CASE NUMBER:

99 - 165

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PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:)
)
THE TARIFF FILING OF COLUMBIA GAS OF)
KENTUCKY, INC. TO IMPLEMENT A SMALL) CASE NO. 99-165
VOLUME GAS TRANSPORTATION SERVICE,)
TO CONTINUE ITS GAS COST INCENTIVE)
MECHANISMS, AND TO CONTINUE ITS)
CUSTOMER ASSISTANCE PROGRAM)

RESPONSE TO COMMISSION'S ORDER DATED JULY 2, 1999
ON BEHALF OF
COLUMBIA GAS OF KENTUCKY, INC.

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July 16, 1999

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
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Question No. 1

Columbia's stated intention is for its small volume transportation program to be revenue neutral for Columbia.

a. That being the case, explain the rationale behind Columbia's proposed retention of revenue opportunities which exceed stranded cost up to $3 million (or absorption of stranded costs that exceed revenue opportunities by $3 million of less).
b. Does Columbia also intend for the program to be net income neutral?

Response:

a. Although the goal of the financial model of Columbia's small volume gas transportation program is for the revenue opportunities to match the stranded costs exactly, it is unlikely that an exact match will occur. Therefore, the collaborative agreed that a "deadband" of $3 million was appropriate. Rather than trying to devise a methodology where over-recovered or under-recovered revenues were trued-up with both sales and Choice customers, the deadband serves as a method where Columbia's shareholders take on risk to recover stranded costs. If the revenue opportunities are not sufficient to recover stranded costs then Columbia's shareholders will absorb the difference, up to $3 million. It is only fair, with this absorption of risk, that Columbia's shareholders also be allowed to realize a gain if revenues exceed stranded costs, up to $3 million. Therefore, the deadband was agreed to by the Collaborative as an attractive and fair alternative to devising a complicated true-up methodology in the highly likely event that there is either an under-recovery or over-recovery of stranded costs.

b. The proposed program is designed to have no effect on Columbia's net income in any way. The financial model was designed so that revenue opportunities would match stranded costs exactly. In the event that match does not occur the program will affect Columbia's net income either negatively or positively, up to a maximum of $3 million.

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Question No. 2

Why did Columbia choose $3 million as the dollar amount up to which it would absorb or retain excess costs or revenues?

Response:

The Collaborative agreed to a deadband of $3 million as it represents approximately 10% of the expected stranded costs resulting from customers choosing an alternate supplier.

PSC Data Request Set 1
Question No.3
Respondent: Stephen R. Byars

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Question No. 3

In what way will small volume transportation program customers contribute toward the recovery of stranded cost?

Response:

The financial model includes a revenue opportunity named "marketer contribution". This 5-cent per MCF charge to the marketer will, in all likelihood, be paid by customers choosing to purchase their gas supplies from a marketer. So, Choice customers will contribute to the recovery of stranded costs by paying this 5-cent charge.

Similarly, capacity assignment and balancing charges are two other revenue opportunities that while charged to the marketer are part of the marketer's cost of gas and will be recovered in their sales price to Choice customers.

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Question No. 4

Columbia states on page 4 of its application that its Expected Gas Cost for continuing Columbia sales customers will remain the same as if the small volume transportation program did not exist. Explain the effect on the Gas Cost Recovery ("GCR") rate of the existence of the small volume transportation program. Will the GCR rate increase or decrease? Will the effect be transparent to customers?

Response:

There is no effect on the current GCR rate from the existence of a small volume transportation program.

Neither. However, future GCR calculations will not include a credit from capacity release and off system sales except for administrative releases and operational sales.

Yes.

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Question No. 5

Given Columbia's proposed method to cover stranded cost through the "revenue opportunities" identified, a small volume customer who chooses to remain with Columbia as its gas supplier will lose incentive plan credits to his or her bill once the program is implemented. Explain how this residential customer has benefited from the implementation of this program.

Response:

Part of the inherent value of a Choice program is simply the opportunity for a customer to choose an alternate gas supplier. Today, a customer must purchase their gas from Columbia no matter what. Under a Choice program, this same customer will be afforded the opportunity to choose to purchase their gas from either Columbia or, presumably, a variety of suppliers. Whether this customer chooses to purchase their gas from a supplier or not, the customer has benefited from the opportunity to choose. In addition, the opportunity to choose is not a one-time option but is a perpetual option throughout the term of the proposed program.

Columbia and the Collaborative discussed the various options for revenue opportunities at great length. These discussions determined that using revenues from gas cost incentives to recover stranded costs was a superior method to other potential options. For instance, a customer surcharge was determined to be potentially confusing to the customer who was attempting to make a clear comparison between Columbia's gas cost rate and a marketer's gas cost offer. Therefore, the Collaborative agreed that the method of stranded cost recovery proposed in the program application was the best method of recovery for Columbia Gas of Kentucky customers and that the customers would benefit the most using this methodology.

PSC Data Request Set 1
Question No.6
Respondent: Stephen R. Byars

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
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Question No. 6

In Columbia's opinion, is it appropriate or reasonable to artificially fix or alter components of the GCR mechanism in order to cover stranded costs, especially to the extent that they are not related to gas cost?

Response:

Columbia assumes that this question relates to fixing the expected gas cost determinants for Columbia's sales customers. The Collaborative agreed that it was important for Columbia's sales customers not to pay any additional charges for a Choice program. Additionally, the Collaborative agreed that the sales customers should pay the same gas costs as if the Choice program did not exist. Fixing the expected gas cost determinants enables the program to accomplish both of these goals.

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Question No. 7

Why did Columbia choose the "revenue opportunity" method of covering stranded cost? List other recovery methodologies that were considered by the collaborative. Columbia's response should include stranded cost recovery methods used by other Columbia distribution companies with small volume transportation programs. Why were the other methodologies rejected?

Response:

Columbia and the Collaborative agreed that the "revenue opportunity" methods of recovering stranded costs was the best for Columbia Gas of Kentucky customers because it helped to accomplish two of the stated goals of the program, as listed in the application. Namely, these two are: 1) The program should be revenue neutral for Columbia, and must allow Columbia to recover its stranded costs and incremental program expenses; 2) The recovery of stranded costs must be as transparent as possible to permit the customer to make a clear and understandable choice between the marketer's offer and Columbia's sales rate.

The other main method of recovery considered by the Collaborative, and employed by two other Columbia companies, was a customer surcharge. The Collaborative discussed a surcharge that would apply to all residential and small commercial volumes and appear on each customer's bill. Columbia and the Collaborative agreed that a surcharge would not be attractive to customers and would make a clear comparison between Columbia's gas costs and a marketer's offer much more complicated and confusing. This method was rejected because of these reasons.

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Question No. 8

Compare individually the price transparency of the "revenue opportunity" method of stranded cost recovery to the price transparency inherent in the other methodologies considered and rejected by Columbia.

Response:

The other main method of recovery of stranded costs considered by Columbia and the Collaborative was the customer surcharge. This method of recovery is not transparent to the customer and, as a result, was rejected as a viable option.

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Question No. 9

On page 2 of its application, Columbia states that large volume customers have seen the commodity cost of gas decrease with the advent of supplier choice programs. Based upon Columbia distribution companies' experience in other states, provide documentation demonstrating that the commodity cost of gas has declined for small commercial and residential customers electing to switch gas suppliers.

Response:

According to representatives from other Columbia Distribution Companies:

In the program of Columbia Gas of Virginia, which is a pilot program available to approximately 25,000 customers, there are 7,828 customers enrolled as of June 30, 1999. With 10 marketers serving the program residential customers, using an average of 80 MCF a year, have saved an average of 8% annually. Small business customers using 400 MCF a year have saved an average of 12% annually.

As of July 1, 1999, Columbia Gas of Pennsylvania had 111,592 customers enrolled out of a possible 278,689 eligible. Thirteen suppliers served those customers. As of the end of year in 1998, the latest data available, average residential customer savings was 8% per year.

As of March, 1999, 411,000 customers were enrolled in Columbia Gas of Ohio's statewide program, representing 32% of eligible residential and small commercial customers. To date, residential and small commercial customers enrolled in the program have saved more than $23 million as a total. Percentage of Income Payment Plan ("PIPP") have saved an additional $5.3 million. Average residential customer savings is 9.7% and average commercial savings is 13.3%.

PSC Data Request Set 1
Question No.10
Respondent: Stephen R. Byars

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Question No. 10

Provide Columbia's earned return on equity for the last five years. Provide all supporting computations and documentation, and indicate whether the equity amount used in the calculations was average, year-end, or something else.

Response:

The following is the return on average equity for Columbia Gas of Kentucky for the last five years. The returns are based on a thirteen month average equity balance.

1994 – 7.7%
1995 – 12.4%
1996 – 16.1%
1997 – 17.3%
1998 – 19.2%

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Question No. 11

Has Columbia considered an outright absorption of stranded cost up to a certain level of earnings? Why or why not? What does Columbia consider to be a fair return on equity under current economic conditions? Explain.

Response:

Columbia did not consider an outright absorption of stranded costs under any circumstances. This was not an option as one of the program's goals was revenue neutrality for Columbia. Columbia is offering a program that will give its customers the same option to choose suppliers and save money on their gas bills that industrial customers have enjoyed for almost twenty years. As stated in its application, Columbia and the Collaborative did not design a program to increase Columbia's revenues. In fact, Columbia has agreed to take on risk of recovering 10% of the stranded costs resulting from the proposed program. At the same time, Columbia does not believe that simply offering a gas cost alternative to its customers should warrant a penalty in the form of its shareholders paying for the program's stranded costs. Columbia and the Collaborative agreed that the methods employed in the financial model are the best for Columbia of Gas of Kentucky's customers.

Columbia believes that when rates are reviewed and approved by the Public Service Commission as fair, just and reasonable that subsequent, arbitrary reviews of returns on equity do not change the fact that the rates remain fair, just and reasonable. Columbia believes that good management practices employed to provide quality service to its customers in a highly competitive environment should not be scrutinized simply because they result in higher returns.

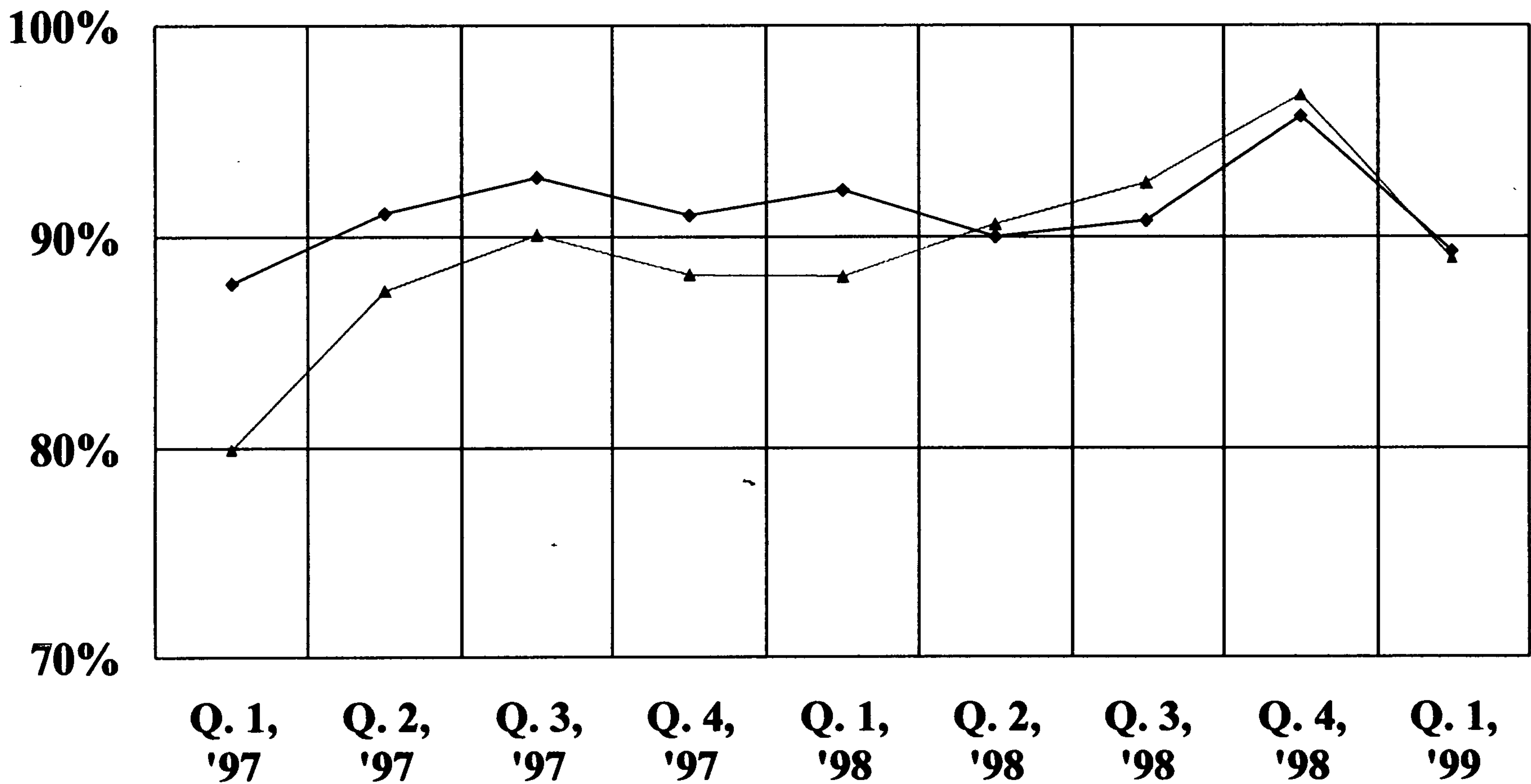
As shown in the attached graph, Columbia Gas of Kentucky's customer satisfaction ratings have increased over the last three years. Clearly, it is possible to employ good management practices resulting in positive returns while maintaining high customer satisfaction ratings.

Part of employing good management practices involves using revenues from non-traditional sources to enhance returns on equity. Columbia realized an approximately $2.2 million impact to net income during 1998 as a result of a switch to a consolidated tax return.

This is a one-time impact that has no bearing on base rates and whether they are fair, just and reasonable. In addition, Columbia's 35% share of off-system sales revenues resulted in net income of almost $1.8 million. These revenues also do not have any bearing on base rates or whether these rates are fair, just and reasonable. Thus, almost one-third of Columbia's 1998 net income came from revenues not derived from base rate services.

Columbia Gas®
of Kentucky

Customer Satisfaction



Percent "Very Satisfied" and "Satisfied"

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Question No. 12

Why has Columbia proposed to require sales customers to forego their portion of gas cost incentive revenues in order to fund stranded costs, while Columbia would retain its portion?

