier of last resort. Therefore, as part of the application filed in this case, Columbia has proposed to modify the minimum annual requirement of its existing Rate Schedule DS to a minimum of 25,000 Mcf.

Q: Does Columbia currently have customers served under Rate Schedule DS with average annual requirements between 6,000 and 25,000 Mcf that would no longer be eligible for transportation?

A: As of April 1, 1999, there are 46 customers between 6,000 and 25,000 Mcf annual usage transporting gas under Rate Schedule DS. Columbia proposes to grandfather these customers so they may continue service under Rate Schedule DS. These customers will also have the option of converting to Rate Schedule SVGTS.

Q: How did Columbia derive the delivery charges in Rate Schedule SVGTS?

A: The delivery charges are the base rates under the existing tariffs that have merely been transferred into this rate schedule along with the Weather Normalization Adjustment, Customer Assistance Program Surcharge, Local Franchise Fee or Tax, Late Payment Penalty and General Terms, Conditions, Rules and Regulations clauses.

The proposed program simply offers Columbia's residential and small commercial customers a gas supply alternative. Under the program Columbia will continue to provide all of the same services to customers who choose an alternate gas supplier as to those customers who choose to remain a sales customer of Columbia. The rate for delivery of natural gas to sales and small volume gas transportation service customers will be the same. That rate is the applicable base rate under Columbia's existing tariff – a rate that has been cost justified and approved by the Commission.

The justification for using Columbia's existing base rates as the base rates for the small volume gas transportation service was set forth in the Response of Columbia Gas of Kentucky, Inc. to Commission Order Dated May 28, 1999, filed on June 3, 1999, a copy of which is attached hereto as Attachment A, and incorporated by reference herein; and in the Supplemental Response of Columbia Gas of Kentucky, Inc. to Commission Order dated May 28, 1999, filed on June 18, 1999, a copy of which is attached hereto as Attachment B, and incorporated by reference herein.

Q: How did Columbia derive the rates charged to Marketers under Rate Schedule SVAS?

A: On page 3 of the Order in Administrative Case 367 the Commission stated that marketers seeking to offer competitive services to Kentucky consumers are expected to participate in the education process and to "foot the bill" for their own efforts. The five cent per Mcf rate is the marketers' contribution to help offset stranded costs. The revenues generated under this rate schedule will be credited to the Stranded Cost/Recovery Pool account. The rate is the product of Collaborative negotiations.

Q: How is the Gas Cost Adjustment Clause impacted by the proposed program?

A: The Gas Cost Adjustment Clause is impacted in two ways. First, the Expected Gas Cost Component, more specifically the billing determinants in the Expected Demand Gas Cost are fixed at the billing determinants in effect on April 1, 1999, and the divisor is the sum of sales volumes plus SVGTS volumes, in order to prevent the expected gas cost from increasing due to customers converting to transportation. This will insure that traditional sales service customers are not affected by the choices of other customers or Columbia's implementation of this program. These changes are set forth on Second Revised Sheet No. 48 and Third Revised Sheet No. 49 of Columbia's tariff. Second, the customer's portion of revenues from capacity release, except administrative releases and off-system sales, except operational sales, will be credited to the Stranded Cost/Recovery Pool rather than the Actual Cost Adjustment. Revenues from administrative releases and operational off-system sales will continue to be credited to the Actual Cost Adjustment. These changes are set forth on Seventh Revised Sheet No. 50 and Fourth Revised Sheet No. 50a.

Q. Please explain why this approach was adopted.

A. As part of the discussions with the Collaborative, this approach offered a solution to meet many of the program goals. It created a revenue stream to offset stranded cost. It is transparent to the customers. It created a gas cost that was more reflective of the marketplace than Columbia's GCR, and it also allowed Columbia to introduce small volume transportation without an additional surcharge to customers.

Q. Are there any other changes to Columbia's existing tariff?

A. Yes. Second Revised Sheet No. 51a the Weather Normalization Adjustment and First Revised Sheet 51b the Customer Assistance Program are proposed to include the appropriate references to Rate Schedule SVGTS. It is necessary that all elements of the otherwise applicable sales tariffs be retained for SVGTS customers in order to ensure that the only change that results from a customer's choice of an alternative supplier is a change in the commodity cost of gas.

