HURT, CROSBIE & MAY PLLC

William C. Hurt, Jr.
Scott A. Crosbie
William H. May, III
Michael D. Kalinyak
Steven Lenarz
Matthew R. Malone
Aaron D. Reedy
James L. Deckard

THE EQUUS BUILDING
127 WEST MAIN STREET
LEXINGTON, KENTUCKY 40507

Telephone - (859) 254-0000
Facsimile - (859) 254-4763

Jennifer S. Scutchfield *

* Of Counsel

RECEIVED

JUL 29 2009

PUBLIC SERVICE
COMMISSION

July 29, 2009

Via Hand-Delivery
Mr. Jeff Derouen
Executive Director
Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40602-0615

RE: *Case No. 2009-00141*

Dear Mr. Derouen:

Enclosed for filing are the original and 10 copies of Interstate Gas Supply Inc.'s pre-filed testimony.

Should you have any questions or concerns, please do not hesitate to contact me.

Regards,

Matthew Malone

Enclosures

C: All Parties of Record

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the matter of:	:	**Case No. 2009-00141**
	:	
Application Of Columbia Gas of Kentucky, Inc.	:	
For an Adjustment in Rates	:	

INTERSTATE GAS SUPPLY, INC.'S INTERVENOR TESTIMONY

Comes Interstate Gas Supply, Inc. ("IGS") an intervenor, and hereby files the following testimony in the above-styled matter.

Respectfully submitted,

HURT, CROSBIE & MAY PLLC

William H. May, III
Matthew R. Malone
127 West Main Street
Lexington, Kentucky 40507
(859) 254-0000 (office)
(859) 254-4763 (facsimile)
Counsel for the Petitioner,
INTERSTATE GAS SUPPLY, INC.

Of Counsel:
General Counsel, Interstate Gas Supply, Inc.:
Vincent A. Parisi, Esq.
Direct Dial: (614) 734-2649
E-mail: vparisi@igsenergy.com
P: (614) 734-2616 (facsimile)
5020 Bradenton Avenue
Dublin, Ohio 43017

CERTIFICATE OF SERVICE

I hereby certify that an original and ten (10) copies of this testimony was served via hand-delivery upon Jeff Derouen, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40602-0615; furthermore, it was served by mailing a copy by first class U.S. Mail, postage prepaid, on the following, all on this 29th day of July, 2009.

Hon. Stephen B. Seiple
Columbia Gas of Kentucky, Inc.
200 Civic Center Drive
P.O. Box 117
Columbus, Ohio 43216-0117

Hon. Richard S. Taylor
225 Capital Avenue
Frankfort, Kentucky 40601

Hon. Dennis G. Howard, II
Hon. Lawrence W. Cook
Office of the Attorney General Utility & Rate
1024 Capital Center Drive
Suite 200
Frankfort, KY 40601-8204

Iris G. Skidmore, Esq.
415 W. Main Street, Suite 2
Frankfort, KY 40601

David F. Boehm, Esq.
36 East Seventh Street, Suite 1510
Cincinnati, OH 45202

Robert M. Watt, III, Esq.
Stoll Keenon Ogden, PLLC
300 W Vine Street, Suite 2100
Lexington, Kentucky 40507

Hon. Tom Fitzgerald
Hon. Liz Edmonson
Kentucky Resources Counsel, Inc.
P.O. Box 1070
Frankfort, KY 40602

W.L. Wilson, Esq.
Corporate Counsel
LFUCG Dept. of Law
200 E. Main Street
Lexington, KY 40507

John M. Dosker, Esq.
Stand Energy Corporation
1077 Celestial Street, Suite #110
Cincinnati, OH 45202

ATTORNEY FOR INTERSTATE GAS SUPPLY, INC.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the matter of:	:	**Case No. 2009-00141**
	:	
Application Of Columbia Gas of Kentucky, Inc.	:	
For An Adjustment of Gas Rates	:	

Prepared Direct Testimony of
SCOTT WHITE
President
Interstate Gas Supply, Inc.

