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 MARK WARD ON BEHALF OF STAND ENERGY CORPORATION

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Q. What is your name?

A: My name is Mark Ward. My business address is Stand Energy Corporation, 1077 Celestial Street, Suite 110 Cincinnati, OH 45202-1629. I am Vice-President of Regulatory Affairs for Stand Energy Corporation.

Q. What is your educational background?

A: I graduated from the University of Wisconsin in 1966 with a B.S. in Civil Engineering. I am a registered Professional Engineer in the State of Ohio.

Q. What are your current responsibilities at Stand Energy?

A: My responsibilities include regulatory, operational and marketing issues relating to gas transportation services to Stand Energy's industrial and commercial customers.

Q. Describe your relevant professional experience?

A: From 1966 through 1984 and from 1986 through 1999, I was employed by Columbia Gas Distribution Companies, except for four years of active duty service in the United States

Air Force from 1968 through 1972. From 1984 to 1986, I was the Director of Marketing for Mountaineer Gas Corporation which formerly was Columbia Gas of West Virginia. During the period 1989 through 1999, I was Director of Gas Transportation Services for the Columbia Gas Distribution Companies. (Columbia Gas of Kentucky; Columbia Gas of Maryland; Columbia Gas of Virginia; Columbia Gas of Ohio; and Columbia Gas of Pennsylvania). During that time I led the Five (5) Distribution Companies' transformation from a predominantly merchant function to a predominately transportation function under which about 60% of the total gas throughput of the Distribution Companies was customer-owned gas being transported for those customers for delivery to them. I spearheaded the development of Columbia's Electronic Bulletin Board (EBB) customer nomination system. I was also involved in the development of Columbia's customer CHOICE programs for five Columbia distribution companies. Prior to becoming Director of Gas Transportation Services in 1989, I had been responsible for gas sales to industrial customers for Columbia in Ohio and Kentucky and earlier had been involved in all phases of sales to residential and commercial customers in central Ohio. In July 1999 I retired from Columbia and began serving as a consultant to Stand Energy from July 1999 until August 2003 when I accepted my present position as an employee of Stand Energy.

Q. What is the purpose of your testimony?

A: The purpose of my testimony is to address the utter failure of Retail Unbundling in Kentucky and to strongly express the need for elimination of unrealistic barriers that exist in the tariffs of Kentucky's major natural gas utilities that would allow Kentucky's smaller industrial and commercial companies, including schools systems and government

facilities, the option of natural gas Transportation Services. My testimony is not to recommend a mandatory residential CHOICE program for all natural gas customers. The main focus for my testimony is to address the needs for changes in the Local Distribution Company (LDC) tariffs that will allow government facilities, schools, and business entities in Kentucky the option to purchase their own natural gas supplies from the competitive market. A customer's gas supply option should not be artificially "limited" to the LDC because of anti-competitive tariff provisions. The Kentucky PSC first addressed these issues thirteen years ago in the "Gas Unbundling Collaborative" that arose from Administrative Case Nos. 297 and 367. In addition to the 40 page report dated July 11, 1997; titled "*Natural Gas Unbundling in Kentucky*"; submitted by Ralph E. Dennis, Staff Assistant to the Commissioners and still available on the PSC website today. Other than Columbia Gas of Kentucky's Small Volume Transportation Service, little has changed in the past 13 years as shown by the following paragraph extracted from the report:

> Small commercial customers currently do not have the ability to participate in transportation since the LDCs' transportation tariffs have minimum volume requirements to qualify, which most of theses marketers believe should be removed. Any perceived difficulties by the LDCs in balancing for or billing small commercial customers can be addressed by allowing a marketer to pool small loads for delivery to the city gate. Along a similar vein, an LDC should not have volumetric or location restrictions on delivery points for entry of a marketer's gas supply into the LDCs system; and, aggregation of meters within the city gate of an LDC's system should be allowed for a customer who has multiple meters (fast food restaurants, school systems, and the like) Id., Unbundling Report, page 9.

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

A: The failure of Retail Unbundling in Kentucky can be demonstrated by 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 LDC. As a comparison, in neighboring Ohio, over 51% of their 3, 540,000 natural gas customers are purchasing their gas from someone other than their LDC.

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.

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

A: When I speak of gas transportation services, I mean the ability of a customer to purchase their natural gas supplies from third party suppliers rather than from their utility or LDC that sells and delivers their gas currently. A customer chooses a third party supplier, a marketer like Stand Energy, to purchase their gas supplies. That marketer than transports an appropriate quantity of natural gas on interstate pipelines and delivers the gas to the LDC who then redelivers an equivalent amount of gas, to the customer's meter. Large customers in Kentucky have been using transportation service for over 20 years. If LDCs allow large customers to reduce their life-cycle costs, then they should not bar smaller customers the same opportunity.