Response:

Columbia and the Collaborative discussed the various options for revenue opportunities at great length. These discussions determined that using revenues from gas cost incentives to recover stranded costs was a superior method to other potential options. For instance, a customer surcharge was determined to be potentially confusing to the customer who was attempting to make a clear comparison between Columbia's gas cost rate and a marketer's gas cost offer. Therefore, the Collaborative agreed that the method of stranded cost recovery proposed in the program application was the best method of recovery for Columbia Gas of Kentucky customers and that the customers would benefit the most using this methodology.

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Question No. 13

Refer to the last sentence of the first paragraph of page 6. What funding mechanism does Columbia foresee recommending to the collaborative to enable it to recover any shortfall of revenue?

Response:

As stated in the application, "With respect to that part of the shortfall that is in excess of $3,000,000, the Collaborative shall devise an additional funding mechanism that will enable Columbia to recover said shortfall, and recommend that the Commission approve said mechanism." Columbia has not yet developed any mechanism to recover any potential shortfall in excess of $3,000,000. If this situation arises, Columbia and the Collaborative will devise a mechanism together and propose that mechanism to the Commission for approval.

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Question No. 14

What will be the impact on the capacity release benchmark of the proposed reestablishment of the benchmark and fixing it through October 31, 2004? Explain why Columbia has made this proposal.

Response:

This will cause the benchmark to accurately reflect the level of capacity release revenues Columbia was able to achieve with the capacity available to be released while supplying gas to all small volume customers. The Collaborative has made this proposal because to continue the current re-establishment of the benchmark would inappropriately mix capacity previously available to be released with capacity that becomes available due to CHOICE.

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Question No. 15

Page 6 of the application states that at the end of the program Columbia will compare stranded costs with offsetting revenues. Why does Columbia propose to wait five years to perform this comparison?

Response:

As stated in the application, an annual report will be submitted to the Commission each year of the program. A comparison of stranded costs and revenue opportunities to date will be included in that annual report. Columbia and the Collaborative agreed, however, to wait until the end of the program to make the final comparison as the financial model is designed so that stranded costs and revenue opportunities will match exactly at the end of the program, but not necessarily before.

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Question No. 16

Why does Columbia propose to begin its program at the beginning of the heating season, as opposed to some other time of year? Would it be easier for marketers to begin marketing their gas outside the heating season, and have time to enroll more customers before winter?

Response:

Columbia and the Collaborative agreed to propose beginning the program on November 1, 1999 because they believe that the winter heating season is when customers will see the most potential to save money on their gas bills. As most customers will use more gas during the winter months, they may see a more dramatic difference between the amount they would pay Columbia under its sales rate than the amount they would pay a marketer under their gas cost offer. If customers realize savings early in the program then more customers should enroll to take advantage of this potential to save as the program continues. In addition, most customers generally do not think about gas issues until the winter heating season so beginning during the summer may reduce early enrollment. Thus, the start date during the heating season could help ensure a more successful program.

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Question No. 17

Assuming that the small transportation program is a success and that Columbia concludes it should propose to exit the merchant function, provide a definition of a competitive marketplace that the Commission could use in considering such an application.

Response:

Columbia believes it is premature to provide a definition of a competitive marketplace at this time for two reasons. First, Columbia has not proposed exiting the merchant function in this application. Second, the Collaborative has not had an opportunity to discuss the definition of a competitive marketplace because the application does not request to exit the merchant function. Columbia believes it is inappropriate to provide the definition of a competitive marketplace that the Commission could use in considering an application to exit the merchant function without consulting the Collaborative first.

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Question No. 18

Refer to Exhibit A., the Financial Model.

a. How did Columbia determine the estimated participation levels? Provide workpapers and explanations of all assumptions.
b. How did Columbia determine the estimated marketer election of capacity? Provide workpapers and explanations of all assumptions.
c. How did Columbia determine estimated information technology costs? Provide workpapers and explanations of all assumptions.
d. How did Columbia determine how many commercial customers would choose to participate in the small volume transportation program in order to estimate lost standby charge revenues? Provide workpapers and explanations of all assumptions.
e. How did Columbia determine the amount of capacity that marketers would choose to take and use in estimating revenue opportunities generated by capacity assignment on line 5a? Will Columbia retain its sharing percentage pursuant to its gas cost incentive plan when marketers choose capacity assignment? If yes, do the amounts on line 5a reflect that sharing? Provide workpapers and explanations of all assumptions.
f. How did Columbia estimate revenue opportunities resulting from the imposition of balancing charges as set out on line 5b? Provide workpapers and explanations of all assumptions.
g. How did Columbia determine estimated total off-system sales revenues in calculating revenue opportunities as set out on line 5d? Provide workpapers and explanations of all assumptions.
h. How did Columbia determine estimated capacity release revenues in calculating revenue opportunities as set on line 5e? How do these estimated levels compare to Columbia's historical experience in releasing capacity? Provide workpapers and explanations of all assumptions.
i. Is the estimated marketer contribution on line 5f composed of penalties?

Response:

a. Columbia determined estimated participation levels using its best judgement, after giving careful consideration to participation levels experienced in choice programs of other Columbia distribution companies. Because of the program's start date of November 1999, it was assumed that participation levels in 1999 would be relatively low. A significant increase was assumed in participation in year 2000, with gradual increases in later years. Commercial customer participation percentages were assumed to be 1.2 times the residential customer participation levels each year. Adjustments were made to the participation levels so that the net stranded costs for the period November 1999 through October 2004 equaled zero.

b. Columbia determined estimated marketer election of capacity percentages using its best judgement, after giving careful consideration to experience in choice programs of other Columbia distribution companies. The projected availability of other sources of capacity for marketers was also given consideration. It was assumed that, initially, marketers would be reluctant to take assignment of capacity. As participation levels increased in 2000, it was assumed that a small percentage of marketers would take assignment of capacity. This percentage was assumed to increase over time, but only gradually.

c. Please see the testimony of Stephen R. Byars.

d. Lost standby revenues were estimated as follows:
    1. All small commercial customers currently receiving standby service were reviewed to determine which ones have annual consumption levels of less than 25,000 Mcf per year and thus are eligible for Choice.
    2. It was assumed that each eligible commercial customer would make a decision whether to participate in the Choice Program based solely on economics.
    3. The economics for each customer was reviewed by comparing its annual standby charge to the sum of balancing charge and marketer contribution charge which would be applicable if it switched to the Choice Program.
    4. If the annual standby charges were lower than the sum of the balancing charge and marketer contribution charge, it was assumed that the customer would not switch to Choice.
    5. Annual standby revenues of those commercial customers which would realize a savings by switching to Choice were summed to estimate the standby revenues which would be lost..

e. The amount of capacity that marketers will take was estimated by multiplying the marketer election of capacity percentage by the total choice volume (line 1). The resulting volume was multiplied by 60.5% because it was assumed that marketers would only take the minimum assignment of storage to avoid balancing charges. (See response to question 20 for an explanation of how the 60.5% was derived). The

estimated capacity taken by the marketers was priced out at the applicable rate to determine the amount on line 5a. Columbia proposes retain its sharing percentages pursuant to its gas cost incentive plan, but this sharing percentage does not impact line 5a. (The sharing percentages impact lines 5d and 5e. Please see the testimony of Scott Phelps for more detail).

f. The revenue opportunities resulting from the imposition of balancing charges (line 5b) were estimated by applying the 35 cent balancing charge to the estimated volumes subject to the balancing charge. These volumes equal the choice volumes (line 1) times (100% minus marketer election of capacity percentage).

g. Total estimated off-system sales revenues that were used in calculating the revenue opportunity from off-system sales on line 5d are shown on the next to last line of the financial model. The $780 for November and December of 1999 was calculated as follows:

The average of off-system sales in 1997 and 1998 of $4,779,000 was used as a representative level of off-system sales. As explained on page 7 of the testimony of Scott Phelps, off-system sales are expected to decline in line with the reduction in customer sales volume throughput. (See page 7 of Mr. Phelps testimony for more detail). Therefore the $4,779,000 was reduced by the percentage reduction in customer sales volume throughput (e.g. Choice volumes as a percent of sales and Choice throughput) in 1999 of approximately 2%. The resulting $4,678,000 was multiplied by 2/12 representing the portion of 1999 that the Choice Program was expected to be in place. This resulted in the $780,000 in the first column of the next to last line of the Financial Model. The amounts for later years reflect reductions related to the anticipated further decreases in customer sales volume throughput referred to above.

h. The revenue opportunity from capacity release revenues on line 5e were calculated by multiplying the total capacity release revenues on the last line of the financial model by the 65% sharing percentage. The $106,000 for November and December of 1999 was calculated as follows:

The average of capacity release revenues in 1997 and 1998 of $200,000 was used as a representative level of capacity release revenues. The $200,000 was multiplied by 2/12 representing the portion of 1999 that the Choice Program was expected to be in place. This resulted in $33,000, which represents the capacity release revenues in November and December 1999, assuming capacity releases continue at recent historical levels. The balance of the $106,000 represents additional capacity releases related to otherwise stranded capacity from the Choice Program. It was calculated assuming that CKY would be able to release the capacity not assigned to marketers, at rates equal to 20% of the net cost of that capacity. The amounts on line 5e equal 65% of the amounts on the last line of the financial model based on the sharing

percentage. Columbia's historical experience in releasing capacity is discussed on page 8 of Mr. Phelps testimony. Mr. Phelps also explains on page 8 that capacity release revenues are expected to increase as more capacity becomes available to release.

i. No, the estimated marketer contribution on line 5f is not composed of penalties.

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Question No. 19

Refer to Exhibit D, 3), Balancing Charge.

a. Provide a narrative explanation for the calculation of the 35-cent charge as set out on this page.
b. Is the 35-cent per Mcf charge based on the expected cost for Columbia to perform balancing services in the year 2000 only?

Response:

a. The provider of daily balancing must make retroactive, or "no-notice", adjustments to supply to match actual customer demand. On the CKY system, the no-notice service is TCO's Firm Storage Service (FSS). CKY adjusts its storage inventory daily, injecting or withdrawing gas as necessary so that supply for the prior day matches actual customer demand.

The balancing need is symmetric, in that the forecasted demand may be higher or lower than actual. FSS, however, is an asymmetric service, with daily withdrawal capacity exceeding daily injection capacity. In November, the month with the least injection capacity, CKY's withdrawal capacity exceeds its injection capacity by a ratio of about 12: 1. Given this asymmetry, the need for injection determines the capacity required to provide daily balancing.

The months with least injection capacity are November and October. CKY has elected to require marketers for whom it provides balancing to under-deliver in October and November. These under-deliveries reduce the capacity CKY must reserve to provide daily balancing, thereby reducing the balancing charge. CKY will have marketers over-deliver in the prior summer months to offset the under-deliveries in October and November.

After October and November, the month with least injection capacity is December. Thus, December injection limits in the TCO tariff determine the FSS capacity CKY must reserve for balancing. The derivation of the balancing charge in Exhibit D, 3 is based on December injection limits.

The exhibit calculates the capacity required for daily balancing and the associated unit cost per Dth. Item 1 shows the uncertainty of daily system firm demand, based on the temperature forecast from the prior day. In other words, demand can be projected within a certain range based on the temperature forecast from the prior day. Some variation from projected demand may occur because temperature may not be what was projected, as well as other factors. Statistically, the variance can be measured in standard deviations, which are based on the square root of the variance. Line 1a shows that one standard deviation is 11,097 Dth/day. Once an acceptable confidence level is determined, the number of standard deviations needed to project the dependent variable i.e. firm demand, within that confidence level can be determined. Line 1b shows that 2.128 standard deviations is the range required to quantify demand based on the prior day temperature, correctly on 29 out of 30 days, or with a 96.7% probability. Line 1c shows that 2.128 standard deviations times the standard deviation of 11,097 equals 23,614 Dth/day.

Item 2 shows various ratios related to CKY's FSS storage service from TCO. Line 2a indicates that TCO's tariff requires that the maximum volumes injected into storage in December not exceed 10% of the SCQ (storage contract quantity). The 30 on line 2b is the ratio of injection capacities: under TCO's tariff, the maximum injection on any day in December is 1/30th of the monthly injection. Line 2c shows that for CKY's FSS contracts the ratio of SCQ to MDSQ (maximum daily storage quantity) is 50.07 days.

Item 3 calculates the capacity required for balancing. Line 3a shows that the SST required equals the 23,614 Dth/day that was calculated on line 1c. Line 3b calculates the corresponding FSS SCQ, given the ratios on lines 2a and 2b. Line 3c converts line 3b into the equivalent FSS MDSQ volume given the SCQ/MDSQ ratio on line 2c.

Item 4 lists TCO's SST, FSS SCQ, and FSS MDSQ rates, which are applicable on a monthly basis.

Item 5 converts each rate in item 4 into the equivalent annual rate. Please note that the SST calculation utilizes only 9 months because the SST demand volumes are reduced to 50% levels during six summer months, April through September. Multiplying the monthly rate by 9 rather than 12 captures the fact that the average monthly volume is 75% of the winter volume.

Item 6 simply shows the results of multiplying the annual rates from item 5 by the applicable capacities from item 3.

Line 8a converts the total annual cost for CKY to provide balancing (from item 6) to a cost per Mcf by dividing by the projected annual billed sales plus choice volume for the year 2000 (from line 7). Line 8c utilizes the heat content shown on line 8b to express the cost per Dth.

b. The 35-cent per Mcf charge is not based on the expected cost for Columbia to perform balancing services in the year 2000 only. The projected total of sales plus choice volume

does not vary significantly from year to year. Line 7 of the exhibit utilized year 2000 volumes as a representative year.

PSC Data Request Set 1
Question No.20
Respondent: M.D. Anderson

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
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Question No. 20

Refer to Exhibit D, 4), Minimum Assignment of Storage Capacity. Provide a narrative explanation of this Exhibit and explain its relationship to the Financial Model in Exhibit A.

Response:

This exhibit shows the mix of TCO FTS (Firm Transportation Service) and FSS (Firm Storage Service) capacity which CKY will offer to participating marketers. It also shows the calculation of the minimum assignment of storage which is necessary for balancing by the marketer. The first line shows that CKY currently has contracted for 190,880 Dth/day of FSS capacity from TCO. This represents 82.1% of the total FSS and FTS capacity which CKY currently has contracted from TCO of 232,446 Dth/day. The remaining 17.9% of the 232,446, or 41,566 Dth/day is made up of TCO FTS capacity. CKY will offer capacity to a marketer in the same proportion: 82.1% FSS and 17.9 TCO FTS. However, in order for the marketer to provide balancing with a level of confidence of 29 out of 30 days, only 115,458 Dth/day of the 190,880 Dth/day is required. The 115,458 represents 49.7 percent of the 232,446, and 60.5% of the 190,880 dth/day of storage under contract.

The last column of this exhibit shows how much capacity CKY would offer a marketer with a customer group whose peak day demand was 1,000 Dth/day. The marketer would be offered 82.1 % of the 1,000 Dth or 821 Dth of FSS capacity, and 17.9% of the 1,000 Dth or 179 Dth of TCO FTS capacity. However, only 60.5% of the offered FSS capacity of 821 Dth, or 497 Dth would be required for the marketer to provide balancing.

