**COMMONWEALTH OF KENTUCKY**

**BEFORE THE PUBLIC SERVICE COMMISSION**

**IN THE MATTER OF:**

| | | |
|---|---|---|
| ELECTRONIC APPLICATION OF COLUMBIA GAS OF KENTUCKY, INC. TO CONTINUE ITS GAS COST INCENTIVE ADJUSTMENT PERFORMANCE BASED RATE MAKING MECHANISM | ) ) ) ) | CASE NO. 2024-00012 |

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## MOTION FOR LEAVE TO AMEND APPLICATION

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Comes now Columbia Gas of Kentucky, Inc., ("Columbia Kentucky") by and through the undersigned counsel, pursuant to 807 KAR 5:001, Section 4(5) and other applicable law, and as grounds for its Motion for Leave to Amend its Application in the above-styled proceeding respectfully states as follows:

1. On January 31, 2024, Columbia Kentucky filed an application to extend its Gas Cost Adjustment Performance Based Rate ("PBR") mechanism ("PBR Application").

2. As part of the PBR Application, Columbia Kentucky requested a five-year renewal of its PBR mechanism, in the same form as was approved by the Commission's June 6, 2022 Order in Case No. 2020-00378,[1] through March 31, 2029, with a provision to address the expiring term of the current negotiated discounts.

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[1] Application p. 4.

3. Columbia Kentucky requested to provide for modification of the Transmission Cost Incentive ("TCI") component of its PBR to acknowledge changes to the marketplace and the expiration of existing contract discounts which were replacement benchmarks to the Federal Energy Regulatory Commission ("FERC") approved rates in Case No. 2017-00453.[2]

4. The Commission issued an Order on March 1, 2024, rejecting Columbia Kentucky's PBR Application stating "[g]iven that the application is proposing both an amendment and renewal, the notification requirements housed in 807 KAR 5:011, Section 8 apply and require Columbia Kentucky give notice to its customers and the public."[3]

5. Pursuant to 807 KAR 5:001, Section 4(5), Columbia Kentucky moves the Commission to accept its amended application that deletes the provision to address the expiring term of the current negotiated discounts and modifies the proposed five (5) year term to instead be a three (3) year term. Columbia Kentucky amends its PBR Application to withdraw the portions of the Application and supporting testimony related to provisions for modification of the TCI component and five (5) year term, and requests the Commission approve the ordinary three (3) year authorization in the same form as the PBR is currently authorized (in Case No. 2020-00378).

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[2] Application p. 5.

[3] Order p. 4.

6. Columbia Kentucky was attempting to be proactive and include in this PBR Application the ability to change the TCI component of its PBR, if the current discounts received in expiring contracts are lost.

7. In the PBR Application, Columbia Kentucky was seeking to provide for modification of the TCI component in the future if discounts were lost or decreased when two existing contracts expired. However, Columbia Kentucky does not currently know whether these discounts will be lost or if the discounts would be decreased by some amount. Columbia Kentucky does not believe that it could give a sufficiently informative customer notice to its customers or to the public with the information it currently has on these two expiring contracts. Columbia Kentucky believes notice at this time might actually cause confusion more than it would inform customers since there are no definite changes known at this time. The Commission's Order acknowledging a necessary deviation to comply with the Commission's rules about public notices further demonstrates that public notice at a later date would better serve the purposes of a public notice.

8. In addition to withdrawing the provision for TCI component modifications, Columbia Kentucky also requests to amend its PBR Application to request another three-year extension instead of a five-year extension as was originally requested.

9. With the amendments requested in this Motion, Columbia Kentucky's current PBR Application will be a simple renewal of its existing PBR without modification.

10. Columbia Kentucky is attaching as Exhibit A to this Motion, an amended full Application with supporting testimony. Columbia Kentucky is attaching as Exhibit B to this Motion, a red-lined version of the Application and supporting testimony to assist the Commission in determining the exact changes to the Application and supporting testimony requested herein.

11. Columbia Kentucky's current authority for its PBR expires March 31, 2024. Columbia Kentucky requests the Commission issue an Order by March 31, 2024, authorizing continuation of its existing PBR through March 31, 2027. Alternatively, Columbia Kentucky requests an interim Order continuing its current authority for its PBR with no change to the PBR calculation, until such time as the Commission issues its final order, if that order will not be issued by March 31, 2024. If there is no Order granting Columbia Kentucky's continuance of its existing PBR, then the benefit established by the shared incentive for lower gas cost to customers, advanced in the components of the PBR mechanism, will be lost and the possibility of enhanced future gas cost savings, though not guaranteed, may cease. As the Commission noted in its June 6, 2022 Order in Case No. 2020-00378, wherein it reduced the incentive offered by modifying the sharing band, after having previously eliminated much of the transportation cost savings by adjusting

the benchmarks, simply eliminating the incentives offered by the PBR mechanism in their entirety could have unforeseen consequences that increase the gas costs passed on to customers. The Commission can protect customers by authorizing the PBR to continue without any changes to the mechanism and acting by March 31, 2024, to do so.

WHEREFORE, based on the foregoing, Columbia Kentucky requests to amend its PBR Application as requested herein.

Dated this 8th day of March, 2024.

Respectfully submitted,

Heather Temple

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Brittany Hayes Koenig
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*Counsel for Columbia Gas of Kentucky, Inc.*

## CERTIFICATE OF SERVICE

This is to certify that foregoing electronic filing was transmitted to the Commission on March 8, 2024; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and that pursuant to the Commission's July 22, 2021 Order in Case No. 2020-00085, no paper copies of the filing will be made.

Heather Temple

*Counsel for Columbia Gas of Kentucky, Inc.*

# EXHIBIT A

**COMMONWEALTH OF KENTUCKY**

**BEFORE THE PUBLIC SERVICE COMMISSION**

| | | |
|---|---|---|
| ELECTRONIC APPLICATION OF COLUMBIA GAS | ) | |
| OF KENTUCKY, INC. TO CONTINUE ITS GAS COST | ) | CASE NO. |
| INCENTIVE ADJUSTMENT PERFORMANCE BASED | ) | 2024-00012 |
| RATE MAKING MECHANISM | ) | |

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**APPLICATION OF**
**COLUMBIA GAS OF KENTUCKY, INC.**

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Now comes Columbia Gas of Kentucky, Inc. ("Columbia") and hereby submits the instant Application to renew its Gas Cost Adjustment Performance Based Rate ("PBR") mechanism.

Columbia's current authority for its PBR extends through March 31, 2024. Consistent with Commission precedent,[1] if the Commission's processing of this case will extend past March 31, 2024, Columbia respectfully requests the Commission issue an interim Order continuing Columbia's PBR current authority, with no change to the PBR calculation, until the Commission issues its Order addressing the extension of Columbia's PBR. Such an Order would be reasonable to ensure the continuity of the PBR during the

[1] Case No. 2020-00378, "Application of Columbia Gas of Kentucky, Inc. to Extend its Gas Cost Adjustment Performance Based Rate Mechanism", Order at 1 dated January 27, 2021.

pendency of this case, and would continue to additionally incent Columbia to steadfastly evaluate the market for opportunities to lower costs.

In support of this Application, Columbia submits the testimony of Patrick Pluard and Judy Cooper. 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 October 25, 2013 Order in Case No. 2012-00593, 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, in Case No. 2017-00453, Columbia requested an extension of its PBR mechanism for an additional 5 years. 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 applied on the date of the Order to reflect increases in the FERC approved rates. Columbia filed a 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.

3. In Case No. 2020-00378, the Commission authorized a three-year extension of Columbia's then-existing PBR mechanism. The Commission approved, with modification, continuation of the PBR mechanism through March 31, 2024. The Commission modified Columbia's PBR to change the gas cost sharing calculation. Specifically, the Commission ordered a change in the sharing band from 2 percent to 4.5 percent. So that variances from 0 to 4.5 percent of Columbia's Actual Gas Costs are shared 70 percent to ratepayers and 30 percent to shareholders, with sharing thereafter allocated 50/50 between Columbia and its customers.[2]

[2] Case No. 2020-00378, "Application of Columbia Gas of Kentucky, Inc. to Extend its Gas Cost Adjustment Performance Based Rate Mechanism", Order dated June 6, 2022.

4. Columbia files the instant application requesting a three-year renewal of its PBR mechanism, in the same form as approved by the Commission's June 6, 2022 Order, through March 31, 2027. Columbia will continue to annually report its PBR activity.
5. As more fully explained by witnesses Pluard 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 0-4.5% shared 70/30 in favor of the customers and savings over 4.5% 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.
6. 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 maximum rates approved by the Federal Energy Regulatory Commission ("FERC"). The TCI also captures capacity release revenues except for administrative and Rate Schedule SVAS capacity releases. The TCI uses the same two-tiered sharing structure as the GCI and OSSI.

7. 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 would 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.

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

Dated this 8th day of March 2024.

Respectfully submitted,

**COLUMBIA GAS OF KENTUCKY, INC.**

Heather Temple

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**COMMONWEALTH OF KENTUCKY**
**BEFORE THE PUBLIC SERVICE COMMISSION**

| | |
|---|---|
| ELECTRONIC APPLICATION OF COLUMBIA GAS )<br>OF KENTUCKY, INC. TO CONTINUE ITS GAS COST)<br>INCENTIVE ADJUSTMENT PERFORMANCE BASED)<br>RATE MAKING MECHANISM ) | CASE NO.<br>2024-00012 |

**PREPARED DIRECT TESTIMONY OF**
**JUDY M. COOPER**
**ON BEHALF OF COLUMBIA GAS OF KENTUCKY, INC.**

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Attorneys for
**COLUMBIA GAS OF KENTUCKY, INC.**

March 8, 2024

**COMMONWEALTH OF KENTUCKY**

**BEFORE THE PUBLIC SERVICE COMMISSION**

| | | |
|---|---|---|
| In the Matter of: | ) | |
| | ) | |
| ELECTRONIC APPLICATION OF COLUMBIA | ) | |
| GAS OF KENTUCKY, INC. TO EXTEND ITS GAS | ) | Case No. 2024-00012 |
| COST INCENTIVE ADJUSTMENT | ) | |
| PERFORMANCE BASED RATE MECHANISM | ) | |

**VERIFICATION OF JUDY COOPER**

| | |
|---|---|
| COMMONWEALTH OF KENTUCKY | ) |
| | ) |
| COUNTY OF FAYETTE | ) |

Judy Cooper, Director of Regulatory Affairs for Columbia Gas of Kentucky, Inc., being duly sworn, states that she has supervised the preparation of testimony in the above-referenced case and that the matters and things set forth therein are true and accurate to the best of her knowledge, information and belief, formed after reasonable inquiry.

