COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the matter of:	)	
	)	
IN THE MATTER OF THE APPLICATION OF COLUMBIA	)	
GAS OF KENTUCKY, INC. TO EXTEND ITS GAS COST IN-	)	Case No. 2020-00378
CENTIVE ADJUSTMENT PERFORMANCE BASED RATE	)	
MECHANISM.	)	

PREPARED DIRECT TESTIMONY OF
BRAD STUCK
ON BEHALF OF COLUMBIA GAS OF KENTUCKY, INC.

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Attorney for Applicant
COLUMBIA GAS OF KENTUCKY, INC.

NOVEMBER 30, 2020

PREPARED DIRECT TESTIMONY OF BRAD STUCK

Q: Please state your name and business address.

A: My name is Michael B. (Brad) Stuck and my business address is 290 W Nationwide Blvd, Columbus, OH 43215.

Q: What is your current position and what are your responsibilities?

A: I work for the NiSource Corporate Services Company as Director, Supply Development. My principal responsibilities include negotiating pipeline capacity contracts, participating in proceedings and other matters before the Federal Energy Regulatory Commission ("FERC"), supervising gas supply purchases, interstate pipeline nominations and invoice reconciliations, and evaluating and developing potential non-traditional supply options such as renewable natural gas and commercial opportunities relating to shale gas resources, in particular relating to the Marcellus and Utica Shales. I perform the services and responsibilities on behalf of Columbia Gas of Kentucky, Inc. ("Columbia" or the "Company") and Columbia's natural gas distribution affiliates in Indiana (excluding gas purchases), Pennsylvania, Maryland, Ohio, and Virginia.

Q: What is your educational background?

A: I graduated from the University of Kentucky where I earned a Bachelor of Science in Mechanical Engineering.

Q: What is your employment history?

A: I have worked at NiSource for 28 years in various roles. I started at Columbia Gas of Kentucky in 1992 as an Industrial Marketing Engineer. In 1994, I took a corporate role as an Industrial Sales Consultant located in Columbus. I returned to Columbia Gas of Kentucky in 1997 as an Operations Engineer and took a leadership role as Senior Engineer in 2003. In 2005, I took a corporate role as the Leader, Gas Systems Planning and later promoted to the Manager, Gas Systems Planning in 2013. In 2015, I started in the Energy Supply & Optimization department as the Director, Gas Control. Since April of 2020, I have been working in my current role as the Director, Supply Development.

Q. Have you previously testified before the Kentucky Public Service Commission?

A: No.

Q: What is the purpose of your testimony in this proceeding?

A: The purpose of my testimony is to provide information to support the renewal of the Performance Based Rate-Making ("PBR") mechanism.

Q: **Have you had an opportunity to review the testimony of Michael Anderson filed on January 3, 2020 in Case No. 2017-00453?**

A: Yes.

Q: Do you agree with the representations made by Mr. Anderson?

A: Yes and I hereby incorporate by reference his testimony attached hereto as Attachment A.

Q: Please describe the Company's PBR Mechanism.

A: In Case No. 2014-00350 the Kentucky Public Service Commission ("Commission") approved Columbia's PBR Mechanism which is comprised of three components: (a) a monthly Gas Cost Incentive ("GCI"); (b) an Off-System Sales Incentive ("OSSI"); and (c) the Transportation Cost Incentive ("TCI"). The GCI compares Columbia's actual natural gas purchase costs during a given month against a basket of daily, weekly and monthly indices published for each pipeline on which Columbia purchases gas. Any cost savings generated by Columbia are shared between Columbia and its customers under a two-tiered structure with monthly savings of 0-2% shared 70/30 in favor of the customers and savings over 2% shared 50/50. Under the OSSI, all net revenues generated by Columbia from off-system sales are shared under the same two-tiered structure as the GCI. Lastly, the TCI is designed to capture and share between Columbia and its customers any value realized by Columbia in negotiating capacity contracts at rates less than the rates approved by the Federal Energy Regulatory Commission ("FERC"). The TCI also captures the capacity release revenues except for administrative and Rate Schedule SVAS capacity releases. The TCI uses the same two-tiered structure sharing structure as the GCI and OSSI.

Q: Are you proposing any changes to the GCI mechanism?

A: No. The use of three indices reflecting monthly, weekly and daily market prices offer an effective benchmark to compare Columbia's performance in purchasing supply over the course of a month. The use of the three indices challenges the company to continually balance gas purchasing and managing storage positions. Pricing patterns have occurred that have led to negative performance in a given month that impacts both customers and Columbia. Despite the challenges, Columbia has been able to provide gas cost savings to the customer and shareholders and, I recommend to continue the GCI in its current form within the PBR.

Q: Are you proposing any changes to the OSSI mechanism?