Line 5a (revenue opportunity from capacity assignment) of the financial model reflects the minimum assignment of storage capacity. In other words, it is assumed that marketers who elect storage assignment will only take the minimum level of storage capacity required to avoid the balancing charge. For example the capacity assignment revenue opportunity in year 2001 equals $274 thousand, derived as follows. In 2001, choice volume served by storage capacity assigned to marketers is the total choice volume of 4,207 MMcf times the assumed marketer election of 10%, times the portion elected, 60.5%, or 254.5 MMcf. The projected assignment revenue in 2001 of $274 thousand was calculated by multiplying the 254.5 MMcf by the projected unit cost of storage in 2001.

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 21

Provide cost support for the proposed use of the existing delivery charge for sales customers as the rate for providing the proposed small volume transportation service. The information supplied should be in sufficient detail to show that the delivery charge is representative of the cost to provide the small volume transportation program service as contemplated by Columbia's application. Any anticipated cost shifts and their expected magnitude should be specifically identified. Provide detailed descriptions of the costs and accounts included in the response and thorough narrative explanations for all calculations.

Response:

The proposed program simply offers Columbia's residential and small commercial customers a gas supply alternative. Under the proposed program Columbia will continue to provide all of the same services to customers who choose an alternate gas supplier as to those customers who choose to remain a sales customer of Columbia. The rate for delivery of natural gas to sales and small volume gas transportation service customers will be the same. That rate is the applicable base rate under Columbia's existing tariff. As Columbia's base rates, and as a result its proposed transportation service rates, have both already been cost justified and approved by the Commission, Columbia can find no basis on which to justify differing rates for delivery of gas under this program.

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 22

Is the existing GCA process and methodology for passing through gas cost sufficient to make the GCR rate fully comparable to gas prices that will be offered by marketers? Should delivery charges and GCR rates be re-aligned so that a true "apples to apples" comparison between GCR rates and marketers prices is possible? If not, why?

Response:

Columbia does not understand the question.

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 23

Describe the efforts that Columbia will make to track costs and cost shifts associated with the provision of small volume transportation program service. What kind of studies or reports is Columbia prepared to file in the future to show the Commission what adjustment in its rates should be made to reflect the true cost of providing all services offered by Columbia?

Response:

Columbia does not anticipate any cost shifts between sales customers and Choice customers. As stated in the response to Question No. 21, Columbia can not find any basis for offering different delivery charges to Choice customers than to sales customers. As a result, Columbia is not prepared to file any reports as Columbia does not believe that any adjustment in rates is necessary.

**BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999**

Question No. 24

Will Columbia have to modify its accounting in any way to accommodate the tracking of costs and revenues related to the small volume transportation program?

Response:

Yes, Columbia will add accounts to its chart of accounts as necessary to accommodate additional requirements related to the small volume transportation program.

PSC Data Request Set 1
Question No.25
Respondent: S. M. Katko

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 25

Provide the accounts and sub-accounts Columbia will use to functionally categorize and separate the costs associated with providing the services identified in the small volume transportation program from that of other services offered under existing tariffs. For example, as employees spend more time interacting with retail suppliers and less on procuring gas for bundled services, provide the new sub-accounts Columbia will use to track these costs, including monitoring suppliers for balance requirements, banking services, and so forth.

Response:

Columbia believes that the cost associated with services to small volume transportation customers will not differ from cost associated with providing services offered under existing tariffs. Therefore, there is not a need to create new accounts and sub-accounts to functionally categorize and separate the costs.

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 26

Provide the work order system Columbia has developed to track labor and other costs associated with small volume transportation program service. If no system has been developed, is one envisioned? If not, why not?

Response:

Columbia does not utilize a work order system to account for its labor and other costs nor does it envision developing a new system for tracking costs. The company's detailed chart of accounts uses an activity-based approach for directly charging and monitoring all costs in accordance with Federal Energy Regulatory Commission guidelines, state regulatory requirements, generally accepted accounting principles, and internal management reporting needs.

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 27

Will Columbia's current chart of accounts accommodate new business activities?

a. If not, has Columbia considered re-designing its chart of accounts to better reflect a more competitive environment? If no, why not?
b. If yes, please discuss efforts to date and include copies of all changes made to Columbia's work order system to address the evolving marketplace.

Response:

Columbia's chart of accounts will accommodate new business activities. The company regularly updates its chart to reflect changes in FERC and other regulatory requirements, generally accepted accounting principles, and internal management needs. While no changes to date have been directly related to a small volume transportation program, the chart of accounts is flexible and can accommodate changing requirements.

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 28

Provide the journal entries Columbia will use to record the collection and remittance of gross receipts taxes and other taxes on sales made by a marketer.

Response:

The journal entries will be the same as they are today.

The journal entries are as follows:

Dr. Accounts Receivable
Cr. Tax Collections Payable
To record the amount of gross receipts tax, sales tax, and franchise fees collected from customers and payable to taxing authorities.

Dr. Tax Collections Payable
Cr. Cash
To record the remittance to taxing authorities of gross receipts tax, sales tax, and franchise fees collected from customers.

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 29

Exhibit B, Program Description, refers to the development of the education plan and materials prior to the start of the 60-day moratorium. What is the status of these efforts? Describe the process Columbia will use to develop the plan and materials.

Response:

Columbia will use its expertise and experience in communicating with its customers to develop an educational program that will raise the awareness of Customer Choice^{SM} and help customers understand the potential benefits. An outside public relations firm will be used to produce materials such as radio spots, brochures and other written materials. Columbia will use a wide array of media, such as radio, bill inserts, direct mail and others, to deliver the educational material at the most effective cost.

Columbia will begin this process when the Commission has approved the proposed program.

PSC Data Request Set 1
Question No.30
Respondent: Stephen R. Byars

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 30

Describe the educational efforts of other Columbia distribution companies as they pertain to Customer Choice programs. Have any studies been undertaken to gauge their success? If so, what were the results? Provide copies of any published studies.

Response:

Other Columbia distribution companies have seen that education programs have greatly contributed to the success of their Choice® programs. Their efforts have been quite similar to the program proposed by Columbia in its application and briefly described in the response to Question No. 29. The companies have used a broad array of media and employed public relations firms to help design and produce materials. Attached are the results of customer surveys performed by Columbia Gas of Ohio, Columbia Gas of Pennsylvania and Columbia Gas of Virginia.

Section VI.
Customer Research

Columbia conducted random customer surveys to determine public awareness of deregulation in the natural gas industry before and after introduction of the Customer CHOICE Program. A comparison of results from the pre-test and post-test surveys validated the effectiveness of consumer outreach efforts in making customer awareness of the Program almost universal.

- ***Unprecedented 87 percent unaided customer awareness of the Customer CHOICE Program***
- ***Majority of customers had a favorable impression of the Program***
- ***Outreach efforts yielded a significant improvement in customer awareness***
- ***Audience response to public meetings was extremely positive***

Dramatic Increase in Awareness

Customer awareness of the Customer CHOICE Program was low prior to statewide expansion of the Program as documented by a customer survey conducted prior to August 1, 1998. A random telephone survey was conducted of 723 residential and 290 commercial customers outside the Toledo service area to determine the statewide awareness level created by media coverage of the Toledo pilot program. The survey revealed that only a handful of customers were aware of the program in more than a superficial way. Among residential customers:

- 11 percent were aware of the Program
- 29 percent recognized the Program's name but knew nothing about the program's features
- 8 percent incorrectly associated the Program with some other program Columbia Gas of Ohio offers
- 51 percent had never heard of the Customer CHOICE℠ Program prior to the interview

Among commercial customers:

- 10 percent were aware of the Program
- 5 percent recognized the Program's name but knew nothing about it
- 1 percent associated it with some other Columbia Gas program
- 84 percent had never heard of the Customer CHOICE℠ Program before the survey

The customer awareness story was very different after the statewide Program had been operating for a couple of months. The concentrated customer outreach efforts massed by Columbia, the PUCO, the Ohio Farm Bureau and OCC yielded significant returns.

Following the initial statewide enrollment period, another telephone survey was conducted to determine how effective the consumer outreach campaign had been in raising general awareness of the Program among the public. Results of the post-test found that awareness of the Program was nearly universal.

- Nearly nine out of ten (87 percent) residential customers were aware of the Customer CHOICE Program unaided; another 9 percent recognized the Program after hearing a description of it
- 72 percent of customers could correctly identify a feature of the Program
- 65 percent of residential customers and 58 percent of commercial customers had favorable impressions of the Program
- Among residential customers, the percentage of customers who had favorable impressions of the Program increased from 51 percent to 65 percent, suggesting that customers like the Program when they learn about it

Effective Public Meetings

A brief, one-page questionnaire was distributed at all public meetings where the Customer CHOICE program was discussed. The purpose of the survey was to determine the information needs of consumers, to solicit feedback on any concerns that customers might have with the program or their lack of sufficient information, and to assess consumer interest in participating in the program.

Virtually all audience members (98 percent) completed surveys indicating that the presentation was effective in explaining the Customer CHOICE Program. Of the respondents, 95 percent expressed that all questions had been answered. A few commented that they would have liked to have seen more specific information about marketers' programs and pricing.

Respondents expressed interest in the program and its benefits. Of the respondents, 75 percent indicated that they would or might consider another supplier for their natural gas.

Attachment VI.1.
Pre-Expansion Survey

The Columbia Gas Customer CHOICE^{SM} Program
Customer Awareness Survey – Pre-Statewide Expansion
Summary of Findings

This report highlights the findings of research conducted for Columbia Gas of Ohio by Saperstein Associates prior to the expansion of the Program statewide. To determine awareness of the Customer CHOICE^{SM} program throughout Ohio (excluding the Toledo area, where the program was currently available to customers), telephone interviews were conducted with 723 residential customers and 290 commercial customers. For both samples of customers, the number of interviews was divided across 29 service areas. Conducted between April 6 and April 22, 1998, interviews with residential customers averaged seven minutes and interviews with commercial customers averaged four minutes.

Top-line

- Only one out of ten customers, residential and commercial, reported being aware of the Customer CHOICE^{SM} Program and could correctly identify any of the program's features
- Among customers who are aware of the program, impressions of Customer CHOICE^{SM} Program are favorable
- For most customers, impressions of Columbia Gas were not affected by the Customer CHOICE^{SM} Program

Program Awareness

Only a handful of customers are aware of the Customer CHOICE^{SM} Program in more than a superficial way (Table A). Among residential customers:

- 11 percent were aware of the Program
- 29 percent recognize the name Customer CHOICE^{SM} Program, but know nothing about the Program[1]
- 8 percent associate the Customer CHOICE^{SM} Program with another program offered by Columbia Gas (e.g., HEAP)
- 51 percent had never heard of the Customer CHOICE^{SM} Program prior to being interviewed

Awareness of the program was highest among residential customers who are 35 or older (13 percent versus 3 percent for those 18 to 34); live in the Northwestern

[1] Some respondents who claimed to recognize Customer CHOICE^{SM} may have been guessing. Note, for example, that 11 percent of the respondents claimed to be aware of a fictitious program, The General Motors Hawaiian Vacation Program.

District[2] (24 percent versus 7 percent to 15 percent for all other districts); and are homeowners (12 percent versus 5 percent for renters).

Table A. Customer CHOICE^{SM} Program awareness levels

	Residential Customers	Commercial Customers
Aware: Recognize the name and can identify at least one feature	11%	10%
Not aware: Recognize the name, but know nothing about the program	29%	5%
Not aware: Recognize the name, but associate Customer CHOICE^{SM} with another Columbia Gas program	8%	1%
Not aware: Do not recognize the name[3]	51%	84%

Among commercial customers:

- 10 percent were aware of the Program (which is virtually identical to the comparable figure for residential customers)
- 5 percent recognized the name Customer CHOICE^{SM}, but knew nothing about the Program
- 1 percent associated the Customer CHOICE^{SM} Program with another program offered by Columbia Gas (e.g., HEAP)
- 84 percent had never heard of the Customer CHOICE^{SM} Program prior to being interviewed

Senior level employees (e.g., owners, officers) were more likely to be aware of the program (and correctly identify a program feature) than other employees (14 percent versus 6 percent).

Impressions of the Customer CHOICE^{SM} Program

Impressions of the Customer CHOICE^{SM} Program vary widely between residential and commercial customers even though awareness level is similar (Table B).

[2] The only Northwestern district service area not excluded from the study is Findlay; awareness among these customers may be higher only because they have been exposed to advertising from the Toledo-area pilot program.

[3] Roughly one-third of the customers who did not recognize Customer CHOICE^{SM} claimed to be aware of the program after hearing a description of its features (37 percent residential and 33 percent commercial).

Table B. Impressions of the Customer CHOICE℠ Program

	Aware of the Program[4]		Recognize the Name, but Know Nothing About It		Associate Customer CHOICE℠ with Another Columbia Gas Program	
	Residential	Commercial	Residential	Commercial	Residential	Commercial
Favorable	58%	56%	32%	13%	76%	75%
Unfavorable	8%	9%	0%	7%	5%	0%
No Opinion	34%	35%	68%	80%	19%	25%

A majority of those who are aware of the Program or heard a description of the Program's features have favorable impressions of Customer CHOICE℠ (58 percent residential and 56 percent commercial). A substantial minority, however, are reserving judgment until they know more about the program (34 percent residential and 35 percent commercial).

Not unexpectedly, many customers who recognize the name of the program but knew nothing about it have neither favorable nor unfavorable impressions of Customer CHOICE℠ (68 percent residential and 80 percent commercial). However, one-third of the residential customers (32 percent), despite knowing nothing about Customer CHOICE℠, had favorable impressions of it, perhaps because they had favorable impressions of Columbia Gas in general.[5]

Customers who associate Customer CHOICE℠ with another Columbia Gas program are more likely than other groups of customers to have favorable impressions of Customer CHOICE℠ (76 percent residential and 75 percent commercial).

Impressions of Columbia Gas

Awareness of the Customer CHOICE℠ program had little effect on perceptions of Columbia Gas: eight out of ten customers aware of the program and three out of four who recognize the program's name but knew nothing about it claimed that Customer CHOICE℠ did not affect their impressions of Columbia Gas.

Ironically, residential consumers who associated Customer CHOICE℠ with low-income assistance or customer bill payment options evidenced more positive attitudes toward Columbia Gas as a result of the program (34 percent). This suggests that while perceptions of Columbia Gas can be enhanced, the Customer CHOICE℠ Program may not do so among a significant percentage of customers.

[4] Includes customers who can identify at least one Program feature and customers who did not recognize the Customer CHOICE℠ name, but were read a description of the Program.

[5] Data from other studies conducted for Columbia Gas indicate that most customers have favorable impressions of Columbia Gas.