Judy Cooper

Judy Cooper

The foregoing Verification was signed, acknowledged and sworn to before me this 8th day of March, 2024, by Judy Cooper.

Evelyn Long Durr

Notary Commission No. KYNP49615

Commission expiration: 05/15/2026

EVELYN LONG DURR
Notary Public
Commonwealth of Kentucky
Commission Number KYNP49615
My Commission Expires May 15, 2026

## I. INTRODUCTION

**Q: Please state your name and business address.**

A: My name is Judy M. Cooper and my business address is 2001 Mercer Rd., Lexington, KY 40511.

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

A: I am the Director of Government and Regulatory Affairs for Columbia Gas of Kentucky, Inc. ("Columbia Kentucky") I am responsible for the management of Columbia's regulatory policy, tariffs, and filings with the Commission. I am also responsible for Columbia's local government and state government affairs including franchises, and monitoring legislation.

**Q: What is your educational background?**

A: I am a graduate of the University of Kentucky where I received a Bachelor of Science Degree in Accounting in 1982. I also received a Master in Business Administration from Xavier University in 1985.

**Q: What is your employment history?**

A: I was employed by the Kentucky Public Service Commission (Commission) as an auditor in 1982. Subsequently, I served as a Rate Analyst, Energy Policy Adviser, Branch Manager of Electric and Gas Rate Design, Director of Rates, Tariffs, and Financial Analysis at the Commission. In July 1998, I joined Columiba as Manager of Regulatory Services. My job title has since been revised and expanded to that of Director, Government and Regulatory Affairs.

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

A: Yes, I have testified before the Commission in several cases for Columiba Kentucky: Case No. 2002-00117, "The Filing by Columbia Gas of Kentucky, Inc. to Require that Marketers in the Small Volume Gas Transportation program be required to accept a Mandatory Assignment of Capacity"; Case No. 2007-00008, "In the Matter of Adjustment of Rates of Columbia Gas of Kentucky, Inc."; Case No. 2009-00141, "In the Matter of an Adjustment of Rates of Columbia Gas of Kentucky, Inc."; Case No. 2010-00146, "An Investigation of Natural Gas Retail Competition Programs"; Case No. 2013-00167, " In the Matter of Application of Columbia Gas of Kentucky, Inc. for an Adjustment of Rates for Gas Service"; Case No. 2016-00162, "In the Matter of Application of Columbia Gas of Kentucky, Inc. for an Adjustment of Rates"; Case No. 2017-00453, "In the Matter of the Application of Columbia Gas of Kentucky, Inc. to Extend its Gas Cost Incentive

Adjustment Performance Based Rate Mechanism"; and Case No. 2019-00257, "The Electronic Application of Columbia Gas of Kentucky, Inc. for: 1) A Declaration that Construction of a Low Pressure System Safety Improvement is an Extension of its System in the Ordinary Course of Business; 2) In the Alternative, for the Issuance of a Certificate of Public Convenience and Necessity for Such Construction; 3) Approval of an Amendment and Expansion of its Accelerated Main Replacement Tariff to its Safety Modification and Replacement Tariff; and 4) Approval to Modify the 2019 AMRP Construction Plan; Case No. 2020-00378, "In the Matter of Electronic Application of Columbia Gas of Kentucky, Inc. to Extend its Gas Cost Incentive Adjustment Performance Based Rate Making Mechanism"; Case No. 2021-00183, " In the Matter of Electronic Application of Columbia Gas of Kentucky, Inc. for an Adjustment of Rates; Approval of Depreciation Study; Approval of Tariff Revisions; Issuance of a Certificate of Public Convenience and Necessity; and Other Relief"; Case No. 2021-00386, " In the Matter of Electronic Tariff Filing of Columbia Gas of Kentucky, Inc. to Extend Its Small Volume Gas Transportation Service"; and Case No. 2022-00049, "In the Matter of Electronic Application of Columbia Gas of Kentucky, Inc. for Approval of the Green Path Rider Pilot Program".

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

A: The purpose of my testimony is to provide information on the history Columbia's Performance Based Rate ("PBR") Mechanism, as most recently authorized by the Commission's Order dated June 6, 2022 in Case No. 2020-00378. I will also describe Columbia's tariff that details the PBR Mechanism.

**Q: Please describe the Company's PBR Mechanism.**

A: Columbia's PBR Mechanism is comprised of three components: (1) a monthly Gas Cost Incentive ("GCI"); (2) an Off-System Sales Incentive ("OSSI"); and (3) a Transportation Cost Incentive ("TCI"). The PBR was first approved in Case No. 2014-00350[1] for a period of three years through March 31, 2018. In Case No. 2017-004532[2] Columbia sought to extend its PBR through March 31, 2023. On March 27, 2018, the Commission ordered continued use of Columbia's then current PBR mechanism until the Commission issued a Final Order addressing Columbia's request for a five-year extension. The Final Order was issued on October 22, 2019 denying Columbia's requested extension and modifying the PBR mechanism. Columbia sought and was granted rehearing by the Commission.

[1] Case No. 2014-00350, "Application of Columbia Gas of Kentucky, Inc., to Consolidate and Convert its Gas Cost Incentive Mechanism and its Off-System Sales and Capacity Release Revenue Sharing Mechanism into a Performance-Based Rate Mechanism", Order dated March 27, 2015.
[2] Case No. 2017-00453, "Application of Columbia Gas of Kentucky, Inc. to Extend its Gas Cost Adjustment Performance Based Rate Mechanism" filed November 30, 2017.

Subsequently, on July 24, 2020 the Commission issued its Order on Rehearing establishing the design of Columbia's current PBR mechanism. On June 6, 2022, in Case No. 2020-00378[3],the Commission approved another extension of Columbia's PBR through March 31, 2024, with modifications to the sharing percentages.

**Q: Why does Columbia have a PBR Mechanism?**

A: Columbia has a PBR mechanism as a voluntary ratemaking adjustment, authorized and approved by the Commission, to optimize its supply portfolio by undertaking incremental risk and efforts that have the potential to lower gas cost as compared to competitive benchmarks or otherwise applicable approved rates of the Federal Energy Regulatory Commission {"FERC"}. The performance results of the incentive are shared between customers and Columbia shareholders to create a mutual benefit for both parties. Columbia witness Pluard goes into greater detail in his testimony.

**Q: Has the Commission encouraged performance-based ratemaking by utilities subject to its jurisdiction?**

A: Yes, in Administrative Case No. 384 following a period that saw significant cost increases in natural gas and concern as to the reliability of supply, the

[3] Case No. 2020-00378, "Electronic Application of Columbia Gas of Kentucky, Inc., to Extend its Gas Cost Incentive Adjustment Performance Based Rate Making Mechanism", Order dated June 6, 2022.

Commission undertook a comprehensive review of the natural gas procurement practices of large local distribution companies ("LDCs") subject to its jurisdiction. The Commission determined that the LDCs had developed sound planning and procurement procedures for meeting the natural gas requirements of customers with reliability of supply at reasonable costs over the period of time since natural gas prices were deregulated. While natural gas commodity prices are deregulated, the services for delivery of natural gas from production fields and processing plants are largely provided by interstate natural gas pipeline companies and remain subject to regulation. The FERC is the federal government agency charged with regulatory oversight and approval of the services, rates and tariffs of interstate pipelines. The FERC is lawfully bound to establish the fair, just and reasonable rates and services of the interstate pipelines subject to its regulatory jurisdiction. However, it has sometimes been possible to deviate from the rates found to be fair, just and reasonable by the FERC. In its Order of July 17, 20014 the Commission encouraged LDCs to consider innovative approaches, such as PBRs, as a means of improving gas procurement performance to mitigate higher gas prices, price volatility and lessen the impact on customers while ensuring that LDCs are able to recover all reasonable levels of gas costs.

**Q: How long does Columbia propose that the PBR should continue?**

A: Columbia recommends that the PBR should be authorized to continue for a period of three years through March 31, 2027. If the Commission's processing of this case will extend past March 31, 2024, Columbia respectfully requests the Commission issue an interim Order continuing Columbia's PBR current authority, with no change to the PBR calculation, until the Commission issues its Final Order addressing the extension of Columbia's PBR.

**Q. Does Columbia propose any modifications to its tariff?**

A. Columbia's tariff setting out the PBR adjustment mechanism is attached as Attachment A to my testimony. The specific details of the PBR mechanism are contained in Columbia's Gas Cost Adjustment Clause on Sheets 48 through 50d, (highlighting added). Columbia does not propose any changes to its current tariff.

**Q. Does this complete your Prepared Direct Testimony?**

A: Yes.

## GAS COST ADJUSTMENT CLAUSE
## APPLICABLE TO ALL RATE SCHEDULES

**Determination of Gas Cost Adjustment (GCA)**

Company shall file a quarterly report with the Commission which shall contain an updated Gas Cost Adjustment (GCA) Rate and shall be filed at least thirty (30) days prior to the beginning of each quarterly calendar period. The GCA shall become effective for billing with the final meter readings of the first billing cycle of each quarterly calendar period.

The gas cost adjustment is comprised of:

(1) The Expected Gas Cost Component (EGC), on a dollar-per-Mcf basis, is made up of two components: (a) Expected Commodity Gas Cost which applies to Rate Schedules GS, IS, and IUS, and represents the average expected commodity cost of gas supplied, and (b) Expected Demand Gas Cost which applies to Rate Schedules GS,IUS and SVAS, and represents the average expected demand cost of gas supplied, excluding the Standby Service demand costs to be recovered from IS Customers and General Service Delivery Service Customers. The Commodity Gas Cost component of the EGC includes the remainder of any net cost and benefits of previously authorized hedging activities.

