COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE COMMISSION

IN THE MATTER OF:)

AN INVESTIGATION OF NATURAL GAS) Case No. 2010-00146

RETAIL COMPETITION PROGRAMS)

TESTIMONY OF DONALD L. MASON

ON BEHALF OF STAND ENERGY CORPORATION

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Q. What is your name?

A: My name is Donald L. Mason. My business address is All American Energy Partners, LLC, 910 Center Court, Zanesville, Ohio 43701-6425. I am President of All American Energy Partners, LLC.

Q. What is your educational background?

A: I graduated with a B.A. degree in Political Science and History from Muskingum College in 1979, where I was an NCAA All-American Wrestler. I earned by law degree from Capital University in 1989, graduating cum laude.

Q. Describe your relevant professional experience?

A: I served two four-year terms as Commissioner of the Public Utilities Commission of Ohio. (PUCO) I was originally appointed to the PUCO in 1998 by Gov. George Voinovich and reappointed in 2003. During my tenure, I was appointed to several state and national committees dealing with energy policy. I represented Ohio on the Interstate

Oil and Gas Compact Commission (IOGCC) from 1995 until 2010, where I chaired various committees, eventually becoming vice-chair from 2003-2004 serving with then chairman Bill Richardson, Governor of New Mexico. While at the IOGCC, I served with Alaska Chairman Sarah Palin. I was appointed by former U.S. Secretary of Energy Spencer Abraham and reappointed by Secretary Samuel Bodman to serve on the National Petroleum Council. I was a member of the National Association of Regulatory Utility Commissioners (NARUC) where I served as chairman of the Gas Committee, on the Board of Directors, and as a member of the Committees on Electric Restructuring and Critical Infrastructure. Additionally, I was a government representative and chairman on the U.S. Department of Transportation's Technical Hazardous Liquid Pipeline Safety Committee. I also served as chairman of the Gas Technology Institute Public Interest Advisory Committee and on the American Public Gas Association Security and Integrity Foundation Board.

I have long been committed to public service. After graduating from college, I was elected to the Zanesville City Council in 1979 and served on the council until 1983. In 1983, at the age of 26, I was elected mayor of the city of Zanesville, where I oversaw natural gas and cable negotiations, water and sewer infrastructure development and other public works projects. Leaving local government in 1991, I then became Chief of the Division of Oil and Gas at the Ohio Department of Natural Resources where I supervised regulatory activities and developed environmental programs for the safe and healthy extraction of oil and gas resources, as well as the disposal activity of oil and gas by-products including UIC Class I,II and III permitting. I also served on the Hazardous Waste Facilities Board, which reviewed permits for hazardous waste storage sites in

Ohio. Also from 1993-1995 I supervised the Divisions of Parks, Forestry, Watercraft, Natural Area Preserves, and Wildlife.

Q. What is the purpose of your testimony?

A: The purpose of my testimony is to address the inability Kentucky businesses, institutions and commercial entities to take advantage of the supply surplus of American produced natural gas. Kentucky commercial and industrial consumers should be able to seek their own marketers of natural gas and take economic advantage of long term low gas prices. That can be best achieved if the present delivery system in Kentucky is modified with best practices from Ohio. This is especially true since two major Ohio gas distribution utilities also have a major presence in Kentucky. In order to benefit from retail unbundling in Kentucky I strongly express the need for changes to the tariffs of Kentucky's major natural gas utilities that would allow Kentucky's smaller commercial and industrial companies, including schools systems and government facilities, the choice to purchase their natural gas supplies through an open, competitive market.

Q. Why do you say that Retail Unbundling has failed in Kentucky?

A: If you compare the low level of participation in Kentucky of retail unbundling to Ohio, you have to ask the question of "why?" Those numerical disparities can be found on can on the Energy Information Administration (EIA), a Division of the Department of Energy (DOE) which gathers energy statistics for the U.S. Government. In their December 2009 report, EIA reports that of the 855,000 residential and commercial natural gas customers in Kentucky, only 4% are purchasing gas from someone other than their Local Distribution Company (LDC). The failure is made even more apparent when you look at the fact that two major Kentucky gas distribution companies are also doing business in

Ohio through affiliates. In Ohio, Duke and NiSource are operating very successful transportation programs. I believe a successful transportation program is a key first step to eventually having a competitive retail program. That success came after years of identification and elimination of obstacles. I have to stress that success resulted in Ohio because the commission and staff provided a framework and leadership on the issue. All stakeholders including pipelines, marketers, producers, consumer advocates, utility distribution companies and industrial users sat down together throughout many meetings and successfully worked on creating a plan that has proven the test of time. Many of those obstacles still exist in Kentucky. Having a 'collaborative' meeting would be a great conduit to identify all the relevant obstacles and create solutions.

