Columbia Gas of Kentucky
A NiSource Company

December 4, 2014

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DEC 5 2014
PUBLIC SERVICE COMMISSION

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

Re: In the Matter of the Application of Columbia Gas of Kentucky, Inc. to Consolidate and Convert Its Gas Cost Incentive Mechanism and Its Off-System Sales and Capacity Release Revenue Sharing Mechanism into a Performance-Based Rate Mechanism
Case No. 2014-00350

Dear Mr. Derouen:

Enclosed for docketing with the Commission are an original and six (6) copies of Columbia Gas of Kentucky, Inc.'s Response to the Public Service Commission Staff's Initial Request for Information dated November 20, 2014.

If you have questions about this filing, please contact me at (614) 460-4874 or mlthompson@nisource.com.

Very truly yours,

Melissa L. Thompson

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COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO STAFF'S INITIAL REQUEST FOR INFORMATION
DATED NOVEMBER 20, 2014

1. Refer to page 5 of the application. Provide the annual savings resulting from the Gas Cost Incentive Mechanism ("GCIM") since 2005, broken down to show the customer savings and the amount retained by Columbia.

Response:

Columbia shares equally with customers in the annual savings resulting from the GCIM. The table below shows the annual GCIM savings broken down between customer savings and the amount retained by Columbia.

GCIM Period	GCIM Savings	Customer	Columbia
April - October 2005	$736,525	$368,263	$368,263
April - October 2006	145,582	72,791	72,791
April - October 2007	599,273	299,637	299,637
April - October 2008	1,720,811	860,406	860,406
April - October 2009	124,573	62,286	62,286
April - October 2010	399,191	199,596	199,596
April - October 2011	361,591	180,795	180,795
April - October 2012	201,243	100,622	100,622
April - October 2013	375,791	187,895	187,895
April - June 2014	350,595	175,298	175,298
Total	$5,015,176	$2,507,588	$2,507,588

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2. Refer to page 7 of the Application. Provide the annual savings resulting from the Off-System Sales and Capacity Release Revenue Sharing Mechanism ("OSS/CR RSM") since 2005, broken down to show the customer savings and the amount retained by Columbia.

Response:

Columbia shares equally with customers in the net revenue resulting from the OSS/CR RSM. The table below shows the annual OSS/CR RSM net revenue broken down between the amount passed through to customers and the amount retained by Columbia.

OSS/CR Period	OSS/CR Net Revenue	Customer	Columbia
Apr - Dec 2005	$1,193,155	$596,577	$596,577
Jan - Dec 2006	1,976,855	988,427	988,427
Jan - Dec 2007	5,152,586	2,576,293	2,576,293
Jan - Dec 2008	3,205,378	1,602,689	1,602,689
Jan - Dec 2009	2,073,172	1,036,586	1,036,586
Jan - Dec 2010	7,541,454	3,770,727	3,770,727
Jan - Dec 2011	4,020,850	2,010,425	2,010,425
Jan - Dec 2012	2,346,251	1,173,126	1,173,126
Jan - Dec 2013	3,830,900	1,915,450	1,915,450
Jan - Jun 2014	1,329,462	664,731	664,731
Total	$32,670,062	$16,335,031	$16,335,031

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3. Refer to pages 7 and 8, paragraph (o), and to Attachment A of the Application. Explain why Columbia chose the Atmos Energy Corporation ("Atmos") Performance Based Ratemaking ("PBR") mechanism benchmark bands and sharing ratios rather than those of Louisville Gas and Electric Company's ("LG&E") PBR as a model for its proposed PBR Adjustment tariff.

Response:

Columbia chose the Atmos Energy Corporation ("Atmos") Performance Based Ratemaking ("PBR") mechanism benchmark bands and sharing ratios as a model for its proposed PBR Adjustment tariff because the Atmos PBR was the most recently approved program by the Commission. In addition, Columbia is closer in size to Atmos in terms of number of gas customers served and natural gas throughput.

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4. Refer to page 29 of Attachment A of the Application. Columbia states, "Both LG&E and Atmos no longer utilize the NYMEX closing price." Original Sheet Nos. 20 and 21 of Atmos's PBR tariff include the New York Mercantile Exchange Settled Closing Price in averaging the Supply Area Index factor for Base Load. State whether Columbia is aware of this provision.

Response:

The statement should have stated that LG&E no longer utilizes the NYMEX closing price, not LG&E and Atmos. Atmos utilizes two monthly indices, one of which is a NYMEX price. Even though Atmos utilizes the NYMEX closing price, Columbia believes the proposed program utilizing the three pipeline indices selected will provide a more comprehensive comparison. This use of three indices is similar to the approach taken by LG&E. The three indices selected directly reflect the gas supply pipelines that Columbia utilizes to purchase supply and more accurately benchmarks the cost to receive gas into Columbia's market, rather than the NYMEX closing price.