William H. May, III
Matthew R. Malone
Hurt, Crosbie & May, PLLC
The Equus Building
127 West Main Street
Lexington, Kentucky 40507
(859) 254-0000 (office)
(859) 254-4763 (facsimile)

Counsel for the Petitioner,
INTERSTATE GAS SUPPLY, INC.

Of Counsel:

General Counsel,
Interstate Gas Supply, Inc.:
Vincent A. Parisi, Esq.
Direct Dial: (614) 734-2649
E-mail: vparisi@igsenergy.com
P: (614) 734-2616 (facsimile)
5020 Bradenton Avenue
Dublin, Ohio 43017

Dated July 27, 2009

I. Introduction

Q. Please state your name and business address.

A. Scott White. 5020 Bradenton Ave., Dublin Ohio 43017.

Q. Please state your occupation.

A. I am the president of Interstate Gas Supply, Inc. ("IGS"), which is a natural gas marketer and supplier of natural gas and related transportation services to thousands of residential and small commercial customers in Kentucky, specifically in the Columbia Gas of Kentucky service territory. IGS is a natural gas marketer that supplies natural gas and related transportation services to several thousand large commercial and industrial companies, and several hundred thousands residential and small commercial customers in various states in the mid-west, including Ohio, Illinois, Michigan, New York, Pennsylvania, Indiana and Kentucky. IGS was formed in 1989 and I was one of the founding members of the company. IGS and its wholly owned subsidiaries are privately held companies.

Q. What are your responsibilities as the President of IGS?

A. As president of IGS, I am ultimately responsible for all aspects of the company, including the supply, finance, marketing, accounting, human resources, operations and regulatory areas, although I have employees that manage the day to day operations of each area. I directly monitor hedging activities, actively hedge a significant portion of IGS's portfolio, monitor and actively participate in supply functions, regulatory issues, marketing, and all other aspects of IGS's natural gas business.

Q. Please describe your educational background and experience.

A. My biography is attached hereto as **Exhibit A**. As noted in my biography, I have been involved in the natural gas market since 1989, and was directly involved in unbundling residential natural gas services in Ohio and Kentucky.

Q. On whose behalf are you appearing in this proceeding?

A. I am appearing on behalf of IGS.

Q. Have you previously testified before any State or Federal utility commissions?

A. Yes. I have filed testimony before the Ohio Public Utilities Commission and the Public Service Commission of Kentucky, as well as the Illinois Commerce Commission. I testified on several occasions before the Ohio House of Representatives. Likewise, I filed direct testimony in Case no. 2007-00008 before this Commission in Columbia Gas of Kentucky ("Columbia") last rate case.

Q. What is the subject matter of your testimony?

A. My testimony involves a number of aspects of Columbia's request for rate increase and how the requested increases will impact IGS, its customers and the Choice program generally with specific emphasis on two programs being proposed by Columbia. In this rate case, Columbia proposes a Price Protection Service ("PPS") and Negotiated Sales Service ("NSS") program, both of which directly compete with IGS and other competitive suppliers. Columbia's proposed new services essentially provide customers with a fixed or variable supply cost for natural gas. Columbia's proposed services are requested to be largely unregulated, meaning although they propose to file the prices periodically with the Commission for approval, they do not intend for the products to be reconciled and, presumably therefore no oversight or review of the performance of the products beyond approval of the price on a prospective basis. *See* p. 3 of Erich Evan's direct testimony. The proposed PPS and NSS services should not be allowed to be offered by Columbia since there will be no separation of Columbia's regulated GCA program, In addition the competitive market already offers just these types of products under the choice program controlled by Columbia. Columbia is proposing to offer these services as the utility, without any separate facilities, infrastructure, employees, telephone systems, supply purchasing systems, general overhead or related expenses. According to the pre-filed testimony of Erich Evans, Columbia intends to offer the PPS service as a "firm sales service option for residential, commercial and industrial customers (less than 25,000 Mcf/year usage)." *See* direct testimony of Erich Evans p. 2 lines 16-17. The service is proposed to offer "fixed or index price service for the commodity only." *Id.* at p. 2 line 18. The NSS is proposed as a firm or interruptible service, with fixed or variable prices for customers whose annual usage is greater than 25,000 Mcf/year, with prices established by individual contracts with customers. *Id.* at p. 3, lines 11-21. Mr. Evans states that the PPS and NSS "provide customers with choices that they can make to take more control over the management of their natural gas costs." *Id.* at p. 3, lines 27-29.