Please realize that across the river in Ohio, over 51% of their 3,540,000 natural gas customers are purchasing their gas from someone other than their LDC. I talk to business owners and institutional purchasers routinely who have taken over management of their energy future. I do not just mean large corporations like AK Steel or automobile manufacturers. I am referring to hospitals, drycleaners, car dealerships, school administrators and an array of businesses that are accustomed to buying their own cell phone, local and long distance phone service. They are excited about being able to lock down natural gas prices and seeing savings throughout the next three to four years. All major private and public forecasts of natural gas prices show that the mid Atlantic to mid west region of the United States will have an abundance of natural gas available at extremely competitive prices. The development of the Marcellus Shale in Pennsylvania is creating opportunities for others to take advantage of the Rockies Express and southwestern shale gas developments. The times to lock prices in is now and not allow economic opportunity to be lost. Failure to give Kentucky business the ability to lock in low energy prices will have a negative effect on their ability to stay competitive or expand employment.

Q. **Why can't Kentucky's smaller commercial and industrial customers purchase their gas supplies from someone other than their LDC?**

A: Currently, the major gas utilities in the Commonwealth of Kentucky have barriers in their tariffs that preclude smaller, predominantly winter space-heating customers, to avail themselves of the benefits of gas transportation services similar to what large industrial and commercial customers have been doing in Kentucky for over 20 years. I think that Kentucky staff should identify the best practices in Ohio and order the local gas companies to show cause as to why they are not in effect in Kentucky.

Q. **What do you mean by gas transportation services?**

A: When I speak of gas transportation service I mean the ability of a customer to purchase their natural gas supplies from third party suppliers rather than from the utility or Local Distribution Company (LDC) that sells and delivers their gas currently. A customer chooses a third party supplier, a marketer to purchase their gas supplies. That marketer than transports an appropriate quantity of natural gas on interstate pipelines and delivers the gas to the Local Distribution Company (LDC) who then redelivers an equivalent amount of gas, to the customer's meter.

Q. **Does Stand Energy presently provide gas transportation services in Kentucky?**

A: Yes, Stand has been providing gas transportation to large industrial and commercial customers in Kentucky for over 20 years. They currently supply natural gas to a growing number of industrial and commercial customers in the Commonwealth of Kentucky. In addition, Stand Energy also serves the Commonwealth of Kentucky's large administration buildings in Frankfort, a State prison and three state Universities.

Q. What benefits does Gas Transportation Service provide to customers?

A: There are many benefits to using gas transportation service. First of all, it provides the customer with choices of how they purchase their natural gas supplies and gives them the opportunity to save money over what they would have paid to the utility under the utility's PSC-regulated gas supply charge. For example, an industrial or institutional customer can purchase natural gas on long term contracts and have price certainty as to their energy costs. This will help them manage their budgets and price their products more competitively. As indicated earlier, Stand Energy serves the Commonwealth of Kentucky's large administration facilities in Frankfort, Kentucky. In the over eight years they have served these accounts, the Commonwealth has saved over $1,380,000 over what they would have otherwise paid if they had purchased their gas supplies from Columbia Gas of Kentucky. In addition to cost savings, customers can lock in gas prices to provide themselves a hedge against volatile gas prices, assuring they remain within internal budget restraints. Gas Transportation allows the customers to shop and compare prices and suppliers in an open and competitive market.

Q. Does Stand Energy serve any small commercial or industrial customers, including small state facilities or any public school systems in Kentucky?

A: Yes. Stand Energy serves approximately 20 small volume meters that serve Commonwealth of Kentucky administration buildings such as the Public Service Commission building. We serve these accounts under the Columbia Gas of Kentucky's Choice program.

Q. Does Stand Energy serve the smaller customers in any other states?

A: Yes, as indicated earlier, Stand operates in over (30) different LDCs in (10) different states, most of which have opened up their systems to transportation programs for smaller commercial customers. Stand serves many small customers in Ohio, Indiana and Virginia and has done so for over 20 years.

Q. Why are Kentucky gas utilities different than utilities in other states?

A: All the major gas utilities in Kentucky have incorporated barriers in their tariffs that preclude smaller customers from using gas transportation services. These barriers are: A) high volumetric thresholds required in order qualifying to transport gas, daily or annually, or; B) economic barriers such as high administration fees or high meter fees, or; mandatory assignment of interstate pipeline capacity which the utility wants to retain ownership rights to, but don't necessarily need every day.

