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June 21, 2010

*Via Hand-Delivery*

Mr. Jeff Derouen, Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, Kentucky 40602

RE: *Case No. 2010-00146; An Investigation of Natural Gas Retail Competition Programs*

Dear Mr. Derouen:

Please find enclosed the original and twelve (12) copies of Interstate Gas Supply Inc.'s, SouthStar Energy Services, LLC's and Vectren Source's direct testimony in the above-referenced case.

Please place the document of file.

Regards,



Matthew Malone

C: File; Parties

COMMONWEALTH OF KENTUCKY

BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF NATURAL GAS )  
RETAIL COMPETITION PROGRAMS ) CASE NO.2010-00146

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**INTERSTATE GAS SUPPLY, INC.'S, SOUTHSTAR ENERGY SERVICES, LLC'S AND  
VECTREN SOURCE'S CERTIFICATE OF SERVICE REGARDING DIRECT  
TESTIMONY OF GREGORY COLLINS**

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Comes Interstate Gas Supply, Inc. ("IGS"), SouthStar Energy Services, LLC ("SouthStar") and Vectren Retail, LLC d/b/a Vectren Source ("Vectren"), individually, and hereinafter, collectively, by counsel, and hereby certifies that an original and twelve (12) copies of the attached Direct Testimony was served via hand-delivery upon Jeff Derouen, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40602-0615; furthermore, it was served by mailing a copy by first class U.S. Mail, postage prepaid, on the following, on this 21 day of June, 2010.

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**VECTREN SOURCE**

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RETAIL COMPETITION PROGRAMS )

CASE NO. 2010-00146

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**TESTIMONY OF  
GREGORY F. COLLINS**

---

ON BEHALF OF INTERSTATE GAS SUPPLY, INC.  
SOUTHSTAR ENERGY SERVICES LLC  
& VECTREN RETAIL, LLC

Filed: June 21, 2010

1 **Q. Please state your name and business address, and tell us on whose behalf you**  
2 **are testifying?**

3 A. I am Gregory F. Collins and my role with Vectren Retail, LLC d/b/a Vectren  
4 Source is as its President. My business address is One Vectren Square, 211 NW  
5 Riverside Drive, Evansville, Indiana 47708. I am presenting testimony on behalf of  
6 Interstate Gas Supply, Inc., SouthStar Energy Services LLC, and Vectren Retail, LLC  
7 doing business as Vectren Source (collectively “Retail Suppliers”). My biography is  
8 attached as Exhibit 1.

9 **Q. What is the purpose of your testimony?**

10 A. In the 2010 legislative session, the Kentucky Legislature unanimously passed on  
11 both the House and Senate consent dockets a bill directing the Public Service  
12 Commission to initiate a study. The primary purpose of the study is to determine what  
13 elements should be addressed to foster a competitive market for consumers of natural gas  
14 in the Commonwealth. Included in the legislation is a list of items that the Commission  
15 is encouraged to consider in its analysis including (1) the role of the Commission in a  
16 competitive marketplace; (2) the obligation to serve; (3) the supplier of last resort; (4)  
17 alternative commodity procurement procedures; (5) non-discriminatory access to services  
18 offered; (6) codes of conduct for suppliers and affiliates of regulated utilities; (7) billing,  
19 including consideration of the purchase of receivables; (8) certification of suppliers; (9)  
20 transition costs; (10) stranded costs; (11) uncollectibles; (12) disconnections; (13) steps  
21 necessary to maintain system integrity; (14) access to pipeline storage capacity; and (15)  
22 impacts of new natural gas retail competition programs on existing utility services and  
23 customers. The purpose of this testimony is to address several of the items enumerated in

1 the legislation, taking into consideration experiences in several other states and multiple  
2 utility programs where natural gas competition is vibrant for customers at all levels of  
3 consumption, including residential consumers. I also intend to provide some background  
4 regarding why vibrant competition is essential going forward, as a means of providing  
5 price transparency, timely price signals, and information upon which more efficient  
6 consumption decisions can be made by consumers in the Commonwealth.

