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 August 13, 1999.

1. Refer to the Prepared Direct Testimony of Stephen R. Byars at page 3 where the establishment of the Columbia Collaborative is discussed.

a. The Collaborative consists of Columbia and only three other members. Were other parties solicited to participate in the Collaborative? If yes, identify when these solicitations occurred and the parties to whom they were directed. If no, explain why such a relatively small group was chosen.

b. The program is available to IUS customers. Were any members of this customer group invited to participate in the Collaborative?

c. With a maximum annual limit of 25,000 Mcf usage to be eligible for the proposed program, commercial customers and smaller industrial customers should qualify. Was any input sought from these groups or were any representatives from these groups invited to participate in the Collaborative? If no, explain why.

2. Refer to the Prepared Direct Testimony of Kimra H. Cole at page 8 where it states that as long as Columbia remains in the merchant function with a regulated gas commodity rate the definition of workable competition is irrelevant.

a. Explain whether the phrase regulated commodity rate is the critical portion of this statement.

b. Explain whether a competitive marketplace would exist if Columbia were to retain its merchant function but did not have a regulated commodity rate.

3. Refer to the Prepared Direct Testimony of Kimra H. Cole at page 8 where it states, The revenues generated under this rate schedule will be credited to the Stranded Cost/Recovery Pool account.

a. Explain how this proposed tariffed rate differs from a surcharge to recover stranded costs associated with the implementation of the small volume transportation program tariff.

b. Since Columbia is proposing to use the proceeds collected under the Small Volume Aggregation Service tariff to offset stranded costs, is Columbia proposing to terminate this tariff once stranded costs have been fully recovered? If not, why not?

c. Explain why Columbia should continue to collect this charge above any stranded costs and retain the first $4 million for return to its shareholders.

d. Does Columbia believe this type of charge provides the transparency it is seeking so that customers can make a clear and understandable choice between a marketer s offer and Columbia s sales rate? Fully explain your response.

4. Refer to the response to Item 1 of the Commission s Order of July 2, 1999. It states that it would be unlikely for revenue opportunities to exactly match the stranded costs associated with the small volume transportation program; therefore, the deadband of $3 million was adopted rather than devise a method to true-up over- or under-recovered revenues. The response also states that the program is designed to have no affect on Columbia s net income, but in the highly likely event that there is either an over- or under-recovery of stranded costs the program will affect Columbia s net income, up to a maximum of $3 million. Given these statements, explain whether the deadband approach, as proposed, virtually guarantees that Columbia s net income will be affected by the program.

5. Refer to the response to Item 2 of the Commission s Order of July 2, 1999. Provide an explanation for whether there is any particular significance to the 10 percent used to develop the $3 million deadband . Is there any particular merit to the choice of 10 percent as compared to either five or 15 percent?

6. Refer to the response to Item 4 of the Commission s Order of July 2, 1999. To the extent that GCR calculations currently include credits from capacity release and

off system sales, will Columbia s proposal cause the GCR rate to remaining customers to increase?

7. Refer to the response to Item 5 of the Commission s Order of July 2, 1999. The response refers to the benefit to the customer from having the opportunity to choose another gas supplier. Is there some way to quantify this benefit? Explain whether it is Columbia s position that having the opportunity to choose outweighs the loss of the incentive plan credits.

8. Refer to the response to Item 6 of the Commission Order of July 2, 1999 where it states that the Collaborative agreed that it was important for Columbia s sales customers not to pay any additional charges for a Choice program. If the Choice program did not exist, sales customers would continue to receive incentive plan credits that they won t receive under the proposed program. Explain how this result, intended or not, does not cause sales customers to pay more under the proposed program than they would pay without the program.

