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FEB 29 2008

PUBLIC SERVICE
COMMISSION

February 28, 2008

VIA UPS NEXT DAY AIR

Mr. Robert Amato
Acting Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

Re: In the Matter of: An Investigation of the Energy and Regulatory Issues in Section 50 of Kentucky's 2007 Energy Act - Case No. 2007-00477.

Dear Mr. Amato:

Enclosed for filing in the above-captioned matter is an original and ten (10) copies of the Pre-Filed Testimony of Mark T. Ward on behalf of the Stand Energy Corporation Customer Group.

Also Mr. Amato, the Commission appears to have misconstrued the legislative mandate in Section 50 of Kentucky's 2007 Energy Act as being confined to Kentucky's regulated electric utilities. We have studied the enabling statute and find no such restriction. Therefore, it is our belief that the legislature intended for this proceeding to include review of natural gas issues also. We have, therefore, served the enclosed testimony upon all parties of record and representatives of Atmos Energy Corporation, Columbia Gas of Kentucky, Inc. and Delta Natural Gas Company, Inc. who are necessary parties to this proceeding.

Thank you for your prompt attention to this filing and you may contact me if you require any further information.

Sincerely,

John M. Dosker

John M. Dosker
General Counsel

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FEB 29 2008

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF THE	)	ADMINISTRATIVE
ENERGY AND REGULATORY	)	CASE NO. 2007-00477
ISSUES IN SECTION 50 OF	)	
KENTUCKY'S 2007 ENERGY ACT	)	

PRE-FILED TESTIMONY OF MARK T. WARD
ON BEHALF OF THE STAND ENERGY CORPORATION CUSTOMER GROUP

* * * * *

1. What is your name?

Answer: My name is Mark T. Ward. My business address is Stand Energy Corporation, 1077 Celestial Street, Suite 110, Cincinnati, Ohio 45202-1629. I am Vice-President of Regulatory Affairs for Stand Energy Corporation.

2. What is your educational background?

Answer: I graduated from the University of Wisconsin in 1966 with a B.S. in Civil Engineering. I am a registered Professional Engineer in the State of Ohio.

3. Describe your relevant professional experience?

Answer: I served as a consultant to Stand Energy from July 1999 until August 2003 when I accepted my present position. My responsibilities include regulatory, operational and marketing issues relating to gas transportation service to Stand Energy's industrial and large commercial customers which I will discuss below in more detail. 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. I was employed by Mountaineer Gas Corporation during the period 1984 through 1986. 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) customer nomination system. I was also involved in the development of 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. From 1984 to 1986, I was the Director of Marketing for Mountaineer Gas Corporation, which delivered approximately 55 billion cubic feet (bcf) of gas to its customers annually.

4. What is the purpose of your testimony?

Answer: The purpose of my testimony is to assist the parties to this proceeding to comply with the fourth (4th) legislative mandate set forth in Section 50 of the 2007 Kentucky Energy Act. Specifically, I propose modifications to rate structures of Kentucky's major natural gas utilities that would allow Kentucky's smaller commercial and industrial companies, including schools systems and government facilities, the choice to purchase their natural gas supplies through an open, competitive market. Such changes would better align the financial interests of the utility with the goals of achieving energy efficiency and lower costs to all classes of Kentucky ratepayers. It appears that the Kentucky Public Service Commission has interpreted the mandate of Section 50 of the 2007 Kentucky Energy Act to apply only to Kentucky's electric utilities. However, because there is no limiting language in the enabling statute, the Kentucky Public Service Commission should also address natural gas issues in this proceeding.

Stand Energy Corporation Customer Group members own other Kentucky facilities that are ineligible to transport gas to their smaller facilities due to high volumetric requirements and other barriers to transportation. These customers should have the opportunity to choose Stand Energy Corporation, or any other approved marketer, to serve all of their Kentucky locations. In addition, the changes I propose in my testimony would benefit Kentucky's schools and small commercial and industrial customers who do not presently have a voice representing them in this proceeding.

5. Why can't more Kentucky customers transport gas today?

Answer: Currently, the major gas utilities in the Commonwealth of Kentucky have barriers in their tariffs that preclude smaller, predominantly winter space-heating customers, to avail themselves of the benefits of gas transportation services similar to what large industrial and commercial customers have been doing in Kentucky for over 20 years. The Kentucky PSC examined natural gas unbundling in a 1997 administrative proceeding and published a 33 page summary of the stakeholder meetings that resulted. Sadly, in the over ten (10) years since that report was issued, very little progress toward gas unbundling has been achieved in Kentucky.

