

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE TARIFF FILING OF COLUMBIA )  
GAS OF KENTUCKY, INC. TO )  
IMPLEMENT GAS COST INCENTIVE ) CASE NO. 96-079  
RATE MECHANISMS )

O R D E R

On March 1, 1996, Columbia Gas of Kentucky, Inc. ("Columbia") filed for approval to implement Phase I and Phase II of its proposed gas cost incentive mechanisms. Phase I is a program in which Columbia proposed to share 50 percent of off-system sales revenues with its ratepayers. Phase II is a capacity release incentive program in which Columbia proposed to retain 35 percent as its share of capacity release revenues and return 65 percent to ratepayers. Both programs were proposed by tariff changes to Columbia's Gas Cost Adjustment ("GCA") clause to be effective April 1, 1996. The first sharing of revenues was proposed to take place with Columbia's GCA filing effective September 1, 1996 based on data for the 12 months ended June 30, 1996.

On March 22, 1996, the Commission suspended the proposed tariffs from April 1, 1996 up to and including August 31, 1996. The Office of the Attorney General and Kentucky Industrial Utility Customers petitioned for and were granted approval to intervene in the proceeding. All information requested from Columbia during discovery has been filed. A public hearing was held on June 12, 1996.

On May 8, 1996, Columbia filed a Petition for Confidential Treatment of Data Required by the Commission. Specifically, Columbia requested confidential protection for its Strategic Gas Supply Plan for the years 1996-2000, its Long Range Gas Supply Report, and its Business Plan for Gas Cost Incentive Programs, all of which were provided in response to the Commission's Order dated April 24, 1996. Columbia's request was made pursuant to 807 KAR 5:001, Section 7. It has been addressed by separate Order.

After consideration of the record in this case and Case No. 95-353<sup>1</sup> and being otherwise sufficiently advised, the Commission finds that:

1. Columbia's proposal to amend its tariffs to implement Phase I of its gas cost incentive mechanisms to provide for sharing of off-system sales revenues is approved subject to the exceptions noted herein. Columbia's percentage of the sharing should be established at 35 percent instead of 50 percent as proposed. Because some of the off-system sales may be bundled with capacity paid for by ratepayers, and because all of the sales will be effected by Columbia resources that were developed to provide a public utility service, a larger percentage sharing to the ratepayers is appropriate. This sharing percentage is also commensurate with that proposed by Columbia for capacity release and may facilitate the optimal disposition of available capacity.

2. Phase I should be approved on a pilot basis for a period of two years. On July 1, 1998, Columbia should file a petition with the Commission to either continue or discontinue the program effective August 1, 1998.

---

<sup>1</sup> Case No. 95-353, The Tariff Filing of Columbia Gas of Kentucky, Inc. to Implement a Capacity Release Revenue Sharing Mechanism and an Off-System Sales Revenue Sharing Mechanism, filed August 17, 1995.

3. Columbia's proposal to credit ratepayers through the annual actual cost adjustment in its GCA filing is approved and should be effective beginning with transactions occurring on and after August 1, 1996. Columbia's proposal to share revenues collected during the 12 months ended June 30, 1996 should be denied because there was not an approved incentive program in effect during that time.

4. Columbia should be required to file with this Commission reports detailing its experience with the off-system sales incentive program. The reports should be filed quarterly beginning November 1, 1996 and should, at a minimum, address the following general areas: monthly transactions; allocation of off-system sales among Columbia distribution companies in instances where no capacity is involved in the transaction; the necessity to replace gas sold off-system; affiliate transactions; and any changes in Columbia's firm capacity contracting practices. The specifics of the report should include information in the same detail as Columbia's response to Item 17 of the Commission's Order dated May 14, 1996.

5. Columbia's proposal to amend its tariffs to implement Phase II of its gas cost incentive mechanisms to provide for 65/35 percent sharing of capacity release revenues between ratepayers and Columbia, respectively, is approved with the following exceptions. A benchmark will be required. Columbia has argued against the establishment of a benchmark, stating that it "is not truly appropriate because the capacity release market is highly unpredictable from year to year."<sup>2</sup> Columbia also prefers a program without a benchmark because it is less complicated.

---

<sup>2</sup> Post-Hearing Brief of Columbia Gas of Kentucky, Inc., page 9, filed July 11, 1996.

