COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
FEB 09 2009
PUBLIC SERVICE COMMISSION

In the matter of:	)	
	)	
THE APPLICATION OF COLUMBIA GAS OF KENTUCKY, INC. TO EXTEND ITS GAS COST INCENTIVE PROGRAM AND ITS OFF-SYSTEM SALES AND CAPACITY RELEASE REVENUE SHARING MECHANISM	)	CASE NO. 2008-00433

REPLY COMMENTS OF COLUMBIA GAS OF KENTUCKY, INC. TO INTERSTATE GAS SUPPLY, INC.'S INITIAL COMMENTS

On October 3, 2008, Columbia Gas of Kentucky, Inc. ("Columbia") filed its Application in this case, requesting authority to extend its Gas Cost Incentive Mechanism ("GCIM") and its Off-System Sales and Capacity Release Revenue Sharing Mechanism ("OSS/CR RSM"). Interstate Gas Supply, Inc. ("IGS") moved to intervene on November 6, 2008, and on January 9, 2009, IGS filed Comments in this docket. By Order dated January 30, 2009, the Commission provided Columbia with ten days in which to respond to IGS' Comments. Pursuant to the Commission's January 30, 2009 Order Columbia submits the following response to IGS' Comments.

In its intervention, IGS claims that the OSS/CR RSM and Columbia's CHOICE Program are "inextricably tied together". While there was a period during which the duration of Columbia's OSS/CR RSM program coincided with the duration of Columbia's CHOICE Program, the off-system sales and capacity release sharing program was initially developed prior to, and independent of the CHOICE Program, and currently operates independently of the CHOICE Program. Columbia therefore objects to IGS' characterization of the programs as being "inextricably tied together" and urges the Commission to reject IGS' recommendation to extend the GCIM and OSS/CR RSM for only two years.

History and Current Developments of the OSS/CR RSM

Columbia's off-system sales and capacity release sharing programs were initially implemented prior to Columbia's CHOICE Program, and now, combined as the OSS/CR RSM, operate independently of Columbia's CHOICE Program. The off system sales and capacity release sharing programs were initially approved by the Commission in 1996.[1] The programs remained in effect until the origination of Columbia's Customer CHOICE program.

Columbia's CHOICE Program was first proposed in 1999, and approved by the Commission in 2000 – four years after the Commission's initial approval of Columbia's off system sales and capacity release sharing programs.[2] The Commission has already found that these sharing programs were in effect prior to the Commission's approval of the CHOICE Program in 2000.[3] It was only for a period related to that decision in case No. 99-165 that the Commission approved the utilization of some of the off-system sales revenues to fund the CHOICE Program.[4]

In March 2005, the Commission approved Columbia's application which re-established a combined OSS/CR RSM in a manner similar to what was in place prior to implementing the ini-

[1] *In the Matter of: the Tariff Filing of Columbia Gas of Kentucky, Inc., to Implement Cost Incentive Rate Mechanisms*, PSC Case No. 96-079, Order (July 31, 1996) at 2, 6.
[2] *In the Matter of: the Tariff Filing of Columbia Gas of Kentucky, Inc., to Implement a Small Volume Gas Transportation Service, to Continue its Gas Cost Incentive Mechanisms, and to Continue its Customer Assistance Program*, PSC Case No. 99-165, Order (May 19, 2000) at 5.
[3] *In the Matter of: the Tariff Filing of Columbia Gas of Kentucky, Inc. to Implement Gas Cost Incentive Rate Mechanisms*, PSC Case No 96-079, Order on July 31, 1996, at 6; *In the Matter of: the Application of Columbia Gas of Kentucky, Inc. for Authority to Allocate the Proceeds of its Stranded Cost/Recovery Pool*, PSC Case No 2005-00446, Order (May 10, 2006) at 3.
[4] *In the Matter of: the Tariff Filing of Columbia Gas of Kentucky, Inc., to Implement a Small Volume Gas Transportation Service, to Continue its Gas Cost Incentive Mechanisms, and to Continue its Customer Assistance Program*, PSC Case No. 99-165, Order (May 19, 2000).

tial CHOICE pilot.[5] Though a portion of the off-system sales revenue was used to fund the stranded capacity costs created by the CHOICE Program during the period from 2000 to 2005, the design of the new CHOICE pilot that was approved in March 2005 effectively eliminated stranded capacity costs, which had been funded by off-system sales revenue.[6] Consequently, that funding no longer occurred and the tangential link between these programs and CHOICE ceased to exist. Since the CHOICE Program has not been funded by off-system sales revenue for over three years, the OSS/CR RSM program is not linked to the CHOICE Program, and has been independent of the CHOICE Program since 2005.

