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NOV 12 2019

PUBLIC SERVICE  
COMMISSION

November 12, 2019

**HAND DELIVERED**

Gwen R. Pinson  
Executive Director  
Public Service Commission  
211 Sower Blvd., P.O. Box 614  
Frankfort, KY 40601

RE: PSC Case No. 2017-00453

Dear Ms. Pinson,

Please find enclosed the original and ten copies of Columbia Gas of Kentucky, Inc.'s Motion for Reconsideration and Rehearing in the above referenced matter. Please do not hesitate to contact me with any questions.

Sincerely,

A handwritten signature in blue ink that reads "Brooke E. Wancheck (SO)".

Brooke E. Wancheck  
Assistant General Counsel

Enclosure(s)

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NOV 12 2019

PUBLIC SERVICE  
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

|                                       |                      |
|---------------------------------------|----------------------|
| IN THE MATTER OF THE APPLICATION OF ) |                      |
| COLUMBIA GAS OF KENTUCKY, INC. TO )   |                      |
| EXTEND ITS GAS COST INCENTIVE )       | Case No. 2017- 00453 |
| MECHANISM AND ITS OFF-SYSTEM SALES )  |                      |
| AND CAPACITY RELEASE REVENUE )        |                      |
| SHARING MECHANISM. )                  |                      |

**COLUMBIA GAS OF KENTUCKY, INC.'S  
MOTION FOR RECONSIDERATION AND REHEARING**

Now comes Columbia Gas of Kentucky, Inc. ("Columbia" or "Company") and hereby moves the Commission to reconsider its October 22, 2019, Order in the above-captioned matter, and grant rehearing pursuant to 278.400. Columbia asks the Commission to fully consider the efforts Columbia has undertaken to actively pursue creative gas purchasing measures to the benefit of its customers.

**I. Background**

On November 11, 2017, Columbia filed an Application to Extend its Gas Cost Adjustment Performance Base Rate Mechanism ("PBR") for an additional five (5) years, from March 31, 2018 through March 31, 2023. Columbia did not seek any adjustments to the mechanism itself, which was previously approved in Case No. 2014-00350. In that

case, the Commission authorized Columbia to combine its gas cost incentive mechanism (“GCIM”) with its off system sales capacity release revenue sharing mechanism (“OSS CRRSM”) to more closely align with two other local distribution companies (“LDCs”), who have a similar program. The Commission ordered Columbia to make this change in Case No. 2012-00593.<sup>1</sup>

In the above captioned matter, the Commission did not issue an order setting forth a procedural schedule for intervention, testimony or a hearing. In fact, the record consists of Columbia’s application and responses to one set of data requests. On March 27, 2018, The Commission issued an order permitting Columbia to continue its PBR mechanism until the Commission could issue a final order in the matter. On October 22, 2019, nearly two years since Columbia’s initial filing, the Commission entered an order summarily denying Columbia’s request for a 5-year extension and instead approved it until March 31, 2021, with several modifications that materially impact the PBR program.

## **II. Argument**

Columbia requests reconsideration and rehearing because Columbia believes it has not had an adequate opportunity to explain that it has consistently and aggressively negotiated its discounted transportation rates. The Order states, “[t]he Commission intends for there to be continuing improvement when it comes to negotiating discounted

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<sup>1</sup> See *In the Matter of the Application of Columbia Gas of Kentucky, Inc. to Extend its Gas Cost Incentive Mechanism and Revenue Sharing Mechanism*, Order, Case No. 2012-00593 (Ky. P.S.C. Oct. 25, 2013).

transportation rates.<sup>2</sup> To the extent that the Commission has raised this concern as a matter of first impression, Columbia asserts that the record does include evidence indicating that the Company has made reasonable strides in its transportation negotiations. As stated in response to Commission Data Request 1-3, Columbia has been aggressive in negotiating contracts that preserve the value of the discounted rate, despite grid modernization.<sup>3</sup>

Had it been aware that the Commission was concerned with this issue, it could have provided – and is still willing, of course, to provide – additional information to alleviate the Commission’s concerns. To further explain, the existing discount was negotiated in a market environment significantly different than what exists today and what can be expected moving forward. One of the primary differences is the discovery and development of significant production volumes from the Marcellus and Utica Shales. Previously the primary source of natural gas supplies delivered into Columbia Transmission were delivered via Columbia Gulf from resources in the Gulf Coast region. Today the flow of gas on Columbia Gulf has reversed and natural gas now flows from the Appalachian region to the Gulf Coast.

