



a PPL company

December 30, 2014

Jeff Derouen  
Executive Director  
Public Service Commission of Kentucky  
211 Sower Boulevard  
Frankfort, Kentucky 40602

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DEC 30 2014

PUBLIC SERVICE  
COMMISSION

Louisville Gas and  
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State Regulation and Rates  
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Louisville, Kentucky 40232  
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Robert M. Conroy  
Director - Rates  
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Case No. 2014-00476

**RE: Louisville Gas and Electric Company's Proposed Renewal and  
Modification of its Performance-Based Ratemaking Mechanism,  
Case No. 2014-00xxx**

Dear Mr. Derouen:

Pursuant to the order of April 30, 2010, in Case No. 2009-00550, and the terms of Louisville Gas and Electric Company's ("LG&E") Experimental Performance-Based Rate Mechanism Tariff, attached are an original and ten (10) copies of the following:

1. Notice of Filing Report on Gas Supply Cost Performance-Based Ratemaking Mechanism;
2. Report to the Kentucky Public Service Commission on LG&E's Gas Supply Cost Performance-Based Ratemaking Mechanism; and
3. Red-lined Tariff Sheets reflecting proposed modifications and an extension of LG&E's Gas Supply Cost Performance-Based Ratemaking Mechanism.

Should you have any questions concerning the enclosed, please contact me or Clay Murphy, Director of Gas Management, Planning and Supply at (502) 627-2424.

Sincerely,

Robert M. Conroy

cc: Jennifer Black Hans

**Notice of  
Filing Report**

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COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

DEC 30 2014

PUBLIC SERVICE  
COMMISSION

In the Matter of:

LOUISVILLE GAS AND ELECTRIC )  
COMPANY'S PROPOSED RENEWAL )  
AND MODIFICATION OF ITS ) CASE NO. 2014-00476  
PERFORMANCE-BASED RATEMAKING )  
MECHANISM )


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NOTICE OF FILING REPORT ON GAS SUPPLY  
COST PERFORMANCE-BASED RATEMAKING MECHANISM

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Pursuant to the order of April 30, 2010, in Case No. 2009-00550, and the terms of Louisville Gas and Electric Company's ("LG&E") Experimental Performance-Based Rate Mechanism Tariff (Original Sheet No. 87, P.S.C. of Ky. Gas No. 9), LG&E hereby gives notice of the filing of its Report to the Kentucky Public Service Commission on Gas Supply Cost Performance-Based Ratemaking Mechanism, a copy of which is attached hereto. In this Report, LG&E proposes limited modification to, and an extension of, its Gas Supply Cost Performance-Based Ratemaking Mechanism. Proposed redlined tariff sheets are also attached.

Respectfully submitted,

  
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J. Gregory Cornett  
Associate General Counsel  
LG&E and KU Energy LLC  
220 West Main Street  
P.O. Box 32010  
Louisville, KY 40232  
Telephone: (502) 627-2756

Counsel for Louisville Gas and Electric Company

**CERTIFICATE OF SERVICE**

I hereby certify that a true copy of the foregoing was served via UPS Overnight Delivery this 30th day of December, 2014 upon the following persons:

Jennifer Black Hans  
Office of the Attorney General  
Utility & Rate Intervention Division  
1024 Capital Center Drive  
Suite 200  
Frankfort, KY 40601-8204

A handwritten signature in black ink, consisting of the letters 'J', 'A', and 'C' followed by a long horizontal stroke.

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Counsel for Louisville Gas and Electric Company

**Report On  
LG&E'S  
Gas Supply Cost  
Performance-Based  
Ratemaking  
Mechanism**

## **LOUISVILLE GAS AND ELECTRIC COMPANY**

### **REPORT TO THE KENTUCKY PUBLIC SERVICE COMMISSION ON GAS SUPPLY COST PERFORMANCE-BASED RATEMAKING MECHANISM**

**December 30, 2014**

On December 30, 2009, Louisville Gas and Electric Company (“LG&E” or “the Company”) filed with the Kentucky Public Service Commission (hereinafter “Commission”) a report on its gas supply cost Performance-Based Ratemaking (“PBR”) mechanism. On April 30, 2010, the Commission issued its Order in Case No. 2009-00550 approving LG&E’s current gas supply cost PBR mechanism for a five-year experimental period to end October 31, 2015. In accordance with that Order, LG&E is required to submit to the Commission its report on the gas supply cost PBR mechanism sixty days after the close of the PBR Year encompassing the 12 months ended October 31, 2014. The current gas supply cost PBR mechanism remains in effect through October 31, 2015, pending a subsequent Commission Order modifying or extending the current gas supply cost PBR mechanism.

In this Report, LG&E first addresses the success and applicability of its PBR mechanism as an incentive to outperform benchmarks and lower costs. Next, LG&E assesses its performance under the three components of its current PBR mechanism. Finally, LG&E proposes an extension of, and certain limited modifications to, the current gas supply cost PBR mechanism.

#### **SUCCESS AND APPLICABILITY OF GAS SUPPLY COST PBR MECHANISM**

LG&E’s PBR mechanism continues to be successful in encouraging the Company to outperform benchmarks, achieve measurable gas supply cost savings, and provide lower gas costs to its customers with no decrease in reliability. During the period covered by this report (that is from November 1, 2010, and through October 31, 2014), LG&E has

achieved \$33,815,425 in savings under the current mechanism. Of the total savings, LG&E has retained \$10,650,364 and the remaining portion of \$23,165,061 has been credited to customers. Attached as Appendix A is a monthly summary by component for Year 14 (the 12 months ended October 31, 2011), Year 15 (the 12 months ended October 31, 2012), Year 16 (the 12 months ended October 31, 2013), and Year 17 (the 12 months ended October 31, 2014). The supporting work papers have been previously filed with the Commission by LG&E in the required quarterly gas supply cost PBR mechanism filings.

LG&E's PBR mechanism, which measures performance against established benchmarks, is understandable and easy to calculate and yet complex enough to reflect market realities. It encourages LG&E to develop, pursue, and manage creative supply arrangements, increase risk-taking, and negotiate aggressively in order to improve cost performance and maintain reliability.

LG&E's PBR mechanism:

- (1) Benefits LG&E's customers and shareholders;
- (2) Encourages LG&E to maintain and improve its position as an energy provider;
- (3) Promotes successful cost management;
- (4) Establishes an objective benchmark as a regulatory standard;
- (5) Functions as a regulatory model that operates effectively in a highly competitive market; and
- (6) Enables LG&E to maintain or improve service reliability.

