

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF GAS RATES OF)	CASE NO.
COLUMBIA GAS OF KENTUCKY, INC.)	2002-00145

ORDER

In its Order approving the merger of Columbia Energy Group (Columbia Energy) and NiSource, Inc. (NiSource), the Commission required the Chief Executive Officers (CEO) of both utilities to commit that Columbia Gas of Kentucky, Inc. (Columbia) would [f]ile by the earlier of September 30, 2002 or 18 months after consummation of the merger, a rate case including the statutory filing requirements, a cost-of-service study, an estimate of future net merger savings, and a mechanism to reflect on ratepayers bills future merger savings and the net deferred merger savings.¹ To comply with the CEOs commitments, Columbia filed its application on May 1, 2002 for authority to adjust its gas rates to produce additional annual revenues of \$2,503,221, an increase of 2.3 percent.²

BACKGROUND

Columbia, a wholly-owned subsidiary of Columbia Energy, is a Kentucky corporation regulated by the Commission as a utility under KRS 278.010(3)(b). It is engaged in the business of selling and distributing natural gas, as well as the

¹ Case No. 2000-00129, Joint Application of NiSource, Inc., New NiSource Inc., Columbia Energy Group and Columbia Gas of Kentucky for Approval of a Merger, Order Issued June 30, 2000.

² Application at 3.

transportation of customer-owned volumes of gas.³ Columbia provides gas service to approximately 141,000 retail customers within the Commonwealth of Kentucky.

PROCEDURE

Columbia submitted written notice of its intent to file an application for an adjustment of rates on April 1, 2002 and subsequently tendered its application on May 1, 2002. Columbia requested to place its proposed rates into effect on June 1, 2002. To determine the reasonableness of the proposed rates, the Commission issued an Order on May 21, 2002 suspending the proposed rates for 5 months from their effective date, pursuant to KRS 278.190(2), up to and including October 31, 2002.

The following parties requested and were granted full intervention: the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention; the Kentucky Industrial Utility Customers, Inc.; the Lexington-Fayette Urban County Government; the Kentucky Association for Community Action; and the Community Action Council for Lexington-Fayette, Bourbon, Nicholas and Harrison Counties, Inc. (collectively Intervenors).

On May 21, 2002, the Commission issued a procedural schedule to investigate Columbia s rate application. The schedule provided for discovery, intervenor testimony, rebuttal testimony by Columbia, a public hearing, and an opportunity for the parties to file post-hearing briefs.

JOINT STIPULATION AND RECOMMENDATION

Pursuant to a request by Columbia, an informal conference was scheduled and held on September 12, 2002 at the Commission s offices in Frankfort, Kentucky. At the

³ Application at 1.

conference, Columbia and the Intervenors informed Commission Staff (Staff) that they had been negotiating a settlement and that their discussions were ongoing. Although a settlement had not been reached, they wanted to advise the Commission of the status of their settlement discussions. The parties stated that they planned to continue settlement discussions and would advise the Commission if they reached a settlement.

Pursuant to a second request by Columbia, an informal conference was scheduled and held on September 19, 2002 at the Commission's offices in Frankfort, Kentucky. At the September 19, 2002 conference, Columbia and the Intervenors informed Staff that their settlement negotiations had been successful and that they anticipated filing a formal settlement agreement and supporting testimony with the Commission by September 27, 2002.

On October 2, 2002, Columbia and the Intervenors filed their Joint Stipulation and Recommendation (Joint Stipulation), which is attached hereto and incorporated herein as Appendix B. Included with the Joint Stipulation was the supporting Direct Testimony of Joseph W. Kelly, Executive Vice President and Chief Operating Officer of Columbia. The following is a brief synopsis of the Joint Stipulation:

1. Columbia will reduce its base rates by an amount that results in a decrease to its annual operating revenues of \$7,800,000. The reduction in Columbia's base rates will be effective for service rendered on and after March 1, 2003.

2. Columbia's proposed tariff revisions are modified as follows: (a) the proposed margin loss recovery rider is withdrawn; (b) the proposed merger savings rider is withdrawn; (c) the Inland rate schedules on Tariff Sheet Nos. 26 through 29 will be cancelled; (d) the proposed changes to the service line extension policy on Tariff

Sheet No. 62 should be implemented; and (e) the change to the definition of the term gas day on Tariff Sheet No. 100 should be implemented.

3. Columbia will withdraw the proposed funding mechanism for the Energy Assistance Program (EAP), but will retain the proposed EAP to be funded by customers via a surcharge with a true-up for actual cost recovery and by an annual contribution from Columbia s shareholders of \$175,000. The EAP will initially operate as a continuation of the current Customer Assistance Program (CAP) until the EAP program details are agreed upon by the parties, or October 1, 2003, whichever occurs first. The EAP will be effective with Columbia s second billing cycle following the issuance of the Commission s Order approving the Joint Stipulation. The EAP surcharge will be calculated to generate \$500,000 for the program budget plus a true-up for the prior year.