The Columbia Gas Customer CHOICE℠ Program
Customer Awareness Survey – Post-Statewide Expansion
Summary of Findings

This report highlights the findings of research conducted for Columbia Gas of Ohio by Saperstein Associates after the statewide expansion of the Customer CHOICE℠ Program had begun. To determine awareness of the Customer CHOICE℠ program throughout Ohio (excluding the Toledo area, where the program was piloted), telephone interviews were conducted with 725 residential customers and 290 commercial customers. For both samples of customers, the number of interviews was divided across 29 service areas. A similar study was conducted in April 1998, before the Customer CHOICE℠ program was made available to customers throughout Ohio. Where applicable, the results from the previous study are compared to the current data.

Top-line

- Awareness of the Program was almost universal
- Seven out of ten customers, residential and commercial, were aware of the Customer CHOICE℠ Program <u>and</u> could correctly identify any of the Program's features, a substantial increase from the previous study when only one out of ten could do the same
- Impressions of Customer CHOICE℠ were favorable
- One-fourth of respondents had a more favorable impression of Columbia Gas of Ohio as a result of Customer CHOICE℠
- Data from the November and April studies are consistent for items not related to Customer CHOICE℠

Program Awareness

Awareness of the Customer CHOICE℠ Program has increased dramatically. (Table A.). Among <u>residential</u> customers, 96 percent were aware of the Program in some way. Specifically:

- 72 percent recognized the name Customer CHOICE℠ <u>and</u> could correctly identify a Program feature
- 14 percent recognized the name Customer CHOICE℠, but knew nothing about the Program[1]
- 9 percent recognized the Program after hearing a description of it

[1] Some respondents who claimed to recognize Customer CHOICE℠ may have been guessing. Note, for example, that 14 percent of the respondents claimed to be aware of a <u>fictitious</u> program, The General Motors Hawaiian Vacation Program. Because guessing would impact both studies, it does not explain the increase in program awareness.

- 1 percent associated Customer CHOICE^{SM} with another program offered by Columbia Gas (e.g., HEAP)

Among commercial customers, 97 percent were aware of Customer CHOICE^{SM}:

- 71 percent recognized the name Customer CHOICE^{SM} and could correctly identify a program feature
- 18 percent recognized the name Customer CHOICE^{SM} but knew nothing about the program
- 8 percent recognized the Program after hearing a description of it

Table A. Customer CHOICE^{SM} Program awareness

	Residential Customers		Commercial Customers	
	December	April	December	April
Aware (total)	96%	68%	97%	44%
Aware: Recognize the name and can identify at least one feature	72%	11%	71%	10%
Aware: recognize the name but know nothing about the program	14%	29%	18%	5%
Aware: Recognize the name but associate Customer CHOICE^{SM} with another Columbia Gas program	1%	8%	0%	1%
Aware: Do not recognize the name but recognize a description of the program	9%	19%	8%	28%
Not Aware	4%	30%	3%	54%

Three out of five residential customers (62 percent) and half of the commercial customers (51 percent) knew that Customer CHOICE^{SM} offers a choice of natural gas suppliers. Two out of ten residential customers (17 percent) and three out of ten commercial customers (27 percent) believed the Program would lower the cost of their gas bill.

Impressions of the Customer CHOICE^{SM} Program

A majority of the respondents have favorable impressions of Customer CHOICE^{SM} (65 percent residential and 58 percent commercial). A substantial minority,

however, continue to have no opinion about the Program (28 percent residential and 31 percent commercial).

Compared to the past study, more customers have more favorable impressions and fewer are undecided, which is not unexpected considering the increase in Program awareness. Among residential customers, the percentage of customers with favorable impressions increased from 51 percent to 65 percent, suggesting that when customers learn about the Program, they like it.

Table B. Impressions of the Customer CHOICE^{SM} Program

	Residential Customers		Commercial Customers	
	December	April	December	April
Favorable	65%	51%	58%	54%
Unfavorable	7%	6%	11%	8%
No Opinion	28%	43%	31%	38%

Impressions of Columbia Gas

One out of four residential customers (24 percent) had more favorable impressions of Columbia Gas as a result of the Customer CHOICE^{SM} Program, up slightly from the April study. Among commercial customers, one out of five (18 percent) had more favorable impressions, similar to the comparable figures from April. However, two out of three residential customers and three out of four commercial customers claimed that Customer CHOICE^{SM} did not affect their impressions of Columbia Gas.

Other Residential Data

Data from the November and April studies for items not directly related to the Customer CHOICE^{SM} Program are comparable (Table D.). Note, for example, that awareness of the various consumer programs is virtually identical, with the exception of Customer CHOICE^{SM}. These similarities suggest that the increase in Program awareness is not the result of differences between the two samples.

Table D. Other residential customer data

	Residential Customers	
	December	April
Years in County		
Ten years or less	17%	20%
More than ten years	83%	80%
Quality of Life in Community		
Improving	35%	32%
Getting worse	11%	11%
Same	52%	57%
Homeowner	81%	81%
Subscribe to local newspaper	61%	61%
Age		
18 to 34	17%	20%
35 to 54	38%	39%
55 or older	43%	41%
Aware of MCI	76%	76%
Aware of D.A.R.E.	80%	80%
Aware of Discover Card's Cashback Bonus	72%	69%
Aware of NorAm Easy Energy	8%	5%

Rotating Questions -- Choice: Pennsylvania

Present Quarter Service Score Comparisons

PA State Total*	High Area	Low Area			1st Quarter 1999	2nd Quarter 1999		Change from prev quarter
%	%	%		%	%	%	%	+/-
			Are you aware that you can now purchase your natural gas from a marketer?					
			n=		716	727		
			Yes		89.6	83.4		-
			No		8.9	13.2		+
			Don't Know		1.5	3.3		+
			Do you recall receiving information from Columbia Gas regarding your opportunity to choose a gas supplier?					
			n=		716	727		
			Yes		81.8	82.4		
			No		10.7	11.3		
			Don't Know		7.5	6.3		
			Do you understand enough about supplier choice to make a decision about whether or not to participate in the Columbia Gas Choice Program?					
			n=		716	716		
			Yes		64.8	68.8		
			No		30.3	24.2		
			Don't Know		4.9	7.0		

* Total statistics are weighted.

+ = Significantly higher than previous quarter at the 95% confidence level.

- = Significantly lower than previous quarter at the 95% confidence level.

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REPORT

CUSTOMER CHOICE PROGRAM
PARTICIPANT & NON PARTICIPANT
TELEPHONE SURVEY

for

COLUMBIA GAS OF VIRGINIA
Richmond, Virginia

Prepared December 1998

by

Bana Bhagchandani

Dominion Marketing Research, Inc

2809 Emerywood Parkway, Suite 100 Richmond, Va 23294 804-672-1417

Executive Summary

Dominion Marketing Research, Inc. conducted two telephone surveys for Columbia Gas of Virginia-- one of Customer Choice Program [CCP] Participants and other of those who chose not to join CCP. Each survey was of 90% residential and 10% commercial customers. The surveys were started in the middle of November 1998.

The surveys were designed to measure the following program parameters:

- **Program reach through promotion materials, bill inserts, ads, etc.**
- **Marketer's promotional efforts.**
- **Customer's awareness of the Choice Program.**
  - **participants**
  - **non participants**
- **Customer Choice Program Participants' motivation, expectations and satisfaction.**
- **General information about non participants.**

The results of the two surveys were as follows:

There is a very high level awareness of the Customer Choice Program.

Those not aware of the program are very interested in receiving the information for review. Almost all would like this information sent by mail, with an isolated few giving their e-mail addresses for communication.

Among participants, 19% were not aware that they had joined the program. This maybe due to confusion caused by the two names of Columbia Gas of Virginia and Columbia Gas Services.

The bill insert seemed to have been a major contributor in establishing the program awareness among both the participants and the non participants. The high percentage of respondents who cited other reasons, also attributed their awareness to CGV's additional efforts, such as, separate letters, brochures and information on the bill itself.

Newspapers contributed significantly to the success of the program's promotion, while the open house seemed to have very limited success.

Only 9% of the CCP participants and 3% non participants had become aware of the program through the marketer's promotional efforts.

Finally, most all respondents mentioned only one source of information. A very small percentage used more than one source of information for their research.

78% of the respondents joined the program in the hopes of saving on their gas bills. This is also validated by the comments section of this report.

Of those who admitted to having saved on their gas bills, 82% said the savings were either more or equal to what they had expected. This realization of expectations may have contributed to their satisfaction and the success of the program.

The results of the three satisfaction levels measured, were as follows: 91% were satisfied with the supplier chosen, 86% were satisfied with the CGV services and finally 93% were satisfied with the Customer Choice Program itself.

There were no strong reasons given for not joining the program. The comments section of this report indicates that procrastination and the high level of satisfaction with CGV seemed to be the two main reasons for not signing on. There were a few skeptical reasons for not joining the Customer Choice Program.

90% of the non participants, if convinced of possible savings, may want to join the Customer Choice Program.

The respondents seemed equally divided among the three possible incentives of equal monthly billings, cash incentives and free gas usage for summer months.

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 31

Has Columbia received indications from marketers that they are prepared to market gas to small volume transportation program customers? If so, from how many? In Columbia's opinion, how many non-affiliated marketers need to participate to make the small volume transportation program viable?

Response:

Columbia has received inquiries from eight marketers indicating an interest in the proposed program. In Columbia's opinion, as this program does not penalize the customer for choosing to remain a sales customer and does not place any restrictions on customers choosing to return to Columbia's sales rate after signing with a marketer, then there need only be one participating marketer to make the program viable. Nonetheless, Columbia hopes and believes that many marketers will participate.

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 32

Have any Columbia distribution companies required marketers to purchase pipeline capacity in order to participate in Customer Choice programs? If yes, what has been their experience with marketer participation in their programs?

Response:

Columbia Gas of Maryland (CMD) requires that marketers take assignment of pipeline capacity in order to participate in its Customer Choice Program. CMD's residential customer choice pilot program began November 1996. This program followed a similar pilot offered to small commercial customers beginning June, 1996. Currently four marketers are actively participating in the program, which is offered to residential and small commercial customers. Approximately 31,000 customers are eligible, of which approximately 2,900 are participating.

In Columbia of Pennsylvania's (CPA) pilot Choice Program, marketers were required to take assignment of pipeline capacity. The pilot was a one year program which began November 1, 1996. It was limited to Washington County, which included about 37,000 eligible customers. Fifteen marketers submitted financial information to CPA and were given credit approval to sell gas in the pilot. Four of these marketers actually participated in the initial pilot program. The current program now includes an option for the marketers to use their own capacity.

PSC Data Request Set 1
Question No.33
Respondent: Stephen R. Byars

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 33

Has Columbia considered offering any unbundled services other than small volume transportation? If so, which services has it considered and why did it decide not propose them at this time? If not why not?

Response:

Columbia has not considered offering any other unbundled services other than gas supply at this time. The only other service discussed by the Collaborative was billing. The Collaborative agreed that it was beneficial to the program and to Columbia Gas of Kentucky's customers that Columbia remain the billing agent during the term of the proposed program.

PSC Data Request Set 1
Question No.34
Respondent: Kimra H. Cole

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 34

Define "marketer" as envisioned in Columbia's proposed tariff.

Response:

A marketer is an entity supplying gas to customers through Columbia’s facilities.

**BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999**

Question No. 35

Provide the marketer eligibility requirements employed in other jurisdictions where Columbia distribution companies have Customer Choice programs, either on a pilot or permanent basis. Provide justification for any differences in those requirements and the requirements proposed by Columbia in this proceeding.

Response:

Columbia Gas of Maryland, Inc.

A marketer may be required to provide financial information in order for Columbia to establish the marketer's credit limit. A non-refundable fee may be charged to offset the cost of determining the marketer's creditworthiness. If the marketer fails to demonstrate creditworthiness or desires to avoid credit evaluation, it may submit a deposit or letter of credit equal to two times the peak month's bill for each customer on whose behalf the marketer is acting.

The marketer must sign a service agreement and provide written notification to Columbia of the identity of the customer on whose behalf the marketer is acting.

Columbia Gas of Ohio, Inc.

Marketers desiring to participate in the Columbia Customer CHOICE® Program will be evaluated to establish credit levels acceptable to the Company. Marketers not meeting the necessary credit level will be required, at Columbia's option, to provide additional security in the form of a letter of credit, surety bond, cash deposit, and/or appropriate guaranty to participate.

In order to participate, Marketers are required to provide the following information:

1. Most recent financial statements;
2. Most recent annual report to shareholders, 10K or 10Q;
3. List of parent company and affiliates;
4. Names, addresses, and telephone numbers of three (3) trade references; and
5. Names, addresses, and telephone numbers of banking institution contacts

Evaluations will be based on standard credit factors such as previous customer history, Dun & Bradstreet financial and credit ratings, trade references, bank information, unused line of credit, and financial information. Based on the number of standard credit factors met by the Marketer, Columbia will assign a dollar credit level range for each Marketer. Columbia shall have the sole discretion to determine credit worthiness based on the above criteria but will not deny credit worthiness without reasonable cause.

A fee of $50.00 will be assessed for each evaluation. Columbia reserves the right to conduct further evaluations during the course of the program when information has been received by Columbia that indicates the credit worthiness of a Marketer may have deteriorated or that the Marketer's program is exceeding the credit level range previously approved by Columbia. Columbia will review each Marketer's program no less often than monthly, and will compare each Marketer's program against its previously assigned credit level range. Columbia will re-evaluate each Marketer's overall credit worthiness on an annual basis. Marketers whose programs exceed the assigned credit level range will be required, at Columbia's option, to provide additional security in the form of a letter of credit, surety bond, cash deposit, and/or appropriate guaranty in order to continue to participate in the program beyond the last established credit level or to enroll additional customers. If additional security is provided by a Marketer, Columbia will assign a new credit level range for the Marketer.

Columbia Gas of Pennsylvania, Inc.

Agents must meet the standards of credit worthiness as provided under Section 20.10 of the Rules and Regulations governing this Tariff. Financial information the Company may request of the agent to furnish are:

1. Credit reports
2. Bank References
3. Audited Financial Statements, Annual Report, 10K or 10Q prepared within the last 12 months
4. Confirmation that the agent is not operating under any bankruptcy or insolvency law
5. Confirmation that the agent is not aware of any adverse condition which could cause a material change in financial condition
6. Confirmation of no significant lawsuits or judgements outstanding
7. A list of parent company and other affiliates
8. Names, addresses and telephone numbers of 3 trade references

The evaluation will be based on standard credit factors such as previous Customer history, Dun & Bradstreet financial and credit ratings, trade references, unused line of credit, and financial information. Columbia shall have sole discretion to determine credit worthiness based on the above criteria but will not deny credit worthiness without reasonable cause.

A fee of $50.00 will be assessed for each evaluation. An evaluation will be required at the beginning of each year of the pilot. Columbia reserves the right to conduct evaluations during the course of the pilot when information has been received by Columbia that indicates the

credit worthiness of an agent has deteriorated. Columbia will bill the agent the $50.00 fee for such evaluations but will limit the number of charges to two per year.