7 **Q. When you talk about competition in natural gas, to what are you referring?**

8 A. Specifically, the introduction of competition in the natural gas industry began in  
9 the 1980's with the promulgation of FERC Orders and the adoption of utility transport  
10 tariff programs for certain commercial and industrial customers. The consumer choice  
11 which resulted from these developments began to expand to end-use residential  
12 customers in the late 1990's. This expansion was achieved through state enabling  
13 legislation in some jurisdictions and through utility specific tariff programs in other  
14 jurisdictions. At present, according to the U.S. Energy Information Administration,  
15 through 2009 natural gas enrollment in

16 'customer choice' programs reached a new high in 2009, with  
17 about 334,000 more participants than in 2008, an increase of 9  
18 percent.<sup>1</sup> Nationally, nearly 15% or about 5.1 million of the  
19 approximate 35 million residential natural gas customers with  
20 access to choice were buying natural gas from marketers as of  
21 December 2009.

22  
23 Residential natural gas competition exists in 21 states and the District of Columbia,  
24 serving approximately 5,100,000 residential households.

25 At its core the purpose of competition in the natural gas industry is to provide  
26 consumers with a choice of supplier. A consumer's choice of supplier is largely driven by

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<sup>1</sup> [http://www.eia.doe.gov/oil\\_gas/natural\\_gas/restructure/state/us.html](http://www.eia.doe.gov/oil_gas/natural_gas/restructure/state/us.html)

1 the value proposition made by the supplier and the appeal of that value proposition to the  
2 consumer. However, the success of a competitive supplier is ultimately determined not  
3 by customer acquisition but by customer retention. Simply stated, suppliers retain  
4 customers by articulating a value proposition in terms understandable by the consumer  
5 and then serving that customer in a manner perceived by the customer to be consistent  
6 with the expectation set by the supplier. Ultimately, a supplier's success is a function of  
7 customer satisfaction.

8         On a more macro level of analysis, competition in the natural gas industry drives  
9 price efficiencies and price transparency. A dynamic competitive market tends by its  
10 very nature to produce prices that, in the lexicon of a traditional regulatory paradigm,  
11 might be considered just and reasonable. Unlike the traditional rate paradigm which  
12 includes prior period adjustments, the price transparency and timely price signals  
13 resulting from market-based prices affords a consumer the opportunity to adjust  
14 behavioral consumption patterns when the adjustment yields the most benefit to the  
15 consumer..

16         Benefits of competition are maximized when the market is most dynamic. Market  
17 dynamism is manifested by criteria including the number of competitive suppliers in the  
18 market, the number of product options available in the market, the number of customers  
19 who migrate from utility sales service to competitive supply service, and the  
20 minimization of barriers to supplier market entry.

21         The spectrum of competitive retail access programs for residential end-use  
22 consumers ranges from a total utility exit from the traditional merchant function, such as  
23 in the State of Georgia, to recurring programs of limited duration such as is the case in



1 the Commonwealth of Kentucky in the Columbia of Kentucky program. The location of  
2 any particular program on this competitive spectrum is largely determined by regulatory  
3 climate and by a number of program characteristics that determine market dynamism.  
4 Experience illustrates that certain program features are essential for the evolution of an  
5 effective competitive market.

6 **Q. When you say competition allows consumers a choice in suppliers, does this**  
7 **mean that they can change utilities?**

8 A. No, to the contrary, the role of commodity supplier is limited to only one of  
9 multiple facets of the “bundled” relationship between the utility and the consumer. The  
10 primary role of the utility is to manage the distribution system, which is made up of the  
11 physical pipes that bring the natural gas to the consumers’ homes, businesses, schools,  
12 and other locations. The utility also manages the system, keeping it in balance so that as  
13 consumption increases and decreases day-to-day the system continues to be able to  
14 maintain sufficient pressure to ensure the flow of natural gas to the end user. The utility  
15 also reads the consumers’ meters, answers emergency calls, issues bills, manages the  
16 monthly collections and receivables, manages the connection and disconnection process  
17 and generally operates the system to assure its integrity. For purposes of my testimony,  
18 competition only involves one aspect of that entire relationship: the potential for a  
19 customer to select an alternative supplier who then arranges for the procurement and  
20 transportation of the gas to the utility’s city gate. The utility takes the gas from that point  
21 for the utility’s ultimate distribution of the gas to the consumer. Competition in regard to  
22 commodity supply does not need to supplant the utility in any of its other roles, meaning  
23 all other aspects of the relationship can continue unaffected with the utility.