Q: The Commission's Order of July 1, 1998 in Administrative Case No.367 identified several issues that any customer choice program must address. How has Columbia addressed each of those issues in its proposal?

A: One of the issues identified by the Commission was the issue of how the supplier of last resort concern will be dealt with. Concerning the obligation to serve and the supplier of last resort, Columbia will remain the provider of last resort and maintain its obligation to serve for the duration of this program, unless Columbia subsequently petitions the Commission otherwise.

Another issue identified by the Commission was non-discriminatory access to services offered. Columbia has ensured that sales service customers are not discriminated against under its program by revising the Gas Cost Adjustment mechanism to prevent the declining sales volumes from increasing the per Mcf rate for gas cost. The difference is a stranded cost as reflected in the financial model. Further, non-discriminatory access to transportation has been assured to all customers by Columbia's retention of billing and collection functions. A marketer will be indifferent to the payment history of potential customers – an issue that was of great concern to Columbia's Collaborative.

The Commission also expressed interest in codes of conduct for marketers and LDC affiliates. Columbia has included in the general terms and conditions attached to Rate Schedule SVAS a Code of Conduct applicable to marketers and Standards of Conduct to which it will adhere for marketing affiliates.

Concerning the pricing of services, Columbia has proposed that the rate for the delivery service for SVGTS should be the same as our current approved base rate since the services provided remain the same. New services include SVAS (marketer contribution) and balancing charges. The SVAS rate was established as part of the collaborative discussions as a marketer contribution towards stranded cost. Columbia witness Phelps discusses the balancing charge. The cost for billing and billing rate changes were agreed to by the Collaborative. They were determined to be reasonable rates that did not subsidize the marketers' cost of gas nor provide revenue opportunity for Columbia.

With regard to billing, customers will continue to receive one bill provided by Columbia. Columbia will revise its bill format to identify the marketer selected by the customer and include the marketer's commodity information on Columbia's bill. The customer will continue to remit their payment to Columbia.

The Commission also expressed interest in the evidence of workable competition, but Columbia has not attempted to define "workable competition." It is not necessary to do so because Columbia has not proposed, as part of this application, to exit the merchant function. As long as Columbia remains in the merchant function with a regulated gas commodity rate the definition of workable competition is irrelevant.

Regarding the stakeholder participation in the formulation of the program, Columbia is very proud of the participation of its Collaborative. The proposed program is the result of negotiation and compromise among the Collaborative consistent with public and shareholder interest. We believe that the application filed in this case represents a proposal with broad-based support of Columbia's customer groups, and as such is entitled to serious consideration by the Commission.

Customer education is discussed in testimony of Columbia witness Byars.

Concerning certification of suppliers, Columbia will certify suppliers according to the parameters set forth in Rate Schedule SVAS.

As the company moves from the current environment of bundled costs to an environment where customers are offered choices, Columbia in its financial model has grouped all costs likely to be incurred in that transition into a "Stranded Cost/Recovery Pool." In essence, these are all transition costs since Columbia will not be left with assets that are not used or useful in the future.

Concerning uncollectibles and disconnections, Columbia has addressed this by retaining the billing and collection responsibility. Columbia's current practices for uncollectibles and disconnections will not change under this program.

Concerning balancing requirements to maintain system integrity, Columbia has addressed this in the testimony of Columbia witness Phelps.

Concerning access to pipeline and storage capacity, Columbia has addressed these issues in the testimony of Columbia witness Phelps and Rate Schedule SVAS.

Q. Does this complete your Prepared Direct Testimony?

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Prepared Direct Testimony of Kimra H. Cole was served upon all parties of record by regular U.S. Mail this 16th day of July, 1999.

Stephen B. Seiple / SRB

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TO CONTINUE ITS GAS COST INCENTIVE	)	
MECHANISMS, AND TO CONTINUE ITS	)	
CUSTOMER ASSISTANCE PROGRAM	)	

PREPARED DIRECT TESTIMONY OF
SCOTT D. PHELPS
ON BEHALF OF
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July 16, 1999

EXHIBIT
4

PENGAD-Bayonne, N. J.

