COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO STAFF'S THIRD REQUEST FOR INFORMATION
DATED AUGUST 10, 2021

7. Refer to Columbia Kentucky's response to Commission Staff's Second Request for Information (Staff's Second Request), Item 1.

a. Confirm that it would be more accurate to forecast the in-service date of a specific major capital project for the purpose of determining when plant additions would occur based on the actual projected in-service date for the project as opposed to an in-service curve, and if Columbia Kentucky is not able to confirm, explain each basis why it is not able to confirm.

b. Provide a spreadsheet showing the months in which Columbia Kentucky included projected spending on the major construction projects, or any portion thereof, in plant in service for the purpose of determining the revenue requirement in this matter.

c. Provide the effect on rate base in the forecasted period and the effect on the revenue requirement in the forecasted period of including the major construction projects as additions to plant in service on the in-service dates shown for each project at Tab 35 of the Application.

Supplemental Response – Dated September 7, 2021

Columbia's original response to Staff's Third Set of Requests for Information, No 7 contained an error. Specifically, the "Spend" column in KY PSC Case No. 2021-00183, Staff 3-7, Attachment A at Column D, Row 13 listed $3,688,548. This amount should have been $3,394,204. An updated spreadsheet correcting this error, and updating values impacted by this change is attached as KY PSC Case No. 2021-00183, Staff 3-7, Attachment A Supplemental.

The language of the response requires a corresponding correction. In the third paragraph responding to sub-part a, the original response reads: "The 2021 total Spend (Column C) in this CWIP roll-forward is *higher* than the Capital Construction budget (Line 37 & 38) due to an adjustment in the IT spend category as described in the testimony of Witness Gore." (*emphasis added*). The word "higher" should be replaced with the word "lower." Later in that paragraph, Columbia stated "Additionally, the Additions to Plant exceed the actual month spend by approximately *$2.2 million* as items in CWIP at December 2020 were moved into service." (*emphasis added*). The "$2.2 million" should be replaced with "2.6 million."

Response:

a.

The method of using specific in-service dates for large projects when projecting plant balances in the forecasted test year would provide a more precise rate base calculation – but may not provide a more accurate estimate of plant in service balances for the forecasted test year. The 2022 project plans are in the very preliminary scheduling phase and the timing of spend and in-service will very likely change as it gets closer to the 2022 construction season. Additionally, major projects are often separated into sub-projects that can be completed and in-service at different times during the year. The timing/scheduling of these 2022 sub-projects has not yet been developed. While providing a more precise calculation, the underlying in-service timing for 2022 capital projects is likely to be very different than what will occur.

Refer to PSC Case No. 2021-00183, Staff 3-7, Attachment A, which provides the budgeted activity in Construction Work in Progress ("CWIP") for 2021 and 2022. This roll-forward schedule tracks the budgeted capital expenditure spend and the budgeted additions to plant-in-service.

The 2021 total Spend (Column C) in this CWIP roll-forward is higher than the Capital Construction budget (Line 37 & 38) due to an adjustment in the IT spend category as described in the testimony of Witness Gore. The 2021 total Additions to Plant-in-Service

Spend is higher than the 2021 total Spend reflecting the budget for the balance of CWIP that is expected to be lower at the end of the 2021 calendar year by $2,578,792. The December 2020 CWIP balance was higher than expected as work done in 2020 did not get closed to Plant in Service. Further supporting this expectation is the actual results for January 2021 (Line 2). The January 2021 Additions to Plant were approximately $5.5 million compared to a fully budgeted January 2022 Additions to Plant of approximately $1.7 million. Additionally, the Additions to Plant exceed the actual month spend by approximately $2.2 million as items in CWIP at December 2020 were moved into service.

The 2022 total Spend (Column C) in this CWIP roll-forward is higher than the 2022 Capital Construction budget (Lines 42-47) due to addition of the training facility investment that was not in the capital budget partially offset by an adjustment in the IT spend category. These differences from budget were described in the testimony of Witness Gore. The 2022 total Additions to Plant-in-Service Spend is aligned with the 2022 total Spend reflecting the expectation that the CWIP balance will be unchanged from December 2021 and December 2022.

The 2021 and 2022 monthly spend patterns reflect slightly higher spend in the prime construction season (mid-late-March through end of October) versus the winter months. As the monthly Spend is a debit to CWIP and not to plant-in-service, the spending patterns do not impact the calculation of rate base.

The 2021 and 2022 Additions to Plant in Service do impact the calculation of rate base. The methodology of spreading the Additions to Plant in Service was done in three categories:

- IT software projects in-service timing was aligned with the updated project information as discussed in Witness Gore's testimony. The in-service timing is detailed by project in WPB-2.2a.
- All other budgeted capital investments in-service timing was based on a 3-year historic view of the monthly in-service additions. The monthly spread is as follows:

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2.64%	6.45%	6.89%	5.40%	4.87%	5.49%	6.18%	9.00%	6.63%	10.63%	16.46%	19.36%

  This monthly spread results in 68% of the additions going into service in the last 6 months of the year and 46% of the additions going into service in the last 3 months of the year.

- The training facility investment of $5.59 million was put in service in November 2022 additions.

The methodology used to forecast the 2022 Additions to Plant in Service provides a reasonable result and reflects the historic trends at the Company. The use of specific in-service dates for large projects that will most assuredly change is likely to create false precision and is not considered a reasonable methodology. Additionally, the historic periods used to create the in-service curve would also have had large projects that were likely to be put into service late in the year, so the historic curve is a reasonable basis to project the forecasted test year.

b. and c.

The company did not include specific in-service dates for any project in the budget. Rather, the historic monthly spread was used for all budgeted non-IT software investments. Refer to KY PSC Case No. 2021-00183, Staff 3-7, Attachment B for a comparison on the revenue requirement in the forecasted test year for the two projects (1) Westwood Point of Delivery Station, and (2) Line DE In-Line Inspection. Page 1 of the attachment compares the revenue requirements based on in-service as planned versus in-service as filed. Pages 2 -5 provide details on the rate base and depreciation expense impact.

The calculated difference in the revenue requirement is $120,623 and the following are items of note within the calculation:

- The Westwood Point of Delivery Station work is shown as going into service at month end October as this work would be done prior to the beginning of the winter heating season.

- The Line DE In-Line Inspection would be done in at least two phases and also fully completed and in-service by the end of October, prior to the beginning of winter heating season.
- The returns and depreciation rate reflect the as-filed for amounts.