Coincident with the development of the Marcellus and Utica Shales, Columbia Gas Transmission implemented a modernization effort on its system. This modernization

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<sup>2</sup> Order p. 2

<sup>3</sup> Columbia Response to Staff’s First Set of Data Requests, Request 3.

effort is now in its second phase. The Modernization Program was agreed to between Columbia Transmission and its customers through an extensive settlement process in which Columbia participated actively. The settlement process avoided what would likely have been a series of “pancaked” rate cases. Under phase one of modernization (“MOD I”), Columbia Transmission spent \$1.5 billion during 2013-2017 removing older pipeline segments (primarily bare steel, cast iron, wrinkle bend prone, etc.), modernizing certain compressor stations, upgrading major portion of its system to meet current and evolving PHSMA standards, etc. Under phase two of modernization (“MOD II”), Columbia Transmission will spend \$1.130 billion during 2018-2020. MOD II includes similar activities as MOD I and adds projects to restore deliverability from its storage assets.

Through the modernization settlement, a rider mechanism known as the Capital Cost Recovery Mechanism (“CCRM”) was established for Columbia Transmission to recover its investments in MOD I and MOD II. The CCRM is applied to most Firm Transportation Service (“FTS”) and Storage Service Transportation (“SST”) contracts. Throughout the negotiations between Columbia Transmission and its customer base, Columbia fought for and won the ability for the CCRM not to be applied to the discount rate negotiated by Columbia. This achievement has provided significant incremental value to Columbia’s customers, avoiding costs of the MOD I and MOD II CCRM, yet receiving benefits under the modernization program. Avoidance of the CCRM under MOD I and MOD II are

significant incremental benefits achieved by Columbia while the prior discount remained in place.

Columbia Transmission is under no obligation to provide a discount. There have been significant changes that have taken place in the natural gas industry since Columbia last negotiated the existing SST discount. These changes include the fact that Columbia Gulf now flows from Appalachia to the Gulf Coast and that the primary holders of capacity on Columbia Gulf, as well as potential competitors Texas Eastern and Tennessee pipelines, are natural gas producers. The competitive environment has moved significantly and establishing a baseline on future expectation of discounted SST demand costs on a discount negotiated without recognition of the savings achieved by Columbia through avoidance of the MOD I and MOD II CCRM fails to recognize today's reduced competitive environment.

The Commission's understanding of these developments appears to be incomplete, which is to be expected based upon the abbreviated record. Columbia offers the above explanation in support of its position and would have presented this information had the Commission's concern been known prior to the issuance of the Order. As stated earlier, Columbia was not asking for any modification of the program, therefore it did not provide any testimony detailing as such. In the two years that this case was pending, Columbia did not have any indication that there was a concern with its previously

approved program, therefore, the Company had no reason to request a hearing in this matter. Moreover, these types of cases have historically not required hearings due to their ministerial nature. In fact, the Commission had recently approved LG&E's and Atmos' programs and they are what Columbia modeled its program after.<sup>4</sup>

Columbia respectfully urges the Commission to wait until a thorough evaluation of the program has been conducted before making any modifications to Columbia's program.

Columbia also has a second concern with the Order, where it states:

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 Columbia Kentucky's Transportation Cost benchmark, setting forth a new benchmark for the period going forward.<sup>5</sup>

Columbia is unclear both as to what percentage gross-up factor is referred to and how the tariff will be benchmarked. To help clarify this issue, Columbia has also filed a motion for an informal conference and a request to stay the deadline for filing a

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<sup>4</sup> See *Request of Atmos Energy Corporation for Modification and Extension of its Gas Cost Adjustment Performance Based Ratemaking Mechanism* Case No. 2015-00298 Order (March 31, 2016) and *Louisville Gas and Electric Company's Proposed Renewal and Modification of its Performance Based Ratemaking Mechanism* Case No. 2014-00476 Order (June 30, 2015).

<sup>5</sup> Order, pp. 2-3.

conforming tariff until it is known and understood what information to include in the tariff.

### **III. Conclusion**

Columbia respectfully requests that the Commission reconsider its decision in the above captioned matter. Columbia believes there is evidence in the record to support the continuation of Columbia's current PBR mechanism until the Commission has the opportunity to evaluate PBR mechanism of all Kentucky LDCs. If the Commission does not believe the record is developed fully to support renewal, Columbia respectfully requests a hearing on the matter so that its due process rights might be adequately served.



Dated at Columbus, Ohio, this 12th day of November, 2019.

Respectfully submitted,

**COLUMBIA GAS OF KENTUCKY, INC.**

By: Brooke E. Wancheck (SD)  
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