9. Refer to the responses to Items 7 and 8 of the Commission s Order of July 2, 1999.

a. Explain in more detail the nature of the transparency problems associated with a customer surcharge. Provide examples along with the narrative explanation, if necessary.

b. Two other Columbia distribution companies use a customer surcharge. Describe in detail those companies experience, particularly any problems, with the customer surcharge approach.

c. Provide the results of any customer surveys or other data indicating that customer surcharges are confusing and prevent clear comparisons between incumbent gas supply prices and alternate gas supply prices.

d. Was transparency of stranded cost recovery a primary issue for Collaborative members other than Columbia?

e. Regarding the Collaborative s discussion regarding customer surcharges versus transparency, did the idea of Columbia continuing with its current incentive program and remaining sales customers losing their portion of sharing arise? Explain.

10. Refer to the response to Item 9 of the Commission s July 2, 1999 Order.

a. For those Columbia companies using a customer surcharge to recover stranded costs, are the average annual savings for residential and small commercial customers net of the surcharge? Explain.

b. Do average annual savings reflect tax avoidance?

11. Refer to the responses to Items 10 and 11 of the Commission s Order of July 2, 1999 where Columbia provided its earned return on equity for the past five calendar years and identified two specific items that impacted its 1998 return.

a. Provide the calculations used to produce Columbia s equity returns as shown for the past five calendar years.

b. For each of those years, identify and provide the dollar amount and rate of return impacts of using non-traditional sources of revenue to enhance equity returns.

12. Refer to the second paragraph of the response to Item 11 of the Commission s Order of July 2, 1999. Explain whether the Commission should infer from these statements that it is Columbia s position that once rates are judged to be fair, just, and reasonable that those rates remain fair, just, and reasonable indefinitely regardless of changes in conditions or circumstances.

13. Refer to the response to Item 12 of the Commission Order of July 2, 1999. The original request asked why sales customers should forego their portion of gas cost incentive revenues while Columbia would retain its portion. The response does not address the second part of the question. If the discussions between Columbia and the other members of its Collaborative determined that using revenues from gas cost incentives to recover stranded costs was superior to other potential options, explain how, or why, the Collaborative determined that Columbia should retain its portion of gas cost incentive revenues.

14. Refer to the response to Item 13 of the Commission s Order of July 2, 1999, which states that Columbia has not developed a mechanism to recover a potential shortfall in excess of $3 million.

a. Explain whether the Commission should infer from this response that Columbia does not anticipate that there will be a shortfall in excess of $3 million.

b. Other than the length of time between 1999 and the year 2004, provide any specific reasons why Columbia would propose a plan that sets a $3 million deadband but does not include a methodology for dealing with a potential under-recovery in excess of the $3 million deadband.

15. Refer to the response to Item 14 of the Commission s Order of July 2, 1999.

a. Explain what will happen to that capacity that becomes available due to the small volume transportation program and is not assigned to an alternate supplier.

b. If the intention is to not mingle capacity available for resale and capacity due to the small volume transportation program, is fixing the benchmark through October 31, 2004 appropriate if the capacity arising due to the small volume transportation program fluctuates or grows over time? Explain.

16. Refer to the response to Item 15 of the Commission s Order of July 2, 1999. Columbia states, The financial model is designed so that stranded costs and revenue opportunities will match exactly at the end of the program, but not necessarily before. Provide a more detailed explanation as to why an exact true-up of stranded cost recovery was rejected by the Collaborative.

17. Refer to the response to Item 17 of the Commission s Order of July 2, 1999. Columbia indicates it believes it would be inappropriate to provide the Commission the definition of a competitive marketplace without consulting its Collaborative first. Columbia has been aware that the definition of a competitive marketplace was an issue in this proceeding since the Commission issued its Order of May 28, 1999. That Order scheduled an informal conference for June 3, 1999, and identified the application s lack of a definition of a competitive marketplace as one of the topics to be discussed at that conference and members of the Collaborative were present at the conference. Explain why Columbia has had no opportunity to discuss

this issue with its Collaborative, or chosen not to discuss this issue with its Collaborative, at some point in time between receiving the May 28, 1999 Order and the preparation of its response to the Commission s July 2, 1999 Order.

