

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the matter of:)
) Case No. 2016-00162
APPLICATION OF COLUMBIA GAS OF)
KENTUCKY, INC. FOR AN ADJUST-)
MENT OF RATES

DIRECT TESTIMONY OF HERBERT A. MILLER, JR.
IN SUPPORT OF THE STIPULATION AND RECOMMENDATION

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COLUMBIA GAS OF KENTUCKY, INC.

1 **Q: Please state your name, title and business address.**

2 A: My name is Herbert A. Miller, Jr. My title is President of Columbia Gas of Ken-
3 tucky, Inc. ("Columbia"), and my business address is 2001 Mercer Road, Lexington,
4 KY 40512-4241.

5

6 **Q: What is the purpose of your testimony?**

7 A: My testimony is filed in support of the Stipulation and Recommendation ("Stipu-
8 lation") filed with the Kentucky Public Service Commission ("Commission") on
9 October 20, 2016, in this proceeding. My testimony will explain how the Stipula-
10 tion is fair, just and reasonable.

11

12 **Q: Please explain how the total amount of the increase in revenues for Columbia**
13 **as proposed in the Stipulation can be considered fair, just and reasonable.**

14 A: Whether the amount of increase in revenues is fair, just and reasonable is a
15 somewhat subjective determination. It is not a mathematical formula. The initial
16 proposal by each party in this proceeding represented its best possible outcome
17 based on the facts, as they were understood by each of the parties at the com-
18 mencement of this case. Since that time, substantial data has been exchanged and
19 the parties have engaged in extensive negotiations in an attempt to arrive at an

1 outcome that is fair, just and reasonable; an outcome which the Commission
2 would, and should, approve. The compromise of revenues and rates which has
3 resulted from these negotiations reflects the present best judgment of the parties
4 (including their respective outside experts) as to what is fair, just and reasonable.
5 These rates are intended to produce sufficient revenue for Columbia to operate
6 and provide the high level of service it strives for and its customers expect.

7 Columbia believes that the entire increase originally filed by the Company
8 is appropriate to maintain its earnings at a level that allows Columbia an oppor-
9 tunity to earn a fair, just and reasonable return on its investment. Nonetheless,
10 the nature of the ratemaking process is such that a Stipulation reached by the
11 various parties in the proceeding can produce a fair, just and reasonable outcome
12 as a result of the compromise reached by the parties. That is what happened in
13 this case.

14
15 **Q: Why would the parties be willing to reach a compromise?**

16 **A:** Each of the parties to the Stipulation has vigorously pursued its respective posi-
17 tions in testimony, exhibits and responses to data requests. However, despite the
18 sincerity of these individual positions, each party recognizes that the final out-
19 come in this proceeding would likely result in a decision with which neither it

1 nor the other parties would be totally satisfied. The parties further recognize that
2 the very nature of litigation entails both risk and cost. By reaching this compro-
3 mise, each party has determined that the proposed Stipulation outcome is pref-
4 erable to other, less favorable outcomes and avoids the costs to Columbia's cus-
5 tomers that could result as an outcome of litigating the issues in this case.
6 Through negotiation, each party was able to prioritize its goals in this proceeding
7 and ensure that those priorities are reflected in the Stipulation.

8
9 **Q: How does a compromise produce a fair, just and reasonable change in reve-**
10 **nues?**

11 A: Each of the parties to this proceeding represents a unique constituency. By vig-
12 orously pursuing the positions of the respective constituencies in negotiations,
13 each party has ensured that the priorities of its constituency have been recog-
14 nized and protected in the Stipulation. It is the vigorous representation of all
15 constituencies in negotiations, with each party freely and voluntarily agreeing to
16 the concessions it has made in order to ensure its priorities are reflected in the
17 Stipulation, which provides for a fair, just and reasonable change in rates. In oth-
18 er words, this Stipulation is a fair, just and reasonable settlement because each

1 constituency has been vigorously represented in the negotiations and, through
2 representation or direct involvement, has freely agreed to the Stipulation.

3
4 **Q: What evidence is there for the Commission that each constituency was vigor-**
5 **ously represented in the negotiations that led to this settlement?**

6 A: The Stipulation outcome itself reveals the sincerity of the negotiations on all
7 sides. The record in this proceeding clearly states the positions of the parties. The
8 Commission need only review the positions taken by the parties in this case and
9 compare those positions to the Stipulation to determine if each constituency was
10 vigorously represented in negotiations and made appropriate concessions to en-
11 sure its priorities were reflected on the Stipulation. Any settlement must be
12 viewed in its entirety rather than evaluated on the basis of any of its individual
13 components. This Stipulation was negotiated in the context of its overall result
14 and impact on customers and shareholders, not any one particular issue.

