COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

DEC 17 2004

PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF COLUMBIA GAS OF)
KENTUCKY, INC. TO IMPLEMENT A NEW)
SMALL VOLUME GAS TRANSPORTATION)
SERVICE, A GAS PRICE HEDGING PLAN,) CASE NO. 2004-00462
AN OFF-SYSTEM SALES AND CAPACITY)
RELEASE REVENUE SHARING MECHANISM,)
AND A GAS COST INCENTIVE MECHANISM)

REQUEST FOR INFORMATION POSED BY THE ATTORNEY GENERAL

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and submits this Request for Information to Columbia Gas of Kentucky, Inc. to be answered by the date specified in the Commission's Order of Procedure, and in accord with the following:

(1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.

(2) Please identify the witness who will be prepared to answer questions concerning each request.

(3) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.

(4) If any request appears confusing, please request clarification directly from the Office of Attorney General.

(5) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(6) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self evident to a person not familiar with the printout.

(7) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

(8) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(9) In the event any document called for has been destroyed or transferred beyond the control of the company, please state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

Respectfully submitted,

GREGORY D. STUMBO
ATTORNEY GENERAL

/s/ Blackford

ELIZABETH E. BLACKFORD
DENNIS G. HOWARD II
ASSISTANT ATTORNEYS GENERAL
1024 CAPITAL CENTER DRIVE, SUITE 200
FRANKFORT KY 40601-8204
(502) 696-5453
FAX: (502) 573-8315
betsy.blackford@ag.ky.gov
dennis.howard@ag.ky.gov

NOTICE OF FILING AND CERTIFICATE OF SERVICE

Notice is hereby given that the original and ten true copies of the foregoing have been filed with the Executive Director of the Kentucky Public Service Commission by hand delivery to 211 Sower Boulevard, Frankfort, Kentucky 40601, this the 17th day of December, 2004. I further certify that this same day the parties have been served by mailing a true copy, postage prepaid, to Counsel of Record as follows:

HONORABLE STEPHEN B SEIPLE
COLUMBIA GAS OF KENTUCKY INC
200 CIVIC CENTER DRIVE
P O BOX 117
COLUMBUS OH 43216-0117

HONORABLE RICHARD S TAYLOR
CAPITAL LINK CONSULTANTS
225 CAPITAL AVENUE
FRANKFORT KY 40601

Assistant Attorney General

Request for Information
Of the Attorney General to Columbia Gas of Kentucky Inc.
Case No. 2004-00462

1. Do any of the other NiSource subsidiaries have hedging plans in place? If so, please provide:

a. the current details of each of those plans in full;
b. the date each plan was first proposed and the date it was approved;
c. any changes made to each plan since its original implementation or since it was originally proposed;
d. a statement of whether the program is designed to mitigate volatility or price; and,
e. a copy of the order issued by the respective Commission approving each plan.

2. Why has Columbia Gas of Kentucky Inc. waited until this year to propose a hedging plan?

3. Why has Columbia Gas included its proposal for a hedging plan in a filing made in November? Is Columbia Gas aware that those utilities with hedging plans in place make their filings in the spring?

4. Why has Columbia Gas not proposed the use of no-cost collars? What advantages does the proposed plan have over a blend using no-cost collars?

5. Please compare the transaction costs associated with the purchase of futures contracts and contracts for physical supply and the costs of purchase/sale call/put options in costless collars.

6. At page 2, the proposal states, "If, by a specified date, prices have not been set on a specified minimum gas quantity, then Columbia will set the price on a minimum volume so that a minimum level of price diversification is in place for each winter." Does the proposed hedging plan require the hedging of a fixed volume of gas regardless of trends in gas prices or is there no minimum floor?

7. Under this proposal, it appears that a set amount of gas is to be purchased in each "Volume Band" at each "Trigger Price." Does Columbia Gas plan to engage in a mechanistic purchase of set volumes of gas at set times under the hedging plan regardless of what the market is doing?

8. Has Columbia Gas done studies to compare (or does it have any data that allows an analysis of) whether it is more beneficial to the customer of the utility to utilize its purchasing plan and fixed price contracts to level costs or whether it is more beneficial to prevent price spiking only through appropriate financial instruments? If so, please provide copies of such studies or data.