A: I am not recommending any changes to the OSSI mechanism. Columbia optimizes the assets and pursues sales opportunities under this mechanism to create value for customers and shareholders I recommend to continue the OSSI in its current form.

Q: Have there been any recent changes to the TCI component?

A: Yes, in Case No. 2017-00453 the Commission replaced the FERC approved tariff rate as the benchmark for two pipeline services. Columbia receives service from two interstate pipelines connected to its system, Columbia Gas Transmission Corporation ("TCO") and Tennessee Gas Pipeline ("Tennessee"). The Commission established the benchmark for service under TCO's Rate Schedule SST as a calculation using a gross-up percentage change using the Total FERC approved SST rate in effect April 2015 as its starting point. This methodology was set out on page 10 of Judy Cooper's direct testimony on rehearing in Case No. 2017-00453 and is also in her direct testimony in this case. The benchmark for service under Tennessee's Firm Service Rate Schedule was set at Columbia's currently negotiated discount rate of $4.5835. These were the only services for which benchmarks were modified.

Q: What efforts, if any, is Columbia undertaking to impact transportation costs to benefit customers?

A: Columbia has participated in numerous discussions with TCO over the past eight years striving to protect against erosion of discounted rates and negative impacts to Columbia and its customers as TCO undertook modernization of its facilities and riders for cost recovery. More recently, TCO chose to pursue a new modernization program in a Natural Gas Act Section 4 general rate case filing at FERC in case RP20-1060. Columbia is actively involved in the proceedings of RP20-1060. The company has intervened in the case, filed a protest of the rate case and submitted a motion for summary rejection of the case. The company is also actively reviewing TCO testimony, developing data requests, and reviewing responses to data request to minimize or eliminate elements of the rate case that have the potential to add significant costs to the company and ultimately Columbia's customers

Q: What information have you found regarding discounts of Columbia Gas Transmission capacity?

A: I have researched publicly available information filed as part of RP20-1060 regarding TCO capacity contracts. My research shows that the company's efforts places Columbia in a small minority of TCO shippers that have secured discounts on Storage Service Transportation ("SST") capacity. CKY is one of five TCO shippers that hold discounted SST contracts out of a total population of 48 shippers.

Q: Are you proposing any changes to the TCI benchmark calculation?

A: I am not proposing any changes for the benchmarks and support the continued use of the current benchmarks through March 31, 2024. The current modified benchmarks have been in place less than 12 months and are acceptable to use during the proposed extension of the PBR.

Q: Does this complete your Prepared Direct testimony?

A: Yes.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF	)	
COLUMBIA GAS OF KENTUCKY, INC. TO	)	
EXTEND ITS GAS COST INCENTIVE	)	Case No. 2020-00378
MECHANISM AND ITS OFF-SYSTEM SALES	)	
AND CAPACITY RELEASE REVENUE	)	
SHARING MECHANISM.	)	

CERTIFICATE AND AFFIDAVIT

The Affiant, Michael B. Stuck, being duly sworn, deposes and states that the prepared testimony attached hereto and made a part hereof, constitutes the prepared direct testimony of this affiant in the above-captioned matter, and that if asked the questions propounded therein, this affiant would make the answers set forth in the attached prepared direct pre-filed testimony.

Michael B. Stuck

Michael B. Stuck

COMMONWEALTH OF KENTUCKY

COUNTY OF FRANKLIN

SUBSCRIBED AND SWORN to before me by Michael B. Stuck on this 30th day of November, 2020.

Stefan Fink #598041

Notary Public

My Commission expires: 03/26/2022

ATTACHMENT A

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION	)	
OF COLUMBIA GAS OF KENTUCKY, INC.	)	Case No. 2017-00453
TO EXTEND ITS GAS COST INCENTIVE	)	
ADJUSTMENT PERFORMANCE BASED	)	
RATE MECHANISM.	)	

PREPARED DIRECT TESTIMONY OF
MICHAEL D. ANDERSON
ON BEHALF OF COLUMBIA GAS OF KENTUCKY, INC.

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Attorney for
COLUMBIA GAS OF KENTUCKY, INC.

January 3, 2020

PREPARED DIRECT TESTIMONY OF MICHAEL D. ANDERSON

Q: Please state your name and business address.

A: My name is Michael D. Anderson and my business address is 290 W. Nationwide Blvd., Columbus, Ohio 43215.

Q: What is your current position and what are your responsibilities?

A: I work for NiSource Corporate Services Company as Director, Supply Development. My principal responsibilities include negotiation of pipeline capacity contracts; participation in proceedings and other matters before the Federal Energy Regulatory Commission ("FERC"); supervision of gas supply purchases, interstate pipeline nominations and invoice reconciliations; and the evaluation, analysis and development of potential non-traditional supply options such as landfill gas projects and commercial opportunities relating to shale gas resources, in particular relating to the Marcellus and Utica Shales. I perform these services and responsibilities on behalf of Columbia Gas of Kentucky, Inc. ("CKY" or the "Company") and CKY's natural gas local distribution affiliates in Kentucky, Pennsylvania, Maryland, Massachusetts, Ohio and Virginia.

