COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF COLUMBIA GAS OF KENTUCKY, INC. TO EXTEND ITS GAS COST ADJUSTMENT PERFORMANCE BASED RATE MECHANISM	))))	CASE NO. 2017-00453

O R D E R

On November 12, 2019, Columbia Gas of Kentucky, Inc. (Columbia Kentucky) pursuant to KRS 278.400, filed a motion for reconsideration and rehearing (Motion) of the Commission's October 22, 2019 final Order. On December 2, 2019, the Commission issued an Order granting Columbia Kentucky's Motion and set forth a procedural schedule to be followed. In the December 2, 2019 Order, the Commission found that the rehearing should be granted in order to further evaluate the reasonableness of the transportation benchmark within the larger context of Columbia Kentucky's Performance-Based Rate (PBR) mechanism, and to allow Columbia Kentucky an opportunity to submit testimony addressing the reasonableness of the same. Columbia Kentucky responded to two rounds of rehearing discovery requests from Commission Staff. On March 6, 2020, Columbia Kentucky filed a request for a hearing, and a hearing was held in this matter on May 27, 2020. Columbia Kentucky also filed responses to post-rehearing discovery requests from Commission Staff on June 12, 2020, and filed a post-hearing brief on June 24, 2020.

BACKGROUND

The Commission's October 22, 2019 Order modified Columbia Kentucky's PBR mechanism and approved its continuation through March 31, 2021.[1] Specifically, the Commission's Order altered the calculation of Columbia Kentucky's Transportation Cost Incentive (TCI) component by setting the Transportation Cost benchmark for the Columbia Gas Transmission pipeline equal to its discounted contract rate of $4.1850 per dekatherm (Dth).[2] The Commission also required Columbia Kentucky to set its Transportation Cost benchmark for Tennessee Gas Pipeline to the discount rate of $4.5835 per Dth.[3] The Commission ordered Columbia Kentucky's Transportation Cost benchmark to be grossed up, or changed, going forward by an amount commensurate with any future changes in Columbia Gas Transmission's Federal Energy Regulatory Commission (FERC) tariff rate.[4] This modification was ordered based on the Commission's expressed intention for there to be continuing improvement in negotiating discounted transportation rates.[5] The Commission clarified in its Order that Columbia Kentucky would be able to continue to share in savings if it is able to negotiate a lower rate with Columbia Gas Transmission, or if it is able to maintain the current discount rate in spite of FERC approved increases to the rate.[6]

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[1] Oct. 22, 2019 Order at 3.

[2] *Id*. at 2.

[3] *Id*.

[4] *Id*. at 2–3.

[5] *Id.*at 2.

[6] *Id*. at 3.

DISCUSSION AND FINDINGS

Columbia Kentucky's rehearing request asked the Commission to fully consider the efforts that Columbia Kentucky has undertaken to actively pursue creative gas purchasing measures to the benefit of its customers.[7] Columbia Kentucky sought to provide further support regarding its efforts to aggressively negotiate its discounted transportation rates,[8] and to provide additional information to alleviate the Commission's concern with gas transportation rates associated with the PBR mechanism.[9] Columbia Kentucky asserts that the existing discounted transportation rates were negotiated in a market environment significantly different than what exists today and what can be expected in the future.[10] Columbia Kentucky states that one of the primary differences is the discovery and development of significant production volumes from the Marcellus and Utica Shales.[11] Columbia Kentucky avers that prior to these discoveries, the primary sources of natural gas supplies delivered into Columbia Transmission were delivered via Columbia Gulf from resources in the Gulf Coast region.[12] However, currently the flow of gas on Columbia Gulf has reversed, and natural gas now flows from the Appalachian region to the Gulf Coast,[13] and the primary holders of capacity on Columbia Gulf as well

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[7] Motion at 1.

[8] Columbia Kentucky's Post-Hearing Brief at 3.

[9] Motion at 2–7.

[10] *Id*. at 3.

[11] *Id*.

[12] *Id*.

[13] *Id*.

as potential competitors, Texas Eastern and Tennessee pipelines, are natural gas producers.[14] Columbia Kentucky argues that this has caused the competitive environment to change significantly.[15]

Columbia Kentucky further contends that coincident with the development of the Marcellus and Utica Shales, Columbia Gas Transmission implemented a modernization effort on its system, which is now in its second phase.[16] Columbia Kentucky states that the Modernization Program was an agreement between Columbia Gas Transmission and its customers through an extensive settlement process in which Columbia Kentucky actively participated.[17] Through the modernization settlement, a rider mechanism known as the Capital Cost Recovery Mechanism (CCRM) was established for Columbia Gas Transmission to recover its investments and applied to most firm transportation service and storage service transportation contracts.[18] However, through negotiations, Columbia Kentucky won the ability for the CCRM not to be applied to Columbia Kentucky's discounted transportation rate.[19] Columbia Kentucky argues that this achievement has provided significant incremental value to its customers by avoiding the costs of the CCRM, yet receiving the benefits of the modernization program.[20] Columbia Kentucky

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[14] *Id*. at 5.

[15] *Id*.

[16] *Id*. at 3–4.

[17] *Id*. at 4.

[18] *Id*.

[19] *Id*.