18. Refer to the response to Item 18 of the Commission s Order of July 2, 1999. Part (i.) asks if the estimated marketer contribution on line 5f is composed of penalties, and the response is, No. Explain what the estimated marketer contribution consists of.

19. Refer to the response to Item 21 of the Commission s Order of July 2, 1999. It states that since Columbia s base rates and, as a result, its proposed transportation rates, have already been cost justified and approved by the Commission, Columbia can find no basis to justify differing rates for delivery of gas under the proposed program. Columbia s base rates were approved as part of a settlement in Case No. 94-179.[1]

a. At the time the Commission was considering the proposed settlement in Case No. 94-179, what information was provided by Columbia to demonstrate that the settlement rates were cost justified?

b. Has the Commission been provided any information since the time it approved that settlement that demonstrates that the settlement rates were cost justified then or are cost justified now?

20. Refer to the response to Item 22 of the Commission s Order of July 2, 1999. Columbia s GCR rate reflects only gas commodity costs. Marketers commodity rates will reflect gas commodity costs as well as expenses and profit. Should

[1] Case No. 94-179, Notice of Adjustment of Rates of Columbia Gas of Kentucky, Inc., On and After July 1, 1994.

Columbia s GCA process be modified so that GCR rates reflect all of the same kinds of costs that marketers rates include? Would such a modification make GCR rates more comparable to marketer rates?

21. Refer to the response to Item 23 of the Commission s Order of July 2, 1999. Obviously Columbia does not anticipate any cost shifts between sales customers and small volume transportation program customers as indicated in its initial response and supplemental response to the Commission s Order of May 28, 1999, and in its responses to questions raised at the informal conference of June 3, 1999. However, the Commission has not been convinced by Columbia s arguments and does not share Columbia s expectations that there will be no cost shifts between sales customers and small volume transportation program customers. Hypothetically, assuming cost shifts were to occur, provide a response to Item 23 of the Commission s July 2, 1999 Order.

22. Refer to the response to Item 28 of the Commission s Order of July 2, 1999. Does Columbia currently collect and remit all applicable taxes, such as gross receipt taxes, sales tax and franchise fees from other transportation-only customers? If not, why not?

23. Refer to the response to Item 35 of the Commission s Order of July 2, 1999. Provide copies of the marketer eligibility requirements which are summarized here, and provide justification for any differences in those requirements and the requirements proposed by Columbia in this proceeding.

24. Do marketers who are rejected in Columbia s certification process have any recourse to appeal? If not, did the Collaborative consider establishing any appeal

process? Do Columbia affiliates operating in other jurisdictions have such appeal processes? If so, do they involve the state regulatory Commission?

25. Refer to the response to Item 40 of the Commission s Order of July 2, 1999. Should an explanation be made in the proposed Aggregation Agreement or tariffs of the 97.5 percent multiplier so that it is clear to marketers and customers?

26. Refer to the response to Item 45 of the Commission s Order of July 2, 1999.

a. Provide any additional Standards of Conduct or Codes of Conduct that are not included in Columbia s proposal but that are a part of such standards and codes in other unbundling programs in which Columbia s affiliates are participating.

b. Explain why Columbia s Standards of Conduct do not include a provision that states that Columbia will abide by a prescribed Cost Allocation Procedure or Manual in recording transactions with affiliates.

c. Provide all cost allocation requirements and all provisions for Commission access to books and records of the utility and its affiliates included in any of the unbundling programs in which Columbia affiliates are participating.

d. With regard to Element No. 12, would Columbia agree to providing the Commission with copies of any complaints regarding compliance with the Standards of Conduct within the 5-day notification period and to additionally provide the Commission the preliminary results of its investigation simultaneously with the communication of those preliminary results to the complainant?

e. With regard to footnote 3, explain why Columbia should be allowed to participate in joint marketing with its affiliates. Will other marketers be given the

opportunity to participate in these joint marketing efforts on a simultaneous and non-discriminatory basis as is required in the Columbia Gas of Pennsylvania program?

