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
ADJUSTMENT PERFORMANCE BASED RATE	)	
MECHANISM.	)	
	)	

APPLICATION OF
COLUMBIA GAS OF KENTUCKY, INC.

Now comes Columbia Gas of Kentucky, Inc. ("Columbia") and hereby submits the instant Application to renew its Performance-Based Ratemaking ("PBR") Mechanism. In support of this Application, Columbia submits its proposed tariffs and the testimony of Brad Stuck and Judy Cooper. Additionally, Columbia submits its evaluation report on the results of the PBR from April 2015 through present time as required by the Commission's October 22, 2019 Order. Columbia also incorporates by reference the record in Case No. 2017-00453. In further support, Columbia states as follows:

1. Columbia was first granted approval of its PBR mechanism by Order dated March 27, 2015 in Case No. 2014–00350. In compliance with the Commission's Order in Case No. 2012-00593[1], Columbia combined its limited gas cost incentive mechanism with its off-system sales capacity release revenue sharing mechanism to more closely align with the PBR mechanisms of Atmos and LG&E, the pioneers of performance based rate making, creating the first PBR for Columbia.

2. On November 30, 2017, Columbia requested an extension of its PBR mechanism for an additional 5 years.[2] On October 22, 2019, the Commission denied Columbia's request for a 5 year extension and instead approved the continuation of the mechanism through March 2021. Additionally, the Commission made several modifications to Columbia's PBR. The most significant modification to Columbia's PBR pursuant to the Commission's October 22, 2019, Order was changing the Transportation Cost Incentive ("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

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[1] *In the Matter of the Application of Columbia Gas of Kentucky, Inc. to Extend its Gas Cost Incentive Mechanism and Revenue Sharing Mechanism, Case No. 2012 -00593, Order dated October 25, 2013.*

[2] Case No. 2017-00453

applied on the date of the Order to reflect increases in the FERC approved rates.[3] Columbia filed Motion for Reconsideration and Rehearing, arguing for an alternative methodology for calculating the TCI benchmark and the percentage gross-up factor. A hearing was held on May 27, 2020 and on July 24, 2020, the Commission entered an Order adopting the alternative calculation proposed by Columbia.[4]

3. Columbia files the instant application requesting a three year renewal of its PBR mechanism as approved by the Commission's October 22, 2019 Order and modified on rehearing on July 24, 2020. As more fully explained by witnesses Stuck and Cooper, Columbia's PBR mechanism is comprised of three components (a) a monthly Gas Cost Incentive mechanism ("GCI"); (b) an Off-System Sales Incentive ("OSSI") mechanism; 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.

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[3] *Id* at 2.
[4] July 24, 20 Order p. 8, Ordering paragraph 1.

4. 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.

5. The structure of Columbia's PBR mechanism serves as an effective incentive for Columbia 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 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.

6. As argued in Case No. 2017-00453, 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. 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. Additionally, as more fully explained in witness Stuck's testimony, discounted rates for Columbia Gas Transmission's SST service are rare, providing more proof of Columbia's extensive efforts in preserving discounted rates.

WHEREFORE, for all of the reasons set forth above and in the testimony of witnesses Cooper and Stuck, Columbia respectfully requests a three year renewal of its PBR mechanism described herein.

Dated at Columbus, Ohio, this 30th day of November, 2020.

Respectfully submitted,

COLUMBIA GAS OF KENTUCKY, INC.

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