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 and continues to add transportation customers in Kentucky where it is advantageous to the customer and allowed by the LDCs. Stand Energy has been serving the Commonwealth of Kentucky's large administration buildings in Frankfort for over eight years plus we serve a Kentucky State reformatory and three Kentucky 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 options 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 instance, as indicated earlier, Stand Energy serves the Commonwealth of Kentucky's large administration facilities in Frankfort, Kentucky. In the over eight years we 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. Stand Energy has served the Kentucky State Reformatory in Lagrange Kentucky which is served by Louisville Gas in Electric (LG&E). In the five years we have served this account the reformatory has saved $522,000 over what they would have paid LG&E. 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. We serve many small customers in Ohio, Indiana, Virginia and West Virginia and have 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. Barriers such as high volumetric thresholds required in order to qualify to transport gas, daily or annually, or; economic barriers such as high administration fees or high meter fees. Mandatory capacity assignment on interstate pipelines requiring gas purchases from the Gulf of Mexico can also be a barrier. I will explain each of these barriers in more detail in my following testimony.

Q. **Please explain these barriers in more detail.**

A: I will demonstrate the barriers in each of the major LDCs in Kentucky. Starting with Duke Energy Kentucky, Inc. This utility does have a tariff that allows customers using at least 2,000 Mcf per year to get transportation service. The 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 Energy's "Firm Transportation-Large" rate. For comparative purposes, a Bob Evans restaurant would use approximately 3,000 to 4,000 Mcf per year.

However, 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 approximately 14,500 Mcf per year just to break even on the charges from Duke Energy.

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

A: No. We serve many small customers behind Duke Energy's sister company in Cincinnati, Ohio, just across the river from Duke Energy Kentucky. Duke Energy-Ohio allows all classes of customers to use gas transportation services including residential. Most importantly, Duke does not have any onerous administrative charges to deliver transportation gas. Duke's charge to deliver third party supplies is the same as their charge to deliver their own sales gas. As an example, assume a company has two commercial facilities, one in Cincinnati and one in Northern Kentucky and they both use 4,000 Mcf per year, again, about the usage that a Bob Evans restaurant would use. The Ohio customer will pay Duke Ohio $6,871per year in non-gas charges regardless of whether they purchase their gas from a supplier or from Duke Ohio. The Kentucky customer would pay $8,782 non gas charges if they purchased their gas from Duke Kentucky and $12,108 if they go on the Firm Transportation-Large service and purchased

their gas from a third party supplier. Most of the difference is a result of the $430 per month Administration Fee. Also, in this example, the Kentucky account would have to bear the expense of the costly telemeter equipment while the Ohio account would not. Even residential customers can choose to purchase their own gas from a supplier other than Duke Ohio. Duke Ohio has provided their Ohio customers easy and open access to the competitive natural gas market place. What makes the comparison between the two Duke companies seem even more unreasonable is that both programs are administered by the same Duke personnel.

Q. **Do you have another example?**

A: Yes, I will next discuss the Louisville Gas and Electric Company (LG&E). There are two transportation services offered by LG&E, neither benefit smaller, predominantly heat load customers. The first is a "Firm Transportation Service" rate. For customers to avail themselves of this service they must use at least 50 Mcf each and every day of the year. This means using at least 18,250 Mcf per year to qualify but because of the 50 Mcf minimum daily usage requirements, any customer whose main use of natural gas is for space heating and have no summer usage, they will never qualify. Schools, for instance, could never qualify. Most schools do not use 18,250 Mcf per year and with no or little summer usage, would not qualify for transportation service.

The other rate that is available is only for very large customers and requires an annual usage of 50,000 Mcf. In addition to the large threshold barrier, there is a monthly administration charge of $90 per meter or $1,080 per year plus the cost for installing expensive electronic measurement equipment and related dedicated telephone line, which must be borne by the customer. As I stated above, we have saved the State Reformatory

$522,000 in the past five years because they have been able to purchase gas from a supplier and their usage is above the 50,000 Mcf thresholds. We also serve a large motel complex in the Louisville area that uses less than 50,000 Mcf annually but does meet the 50 Mcf daily minimum every day. Since January 2009 the account has saved close to $35,000 over what they would have paid LG&E for tariff gas.