Q. Do you take issue with customers having choices and taking more control over management of their natural gas supply costs?

A. No, not at all, in fact it is one of the primary benefits offered by the competitive natural gas market and suppliers like IGS Energy. Moreover, it appears from Mr. Evans' testimony that IGS Energy and Columbia are in agreement on the need to offer customers competitive options. Fixed, variable, indexed and related prices are the very center of the value proposition competitive suppliers like IGS provide consumers. IGS welcomes competition and in fact, encourages other suppliers to enter into the service territory because IGS believes that robust competition benefits consumers and competitors alike. However, IGS is not supportive of Columbia's proposal because it would have inequitable access to Columbia systems, purchasing decisions, call center resources and confidential information regarding its regulated services, such as its hedging program for its GCA, none of which is available to the rest of the competitors in the market. I see no way, as proposed, Columbia could ensure that the GCA was insulated from the PPS or NSS programs, or how the programs would not give Columbia an unfair advantage in the competitive market.

Q. Then do you support Columbia's proposal to offer PPS and NSS services?

A. No, I am opposed to Columbia, as a utility, making such offers.

Q: More specifically, why not?

A. Columbia is in charge of the Choice and Transportation programs, and sits in a unique position as the system manager and local distribution company as it relates not only to the suppliers like IGS Energy that participate in the programs, but to the consumers that live in the Columbia service territory. Because of this unique position, I am concerned about many aspects of the proposed PPS and NSS programs. First, Columbia's call center is one of the primary sources of information consumers will draw upon when exploring the viability of competitive offers and suppliers like IGS Energy. With Columbia offering competitive offers through the PPS and NSS programs, and as stated in Mr. Evans' direct testimony Columbia will use the call center to field calls about and sell its PPS and NSS programs, I do not see how Columbia can possibly do this yet remain impartial regarding calls coming into its call center about other competitive offers.

Second, Columbia is not proposing to form a subsidiary company, separate from the regulated utility, where the affiliated company would have to hire its own employees, lease or purchase its own space, separate its call center functions, IT functions, purchase separate computers, telephone equipment, office suppliers, hire its own employees, contract for all of its needed services like heating, lighting, trash removal, develop its own employee benefits packages, health insurance, obtain its own supply sources, hedges, or establish a wall between the regulated utility and the competitive affiliate, basically doing all of the things with all of the associated costs that a competitor offering the same types of products and services would have to do. No, instead, Columbia is proposing to utilize all of its existing infrastructure, employees, capital and related systems to make competitive, for-profit offers into the market while continuing to operate in the role of both GCA provider and control the operation and oversight of the daily running of the Choice and Transportation programs. Columbia is in the process of requesting a rate increase, to recover in part the very costs recovered from all rate payers including those that choose to purchase natural gas from suppliers like IGS. In essence, IGS' customers would be helping to fund all the operating costs of one of IGS' competitors, even though they are buying natural gas from IGS. No other competitor would have this advantage. These are significant issues for the competitive market, Choice and Transportation customers and the GCA and should not be permitted.

Q. You mentioned the call center as an issue, can you elaborate?

A. Yes. As a practical matter, sales and choice consumers know Columbia, as they have been the local distribution company in the service territory and as such, consumers have a level of familiarity with them. Many consumers will call Columbia when looking at options for purchasing natural gas, spurred on often by mailers sent by suppliers like IGS Energy. A consumer will call to find out about the Choice program, ask questions about suppliers, offers and generally speak with Columbia when exploring the competitive market. Customers calling into Columbia call centers with questions regarding ways to reduce their monthly gas bill are going to be talking to Columbia employees. Columbia employees will surely tout their internal PPS and NSS programs above CHOICE competitors. In fact, according to Mr. Evans' testimony, they will utilize these call centers to sell the PPS and NSS products. Asking these same people, likely compensated for selling the PPS and NSS products, to also impartially speak about competing offers and suppliers, is unlikely to result in impartiality. For this reason alone, the PPS and NSS programs should not be permitted.

