COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE TARIFF FILING OF COLUMBIA GAS OF KENTUCKY, INC. TO IMPLEMENT A CAPACITY RELEASE REVENUE SHARING MECHANISM AND AN OFF-SYSTEM SALES REVENUE SHARING MECHANISM	)))))	CASE NO. 95-353

O R D E R

IT IS ORDERED that Columbia Gas of Kentucky, Inc. ("Columbia") shall file the original and 10 copies of the following information with the Commission within 10 days of the date of this Order. When a response requires multiple pages, each page should be indexed appropriately, for example, Item 1(a), Page 2 of 4. With each response include the name of the witness who will be responsible for responding to questions related thereto. Careful attention should be given to copied material to ensure that it is legible.

1. Provide monthly volumes and associated revenues for capacity Columbia has released since capacity was first released.

2. Estimate by month for a hypothetical year the volumes Columbia anticipates being able to release under its proposed tariff.

3. Under the 50-50 sharing proposal, will ratepayers receive more of the projected capacity release revenues than under the current practice of crediting all capacity release revenues to gas cost? Explain.

4. Describe any similar incentive proposals which any Columbia distribution company has formally presented for state regulatory approval. For each such proposal, provide copies of the initial application and any proposed settlement agreements and any final orders entered.

5. For approved incentive mechanisms implemented by Columbia Distribution in other jurisdictions, provide the volumes released or sales made, associated revenues, and the basis for sharing those revenues. For any approved but not yet implemented mechanism, what volumes does Columbia Distribution expect to release or sell and what level of revenues does it expect to share?

6. Columbia describes operational off-system sales as being part of a best cost purchasing policy. Define "best cost purchasing policy" and explain why crediting 100 percent of capacity release and off-system sales revenues to ratepayers is not the "best cost" policy for ratepayers.

7. Would Columbia's gas cost be more competitive and more attractive to sales customers of all classes if it aggressively maximized the value of its pipeline capacity and credited all revenues to gas cost? Would Columbia itself benefit from more competitively priced gas supplies to offer its customers?

8. Columbia states that one benefit of its capacity release proposal would be lower gas costs to system supply customers.

a. Do current or expected reductions in system demand warrant permanent returns of capacity to interstate pipelines? Explain.

b. Does Columbia aggressively pursue possible contract demand reduction and permanent capacity returns to pipelines as an integral part of its gas supply strategy? Explain.

c. For each month during the period January 1994 to present, state the amount (Mcfs/day) of capacity Columbia has permanently returned to interstate pipelines and identify the pipelines to which it was returned.

d. Do reductions in contract demand due to permanent capacity returns to interstate pipelines result in reduced gas costs to system supply customers?

e. Would releasing capacity as proposed or reducing demand costs by permanently returning capacity to pipelines result in lower gas costs to system supply customers? Are these activities complementary or are they mutually exclusive?

9. Columbia has previously described the capacity release process required by the Federal Energy Regulatory Commission as "administratively burdensome and complex." How does Columbia's proposed capacity release program overcome these problems?

10. Compare the value of pipeline capacity itself with pipeline capacity bundled with a gas supply.

11. Does the expected market for these two programs include customers who will want to use both programs, i.e., purchase off-system sales and released capacity? If yes, of the total number of customers expected to use either program, what percentage would be expected to use both on an annual basis?

12. What is Columbia's incentive to keep low cost gas supplies in the system supply mix instead of selling bundled packages of the lowest cost gas with released capacity to large volume end-users? How can Columbia assure that the revenue generated from off-system sales is sufficient to result in a net reduction of gas costs to system supply customers?

13. Columbia describes its two proposals as incentive rate mechanisms. Many incentive rate mechanisms approved in other states include benchmarks, numbers or percentages which represent revenue generated but not shared. What are the purposes for benchmarks? Why are none included in either of Columbia's proposals?

14. If excess capacity was obtained to serve Columbia's captive, heat sensitive customers, why should any off-peak revenues generated by the capacity held for their benefit flow to any other party? Explain.

15. Explain the basis for the proposal to share any net revenues derived from the proposed tariffs on a 50/50 basis. Explain why 50/50 is the proper ratio for sharing the net revenues.

16. Should Columbia return any revenues generated by these programs through its quarterly gas cost adjustment ("GCA") filing instead of the yearly actual cost adjustment ("ACA")? Explain.

17. Provide a detailed balance sheet and income statement for the twelve month period corresponding to the 1995 ACA period.

18. Provide the total yearly revenues resulting from the proposed tariff changes for the period that corresponds to the

"1995 ACA period" cited in Columbia's application and estimates of anticipated revenues for the succeeding 5 years.

19. Calculate the rate of return on net investment rate base for the 1995 ACA period reflecting the impact of the additional revenues collected under both the current tariffs and the proposed tariffs. Include all supporting workpapers and calculations.

20. Calculate the rate of return on capitalization for the 1995 ACA period reflecting the impact of the additional revenues collected under both the current tariffs and the proposed tariffs. Include all supporting workpapers and calculations.

21. Provide a breakdown, by account, of all costs incurred by Columbia in generating the revenues from capacity release and off-system sales for the past year and the estimated costs for each of the next 5 years. Justify amounts charged or allocated to each account and provide the basis for the charge or allocation.

22. Discuss how these revenues are being handled in each of the other jurisdictions where Columbia has distribution company affiliates. Provide copies of any final orders approving such a sharing mechanism on either a permanent or experimental basis.

23. For any of Columbia's affiliates which have implemented similar tariffs in other jurisdictions, state whether these tariffs were approved in the context of a general rate proceeding.

24. Explain why this proposed change should be implemented outside a general rate proceeding.

25. Why has Columbia proposed to share revenues on a strict 50/50 basis instead of implementing an indexing mechanism based

upon a range of returns on rate base or capital? Is such a mechanism being used by any of Columbia's affiliates?

Done at Frankfort, Kentucky, this 25th day of October, 1995.

PUBLIC SERVICE COMMISSION

For the Commission

ATTEST:

Executive Director