(2) The supplier Refund Adjustment (RA), on a dollar-per-Mcf basis, which reflects refunds received during the reporting period plus interest at a rate equal to the average of the "three month commercial paper rate" for the immediately preceding twelve month period. In the event of any large or unusual refunds, Company may apply to the Commission for the right to depart from the refund procedure herein set forth.

(3) The Actual Cost Adjustment (ACA), on a dollar-per-Mcf basis, which compensates for any previous over or undercollections of gas costs experienced by the company through the operation of this gas cost recovery procedure. The ACA shall be filed quarterly beginning with Company's application for its June 2016 billing cycle, with the ACA factor to be in effect for twelve months. T

(4) The Balancing Adjustment (BA), on a dollar-per-Mcf basis, which compensates for any under or overcollections which have occurred as a result of prior adjustments. The BA shall be filed quarterly beginning with Company's application for its June 2016 billing cycle, with the BA factor to be in effect for three months. N

(5) The Performance Based Rate Adjustment (PBRA), on a dollar-per-Mcf basis, which is calculated annually based on the prior twelve month period ending March 31, with the PBRA factor to be in effect for twelve months beginning June 1st each year.

NOTE: All adjustments will be assigned to the Expected Demand Gas Cost or Expected Commodity Gas Cost components.

| | |
|---|---|
| DATE OF ISSUE | March 31, 2016 |
| DATE EFFECTIVE | April 29, 2016 |
| ISSUED BY | /s/ Herbert A. Miller, Jr. |
| TITLE | President |

Issued pursuant to an Order of the Public Service Commission in Case No. 2016-00060 dated February 29, 2016

KENTUCKY
PUBLIC SERVICE COMMISSION
Aaron D. Greenwell
ACTING EXECUTIVE DIRECTOR
TARIFF BRANCH
&wit?
EFFECTIVE
3/1/2016
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

**COLUMBIA GAS OF KENTUCKY, INC.**

**GAS COST ADJUSTMENT CLAUSE**
**APPLICABLE TO ALL RATE SCHEDULES**
**(Continued)**

(6) The Gas Cost Uncollectible Rate (GCUR) on a dollar-per-Met basis, which is calculated by multiplying the Expected Commodity Gas Cost times the uncollectible accrual rate used to establish rates in Columbia's most recent rate case.

**Billing**

The Gas Cost Adjustment (GCA) shall be the sum of the following components:

GCA = EGC +RA+ ACA +BA+ PBRA + GCUR T,N

The GCA will be added to (or subtracted from) the tariff rates prescribed by the Commission Order on Company's latest rate case and will be included in the tariff rates stated on each applicable rate sheet in this tariff.

**Definitions**

For the purpose of this tariff:

(a) "Average expected cost" is the cost of gas supplies purchased during the latest available twelve month period, including associated transportation charges, storage charges and Take-or-Pay charges, which is determined by the application of suppliers' rates currently in effect, or reasonably expected to be in effect during the quarterly calendar period, less banking and balancing charges, and less the demand costs to be recovered from IS and General Service Delivery Service Customers, divided by the sales volumes for the latest available twelve month period. Where the calculations require the use of volumes used during a given period, and those volumes did not exist for a particular source for the entire period, or Company expects the volumes to change substantially, Company may make appropriate adjustments in its calculations. Any adjustments of this type shall be described in the Quarterly Gas Cost Adjustment report.

(b) "Quarterly calendar period" means each of the four three month periods of (1) September through November, (2) December through February, (3) March through May, and (4) June through August.

(c) "Reporting period" means the three month accounting period that ended approximately thirty (30) da s prior to the filing date of the updated gas recovery rates, i.e. the three months ended June 30 , September 30[1]\ December 31[8]\ and March 31[81]each year.

| | |
|---|---|
| DATE OF ISSUE | April 13, 2015 |
| DATE EFFECTIVE | April 1, 2015 |
| ISSUED BY | ,t. 1 - |
| TITLE | President |

Issued pursuant to an Order of the Public Service Commission
In Case No. 2014-00350 dated March 27, 2015

KENTUCKY
PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN
EXECUTIVE DIRECTOR
TARJFF BRANCH
13.,J -V:.Je...'
EFFECTIVE
**4/1/2015**
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

**GAS COST ADJUSTMENT CLAUSE**
**APPLICABLE TO ALL RATE SCHEDULES**
**(Continued)**

T,N

**Performance Based Rate Adjustment ("PBRA")**

The Performance Based Rate Adjustment (PBRA) shall be calculated annually as follows:

**PBRA = CPS/ PSV**

Where:

**PSV** =Projected Sales Volume in Mcf, as reflected in the Company's GCA filing for the upcoming twelve month period

**CPS** = Company Performance Share

**CPS = TPBR x ASP**

Where:

**TPBR** = Total Performance Based Results. The TPBR shall be savings or expenses created during the twelve month period and shall be calculated as follows:

**TPBR = (GCI + TCI + OSSI)**

**ASP** = Applicable Sharing Percentage

**GCI**

**GCI** = Gas Cost Incentive will measure, on a monthly basis, *the* Company's Actual gas Costs **(AC)** during the twelve month period for system supply natural gas purchases, against a Benchmark Cost **(BC)** during the same period to determine a Performance Value **(PV).**

The monthly **PV** shall be calculated as follows:

**PV = (BC-COLML - AC-COLML) + (BC-COLTCO -AC-COLTCO) + (BC-TGP500 -AC-TGP500)**

Where:

**BC-COLML** is calculated by the following formula:

**BC-COLML = [[1(1) + 1(2) + 1(3))/ 3] x MVCOLML**

Where:

**1(1)** is the average of weekly *Natural Gas Week* posting for Columbia Gulf Mainline as Delivered to Pipeline.

**1(2)** is the average of the daily high and low *Platt's Gas Daily* posting for Columbia Gulf Mainline averaged for the month.

| | |
|---|---|
| DATE OF ISSUE | April 13, 2015 |
| DATE EFFECTIVE | April 1, 2015 |
| ISSUED BY | |
| TITLE | rresIden1 |

Issued pursuant to an Order of the Public Service Commission in Case No. 2014-00350 dated March 27, 2015

KENTUCKY
PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN
EXECUTIVE DIRECTOR
TARIFF BRANCH
Bunt Kirtley
EFFECTIVE
4/1/2015
PURSUANT TO 807 KAR 5 011 SECTION 9 (1)

COLUMBIA GAS OF KENTUCKY, INC.

**GAS COST ADJUSTMENT CLAUSE**
**APPLICABLE TO ALL RATE SCHEDULES**
**(Continued)**

**1(3)** is the Platt's *Inside FERC's Gas Market Report* first-of-the-month index posting (midpoint) for Columbia Gulf Mainline. *N*

**MVCOLML** is the monthly vo umes purchased on the Columbia Gulf Mainline.

**AC-COLML** is the total, actual monthly cost of volumes purchased by Columbia on the Columbia Gulf Mainline.

**BC-COLTCO** is calculated by the following formula:

**BC-COLTCO = ((1(1) + 1(2) + 1(3)]/ 3) x MVCOLTCO**

Where:

**1(1)** is the average of weekly Natural Gas Week posting for Columbia Appalachia as Delivered to Pipeline.

**1(2)** is the average of the daily high and low Platt's Gas Daily posting for Columbia Appalachia averaged for the month.

**1(3)** is the Platt's Inside FERC's Gas Market Report first-of-the-month index posting (midpoint) for Columbia Appalachia.

**MVCOLTCO** is the monthly volumes purchased on the Columbia Gas Transmission Pipeline.

**AC-COLTCO** is the total, actual monthly cost of volumes purchased by Columbia on the Columbia Gas Transmission Pipeline.

**BC-TGP500** is calculated by the following formula:

**BC-TGP500 = [[1(1) + 1(2) + 1(3))/ 3) X MVTGP500**

Where:

**1(1)** is the average of weekly Natural Gas Week posting for Tennessee Gas Pipeline 500 Leg as Delivered to Pipeline.

**1(2)** is the average of the daily high and low Platt's Gas Daily posting for Tennessee Gas Pipeline averaged for the month.

**1(3)** is the Platt's Inside FERC's Gas Market Report first-of-the-month index posting (midpoint) for Tennessee Gas 500 Leg.

**MVTGP500** is the monthly volumes purchased on the Tennessee Gas Pipeline 500 Leg.

**AC-TGP500** is the total, actual monthly cost of volumes purchased by Columbia on the Tennessee Gas Pipeline 500 Leg.

DATE OF ISSUE April 13, 2015

DATE EFFECTIVE April 1, 2015

ISSUED BY I /r- , -

TITLE 'l=>resictent O•

Issued pursuant to an Order of the Public Service Commission in Case No. 2014-00350 dated March 27, 2015

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PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN
EXECUTIVE DIRECTOR
TARIFF BRANCH
Bunt Kirtley
EFFECTIVE
**4/1/2015**
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

## GAS COST ADJUSTMENT CLAUSE
### APPLICABLE TO ALL RATE SCHEDULES
### (Continued)

When the Company's Actual Cost for gas purchased in the month is less than the Benchmark Cost, the result for the month is a positive performance. When the Company's gas purchase costs are greater than the Benchmark Cost, the result for the month is a negative performance. The resulting negative or positive Performance Value (PV) will be shared between the Company and its sales customers pursuant to the GCA calculation. N

If the Company purchases gas at a point not reported in the applicable index publication. The Company will use the next closest index on the applicable pipeline upstream of the purchase point, and add to that index the 100% load factor cost of firm transportation on that pipeline between the index location and the purchase point.

Purchases made at Columbia's own city gate as well as any supply reservation fees are excluded from the GCI process and calculation.

If the index used to develop the Benchmark Cost ceases to exist or ceases to adequately report those prices required in the normal implementation of this GCI, the Company shall choose a suitable replacement index, assuming an acceptable index is available, and immediately report that change in writing to the Commission.

**TCI**

**TCI** = Transportation Cost Incentive. The Transportation Cost Incentive shall be calculated by comparing the annual Total Benchmark Transportation Costs **(TBTC)** of natural gas transportation services during the twelve month period to the annual Total Actual Transportation Costs **(TATC)** during the same period as follows:

**TCI = (TBTC -TATC)**

Where: **TBTC** = Annual sum of monthly **BTC**

**BTC** = Sum l BM (TCO) + BM (TGP) + BM (CKT) + BM (CGT) + BM (PPL) ]

Where: BM (TCO) is the benchmark associated with Columbia Gas Transmission.

