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TO: FILINGS DIVISION FAX #: (502) 564-3460

COMPANY: Public Service Commission

FROM: Matthew Malone, Esq. DATE: July 11, 2007

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

Number of pages including this cover page: 13

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July 11, 2007

ATTN: Filings Division
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 Sir/Madam:

Attached please find a copy of Interstate Gas Supply, Inc.'s response to the Commission's data request. We are providing this facsimile copy to comply with the Commission's order, however, we will be formally filing appropriate bound copies with the Commission tomorrow morning.

Thank you for your attention to this matter. If you have any questions, please call me.

Regards,

Matt Malone

Matthew Malone

Enclosures
H:\CaseFiles\Interstate Gas, Inc\Correspondence\071107 PSC.ltr.doc

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
PSC CASE NO. 2007-00008
INFORMATION REQUESTED BY
THE COMMISSION STAFF

Question No. 1

Refer to the White Testimony, page 7. Mr. White states that bad debt expense should be handled either by adjusting the discount that Columbia Gas of Kentucky, Inc. ("Columbia") charges to purchase a marketer's account receivables or by removing it from base rates and collecting it through the gas cost recovery ("GCR") commodity costs.

a. Explain how bad debt expense is a commodity cost that is appropriate to include the GCR commodity costs.

b. If Columbia is purchasing IGS's account receivables and is then responsible for collecting or absorbing any bad debts in those receivables, explain how delinquent Choice customers are any different from Columbia's sales customers in terms of the bad debt expense.

c. Mr. White recommends removing the monthly billing fee and the 10 cent throughput fee. Are these fees charged to the marketers directly or are they a component of the customer's bill?

d. If IGS is billed directly for the billing fee and the throughput fee, explain how IGS passes these costs through to its Choice customers.

Response of Interstate Gas Supply Inc.:

a. Bad debt includes as a significant component billed gas commodity cost that is not paid by the customer. A billed gas commodity cost remains a gas commodity cost regardless of whether it is ultimately paid or not. As such, nothing changes the gas cost from being a gas cost simply because it is not paid by the customers and relabeled "bad debt". Those billed gas costs that are considered part of the bad debt charge should remain in the GCR, since GCR customers are the only group that is part of the group that creates the cost Columbia is intending to recover and the unpaid costs remains a commodity charge for commodity used by the customer.

b. In response to IGS Data Request Set 1, Question 1(a), Columbia stated the "ratio [for bad debt] does not include consideration for Choice marketer bad debt." As such, Choice customer bad debt is a distinct and separate element than Sales customer bad debt, and Sales customers are in no way paying for the Choice customer bad debt experience, commodity or otherwise. However, including bad debt expenses in base rates would require Choice customers to pay for Sales customers' bad debt experience, as well as the bad debt experience of Choice customers through the receivables discount. The inclusion of a receivables discount and inclusion of bad debt in base rates creates an inequity for Choice customers. Since the accounting and tracking of bad debt is separate between Sales and Choice customers, the mechanism to recover the bad debt expense needs to be separate. If bad debt is going to be included in base rates, which Choice customers pay, a corresponding reduction in the receivables discount percentage needs to occur.

c. The monthly billing fee of $0.20 per bill and the $0.10 per mcf throughput fee are charged to the marketer.

d. The costs become part of our overall costs structure. Our cost structure is reflected in our commodity prices.

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
PSC CASE NO. 2007-00008
INFORMATION REQUESTED BY
THE COMMISSION STAFF

Question No. 2

Refer to the White Testimony, pages 12 through 15.

a. Was Mr. White aware that the working capital allowance of $48,222,713 includes amounts for materials and supplies and prepayments?

b. Provide a schedule showing by month the volumes and dollar value of all gas injected into and withdrawn from storage by IGS for the months of September 2005 through September 2006 for its Choice program customers of Columbia.

c. In the event that IGS fails to provide sufficient volumes of natural gas for its Choice program customers, indicate who provides the natural gas to those customers on the Columbia system.

