COLUMBIA GAS OF KENTUCKY, INC.

CASE NO. 2002-00145

ATTACHMENT A

Customer Choice[SM]

Make a Choice. Take Control.

Columbia Gas of Kentucky, Inc.
Customer Choice^{SM} Program
Annual Report

June 3, 2002

Customer Choice℠

Make a Choice. Take Control.

Columbia Gas of Kentucky, Inc.
Customer Choice℠ Program Annual Report
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Introduction

Columbia Gas of Kentucky's ("Columbia") application requesting approval of its Customer Choice Program described an annual report to be filed with the Kentucky Public Service Commission ("Commission"). This second annual report will summarize the Program and its progress over the last year. In addition, the report will benchmark the progress of the Program so far against the six stated goals of the Program as listed in Columbia's initial Choice Application.

Columbia identified six primary goals that it believed would be critical to the success of the Program. These goals were used as a guide when developing the details of the Program with the Customer Choice Collaborative and stated clearly in the application to the Commission. The members of the Collaborative are the Office of the Attorney General of the Commonwealth of Kentucky, the Lexington-Fayette Urban County Government, and the Community Action Council for Fayette, Bourbon, Harrison and Nicholas Counties. In addition, FSG Energy Services, a marketing subsidiary of Wisconsin Public Service Resources Corporation, provided valuable input as well. The stated goals are listed below along with a summary of the progress to date on each.

- The program must provide an opportunity for customers to save money on their gas bills.

At the time of the filing of the first Customer Choice annual report Columbia was extremely pleased with the level of customer savings through the first six months of the Program. Customers had saved a total of $1,458,148 on gas costs from November 2000 through the first six months. To put this into perspective, the typical residential customer using an average of 8 MCF per month throughout the year paid $59.29 per month for natural gas from Columbia. This same customer would have saved more than $71 over a full year if enrolled under the 10% off of Columbia's gas cost offer accepted by most customers. In effect, this customer would have saved enough through the Customer Choice Program to have received more than one month's gas free.

Tight supplies causing higher wholesale natural gas prices combined with record-breaking cold temperatures in December focused customers on their gas bills, particularly the gas cost portion of the bill. Combined with easy to understand, no-risk offers from marketers such as 10% off of Columbia's gas cost prompted customer enrollments into Choice at a pace far exceeding everyone's expectations. As of May 2001, 42,888 customers representing approximately 30.6% of eligible customers and 36.2% of eligible volumes had enrolled with a marketer. As of May 2002, the latest numbers available, 50,834 customers representing approximately 36% of eligible customers had enrolled with a marketer. Clearly, the fact that only an additional 7,946 customers, or another 6% of eligible customers, enrolled in the last year indicates that new interest in the Program has subsided and the number of customer enrollments has probably plateaued.

During the last year, however, wholesale prices have stabilized and Columbia's gas costs have dropped significantly. At the same time, marketers switched from offering guaranteed savings rates, such as 10% off of Columbia's cost, to offering fixed price rates. In most cases, the fixed price rate being paid by many customers is now above Columbia's gas cost. As a result, Choice customers have now paid a total of $813,742 more in gas costs than they would have had they remained a sales customer of Columbia. This is a grand total from the beginning of the program through March 2002.

While this trend may reverse itself again in the coming months, today customers have not saved money on their gas bills, a prime goal of the program.

- The program should provide marketers with as much flexibility as is possible to provide customers savings by allowing them to serve customers using their own interstate pipeline capacity.

Once a marketer is deemed credit-worthy to participate in the Choice Program, Columbia and the marketer execute an aggregation agreement. According to the terms of these aggregation agreements, marketers agree to contract for firm, primary point delivery entitlements on the interstate pipeline. Under the aggregation agreement Columbia has the right and the obligation to contact marketers and ask that they verify their contracts for firm pipeline entitlements. This obligation is also reflected on sheets 36e and 36f of Columbia's tariff.