BM (TGP) is the benchmark associated with Tennessee Gas Pipeline Company.

BM (CKT) is the benchmark associated with Central Kentucky Transmission.

BM (CGT) is the benchmark associated with Columbia Gulf Transmission.

BM (PPL) is the benchmark associated with a proxy pipeline. This benchmark, which will be determined at the time of purchase, will be used to benchmark purchases of transportation capacity from nontraditional sources.

| | |
|---|---|
| DATE OF ISSUE | April 13, 2015 |
| DATE EFFECTIVE | April 1, 2015 |
| ISSUED BY | r A., • U, |
| TITLE | President |

Issued pursuant to an Order of the Public Service Commission in Case No. 2014-00350 dated March 27, 2015

KENTUCKY
PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN
EXECUTIVE DIRECTOR
TARIFF BRANCH
Bunt Kirtley
EFFECTNE
411/2015
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

**GAS COST ADJUSTMENT CLAUSE**
**APPLICABLE TO ALL RATE SCHEDULES**

**Gas Cost Adjustment Clause - (Continued)**

The benchmark associated with each pipeline shall be calculated as follows:

BM (TCO- SST contract 80160) = ({TPRD/$5.939) x $4.1850 x DQ) **N,T**

BM (TCO all other contracts)= (TPDR x DQ) + (TPCR x AV)+ S&DB **T**

BM {TGP) = $4.5835 x DQ **T**

BM (CKT) = {TPDR x DQ) + (TPCR x AV) + S&DB

BM (CGT) = (TPDR x DQ) + (TPCR x AV)+ S&DB

BM (PPL)= (TPDR x DQ) + (TPCR x AV)+ S&DB

Where:

**TPDR** is the applicable Tariffed Pipeline Demand Rate.

**DQ** is the Demand Quantities contracted for by the Company from the applicable transportation provider.

**TPCR** is the applicable Tariffed Pipeline Commodity Rate.

**AV** is the Actual Volumes delivered at Company's city gate by the applicable transportation provider for the month.

**S&DB** represents Surcharges, Direct Bills and other applicable charges approved by the Federal Energy Regulatory Commission (FERC).

The Total Actual Transportation Costs (TATC) paid by Company for the period shall include both pipeline demand and volumetric costs associated with natural gas pipeline transportation services as well as all applicable FERC approved surcharges, direct bills included in S&DB, less actual capacity release credits. Such costs shall exclude labor related or other expenses typically classified as operating and maintenance expenses. Should one of the Company's pipeline transporters file a rate change effective during any period and bill such proposed rates subject to refund, the period over which the benchmark comparison is made for the relevant transportation costs will be extended for one or more 12 month periods, until the FERC has approved final settled rates, which will be used as the appropriate benchmark. Company will not share in any of the savings or expenses related to the *affected* pipeline until final settled rates are approved.

**OSSI**

**OSSI** = Off-system Sales Incentive. The OSSI shall be equal to the revenues net of costs from off-system sales (other than those revenues generated by operational sales).

Results of operation sales, administrative capacity releases and Rate Schedule SVAS capacity assignments will be credited 100% to gas cost.

| | |
|---|---|
| DATE OF ISSUE | October 5, 2020 |
| DATE EFFECTIVE | July 24, 2020 |
| ISSUED BY | /s/ Kimra H. Cole |
| TITLE | President and Chief Operating Officer |

Issued pursuant to an Order of the Public Service Commission in Case No. 2017-00453 dated July 24, 2020

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PUBLIC SERVICE COMMISSION
Linda C. Bridwell
Executive Director
c/t.:Lt
EFFECTIVE
7/24/2020
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

**GAS COST ADJUSTMENT CLAUSE**
**APPLICABLE TO ALL RATE SCHEDULES**
**(Continued)**

**ASP**

**ASP** = Applicable Sharing Percentage. The ASP shall be determined based on the Percentage of Actual gas costs **(PAC).**

Where:

**PAC = TPBR / AGC**

Where:

**AGC** = Actual Gas Costs. AGC is the sum of the actual gas costs used in determination of the **GCI** and **TCI.**

If the absolute value of PAC is less than or equal to 4.5%, then the ASP of 30% shall be applied to the **T**
total savings or expenses of the TPBR. If the absolute value of the PAC is greater than 4.5%, then the **T**
ASP of 30% shall be applied to the amount of the sum of the TPBR that is equal to 4.5% of AGC to **T**
determine that portion of the total savings or expense, and the ASP of 50% shall be applied to the sum of
the TPBR that is in excess of 4.5% of AGC to determine that portion of the total savings or expense. **T**

**Delivery Service**

FERC approved direct billed pipeline supplier charges relating to the buyout of Take-or-Pay liabilities will be billed to Delivery Service Fixed Rate Volumes.

**Banking and Balancing Service**

This rate is based on the percentage of the portion of storage capacity allocated to Delivery Service Customers to Company's total annual storage capacity, applied to:

(1) Columbia Transmission's FSS seasonal capacity charge, annualized,

(2) Columbia Transmission's SST commodity charge, and

(3) Columbia Transmission's FSS injection and withdrawal charges as calculated in the Gas Cost Adjustment.

**Interim Gas Cost Adjustments**

Should any significant change in supplier rates occur, Company may apply to the Commission for an Interim Gas Cost Adjustment Clause in addition to the regular quarterly Gas Cost Adjustment Clause filings.

| | |
|---|---|
| DATE OF ISSUE | June 19, 2023 |
| DATE EFFECTIVE | June 6. 2022 |
| ISSUED BY | /s/ Kimra H. Cole |
| TITLE | President and Chief Operating Officer |

Issued pursuant to an Order of the Public Service Commission in Case No. 2020-00378 dated June 6, 2022

KENTUCKY
PUBLIC SERVICE COMMISSION

**Linda C. Bridwell**
Executive Director

EFFECTIVE
**6/6/2023**
PURSUANT TO 807 KARS:011 SECTION 9 (1)

**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 | ) | Case No. 2024-00012 |
| INCENTIVE ADJUSTMENT PERFORMANCE BASED RATE | ) | |
| MECHANISM. | ) | |

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**PREPARED DIRECT TESTIMONY OF**
**PATRICK PLUARD**
**ON BEHALF OF COLUMBIA GAS OF KENTUCKY, INC.**

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Attorneys for
**COLUMBIA GAS OF KENTUCKY, INC.**


March 7, 2024

**COMMONWEALTH OF KENTUCKY**

**BEFORE THE PUBLIC SERVICE COMMISSION**

| | | |
|---|---|---|
| In the Matter of: | ) | |
| | ) | |
| ELECTRONIC APPLICATION OF COLUMBIA | ) | |
| GAS OF KENTUCKY, INC. TO EXTEND ITS GAS | ) | Case No. 2024-00012 |
| COST INCENTIVE ADJUSTMENT | ) | |
| PERFORMANCE BASED RATE MECHANISM | ) | |

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**VERIFICATION OF PATRICK PLUARD**

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STATE OF INDIANA )
)
COUNTY OF LAKE )

Patrick Pluard, Director of Portfolio Optimization for NiSource Corporate Services Company, on behalf of Columbia Gas of Kentucky, Inc., being duly sworn, states that he has supervised the preparation of testimony in the above-referenced case and that the matters and things set forth therein are true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.

Patrick J. Pluard

Patrick J. Pluard

The foregoing Verification was signed, acknowledged and sworn to before me this 8th day of March, 2024, by Patrick Pluard.

Christopher Rickard
Notary Public, State of Ohio
My Commission Expires 07-14-2026

Notary Commission No. N/A

Commission expiration: 7-14-26

**PREPARED DIRECT TESTIMONY OF PATRICK PLUARD**

**Q: Please state your name, business address and title.**

A: My name is Patrick Pluard, my business address is 1500 $165^{th}$ street, Hammond IN, 46320. My title is Director of Portfolio Optimization within the Energy Supply and Optimization group for NiSource.

**Q: Please describe your education and employment background.**

A: I attended Purdue University where I graduated with a Bachelor of Science Degree in Marketing in 1994 and a master's degree in business administration in 2000. I have worked at NiSource for 19-years. I began my employment with NIPSCO, a NiSource company, in 2004 as a Real Time Energy Trader. In 2008 I transferred to operations as a Generation System Supervisor and in 2011, was promoted to Manager of Day Ahead Asset Optimization. I was promoted to my current role, Director of Portfolio Optimization, in March 2013.

**Q: What are your responsibilities as Director of Portfolio Optimization?**

A: As Director of Portfolio Optimization, I lead various groups that are the market interface for NiSource's gas and electric customers. My group is responsible for the procurement of natural gas for NiSource's six local distribution companies, which includes Columbia Gas of Kentucky ("Columbia" or "Company"). The group utilizes transportation and storage assets to provide a safe and reliable gas supply to customers of NiSource local distribution companies.

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

A: No.

**Q: Have you testified for other utilities?**

A: Yes, I have testified for Columbia Gas of Pennsylvania as well as NIPSCO's gas and electric utilities. My testimony focused on natural gas procurement and electric generation fuel strategies, including sustainability strategies associated with NIPSCO's Green Power Program.

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

A: The purpose of my testimony is to provide information to support the continuation of the Gas Cost Adjustment Performance Based Rate ("PBR") mechanism for Columbia.

**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) a 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. 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 maximum rates approved by the Federal Energy Regulatory Commission ("FERC"). The TCI also captures 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. The original term approved in Case No. 2014-00350 was April 1, 2015, through March 31, 2018.

In Case No. 2017-00453, Columbia requested to extend its PBR without any changes, through March 31, 2023. The Commission modified Columbia's PBR mechanism and approved its continuation through March 31, 2021. Specifically, the Commission altered the calculation of Columbia's TCI component by re-establishing the benchmarks for two discounted pipeline contracts.

In Case No. 2020-00378, the Commission authorized the continuation of Columbia's PBR mechanism through March 31, 2024, with a required modification to the two-tier cost sharing calculation. The change adjusted the sharing band from 2% to 4.5% of Columbia's actual gas costs such that variances ranging from 0 to 4.5% are shared 70% to customers and 30% to shareholders and variances greater than 4.5% are shared 50/50.

