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June 12, 2007

VIA HAND-DELIVERY
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 ten (10) copies of Interstate Gas Inc.'s Verified Direct Testimony in the above-referenced matter. By copy of this letter, all parties listed on the certificate of service have been served.

Please contact me should you have any questions or concerns.

Regards,

Matthew Malone

Enclosures

CERTIFICATE OF SERVICE

I hereby certify that an original and ten (10) copies of the foregoing 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 12th day of June, 2007.

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ATTORNEY FOR INTERSTATE GAS SUPPLY, INC.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the matter of:	:	**Case No. 2007-00008**
	:	
Application Of Columbia Gas of Kentucky, Inc.	:	
For An Adjustment of Gas Rates	:	

Prepared Direct Testimony of
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5020 Bradenton Avenue
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Dated June 12, 2007

1 **I.** **<u>Introduction</u>**

2 **Q. Please state your name and business address.**

3 A. Scott White. 5020 Bradenton Ave., Dublin Ohio 43017.

4 **Q. Please state your occupation.**

5 A. I am the president of Interstate Gas Supply, Inc. ("IGS"), which is a natural gas marketer
6 and supplier of natural gas and related transportation services to thousands of residential
7 and small commercial customers in Kentucky, specifically in the Columbia Gas of
8 Kentucky service territory. IGS is a natural gas marketer that supplies natural gas and
9 related transportation services to several thousand large commercial and industrial
10 companies, and several hundred thousands residential and small commercial customers in
11 various states in the mid-west, including Ohio, Illinois, Michigan, New York,
12 Pennsylvania and Kentucky. IGS was formed in 1989 and I was one of the founding
13 members of the company. IGS and its wholly owned subsidiaries are privately held
14 companies.

15 **Q. What are your responsibilities as the President of IGS?**

16 A. As president of IGS, I am ultimately responsible for all aspects of the company, including
17 the supply, finance, marketing, accounting, human resources, operations and regulatory
18 areas, although I have employees that manage the day to day operations of each area. I
19 directly monitor all hedging activities, actively hedge a significant portion of IGS's
20 portfolio, monitor and actively participate in supply functions, regulatory issues,
21 marketing, and all other aspects of IGS's natural gas business.

1 **Q. Please describe your educational background and experience.**

2 A. My biography is attached hereto as **Exhibit A**. As noted in my biography, I have been
3 involved in the natural gas market since 1989, and was directly involved in unbundling
4 residential natural gas services in Ohio and Kentucky.

5 **Q. On whose behalf are you appearing in this proceeding?**

6 A. I am appearing on behalf of IGS.

7 **Q. Have you previously testified before any State or Federal utility commissions?**

8 A. Yes. On several occasions I have testified before the Ohio Public Utilities Commission
9 and the Public Service Commission of Kentucky, as well as the Illinois Commerce
10 Commission. I testified on several occasions before the Ohio House of Representatives.

11 **Q. What is the subject matter of your testimony?**

12 A. My testimony involves a number of aspects of the Columbia Gas of Kentucky
13 ("Columbia") request for rate increase and how the requested increases will impact IGS,
14 its customers disproportional and the need for this rate case to include the continuation of
15 the Choice program. Columbia has proposed an increase to its base rates which will have
16 a disproportional effect on Choice customers as they will be asked to pay increased rates
17 to recover costs that they do not create. Specifically, Choice customers will be paying an
18 increase in base rates for components that they are already paying for through the Choice
19 program with respect to working capital for gas in storage and the bad debt charge. In
20 addition, Choice customers will be asked to pay for a rate increase if approved to provide
21 Columbia its full revenue requirements, although the revenue requirements ignore
22 entirely the substantial revenues already received by Columbia through fees charged to
23 Choice customers either directly or through their Choice supplier. Finally Columbia has

