

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

APPLICATION OF)	
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COLUMBIA GAS OF VIRGINIA, INC.)	CASE NO. PUE010__
)	
For leave to close Rate Schedule TS-1 and TS-2)	
to new customers and for conditional approval)	
to waive certain penalties and charges)	

APPLICATION

Columbia Gas of Virginia, Inc. ("Columbia" or "the Company"), pursuant to State Corporation Commission ("Commission") Rule 5 VAC 5-20-80.A, requests approval to close its existing Rate Schedule TS-1 and TS-2 ("Schedule TS-1/TS-2") to new customers and also requests conditional approval to waive specified penalties and charges imposed on certain customers served under Schedule TS-1/TS-2¹ during this past winter, as will be further explained in this application. In support of its application, Columbia states as follows:

1. Columbia is a natural gas distribution company serving over 193,000 customers in central and southeast Virginia, the Shenandoah Valley, and portions of northern and southwest Virginia. Its services and operations, as well as rates and charges for retail gas service, are regulated by the Commission. Columbia is a public utility as that term is used in Virginia Code sections 56-236 and 56-237.

2. Section 56-236 requires public utilities to file their rate schedules and terms and conditions with the Commission while section 56-237 specifies the manner in which changes may be made to such rate schedules and terms and conditions. In an effort to resolve concerns

¹ Columbia's request for conditional approval to waive certain penalties and charges extends to Schedule TS-1/TS-2 customers as well as Schedule LVTS customers that are served under the Banking and Balancing provisions of Schedule TS-1/TS-2.

raised by certain customers regarding the Banking and Balancing provisions of Schedule TS-1/TS-2 and to provide clearly defined operating provisions for Columbia's transportation customers, Columbia proposes to: (i) close existing Schedule TS-1/TS-2 to new customers; (ii) implement a new Rate Schedule TS-3 and TS-4 ("Proposed Schedule TS-3/TS-4") and a new Rate Schedule AS-Aggregation Service, both of which have been filed with the Commission's Division of Energy Regulation for administrative approval concurrent with this application; and (iii) waive certain penalties and charges imposed on customers that failed to comply with the terms and conditions of Schedule TS-1/TS-2 last winter, in return for such customers' migration from current Schedule TS-1/TS-2² to Proposed Schedule TS-3/TS-4.

Issuance of Balancing Service Restrictions

3. In December 2000, Columbia restricted its interruptible Banking and Balancing service provided under Schedule TS-1/TS-2 via the issuance of "Gas In/Gas Out Flow Orders". These "Flow Orders" or "Balancing Service Restrictions" represented a restriction, in whole or in part, of the Company's Banking and Balancing service. Customers were simply required to deliver to Columbia's city gate, on a daily basis, an amount of gas equivalent to the Customer's usage on that day. Customers were thus restricted in their ability to utilize previously banked supply quantities on any day that the Balancing Service Restriction was in effect. In essence, the Balancing Service Restrictions directed customers to deliver specific amounts of supply each day as a function of their actual daily consumption. Customers were thus required to modify their deliveries to match some part or all of their actual daily consumption as directed by the

² The Commission's Division of Energy Regulation last accepted Rate Schedule TS-1/TS-2 for filing on October 23, 1998, except for First Revised Sheet No. 165 (Superseding Original Sheet No. 165) which was accepted for filing on December 15, 2000.

Company. Schedule TS-1/TS-2 specifies penalties and charges applicable to customers that fail to comply with restrictions set forth in the Company's Balancing Service Restrictions.

4. The Balancing Service Restrictions were prompted by a number of events that collectively increased the Company's gas purchase requirements and increased the utilization of pipeline storage services, upon which the Company is dependent to fulfill its public service obligations to its firm sales, standby and retail choice customers throughout the winter season. Specifically, the Company's Balancing Service Restrictions were prompted by: (i) significantly colder than normal weather experienced in November and December 2000, which exceeded the Company's winter season "design" criteria; (ii) significant draw downs of banks by many of the Company's non-retail choice transportation customers; (iii) the failure of numerous transportation customers (and their suppliers) to adequately respond to the Company's "Operational Alerts," which encouraged customers to deliver supplies commensurate with their daily demand; and (iv) utilization of storage supplies at a highly advanced rate which, if continued, would have jeopardized the Company's ability to fulfill its firm service obligations for the balance of the winter season.