**Q: Does the PBR mechanism impact Columbia's portfolio management?**

**A:** Yes. With or without the PBR, Columbia acts to secure and maintain reliability of supply for the benefit of its customers at a just and reasonable cost. With the PBR, Columbia is incented to aggressively seek and achieve incremental benefits that produce gas cost savings for customers while maintaining reliability of supply. These incremental benefits could be missed without the PBR as several products in the PBR are available to other affiliates. All else being equal, rational economic and fiscally responsible behavior would seek to accomplish the transaction in the environment that provides the greatest opportunity between alternatives. Thus, the PBR is an effective mechanism that aligns the Company's efforts with the customer's interest by driving cost saving opportunities to Columbia's customers.

**Q: What is Columbia's current obligation in purchasing natural gas supplies and pipeline transportation services?**

A: Under the gas cost adjustment ('GCA") mechanism, the Commission reviews Columbia's GCA to ensure the rates charged thereunder are just and reasonable and Columbia's purchasing practices are not imprudent.[1] The PBR mechanism, however, provides additional incentive for the Company to continually evaluate the market for opportunities to lower costs without any additional supply reliability risk to customers. Thus, the PBR is an effective mechanism that aligns the Company's efforts with customers' interests and customers are better off with the PBR than without it. The program also provides a means to compare regulatory activity to competitive market activity as it contains rules and benchmarks that provide inherent and efficient ongoing oversight.

[1] KRS 278.274(1).

**Q: Does the PBR mechanism produce any possible financial risks to CKY? Are there potential financial downsides for Columbia related to its PBR mechanism?**

**A:** Yes. The current PBR structure is a sharing mechanism whereas the company not only is rewarded for aggressive and prudent documented results, but shares the risks associated with unexpected weather events, forecast error, and incorrect market decisions that would otherwise be fully born by the customer absent such a mechanism. Under the PBR mechanism, Columbia is not merely just incentivized but is forced to compete in earnest for lower gas costs.

**Q: Please provide the customer savings Columbia has been able to achieve since the last renewal of the program.**

**A:** Total PBR customer share of savings for program year 2020/2021 was $2,556,055, for program year 2021/2022 was $3,826,981, and for program year 2022/2023 was $6,491,820. Please see Attachment A to my testimony for an evaluation of the performance of the PBR during each of the following past years.

**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 Columbia, and I recommend continuing 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 assets and pursues sales opportunities under this mechanism to create value for customers and Columbia. I recommend continuing the OSSI in its current form.

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

**A:** Columbia does not propose any change to the TCI benchmark calculation

**Q:** **Please provide an overview of the current interstate pipeline transportation market.**

**A:** Overall demand for natural gas has changed greatly from what it was when the discounted contracts were signed. LNG exports have increased and are expected to increase in the future. Electric generation has become more natural gas dependent as the electric industry transitions from coal to fuel sources such as gas-fired power generation and renewable energy. Supply sources have also changed from traditional Gulf sources to shale rich areas more inland and northernly located. Given the increased supply in the north in conjunction with the increase demand in the south, particularly to satisfy LNG exporters, directional flows have shifted from the traditional south to north with more supplies flowing south. The result of these market and supply changes is an overall increase in demand for transport. Also, to be more reliable and compliant with federal regulations, interstate pipelines are pursuing cost recovery for system upgrades, making discounted contracts for shippers more difficult to justify and ratemaking more cumbersome. Given all these factors, Columbia believes significant future discounts will be unlikely, if any discount at all.

**Q:** **Does Columbia intend to pursue discounted contracts in the future?**

**A:** Columbia will continue to pursue contracts that are in the best interest of customers, including discounted contracts. However, for the reasons explained above, I believe interstate pipelines are going to be unwilling to continue the past practice of discounted contracts.

**Q: Overall, why is Columbia recommending continuing the PBR in its current form with no modification?**

**A:** Incentive programs such as CKY's PBR mechanism that reward good stewardship of assets along with standard benchmarking of purchase activity appropriately incentivize Columbia to outperform the established benchmarks. Approval of the proposed PBR extension would continue to provide an appropriate sharing of benefits to customers and Columbia.

**Q: Does this complete your Prepared Direct testimony?**

**A:** Yes, but I reserve the right to file rebuttal or other testimony to support the proposed PBR mechanism.

Attachment A

| **Year** | **GCI Savings** | **TCI Savings** | **OSSI Savings** | **Total Savings** | **Total Actual Costs** | **Percentage** |
|---|---|---|---|---|---|---|
| 20/21 | $ 545,470 | $ 2,883,987 | $1,369,024 | $ 4,798,481 | $ 40,940,277 | 11.72% |
| 21/22 | $ 617,600 | $ 5,843,431 | $ 638,630 | $ 7,099,661 | $ 69,287,589 | 10.25% |
| 22/23 | $ 1,160,764 | $ 7,763,810 | $2,504,569 | $ 11,429,144 | $ 108,409,320 | 10.54% |
| Apr 23 - O | $ 156,632 | $ 3,651,005 | $1,369,584 | $ 5,177,221 | $ 25,263,955 | 20.49% |

Year = program year Apr - Mar

# EXHIBIT B

**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. 2024- 00012 |
| 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 Gas Cost Adjustment Performance Based Rate ("PBR") mechanism.

Columbia's current authority for its PBR extends through March 31, 2024. Consistent with Commission precedent,[1] if the Commission's processing of this case will extend past March 31, 2024, Columbia respectfully requests the Commission issue an interim Order continuing Columbia's PBR current authority, with no change to the PBR calculation, until the Commission issues its Order addressing the extension of Columbia's PBR. Such an Order would be reasonable to ensure the continuity of the PBR during the

[1] Case No. 2020-00378, "Application of Columbia Gas of Kentucky, Inc. to Extend its Gas Cost Adjustment Performance Based Rate Mechanism", Order at 1 dated January 27, 2021.

pendency of this case, and would continue to additionally incent Columbia to steadfastly evaluate the market for opportunities to lower costs.

~~Moreover, Columbia respectfully requests, at the latest, a final order addressing Columbia's proposed Application by October 31, 2024. Columbia's contract with Tennessee Gas Pipeline expires on October 31, 2024 and Columbia's tariff needs to adjust to recognize an expiration of that contract.~~

In support of this Application, Columbia submits the testimony of Patrick Pluard and Judy Cooper. 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 October 25, 2013 Order in Case No. 2012-00593, 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, in Case No. 2017-00453, Columbia requested an extension of its PBR mechanism for an additional 5 years. 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 applied on the date of the Order to reflect increases in the FERC approved rates. Columbia filed a 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.

3. In Case No. 2020-00378, the Commission authorized a three-year extension of Columbia's then-existing PBR mechanism. The Commission approved, with modification, continuation of the PBR mechanism through March 31, 2024. The Commission modified Columbia's PBR to change the gas cost sharing calculation. Specifically, the Commission ordered a change in the sharing band from 2 percent to 4.5 percent. So that variances from 0 to 4.5 percent of Columbia's Actual Gas Costs are shared 70 percent to ratepayers and 30 percent to shareholders, with sharing thereafter allocated 50/50 between Columbia and its customers.[2]

[2] Case No. 2020-00378, "Application of Columbia Gas of Kentucky, Inc. to Extend its Gas Cost Adjustment Performance Based Rate Mechanism", Order dated June 6, 2022.

4. Columbia files the instant application requesting a ~~five~~ three-year renewal of its PBR mechanism, in the same form as approved by the Commission's June 6, 2022 Order, through March 31, ~~2029~~ 2027~~, with a provision to address the expiring term of the current negotiated discounts~~. Columbia will continue to annually report its PBR activity.

5. As more fully explained by witnesses Pluard 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 0-4.5% shared 70/30 in favor of the customers and savings over 4.5% 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.

~~6.~~ 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 maximum rates approved by the Federal Energy Regulatory Commission ("FERC"). The TCI also captures 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. ~~As described by witness Pluard, Columbia proposes to modify the TCI to acknowledge the changing marketplace and expiration of the existing contract discounts which were replacement benchmarks to the FERC approved rates in Case No. 2017-00453.~~

7. 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 would 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.

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

Dated at Columbus, Ohio, this ~~31st~~ day of ~~January~~ 2024.

Respectfully submitted,

**COLUMBIA GAS OF KENTUCKY, INC.**

By: /s/ Joseph M. Clark__________

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Attorneys for
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**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. 2024-00012 |
| CENTIVE ADJUSTMENT PERFORMANCE BASED RATE | ) | |
| MECHANISM. | ) | |

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**PREPARED DIRECT TESTIMONY OF**
**JUDY M. COOPER**
**ON BEHALF OF COLUMBIA GAS OF KENTUCKY, INC**.

---

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Attorneys for Applicant
**COLUMBIA GAS OF KENTUCKY, INC.**

**JANUARY 31, 2024**

**PREPARED DIRECT TESTIMONY OF JUDY M. COOPER**

**Q: Please state your name and business address.**

A: My name is Judy M. Cooper and my business address is Columbia Gas of Kentucky, Inc., 2001 Mercer Road, Lexington, Kentucky, 40511.

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

A: I am the Director of Government and Regulatory Affairs for Columbia Gas of Kentucky, Inc. ("Columbia"). I am responsible for the management of Columbia's regulatory policy, tariffs, and filings with the Commission. I am also responsible for Columbia's local government and state government affairs including franchises, and monitoring legislation.

**Q: What is your educational background?**

**A.** I am a graduate of the University of Kentucky where I received a Bachelor of Science Degree in Accounting in 1982. I also received a Master in Business Administration from Xavier University in 1985.

**Q: What is your employment history?**

A: I was employed by the Kentucky Public Service Commission ("Commission") as an auditor in 1982. Subsequently, I served as Rate Analyst, Energy Policy Advisor, Branch Manager of Electric and Gas Rate Design, and Director of Rates, Tariffs and Financial Analysis at the Commission. In July of 1998 I joined Columbia as Manager of Regulatory Services. My job title has since been revised and expanded to that of Director, Government and Regulatory Affairs.