1 suspended any determination as the continuation of the Choice program, stating in a
2 March 30, 2007 letter "Columbia has not yet reached a determination of its intentions
3 regarding possible continuation of the pilot program beyond March 31, 2009. Further, the
4 outcome of the pending rate case may impact the decision-making process ...". I will
5 also discuss a need that exists to include the continuation of the Choice program as part
6 of this rate case in that Columbia has directly linked the continuation of the Choice
7 program to this rate case. From a practical standpoint IGS can not effectively represent
8 the issues affecting Choice customers in this rate case knowing that Columbia's decision
9 to continue the Choice program will be based on the results of this case. In other words
10 although the Commission and the Attorney General recognize the need for IGS to
11 participate as a representative for the Choice customers on certain issues in this rate case
12 as to achieve the proper allocation of rates and cost, hopefully the Commission would
13 recognize that our participation will not be meaningful if the results were to negatively
14 impact the continuation of the program.

15 Q. **What are the primary factors cited by Columbia causing them to file for a rate**
16 **increase?**

17 A. According to the pre-filed testimony of Herbert A. Miller, Jr., President of Columbia Gas
18 of Kentucky, the primary factors cited by Columbia are *creation of certainty* related to
19 recovery of stated key drivers, primarily recovery of costs for replacement of mains and
20 *recovery of costs* (approximately $47.8 million) *associated with Columbia placing gas*
21 *into underground storage*. *See* Direct Testimony H. Miller, Jr. p. 9 lines 4-9.

22 Q. **If approved, does Columbia achieve satisfaction of the factors stated in Mr. Miller's**
23 **Direct Testimony?**

1 A. Yes, I believe that it likely would, assuming Columbia's projections are correct, provide
2 greater certainty to Columbia, specifically with respect to the Accelerated Main
3 Replacement Program ("ARMP") and provide revenue recovery for storage outlays each
4 year; however, it does not do so in an appropriate manner.

5 **Q: Why would the factors, if approved, not achieve recovery in an appropriate**
6 **manner?**

7 A. The factors are not achieved appropriately for two reasons: (1) If certainty is appropriate
8 for Columbia for the ARMP project as it reduces regulatory costs and provides benefits to
9 customers, then the same certainty logic holds true for eliminating the pilot designation
10 for the Choice program; and (2) since Choice suppliers provide storage injections for
11 their customers through the summer for use in the winter, it is not appropriate to recover
12 Working Capital costs for gas in storage through base rates, since all customers pay the
13 same for base rates but do not equally contribute to the creation of those costs. I will
14 discuss both in greater detail later in my testimony.

15 **Q: Why is it appropriate to address the continuation of the Choice Program in this rate**
16 **case?**

17 A. In addition to the direct impact the items such as working capital and bad debt will have
18 on customers, as detailed further in my testimony later, this rate case is the appropriate
19 forum to address the continuation of the Choice program since Columbia has inextricably
20 tied the Choice program to this rate case. Columbia notified the Commission by letter
21 dated March 30, 2007 that it had not yet made a decision regarding the continuation of
22 the Choice program beyond March, 2009 and that "the outcome of the pending rate case

1 may impact the decision-making process[.]"[1]Columbia made a commitment in its
2 Application to continue the Choice program to provide its direction by March 31, 2007 so
3 as not to repeat the detrimental events that were experienced in 2005 when the program's
4 future was determined a mere two days before the expiration of the original pilot
5 program. This March was significant in that it was to signify the beginning of the
6 process of discussion for either continuation, or if negative or possible litigation, so as to
7 timely resolve the issues concerning the continuation of the Choice program. By filing a
8 rate case and deferring its decision, Columbia has not met an obligation in its Application
9 and has directly tied the future of the Choice program to this rate case. Also, in so doing
10 Columbia has created a paradox that cannot be resolved except through resolution of the
11 issues presented in my testimony through this rate case. Columbia filed a motion in
12 opposition to IGS' intervention in this rate case, which was denied by the Commission,
13 arguing that IGS did not have issues that could not be resolved by others, and that the
14 Choice program was not impacted by the decision. However, Columbia has indicated a
15 direct correlation between this rate case and its decision to continue the Choice program.
16 If we do not address the issues, especially the continuation of the program in this rate
17 case, suppliers are at a significant disadvantage once the rate case is completed, as the
18 cost impact of the items being decided that are intertwined with the Choice program will
19 no longer be rip for review. In addition, in order for IGS to participate effectively in this
20 case the issue of continuing the Choice program must be addressed since the outcome of
21 some or all of the issues in the rate case will effect Columbia's desire to continue the
22 program, at least according to Columbia.