LG&E's PBR mechanism benefits both customers and shareholders. The PBR mechanism encourages LG&E to outperform benchmarks resulting in the provision of low cost and reliable service to customers. Shareholders are able to benefit from the PBR mechanism through the sharing mechanism which rewards shareholders for the

assumption of certain risks associated with maximizing performance under the PBR mechanism. While LG&E has assumed certain risks in order to achieve savings under its PBR mechanism, these risks have been manageable. These risks include, but are not limited to, contracting risks, storage management risks, supply management risks, transportation management risks, and credit risks.

LG&E's gas supply cost PBR mechanism is comprehensive – every dollar of gas supply cost is benchmarked. LG&E's PBR mechanism establishes meaningful and objective benchmarks against which to measure LG&E's performance. The benefits associated with LG&E's PBR mechanism are quantifiable, measurable, and verifiable. The PBR mechanism provides continued Commission oversight of LG&E's gas supply purchasing activities by enabling the Commission to objectively measure LG&E's performance and review pertinent information.

LG&E's PBR mechanism continues to provide incremental benefits to customers, which might otherwise not be available to them. It has resulted in measurable and quantifiable savings for customers. Likewise, LG&E's PBR mechanism does not diminish service reliability. The continuation of the PBR mechanism as proposed in this filing will encourage LG&E to maintain, and where possible, to improve performance.

LG&E used four principles in designing its gas supply cost PBR mechanism, and they continue to remain applicable. These principles are:

- A cost/benefit test
- A least cost acquisition standard
- The maintenance of reliable service
- An integrated behavior standard

Cost/benefit test: By specifying benchmarks, LG&E's gas supply cost PBR mechanism establishes the cost/benefit test to determine the effectiveness of LG&E's procurement



activity. The benchmarks which are established prior to the beginning of the operation of the PBR mechanism are objective, meaningful, and inclusive benchmarks that incent the utility to perform as desired. The benchmarks provide a meaningful framework for measuring and reviewing performance. LG&E's performance is measured by comparing actual costs to benchmark costs to determine the savings or expenses resulting under the PBR mechanism.

Because it is not possible to determine what LG&E would have done in the absence of the PBR mechanism and the incentives it provides, it is necessary that the PBR mechanism be properly constructed. The benchmarks incorporated in the PBR mechanism can be used to approximate the results that LG&E would have achieved in the absence of the incentives that the PBR mechanism provides.

Least cost acquisition standard: The goal of least cost acquisition is one of the most important reasons to encourage the use of gas supply cost PBR mechanisms in general, and LG&E's PBR mechanism specifically. LG&E's gas supply cost PBR mechanism incorporates a "least cost acquisition" standard in purchasing natural gas supplies and pipeline transportation services. The sharing mechanism of LG&E's PBR mechanism encourages it to purchase the lowest cost gas supplies and reliable pipeline transportation services from among all the supplies and pipeline transportation services available to the Company.

The Commission supplemented the regulatory guidance originally embodied in Administrative Case No. 297 when, in Administrative Case No. 384, the Commission stated that local distribution companies ("LDCs") "should maintain their objective of procuring wholesale natural gas supplies at market clearing prices, within the context of maintaining a balanced natural gas supply portfolio that balances the objectives of obtaining low cost gas supplies, minimizing price volatility, and maintaining reliability of

supply.”<sup>1</sup> LG&E’s gas supply cost PBR mechanism encourages the Company to meet and achieve these goals.

Maintenance of reliable service: LG&E’s gas supply cost PBR mechanism recognizes the importance of reliability in contracting for natural gas supplies. The benchmarks incorporated into LG&E’s gas supply cost PBR mechanism support a portfolio that provides reliable yet flexible supply management. LG&E’s PBR mechanism does not provide incentives that could encourage it to take actions that reduce reliability in order to achieve lower costs.

Integrated behavioral standard: A PBR mechanism must be constructed so as to ensure that it encourages and incents the appropriate behavior in creating cost savings for customers. An integrated behavioral standard requires that a PBR mechanism be well reasoned, comprehensive, and balanced. An integrated behavioral standard recognizes that a PBR mechanism should be designed to minimize all gas supply cost elements, not simply to minimize a discrete component or components of gas supply costs. Likewise, the components of the PBR mechanism should be balanced so that one objective (such as least cost) is not encouraged to the detriment of other equally important objectives (such as reliability).

LG&E’s PBR mechanism is well reasoned in that it contains objective and meaningful benchmarks. LG&E’s PBR mechanism is comprehensive and covers all gas supply components. LG&E’s PBR mechanism is balanced and does not encourage savings under one component over savings under another component. This is supported through the application of uniform sharing percentages across all components of the PBR mechanism.

Designing a flexible PBR mechanism that is capable of providing meaningful incentives over the term of the PBR mechanism is essential. A narrow, rigidly constructed PBR

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<sup>1</sup> See Order in Administrative Case No. 384 dated July 17, 2001, at p. 18.

mechanism could ultimately result in higher gas supply costs and the diminishment of reliability. It may encourage the LDC to focus on saving cents rather than dollars. LG&E's PBR mechanism reflects the current market and regulatory environment. LG&E's PBR mechanism does not encourage a rigid, narrow approach to contracting for gas supply or related services. Instead, it provides LG&E with the flexibility to explore any pricing arrangements that may become available in the evolving marketplace.

The purpose of any incentive mechanism, such as LG&E's gas supply PBR mechanism, is to encourage and reward a desired behavior. Any changes to the incentive mechanism will result in behavioral changes. (Similarly, absent a PBR mechanism, behavior will also change.) For that reason, modifications to LG&E's PBR mechanism should encourage and reward desired behavior, and not behavior that diminishes the reliability of gas supply, does not produce least cost gas supply, and is not integrated.

#### **ASSESSMENT OF GAS SUPPLY COST PBR MECHANISM BY COMPONENT**

LG&E's gas supply cost PBR mechanism is comprehensive and includes all of LG&E's gas supply costs. The three basic components of LG&E's gas supply cost PBR mechanism are the Gas Acquisition Index Factor ("GAIF"), the Transportation Index Factor ("TIF"), and the Off-System Sales Index Factor ("OSSIF").

The sum of the savings or expenses from these three components is subject to an asymmetrical sharing mechanism (which includes a threshold) that allocates any savings or expenses between shareholders and customers. Additionally, customers realize any benefits from the gas supply cost PBR mechanism during the PBR period.<sup>2</sup> After the PBR period, a recovery factor is placed into effect the following February so that LG&E may recover any savings from, or refund any expenses to, customers.

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<sup>2</sup> A PBR period covers the 12 months from November 1 through October 31 of the following calendar year and coincides with gas industry contracting practices.