1 **Q. The legislation mentions certain elements that need to be addressed to create**  
2 **vibrant competition. Can you elaborate?**

3 A. Yes. Under a traditional bundled paradigm, the utility provides all of the services  
4 for the natural gas consumer, including the supply of the commodity. The utility is  
5 allowed through Commission proceedings a return of its costs to provide the services, as  
6 well as a regulated rate of return on its capital investment. By the very nature of a  
7 bundled utility service often many of the costs related to supplying commodity are  
8 interwoven with the costs associated with providing distribution service. As the markets  
9 have been opened to allow for alternative suppliers to provide commodity products to  
10 consumers (according to the US Energy Information Administration, 15% of the eligible  
11 residential households and growing), it has been important to identify the various  
12 elements necessary to provide utility commodity supply service and to explore whether  
13 those aspects of providing commodity service are properly separated or unbundled from  
14 non-commodity supply costs. Although it is not necessary to completely restructure the  
15 bundled products, it is imperative to construct a program in which assets or services paid  
16 for by the customer are credited to the customer irrespective of whether that customer  
17 remains a utility supply customer or elects to receive supply services from competitive  
18 providers.

19 **Q. Can you provide some examples?**

20 A. Yes. For instance, often some or all of the pipeline or storage assets that are used  
21 to provide commodity service to a consumer are included in base rates or other charges,  
22 instead of being included in the commodity charge. Although this is not typically an  
23 issue if the utility is providing all of the service including the commodity service, if the

1 consumer decides to procure commodity from an alternative supplier, and the utility  
2 commodity supply costs paid for by the consumer are not taken into account in some  
3 fashion, that consumer will continue to pay for the pipeline and storage assets through the  
4 base rate or other charge, while also paying for pipeline and storage costs with the  
5 alternative supplier. Since the amount of natural gas a consumer will use in any given  
6 period is finite, if the pipeline and storage assets required to serve that need are held by  
7 both the utility and alternative supplier, up to twice the necessary amount may be held,  
8 thereby creating duplicative costs. This is one aspect that is fairly simple to address so  
9 that no costs are “stranded” with the utility. Another example is that of the receivables  
10 management systems that are typically paid via utility base rates and monthly  
11 administrative and billing charges. It is not a complicated matter per se; however, if left  
12 unattended an unlevel playing field can result where the utility, the non-shopping  
13 customer or the shopping customer has a mismatch between services paid for and  
14 services provided.

15 **Q. Can you differentiate between a properly and improperly structured**  
16 **competitive market?**

17 A. Yes. In a properly structured market, each component of commodity procurement  
18 and commodity service has been examined and the consumers in that market, regardless  
19 of whether that commodity service is provided by the utility or competitive supplier,  
20 collectively pay for only the level of assets and services needed to maintain delivery  
21 reliability and system integrity. Additionally, effective electronic data exchange  
22 processes to assure accuracy and timeliness of information flow is imperative, ultimately  
23 to assure fairness for the consumer. From my experience, important elements of a

1 properly functioning market include the following: (1) pipeline, storage, peaking, and  
2 related assets, specifically the level and mix of assets as well as costs associated with  
3 maintaining those assets; (2) receivables management tools, including elements of the  
4 customer life cycle such as order to cash, disconnection and reconnection services; (3) an  
5 effective utility and supplier interface concerning consumer transactions; (4) capital costs  
6 related to procurement of commodity; and (5) commodity operations considerations such  
7 as nomination, penalties, balancing and related processes and items. Although not  
8 directly related to a properly structured market, it has also been my experience that  
9 having reasonable supplier certification processes in place and articulated guidelines  
10 germane to the supplier/consumer relationship and the supplier/utility relationship are  
11 desirable. Summarily, when perceiving the entire landscape of a properly structured  
12 competitive market, a level playing field is essential, meaning a) cost causation matches  
13 cost recovery, b) all the participants in the market have equal access to services paid for  
14 through base rates, and c) barriers to market entry by competitive suppliers are minimized  
15 or eliminated. If the playing field is level, the interests of market participants are  
16 balanced, stranded costs are minimized, and consumer education is maximized. The  
17 resulting competitive market provides benefits to all consumers through enhanced price  
18 transparency, timelier price signals, and greater consumer information.

