COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:	)	
	)	
THE APPLICATION OF COLUMBIA GAS OF KENTUCKY, INC. TO IMPLEMENT A NEW SMALL VOLUME GAS TRANSPORTATION SERVICE, A GAS PRICE HEDGING PLAN, AN OFF-SYSTEM SALES AND CAPACITY RELEASE REVENUE SHARING MECHANISM, AND A GAS COST INCENTIVE MECHANISM.	)	Case No. 2004-00462

PETITION OF COLUMBIA GAS OF KENTUCKY, INC. FOR CONFIDENTIAL TREATMENT OF DATA

Columbia Gas of Kentucky, Inc. ("Columbia") has this same day filed in the instant dockets an Application in which it is asking the Commission to approve Columbia's new CHOICE program, along with a gas price hedging plan and other incentive mechanisms. Under the proposed Gas Price Hedging Plan ("Plan"), a historically based Benchmark Price is derived from winter period price information. Trigger Prices are then determined based on the Benchmark Price. Each Trigger Price has a specified quantity of Columbia's winter gas purchase requirements associated with it. Columbia will hedge the price on specified gas quantities that are to be purchased in future winter months when the New York Mercantile Exchange winter strip price is less than or equal to a Trigger Price. Pursuant to 807 KAR 5:001, Section 7, Columbia is requesting confidential treatment for that part of the Plan that identifies information about the Trigger Prices, and the quantities of gas to be hedged at the identified Trigger Prices. Attached to the Application is a detailed description of Columbia's Plan, redacted to obscure the confidential data. Attached to the original copy of this Petition, as Attachment A, is a copy of the Plan with the confidential information identified by yellow highlighting. All other copies of this Petition include as Attachment A the gas price hedging plan with the confidential information obscured.

The Trigger Price information is confidential and proprietary, and, if publicly disclosed would damage Columbia's competitive position and business interests by providing competitors and financial traders with information that would enable them to determine the timing and approximate volume of Columbia's hedging activity, which might enable them to take financial positions based on that knowledge to the detriment of Columbia's ability to obtain the lowest cost gas for its customers and its ability to compete for customers. This Trigger Price information is not disclosed to the public, and is being provided only to the Commission in compliance with 807 KAR 5:001, Section 7.

In view of the foregoing considerations, the data should be classified as confidential, pursuant to KRS §§ 61.870 *et seq.*, on the following specific grounds:

(1) Trigger Price information is exempt from disclosure pursuant to KRS § 61.878(1)(c)(1) because the information would permit an unfair commercial advantage to Columbia's competitors, and to financial traders with whom Columbia might be negotiating for the purchase of the financial instruments necessary to implement Columbia's gas price hedging plan.

(2) All the information provided herewith is further exempt from disclosure pursuant to KRS 61.878(1)(l), which exempts "information the disclosure of which is prohibited or restricted or otherwise made confidential by enactment of the General Assembly."

This is so because the Trigger Price information constitutes "data" which "[d]erives independent economic value...from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use..." It is also kept confidential by Columbia, and is therefore "the subject of efforts that are reasonable under the circumstances to maintain its secrecy." As a result, the Trigger Price data constitutes "trade secrets" within the meaning of KRS § 365.880(4)(a) and (b), and its disclosure is either prohibited or restricted by the express provisions of §§ KRS 365.880 through 365.894.

By granting this Petition and providing for confidential treatment of the Trigger Price data, the Commission can fully evaluate Columbia's proposed Gas Price Hedging Plan, while maintaining the general confidentiality of such data, thereby balancing the public interest with the private competitive interest in such information.

WHEREFORE, Columbia respectfully requests that the Commission issue an order authorizing the confidential treatment of Columbia's gas price hedging plan attached hereto, pursuant to 807 KAR 5:001, Section 7, for the reasons stated herein.

Dated at Columbus, Ohio, this 30th day of November 2004.

Respectfully submitted,

COLUMBIA GAS OF KENTUCKY, INC.

By: Stephen B. Seiple

Stephen B. Seiple
Lead Counsel

Stanley J. Sagun, Assistant General Counsel
Stephen B. Seiple, Lead Counsel
200 Civic Center Drive
P.O. Box 117
Columbus, Ohio 43216-0117
Telephone: (614) 460-4648
Fax: (614) 460-6986
Email: sseiple@nisource.com

Richard S. Taylor
225 Capital Avenue
Frankfort, Kentucky 40601
Telephone: (502) 223-8967
Fax: (502): 226-6383

Attorneys for
COLUMBIA GAS OF KENTUCKY, INC.

ATTACHMENT A

~~CONFIDENTIAL DOCUMENT~~

Columbia Gas of Kentucky, Inc.
Gas Price Hedging Plan

November 9, 2004

This Gas Price Hedging Plan ("Plan") sets forth rules that Columbia Gas of Kentucky, Inc. ("Columbia") will follow in setting gas purchase prices in advance on a portion of Columbia's winter period gas supply requirements in advance. The remainder of Columbia's winter period gas purchases will continue to be closely linked to winter market prices. Implementation of the Plan is intended to reduce the impact that potentially dramatic winter price spikes could have on the Gas Cost Adjustment price and to promote a level of price certainty and stability for Columbia's winter season gas supply.