8. A stated objective of the hedging program is to reduce price volatility. What level of price volatility reduction is the objective of this program? If other programs are in place for other NiSource subsidiaries with characteristics similar to that proposed here, what level of price volatility reduction has been achieved in those programs?

9. Please explain the basis for requiring minimum hedge amounts in some months of the winter season. List all assumptions utilized in establishing the amounts of minimum volume to be hedged in each month in which mandatory minimum hedging is required and the assumptions underlying the choice of the months to which the mandatory minimum will apply.

10. In its report made to the Commission consequent to Administrative Case Number 384, the Liberty Group indicates that Columbia did not engage in hedging because of the large number of customers involved in the Choice program (Page I.C.7) and its belief that the management of price and volatility is a matter between the customer and its chosen supplier. Has that belief changed? Why is Columbia now offering a hedging program in conjunction with the renewal of the Customer Choice program?

11. Does Columbia believe the proposed plan will operate to mitigate increasing price or to level volatility? Please discuss the reasoning in full.

12. Who will manage the hedging program and what experience in hedging and/or gas purchasing and trading does that person/unit bring to the process?

13. The application speaks of using a two-year window in which prices may be fixed under the hedging plan, and gives an example of fixing prices for November 2006-March 2007 during November 2004. Is the hedging plan also to be used for the 2005-2006 season or will Columbia only work two years out under the proposal?

14. At page 11 of the application it states that use of the two-year window provided "a much better chance that futures prices will drop to the point of allowing prices of be set using the Plan's Trigger prices than would a Plan with a shorter window in which to price supplies."

a. Does this statement reflect an expectation that gas supply prices will be trending downward over the term of the pilot program?
b. If it does not reflect an expectation that prices will trend downward, to what is the drop in futures prices two years out attributed?
c. If a downward trend in pricing is expected, does the "rules based" approach of the plan allow Columbia Gas to take full advantage of prices lower than triggering prices or does the fact that the plan is buying two years out prevent adaptation to a downward market trend?
d. Does the proposal allow Columbia Gas to reduce the volumes of gas hedged at trigger prices to allow it to take advantage of downward pricing trends?

15. At page 11 of the application Columbia Gas asks that the costs of gas futures contracts be considered part of the normal definition of gas costs. Does this mean the cost of a contract that

does not become operative until 2007 might be recovered in 2005 when the contract is purchased, or is the price of the contract recovered at its effective date?

16. At page 12 of the application it is stated that the use of fixing prices on physical gas contracts may result in the bypass of Columbia's annual summer negotiation process with gas suppliers.

a. Please explain why this would happen.
b. Is a physical gas contract not subject to resale on a secondary market?

17. Is the volume of gas to be hedged expected to be greater than the customer demand on the warmest days of winter?

18. At page 13 of the application, Columbia Gas states that hedging is cost-effective.

a. What is the definition of cost-effective as used here?
b. Is this statement based on the premise that consumers will not pay more for hedged gas than would have been paid for gas purchased in the ordinary course of business?
c. Upon what studies or facts does Columbia Gas base the assertion that hedging is cost-effective?
d. How will cost-effectiveness be measured for this pilot program?
e. Is Columbia Gas aware that customers of other LDCs in Kentucky have paid more for gas as a result of hedging than otherwise would have been paid?

19. Why is it appropriate to use such a long time period for this pilot when the pilot hedging programs for the other LDCs in Kentucky have been of much shorter duration?

20. At page 15 of its application, Columbia Gas urges the Commission to allow a 50/50 sharing of off-system sales on a permanent basis. It utilizes a definition of off-system sales used in PSC Case No. 96-079 and adds to that definition arrangements for marketed capacity release.

a. Please explain the differences between the markets for off-system sales that were present when the Commission allowed an incentive in Case No. 96-079 that was less than the one requested here and the markets for off-systems sales today, addressing specifically those factors that would require any incentive, much less a larger incentive for the company in today's markets.
b. Please explain the differences between the markets for off-system sales that are present in the markets today that would require a greater incentive for Columbia Gas than was awarded in Case No. 99-165.
c. Why would it be appropriate to award Columbia Gas an incentive as great as that which was awarded in Case No. 99-165 now that Columbia Gas will no longer be assuming the risk of unrecovered stranded costs associated with its CHOICE program given that the assumption of that risk was a factor in determining the level of incentive awarded in 99-165?