### Gas Acquisition Index Factor (“GAIF”)

The GAIF component of the gas supply cost PBR mechanism benchmarks LG&E’s actual commodity costs against a calculated benchmark representative of the market price of gas by using various industry-recognized price postings as applied to total actual purchase volumes. The GAIF component includes LG&E’s supply reservation fees, which are benchmarked against an average of the actual reservation fees paid by LG&E from the previous two years. The GAIF benchmark is reflective of the fact that LG&E purchases natural gas supplies from a number of supply zones on different pipelines at various times under a variety of pricing arrangements.

Currently, LG&E’s supply area natural gas purchases for transportation by Texas Gas Transmission LLC (“Texas Gas” or “TGT”) are benchmarked in three zones on Texas Gas’s system: Zone SL, Zone 1, and Zone 4. It is in these zones that LG&E currently has firm pipeline receipt point entitlements. LG&E also has firm transportation capacity entitlements on the system of Tennessee Gas Pipeline Company (“Tennessee” or “TGPL”). LG&E currently has firm pipeline receipt point entitlements in Tennessee’s Zone 0 supply area. LG&E can also buy natural gas volumes for delivery to its city gate.

The indices used by LG&E in its gas supply cost PBR mechanism are published by *Natural Gas Week*, *Platts Gas Daily*, and *Platts Inside FERC’s Gas Market Report*. These three publications represent recognized sources of natural gas pricing information available in the industry; these indices provide pricing data specifically related to the supply zones accessed by LG&E. LG&E does not (and is not currently required to) provide any pricing information to these publications. Therefore, LG&E does not influence the determination of these indices.

Importantly, LG&E’s PBR mechanism encourages it to optimize its purchases across the purchase locations accessible by LG&E. The GAIF benchmark is constructed so as to recognize that LG&E may purchase natural gas supplies from a variety of supply zones at

various times during the month. As a result, the PBR mechanism encourages LG&E to optimize its purchase of natural gas from the lowest priced supply zone(s).

LG&E's benchmarking mechanism encourages and allows it the opportunity for reward if it manages gas purchases to achieve actual gas costs less than the benchmark. LG&E is encouraged to enter into a variety of reliable and flexible gas supply contracting agreements in order to optimize performance.

In order to maintain the viability of the PBR mechanism, LG&E proposes to revise the Delivery Area Index ("DAI"), seasonalize the calculation of the Supply Zone Firm Quantity Entitlement Percentages ("SZFQE%"), simplify the calculation of the midpoint price, and make certain other modifications and clarifications to the GAIF component of the PBR mechanism as further discussed below.

#### Historical Performance

Under the GAIF component of the gas supply cost PBR mechanism, LG&E has achieved total savings related to its gas commodity costs of \$18,246,176, broken down as follows: \$6,600,131 for the 12 months ended October 31, 2011; \$4,917,173 for the 12 months ended October 31, 2012; \$3,522,244 for the 12 months ended October 31, 2013; and \$3,206,628 for the 12 months ended October 31, 2014.

#### **Transportation Index Factor ("TIF")**

The TIF component of the gas supply cost PBR mechanism benchmarks LG&E's actual pipeline transportation costs against the transportation rates filed with and approved by the Federal Energy Regulatory Commission ("FERC") by either Texas Gas or Tennessee, as applicable. The TIF benchmark is reflective of the manner in which pipelines charge for firm pipeline transportation service.

LG&E's transportation costs include firm services purchased from Texas Gas and Tennessee that help ensure that LG&E has reliable natural gas supplies to serve the requirements of its firm customers. For firm services, pipelines generally charge a two-part demand/commodity transportation rate which is established and regulated by FERC. These FERC-approved rates provide a fair and objective benchmark against which to measure savings achieved by LG&E as a result of the gas supply cost PBR mechanism.

LG&E's gas transportation cost benchmarking mechanism focuses on all pipeline transportation costs, not just some costs. LG&E's mechanism adopts an integrated behavioral approach, which permits it to reduce gas transportation costs to the extent that LG&E can lower those costs through negotiating discounts, releasing capacity, or by some other means. LG&E's benchmarking mechanism encourages LG&E to reduce transportation costs while maintaining or enhancing reliability.

#### Historical Performance

Under the TIF component of the gas supply cost PBR mechanism, LG&E has achieved total savings related to its pipeline transportation costs of \$15,309,213, broken down as follows: \$3,973,785 for the 12 months ended October 31, 2011; \$6,044,413 for the 12 months ended October 31, 2012; \$2,670,221 for the 12 months ended October 31, 2013; and \$2,620,794 for the 12 months ended October 31, 2014.

#### Off-System Sales Index Factor ("OSSIF")

The OSSIF component of the gas supply cost PBR mechanism benchmarks LG&E's off-system sales against the out-of-pocket costs incurred to make such sales. The OSSIF benchmark is reflective of the manner in which LG&E makes off-system sales transactions and objectively measures savings achieved by LG&E as a result of these transactions.

An off-system sale is the resale of natural gas supplies (or services) to customers other than LG&E's retail customers. Such parties could include marketers, producers, end-users not on LG&E's system, or other LDCs.

### Historical Performance

Under the OSSIF component of the gas supply cost PBR mechanism, LG&E has achieved total savings related to its gas commodity costs of \$260,036, broken down as follows: \$231,585 for the 12 months ended October 31, 2011; \$0 for the 12 months ended October 31, 2012; \$0 for the 12 months ended October 31, 2013; and \$28,451 for the 12 months ended October 31, 2014.

### Summary

In order to maximize savings under its gas supply cost PBR mechanism, LG&E continues to investigate and initiate new purchasing strategies, respond to changing market conditions, and explore more gas supply alternatives and opportunities than it might have done otherwise.

Some of the specific actions taken by LG&E to achieve savings under the gas supply cost PBR mechanism are outlined below.

LG&E has sought to achieve savings under the GAIF portion of the gas supply cost PBR mechanism by:

- (1) aggressively managing gas supplies to achieve savings;
- (2) optimizing supply reservation fees and providing adequate supply flexibility;
- (3) optimizing purchases of gas, for example at capacity-constrained points; and



(4) optimizing the use of LG&E's storage.

LG&E has sought to achieve savings under the TIF portion of the gas supply cost PBR mechanism by:

(1) aggressively negotiating pipeline discounts; and

(2) optimizing use of pipeline capacity.

LG&E has sought to achieve savings under the OSSIF portion of the gas supply cost PBR mechanism by:

(1) investigating and making off-system transactions when the opportunity to generate savings arises; and

(2) dealing with financially stable third parties and continually evaluating their performance.

The gas market is a continually evolving one. LG&E's gas supply strategies have evolved and must continue to evolve with the market. LG&E's PBR mechanism is generally flexible enough to allow it to respond appropriately.