5. The Company issued the Balancing Service Restrictions after two operational alerts that informed transportation customers and/or their suppliers that the Company was experiencing colder than normal weather and after specifically requesting transportation customers, and their suppliers, to take those steps necessary to assure that deliveries to Columbia were at least equal to or greater than their demand. The Company issued the alerts in an effort to avoid restricting its Banking and Balancing service

6. Significantly, on a number of occasions preceding the winter of 2000-2001, Columbia reminded its transportation customers that its Banking and Balancing service is

interruptible. Columbia notified its transportation customers of the likelihood of “Flow Orders” (i.e. Balancing Service Restrictions), the need for their compliance with those restrictions, and the ramifications of a failure to comply. Columbia directed a letter to customers on May 12, 2000 reminding customers that Balancing Service Restrictions were issued in early 2000 and of the substantial penalties for failure to comply in the future. (See Attachment A.) A similar letter was directed to transportation customers on November 8, 2000. (See Attachment B.) Columbia requested an update to its “Curtailed Directory” on August 9, 2000, which also referenced the substantial penalties for failure to comply with Balancing Service Restrictions. (See Attachment C.) The initial Operational Alert was posted on Columbia’s Electronic Bulletin Board (“EBB”) on November 20, 2000, warning that transportation customers’ demand was exceeding their deliveries and that the failure to comply with future Balancing Service Restrictions would result in substantial penalties. (See Attachment D.) A similar Operational Alert was posted on the EBB on November 22, 2000. (See Attachment E.) Columbia posted the continuous “Gas In/Gas Out Flow Order” (i.e. Balancing Service Restriction”) on its EBB commencing on December 4, 2000, to be effective December 6, 2000. (See Attachment F.) Columbia also communicated the initiation of this Balancing Service Restriction by telephone to its transportation customers on December 6-7, 2000.

7. The Company's Balancing Service Restrictions did not in any way restrict the Company's redelivery of supplies delivered on a daily basis to the Company’s city gate by, or on behalf of, Schedule TS-1/TS-2 customers. Accordingly, the Balancing Service Restriction issued effective December 6, 2000, and subsequently modified effective January 17, 2001, did not require an interruption in delivery of customers’ gas supplies received by the Company. Rather, the Company's Balancing Service Restrictions were designed and were implemented to ensure

that transportation customers, who purchase their own gas supplies, would not utilize the Company's interruptible Banking and Balancing service in a manner that negatively impacts Columbia's ability to reliably and cost effectively serve those customers that purchase their full requirements from Columbia and those transportation customers that subscribe to standby service. Balancing Service Restrictions essentially ensure that the operations of transportation customers do not undermine Columbia's ability to operate within the parameters of its delivering pipelines' tariffs, as approved by the Federal Energy Regulatory Commission ("FERC"). Correspondingly, Balancing Service Restrictions ensure that the operations of transportation customers do not result in the incurrance of additional gas purchase costs to be recovered from its sales and standby customers.

Balancing Service Restriction Penalties

8. A number of transportation customers failed to comply with the Company's Balancing Service Restrictions and were assessed penalties, as well as charges for tariff gas purchased, as a consequence of their noncompliance with the Balancing Service Restrictions. Conversely, many customers did comply with the Company's Balancing Service Restrictions and in fact delivered more gas than they actually consumed during the Balancing Service Restriction period. As a result, some customers were separately assessed excess bank penalties, as a condition of the tariff, because their banks exceeded their subscribed bank tolerance.

