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July 3, 2007

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**PUBLIC SERVICE  
COMMISSION**

Ms. Beth O'Donnell  
Executive Director  
Public Service Commission  
211 Sower Boulevard  
P.O. Box 615  
Frankfort, KY 40602-0615

RE: *Case No. 2007-00008 (Application of Columbia Gas of Kentucky, Inc.)*

Dear Ms. O'Donnell:

Please find enclosed herewith for filing an original and 10 copies of Interstate Gas Inc.'s Response to Columbia's Motion to Strike Direct Testimony of Scott White in the above-referenced matter. Please contact me should you have any questions or concerns.

Regards,



Matthew Malone

Enclosures

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the matter of: :  
: :  
Application Of Columbia Gas of Kentucky, Inc. :  
For An Adjustment of Gas Rates :

Case No. 2007-0000

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PUBLIC SERVICE  
COMMISSION

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INTERSTATE GAS SUPPLY, INC.'S RESPONSE TO COLUMBIA GAS OF  
KENTUCKY, INC'S MOTION TO STRIKE DIRECT TESTIMONY OF WITNESS  
SCOTT WHITE

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Comes Interstate Gas Supply, Inc. ("IGS") in response to Columbia Gas of Kentucky, Inc.'s ("Columbia") Motion to Strike Direct Testimony of Witness Scott White, on behalf of itself and those customers that it serves through the Customer Choice Program ("Choice Program"). In support of its response, IGS states as follows:

I. **TESTIMONY REGARDING THE CHOICE PROGRAM IS NECESSARY FOR THE PROPER RESOLUTION OF THIS RATE CASE.**

Columbia agreed to address its commitment to and intentions regarding continuation of the Choice Program by March 31, 2007. Specifically, Columbia agreed to submit its intentions regarding continuation of the Choice Program beyond March 31, 2009. Rather than addressing these requirements, Columbia has instead stated,

"Columbia is reviewing its experience and the experience of its customers under the new program. However, Columbia has not yet reached a determination of its intentions regarding possible continuation of the pilot program beyond March 31, 2009. **Further the outcome of the pending rate case may impact the decision-making process ...**"

*See* letter dated March 30, 2007, H. Miller, Jr., president of Columbia, attached and incorporated herein (emphasis added). Accordingly, Columbia has explicitly broadened issues arising in this rate case.

Meanwhile, at the time of filing of this rate case in February 2007, Columbia stated that this rate adjustment case would simply not impact the Choice Program.<sup>1</sup> Accordingly, Columbia first sought to deny the relevance of the Choice Program and IGS to the rate case and deny IGS' intervention. Thereafter, Columbia notified Choice Program suppliers, including IGS, that it would not provide any assurances regarding the continuation of the Choice Program **because of this rate case**. At this point, IGS submits Columbia seeks to avoid the issue altogether.

IGS understands the PSC's desire to limit the scope of issues involved in cases before it. However, if we do not address the continuation of the Choice Program, Choice suppliers are at a significant disadvantage once the rate case is completed, as the cost impact of the items being decided that are intertwined with the Choice program will no longer be ripe for review. Stated simply, IGS' full intervention was approved because it was clear that there would be issues in this rate case that would have a direct impact on the Choice Program, Choice suppliers and Choice customers. Additionally, it is very easy to see that such issues including duplicative or disproportionate charges to Choice customers, in regards to working capital and bad debt expenses, could be successfully addressed in this forum and improve the Choice Program, only to have Columbia undo these solutions by either significantly modifying the Choice Program or worse yet eliminating the program in its entirety.

Clearly, when IGS filed for intervention in this case on February 14, 2007, Columbia had not yet addressed its intentions, or lack thereof, regarding continuation of the Choice Program. Since that time, Columbia's letter and actions demonstrate that the outcome of the rate case is directly relevant to its decision regarding the continuation of the program. As such, it is not difficult to see that if Columbia perceives changes IGS would like to achieve in this case as losses to Columbia, then Columbia could simply discontinue or modify the program. It would be

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<sup>1</sup> See Direct Testimony H. Miller, p. 17, lines 6-10.

a classic example of a pyrrhic victory. As such, the PSC should allow IGS to address these concerns in this rate case based on this newly discovered information and judicial economy.

