

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE ELECTRONIC )  
APPLICATION OF COLUMBIA GAS OF )  
KENTUCKY, INC. TO EXTEND ITS GAS COST ) Case No. 2017- 00453  
INCENTIVE MECHANISM AND ITS OFF- )  
SYSTEM SALES AND CAPACITY RELEASE )  
REVENUE SHARING MECHANISM. )

---

COLUMBIA GAS OF KENTUCKY, INC.'S  
POST-HEARING BRIEF

---

Columbia Gas of Kentucky, Inc. (“Columbia”) hereby submits this post-hearing brief in support of its November 30, 2017 Application to Extend its Gas Cost Adjustment Performance Based Mechanism and its November 12, 2019 Motion for Reconsideration and Re-hearing in the above-captioned matter. The record has been fully developed and supports the continuation of Columbia’s Performance Based Rate mechanism (“PBR”) as described herein.

**I. Background**

On November 11, 2017, Columbia filed application to extend its PBR. On October 22, 2019, the Kentucky Public Service Commission (“Commission”) issued an Order summarily denying Columbia’s request for a 5-year extension and instead approved it

until March 31, 2021, with several modifications.<sup>1</sup> Columbia filed a Motion for Reconsideration and Re-hearing on November 12, 2019, arguing for the opportunity to more fully develop the record. On December 2, 2019, the Commission granted Columbia's motion and set forth a procedural schedule allowing for testimony, data requests, and a hearing. Columbia filed testimony and responded to three rounds of data requests (two pre-hearing and one post-hearing). A hearing was held on May 27, 2020.

## **II. Argument**

As described in the testimony of Witness Anderson, the most significant modification to Columbia's PBR pursuant to the Commission's October 22, 2019, Order was changing the Transportation Cost Index ("TCI") benchmark for two of the interstate pipelines from which Columbia takes service from the rates approved by FERC to the current discount rates negotiated by Columbia. Additionally, the Commission further adjusted the benchmark within the TCI for Columbia's Storage Service Transportation ("SST") contract by adding a percentage gross-up factor that was indicated to be applied on the date of the Order to reflect increases in the FERC approved rates.<sup>2</sup> The Commission reasoned that Company's discounted SST capacity contract had not changed since 2010

---

<sup>1</sup> October 22, 2019, Order.

<sup>2</sup> *Id* at 2.

and that they wanted Columbia to continue to aggressively negotiate discounted rates for its customers.<sup>3</sup>

- a. **Columbia's PBR, prior to the Commission's modification, is an effective incentive mechanism for Columbia to aggressively and consistently pursue the retention of its negotiated rates for its customers.**

As Columbia emphasized in its testimony, data responses and at the hearing, Columbia has aggressively and consistently pursued the retention of its negotiated rates for its customers. Columbia worked tirelessly in the TCO Modernization Program negotiations to ensure the continuing and improving value of its discounted rate by assuring that its negotiated rate for its SST capacity contracts did not become subject to TCO's CCRM rider when approved and annually modified by FERC.<sup>4</sup> And while Columbia's shareholders have been able to share in the results of the extra efforts undertaken by Columbia to bring this cost savings under the PBR, low rates have remained constant for the benefit of Columbia's customers.<sup>5</sup>

Prior to the Commission's October 2019 Order, the structure of the PBR served as an effective incentive for the Company to devote its resources to secure gas that is both safe and reliable and yet at a lower cost than otherwise could be achieved. This is the very definition of a well-designed PBR and the type of extra effort in performance that the

---

<sup>3</sup> *Id.*

<sup>4</sup> January 3, 2020, Direct Testimony of Michael Anderson, p. 6

<sup>5</sup> Anderson Direct Testimony p. 7.

incentive is designed to encourage. The purpose of the incentive is to provide an opportunity for shared benefits to customers and the company for successfully reducing overall gas cost compared to established deregulated market and regulated market approved rates, as applicable. Absent the incentive, gas cost rates would have been reasonably greater.

The Commission's post-hearing data request asked about an "increase in gas cost."<sup>6</sup> As Columbia explained in its response to the request, the Expected Gas Cost calculated in quarterly Purchase Gas Adjustment ("PGA") filings gives the full benefit of anticipated gas cost savings to customers.<sup>7</sup> Therefore, customers receive 100% of the anticipated savings in each quarterly filing. The annual PBR adjustment simply provides the return to the company of the appropriate sharing amount of the total gas cost savings.

As stated in Columbia's response to the Commission's post-hearing data requests, Columbia does not believe the design of the PBR as currently authorized in the Commission's October 2019 Order is a well-designed incentive because it fails to recognize the reality of the gas procurement process.<sup>8</sup> Specifically, it doesn't recognize the nature of the commodity and pipeline markets and the difference in purchasing procedures. Commodity markets are both long and short term in nature with purchase

---

<sup>6</sup> Commission Staff's Post-Hearing Request for Information No. 7e

<sup>7</sup> June 12, 2020, Response to Commission Staff's Post-Hearing Request for Information No. 7e.

<sup>8</sup> Id. at No. 8(g).

contracts for a variety of terms – yearly, monthly and daily. Demand contracts are generally long term in nature; although, in today’s world, long term may mean 5 years instead of 10-20 years.<sup>9</sup> Thus, the frequency of the opportunity for Columbia to generate gas cost savings varies because of these differences in the procurement process. However, the savings are no less real whether the result of a negotiation that fixed a discount to be in place for an extended period of time, or the result of monthly price negotiation. Columbia does not believe the savings to customers and the compensation that it receives under the Commission’s modification of the incentive to be fair and reasonable for its efforts over both the short and long term.

