COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter of:

THE APPLICATION OF LOUISVILLE GAS AND	**)**
ELECTRIC COMPANY FOR AN ADJUSTMENT	**)**
OF ITS ELECTRIC AND GAS RATES; A	**)**
CERTIFICATE OF PUBLIC CONVEIENCE AND	**)CASE NO. 2012-00222**
NECESSITY; APPROVAL OF OWNERSHIP OF	**)**
GAS SERVICE LINES AND RISERS;	**)**
AND A GAS LINE SURCHARGE.	**)**

TESTIMONY OF MARK WARD
VICE-PRESIDENT REGULATORY AFFAIRS
STAND ENERGY CORPORATION

Filed October 10, 2012

Q. Please state your name and business address?

A. My name is Mark Ward. My business address is Stand Energy Corporation, 1077 Celestial Street, Suite 110 Cincinnati, OH 45202-1629.

Q. By whom are you employed and in what capacity?

A. I am Vice-President of Regulatory Affairs for Stand Energy Corporation.

Q. What is your educational background?

A. I graduated from the University of Wisconsin in 1966 with a B.S. in Civil Engineering.

Q. Describe your relevant professional experience?

A. From 1966 through 1984 and from 1986 through 1999, I was employed by Columbia Gas Distribution Companies, except for four years of active duty service in the United States Air Force from 1968 through 1972. From 1984 to 1986, I was the Director of Marketing for Mountaineer Gas Corporation which formerly was Columbia Gas of West Virginia. During the period 1989 through 1999, I was Director of Gas Transportation Services for the Columbia Gas Distribution Companies. (Columbia Gas of Kentucky; Columbia Gas of Maryland; Columbia Gas of Virginia; Columbia Gas of Ohio; and Columbia Gas of Pennsylvania). During that time I led the Five (5) Distribution Companies' transformation from a predominantly merchant function to a predominately transportation function under which about 60% of the total gas throughput of the Distribution Companies was customer-owned gas being transported for those customers for delivery to them. I spearheaded the development of Columbia's Electronic Bulletin Board (EBB) on- line customer nomination computer system. I was also involved in the development of Columbia's customer CHOICE programs for five Columbia distribution companies. Prior to becoming Director of Gas Transportation Services in 1989, I had been responsible for gas sales to industrial customers for Columbia in Ohio and Kentucky and earlier had been involved in all phases of sales to residential and commercial customers in central Ohio. In July 1999 I retired from Columbia and began serving as a consultant to Stand Energy from July 1999 until August 2003 when I accepted my present position as an employee and Officer of Stand Energy Corporation.

Q. You indicated you were Director of Columbia's Gas Transportation Programs for 10 years during the years of 1989 to 1999. Please provide more detail on how the Columbia Distribution Companies transitioned from a predominantly merchant function to a predominantly transportation function.

A. First of all I will have to say it was not an easy transition as there were internal and external challenges to overcome. Internally, there was the old school thought among many Columbia employees that we were abandoning our customers, that third party suppliers were "competitors" of the LDCs and that we would not be able to maintain system reliability. There was also a significant internal resistance to change that had to be overcome. We had to make changes to our billing system and develop a program to monitor gas supplies nominated into our companies. Columbia's five different distribution companies are each unique so each transportation program had to be designed separately. There were common elements such as the billing system and gas nomination system but in each state there are State Commissions, Consumer Advocates, consumers and political entities and each had their own opinions on what was best for the customer. In each state we developed transportation programs through a collaborative effort working with regulators, marketers, consumer advocates and customers. Each state had different minimum thresholds for standard transportation but eventually all states offered gas transportation programs for residential and small volume accounts. In Columbia Gas of Kentucky (CKY) the minimum threshold for their Delivery Service program was 6,000 Mcf/yr if the customer had backup fuel, otherwise, the minimum volume was 25,000 Mcf/yr. That left out the majority CKY's customers so to accommodate residential and small volume accounts we developed the Small Volume Gas Transportation Service Program (SMGTS) in which I co-authored the writing of the tariff and the program description for CKY. That program became effective in July 2000 and is still functioning today.

