Columbia Gas of Kentucky
A NiSource Company

February 22, 2016

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PUBLIC SERVICE COMMISSION

Mr. James W. Gardner
Acting Executive Director
Public Service Commission
Commonwealth of Kentucky
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40602

RE: Case No. 2016-00060

Dear Mr. Gardner

Enclosed for docketing with the Commission is an original and ten (10) copies of Columbia Gas of Kentucky Inc.'s Responses to the Commission's First Set of Data Requests in the above referenced case. Should you have any questions about this filing, please contact me at 614-460-5558.

Sincerely,

Brooke E. Wancheck (gmc)

Brooke E. Wancheck
Assistant General Counsel

Enclosures

cc: Hon. Richard S. Taylor

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PUBLIC SERVICE COMMISSION

KY PSC Case No. 2016-00060
Staff's Request for Information Set One No. 01
Respondent: Mark Katko, Craig Inscho and Judy Cooper

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO STAFF'S FIRST REQUEST FOR INFORMATION
DATED FEBRUARY 15, 2016

1. Refer to the cover letter attached to the application.

a. Explain in detail how Columbia adjusted the methodology for projecting its Expected Gas Cost, and provide calculations showing the impact of the change going forward.

b. Explain Columbia's position regarding a possible change from the annual calculation of its Actual Cost Adjustment ("ACA") to a quarterly calculation, which was also discussed at the December 9, 2015 Informal Conference referenced in the cover letter. The explanation should include any support Columbia can provide for the continuing reasonableness of an annual calculation.

c. Explain Columbia's position regarding a possible change from the semi-annual calculation of its Balancing Adjustment ("BA") to a quarterly calculation. The explanation should include any support it can provide for the continuing reasonableness of a semi-annual calculation.

d. In the event that the Commission finds that quarterly calculations are more appropriate than Columbia's current annual calculation of its ACA and semi annual calculation of its BA, provide a suggested filing time frame to implement such a change.

Response:

a. As discussed in the Informal Conference on December 9, 2015 and as provided in Columbia's response to Staff's Informal Request for Information dated December 15, 2015, Columbia determined that the pricing of storage withdrawals included in the development of the Expected Gas Cost ("EGC") was a major reason for material overcollections in the 2009, 2012 and 2015 Actual Cost Adjustment ("ACA") years. Specifically, Columbia had been pricing storage withdrawals using the most recent known weighted average cost of gas ("WACOG") rate recorded on the books at the time of the quarterly Gas Cost Adjustment ("GCA") filings and, in certain collection periods, actual storage withdrawal expense was significantly lower. Columbia further determined that the use of a forward looking NYMEX rate for the pricing of storage withdrawals in the quarterly EGC calculation provides a better estimate of storage withdrawal expense that would help to minimize the potential for significant swings in gas costs that cannot be accounted for when using an historic WACOG rate.

In Case No. 2016-00060, Columbia adopted the forward looking NYMEX methodology for pricing storage withdrawals in the calculation of the EGC. In this particular period, the new methodology resulted in an EGC rate that is $0.0714 per Mcf higher than it would have been using the previous methodology. While this is a different result than the findings produced for the 2009, 2012 and 2015 ACA years as discussed in the Informal Conference and Columbia's response to Staff's Informal Request for Information, Columbia still believes that the storage withdrawal pricing methodology implemented in the current proceeding results in a more accurate estimate of expected gas costs based on its overall review.

b. Columbia does not object to a possible change from an annual to a quarterly calculation of its ACA.

c. Columbia does not object to a possible change from a semi-annual to a quarterly calculation of its BA.

d. In the event that the Commission finds that quarterly ACA and BA calculations are more appropriate, Columbia suggests that the change be implemented effective with the September 2016 GCA filing which coincides with the next scheduled ACA and BA updates.

If the change is approved going forward, Columbia suggests that the ACA periods be based as follows: the three months ending February, with the ACA factor to be in effect for twelve months beginning with June billing; the three months ending May, with the ACA factor to be in effect for twelve months beginning with September billing; the three months ending August, with the ACA factor to be in effect for twelve months beginning with December billing; and the three months ending November, with the ACA factor to be in effect for twelve months beginning with March billing. Columbia also suggests that the current

ACA period, which is based on the twelve months ending June 2016, be changed to the eleven months ending May 2016 to align with the timing proposed in this response.

