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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

OCT 03 2008
PUBLIC SERVICE
COMMISSION

In the Matter of:

THE APPLICATION OF COLUMBIA GAS
OF KENTUCKY, INC. TO EXTEND ITS GAS
COST INCENTIVE PROGRAM AND ITS
OFF-SYSTEM SALES AND CAPACITY RE-
LEASE REVENUE SHARING MECHANISM.

)
)
) Case No. 2008- 4133

APPLICATION OF COLUMBIA GAS OF KENTUCKY, INC.

The petition of Columbia Gas of Kentucky, Inc. ("Columbia") respectfully states:

(a) That applicant is engaged in the business of furnishing natural gas service to the public in certain counties in the Commonwealth of Kentucky, pursuant to authority granted by the Public Service Commission ("Commission").

(b) That Columbia's full name and post office address are:

Columbia Gas of Kentucky, Inc.
2001 Mercer Road
P.O. Box 14241
Lexington, KY 40512-4241

(c) That Columbia's Articles of Incorporation have previously been filed with the Commission in Case No. 2000-129 and are incorporated herein by reference.

(d) That by this Application Columbia seeks authorization to extend its gas cost incentive mechanism ("GCIM") and off-system sales and capacity release revenue sharing mechanism ("OSS/CR RSM") for another four-year period for the reasons described below. The GCIM would continue to operate during April through October each year from April 1, 2009 to October 31, 2012 and the OSS/CR RSM would continue to operate from April 1, 2009 through March 31,

2013. However, the Commission must provide Columbia with the authority to extend these mechanisms beyond the current end date. The purpose of this request is to continue to employ mechanisms that benefit Columbia's customers through lower gas costs and create opportunities for Columbia to share in such savings. This opportunity to share in the value created serves as an incentive for Columbia to maximize that value.

GCIM

(e) As part of its Application filed in Case No. 2004-00462, filed on November 30, 2004, Columbia proposed its initial GCIM for a period beginning April 1, 2005 and ending October 31, 2008. The Commission approved Columbia's proposal in an Order dated March 29, 2005. The Commission conditioned its approval upon the requirement that Columbia file an annual report on the GCIM by November 30 of each year. Under the March 29, 2005 Order, Columbia was authorized to implement the GCIM for a term that runs through October 31, 2008.

(f) Columbia is not recommending any revisions to the details of the GCIM. Columbia will continue to follow the rules as previously authorized in comparing summer (April – October) gas purchases to a market standard. The purpose of the GCIM continues to be to measure the effectiveness of gas purchasing efforts by defining a market standard, or benchmark price, and then trying to better that benchmark price. Successful efforts result in lower gas costs for system supply customers

(g) Under the GCIM, the measurement of Columbia's performance against a market standard applies to all system supply gas purchases made by Columbia during the months of April through October, excluding those purchases made at the city gate (there is no city gate index for Columbia). Winter supply purchases are excluded to avoid creating possible financial incentives, real or implied, that might be in conflict with Columbia's obligation to provide reliable customer service. In each applicable month Columbia's actual gas purchase costs are com-

pared to the benchmark cost for the month. The resulting dollar amount for the month is shared equally between Columbia and its sales customers through an adjustment to the Gas Cost Adjustment.

(h) The initial GCIM was approved for the summers of 2005, 2006, 2007 and 2008. During this time, the GCIM has been implemented without problem and has worked according to expectations. Over the three year period of 2005 – 2007, Columbia's efforts have resulted in a gas cost savings of approximately \$0.74 million for its customers. There has been no change in circumstances that would cause Columbia to recommend changes to the GCIM. Therefore, Columbia is requesting that a four-year extension occur without modification to the GCIM.

(i) Columbia will continue to file a report on the GCIM with the Commission by November 30 of each year as set forth in the Commission's Order dated March 29, 2005, in Case No. 2004-00462.

OSS/CR RSM

(j) As part of its Application filed in Case No. 2004-00462, filed on November 30, 2004, Columbia proposed to implement on a permanent basis a re-established OSS/CR RSM. The Commission approved Columbia's proposal in an Order dated March 29, 2005, with the condition that Columbia operate the OSS/CR RSM as a pilot with a term that runs through March 31, 2009.

(k) Columbia is not recommending any revisions to the details of the OSS/CR RSM. Columbia will continue to follow the procedures previously approved by the Commission. The purpose of the OSS/CR RSM continues to be to create benefits for Columbia's customers and opportunities for Columbia to share the value created. Consistent with the GCIM, the opportunity to share in the value created serves as an incentive for Columbia to maximize that value. Therefore, Columbia is requesting a four- year extension to the OSS/CR RSM beginning April 1, 2009.

(l) Under the OSS/CR RSM, Columbia credits 50% of the value created from its OSS/CR activities to its customers and retains 50% of the value. All of Columbia's sales customers and CHOICE program participant customers receive the benefit of the OSS/CR RSM credits through an adjustment to the Gas Cost Adjustment.

(m) The OSS/CR RSM last approved by the Commission in its Order dated March 29, 2005, has been implemented without problem and has worked according to expectations. During the period of April 2005 – June 2008, Columbia's efforts resulted in gas cost credits to its customers of approximately \$5.50 million. There has been no change in circumstances that would cause Columbia to recommend changes to the OSS/CR RSM. Therefore, Columbia is recommending the extension occur without modification to the OSS/CR RSM.

WHEREFORE, Columbia respectfully requests that the Commission issue an order authorizing Columbia to extend its GCIM until October 31, 2012 and its OSS/CR RSM until March 31, 2013 for the reasons described above.

Dated this 3rd day of October 2008.

Respectfully Submitted,

COLUMBIA GAS OF KENTUCKY, INC.

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