

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF COLUMBIA)	
GAS OF KENTUCKY, INC. FOR ITS ANNUAL)	CASE NO.
SAFETY MODIFICATION AND REPLACEMENT)	2024-00328
PROGRAM FILING)	

ORDER

On October 15, 2024, Columbia Gas of Kentucky, Inc. (Columbia Kentucky) filed its annual application for its Safety Modification and Replacement Program (SMRP) rates, based on a forecasted test period ending December 31, 2025. On November 12, 2024, the Commission suspended rates for one day until January 1, 2025, to give the Commission time to investigate the SMRP rates, and to allow Columbia Kentucky to begin charging the SMRP rates, pending a final Order and subject to refund.

On December 30, 2024, Columbia Kentucky provided written notice to the Commission of its intention to implement rates, as required by KRS 278.190(2).¹ Columbia Kentucky responded to two rounds of discovery from Commission Staff.² On January 13, 2025, Columbia Kentucky waived its right to a hearing and requested the Commission decide this case on the record. There are no intervenors in this case, and the matter is submitted to the Commission for a decision based upon the evidentiary record.

¹ Columbia Kentucky's Notice of Intent to Implement Rates Subject to Refund (filed Dec. 30, 2024).

² Columbia Kentucky's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Dec. 6, 2024); Columbia Kentucky's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Jan. 10, 2025).

LEGAL STANDARD

KRS 278.030 provides that a utility may collect fair, just and reasonable rates and that service it provides must be adequate, efficient and reasonable. KRS 278.509 provides that the Commission may allow recovery of costs for investment in natural gas pipeline replacement programs which are not already recovered in the existing rates of the regulated utility.

PROPOSED RATES

In accordance with Case No. 2022-00342,³ Columbia Kentucky used a forecasted revenue requirement based on a thirteen-month average ending December 31, 2025.⁴ Columbia Kentucky's SMRP is to be updated annually in order to reflect the expected impact on its revenue requirements of forecasted net plant additions and subsequently adjusted to true up the actual costs with the projected costs.⁵

The current filing includes capital spend for 2023-2025 because Columbia Kentucky did not propose to roll the SMRP into base rates in Case No. 2024-00092.⁶ The data included in this case reflects fully projected 2025 SMRP activity and was used to establish the billing rate to be effective with Unit 1 January 2025.⁷ Columbia Kentucky

³ Case No. 2022-00342, *Columbia Gas of Kentucky, Inc. for Annual Adjustments to the Safety Modification and Replacement Program* (Ky. PSC Dec. 28, 2022).

⁴ Application, SMRP Form 2.0.

⁵ Columbia Kentucky's P.S.C. KY No. 5, Twenty Seventh Revised Sheet No. 58.

⁶ Application, SMRP Form 3.0 and Case No. 2024-00092, *Electronic Application of Columbia Gas of Kentucky, Inc. for an Adjustment of Rates; Approval of Depreciation Study; Approval of Tariff Revisions; and Other Relief* (Ky. PS Dec. 30, 2024), Order at 42–44.

⁷ Application, SMRP Form 1.0 and SMRP Form 2.0.

has since filed its annual balancing adjustment to the SMRP in Case No. 2025-00071⁸ in which it has provided true-up of actual costs associated with the SMRP through 2024. The proposed rates in this case include the true-up approved in Case No. 2024-00074.⁹

In Case No. 2024-00092, Columbia Kentucky and the Attorney General filed a settlement that contemplated the return on equity (ROE) for the SMRP to be determined in the current filing.¹⁰ Columbia Kentucky proposed to use the ROE approved for base rates of 9.75 percent for the SMRP.¹¹ Columbia Kentucky argued that the proxy group included utilities with single-issue capital riders so reducing the ROE would double count the reduction in risk.¹² Columbia Kentucky also argued that without rolling the SMRP capital projects into base rates, the risk profile of the SMRP rider more closely resembles base rates than a rider for the accelerated replacement of pipe.¹³

PROPOSED PROJECTS

In Case No. 2024-00092, Columbia Kentucky discussed that, in 2008, Columbia Kentucky began to implement its Accelerated Mainline Replacement Program, which was designed to replace 525 miles of priority pipe over the course of 30 years.¹⁴ However, in

⁸ Case No. 2025-00071, *Electronic Application of Columbia Gas of Kentucky, Inc. for Tariff SMRP Balancing Adjustment* (filed Mar. 31, 2025).

⁹ Case No. 2024-00074, *Electronic Application of Columbia Gas of Kentucky, Inc. for Annual Safety Modification and Replacement Program Balancing Adjustment* (Ky. PSC Aug. 20, 2024).

¹⁰ Case No. 2024-00092, (Ky. PSC Dec. 30, 2024), Order at 41 and 44.