PREPARED DIRECT TESTIMONY OF SCOTT D. PHELPS

Q: Please state your name and business address.

A: Scott D. Phelps, 200 Civic Center Drive, Columbus, Ohio 43215.

Q: Who employs you?

A: I am employed by Columbia Gas of Kentucky, Inc. ("Columbia").

Q: What is your position with Columbia?

A: I am the Director of Gas Procurement.

Q: What is your education background?

A: I received a Bachelor of Science degree in Civil Engineering at Michigan Technological University.

Q: Please describe your employment history with the Columbia Energy Group.

A: In 1978, I joined Columbia Gas of Ohio, Inc. as an Industrial Marketing Engineer and was responsible for representing Columbia to its industrial and large commercial customers throughout Southeastern Ohio. In 1984, I was promoted to Manager, and later Director of Gas Transportation Services in Columbia's Marketing Department in Columbus, serving that function for Columbia Gas of Kentucky, as well as for Columbia's other distribution companies. In that capacity, I was responsible for managing Columbia's expanding role as provider of unbundled gas transportation services to its industrial and commercial customers. In 1989, I was promoted to Director of Gas Procurement in the

Gas Supply Department in Columbus, now called Gas Management Services. In this position, I have responsibilities related to the negotiation, acquisition, scheduling, and payment for Columbia's gas supplies, as well for gas supply contract administration, capacity release and off system sales.

Q: What is the purpose of your testimony?

A: I will describe elements of the Financial Model included in Columbia's application as Attachment A ("the Model").

Q: What is the purpose of the Model?

A: The Model is a tool that has been used by Columbia and its Collaborative group to understand and balance the various costs and revenues associated with providing Small Volume Gas Transportation Service while continuing Columbia's gas cost incentive programs.

Q: How is the Model formatted?

A: The model, as can be seen in Attachment A of the application, lists from top to bottom of the page, the key items that Columbia and the Collaborative identified as being important to the design of the program. They include Gas Transportation and Sales Volumes, Upstream Demand Charges, Stranded Costs, and Revenue Opportunities. At the bottom of the page, additional information is provided regarding assumptions used in developing the Model. The volumetric and financial information is provided from left to right by calendar year.

Q: At the top of the page in the Model, four lines are used to list volumes and unit costs. Please describe the content of each of those first four lines in the Model.

A: I will title each area of my testimony below with the title of the line being described.

1 Total Choice Volumes (Mmcf/yr)

The gas volumes on line 1 represent expected gas deliveries (in millions of cubic feet) during the period to those customers participating in the small volume gas transportation ("SVGTS") program.

2 Total Sales Volumes (Mmcf/yr)

The gas volumes on line 2 represent expected gas sales made by Columbia during the period to those customers who choose to remain Columbia sales customers. The total of lines 1 and 2 represents the total expected gas throughput to the customers eligible for the SVGTS program.

3 GCR-Demand without CHOICE ($/mcf)

Line 3 lists dollars per thousand cubic foot (mcf) of upstream capacity costs. In this case, the costs for the demand portion of transportation and storage contracts are derived assuming that none of those firm contracts are cancelled upon their allowable termination dates. As shown in detail in the first section of Attachment D of the application, the numerator of this unit cost calculation includes the demand costs of all of Columbia's contracts. The denominator includes the annual consumption of all of Columbia's customers that will be eligible for SVGTS, including those expected to choose an alternate supplier as well as those that continue to purchase from Columbia. This calculation is representative of how capacity costs would be determined and charged if there were no SVGTS program.

3a GCR - Demand with CHOICE ($/mcf)

Line 3a differs from line 3 in that the numerator now used in the calculation of the costs has been reduced to reflect the cancellation of certain upstream capacity contracts during the period. This is reflective of what could be expected to occur with a SVGTS program. To the extent some of the gas marketers choose to use their own capacity contracts instead of taking assignment of capacity from Columbia, we would be able to terminate some capacity contracts. These calculations are shown in detail in the second section of Attachment D.

