

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO STAFF'S SECOND REQUEST FOR INFORMATION
DATED APRIL 19, 2018

1. Refer to Columbia Gas's responses to the Commission Staff's First Request for Information, Item 9., Item 20., and Item 21., Attachment B, Deferred Income Taxes Balance as of December 31, 2017. Columbia Gas defines its unprotected excess accumulated deferred income taxes ("ADIT") as all remaining ADIT that is not reversing over the book depreciation life of Columbia Gas's plant. Columbia Gas added that its unprotected ADIT is a net deferred tax asset whose amortization would be an increase to the Federal Income Tax ("FIT") expense.

a. For each unprotected ADIT listed in Item 21., Attachment B, identify the year it was originally recorded, the number of years over which it is currently being amortized, and the amount that Columbia Gas originally recorded.

b. Explain if each unprotected ADIT listed in the response to 1.a. was included in Columbia Gas's proposed rate base in Case No. 2016-00162.1

(1) If the response to Item 1.b. is no, provide a detailed explanation as to why each unprotected ADIT was not included.

(2) If the response to Item 1.b. is yes, identify the amount of each unprotected ADIT that was included in Columbia Gas's proposed rate base and in which rate-base category it was recorded.

c. Provide a complete detailed description of each unprotected ADIT listed in the table below and explain why Columbia Gas is entitled to recover from its ratepayers the amortization of any of the excess unprotected ADIT.

Property	Balance 12/31/2017	Balance After Rate Change	Difference (Excess)/ Deficient
LIFO Storage Adjustment	2,418,815	1,415,158	1,003,657
Charitable Contributions	366,869	220,122	146,747
Charitable Contributions Reserve	(213,554)	(128,132)	(85,422)
Deferred Intercom Gain/Loss	1,265,250	740,250	525,000
Accd Liab-Profit Sharing	70,980	41,528	29,452
Accd Liab-Incentive Compensation	471,670	275,956	195,714
Stock Comp LTIP	104,827	61,330	43,497
Custmr Advn for Constr NonCur	1,075,181	629,048	446,133
Federal NOL	5,204,791	4,178,788	1,026,003
Fed Benefit of State	(75,457)	98,871	(174,328)

RESPONSE:

a. Please see Attachment A which shows the unprotected excess/deficient ADIT from DR 1-21, Attachment B, totaling \$1,670,160 for the year the ADIT was originally recorded. The Company proposed a ten year amortization period but has not begun amortization, pending the outcome of this proceeding.

- b. Please see Attachment A, Column 5 for the designation of the treatment of each ADIT in Case No. 2016-00162. (1) All the items were included in the last aforementioned rate case with the exception of Accrued Severance and NC Asset Def Depr Cap Lse, which originated in 2017, which was after the filing of Case No. 2016-00162. Some items were not included in rate base because the underlying asset or liability which gave rise to the book vs. tax timing difference was not included in rate base. (2) Please see Attachment B for the items that were included in rate base under the category "Deferred Credits and Accumulated Deferred Income Taxes" as Schedule B-6 in Case No. 2016-00162. The amount that was included is shown under the '13 Month Average Balance' column. All other items that were not a part of rate base were included in the calculation of current and deferred income tax expense on Schedule E-1 in Case No. 2016-00162.
- c. Please see Attachment C for a description of each ADIT listed in the table above. The Federal NOL has been included in the table above but was not included in the Company's total of unprotected ADIT in DR-1-21, Attachment B. The total unprotected ADIT in the amount of \$1,670,160 is correct but the description of Line 49 of Attachment B was inadvertently shown as (Line 48 – Lines 1,2 & 28) but should be (Line 48 – Lines 1,2 & 27). The ADIT on the Federal NOL is protected ADIT under the

normalization rules. It offsets the deferral of any tax resulting from the use of accelerated tax depreciation that created the NOL. The total of all unprotected ADIT not included in rate base is \$162,467 as shown in Attachment A, Column 7, Line 21. The deficient unprotected ADIT on LIFO Storage Adjustment, Inventory Capitalization and Customer Advances for Construction totaling \$1,507,693 should be recoverable by the Company because they were used in the determination of base rates in the last filed case. The remainder of the deficient unprotected ADIT in the amount of \$162,467 were not used in the determination of base rates.

LIFO Storage Adjustment

For book purposes, the storage rate is based on the weighted average of commodity gas purchase costs only, excluding demand costs. For tax purposes, the storage rate is calculated based on the 12 month average of all gas purchase costs including demand charges.

Inventory Capitalization

Under the uniform capitalization rules (IRC Sec 263(A)), costs associated with storage gas (labor, etc.) expensed per books must be capitalized for tax purposes and added to the tax inventory layer. These costs will be included in taxable income as the storage gas is withdrawn and sold to ratepayers.

Charitable Contributions and Charitable Contributions Reserve

The deduction for charitable contributions is limited to 10% of taxable income. Any amounts not deductible are carried forward until there is sufficient taxable income. A reserve was set up for charitable contributions that may never be deductible due to the carryover limitation period.

Deferred Intercompany Gain

Inter-company activity was recorded between Columbia Gas of Kentucky and a prior affiliate, Columbia Gas Transmission Corporation (TCO), related to the profit of TCO on the transportation/sale of gas that is in inventory at year-end. The deferred taxes represent the tax effect of TCO's profit either on the sale of gas (pre-1993) or the transportation profit since FERC order 636. This will be zero by the end of the year.

Accrued Liability Profit Sharing and Incentive Compensation

At year end, the company accrues an amount for compensation payments to be made to employees. If these are not paid out within 2 1/2 months after the end of the year, the amount is not deductible for tax purposes until paid.

Stock Comp LTIP

The company has recorded on its books an expense related to the long term incentive plan. The amount has not vested to the employee and is not deductible for tax purposes until it is included on the employee's W-2.

Customer Advances for Construction

As a result of TRA-86, Sec 118, all contributions in aid of construction and customer advances received by a utility to provide service to the contributor must be included in taxable income in the year received for tax years 1987 and thereafter. For book purposes, contributions and advances are not recognized in book income. Future tax depreciation allowances on the contributions and advances will amortize the deferred amounts as well as future refunds

Federal NOL

The deferred tax asset reflects the Federal net operating loss carry forward that the company will be able to utilize in the future when there is sufficient taxable income.

Federal Benefit of State

The deferred taxes reflect that accrued state income tax refunds recorded for prior years are not taxable income until the company has a final Revenue Agent Report.