15
16 **Q: Please briefly describe the terms of the Stipulation.**

17 A: The Stipulation offered to the Commission for its consideration and approval
18 permits Columbia to adjust its rates to recover an additional \$13.408 million in
19 annual revenue compared to rates in effect at the time of filing, beginning with

1 service rendered on and after December 27, 2016. The increased revenue shall be
2 reflected as changes to both the customer charges and the volumetric delivery
3 charges associated with Columbia's various rate schedules. For residential cus-
4 tomers, the monthly customer charge will be \$16.00 and the volumetric rate will
5 be \$3.5927 per Mcf. Other increases to customer charges associated with various
6 rate schedules and changes in volumetric rates are more completely summarized
7 in the Stipulation. In conjunction with the Stipulation, Columbia will continue to
8 implement its AMRP Rider as in its Application, except it has withdrawn from
9 this case its proposal to expand its AMRP Rider recovery mechanism to include
10 early first generation plastic pipe and for the meters in "failed meter families" to
11 be replaced as part Columbia's statistical sampling plan. Columbia's current de-
12 preciation methodology will continue to be used using updated accrual rates.
13 Also, with certain exceptions as stated in the Stipulation, Columbia has agreed
14 not to file a notice of intent to submit an application for a general adjustment of
15 rates prior to May 15, 2019. Columbia further agrees that it will not file an Ap-
16 plication in Case No. 2016-00334 regarding a Certificate of Public Convenience
17 and Necessity ("Certificate") for a Training Facility and agrees not to file for a
18 Certificate for building such a Training Facility before April 15, 2019.

1 **Q: Please describe the attachments to the Stipulation.**

2 A: Attached to the Stipulation are completed sets of pro-forma tariff sheets and
3 proof-of-revenue sheets. These attachments are considered as a part of the Stipu-
4 lation and have been unanimously agreed to by Columbia; the Attorney General
5 of the Commonwealth of Kentucky; the Lexington-Fayette Urban County Gov-
6 ernment; the Kentucky Industrial Utility Customers; and the Community Action
7 Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.

8

9 **Q: Please describe why the attached tariffs that have been modified by virtue of**
10 **the Stipulation are fair, just and reasonable.**

11 A: As a part of the Stipulation, Columbia; the Attorney General of the Common-
12 wealth of Kentucky; the Lexington-Fayette Urban County Government; the Ken-
13 tucky Industrial Utility Customers; and the Community Action Council for Lex-
14 ington-Fayette, Bourbon, Harrison, and Nicholas Counties, have agreed upon the
15 tariffs attached hereto. The attached tariffs ensure the interests of the consti-
16 tutes represented by each party have been prioritized and protected in the Stipula-
17 tion. The tariffs themselves are the means by which Columbia can produce the
18 level of revenue necessary to meet its obligations. For the convenience of the
19 Commission, the proposed tariff changes are attached to the Stipulation. Unless

1 specifically referenced herein, the parties have agreed that all tariff changes pro-
2 posed by Columbia will be permitted to be implemented.

3
4 **Q: Please describe any proposed programs or special commitments agreed upon**
5 **by the Stipulation.**

6 A: The parties have agreed that Columbia will: (1) continue its Accelerated Main
7 Replacement Program (“AMRP”) Rider with modifications as proposed herein.
8 For future AMRP annual filings, Columbia will use an authorized return on eq-
9 uity, agreed to by the parties, for AMRP filing purposes and for AFUDC, of
10 9.80%; (2) perform a lead lag cash working capital study in conjunction with its
11 next general application for a base rate adjustment (excluding non-cash items),
12 with the reasonable cost thereof allowable as rate case expense for recovery; (3)
13 Columbia will guarantee an annual Wintercare contribution of \$45,000 from Co-
14 lumbia shareholder funds in addition to customer contributions for Wintercare;
15 and, (4) and will contribute an additional \$25,000 annually of Columbia share-
16 holder dollars to its Energy Assistance Program (“EAP”) and otherwise continue
17 its existing program at an annual budget of \$675,000, except that in its next an-
18 nual tariff adjustment, the calculation of the EAP surcharge will be calculated to
19 produce \$475,000 annually instead of \$500,000 annually.

1 **Q: Please describe how the rate case expenses will be recovered.**

2 A: Columbia's actual rate case expenses from this proceeding will be amortized and
3 recovered over a period of 28 months.

4
5 **Q: Please describe the attached proof-of-revenue sheets.**

6 A: As a part of the Stipulation, all of the parties have agreed upon the proof-of-
7 revenue sheets attached thereto, which detail the rate designs and validation of
8 the rate adjustment of approximately \$13.408 million. The attachment provides
9 an overview of the proposed distribution rates by service type. The total actual
10 increase of \$13,407,972 is shown at the bottom of Page 6 of Attachment B to the
11 Stipulation and Recommendation.

12
13 **Q: Has Columbia published public notice of the hearing in this case, scheduled to
14 begin November 1, 2016?**

15 A: Yes. Affidavits demonstrating the publications will be docketed with the Com-
16 mission.

17

18

19

1 **Q: Are there any other matters you wish to address at this time?**

2 A: Yes. In closing, please note that all of the parties have expended considerable ef-
3 fort to reach the terms that form the basis of the Stipulation. The parties agree
4 that this Stipulation is reasonable, produces rates that are fair, and is in the best
5 interest of all concerned. Together, we submit the Stipulation for the considera-
6 tion of the Commission and urge that the terms be approved in its entirety.

7

8 **Q: Does this conclude your Direct Testimony in Support of the Stipulation?**

9 A: Yes.