**COLUMBIA GAS OF KENTUCKY, INC.**
**RESPONSE TO STAFF'S SECOND REQUEST FOR INFORMATION**
**DATED APRIL 6, 2018**

1. Refer to Columbia Gas's responses to the Commission Staff's First Request for Information ("Staffs First Request"), Item 3.a. In its response to Item 3.a., Columbia Gas states, the calculation of return on equity ("ROE") is based on actual unadjusted net income and common equity as shown in Columbia Gas's financial statements and, therefore, includes items that are non-utility in nature and, accordingly, are not included in the determination of revenue requirement for the purposes of developing base rates.

   a. Identify each non-utility item that Columbia Gas referenced in its response, the amount of each identified item, and a brief description of each non-utility item.

   b. Refer to Columbia Gas's responses to Staff's First Request, Item 1. Using your response to 1.a. above, provide a comparative income statement as requested in the table below.

| Account Titles | Unadjusted Calendar Year Ended December 31, 2017 | Non-Utility Adjustments | Adjusted Calendar Year Ended December 31, 2017 |
|---|---|---|---|

c. Refer to Columbia Gas's responses to Staff's First Request, Item 2. Revise Columbia Gas's Capital Structure for the calendar year ending December 31, 2017, to reflect the elimination of the non-utility items Columbia Gas identified in its response to item 1.a. above.

d. Confirm that the elimination of the non-utility items will not affect Columbia Gas's Net Investment Rate Base ("Rate Base") for the calendar year ending December 31, 2017. If this cannot be confirmed, provide an explanation.

e. Recalculate Columbia Gas's ROE (income available to common shareholders divided by common equity) for the calendar year ending December 31, 2017, to reflect the elimination of the non-utility items Columbia Gas identified in its response to item 1.a.

f. Provide a detailed explanation as to why the elimination of the non-utility items would not affect Columbia Gas's short-term or long-term debts.

**RESPONSE:**

a. Please see Staff DR Set 2-1 Attachment A, Page 1 for the non-utility items for the twelve months ended December 31, 2017.

b. Please see Staff DR Set 2-1 Attachment A, Pages 2 through 4, for a comparative income statement as requested.

c. Columbia maintains its capital structure on an overall operations basis as shown in Staff DR Set 1-2 Attachment A. Considering that both Columbia's utility and non-utility operations have historically been financed on an integrated basis through the use of a common balance sheet and common capital structure, the Company does not have the ability to segregate, on a specific identification basis, the dollar balances within its capital structure which relate to its utility operations versus its non-utility operations.

d. The elimination of non-utility items does not affect Columbia's net investment rate base.

e. Columbia has recalculated a return on equity (income available to common shareholders divided by common equity) of 7.105% reflecting the elimination of the non-utility items as identified in its response to Item 1.a. The adjusted Net Income of $9,187,129 is determined by eliminating non-utility items (Total Other Income) of $3,494,114 from total Net Income of $12,681,243, as shown on Staff DR Set 1-2 Attachment A, Page 4. The adjusted net income of $9,187,129 is divided by the 13-month average common equity of $129,304,686, shown on Staff DR Set 1-2 Attachment A, Line 7, for an adjusted return on equity of 7.105%.

f. The elimination of the non-utility items would not affect Columbia's short-term or long-term debts because Columbia Gas maintains its financing on a total company basis as a singular, legal entity.

KY PSC Case No. 2018-00041
Commission Staff Data Request Set 2 No. 2
Respondent: Chun-Yi Lai

**COLUMBIA GAS OF KENTUCKY, INC.**
**RESPONSE TO STAFF'S SECOND REQUEST FOR INFORMATION**
**DATED APRIL 6, 2018**

2. Using the revised Capital Structure provided in the response to Item 1.c. above, the interest rates calculated in the response to Item 3.b. and Item 3.c. of Staff's First Request, and the revised ROE calculated in the response to Item 1.e. above, fill out the table below:

| Component of Capitalization | Per Books 12/31/17 | Ratios | Actual Rates | Average Weighted Cost |
|---|---|---|---|---|
| Short-Term Debt | | | | |
| Long-Term Debt | | | | |
| Preferred Stock | | | | |
| Common Equity | | | | |
| Total Capitalization | $ - | 0.000% | | 0.0000% |

**RESPONSE:**

Please see Staff DR Set 2-2 Attachment A for the capital structure (Staff DR 1-4 Attachment A) updated with the revised ROE of 7.105%.