Response of Interstate Gas Supply Inc.:

a. It is Mr. White's understanding from Mr. Miller's testimony, page 9 lines 1-9 that $47.8 million of the $48.222 million of the working capital represents Columbia's requested amount for gas in underground storage, which according to Mr. Miller is a result of gas in underground storage increase from $11.9 million to $47.8 million. It is Mr. White's understanding from Schedule B-5.1 Sheet 1 of 1 from Witness Humrichhouse (work paper Reference WPB 5.1) that total working capital allowances are $48,222,713 of which $47,790,396 are for Gas Stored Underground or approximately 99.1% of total working capital. The remaining $432,317 is made up of materials & supplies ($88,123) and Prepayments ($344,194). It is not clear what these items are or that Choice customers who are responsible for delivering their own gas to Columbia should be paying for these working capital items especially prepayments if those prepayments are related to gas supply

b. See attached spreadsheet PSC Data Set 1, Question 2(b) A.

Public Service Commission's Data Request Set 1
Question No. 2 **(Cont'd)**
Interstate Gas Supply, Inc. Respondent: **Scott White**

c. IGS delivers all volumes throughout the year as required by Columbia. If IGS were to default on a delivery as required by the program then IGS is held financially responsible for such a default including replacement of gas and penalties. As part of the program IGS is charged a through put fee to reimburse Columbia for transportation and storage demand charges on upstream pipelines. In addition IGS is required to over deliver gas in the summer to so that gas is injected into the upstream so that Columbia will have gas available to deliver to IGS customers in the winter either as part of the program or in the event that IGS fails to provide sufficient deliveries for its choice customers.

PSC Data Set 1, Question 2 b - Attachment

Month	IGS Gas Delivered DTH	Gas Consumed DTH	Injected or (withdrawn) DTH	Annual Cashout	Acummalitve Balance DTH	WACOG		
					1,421,139.1	$	9.13	$ 12,974,999.98
9/30/2005	425,280.0	98,911.3	326,368.7		1,747,507.8	$	9.13	$ 15,954,746.21
10/31/2005	314,216.0	85,996.4	228,219.6		1,975,727.4	$	9.13	$ 18,038,391.16
11/30/2005	303,390.0	218,737.8	84,652.2		2,060,379.6	$	9.13	$ 18,811,265.75
12/31/2005	310,310.0	535,802.0	(225,492.0)		1,834,887.6	$	9.13	$ 16,752,523.79
1/31/2006	305,753.0	630,506.8	(324,753.8)		1,510,133.8	$	9.13	$ 13,787,521.59
2/28/2006	283,052.0	537,028.4	(253,976.4)		1,256,157.4	$	9.13	$ 11,468,717.06
3/31/2006	312,573.0	515,406.9	(202,833.9)		1,053,323.5	$	9.13	$ 9,616,843.56
4/30/2006	291,539.0	324,687.9	(33,148.9)		1,020,174.6	$	9.13	$ 9,314,194.10
5/31/2006	294,469.0	146,885.8	147,583.2		1,167,757.8	$	9.13	$ 10,661,628.71
6/30/2006	279,030.0	70,682.2	208,347.8		1,376,105.6	$	9.13	$ 12,563,844.13
7/31/2006	284,611.0	68,497.9	216,113.1	(1,444,051.2)	148,167.5	$	9.13	$ 1,352,769.28
8/31/2006	279,744.0	88,595.5	191,148.5		339,316.0	$	9.13	$ 3,097,955.08
9/30/2006	270,180.0	67,813.7	202,366.3		541,682.3	$	9.13	$ 4,945,559.40
Average Monthly Balance					1,233,178.5			$ 11,258,919.99

* WACOG based on CKY cashout value

Public Service Commission's Data Request Set 1
Question No. 3
Interstate Gas Supply, Inc. Respondent: **Scott White**

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
PSC CASE NO. 2007-00008
INFORMATION REQUESTED BY
THE COMMISSION STAFF

Question No. 3

Refer to the White Testimony, page 13. Mr. White discusses excess gas that is injected into storage during the summer for use in the winter. When IGS or other marketers inject gas into storage for the Columbia Choice customers, do they inject gas into Columbia's storage system or do they inject it into another storage field not associated with Columbia?

