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

<u>O R D E R</u>

On March 6, 2000, the Commission granted rehearing to Columbia Gas of Kentucky, Inc. ("Columbia") for the purpose of further considering three issues: the continuation of Columbia's gas cost incentive mechanism; the legal status of natural gas marketers in relation to Columbia for purposes of the pilot program; and the restructuring of the stranded cost/recovery pool as it relates to capacity release, expiring contract revenues, and the ability of marketers to compete. Columbia briefed the issues related to marketer participation in its proposed Customer Choice pilot program and also filed testimony on the rehearing issues. After Columbia provided additional information requested by the Commission, a hearing was held on April 25, 2000, at the Commission's offices in Frankfort, Kentucky.

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. In light of the additional evidence in support of the expected benefits an incentive mechanism will have on stranded cost mitigation, Columbia should be allowed

to retain as an incentive 25 percent of off-system sales revenues. This sharing should occur on an annual basis over the term of the pilot program. Although Columbia's proposal was to continue to share in capacity release revenues as well, the Commission believes it is more appropriate that those revenues be credited to sales customers' gas cost as required by the Order of January 27, 2000.

In order to determine the appropriate sharing mechanism, the Commission divided projected excess revenues (approved revenue opportunities minus approved transition costs adjusted for reduced GCR Demand costs) of $4.373 million by estimated off-system sales revenues over the life of the pilot of $17.96 million.[1] This methodology has the benefit of giving Columbia the incentive to maximize off-system sales revenues, and therefore revenue opportunities, over the life of the program, but also targets the amount of expected excess revenues so that there is no excess of cost or revenue at the end of the program.

In the event that the stranded cost/recovery pool contains excess revenues at the end of the pilot program, the excess should be credited on a throughput basis to both sales and Customer Choice customers. If stranded costs exceed revenue opportunities at the end of the pilot, Columbia will be at risk for the under-collection. This reverses the Commission's earlier clarification that Columbia could file to recover any excess prudently incurred stranded cost.

2. On rehearing the Commission accepts that Columbia did not intend for marketers to be considered agents of Columbia, but as agents of the Customer Choice

[1] The resulting percentage is 24.35. For ease of administration, this has been rounded-up to 25.

customers. The Commission continues to believe, however, that customers can be adequately protected and that the Customer Choice pilot program can be administered pursuant to the terms of Columbia's proposed tariff. For the duration of the pilot, the Commission's jurisdiction over Columbia should be sufficient to protect customers, since a marketer may participate in the program only under the terms of the aggregation agreement contained in Columbia's tariff. Columbia retains a great deal of control over the program and, accordingly, will be held accountable in the event of marketer non-compliance with Columbia's tariff and aggregation agreement. In addition, certain information must be filed with the Commission concerning marketers authorized to participate in the Customer Choice program. After it has approved a marketer, Columbia should file with the Commission the name and address of the marketer; a contact person for dispute resolution with a copy of dispute resolution procedures; certification that the marketer is credit worthy; a copy of the marketer's standard contract; and a copy of the aggregation agreement signed by marketer and Columbia.

3. Further reconsideration of the effect of the Commission's Order on marketer participation has not changed the Commission's initial determination that the stranded cost/recovery pool should not include capacity release revenues or expiring contract revenues. Including these revenues in the pool as proposed by Columbia would result in over-funding the pool since the amount of GCR Demand Cost has been reduced. The Commission continues to find that it is more appropriate for marketers to compete against Columbia's sales customers' actual gas cost as reduced by capacity release revenues, than to maintain sales customers' demand cost at a historic level in order to make marketers' gas cost more attractive.

IT IS THEREFORE ORDERED that:

1. Columbia's requested relief regarding continuation of the gas cost sharing mechanism is denied in part and granted in part. The Commission affirms its original decision to deny continuation of the gas cost incentive program originally approved in Case No. 96-079.[2] An alternate incentive sharing mechanism shall be approved, however, with Columbia's portion being distributed to it on an annual basis over the term of the pilot program. Columbia's portion shall consist of 25 percent of off-system sales revenues. Any excess revenues remaining in the stranded cost/recovery pool at the end of the program shall be credited to sales and Customer Choice customers on a throughput basis. Columbia will be required to absorb any excess of stranded cost remaining in the pool.

2. Within 20 days of the date of this Order, Columbia shall file language amending Original Sheet No. 58 or 59, the Stranded Cost/Recovery Pool section, setting out the incentive sharing mechanism approved herein.

3. Columbia's requested relief regarding the designation of marketers as its "agents" is granted. The Commission shall, for the purposes of this pilot program, exert jurisdiction over marketers, as necessary, through its jurisdiction over Columbia, its tariffs and aggregation agreements.

4. The Commission's Order of January 27, 2000 is modified to the extent that Columbia need not amend its tariff language to designate marketers as agents.

[2] Case No. 96-079, The Tariff Filing of Columbia Gas of Kentucky, Inc. to Implement Gas Cost Incentive Mechanisms.

5. Columbia shall notify the Commission immediately upon its determination that a marketer is qualified to participate in its Customer Choice program. Within 15 days of this notification, Columbia shall file with the Commission the following information: the name and address of the marketer; a contact person for dispute resolution; a copy of dispute resolution procedures; certification that the marketer is credit worthy; a copy of the marketer's standard contract; and a copy of the aggregation agreement signed by the marketer and Columbia.

6. The Commission's Order of January 27, 2000 is affirmed with regard to the issue of excluding capacity release revenues and expiring contract demand revenues from the recovery pool: marketers shall be required to compete based on the actual cost of sales customers' gas.

7. Within 10 days of the date of this Order, Columbia shall notify the Commission whether it intends to implement the Customer Choice program.

8. Should it decide to implement the Customer Choice program approved herein, Columbia shall report to the Commission on the progress of its customer education program activities as such information becomes available.

9. Unless specifically modified herein, all other provisions of the Commission's Orders entered in this proceeding on January 27, 2000 and March 6, 2000 shall remain in full force and effect.

Done at Frankfort, Kentucky, this 19th day of May, 2000.

By the Commission

ATTEST:

Executive Director