Q. Can you provide some specifics?

A: Yes. I will discuss the barriers incorporated into each of the major LDCs tariffs in Kentucky. Duke Energy Kentucky, Inc. does not have a tariff that provides transportation service to smaller customers. The only tariff that would be available to a school or small commercial establishment such as a restaurant, dry cleaner, or state office building would be Duke's "Firm Transportation-Large" rate. The customer must use at least 2,000 Mcf per year. For comparative purposes, a Bob Evans restaurant would use approximately 3,000 to 4,000 Mcf per year. However, across the river in Ohio, these smaller customers can purchase their own natural gas.

In order to move from sales service on Duke Energy, to transportation service, the customer would have to pay an additional $430 per month, $5,160 per year, per meter, in what is called an "Administration Charge" plus bear the cost of installing an expensive electronic measurement device and associated dedicated telephone line. Because of the Administration Charge, a customer would have to use 14,000 Mcf per year, just to break even on the charges from Duke Energy. Those types of barriers do not exist in Ohio.

Q. Are these barriers the same in Duke Energy's other state LDCs?

A: Across the river from Duke Energy Kentucky. Duke Energy-Ohio has no minimum volume and the delivery charges for transportation are identical to gas purchased from Duke Energy-Ohio. Even residential customers can choose to purchase their own gas from a supplier other than Duke Energy. What makes the comparison between the administration charges of $430 versus no charge in Ohio in the two Duke companies even more unreasonable and non comprehensible is that both programs are administered by the same Duke office personnel.

Q. What is your next example?

A: I next will discuss Columbia Gas of Kentucky. Columbia's "Delivery Service" requires a minimum annual usage of 25,000 Mcf. There is an additional administration charge of $50.90 per month. To Columbia's credit, they are the only LDC in Kentucky that offers a customer Choice program for residential and small commercial customers. The program is currently in Phase II, which means if a customer wishes to purchase supplies from an alternate supplier, they must take assignment of firm interstate pipeline capacity from Columbia. Taking firm capacity means the LDC assigns pipeline and storage capacity it currently owns, to the marketer to serve the smaller customers. The supplier receiving the assigned capacity pays maximum pipeline rates on an annual basis and can not acquire their own capacity or storage from other sources or take advantage of discounted firm capacity that may be offered by the other interstate pipelines that serve Kentucky. I think it is important that as Columbia gas transportation contracts expire, that the commission directs that they should reduce their contracts so that marketers can shop for the best prices transportation. Those savings will allow them to sharpen their pencils and provide benefits to the consumers. Furthermore, I think it is important for the Kentucky Commission and staff to realize that some of the capacity is owned by affiliates to the distribution companies. Therefore, the affiliate benefits by mandatory assignment of capacity.

The Columbia Customer Choice program operates very differently from Columbia's traditional gas transportation program offered to customers using over 25,000 Mcf per year. In addition to the mandatory capacity assignment, suppliers are told by Columbia how much gas to deliver each day of the year following a load/demand curve developed solely by Columbia. Having to follow a load curve precludes the supplier from providing a custom supply portfolio that fits unique customer natural gas requirements. There are other limitations such as rate design, base loading capability, and allowing storage purchase by the customer.

As in Duke Energy, Stand also serves many small customers in Columbia's sister company in Ohio. Their minimum for their General Transportation Program is 2,000 Mcf/year and their administration charge is only $6.00 per month. Again, this shows such a stark contrast between two sister company' transportation limits when both programs are administered by the same department of Columbia.

Q. What must be done to provide an open, competitive market for the smaller natural gas users in the Commonwealth of Kentucky?

A: I believe it is necessary for legislative action or for the Public Service Commission to mandate the gas utilities regulated by the Kentucky Public Service Commission to file a set of tariffs with the Commission that will at a minimum:

- Provide for the aggregate purchasing of natural gas supplies and pipeline transportation services on behalf of eligible customers;
- Lower the minimum threshold to be eligible for gas transportation service to 2,000 Mcf/Year;
- Not require electronic meters or telemetry or other special metering equipment for facilities using less than 10,000 Mcf/Year;
- Assure customers that elect to use transportation service do not pay any more for service than the non-gas charges they would pay under the comparable sales service tariff. An exception could be a modest administration or aggregation fee that reimburses the utility for their actual costs to provide such transportation services.

Q. If you were a commissioner in Kentucky, what do you think the best first step would be?

A. As I mentioned earlier, begin a series of workshops involving all stakeholders. Identify the best practices in neighboring states and integrate them into the tariffs filed in Kentucky. I do not think that there is a need to reinvent the wheel, just put into place in Kentucky the programs that have benefited consumers in Ohio and other states. I am willing to help provide guidance to the commission and staff though out the process. I am a believer that the direct use of natural gas can help reduce the environmental footprint.

Therefore every effort we can make to increase efficiency, reduce costs and promote best practices should be pursued. It will prove to be good for Kentucky producers, consumers, industries and institutions.

Q. Does that conclude your testimony?

A. Yes.