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 $55.90 per month. To Columbia's credit, they are the only LDC in Kentucky that offers a small volume gas transportation service to its customers that applies to small commercial, industrial and even residential customers. The program is currently in Phase II, which means if a customer wishes to purchase supplies from an alternate supplier; their supplier must take assignment of firm interstate pipeline capacity from Columbia. Taking firm capacity means the LDC assigns pipeline and storage capacity 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. The vast majority of the assigned capacity requires the supplier to purchase gas from the Gulf of Mexico area and transport the gas on Columbia Gas of Kentucky's Nisource affiliate company, Columbia Gas Transmission and Columbia Gulf Transmission. Having to purchase the gas from the Gulf precludes the use of Kentucky and Appalachian produced gas supplies or other more reliable, competitively priced gas supplies.

The Columbia Customer Choice program operates very differently from Columbia's traditional Gas Transportation or Delivery Service 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 to match the capacity assigned. Having to follow a designated delivery requirement precludes the supplier from providing a custom supply portfolio that fits unique customer natural gas requirements. Columbia designates the point of delivery for the Choice volumes and has chosen a different receipt point for the small volume Commonwealth accounts than the larger Commonwealth accounts served under Delivery Service even though all the accounts are located in the city of Frankfort, Kentucky. There are other limitations such as rate design limitations, not allowing a customer to fix prices on portions of their natural gas requirements, nor does it allow storage purchases by the customer.

As in Duke Energy, we also serve 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 is your next example?

A: My next example is the Atmos Energy Corporation. Atmos Energy Corporations' Firm Transportation Service (T-4) schedule requires a minimum annual usage of 9,000 Mcf per service location. There is an additional $50.00 per month administration fee and a monthly Base Charge of $300. A customer that uses 9,000 Mcf would pay approximately

$3,800 more per year to have transportation gas delivered than if they purchased same amount from Atmos Energy. One positive aspect of the Atmos transportation tariff is that Electronic Flow Measurement (EFM) is not needed for customers using less than 100 Mcf/day. I would recommend that this policy be adopted by other Kentucky LDCs.

Q. **Do you have any other examples?**

A: My last example is Delta Gas. To qualify for transportation service with Delta a customer must average 25 Mcf per day or 9,125 Mcf per year. Again, this is a volumetric threshold barrier which does not allow smaller customers to have transportation services. Even if a customer can overcome the volume threshold, we have found that Delta has been very effective in keeping other marketing companies from supplying gas in their territory. They use their non-regulated subsidiary to compete against other non affiliated marketers.

Q. **Earlier, when speaking about Columbia Gas of Kentucky you referenced Appalachian or Kentucky produced gas. Are there advantages to Appalachian or locally produced natural gas supplies?**

A: Stand Energy sees many advantages to purchasing natural gas supplies from the Appalachian area and particularly from suppliers that have Kentucky produced gas supplies. Kentucky produced gas supplies creates employment for the people of Kentucky. Kentucky produced gas supplies creates economic development in Kentucky. Most importantly, it brings in a tremendous amount of tax revenue to Kentucky. Tax revenue that is lost due to LDC policies that force suppliers to bring gas supplies up from the Gulf of Mexico. Furthermore, Stand had experienced that local gas supplies are more reliable than Gulf Coast gas supplies. Hurricanes, like Katrina, have shown there can be

large interruptions to flowing natural gas supplies for extended periods of time. We have already been warned by meteorologists that this could be bad hurricane summer. The current ban on offshore drilling will have an impact on future gas supplies and has already impacted the price of natural gas. The supply of natural gas to the Kentucky, Ohio, Pennsylvania and West Virginia has also seen significant increases in the past two years. Marcellus shale production in western Pennsylvania and northern West Virginia continues to be an abundant source of new gas supplies. The recent completion of the Rockies Express line is bringing natural gas in from the Rocky Mountains to southern Ohio. Both of these new sources of natural gas, Marcellus shale gas and the Rockies gas are putting competitive pressure on pipelines such as Columbia Transmission. Nearly all of Columbia Gas of Kentucky's natural gas supplies come out of the Gulf area and thus a main reason why Columbia wants to require mandatory capacity assignment on their sister company pipeline.

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 delivery 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.
- Enforce the Standards of Conduct for both suppliers and LDCs to assure consumer protection and non-competitive practices by LDCs that provide their non regulated affiliates with a competitive advantage.
- Provide greater uniformity among Kentucky LDC tariffs.
- Promote and encourage the use of Kentucky produced natural gas supplies or eliminate LDC policies that preclude the use of Kentucky produced gas supplies.

Q. Does this conclude your testimony?

A: Yes it does.