COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF COLUMBIA GAS OF KENTUCKY, INC. TO IMPLEMENT A NEW SMALL VOLUME GAS TRANSPORTATION SERVICE, A GAS PRICE HEDGING PLAN, AN OFF-SYSTEM SALES AND CAPACITY RELEASE REVENUE SHARING MECHANISM, AND A GAS COST INCENTIVE MECHANISM	)	CASE NO. 2004-00462

COMMISSION STAFF'S INITIAL DATA REQUEST
TO COLUMBIA GAS OF KENTUCKY, INC.

Columbia Gas of Kentucky, Inc. ("Columbia") is requested, pursuant to 807 KAR 5:001, to file with the Commission the original and 9 copies of the following information, with a copy to all parties of record. The information requested herein is due on January, 6, 2005. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the person who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. Refer to page 4 of the application. Concerning Columbia's Small Volume Gas Transportation Program ("CHOICE Program"):

a. Identify, by state and company, the Columbia affiliates that have CHOICE Programs in operation at present or have had CHOICE Programs in operation during the past 5 years (2000-2004).

b. For each CHOICE Program currently in operation, provide the following information as of November 30, 2004 (or the most recent date available):

(1) The number of residential customers participating in the program compared to the total number of residential customers.

(2) The number of commercial customers participating in the program compared to the total number of commercial customers.

(3) The number of alternative gas suppliers participating in the program.

(4) The annual gas volume provided by alternative gas suppliers compared to the total annual gas volumes for the participating customer classes.

(5) The year the program was started.

c. Provide the same information outlined in part (b), subparts (1) through (4), for Columbia's CHOICE Program as of November 30, 2004.

2. Concerning the alternative gas suppliers participating in the current Columbia CHOICE Program:

a. Indicate which alternative suppliers are enrolling new customers and which are only offering service to existing customers. State when any current supplier ceased enrolling new customers.

b. Are the current offers by alternative gas suppliers provided to both new customers and existing customers consistent within a customer class? In other words, are individual suppliers offering customers within a class the same deal? Explain the response.

c. Provide the terms of the price offerings currently available to the customers being served by alternative suppliers.

d. Provide the terms of all alternative supplier price offerings that have been available to customers at any point in time since the inception of Columbia's current CHOICE Program.

3. Refer to page 5 of the application, specifically the reference to $13.5 million in savings by CHOICE customers since the inception of the program.

a. Provide the calculation of the $13.5 million in savings.

b. Beginning with 2000, provide a breakdown of the $13.5 million in savings, by calendar year, between residential and commercial customers. Include all supporting calculations and assumptions.

c. Columbia states that it has met with other stakeholders to review the proposed CHOICE Program. For each party identified on page 5:

(1) Provide the dates Columbia met with the party.

(2) Indicate whether the meetings were only presentations by Columbia or if the party was permitted to offer suggestions or changes to Columbia's proposal.

(3) If the party offered suggestions or changes to Columbia's proposal, describe the suggestions or changes and how Columbia responded to the suggestions or changes.

4. If approved as proposed, the new CHOICE Program will run for 48 months, from April 1, 2005 to March 31, 2009. With this being the proposed period, explain why, as set forth on pages 6-7 of the application, Columbia intends to report to the Commission by March 31, 2007, 24 months before the program's ending date, on whether it has plans to continue the program beyond the 48-month pilot period.

5. Refer to page 8 of the application, specifically the proposal to "tier" the fees paid Columbia by marketers. The fees in the current CHOICE Program are 5 cents per Mcf. The proposal would have fees set on an inclining scale of 10, 12, or 14 cents, with the fees increasing as the number of customers in the program increases.

a. The description of the use of the fees indicates that they will be retained by Columbia to "help offset the costs of administering the CHOICE Program." The discussion of the tiered nature of the fees states that this will "provide an incentive to Columbia to promote the CHOICE Program." The proposed fees equal 200 percent, or more, of the existing fees. Does this imply that Columbia expects to incur much greater costs to administer the new CHOICE Program or that it intends to spend much greater amounts to promote the new program? Explain the response in detail.

b. Provide a detailed narrative description of the types and amount of costs Columbia has incurred to administer and to promote its existing CHOICE Program during the time since it was implemented.

6. Refer to pages 8 – 13 of the application regarding the proposed hedging program.

a. State whether Columbia reviewed the approved hedging plans of other Kentucky gas distribution companies in developing its hedging proposal.

b. Provide the names of all Columbia affiliates that employ hedging programs and the states in which they operate.

7. Refer to page 10 of the application. Columbia states that the NiSource Corporate and ESS Risk Management Policy clearly defines a set of procedures that must be followed in order to properly monitor and control the use of derivatives. Provide these procedures.

8. Refer to page 12 of the application. Columbia states that the results of the hedging plan will be included in its Gas Cost Adjustment ("GCA").

a. Identify the GCA schedules that will include the hedging costs or savings.

b. Provide an estimate of the transaction and other fees associated with the hedging program, on a per Dth or Mcf basis.

c. Columbia states that, when using physical gas contracts to fix prices with suppliers, it is necessary to agree on supply contracts up to two years in advance. Typically, what is the length of a Columbia physical gas contract? Explain why it is necessary to agree on supply contracts up to two years in advance.

9. Refer to page 13 of the application. Columbia states that the basis at which it has purchased most of its supply has not been large. Provide the amount of the historical basis, since 2000.