19 **Q. Please provide additional detail for optimizing pipeline and storage assets in**  
20 **a choice model?**

21 A. Certainly. In most jurisdictions the utility functions as the provider of last resort  
22 (POLR). Implicitly, customers that are considered human needs consumers have a  
23 special need to receive their natural gas during the colder periods of the year given the

1 reality that for many, natural gas is the energy source that is used to heat their homes. As  
2 such, the POLR responsibility has traditionally fallen to the utility, since in a bundled  
3 paradigm utilities are the only supplier of commodity service to human needs customers.  
4 To ensure that it has the ability to provide natural gas to consumers during peak periods  
5 of consumption, utilities build their systems based on those peak periods. Not many  
6 utilities are self sustaining, meaning they cannot produce sufficient quantities of natural  
7 gas within the geographic boundaries of their distribution system to serve all of the  
8 consumers on that system. As such, a utility will compute its anticipated aggregate  
9 annual load requirement, including the consumption needs it will experience during peak  
10 consumption periods, and then typically through a portfolio approach will contract  
11 capacity and commodity with off-system providers. These contractual relationships  
12 generally include storage contracts, upstream pipeline contracts, gated deliveries, peak  
13 contracts, propane services, and LNG services. When the utility is providing the  
14 commodity supply service, then it has a match between the consumers it serves and the  
15 capacity and storage contracts it holds to be able to meet that need. When competition  
16 for supply service is introduced, commensurate capacity and storage assets should follow  
17 choice customers; otherwise, there is a mismatch.

18 **Q. How can you address this mismatch?**

19 A. There are reasonable alternative methods for addressing this mismatch. Simply  
20 stated, if the utility has determined that regardless of who provides the commodity it is  
21 not going to de-contract capacity or storage contracts beyond a certain level, then either  
22 the utility can create a program where the assets underlying those contracts follow the  
23 customers on a recallable basis as they move between suppliers and the utility or the

1 utility can continue to hold those contracts but provide services to equal the value of  
2 those contracts. If the utility determines that a recallable release approach will work, then  
3 essentially the parties simply determine how much each customer utilizes on a peak day,  
4 matches that quantity of those contracts to the customers, and as the customers migrate to  
5 competitive supply service the capacity follows the customers so that there is always a  
6 match. If the utility assigns the storage and capacity assets on a recallable basis the  
7 supplier pays for the contracts directly to the contract provider. When the customer  
8 moves at the end of a contract with the supplier, the storage and pipeline contracts that  
9 were assigned get recalled and “follow” the customer so that the next supplier take the  
10 rights and obligations and so on. In this scenario, the supplier will typically have to  
11 nominate natural gas on a daily basis to a heat sensitive demand curve, so that as the  
12 temperatures get colder the deliveries increase, and when the temperatures get warmer  
13 the deliveries decrease. In the second scenario, the utility continues to hold all of the  
14 assets and does not release all or some of the pipeline and storage contracts. In this  
15 scenario, the supplier nominates a flat delivery across all temperature variations and the  
16 consumer will typically continue to pay for the costs of the capacity. In both instances a  
17 balancing service is provided and often a peaking service as well. With either design, the  
18 goals are to (a) maximize the value of the assets paid by consumers; (b) minimize or  
19 eliminate stranding assets or duplicating assets and costs; and, (c) match cost causation  
20 with cost recovery. Either process also ensures that the utility acting as provider of last  
21 resort continues to have access to a sufficient level of pipeline and storage to assure that  
22 the utility can meet that need if called upon.