II. **TESTIMONY REGARDING THE CONTINUATION OF THE CHOICE PROGRAM INVOLVES THE ALLOCATION OF COSTS BETWEEN CHOICE AND NON-CHOICE CUSTOMERS AND IS WITHIN THE SCOPE OF THESE PROCEEDINGS.**

Columbia seeks to limit the scope of IGS' testimony to issues of cost allocation between Choice Program customers and other customers. At the same time, the PSC order includes the directive that IGS may pursue areas identified in its request, namely, "that the proposed rate adjustment may be unequally allocated between Choice Program customers and those not participating in the Choice Program." *See* PSC Order dated April 2, 2007 at 2-3.

Accordingly, IGS has included testimony relevant to potential unequal cost allocation between Choice customers and those not participating in the Choice Program. Moreover, this relevant testimony properly included the topic of the continuation of the Choice program. Specifically, IGS opined:

"Customers benefit from having options with respect to commodity purchases. Customers will benefit even more if their ability to contract with suppliers is permanent, both in terms of the number of products that would be available resulting from additional products and offers from existing suppliers as well as new market entrants providing offers. Through Choice, customers have the ability to take control of their natural gas purchasing decisions. However, the short-term nature of the program does not allow marketers to provide a full array of products, since products would extend beyond the end of the program cannot be offered..."

*See* Direct Testimony of Scott White p. 6, lines 4-21. As such, IGS lacks the ability to purchase long-term products (e.g. natural gas future contracts) beyond March 31, 2009 for Choice customers. As a result, Choice customers suffer by not receiving the potential benefit of these

long-term products. This clearly creates a situation wherein Choice customers may suffer whereas those non-Choice program customers will not.

Simply put, Columbia has failed to provide any indication regarding continuity of the Choice Program because of this rate case. Accordingly, this rate case (i) detracts from IGS' ability to offer long-term competitive products to Choice customers and (ii) creates a strong potential for unequal allocation of supply costs between Choice customers and those not participating in the Choice Program. As such, the only way to resolve this situation is to address the continuation of the Choice Program in this rate case. Columbia's failure to address the continuation of the Choice program has now unmistakably tied continuation of the Choice Program to this rate case. As such, continuation of the Choice Program is within the scope of these proceedings.

### III. **IGS IS A FULL INTERVENOR IN THIS RATE CASE.**

On April 2, 2007 the PSC granted IGS full intervention in this rate case based on several concerns. IGS' motion to intervene addressed several issues including, but not limited to, whether, "the proposed rate adjustment may be unequally allocated between Choice Program customers and non-Choice program customers."<sup>2</sup> Likewise, IGS' motion to intervene included for the possibility that "these proceedings could also involve other issues of critical importance to IGS, its current customers and future customers." IGS' motion to intervene allowed for the possibility that other issues may arise including Choice Program continuity.

On the contrary, in February 2007, Columbia stated this rate case simply had nothing to do with the Choice Program.<sup>3</sup> However, thereafter in March 2007, Columbia declared its indecision regarding continuation of the Choice Program because of this rate case. Such a

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<sup>2</sup> See p. 2 of PSC Order dated April 2, 2007.

<sup>3</sup> See Direct Testimony H. Miller, p. 17, lines 6-10.

