COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO THE ATTORNEY GENERAL'S INITIAL DATA REQUESTS
DATED MARCH, 13, 2018

1. Refer to the Direct Testimony of Megan N. Garber, page 7, wherein she states, "Columbia proposes to return property related excess deferred taxes using the Average Rate Assumption Method ("ARAM") as outline in the Tax Act and will propose to return the remaining non-property excess deferred taxes over 20 years as directed by the Commission in its Order dated December 27, 2017."

a. Explain in complete detail why Columbia believes all property related excess ADIT are subject to the ARAM method. Any answer explanation should include whether Columbia believes that "protected" and "property related" are interchangeable in the context of the Tax Cuts and Jobs Act.

b. Confirm that Columba will be able to use the ARAM for all amortization of protected excess ADITs.

c. Has Columbia performed a calculation regarding the effect of the Tax Cuts and Jobs Act on company financing and capitalization? If so, provide such calculation, including all assumptions and inputs.

RESPONSE:

a. Please see the response to Staff DR Set 1-16. The terms “protected” and “property related” are not interchangeable in the context of the normalization rules contained in the TCJA. This has not changed from prior legislation related to the normalization rules.

b. Columbia has the books and records available to use ARAM for all property related (protected and unprotected) excess ADIT’s.

c. While a calculation specific to Columbia has not been prepared, the Company believes that a rapid flow back of excess deferred taxes will negatively impact the weighted average cost of capital ("WACC") to the customer. The negative cash flow implications for NiSource may result in the degradation of credit ratings that would increase Columbia's financing costs and ultimately its WACC. Therefore, Columbia's WACC may increase more quickly with a rapid flow back of the excess deferred income taxes.

In addition, the timing of tax payments prior to TCJA were contemplated when determining investment decisions at Columbia. Whether tax payments are made to the federal government or returned to customers, payments should be made over the same duration of time so as to not invalidate the economics underlying the investment decisions that were made prior to TCJA.

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2. Refer to Attachment MNG-1.

a. Which accounts in this attachment do Columbia believe are subject to ARAM or the "alternative method" as defined in the Tax Cuts and Jobs Act?

RESPONSE:

a. Columbia believes that the assets with book vs. tax method and life differences contained in account 282 are subject to ARAM or the "alternative method" as defined in the TCJA. The Federal NOL ADIT which makes up a portion of account 190 is being subjected to an alternative method by Columbia because it is offsets the deferral of any tax resulting from the use of accelerated tax depreciation that created the NOL. The excess ADIT on other property book vs. tax timing differences contained in account 282 are also set up to reverse using ARAM which is what has been used historically as all 282 accounts reverse over the remaining book life of the property.

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3. Refer to the Direct Testimony of Megan N. Garber, page 6, lines 10-13 wherein she discusses the CAP IRA.

a. Has Columbia received an IRA on 100% expensing from the IRS yet? If so, please provide the IRA.

RESPONSE:

Please see the response to Staff Data Request Set 1-23.

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4. Refer to Attachment CYL -1, Row 48, wherein Columbia provides the statutory federal tax rate of 35%. Compare this amount to the tax rate provided on page 3, line 6 of Megan Garber's testimony. Provide an explanation as to the difference in the two federal tax rates, and any effect it may have in this matter.

RESPONSE:

Under prior law, the federal income tax rate was graduated. The federal income tax rate was 34% for the first $10,000,000 of taxable income and essentially 35% for anything over $10,000,000. The federal income tax rate of 35% was used in the gross revenue conversion factor calculation for the purpose of ratemaking.

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5. Refer to Attachment CYL-1, row 32. Provide an explanation as to why the effective tax rate of 43.44% exceeds the statutory rate of 38.9%. Further, explain why Columbia believes an assumption of 30.28% as an effective tax rate as provided on row 35, is reasonable when compared to the new statutory total tax on line 49.

RESPONSE:

Columbia is taking this opportunity to update Attachment CYL-1 to reflect the correct federal income tax expense and net operating income as supported in Staff DR Set 1-1 Attachment A. The revised Attachment CYL-1 is provided herein as AG DR Set 1-5 Attachment A. As a result of the two abovementioned changes, the effective tax rate on Line No. 15 decreased from 43.44% to 40.11% and the assumed effective rate on Line No. 16 decreased from 30.28% to 26.95%. The effective rate of 40.11% exceeds the statutory rate of 38.9% mainly due to the true up for federal and state tax returns for the prior year. Therefore, the newly assumed effective rate of 26.95% is reasonable when compared to the new statutory total tax rate of 25.74%. Please note the revenue requirement reduction on Line No. 20 did not change as a result of the changes.

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6. Refer to the Direct Testimony of Chun-Yi Lai on page 2, wherein a "Tax Act Adjustment Factor" was discussed. Explain why a line item factor is reasonable in this matter and whether Columbia believes it is more reasonable than a reduction to customers' volumetric rates.

RESPONSE:

Columbia proposes to establish a "Tax Act Adjustment Factor" for each rate class to provide for the adjustment of its volumetric Delivery Charge to customers. The separate factors will reflect the amount per Mcf that is approved to adjust current rates to a level that includes the TCJA income tax rate. Additionally, the Factors will also include the approved amount to be returned to customers based on the regulatory liability established in January 2018. As noted in my testimony, the Tax Act Adjustment Factors will also be adjusted once the impact of excess deferred income taxes is filed and approved. The Factors allow for Columbia to readily identify and track the benefits flowed through to customers for the purpose of reporting and reconciliation as amounts and parameters change related to this TCJA proceeding. The Factors are also administratively simpler since they will be included on a single Tariff Sheet, Sheet 7a.