KY PSC Case No. 2018-00041
Commission Staff Data Request Set 2 No. 3
Respondent: Chun-Yi Lai

**COLUMBIA GAS OF KENTUCKY, INC.**
**RESPONSE TO STAFF'S SECOND REQUEST FOR INFORMATION**
**DATED APRIL 6, 2018**

3. Using the average weighted cost of capital calculated in Item 2 above and the table below, calculate the weighted average cost of capital ("WACC") with a 35 percent FIT rate and WACC with a 21 percent FIT rate.

| Component of Capitalization | Average Weighted Cost | Adjusted Weighted Cost of Capital to Reflect 35% Fed. Tax Rate | | Adjusted Weighted Cost of Capital to Reflect 21% Fed. Tax Rate | |
|---|---|---|---|---|---|
| | | Equity Gross-up | Adj. Cost | Equity Gross-up | Adj. Cost |
| Short-Term Debt | | | 0.00% | | 0.00% |
| Long-Term Debt | | | 0.00% | | 0.00% |
| Preferred Stock | | | 0.00% | | 0.00% |
| Common Equity | | | 0.00% | | 0.00% |
| Total Capitalization | 0.0000% | 0.0000% | 0.0000% | 0.0000% | 0.0000% |

**RESPONSE:**

Please see Staff DR Set 2-3 Attachment A for the weighted average cost of capital at the 35% and 21% federal income tax rate.

KY PSC Case No. 2018-00041
Commission Staff Data Request Set 2 No. 4
Respondent: Chun-Yi Lai

**COLUMBIA GAS OF KENTUCKY, INC.**
**RESPONSE TO STAFF'S SECOND REQUEST FOR INFORMATION**
**DATED APRIL 6, 2018**

4. Refer to Columbia Gas's response to Staff's First Request, Item 9. This response was nonresponsive. Columbia Gas was requested to use the Rate Base for the calendar year ended December 31, 2017, that was provided in the response to Staffs First Request, Item 2, and not the Rate Base that was used to calculate the base gas rates in Case No. 2016-00162.[1] Using the Rate Base for the calendar year ended December 31, 2017, Columbia Gas provided in its response to Staff's First Request, Item 2, the WACC's calculated in Item 2 of this request, and the table below, provide the revenue reduction resulting from the decrease in the FIT rate from 35 percent to 21 percent.

| Line No. | Description | 35% Federal Income Tax Rate | 21% Federal Income Tax Rate | Revenue Impact |
|---|---|---|---|---|
| 1 | Net Investment Rate Base | | | |
| 2 | Returns Adjusted For Income Taxes | | | |
| 3 | | | | |
| 4 | Required Annual Operating Income Before Taxes (Line 1 x Line 2) | $ - | $ - | $ - |
| 5 | | | | |
| 6 | Amortization Of Excess ADIT (Protected) - Using Aram | | | |
| 7 | Amortization Of Excess ADIT (Unprotected) | | | |
| 8 | | | | |
| 9 | Total Amortization Of Excess ADIT (Line 6 + Line 7) | | - | |
| 10 | Gross-Up Factor Using 21% Federal Tax Rate | | | |
| 11 | | | | |
| 11 | Total Reduction In Deferred Income Tax Expense (Line 9 x Line 10) | | | - |
| 12 | | | | |
| 13 | Total Reduction In Revenue Requirements (Line 4 + Line 11) | | | $ - |

[1] Case No. 2016-00162, *Application of Columbia Gas of Kentucky, Inc. for an Increase in Base Rates* (Ky. PSC Dec. 22, 2016).

**RESPONSE:**

Please see below.

| Line No. | Description | 35% Federal Income Tax Rate | 21% Federal Income Tax Rate | Revenue Impact |
|---|---|---|---|---|
| | | | | |
| 1 | Net Investment Rate Base (1) | $ 253,686,413 | $ 253,686,413 | |
| 2 | Return Adjusted for Income Taxes | 8.3856% | 7.3526% | |
| 3 | | | | |
| 4 | Required Annual Operating Income Before Taxes (Line 1 x Line 2) | 21,273,130 | 18,652,617 | (2,620,513) |
| 5 | | | | |
| 6 | Amortization of Excess ADIT (Protected) - Using ARAM (2) | | $ (767,629) | |
| 7 | Amortization of Excess ADIT (Unprotected) (2) | | $ 167,016 | |
| 8 | | | | |
| 9 | Total Amortization of Excess ADIT (Line 6 + Line 7) | | $ (600,613) | |
| 10 | Gross-Up Factor Using 21% Federal Tax Rate (3) | | 1.3617825 | |
| 11 | | | | |
| 12 | Total Reduction in Deferred Income Tax Expense (Line 9 x Line 10) | | | $ (817,904) |
| 13 | | | | |
| 14 | Total Reduction in Revenue Requirement (Line 4 + Line 11) | | | (3,438,417) |

Note:
(1) Please see Staff DR Set 1-2 Attachment B, Line 12.
(2) Please see response to Staff DR Set 1-9.
(3) Please see Staff DR Set 1-6 Attachment A, Line 14.