Columbia Gas of Virginia, Inc.

Marketers desiring to participate in the Commonwealth Choice Program will be evaluated to establish credit levels acceptable to the Company. Marketers not meeting the necessary credit level will be required, at the Company's option, to provide additional security in the form of a letter of credit, surety bond, cash deposit, and/or appropriate guaranty to participate.

In order for the Company to complete the evaluation, Marketers will be required to provide the following information:

a. Most recent annual report, 10K or 10Q;
b. Current financial statements prepared since the last audited reports;
c. List of parent company and other affiliates;
d. Names, addresses and telephone numbers of 3 trade references; and
e. Names, addresses, and telephone numbers of one or more banking institution contacts;
f. List of unbundling programs in which they are participating if not participating on one or more of the Choice programs sponsored by the Company's affiliate local distribution companies; and
g. Provide number of unbundling programs in which they are participating if participating in one of the Choice programs sponsored by the Company's affiliate local distribution companies.

Evaluations will be based on standard credit factors such as previous customer history, Dun & Bradstreet financial and credit ratings, trade references, bank information, unused line of credit, and financial information. The Company shall have the sole discretion to determine the level of credit worthiness based on the above criteria but will not deny credit worthiness without reasonable cause.

A fee of $50.00 will be assessed for each evaluation. The Company reserves the right to conduct evaluations during the course of the program when information has been received by the Company that indicates the credit worthiness of a Marketer may have deteriorated or that the Marketer's program is exceeding the credit level previously approved by the Company.

The collaborative considered many of these options and determined that the requirements as filed by Columbia best met the diverse needs of Columbia Gas of Kentucky's customers.

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 36

Are any marketers required to file with, or to be certified by, the state commission before they can provide service in states where Columbia affiliates have Customer Choice programs? If yes, provide the filing requirements, including any annual filings, and any certification process requirements in each jurisdiction.

Response:

I am not aware of any requirements.

PSC Data Request Set 1
Question No.37
Respondent: Ron Consentino

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 37

With regard to proposed Marketer Eligibility requirements included in Columbia's proposed tariff (Attachment C, Original Sheet No. 33) and discussed on page 3 of the application:

a. Provide the "standard credit factors" that Columbia will employ in evaluating a marketer's credit worthiness. Include with these factors the dollar level range for each factor, the basis for the factors, and the basis for the dollar ranges proposed.
b. Provide the dollar credit level Columbia will require a marketer to achieve before requiring additional security. How was this level determined to be the minimum level necessary to participate without additional security requirements?
c. How will Columbia determine the amount of any additional security required of a marketer not meeting its necessary dollar credit level?
d. Explain how Columbia determined that a fee of $50 would be sufficient to cover the cost of performing a credit worthiness determination. Provide cost support for this charge.
e. Will Columbia be able to perform the monthly review of marketers' programs with existing staff? Will this be one of the cost shifts inherent in initiating the new small volume transportation program?

Response:

a. The "standard credit factors" that CKY will employ in evaluating a marketer's credit worthiness are as follows:

1. Previous payment history
2. Dun & Bradstreet (D& B) financial strength and composite credit appraisal rating
3. D & B risk classification
4. D & B paydex score
5. Average D & B payment summary
6. Credit history – references
7. Credit history - unused line of credit

8. Credit history - banking information
9. Financial statements

The dollar level range for each factor above are:

# Of Credit Factors	Dollar Level Range
1	under $2,000
2	$2,001 to $10,000
3	$10,001 to $50,000
4	$50,001 to $100,000
5	$100,001 to $500,000

The basis for the factors and dollar level ranges detailed above are consummate with the credit risk exposure CKY management will accept based on past history.

b. The dollar credit level required by a marketer to achieve before additional security requirements are required is based on the dollar level ranges detailed above and is based on CKY Credit Policy.

c. When a marketer is approved for the CKY "Choice" program a minimum credit limit is established per CKY Credit Policy. If that marketer exceeds that minimum credit limit by 20% for two consecutive months, additional financial security will be required. That financial security can be in the form of either an irrevocable letter of credit from a financially secure banking institution, a cash deposit, or a parent or third party company guarantee or other appropriate financial instruments to cover any difference.

d. The $50 fee assessed marketers to perform a credit worthiness evaluation was determined by the collaborative to be a reasonable fee.

e. Yes. We do not believe that there are any cost shifts.

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 38

With regard to the Aggregation Agreement included in Columbia's proposed tariff (Attachment C, Original Sheet No. 33) and discussed on page 3 of the application:

a. Explain why a marketer should be required to sign an Aggregation Agreement with Columbia in order to participate in the small volume transportation program.

b. Define "Customer Group." Is there more to the definition than what is contained in (1)(a) of the Availability section of proposed Original Sheet No. 30?

c. Define "Market Area."

d. How many market areas does Columbia Gas Transmission Corporation have in the area served by Columbia?

e. If there is more than one market area in Columbia's distribution system, will a marketer be required to have 100 customers or 10,000 Mcf annually in each market area in order to participate in the program.

Response:

a. Requiring a marketer to sign an aggregation agreement in order to participate in the Columbia Choice program provides Columbia Gas of Kentucky with not only a way to get the marketer to agree to abide by the rules of the program, but also the means to enforce the rules of the program. Further, the agreement is an informational tool and record for our gas transportation department in determining how the marketer plans to participate in the program, such as, which option the marketer selected for the annual reconciliation. Also, the agreement provides the marketer with vital information they will need to participate in the program.

b. A customer group is essentially what is defined in (1)(a) of the Availability section of proposed Original Sheet No. 30. A customer group is a group of

customers served by a single marketer which has executed a Small Volume Aggregation Service agreement. The customer group must also contain either 100 customers or have an annual throughput of at least 10,000 MCF. While this definition is contained within the customer requirements, it is really another way of setting requirements for the marketer. A marketer can sign customers, but neither marketer nor customer can participate until the marketer gets enough customers or throughput.

c. A Market Area is a continuous, physically-interconnected system of Columbia Gas Transmission Company(TCO) piping through which TCO provides natural gas service to customers in a discrete geographic area, utilizing one or more common points of delivery from interstate pipeline supplier(s) and local gas suppliers.

d. 8(TCO Market Areas 10, 11, 12, 13, 14, 15, 16, and 18)

e. There is no requirement that all of a marketer's customers or annual throughput have to be in the same TCO market area.

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 39

Compare the Aggregation Agreement in Exhibit F to aggregation agreements used in other Columbia distribution companies' programs. Are there features of Columbia's proposed agreement that are specifically excluded from those of the other companies' programs, or features excluded from the proposed agreement that are specifically included in other companies' programs?

Response:

All of the features of the proposed Columbia Gas of Kentucky(CKY) aggregation agreement are included in one or more of the other Columbia distribution companies aggregation agreements. However, there are elements of other Columbia company's aggregation agreements that do not appear in the CKY agreement. As seen on the attached exhibit below, there are 8 elements that appear in other Columbia agreements that are not in CKY's.

"Monthly Reconciliation" and "Average Day Demand" appear in the Columbia Gas of Virginia(CGV) aggregation agreement, but are not features of CKY's aggregation agreement or CKY's Small Volume Gas Transportation Service program.

The "EBB" clause simply says that the marketer will agree to use the Columbia EBB for nominations. This is already a requirement for doing business with any of Columbia's distribution companies.

The other elements are those that are part of the CKY Choice program, but are not included in the aggregation agreement. These include Capacity, Enrollment Procedures, Gas Supply Obligations, and Billing Options. These elements of the program are described for the marketers in the program description and the rate schedule.

COLUMBIA DISTRIBUTION COMPANIES
AGGREGATION AGREEMENTS

PROVISIONS	CGV	CKY	CMD	COH	CPA
HEADING/WHEREAS	x	X	x	X	x
DEFINTIONS: Agg service/Aggregation/Customers		X	x	X	x
TERM	x	X	x	X	x
REQUIREMENTS FOR PROGRAM PARTICIPATION	X	X	X	X	X
FULL REQUIREMENTS SERVICE		X	X	X	X
SUPPLY CO-MANAGEMENT DEFINED	X	X		X	
ANNUAL RECONCILIATION		X		X	
BILLING AND CHARGES	X	X		X	
PAYMENT	X	X		X	
REMEDIES/DEFAULT	X	X	X	X	X
FORCE MAJEURE	X	X	X	X	X
TITLE TO GAS	X	X	X	X	X
LIMITATION OF THIRD PARTY RIGHTS	X	X	X	X	X
SUCCESSION AND ASSIGNMENT	X	X	X	X	X
APPLICABLE LAWS AND REGULATIONS	x	X	X	X	X
NOTICES AND CORRESPONDENCE	X	X	X	X	X
EBB	X		X		X
CAPACITY	x		X		X
ENROLLMENT PROCEDURES			X		X
GAS SUPPLY OBLIGATIONS			X		X
BILLING OPTIONS	x		X		X
MONTHLY RECONCILIATION	X				
AVERAGE DAY DEMAND	X				

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 40

Is any explanation made in the proposed Aggregation Agreement or tariffs of the 97.5 percent multiplier that Columbia would apply to marketer revenues?

Response:

Columbia and the Collaborative agreed that Columbia should purchase the receivables of marketers. This will ensure that marketers will not have any incentive to discriminate against any customer, no matter what their income or credit history, as they will be paid the same no matter who the customer is. The added benefit of having Columbia follow its same termination policies as exist today was also attractive to the Collaborative. Columbia also discussed this method of payment to the marketer with FSG Energy Services. FSG found this to be an attractive and probably less expensive alternative to concerning themselves with maintaining full credit and collections activities. The level of 97.5% of the receivable was agreed to by the Collaborative after learning that Columbia Gas of Pennsylvania employed this same multiplier. Columbia acknowledges that 97.5% may not accurately reflect the added cost of collections under the proposed program. To the extent that there is a difference between 97.5% and the amount of uncollectibles experienced by Columbia, Columbia is willing to contribute the difference to the stranded cost recovery pool each year of the program at the request of the Commission.

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 41

Provide cost justification for the $.05 per Mcf for all volumes delivered to the marketer's customer group during the billing month. How is this an additional cost to the utility not currently being recovered through Columbia's existing rates?

Response:

The $.05 per MCF charge to the marketers is referred to by the Collaborative as a charge that compels the marketer to "pay to play." The charge will likely be borne by customers choosing to purchase their gas from a third party supplier as the charge will likely be passed along by the marketer to the customer. In effect, the charge is the Choice customer's contribution to the recovery of stranded costs. The additional costs to Columbia referred to in the question are the stranded costs, which are not being recovered using Columbia's existing rates. This charge is simply another revenue opportunity to recover stranded costs, not a revenue opportunity for Columbia.

PSC Data Request Set 1
Question No.42
Respondent: Kimra H. Cole

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 42

Compare the Customer Enrollment Procedures proposed in this program to procedures developed in other Columbia distribution companies' Customer Choice programs. Are these features of other programs' procedures that Columbia elected to omit from this program, or features specifically excluded from other programs that are included in this program? If so, why?

Response:

The collaborative discussed various features of enrollment procedures for other distribution companies. After lengthy discussions about various features, the collaborative agreed that the filed procedure by Columbia Gas of Kentucky best met the current needs of the designed program. Other Columbia companies' enrollment procedures are listed below for your review. Each of these companies have differences in features based upon their unique programs.

Columbia Gas of Maryland, Inc.
Customer Sign-Up Procedure – Rate STS:

Customers must be enrolled by the 15th of the month to begin participation in the program on the first of the succeeding month. Assignees will provide a computer listing of all accounts via electronic means suitable to the Company. The listing shall include each customer's Company account number. The Marketer will be responsible for verifying the eligibility of each customer.

The Company will verify the listing and then provide the Assignee a normalized, monthly, volumetric profile for the customers in the aggregate as well as an exceptions report. In the event that a customer attempts to join more than one Customer Group, with more than one Assignee, the computer listing first received by the Company will be used to determine to which Customer Group the customer will be assigned. Duplicates received on the same day will be returned to the Assignee for resolution with the Customer.

Any incomplete submittal will be returned to the Assignee for completion.

By the 20th of each month, Assignees will be provided with list of their accounts and the associated capacity to be assigned for their customer group in the following month.

Customer Sign-Up Procedure – Rate RTS:

Notification by the Assignee must be provided through the Company's EBB by the 15th of the month for a customer to begin receiving service under this program, and for an Assignee to flow gas beginning on the 1st of the succeeding month. Assignee's supply may begin to flow under this program on November 1, 1998, and Assignees shall be able to enroll Customers each month throughout the year.

To enroll a customer in PCAP, the Assignee must be in possession of a written agreement containing all of the customer disclosures required by this tariff. In the event that a customer claims that a change to a specified Assignee occurred without the customer's consent and requests transfer to the previous supplier, Columbia shall notify the current Assignee of the claim and request a copy of the written agreement. The Assignee must forward a copy of the agreement for the account in question to Columbia within two business days of the notice. If the Assignee fails to provide the requested agreement within two business days, Columbia shall refuse further delivery of gas from the Assignee for the account in question and immediately transfer the customer to sales service or to the previous supplier. The Assignee failing to provide a copy of the agreement will be charged $50 to cover the administrative costs of the transfer.

Columbia reserves the right to request from each Assignee participating in the program a copy of the customer agreement. The Assignee must forward a copy of the agreement for those accounts requested to Columbia within two business days of the notice.

Telephonic Enrollment Procedures:

As an alternative to the written enrollment procedure, customers can elect to join the program via telephonic enrollment as long as the following requirements are met:

1. Only Columbia's customer of record may enroll his/her account in the Choice Program using telephonic enrollment. To enroll a customer in PCAP telephonically, the Marketer must abide by the following conditions set forth in Item 2.
2. While engaged in the telephone conversation with a potential Residential Customer, the Marketer will audio-tape in a date-stamped recording the complete conversation, which must include the following information:
   a. A statement that the telephonic enrollment conversation between the customer and the Marketer is being recorded;
   b. Customer acknowledgement that he or she is initiating the call and is Columbia's customer of record;
   c. The customer has either, (1) reviewed the terms and conditions of the Marketer's offer and that the written terms and conditions constitute the entire agreement between the Marketer and the customer, in which case the Marketer shall review the highlights or summarize the terms and conditions with the customer, or, (2) the customer has verbally reviewed with the Marketer the terms and conditions of the Marketer's offer and agrees to enroll in the program subject to the Marketer mailing the customer an enrollment confirmation letter containing the terms and conditions of the offer within three (3) business days, and that the written terms and conditions constitute the entire agreement between the Marketer and the customer.