Q. Please describe Stand Energy Corporation and your duties as Stand's V.P of Regulatory Affairs.

A. Stand Energy Corporation is a Women Owned business that has been a natural gas marketer/supplier since 1984 which makes it one of, if not the oldest gas marketing companies in the United States. Stand is active in over (30) different Local Distribution Companies (LDCs) in (13) different states and the District of Columbia. Stand is a Kentucky Corporation with headquarters in Cincinnati, Ohio. My responsibilities at Stand are to monitor the multiple transportation policies of the various LDCs, advise the marketing department of changes and terms of transportation for each LDC and participate in rate cases and regulatory matters which impact the services and rates that our transportation customers must pay to participate in the transportation programs of the LDCs.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address changes needed to the Louisville Gas and Electric (LG&E) Company's Gas Transportation program. Specifically in regards to volumetric and financial thresholds that are barriers to allowing LG&E commercial and industrial customers to have the option to purchase their natural gas supplies from entities other than LG&E. My testimony is not to promote residential transportation or residential CHOICE. In LG&E's

Application, Clay Murphy and other witnesses try to argue that LG&E is making major concessions in the LG&E transportation program by replacing the current Rider TS with a new Rider TS-2 program which reduces the volumetric threshold from 50,000 Mcf/yr to 25,000 Mcf/yr and eliminates the mandatory requirement for usage of 50 Mcf/day each day of the year. However, these proposed changes will still not allow the vast majority of LG&E's customers to participate in the LG&E gas transportation program. Small commercial and industrial customers, school systems and the majority of government facilities still would not meet the minimum proposed threshold. The main focus for my testimony is to address the need for changes in LG&E's tariff that will allow government facilities, schools, and business entities in Kentucky the option to purchase their own natural gas supplies from the competitive market. A customer's gas supply option should not be artificially "limited" to the LDC simply because of restrictive tariff provisions. The Kentucky PSC first addressed these issues fifteen years ago in the "Gas Unbundling Collaborative" that arose from Administrative Case Nos. 297 and 367. A 40 page report dated July 11, 1997; titled "*Natural Gas Unbundling in Kentucky*"; was submitted by Ralph E. Dennis, Staff Assistant to the Commissioners. That report is still available on the PSC website today. Other than Columbia Gas of Kentucky's Small Volume Transportation Service, little has changed in the past 15 years as shown by the following paragraph extracted from the report: "*Small commercial customers currently do not have the ability to participate in transportation since the LDCs' transportation tariffs have minimum volume requirements to qualify, which most of theses marketers believe should be removed. Any perceived difficulties by the LDCs in balancing for or billing small commercial customers can be addressed by allowing a marketer to pool small loads for delivery to the city gate.*

Along a similar vein, an LDC should not have volumetric or location restrictions on delivery points for entry of a marketer's gas supply into the LDCs system; and, aggregation of meters within the city gate of an LDC's system should be allowed for a customer who has multiple meters (fast food restaurants, school systems, and the like) Id., Unbundling Report, page 9.

Q. Why do you say that the proposed changes to the LG&E gas transportation program is not a major concession by LG&E?

A. These LG&E proposed changes will allow only a handful of additional customers to qualify for transportation service. In Mr. Clay Murphy's response to KPSC-2, Question No. 85, he states that "**there are about eight additional customers that will qualify under the lower Rider TS-2 threshold".** Currently, according to Mr. Murphy, LG&E has about 80 customers using gas transportation and the proposed "expanded" program will only make an additional **eight** (8) customers eligible for the program bringing their total to about 90 customers using gas transportation service. LG&E has 25,000 commercial and industrial customers. That means only 0.32% of their customers are on transportation presently and the "expanded" program might have 0.36% of the customers on transportation, if the 8 newly eligible LG&E customers somehow find out about their eligibility and sign up. Eight additional customers, is not a significant concession. Mr. Murphy's attempts to justify LG&E's reason for not expanding their transportation program by speaking in terms of additional volumes that would move from sales to transportation. That is the nature of the transition to expanded gas transportation and it is a process that was negotiated by many other utilities 20 years ago. Mr. Murphy continues in his response to KPSC-2 Question No. 85, page 3, "*For example, a threshold of 10,000 Mcf/year could add to the above totals* *about 70 more customers using about 1,000,000 Mcf/yr, nearly doubling the number of customers eligible for transportation, but only increasing the volume by about 8%."*

In my personal opinion and Stand Energy's viewpoint, doubling the amount of customers eligible for transportation would be a positive move by LG&E even though it represents only 8% of the industrial and commercial volume.