**COLUMBIA GAS OF KENTUCKY, INC.**
**RESPONSE TO STAFF'S SECOND REQUEST FOR INFORMATION**
**DATED APRIL 6, 2018**

5. Refer to Columbia Gas's response to Staff's First Request, Item 10. This response was nonresponsive. Columbia Gas was requested to use the Capital Structure for the calendar year ended December 31, 2017, that was provided in the response to Staff's First Request, Item 2, and not the Capital Structure that was used to calculate the base gas rates in Case No. 2016-00162. Using the adjusted Capital Structure for the calendar year ended December 31, 2017, that Columbia Gas provided in its response to Item 1.c.(1) of this request, the WACC's calculated in Item 2 of this request, and the table below, provide the revenue reduction resulting from the decrease in the FIT rate from 35 percent to 21 percent.

| Line No. | Description | 35% Federal Income Tax Rate | 21% Federal Income Tax Rate | Revenue Impact |
|---|---|---|---|---|
| 1 | Capitalization | | | |
| 2 | Returns Adjusted For Income Taxes | | | |
| 3 | | | | |
| 4 | Required Annual Operating Income Before Taxes (Line 1 x Line 2) | $ - | $ - | $ - |
| 5 | | | | |
| 6 | Amortization Of Excess ADIT (Protected) - Using Aram | | | |
| 7 | Amortization Of Excess ADIT (Unprotected) | | | |
| 8 | | | | |
| 9 | Total Amortization Of Excess ADIT (Line 6 + Line 7) | | - | |
| 10 | Gross-Up Factor Using 21% Federal Tax Rate | | | |
| 11 | | | | |
| 11 | Total Reduction In Deferred Income Tax Expense (Line 9 x Line 10) | | | - |
| 12 | | | | |
| 13 | Total Reduction In Revenue Requirements (Line 4 + Line 11) | | | $ - |

**RESPONSE:**

Please see below.

| Line No. | Description | 35% Federal Income Tax Rate | 21% Federal Income Tax Rate | Revenue Impact |
|---|---|---|---|---|
| | | | | |
| 1 | Capitalization (1) | $ 252,320,677 | $ 252,320,677 | |
| 2 | Return Adjusted for Income Taxes | 8.3856% | 7.3526% | |
| 3 | | | | |
| 4 | Required Annual Operating Income Before Taxes (Line 1 x Line 2) | 21,158,605 | 18,552,200 | (2,606,405) |
| 5 | | | | |
| 6 | Amortization of Excess ADIT (Protected) - Using ARAM (2) | | $ (767,629) | |
| 7 | Amortization of Excess ADIT (Unprotected) (2) | | $ 167,016 | |
| 8 | | | | |
| 9 | Total Amortization of Excess ADIT (Line 6 + Line 7) | | $ (600,613) | |
| 10 | Gross-Up Factor Using 21% Federal Tax Rate (3) | | 1.3617825 | |
| 11 | | | | |
| 12 | Total Reduction in Deferred Income Tax Expense (Line 9 x Line 10) | | | $ (817,904) |
| 13 | | | | |
| 14 | Total Reduction in Revenue Requirement (Line 4 + Line 11) | | | (3,424,309) |
| | | | | |
| | | | | |
| Note: | | | | |
| (1) Please see Staff DR Set 1-2 Attachment A, Line 9. | | | | |
| (2) Please see response to Staff DR Set 1-9. | | | | |
| (3) Please see Staff DR Set 1-6 Attachment A, Line 14. | | | | |

**COLUMBIA GAS OF KENTUCKY, INC.**
**RESPONSE TO STAFF'S SECOND REQUEST FOR INFORMATION**
**DATED APRIL 6, 2018**

6. Refer to Columbia Gas's response to Staff's First Request, Item 12. Provide a schedule reflecting a 10-year amortization period for Columbia Gas's unprotected excess ADIT and the impact this amortization would have on Columbia Gas's revenue requirement.

**RESPONSE:**

Please see the schedule below which reflects a 10-year amortization period for Columbia Gas's unprotected excess ADIT.

| Line No. | Description | 21% Federal Income Tax Rate | Revenue Impact |
|---|---|---|---|
| | | | |
| 1 | Amortization of ExcessADIT(Protected) - Using ARAM | $ (767,629) | |
| 2 | **Amortization of Excess ADIT (Unprotected) - 10 Year Amortization** | $ 167,016 | |
| 3 | | | |
| 4 | Total Amortization of Excess ADIT (Line 1 + Line 2) | $ (600,613) | |
| 5 | Gross-Up Factor Using 21% Federal Tax Rate | 1.3617825 | |
| 6 | | | |
| 7 | Total Reduction in Deferred Income Tax Expense (Line 4 X Line 5) | | $ (817,904) |

**COLUMBIA GAS OF KENTUCKY, INC.**
**RESPONSE TO STAFF'S SECOND REQUEST FOR INFORMATION**
**DATED APRIL 6, 2018**

6. Provide copies of all schedules provided in the responses, supporting calculations, and documentation in Excel spreadsheet format with formulas intact and unprotected, and all rows and columns fully accessible.

**RESPONSE:**

Please see supporting documentation included in Columbia's responses to Commission Staff Data Requests Set 2.