The Commission has no wish to unduly complicate the program, and it certainly agrees that the weather along with other factors pertaining to the market for released capacity are difficult to predict. A benchmark, however, represents more to this Commission than simply a measure of success. Capacity release represents first and foremost the opportunity for sales and firm transportation customers to be reimbursed for a portion of costs allocated to them for capacity that must be available to serve them on peak days. This capacity is at most other times not needed and is therefore available to be released. Columbia has been releasing capacity on behalf of ratepayers since November 1993, with all related revenues credited to gas cost through the GCA. This has been part of Columbia's management of ratepayers' supply requirements and attendant costs, and the record indicates that Columbia has been active and attentive to its responsibilities in this area. A benchmark constructed using historical capacity release data will assure ratepayers of being "made whole," in a sense, up to a level of what they should be able to expect based on past experience of capacity release management.

In calculating the benchmark, the Commission used a simple average of capacity release revenues for the 31 months ended May 31, 1996. The average monthly revenue of \$41,961.23 was multiplied by 11 to arrive at an annualized figure of \$461,574, which the Commission will use as the benchmark for the period August 1, 1996 through June 30, 1997. The Commission finds this benchmark reasonable. It represents an average of all Columbia's capacity release activity and will tend to moderate fluctuations caused by weather. It will also challenge Columbia to achieve a relatively high level of capacity release and will provide incentive rewards only for exceptional performance. Columbia will not share in capacity release revenues until ratepayers have received the

entire amount of the benchmark. At levels above the benchmark, ratepayers will receive no more than the benchmark until capacity release revenues reach the level at which the benchmark is 65 percent of the total. (The capacity release revenue level at which ratepayers and Columbia begin to share at the full 65/35 percent level is \$710,114:  $65\% \times \$710,114 = \$461,574$ .) Between the revenue levels of \$461,574 and \$710,114, Columbia will retain all revenues over the benchmark; above the level of \$710,114, Columbia and ratepayers will share 35/65 of total revenues, respectively.

The Commission will not require "down-side sharing" of revenue shortfalls below the benchmark. The benefits of a symmetrical sharing mechanism do not outweigh the drawbacks of establishing such a punitive requirement. This Commission is reluctant to send a message that a utility would be punished for retaining, rather than releasing, capacity when retaining it is the reasonable course.

6. The benchmark should be recalculated coincident with the annual actual cost adjustment filing in the same manner as described in the third paragraph of finding number five based on actual data for the 36 months ending June 30 of the year in which the filing is made. This will give weight to the effect of the incentive program and continue to moderate the effect of weather, as well as reflect more current market conditions.

7. Phase II should be approved on a pilot basis for a period of two years. On July 1, 1998, Columbia should file a petition with the Commission to either continue or discontinue the program effective August 1, 1998.

8. Columbia's proposal to credit ratepayers through the annual actual adjustment in its GCA filing is approved and should be effective beginning with transactions occurring on and after August 1, 1996. Columbia's proposal to share revenues collected

during the 12 months ended June 30, 1996 should be denied because there was not an approved incentive program in effect during that time.

9. Columbia should be required to file with this Commission reports detailing its experience with the capacity release incentive program. The reports should be filed quarterly beginning November 1, 1996 and should, at a minimum, address the following general areas: amount available for release, by month; individual transactions; affiliate transactions; and any changes in Columbia's firm capacity contracting practices. The report should include information in the same detail as that contained in Columbia's response to Item 7 of the Commission's Order dated April 24, 1996, as well as that contained in Columbia's response to Item 11 of the same Order. The first report should include a comparative analysis of Columbia's firm capacity contracting practices for the preceding five years with its current contracting practices.

IT IS THEREFORE ORDERED that:

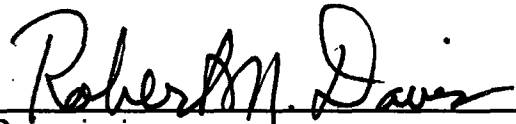
1. Columbia's proposed Phase I and Phase II tariff amendments and associated gas cost incentive mechanisms are approved as modified herein effective August 1, 1996.
2. Columbia's proposal to implement these programs retroactively through its annual actual cost adjustment effective September 1, 1996 is denied.
3. Columbia shall file quarterly reports with the Commission as directed herein.
4. On July 1, 1998, Columbia shall file its petitions to continue or discontinue these programs as directed herein.
5. Within 30 days of the date of this Order, Columbia shall file its revised tariffs as approved herein.

Done at Frankfort, Kentucky, this 31st day of July, 1996.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

  
Executive Director