Response of Interstate Gas Supply Inc.:

IGS delivers natural gas to Columbia of Kentucky. IGS pays a balancing fee based on the storage and transportation demand charges on upstream pipelines that Columbia has contracted for its sales customers. It is IGS's understanding that the over delivered gas is injected into and stored using Columbia Gas Transmission storage contracts held by Columbia Gas of Kentucky.

Public Service Commission's Data Request Set 1
Question No. 4
Interstate Gas Supply, Inc. Respondent: **Scott White**

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
PSC CASE NO. 2007-00008
INFORMATION REQUESTED BY
THE COMMISSION STAFF

Question No. 4

Refer to the White Testimony, page 15. Mr. White provides an estimate of $.67 per Mcf as the credit for returning the working capital to suppliers who participate in the Choice program.

a. Explain how IGS would return this charge to its Choice customers.

b. Since Choice customers still receive one bill incorporating Columbia's delivery charge and IGS's gas cost, how would the credit be shown on the bill?

c. Mr. White states that uncollectible expense is in essence the bad debt of sales customers for commodity sales. The bill for a Choice customer includes Columbia's minimum bill, Columbia's delivery charge, the marketer's gas cost, surcharges approved by the Commission and taxes. Explain how non-payment of a Choice bill would only be for the commodity cost and only for Columbia's sales customers.

d. Identify States with Choice programs that allow collection of uncollectible expense through the commodity cost

Response of Interstate Gas Supply Inc.:

a. There are various ways to return the amount to Choice customers. The cleanest and likely most appropriate manner to recover this cost is to remove it from base rates all together and include it as a component in the sales customers' gas commodity cost, through the GCR. This was recognized as appropriate recently in Ohio in the Vectren utility service territory, in a recent Management Performance Audit (05-220-GA-GCR/04-220-GA-GCR). Another alternative, although more complex would be to create either a credit back through a rider to the customer, or provide a credit to the marketer against the various costs charged by Columbia, including the 10 cent throughput charge, balancing charge and billing fee. Columbia's requested amount may be appropriate, given its sales customer costs, so it may also be necessary to take this into consideration if the credit back approach is considered, to ensure that Columbia continues to receive the full amount needed to compensate it for its working capital costs related to gas in storage, but from the appropriate customers. This would mean a charge back to Sales customers in the amount of the credit, most appropriately through the GCR, as this is a cost associated with providing commodity service.

b. If the cost were included in the GCR instead of the base rates, no credit would be necessary. If the credit is provided to the marketer as a credit against the other charges that are assessed to the marketer, there would be no need to also show it on the bill, as the credit would offset some of the costs and would be reflected in the marketers overall costs structure. If a separate crediting mechanism was created, a separate line item could be included on the customers' monthly bills.

c. Columbia filed for the recovery of bad debt for the commodity of sales customers, which would include the commodity costs, delivery charges, and surcharges approved by the Commission but would not include any of the bad debt commodity costs for Choice customers, as those costs are separately tracked by Columbia and recovered through the 2.5% discount.

d. New York, specifically National Grid and Central Hudson, include bad debt as part of the sales customers commodity cost recovered through the GCR. Central Hudson and National Grid purchase marketer receivables at a discount of less than 1% (currently 0.96% (CH) and 0.987% (NGD)) as compared to Columbia's 2.5%. The Ohio Commission recognized the inequity that exists when bad debt is included in base rates and has instituted a bad debt tracker, where all bad debt is recovered equally from all choice eligible customers. This enables the utilities in Ohio to purchase receivables at a zero percent (0%) discount.