6. What do you mean by gas transportation services?

Answer: When I speak of gas transportation service I mean the ability of a customer to purchase their natural gas supplies from third party suppliers rather than from the utility or Local Distribution Company (LDC) that sells and delivers their gas currently. A customer chooses a third party supplier, a marketer like Stand Energy, to purchase their gas supplies. That marketer than transports an appropriate quantity of natural gas on interstate pipelines and delivers the gas to the Local Distribution Company (LDC) who than delivers that gas, or an equivalent amount of gas, to the customer's meter.

7. Does Stand Energy presently provide gas transportation services in Kentucky?

Answer: Yes, Stand has been providing gas transportation to large industrial and commercial customers in Kentucky for over 20 years. We currently supply natural gas to a growing number of industrial and commercial customers in the Commonwealth of Kentucky. In addition, Stand Energy also serves the Commonwealth of Kentucky's large administration buildings in Frankfort, a State prison and three state Universities.

8. What benefits does Gas Transportation Service provide to customers?

Answer: There are many benefits to using gas transportation service. First of all, it provides the customer with choices of how they purchase their natural gas supplies and gives them the opportunity to save money over what they would have paid to the utility under the utility's regulated gas supply charge. For instance, as indicated earlier, Stand Energy serves the Commonwealth of Kentucky's large administration facilities in Frankfort Kentucky. In the over six years we have served these accounts, the Commonwealth has saved over $1,250,000 over what they would have paid if they had purchased the same gas supplies from Columbia Gas of Kentucky. In addition to cost savings, customers can lock in gas prices to provide themselves total or partial insulation against volatile gas market prices and assure they keep within internal budget constraints. Basically, it allows the customers to shop and compare prices and suppliers in an open and competitive market.

9. Does Stand Energy serve any small commercial or industrial customers, including small state facilities or any public school systems in Kentucky?

Answer: No

10. Does Stand Energy serve small commercial and industrial customers, including small state facilities and public schools in any other states?

Answer: Yes, as indicated earlier, Stand operates in over (30) different LDCs in (10) different states, most of which have opened up their systems to transportation programs for smaller commercial and governmental customers. In fact, Stand Energy Corporation serves many small customers in neighboring states of Ohio, Indiana and Virginia and have for over 20 years.

11. Why are Kentucky utilities so different from utilities in other states?

Answer: All the major utilities in Kentucky have incorporated barriers in their tariffs that preclude smaller customers from using gas transportation services. These barriers are either high volumetric thresholds required in order to transport gas (daily thresholds or annual thresholds), or economic barriers such as high administration fees, meter fees, or mandatory capacity assignments. All of these barriers to competition have either been removed, or never existed, in other states where customers have a choice of natural gas suppliers.

12. Can you provide some specific examples?

Answer: Yes. I will discuss the barriers incorporated into each of the major LDCs tariffs in Kentucky. Starting with Duke Energy Kentucky, Inc. Duke Energy Kentucky does not have a tariff that provides transportation service to smaller customers. The only Duke Energy tariff that would be available to a school or small commercial establishment such as a restaurant, dry cleaner, or state office building would be Duke's "Firm Transportation-Large" rate. A customer must use at least 2,000 Mcf per year to qualify under this tariff. For comparative purposes, a Bob Evans restaurant would use approximately 3,000 to 4,000 Mcf per year. However, to move from Duke Energy sales service, to transportation service, a customer would also have to pay an additional $430 per month ($5,160 per year), per meter, in what is called an "Administration Charge", plus bear the cost of installing an expensive electronic measurement device known as a "telemeter" to provide regular gas usage electronic "telemetry" to Duke Energy.

The cost Duke Energy charges to deliver third party supplier gas using transportation is actually less than what is charged customers who receive Duke sales gas - but because of the Administration Charge, a customer would have to use 10,000 to 12,000 Mcf per year, just to break even. Therefore the true volumetric threshold to actually benefit from utilizing this tariff is 10,000 to 12,000 Mcf/year.

13. Are these barriers the same in Duke Energy's other state LDCs?

Answer: No. Stand Energy serves many small customers behind Duke Energy's sister company in Cincinnati, Ohio, just across the river from Duke Energy Kentucky. This entity is known as Duke Energy-Ohio. Duke Energy-Ohio has no minimum volume requirement and the administration charge is only $21.00 per month. Even residential customers can choose to purchase their natural gas from a supplier other than Duke Energy-Ohio. What makes the contrast even more unreasonable between the Duke Kentucky administration charge of $430 versus the Duke Ohio administration charge of $21, is that both programs are administered by literally the exact same Duke office personnel located in Cincinnati, Ohio.