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

A: Yes, I have testified before the Kentucky Public Service Commission ("Commission") in several cases for Columbia: Case No. 2002-00117, "The Filing by Columbia Gas of Kentucky, Inc. to Require that Marketers in the Small Volume Gas Transportation Program be Required to Accept a Mandatory Assignment of Capacity";, Case No. 2007-00008, "In the Matter of Adjustment of Rates of Columbia Gas of Kentucky, Inc."; Case No. 2009-00141, "In the Matter of an Adjustment of Rates of Columbia Gas of Kentucky, Inc."; Case No. 2010-00146, "An Investigation of Natural Gas Retail Competition Programs"; Case No. 2013-00167, " In the Matter of Application of Columbia Gas of Kentucky, Inc. for an Adjustment of Rates for Gas Service"; Case No. 2016-00162, "In the Matter of Application of Columbia Gas of Kentucky, Inc. for an Adjustment of Rates"; Case No. 2017-00453, "In the Matter of the Application of Columbia Gas of Kentucky, Inc. to Extend its Gas Cost Incentive Adjustment Performance Based Rate Mechanism"; and Case No. 2019-00257, "The Electronic Application of Columbia Gas of Kentucky, Inc. for: 1) A Declaration that Construction of a Low Pressure System Safety Improvement is an Extension of its System in the Ordinary Course of Business; 2) In the Alternative, for the Issuance of a Certificate of Public Convenience and Necessity for Such Construction; 3) Approval of an Amendment and Expansion of its Accelerated Main Replacement Tariff to its Safety Modification and Replacement Tariff; and 4) Approval to Modify the 2019 AMRP Construction Plan; Case No. 2020-00378, "In the Matter of Electronic Application of Columbia Gas of Kentucky, Inc. to Extend its Gas Cost Incentive Adjustment Performance Based Rate Making Mechanism"; Case No. 2021-00183, " In the Matter of Electronic Application of Columbia Gas of Kentucky, Inc. for an Adjustment of Rates; Approval of Depreciation Study; Approval of Tariff Revisions; Issuance of a Certificate of Public Convenience and Necessity; and Other Relief"; Case No. 2021-00386, " In the Matter of Electronic Tariff Filing of Columbia Gas of Kentucky, Inc. to Extend Its Small Volume Gas Transportation Service"; and Case No. 2022-00049, "In the Matter of Electronic Application of Columbia Gas of Kentucky, Inc. for Approval of the Green Path Rider Pilot Program".

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

A: The purpose of my testimony is to provide information on the history of Columbia's Performance Based Rate ("PBR") Mechanism, as most recently authorized by the Commission's Order dated June 6, 2022 in Case No. 2020-00378. I will also describe Columbia's tariff that details the PBR Mechanism.

**Q: Please describe the Company's PBR Mechanism.**

*A:* Columbia's PBR Mechanism is comprised of three components: (1) a monthly Gas Cost Incentive ("GCI"); (2) an Off-System Sales Incentive ("OSSI"); and (3) a Transportation Cost Incentive ("TCI"*)*. The PBR was first approved in Case No. 2014-00350[1] for a period of three years through March 31, 2018. In Case No. 2017-00453[2] Columbia sought to extend its PBR through March 31, 2023. On March 27, 2018, the Commission or-

[1] Case No. 2014-00350, "Application of Columbia Gas of Kentucky, Inc., to Consolidate and Convert its Gas Cost Incentive Mechanism and its Off-System Sales and Capacity Release Revenue Sharing Mechanism into a Performance-Based Rate Mechanism", Order dated March 27, 2015.

[2] Case No. 2017-00453, "Application of Columbia Gas of Kentucky, Inc. to Extend its Gas Cost Adjustment Performance Based Rate Mechanism" filed November 30, 2017.

dered continued use of Columbia's then current PBR mechanism until the Commission issued a Final Order addressing Columbia's request for a five-year extension. The Final Order was issued on October 22, 2019 denying Columbia's requested extension and modifying the PBR mechanism. Columbia sought and was granted rehearing by the Commission. Subsequently, on July 24, 2020 the Commission issued its Order on Rehearing establishing the design of Columbia's current PBR mechanism. On June 6, 2022, in Case No. 2020-00378,[3] the Commission approved another extension of Columbia's PBR through March 31, 2024, with modifications to the sharing percentages.

**Q. Why does Columbia have a PBR Mechanism?**

A: Columbia has a PBR mechanism as a voluntary ratemaking adjustment, authorized and approved by the Commission, to optimize its supply portfolio by undertaking incremental risk and efforts that have the potential to lower gas cost as compared to competitive benchmarks or otherwise applicable approved rates of the Federal Energy Regulatory Commission {"FERC"}. The performance results of the incentive are shared between

[3] Case No. 2020-00378, "Electronic Application of Columbia Gas of Kentucky, Inc., to Extend its Gas Cost Incentive Adjustment Performance Based Rate Making Mechanism", Order dated June 6, 2022.

customers and Columbia shareholders to create a mutual benefit for both parties. Columbia witness Pluard goes into greater detail in his testimony.

Q: **Has the Commission encouraged performance-based ratemaking by utilities subject to its jurisdiction?**

*A:* Yes, in Administrative Case No. 384 following a period that saw significant cost increases in natural gas and concern as to the reliability of supply, the Commission undertook a comprehensive review of the natural gas procurement practices of large local distribution companies ("LDCs") subject to its jurisdiction. The Commission determined that the LDCs had developed sound planning and procurement procedures for meeting the natural gas requirements of customers with reliability of supply at reasonable costs over the period of time since natural gas prices were deregulated. While natural gas commodity prices are deregulated, the services for delivery of natural gas from production fields and processing plants are largely provided by interstate natural gas pipeline companies and remain subject to regulation. The FERC is the federal government agency charged with regulatory oversight and approval of the services, rates and tariffs of interstate pipelines. The FERC is lawfully bound to establish the fair, just and reasonable rates and services of the interstate pipelines subject to its regulatory jurisdiction. However, it has sometimes been possible to deviate from the rates found to be fair, just and reasonable by the FERC. In its Order of July 17, 2001[4] the Commission encouraged LDCs to consider innovative approaches, such as PBRs, as a means of improving gas procurement performance to mitigate higher gas prices, price volatility and lessen the impact on customers while ensuring that LDCs are able to recover all reasonable levels of gas costs.

**Q: How long does Columbia propose that the PBR should be continued?**

**A:** Columbia recommends that the PBR should be authorized to continue for a period of ~~five~~three years through March 31, ~~2029~~2027. If the Commission's processing of this case will extend past March 31, 2024, Columbia respectfully requests the Commission issue an interim Order continuing Columbia's PBR current authority, with no change to the PBR calculation, until the Commission issues its Final Order addressing the extension of Columbia's PBR. ~~Moreover, Columbia respectfully requests, at the latest, a final order addressing Columbia's proposed Application by October 31, 2024. Columbia's contract with Tennessee Gas Pipeline expires on October 31, 2024~~

[4] Administrative Case No. 384, "An Investigation of Increasing Wholesale Natural Gas Prices and the Impacts of Such Increases on the Retail Customers Served by Kentucky's Jurisdictional Natural Gas Distribution Companies".

~~and Columbia's tariff needs to adjust to recognize the expiration of that contract.~~

**Q: Does Columbia propose any modifications to its tariff?**

A: Columbia's tariff setting out the PBR adjustment mechanism is attached as Attachment A to my testimony. The specific details of the PBR mechanism are contained in Columbia's Gas Cost Adjustment Clause on Sheets 48 through 50d, (highlighting added). Columbia does not propose any changes to its current tariff~~ at this time~~. ~~Columbia expects to make subsequent compliance filings upon expiration of the existing discounted contracts of Tennessee Gas Pipeline Company and Columbia Gas Transmission Corp. as explained in Mr. Pluard's testimony~~.

**Q: Does this complete your Prepared Direct testimony?**

A: Yes, but I reserve the right to file rebuttal or other testimony to support the proposed PBR mechanism.

## GAS COST ADJUSTMENT CLAUSE
## APPLICABLE TO ALL RATE SCHEDULES

**Determination of Gas Cost Adjustment (GCA)**

Company shall file a quarterly report with the Commission which shall contain an updated Gas Cost Adjustment (GCA) Rate and shall be filed at least thirty (30) days prior to the beginning of each quarterly calendar period. The GCA shall become effective for billing with the final meter readings of the first billing cycle of each quarterly calendar period.

The gas cost adjustment is comprised of:

(1) The Expected Gas Cost Component (EGC), on a dollar-per-Mcf basis, is made up of two components: (a) Expected Commodity Gas Cost which applies to Rate Schedules GS, IS, and IUS, and represents the average expected commodity cost of gas supplied, and (b) Expected Demand Gas Cost which applies to Rate Schedules GS,IUS and SVAS, and represents the average expected demand cost of gas supplied, excluding the Standby Service demand costs to be recovered from IS Customers and General Service Delivery Service Customers. The Commodity Gas Cost component of the EGC includes the remainder of any net cost and benefits of previously authorized hedging activities.

(2) The supplier Refund Adjustment (RA), on a dollar-per-Mcf basis, which reflects refunds received during the reporting period plus interest at a rate equal to the average of the "three month commercial paper rate" for the immediately preceding twelve month period. In the event of any large or unusual refunds, Company may apply to the Commission for the right to depart from the refund procedure herein set forth.

(3) The Actual Cost Adjustment (ACA), on a dollar-per-Mcf basis, which compensates for any previous over or undercollections of gas costs experienced by the company through the operation of this gas cost recovery procedure. The ACA shall be filed quarterly beginning with Company's application for its June 2016 billing cycle, with the ACA factor to be in effect for twelve months. T

(4) The Balancing Adjustment (BA), on a dollar-per-Mcf basis, which compensates for any under or overcollections which have occurred as a result of prior adjustments. The BA shall be filed quarterly beginning with Company's application for its June 2016 billing cycle, with the BA factor to be in effect for three months. N

(5) The Performance Based Rate Adjustment (PBRA), on a dollar-per-Mcf basis, which is calculated annually based on the prior twelve month period ending March 31, with the PBRA factor to be in effect for twelve months beginning June 1st each year.

NOTE: All adjustments will be assigned to the Expected Demand Gas Cost or Expected Commodity Gas Cost components.