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5. Refer to pages 29 through 31 of Attachment A of the Application and to Columbia's proposed PBR tariff.

a. Explain why Columbia is proposing to base its Gas Cost Incentive ("GCI") benchmark on first-of-the-month prices only. The explanation should include a discussion of why this proposal is superior to Atmos's and LG&E's benchmark calculations, which are based on averages of daily, weekly, and monthly prices for each pipeline serving their systems, as pointed out on page 29 of Attachment A.

b. Explain why Columbia has not included a delivery area component in its proposed GCI.

c. Explain why purchases made at Columbia's city gate and supply reservation fees are excluded from the proposed GCI.

Response:

a) Columbia is proposing an expanded and revised program that it believes will provide the best opportunities for Columbia and its customers, while allowing Columbia to provide firm, reliable service based on a least cost purchasing scenario. Columbia's capacity portfolio incorporates a large storage component. This storage capacity requires significant planning to ensure its reliability and availability during the winter season. Columbia believes incorporating a daily and/or weekly index into the planning process introduces an additional level of uncertainty for its and its customers that has the potential to negatively impact the reliability of this critical resource. Columbia's proposed program complies with the Commission's request to expand the program to 12 months and to also structure that program in a similar fashion as that of Atmos and LG&E.

b) Atmos and LG&E's delivery area components captures interstate pipeline purchases made at the city gate. Columbia does not purchase gas supplies from interstate pipelines at the city gate. Therefore, Columbia did not include a delivery area component in its GCI.

c) Columbia does not purchase gas supplies from interstate pipelines at the city gate, therefore, city gate purchases are excluded from its current program and the newly proposed program.

Supplier reservation fees are excluded from the GCI because Columbia believed this would be a simple and straight forward approach to these fees. LG&E nets out the supplier reservation fees in its program. Because Atmos utilizes an asset manager, Columbia is unsure how Atmos's supplier reservation fees are addressed. Therefore, in lieu of netting out supplier fees, Columbia chose to exclude them.

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6. Refer to pages 33 through 34 of Attachment A of the Application and to Columbia's proposed PBR tariff.

a. Provide a detailed explanation of the different categories of cost to be netted against off-system sales revenues in the calculation of the Off-system Sales Incentive ("OSSI"). Provide the amount of such cost that Columbia has included in each of the last five years in the calculation of its OSS/CR RSM.

b. Confirm that, in spite of the discussion of an actual cost benchmark with regard to the OSSI on page 34, Columbia is not proposing to compare off-system sales to a benchmark.

Response:

a) There are two categories of costs netted against off-system sales revenues in the OSSI: commodity costs and transportation costs. The amounts of both categories of costs for the last five years are shown below.

Year	OSS Cost of Gas
2009	$6,081,570
2010	$16,694,110
2011	$27,039,611
2012	$3,168,867
2013	$20,953,236

b) Columbia will not be comparing the off-system sales to a benchmark. The OSSI, as is shown on Columbia's proposed tariffs, shall be "equal to the revenues net of costs from off-system sales (other than those revenues generated by operation sales)." *See* Proposed Tariff First Sheet No. 50c. The discussion on page 34 of Attachment A to the Application is referring to the calculation of the Applicable Sharing Percentage. Similar to Atmos, Columbia applies the ASP to the aggregate of the GCI, TCI and OSSI. *See* Proposed Tariff Ninth Revised Sheet No. 50.

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7. Refer to pages 34 through 35 of Attachment A of the Application and to Columbia's proposed PBR tariff. Provide example calculations, using Columbia's actual gas cost information for the 12 months ended March 31, 2014, showing the effect on the Performance Based Rate Adjustment ("PBRA") of netting capacity release revenues against transportation cost as proposed by Columbia, compared with the PBRA if capacity release revenues were not included in the calculation.

Response:

Sample Transportation Cost Incentive ("TCI") calculations are shown below with and without Columbia's capacity release credits to the transportation gas cost expense for the twelve months ending March 31, 2014.

TCI = TBTC – TATC

TBTC = Total Benchmark Transportation Costs

TATC = Total Actual Transportation Costs

	TCI	TBTC	TATC
TCI without CR credits	\$5,872,675	\$26,586,577	\$20,713,902
TCI with CR credits	\$6,090,363	\$26,586,577	\$20,496,204

Note that the impact on a PBRA rate cannot be determined because not all components of the Total Performance Based Results ("TPBR") calculation are available on a historical basis. For example, Columbia does not have the historical benchmark costs as defined for the Gas Cost Incentive ("GCI") component of the Total Performance Based Results ("TPBR"). Columbia cannot retroactively calculate a GCI component based on the historical information as of March 31, 2014. Therefore, a TPBR and the resulting Applicable Sharing Percentage ("ASP") and Company Performance Share ("CPS") cannot be determined to calculate the PBRA rate comparisons.