

COMMONWEALTH OF KENTUCKY

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BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE COMMISSION

In the Matter of the Application of Columbia Gas of Kentucky, Inc. for Authority to Allocate the Proceeds of its Stranded Cost/Recovery Pool.

Case No. 2005-2005-446

APPLICATION OF COLUMBIA GAS OF KENTUCKY, INC.

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

(A) That applicant is engaged in the business of furnishing natural gas services to the public in certain counties in the Commonwealth of Kentucky, pursuant to authority granted by the Commission.

(B) That Columbia's full name and post office address is:

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

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

(D) That the Commission authorized Columbia to establish a Stranded Cost/Recovery Pool in Case No. 1999-165.

(E) That for the reasons more fully set forth below, Columbia requests authority to allocate one-half of the funds remaining in the Stranded Cost/Recovery Pool to customers and to retain the other half of the remaining funds.

1. On April 22, 1999, Columbia filed an application to implement a small volume gas transportation program on a pilot basis (“the 1999 CHOICE<sup>1</sup> program”) in Case No. 1999-165. This application was filed pursuant to the Commission’s requirements in Administrative Case No. 367, and constituted Columbia’s proposal for a more comprehensive gas cost incentive program as envisioned by the Commission’s Order dated July 27, 1998, in Case No. 96-079. The Application was approved by the Commission as a pilot program, with modifications, by Orders issued on January 27, 2000, March 6, 2000 and May 19, 2000. Pursuant to those Orders, the 1999 CHOICE program was scheduled to run through October 31, 2004. On September 25, 2003, the Commission issued an Order in which it agreed to extend the 1999 CHOICE program through March 31, 2005, and in which it encouraged the parties to continue discussing the future of the program.

2. On November 30, 2004, Columbia filed an application in Case No. 2004-00462 in which it sought approval of a new CHOICE program. By Order dated March 29, 2005, the Commission granted this application, and Columbia’s new CHOICE program was initiated on April 1, 2005. Columbia’s 1999 CHOICE program expired on March 31, 2005.

3. Columbia’s 1999 CHOICE program application was developed after numerous discussions with parties that had previously intervened in Columbia’s cases before the Commission. These groups represented residential and commercial customer interests within Columbia’s service territory, and included the Office of Attorney General of the Commonwealth of Ken-

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<sup>1</sup> Customer CHOICE<sup>SM</sup> is a service mark of Columbia Gas of Ohio, Inc. and its use has been licensed by Columbia Gas of Kentucky, Inc. CHOICE<sup>®</sup> is a registered service mark of Columbia Gas of Ohio, Inc. and its use has also been licensed by Columbia Gas of Kentucky, Inc.

tucky, the Lexington-Fayette Urban County Government, and the Community Action Council for Fayette, Bourbon, Harrison and Nicholas Counties (“CAC”).

4. The 1999 CHOICE program application, developed through a collaborative process with consensus recommendations of the group mentioned above, resulted in stranded pipeline capacity costs for Columbia. The application established a fund, referred to as the Stranded Cost/Recovery Pool, to which all stranded costs and other defined revenues (primarily Off-System Sales and Capacity Release revenues) were to be allocated under the 1999 CHOICE program. Realizing that there likely would not be a perfect match between total stranded costs and total off-setting revenue opportunities, Columbia proposed that if stranded costs exceeded revenue opportunities over the course of the 1999 CHOICE program Columbia would absorb the first \$3 million of the shortfall and subsequently seek Commission approval of a method to recover any remaining shortfall. If the revenue opportunities exceeded stranded costs, Columbia proposed to retain the first \$3 million in excess revenues and refund the remainder to customers.

5. In its January 27, 2000 Order approving Columbia’s 1999 CHOICE program application, with modifications, the Commission rejected Columbia’s “deadband” approach to dealing with any balance in the Stranded Cost/Recovery Pool and indicated that any excess of cost or revenue would be addressed in the Commission’s review of the pilot program.

6. On rehearing, the Commission altered its January 27, 2000 Order and held that, “in the event that the stranded cost/recovery pool contains excess revenues at the end of the pilot program, the excess should be credited on a throughput basis to both sales and Customer Choice customers.” Order dated May 19, 2000 at 2. The Commission stated that its modifications to Columbia’s revenue opportunities to fund stranded costs, “has the benefit of giving Columbia the incentive to maximize off-system sales revenues, and therefore revenue opportunities, over the

life of the program, but also targets the amount of expected excess revenues so that there is no excess of cost or revenue at the end of the program.” *Id.*

7. Columbia’s 1999 CHOICE program terminated on March 31, 2005, and at the end of the program Columbia’s revenue opportunities exceeded stranded costs. The final balance in the Stranded Cost/Recovery Pool was \$3,595,743. This balance is greater than the balance that the Commission apparently envisioned would exist as a result of its modifications to the revenue opportunities set forth in Columbia’s 1999 CHOICE program application.

