COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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	)	CASE NO. 99-165

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. Each copy of the data requested should be placed in a bound volume with each item tabbed. 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. The response to this request is due July 16, 1999.

1. Columbia s stated intention is for its small volume transportation program to be revenue neutral for Columbia.

a. That being the case, explain the rationale behind Columbia s proposed retention of revenue opportunities which exceed stranded cost up to $3 million

(or absorption of stranded costs that exceed revenue opportunities by $3 million or less).

b. Does Columbia also intend for the program to be net income neutral?

2. Why did Columbia choose $3 million as the dollar amount up to which it would absorb or retain excess costs or revenues?

3. In what way will small volume transportation program customers contribute toward the recovery of stranded cost?

4. Columbia states on page 4 of its application that its Expected Gas Cost for continuing Columbia sales customers will remain the same as if the small volume transportation program did not exist. Explain the effect on the Gas Cost Recovery (GCR) rate of the existence of the small volume transportation program. Will the GCR rate increase or decrease? Will the effect be transparent to customers?

5. Given Columbia s proposed method to cover stranded cost through the revenue opportunities identified, a small volume customer who chooses to remain with Columbia as its gas supplier will lose incentive plan credits to his or her bill once the program is implemented. Explain how this residential customer has benefited from the implementation of this program.

6. In Columbia s opinion, is it appropriate or reasonable to artificially fix or alter components of the GCR mechanism in order to cover stranded costs, especially to the extent that they are not related to gas cost?

7. Why did Columbia choose the revenue opportunity method of covering stranded cost? List other recovery methodologies that were considered by the

collaborative. Columbia s response should include stranded cost recovery methods used by other Columbia distribution companies with small volume transportation programs. Why were the other methodologies rejected?

8. Compare individually the price transparency of the revenue opportunity method of stranded cost recovery to the price transparency inherent in the other methodologies considered and rejected by Columbia.

9. On page 2 of its application, Columbia states that large volume customers have seen the commodity cost of gas decrease with the advent of supplier choice programs. Based upon Columbia distribution companies experience in other states, provide documentation demonstrating that the commodity cost of gas has declined for small commercial and residential customers electing to switch gas suppliers.

10. Provide Columbia s earned return on equity for the last five years. Provide all supporting computations and documentation, and indicate whether the equity amount used in the calculations was average, year-end, or something else.

11. Has Columbia considered an outright absorption of stranded cost up to a certain level of earnings? Why or why not? What does Columbia consider to be a fair return on equity under current economic conditions? Explain.

12. Why has Columbia proposed to require sales customers to forego their portion of gas cost incentive revenues in order to fund stranded costs, while Columbia would retain its portion?

13. Refer to the last sentence of the first paragraph of page 6. What funding mechanism does Columbia foresee recommending to the collaborative to enable it to recover any shortfall of revenue?

14. What will be the impact on the capacity release benchmark of the proposed reestablishment of the benchmark and fixing it through October 31, 2004? Explain why Columbia has made this proposal.

15. Page 6 of the application states that at the end of the program Columbia will compare stranded costs with off-setting revenues. Why does Columbia propose to wait five years to perform this comparison?

16. Why does Columbia propose to begin its program at the beginning of the heating season, as opposed to some other time of year? Would it be easier for marketers to begin marketing their gas outside the heating season, and have time to enroll more customers before winter?

17. Assuming that the small volume transportation program is a success and that Columbia concludes it should propose to exit the merchant function, provide a definition of a competitive marketplace that the Commission could use in considering such an application.

18. Refer to Exhibit A, the Financial Model.

a. How did Columbia determine the estimated participation levels? Provide workpapers and explanations of all assumptions.

b. How did Columbia determine the estimated marketer election of capacity? Provide workpapers and explanations of all assumptions.

c. How did Columbia determine estimated information technology costs? Provide workpapers and explanations of all assumptions.

d. How did Columbia determine how many commercial customers would choose to participate in the small volume transportation program in order to

estimate lost standby charge revenues? Provide workpapers and explanations of all assumptions.

e. How did Columbia determine the amount of capacity that marketers would choose to take and use in estimating revenue opportunities generated by capacity assignment on line 5a? Will Columbia retain its sharing percentage pursuant to its gas cost incentive plan when marketers choose capacity assignment? If yes, do the amounts on line 5a reflect that sharing? Provide workpapers and explanations of all assumptions.

f. How did Columbia estimate revenue opportunities resulting from the imposition of balancing charges as set out on line 5b? Provide workpapers and explanations of all assumptions.

g. How did Columbia determine estimated total off-system sales revenues in calculating revenue opportunities as set out on line 5d? Provide workpapers and explanations of all assumptions.

h. How did Columbia determine estimated capacity release revenues in calculating revenue opportunities as set on line 5e? How do these estimated levels compare to Columbia s historical experience in releasing capacity? Provide workpapers and explanations of all assumptions.

i. Is the estimated marketer contribution on line 5f composed of penalties?