Columbia sent letters to the two marketers serving Choice volumes with the marketers' own capacity in early January 2002 requesting verification of their firm pipeline contracts. It became apparent that those marketers did not obtain the required firm, primary point delivery entitlements on the interstate pipeline. Without primary firm contracts, there is a risk that the marketers could fail to deliver adequate supplies to meet the needs of their residential and commercial customers. During times of high demand those marketers with firm pipeline contracts will receive the gas their customers need; however, those marketers without the firm pipeline contracts may not be able to deliver the quantities required to serve their customers.

Should a marketer not be able to deliver to its customers, Columbia would need to serve as the supplier of last resort to ensure that customers do not lose natural gas service. While Columbia accepted the role of supplier of last resort for the Choice Program, it did so only with the provision in the tariff and aggregation agreements that marketers obtain firm pipeline contracts to ensure delivery of supplies to their customers. In its Customer Choice Application Columbia submitted that one of the six goals of the program was to "provide marketers with as much flexibility as is possible to provide customers savings by allowing them to serve customers using their own interstate pipeline capacity." However, Columbia's Application also emphasized that "reliability is a major emphasis of the program." That is why marketers must agree, as a condition of being certified to participate in the Choice Program, to demonstrate that they have the firm, primary point capability to reliably serve program customer requirements.

According to Columbia's tariff and aggregation agreements, if a marketer does not abide by the program requirements Columbia's only enforcement option is to suspend or terminate the marketer from the Choice Program. In order to avoid termination of marketer participation in the Choice Program, Columbia proposed an alternative solution on March 15, 2002. Columbia proposed that capacity assignment would become mandatory for all Choice customer demand. This approach would allow customers enrolled with marketers to continue to receive service from their marketer with the firm reliability that is required, and protect Columbia from having to find pipeline capacity on a peak day because of the failure of a marketer that did not live up to its aggregation agreement. It would also protect the marketers from being penalized severely for a failure to perform.

It now appears that the savings generated by the Program in the first six months, and the negative savings generated since then, were produced with marketers serving customers with their own pipeline capacity by placing a great risk on both Columbia and its customers. Columbia believes strongly in an equitable risk/reward model. This current arrangement, however, allows the marketers to reap the rewards while Columbia and its customers bear all of the risk.

- The program should be revenue neutral for Columbia, and must allow Columbia to recover its stranded costs and incremental program expenses.

The extremely rapid acceleration of enrollment into the Program caused stranded costs to rise much faster than anticipated. As a result, on April 2, 2001 Columbia informed the Commission and the Choice Program marketers that it had become necessary to invoke Phase II of the Program, effective July 1, 2001. Under Phase II Columbia would assign its capacity to marketers for all new Choice customers in order to permit Columbia to manage the substantial risk of financial exposure from stranded costs at the end of the program. Columbia still believes that this goal is appropriate.

- The recovery of stranded costs must be as transparent to the customer as possible to permit the customer to make a clear and understandable choice between the marketer's offer and Columbia's sales rate.

This goal is as appropriate today as it was when the Program was designed. Columbia believes recovery of stranded costs in a transparent manner enables customers to better understand the choice they make. Columbia also believes this goal has been accomplished through the model approved by the Commission.

- Customers who choose to continue to purchase their gas supply using Columbia's traditional sales service should not incur any additional charges because of the implementation of the Customer CHOICE Program.

This goal is also as appropriate today as it was when the Program was designed. In fact, the addition of the Actual Gas Cost Adjustment on Choice customers' bills helped ensure that Columbia's sales customers would not incur any additional charges because of Choice. Columbia believes this goal has been accomplished.

- Customer education is critical to the success of the program and customers must have an opportunity to learn about the program for a period of time before they begin to receive offers from marketers.

This goal was also accomplished by the Commission allowing for a customer education period prior to when marketers would be allowed to contact customers and enroll them into the Program.