position, or lack thereof, clearly concerns not only IGS but also its customers. IGS justifiably relied upon the direct testimony of Columbia. IGS addressed concerns in its motion to intervene which included, “the impact on this case to future Choice Program customers.” Columbia now seeks to strike direct testimony regarding continuation of the Choice Program. As addressed herein, Choice Program continuation is highly relevant and important to both IGS and Choice customers and Choice Program continuation is clearly within the scope of these proceedings. In addition, sales customers that may in the future decide to become Choice customers are also impacted by the events that occur in this proceeding, as well as the continuation of the program. Customers have had decades to become familiar with a traditional means of purchasing commodity service, that being the regulated monopoly service. Choice programs have not yet been available for a decade. Time is needed to fully develop all the benefits of a competitive market, and as customers become educated and suppliers like IGS are able to become involved in rate cases and other relevant proceedings, fewer inequities will hopefully exist creating greater opportunities for consumers to become participants in the competitive market. However, if the future of the Choice Program is at jeopardy each time Columbia files a rate case or, for that matter in a separate proceeding, customers, whether Choice or sales, will not have the opportunity to make informed choices on a level playing field. Beyond all of the other issues present in this case, had IGS known that Columbia intended to involve continuation of the Choice Program when Columbia filed this case, then IGS would have simply addressed the specific issue while intervening.

In any event, given Columbia’s approach to this matter and the double-speak to Choice Program suppliers and customers, IGS respectfully requests clarification from the PSC regarding the issues relevant to these proceedings. In support thereof, IGS submits that Columbia created

this limbo situation and IGS should be permitted to resolve this matter efficiently and judiciously in this rate case.

**Wherefore**, IGS respectfully requests that the PSC deny Columbia's motion to strike portions of IGS' testimony of Scott White as addressed herein.

Respectfully submitted,

HURT, CROSBIE & MAY PLLC



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**INTERSTATE GAS SUPPLY, INC.**

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**CERTIFICATE OF SERVICE**

I hereby certify that an original and ten (10) copies of this Response were served via hand-delivery upon Beth O'Donnell, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40602-0615; furthermore, it was served by mailing a copy by first class U.S. Mail, postage prepaid, on the following, all on this 3<sup>rd</sup> day of July, 2007.

Hon. Mark Kempic  
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ATTORNEY FOR INTERSTATE GAS SUPPLY, INC.

Herbert A. Miller, Jr.  
President

March 30, 2007

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

RE: CASE NO. 2004-00462

Dear Ms. O'Donnell,

The purpose of this letter is to address a commitment made by Columbia Gas of Kentucky, Inc., ("Columbia") in its November 30, 2004 application in the above case.

In Case No. 2004-00462, Columbia sought approval to, among other things, implement a revised Customer Choice program to replace its original CHOICE pilot program. The original CHOICE program authorized in Case No. 1999-00165 was set to terminate on March 31, 2005. Columbia requested authority to implement a new voluntary CHOICE program on a pilot basis from April 1, 2005 through March 31, 2009. In its application, Columbia stated that no later than March 31, 2007, it would notify the Commission and parties to the case of its intentions with regard to possible continuation of the new pilot program beyond March 31, 2009.

The concepts of the new CHOICE program were developed and reviewed with stakeholders representing residential and commercial customer interests in Columbia's service territory. The parties included Interstate Gas Supply, Inc., MxEnergy, Inc., the Office of 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. By Order dated March 29, 2005 the Commission authorized Columbia's revised voluntary pilot Customer Choice program as proposed.

Columbia identified three goals it believed critical to the success of its new CHOICE program. The goals were as follows:

- The program must provide an opportunity for residential and small commercial customers to have additional gas supply options available, and that provide an opportunity for reduced gas prices and/or more stable gas prices, while maintaining reliability of service;
- The program must allow Columbia to recover its costs of administering the program, and should provide incentives that will encourage Columbia to promote the CHOICE program; and,

- 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 CHOICE program.

Columbia is reviewing its experience and the experience of its customers under the new program. However, Columbia has not yet reached a determination of its intentions regarding possible continuation of the pilot program beyond March 31, 2009. Further, the outcome of the pending rate case may impact the decision-making process and Columbia expects that it may be year-end before it can come to its conclusion. Columbia will notify the Commission and parties to this case at that time.

If you have any questions, please contact Judy Cooper at (859) 288-0242 or [jmcoop@nisource.com](mailto:jmcoop@nisource.com).

Sincerely,



Herbert A. Miller, Jr.

President