19. Refer to Exhibit D, 3), Balancing Charge.

a. Provide a narrative explanation for the calculation of the 35-cent charge as set out on this page.

b. Is the 35-cent per Mcf charge based on the expected cost for Columbia to perform balancing services in the year 2000 only?

20. Refer to Exhibit D, 4), Minimum Assignment of Storage Capacity. Provide a narrative explanation of this Exhibit and explain its relationship to the Financial Model in Exhibit A.

21. Provide cost support for the proposed use of the existing delivery charge for sales customers as the rate for providing the proposed small volume transportation service. The information supplied should be in sufficient detail to show that the delivery charge is representative of the cost to provide the small volume transportation program service as contemplated by Columbia s application. Any anticipated cost shifts and their expected magnitude should be specifically identified. Provide detailed descriptions of the costs and accounts included in the response and thorough narrative explanations for all calculations.

22. Is the existing GCA process and methodology for passing through gas cost sufficient to make the GCR rate fully comparable to gas prices that will be offered by marketers? Should delivery charges and GCR rates be re-aligned so that a true apples to apples comparison between GCR rates and marketers prices is possible? If not, why?

23. Describe the efforts that Columbia will make to track costs and cost shifts associated with the provision of small volume transportation program service. What kind of studies or reports is Columbia prepared to file in the future to show the Commission what adjustment in its rates should be made to reflect the true cost of providing all services offered by Columbia?

24. Will Columbia have to modify its accounting in any way to accommodate the tracking of costs and revenues related to the small volume transportation program?

25. Provide the accounts and sub-accounts Columbia will use to functionally categorize and separate the costs associated with providing the services identified in the small volume transportation program from that of other services offered under existing tariffs. For example, as employees spend more time interacting with retail suppliers and less on procuring gas for bundled services, provide the new sub-accounts Columbia will use to track these costs, including monitoring suppliers for balance requirements, banking services, and so forth.

26. Provide the work order system Columbia has developed to track labor and other costs associated with small volume transportation program service. If no system has been developed, is one envisioned? If not, why not?

27. Will Columbia s current chart of accounts accommodate new business activities?

a. If not, has Columbia considered re-designing its chart of accounts to better reflect a more competitive environment? If no, why not?

b. If yes, please discuss efforts to date and include copies of all changes made to Columbia s work order system to address the evolving marketplace.

28. Provide the journal entries Columbia will use to record the collection and remittance of gross receipts taxes and other taxes on sales made by a marketer.

29. Exhibit B, Program Description, refers to the development of the education plan and materials prior to the start of the 60-day moratorium. What is the status of

these efforts? Describe the process Columbia will use to develop the plan and materials.

30. Describe the educational efforts of other Columbia distribution companies as they pertain to Customer Choice programs. Have any studies been undertaken to gauge their success? If so, what were the results? Provide copies of any published studies.

31. Has Columbia received indications from marketers that they are prepared to market gas to small volume transportation program customers? If so, from how many? In Columbia s opinion, how many non-affiliated marketers need to participate to make the small volume transportation program viable?

32. Have any Columbia distribution companies required marketers to purchase pipeline capacity in order to participate in Customer Choice programs? If yes, what has been their experience with marketer participation in their programs?

33. Has Columbia considered offering any unbundled services other than small volume transportation? If so, which services has it considered and why did it decide not to propose them at this time? If not, why not?

34. Define marketer as envisioned in Columbia s proposed tariff.

35. Provide the marketer eligibility requirements employed in other jurisdictions where Columbia distribution companies have Customer Choice programs, either on a pilot or permanent basis. Provide justification for any differences in those requirements and the requirements proposed by Columbia in this proceeding.

36. Are marketers required to file with, or to be certified by, the state commission before they can provide service in states where Columbia affiliates have

Customer Choice programs? If yes, provide the filing requirements, including any annual filings, and any certification process requirements in each jurisdiction.