4. Columbia will fund the Gas Technology Institute (GTI) at \$300,000 per year by means of a line item accounting, which shall include a true-up to prevent over- or under-recovery. The GTI surcharge will be recovered from all distribution customers except those served under the Alternative Fuel Displacement Service or the flex rate provisions of the Delivery Service rate schedule.

5. Columbia will implement new depreciation rates using the average service life procedure and the remaining life basis. The depreciation rates are set forth in Attachment B of the Joint Stipulation.

6. The Direct Testimony of Columbia witness Jeffery T. Gore dealing with the treatment of other post-retirement employee benefits (OPEB) is accepted with the following modifications: (a) Columbia will continue to amortize its OPEB transition

obligation pursuant to the stipulation approved in Columbia's last rate case; and (b) Columbia will reclassify the entire OPEB gain of \$1,966,111 as a regulatory asset and amortize the gain over the remaining life of the original transition period.

7. Columbia will withdraw its proposal to fund, and to implement at this time, the Automated Meter Reading Program (AMRP). Columbia will continue to consider implementation of an AMRP as a part of its normal review of budgets and capital expenditures.

8. Columbia will not be required to make post-merger filings set forth in Case No. 2000-00129 that duplicate Columbia's SEC filings. The filings that are duplicative are set out in Columbia's January 30, 2001 filing in Case No. 2000-00129.

MODIFICATION TO JOINT STIPULATION

On October 14, 2002, Staff issued its Post-Settlement Data Request to Columbia and the Intervenors. In their respective responses all Parties state either that they agree to or that they do not oppose several of Staff's recommended modifications to the Joint Stipulation. The following is a brief synopsis of those modifications:

1. The stipulated service line extension policy on Tariff Sheet No. 62 should be modified to reflect: (a) the following definition of major source of energy, A customer's major source of energy is defined as its primary energy source for heating the premises ; (b) an effective date of March 1, 2003; and (c) Columbia will file the 2002 average cost for a service line extension with the Commission as Tariff Sheet No. 62a at least 30 days prior to the March 1, 2003 date and will update the average cost of such extensions annually by making similar filings in subsequent years.

2. The EAP program described on Tariff Sheet No. 51b should be modified to reflect (a) that it is effective on March 1, 2003; and (b) that revised Tariff Sheet No. 51b reflecting the new surcharge rate will be filed at least 30 days prior to the effective date.

3. Columbia will begin accumulating funds for its EAP program in March 2003 for disbursements that will begin in November 2003.

4. Tariff Sheet No. 51b will note that the EAP surcharge will be a separate line item on customers bills.

ASSESSMENT OF THE JOINT STIPULATION
AND THE MODIFICATIONS

Columbia and the Intervenors agree that the Joint Stipulation is reasonable and in the best interest of all concerned. Therefore, they urge the Commission to accept this Joint Stipulation in its entirety. While the overall reasonableness of the Joint Stipulation is an important factor, the Commission is bound by law to act in the public interest and review all elements of the Joint Stipulation. In determining whether the results of the settlement are in the public interest and beneficial to the ratepayers, the Commission considered the fact that the Joint Stipulation as modified is unanimous and that the participation of the Intervenors ensures that a wide range of interests were represented. The Intervenors have been involved in previous Columbia rate proceedings and are well aware of the issues involved in the current proceeding.

The Joint Stipulation set forth only the amount of revenue decrease agreed to and not the underlying calculations and adjustments. In determining the overall reasonableness of the proposed \$7,800,000 decrease in Columbia's annual operating revenues, the Commission has evaluated Columbia's and the Intervenors' proposed

adjustments to capital, rate base, operating revenues, and operating expenses in light of our normal rate-making treatment. In addition, consideration has been given to the rates of return on common equity authorized by the Commission in recent rate cases. Based on a review of all these factors and the evidence of record, the Commission finds that the earnings resulting from the Joint Stipulation should fall within a range reasonable for both Columbia and its ratepayers. The \$7,800,000 revenue decrease provided for in the Joint Stipulation will result in fair, just, and reasonable rates for Columbia.

Based upon a review of all aspects of the Joint Stipulation as modified, an examination of the record, and being otherwise sufficiently advised, the Commission finds that the Joint Stipulation as modified is in the public interest and should be approved. The Commission's approval of this settlement is based solely on its reasonableness in toto and does not constitute the approval of any rate-making adjustment or revenue allocation.

While the Commission would prefer for Columbia's shareholders to fund 50 percent of the EAP, as they did for the CAP, we are encouraged by Columbia's commitment to provide a substantial level of shareholder funding to the program. The Commission hopes that other utilities under its jurisdiction will take note and choose to follow Columbia's example.

IT IS THEREFORE ORDERED that:

1. The rates and charges proposed by Columbia in its application are denied.
2. The rates and charges in Appendix A are approved for service rendered by Columbia on and after March 1, 2003.