#### **PROPOSED EXTENSION OF AND MODIFICATIONS TO GAS SUPPLY COST PBR MECHANISM**

LG&E's current gas supply cost PBR mechanism is for a term of five years and reflects two previous extensions of the PBR mechanism. This report shows that during Years 14, 15, 16, and 17 (the first four years covered by the current mechanism), LG&E's gas supply cost PBR mechanism resulted in significant savings for customers. Therefore, LG&E proposes to extend its gas supply cost PBR mechanism, including the limited



modifications proposed herein, for an additional term of five years, that is, through October 31, 2020. Such a term will encourage LG&E to achieve meaningful benefits for customers because it will allow for a longer-term focus on performance.

However, this proposed 5-year extension is predicated upon LG&E's ability to seek Commission approval of interim modifications and refinements. Natural gas markets in the U.S. are undergoing significant changes. The general increase in the availability of gas is only part of the story. Natural gas availability has increased in areas not traditionally considered to be production areas, but rather market areas. As such, the pipelines that bring that gas to market are undergoing significant changes. As natural gas markets continue to evolve, LG&E may propose interim changes to the PBR mechanism during the 5-year extension period that will provide it with the ability to adjust its gas supply strategies to take advantage of changing market conditions. Otherwise, there is the possibility that a static gas supply cost PBR mechanism could foreclose opportunities to maximize savings for customers by discouraging LG&E from adjusting its gas purchase strategies to changing market realities.

LG&E is proposing to make certain changes to the GAIF component of the PBR mechanism effective November 1, 2015. These changes include modifying the calculation of the DAI, seasonalizing the SZFQE%, and using the *Platts Gas Daily* mid-point posting instead of averaging the high and low postings from *Platts Gas Daily* postings. These changes are each discussed in further detail below.

LG&E is proposing to modify the calculation of the Delivery Area Index ("DAI"). Currently, the DAI is used to benchmark supplies of gas delivered to LG&E's city-gate that are outside of its firm pipeline contract quantity entitlements. The benchmark currently applicable to those purchases relies upon price postings on Dominion Transmission, Inc. At one time this benchmark provided a reasonable price surrogate for the city-gate deliveries to which they were applicable. However, with the various shifts in the natural gas supply market, these Dominion Transmission, Inc. price postings are no

longer reasonable benchmarks for supplies delivered to LG&E's city gate. Therefore, LG&E is proposing the following method to calculate the DAI applicable to Purchases in Excess of Firm Daily Contract Quantities ("PEFDCQ"):

**DAI** is the Delivery Area Index to be established for **PEFDCQ** made by Company on the day(s) when Company has arranged for deliveries to Company's city gate that are in excess of its total firm pipeline quantity entitlements.

The daily DAI applicable to the daily purchases made for city-gate delivery shall be the higher of the following, either

$$\text{DAI} = \text{DAI (TGT-1)} / (1 - \text{FR}\%) + \text{CCS} + \text{DDCS}$$

or

$$\text{DAI} = \text{DAI (TGT-4)} / (1 - \text{FR}\%) + \text{CCS} + \text{DDCS}$$

Where:

**DAI (TGT-1)** represents the highest daily midpoint posting by *Platts Gas Daily* for East Texas – North Louisiana Area, Texas Gas, zone 1.

**DAI (TGT-4)** represents the highest daily midpoint posting by *Platts Gas Daily* for Appalachia – Lebanon Hub.

**FR%** is the tariffed Fuel Retention Percentage under Texas Gas Transmission, LLC's Rate NNS.

**CCS** are the tariffed NNS Commodity Charge and Surcharges under Texas Gas Transmission, LLC's Rate NNS.

**DDCS** are the tariffed Daily Demand Charge and Surcharges under Texas Gas Transmission, LLC's Rate NNS.

While LG&E has not utilized this component of the GAIF portion of the PBR mechanism during the review period for the current PBR mechanism, LG&E does not want to forestall potential opportunities to make use of delivered supplies in providing reliable and cost-effective service to customers.

LG&E is proposing to seasonalize the calculation of the SZFQE% to recognize that LG&E's pipeline services and supply zone entitlements are seasonal. Reflecting the seasonal nature of LG&E's pipeline services and the underlying supply zone entitlements will result in benchmarks that more closely match the supply zone entitlements available to LG&E.

LG&E is proposing to eliminate a redundant step in determining the SAIs whereby the high and low postings from *Platts Gas Daily* are used to calculate an average price. Instead, LG&E is proposing to simplify the calculation by using the midpoint price posted by *Platts Gas Daily*. The average of the high and low price posting and the posted midpoint price have historically been very similar.

LG&E is also using this opportunity to clarify how the indices are determined if an index is not posted. If an index ceases to publish or fails to report, the Company may use a suitable replacement index and report that change in writing to the Commission in the next quarterly report. If the Company does not select a replacement index, the average is adjusted accordingly. For example, in the event that a first-of-month index is not posted, the posting for the proximate zone on the same pipeline may be used as the replacement index. Or, if a daily index is not posted for a given day, the monthly average is adjusted by reducing the number of days used as a divisor. The calculation of the monthly average will include daily price postings for weekend days and holidays.

LG&E is not proposing any changes to either the TIF or OSSIF component of the PBR mechanism.

In LG&E's review of its PBR mechanism in Case No. 2001-00017, the Commission terminated the then-effective 50/50 sharing mechanism of savings and expenses effective November 1, 2001. The Commission substituted a 25/75 Company/Customer sharing for all savings (and expenses) up to 4.5% of the benchmarked gas costs. Savings (and expenses) in excess of 4.5% of the benchmarked gas costs are shared at the previous

50/50 level. Given the risk levels inherent in LG&E's gas supply cost PBR mechanism, LG&E is proposing a more balanced sharing of risks and rewards. LG&E is proposing a 30/70 Company/Customer sharing for all savings (and expenses) up to 2.0% of the benchmarked gas costs. Savings (and expenses) in excess of 2.0% of the benchmarked gas costs are shared at the 50/50 level. This is the same as the sharing mechanism approved for Atmos Energy Corporation in its current PBR mechanism.

LG&E requests that the Commission authorize the extension and modification of its PBR mechanism by no later than June 1, 2015. Authorization by that date will allow LG&E adequate time to adjust its gas supply portfolio and supply strategies in response to the proposed modifications to the PBR mechanism prior to the new mechanism becoming effective November 1, 2015.