Q. You indicated there were financial thresholds imposed by LG&E. Please describe what you mean by financial thresholds?

A. Currently, a commercial customer switching from sales service to transportation service under Rider TS must pay a monthly Administration Charge of $153. For gas transportation to realize a savings to any customer, that customer must save on the gas commodity charge in sufficient amounts to offset the additional utility Administration Charge. LG&E is proposing to increase the Administration Charge upon approval of the Application from $153/month to $592/month until November 2013. Starting in November 2013 the fixed charge would increase to $975/month. (See, Murphy response to PSC-3 Question No. 21). This 537% increase in fixed costs creates a financial threshold that a customer must overcome through savings on his commodity gas cost in order to realize savings.

The excessiveness of the proposed LG&E Administration Charge can be demonstrated when it is compared to the Administration Charges of the other major LDCs in Kentucky. Columbia Gas of Kentucky Administration Charge is only $55.90 for their large customers using in excess of 25,000 Mcf/yr and there is no Administration Charge for customers who switch from sales to transportation in their SVGTS program. Atmos Energy Administration fee is $50 and their annual threshold is only 9,000 Mcf. Delta Natural Gas has no Administration Charge and their annual minimum is only 9,125 Mcf/yr. Duke Energy, Kentucky is the only other Kentucky LDC that has an excessive Administration Charge and it is $430/month; however, their distribution rate is lowered to offset the Administration charge. Duke's annual minimum is only 2,000 Mcf/year. It should also be noted that none of the other Kentucky LDC's have excessive daily balancing provisions during non-critical periods. <u>LG&E is the only Kentucky LDC that imposes costs upon its customers for cashouts during non-OFO periods and LG&E does not offer a program to net imbalances among suppliers and customers. In addition, LG&E is the only Kentucky LDC that actually penalizes customers for helping the system during critical periods</u>. For example, during a Cold OFO, suppliers and customers are asked to bring on sufficient supplies to meet customer gas demands while the LG&E system is under stress. If a supplier <u>**helps** the LG&E system by delivering extra gas during the cold period, the customer/supplier is actually penalized with an over-delivery fee.</u>

This Administration Charge seems even more excessive when you consider the service received from LG&E compared to the other LDCs that Stand does business. Most LDCs, at least all the large LDCs that have embraced gas transportation, have modernized their systems to manage transportation. Nominations of gas supplies to LG&E are done by personal emails instead of electronic bulletin boards used by most other LDCs so evidently LG&E has a manual system to accept and monitor nominations. If the LG&E proposal is approved as filed, LG&E will not gain customers in the transportation program but will actually lose transportation customers. Some of the existing eighty (80) transportation customers will certainly switch back to sales service to avoid the onerous new LG&E fixed Administration Charges described above.

Q. Is Stand Energy Corporation currently active in Kentucky LDC Transportation programs and specifically in the LG&E transportation program?

A. Yes, Stand has been providing gas transportation to large industrial and commercial customers in Kentucky for over 22 years and continues to add transportation customers in Kentucky where it is advantageous to the customer and allowed by the utility. Stand Energy has been serving the Commonwealth of Kentucky's large administration buildings in Frankfort for over 11 years plus we serve a Kentucky State reformatory and three Kentucky Universities. Stand Energy also serves approximately 20 small volume meters under Columbia Gas of Kentucky's SMGTS program. The majority of these small accounts are Commonwealth of Kentucky administration buildings such as the Public Service Commission building on Sower Drive. Stand Energy also serves several public school systems in both the Columbia and Duke Kentucky service areas. Stand Energy Corporation has been active in the LG&E territory since 2004. The large customer we serve behind LG&E has saved over $650,000 in gas costs in the past seven fiscal years over what the customer would have paid LG&E over the same period of time for gas costs. Stand has also served another large LG&E commercial customer for almost four years. This customer wants the ability to lock in prices for up to two years. Price locking sometimes results in a customer paying more than the utility gas cost. However, many companies prefer the certainty that they can purchase natural gas within budget over an extended period of time – a service which is not offered by LG&E. Unfortunately; if LG&E's proposed increase of $4400/year in Administration Charges and the reduced imbalance tolerances from 5% to 2% are approved, those changes very well may cause this customer to return to LG&E sales service.