Customer Choice

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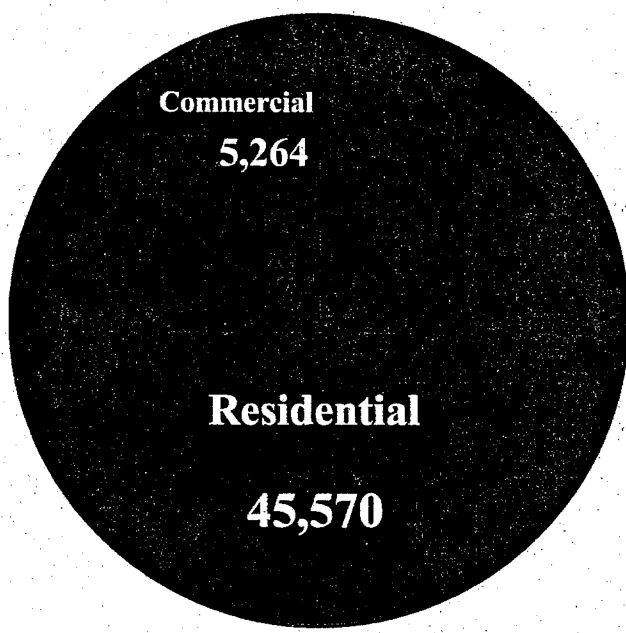
Residential & Commercial Customer Participation



As of May 15, 2002

Customer Choice
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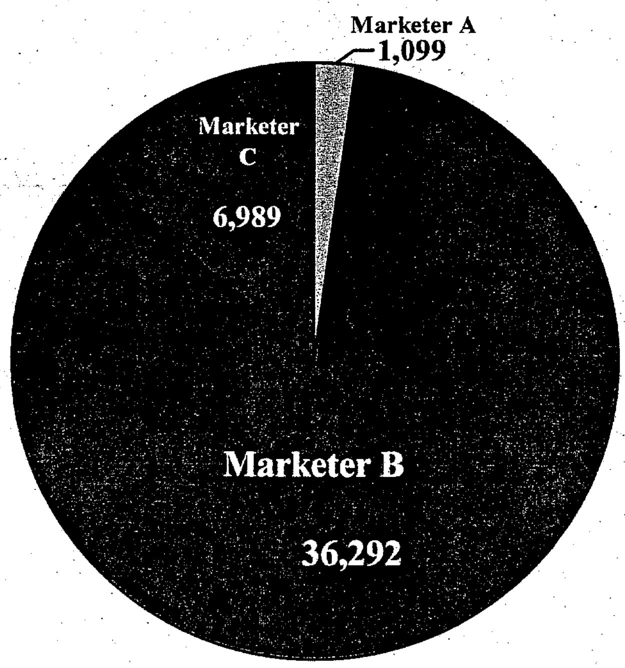
Marketer Enrollment



Note: In an effort to avoid undue influence in a competitive market, marketer data for this report will not be identified by specific marketer name.

As of May 15, 2002

Customer Choice
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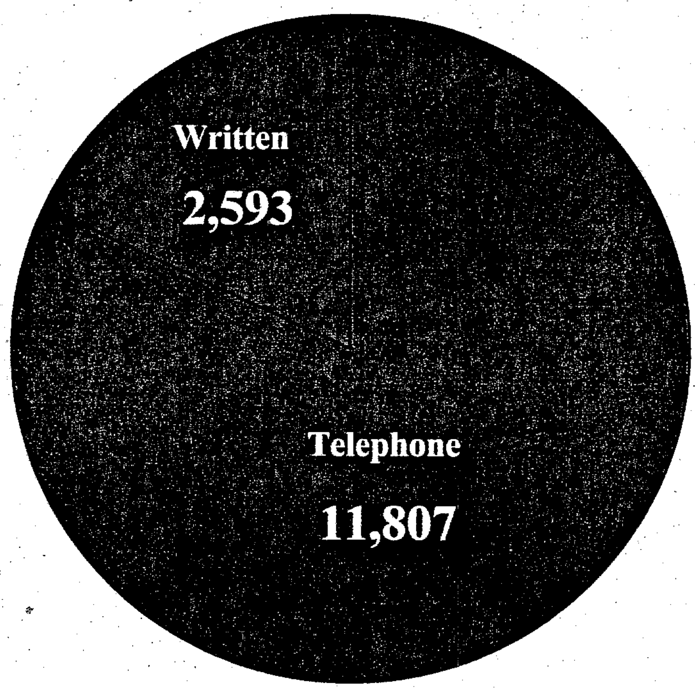
Methods of Enrollment