LG&E also proposes to file a report and assessment of the gas supply cost PBR mechanism that becomes effective November 1, 2015, if approved, according to a timeline that is the same as that included in its current PBR mechanism, that is, within sixty (60) days of October 31, 2019. LG&E will make any recommended modifications to the gas supply cost PBR mechanism in that report, and the Commission will review and act upon any proposed changes to the mechanism at that time. This procedure will add certainty to the nature of the mechanism by establishing a review and approval process with a known timeline.

## **Appendix A**

**Summary of Gas Supply Cost Performance-Based Ratemaking Activity**  
**For Year 14**  
**(November 1, 2010 through October 31, 2011)**

	<i>PBR-GAIF</i>	<i>PBR-TIF</i>	<i>PBR-OSSIF</i>	<i>Total</i>
<i>Nov. 2010</i>	\$1,035,880	\$220,492	\$93,158	\$1,349,530
<i>Dec.</i>	\$1,200,342	\$245,469	\$0	\$1,445,811
<i>Jan. 2011</i>	\$1,567,846	\$237,011	\$0	\$1,804,857
<i>Qtr. Subtotal</i>	\$3,804,068	\$702,972	\$93,158	\$4,600,198
<i>Feb.</i>	\$669,518	\$175,962	\$42,670	\$888,150
<i>Mar.</i>	\$562,248	\$157,352	\$95,757	\$815,357
<i>Apr.</i>	\$81,691	\$192,091	\$0	\$273,782
<i>Qtr. Subtotal</i>	\$1,313,457	\$525,405	\$138,427	\$1,977,289
<i>May</i>	\$70,506	\$214,556	\$0	\$285,062
<i>Jun.</i>	\$244,679	\$503,435	\$0	\$748,114
<i>Jul.</i>	\$212,467	\$506,276	\$0	\$718,743
<i>Qtr. Subtotal</i>	\$527,652	\$1,224,267	\$0	\$1,751,919
<i>Aug.</i>	\$260,641	\$508,641	\$0	\$769,282
<i>Sep.</i>	\$201,918	\$504,356	\$0	\$706,274
<i>Oct.</i>	\$492,395	\$508,144	\$0	\$1,000,539
<i>Qtr. Subtotal</i>	\$954,954	\$1,521,141	\$0	\$2,476,095
<i>Total</i>	\$6,600,131	\$3,973,785	\$231,585	\$10,805,501

**Summary of Gas Supply Cost Performance-Based Ratemaking Activity**

**For Year 15**

**(November 1, 2011 through October 31, 2012)**

	<u>PBR-GAIF</u>	<u>PBR-TIF</u>	<u>PBR-OSSIF</u>	<u>Total</u>
<i>Nov. 2011</i>	\$389,638	\$486,705	\$0	\$876,343
<i>Dec.</i>	\$740,702	\$491,849	\$0	\$1,232,551
<i>Jan. 2012</i>	\$709,913	\$492,678	\$0	\$1,202,591
<i>Qtr. Subtotal</i>	\$1,840,253	\$1,471,232	\$0	\$3,311,485
<i>Feb.</i>	\$572,358	\$483,683	\$0	\$1,056,041
<i>Mar.</i>	\$405,132	\$482,443	\$0	\$887,575
<i>Apr.</i>	\$119,633	\$504,697	\$0	\$624,330
<i>Qtr. Subtotal</i>	\$1,097,123	\$1,470,823	\$0	\$2,567,946
<i>May</i>	\$473,974	\$520,094	\$0	\$994,068
<i>Jun.</i>	\$174,771	\$504,297	\$0	\$679,068
<i>Jul.</i>	\$286,523	\$524,499	\$0	\$811,022
<i>Qtr. Subtotal</i>	\$935,268	\$1,548,890	\$0	\$2,484,158
<i>Aug.</i>	\$251,176	\$516,348	\$0	\$767,524
<i>Sep.</i>	\$253,502	\$520,582	\$0	\$774,084
<i>Oct.</i>	\$539,851	\$516,538	\$0	\$1,056,389
<i>Qtr. Subtotal</i>	\$1,044,529	\$1,553,468	\$0	\$2,597,997
<i>Total</i>	\$4,917,173	\$6,044,413	\$0	\$10,961,586

**Summary of Gas Supply Cost Performance-Based Ratemaking Activity**  
**For Year 16**  
**(November 1, 2012 through October 31, 2013)**

	<u>PBR-GAIF</u>	<u>PBR-TIF</u>	<u>PBR-OSSIF</u>	<u>Total</u>
<i>Nov. 2012</i>	<i>\$519,174</i>	<i>\$209,764</i>	<i>\$0</i>	<i>\$728,938</i>
<i>Dec.</i>	<i>\$469,928</i>	<i>\$208,781</i>	<i>\$0</i>	<i>\$678,709</i>
<i>Jan. 2013</i>	<i>\$416,701</i>	<i>\$208,912</i>	<i>\$0</i>	<i>\$625,613</i>
<i>Qtr. Subtotal</i>	<i>\$1,405,803</i>	<i>\$627,457</i>	<i>\$0</i>	<i>\$2,033,260</i>
<i>Feb.</i>	<i>\$576,809</i>	<i>\$204,998</i>	<i>\$0</i>	<i>\$781,807</i>
<i>Mar.</i>	<i>\$626,956</i>	<i>\$215,060</i>	<i>\$0</i>	<i>\$842,016</i>
<i>Apr.</i>	<i>\$196,465</i>	<i>\$268,321</i>	<i>\$0</i>	<i>\$464,786</i>
<i>Qtr. Subtotal</i>	<i>\$1,400,230</i>	<i>\$688,379</i>	<i>\$0</i>	<i>\$2,088,609</i>
<i>May</i>	<i>\$96,881</i>	<i>\$218,957</i>	<i>\$0</i>	<i>\$315,838</i>
<i>Jun.</i>	<i>\$140,287</i>	<i>\$228,026</i>	<i>\$0</i>	<i>\$368,313</i>
<i>Jul.</i>	<i>\$44,433</i>	<i>\$230,231</i>	<i>\$0</i>	<i>\$274,664</i>
<i>Qtr. Subtotal</i>	<i>\$281,601</i>	<i>\$677,214</i>	<i>\$0</i>	<i>\$958,815</i>
<i>Aug.</i>	<i>\$29,314</i>	<i>\$230,230</i>	<i>\$0</i>	<i>\$259,544</i>
<i>Sep.</i>	<i>\$89,058</i>	<i>\$222,375</i>	<i>\$0</i>	<i>\$311,433</i>
<i>Oct.</i>	<i>\$316,238</i>	<i>\$224,566</i>	<i>\$0</i>	<i>\$540,804</i>
<i>Qtr. Subtotal</i>	<i>\$434,610</i>	<i>\$677,171</i>	<i>\$0</i>	<i>\$1,111,781</i>
<i>Total</i>	<i>\$3,522,244</i>	<i>\$2,670,221</i>	<i>\$0</i>	<i>\$6,192,465</i>