Q. Does Stand Energy serve the smaller customers in any other states?

A. Yes, as indicated earlier, Stand Energy operates in over (31) different LDCs in (13) different states and the District of Columbia. Most of these utilities have opened up their systems to gas transportation programs for smaller commercial customers. Stand Energy serves many small customers in Ohio, Indiana, Virginia and West Virginia.

Q. Is Stand Energy Corporation a competitor to LG&E in your opinion?

A. Not at all. Although LG&E stated that Stand Energy was a competitor when LG&E objected to Stand Energy's Motion to Intervene in this case, Stand Energy does not compete with any utility in any state. Stand Energy does compete for retail customers but we compete for those customers against other gas marketers, not with utilities like LG&E. By law in Kentucky, LG&E is allowed to only earn money on the delivery of natural gas and not from selling gas. This is stated clearly on the Kentucky Commission's website under *"The Purchased Gas Adjustment: Frequently Asked Questions, Item #3"*. LG&E is authorized by the Kentucky PSC to earn a specific rate of return on their assets or investments—regardless of which entity is supplying the gas, the regulated company or a third party marketer/supplier. <u>This entire rate case filed by LG&E is to increase their charges for delivering gas to the customer and has nothing to do with their cost for the gas commodity</u>. Many utilities in the United States are actually getting out of the "merchant function" (i.e. selling gas) because selling gas is a "pass through" cost to them which incurs expensive auditing and regulation oversight and provides no profits. In the gas commodity regulatory oversight process, the best that the utility can hope for is a finding that their gas purchases were "prudent" and will not cause the utilities' gas purchases to be repriced and no refunds or credits to customers need be calculated or issued. These are all reasons for utilities to want to get out of the gas commodity business.

Q. What are the benefits that would be available to commercial and industrial customers in the LG&E territory if the LDC opened their system to gas transportation?

A. LG&E's commercial and industrial customers compete with other companies in Kentucky, the United States and even world-wide. LG&E commercial and industrial customers deserve the opportunity to budget and control their natural gas costs. School systems and government buildings are facing financial challenges paying for natural gas. Schools and Government Buildings should have the option to shop for their natural gas supplies the same way they competitively shop for their raw materials, supplies and other commodities. Even if these LG&E customers cannot find cheaper sources of natural gas and they continue to purchase LG&E supplies, they at least will have the ability to be an informed consumer of natural gas and shop and compare prices and services.

Q. What are your recommendations for the resolution of this Application by LG&E?

A. I would like to see LG&E expand their gas transportation program to all commercial and industrial customers using above a small minimum volume of 2,000 Mcf/yr. Allowing most of LG&E's 25,000 commercial and industrial accounts to have the option of buying gas from third party suppliers would eliminate the need for onerous Administration Charges as thousands of customers would bear the cost of the systems needed to operate the transportation program. As I indicated earlier in my testimony, in my experience with the Columbia Distribution Companies, a functional and viable transportation program can be developed if the utility wants to serve the needs and desires of its customers. A gas transportation program like LG&E's that serves less than 1% of the customers is not a functional and viable transportation program.

Q. Does this conclude your testimony?

A. Yes it does.

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AFFIDAVIT

)
STATE OF OHIO)
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Mark Ward being duly sworn and cautioned deposes and states that the attached is his sworn testimony in the above-styled and numbered action. Affiant states that he would give the same answers set forth in the attached testimony if he were asked the questions proposed therein. Affiant states that the statements contained in his attached testimony are true and correct to the best of his knowledge, information and belief.

Mark T Ward

MARK WARD

Sworn to and subscribed before me a Notary Public by Mark Ward, personally known to me as V.P. of Regulatory Affairs, Stand Energy Corporation this 10th day of October, 2012.

JOHN M. DOSKER
Notary Public, State of Ohio
My Commission Expires 03-25-2017

John M. Dosker

NOTARY PUBLIC