Q: The next set of lines in the Model fall under the heading "Stranded Costs." Please describe what is meant by the term "Stranded Costs."

A: Stranded Costs, as used in the Model, are costs that will occur as a result of offering a choice of gas commodity suppliers to Columbia's small volume customers. By identifying the stranded costs, we will be able to identify the level of revenue opportunities needed to enable us to prevent customers from being negatively impacted by the program. Far and away, the largest of the four costs listed is the first one, which relates to Columbia's long term firm contracts for upstream pipeline capacity.

4a GCR - Demand

To calculate the "stranded costs" related to upstream capacity demand charges, the total SVGTS Volume from line 1 is multiplied by the value in line 3a, the Demand Costs after canceling certain upstream contracts. Those upstream capacity contracts that can be cancelled during the period are first removed from the calculation because, if cancelled they will not add to the stranded costs. This line represents the demand costs that will be incurred as a result of the customer's choice, prior to any revenue offsets.

4b 4c Information Technology and Education

For information on costs related to information technology and education, please refer to the testimony of Columbia witness Byars.

4d Lost Standby Revenues

Some of Columbia's commercial customers currently transport their own gas supplies under rate schedule DS but will now be eligible to participate in the SVGTS program. Some of those DS customers currently receive and pay for Standby Service from Columbia. Columbia in turn maintains firm upstream assets in its design in order to provide that service. When those DS customers with Standby Service switch to SVGTS they will no longer require or pay the Standby Service charge. As with the customers who shift away from firm Columbia's Sales Service, this shift away from firm Columbia Standby Service will add to the total amount of stranded capacity, which adds to the Stranded Costs.

Q: The next section of the Model lists several "Revenue Opportunities." Please describe each revenue opportunity.

A: The revenues identified next present the opportunity to offset the previously described "Stranded Costs."

5a Capacity Assignment

As part of the SVGTS, participating gas marketers will have the opportunity to take assignment of certain interstate transportation and storage capacity from Columbia. The specific capacity involved in such assignments can include Columbia Gas Transmission Corporation's Rate Schedule Firm Transportation Service ("FTS"), Firm Storage Service ("FSS") including Storage Service Transportation ("SST"), and Columbia Gulf Transmission Corporation's Rate Schedule Firm Transportation Service-1 ("FTS-1"). These assignments will be allowed to occur in a manner designed to minimize the stranding of capacity and to keep Columbia's firm sales capacity portfolio in a balanced position. For example, the three rate schedules will be offered in a ratio equal to Columbia's overall portfolio. In addition, FTS-1 capacity, which is the upstream capacity designed to feed FTS capacity, will only be assigned in conjunction with an equal assignment of FTS capacity, and FSS capacity will only be assigned to the extent that it matches an equivalent assignment of SST.

Q: If Columbia assigns interstate capacity to the SVGTS marketer, what will happen should a marketer fail to reliably supply gas to its customer group?

A: Interstate transportation and storage capacity can be released on either a recallable or on a non-recallable basis. Columbia intends to implement all of the releases pursuant to the SVGTS program on a recallable basis. If a marketer fails to deliver gas supplies in a reliable manner, sufficient to serve its customers requirements, Columbia will have the right to recall any assigned capacity in order maintain service to those customers. Failure of a marketer to perform is the only circumstance currently contemplated by Columbia that would lead to such a recall of capacity.

Q: If a marketer wishes to take assignment of capacity to serve its customer group, how will the program operate so as to provide the marketer with the ability to keep its customer demand and the assigned capacity in balance?

A: In the SVGTS program, Columbia's customers will be allowed to enroll with marketers during any month of the year. In other words, enrollments will be ongoing, without any specific deadline or window period. Marketers will be allowed to increase their FTS and FTS-1 transportation assignments in keeping with their monthly increases in their customer group. Storage assignments will be initiated on April 1st, and increases will be allowed throughout the summer months until November 1st of each year.

Q: If a marketer desires to take assignment of capacity, but does not wish to take assignment to cover the entire demand of its customers, can the marketer take a partial assignment of capacity?