DATE OF ISSUE March 31, 2016

DATE EFFECTIVE April 29, 2016

ISSUED BY /s/ Herbert A. Miller, Jr.
TITLE President

Issued pursuant to an Order of the Public Service Commission in Case No. 2016-00060 dated February 29, 2016

KENTUCKY
PUBLIC SERVICE COMMISSION
Aaron D. Greenwell
ACTING EXECUTIVE DIRECTOR
TARIFF BRANCH
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EFFECTIVE
3/1/2016
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

## GAS COST ADJUSTMENT CLAUSE
## APPLICABLE TO ALL RATE SCHEDULES
**(Continued)**

(6) The Gas Cost Uncollectible Rate (GCUR) on a dollar-per-Met basis, which is calculated by multiplying the Expected Commodity Gas Cost times the uncollectible accrual rate used to establish rates in Columbia's most recent rate case.

**Billing**

The Gas Cost Adjustment (GCA) shall be the sum of the following components:

GCA = EGC +RA+ ACA +BA+ PBRA + GCUR T,N

The GCA will be added to (or subtracted from) the tariff rates prescribed by the Commission Order on Company's latest rate case and will be included in the tariff rates stated on each applicable rate sheet in this tariff.

**Definitions**

For the purpose of this tariff:

(a) "Average expected cost" is the cost of gas supplies purchased during the latest available twelve month period, including associated transportation charges, storage charges and Take-or-Pay charges, which is determined by the application of suppliers' rates currently in effect, or reasonably expected to be in effect during the quarterly calendar period, less banking and balancing charges, and less the demand costs to be recovered from IS and General Service Delivery Service Customers, divided by the sales volumes for the latest available twelve month period. Where the calculations require the use of volumes used during a given period, and those volumes did not exist for a particular source for the entire period, or Company expects the volumes to change substantially, Company may make appropriate adjustments in its calculations. Any adjustments of this type shall be described in the Quarterly Gas Cost Adjustment report.

(b) "Quarterly calendar period" means each of the four three month periods of (1) September through November, (2) December through February, (3) March through May, and (4) June through August.

(c) "Reporting period" means the three month accounting period that ended approximately thirty (30) da s prior to the filing date of the updated gas recovery rates, i.e. the three months ended June 30 , September 30[1]\ December 31[8]\ and March 31[81]each year.

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|---|---|
| DATE OF ISSUE | April 13, 2015 |
| DATE EFFECTIVE | April 1, 2015 |
| ISSUED BY | ,t. 1 - |
| TITLE | President |

Issued pursuant to an Order of the Public Service Commission
In Case No. 2014-00350 dated March 27, 2015

KENTUCKY
PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN
EXECUTIVE DIRECTOR
TARJFF BRANCH
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EFFECTIVE
4/1/2015
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

**COLUMBIA GAS OF KENTUCKY, INC.**

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**GAS COST ADJUSTMENT CLAUSE**
**APPLICABLE TO ALL RATE SCHEDULES**
**(Continued)**

**Performance Based Rate Adjustment ("PBRA")** T,N

The Performance Based Rate Adjustment (PBRA) shall be calculated annually as follows:

**PBRA = CPS/ PSV**

Where:

**PSV** =Projected Sales Volume in Mcf, as reflected in the Company's GCA filing for the upcoming twelve month period

**CPS** = Company Performance Share

**CPS = TPBR x ASP**

Where:

**TPBR** = Total Performance Based Results. The TPBR shall be savings or expenses created during the twelve month period and shall be calculated as follows:

**TPBR = (GCI + TCI + OSSI)**

**ASP** = Applicable Sharing Percentage

**GCI**

**GCI** = Gas Cost Incentive will measure, on a monthly basis, *the* Company's Actual gas Costs **(AC)** during the twelve month period for system supply natural gas purchases, against a Benchmark Cost **(BC)** during the same period to determine a Performance Value **(PV).**

The monthly **PV** shall be calculated as follows:

**PV = (BC-COLML - AC-COLML) + (BC-COLTCO -AC-COLTCO) + (BC-TGP500 -AC-TGP500)**

Where:

**BC-COLML** is calculated by the following formula:

**BC-COLML = [[1(1) + 1(2) + 1(3))/ 3] x MVCOLML**

Where:

**1(1)** is the average of weekly *Natural Gas Week* posting for Columbia Gulf Mainline as Delivered to Pipeline.

**1(2)** is the average of the daily high and low *Platt's Gas Daily* posting for Columbia Gulf Mainline averaged for the month.

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| DATE OF ISSUE | April 13, 2015 |
| DATE EFFECTIVE | April 1, 2015 |
| ISSUED BY<br>TITLE | rresIden1 |

Issued pursuant to an Order of the Public Service Commission in Case No. 2014-00350 dated March 27, 2015

KENTUCKY
PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN
EXECUTIVE DIRECTOR
TARIFF BRANCH
Bunt Kirtley
EFFECTIVE
4/1/2015
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

## GAS COST ADJUSTMENT CLAUSE
## APPLICABLE TO ALL RATE SCHEDULES
**(Continued)**

**1(3)** is the Platt's *Inside FERC's Gas Market Report* first-of-the-month index posting (midpoint) for Columbia Gulf Mainline. *N*

**MVCOLML** is the monthly vo umes purchased on the Columbia Gulf Mainline.

**AC-COLML** is the total, actual monthly cost of volumes purchased by Columbia on the Columbia Gulf Mainline.

**BC-COLTCO** is calculated by the following formula:

**BC-COLTCO = ((1(1) + 1(2) + 1(3)]/ 3) x MVCOLTCO**

Where:

**1(1)** is the average of weekly Natural Gas Week posting for Columbia Appalachia as Delivered to Pipeline.

**1(2)** is the average of the daily high and low Platt's Gas Daily posting for Columbia Appalachia averaged for the month.

**1(3)** is the Platt's Inside FERC's Gas Market Report first-of-the-month index posting (midpoint) for Columbia Appalachia.

**MVCOLTCO** is the monthly volumes purchased on the Columbia Gas Transmission Pipeline.

**AC-COLTCO** is the total, actual monthly cost of volumes purchased by Columbia on the Columbia Gas Transmission Pipeline.

**BC-TGP500** is calculated by the following formula:

**BC-TGP500 = [[1(1) + 1(2) + 1(3))/ 3) X MVTGP500**

Where:

**1(1)** is the average of weekly Natural Gas Week posting for Tennessee Gas Pipeline 500 Leg as Delivered to Pipeline.

**1(2)** is the average of the daily high and low Platt's Gas Daily posting for Tennessee Gas Pipeline averaged for the month.

**1(3)** is the Platt's Inside FERC's Gas Market Report first-of-the-month index posting (midpoint) for Tennessee Gas 500 Leg.

**MVTGP500** is the monthly volumes purchased on the Tennessee Gas Pipeline 500 Leg.

**AC-TGP500** is the total, actual monthly cost of volumes purchased by Columbia on the Tennessee Gas Pipeline 500 Leg.

DATE OF ISSUE April 13, 2015

DATE EFFECTIVE April 1, 2015

ISSUED BY I /r- , -

TITLE 'l=>resictent O•

Issued pursuant to an Order of the Public Service Commission in Case No. 2014-00350 dated March 27, 2015

KENTUCKY
PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN
EXECUTIVE DIRECTOR
TARIFF BRANCH
Bunt Kirtley
EFFECTIVE
4/1/2015
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

**COLUMBIA GAS OF KENTUCKY, INC.**

**GAS COST ADJUSTMENT CLAUSE**
**APPLICABLE TO ALL RATE SCHEDULES**
**(Continued)**

When the Company's Actual Cost for gas purchased in the month is less than the Benchmark Cost, the result for the month is a positive performance. When the Company's gas purchase costs are greater than the Benchmark Cost, the result for the month is a negative performance. The resulting negative or positive Performance Value (PV) will be shared between the Company and its sales customers pursuant to the GCA calculation. **N**

If the Company purchases gas at a point not reported in the applicable index publication. The Company will use the next closest index on the applicable pipeline upstream of the purchase point, and add to that index the 100% load factor cost of firm transportation on that pipeline between the index location and the purchase point.

Purchases made at Columbia's own city gate as well as any supply reservation fees are excluded from the GCI process and calculation.

If the index used to develop the Benchmark Cost ceases to exist or ceases to adequately report those prices required in the normal implementation of this GCI, the Company shall choose a suitable replacement index, assuming an acceptable index is available, and immediately report that change in writing to the Commission.

**TCI**

**TCI** = Transportation Cost Incentive. The Transportation Cost Incentive shall be calculated by comparing the annual Total Benchmark Transportation Costs **(TBTC)** of natural gas transportation services during the twelve month period to the annual Total Actual Transportation Costs **(TATC)** during the same period as follows:

**TCI = (TBTC -TATC)**

Where: **TBTC** = Annual sum of monthly **BTC**

**BTC** = Sum [ BM (TCO) + BM (TGP) + BM (CKT) + BM (CGT) + BM (PPL) ]

Where: BM (TCO) is the benchmark associated with Columbia Gas Transmission.

BM (TGP) is the benchmark associated with Tennessee Gas Pipeline Company.

BM (CKT) is the benchmark associated with Central Kentucky Transmission.

BM (CGT) is the benchmark associated with Columbia Gulf Transmission.

BM (PPL) is the benchmark associated with a proxy pipeline. This benchmark, which will be determined at the time of purchase, will be used to benchmark purchases of transportation capacity from nontraditional sources.