The Commission has recently recognized the autonomy of the CHOICE Program and the Gas Price Hedging Plan, which was also approved in the March 2005 Order, when it recently approved these programs for different terms in separate dockets. In Case No. 2008-00195, the CHOICE Program was extended through March, 31, 2011.[7] In Case No. 2007-00517, the Gas Price Hedging Plan was approved to continue through March 31, 2012.[8] Under the current proposal, the OSS/CR RSM would be approved through March 31, 2013 and the GCIM through October 31, 2012.[9] The different approved terms demonstrates the Commission's treatment of the CHOICE Program, Gas Price Hedging Plan, GCIM, and OSS/CR RSM as separate and distinct programs.

---

[5] *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, an Off-System Sales and Capacity Release Revenue Sharing Mechanism, and a Gas Cost Incentive Mechanism*, PSC Case No. 2004-00462, Order (March 29, 2005).
[6] *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, an Off-System Sales and Capacity Release Revenue Sharing Mechanism, and a Gas Cost Incentive Mechanism*, PSC Case No. 2004-00462, Order (March 29, 2005) at 4-5.
[7] *In the Matter of: the Application of Columbia Gas of Kentucky, Inc., to Extend its Small Volume Gas Transportation Service*, PSC Case No. 2008-00195, Order (November 7, 2008) at 2.
[8] *In the Matter of; the Application of Columbia Gas of Kentucky, Inc., to Extend its Gas Price Hedging Plan*, PSC Case No. 2007-00517, Order (March 7, 2008) at 2.
[9] *In the Matter of: the Application of Columbia Gas of Kentucky, Inc., to Extend its Gas Cost Incentive Program and its Off-System Sales and Capacity Release Revenue Sharing Mechanism*, PSC Case No. 2008-00433, Application of Columbia Gas of Kentucky, Inc., October 3, 2008at 4.

<u>IGS should be Estopped from Linking the CHOICE Program, GCIM, Gas Price Hedging Plan, and Off-System Sales and Capacity Release Sharing Mechanism</u>

IGS contends that Columbia's CHOICE Program, GCIM, Gas Price Hedging Plan, and OSS/CR RSM are inextricably linked, and thus the terms of each program should coincide.[10] As demonstrated above this is factually incorrect. Furthermore, IGS failed to raise this argument during the separate application approvals of the CHOICE Program and the Gas Price Hedging Plan in Case Nos. 2007-00517 and 2008-00195.

On December 13, 2007, Columbia filed an application with the Commission to extend its Gas Price Hedging Plan for three years, beginning on April 1, 2009.[11] The Commission approved the continuation of Columbia's Gas Price Hedging Plan without any revisions to the existing plan.[12] IGS chose not to intervene and failed to comment on the program, or to voice concern regarding the term of the hedging program. Similarly, IGS failed to raise any concern it might have about the lack of linkage between the hedging program and the CHOICE Program, GCIM, and OSS/CR RSM programs.

On May 30, 2008, Columbia filed an application with the Commission to extend its CHOICE program for two years, beginning on April 1, 2009.[13] IGS filed a motion to intervene and accompanying memorandum on June 13, 2008.[14] Again, IGS never raised any issue regarding the lack of linkage between the CHOICE program extension and the OSS/CR RSM, GCIM and Gas Price Hedging Plan. Rather, IGS fervently supported the application, and stated, "IGS believes that no further briefing remains necessary and that this case is ripe for submission on the

---

[10] *Id.*, Interstate Gas Supply, Inc's Initial Comments Regarding Columbia's Application, (January 1, 2009) at 5.
[11] *In the Matter of: the Application of Columbia Gas of Kentucky, Inc., to Extend its Gas Price Hedging Plan*, PSC Case No. 2007-00517, Order (March 7, 2008) at 1.
[12] *Id.* at 2.
[13] *In the Matter of: the Application of Columbia Gas of Kentucky, Inc., to Extend its Small Volume Gas Transportation Service*, PSC Case No. 2008-00195, Order (November 7, 2008) at 1.
[14] *In the Matter of: the Application of Columbia Gas of Kentucky, Inc., to Extend its Small Volume Gas Transportation Service*, PSC Case No. 2008-00195, Memorandum of Interstate Gas Supply, Inc., in Support of Columbia Gas of Kentucky Application to Extend its Small Volume Gas Transportation Service, June 13, 2008.

record to the Commission. IGS intends to file no further pleadings or comments and IGS respectfully requests the Commission resolve this action expeditiously and grant extension of the (CHOICE) program."[15] Because IGS has had two recent opportunities to argue that the terms of the CHOICE, OSS/CR RSM, GCIM and Gas Price Hedging Plan should all be coincident, and failed in each instance to raise the argument that the programs are inextricably linked, IGS should be estopped from raising this argument in the instant case. This is particularly so given that the Commission has already approved non-coincident terms for the Gas Price Hedging Plan and the CHOICE program.

