



Matthew G. Bevin
Governor

Charles G. Snively
Secretary
Energy and Environment Cabinet

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

James W. Gardner
Chairman

Daniel E. Logsdon Jr.
Vice Chairman

J. Roger Thomas.
Commissioner

February 19, 2016

PARTIES OF RECORD

Re: Case No. 2015-00359
Purchased Gas Adjustment Filing of Columbia Gas of Kentucky, Inc.

Attached is a copy of a memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the memorandum please do so within five days of receipt of this letter. If you have any questions, please contact Virginia Gregg, Commission Staff Attorney, at 502-782-2584.

Sincerely,

A handwritten signature in blue ink that reads "Stephanie Bell".

James W. Gardner
Acting Executive Director

VG/ph

Attachments

INTRA-AGENCY MEMORANDUM
KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File
FROM: Virginia W. Gregg, Staff Attorney
DATE: February 19, 2016
RE: Case No. 2015-00359
Purchased Gas Adjustment Filing of Columbia Gas of Kentucky, Inc.

Pursuant to the Commission's November 20, 2015 Order, an informal conference was held on December 9, 2015, at the Commission's offices in Frankfort, Kentucky, for the purposes of discussing 1) Columbia Gas of Kentucky, Inc.'s ("Columbia") continued use of an annual Actual Cost Adjustment ("ACA") calculation and 2) its methodology for projecting the Expected Gas Cost ("EGC") in its Gas Cost Adjustment ("GCA") filings. A list of the attendees is attached hereto as Exhibit A.

Commission Staff stated that although Columbia's current methodology in calculating its GCA rates has been used for approximately 30 years, it is concerned about the continuing reasonableness of its methodology given Columbia's \$20 million over collection set out in its ACA for the 12-month period ending June 30, 2015. Columbia representatives explained that it had conducted a limited analysis of the 2015 over collection and concluded that it was at least in part due to higher consumption caused by colder than normal temperatures during the heating season, and its practice of using historic prices in forecasting the cost of storage gas. Staff questioned whether Columbia's use of a quarterly ACA would better control major price swings that have occurred in the past, and distributed a spreadsheet showing the actual over- and under-collections that Columbia has passed through the ACA for the years 2000 to 2015. This spreadsheet showed that in addition to the large over-collection that it had set out in the 2015 ACA, there were also large over-collections in both 2009 and 2012. Columbia stated that it would conduct further analysis of the issues raised by Staff. A copy of the spreadsheet presented by Staff is attached hereto as Exhibit B.

On December 16, 2015, Columbia provided its response to Staff's informal request for information regarding the root cause of the large over-collections. A copy of Columbia's response is attached hereto as Exhibit C.

There being no further discussions, the informal conference was adjourned.

Attachments

EXHIBIT A

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PURCHASED GAS ADJUSTMENT)
FILING OF COLUMBIA GAS OF) CASE NO.
KENTUCKY, INC.) 2015-00359

Informal Conference – December 9, 2015

Please sign in:

NAME	REPRESENTING
Judy Cooper	Columbia Gas
James Racher	"
Brooke Leslie Wanchuck	"
Chad Notestone	"
Mark Katko	"
Craig Orscho	"
Burgess Gregg	KY-PSC - Legal
Daryl Newby	PSC - FA
Leah Faulkner	PSC - FA
GARY GLOVER	PSC - ENGINEERING
Matthew Buer	PSC - FA

EXHIBIT B

Columbia Gas of Kentucky - Actual Cost Adjustments

2015	\$ (1.9760)
2014	\$ 0.3722
2013	\$ 0.4847
2012	\$ (1.3382)
2011	\$ (0.1605)
2010	\$ (0.2466)
2009	\$ (2.9537)
2008	\$ 1.4238
2007	\$ 0.5382
2006	\$ (1.9761)
2005	\$ (0.7033)
2004	\$ 0.1145
2003	\$ 2.1336
2002	\$ 0.2570
2001	\$ 1.0676
2000	\$ 0.5991

EXHIBIT C

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO STAFF'S INFORMAL REQUEST FOR INFORMATION
DATED DECEMBER 15, 2015

Explain the root cause of the large over-collections in the 2009 and 2012 AA Year Filings?

The key driver for Columbia's large over-collections in 2009 and 2012 is the pricing of storage withdrawals. Columbia's process for the pricing of storage withdrawals in the quarterly GCA filings has been to use the most recently known Weighted Average Cost of Gas (WACOG) rate as booked by Accounting. Columbia went back to the 2009 and 2012 AA Year Filings and recalculated the over-collection using the then most current NYMEX rate. The NYMEX rate is a forward looking approach for pricing storage withdrawals. This method would help to minimize significant swings in gas costs that cannot be accounted for when using the historic WACOG rate.

In the 2009 AA Year, Columbia had an over-collection of \$43 million. This equated to an AA rate of (\$2.9537/Mcf). When calculated using the forward looking NYMEX rate, Columbia would have been over-collected by \$18 million. The AA rate would have calculated to (\$1.2271/Mcf), a change of \$1.7266/Mcf. In the 2012 AA Year, Columbia was over-collected by \$18 million, for an AA rate of (\$1.3382/Mcf). If Columbia used the NYMEX rate, the over-collection would drop to \$12.5 million, resulting in an AA rate of (\$0.9080/Mcf), an adjustment of \$0.4302/Mcf.

In summary, had the NYMEX pricing model been used as opposed to the historic WACOG method, Columbia's over-collections for the respective periods would have changed significantly. The result would have been smaller over-collections due to the forward looking nature of the NYMEX rates.

*Judy M Cooper
Director, Regulatory Services
Columbia Gas of Kentucky, Inc.
2001 Mercer Road
P. O. Box 14241
Lexington, KY 40512-4241

*Columbia Gas of Kentucky, Inc.
2001 Mercer Road
P. O. Box 14241
Lexington, KY 40512-4241