

Columbia Gas[®]
of Kentucky

A NiSource Company

200 Civic Center Drive
Columbus, Ohio 43215

November 5, 2013

Mr. Jeff Derouen, Executive Director
Public Service Commission
Commonwealth of Kentucky
211 Sower Boulevard
P. O. Box 615
Frankfort, KY 40602

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**PUBLIC SERVICE
COMMISSION**

RE: In the matter of adjustment of rates of Columbia Gas of Kentucky, Inc.,
KY PSC Case No. 2013-00167

Dear Mr. Derouen,

Enclosed for docketing with the Commission are an original and ten (10) copies of the *Direct Testimony of Herbert A. Miller, Jr. in Support of the Stipulation and Recommendation* on behalf of Columbia Gas of Kentucky, Inc. Should you have any questions about this filing, please contact me at 614-460-5558.

Very truly yours,

Brooke E. Leslie (gmc)

Brooke E. Leslie
Senior Counsel

Enclosures

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF AN ADJUSTMENT)
OF GAS RATES OF COLUMBIA GAS) CASE NO. 2013-00167
OF KENTUCKY, INC.)

DIRECT TESTIMONY OF HERBERT A. MILLER, JR.
IN SUPPORT OF THE STIPULATION AND RECOMMENDATION

1 Q: Please state your name, title and business address.

2 A: My name is Herbert A. Miller, Jr. My title is President of Columbia Gas of Ken-
3 tucky, Inc. ("Columbia"), and my business address is 2001 Mercer Road, Lexington,
4 KY 40512-4241.

5

6 Q: What is the purpose of your testimony?

7 A: My testimony is filed in support of the Stipulation and Recommendation ("Stipu-
8 lation") filed with the Kentucky Public Service Commission ("Commission") on
9 November 5, 2013, in this proceeding. My testimony will explain how, in Co-
10 lumbia's opinion, the Stipulation is fair, just and reasonable.

11

1 **Q: Please explain how the total amount of the increase in revenues for Columbia**
2 **as proposed in the Stipulation can be considered fair, just and reasonable.**

3 **A: Whether the amount of increase in revenues is fair, just and reasonable is a**
4 **somewhat subjective determination. It is not a mathematical formula, and is a**
5 **matter on which reasonable minds (and experts) can differ. The initial proposal**
6 **by each party in this proceeding represented the best possible outcome based on**
7 **the facts, as they were understood by each of the parties at the commencement of**
8 **this case. Since that time substantial data has been exchanged and the parties**
9 **have engaged in extensive negotiations in an attempt to arrive at an outcome that**
10 **is fair, just and reasonable to Columbia's customers and its shareholders; an out-**
11 **come which the Commission would, and should, approve. The compromise of**
12 **revenues and rates which have resulted from these negotiations reflect the pre-**
13 **sent best judgment of the parties (including their respective outside experts) as to**
14 **what is fair, just and reasonable for Columbia's customers and shareholders.**
15 **These rates are intended to produce sufficient revenue for Columbia to operate**
16 **and provide the high level of service it strives for and its customers expect.**

17 Columbia believes that the entire increase originally filed by the Company
18 is appropriate to maintain its earnings at a level that allows Columbia an oppor-
19 tunity to earn a fair, just and reasonable return on its investment. Nonetheless,

1 the nature of the ratemaking process is such that a Stipulation reached by the
2 various parties in the proceeding can produce a fair, just and reasonable outcome
3 as a result of the compromise reached by the parties. That is what happened in
4 this case.

5
6 **Q: Why would the parties be willing to reach a compromise?**

7 **A:** Each of the parties to the Stipulation has vigorously pursued its respective posi-
8 tions in testimony, exhibits and responses to data requests. However, despite the
9 sincerity of these individual positions, each party recognizes that the final out-
10 come in this proceeding would likely result in a decision with which neither it
11 nor the other parties would be totally satisfied. The parties further recognize that
12 the very nature of litigation entails both risk and cost. By reaching this compro-
13 mise, each party has determined that the proposed Stipulation outcome is pref-
14 erable to other, less favorable outcomes and avoids the costs to Columbia's cus-
15 tomers that could result as an outcome of litigating the issues in this case.
16 Through negotiation, each party was able to prioritize its goals in this proceeding
17 and ensure that those priorities are reflected in the Stipulation.