37. With regard to proposed Marketer Eligibility requirements included in Columbia s proposed tariff (Attachment C, Original Sheet No. 33) and discussed on page 3 of the application:

a. Provide the standard credit factors that Columbia will employ in evaluating a marketer s credit worthiness. Include with these factors the dollar level range for each factor, the basis for the factors, and the basis for the dollar ranges proposed.

b. Provide the dollar credit level Columbia will require a marketer to achieve before requiring additional security. How was this level determined to be the minimum level necessary to participate without additional security requirements?

c. How will Columbia determine the amount of any additional security required of a marketer not meeting its necessary dollar credit level?

d. Explain how Columbia determined that a fee of $50 would be sufficient to cover the cost of performing a credit worthiness determination. Provide cost support for this charge.

e. Will Columbia be able to perform the monthly review of marketers programs with existing staff? Will this be one of the cost shifts inherent in initiating the new small volume transportation program?

38. With regard to the Aggregation Agreement included in Columbia s proposed tariff (Attachment C, Original Sheet No. 33) and discussed on page 3 of the application:

a. Explain why a marketer should be required to sign an Aggregation Agreement with Columbia in order to participate in the small volume transportation program.

b. Define Customer Group. Is there more to the definition than what is contained in (1)(a) of the Availability section of proposed Original Sheet No. 30?

c. Define Market Area.

d. How many market areas does Columbia Gas Transmission Corporation have in the area served by Columbia?

e. If there is more than one market area in Columbia s distribution system, will a marketer be required to have 100 customers or 10,000 Mcf annually in each market area in order to participate in the program?

39. Compare the Aggregation Agreement in Exhibit F to aggregation agreements used in other Columbia distribution companies programs. Are there features of Columbia s proposed agreement that are specifically excluded from those of the other companies programs, or features excluded from the proposed agreement that are specifically included in other companies programs?

40. Is any explanation made in the proposed Aggregation Agreement or tariffs of the 97.5 percent multiplier that Columbia would apply to marketer revenues?

41. Provide cost justification for the $.05 per Mcf for all volumes delivered to the marketer s customer group during the billing month. How is this an additional cost to the utility not currently being recovered through Columbia s existing rates?

42. Compare the Customer Enrollment Procedures proposed in this program to procedures developed in other Columbia distribution companies Customer Choice

programs. Are there features of other programs procedures that Columbia elected to omit from this program, or features specifically excluded from other programs that are included in this program? If so, why?

43. Refer to page four of Exhibit B. What customer rights and responsibilities are to be included in the written agreement? Are these specifically set out somewhere in this application, or are they to be developed by the marketer?

44. Are telephone and Internet enrollment permitted in other jurisdictions where Columbia distribution companies have small volume transportation programs?

45. With regard to Columbia s Standards of Conduct and Code of Conduct included on page 8 of the application, provide a comparative analysis of this code with the codes employed in other jurisdictions where Columbia distribution companies have pilot or permanent Customer Choice programs.

46. Refer to Standards of Conduct (3), page 8 of Exhibit B. What ancillary services that are not tariffed does Columbia foresee providing to marketers?

47. Refer to page 9, paragraph (12) of Exhibit B. Would Columbia file an annual report with the Commission summarizing complaint statements?

48. Provide the cost allocation procedures or manual Columbia will employ in recording transactions with affiliates.

49. Refer to page 11, Dispute Resolution, paragraph 2. Should marketers be required to provide materials to Columbia and the Commission, even if no request is made? In Columbia s opinion, would this improve quality control of the program?

50. Is Columbia or the collaborative aware of dispute resolution processes in other jurisdictions that do not involve state commissions? Explain.

51. Will Columbia s continued performance of the billing function discourage marketers from participating in the program? Do Columbia distribution companies perform this function in other jurisdictions? Why or why not?

52. Provide cost support for the proposed $25 charge for each billing rate change.

53. Provide narrative justification and cost support for the proposal to retain 2.5 percent of marketer revenues.

54. Provide cost support for the proposed $.20 per account per month charge to provide billing for marketers.

55. Will Columbia remain responsible for any required adjustments to small volume transportation program customers budget payment amounts?

56. Are marketers required to have in-state offices in other jurisdictions where Columbia distribution companies have Customer Choice programs?

57. According to the Availability section of proposed Original Sheet No. 30 of the small volume transportation service tariff, this service will be available to IUS customers. Explain the applicability of this service to IUS customers, and why they might be interested in such a service as opposed to IUS Delivery Service. Would IUS customers avoid the $65 Administrative Charge and the demand component of gas cost if they subscribed to the small volume transportation program?