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
PSC CASE NO. 2007-00008
INFORMATION REQUESTED BY
THE COMMISSION STAFF

Question No. 5

Refer to the White Testimony, page 16.

a. Describe in detail the bad debt or uncollectible expense Choice program customers are paying to IGS.

b. When Columbia purchases the supplier receivables, does it assume all risk of collection, or does IGS still have that risk? Explain the response.

c. Does IGS include in its commodity pricing to Choice program customers a component to recover the 2.5 percent receivables discount from its customers? Explain the response.

Response of Interstate Gas Supply Inc.:

a. Columbia has not provided the exact bad debt experience that it has had for Choice customers, but the 2.5% discount is intended to reimburse Columbia for the bad debt experience of Choice customers. The discount is part of IGS' overall cost structure and is part of the formula for calculating offers.

b. Columbia does not assume any risk for bad debt of Choice customers up to the 2.5% discount. Bad debt for Choice customers in excess of 2.5% is born by Columbia. Columbia has not provided the bad debt rate for Choice customers. IGS believes that the bad debt rate for Choice customers is analogous to the bad debt rate for sales customers, which is significantly less than 2.5%.

c. The discount is part of IGS' overall cost structure and is part of the formula for calculating offers.

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
PSC CASE NO. 2007-00008
INFORMATION REQUESTED BY
THE COMMISSION STAFF

Question No. 6

Refer to the White Testimony, page 17. Mr. White states that currently Choice customers must pay an additional fee to include their supplier's commodity costs on their monthly invoice.

a. Provide the dollar amount of the fee that IGS passes onto its Choice customers for this service.

b. The Small Volume Gas Transportation Service section of Columbia's tariff does not include a fee for including the supplier's commodity cost on the monthly bill. Explain further what fee Mr. White is referring to and how this fee is assessed to Choice customers.

c. Explain the basis for the conclusion that the invoice belongs to the customer.

d. Provide a listing of the other non-commodity related services that are included on the invoice that Columbia does not charge an additional fee to provide.

e. Explain the basis for Mr. White's opinion that Columbia does not require a fee for these other non-commodity related services.

f. If the 10 cent throughput fee were eliminated, explain in detail why this would not result in all Columbia customers bearing the incremental costs of providing the Choice program, regardless of whether the customer was a participant in the program. In addition, explain why this is a reasonable approach for rate-making purposes.

Response of Interstate Gas Supply Inc.:

a. The monthly billing fee is $0.20 per bill, which as stated previously is part of the overall IGS cost structure.

b. It is IGS' understanding that the monthly billing fee is part of the 2005 settlement stipulation (Case No. 2004-00462) and is not cost justified, rather was an amount included in the 2004 filing, as approved by the Commission.

c. All base rate customers have paid over time for the billing systems through base rate charges, administrative fees and billing fees, and as such, the bill belongs to the customer.

Public Service Commission's Data Request Set 1
Question No. 6 (Cont'd)
Interstate Gas Supply, Inc. Respondent: **Scott White**

d. It is IGS' understanding that Columbia includes warranty charges on the customers' bills for products and services being provided by Columbia Service Partners, which it is IGS' understanding is owned by Utility Service Partners, a company unrelated to Columbia. It is also IGS' understanding that Columbia has an affiliated company that also includes warranty product charges on customers' bills.

e. Based upon the Columbia filed list of accounts, one of which was revenues for other services, no amount was included for that account. Therefore, it is IGS' understanding that no revenue is received for billing other services.

f. Columbia has not demonstrated that there are any incremental costs to be recovered. The 10 cent charge was not costs based (*see* Columbia response to IGS Data Request Set 1, Question No. 18, stating "the marketer charge is not cost based") Therefore, IGS does not believe that there are any incremental costs to be recovered that have not already been recovered by payment of the fee over the past several years. In addition, Columbia has not requested any amount for such costs and, therefore, the costs, if any would not be recovered from anyone, Choice or Sales if the fee was eliminated.