[20] *Id*.

further contends that if not for its continued efforts to negotiate various rates as well as preserve discounted rates, the additional cost to Columbia Kentucky's customers would be approximately $6.942 million annually.[21]

In the rehearing testimony and post-hearing brief filed by Columbia Kentucky it argues that the rates approved by FERC are the appropriate rates to be used for the TCI benchmark calculations.[22] However, in recognition of the Commission's desire to encourage continuous improvement, it further stated that, based on the significant changes in the capacity markets over the last several years, the TCI benchmarks should be the FERC approved rates as of February 1, 2014,[23] the year the PBR was first authorized by the Commission.[24] Through the Direct Testimony of Judy M. Cooper (Cooper Testimony), Columbia Kentucky recommended that, instead of using its long-time $4.1850 per Dth discount rate, the TCI benchmark should be established at Columbia Gas Transmission's $4.831 per Dth Base Storage Service Transportation (SST) Tariff Rate effective in 2014, and increased by a gross-up factor of 36.9 percent.[25] This percentage factor was calculated using the difference between the 2014 $4.831 per Dth rate and a 2019 $6.612 per Dth rate, both described as being the Applicable Tariffed

[21] Columbia Kentucky's Post-Hearing Brief at 5–6.

[22] Direct Testimony of Michael D. Anderson (Anderson Testimony) at 9; Columbia Kentucky's Post-Hearing Brief at 6.

[23] The Order first authorizing Columbia Kentucky's PBR was issued not in 2014, but on March 27, 2015, effective April 1, 2015, in Case No. 2014-00350, *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* (Ky. PSC, Mar. 27, 2015).

[24] Anderson Testimony at 10.

[25] Cooper Testimony at 10.

Pipeline Demand Rate.[26] Using its proposed methodology, Columbia Kentucky calculated a proposed alternative TCI benchmark for Columbia Transmission of $5.729 per Dth.[27] According to the Anderson Testimony, establishing the TCI benchmark in this manner accomplishes the Commission goal of continuous improvement and recognizes the changing competitive environment.[28]

In response to Commission Staff's Post-Rehearing Request for Information, Columbia Kentucky proposed an alternative recalculated Columbia Transmission benchmark of $5.361 per Dth.[29] This benchmark is calculated by using as a beginning point the FERC approved April 2015 base SST rate plus all surcharges except the Operational Transaction Rate Adjustment (OTRA) and CCRM surcharges.[30] A 28.1 percent increase is then determined by the difference between the recommended 2015 rate of $5.113 per Dth and an applicable 2019 rate of $6.55 per Dth, which is the April 2019 total FERC approved SST rate less the OTRA surcharge.[31] Conversely, in Columbia Kentucky's post-hearing brief, it states that if the Commission finds that the FERC approved rate is not the appropriate benchmark, then Columbia Kentucky requests that the calculation as set forth in the Cooper testimony be adopted.[32]

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[26] *Id*.

[27] *Id*.

[28] Anderson Testimony at 11.

[29] Responses to Commission Staff's Post-Rehearing Request for Information, Item 10.f.

[30] *Id*.

[31] *Id*.

[32] Columbia Kentucky's Post-Hearing Brief at 9.

Having reviewed the evidence of record and being sufficiently advised, the Commission finds that Columbia Kentucky's request to recalculate its TCI benchmark using the proposed alternate methodology should be granted. It is not the Commission's intent that Columbia Kentucky be penalized by a methodology that would artificially calculate a gas cost loss, as opposed to savings, even though Columbia Kentucky may be paying a transportation rate that is lower than the FERC rate. The Commission further finds that the TCI benchmark specific to Columbia Transmission should be determined consistent with the proposed calculation as set out on page 10 of the Cooper Testimony, with the exception that the gross-up factor should use as its starting point the Total FERC SST rate in effect April 2015 when Columbia Kentucky's PBR mechanism was first effective. The difference between Columbia Gas Transmission's April 2015 Total FERC SST rate of $5.939 per Dth, including all surcharges, and the October 2019 Total FERC SST rate of $6.612 per Dth produces a gross-up factor, or percentage increase, of 11.3 percent.[33]

Absent the discounted transportation rate, Columbia Kentucky would be paying the FERC approved SST rate including all surcharges, and the Commission finds it reasonable to use the avoided increase in that rate as the gross-up factor to apply to the $4.1850 per Dth discounted rate. This results in a TCI benchmark for Columbia Transmission of $4.659 per Dth, compared to Columbia Kentucky's proposed alternative benchmark of $5.728 per Dth and its new alternative of $5.361 Dth. The Commission

[33] Total FERC approved SST rates are shown in Columbia Kentucky's response to Staff's First Rehearing Request for Information, Item 6, Attachment A, and were confirmed as being rates that can be used to calculate percentage increases for the alternative Columbia Transmission benchmark in the response to Post Hearing Request for Information, Item 11.

finds this to be a more reasonable and appropriate methodology than the two proposed by Columbia Kentucky and will be more straightforward and transparent in its application.

IT IS THEREFORE ORDERED that:

1. Columbia Kentucky's proposal for modification of the October 22, 2019 Order, TCI benchmark calculation methodology, as set out on page 10 of the Cooper Testimony and revised herein, is approved effective on and after the date of this Order.

2. Within 20 days of the date of entry of this Order, Columbia Kentucky shall file, using the Commission's Electronic Tariff Filing System, revised tariff sheets that reflect the changes discussed above, and setting out that those sheets were approved pursuant to this Order.

3. All other provisions of the Commission's October 22, 2019 Order not in conflict with this Order shall remain in full force and effect.

4. This case is closed and removed from the Commission's docket.

By the Commission

ENTERED

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KENTUCKY PUBLIC
SERVICE COMMISSION

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