If the change is approved going forward, Columbia suggests that the BA factor be in effect for three months beginning with March, June, September, and December billings.

If these suggestions are acceptable to the Commission, upon approval of the changes, Columbia will file a Sixth Revised Gas Tariff Sheet No. 48 to reflect them as necessary.

**COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO STAFF'S FIRST REQUEST FOR INFORMATION
DATED FEBRUARY 15, 2016**

2. Refer to the Application, Schedule No. 1, Sheet 3, and the Third Party Payment Agreement ("Agreement") that is included with the Pipeline Company Tariff Sheets.

a. Provide a detailed explanation of the circumstances giving rise to the increase in annual demand cost from Central Kentucky Transmission Company ("CKT") as a result of the Agreement. The explanation should include a discussion of the amendments to the operating agreement between CKT and Columbia Gas Transmission, LLC ("TCO").

b. Explain the new charges referenced in paragraph C of the Agreement and whether these charges appear on the TCO tariff sheets approved by the Federal Energy Regulatory Commission ("FERC") and included with the Application.

c. Refer to paragraph D of the Agreement. Explain Columbia's decision to pay the increased charges directly to TCO as opposed to having CKT file with the FERC to increase its tariff rates.

Response:

a. Central Kentucky Transmission Company ("CKT"), an interstate pipeline company, is a wholly-owned subsidiary of Columbia Gas of Kentucky, Inc. ("Columbia"). CKT was created to acquire an undivided interest in an interstate pipeline which is owned, operated, and maintained by Columbia Gas Transmission, LLC ("TCO"), for the purpose of reducing gas costs for Columbia's customers by approximately $1.2 million per year. This result is an outgrowth of Administrative Case No. 384. Prior to July 1, 2015, CKT was operated as a part of Columbia Pipeline Group, Inc. ("CPG") which consisted of various interstate pipeline subsidiaries of NiSource Inc. ("NiSource"). On July 1, 2015, NiSource spun off its interstate pipeline business, and CPG became a separate, unaffiliated corporation. CKT, however, was retained by NiSource, so that Columbia's customers would continue to enjoy the $1.2 million reduction in annual gas costs made possible by CKT. As a result, the spinoff necessitated a renegotiation of the contractual arrangements involving the operation of CKT. Under the Second Amendment to their 2005 Operating Agreement, dated July 1, 2015, CKT and TCO agreed that TCO would continue to operate and maintain the pipeline, and the monthly cost of that service, which had not been adjusted during the preceding ten years, would increase from $6,000 per month to $7,300 per month. In addition, the spinoff required CKT to take responsibility for certain functions which had previously been performed by CPG, such as operating CKT's electronic bulletin board and preparing all required FERC filings. Because NiSource no longer has the internal expertise to perform such functions, CKT considered its options in that regard, and subsequently entered into an agreement with TCO (which is also reflected in the Second Amendment to the 2005 Operating Agreement), under which TCO would perform those functions (referred to as "Commercial Services") for a monthly fee of $8,333 per month.

b. The charges referenced in Paragraph C include (1) the $8,333 per month paid to TCO for Commercial Services, and (2) the $1,300 per month increase in TCO's charges for Operational Services. These amounts are not included in CKT's tariffs approved by the Federal Energy Regulatory Commission ("FERC").

c. Columbia agreed to pay these charges directly to TCO in order to avoid the need for CKT to prepare, file, and prosecute a rate case at FERC. Even a limited proceeding under Section 4 of the Natural Gas Act would entail substantial costs, which would ultimately be passed on to Columbia and its customers, without providing any corresponding benefit. The expenses at issue are the product of a negotiated agreement with an unaffiliated third party, and Columbia is unaware of any alternative means of providing the necessary services in a more cost-effective manner. As a result, Columbia believes that FERC would find these expenses to be just and reasonable, and would allow full recovery of these expenses, as well as the additional costs of prosecuting the rate case. As a result, Columbia believes the costs included in the GCA to be fair, just and reasonable. The direct-payment arrangement protects both Columbia and its customers from such additional costs.