Columbia Gas of Kentucky
A NiSource Company

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PUBLIC SERVICE COMMISSION

December 22, 2005

Ms. Beth A. O'Donnell
Executive Director
Kentucky Public Service Commission
P. O. Box 615
Frankfort, KY 40602

RE: PSC Case No. 2005-00446

Dear Ms. O'Donnell:

Enclosed for filing with the Commission are the original and six copies of Columbia Gas of Kentucky's Response to the Data Request submitted by the Staff of the Public Service Commission in Case No. 2005-00446. A Certificate of Service is included. Please call me at (859) 288-0242 should you have any questions about this matter.

Very truly yours,

Judy Cooper

Judy Cooper

Enclosure

cc: Richard S. Taylor

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
PSC CASE NO. 2005-00446
DATA REQUESTED BY
THE PUBLIC SERVICE COMMISSION STAFF
DATED DECEMBER 9, 2005

Question No. 1

Provide, in a format comparable to that in Appendix B of the Commission's January 27, 2000 Order in Case No. 1999-00165[1], a schedule of revenue opportunities and stranded costs for Columbia's pilot Costumer Choice Program. This should list the actual amounts by program year (the period ended June 1st of each year) an in total for the full term of the pilot.

Response of Columbia Gas of Kentucky:

Please see attached.

[1] Case No. 1999-00165, The Tariff Filing of Columbia Gas of Kentucky, Inc. to Implement a Small Volume Gas Transportation, Service, to Continue its Gas Cost Incentive Mechanism, and to Continue its Customer Assistance Program.

Columbia Gas of Kentucky
Comparison of Stranded Costs and Revenue Opportunities - Actual

STRANDED COSTS	Year One	Year Two	Year Three	Year Four	Year Five	Pilot Term Total
GCR-Demand	$1,907,237	$8,359,821	$7,868,532	$8,222,177	$6,056,414	$32,414,181
Information Technology	$93,927	$281	$0	$0	$0	$94,208
Education	$232,485	$0	$0	$0	$0	$232,485
Total	$2,233,649	$8,360,102	$7,868,532	$8,222,177	$6,056,414	$32,740,874
REVENUE OPPORTUNITIES						
Capacity Assignment	$0	$2,556,528	$7,292,928	$7,952,630	$5,906,133	$23,708,219
Balancing Charges	$817,913	$608,608	$1,211,302	($208,673)	$0	$2,429,149
Off-System Sales	$1,736,812	$1,795,575	$3,446,720	$1,497,154	$399,300	$8,875,561
Marketer Contribution	$127,758	$306,297	$337,126	$322,052	$230,454	$1,323,688
Total	$2,682,483	$5,267,008	$12,288,076	$9,563,163	$6,535,886	$36,336,617
NET STRANDED COST	($448,834)	$3,093,094	($4,419,544)	($1,340,987)	($479,472)	($3,595,743)

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Question No. 2

Refer to paragraphs 6 through 8 of the November 1, 2005 application, which discuss the Commission's May 19, 2000 Order in Case No. 1999-00165.

a. The section of the Order referenced in those paragraphs deals with the Commission's decision to allow Columbia to retain 25 percent of off-system sales revenues as an incentive. This was based on the project excess revenues for the Customer Choice pilot of $4.373 million, with the intent being that Columbia's share of expected off-system sales revenues of $18 million would be approximately equal to the projected excess revenues. Provide the amount of Columbia's share of off-system sales revenues over the full term of the pilot program.

b. Explain why it is appropriate to revisit the issue of the appropriate allocation of the difference between the revenues opportunities and the stranded costs associated with the pilot Customer Choice program more than 5 years after issuance of the Commission's final Order in Case No. 1999-00165, in which it ruled that the full amount of any excess of revenue opportunities over stranded costs would be credited to Columbia's sales and choice customers.

c. Explain why reallocation of the difference between revenue opportunities and stranded costs at this time would not constitute retroactive ratemaking.

Response of Columbia Gas of Kentucky:

a. Columbia's share of off-system sales was 25% during the term of the pilot program or $2,958,427. This was a reduction from Columbia's previously authorized off-system sales share of 35%. Retention of Columbia's Gas Cost Incentive Program was included in the original application for the pilot, however, the reduction was one of the Commission ordered modifications to the pilot.

b. Columbia accepted the opportunity to operate the pilot program under the modifications ordered by the Commission. Among others, modifications were targeted to eliminate the excess of stranded cost or revenue opportunities that were acknowledged as possible in the original application for approval of a pilot program. The original application had envisioned a "deadband" approach under which Columbia would absorb the loss or retain a gain for the first $3,000,000 of the stranded cost pool balance at the end of the program and subsequently seek approval for recovery of additional shortfall or refund additional excess revenues to sales and Choice customers. It is appropriate to allow the issue of the appropriate allocation to be revisited because the final outcome of the pilot, is not the result that the Commission designed, by its modifications, and planned for. Columbia managed the program, taking the entire risk, and was able to generate an outcome with a significant excess of revenue opportunities over stranded cost. This is a good problem to have and appropriate for the Commission to exercise its regulatory authority to review.

c. Reallocation of the difference between revenue opportunities and stranded costs does not constitute retroactive ratemaking. No rate has been charged or credited to any customer that is being changed. An expectation for disbursement of excess revenues, which were targeted to be zero, was set forth in the Commission's Order but no methodology was set forth. So, either the Commission expected no rate would be necessary or expected another proceeding the determine the rate. The Commission has the authority to determine the appropriate allocation in this proceeding.

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Question No. 3

Refer to paragraphs 9 and 10 of the November 1, 2005 application.

a. Given that the Commission rejected the deadband approach proposed in Case No. 1999-00165, explain why "the collaborative parties' expectations" regarding the treatment of the stranded cost/recovery pool balance, as reflected in Columbia's application in that case, should be reconsidered at this time.

b. Explain why Commission approval of the prospective treatment of the proceeds from off-system sales and capacity releases in Case No. 2004-00462[2] should have any bearing on the treatment of the proceeds from off-system sales and capacity releases over the past 5 years during the pilot Customer Choice program.

Response of Columbia Gas of Kentucky:

a. The participation of collaborative parties in any application for residential natural gas competition was a requirement of Administrative Case No. 367, The Establishment of a Collaborative Forum to Discuss the Issues Related to Natural Gas Unbundling and the Introduction of competition to the Residential Natural Gas Market. The parties participated in the design of Columbia's original application, not the modifications. The outcome of the program more closely matches an outcome of the original design than of the modified program.

[2] Case No. 2004-00462, The Application of Columbia Gas of Kentucky, Inc. to Implement a New Small Volume Gas Transportation Service, a Gas Price Hedging Plan, and Off-System Sales and Capacity Release Revenue Sharing Mechanism, and a Gas Cost Incentive Mechanism, Order of March 29, 2005.

b. Columbia took the Commission's recent order as the "current thinking" of the Commission on allocation percentages. However, Columbia would not be opposed to the proceeds being treated as proposed within the "deadband" of its original pilot.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the attached Response of Columbia Gas of Kentucky, Inc., was served upon those individuals listed in the Service List below by regular U.S. mail this 22nd day of December 2005.

Stephen B. Seiple (GMC)

Stephen B. Seiple
Attorney for
COLUMBIA GAS OF KENTUCKY, INC.

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