Q. You also mentioned other concerns; can you expand on those concerns?

A. As a commodity supplier in a competitive market, the single source of revenue that a supplier like IGS Energy has is the price it charges to its commodity customers. The revenue it receives from its commodity sales has to pay for all of its costs, from when the lights are turned on in the morning until the lights are turned off at night. IT equipment, IT systems, telephone equipment and systems, employees, payroll expenses, office supplies, rent, lease or mortgage expenses, computers, outside consultants, marketing, billing systems, accounting systems, in essence every expense that goes into operating a company that provides competitive commodity services to consumers for a competitive supplier has to be recovered through its commodity charge, before even one molecule of natural gas is purchased. Moreover, in the Columbia of Kentucky Choice program, in addition to all of the overhead and expenses a competitive supplier has, there are additional costs to consider, including a 5 cent per Mcf throughput fee, a 20 cent per customer bill, per month billing fee and a balancing fee, adjusted quarterly, most recently $1.3750/Mcf. So before a competitive supplier buys 1 molecule of natural gas, all of these costs have to be considered. If the Commission allows the PPS/NSS programs as proposed, Columbia would completely avoid some costs incurred by Choice Suppliers (as addressed in the preceding sentence) and Columbia would essentially start with the cost of the gas as many of these other costs are included in the general rates. In fact, Columbia is not even proposing to separate the costs of gas or its gas purchases between the various programs, GCA, PPS and NSS, so as proposed even the cost of gas is not purely and cleanly attributed to any particular program. In addition to the cost inequity, Columbia operates, as the local distribution company, the Choice and Transportation programs, which includes having direct control over delivery schedules, injections and withdrawals from storage, the purchasing decisions for the GCA, and the call center that consumers use to ask question about competing offers. Each month when establishing our prices, we have to provide those to Columbia, often before the prices are even released to the public so that we can be sure the price is available if people decide they want to sign up. This unique position, coupled with all of the general overhead costs being borne by all ratepayers and not included in its PPS or NSS pricing create significant problems if, as the utility, Columbia is permitted to offer competitive for-profit products. These limited issues should be sufficient to deny Columbia's proposal.

Q. You said these "limited" issues, what are the others?

A. A good example of another issue involves the lack of separation of natural gas supply costs (GCA (sales customers) versus PPS and NSS customers). Specifically, in response to the question of whether Columbia will purchase specific streams of natural gas for PPS and NSS customers, Erich Evans indicated, "[n]o, Columbia will include the expected demand of other sales customers as it develops its monthly and seasonal purchase plans..." *See* Erich Evan's direct testimony p. 5, lines 11 – 14. Essentially, Columbia intends to lump all of its gas supply purchases together for all customers, GCA, PPS and NSS. As a commodity supplier IGS Energy purchases natural gas from all over the country and then IGS incurs the expense of transporting its gas supply to the city gates, and the gas is either delivered into storage by Columbia or delivered to end users. Pursuant to its testimony, Columbia seeks to lump all of its gas supply purchases together for GCA, PPS and NSS customers. *Id.* Without differentiating purchases, it is difficult to see how Columbia will properly insulate each program from the other.