Columbia will follow this Plan when setting natural gas prices for future deliveries of gas purchased to meet a portion of its firm demand requirements. This Plan includes the following sections.

- OVERVIEW
- PRICE
- VOLUME
- TIMING
- FIXED PRICE METHOD
- RECOVERY OF GAS COSTS
- ADMINISTRATION & CONTROLS
- IMPLEMENTATION

OVERVIEW

This Plan is intended to provide Columbia with the ability to provide a more diversified portfolio approach to its gas purchases. By engaging in a more diversified pricing approach, Columbia can reduce the impact that winter price spikes can have on its customers' bills. The approach to setting future prices described in this Plan is designed to make up only one portion of Columbia's gas price portfolio. As part of its portfolio, Columbia continues to recognize the importance of buying a portion of its supply at the then current market price, and of buying gas in the summer at market prices for injection into storage, for use the following winter.

Under this Plan, Columbia will set a fixed price on a portion of its gas purchase volumes that are required in future winter periods. Columbia may implement this Plan through the direct use of New York Mercantile Exchange ("NYMEX") gas futures contracts or through over the counter financial contracts ("futures contracts"). Columbia may also set prices by negotiating fixed prices in physical gas supply contracts with suppliers.

This Plan incorporates a measured, rules based approach to diversifying the pricing of Columbia's gas supply portfolio. Initially, a historically based Benchmark Price is derived from winter period price information. Five Trigger Prices are then determined based on the Benchmark Price. Columbia will set the price on specified gas quantities that are to be purchased in future winter months when the NYMEX winter strip price is less than or equal to a Trigger Price. Each Trigger Price has a specified quantity of Columbia's winter gas purchase requirements associated with it.

If, by a specified date, prices have not been set on a specified minimum gas quantity, then Columbia will set the price on a minimum volume so that a minimum level of price diversification is in place for each winter.

PRICE

Two specific types of pricing data are used to develop the Benchmark Price. One set of data, called the Historic Strip Price, represents a futures market view of the specific winter period for which gas is to be priced. The second type of price data, called the Historic Settlement Price, represents the market price of gas bought and sold in past winters.

The Historic Strip Price equals the average of the NYMEX closing prices during a specific window period for the future winter period in question. The window period begins on the first trading day that the NYMEX gas futures contract for delivery during the last month of the future winter period is listed as the [redacted] contract month among all available NYMEX gas futures contracts. The window period ends on the last trading day that the NYMEX gas futures contract for delivery during the first month of the future winter period is listed as the [redacted] contract month among all available NYMEX gas futures contracts. Determining the Historic Strip Price in this manner results in a window period for triggering prices that is [redacted] years in length, beginning in the November [redacted] years prior to the winter period in question, and ending on the last day of trading for the winter in the October immediately prior to the winter period.

The Historic Settlement Price shall be determined at the same time as the Historic Strip Price and is the average of the final NYMEX price, or settlement price, for each month of the [redacted] prior winter periods. Since there is only one settlement price for each futures contract, this involves only the simple averaging of [redacted] prices, those being the [redacted] winter month prices over the previous [redacted] winters.

The Benchmark Price is the simple average of the Historic Strip Price and Historic Settlement Price, and is calculated each November, when a Historical Strip Price for a new winter period can be calculated. Therefore, the Benchmark Price incorporates expectations for the specific future winter period in question, as well as actual historic winter month prices.

Once the Benchmark Price is established, five Trigger Prices will be calculated, each as a percentage of the Benchmark Price, so that they create a group of prices situated around the Benchmark Price. The Trigger Prices will be equal to [redacted] and [redacted] of the Benchmark Price. The Trigger Price, therefore, can be considered the maximum price in a price band that is [redacted] percent wide, with each price band being symmetrically situated around the Benchmark Price.

Trigger Prices will be compared to the winter strip price of the futures contracts for the winter in question. When the winter strip price is equal to or lower than a Trigger Price, Columbia will set the price on gas quantities equal to the Volume Band associated with that Trigger Price.

VOLUME

Forecasts of non-storage firm demand will be developed and incorporated into the implementation of the Plan once each year. If a forecast of non-storage firm demand for a future winter period changes, Columbia will, if necessary, adjust the size of unused Volume Bands to limit the total volume hedged to [redacted] of its non-storage firm demand.

If changes in the non-firm demand forecast or changes in actual consumption changes such that Columbia has set the price on a quantity greater than [redacted] of the non-storage firm demand, Columbia will hold that position as originally planned, throughout the Plan timetable.

The gas quantity associated with each Trigger Price is a Volume Band. Each Volume Band will be equal to [redacted] of Columbia's non-storage firm demand, rounded to the nearest quantity that will allow for the purchase of an equal number of futures contracts for each of the five winter months.