[1] Letter dated March 30, 2007, H. Miller, Jr., president Columbia Gas of Kentucky, Inc., attached and incorporated herein.

1 **Q. Please summarize the major issues and subjects that you will address in your**

2 **testimony.**

3 A. In my testimony I will discuss the following:

4 1. **Creation of a permanent Choice program**

5

6 • **The Choice Program should be made permanent.** Customers benefit from having
7 options with respect to commodity purchases. Customers will benefit even more if their
8 ability to contract with suppliers is permanent, both in terms of the number of products
9 that would be available resulting from additional products and offers from existing
10 suppliers as well new market entrants providing offers. Through Choice, customers
11 have the ability to take control of their natural gas purchasing decisions. However, the
12 short-term nature of the program does not allow marketers to provide a full array of
13 products, since products that would extend beyond the end of the program cannot be
14 offered. Further, suppliers looking at the market are less likely to invest in the market
15 since the program is for a short duration. This deprives consumers of products they
16 demand, and the best prices are not always available to consumers because such products
17 would span beyond the end of the program and marketers that would otherwise enter the
18 market will not, without some assurances the program will continue. Therefore, the
19 program should be made permanent with deletion of the "pilot" designation, so Kentucky
20 consumers can achieve the greatest and most diverse benefits of a competitive
21 commodity market.

22

23 2. **It is inappropriate for Choice Customers to pay for Working Capital Costs of**
24 **Gas in storage ("Working Capital") since Choice Suppliers build Storage for their**
25 **customers, not Columbia.**

26

27 • **Working capital costs on gas in storage should not be paid by Choice customers.**
28 Choice suppliers deliver natural gas to the Columbia system in a manner that builds
29 inventory in the summer for use in the winter. In essence, deliveries are in excess of
30 usage in the summer, and those excess deliveries are then used by customers in the
31 winter. The delivery pattern for Choice mimics that of Columbia, so that Columbia too is
32 building storage inventories for its sales customers in the summer for use in the winter.
33 As will be demonstrated on the attached IGS **Exhibit B**, the proposed cost to a typical
34 Choice customer for Working Capital would be approximately $49 per year. No
35 justification exists to require Choice customer to pay for capital cost for storage incurred
36 by Columbia for serving sales customers to the extent Choice suppliers mitigate the
37 purchases by Columbia.

38

39 3. **Accounts Receivables' Charge/Uncollectible Expenses**

40

41 • **Choice customers should not be required to fund the bad debt expense of sales**
42 **customers without an adjustment to the receivables discount.** Uncollectible expenses
43 experienced by Columbia for non-payment of Columbia's Sales customers' gas charges