3. The written terms and conditions that are provided to the customer pursuant to Item 2(c) above shall include the disclosures set forth under the Customer Disclosure Requirement contained in the Pilot Capacity Assignment Program (PCAP) of the Company's tariff.
4. After the Company is notified that the Customer desires to enroll in the Choice Program, the company shall send a letter to the Customer seeking verification of the Customer's intent to enroll in the Choice Program. The Customer shall have ten (10) days from the date that the letter is mailed to inform the Company that the Customer does not desire to participate in the Choice Program. Upon such notification, the agreement between the marketer and customer shall be deemed rescinded, and the Company shall ensure that the Customer is not enrolled in the Choice Program.
5. The Marketer agrees to provide a copy of the tape recording of the Enrollment Conversation to the Company upon request of the Company. Failure to supply a copy of the tape recording of the Enrollment Conversation within five (5) days of the Company's request shall cause the customer to be returned to the Company's sales service rate, and a $50.00 fee shall be paid by the Marketer to the Company.
6. This Pilot RTS Telephone Enrollment procedure will terminate on January 7, 2000, unless otherwise specified by the Commission.

Columbia Gas of Ohio, Inc.
Customer Enrollment Procedure:

1. **Residential Customers and Commercial Customers that are not Mercantile Commercial Customers.** Residential Customers and Commercial Customers that are not Mercantile Commercial Customers must execute a "Customer Consent Form" which states that the customer has agreed to participate in the Program, and has signed a written agreement with the Marketer. This written agreement, and the written terms and conditions referred to in paragraph numbers 67(G)(1)(a)(1)(c)(1) and 67(G)(1)(a)(1)(c)(2), must state the terms and conditions covering the customer's gas supply purchase, and must include the applicable information specified by paragraph numbers 1, 2, 6, 7, 8 and 10 of the Code of Conduct on Sheet Nos. 73 and 74 of this tariff and paragraph numbers (F)1, A) and (F)1, B) of the Dispute Resolution procedures set forth on sheet No. 75 of this tariff. The format of the consent form may be designed by the Marketer, but must include the information shown on Original Sheet No. 83.

   a.) Telephonic Enrollment. In the alternative, Marketers may telephonically enroll Residential Customers and Commercial Customers that are not Mercantile Commercial Customers under the following conditions:

      1) While engaged in the telephone conversation with a potential Residential Customer, the Marketer must audio-tape in a date-stamped recording the complete conversation, including the following information:

         (a) the telephonic enrollment conversation between the customer and the Marketer is being recorded;

(b) the customer acknowledges that he or she is initiating the call;

(c) the customer either:

 (1) has reviewed the terms and conditions of the Marketer's offer and that the written terms and conditions constitute the entire agreement between the Marketer and the customer; or,

 (2) has reviewed orally with the Marketer the terms and conditions of the Marketer's offer, and agrees to enroll in the program subject to the Marketer mailing the customer an enrollment confirmation letter containing the terms and conditions of the offer within three business days, and that the written terms and conditions constitute the entire agreement between the Marketer and the customer.

(d) the customer wants to enroll with the Marketer;

(e) the customer's name;

(f) the customer's telephone number;

(g) the customer's mailing address;

(h) the customer's account number; and,

(i) the appropriate enrollment cancellation period and a toll-free telephone number the customer may call to cancel enrollment:

 (1) For customers enrolled pursuant to section 67(G)(1)(a)(1)(c)(1), the Marketer must state that the cancellation period is seven days from the date on which the customer is enrolled telephonically; or,

 (2) For customers enrolled pursuant to section 67(G)(1)(a)(1)(c)(2), the Marketer must state that the Marketer will mail an enrollment confirmation letter containing the written terms and conditions (including price and applicable taxes) to the customer and that the customer has seven days from receipt of the Marketer's confirmation letter to cancel enrollment.

 (3) For all customers enrolled telephonically, the customer must be advised that if the contract is canceled by the customer, the Marketer will provide the customer with a cancellation number.

2) Following telephonic enrollment pursuant to section 67(G)(1)(a)(1)(c)(2), the Marketer must mail to the customer at the address verified by the inquiry, a letter confirming the customer's enrollment. This letter must contain a copy of the identical terms and conditions of the Marketer's offer, including price and applicable taxes. This letter must also conspicuously inform the customer of the right to cancel enrollment by calling a prescribed toll-free telephone number within seven business days of receiving said letter of confirmation, and must inform the customer that if the contract is canceled the Marketer will provide the customer with a cancellation number.

3) In the event of any dispute involving a telephonic enrollment, the Marketer must make an audio tape of the customer enrollment available within three

business days of a request by Columbia, the Commission or OCC on behalf of the customer.

The telephonic enrollment procedures specified in this section may also be used for Commercial Customers that are not Mercantile Commercial Customers, with the exception being that the Marketer may initiate the telephone enrollment. Thus, section 67(G)(1)(a)(1)(b) of this tariff is inapplicable to the enrollment of Commercial Customers that are not Mercantile Commercial Customers.

b) Internet Enrollment. As another alternative, Marketers may enroll Residential Customers and Commercial Customers that are not Mercantile Commercial Customers by means of the Internet provided that the terms and conditions of the agreement are publicly posted and accessible and include the applicable information specified by paragraph numbers 1, 2, 6, 7, 8 and 10 of the Code of Conduct on Sheet Nos. 73 and 74 of this tariff and paragraph numbers (F)1, A) and (F)1, B) of the Dispute Resolution procedures set forth on Sheet No. 75 of this tariff. The terms of the electronic publicly posted Internet agreement also shall state conspicuously that the customer has seven (7) business days from the date on which the customer is enrolled by means of the Internet to cancel the agreement and shall provide a toll-free telephone number and/or an Internet or e-mail means for the customer to cancel the agreement within this period of time. The agreement shall state that if the customer cancels the agreement, the Marketer will provide the customer with a cancellation number.

Internet enrollment will be permitted under the following conditions:

1) All Internet enrollment procedures shall be customer-initiated;
2) The means of all enrollment, renewal, re-negotiation and cancellation information transfer between the customer and Marketer is an encrypted transaction using Secure Socket Layer or a similar encryption standard to ensure privacy of customer information;
3) Any electronic agreement containing a Marketer's terms and conditions shall be identified by a version number in order to ensure the ability to verify the particular agreement to which the customer assents;
4) The Marketer shall retain and make available to the customer throughout the duration of the agreement Internet access to the terms and conditions of the agreement version number to which the customer assents;
5) Before a Marketer may enroll a customer, the Marketer's Internet enrollment process must:
   (a) prompt the customer to print or save the terms and conditions to which the customer assents, and provide an option to have written terms and conditions sent by regular mail;
   (b) require the customer to complete an Electronic Customer Consent Form in a format retrievable by the Marketer, containing a statement that comports with the following:

I have agreed to the terms and conditions contained in electronic agreement version number _____ for the purchase of natural gas supply from my marketer, ________________. I understand and agree to those terms and conditions, which are incorporated herein by reference, and agree to participate in the program as a transportation delivery service customer. My marketer is entitled to obtain my historic and current gas usage date from Columbia Gas.

Date:_______________________________________

Columbia Gas of Ohio Account Holder Name:_________________
____

(Optional)Columbia Gas of Ohio Account Holder E-Mail Address:___
____

Columbia Gas of Ohio Account Holder U.S. Mail Address:_________
____

IF YOU WISH TO CANCEL THIS AGREEMENT, YOU MUST DO SO BEFORE 12:00 a.m. on ______________________________

6) The Marketer must provide a mechanism by which both the submission and receipt of the electronic customer consent form are recorded by time and date;
7) After the customer completes the Electronic Customer Consent Form, the Internet enrollment process shall disclose conspicuously that the customer has been enrolled;
8) The Marketer shall send an enrollment confirmation to the customer, by e-mail at the specified e-mail address or by regular U.S. mail at the post office address specified by the customer. If the Marketer's e-mail attempt fails, the Marketer shall send an enrollment confirmation with the same information to the customer via regular U.S. mail at and address specified by the customer;
9) The Marketer shall provide to the customer a toll-free telephone number and/or and Internet or e-mail means for the customer to cancel the agreement within seven (7) business days from the date on which the customer is enrolled by means of the Internet. If the customer cancels the agreement, the Marketer shall provide the customer with a cancellation number via the same medium through which the cancellation was made;
10) The Internet enrollment procedures specified in this section may also be used for Commercial Customers that are not Mercantile Commercial Customers.

Marketers must provide a copy of each Customer Consent Form or telephonic enrollment recording to Columbia, the Commission or OCC upon request within three (3) business days of any such request. With Internet enrollments, Marketers must provide either a copy of the Electronic Customer Consent form or on-line access to verify customer enrollment to Columbia,

the Commission or OCC upon request within three (3) business days of any such request. Failure by a Marketer to provide timely such records shall be deemed to be a violation of the Code of Conduct. Marketers shall retain Customer Consent Forms or telephonic enrollment recordings for twelve (12) months following termination of the Marketer's service to the customer.

A Marketer's failure to adhere to any of the customer enrollment procedures or to provide verification of enrollment within the period specified herein shall be treated in the same manner as violations of the Code of Conduct found in section 67(E) of Columbia's tariff.

2. **Mercantile Commercial Customers, Industrial Customers and Large Human Needs Customers.** Mercantile Commercial Customers, Industrial Customers and Large Human Needs Customers shall be enrolled in the Program when their Marketer provide Columbia with all the information described in paragraph 67(G)(3).

3. **All Customers.** Marketers will provide a computer spreadsheet listing all their accounts via electronic means suitable to Columbia. The listing shall include customer account numbers. The Marketer will be responsible for verifying the eligibility of each customer. Any incomplete submittal will be returned to the Marketer for completion. Columbia will verify the listing with its database and then provide the Marketer a normalized monthly volumetric profile and Demand Curve for the customers in the aggregate as well as an exceptions report. In the event that a customer attempts to join more than one Customer Group, with more than one Marketer, Columbia will assign the customer to the Marketer whose computer listing which includes the customer has been date-stamped first.

   On or about the 20th of each month Columbia will provide the Marketers with the normalized monthly volumetric profiles and daily Demand Curves for customers in the Marketers' Aggregation Pools. If a Marketer has selected more than one balancing option for an Aggregation Pool, Columbia will provide the Marketer with a separate Demand Curve for each balancing option so selected.

Columbia Gas of Pennsylvania, Inc.
Enrollment Procedures

A. Rolling Enrollment. Customers shall be permitted to enroll into the Choice Program on a monthly basis; provided that the Customer's Marketer notifies the Company by the 15th day of the prior month.

B. Enrollment Procedure. Enrollment may be performed either telephonically or in writing in accordance with the following requirements:

> (i) Telephone Enrollment. Only Columbia's customer of record may enroll his/her account in the Choice Program using Telephonic Enrollment. The Marketer agrees to tape record the "Enrollment Conversation" (as defined in this sub-paragraph) of each Customer. The Enrollment Conversation is defined to

include, at a minimum, the Customer stating: his/her name, his/her twelve (12) digit Company account number, his/her service address, his/her mailing address and his/her intent to be a customer of the Marketer. After the Company is notified that the Customer desires to enroll in the Choice Program, the Company shall send a letter to the Customer seeking verification of the Customer's intent to enroll in the Choice Program. The Customer shall have ten (10) days from the date that the letter is mailed to inform the Company that the Customer does not desire to participate in the Choice Program. Upon such notification, the Company shall ensure that the Customer is not enrolled in the Choice Program. The Marketer agrees to keep a copy of the tape recording of the Enrollment Conversation for so long as that person remains a customer of the Marketer. The Marketer agrees to provide a copy of the tape recording of the Enrollment Conversation to the Company upon request of the Company. Failure to supply a copy of the tape recording of the Enrollment Conversation within five (5) days of the Company's request shall cause the customer to be returned to the Company's sales service rate, and a $50.00 fee shall be paid by the Marketer.

(ii) Written Enrollment. Only Columbia's customer of record may enroll his/her account in the Choice Program using Written Enrollment. The Marketer agrees to maintain written confirmation of the enrollment of each Customer for so long as that person remains a customer of the Marketer. The confirmation shall include, at a minimum, the Customer's name, the Customer's twelve (12) digit account number, service address, mailing address, the Customer's signature, and an indication of the Customer's intent to enroll in the Choice Program. After the Company is notified that the Customer desires to enroll in the Choice Program, the Company shall send a letter to the Customer seeking verification of the Customer's intent to enroll in the Choice Program. If the Customer informs the Company that the Customer does not desire to participate in the Choice Program, the Company shall refer the Customer to the Marketer to resolve the conflict as per the terms of the Marketer's contract with the Customer. The Marketer agrees to provide a copy of the written confirmation to the Company within five (5) days following a request by the Company. Failure to supply a copy of the Customer's written confirmation within five (5) days of the Company's request, shall cause the Customer to return to the Company's sales service, and a $50.00 fee shall be paid by the Marketer.

Columbia Gas of Virginia

Customer Sign-Up Procedure: The marketer is required to provide CGV with a computer listing of all their accounts vial the electronic bulletin board. CGV will verify the listing with its customer database and then provide the marketer with a normalized monthly volumetric profile for the customers in the aggregate as well as an exceptions report.

Customer Protection: A written contract between the customer and marketer is required. CVG will not review the contract. Marketers shall provide customers participating in the CHOICE program, a "regulatory out" provision in all contracts that allows termination prior to the end of the contract.

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 43

Refer to page four of Exhibit B. What customer rights and responsibilities are to be included in the written agreement? Are these specifically set out somewhere in this application, or are they to be developed by the marketer?

Response:

The marketer must address the issues outlined in the Customer Enrollment Procedure, Customer Consent Form, and the Code of Conduct. The marketer may have additional customer responsibilities they will decide to include.

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 44

Are telephone and Internet enrollment permitted in other jurisdictions where Columbia distribution companies have small volume transportation programs?

Response:

	MD	OH	PA	VA
Telephone	Y[1]	Y[1]	Y	Y
Internet	N	Y	N	N

1 – residential customers must initiate the call.

PSC Data Request Set 1
Question No. 45
Respondent: Kimra H. Cole

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 45

With regard to Columbia's Standards of Conduct and Code of Conduct included on page 8 of the application, provide a comparative analysis of this code with the codes employed in other jurisdictions where Columbia distribution companies have pilot or permanent Customer Choice programs.

Response:

The features of Columbia's Standards of Conduct compared to others is shown in the following table. Differences are footnoted.

CKY Elements	CMD*	COH	CPA[3]	CGV[6]
1		✓	✓	✓
2		✓	✓	
3		✓	✓	
4		✓	✓	✓
5		✓	✓	✓
6		✓	✓	✓
7		✓[1]	✓[1]	✓[4]
8		✓	✓	✓[5]
9		✓	✓	✓
10		✓	✓	✓
11		✓	✓	✓
12		✓	✓	✓
13		✓[2]		

Footnotes:
*No Standards of Conduct
1. Does not contain three day time period.
2. COH is also prohibited from participating in exclusive joint activities with its marketing affiliate including advertising, marketing, sales calls or joint proposals to any existing or potential customers.