**Summary of Gas Supply Cost Performance-Based Ratemaking Activity**  
**For Year 17**  
**(November 1, 2013 through October 31, 2014)**

	<u>PBR-GAIF</u>	<u>PBR-TIF</u>	<u>PBR-OSSIF</u>	<u>Total</u>
<i>Nov. 2013</i>	\$99,486	\$199,517	\$0	\$299,003
<i>Dec.</i>	\$1,001,638	\$201,388	\$32,100	\$1,235,126
<i>Jan. 2014</i>	(\$693,106)	\$204,470	(\$3,649)	(\$492,285)
<i>Qtr. Subtotal</i>	\$408,018	\$605,375	\$28,451	\$1,041,844
<i>Feb.</i>	\$1,708,929	\$196,046	\$0	\$1,904,975
<i>Mar.</i>	\$506,248	\$200,235	\$0	\$706,483
<i>Apr.</i>	(\$15,842)	\$214,152	\$0	\$198,310
<i>Qtr. Subtotal</i>	\$2,199,335	\$610,433	\$0	\$2,809,768
<i>May</i>	\$18,649	\$214,212	\$0	\$232,861
<i>Jun.</i>	\$36,480	\$226,267	\$0	\$262,747
<i>Jul.</i>	\$168,028	\$241,823	\$0	\$409,851
<i>Qtr. Subtotal</i>	\$223,157	\$682,302	\$0	\$905,459
<i>Aug.</i>	\$968	\$241,960	\$0	\$242,928
<i>Sep.</i>	\$32,398	\$239,012	\$0	\$271,410
<i>Oct.</i>	\$342,752	\$241,712	\$0	\$584,464
<i>Qtr. Subtotal</i>	\$376,118	\$722,684	\$0	\$1,098,802
<i>Total</i>	\$3,206,628	\$2,620,794	\$28,451	\$5,855,873

**Red-Lined Tariff  
Sheets Reflecting  
Proposed Modifications  
To LG&E's Tariff  
P.S.C. Gas No. 9**

**Louisville Gas and Electric Company**

P.S.C. Gas No. 9, First ~~Second~~ Revision of Original Sheet No. 87.1  
Canceling P.S.C. Gas No. 9, First Revision of Original Sheet No. 87.1

Adjustment Clause **PBR**  
**Experimental Performance Based Rate Mechanism**

The BGC shall include two benchmark components as follows:

$$BGC = TABMGCC + HRF$$

Where:

**TABMGCC** represents the Total Annual Benchmark Gas Commodity Costs and is the annual sum of the monthly Benchmark Gas Commodity Costs (**BMGCC**) of gas purchased for system supply; and

**HRF** represents Historical Reservation Fees and is an annual dollar amount equal to Company's average annual supply reservation fees based on the 24-month period ended October 31 immediately preceding the PBR period.

**BMGCC** represents Benchmark Gas Commodity Costs and shall be calculated on a monthly basis and accumulated for the PBR period. **BMGCC** shall be calculated as follows:

$$BMGCC = \text{Sum } \{ [SZFQE\%i \times (APV - PEFDCQ) \times SAIi] \} + [PEFDCQ \times DAI]$$

Where:

**SZFQE%** is the Supply Zone Firm Quantity Entitlement Percentage derived from Company's firm seasonal entitlements by pipeline and by zone for which indices are posted. The seasonal percentages represents the pro-rata portion of Company's firm lateral and mainline receipt point quantity entitlements by zone for each transportation contract by pipeline.

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**i** represents each supply area.

**APV** is the actual purchased volumes of natural gas for system supply for the month. The APV shall include purchases necessary to cover retention volumes required by the pipeline as fuel.

**PEFDCQ** are the Purchases In Excess of Firm Daily Contract Quantities delivered to Company's city gate. Firm Daily Contract Quantities are the maximum daily contract quantities which Company can deliver to its city gate under its various firm transportation agreements and arrangements.

**SAI** is the Supply Area Index factor to be established for each supply area in which Company may have firm transportation entitlements used to transport its natural gas purchases and for which price postings are available. The five supply areas are TGT-SL (Texas Gas Transmission - Zone SL), TGT-1 (Texas Gas Transmission - Zone 1), TGT-4 (Texas Gas Transmission - Zone 4), TGPL-0 (Tennessee Gas Pipeline - Zone 0), and TGPL-1 (Tennessee Gas Pipeline - Zone 1).

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State Regulation and Rates  
Louisville, Kentucky

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**Louisville Gas and Electric Company**

P.S. C. Gas No. 9, First ~~Second~~ Revision of Original Sheet No. 87.2  
Canceling P.S.C. Gas No. 9, First Revision of Original Sheet No. 87.2

Adjustment Clause **PBR**  
**Experimental Performance Based Rate Mechanism**

The monthly SAI for TGT-SL, TGT-1, TGT-4, TGPL-0 and TGPL-1 shall be calculated using the following formula:

$$SAI = [I(1) + I(2) + I(3)] / 3$$

DAI is the Delivery Area Index to be established for purchases made by Company when Company has fully utilized its pipeline quantity entitlements on a daily basis and which are for delivery to Company's city gate from either Texas Gas Transmission's Zone 4 or Tennessee Gas Pipeline's Zone 2.

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The monthly DAI for TGT-4 and TGPL-2 shall be calculated using the following formula:

$$DAI = [I(1) + I(2) + I(3)] / 3$$

Where:

I represents each index reflective of both supply area prices and price changes throughout the month in these various supply areas.

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The indices for each supply zone are as follows:

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**SAI (TGT-SL)**

I(1) is the average of weekly *Natural Gas Week* postings for Louisiana, Gulf Coast, Onshore Louisiana as Delivered to Pipeline.

I(2) is the average of the daily high and low *Platts Gas Daily midpoint* postings for Louisiana - Onshore South, Texas Gas, Zone SL averaged for the month.

I(3) is the *Platts Inside FERC's Gas Market Report* first-of-the-month posting for Texas Gas, Zone SL.

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**SAI (TGT-1)**

I(1) is the average of weekly *Natural Gas Week* postings for North Louisiana, North as Delivered to Pipeline.

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I(2) is the average of the daily high and low *Platts Gas Daily midpoint* postings for East Texas - North Louisiana Area, Texas Gas, Zone 1 averaged for the month.

I(3) is the *Platts Inside FERC's Gas Market Report* first-of-the-month posting for Texas Gas, Zone 1.