Columbia's proposal is to keep the demand of the PPS and NSS customers in the same demand forecasting calculation that they currently use for the GCA, and proposes it will use NYMEX or futures hedges to address the fixed price arrangements. There are a number of problems with this. First, there is no way for Columbia to perfectly predict what a PPS or NSS customer, especially a heat sensitive customer, will use on a daily, weekly, monthly or annual basis, so there will be volumes purchased in this GCA/PPS/NSS pool that will be above or below the actual consumption volumes for these customers. There is no volume reconciliation that can occur for each group to ensure that one group is not buying gas for another, since there is no separation of the purchases. Further, since there is no way to perfectly predict the volume of gas that will actually be consumed, there is no way to perfectly purchase match the commodity purchased to the financial hedges purchased, meaning that Columbia will always be over or under hedged for the PPS and NSS programs. In the competitive market, if we under or over purchase, we take the risk, which is the same case for hedges. However, in the proposal made by Columbia, they have another piece to the puzzle, the GCA, that will be blended in with all of the competitive products it is offering. I do not see how, as proposed, Columbia could insulate the GCA from the risks associated with unknown volumes, hedge mismatches, and customer migration to and from the PPS and NSS products. Without tying the physical purchases with the hedges and then reconciling each with actual consumption, ultimately how can Columbia ensure that the GCA is insulated from variances?

Q. What if Columbia separated the physical purchases of the commodity between programs, would that solve the problems?

A. No, it would not. Setting aside the overhead and operating cost issues, even if Columbia were to separate the physical purchases, since, as proposed the same people would be buying the gas for the GCA and PPS/NSS, how would Columbia differentiate which purchases were for which program? Although Columbia is not proposing to separate the physical purchases between programs, if it were to propose this as a "fix" to the issue presented regarding these proposed programs, a new set of issues arises. Since the same people make the purchases, there would be no way to ensure that the fixed price offers would not be used as a benchmark for the purchases, so that physical purchases made at prices below the fixed price benchmark were flowed to the fixed price PPS/NSS and those higher than the fixed price products were flowed to the GCA. Without an actual separation between the regulated GCA product and the for-profit competitive product, there is no way to insulate either the GCA customers or the competitive market from inequitable treatment.

Also, since physical purchases happen in a variety of ways (a buyer can purchase gas on the daily market at the spot price of gas, negotiate physical purchase contracts for varying amounts of gas over varying periods of time, purchase gas from local sources, or from points upstream of the NGDC, buy gas at its city gate, either on a daily basis or negotiate a purchase contract for various delivery amounts, etc.), volumes are coming into the system at a wide range of prices from a variety of sources. Because Columbia controls its system, it controls not only the purchases it makes, but how its storage is utilized, how, when and how much volume is injected into storage and withdrawn from storage, and also controls the same for competitive suppliers operating on its system. If Columbia is operating its GCA and the Choice and Transportation programs only, then it is in a position to act in this capacity in a manner that is competitively neutral. However, as the system operator, if also given the ability to make a profit on the natural gas and compete with other suppliers on the system, over which Columbia has a significant amount of control, they would be in a position of unmatched power in the market, to the detriment of other suppliers and their customers.

For IGS and other suppliers to provide an effective product in the Columbia service territory, all of the parties should be on a level playing field as it relates to the NGDC operating the program, as well as the elements of the program. If it is Columbia's desire to make a profit off of commodity, it should only be permitted to do so if it is done through an affiliated company that deals with Columbia at arms-length under the same rules and with the same access as other competitive suppliers. Doing otherwise puts the

GCA customers, the market and suppliers in an untenable position, and puts Columbia in a significant position of power and market dominance.

Q. Are there other issues with the proposal?

A. Yes, I want to spend a little more time on the hedging for the PPS and NSS, as described by Columbia. In its filing, Columbia references managing its fixed pricing for the PPS and NSS programs through the use of "natural gas futures contracts". *See* Erich Evan's direct testimony p. 5, lines 17-19. However, Columbia is (i) not seeking to differentiate its purchases between sales and PPS and NSS customers as discussed above; (ii) may also be hedging for its GCA program; and (iii) as a utility Columbia will be able review internal confidential pricing data in advance and while it is making purchases for GCA, PPS and NSS customers. Columbia as a utility should be passing its supply cost of natural gas onto its sales customers at a dollar for dollar basis through the GCA, not selling gas for a profit. However, setting that aside, Columbia claims it will be able to not differentiate gas supply purchases and, therefore, cannot differentiate its gas supply costs between the three programs, GCA, PPS and NSS.