Additionally, Columbia’s achievements have been obscured, creating a false impression of inaction by Columbia. Preserving the originally discounted rate as the total transportation charge over a period where surcharges and trackers were created and FERC authorized rates, now including surcharges and trackers, continue to increase is an absolute profound and unique success. Were Columbia not as successful at preserving the originally negotiated discount rate as the total rate, the impact today would be transportation cost at the FERC authorized fair, just and reasonable tariff rates of \$6.951<sup>10</sup> per Dth for Columbia’s SST capacity and \$13.5269 per Dth for Columbia’s Tennessee

---

<sup>9</sup> January 31, 2020, Response to Commission Staff’s First Rehearing Request No. 1(a).

<sup>10</sup> SST rate effective February 1, 2020.

capacity. The additional cost would amount to approximately \$6.942 million annually at current contract levels that would pass-through the PGA to Columbia's customers.<sup>11</sup>

The fact that Columbia successfully negotiated the avoidance of any increases that FERC has authorized and retained the actual previously negotiated rate, is in fact the equivalent of negotiating a greater discount than previously negotiated. This result may not always be possible, but Columbia's success, to date, is a demonstration of the continuing improvement when it comes to negotiating discounted transportation rates.

**b. The FERC approved rate is the appropriate benchmark for the calculation of the TCI.**

The Commission's modification to the TCI from the FERC approved rate to the current, negotiated by Columbia discount rate of \$4.1850 per Dth, plus a percentage gross-up factor to be applied according to any future changes in TCO's FERC tariff rate going forward, completely removes the incentive to seek transportation costs savings and in fact, places Columbia at additional risk if it is unable to retain the previously negotiated rate as the total charge. While the Commission has made clear that the company is under the obligation to seek the lowest possible cost of gas for its customers without incentive, the responsible regulatory authority, FERC, has determined that the non-discounted rates are fair, just and reasonable for the services provided in order to assure safe and reliable

---

<sup>11</sup> Calculated as the difference in the FERC authorized rates as compared to the negotiated rates by Columbia.

delivery of natural gas to the customers served by the pipelines.<sup>12</sup> By changing the TCI benchmark, the Commission is essentially rejecting the FERC approved rates and substituting its own opinion as what constitutes fair, just, and reasonable rates. This goes beyond the jurisdiction of the Commission. Therefore, the FERC authorized rate is the appropriate benchmark.

If the Commission is not convinced, that the FERC authorized rate is the appropriate TCI benchmark, then the Commission's application of a percentage gross-up factor to calculate a new benchmark going forward is required. As argued in Columbia's Motion for Reconsideration and Rehearing, the Commission's Order created some confusion on how the percentage gross-up factor would be applied.<sup>13</sup> In her pre-filed testimony, Witness Cooper laid out with specificity the steps needed to calculate the percentage gross-up factor.<sup>14</sup>

In its post-hearing data requests, the Commission asked for numerous other computations using the steps detailed in the testimony of witness Cooper.<sup>15</sup> Columbia continues to believe that if the Commission establishes its benchmark as an amount other than the FERC approved rate, the percentage increase used in calculating the alternative benchmark should be based on the difference between the 2014 base SST rate and the

---

<sup>12</sup> January 3, 2020, Direct Testimony of Judy Cooper p. 7.

<sup>13</sup> November 12, 2019, Motion for Reconsideration and Rehearing p. 6.

<sup>14</sup> Cooper Testimony pp. 8-9.

<sup>15</sup> June 12, 2020, Response to Commission Staff's Post-Hearing Request for Information No. 10.

current total FERC approved rate because the SST base rate from January 2014 most closely represents the rate comparable to that in effect at the time the PBR was approved by the Commission and prior to the initial surcharge under Columbia Transmission Corporation's Modernization Phase I program. Thus, it substitutes as a germane starting point on which to establish the base. To substantiate a new benchmark going forward that is appropriate, the current total FERC approved rate should be the point for comparison in recognition of the value the rate negotiated by Columbia provides to its customers and to allow it to still partake in savings. It seems the Commission is reticent as to the value of the gas cost savings that Columbia has achieved under the PBR with FERC approved benchmarks, but the difference in transportation cost and hence gas cost savings for customers is indisputable.

### **III. Conclusion**

On rehearing, Columbia has had the opportunity to more fully develop the record in support of its PBR mechanism as originally filed on November 30, 2017, in this matter. No matter that gas commodity prices and market volatility are both more favorable to consumers than at the beginning of this century, the mutual benefits of improved performance for both customers and shareholders, as compared to otherwise applicable FERC approved rates, are no less a desirable outcome than it was at any time in the past. The Commission's October 2019 Order was based on several assumptions that Columbia

has proven to be unfounded and misguided. Columbia urges the Commission to approve Columbia's PBR as filed on November 30, 2017, including using the FERC approved rate as the TCI benchmark. In the alternative, should the Commission find that the FERC approved rate is not the appropriate benchmark, Columbia requests that the calculation set forth in witness Cooper's testimony be adopted.

Dated at Columbus, Ohio, this 24th day of June, 2020.

Respectfully submitted,

**COLUMBIA GAS OF KENTUCKY, INC.**

By: /s/ Brooke E. Wancheck  
Brooke E. Wancheck  
Assistant General Counsel

cfBrooke E. Wancheck, Asst. General Counsel  
290 W. Nationwide Blvd.  
Columbus, Ohio 43215  
Telephone: (614) 460-5558  
Fax: (614) 460-6986  
Email: bwancheck@nisource.com

Attorney for  
**COLUMBIA GAS OF KENTUCKY, INC.**