Q: What is your educational background?

A. I received a Bachelor of Science degree in Fuels Engineering from the University of Utah in 1978. The Fuels Engineering curriculum consisted primarily of chemical engineering studies with specific emphasis on engineering analysis of conventional and synthetic fuel resources.

Q: Please describe your employment history.

A: From 1978 until 1982, I was employed by Marathon Oil and J. M. Huber Corporation as a Petroleum Engineer in the Permian Basin of West Texas and Southeast New Mexico. From 1982 through 1990, I was employed as Petroleum Engineer, Engineering Manager and Manager of Gas Supply for various subsidiaries of Texas Eastern Corporation ("Texas Eastern"). As Petroleum Engineer and Engineering Manager, I was responsible for the drilling and production department of Texas Eastern's Rocky Mountain exploration and production operations. My direct responsibilities included economic analysis, justification and management of drilling projects, preparation and submission of regulatory permits and applications for drilling, oversight of well completion operations, and oversight of production operations including in-field gas gathering/treating projects. In the position of Manager of Gas Supply, I was responsible for the analysis and negotiation of new gas supplies for system supply use and the renegotiation of existing gas-supply contracts to reduce contractual obligations to purchase gas supplies for system supply use under take-or-pay contracts.

I joined NiSource/Columbia in 1990, initially as Manager of Supply Planning, advancing to Manager of Economic Analysis in 1993. On May 1, 1997, I was promoted to Director, Supply Planning and on May 1, 2010 named to my existing position of Director, Supply Development.

Q: Have you previously testified before any regulatory commission?

A: Yes, I have testified on numerous occasions before the public-utility commissions of Ohio, Kentucky, Pennsylvania, Maryland, Massachusetts and Virginia.

Q: What is the purpose of your testimony in this proceeding?

A: The purpose of my testimony is to provide information on the Company's continual efforts to reduce its pipeline demand charges and support the Company's position regarding the basis from which the monthly demand costs of its upstream pipeline capacity should be determined for purposes of determining the Transportation Cost Index ("TCI") of the Company's Performance-Based Rate ("PBR") Mechanism.

Q: Please describe the Company's PBR Mechanism.

A: In Case No. 2014-00350 the Kentucky Public Service Commission ("Commission") approved the Company's PBR Mechanism which is comprised of three components: (a) a monthly Gas Cost Incentive ("GCI"); (b) an Off-System Sales Incentive ("OSSI") Mechanism; and (c) the TCI. The GCI compares the Company's actual natural gas purchase costs during a given month against a basket of daily, weekly and monthly indices published for each pipeline on which the Company purchases gas. Any cost savings generated by the Company are shared between the Company and its customers under a two-tiered structure with monthly savings of 0-2% shared 70/30 in favor of the customers and savings over 2% shared 50/50. Under the OSSI all net revenues generated by the Company from off-system sales are shared under the same two-tiered structure as the GCI. Lastly, the TCI is designed to capture and share between the Company and its customers any value realized by the Company in negotiating capacity contracts at rates less than the rates approved by the Federal Energy Regulatory Commission ("FERC").

Q. What was the original term of the Commission's order approving the Company's PBR in Case No. 2014-00350?

A. The original term of the Commission's order in Case No. 2014-00350 was April 1, 2015 through March 31, 2018.

Q. Has the Company filed to extend the PBR approved in Case No. 2014-00350?

A. Yes, the Company filed for a renewal and extension of its PBR in Case No. 2017-00453.

Q. Has that request been approved by the Commission?

A. Yes, the Commission approved with modification the Company's request.

Q. Please describe the Commission's modifications.

A. The Commission modified Columbia's request in two primary areas: (a) changing the requested end date of the extension from March 31, 2023 to March 31, 2021; and (b) changing the TCI benchmark for two of the inter-state pipelines from which Columbia takes service from the rates ap-proved by the FERC to the current discount rates negotiated by the Company. And further adjusting 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.

Q. What was the reasoning in the Commission's change in the TCI benchmark?

A. The Commission indicated two primary reasons: (a) the rate for the Company's discounted SST capacity contract had not changed since at least 2010; and (b) the Commission's desire that the TCI incorporate a continuing improvement when negotiating pipeline rates.