In order to be able to ascertain whether it, Columbia, had a profit or a loss on its PPS and/or NSS products, it will have to attribute some cost to the physical commodity purchases and relate those costs to the PPS and NSS programs, as well as match those up with financial hedges. It seems that for a complete picture of how a product performed, profit or loss, it would be essential to have a complete picture of how the financial hedges tie to the physical purchases and together how the physical and financial tie to the underlying consumer contracts. Without all three pieces, the picture is incomplete and there would be no way to determine whether a product was profitable or not. Columbia has not provided any discernable rationale regarding its plan on how to discern gas supply costs for sales versus PPS and NSS customers other than the use of "natural gas future contracts". *Id.* Essentially, Columbia's explanation is unclear and ambiguous at best. Columbia should act as a utility rather than a competitive supplier. Moreover, with respect to Columbia's review of internal confidential data, Columbia's access to its confidential expected gas cost figures would allow Columbia to hedge its gas purchases for PPS and NSS customers in a much more significantly competitive position compared to CHOICE suppliers.

Q. What about other issues are problematic with the PPS and NSS programs?

A. I mentioned some of these issues earlier in my testimony but, generally, the issues can be lumped together in general term as a lack of separation between the utility and the proposed PPS and NSS programs (e.g. no separation between the employees acting on behalf of Columbia and the PPS and NSS programs, no separation between employees being compensated by Columbia and from the PPS and NSS programs, and no separation of information of employees regarding sales customers and PPS and NSS customers). There is a code of conduct with respect to utilities in Kentucky and I understand that Columbia should not solicit business for an affiliate or nonutility business. *See* KRS 278.2213(8). Columbia is a utility and as a general matter, Columbia should not be making money off the supply side of gas or the GCA. Columbia should only earn its profits through the distribution of gas and not attempt to become a competitive supplier. With respect to Kentucky statute governing general rules of conduct involving utilities, Columbia should not provide any preferential conduct to a non-regulated affiliate or for any unregulated product it offers as the utility, to the detriment of competitors, its employees should not solicit business on behalf of a utility or for its nonutility business, and employees should not share internal data with an affiliate. While Columbia seeks to characterize the PPS and NSS issues as "programs" essentially these are unregulated, for-profits competitive offers.

Q. Was there anything else you wished to address?

A. Yes. Although briefly. The costs associated with these new programs, PPS and NSS appear to be potentially borne by sales customers. Currently, costs borne by the CHOICE suppliers include a 5 cent per Mcf throughput fee, a 20 cent bill per month billing fee, and a balancing fee. Choice suppliers build these costs into the cost of their natural gas supply to their customers. Columbia seeks to administer these programs with existing personnel. *See* direct testimony of Erich Evans, p. 14, lines 19- 22. Moreover, in response to IGS' data request no. 11(e), "[w]ill the costs of the call center representatives be differentiated, and if so how will the costs be recovered?" Columbia responded that, "the costs for the call center are included in Columbia's base rates for all of Columbia's customers." *See* Columbia's responses to IGS DR No. 11 pp. 1-2. Accordingly, Columbia seeks to create a competitive affiliate within its own organization without experiencing or suffering any of the startup or on-going costs borne by competitive suppliers.

Q. Does this conclude your testimony?

A. Yes, subject to reserving my right to respond to issues that may be raised in the course of discovery or hearings.

Scott White
Founder and President

As the leader of one of the biggest retail gas marketing companies in the country, Scott White has developed an impressive career in the natural gas industry. In 1989, Scott and Marvin White started Interstate Gas Supply (IGS) with 18 commercial customers.

Under White's presidency, IGS has grown from a three-person company with just under $1 million in sales in 1990 to a company with sales just over one billion dollars in sales that serves over 840,000 residential customers in the Midwest.

IGS is somewhat unique in that it is privately held, has no long-term debt and relies on traditional bank financing. White attributes his company's success to a focus on customer service and an understanding of the gas industry.

The Columbus native graduated from Ohio University in 1988 with a degree in finance and marketing. White serves on the Board of Directors of IGS, and the Central Ohio Transit Authority. He is a member of the Ohio Gas Association and Ohio Oil & Gas Association.

Scott White is married and has three children.

EXHIBIT
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