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State Regulation and Rates  
Louisville, Kentucky

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**Louisville Gas and Electric Company**

P.S.C. Gas No. 9, First Second Revision of Original Sheet No. 87.3  
 Canceling P.S.C. Gas No. 9, First Revision of Original Sheet No. 87.3

Adjustment Clause **PBR**  
**Experimental Performance Based Rate Mechanism**

**SAI (TGT-4)**

- I(1) is the average of weekly *Natural Gas Week* postings for Spot Prices on Interstate Pipeline Systems for Appalachia, Lebanon Hub. T
- I(2) is the average of the daily high and low *Platts Gas Daily midpoint* postings for Appalachia – Lebanon Hub averaged for the month. T
- I(3) is the *Platts Inside FERC's - Gas Market Report* first-of-the-month posting for Northeast, – Lebanon Hub. T

**SAI (TGPL-0)**

- I(1) is the average of weekly *Natural Gas Week* postings for Texas, Gulf Coast, Onshore Texas-as-Delivered to Pipeline. T
- I(2) is the average of the daily high and low *Platts Gas Daily midpoint* postings for South – Corpus Christi, -Tennessee, Zone 0 averaged for the month. T
- I(3) is the *Platts Inside FERC's - Gas Market Report* first-of-the-month posting for Tennessee, Texas, Zone 0. T

**SAI (TGPL-1)**

- I(1) is the average of weekly *Natural Gas Week* postings for Louisiana, Gulf Coast, Onshore Louisiana as Delivered to Pipeline. T
- I(2) is the average of the daily high and low *Platts Gas Daily midpoint* postings for Louisiana – Onshore South, – Tennessee, 500 Leg averaged for the month. T
- I(3) is the *Platts Inside FERC's - Gas Market Report* first-of-the-month posting for Tennessee, Louisiana, 500 leg. T

**DAI (TGT-4) and (TGPL-2)**

- DAI is the Delivery Area Index to be established for PEFDCQ made by Company on the day(s) when Company has arranged for deliveries to Company's city gate that are in excess of its total firm pipeline quantity entitlements.
- I(1) is the average of weekly *Natural Gas Week* postings for Spot Prices on Interstate Pipeline Systems for Dominion – South. T

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 Louisville, Kentucky

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## Louisville Gas and Electric Company

P.S.C. Gas No. 9, First Second Revision of Original Sheet No. 87.4  
Canceling P.S.C. Gas No. 9, First Revision of Original Sheet No. 87.4

Adjustment Clause

PBR

### Experimental Performance Based Rate Mechanism

The daily DAI applicable to the daily purchases made for city-gate delivery shall be the higher of the following, either

$$\text{DAI} = \text{DAI (TGT-1)} / (1 - \text{FR}\%) + \text{CCS} + \text{DDCS}$$

or

$$\text{DAI} = \text{DAI (TGT-4)} / (1 - \text{FR}\%) + \text{CCS} + \text{DDCS}$$

Where:

DAI (TGT-1) represents the highest daily midpoint posting by Platts Gas Daily for East Texas – North Louisiana Area, Texas Gas, zone 1.

DAI (TGT-4) represents the highest daily midpoint posting by Platts Gas Daily for Appalachia – Lebanon Hub.

FR% is the tariffed Fuel Retention Percentage under Texas Gas Transmission, LLC's Rate NNS.

CCS are the tariffed NNS Commodity Charge and Surcharges under Texas Gas Transmission, LLC's Rate NNS.

DDCS are the tariffed Daily Demand Charge and Surcharges under Texas Gas Transmission, LLC's Rate NNS.

I(2) is the average of the daily high and low Platts Gas Daily postings for the Daily Price Survey for Appalachia – Dominion South Point.

I(3) is the Platts Inside FERC's – Gas Market Report first-of-the-month posting for Prices of Spot-Gas Delivered to Pipeline for Dominion Transmission Inc – Appalachia.

If an index ceases to exist or fails to report, the Company may use a suitable replacement index and report that change in writing to the Commission in the applicable quarterly report. If the Company elects not to select a replacement index, the average is adjusted accordingly.

AGC represents Company's total annual Actual Gas Costs of natural gas purchased for system supply and is equal to the total monthly actual gas commodity costs and supply reservation fees plus the gains and/or losses from the use of financial hedging instruments and the financial transaction costs associated with such instruments paid by Company to its suppliers accumulated for the PBR period. Such costs shall exclude labor-related or other expenses typically classified as operating and maintenance expenses.

To the extent that AGC exceeds BGC for the PBR period, then the GAIF Shared Expenses shall be computed as follows

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Louisville, Kentucky

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## Louisville Gas and Electric Company

P.S.C. Gas No. 9, First ~~Second~~ Revision of Original Sheet No. 87.5  
Canceling P.S.C. Gas No. 9, First Revision Original Sheet No. 87.5

Adjustment Clause

PBR

### Experimental Performance Based Rate Mechanism

To the extent that AGC exceeds BGC for the PBR period, then the GAIF Shared Expenses shall be computed as follows

$$\text{Shared Expenses} = \text{AGC} - \text{BGC}$$

To the extent that AGC is less than BGC for the PBR period then the GAIF Shared Savings shall be computed as follows

$$\text{Shared Savings} = \text{BGC} - \text{AGC}$$

TIF

TIF = Transportation Index Factor. The Transportation Index Factor shall be calculated by comparing the Total Annual Benchmark Monthly Gas Transportation Costs (TABMGTC) of natural gas transportation services during the PBR period, to the Total Annual Actual Gas Transportation Costs (TAAGTC) applicable to the same period to determine if any Shared Expenses or Shared Savings exist

The Total Annual Benchmark Monthly Gas Transportation Costs (TABMGTC) are calculated as follows

$$\text{TABMGTC} = \text{Annual Sum of Monthly BMGTC}$$

Where

BMGTC is the Benchmark Monthly Gas Transportation Costs which include both demand and volumetric costs associated with natural gas pipeline transportation services. The BMGTC shall be accumulated for the PBR period and shall be calculated as follows:

$$\text{BMGTC} = \text{Sum [BM(TGT) + BM(TGPL) + BM(PPL)]}$$

Where:

BM(TGT) is the benchmark associated with Texas Gas Transmission, LLC Corporation.

BM(TGPL) is the benchmark associated with Tennessee Gas Pipeline Company, LLC.