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7. Refer to the Direct Testimony of Chun-Yi Lai on page 3, wherein the revenue allocation of a "Tax Act Adjustment Factor" was discussed. Explain why the proposed allocation is reasonable.

a. Provide the revenue and billing determinants by rate classes for calendar year 2017 in the same manner as provided in Attachment CYL-2.

RESPONSE:

The revenue allocation is reasonable because it was the most recently utilized revenue allocation as provided in the Accelerated Main Replacement Program Rider ("AMRP") filing in Case No. 2017-00413 as approved on December 22, 2017.

a. Please refer to AG DR Set 1-7 Attachment A for the revenue by rate classes for calendar year 2017.

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8. Refer to the Direct Testimony of Chun-Yi Lai on page 4, wherein a gross revenue conversion factor was cited. Provide the calculation of this new gross revenue conversion factor.

RESPONSE:

Please refer to Staff DR Set 1-6 Attachment A for the calculation of the gross revenue conversion factor cited on page 4 of my testimony.

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9. Refer to the Direct Testimony of Chun-Yi Lai on page 7, wherein Columbia proposes to pass back the excess ADIT starting in October 2018. Provide an explanation as why Columbia believes waiting until October to pass back excess ADIT is reasonable, and why October was chosen.

RESPONSE:

As explained in Columbia witness Garber's testimony, the receipt of the Issue Resolution Agreement from the IRS is germane to Columbia's exact determination of its excess deferred income taxes. Columbia expects to resolve the issue prior to the filing of the 2017 federal tax return, which must be filed no later than October 15, 2018. Therefore, Columbia chose the month of October to start passing back the excess ADIT.

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10. Does Columbia anticipate any savings to occur due to the Tax Cuts and Jobs Act as it pertains to federal gas transmission rates?

a. What actions has Columbia taken to ensure that rates or expenses it may pay to affiliates or other utilities are reduced following the reduction of the federal income tax rate? Please describe these actions in full. If Columbia has not taken action, why not?

RESPONSE:

a. Columbia receives service from four interstate pipelines: Columbia Gas Transmission, LLC ("TCO"), Columbia Gulf Transmission, LLC ("Gulf"), Tennessee Gas Pipeline Company, L.L.C. (TGP"), and Central Kentucky Transmission Company ("CKT"). CKT is an affiliate of Columbia. TCO, Gulf, and TGP are not affiliated with either Columbia or its parent company, NiSource Inc.

As part of Columbia's involvement in the TCO Modernization negotiations, language was included in the settlement requiring TCO to reset its base transportation demand rates and Capital Cost Recovery Mechanism ("CCRM") rates should a change in the federal income tax rate occur. Effective January 1, 2018, TCO reset its base transportation demand and CCRM rates. Consequently, the demand rates that Columbia pays TCO for its Firm Transportation Service ("FTS") capacity were reduced along with the CCRM rates. The reductions were included in Columbia's application and rates in Case No. 2018-00049[1]. With regard to the demand rates that Columbia pays TCO for its Storage Service Transportation ("SST") capacity, Columbia has negotiated a rate below the revised base rate and therefore, the SST rates paid by Columbia will not change. Similarly with TGP, the rate Columbia has negotiated for Rate Schedule FTS-A capacity is less than TGP's base rate for the contracted service and will not be reduced should TGP file to reduce its rates as a result of the change in the federal income tax rate.

With respect to the remaining pipelines, the American Gas Association ("AGA") submitted a letter to the Federal Energy Regulatory Commission ("FERC") on January 31, 2018, on behalf of its members, including Columbia, requesting an investigation of the impact of the Tax Cuts and Jobs Act ("TCJA") on interstate pipeline rates. In response to that and various other requests, FERC has recently initiated three different proceedings to address these issues. The

[1] Purchased Gas Adjustment Filing of Columbia Gas of Kentucky, Inc., Order dated February 20, 2018

first (RM18-11-000) focuses on whether interstate pipeline rates have become unjust and unreasonable in light of the reduction in the federal corporate tax rate. The second (RM18-12-000) is directed toward how to address changes relating to accumulated deferred income taxes. The third (PL17-1-000) revises the Commission's policy statement concerning tax allowances for pipelines organized as master limited partnerships.

In RM18-11-000, FERC proposes that interstate pipelines be required to file a one-time report containing financial information necessary to evaluate the effect of the TCJA on the pipeline's revenue requirement. FERC further proposes to give the pipelines four options: (1) filing a limited Section 4 rate proceeding to reflect the reduction in federal income tax rates, (2) making a commitment to file a general rate case in the near future, (3) explaining why no adjustment is necessary, or (4) taking no action other than filing the one-time report. FERC further suggested that if a pipeline elects either the third or fourth option, FERC might use its authority under Section 5 of the Natural Gas Act to issue a show cause order, requiring the pipeline to either reduce its rates or explain why it should not be required to do so.

Columbia plans to participate, either individually or through AGA, in the foregoing FERC proceedings, as appropriate, as well as any individual cases initiated as a result of those proceedings. Columbia expects that the rates of its remaining interstate pipeline suppliers will be adjusted, as appropriate, in accordance with whatever directives are ultimately issued by FERC.

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11. For any exhibits or charts that are already not provided in native electronic format, please provide them in excel form, with all cells active and intact.

RESPONSE:

Please see supporting documentation included in Columbia's responses to the Attorney General's Data Requests Set 1.