1 should not be recovered from Choice customers unless the Choice purchase of
2 receivables charge is eliminated or significantly reduced. Currently, the bad debt for
3 Choice customers is being recovered by Columbia through a 2.5% discount for the
4 accounts receivable purchased. If bad debt is included in base rates, Choice customers
5 will also be paying for sales customer bad debt experience.[2] If Columbia is going to
6 recover bad debt through base rates, Choice discount for receivables purchase should be
7 removed, or bad debt expenses should be taken out of base rates so that they are
8 recovered only by the group that contributes toward the creation (which could be
9 accomplished by simply putting bad debt into the gas cost recovery ("GCR") commodity
10 costs).
11
12 4. **Monthly Billing Fee should be removed, as there are no incremental costs**
13 **that are incurred and, therefore, the charge is not cost based.**
14
15 • **Choice customers should not have to pay an additional billing fee.** The monthly
16 invoice is the customer's invoice, meaning customers, over time, have paid for the billing
17 functions through their base rate charges. There do not appear to be incremental costs for
18 including a supplier's charges on the customers' monthly invoice, and as such the billing
19 charge should be eliminated.
20
21 5. **Columbia's current rate case, if approved, would allow it to fully recover its**
22 **costs and rate of return and, therefore, the 10 cent throughput charge for Choice**
23 **customers should be eliminated as it is no longer justified.**
24
25 • **Columbia's rate case fully compensates Columbia and provides it full rate of**
26 **return.** Choice customers have to pay an additional 10 cent throughput fee simply for
27 having a Choice program. With the increased base rate, the charge is no longer justified
28 as Columbia would receive its rate of return and the additional incentive fee is no longer
29 needed.
30
31
32 This rate case is the appropriate forum to resolve various issues related to the Choice
33 programs, including the elimination of the "pilot" designation for the program and all the
34 revenue issues addressed in my testimony. If the issues are resolved in this proceeding,
35 regulatory efficiency is achieved, since by resolution in this proceeding additional
36 regulatory time and costs will not be expended attempting to achieve the same goals in
37 later proceedings. This is a concept that Columbia agrees with, as stated by Columbia

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[2] Columbia incurs a 1.163918% bad debt expense. See Columbia's Response to IGS' Data Request Set 1, Question 1.

1 Witness Miller, citing KRS §278.509 stating "avoid[ing] the extensive regulatory costs
2 associate with a series of more frequent rate filing * * * enhances regulatory efficiency
3 and can avoid the costs of repeated rate filings while preserving economy and efficiency
4 for the Commission and its staff." Direct Testimony H. Miller, p. 8, lines 4-11. In
5 addition, the Choice program provides revenues to Columbia which are ignored in this
6 rate case filing. Columbia should not ask for an increase in revenues to be paid for by
7 sales and Choice customers and ignore the revenues provided by the Choice program, so
8 the funds need to be discussed as part of this rate case. Ultimately, the market is being
9 put on hold unnecessarily by Columbia, pending the results of this case. It simply makes
10 sense for the Commission to complete the task at hand and address these issues.

11 **II. Permanent Choice Program**

12 **Q. Do you believe that Columbia should make its Choice Program Permanent?**

13 A. Yes. Customers in many states benefit from competition. Since the mid 1970s,
14 transportation customers have been able to take control of their commodity purchase as a
15 result of deregulation and have benefited greatly. Over the past several years residential
16 and small commercial customers have also been able to take control of their commodity
17 purchases through Choice programs. In addition, the vast majority of larger-volume
18 customers purchase their gas through various wholesale or retail suppliers and have been
19 doing so since the late 1980s. Small volume customers in the Columbia service territory
20 are no different in that they have been able to benefit from competition. However, many
21 of the benefits that Columbia customers could experience are not available, because the
22 Columbia program is not a permanent program. As such, suppliers do not know whether
23 the program will continue at the end of each stipulation and, therefore, cannot provide
24 many of the products customers demand, like long term fixed price contracts. For

1 example, one of the lowest fixed price contracts that could be offered today is a five year
2 product. Since the program currently is only approved through 2009, the longest a
3 contract can be offered today is less than two years. This deprives consumers of Choices,
4 and takes the control out of the consumers' hands. Further, since the program is the
5 result of Columbia's discretion and is short-term in nature, other marketers are not
6 willing to make the investment in the small commercial and residential market in
7 Columbia's service territory, since the program may not continue. The significant capital
8 investment cannot be justified by many new entrants, since the program may not
9 continue. This also deprives consumers of additional offers and an even more vibrant
10 competitive market.
11 Further, as stated earlier, certainty is a critical component to several elements of relief
12 that Columbia has requested in this case. For example, Columbia proposes a tracking
13 mechanism be instituted to recover the costs associated with the ARMP project, which as
14 described by Columbia Witness Miller is a 20 year project to replace 540 miles of
15 unprotected lines. Columbia is requesting approval for a 20 period because it creates
16 more certainty with respect to recovery of its costs, reduces costs and regulatory outlay
17 regarding repeated requests for shorter periods and as a result provides benefits to
18 customers. I agree with Columbia that there are efficiencies that are created through
19 approval of a longer period, and that the efficiencies would translate into benefits for
20 Columbia's consumers. As is the case with any investment, certainty is a critical
21 component. However, if this logic rings true with the Commission, the same logic should
22 also be applied to the Choice program. For the same reasons regarding regulatory
23 efficiency and consumer benefits cited by Columbia for approval of a 20 year period for