1 **Q. What receivables management tools are commonly available for retail choice**  
2 **programs?**

3 A. Under the regulated paradigm, some of the costs that a utility is authorized to  
4 recover through its base rates and administrative fees, including an authorized rate of  
5 return on the capital, pertain to the management of receivables. Associated costs include  
6 metering, billing, call center and IT support, collections, disconnection and reconnection  
7 of service and overall management of the process. In many well established and evolving  
8 choice programs, the utility renders a consolidated bill for both utility distribution service  
9 and the supplier's commodity charges. In this paradigm the utility collects the money and  
10 purchases the receivable of the supplier. This allows for maximum benefit of all of the  
11 receivables management systems to continue to be provided to the shopping customer,  
12 without incurring any additional cost for those customers that do not shop. This also  
13 allows for suppliers that have the financial, technical and managerial expertise to provide  
14 service to do so, without incurring the additional costs of building a duplicative  
15 receivables management system and also allows for these costs to remain bundled in the  
16 base rates and administrative charges. Otherwise, all of the elements related to  
17 receivables management should be examined and unbundled. Allowing for utility  
18 consolidated billing and purchase of receivables also allows a greater variety of suppliers  
19 to participate in the markets, which enhances competition and thus provides increased  
20 value to consumers through more robust competition. History shows that a well designed  
21 Purchase of Receivables (POR) program fosters a competitive environment not otherwise  
22 evidenced in markets without POR. A viable POR program in conjunction with utility

1 consolidated billing provides a jumpstart to consumer confidence and enables the  
2 supplier and utility to work together for a common purpose.

3 POR is especially important for supporting mass market consumers, and provides  
4 advantages to the utility and competitive supplier alike. From an economic standpoint,  
5 POR helps to leverage utility billing systems, reduce redundancy, and send a clear  
6 message to consumers about reliability of energy service that is supplied by competitive  
7 providers and delivered by utilities. Further, the utility is in a unique position with respect  
8 to collection of receivables before it becomes bad debt, inasmuch as the utility is in sole  
9 possession of the ability to disconnect service for non-payment of bills. A well executed  
10 POR avoids the tactical complications of dual bills, mitigates customer confusion and  
11 prevents misapplications of payment and receivable imbalances between the utility and  
12 supplier. POR allows competitive suppliers to enter the market with significantly lower  
13 initial costs, which leads to greater numbers of competitors in the market, thereby  
14 increasing the options available to consumers.

15 **Q. How does a competitive service differ from a utility service?**

16 A. In a traditional monopoly utility service paradigm, it has been generally  
17 understood, and in most instances mandated through legislation that in return for the  
18 utility's monopoly status and rate of return provided through its base rates it cannot  
19 typically make a profit on the commodity it sells. Rather, commodity purchases are  
20 subject to a hindsight review process, typically under a standard of reasonableness and  
21 prudence of those expenditures. If the utility is deemed to have been reasonable and  
22 prudent in its commodity purchasing decisions, the costs will be allowed. However, if  
23 certain costs are found to be imprudent, the recovery of those costs will be disallowed.



1 The regulatory risk associated with utility cost recovery can be minimized or eliminated  
2 to varying degrees depending on customer choice participation levels.

3 **Q. What other elements are essential to a properly structured retail choice**  
4 **program?**

5 A. A viable retail choice program creates an opportunity for all customers to access  
6 information and options related to commodity supply services in a competitive  
7 marketplace. While simple in its proposition, it is imperative that competitive suppliers  
8 possess the technical, operational, and financial wherewithal to effectively interact with  
9 those customers who choose to procure supply services from an alternative supplier.

10 Although not essential, I believe it is beneficial to have an initial state certification  
11 process in place for suppliers seeking to serve residential consumers in the  
12 Commonwealth. To that end, the Commission would establish a set of reasonable criteria  
13 related to the financial, operational and managerial/technical capabilities that each  
14 supplier must meet before they are allowed to extend offers to residential customers.  
15 This process should include an evaluation of the supplier's financial information, and a  
16 review of the supplier's call center capabilities, managerial experience and technical  
17 experience related to its ability to provide service. Part of the certification process also  
18 typically includes an acknowledgement of pertinent consumer protection standards and a  
19 commitment by the supplier applicant to adhere to those standards. The possibility of  
20 disciplinary action is typically included for acts of non-compliance with promulgated  
21 standards of conduct.

22 In addition to a Commission certification process, a utility specific approval process is  
23 generally required as a precondition for supplier activity. The utility approval process

1 typically requires a demonstration of creditworthiness and technical capability to perform  
2 electronic data exchanges which underlie the life cycle of a customer, including  
3 enrollment, pricing updates, and customer attrition . The utility approval process typically  
4 results in the supplier entering into an agreement or agreements with the utility related to  
5 supply, billing and agreement to abide by the rules of the program as well as the  
6 applicable utility tariff provisions. Having a certification process helps to ensure that  
7 those suppliers participating in the program have a base level of competency to provide  
8 the services that are necessary to interact with residential consumers.