As of May 15, 2002

Customer Choice
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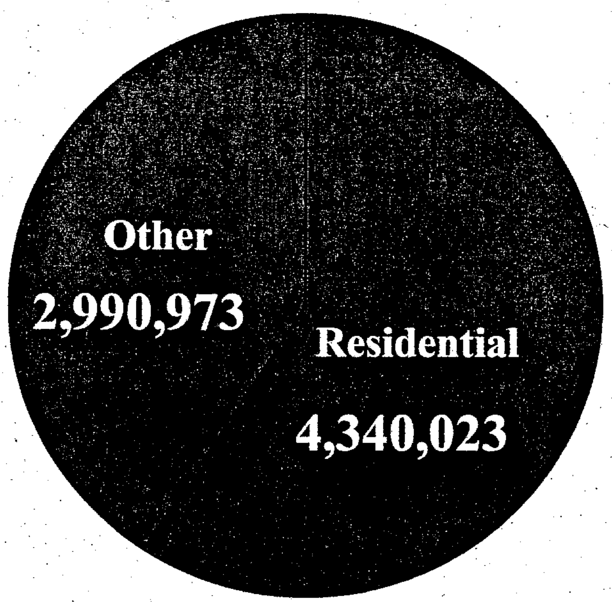
Total Volumes Purchased From Marketers By Participating Customers (Mcf)



Total = 7,330,996 Mcf Annually

As of May 15, 2002

Customer Choice
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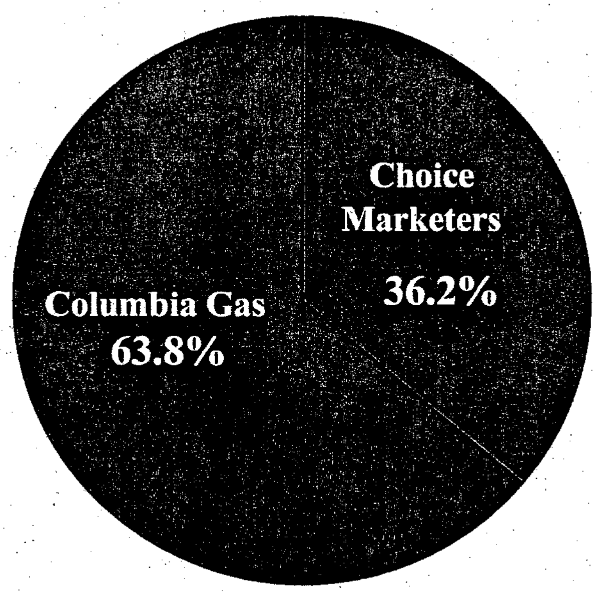
Percentage of Customer Participation By Volume



36.2 percent of total eligible throughput is being supplied by a Choice marketer.

As of May 15, 2002

Certified Marketers

Community Action Council Buyers Club, Inc.
Jim Christian
P.O. Box 11610
Lexington, KY 40576
800-244-2275

Interstate Gas Supply, Inc.
Dave Burig, Customer Choice Program Director
5020 Bradenton Avenue
Dublin, Ohio 43017
800-280-4474

MxEnergy.com, Inc.
Robert Blake
745 West Main Street, Suite 100
Louisville, Kentucky 40202
800-785-4373

Rates Charged by Marketers

The following marketer rates are not identified by marketer name in order to avoid undue influence in a competitive market.