21. What is the anticipated impact of the inclusion of arrangements for marketed capacity release in off-system sales upon off-system sales revenues?

22. Why are marketed capacity release arrangements now being proposed for inclusion in off-system sales when they were not previously included?

23. Please explain any differences that exist with reference to the generation of revenues via capacity release today and in 1996 when revenue sharing following the attainment of a benchmark was established in Case No. 96-079.

a. Is it now more or less difficult to generate revenues from capacity release than it was in 1996-1997?
b. Is it now more or less difficult to generate revenue through capacity release than it was in 1999-2000 when the Commission directed that all revenues be credited to the GCA?

24. What practice would Columbia Gas change with reference to the generation of revenues through capacity release from what it has done from 1996 to date if:

a. it is allowed to share in revenues,
b. it is allowed to share in revenues above a benchmark, or
c. it is not allowed to share in revenues?

25. In the event that Columbia Gs is allowed to share in revenues generated through capacity release, will the added revenues generated equal or exceed the cost to consumers of paying the incentive requested?

26. When Columbia Gas has had performance based rates, has it kept records or otherwise developed a means to demonstrate that consumers benefit more under the performance based rate by paying less overall for their gas than they would in the absence of such a rate? If so, please provide those records, demonstrations or explanations. If not, why not?

27. Why is it appropriate to create a summer benchmark to beat when summer prices are at a record high due to exogenous forces? Will downward movements from exogenous forces permit incentive rewards for Columbia Gas under the proposed GCIM?

28. Is Columbia Gas aware that all hedging plans approved to date in Kentucky involve substantially lesser volumes of hedged gas?

a. Why has Columbia Gas chosen the volumes it has chosen?
b. Would it agree that hedging only one-half of the amounts proposed is reasonable?
c. Would it agree that if more than the amounts proposed for each individual Volume Band were available at lower trigger rates it would be appropriate to buy the greatest volume available, assuming that the market was not in a general downward trend which would render even the lowest of the trigger rates higher than the probable spot market?

29. In its report on its audit of Columbia Gas subsequent to Administrative Case Number 384, the Liberty Consulting Group reported that:

> Columbia has the necessary procedures in place to evaluate and acquire gas supplier alternatives. The company makes extensive use of its gas supply optimization model to evaluate both short-term and long-term gas supply planning decisions. The assessment of future market conditions is a part of the forecast through the economic assumptions and variable inclusions. The optimal contract and supply mix, and the mix between long-term and spot purchases is considered and calculated based on gas prices and storage inventories using the optimization model. This ensures a least-cost solution and the optimal use of resources for a given demand forecast and associated cost estimates for all gas supply resources such as suppliers, pipelines, storage and peaking resources. This is currently one of the best methods to perform long term gas supply planning. (Page III.A.1.3)

It also said: Columbia's forecasting and gas supply planning procedures are complete. (Page III.A.1.4)

a. What aspect of what is reported to be an outstanding and complete program would be changed and improved by adding the GCIM?
b. Would the addition of a GCIM allow Columbia Gas to receive incentive rewards for continuing with the same procedure now in place?

30. In its report to the KPSC Liberty Consulting Group mentions that Columbia Gas would have several contracts due for renewal in 2004 that would require either the extension of existing contracts or replacement with new contracts.

a. Has Columbia Gas renewed or extended those contracts that came up in 2004? If so, are the renewals and/or extensions with the same counterparties?
b. What impact does the renewal or replacement of those contracts have on Columbia's ability to hedge and on the price of its summer acquisitions?

31. In its report the Liberty Consulting Group mentions that Columbia does not favor price-risk management or price stabilization through the use of financial instruments or fixed-price contracts and that hedged prices are available for customers who want them through the CHOICE program. Accordingly, the report states, the ESS will develop a program if the Commission insists, but not otherwise. (Page III.A.3.6) Has there been further Commission insistence that has lead to the development of this hedging proposal? If not, what has lead to this proposal?

32. In its report the Liberty Consulting Group details the process by which Columbia's ESS conducts a comprehensive RFP process for gas supplies annually, including the fact that it culls the commodity contracts to keep those which have good terms and to replace those whose terms are no longer as good. (Page III.A.3.9) How will this practice be impacted and/or improved if the

GCIM is granted? What added benefit would flow to consumers under this practice if the GCIM is granted?