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COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF AN ADJUSTMENT OF)
GAS RATES OF COLUMBIA GAS OF KEN-) CASE NO. 2007-00008
TUCKY, INC.)

**DIRECT TESTIMONY OF HERBERT A. MILLER
IN SUPPORT OF THE STIPULATION AND RECOMMENDATION**

1 Q: Please state your name, title and business address.

2 A: My name is Herbert A. Miller. My title is President of Columbia Gas of Kentucky, Inc.
3 (“Columbia”), and my business address is 2001 Mercer Road, Lexington, KY 40512-4241.

4

5 Q: What is the purpose of your testimony?

6 A: My testimony is filed in support of the Stipulation and Recommendation (“Stipulation”)
7 filed with the Kentucky Public Service Commission (“Commission”) on August 10,
8 2007, in this proceeding. My testimony will explain how, in Columbia’s opinion, the
9 Stipulation is fair, just and reasonable.

10

11 Q: Please explain how the total amount of the increase in revenues for Columbia as proposed
12 in the Stipulation can be considered fair, just and reasonable.

13 A: Whether the amount of increase in revenues is fair, just and reasonable is a somewhat
14 subjective determination. It is not a mathematical formula, and is a matter on which rea-

1 sonable minds (and experts) can differ. The initial proposal by each party in this proceed-
2 ing represented the best possible outcome based on the facts, as they were understood by
3 each of the parties at the commencement of this case. Since that time substantial data has
4 been exchanged and the parties have engaged in extensive negotiations in an attempt to
5 arrive at an outcome that is fair, just and reasonable to Columbia's customers and its
6 shareholders, an outcome which the Commission would, and should, approve. The com-
7 promise of revenues and rates which have resulted from these negotiations reflect the
8 present best judgment of the parties (including their respective outside experts) as to what
9 is fair, just and reasonable for Columbia's customers and shareholders. These rates will
10 produce sufficient revenue for Columbia to operate and provide the high level of service
11 it strives for and its customers expect.

12 Columbia's position remains that the entire increase originally filed by the Com-
13 pany is appropriate to maintain its earnings at a level that allows Columbia an opportu-
14 nity to earn a fair, just and reasonable return on its investment. Nonetheless, the nature of
15 the ratemaking process is such that a Stipulation reached by the various parties in the
16 proceeding can produce a fair, just and reasonable outcome as a result of the compromise
17 reached by the parties.

18
19 Q: Why would the parties be willing to reach a compromise?

20 A: Each of the parties to the Stipulation has vigorously pursued its respective positions in
21 testimony, exhibits and responses to data requests. However, despite the sincerity of these
22 individual positions, each party recognizes that the final outcome in this proceeding
23 would likely result in a decision with which neither it nor the other parties would be to-

1 tally satisfied. The parties further recognize that the very nature of litigation entails both
2 risk and cost. By reaching this compromise, each party has determined that the proposed
3 Stipulation outcome is preferable to other, less favorable outcomes and avoids the costs
4 to Columbia's customers that could result as an outcome of litigating the issues in this
5 case. Through negotiation, each party was able to prioritize its goals in this proceeding
6 and ensure that those priorities are reflected in the Stipulation.

7
8 Q: But how does a compromise produce a fair, just and reasonable change in revenues?

9 A: Each of the parties to this proceeding represents a unique constituency. By vigorously
10 pursuing the positions of the respective constituencies in negotiations, each party has en-
11 sured that the priorities of its constituency have been recognized and protected in the
12 Stipulation. It is the vigorous representation of all constituencies in negotiations, with
13 each party freely and voluntarily agreeing to the concessions it has made in order to en-
14 sure its priorities are reflected in the Stipulation, which provides for a fair, just and rea-
15 sonable change in rates. In other words, this Stipulation is a fair, just and reasonable set-
16 tlement because each constituency has been vigorously represented in the negotiations
17 and, through representation or direct involvement, has freely agreed to the Stipulation.

18
19 Q: What evidence is there for the Commission that each constituency was vigorously repre-
20 sented in the negotiations that led to this settlement?

21 A: The Stipulation outcome itself reveals the sincerity of the negotiations on all sides. The
22 record in this proceeding clearly states the positions of the parties. The Commission need
23 only review the positions taken by the parties in this case and compare those positions to

1 the Stipulation to determine if each constituency was vigorously represented in negotia-
2 tions and made appropriate concessions to ensure its priorities were reflected on the
3 Stipulation. Any settlement must be viewed in its entirety rather than evaluated on the ba-
4 sis of any its individual components. This Stipulation was negotiated in the context of its
5 overall result and impact on customers and shareholders, not any one particular rate issue.

6
7 Q: Please briefly describe the terms of the Stipulation.