9       Lastly, many jurisdictions have promulgated reasonable standards with respect to  
10 customer interaction, enrollment and contracting. There are general standards that exist  
11 in most market related to residential consumer solicitation, residential consumer contract  
12 disclosures, residential consumer contract renewal processes. Such standards balance the  
13 dynamic nature of the market with the desire of the regulators to set parameters on the  
14 activities that occur in the marketplace. If rules are crafted with a reasonable balance  
15 between consumer protection and competitive dynamics, they can provide basic guidance  
16 to suppliers without impeding the evolution of an effectively competitive market.

17 **Q. Can you provide some examples of the types of rules that the Commission**  
18 **should consider?**

19 A. Yes. It is typical to allow suppliers to enroll customers without the customer  
20 directly contacting the utility to verify that the customer has a desire to enter the choice  
21 program. However, the supplier must be able to provide a verification that the customer  
22 entered into the arrangement. Customer consent can be demonstrated through either a wet  
23 signature (that might appear directly on the terms and conditions of the enrollment or

1 may be on a separable card that has a unique identifier that points to a separate paper that  
2 includes all of the terms and conditions), a recorded telephonic verification of the  
3 person's consent to enroll in the program, or an electronic enrollment verification. The  
4 verification itself will also include specific minimum information, such as disclosure of  
5 the price, the term, consent by the consumer to be enrolled, and if applicable early  
6 cancellation fees. Enrollment guidelines and disclosure requirements are an effective  
7 measure to assure verifiable consent for customer enrollment.

8 **Q. Does this conclude your testimony?**

9 A. Yes.

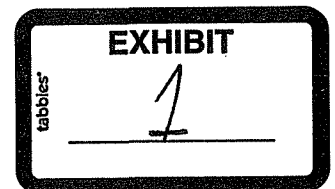
**Gregory F. Collins**

Greg Collins is President of Vectren Source, the retail natural gas supplier subsidiary of Vectren Corp. Vectren is an energy holding company with subsidiaries in both the regulated and unregulated sectors of the industry, including natural gas and electric utilities, energy marketing and services, utility infrastructure services and coal mining. Vectren companies serve over one million customers in the eastern half of the U.S.

Greg is a 20-year veteran of the energy industry having served in executive positions at PSI Energy (now part of Duke Energy), PG&E Energy Services and Pepco Energy Services prior to joining Vectren. Greg also was a partner in the management consulting firm, Barakat & Chamberlin managing the Strategic Market Planning practice.

Prior to becoming involved in the energy industry, Greg spent 10 years in the consumer electronics and personal computer business at Texas Instruments.

He has a BS degree in biology from Tulane University and did graduate work at the Texas Tech School of Business. Greg and his wife, Judy and their three children live in Newburgh, Indiana.



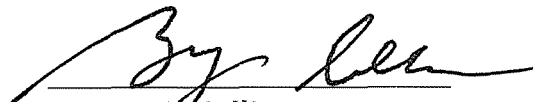
COMMONWEALTH OF KENTUCKY  
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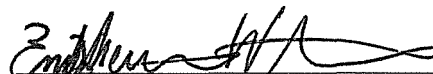
AFFIDAVIT OF GREGORY F. COLLINS

Comes the undersigned, Gregory F. Collins, being duly sworn, deposes and states that he is President of Vectren Retail, LLC. d/b/a Vectren Source, that he has personal knowledge of the matters set forth in the foregoing testimony and exhibits, said testimony was prepared by him and under his direction and supervision, if inquiries were made as to the facts in said testimony he would respond as therein set forth and the answers contained therein are true and correct to the best of his knowledge.

  
Gregory F. Collins

COMMONWEALTH OF KENTUCKY )  
)  
COUNTY OF FAYETTE )

Subscribed and sworn to me this 21<sup>st</sup> day of June, 2010, by Gregory F.  
Collins.

  
Notary Public

My Commission Expires: 11/21/2011