Marketer	Rates as of 6/1/01
A	$3.62 per Mcf
B	10% off Columbia's GCR 12% off Columbia's GCR 5% off Columbia's GCR 2% off Columbia's GCR $5.069 per Mcf $7.65 per Mcf $5.99 per Mcf $7.58 per Mcf $5.49 per Mcf $5.39 per Mcf
C	10% off Columbia's GCR $6.999 per Mcf $5.39 per Mcf $5.05 per Mcf $6.09 per Mcf $8.25 per Mcf $7.99 per Mcf $7.49 per Mcf $6.99 per Mcf $5.99 per Mcf $5.89 per Mcf $5.9488 per Mcf $5.49 per Mcf $6.49 per Mcf

Customer Education

Research conducted in late 2000 indicated strong awareness of the Customer Choice Program among Columbia Gas of Kentucky customers. As a result, the focus of the company's customer education efforts during 2001 shifted to keeping customers informed of specific elements of the Choice Program at their request.

Web Site
Columbia's Web site – www.columbiagasky.com – continues to provide customers with an overview of the Choice Program, answers to frequently asked questions, and contact information, including toll-free phone numbers and Web site links, for participating marketers. A convenient Ask Us form is provided for those customers who have more specific questions regarding the Customer Choice Program.

Customers can use the Columbia Gas of Kentucky Web site to request a speaker to address their organization by completing and submitting an online speaker request form.

Community Presentations
As knowledge of the Customer Choice Program increased, the number of requests for speakers on the subject declined. Columbia representatives appeared at six organizational meetings during 2001, making presentations, answering questions and providing written information about the Choice Program. Columbia continues to provide this service for organizations which request it.

Media Requests
Requests for interviews by print and electronic media were numerous following the announcement of the Customer Choice Program, but as customers became more educated about the program and its newness wore off, media coverage has decreased. However, the Choice Program was the subject of 8 print articles in 2001.

Customer Contact Center Training
Columbia Customer Service Specialists in the Lexington Customer Contact Center are updated regularly on the Customer Choice Program. Specific training was provided to Customer Service Specialists regarding the appearance of the Actual Gas Cost Adjustment on Choice customers' bills.

The Customer Contact Center received 4,439 calls from May 2001 through April 2002 from customers seeking information about the Customer Choice Program.

Stranded Costs

The amount of stranded costs incurred under the program to date; and the amount of revenue, to date, realized from opportunities developed to off-set stranded costs under the program.

Transition Capacity Costs	$9,043,335
Information Technology Costs	$94,145
Education Costs	$232,485
Total	**$9,369,965**

Revenue to Off-Set Stranded Costs

Revenues Generated to Recover Stranded Costs, to date:

Off-System Sales	$3,171,130
Balancing Charge	$2,409,127
Marketer Contribution	$383,683
Capacity Assignment	$1,601,164
Total	**$7,565,104**

Note: Revenue opportunities should exceed stranded costs in the early years of the program but this situation reverses in the later years of the program as stranded costs will then exceed revenue opportunities for two primary reasons. First, transition capacity costs will increase as customer participation increases, increasing stranded costs later in the program. Second, revenue opportunities decrease after the initial years as there will be fewer opportunities to make off-system sales as customer participation increases. This occurs because the size of Columbia's merchant function is decreasing at the same time that its capacity asset portfolio is declining.

COLUMBIA GAS OF KENTUCKY, INC.

CASE NO. 2002-00145

ATTACHED SCHEDULES

Schedule
60(a)

Columbia Gas of Kentucky

Case No. 2002-00145

Analysis of Straight Time and Overtime Hours
For the Periods as Shown

Description of Service Provided (a)	Service Corporation Providing Service (b)	2000 (c)	2001 (d)
Totals			

Schedule 61(b)

Columbia Gas of Kentucky

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Analysis of Straight Time and Overtime Hours
For the Periods as Shown

Description of Merger Cost(s) (a)	Service Corporation Incurring Cost (b)	Amount (d)
Total		

Columbia Gas of Kentucky

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Analysis of Straight Time and Overtime Hours
For the Periods as Shown

Actual Straight Hours Worked

Item (a)	1997 (b)	1998 (c)	1999 (d)	2000 (e)	2001 (f)
Exempt					
Manual					
Clerical					
Part-Time					

Overtime Hours Worked

Item (g)	1997 (h)	1998 (i)	1999 (j)	2000 (k)	2001 (l)
Exempt					
Manual					
Clerical					
Part-Time					