¹¹ Application, SMRP Form 2.1.

¹² Direct Testimony of Vincent Rea (Rea Direct Testimony) (filed Oct. 15, 2024) at 8–9.

¹³ Rea Direct Testimony at 4–6.

¹⁴ Case No. 2024-00092, (filed May 23, 2024), Application, Volume 3, Direct Testimony of David Roy (Roy Direct Testimony) at 9–10.

2024 Columbia Kentucky noted that it was not on track to meet this goal and delayed the deadline to 2043 due to the cost of inflation and labor.¹⁵

Columbia Kentucky projected to have approximately 270 miles of bare steel main remaining at the end of 2024.¹⁶ Assuming all proposed projects for 2025 are completed as planned, Columbia Kentucky expects to have approximately 256 miles remaining.¹⁷ Columbia Kentucky has not designed projects for segments of the remaining miles of known eligible pipe.¹⁸

Columbia Kentucky stated that the SMRP is the sole recovery mechanism for the Accelerated Mainline Replacement Program.¹⁹ Columbia Kentucky explained that it does not budget for SMRP expenses based upon specific projects.²⁰ Projects are designed to fit a budget that is estimated and submitted to the Commission in Columbia Kentucky's annual October SMRP filing, forecasting work for the next calendar year.²¹ Columbia Kentucky tries to meet this estimate when designing projects for the next calendar year's work.²² Columbia Kentucky also stated that it takes into consideration factors such as resource availability, safety considerations, state and local government construction and

¹⁵ Case No. 2024-00092, May 23, 2024 Roy Direct Testimony at 10.

¹⁶ Columbia Kentucky's Response to Staff's First Request, Item 5.

¹⁷ Columbia Kentucky's Response to Staff's First Request, Item 5.

¹⁸ Columbia Kentucky's Response to Staff's First Request, Item 5.

¹⁹ Columbia Kentucky's Response to Staff's First Request, Item 6.

²⁰ Columbia Kentucky's Response to Staff's First Request, Items 5 and 10.

²¹ Columbia Kentucky's Response to Staff's First Request, Items 5 and 10.

²² Columbia Kentucky's Response to Staff's First Request, Items 5 and 10.

paving plans.²³ According to Columbia Kentucky, completion of projects in the Project List proposed annually is not specifically tied to the likelihood of recovery through the SMRP rider.²⁴ Columbia Kentucky stated that all projects proposed to be included in the 2025 plan are replacements of bare steel pipe and low-pressure regulator stations except one relocation project, which all comply with the scope of the SMRP.²⁵

DISCUSSION AND FINDINGS

Since 2020, the Commission has consistently established a lower ROE for riders with true-up mechanisms, finding that recovery through limited purpose riders is less risky than base rates.²⁶ Additionally, Columbia Kentucky's argument that more capital

²³ Columbia Kentucky's Response to Staff's First Request, Item 10.

²⁴ Columbia Kentucky's Response to Staff's First Request, Item 10.

²⁵ Application, Proposed SMRP Project List.

²⁶ See Case No. 2020-00060, *Electronic Application of Kentucky Utilities Company for Approval of Its 2020 Compliance Plan for Recovery by Environmental Surcharge* (Ky. PSC Sept. 29, 2020), Order at 20; Case No. 2020-00061, *Electronic Application of Louisville Gas and Electric Company for Approval of an Amended Environmental Compliance Plan and a Revised Environmental Surcharge* (Ky. PSC Sept. 29, 2020), Order at 20; Case No. 2020-00174, *Electronic Application of Kentucky Power Company for (1) A General Adjustment of Its Rates for Electric Service; (2) Approval of Tariffs and Riders; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; (4) Approval of a Certificate of Public Convenience and Necessity; and (5) All Other Required Approvals and Relief* (Ky. PSC Jan. 13, 2021), Order at 67; Case No. 2020-00349, *Electronic Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates, a Certificate of Public Convenience and Necessity to Deploy Advanced Metering Infrastructure, Approval of Certain Regulatory and Accounting Treatments, and Establishment of a One-Year Surcredit* (Ky. PSC June 30, 2021), Order at 21–23; Case No. 2020-00350, *Electronic Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Rates, a Certificate of Public Convenience and Necessity to Deploy Advanced Metering Infrastructure, Approval of Certain Regulatory and Accounting Treatments, and Establishment of a One-Year Surcredit* (Ky. PSC June 30, 2021), Order at 23–25; Case No. 2021-00214, *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates* (Ky. PSC May 19, 2022), Order at 48; Case No. 2021-00185, *Electronic Application of Delta Natural Gas Company, Inc. for an Adjustment of Its Rates and a Certificate of Public Convenience and Necessity* (Ky. PSC Jan. 3, 2022), Order at 15; Case No. 2021-00190, *Electronic Application of Duke Energy Kentucky, Inc. for: 1) An Adjustment of the Natural Gas Rates; 2) Approval of New Tariffs, and 3) All Other Required Approvals, Waivers, and Relief* (Ky. PSC Dec. 28, 2021), Order at 15; Case No. 2022-00372, *Electronic Application of Duke Energy Kentucky, Inc. for (1) An Adjustment of Electric Rates; (2) Approval of New Tariffs; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and (4) All Other Required Approvals and Relief* (Ky. PSC Oct. 12, 2023), Order at 41–42; Case No. 2024-00346, *Electronic Application of Delta Natural Gas Company, Inc. for an Adjustment of Gas Rates* (Ky. PSC July 1, 2025), Order at 17.

