COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE TARIFF FILING OF COLUMBIA GAS OF KENTUCKY, INC. TO IMPLEMENT GAS COST INCENTIVE RATE MECHANISMS	)))	CASE NO. 96-079

O R D E R

On August 17, 1995, Columbia Gas of Kentucky, Inc. ("Columbia") filed its application in Case No. 95-353.[1] Columbia subsequently withdrew its application and has now refiled its proposal. Based upon the facts that discovery had occurred at the time the application was withdrawn and that the proposals are very similar and in order to avoid duplicative requests, the Commission finds that the record of Case No. 95-353 should be incorporated herein.

IT IS THEREFORE ORDERED that the record of Case No. 95-353 hereby is incorporated into the record of this proceeding as if fully set forth therein.

IT IS FURTHER ORDERED that Columbia shall file the original and 10 copies of the following information with the Commission no later than May 1, 1996. When a response requires multiple pages,

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1 Case No. 95-353, The Tariff Filing of Columbia of Kentucky, Inc., to Implement a Capacity Release Revenue Sharing Mechanism and an Off-System Sales Revenue Sharing Mechanism.

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. Refer to the paragraph beginning at line 3, page 10, of E.I. Shoemaker's testimony supporting Phase I of Columbia's filing. What kind of safeguards exist for assuring that off-system sales of flowing or storage gas are not replaced by more expensive supplies?

2. Of flowing gas sales, sales from storage, and sales of incremental purchases, which off-system sales categories involve the sale of capacity whose cost is recovered from ratepayers?

3. To the extent that any or all of the above off-system sales categories involve the sale of capacity for which ratepayers have paid, why should Columbia's portion of any incentive revenues be different from what may be allowed for capacity release revenues?

4. Why is Columbia Gas of Maryland allowed to retain 50 percent of incremental off-system sales revenues but only 20 percent of the profit from flowing gas sales and exchange arrangements?

5. Provide copies of the initial application, any proposed settlement agreements, and final Orders entered relating to the

off-system sales and capacity release incentive programs of Columbia Gas of Maryland.

6. Provide copies of the final Order or Orders entered approving the capacity release incentive program for Columbia of Pennsylvania.

7. Provide monthly volumes and associated revenues for capacity Columbia has released since September 1995.

8. Does Columbia believe incentive programs are only appropriate for incremental activities?

9. Outline a tentative timetable for defining and filing with the Commission further gas cost incentive programs.

10. What impact will implementation of the proposed capacity release program have on the amount of tariffed interruptible sales and transportation activity on Columbia's system?

11. For the period January 1994 through March 1996, provide by month the amount (Mcfs) of interruptible sales and interruptible transportation which occurred on the Columbia system.

12. Explain why Columbia has not included in its proposed capacity release program the ability for Columbia's existing firm transportation customers to have first access to any capacity Columbia would release.

13. Since approval of the pipelines' restructuring plans, describe how Columbia has reduced long-term capacity on the pipelines, whether by permanently releasing capacity or not

renewing agreements. Compare the amount of capacity assigned to Columbia from each pipeline's restructuring plan with the amount of capacity Columbia had on each pipeline as of October 1, 1996.

14. Provide an analysis of the impact on the SAS tariff if the capacity release proposal is implemented.

15. Explain why the transportation rates (capacity costs) paid by customers during the months in which SAS has been available are not representative of the cost for capacity expected under the proposed capacity release program?

16. Refer to page 14 of Mr. Shoemaker's testimony on Phase 1 of the proposals. At lines 9-10, he references limitations of the capacity release market. Do these limitations exist only on the pipelines which Columbia utilizes, or are these limitations present on all interstate pipelines?

17. Refer to page 8 of Mr. Shoemaker's testimony on Phase 2 of the proposals. At lines 9-10, he states "[t]here is more SST capacity available to Columbia than Columbia can utilize on most days of the year." Why, other than the need to assure adequate capacity for peak winter days, is this the case?

18. Refer to page 12 of Mr. Shoemaker's testimony on Phase 2 of the proposals. At lines 4-5, he mentions that the percentages related to the benchmark "[w]ere heavily influenced by precedents in the state." Explain.

19. Do Columbia and its shareholders bear any risk in these proposals? Fully explain your answer.

20. Refer to E.I. Shoemaker's Phase 1 Testimony, page 2, lines 16 through 20.

a. Specifically identify and discuss the increase in competition from marketers, brokers, other LDCs, and other energy suppliers Columbia has experienced since the implementation of Order No. 636.

b. Describe how Columbia has modified its business practices and procedures in response to the pressure from competitors.

21. Mr. Shoemaker states at line 20 of page 2 of his Phase 1 Testimony that "LDC's must be able to operate more like its competitors, in order to compete for and retain customers." Specifically discuss how the Phase 1 and Phase 2 incentive programs allow the utility to compete for and retain customers.