BM(PPL) is the benchmark associated with a proxy pipeline. The appropriate benchmark, which will be determined at the time of purchase, will be used to benchmark purchases of transportation capacity from non-traditional sources.  
The benchmark associated with each pipeline shall be calculated as follows:

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Louisville, Kentucky

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## Louisville Gas and Electric Company

P.S.C. Gas No. 9, First ~~Second~~ Revision of Original Sheet No. 87.6  
Canceling P.S.C. Gas No. 9, First Revision of Original Sheet No. 87.6

Adjustment Clause

PBR

### Experimental Performance Based Rate Mechanism

The benchmark associated with each pipeline shall be calculated as follows:

$$BM(TGT) = (TPDR \times DQ) + (TPCR \times AV) + S\&DB$$

$$BM(TGPL) = (TPDR \times DQ) + (TPCR \times AV) + S\&DB$$

$$BM(PPL) = (TPDR \times DQ) + (TPCR \times AV) + S\&DB$$

Where

TPDR is the applicable Tariffed Pipeline Demand Rate

DQ is the Demand Quantities contracted for by Company from the applicable transportation provider

TPCR is the applicable Tariffed Pipeline Commodity Rate

AV is the Actual Volumes delivered at Company's city gate by the applicable transportation provider for the month

S&DB represents Surcharges, Direct Bills and other applicable amounts approved by the Federal Energy Regulatory Commission (FERC). Such amounts are limited to FERC-approved charges such as surcharges, direct bills, cashouts, take-or-pay amounts, Gas Supply Realignment and other Order 636 transition costs.

The Total Annual Actual Gas Transportation Costs (TAAGTC) paid by Company for the PBR period shall include both demand and volumetric costs associated with natural gas pipeline transportation services as well as all applicable FERC-approved surcharges, direct bills and cash outs included in S&DB, plus the gains and/or losses from the use of financial hedging instruments and the financial transaction costs associated with such instruments. Such costs shall exclude labor-related or other expenses typically classified as operating and maintenance expenses.

To the extent that TAAGTC exceeds TABMGTC for the PBR period, then the TIF Shared Expenses shall be computed as follows:

$$\text{Shared Expenses} = \text{TAAGTC} - \text{TABMGTC}$$

To the extent that TAAGTC is less than TABMGTC for the PBR period, then the TIF Shared Savings shall be computed as follows:

$$\text{Shared Savings} = \text{TABMGTC} - \text{TAAGTC}$$

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# Louisville Gas and Electric Company

P.S.C. Gas No. 9, First Second Revision of Original Sheet No. 87.7  
Canceling P.S.C. Gas No. 9, First Revision of Original Sheet No. 87.7

Adjustment Clause

PBR

Experimental Performance Based Rate Mechanism

Shared Savings = TABMGTC - TAAGTC

Should one of Company's pipeline transporters file a rate change effective during any PBR period and bill such proposed rates subject to refund, the period over which the benchmark comparison is made for the relevant transportation costs will be extended for one or more 12-month periods, until the FERC has approved final settled rates, which will be used as the appropriate benchmark. Company will not share in any of the savings or expenses related to the affected pipeline until final settled rates are approved.

## OSSIF

OSSIF = Off System Sales Index Factor. The Off System Sales Index Factor shall be equal to the Net Revenue from Off System Sales (NR).

Net Revenue is calculated as follows:

NR = OSREV - OOPC

Where

OSREV is the total revenue associated with off system sales and storage service transactions.

OOPC is the out of pocket costs associated with off-system sales and storage service transactions, and shall be determined as follows:

OOPC = OOPC(GC) + OOPC(TC) + OOPC(SC) + OOPC(UGSC) + Other Costs

Where

OOPC(GC) is the Out-of-Pocket Gas Costs associated with off-system sales transactions. For off system sales utilizing Company's firm supply contracts, the OOPC(GC) shall be the incremental cost to purchase the gas available under Company's firm supply contracts. For off system sales not using Company's firm supply contracts, the OOPC(GC) shall be the incremental costs to purchase the gas from other entities.

OOPC(TC) is the Out-of-Pocket Transportation Costs associated with off-system sales transactions. For off-system sales utilizing Company's firm transportation agreements, the OOPC(TC) shall be the incremental cost to use the transportation available under Company's firm transportation supply contracts. For off-system sales not using Company's firm transportation agreements, the OOPC(TC) shall be the incremental costs to purchase the transportation from other entities.

OOPC(SC) is the Out-of-Pocket Storage Costs associated with off-system sales of storage. If this is gas in Company's own storage it shall be priced at the average price of the gas in Company's storage during the month of the sale. If this is gas from the storage component of Texas Gas's No-Notice Service, this gas shall be priced at the replacement cost.

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**Louisville Gas and Electric Company**

P.S.C. Gas No. 9, First ~~Second~~ Revision of Original Sheet No. 87.8  
Canceling P.S.C. Gas No. 9, First Revision of Original Sheet No. 87.8

Adjustment Clause **PBR**  
**Experimental Performance Based Rate Mechanism**

OOPC(SC) is the Out of Pocket Storage Costs associated with off system sales of storage. If this is gas in Company's own storage it shall be priced at the average price of the gas in Company's storage during the month of the sale. If this is gas from the storage component of Texas Gas's No Notice Service, this gas shall be priced at the replacement cost.

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OOPC(UGSC) is the Out-of-Pocket Underground Storage Costs associated with off-system sales of storage services. For the off-systems sales of storage services utilizing Company's on-system storage, the OOPC(UGSC) shall include incremental storage losses, odorization, and other fuel-related costs such as purification, dehydration, and compression. Such costs shall exclude labor-related expenses.

Other Costs represent all other incremental costs and include, but are not limited to, costs such as applicable sales taxes and excise fees plus the gains and/or losses from the use of financial hedging instruments and the transaction costs associated with such instruments. Such costs shall exclude labor related or other expenses typically classified as operating and maintenance expenses.

**ACSP**

ACSP = Applicable Company Sharing Percentage. The ACSP shall be determined based on the PTAGSC.

Where

PTAGSC = Percentage of Total Actual Gas Supply Costs. The PTAGSC shall be the TPBRR stated as a Percentage of Total Actual Gas Supply Costs and shall be calculated as follows:

$$\text{PTAGSC} = \frac{\text{TPBRR}}{\text{TAGSC}}$$

Where

TAGSC = Total Actual Gas Supply Costs. The TAGSC shall be calculated as follows:

$$\text{TAGSC} = \text{AGC} + \text{TAAGTC}$$

If the absolute value of the PTAGSC is less than or equal to 2.04-6%, then the ACSP of 30-25% shall be applied to TPBRR to determine CSPBR. If the absolute value of the PTAGSC is greater than 2.04-6%, then the ACSP of 30-25% shall be applied to the amount of TPBRR that is equal to 2.04-6% of TAGSC to determine a portion of CSPBR, and the ACSP of 50% shall be applied to the amount of TPBRR that is in excess of 2.04-6% of TAGSC to determine a portion of CSPBR. These two portions are added together to produce the total CSPBR.

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