Q. Have you any comments regarding the Commission's reasoning?

A. Yes, I do. The fact that the discounted rate negotiated by Columbia has not changed is directly related to the Company's ability to negotiate the rate and preserve the discounted rate in light of increasing FERC rates. Thus, the low rates have remained constant for the benefit of Columbia's customers. Columbia's shareholders have also been able to share in the results of the extra efforts undertaken by Columbia to bring this cost savings under the PBR. The Tennessee Gas Pipeline and Columbia Gas

Transmission Corporation ("TCO")[1] negotiated discounts have enabled the Company to secure the lowest rate possible and maintain reliability of service in a very changing interstate pipeline environment. Beginning in 2012, TCO entered into negotiations with its customer base to implement a system Modernization Program. TCO's Modernization Program is designed to provide a mechanism for TCO to invest in the modernization of its interstate pipeline system through replacing bare steel and cast/wrought iron pipeline sections, the replacement of outdated and inefficient compressor systems, and restoration of late season storage deliverability. TCO's Modernization Program is now beginning its eighth year[2]. TCO's Modernization Program calls for the Phase I investment of $1.5 billion and Phase II investment of $1.13 billion. Integral to TCO's Modernization Program was the creation of a Capital Cost Recovery Mechanism ("CCRM") wherein TCO would begin to recover its Modernization Program investment beginning February 1st of each year following the prior year's program investment. The CCRM is incorporated into TCO's rates as a FERC approved rider, or stated differently, as an increase to TCO's

[1] TCO is a wholly owned subsidiary of TC Energy formerly known as TransCanada Pipelines, LP.
[2] TCO's Modernization program to date has been comprised of two phases. Phase I included annual investments of approximately $300 million per year for the years 2013-2017 and corresponding capital recovery periods of 2014-18. Phase II included roll-in of the unrecovered Phase I investments into base rates, storage investments totaling $120 million and additional annual investments in pipeline and compressor replacement of approximately $335 million per year for the years 2018-2020 and capital recovery period of 2019-2021.

base rates. The primary reason that the difference between the TCI benchmark and the FERC approved TCO rates has grown, as identified by the Commission, is the CCRM. 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 the CCRM rider when approved by FERC. The Company's efforts in TCO's Modernization Program development served as the equivalent a lower rate and demonstrate continual improvement in negotiating discounted transportation rates. If not for the Company's efforts in the negotiations regarding TCO's Modernization Program, the cost of gas to customers would be greater. The PBR has successfully incented the Company to aggressively seek and achieve incremental benefits that produce gas cost savings for customers while maintaining reliability of supply.

Lastly, the Commission reasoning appears to the Company as not recognizing the significant changes that have occurred in the natural gas industry since approval of its original PBR. These significant changes are centered on the discovery and development of immense natural gas resources in the Marcellus and Utica Shales of the Appalachian Basin. Prior to this discovery and development the natural gas that the Company used to serve its customers originated in the Gulf Coast region. This gas moved south to north on large interstate pipeline systems. Today, those same pipelines move natural gas in the opposite, north to south direction. This is critical to the understanding of the competitive nature of natural gas pipelines serving the Company. Previously, local distribution companies ("LDCs"), such as the Columbia companies, contracted for the majority of capacity and pipeline companies competed for the LDCs business as it represented the primary market for their services. Today, given the changed supply environment, the primary customers of the pipelines moving the Marcellus and Utica Shale supplies are natural gas producers. Whereas previously the pipelines willingness to provide flexible services was a part of their ability to negotiate with LDCs, the producers have no such interest without significant incremental costs. Therefore, the competitive environment has drastically changed.

Q. Does the Company have a recommendation as to how the TCI benchmark should be set?

A. Yes, Columbia continues to believe the FERC approved rates are the appropriate benchmark for the TCI. Columbia also sees that the Commission desires to encourage continual improvement when negotiating discounted transportation rates. Recognizing the significant changes in the capacity markets over the last several years, as noted above, Columbia submits that the TCI benchmark for Tennessee Gas Pipeline should be the FERC approved tariff rate and the TCI benchmark for Columbia's SST contract should be the FERC approved rate as of February 1, 2014, the year the PBR was first authorized by the Commission.

Q. Please describe how the Company arrives at the TCI benchmark for the SST contract.

A. Establishing the benchmark at this time and level recognizes the efforts the Company made in managing the TCO Modernization negotiations for its customers, as well as recognizing that time when changes to the natural gas production and flow regimes, driven by increasing volumes of Marcellus and Utica production, began affecting the competitive environment for the Company that exists today. As noted earlier, the Company successfully negotiated to avoid application of the TCO CCRM to its existing discounted SST demand costs. In addition to avoiding CCRM costs, the negotiations under TCO's Modernization Program Phase I established a reset of TCO base rates. These rates were reduced from a prior level of $5.467 per Dth to $4.83 per Dth. Establishing the TCI benchmark at $4.83

per Dth and applying a percentage gross-up factor as described in the Testimony of Columbia witness Cooper accomplishes the Commission goal of continuous improvement as well as recognizes the changing competitive environment.

Q: Does this complete your Prepared Direct testimony?

A: Yes, however, I reserve the right to file rebuttal testimony if necessary.