22. Refer to Mr. Shoemaker's Phase 1 Testimony, page 5, line 10. Would Columbia be selling to the same customers the marketers are selling to? Why?

23. Refer to Mr. Shoemaker's Phase 1 Testimony, page 6, line 17. If these activities are competitive why do you need a "surrogate for the free market"?

24. Refer to Mr. Shoemaker's Phase 1 Testimony, page 13, line 15. Why shouldn't this be a cost in arriving at the net profit?

25. Refer to Mr. Shoemaker's Phase 1 Testimony, page 17, line 18. What other factors would be considered other than just the profit margin?

26. Would a Columbia distribution company make off system sales or release capacity to an affiliate under any circumstances? Fully explain your answer.

27. Refer to Mr. Shoemaker's Phase 1 Testimony, lines 6 and 7 of page 6. Explain what gas cost repricing risks Columbia fears it would face in making off-system sales.

28. Columbia states on page 6 beginning with line 15, of Mr. Shoemaker's Phase 1 Testimony, that it believes that by dedicating resources to explore less conservative or new options it may be able to lower its gas costs. Describe the resources referred to here and explain how Columbia proposes to recover the costs of the resources used to make off-system sales. Additionally, explain how Columbia will determine the impact on gas costs.

29. How will Columbia measure the savings attributable to the proposed programs?

30. On page 13 beginning at line 13 of his Phase 1 Testimony, Mr. Shoemaker refers to situations where Columbia may borrow gas.

a. Describe such a situation.

b. Does Columbia propose to include fees it is charged from any borrowing of exchange gas in its computation of the 50/50 sharing proposal? Why?

31. Mr. Shoemaker states, beginning at line 16 of page 17 of his Phase 1 Testimony, that it may direct off-system sales to the jurisdiction with the best incentive program.

a. What type of internal controls and reporting does Columbia propose to maintain so that each jurisdiction can review the sales for assurance that its ratepayers are not being harmed or slighted?

b. Would there be a benefit to having the same incentive program in all jurisdictions?

c. If an incentive program is well planned and designed to benefit ratepayers and stockholders to the optimum extent, why would sales be directed to particular jurisdictions?

32. Provide the annual capacity costs Columbia has incurred for each of the last 5 years.

33. Describe how Columbia determines the amount of capacity it must obtain to meet its peak needs.

34. Provide complete details of how revenues and expenses associated with both off-system sales and capacity release will be identified and reported for internal and external monitoring purposes. Include all internal instruction manuals which explain how costs are specifically identified and charged or allocated to these activities. Include also the allocation methodologies used to determine the various jurisdictional separation of costs shared jointly by multiple jurisdictions.

35. Provide a copy of Columbia's "Strategic Gas Supply Plan" for the 1996-1997 heating season and its most recent "Long-Term Forecast Report".

36. Is the off-system sale resulting from an over-supplied position considered an "operational" as opposed to "opportunity" sale? Does Columbia propose that the operational sales be omitted in the off-system sales mechanism? Why?

37. Based on the information filed in Case No. 95-353, it appears that there is a significant difference in the level of capacity release activity between Ohio, Pennsylvania, and Kentucky operations. Identify all factors that contribute to the level of activity in each jurisdiction and how activity can be distinguished between the jurisdictions.

38. Are expenses related to off-system sales and capacity release programs netted against revenues in the incentive mechanisms? Explain why they should or should not be included in the determination of the net profits to be shared.

39. Provide an Off System Sales Worksheet similar to that provided on page 13 of the Direct Testimony of Scott D. Phelps on behalf of Columbia Gas of Pennsylvania, as filed in response to Item 4 of the Commission's October 25, 1995 Order in Case No. 95-353, for Kentucky operations.

40. If the Commission required that a benchmark or a benchmark with a deadband be included in these programs if

approved, how would Columbia propose that these be established and what specific parameters would Columbia include?

41. The "Proposed Stipulation Concerning Capacity Release by Office of Trial Staff and Columbia Gas of Pennsylvania, Inc." included in the response to Item 4 of the Commission's October 25, 1995 Order in Case No. 95-353 contains two reasons on page 5 and 6 as to why the mechanism is "in the Public Interest." Explain why Columbia's proposal in this case would be in the public interest without these provisions.

42. Since the filing of Case No. 95-353, has Columbia determined how much it will cost to conduct off-system and capacity release sales? If yes, provide a breakdown of the annual cost of these programs. If no, how can Columbia determine that it is profitable to engage in these activities?

43. Explain how Columbia has determined for budgeting or any other purposes that these are economically beneficial ventures and will result in future benefits to the stockholders and ratepayers. Include any budgets, documents, or correspondence provided to management to support the feasibility of these proposals.

Done at Frankfort, Kentucky, this 24th day of April, 1996.

PUBLIC SERVICE COMMISSION

Linda K Breathitt
For the Commission

ATTEST:

Don Mills
Executive Director