COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF COLUMBIA GAS OF KENTUCKY, INC. TO CONSOLIDATE AND CONVERT ITS GAS COST INCENTIVE MECHANISM AND ITS OFF-SYSTEM SALES AND CAPACITY RELEASE REVENUE SHARING MECHANISM INTO A PERFORMANCE-BASED RATE MECHANISM	)))))))	CASE NO. 2014-00350

ORDER

On September 30, 2014, Columbia Gas of Kentucky, Inc. ("Columbia") filed its evaluation and comparison of Performance Based Rate ("PBR") mechanisms, along with its application seeking authority to consolidate its existing Gas Cost Incentive Mechanism ("GCIM") with its Off-System Sales and Capacity Release Revenue Sharing Mechanisms ("OSS/CR RSM") into a revised PBR mechanism. Columbia responded to one round of Commission Staff requests for information. There are no intervenors in this proceeding. The record is now complete and the matter stands submitted for decision.

BACKGROUND

The Commission first approved Columbia's GCIM and OSS/CR RSM in Case No. 2004-00462.[1] The Commission conditioned its approval upon Columbia's filing of an annual report on the GCIM by November 30 of each year. By Order dated April 15,

[1] Case No. 2004-00462, *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* (Ky. PSC Mar. 30, 2005).

2009 in Case No. 2008-00433,[2] the Commission approved an extension of Columbia's GCIM through October 31, 2012, and the OSS/CR RSM through March 31, 2013.

Columbia filed its previous application to extend its GCIM on December 28, 2012, in Case No. 2012-00593.[3] It requested that its GCIM be extended through October 31, 2016, and that its OSS/CR RSM be extended for four years through March 31, 2017. By Order issued October 25, 2013, the Commission approved extensions of these mechanisms, but only for one additional year, through October 31, 2014, for the GCIM and through March 31, 2014, for the OSS/CR. In its Order, the Commission found that Columbia should review the Louisville Gas and Electric Company ("LG&E") and Atmos Energy Corporation ("Atmos") PBR mechanisms, and that any application for further extension of its mechanisms should include revised components consistent with the components required/approved for LG&E and Atmos. Besides possible modifications to the 50/50 sharing included in its current mechanisms, the Commission also found that Columbia should evaluate the inclusion of additional months in its GCIM mechanism, as opposed to continuing to limit the time period to April through October, and to include elements of its gas cost other than just its gas commodity cost.

The purpose of the GCIM is to measure the effectiveness of Columbia's gas purchasing efforts by defining a market standard, or benchmark price, and then allowing Columbia to share in the savings if it is able to purchase gas under the benchmark

[2] Case No. 2008-00433, *Application of Columbia Gas of Kentucky, Inc. to Extend Its Gas Cost Incentive Program and Its Off-System Sales and Capacity Release Sharing Mechanism* (Ky. PSC Apr. 15, 2009).

[3] Case No. 2012-00593, *Application of Columbia Gas of Kentucky, Inc. to Extend Its Gas Cost Incentive Program and Revenue Sharing Mechanism* (Ky. PSC Oct. 25, 2013).

price.[4] Under the GCIM, the measurement of Columbia's performance against a market standard applies to all system supply gas purchases made by Columbia during the months of April through October, excluding those purchases made at the city gate. Winter supply purchases are excluded due to Columbia's concern with regard to creating possible financial incentives, real or implied, that might be in conflict with its obligation to provide reliable customer service. In each applicable month, Columbia's actual gas purchase costs are compared to the benchmark cost for the month. The resulting dollar amount for the month is shared 50/50 between Columbia and its sales customers through an adjustment to Columbia's Gas Cost Adjustment ("GCA"). There has been no change to Columbia's GCIM since it was first approved in 2004.

Columbia and its customers likewise share 50/50 in the revenues from off-system sales and capacity release pursuant to its OSS/CR RSM, with Columbia's portion collected through the GCA. The purpose of this mechanism is to create benefits for Columbia's customers and opportunities for Columbia to share the value resulting from its efforts. All Columbia sales customers and CHOICE program participant customers receive the benefit of the OSS/CR RSM credits through an adjustment to the GCA.