A: Yes, a marketer may choose to take assignment of less than the maximum amount of capacity required to meet the maximum daily needs of its customer group. With regard to the transportation capacity, the marketer may choose to take assignment of anywhere from zero to one hundred percent of its customer requirements. With regard to storage, the marketer must take at least the minimum amount needed to serve the daily balancing requirements of its customer group if the marketer wishes to avoid the charges related to Daily Balancing. To the extent the marketer takes less than the minimum storage assignment for its customer group, the marketer will need to purchase Daily Balancing service from Columbia for the marketer's remaining customers.

Q: Is it possible that the implementation of capacity assignment can change during the term of the proposed program?

A: Yes, Columbia has proposed that, in order to reduce the level of risk related to the amount of stranded costs generated by customers choosing an alternate supplier, Columbia must have the ability to implement mandatory capacity assignment to the SVGTS marketer under certain circumstances. If Columbia determines that customer participation levels have grown to a point that puts the financial model out of balance – i.e., when Stranded Costs are expected to exceed Revenue Opportunities, then Columbia may implement Phase II of the program. In Phase II, upstream transportation and storage capacity will be assigned to marketers for any incremental SVGTS markets on a mandatory basis. Marketers will receive assignment of firm capacity under Columbia Gas Transmission's Rate Schedules FTS, FSS along with the associated SST, and Columbia Gulf Transmission Corporation's Rate FTS-1. In addition, depending on the market area in which the marketer's customers are located, Columbia will also assign Tennessee Gas Pipeline Firm Transportation Rate Schedule FT-A. At the beginning of a year immediately following a year in which mandatory capacity assignment was put into effect, Columbia may, at its option, begin allowing marketers to again use their own capacity for new SVGTS customers.

Q: Please continue with your discussion of revenue sources in the Model.

A: **5b Balancing Charges**

In order to provide deliveries that closely approximate the demand of a marketer's customers, that marketer will be required to deliver gas volumes that equal the forecasted requirements of its customers. If the marketer has taken assignment of storage as described above, then the marketer will have the ability to adjust its schedule when the day is complete to the actual temperature for the day, and will be required to match the throughput estimate for the actual temperature experienced. If a marketer chooses not to take assignment of storage capacity, then that marketer will be subject to a Daily Balancing charge of thirty-five cents per one thousand cubic feet ($0.35/mcf) on each mcf consumed by its customer group. This charge represents the storage (FSS and SST) rate schedule costs that will be necessary to provide the daily balancing service. The total costs have been spread over annual throughput volumes to develop the charge on a volumetric or commodity basis.

5c Expiring Contracts

As was discussed in regard to the costs appearing in line 3a of the Model, to the extent capacity contracts are due to expire during the program, while still maintaining sufficient capacity under contract to meet Columbia's merchant obligations, Columbia will allow such contracts to expire. In the proposal however, customers that continue to buy gas from Columbia will continue to pay demand charges calculated as if those contracts had not expired, as was done in line 3 of the Model. This leaves the remaining sales customers with the same pipeline costs that they would have paid if there were no SVGTS program because it will only be as a result of the SVGTS program that Columbia will be able to let the contracts in question expire. The result is a revenue stream, shown by line 5c, which represents demand cost payments made by the sales customers that are used to help off set Stranded Costs.

5d Off-System Sales

Columbia currently has in place two gas cost incentive mechanisms, initially approved by the Commission in Case No.96-079, by Order dated July 31, 1996. The Commission approved an extension of the programs by Order dated July 27, 1998. As part of that Order, Columbia was required to file a "more comprehensive" program by July 1, 1999, for the Commission's consideration, in order to either continue or discontinue those two programs as of August 1, 1999.

The application filed in this case is Columbia's proposal of a "more comprehensive" program. This program deals with several important unbundling issues for Columbia's customers, including company-wide choice of commodity providers for Columbia's small gas customers, and a plan to pay for the resulting Stranded Costs.