1 the ARMP proposal, the pilot designation for the Choice program should be eliminated
2 and the program should be made permanent. As it currently exists, every few years the
3 program is set to expire and there is no certainty as to whether it will continue beyond the
4 expiration. Due to the "pilot" nature of the program, there is no certainty with respect to
5 the program and as a result, inefficiency exists. The parties have to make repeated
6 requests of the Commission for extensions of the program or may have to object and
7 argue for continuation of the program, activities which create continuing unnecessary
8 regulatory costs. Generally there is no certainty in the marketing community as to
9 whether or not the program will continue. As such, consumers are deprived of the full
10 benefits of a competitive market that would exist with a permanent program, including
11 fewer offers, fewer suppliers and virtually no long term offers. Therefore, although IGS
12 agrees with Columbia's rational for a 20 year term for the ARMP project, but to do so
13 and not also eliminate the pilot designation for the Choice program making it permanent
14 would be inconsistent.

15 **Q. Do you have a suggestion or solution?**

16 A. The Commission should not approve a rate increase to customers without an agreement
17 by Columbia to make the Choice program permanently available. Making the Choice
18 program permanently available will at least give consumers the ability to control their
19 commodity costs, and possibly receive a reduced commodity cost. The concern is that
20 Columbia has not provided any insight as to whether or not they will continue the
21 program beyond March, 2009. Columbia instead copied suppliers on a letter to the
22 Commission that, in essence, stated that Columbia would not be providing the required
23 information as agreed because of uncertainty surrounding the rate case. Since the

1 program is not required by the Commission, Columbia could simply elect to discontinue
2 the program at the end of any settlement period, including 2009. Suppliers have
3 demonstrated that they can provide commodity service to Kentucky consumers without
4 jeopardizing system integrity. Further, by taking 100% of the cost responsibility for
5 capacity the Choice program does not negatively affect sales customers in any manner. It
6 should also be pointed out that Columbia is in a significant position of power when it
7 comes to the Choice program in Kentucky. Since it is a voluntary program, Columbia
8 could simply decide to discontinue the program. As was the case with the last extension,
9 Columbia can simply avoid making or announcing any known decision until the final
10 hour, thus placing suppliers that wish to continue the program at a significant
11 disadvantage. Make no mistake, since the program is voluntary, it is the result of
12 negotiations between the various parties and by permitting Columbia to have all of the
13 discretion regarding continuation of the program, it places Columbia in a unique position
14 to the significant disadvantage of the suppliers, and the Choice customers. Columbia's
15 announcement that it will not make an announcement until later makes those that would
16 like to see the program continue wait to decide what steps to take again. As it is, if
17 Columbia waits until the end of this year or the beginning of next to finally announce its
18 decision, it leaves little time to take action if needed.

19 Further, suppliers provide an alternative for Kentucky consumers and provide
20 benefits that Columbia does not provide. In other states some Commissions through their
21 own directive have mandated utilities of certain size to have Choice programs. The same
22 could be done in Kentucky, at least for Columbia. Making the program permanent would
23 eliminate the risks that currently exist and would allow suppliers to provide additional

1 products to consumers, including longer term fixed price contracts reducing a significant
2 barrier to entry for new suppliers.