10. Refer to pages 13 – 15 of the application, which pertains to the proposed off-system sales and capacity release revenue sharing mechanism.

a. Historically, the sharing percentages included in this program have been 65 percent and 35 percent or 75 percent and 25 percent, with Columbia receiving the smaller share of the revenues. Explain why Columbia now proposes to establish sharing percentages of 50 percent for customers and 50 percent for shareholders.

b. The proposal, on page 15, states that 50 percent will be credited "to system supply and CHOICE customers." Identify and describe the factors Columbia considered in deciding that both system supply and CHOICE customers should receive this 50 percent as opposed to it being received by system supply customers only.

11. Refer to page 16 of the application.

a. Provide an example of how including winter supply purchases in the Gas Cost Incentive Mechanism can create a financial incentive that would be in conflict with Columbia's obligation to provide reliable customer service.

b. Are Columbia's gas procurement contracts typically priced using the New York Mercantile Exchange ("NYMEX") and a basis?

c. Provide an example of a benchmark calculation using recent data. Provide all workpapers and reference materials.

d. Explain the appropriateness of using only the NYMEX as the foundation for benchmarking.

e. Other Kentucky gas distribution companies have programs in place that benchmark commodity purchases using multiple price indices. Explain why Columbia's proposal does not include indices such as National Gas Week, Gas Daily, or Inside F.E.R.C.'s Gas Market Report.

f. Did Columbia perform any studies that compared its past gas purchases against the proposed benchmark? If yes, supply the studies.

12. In consideration of the proposed Gas Cost Incentive Mechanism, provide a detailed description of Columbia's gas procurement process.

13. Refer to Attachment A of the application. Prepare a schedule that compares the components in the program description of the proposed CHOICE Program with the components in the program description of the current CHOICE Program. For each change reflected in the proposed program, whether an addition, deletion, or modification, explain the reason(s) for the change. If applicable, indicate whether the change was adopted from the CHOICE Program of a Columbia affiliate.

14. Refer to Attachment B, Second Revised Sheet No. 33. Concerning the Marketer Certification provisions in the proposed tariff:

a. Explain in detail how Columbia will make a "satisfactory determination of adequate managerial, financial and technical abilities to provide the service Marketer intends to offer." Include a description of the process Columbia intends to follow.

b. Explain in detail how Columbia plans to determine the credit worthiness of marketers in the CHOICE Program. Include a description of the process Columbia intends to follow.

15. Refer to Attachment B, proposed Tariff Sheets 48 and 49. State whether the bottom right-hand corner of both sheets should read "Date Effective" rather than "Date of Effective."

16. Refer to Attachment B, proposed Tariff Sheet 49, under "Hedging Plan." This indicates that Columbia plans to file an annual report with the Commission by June 1, which will detail its hedging activity for the 12 months ended the previous March.

a. Explain why Columbia proposes to file a single report with the Commission on an annual basis.

b. Was Columbia aware that the Commission has required other gas distribution companies for which it has approved hedging plans to file multiple reports – one at the start of the heating season and another after the end of the heating season? Explain the response.

17. Refer to Attachment B, Proposed Tariff Sheet 50 under Gas Cost Incentive Mechanism. Explain whether the second-to-last paragraph on the sheet should be just one sentence rather than two sentences, as has been filed.

18. Refer to Attachment B, Marked Tariff Sheets 33, 35, and 38. Provide revised copies that show the full text of the last line on each of these sheets.

19. Refer to page 1 of Attachment C. Provide the percentage of the winter supply needs that Columbia expects to provide by:

a. Storage

b. Hedging

c. Flowing Gas

20. Refer to page 1 of Attachment C and page 10 of the application. Columbia states that it will implement the plan through the direct use of NYMEX gas futures or over-the-counter financial contracts (“futures contracts”).

a. Provide a description of the over-the-counter futures contracts and explain how they differ from NYMEX gas futures.

b. Columbia states that its ESS Department has experience in the process of purchasing hedging instruments. Provide a description of the ESS

Department, its relationship to Columbia, its experience with hedging programs, and the general results of the hedging programs with which it has experience.

21. Refer to page 2 of Attachment C. In establishing the Historic Strip Price, Columbia explains that it will average the NYMEX closing prices during a specific window period for the future winter period in question.

a. The NYMEX Web site provides a “Last,” “Open High,” “Open Low,” “High,” “Low,” and “Most Recent Settle” price. Which of these prices does Columbia consider to be the “closing” price?

b. Is the Historic Strip Price a daily average? If no, explain how the average will be calculated.

c. Explain how Columbia developed this method of choosing financial hedging instruments.

d. State what months are included in a “winter period.”

e. Is the methodology that Columbia proposes similar to what is also known as dollar cost averaging?

22. Refer to Attachment C, pages 2-4, regarding the proposed hedging program.

a. Explain how the tiers for the Trigger Prices were developed.

b. Will the Trigger Price band be used to determine the price locked in or the volume hedged? Explain the response.

23. Refer to the first page of Attachment D.

a. Provide a sample of the contract that Columbia currently uses when purchasing natural gas.

b. Refer to the first example. Explain how Columbia can obtain a gas price that differs from any of the indices in the example.

c. Explain what creates the difference, or basis, between two pricing points.

24. Refer to Attachment E, which is an example of the proposed CHOICE Program balancing service.

a. Describe the nature of the Storage Commodity Cost Adjustment on line 12 of the attachment and identify the source of the $0.1411 amount shown therein.

b. Describe the nature of the "Demand Cost Recovery Factor in PGC" on line 14 of the attachment and explain what the $1.1079 amount represents.

Robert A. Amato for

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DATED: December 17, 2004

cc: All Parties