1 **Q: How does a compromise produce a fair, just and reasonable change in reve-**
2 **nues?**

3 **A: Each of the parties to this proceeding represents a unique constituency. By vig-**
4 **orously pursuing the positions of the respective constituencies in negotiations,**
5 **each party has ensured that the priorities of its constituency have been recog-**
6 **nized and protected in the Stipulation. It is the vigorous representation of all**
7 **constituencies in negotiations, with each party freely and voluntarily agreeing to**
8 **the concessions it has made in order to ensure its priorities are reflected in the**
9 **Stipulation, which provides for a fair, just and reasonable change in rates. In oth-**
10 **er words, this Stipulation is a fair, just and reasonable settlement because each**
11 **constituency has been vigorously represented in the negotiations and, through**
12 **representation or direct involvement, has freely agreed to the Stipulation.**

13
14 **Q: What evidence is there for the Commission that each constituency was vigor-**
15 **ously represented in the negotiations that led to this settlement?**

16 **A: The Stipulation outcome itself reveals the sincerity of the negotiations on all**
17 **sides. The record in this proceeding clearly states the positions of the parties. The**
18 **Commission need only review the positions taken by the parties in this case and**
19 **compare those positions to the Stipulation to determine if each constituency was**

1 vigorously represented in negotiations and made appropriate concessions to en-
2 sure its priorities were reflected on the Stipulation. Any settlement must be
3 viewed in its entirety rather than evaluated on the basis of any its individual
4 components. This Stipulation was negotiated in the context of its overall result
5 and impact on customers and shareholders, not any one particular issue.
6

7 **Q: Please briefly describe the terms of the Stipulation.**

8 **A:** The Stipulation offered to the Commission for its consideration and approval,
9 permits Columbia to adjust its rates to recover an additional \$7.66 million in an-
10 nual revenue compared to rates in effect at the time of filing, beginning with ser-
11 vice rendered on and after December 29, 2013. The increased revenue shall be re-
12 flected as changes to both the customer charges and the volumetric delivery
13 charges associated with Columbia's various rate schedules. In conjunction with
14 the Stipulation, Columbia has withdrawn from this case its proposal to imple-
15 ment a Revenue Normalization Adjustment rate design and has withdrawn its
16 depreciation study it submitted as part of this proceeding. Columbia's current
17 depreciation rates will continue to be used until such time Columbia provides a
18 new depreciation study and the study is accepted by the Commission.

19 **Q: Please describe the attachments to the Stipulation.**

1 A: Attached to the Stipulation are completed sets of pro-forma tariff sheets and
2 proof-of-revenue sheets. These attachments are considered as a part of the Stipu-
3 lation and have been unanimously agreed to by Columbia; the Attorney General
4 of the Commonwealth of Kentucky; the Lexington-Fayette Urban County Gov-
5 ernment; the Kentucky Industrial Utility Customers; Interstate Gas Supply, Inc.;
6 the Community Action Council for Lexington-Fayette, Bourbon, Harrison, and
7 Nicholas Counties, Inc.; and Stand Energy Corporation.

8
9 **Q: Please describe why the attached tariffs that have been modified by virtue of**
10 **the Stipulation are fair, just and reasonable.**

11 A: As a part of the Stipulation, Columbia; the Attorney General of the Common-
12 wealth of Kentucky; the Lexington-Fayette Urban County Government; the Ken-
13 tucky Industrial Utility Customers; Interstate Gas Supply, Inc.; the Community
14 Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Coun-
15 ties, Inc.; and Stand Energy Corporation have agreed upon the tariffs attached
16 hereto. The attached tariffs ensure the interests of the constituencies represented
17 by each party have been prioritized and protected in the Stipulation. The tariffs
18 themselves are the means by which Columbia can produce the level of revenue
19 necessary to meet its obligations. For the convenience of the Commission, the

1 proposed tariff changes are attached to the Stipulation. Unless specifically refer-
2 enced herein, the parties have agreed that all tariff changes proposed by Colum-
3 bia will be permitted to be implemented.