8 A: The Stipulation offered to the Commission for its consideration and approval, permits
9 Columbia to adjust its rates to recover an additional \$7.25 million in annual revenue
10 compared to current rates, beginning August 29, 2007. The increased revenue shall be re-
11 flected in increases to customer charges associated with Columbia's various rate sched-
12 ules and there shall be no decrease in any of Columbia's volumetric rates. In conjunction
13 with the Stipulation, Columbia has withdrawn from this Case its proposals for the imple-
14 mentation of the Post-In-Service Carrying Charges mechanism and Accelerated Main
15 Replacement Programs ("AMRP") Rider. While the Company believes these programs
16 are beneficial to customers and the gas industry alike, it will revisit these proposals at a
17 later date, particularly the AMRP Rider in light of the August 1, 2007 Opinion & Order
18 in *Commonwealth v. Kentucky Public Service Comm'n.*, Case No. 06-CI-269 (Franklin
19 County Cir. Ct., Ky. 2007).

20
21 Q: Please describe the attachments to the Stipulation.

22 A: Attached to the Stipulation are completed sets of tariff sheets and proof-of-revenue
23 sheets. These attachments are considered as a part of the Stipulation and have been

1 agreed to by Columbia, the Office of the Attorney General of the Commonwealth of Ken-
2 tucky, Lexington-Fayette Urban County Government, Kentucky Industrial Utility Cus-
3 tomers and Interstate Gas Supply, Inc.

4
5 Q: Please describe why the attached tariffs that have been modified by virtue of the Stipula-
6 tion are fair, just and reasonable.

7 A: As a part of the Stipulation, Columbia, the Office of the Attorney General of the Com-
8 monwealth of Kentucky, Lexington-Fayette Urban County Government, Kentucky Indus-
9 trial Utility Customers and Interstate Gas Supply, Inc. have agreed upon the tariffs at-
10 tached hereto. The attached tariffs ensure the interests of the constituencies represented
11 by each party have been prioritized and protected in the Stipulation. The tariffs them-
12 selves are the means by which Columbia can produce the level of revenue necessary to
13 meets its obligations. For the convenience of the Commission, the proposed tariff
14 changes are attached to the Stipulation.

15 The tariffs reflect that Columbia's reconnection fee resulting from non-payment
16 will be \$25.00 and, for the CHOICE program, the marketers' accounts receivable dis-
17 count will be reduced from 2.5% to 2.0% and the current tiered marketer fee will be re-
18 placed by a flat fee of \$.05/Mcf. Other than the changes referenced above, all other tariff
19 changes proposed by Columbia shall be adopted as proposed.

20
21 Q: Please describe the attached proof-of-revenue sheets.

22 A: As a part of the Stipulation, all of the parties have agreed upon the proof-of-revenue
23 sheets attached hereto, which detail the rate designs and validation of the rate adjustment

1 of \$7.25 million. The attachment provides an overview of the proposed distribution rates
2 by service type. The total increase is shown in column (f), line 156 and equals
3 \$7,244,361.

4
5 Q: Has Columbia published public notice of the hearing in this case, scheduled to begin on
6 August 14, 2007?

7 A: Yes. Columbia published such public notice in newspapers throughout its service area.
8 Affidavits demonstrating the publications are being gathered at this time and will be
9 submitted to the Commission when the complete documentation has been compiled.

10
11 Q: Are there any other matters you wish to address at this time?

12 A: Yes. In closing, please note that all of the parties have expended considerable effort to
13 reach the terms that form the basis of the Stipulation. The parties agree that this Stipula-
14 tion is reasonable, produces rates that are fair, and is in the best interest of all concerned.
15 Together, we submit the Stipulation for the consideration of the Commission and urge
16 that the terms be approved in its entirety.

17
18 Q: Does this conclude your direct testimony in support of the Stipulation?

19 A: Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Direct Testimony of Herbert A. Miller in Support of the Stipulation and Recommendation was served by First Class U.S. Mail postage prepaid on the following parties this 10th day of August 2007.

Stephen B. Seiple (gmc)
Stephen B. Seiple
Attorney for
COLUMBIA GAS OF KENTUCKY, INC.

Hon. Dennis G. Howard, II
Hon. Lawrence W. Cook
Assistant Attorney General
Office of the Attorney General
Utility and Rate Intervention Division
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601-8204

Matthew Malone
Hurt, Crosbie & May PLLC
The Equus Building
127 West Main Street
Lexington, Kentucky 40507
Attorney for Interstate Gas Supply, Inc.

Hon. David J. Barberie
Hon. Leslye M. Bowman
Lexington-Fayette Urban
County Government
Department of Law
200 East Main Street
Lexington, Kentucky 40507

Hon. David F. Boehm
Boehm, Kurtz & Lowry
36 E. Seventh Street, Suite 1510
Cincinnati, Ohio 45202
Attorney for Kentucky Industrial Utility Customers