9. Columbia served a total of 221 transportation customers under Rate Schedule TS-1/TS-2 as of January 31, 2001. Columbia imposed \$10/Mcf penalties totaling \$1, 381,639, consistent with the provisions of Section 9(b) of Schedule TS-1/TS-2, upon 158 customers for their failure to comply with the December 2000 Balancing Service Restrictions and imposed

penalties totaling \$1,306,632 upon 137 customers for their failure to comply with the January 2001 Balancing Service Restrictions. The Company also imposed \$.35/Mcf excess bank penalties, consistent with the provisions of Section 3 of Schedule TS-1/TS-2, upon customers who maintained bank balances in excess of their subscribed Bank Tolerance level. The excess bank penalties amounted to \$61,647.60 in December 2000, \$208,274.33 in January 2001, \$93,322.95 in February 2001 and \$40,524.05 in March 2001.³ Since customers were denied access to previously banked supply quantities, customers that failed to comply with the Balancing Service Restrictions, by default, also consumed tariff gas on any day their deliveries to the Company fell short of required Balancing Service Restriction quantities.

10. Several customers and their suppliers complained to the Company and the Commission Staff about the basis for and magnitude of the penalties. The Company, a number of Customers and certain Competitive Service Providers (“CSPs”) participated in a Working Group that attempted to resolve the complaints associated with the assessment of the aforementioned penalties. Notwithstanding the significant efforts of the Working Group, the participants were unable to agree upon a comprehensive resolution of those issues.

Requested Relief

11. Columbia firmly believes that its issuance of the Balancing Service Restrictions and the corresponding imposition of penalties and charges for the failure of customers to comply with those Balancing Service Restrictions are supported by its tariff and justified by the

³ Columbia has reviewed the calculation of penalties imposed on all TS-1/TS-2 to ensure that the penalties were applied in a manner consistent with its tariff. In addition, Columbia suspended the requirement to pay penalties and charges associated with Customers’ failure to comply with Balancing Service Restrictions pending an attempt to resolve disputes associated with the assessment of those penalties and charges. That effort was unsuccessful and Columbia is in the process of distributing a spreadsheet to each of its transportation customers that accurately reflects the penalties, charges and tariff gas purchases associated with each Customer’s failure to comply with the Balancing Service Restrictions.

circumstances. However, Columbia also recognizes that it would be in the best interest of the Company and its customers to expeditiously: (1) ensure that firm sales, standby and retail choice customers are not economically harmed by the purchasing decisions of transportation customers; (2) ensure that the Company can effectively manage its system operations in a manner that facilitates the Company's ability to fulfill its firm service obligations under the conditions (daily/seasonal) contemplated in the design of the Company's supply/capacity portfolio; (3) ensure that transportation customers that comply with Balancing Service Restrictions are not economically disadvantaged by transportation customers that fail to comply; (4) afford transportation customers greater certainty as to their rights and obligations under Banking and Balancing services; and (5) provide transportation customers with additional information and tools to effectively respond to Balancing Service Restrictions.

12. Columbia seeks to achieve these objectives through a comprehensive set of initiatives.

First, Columbia recently completed the installation of daily demand meters at the facilities of customers taking service under Schedule TS-1/TS-2. These electronic meters are equipped with an electronic measurement or automatic meter reading device and associated telemetering equipment. Customers taking service under Proposed Schedule TS-3/TS-4 will be entitled to web based access to the Company's once daily update (for the prior gas day ending at 10 a.m.) of the Customer's metered consumption without additional cost. These customers will also be entitled, in the future, to subscribe to: (i) an optional fee based demand polling service that will afford the Customer access to real-time metering data 24 hours per day; and (ii) an optional fee based access to a real-time pulse signal that is necessary to operate energy management software utilized by an increasing number of transportation customers. Customers'

real-time access to their consumption information is an important tool in managing their energy usage and in avoiding penalties and charges for the failure to comply with Balancing Service Restrictions. Customers will be required to provide and pay for a dedicated telephone line and the electrical power necessary to operate the electronic measurement equipment. In addition, real-time accessibility by Columbia to the same customer data will provide the Company with an enhanced ability to effectively manage daily operations across its service territory, especially in capacity constrained markets.