The first Volume Band will be matched to the highest Trigger Price, the second Volume Band will be matched up with the second highest Trigger Price, and so on through the [redacted] Volume Bands and [redacted] Trigger Prices. When setting the price on a Volume Band, equal quantities will be set for each month of the winter period, with the total five-month quantity being equal to the Volume Band.

If Columbia elects to set prices by negotiating prices in physical gas supply contracts with suppliers, it will first determine the minimum base load demand for each month of the winter. Columbia will not fix the price on volumes in this manner to the extent that such volumes would exceed the minimum base load demand for any month in the winter period.

TIMING

Prices for a winter period may be set beginning in the November, [redacted] years prior to the winter period, when the Benchmark and Trigger Prices are established, and may continue through the last day on which the five-month strip trades for that winter, which will be near the end of the October immediately preceding the winter period being hedged.

If, by the end of the April immediately preceding the winter period, Columbia has not set the price on at least [redacted] of the non-storage firm demand, Columbia will set the price on [redacted] of the shortfall below [redacted] in each of the months of [redacted] of that same year. This will assure that a minimum level of hedging takes place. Volume Bands priced to meet the minimum level of price diversification will not be associated with specific Trigger Prices. If, subsequent to the triggering of transactions for the purpose of meeting the minimum level of price diversification, but before the end of the window period for triggering prices, the future winter strip price drops below the next applicable Trigger Price(s), then additional transactions will take place up to [redacted] of the forecasted non-storage firm demand.

FIXED PRICE METHOD

Columbia will use a fixed price method, as opposed to other methods such as collar prices or ceiling prices, for all volumes priced under this plan. The fixed price method may involve the purchase and ultimate sale of natural gas futures contracts. The purchase of such futures contracts will occur when winter futures strip prices are lower than a Trigger Price as described above. The sale of the futures contract occurs immediately prior to the contract month, at approximately the same time that physical spot prices are traded for that month.

In lieu of the purchase and sale of natural gas futures contracts, Columbia may fix the price of a physical supply through direct negotiation with the gas supplier. In this case, the negotiated fixed price will normally take the place of a market index price in a firm gas supply contract. If Columbia elects to fix prices on a portion of its supply by negotiating prices in physical gas supply contracts with suppliers, Columbia will commit to a price based on the then-current futures price that meets Plan requirements. As is the case when hedging with futures contracts, hedging the basis is not part of Trigger Price calculation. However, in order to complete a physical price hedge, Columbia will negotiate basis for the contractual delivery point location prior to delivery of the gas.

RECOVERY OF GAS COSTS

When setting prices using gas futures contracts, all costs associated with the purchase and sale of those financial trades will be treated as gas costs for purposes of recovery through the Gas Cost Adjustment mechanism in Columbia's tariff. Financial product-related costs shall include, but not be limited to, the cost of the futures contracts, the sale price of the futures contracts (as a credit), broker commission fees and premiums, transaction execution costs, margin account interest, monthly service fees, and other similar external account related fees and charges.

When setting prices with physical gas supply contracts, the supplier includes all related transaction costs in the gas price.

ADMINISTRATION & CONTROLS

All price setting will conform to the Plan. A decision to vary from the Plan will be made only if confirmed in writing by the Vice President of Energy Supply Services. All appropriate and relevant information necessary to provide a clear audit trail will be maintained. Documentation will be kept showing the determination of the Benchmark, Settlement, Strip, and Trigger Prices. Records will be kept showing when prices are set, the volumes involved, along with other relevant information that defines the transaction. If prices are set using futures contracts, those transactions will be completed within an account unique to Columbia's Gas Cost Adjustment hedges. Columbia will monitor data and information pertaining to implementation of the Plan and associated transactions on at least a monthly basis.

IMPLEMENTATION

Columbia will implement this Plan only following approval by the Kentucky Public Service Commission ("PSC"). When all of the necessary approvals have been obtained, Columbia will initiate the Plan using the historic data that would have been used as if the Plan had been in place all along. If for example, the Plan were to be approved on December 15, 2004, Columbia would calculate Benchmarks and Trigger Prices for the winters [redacted] and [redacted] as if those calculations had taken place in November of [redacted] and November of [redacted].

If this Plan is terminated at any point in time as a result of actions taken by the PSC, Columbia will cease implementation of further price setting, and will request direction from the PSC and other interested parties regarding the appropriate timing of the sale of futures contracts already acquired at that time for future winter periods.

NiSource
Corporate Services

Energy Distribution Group Legal

200 Civic Center Drive
Columbus, OH 43215
(614) 460.6000
Fax: (614) 460.6986

November 30, 2004

Ms. Beth A. O'Donnell, Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602

Case 2004-00462

Re: **New Case – Columbia Gas of Kentucky, Inc. Application**

Dear Ms. O'Donnell,

Enclosed for filing with the Commission are the original and ten copies of Columbia Gas of Kentucky's Application to Implement a New CHOICE Program and other programs. Please call me at (614) 460-4648 should you have any questions about this matter.

Very truly yours,

Stephen B. Seiple

Stephen B. Seiple
Lead Counsel