3. The tariff changes and additions included in the Joint Stipulation as modified herein are approved effective March 1, 2003.

4. Columbia shall file its revised Tariff Sheet No. 62a, the average cost for a service line extension, its revised Tariff Sheet No. 51b reflecting the new EAP surcharge rate, and supporting documentation, at least 30 days prior to the effective date of March 1, 2003.

5. Columbia shall file a report, as a supplement to the annual report submitted with the Commission, outlining the previous year's projects funded by its GTI surcharge.

6. At least 30 days prior to their effective dates, Columbia shall file its revised tariff sheets setting out the rates and tariffs approved herein for service rendered on and after March 1, 2003.

Done at Frankfort, Kentucky, this 13th day of December, 2002.

By the Commission

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2002-00145 DATED December 13, 2002

The following rates and charges are prescribed for the customers in the area served by Columbia Gas of Kentucky, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

	<u>Base Rate Charge</u>	<u>Gas Cost Adjustment Demand</u>	<u>Commodity</u>	<u>Total Billing Rate</u>
<u>SCHEDULE GSR</u>				
First 1 Mcf or less per mo.	\$6.95	\$1.7923	\$2.9893	\$11.7316
Over 1 Mcf per mo.	1.8715	1.7923	2.9893	6.6531
<u>RATE SCHEDULE GSO</u>				
Commercial or Industrial				
First 1 Mcf or less per mo.	18.88	1.7923	2.9893	23.6616
Next 49 Mcf per mo.	1.8715	1.7923	2.9893	6.6531
Next 350 Mcf per mo.	1.8153	1.7923	2.9893	6.5969
Next 600 Mcf per mo.	1.7296	1.7923	2.9893	6.5112
Over 1000 Mcf per mo.	1.5802	1.7923	2.9893	6.3618
<u>Delivery Service</u>				
Administrative Charge	55.90			55.90
<u>Standby Service Demand Charge</u>				
Demand Charge Times Daily Firm Vol. (Mcf) In Customer Service Agreement		8.6481		8.6481
<u>Delivery Rate Per Mcf</u>				
First 400 Mcf per mo.	1.8153			1.8153
Next 600 Mcf per mo.	1.7296			1.7296
All Over 1000 Mcf per mo.	1.5802			1.5802
Former IN8 Rate	1.0575			1.0575
Banking and Balancing Service		0.0211		0.0211

SCHEDULE GPR

First 1 Mcf or less per mo.	6.95	NA	NA	NA
Over 1 Mcf per mo.	1.8715	NA	NA	NA

RATE SCHEDULE GPO

Commercial or Industrial				
First 1 Mcf or less per mo.	18.88	NA	NA	NA
Next 49 Mcf per mo.	1.8715	NA	NA	NA
Next 350 Mcf per mo.	1.8153	NA	NA	NA
Next 600 Mcf per mo.	1.7296	NA	NA	NA
Over 1000 Mcf per mo.	1.5802	NA	NA	NA

RATE SCHEDULE IS

<u>Customer Charge per mo</u>	116.55			116.55
First 30,000 Mcf	.5467	2.9893		3.5360
Over 30,000 Mcf	.2905	2.9893		3.2798

<u>Standby Service Demand Charge</u>				
Demand Charge Times Daily Firm Vol. (Mcf) in Customer Service Agreement		8.6481		8.6481

<u>Delivery Service</u>				
Administrative Charge	55.90			55.90
First 30,000 Mcf	.5467			.5467
Over 30,000 Mcf	.2905			.2905
Banking and Balancing Service		0.0211		0.0211

RATE SCHEDULE IUS

For All Volumes Delivered Each Month	.3038	1.7923	2.9893	5.0854
---	-------	--------	--------	--------

<u>Delivery Service</u>				
Administrative Charge	55.90			55.90
Delivery Rate per Mcf	.3038	1.7923	2.9893	5.0854
Banking and Balancing Service		0.0211		0.0211

MAINLINE DELIVERY SERVICE

Administrative Charge	55.90			55.90
Delivery Rate per Mcf	0.0858			0.0858
Banking and Balancing Service		0.0211		0.0211

RATE SCHEDULE SVGTS

Delivery Change per Mcf

General Service Residential

First 1 Mcf or less per month
Over 1 Mcf per month

\$6.95 (Minimum Bill)
1.8715

General Service Other

First 1 Mcf or less per month
Next 49 Mcf per month
Next 350 Mcf per month
Next 600 Mcf per month
Over 1000 Mcf per month

\$18.88 (Minimum Bill)
1.8715
1.8153
1.7296
1.5802

Intrastate Utility Service

For all volumes per month

\$0.3038

Actual Gas Cost Adjustment

For all volumes per month

\$0.2553

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2002-00145 DATED December 13, 2002

See 200200145apx_121302.pdf