COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

Application of Columbia Gas of Kentucky, Inc. for an Adjustment of Rates	:	Case No. 2016-00162

COMMENTS OF
INTERSTATE GAS SUPPLY INC.

I. INTRODUCTION

Pursuant to 807 KAR 5:001 § 4(11)(e) and the Orders of the Kentucky Public Service Commission ("Commission") dated July 21, 2016 and August 31, 2016, IGS hereby files these written comments for consideration by the Commission in the above-captioned rate proceeding initiated by Columbia Gas of Kentucky, Inc. ("Columbia" or "CKY").

On October 20th, 2016 the parties in this proceeding filed a Stipulation and Recommendation ("Stipulation") purporting to resolve the outstanding issues in this proceeding. The Stipulation, if approved, would adopt changes to Direct Services tariffs which Columbia proposed in its initial Application filed in this proceeding. IGS supplies over 5,000,000 CCF of natural gas to Direct Services customers in the CKY service territory representing millions of dollars in sales each year. IGS was denied intervention in this proceeding, and consequently IGS did not have an opportunity to provide input into the Stipulation during settlement on issues that are directly relevant to the Direct Service business IGS conducts in Kentucky.

The provisions proposed by Columbia that relate to the Direct Services tariff, if adopted, will materially harm the customers served on Direct Service tariffs. Consequently, IGS is filing these comments to request that the Commission: 1) reject Columbia's proposal to give the

Company unrestricted discretion to require deliveries of customer-owned natural gas at any point that it designates; 2) reject Columbia's proposal that would permit it to use its own commodity purchases rather than index pricing in the cash-out methodology that is used to price sales resulting from under and over-deliveries of natural gas; and 3) modify Columbia's tariffs to allow agents/suppliers to aggregate deliveries of Direct Service customers behind the same pipeline scheduling point.

In the alternative, if the Commission wishes to approve the Direct Services tariff changes proposed by Columbia, the Commission should modify the provisions to ensure that Columbia does not: 1) discriminate against suppliers when effectuating the tariffs; and 2) provides more transparency when implementing its Direct Service tariff changes.

The reason for IGS' suggested modifications are more fully described herein.

II. COMMENTS

A. The Commission should reject Columbia's proposed tariff changes that would give the Company unlimited discretion to designate alternative points of delivery of customer-owned natural gas.

In its Application filed in this proceeding Columbia proposes modifications to Tariff Sheet No. 89, Paragraph 1, which would give it unrestricted authority to modify the points of delivery for gas delivered to Direct Service customers. This tariff language proposed by Columbia would likely cause material harm to Direct Service customers and to the suppliers serving those customers.

There is often a cost advantage to allow deliveries from, or to, different points on the Columbia system. If Columbia is able to restrict supplier's deliveries from, or to, certain pipeline points, suppliers could be subject to higher delivery costs. Further, the ambiguity in the proposed tariff language makes it difficult for suppliers to know when, and how often, they

would be subject to delivery restrictions. This uncertainty makes it more difficult for suppliers to hedge against risk and also makes it more difficult for suppliers to offer longer term contracts to customers. For these reasons Columbia's proposed changes to Tariff Sheet No. 89, Paragraph 1 should be rejected.

To the extent the Commission is inclined to accept the tariff changes, at a minimum, the language in Tariff Sheet No. 89, Paragraph 1 should be modified to restrict Columbia from changing delivery requirements only when the upstream pipeline calls an Operational Flow Order (OFO) requiring deliveries to be made somewhere other than the city gate. During an OFO event Columbia may incur penalties from the upstream pipeline if deliveries are not limited to the city gate. There may be justification for placing such restrictions on suppliers during these times. However, giving Columbia broad discretion to limit supplier's deliveries outside an OFO event would subject suppliers to a significant uncertainty and cost disadvantages.

The proposed language in Tariff Sheet No. 89, Paragraph 1 would allow Columbia to restrict supplier's deliveries even when the upstream pipeline has not placed corresponding restrictions on Columbia. Therefore Columbia could place restrictions on suppliers solely for its own economic benefit (and detriment of Direct Service customers) and not for reliability purposes.

Finally, if Columbia is allowed to place delivery restrictions on suppliers, and require deliveries to alternative points, Columbia should be required to provide suppliers with data that would demonstrate that Direct Service customers are receiving a fair allocation of daily delivery rights to the primary pipeline scheduling point ("PSP"). As drafted, the proposed changes in Tariff Sheet No. 89, Paragraph 1 would allow Columbia to discriminate against Direct Service customers, by delivering gas for Columbia's own gas supply needs to the PSP while at the same time forcing Direct Service suppliers to make all deliveries to more costly alternative points.