13. Second, Columbia proposes a new optional Rate Schedule TS-3 and TS-4, which is a new rate schedule for service that is not currently available. Proposed Schedule TS-3/TS-4: (i) contains clearly identified operating conditions that may be relied upon in restricting access to a customer's banked volumes (i.e. issuing a Balancing Service Restriction); (ii) ensures that Columbia maintains necessary controls over its system to implement its least cost purchasing and service reliability objectives on behalf of firm sales, standby and retail choice customers; (iii) correspondingly restricts the ability of transportation customers and Competitive Service Providers ("CSPs") to operate in a manner that would result in firm sales, standby and retail choice customers subsidizing the costs of serving transportation customers; (iv) provides a greater incentive to customers and CSPs to comply with Balancing Service Restrictions as well as Company notices to "interrupt" due to capacity limitations or emergency conditions, as provided for in the Company's tariff; (v) establishes objective criteria for the waiver of penalties for a customer's failure to comply with a Balancing Service Restriction ; (vi) permits Rate Schedule TS-3/TS-4 customers to form Aggregation Nomination Groups ("ANGs") as described in Paragraph 14, below; (vii) affords Rate Schedule TS-3/TS-4 customers the opportunity to subscribe to the demand polling service and/or access to a pulse signal referenced in Paragraph

13, above; (viii) affords Rate Schedule TS-3/TS-4 customers the opportunity to subscribe to an optional daily imbalance trading service to be offered in the future, as discussed in Paragraph 16, below; (ix) contemplates simultaneous notification to customers and the Staff of the implementation of Balancing Service Restrictions along with a description of the basis for implementing the Balancing Service Restrictions; and (x) provides for the flow through of gas cost-related charges reflected in Schedule TS-3/TS-4 through the PGA mechanism.

14. Third, Columbia proposes a new optional Rate Schedule AS-Aggregation Service as a companion to Proposed Schedule TS-3/TS-4. Schedule AS is also a new rate schedule for service that is not currently available. Schedule AS would permit Schedule TS-3/TS-4 transportation customers to form ANG's among customers (or an individual customer's facilities) within Columbia Gas Transmission's market areas for purposes of scheduling daily delivery of supplies and reconciling differences between deliveries and consumption on an aggregate basis, subject to certain operational conditions. In essence, Schedule AS would permit CSP's that serve multiple customers (and customers with multiple service locations) to receive the benefit of having multiple customers (or service locations) treated as one in the determination of banking imbalance calculations, inclusive of those under Balancing Service Restrictions, and in the calculation and imposition of charges for failure to comply with the terms and conditions of the tariff. Importantly, future penalties and charges associated with the failure of individual customers to comply with Balancing Service Restrictions could be substantially mitigated by subscribing to proposed Schedule AS.

15. Fourth, to encourage existing customers to migrate to proposed Schedule TS-3/TS-4, Columbia requests conditional approval to: (1) waive the penalties and charges associated with each customer's failure to comply with the Balancing Service Restriction

implemented last winter (approximately \$2.7 million); and (2) waive excess bank penalties imposed in December 2000 through March 2001, totaling \$403,768.93⁴. Columbia is willing to waive the foregoing penalties in return for a permanent resolution of the issues associated with the implementation of Balancing Service Restrictions and resulting penalties and charges. This would be achieved by customer migration from current Rate Schedule TS-1/TS-2 to new Schedule TS-3/TS-4. However, current Schedule TS-1/TS-2 must be closed to new customers to avoid these disputes in the future. The closure of Schedule TS-1/TS-2 is necessary to preclude customers from migrating to proposed Schedule TS-3/TS-4 and then returning to Schedule TS-1/TS-2 following the waiver of such penalties and charges.

16. Finally, Columbia will endeavor to implement a daily imbalance trading mechanism in the future as an additional tool for Schedule TS-3/TS-4 customers to facilitate their compliance with the terms and conditions of the Company's new tariff, including Balancing Service Restrictions.

WHEREFORE, Columbia requests that the Commission: (1) approve its application to close Schedule TS-1/TS-2 to new customers; (2) provide for conditional approval to waive penalties and charges imposed on certain customers served under Schedule TS-1/TS-2 as a consequence of their failure to comply with Balancing Service Restrictions during the past winter; and (3) provide such other relief that the Commission deems necessary or appropriate to facilitate Columbia's proposal herein.

⁴ Columbia previously committed to waive the excess bank tolerance penalties for the month of December 2000 due to the inability of customers to access any part of their bank after December 5, 2000. That waiver was offered to Columbia's transportation customers without condition and Columbia simply requests the Commission to affirm the waiver of the December excess bank penalties without further condition.

Respectfully submitted,

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