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. 1999-00165

O R D E R

On June 6, 2003, Columbia Gas of Kentucky, Inc. (Columbia) filed a motion seeking approval to terminate its pilot Customer Choice Program (Choice Program) on March 31, 2004, 7 months prior to the October 31, 2004 termination date originally proposed and approved in this proceeding.[1] Columbia stated that its main reason for proposing early termination was that customers, in total, had not saved money under the Choice Program. Columbia stated that, through March 31, 2003, customers had paid $3.4 million more in gas costs than if they had not participated in the Choice Program. It also stated that there were operational and storage problems associated with terminating the pilot at the beginning of a heating season and that the optimal time to end the pilot was at the end of a heating season. A number of parties, arguing against the motion, requested intervention, and many protesters filed letters opposing Columbia s motion. Interstate Gas Supply (IGS), which supplies natural gas to approximately 90 percent of the Columbia customers participating in the Choice Program, disputed Columbia s claim that customers had not saved money. IGS stated

[1] See Order of March 6, 2000 at 3 and 6.

that its customers had saved more than $2 million by participating in the Choice Program.

A procedural schedule was established allowing for two rounds of data requests and a public hearing. On August 12, 2003, after the Commission Staff had issued its second data requests to Columbia and IGS, Columbia filed a notice, which the Commission will treat as a motion, to withdraw its motion for early termination of the Choice Program pilot and a request to extend the pilot to March 31, 2005, or 5 months beyond the original October 31, 2004 termination date. Columbia stated that it chose to withdraw its motion in light of concerns expressed by other parties about the proposed termination of the program. It stated that extending the program by 5 months would avoid the operational and storage problems associated with the existing termination date and allow the parties to discuss issues associated with the future of the Choice Program once the pilot comes to its scheduled termination. Columbia stated that, upon receiving approval of the withdrawal of its motion, it would file revised tariffs reflecting the new termination date of the pilot program.

On August 20, 2003, the Commission issued an Order finding that the motion and the filings opposing it had raised the issue of whether customers had benefitted economically by participating in the program. The Order required that responses to the outstanding data requests be filed but rescinded the remainder of the procedural schedule. It also required the Community Action Council of Lexington-Fayette, Bourbon, Harrison and Nicholas Counties (CAC) to provide information on whether customers supplied gas by the CAC Buyers Club had saved money on their gas bills by participating in the Choice Program. CAC filed its response on August 27, 2003.

<u>DISCUSSION</u>

The information filed by CAC shows that its customers have saved on their gas bills by participating in the Choice Program. Columbia s and IGS s responses indicate three reasons that their savings calculations differ. Two reasons are fairly minor: (1) As Columbia s and IGS s revenue months differ, their monthly calculations will not agree; and (2) IGS uses the usage and sales data it receives from Columbia to calculate an <u>average</u> rate for its customers. However, even with these differences in methodology, after the first 12 months that IGS was in the program, the two parties savings calculations for the customers supplied by IGS differed only slightly.[2]

Starting in December 2001, Columbia s and IGS s calculated savings results for IGS s customers began to differ widely. The difference is due to Columbia s treatment of the tariff provision for the Choice Program that determines whether a customer is charged the Actual Gas Cost Adjustment (AGCA) component of its Gas Cost Adjustment (GCA). If a customer has been in the Choice Program for more than 12 months, the customer is no longer charged the AGCA. The customer will also not be charged the AGCA after switching back to being a Columbia sales customer until 13 months after switching back to Columbia. Columbia calculated savings for customers that had been Choice Customers for more than 12 months by comparing the customer s current bill, as a marketer s customer, to a shadow bill that would have applied if the customer had returned to Columbia. While this method demonstrates the difference between the actual bill and the bill that would have resulted if the customer had

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[2] IGS s calculations showed that its customers had saved $2,502,283, while Columbia s calculations showed $2,588,969 as the IGS customers savings.

switched back to Columbia, it does not compare the amount paid to the amount the customer would pay if the customer had not opted to be supplied by a marketer in the first place. A customer that had not switched would have continued to pay Columbia's full GCA, including the AGCA component, a factor that Columbia has not recognized in making its savings calculations.

Based on the responses to the Commission Staff s second set of data requests and our August 20, 2003 Order, we find that the customers that switched to a marketer have, in the aggregate, saved on their gas bills, contrary to what Columbia stated in its filings. We further find that, in light of such savings, it is reasonable for Columbia to extend the pilot phase of its Choice Program 5 months beyond the current October 31, 2004 termination date to March 31, 2005.

In the notice to withdraw its motion for early termination of the Choice Program pilot Columbia states that, if the pilot program operates for an additional winter, the parties will have additional time to discuss the issues associated with the future of the Choice Program. While the Commission is encouraged that the parties will take this action, we remind Columbia and the other parties of the finding in our January 27, 2000 Order that an outside consultant should be retained after the third year of the pilot phase of the program to review all aspects of the Choice Program. Although Columbia s motion for early termination and the filings in response thereto had implications that could have hampered our ability to follow through on that finding, the decision for the pilot to continue through a fifth heating season will allow for a reasonable period of time to select a consultant and obtain a thorough, balanced assessment of the Choice Program pilot. Such an assessment will greatly assist the

Commission in evaluating the various issues associated with the Choice Program prior to the revised termination date of the pilot.

IT IS THEREFORE ORDERED that:

1. Columbia s motion to withdraw its petition for early termination of its pilot program is granted.

2. The pilot phase of Columbia s Choice Program is extended to March 31, 2005.

3. Within 10 days from the date of this Order, Columbia shall file revised tariff sheets reflecting the revised termination date of the pilot program.

4. Pursuant to KRS 278.255, prior to the end of the 2003-2004 heating season, the Commission shall initiate the process to retain an external consultant to evaluate the Customer Choice pilot program.

Done at Frankfort, Kentucky, this 25th day of September, 2003.

By the Commission

ATTEST:

Thomas M. Dorman

Executive Director