3 **III. Working Capital on Gas in Storage**

4 **Q. Are you familiar with Columbia's request to include recovery of working capital for**
5 **gas in storage costs in their base rate?**

6 A. Yes. I believe that Columbia has requested to include approximately $48,222,000 in their
7 base rate for recovery of working capital costs for gas in storage.

8 **Q. Can you explain how this recovery is related?**

9 A. Yes. Most firm customers are heat sensitive, meaning they use most of the gas they
10 consume each year in the winter months, typically November through March of each gas
11 year. Parties with access to storage, whether it is on system storage or off system storage,
12 will put gas into storage in the summer months, when consumption is typically lower, and
13 remove it in the winter for use by customers when consumption is typically higher.
14 Storage is considered a physical hedge against winter volatility and in many instances
15 consumers or Commissions will deem it reasonable to take steps to mitigate against
16 winter volatility if storage is available. However, in so doing funds must be expended
17 that could otherwise be utilized by the party for other investments, including capital
18 investments. As such, it has become somewhat common for utilities to look for working
19 capital cost recovery as a capital investment of placing gas in storage during the injection
20 season and waiting until the withdrawal season to recover those costs. In the case of
21 Columbia, they are injecting gas into storage in the summer for their sales customers' use
22 in the winter and are requesting that they recover a return on the investment. Columbia
23 witness Miller describes, "net plant increase * * * for gas in underground storage", is an

1 item that, if recovered as proposed by Columbia, would result in Choice customers
2 paying the same amount as sales customers, although Choice suppliers provide storage
3 gas for their customers.

4 **Q. Do you have any problem with Columbia Gas of Kentucky seeking recovering of its**
5 **working cost for gas in storage or the calculated amount of approximately 48**
6 **million?**

7 A. No, I do not have an issue with Columbia seeking recovery of working capital cost for
8 gas in storage and do not dispute the $48 million figure. My issue is the manner in which
9 the dollars would be recovered in base rates because of who pays base rates.

10 **Q. What are your concerns with including working capital on gas in storage in base**
11 **rates?**

12 A. Since there is no differentiation between base rates for sales customers and base rates for
13 Choice customers, it is inappropriate to include working capital on gas in storage in base
14 rates, without some mechanism to remove such costs from Choice customers' base rate
15 charges.

16 **Q. Why is that?**

17 A. Simply stated, Choice customers rely on their suppliers to provide their commodity
18 throughout the year. Through the program, suppliers deliver excess gas in the summer
19 that is injected into storage for their customers use in the winter. In essence, Choice
20 suppliers inject gas for their customers into storage, which relieves Columbia of the
21 responsibility to inject the same gas. Since the Choice supplier incurs the costs of
22 purchasing the commodity it injects into storage, Columbia does not incur these costs for
23 the same injections and, therefore, Choice customers should not be burdened with paying

1 for working capital costs for gas in storage when the gas is injected by their supplier.
2 Stated differently, Columbia does not have to inject the gas into storage for Choice
3 customers that is otherwise injected by Choice suppliers and, therefore, Choice customers
4 should not have to pay for working capital costs for gas in storage that is related to sales
5 customers' injections. By including the cost for gas in underground storage through base
6 rates, all base rate paying customers pay equally for those costs, although all equally
7 positioned customers do not equally contribute to creation of such costs or benefit equally
8 from those storage injections. Based upon my extensive experience in the natural gas
9 markets in Ohio, Michigan, Illinois, New York, Pennsylvania and here in Kentucky, it is
10 my belief that although it is necessary for utilities to be able to recover the proper amount
11 of revenue to earn its allowable return on investment and certainty in a market is a critical
12 component, certainty without balance does not always achieve the desired goals. There
13 must exist the proper balance between Choice and sales customer groups so that revenues
14 are properly recovered from the proper ratepayers.