3. CPA may engage in joint advertising, sales calls and promotional efforts with a particular Marketer, if it offers such opportunities to other Marketers on a non-discriminatory basis under the same terms and conditions. If CPA makes available customer date and/or utility data to a marketer, it must make available such data to all marketers on a non-discriminatory basis. This section does not authorize Columbia to disclose customer data where such disclosure is restricted or prohibited by law.

4. To the extent that CGV provides to any marketer information related to the transportation, sales or marketing of natural gas, including but not limited to the Company's customer lists, the Company shall make such information contemporaneously available by posting it on its electronic bulletin board. The Company must maintain a log describing the requests for and provision of such information to marketers and the dates such information was provided. Such log shall be retained and made available to the Commission upon request on a confidential basis. Nothing in this paragraph shall require the Company to disseminate to all marketers competitively sensitive information requested by a marketer and supplied by the Company. This paragraph shall not apply to daily operational data provided by the Company to any marketer in the ordinary course of conducting business.

5. CGV is not precluded from procuring gas from its marketing affiliate in the normal course of business.

6. Any discount, rebate, or fee waiver for utility service offered by the Company to any marketer or customer shall be offered contemporaneously on a non-discriminatory basis to all similarly situated marketers and customers, regardless of affiliation.

Columbia's Code of Conduct most closely aligns with those of Columbia Gas of Ohio and Columbia Gas of Virginia. Columbia Gas of Maryland and Columbia Gas of Pennsylvania do not have defined Codes of Conduct. Maryland has a Customer Disclosure Requirement included in its tariff that sets forth its expectations of marketers. Pennsylvania has Performance Standards attached to the contract it enters into with the marketer.

Codes of Conduct are listed below by state:

<u>Columbia Gas of Maryland</u>

Customer Disclosure Requirement

In order to participate in this pilot program, the Assignees must enter into a written agreement with the customer to be served under Rate RTS which shall include the following provisions:

1) The name, account number, service address, billing address and revenue class of the customer to be served;
2) The name, address and telephone number of a customer service representative of Assignee;
3) A description of the dispute resolution procedure used by the Assignee, which shall include the following information:
    a) The customer should contact the Assignee first about a question or problem with the bill from the Assignee; if the question or problem is not

resolved, the customer may contact the Consumer Protection Division of the Office of the Attorney General at (410) 528-8662;

b) The customer should contact Columbia Gas first about a question or problem with the bill from Columbia Gas at the phone number listed on the Columbia Gas bill; if the question or problem is not resolved, the customer may contact the Office of External Relations of the Public Service Commission at (800) 492-0474 or (410) 767-8112;

4) A statement that the delivery of gas to the customer cannot be terminated or interrupted by Columbia as a result of any dispute between the Assignee and the customer;
5) A statement that the Assignee and the gas purchase agreement between the Assignee and the customer may not be subject to regulation by the Public Service Commission of Maryland;
6) A statement that the Assignee must provide a 15 day written notice of termination of the agreement to Columbia Gas and the customer before the Assignee can stop supplying gas under the agreement;
7) A statement of the length of the agreement (e.g., one year) and the price terms;
8) A statement that the customer must give Columbia and the Assignee at least 30 days notice prior to the end of the customer's contract term of the customer's intent to switch Assignees or to continue to receive service from its current Assignee; and
9) A statement that the Assignee shall give Columbia Gas and the customer at least 60 days notice prior to the end of the customer's contract term of its intent to discontinue service to the customer at the end of that contract term.
10) A statement that the customer has read and agreed to the terms and conditions of the agreement and agrees to purchase gas from the Assignee for the terms of the agreement;
11) A statement that the customer understands that Columbia Gas will continue to bill the customer for delivery of the gas purchased from the Assignee; and
12) A statement that the assignee is entitled to obtain the customer's historic and current gas usage data from Columbia Gas of Maryland.

The agreement with the Assignee may not contain provisions that (1) require customers to purchase natural gas for a period longer than the term specified in the agreement, (2) commit customers to purchase other energy services, such as electricity, at a future date, or (3) require the payment of an application fee or other similar fee.

<u>Columbia Gas of Ohio</u>
Rules and Regulations Governing the Distribution and Sale of Gas

Code of Conduct: Each Marketer participating in Columbia's Customer CHOICE Program shall:

1. communicate to customers, in clear, understandable terms, the customers' rights and responsibilities. This communication shall include:
   (a) the Marketer's customer service address and telephone number;
   (b) a statement describing the Marketer's dispute resolution procedures;
   (c) a statement that the Marketer must provide, to the maximum extent possible, the customer with thirty (30) days written notice prior to discontinuing service; and
   (d) notice that the Program is subject to ongoing Commission jurisdiction.
2. provide in writing to customers pricing and payment terms that are clear and understandable;
3. refrain from engaging in communications or practices with customers which are fraudulent, deceptive, or misleading;
4. deliver gas to Columbia on a firm basis, on behalf of the Marketer's participating customers in accordance with the requirements of the Aggregation Agreement.

   If Marketer fails to deliver gas in accordance with its aggregation customer's full service requirements for natural gas, Company shall supply natural gas temporarily to the affected aggregation customers, and shall bill Marketer the higher of either: 1) the fair market price for that period, or 2) the highest incremental cost of gas for that period that actually was paid by Columbia, including transportation and all other applicable charges.

   In the event Marketer over-delivers to its Aggregation Pool(s), and such over-delivered volumes cause Columbia to incur penalties from a pipeline, or other costs associated with such excess supplies, then Marketer shall reimburse Columbia for the Marketer's prorata share of such penalties and costs.
5. undergo a credit evaluation, at the Marketer's expense, to assure that the Marketer is sufficiently credit-worthy to protect against damages resulting from any failure to deliver gas in accordance with the requirements of the program, and to assure payment of any PUCO-approved charges for any such failure.
6. provide Residential Customers and those Commercial Customers that are not Mercantile Commercial Customers during their first year of participation in the Columbia Customer CHOICE® Program, the right to terminate or re-negotiate their gas supply contract after one full year of service. The Marketer shall notify the customer of this right.
7. provide Residential Customers and those Commercial Customers that are not Mercantile Commercial Customers a "regulatory out" provision in all contracts which allows contracts to be terminated without penalty should the program be terminated prior to the end of the contract.
8. to the maximum extent possible provide Columbia and Residential Customers and those Commercial Customers that are not Mercantile Commercial Customers at least thirty (30) days notice prior to the end of

the customer contract term of the Marketer's intent to discontinue service to the customer.

9. to the maximum extent possible attempt to resolve disputes between the Marketer and Residential Customers and those Commercial Customers that are not Mercantile Commercial Customers.
10. No less than sixty (60) days and no more than ninety (90) days prior to the expiration of a contract that automatically renews for a period of six (6) months or longer, the Marketer shall, in a bill message or separate notice, notify Residential Customers and those Commercial Customers that are not Mercantile Commercial Customers of their right to renew, terminate or re-negotiate the contract. Such bill message or notice shall include any proposed changes in the terms and conditions of the contract.

If a Marketer fails to deliver gas in accordance with the requirements of the Columbia Customer CHOICE® Program, or otherwise fails to comply with Paragraph 67(E) of this tariff, Columbia shall have the discretion to suspend temporarily or terminate such Marketer's participation in the Columbia Customer CHOICE® Program. If the Marketer is suspended or expelled from Columbia's Customer CHOICE® Program, customers in the Marketer's Customer Group shall revert to Columbia sales service, unless and until said customer joins another Marketer Customer Group.

In the event Columbia seeks to suspend or terminate a Marketer from the Columbia Customer CHOICE® Program, Columbia shall first notify the Marketer of the alleged violations which merit suspension or termination. Such notice shall be in writing and sent to the Marketer at the fax number listed in the Aggregation Agreement ten (10) business days prior to the suspension or termination. Copies of the notice will also be provided to the Commission and the OCC.

Columbia Gas of Pennsylvania, Inc.

Each Marketer participating in the Columbia Gas of Pennsylvania, Inc. ("Company") Choice Program shall:

1. maintain a 24-hour answering service or answering machine which directs all callers to their gas utility for odor of gas emergencies;
2. have customer contact personnel available during normal business hours to answer questions from Choice Program customers;
3. conduct no telemarketing pertaining to the Choice Program between the hours of 9:00 pm and 8:00 am;
4. not engage in communications or practices with Choice Program customers which are fraudulent, deceptive or misleading;
5. provide the Company with notice (using the Company's electronic registration procedure) when the Marketer intends to discontinue service to a Choice Program Customer for any

reason, understanding that such Customer shall be removed from that Marketer's aggregation pool at the completion of the current bill cycle;

6. to the maximum extent possible, attempt to resolve disputes between the Marketer and residential Customers participating in the Choice Program;
7. include the following in the Marketer-Customer contract:
   - the Marketer's customer service address and telephone number;
   - a statement describing the Marketer's resolution procedure for Customer billing issues;
   - a statement that Columbia Gas of Pennsylvania, Inc. shall not terminate or interrupt the delivery of gas to the customer as a result of any dispute between the Marketer and the Customer;
   - a statement that the Marketer must provide the Customer with at least 30 days notice prior to the end of their customer contract term or of the Marketer's intent to discontinue service to that customer.
   - a statement of contract length, pricing and payment terms that is clear and understandable; if offers are made on a cost per unit of gas basis, it is recommended the offer be made in dollars per ccf;
   - a statement that customer shall return to Columbia Gas of Pennsylvania, Inc.'s sales tariffs if the Marketer breaches its agreement with Columbia;
8. use Columbia's electronic registration procedure to submit customer (12 digit) account numbers and aggregation codes.

If a Marketer fails to comply with the above performance standards, Columbia shall have the discretion to suspend temporarily or terminate the Marketer's participating in the Choice Program. Customers affected by a Marketer's suspension or expulsion from the Choice Program shall revert to the appropriate Columbia Gas of Pennsylvania, Inc. sales service tariff.

If a Marketer fails to comply with the above performance standards, Columbia shall first notify this Marketer of the alleged violations which merit suspension or termination in writing at least ten (10) business days prior to the suspension or expulsion.

<u>Columbia Gas of Virginia</u>
Code of Conduct:
Each Marketer participating in the Commonwealth Choice Program shall:

a. Communicate to participating customers, in clear and understandable terms, the customers' rights and responsibilities. This communication shall include (i) the Marketer's customer service address and telephone number; (ii) a statement describing the Marketer's dispute resolution procedures; (iii) a statement the Marketer must provide, to the maximum extent possible, the customer with 30 days written notice prior to discontinuing service; and (iv) notice that the continuation of this program is subject to the Virginia State Corporation Commission's approval.

b. Provide in writing to participating customers pricing and payment terms that are clear and understandable;

c. Refrain form engaging in communications or practices with participating customers which are fraudulent, deceptive, or misleading;

d. Deliver gas to the Company on a firm basis, on behalf of the Marketer's participating customers in accordance with the requirements of the Aggregation Agreement;

e. Undergo a credit evaluation, at the Marketer's expense to assure that the Marketer is sufficiently credit-worthy to protect against damages resulting from any failure to deliver gas in accordance with the requirements of the program, and to assure payment of any Virginia State Corporation Commission approved charges for any such failure;

f. Provide participating customers during the first contract year of the Commonwealth Choice Program, the right to terminate or renegotiate their gas supply contract after on full year of service. The Marketer shall notify the customer of this right.

g. Provide customers participating in the Commonwealth Choice Program, a "regulatory out" provision in all contracts which allows contracts to be terminate without penalty should the program be terminated prior to the end of the contract;

h. to the maximum extent possible attempt to resolve disputes between the Marketer and residential customers participating in the Commonwealth Choice Program;

i. to the maximum extent possible attempt to resolve disputes between the Marketer and residential customers participating in the Commonwealth Choice Program.

If a Marketer fails to deliver gas in accordance with the requirements of the Commonwealth Choice Program, or otherwise fails to comply with Section 5 above, the Company shall have the discretion to suspend temporarily or terminate such Marketer's participation in the Commonwealth Choice Program. If the Marketer is suspended or expelled from the Commonwealth Choice Program, customers in the Marketer's group shall revert to the Company sales service, unless and until said customer joins another customer group.

In the event the Company seeks to suspend or terminate a Marketer from the Commonwealth Choice Program, the Company shall first notify the Marketer of the alleged violations which merit suspension or termination. Such notice shall be in writing and sent to the Marketer at the fax number listed in the Aggregation Agreement and to the Virginia State Corporation Commission 15 days prior to the suspension or termination.

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
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IN ORDER DATED JULY 2, 1999

Question No. 46

Refer to Standards of Conduct (3), page 8 of Exhibit B. What ancillary services that are not tariffed does Columbia foresee providing to marketers?

Response:

Columbia does not currently have a plan to offer ancillary services to marketers. However, possibilities that might be of interest to marketers include customer lists and customized files.

PSC Data Request Set 1
Question No.47
Respondent: Stephen R. Byars

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 47

Refer to page 9, paragraph (12) of Exhibit B. Would Columbia file an annual report with the Commission summarizing complaint statements?

Response:

In its application Columbia proposed filing an annual report with the Commission regarding the performance of the small volume gas transportation program. This report would consist of a variety of items including "Any other information requested by the Commission." Columbia would certainly not object to providing a summary of complaint statements with the Commission as part of its overall annual report.

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CASE NO. 99-165
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Question No. 48

Provide the cost allocation procedures or manual Columbia will employ in recording transactions with affiliates.

Response:

Columbia Gas of Kentucky does not intend to allocate any costs to affiliates as part of the proposed program.

PSC Data Request Set 1
Question No.49
Respondent: Kimra H. Cole

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 49

Refer to page 11, Dispute Resolution, paragraph 2. Should marketers be required to provide materials to Columbia and the Commission, even if no request is made? In Columbia's opinion, would this improve quality control of the program?

Response:

No, only the information that is directly related to the dispute should be required.

No, it could create an administrative burden to the marketer, Columbia, and the Kentucky Public Service Commission with a requirement to file information that is not relevant to the dispute.

PSC Data Request Set 1
Question No.50
Respondent: Kimra H. Cole

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 50

Is Columbia or the collaborative aware of dispute resolution processes in other jurisdictions that do not involve state commissions? Explain.

Response:

Columbia Gas of Maryland's CHOICE program does not involve the State Commission in dispute resolution. Disputes are handled by the Attorney General's office. This is the only program that I am aware that does not involve the State Commission either directly or indirectly.

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Question No. 51

Will Columbia's continued performance of the billing function discourage marketers from participating in the program? Do Columbia distribution companies perform this function in other jurisdictions? Why or why not?