4
5 **Q: Please describe any proposed programs or special commitments agreed upon**
6 **by the Stipulation.**

7 **A:** The parties have agreed that Columbia will: (1) continue its Accelerated Main
8 Replacement Program ("AMRP") Rider with modifications as proposed. For fu-
9 ture AMRP annual filings, Columbia will use an 8.00% overall rate of return
10 grossed up for federal and state taxes, including an authorized return on equity,
11 agreed to by the parties for AMRP filing purposes, of 10.125%; (2) deploy Auto-
12 mated Meter Reading ("AMR") devices as detailed in its application. Columbia
13 and the Attorney General have agreed that Columbia will provide the Attorney
14 General with annual reports, in 2015 and 2016 and for each year thereafter until
15 its next rate case base increase, detailing the costs and savings associated with
16 the implementation of the AMR devices; (3) continue the CHOICE program for
17 an additional three (3) years as detailed in Columbia's application; (4) conduct
18 and maintain studies, analysis, reports and qualifications that demonstrate the
19 threat of by-pass of its special contract customers; and (5) in addition to continu-

1 ing its current contributions to low-income energy assistance, Columbia will
2 guarantee an additional \$10,000 to its Wintercare program over the current level
3 of funding.

4
5 **Q: Please describe how the rate case expenses will be recovered.**

6 **A:** Columbia's actual rate case expenses from this proceeding will be amortized and
7 recovered over a three-year period.

8
9 **Q. How have Columbia and the parties agreed to address Columbia's proposal**
10 **regarding its currently deferred expenses for other postretirement employee**
11 **benefits ("OPEB")?**

12 **A.** The parties have agreed to the amortization and recovery of the OPEB costs of
13 \$294,734 as proposed by Columbia.

14
15 **Q: Please describe the attached proof-of-revenue sheets.**

16 **A:** As a part of the Stipulation, all of the parties have agreed upon the proof-of-
17 revenue sheets attached hereto, which detail the rate designs and validation of
18 the rate adjustment of approximately \$7.66 million. The attachment provides an

1 overview of the proposed distribution rates by service type. The total actual in-
2 crease of \$7,659,905 is shown at the bottom of Page 6 of Attachment B.

3
4 **Q: Has Columbia published public notice of the hearing in this case, scheduled to**
5 **begin November 13, 2013?**

6 **A:** Yes. Columbia published such public notice in newspapers throughout its ser-
7 vice area. Affidavits demonstrating the publications will be docketed with the
8 Commission.

9
10 **Q: Are there any other matters you wish to address at this time?**

11 **A:** Yes. In closing, please note that all of the parties have expended considerable ef-
12 fort to reach the terms that form the basis of the Stipulation. The parties agree
13 that this Stipulation is reasonable, produces rates that are fair, and is in the best
14 interest of all concerned. Together, we submit the Stipulation for the considera-
15 tion of the Commission and urge that the terms be approved in its entirety.

16
17 **Q: Does this conclude your Direct Testimony in Support of the Stipulation?**

18 **A:** Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Direct Testimony of Herbert A. Miller, Jr., in Support of the Stipulation and Recommendation was served by First Class U.S. Mail postage prepaid on the following parties this 5th day of November, 2013.

Brooke E. Leslie (gmc)

Brooke E. Leslie
Attorney for
COLUMBIA GAS OF KENTUCKY, INC.

Hon. Iris G. Skidmore
Bates & Skidmore
415 W. Main Street, Suite 2
Frankfort, Kentucky 40601

Hon. Dennis G. Howard, II
Office of the Attorney General
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601-8204

Hon. David F. Boehm
Boehm, Kurtz & Lowry
36 E. Seventh Street, Suite 1510
Cincinnati, Ohio 45202

Hon. John M. Dosker
Stand Energy Corporation
1077 Celestial Street, Suite #110
Cincinnati, Ohio 45202-1629

Hon. David J. Barberie
Lexington-Fayette Urban County Government
200 East Main Street
Lexington, Kentucky 40507

Hon. Matthew R. Malone
Hurt, Crosbie & May PLLC
127 West Main Street
Lexington, Kentucky 40507