15 **Q. Do you have a solution?**

16 A. Yes, there are several solutions. Working Capital could be removed entirely from base
17 rates and made part of the commodity cost. This would pass on the costs to those that
18 benefit from the expenditure and investment, without burdening those that do not.
19 Another solution would be to provide an appropriate credit equal to Choice customers for
20 Working Capital. If a credit where created, it could be provided either to the customer
21 directly through a rider, or a simpler approach might be to provide the credit to the
22 supplier and the supplier could in turn provide the credit back to the customer through
23 lower commodity prices.

1 **Q. Do you have an idea of what the amount of the charge is that would be credited**
2 **back to Choice customers?**
3 A. Yes. As you can see from the attached spreadsheet, IGS Exhibit B, based on the
4 approximately 48 million Columbia proposes to recover, I believe the average cost to a
5 typical residential consumer is approximately $49 per year. If an average residential
6 consumer consumes around 73 mcf per year, this equates to approximately $0.67 per mcf
7 that the typical residential customer would have to pay if the Working Capital is included
8 in base rates. The credit would be equal to the amount Columbia would not experience
9 as a result of suppliers incurring the cost to build storage for Choice customers.
10 **IV. Uncollectible Expenses**
11 **Q. Earlier in your testimony you discussed uncollectible expenses. Do you have any**
12 **comments on this issue?**
13 A. Yes. Columbia is suggesting inclusion in the base rate of an Accounts Receivables
14 expense. It is my understanding that this expense is in essence the bad debt of sales
15 customers for commodity sales. Basically, when someone does not pay their invoice, at
16 some point it is written off as an uncollectible account receivable. Columbia is
17 requesting to include these costs in base rates, which are paid by and the same for all
18 Choice eligible customers.

1 **Q. Do you have any concern with this?**

2 **A.** Yes. Since this is specifically the uncollectible expense created by sales customers, only
3 sales customers should be required to pay for recovery of this expense. Although I do not
4 object to Columbia recovering this expense, it is not appropriate to make Choice
5 customers participate in repaying these costs.

6 **Q. Why is it inappropriate?**

7 A. It is inappropriate because Choice customer do not contribute to creating cost associated
8 with uncollectible sales customers' commodity costs, and in fact have their own bad debt
9 or uncollectible expense to pay. Columbia purchases supplier receivables, but does so at
10 a discount of 2.5%, to compensate Columbia for bad debt related to those receivables. If
11 Choice customers are also required to pay for sales customers' bad debt experience, they
12 are in essence paying twice. This is not appropriate.

13 **Q. Is there a more appropriate way to recover this expense from sales customers?**

14 A. The appropriate place to recover gas costs experienced by Columbia for sales customers
15 is through the GCR, not through base rates. This is true for uncollectible expenses and
16 other gas costs.

17 **Q. If the Commission directs Columbia to recover uncollectible expenses through base**
18 **rates, is there an alternative way in which the Commission could address this issue**
19 **to avoid additional cross-subsidies?**

20 A. Yes. If uncollectible expenses are to be recovered through base rates, Columbia should
21 reduce or eliminate the 2.5% purchase receivables discount, since the Choice group will
22 be paying for the uncollectible expenses experienced by Columbia and in turn should

1 receive the benefit of those payments. Otherwise, the costs associated with being a
2 Choice customer will increase while further subsidizing sales customers.

3 **Q. Was there anything else you wished to address?**

4 A. Yes. Although briefly. Currently, Choice customers must pay an additional fee to
5 include their suppliers commodity costs on their monthly invoice. It is not appropriate to
6 charge an additional billing fee, since the invoice belongs to the customer, the customer is
7 already paying a billing fee and there are no incremental costs experienced by Columbia
8 related to this inclusion. Further, it is my understanding that Columbia permits other
9 non-commodity related services to be included on the customers commodity bill each
10 month, and that Columbia does not charge an additional fee to provide this billing. If
11 there is not additional fee for other services to be included on the customers bill, there
12 should not be an additional billing fee for a customer that chooses to include their
13 suppliers charges on their monthly invoice. In addition, Choice customers have to pay an
14 additional 10 cent throughput fee simply for having a choice program. With the
15 increased base rate, the charge is no longer justified as Columbia would receive its rate of
16 return and the additional incentive fee is no longer needed. Given that Columbia would
17 be at its desired rate of return if the rate case is approved, there is no longer a need to
18 include the additional 10 cent and therefore, the fee should be eliminated.