Columbia proposes to continue to identify opportunities and market off system sales products after July 31, 1999. Specifically, Columbia has proposed a continuation of the sharing of off system sales revenue beginning August 1, 1999, and continuing through October 1999 (or until the effective date of the proposed SVGTS program). Columbia has also proposed that the off system sales program continue from the implementation date for the SVGTS program, proposed to be November 1, 1999, through October 31, 2004. During both of these future periods, Columbia proposes that it continue to be credited with 35% of off system sales revenue. From August 1999 through October 1999, Columbia proposes that the remaining 65% share continue to be credited in the ACA. After October, once SVGTS is in place, Columbia proposes that the remaining 65% be credited against Stranded Costs as an important "Revenue Opportunity."

Q: Has Columbia filed modified tariff pages to reflect this change and continuation of the off system sales program?

A: Yes, tariff pages to be effective during the period August through October 1999 are included in Attachment E of the application and tariff pages to be effective once SVGTS is initiated in November are included in Attachment C.

Q: In the Model, off system sales revenues are decreasing throughout the period of the program. Please explain that decline.

A: Off system sales are dependent on the size of our merchant function. If Columbia's merchant function shrinks as a result of the SVGTS program, as is forecasted in the Model, then we can expect off system sales revenue to decline in line with that reduction in customer sales volume throughput. This occurs because Columbia will see a reduction not only in its merchant sales obligation, but also in its capacity asset portfolio as a result of capacity assignment, capacity termination, and capacity release.

Q: Please explain how Columbia proposes to utilize capacity release revenue.

A: **5e Capacity Release**

Columbia is proposing that the Capacity Release incentive program be continued and modified in a similar manner to the off system sales program. As with off system sales, there are no changes being proposed to the sharing levels for Columbia. As approved in the previous case, Columbia proposes that it not share in any capacity release revenue until after a benchmark is surpassed. As is done in the current program, and described in the tariff, Columbia proposes to recalculate the benchmark by calculating an "annualized simple monthly average using actual data for the thirty-six months ending June 30th of the year in which the ACA filing is made." Columbia proposes that the next recalculation be done at the time small volume customers begin transporting gas under Columbia's proposed program.

Q: Would the benchmark be recalculated again the following year?

A: No, Columbia proposes that the benchmark be fixed through October 31, 2004, on an annualized simple monthly average using actual data for the 36 months ended October 31, 1999, as defined on Original Sheet No. 58 in the proposed tariff.

Q: Prospectively, how would the sharing work in the capacity release program?

A: As with the existing program, once the benchmark is surpassed, Columbia would be allowed to retain 100% of capacity release revenues above the benchmark until the benchmark is equal to 65% of the total revenue. At that point, Columbia's share reduces to 35%

for any incremental revenue. Columbia proposes that all revenue not retained by Columbia be credited to the Stranded Costs/Recovery Pool.

Q: In the Model, why do Columbia's Capacity Release revenues show increases during the SVGTS program?

A: In the Model, we assume that the SVGTS program will be relatively attractive to marketers and our customers. If this turns out to be the case, then Columbia's sales volumes will decrease. When this decrease in merchant function is combined with the marketers' ability to utilize their own capacity contracts to serve SVGTS customers, Columbia expects that it will have more capacity to release than it has had in the past. If we have more to release, we are assuming that we will be able to generate more revenue than in the past.

Q: Please describe the Marketer Contribution.

A: **5f Marketer Contribution**

For information on revenue related to the "Marketer Contribution", please refer to the testimony of Columbia witness Cole.

Q: Please describe the line in the Model for Net Stranded Costs.

A: **Net Stranded Costs**

The line in the Model labeled Net Stranded Costs shows a zero in the final year by design. In order to achieve this goal of zeroing out stranded costs, Columbia and the Collaborative group worked to identify and incorporate the best mix of related revenue opportunities and program rules. While an exact match between the level of stranded costs and the level of revenue used to offset the costs is the goal of the program, we realize that such an exact match is unlikely. This is an issue addressed further in the testimony of Columbia witness Byars.

Q: Does this conclude your Prepared Direct Testimony?

A: Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Prepared Direct Testimony of Scott D. Phelps was served upon all parties of record by regular U.S. Mail this 16th day of July, 1999.

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