

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

ORDER

On November 30, 2017, Columbia Gas of Kentucky, Inc. (Columbia Kentucky), filed an application to extend its Performance-Based Rate (PBR) mechanism for an additional five years, from March 31, 2018, through March 31, 2023.¹ Commission Staff issued one discovery request to Columbia. On March 27, 2018, the Commission issued an interim Order authorizing Columbia Kentucky to continue the use of its current PBR mechanism until a final Order was issued by the Commission. There are no intervenors in this proceeding. The case now stands submitted for a decision.

In its application, Columbia Kentucky states that from April 2015 through August 2017, its PBR program has realized approximately \$17.9 million in savings.² However, after reviewing Columbia Kentucky's response to Commission Staff's First Request for Information (Staff's First Request), and the annual PBR reports, it appears that the majority of the savings that Columbia Kentucky has realized are related to the

¹ Application at 2.

² *Id.* at 3.

Transportation Cost Incentive (TCI) component of Columbia Kentucky's PBR.³ The Commission notes that for the Columbia Gas Transmission pipeline, Columbia Kentucky has been comparing the maximum pipeline tariff rate to a discounted rate of \$4.1850 and that the discounted rate has been the same since at least 2010.⁴ The Federal Energy Regulatory Commission's (FERC) approved pipeline transportation rate has continuously increased throughout the years, but Columbia Kentucky's discounted contract rate has remained constant.⁵ Hence, the margin between these two rates has grown, resulting in an increased profit for Columbia Kentucky without having to lower its pipeline transportation rate.

The Commission intends for there to be continuing improvement when it comes to negotiating discounted transportation rates, and therefore will set Columbia Kentucky's Transportation Cost benchmark for the Columbia Gas Transmission pipeline at \$4.1850. Similarly, Columbia Kentucky should set its Transportation Cost benchmark for its Tennessee Gas Pipeline to \$4.5835.⁶ A percentage gross-up factor will be applied to Columbia Kentucky's Transportation Cost benchmark according to any future changes in Columbia Transmission's FERC tariff rate going forward. On the date of entry of this Order, percentage changes in Columbia Transmission's FERC tariff will be applied to

³ Columbia Kentucky's response to Staff's First Request, Item 1, Attachment 1 and Attachment 2.

⁴ The discount rate for Columbia Gas Transmission at \$4.1850 is reported in the "Discounted/Negotiated Contracts & Marketed Capacity Release Revenue" sheets included in Columbia Kentucky's Gas Cost Adjustment reports when the PBR adjustment is recalculated annually.

⁵ Columbia Gas Transmission, LLC FERC Tariffs are available online at: <https://etariff.ferc.gov/TariffBrowser.aspx?tid=581>

⁶ The discount rate for Tennessee Gas Pipeline at \$4.5835 is reported in the "Discounted/Negotiated Contracts & Marketed Capacity Release Revenue" sheets included in Columbia Kentucky's Gas Cost Adjustment reports when the PBR adjustment is recalculated annually.

Columbia Kentucky's Transportation Cost benchmark, setting forth a new benchmark for the period going forward. Should Columbia Kentucky be able to negotiate rates lower than it currently takes service under, or is able to maintain rates at this level despite rising tariff rates following FERC rate cases, it will still be allowed to partake in savings but not at the current level.

Having reviewed the evidence of the record and being otherwise sufficiently advised, the Commission finds that Columbia Kentucky's PBR mechanism should be approved from March 31, 2018, through March 31, 2021, instead of the originally requested five-year period of March 31, 2018, through March 31, 2023. In future PBR cases, the Commission will evaluate PBR mechanisms for reasonableness and potentially realign and modify the PRB mechanisms of all Kentucky Local Distribution Companies, or terminate the PBR mechanisms entirely. Therefore, in Columbia Kentucky's next PBR case, Columbia Kentucky should file testimony and any supporting documentation to assist the Commission in determining whether Columbia Kentucky's PBR should be continued, modified, or terminated.

IT IS THEREFORE ORDERED that:

1. Columbia Kentucky's request to continue its PBR mechanism from March 31, 2018, through March 31, 2023, is denied.
2. Columbia Kentucky's PBR mechanism is approved to be effective upon entry of this Order through March 31, 2021, subject to the modifications discussed herein.
3. 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.

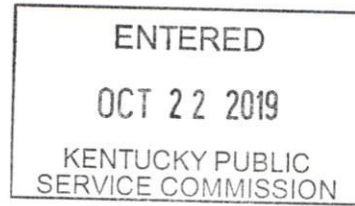
4. In the next PBR case, Columbia Kentucky shall file an evaluation report on the results of the PBR for April 1, 2015, through the present time, for the Commission to review and determine whether the PBR should be continued, modified, or terminated. This evaluation report shall be considered in any proceeding established to continue, modify, or terminate the PBR mechanism.

5. In the next PBR case, Columbia Kentucky shall also file testimony and any supporting documentation to assist the Commission in determining whether Columbia Kentucky's PBR should be continued, modified, or terminated.

6. Any request for extension of Columbia Kentucky's PBR shall be filed no less than four months before the March 31, 2021 expiration date.

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

By the Commission



ATTEST:


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