In response to the Commission's Order in Case No. 2012-00593, Columbia described its review of the LG&E and Atmos PBR mechanisms and proposed to implement a similar PBR mechanism. Based on its analysis of the differences between its mechanisms and the PBRs of LG&E and Atmos, Columbia proposes to incorporate its existing GCIM as the Gas Cost Incentive ("GCI") in its proposed PBR mechanism, with three modifications. First, Columbia proposes to revise its 50/50 sharing

[4] If Columbia's gas purchases exceed the benchmark price, the excess cost is likewise shared with its sales customers.

percentage to model the sharing percentages authorized for Atmos. Adopting this modification would adjust Columbia's current 50/50 sharing percentage to a two-band sharing percentage: the first band covering variances from the actual cost benchmark ranging from 0 to 2 percent to be shared 70/30 in favor of customers; and, the second band covering variances over 2 percent to be shared 50/50 between customers and Columbia. Second, Columbia proposes to extend the GCI program scope from seven months to a 12-month calendar year program to ensure that customers capture any variance from peak season gas cost. Finally, Columbia proposes to revise the indices utilized in its market standard benchmark price by replacing the adjusted NYMEX price with the first-of-the-month *Inside FERC's Gas Market Report* price for each pipeline feeding into Columbia's system.

Columbia also proposes to incorporate its existing OSS/CR RSM as the Off-System Sales Incentive ("OSSI") in the proposed PBR mechanism. It proposes two modifications to the OSSI to align Columbia's mechanism with that of LG&E and Atmos. First, the capacity release credits are proposed to be removed from this mechanism and included in a Transportation Cost Incentive ("TCI") formula to offset actual transportation costs. This model mirrors Atmos's approved Transportation Incentive Factor ("TIF"), which lessens its Total Annual Actual Transportation Costs by actual capacity release credits. Second, similar to the GCI mechanism, Columbia proposes to adjust the sharing percentage to model the percentage authorized for Atmos. Adopting this modification would adjust Columbia's current OSS 50/50 sharing percentage to a two-band sharing percentage: the first band covering variances from the actual cost benchmark ranging from 0 to 2 percent to be shared 70/30 in favor of customers; and the second band covering variances over 2 percent to be shared 50/50 between customers and Columbia.

In addition to the above modifications, Columbia proposes to incorporate into the proposed PBR mechanism any value recognized through the negotiation of pipeline transportation contracts. Similar to Atmos's and LG&E's TIF mechanisms, the TCI is designed to capture and share any value realized between Columbia's pipeline transportation costs and the pipeline transportation rates filed and approved by the Federal Energy Regulatory Commission, less any actual capacity release credits. This incentive is intended to encourage Columbia to lower costs through negotiated pipeline transportation contracts.

Based on the record of this proceeding and being otherwise sufficiently advised, the Commission finds that the addition of the two-step sharing process, as well as the inclusion of additional months in the PBR mechanism and incorporating more elements of its gas cost, are in keeping with the Commission's Order in Case No. 2012-00593, as well as the established mechanisms of LG&E and Atmos, and will provide incentives for a higher level of performance on the part of Columbia. The proposed PBR mechanism and tariff, which Columbia proposes to incorporate into its GCA tariff, is reasonable and should be approved with the exception of one revision to the proposed GCI. Columbia's proposal is to use the first-of-the-month *Inside FERC's Gas Market Report* price for each pipeline feeding into Columbia's system to establish its market standard benchmark price for the GCI. The Commission finds, however, that Columbia should establish benchmark calculations based on averages of daily, weekly, and monthly prices for each pipeline serving its system. In response to a Staff request for information, Columbia stated that it believes including a daily or weekly index in the winter season planning process introduces an additional level of uncertainty that has the potential to negatively impact reliability. The Commission finds, however, that PBR mechanisms are intended to reward superior performance on the part of local distribution companies. This superior performance should not only take the form of greater gas cost savings than would be realized absent the incentive, but should also ensure no diminution of security of supply.

Although Columbia proposed no specific extension period for its proposed PBR mechanism and tariff, the Commission finds that the PBR as revised herein should be approved for three years, through March 31, 2018. No less than four months before the March 31, 2018 expiration date, Columbia should file a request for any additional extension of its PBR. Columbia should file annual reports reflecting savings achieved through each component of its PBR program no later than May 1 of each year, which is consistent with the annual calculation of the PBR factor to be in effect for 12 months beginning June 1 of each year, as set out in Columbia's proposed GCA tariff revision.

IT IS THEREFORE ORDERED that:

1. Columbia's request to revise its GCIM and combine it with its OSS/CR RSM into a new PBR mechanism is approved effective April 1, 2015, through March 31, 2018, as proposed, with the modification to its GCI benchmark as discussed herein.

2. Within 20 days of the date of this Order, Columbia shall file with this Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets setting out its GCA tariff reflecting the PBR provision as revised and approved herein and reflecting that it was approved pursuant to this Order.

3. Columbia shall file its annual report regarding any remaining amounts related to the GCIM and OSS/CR RSM on or before November 30, 2015. PBR reports shall be filed annually thereafter on or before May 1 showing PBR results for the months ended March 31.

4. Any request for extension of Columbia's PBR shall be filed no less than four months before the March 31, 2018 expiration date.

By the Commission

ENTERED
MAR 27 2015
KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

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