8. Columbia’s 1999 CHOICE program was extremely successful, saving participating customers \$15,718,439.<sup>2</sup> In light of the 1999 CHOICE program’s resounding success, and in view of the Commission’s unrealized expectation that the end balance in the Stranded Cost/Recovery Pool would be relatively insignificant, Columbia requests that the Stranded Cost/Recovery Pool balance of \$3,595,743 (which when added to the customer savings generated during the term of the pilot yields total benefits of \$19,214,182) be reallocated so that the balance is not all returned to customers as otherwise required by the Commission’s Order dated May 19, 2000, in Case No. 1999-165. In essence, Columbia is asking to retain 10% of the total benefits of the program and return 90% to its customers. The benefit to Columbia’s customers accrues whether or not the customer participated in the 1999 CHOICE program.

9. Due to the efforts of the Commission and the collaborative members that worked with Columbia to make the first small volume transportation program of this kind available in Kentucky, Columbia’s small volume customers all benefitted. In recognition of Columbia’s suc-

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<sup>2</sup> The savings were calculated by comparing what CHOICE customers actually paid marketers for their natural gas commodity compared to what the same customers would have paid under Columbia’s otherwise applicable GCA rates.

successful management of its 1999 CHOICE program, Columbia requests that it be permitted to retain half of the Stranded Cost/Recovery Pool balance, and that the other half be refunded to sales and CHOICE customers. This would more closely match the collaborative parties' expectations that were inherent in the filing of the application for approval of the 1999 CHOICE program, under which Columbia would have been permitted to retain the first \$3 million of the Stranded Cost/Recovery Pool balance.

10. In addition, such a splitting of the Stranded Cost/Recovery Pool balance would match Columbia's current treatment of the proceeds from Off-System Sales and Capacity Releases, as approved by the Commission in its Order dated March 29, 2005, in Case No. 2004-00462. Because the Stranded Cost/Recovery Pool balance is comprised largely of revenues generated from Off-System Sales and Capacity Assignments it is appropriate and logical that the disposition of these revenues should match Columbia's current treatment of such incentive revenues. Columbia proposes to utilize the existing crediting mechanism for incentive revenues in its Gas Cost Adjustment Clause to return the customer's share of the Stranded Cost/Recovery Pool balance over a twelve-month period. The additional adjustment of (\$0.1126) per Mcf would be effective with bills rendered the first billing month after the Commission's approval of this Application.

11. As an alternative to an equal sharing of the Stranded Cost/Recovery Pool balance between Columbia and customers, Columbia proposes for the Commission's consideration another allocation of the Stranded Cost/Recovery Pool balance. Under the alternative, ten percent of the Stranded Cost/Recovery Pool balance would be allocated to the CAC for use in its existing weatherization program. This alternative recognizes that with the national increase in natural gas prices being experienced nationwide there may be additional customers who will have difficulty

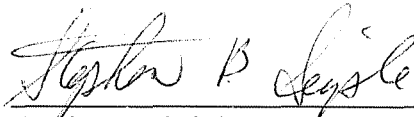
paying their utility bills this winter, and that the Commission may wish to address this concern by permitting the allocation of funds to an existing weatherization program. The remaining ninety percent of the Stranded Cost/Recovery Pool balance would be split equally between Columbia and its sales and CHOICE customers (forty-five percent to each) with the customer's share of (\$0.1013) per Mcf credited as described above.

**WHEREFORE**, for the reasons described herein, Columbia requests that the Public Service Commission of the Commonwealth of Kentucky make its order authorizing Columbia to allocate Columbia's Stranded Cost/Recovery Pool balance so that half is refunded to sales and CHOICE customers and so that half is retained by Columbia. In the alternative, Columbia requests that the Commission authorize Columbia to allocate Columbia's Stranded Cost/Recovery Pool balance so that ten percent is allocated to the CAC for its existing weatherization program, with the remainder split between Columbia and its sales and CHOICE customers.

Dated at Columbus, Ohio, this 1<sup>st</sup> day of November 2005.

Respectfully submitted,

**COLUMBIA GAS OF KENTUCKY, INC.**

By:   
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