Response:

Columbia and the Collaborative agreed that the program would operate best for customers if Columbia continued to perform the billing function. Customer confusion should be reduced when customers receive only one bill as opposed to receiving two bills. In addition, as stated in the response to Question No. 40, the Collaborative agreed that discrimination against customers would be a non-issue if Columbia billed all customers and marketers sacrificed a portion of their revenues to pay for Columbia's credit and collection activities. Finally, Columbia believes that it will be able to remain the collector of franchise fees, gross receipts taxes and sales taxes when applicable if it remains the billing agent. If Columbia did not continue to bill, then the fees and taxes would not be collected and municipalities, schools and state government would all suffer revenue losses as a result. Other Columbia distribution companies still perform billing functions in other jurisdictions but offer marketers the choice of billing customers directly as well. Columbia and the Collaborative have not received any input from marketers that this method of billing will deter marketers from participating in the program. Therefore, Columbia Gas of Kentucky and the Collaborative believe the billing method presented in the proposed program will work best for Columbia Gas of Kentucky customers.

PSC Data Request Set 1
Question No.52
Respondent: Kimra H. Cole

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 52

Provide cost support for the proposed $25 charge for each billing rate change.

Response:

Refer to K. Cole testimony, page 8.

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Question No. 53

Provide narrative justification and cost support for the proposal to retain 2.5 percent of marketer revenues.

Response:

Columbia and the Collaborative agreed that Columbia should purchase the receivables of marketers. This will ensure that marketers will not have any incentive to discriminate against any customer, no matter what their income or credit history, as they will be paid the same no matter who the customer is. The added benefit of having Columbia follow its same termination policies as exist today was also attractive to the Collaborative. Columbia also discussed this method of payment to the marketer with FSG Energy Services. FSG found this to be an attractive and probably less expensive alternative to concerning themselves with maintaining full credit and collections activities. The level of 97.5% of the receivable was agreed to by the Collaborative after learning that Columbia Gas of Pennsylvania employed this same multiplier. Columbia acknowledges that 97.5% may not accurately reflect the added cost of collections under the proposed program. To the extent that there is a difference between 97.5% and the amount of uncollectibles experienced by Columbia, Columbia is willing contribute the difference to the stranded cost recovery pool each year at the request of the Commission.

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Question No. 54

Provide cost support for the proposed $.20 per account per month charge to provide billing for marketers.

Response:

Refer to K. Cole testimony, page 8.

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Question No. 55

Will Columbia remain responsible for any required adjustments to small volume transportation program customers' budget payment amounts?

Response:

Yes.

PSC Data Request Set 1
Question No.56
Respondent: Stephen R. Byars

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 56

Are marketers required to have in-state offices in other jurisdictions where Columbia distribution companies have Customer Choice programs?

Response:

To the best of Columbia's knowledge and information, marketers are not required to have in-state offices in the jurisdictions where other Columbia distribution companies have Customer Choice programs. Columbia believes, however, that most marketers do maintain offices in the states where they operate Customer Choice programs.

PSC Data Request Set 1
Question No.57
Respondent: Kimra H. Cole

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 57

According to the Availability section of proposed Original Sheet No. 30 of the small volume transportation service tariff, this service will be available to IUS customers. Explain the applicability of this service to IUS customers, and why they might be interested in such a service as opposed to IUS Delivery Service. Would IUS customers avoid the $65 Administrative Charge and the demand component of gas cost if they subscribed to the small volume transportation program?

Response:

IUS customers that consume less than 25,000 mcf/year may be interested in this service if the economics of paying the SVGTS delivery service rate is more advantageous than purchasing Stand-by Service, paying the $65 administrative charge and paying the appropriate delivery service rate for current IUS customers

PSC Data Request Set 1
Question No.58
Respondent: Kimra H. Cole

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 58

Refer to Fourth Revised sheet No. 38 dealing with Delivery Service in Exhibit C, Proposed Tariffs Effective 11/1/99. Explain the text change in line (2) in the Availability section and the new language in the Customers Grandfathered paragraph.

Response:

Refer to K. Cole testimony, page 4.

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Question No. 59

Refer to Third Revised sheet No. 49 dealing with Gas Cost Adjustment Clause, Definitions in Exhibit C, Proposed Tariffs Effective 11/1/99. Explain the text change in definition (a) which sets out that Expected Demand Gas Cost shall be divided by sales plus Rate Schedule SGVTS volumes.

Response:

Refer to K. Cole testimony, page 6.

PSC Data Request Set 1
Question No.60
Respondent: Kimra H. Cole

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
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IN ORDER DATED JULY 2, 1999

Question No. 60

Refer to Original Sheet Nos. 58 and 59 of Exhibit C, Proposed Tariffs Effective 11/1/99. Is Columbia willing to revise the language explaining the Stranded Cost/Recovery Pool so that it is as explanatory to the reader as pages five through eight of the application?

Response:

Yes, we would be willing to try.

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
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Question No. 61

Columbia proposes to continue the Customer Assistance Program ("CAP") plan in a slightly modified form for the duration of the proposed small volume gas transportation program.

a. Page 9 of the application includes a statement that improvements to the CAP plan, gleaned from the three-year pilot, will be implemented to decrease administrative costs and serve more customers under the annual budget of $350,000. Describe in detail the improvements that Columbia proposes to implement.
b. Page 10 of the application references the CAP participants and indicates that they will benefit from the savings afforded by the small volume gas transportation program. Explain how these customers will benefit from being included in the small volume transportation program when their payments for gas service are based on a percentage of their income.
c. Explain the reasoning for requiring CAP participants to participate in the small volume transportation program as a condition of participating in the CAP plan.

Response:

a. Based on the experience of the three-year pilot program, minor improvements are being considered to lower administrative costs and serve more customers. The improvements under consideration include, but are not limited to:

- CAP participants will not be divided into sub-groups with varying levels of intervention as in the pilot program. The administrative costs associated with tracking information in this manner will therefore be avoided.

- Based on the results of the pilot program, the CAP program will continue with minimal intervention. For example, when CAP participants are faced with difficulty in meeting program and payment requirements, program staff will assist participants to resolve issues, to make referrals to other appropriate services and to follow-up, all by phone, whenever possible. This will significantly reduce the amount of staff time and administration required once

participants are enrolled in the program. A 1-800 phone line to Community Action Council will also be available for participants with questions, concerns and difficulties related to the program.

- Existing customers will be informed of all changes in the program and given first preference to remain in the program if they are eligible. This continuity of existing customers will reduce the recruiting and initial administrative costs that were incurred during the pilot program.

- Annual income re-certification will be streamlined when possible through alternative income verification sources (such as through the food stamp program) available to Community Action Council electronically.

- Expenses related to the start up of the program, included in the pilot program budget, will be significantly reduced in the program budget going forward. These "start up" costs included the initial information technology expenses, the independent evaluation, and the development of marketing materials.

The savings from such improvements will be kept in the program to allow for more low income customers to be served.

b. The lowest cost marketer will be selected by Community Action Council through a competitive bidding process for those individuals participating in the CAP program, as an aggregated group. Lowering the cost will permit more low income customers to participate. The proposed small volume transportation program, through competitive price offers, may also create the opportunity for lower costs for other customers with low incomes who either do not choose to participate or who are waiting to participate in the CAP program. CAP participants live in communities where personal contacts and relationships provide extensive networks for information. Positive experiences with the small volume transportation program will be communicated in this manner throughout the community.

c. The lowest cost marketer will be selected by Community Action Council through a competitive bidding process for those individuals participating in the CAP program, as an aggregated group. Lowering the cost to the group will permit more low-income customers to participate.

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IN ORDER DATED JULY 2, 1999

Question No. 62

Refer to Attachment D, Program Description, Page 13, where the description of the CAP plan references the program's recent evaluation by a third party. The sentence indicates the evaluation substantiates the effectiveness of the program by: (1) encouraging consistent customer payment; (2) reducing arrearage levels; (3) reducing terminations; and (4) encouraging energy conservation.

a. Provide a direct reference to the sections(s) of the third-party evaluator's report that support each of the four program benefits cited above.
b. Provide a detailed explanation for how Columbia determined that any part of the third-party evaluator's report supports the contention that the CAP program has encouraged energy conservation.

Response:

a. (1) Page 7, section V, "Thus, with regard to customers making a full payment in all 12 months, the CAP program dramatically improved the payment behavior of CAP participants from frequencies well below the Control group during the year preceding CAP to frequencies of full payment well above the Control group by the third year."

(2) Page 8, section V, ". . .the CAP program was successful in helping customers to reduce their arrearages. . ."

(3) Page 8-9, section VI, ". . .the incidence of termination notices decreased for the three CAP groups during the CAP program, while it did not change for the Control group. . .the incidence of shutoff orders decreased significantly for the three CAP groups during the CAP program. . ."

(4) Page 11, section VII, ". . .the data do not provide a clear indication of whether the CAP program has resulted in increased consumption by the participants." Further, there was a decrease in consumption by the Normal group relative to the Control group during the CAP program.

b. Page 11, section VII, "...the data do not provide a clear indication of whether the CAP program has resulted in increased consumption by the participants." Further, there was a decrease in consumption by the Normal group relative to the Control group during the CAP program.

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 63

Refer to Attachment B, Program Description, Page 14, the first paragraph describing the basic guidelines for continuation of the CAP plan. This section refers to low-income customers making their monthly payments based on their ability to pay, as determined by the relationship of their income to the federally recognized poverty level.

a. Will the payments continue at the same percentages as during the pilot (5 percent of income if below 75 percent of the poverty level and 7 percent of income if between 75 percent and 110 percent of the poverty level) or will they be changed? If changed, to what levels and why?
b. The proposed CAP tariff contains a limited amount of information about the program. Was any consideration given to including additional information regarding customer eligibility, required participation in the small volume transportation program, or required payment amounts or percentages in the text of the tariff? If not, explain the reasoning for not including some, or all, of this information in the tariff.

Response:

a. Community Action Council has proposed modifying the percentages slightly to the following:

0-75% of poverty would pay 6% of income
76-100% of poverty would pay 7% of income
101-150% of poverty would pay 8% of income

An initial analysis conducted by Community Action Council of household ability to pay indicates that these levels would be affordable. The new percentages would permit more households to participate. Also, if a household's income grows beyond program eligibility, they will be used to participating in a monthly payment plan approach. The Collaborative will evaluate this change to determine if it is cost effective.

b. None of this type of information has previously been included in Columbia's tariff, so the Collaborative saw no reason to include it at this time.

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 64

The Commission's November 1, 1994 Order in Case No. 94-179[1] approving the CAP plan as part of the Joint Stipulation and Recommendation filed by the parties to that case stated in part, on page 5, "the parties should be able to demonstrate that benefits will accrue to all ratepayers as a result of implementing the pilot program. The benefits will be a crucial factor for review if the Commission is asked in the future to approve the program on a permanent basis."

a. The pilot is scheduled to expire October 31, 1999, and the application asks that the program be continued for the duration of the small volume gas transportation program, until October 31, 2004. Is the proposed five-year extension of the program not considered a request for "permanent" approval of the program?
b. Does either the application or the third-party evaluator's report demonstrate benefits to any ratepayers other than the CAP participants?
c. Has there been any attempted study or assessment by Columbia or others, to determine what benefits, if any, the general body of ratepayers has received as a result of the CAP pilot? If yes, provide the study and/or assessment results.

Response:

a. As stated in the Program Description, page 15, "In May of 2004, the Collaborative will evaluate the merits of continuing the program and report to the Commission its determination and subsequent request." As the program will still be subject to further Commission review and no expansion of the program is proposed beyond pilot level expenditures at this time, it does not have all of the elements of a permanent program.

b. The third-party evaluator's report, page 14, states, " The estimated total annual benefits to non-participants is $26,419.23."

[1] Case No. 94-179, Notice of Adjustment of the Rates of Columbia Gas of Kentucky, Inc., on and After July 1, 1994, Order entered November 1, 1994

There is also the likelihood of continuation of good payment behavior among participants who leave the program as they participate in self-sufficiency programs and incomes rise. Further, the "culture" of utility payment practices is affected as good payment behavior is modeled by participants.

c. See response to 64 (b), above.

PSC Data Request Set 1
Question No.65
Respondent: Stephen R. Byars

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 65

Is it Columbia's opinion that a continuation of its Gas Cost Incentive program as proposed in this application represents a more comprehensive gas cost incentive program? If yes, in what way?

Response:

As stated in the application, Columbia believes that the proposed Customer Choice program, and the continuation of the gas cost incentive mechanisms, represent a more comprehensive gas cost incentive program. Columbia, in its initial gas cost incentive application, represented that capacity release and revenue sharing was the first phase of an evolving process. It is now clear, three years later, that this evolving process now includes Customer Choice. The proposed program introduces the element of choice, adding extra value to cost savings. As all customers will have the option of choosing their gas supplier, even those who choose to remain with Columbia will have benefited from having a choice not afforded to them today. Thus, the proposed program is a more comprehensive gas cost incentive program.

**BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999**

Question No. 66

Why did Columbia not propose to include other elements of its gas cost such as gas commodity and transportation costs in its Gas Cost Incentive program?

Response:

There seem to be two schools of thought regarding programs designed to help customers save money on the commodity portion of their gas bills. One is a program that incents the utility for reaching certain gas cost benchmarks and sharing the benefits with both customers and shareholders. The other is Customer Choice. Columbia believes, while both types of programs can bring benefits to customers, that Customer Choice adds the extra benefit of choice to a group of customers that have been denied it while larger volume customers have benefited from it for almost twenty years. There is no question that larger volume customers have enjoyed the benefits from this economic democracy. Columbia believes that small volume customers should be allowed to pursue the same types of benefits and that is why it decided to pursue Customer Choice rather than a gas cost incentive program that included elements such as gas commodity.

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 99-165
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JULY 2, 1999

Question No. 67

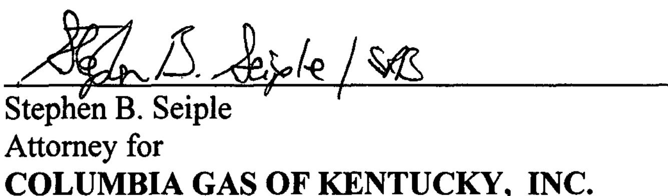
If the Commission decides to discontinue the Cost Incentive program, or determines that the customer portion of incentive revenues should not be considered as "revenue opportunities," how would Columbia propose to cover stranded costs?

Response:

The Commission's Order in Administrative Case No. 367 on July 1, 1998 made it quite clear that any applicant utility developing a Customer Choice program should do so in collaboration with its stakeholders. Furthermore, the Order stated on Page 3, that "an effort to reach compromise consistent with the public and utility shareholder interest will be considered crucial in the Commission's final decision regarding a utility's proposed customer choice program." Columbia Gas of Kentucky and its Collaborative have done just that by presenting to the Commission a proposed program that is not opposed by any party within the Collaborative and, to its knowledge, by any other party. As a result, Columbia has not developed an alternative plan to the one presented and believes that any major overhaul to the proposed program defeats the purpose of developing a program using a collaborative and contradicts the Commission's Order in Administrative Case No. 367.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Response to Commission's Order dated July 2, 1999 was served upon all parties of record by regular U.S. Mail this 16th day of July, 1999.



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