Clarification of IGS Initial Comments

IGS mischaracterizes the Commission's Order issued on March 29, 2005, in Case No. 2004-00462. IGS states that, "Specifically, the Commission recognized that 'Columbia states that the proposed higher company sharing ratio (50%) is needed in order to provide a greater incentive to participate in something *(Choice)* that is not a core segment of an LDC's regulated business.'"[16] The parenthetical inserted by IGS is incorrect. The Commission and Columbia were not referring to the CHOICE Program, but instead were referring to OSS/CR RSM. The paragraph read in context reads as follows:

> Columbia's Response – Off-System Sales and Capacity Release
>
> Columbia notes that its previous off-system sales and capacity release programs included sharing ratios of 65-35 or 75-25 with it receiving the small ratio. The 65-35 ratio was in effect prior to the current pilot Choice Program while the 75-25 ratio was approved in conjunction with approval of the current Choice Program. Columbia states that the proposed higher company sharing ratio is

---

[15] *In the Matter of: the Application of Columbia Gas of Kentucky, Inc., to Extend its Small Volume Gas Transportation Service*, PSC Case No. 2008-00195, Letter in Response to Commission Inter-Agency Memorandum dated August 8, 2008 (August 26, 2008) at 2.

[16] *In the Matter of: the Application of Columbia Gas of Kentucky, Inc., to Extend its Gas Cost Incentive Program and its Off-System Sales and Capacity Release Revenue Sharing Mechanism*, PSC Case No. 2008-00433, Interstate Gas Supply, Inc's Initial Comments Regarding Columbia's Application (January 9, 2009) at 3 (emphasis added).

> needed in order to provide greater incentive to participate in something that is not a core segment of an LDC's regulated business. In arguing for a higher company sharing ratio, Columbia points out that it does not propose to share in any reductions or savings in pipeline demand costs, which distinguishes from the LG&E and Atmos PBRs.[17]

Thus, IGS has mischaracterized the Commission's Order. When read in the proper context, it is clear that the Commission intended to recognize the need to incentivize Columbia's continued participation in the OSS/CR RSM, which is not the principal business of Columbia, by proposing a higher company sharing ratio. The CHOICE Program's success, therefore, is not dependent upon the continued success of the OSS/CR RSM.

Conclusion

The CHOICE Program, GCIM, Gas Price Hedging Plan, and OSS/CR RSM are distinct and separate programs recognized by the Commission. The off system sales and capacity release programs pre-dated the CHOICE Program and were, therefore, historically separate and are currently separate, with each program renewed separately with the Commission. The instant case is the final renewal of the programs whose terms expire March 31, 2009. IGS, by failing to intervene and raise an issue with the CHOICE Program and the Gas Price Hedging Plan being approved individually and for different terms, is estopped from raising this argument in the current case. Finally, the Commission has already evidenced the autonomy of each program by approving the CHOICE Program and the Gas Price Hedging Plan for different terms.

WHEREFORE, Columbia respectfully requests that the Commission reject IGS' arguments, and issue an order authorizing Columbia to extend its GCIM until October 31, 2012 and its OSS/CR RSM until March 31, 2013 for the reasons detailed above.

---

[17] *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, an Off-System Sales and Capacity Release revenue Sharing mechanism, and a Gas Cost Incentive Mechanism*, PSC Case No. 2004-00462, Order (March 29, 2005) at 7.

Dated this 9th day of February 2009.

Respectfully Submitted,

COLUMBIA GAS OF KENTUCKY, INC.

By: Daniel A. Creekmur (JMC)
Daniel A. Creekmur

Stephen B. Seiple, Lead Counsel
Daniel A. Creekmur, Attorney
200 Civic Center Drive
Columbus, OH 43215
Telephone: (614) 460-4680
Fax: (614) 460-6986
Email: dcreekmur@nisource.com

Richard S. Taylor
225 Capital Avenue
Frankfort, KY 40601
Telephone: (502) 223-8967
Fax: (502) 226-6383
Email: attysmitty@aol.com

February 9, 2009

Attorneys for Applicant
COLUMBIA GAS OF KENTUCKY, INC.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Reply Comments of Columbia Gas of Kentucky, Inc. To Interstate Gas Supply, Inc.'s Initial Comments was served upon all parties of record by regular U. S. mail this 9th day of February, 2009.

Daniel A. Creekmur (gmc)
Daniel A. Creekmur
Attorney for
COLUMBIA GAS OF KENTUCKY INC.

SERVICE LIST

Hon. William H. May, III
Hon. Matthew R. Malone
Hurt, Crosbie & May PLLC
The Equus Building
127 West Main Street
Lexington, Kentucky 40507

Hon. Vincent A. Parisi
Interstate Gas Supply, Inc.
5020 Bradenton Avenue
Dublin, Ohio 43017