27. Does Columbia believe it should be allowed to enter into joint purchasing agreements with its affiliates? Fully explain your response.

28. What types of safeguards does Columbia have in place with regard to the transfer of employees, along with any proprietary information they may have, to affiliates operating in the competitive environment? Does Columbia believe such safeguards are necessary? Fully explain your response.

29. Refer to the response to Item 48 of the Commission s Order of July 2, 1999. Provide Columbia s cost allocation procedures or manual employed in recording affiliate transactions.

30. Refer to the response to Item 49 of the Commission s Order of July 2, 1999. Should marketers be required to file information relevant to complaints and that relate directly to disputes, even if no request is made? If the answer is still no, that this would still be too much of an administrative burden for all concerned, would a requirement that such information be filed for a year after the program starts be more reasonable or advisable?

31. Refer to the response to Item 51 of the Commission s Order of July 2, 1999.

a. How many marketers have supplied input concerning the question of Columbia continuing the billing function?

b. Provide support for Columbia s statement that it believes it will be able to remain collector of franchise fees, gross receipts taxes and sales taxes when applicable if it remains the billing agent.

32. Did the Collaborative discuss the appropriateness of requiring marketers to file tariffs and possibly certain annual information with the Commission? If yes, provide minutes of those discussions and the conclusions reached.

33. What is Columbia s opinion regarding a requirement that marketers file some sort of tariff and provide annual information to the Commission?

34. In Administrative Case Nos. 359[2] and 370,[3] the Commission imposed certain regulatory requirements on new market entrants. Why would this information not be necessary for the Commission to adequately and efficiently monitor competitive service offerings in the natural gas industry?

35. In other jurisdictions such as Ohio where Columbia affiliates are participating in choice programs, explain what type of information is provided to the Commission so that it can provide Apples to Apples comparative charts.

36. Refer to the response to Item 52 of the Commission s Order of July 2, 1999. How much will it cost for Columbia to perform each billing rate change? Provide supporting workpapers.

37. Refer to the response to Item 53 of the Commission s Order of July 2, 1999.

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[2] Administrative Case No. 359, Exemptions for Interexchange Carriers, Long Distance Resellers, Operator Service Providers and Customer-Owned, Coin-Operated Telephones, Order dated June 21, 1996.

[3] Administrative Case No. 370, Exemptions for Providers of Local Exchange Service Other Than Incumbent Local Exchange Carriers, Order dated January 8, 1998.

a. Explain whether the response means that there is no cost support for the proposal for Columbia to retain 2.5 percent of marketer revenues. Was the proposal agreed to by the Collaborative solely because Columbia Gas of Pennsylvania uses the same multiplier?

b. Is any contribution on the part of Columbia to the stranded cost recovery pool reflected in Exhibit A of Columbia s application?

38. Refer to the response to Item 54 of the Commission s Order of July 2, 1999. How much will it cost Columbia per account per month to provide billing for marketers? Provide supporting workpapers.

39. Refer to the response to Item 58 of the Commission s Order of July 2, 1999. What will be the rate impact on new customers with usage between 6,000 and 25,000 Mcf who no longer qualify for DS service? Will these customers pay more or less as small volume transportation program customers as opposed to being DS customers?

40. Refer to the response to Item 59 of the Commission s Order of July 2, 1999. Will the Actual Cost Adjustment also be calculated by dividing by sales plus Rate Schedule SGVTS volumes? If not, why not?

41. Refer to the response to Item 61 (b) and (c) of the Commission s Order of July 2, 1999 where it states that Lowering the cost will permit more low-income customers to participate.

a. Identify which cost is being lowered and explain how lowering that cost is going to benefit Customer Assistance Program (CAP) participants.

b. Gas commodity costs are not a cost of the CAP plan. If by participating in the Choice program the cost that is being lowered is the gas commodity portion of the CAP participants bills, explain how lowering that cost will permit more low-income customers to participate.