19 **Q. Does this conclude your testimony?**

20 A. Yes, subject to reserving my right to respond to issues that may be raised in the course of
21 discovery or hearings.

Scott White
Founder and President

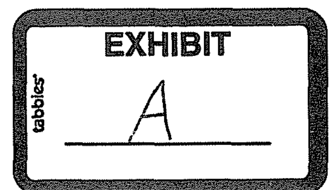
As the leader of one of the biggest retail gas marketing companies in the country, Scott White has developed an impressive career in the natural gas industry. In 1989, Scott and Marvin White started Interstate Gas Supply (IGS) with 18 commercial customers.

Under White's presidency, IGS has grown from a three-person company with just under $1 million in sales in 1990 to a company with sales just over one billion dollars in sales that serves over 600,000 residential customers in the Midwest.

IGS is somewhat unique in that it is privately held, has no long-term debt and relies on traditional bank financing. White attributes his company's success to a focus on customer service and an understanding of the gas industry.

The Columbus native graduated from Ohio University in 1988 with a degree in finance and marketing. White serves on the Board of Directors of IGS, and Gatherco Inc. a gas gathering company of which IGS owns a 19% share. He is a member of the Ohio Gas Association and Ohio Oil & Gas Association.

Scott White is married and has three children.

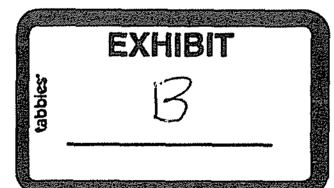


Working Capital Revenue portion of rate increase

Rate Base	$	171,447,599.00
Working Capital	$	48,222,713.00
Rate Base without WC	$	123,224,886.00
Working Capital as % of rate base		28.13%

	Revenue Requirments	Schedule A With Working Capital		Schedule A Without Working Capital	
1	Rate Base	$	171,447,599.00	$	123,224,886.00
2	Operating Income	$	7,311,266.00	$	7,311,266.00
3	Earned Rate of Return		4.26%		5.93%
4	Rate of Return		8.71%		8.71%
5	Required Operation Income	$	14,933,085.87	$	10,732,887.57
6	Operating Income Deficiency	$	7,621,819.87	$	3,421,621.57
7	Gross Revenue Conversion Factor		1.659121		1.659121
8	Revenue Deficiency	$	12,645,521.41	$	5,676,884.20
9	Revenue Increase Requested	$	12,645,521.41	$	5,676,884.20
10	Adjusted Operating Revenues	$	158,276,796.00	$	158,276,796.00
11	Revenue Requirements	$	170,922,317.41	$	163,953,680.20
	Revenue Increase related to Working Capital	$	6,968,637.21		

Working Capital	$	48,222,713.00
Rate of Return		8.71%
Required Operation Income	$	4,200,198.30
Gross Revenue Conversion Factor		1.659121
Revenue Increase Requested	$	6,968,637.21
Aprroximate number of customers behind CKY	$	140,000
Cost per customer for WC	$	49.78



Columbia Gas® of Kentucky
A NiSource Company

Herbert A. Miller, Jr.
President

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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.

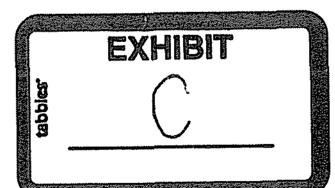
In Case No. 2004-00462, Columbia sought approval to, among other things, implement a revised Customer Choice program to replace its original CHOICE pilot program. The original CHOICE program authorized in Case No. 1999-00165 was set to terminate on March 31, 2005. Columbia requested authority to implement 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.

Sincerely,

Herbert A. Miller, Jr.
President