spending being recovered through the SMRP results in higher risk ignores the true-up provision of the SMRP. Recovery through the SMRP is practically guaranteed through the true-up mechanism, making the SMRP less risky than base rate recovery. Columbia Kentucky had the opportunity to justify incorporating the SMRP into base rates and elected not to do so.²⁷ Having considered the record and being otherwise sufficiently advised, the Commission finds that the SMRP rates as filed are denied. The Commission finds that the ROE for the SMRP should be 9.65 percent, a 10 basis point reduction from the ROE approved for base rates. Otherwise, the Commission finds that the proposed projects and calculations of the SMRP rates should be approved.

Furthermore, the Commission notes that the SMRP was designed to accelerate the replacement of bare steel and other priority pipe within the system, not to replace the traditional approach of replacing infrastructure through the normal course of business. The Commission finds it troubling that Columbia Kentucky is pushing back its deadline for its priority pipe replacements. Therefore, the Commission finds that the efficacy of the SMRP rider as administered by Columbia Kentucky will be evaluated in the next base rate case, and Columbia Kentucky should file testimony supporting the need for and benefits of the SMRP.

The Commission also notes that Columbia Kentucky placed its proposed rates in this matter in effect, subject to refund, on January 1, 2025, while this case was pending. The Commission finds that Columbia Kentucky should refund, within 60 days from the date of service of this Order, each of its customers all amounts collected for service

²⁷ Case No. 2024-00092, May 23, 2024 Application, Volume 2, Direct Testimony of Jeffery Gore at 6–7.

rendered from January 1, 2025, through the date of entry of this Order that are in excess of the rates set forth in the Appendix attached to this Order. In addition, within 75 days from the date of service of this Order, Columbia Kentucky should also file a written report into the case record that describes its efforts to refund all monies collected in excess of the rates that are set forth in the Appendix to this Order. Furthermore, following the filing of the written report, the Commission reserves its right to initiate an investigation to determine whether Columbia Kentucky reasonably refunded all monies collected in excess of the rates that are set forth in the Appendix to this Order.

IT IS THEREFORE ORDERED that:

1. Columbia Kentucky's proposed SMRP rates are denied.
2. The rates and charges as set forth in the Appendix are approved as fair, just and reasonable rates for Columbia Kentucky, and these rates and charges are approved for service on and after January 1, 2025.
3. Within 20 days of the date of this Order, Columbia Kentucky shall file with the Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates, charges, and modifications approved or as required herein and reflecting their effective date and that they were authorized by this Order.
4. Within 60 days of the date of service of this Order, Columbia Kentucky shall refund to its customers all amounts collected for service rendered from January 1, 2025, through the date of entry of this Order that are in excess of the rates set forth in the Appendix attached to this Order.

5. Within 75 days of the date of service of this Order, Columbia Kentucky shall submit a written report to the Commission in which it describes its efforts to refund all monies collected in excess of the rates that are set forth in the Appendix to this Order.

6. The Commission reserves its right to initiate an investigation to determine whether Columbia Kentucky reasonably refunded all monies collected in excess of the rates that are set forth in the Appendix to this Order should the Commission deem it necessary.


7. In its next base rate case, Columbia Kentucky shall file testimony regarding its administration of the SMRP rider as described in this Order.


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

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PUBLIC SERVICE COMMISSION


Chairman


Commissioner


Commissioner

ATTEST:


Executive Director



Case No. 2024-00328

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00328 DATED JUL 24 2025

<u>Rate Class</u>	<u>SMRP Rates per MCF</u>
Rate GSR, Rate SVGTS – Residential Service	\$1.0298
Rate GSO, Rate GDS, Rate SVGTS – Commercial or Industrial Service	\$0.5859
Rate IUS, Rate IUDS	\$0.3678
Rate IS, Rate DS, ¹ Rate SAS	\$0.1083

¹ Excluding customers subject to the Flex Provisions of Rate Schedule DS.

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