14. Can you provide another specific example?

Answer: Yes, I will next discuss the Louisville Gas and Electric Company. There are two transportation services offered by LG&E, neither benefit smaller, predominantly winter heat load customers. The first is a "Firm Transportation Service" rate. For customers to avail themselves of this service they must use at least 50 Mcf <u>each and every day of the year</u>. This means using at least 18,250 Mcf per year to qualify (365 times 50 = 18,250). Any customer whose main use of natural gas is for winter space heating would never use 50 Mcf per day in the summer months. Schools, for instance, could never qualify. Most schools do not use 18,250 Mcf per year and with no or little summer usage, would not qualify for LG&E's "Firm Transportation Service."

The other LG&E rate that is available is only for very large customers and requires an annual usage of 50,000 Mcf. In addition to the large threshold barrier, there is a monthly administration charge of $90 per meter ($1,080 per year) plus the cost for installing expensive electronic measurement equipment which must be borne exclusively by the customer.

15. What is your next example?

Answer: I next will discuss Columbia Gas of Kentucky. Columbia's "General Transportation" service requires a minimum annual usage of 25,000 Mcf. There is an additional administration charge of $50.90 per month, ($610.80 per year). To Columbia's credit, they are the only LDC in Kentucky that offers a customer Choice program for residential and small commercial customers. The program is currently in "Phase II", which means if a customer wishes to purchase supplies from an alternate supplier, they must take assignment of firm capacity from Columbia Gas of Kentucky. Taking firm capacity means Columbia Gas of Kentucky assigns to the alternate supplier a quantity of pipeline and storage capacity it currently owns to serve the smaller customers. In affect, the capacity follows the customer but is recallable by Columbia. The supplier receiving the assigned capacity pays maximum pipeline rates on an annual basis and can not acquire their own capacity or storage from other sources or take advantage of discounted firm capacity that may be offered by the interstate pipelines that serve Kentucky.

The Columbia Customer Choice program operates very differently from Columbia's traditional gas transportation program which is offered to customers using over 25,000 Mcf per year. In addition to the mandatory capacity assignment, Columbia Customer Choice suppliers are told by Columbia how much gas to deliver each day of the year following a load/demand curve developed solely by Columbia. Having to follow a load curve precludes the supplier from providing a custom supply portfolio that fits unique customer natural gas requirements. There are other limitations such as rate design, base loading capability, and preventing storage gas purchases by the customer.

Stand Energy Corporation also serves many small customers in Columbia's sister company in Ohio (Columbia Gas of Ohio). Columbia Gas of Ohio's minimum threshold for the

General Transportation program is 2,000 Mcf/year and the administration charge is only $6.00 per month. Again, this example demonstrates a stark contrast between Kentucky and Ohio sister company's transportation programs even though both programs are administered by the same department of Columbia Gas.

16. What is your next example?

Answer: My last example is Atmos Energy Corporation. Atmos Energy Corporations' General Transportation program requires a minimum annual usage of 9,000 Mcf per service location. There is an additional $50.00 per month ($600 per year) administration fee. There is a "firm carriage service" which also requires an annual usage of 9,000 Mcf and has an annual base charge of $3,000 plus the $600 per year administration fee.

17. What must be done to provide an open, competitive market for the smaller natural gas users in the Commonwealth of Kentucky?

Answer: I believe it is necessary for the Public Service Commission to mandate the gas utilities regulated by the Kentucky Public Service Commission file a set of tariffs with the Commission that will at a minimum:

- Provide for the aggregate purchasing of natural gas supplies and pipeline transportation services on behalf of eligible customers;
- Lower the minimum threshold to be eligible for gas transportation service to 2,000 Mcf/Year;
- Not require electronic meters or telemetry or other special metering equipment for facilities using less than 10,000 Mcf/Year;

- Assure customers that elect to use transportation service do not pay any more for service than the non-gas charges they would pay under the comparable sales service tariff. An exception could be a modest administration or aggregation fee that reimburses the utility for their actual costs to provide such transportation services.

18. Does this conclude your testimony?

Answer: Yes it does.

Mark T. Ward

MARK T. WARD

STATE OF OHIO)
COUNTY OF HAMILTON)

SUBSCRIBED AND SWORN to before me, Mark T. Ward, personally known to me, this 28th day of February, 2008. My commission expires: March 25, 2012.

JOHN M. DOSKER
Notary Public, State of Ohio
My Commission Expires 03-25-2012

John M. Dosker

NOTARY PUBLIC

CERTIFICATE OF SERVICE

I hereby certify that the foregoing was hand-delivered or mailed, first class postage prepaid, this 28th day of January 2008, to the following parties of record:

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