42. Refer to the response to Item 62, part (a)(4), referring to the third-party evaluator s report at Page 11, Section VII. There Columbia cites the statement that the data do not provide a clear indication of whether the CAP program has resulted in increased consumption by the participants as support for the statement in the application that the third-party evaluator s report substantiates the effectiveness of the program by encouraging energy conservation.

a. The text and tables on page 11 of the third-party evaluator s report immediately preceding the sentence cited by Columbia demonstrate that of the three groups of CAP participants, two groups experienced increased consumption relative to the control group during the three years of the CAP pilot while one group experienced decreased consumption relative to the control group during the period of the pilot program. These results support the final statement in that section of the report, which is the statement cited by Columbia in its response to part (a)(4). In light of the results of the evaluator s analysis, explain how Columbia determined that that statement substantiated the program s effectiveness in encouraging energy conservation.

b. Given the results of the evaluator s analysis explain whether Columbia agrees that the final statement in that section of the report could just as easily been written to say the data do not provide a clear indication of whether the CAP program has resulted in decreased consumption by the participants.

43. Refer to the response to Item 63 (b) of the Commission s Order of July 2, 1999 concerning the Collaborative not seeing the need to include the type of information identified in the CAP tariff.

a. Describe the degree to which the Columbia Collaborative decides what should or shouldn t be included in the tariffs of Columbia Gas of Kentucky.

b. Is there any reason other than that identified in part (b) of the response for why Columbia would oppose its tariff including the type of information identified in the request?

44. Refer to the response to Item 64 of the Commission s Order of July 2, 1999 concerning the benefits of the CAP program. Part (b) of the response, referring to page 14 of the third-party evaluator s report, identifies the statement in the report that The estimated total annual benefits to non-participants is $26,419.23. This figures to roughly $80,000 in benefits over a period of three years. In the same paragraph on page 14 of the report the third-party evaluator states, The cost of the CAP program for the third year was $332,707. Below that paragraph, in the Summary of CAP Financial Results, the evaluator shows that for the three-year pilot the total cost of the program was $972,515 and that the amount charged to non-participants was $452,851. In his final sentence in that section of the report the evaluator states, Based on this analysis the program benefits do not outweigh the program costs. Given these results and the third-party evaluator s conclusion explain why Columbia is proposing to continue the CAP program with relatively minor modifications which may not do much to close the gap between the program costs and benefits.

a. In part (a) of the response Columbia states that the continuation of the CAP program as proposed does not have all of the elements of a permanent program. In Columbia s view does the non-permanent nature of the proposal to continue the CAP program justify its continuation even though it falls short of benefiting all ratepayers as was called for by the Commission when it approved the CAP pilot in 1994?

45. Refer to the response to Item 65 of the Commission s Order of July 2, 1999. Explain in detail how introducing Customer Choice produces any new incentives or enhances any existing incentives for Columbia to become more efficient in the management of its gas procurement function.

46. Refer to the response to Item 66 of the Commission Order of July 2 1999, where it refers to there being two approaches to designing programs to help customers save on the commodity portion of their gas bills.

a. Explain why Customer Choice and an expansion of the existing gas cost incentive mechanisms to include elements such as gas commodity and transportation costs could not co-exist.

b. Identify and describe in detail the relative risks of an expanded, more comprehensive incentive program compared to the risks of a customer choice program such as that proposed by Columbia.

47. Refer to the response to Item 67 of the Commission s Order of July 2, 1999. If an alternative plan were determined by the Commission to be in the public interest in spite of the agreement of the Collaborative, how would Columbia propose to cover stranded costs?

Done at Frankfort, Kentucky, this 30th day of July, 1999.

By the Commission

ATTEST:

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Executive Director