58. Refer to Fourth Revised Sheet No. 38 dealing with Delivery Service in Exhibit C, Proposed Tariffs Effective 11/1/99. Explain the text change in line (2) in the Availability section and the new language in the Customers Grandfathered paragraph.

59. Refer to Third Revised Sheet No. 49 dealing with Gas Cost Adjustment Clause, Definitions in Exhibit C, Proposed Tariffs Effective 11/1/99. Explain the text change in definition (a) which sets out that Expected Demand Gas Cost shall be divided by sales plus Rate Schedule SGVTS volumes.

60. Refer to Original Sheet Nos. 58 and 59 of Exhibit C, Proposed Tariffs Effective 11/1/99. Is Columbia willing to revise the language explaining the Stranded Cost/Recovery Pool so that it is as explanatory to the reader as pages five through eight of the application?

61. Columbia proposes to continue the Customer Assistance Program (CAP) plan in a slightly modified form for the duration of the proposed small volume gas transportation program.

a. Page 9 of the application includes a statement that improvements to the CAP plan, gleaned from the three-year pilot, will be implemented to decrease administrative costs and serve more customers under the annual budget of $350,000. Describe in detail the improvements that Columbia proposes to implement.

b. Page 10 of the application references the CAP participants and indicates that they will benefit from the savings afforded by the small volume gas transportation program. Explain how these customers will benefit from being included in the small volume transportation program when their payments for gas service are based on a percentage of their income.

c. Explain the reasoning for requiring CAP participants to participate in the small volume transportation program as a condition of participating in the CAP plan.

62. Refer to Attachment D, Program Description, Page 13, where the description of the CAP plan references the program s recent evaluation by a third party. The sentence indicates the evaluation substantiates the effectiveness of the program by: (1) encouraging consistent customer payment; (2) reducing arrearage levels; (3) reducing terminations; and (4) encouraging energy conservation.

a. Provide a direct reference to the section(s) of the third-party evaluator s report that support each of the four program benefits cited above.

b. Provide a detailed explanation for how Columbia determined that any part of the third-party evaluator s report supports the contention that the CAP program has encouraged energy conservation.

63. Refer to Attachment B, Program Description, Page 14, the first paragraph describing the basic guidelines for continuation of the CAP plan. This section refers to low-income customers making their monthly payments based on their ability to pay, as determined by the relationship of their income to the federally recognized poverty level.

a. Will the payments continue at the same percentages as during the pilot (5 percent of income if below 75 percent of the poverty level and 7 percent of income if between 75 percent and 110 percent of the poverty level) or will they be changed? If changed, to what levels and why?

b. The proposed CAP tariff contains a limited amount of information about the program. Was any consideration given to including additional information regarding customer eligibility, required participation in the small volume transportation program, or required payment amounts or percentages in the text of the tariff? If not, explain the reasoning for not including some, or all, of this information in the tariff.

64. The Commission s November 1, 1994 Order in Case No. 94-179[1] approving the CAP plan as part of the Joint Stipulation and Recommendation filed by the parties to that case stated in part, on page 5, the parties should be able to demonstrate that benefits will accrue to all ratepayers as a result of implementing the pilot program. The benefits will be a crucial factor for review if the Commission is asked in the future to approve the program on a permanent basis.

a. The pilot is scheduled to expire October 31, 1999, and the application asks that the program be continued for the duration of the small volume gas transportation program, until October 31, 2004. Is the proposed five-year extension of the program not considered a request for permanent approval of the program?

b. Does either the application or the third-party evaluator s report demonstrate benefits to any ratepayers other than the CAP participants?

c. Has there been any attempted study or assessment by Columbia or others, to determine what benefits, if any, the general body of ratepayers has received as a result of the CAP pilot? If yes, provide the study and/or assessment results.

65. Is it Columbia s opinion that a continuation of its Gas Cost Incentive program as proposed in this application represents a more comprehensive gas cost incentive program? If yes, in what way?

66. Why did Columbia not propose to include other elements of its gas cost such as gas commodity and transportation costs in its Gas Cost Incentive program?

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[1] Case No. 94-179, Notice of Adjustment of the Rates of Columbia Gas of Kentucky, Inc. on and After July 1, 1994, Order entered November 1, 1994.

67. If the Commission decides to discontinue the Gas Cost Incentive program, or determines that the customer portion of incentive revenues should not be considered as revenue opportunities, how would Columbia propose to cover stranded costs?

Done at Frankfort, Kentucky, this 2nd day of July, 1999.

By the Commission

ATTEST:

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Executive Director