More transparency is needed to ensure Columbia administers any delivery restrictions in a fair manner, and does not favor its own gas deliveries.

B. The Commission should reject Columbia's proposal to use its own commodity purchases rather than index pricing in the cash-out methodology.

Columbia further proposes to changes its cash-out methodology in Paragraphs B and D on Tariff Sheet No. 91. Currently, the cash-out methodology uses market index pricing to determine the price that the Company will receive in the event of under-deliveries (average index price times 120%) and over-deliveries (average index price times 80%). Columbia's new proposal would allow Columbia to charge up 120% of its *highest purchase price* for under-deliveries and refund 80% of its *lowest purchase price* for over deliveries.

Columbia's proposed cash-out mechanism is unduly punitive for Direct Service customers and should not be adopted by the Commission. When there is an under-delivery for Direct Service customers Columbia is likely not purchasing gas for customers at its highest per-unit price, and conversely Columbia is unlikely selling gas at its lowest per unit price when there are over-deliveries. Therefore it is inappropriate to use Columbia's highest and lowest prices in the cash-out calculation, which will almost always result in Direct Service Customer's paying more than the actual cost Columbia incurred.

This inequity is compounded by the fact that the proposed tariff would allow Columbia to charge 20% more than their *highest price* for any gas purchased for Direct Service customer and refund only 80% of their *lowest price* for over-deliveries. If Columbia is charging a customer 120% of the highest possible purchase price for gas, this will result in a windfall to Columbia and an undue penalty to Direct Service customers. For these reasons the Commission should reject Columbia's proposed to changes its cash-out methodology in Paragraphs B and D on Tariff Sheet No. 91.

In the alternative, if the Commission does not wish to reject the tariff provision out right, the tariff provision should be modified to ensure that Columbia provides support for the prices used to create the cash out rates to ensure the prices charged to Direct Service customers does not exceed Columbia's costs. The tariff language as drafted is ambiguous and leaves the door open for Columbia to unduly penalize Direct Service customers.

C. **The Commission should modify Columbia's tariffs to allow agents/suppliers to aggregate deliveries of Direct Service customers behind the same pipeline scheduling point.**

Currently suppliers of Direct Service must nominate natural gas for each individual customer separately, rather than being able to aggregate deliveries for all customers. Individually nominating for each customer creates significant administrative burden, and increases the risk of over or under deliveries for Direct Service customers. Most programs that IGS participates in allow suppliers to aggregate deliveries for their larger Direct Service/Transportation customers. For these reasons the Commission should require Columbia to modify is Direct Service tariffs to allow agents/suppliers to aggregate deliveries of Direct Service customers behind the same pipeline scheduling point.

III. CONCLUSION

The Stipulation if approved would disadvantage Direct Service customers and suppliers of Direct Service customers. Unfortunately the Commission did not allow Direct Service suppliers, such as IGS, to intervene in this proceeding preventing suppliers from giving input into a Stipulation that would directly affect their business practice. The lack of supplier participation in the settlement process, unsurprisingly, resulted in Stipulation that was filed that will favor the incumbent utility at the expense of Direct Service customers and suppliers. For these reasons the Commission should modify the Stipulation to:

- Reject Columbia's proposal to give the Company unrestricted discretion to require deliveries of customer-owned natural gas at any point that it designates;
- Reject Columbia's proposal that would permit it to use its own commodity purchases rather than index pricing in the cash-out methodology that is used to price sales resulting from under and over-deliveries of natural gas; and
- Modify Columbia's tariffs to allow agents/suppliers to aggregate deliveries of Direct Service customers behind the same pipeline scheduling point.

In the alternative, if the Commission wishes to approve the Direct Services tariff changes, the Commission should modify the Direct Service tariff provisions to ensure that Columbia does not 1) discriminate against suppliers when effectuating the tariffs and 2) provides more transparency when implementing its Direct Service tariff changes.

IGS respectfully requests that the Commission make the modifications to the Stipulation filed in this proceeding as recommended herein.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that IGS' October 31, 2016 electronic filing is a true and accurate copy of IGS' Comments and cover letter to be filed in paper medium; that the electronic filing has been transmitted to the Commission on October 31, 2016; that an original and one copy of the filing will be delivered to the Commission on October 31, 2016; that there are currently no parties excused from participation by electronic service; and that, on October 31, 2016, electronic mail notification of the electronic filing is provided to the following:

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