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| DATE OF ISSUE | April 13, 2015 |
| DATE EFFECTIVE | April 1, 2015 |
| ISSUED BY | r A., • U, |
| TITLE | President |

Issued pursuant to an Order of the Public Service Commission in Case No. 2014-00350 dated March 27, 2015

KENTUCKY
PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN
EXECUTIVE DIRECTOR
TARIFF BRANCH
Bunt Kirtley
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PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

**GAS COST ADJUSTMENT CLAUSE**
**APPLICABLE TO ALL RATE SCHEDULES**

**Gas Cost Adjustment Clause - (Continued)**

The benchmark associated with each pipeline shall be calculated as follows:

BM (TCO- SST contract 80160) = ({TPRD/$5.939) x $4.1850 x DQ) **N,T**

BM (TCO all other contracts)= (TPDR x DQ) + (TPCR x AV)+ S&DB **T**

BM {TGP) = $4.5835 x DQ **T**

BM (CKT) = {TPDR x DQ) + (TPCR x AV) + S&DB

BM (CGT) = (TPDR x DQ) + (TPCR x AV)+ S&DB

BM (PPL)= (TPDR x DQ) + (TPCR x AV)+ S&DB

Where:

**TPDR** is the applicable Tariffed Pipeline Demand Rate.

**DQ** is the Demand Quantities contracted for by the Company from the applicable transportation provider.

**TPCR** is the applicable Tariffed Pipeline Commodity Rate.

**AV** is the Actual Volumes delivered at Company's city gate by the applicable transportation provider for the month.

**S&DB** represents Surcharges, Direct Bills and other applicable charges approved by the Federal Energy Regulatory Commission (FERC).

The Total Actual Transportation Costs (**T**ATC) paid by Company for the period shall include both pipeline demand and volumetric costs associated with natural gas pipeline transportation services as well as all applicable FERC approved surcharges, direct bills included in S&DB, less actual capacity release credits. Such costs shall exclude labor related or other expenses typically classified as operating and maintenance expenses. Should one of the Company's pipeline transporters file a rate change effective during any period and bill such proposed rates subject to refund, the period over which the benchmark comparison is made for the relevant transportation costs will be extended for one or more 12 month periods, until the FERC has approved final settled rates, which will be used as the appropriate benchmark. Company will not share in any of the savings or expenses related to the *affected* pipeline until final settled rates are approved.

**OSSI**

**OSSI** = Off-system Sales Incentive. The OSSI shall be equal to the revenues net of costs from off-system sales (other than those revenues generated by operational sales).

Results of operation sales, administrative capacity releases and Rate Schedule SVAS capacity assignments will be credited 100% to gas cost.

DATE OF ISSUE October 5, 2020
DATE EFFECTIVE July 24, 2020
ISSUED BY /s/ Kimra H. Cole
TITLE President and Chief Operating Officer

Issued pursuant to an Order of the Public Service Commission in Case No. 2017-00453 dated July 24, 2020

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PUBLIC SERVICE COMMISSION
Linda C. Bridwell
Executive Director
c/t.:Lt
EFFECTIVE
7/24/2020
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

**GAS COST ADJUSTMENT CLAUSE**
**APPLICABLE TO ALL RATE SCHEDULES**
**(Continued)**

**ASP**

**ASP** = Applicable Sharing Percentage. The ASP shall be determined based on the Percentage of Actual gas costs **(PAC).**

Where:

**PAC = TPBR / AGC**

Where:

**AGC** = Actual Gas Costs. AGC is the sum of the actual gas costs used in determination of the **GCI** and **TCI.**

If the absolute value of PAC is less than or equal to 4.5%, then the ASP of 30% shall be applied to the **T**
total savings or expenses of the TPBR. If the absolute value of the PAC is greater than 4.5%, then the **T**
ASP of 30% shall be applied to the amount of the sum of the TPBR that is equal to 4.5% of AGC to **T**
determine that portion of the total savings or expense, and the ASP of 50% shall be applied to the sum of
the TPBR that is in excess of 4.5% of AGC to determine that portion of the total savings or expense. **T**

**Delivery Service**

FERC approved direct billed pipeline supplier charges relating to the buyout of Take-or-Pay liabilities will be billed to Delivery Service Fixed Rate Volumes.

**Banking and Balancing Service**

This rate is based on the percentage of the portion of storage capacity allocated to Delivery Service Customers to Company's total annual storage capacity, applied to:

(1) Columbia Transmission's FSS seasonal capacity charge, annualized,

(2) Columbia Transmission's SST commodity charge, and

(3) Columbia Transmission's FSS injection and withdrawal charges as calculated in the Gas Cost Adjustment.

**Interim Gas Cost Adjustments**

Should any significant change in supplier rates occur, Company may apply to the Commission for an Interim Gas Cost Adjustment Clause in addition to the regular quarterly Gas Cost Adjustment Clause filings.

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| DATE OF ISSUE | June 19, 2023 |
| DATE EFFECTIVE | June 6. 2022 |
| ISSUED BY | /s/ Kimra H. Cole |
| TITLE | President and Chief Operating Officer |

Issued pursuant to an Order of the Public Service Commission in Case No. 2020-00378 dated June 6, 2022

KENTUCKY
PUBLIC SERVICE COMMISSION

**Linda C. Bridwell**
Executive Director

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EFFECTIVE
**6/6/2023**
PURSUANT TO 807 KARS:011 SECTION 9 (1)

**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 | ) | Case No. 2024-00012 |
| INCENTIVE ADJUSTMENT PERFORMANCE BASED RATE | ) | |
| MECHANISM. | ) | |

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**PREPARED DIRECT TESTIMONY OF**
**PATRICK PLUARD**
**ON BEHALF OF COLUMBIA GAS OF KENTUCKY, INC.**

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**COLUMBIA GAS OF KENTUCKY, INC.**

**JANUARY 31, 2024**

**PREPARED DIRECT TESTIMONY OF PATRICK PLUARD**

**Q: Please state your name, business address and title.**

A: My name is Patrick Pluard, my business address is 1500 165th street, Hammond IN, 46320. My title is Director of Portfolio Optimization within the Energy Supply and Optimization group for NiSource.

**Q: Please describe your education and employment background.**

A: I attended Purdue University where I graduated with a Bachelor of Science Degree in Marketing in 1994 and a master's degree in business administration in 2000. I have worked at NiSource for 19-years. I began my employment with NIPSCO, a NiSource company, in 2004 as a Real Time Energy Trader. In 2008 I transferred to operations as a Generation System Supervisor and in 2011, was promoted to Manager of Day Ahead Asset Optimization. I was promoted to my current role, Director of Portfolio Optimization, in March 2013.

**Q: What are your responsibilities as Director of Portfolio Optimization?**

A: As Director of Portfolio Optimization, I lead various groups that are the market interface for NiSource's gas and electric customers. My group is responsible for the procurement of natural gas for NiSource's six local distribution companies, which includes Columbia Gas of Kentucky ("Columbia" or "Company"). The group utilizes transportation and storage assets to provide a safe and reliable gas supply to customers of NiSource local distribution companies.

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

**A:** No.

**Q: Have you testified for other utilities?**

**A:** Yes, I have testified for Columbia Gas of Pennsylvania as well as NIPSCO's gas and electric utilities. My testimony focused on natural gas procurement and electric generation fuel strategies, including sustainability strategies associated with NIPSCO's Green Power Program.

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

**A:** The purpose of my testimony is to provide information to support the continuation of the Gas Cost Adjustment Performance Based Rate ("PBR") mechanism for Columbia~~ and minor modifications for the future~~.

**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) a 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. 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 maximum rates approved by the Federal Energy Regulatory Commission ("FERC"). The TCI also captures 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. The original term approved in Case No. 2014-00350 was April 1, 2015, through March 31, 2018.

In Case No. 2017-00453, Columbia requested to extend its PBR without any changes, through March 31, 2023. The Commission modified Columbia's PBR mechanism and approved its continuation through March 31, 2021. Specifically, the Commission altered the calculation of Columbia's TCI component by re-establishing the benchmarks for two discounted pipeline contracts.

In Case No. 2020-00378, the Commission authorized the continuation of Columbia's PBR mechanism through March 31, 2024, with a required modification to the two-tier cost sharing calculation. The change adjusted the sharing band from 2% to 4.5% of Columbia's actual gas costs such that variances ranging from 0 to 4.5% are shared 70% to customers and 30% to shareholders and variances greater than 4.5% are shared 50/50.

**Q: Does the PBR mechanism impact Columbia's portfolio management?**

**A:** Yes. With or without the PBR, Columbia acts to secure and maintain reliability of supply for the benefit of its customers at a just and reasonable cost. With the PBR, Columbia is incented to aggressively seek and achieve incremental benefits that produce gas cost savings for customers while maintaining reliability of supply. These incremental benefits could be missed without the PBR as several products in the PBR are available to other affiliates. All else being equal, rational economic and fiscally responsible behavior would seek to accomplish the transaction in the environment that provides the greatest opportunity between alternatives. Thus, the PBR is an effective mechanism that aligns the Company's efforts with the customer's interest by driving cost saving opportunities to Columbia's customers.

**Q: What is Columbia's current obligation in purchasing natural gas supplies and pipeline transportation services?**

**A:** Under the gas cost adjustment ('GCA") mechanism, the Commission reviews Columbia's GCA to ensure the rates charged thereunder are just and reasonable and Columbia's purchasing practices are not imprudent.[1] The PBR mechanism, however, provides additional incentive for the Company to continually evaluate the market for opportunities to lower costs without any additional supply reliability risk to customers. Thus, the PBR is an effective mechanism that aligns the Company's efforts with customers' interests and customers are better off with the PBR than without it. The program also provides a means to compare regulatory activity to competitive market activity as it contains rules and benchmarks that provide inherent and efficient ongoing oversight.

[1] KRS 278.274(1).

**Q:** **Does the PBR mechanism produce any possible financial risks to CKY? Are there potential financial downsides for Columbia related to its PBR mechanism?**

**A:** Yes. The current PBR structure is a sharing mechanism whereas the company not only is rewarded for aggressive and prudent documented results, but shares the risks associated with unexpected weather events, forecast error, and incorrect market decisions that would otherwise be fully born by the customer absent such a mechanism. Under the PBR mechanism, Columbia is not merely just incentivized but is forced to compete in earnest for lower gas costs.

**Q:** **Please provide the customer savings Columbia has been able to achieve since the last renewal of the program.**

**A:** Total PBR customer share of savings for program year 2020/2021 was $2,556,055, for program year 2021/2022 was $3,826,981, and for program year 2022/2023 was $6,491,820. Please see Attachment A to my testimony for an evaluation of the performance of the PBR during each of the following past years.

**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 Columbia, and I recommend continuing 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 assets and pursues sales opportunities under this mechanism to create value for customers and Columbia. I recommend continuing the OSSI in its current form.

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

**A:** Columbia does not propose any ~~immediate~~ change to the TCI benchmark calculation ~~but does propose to update~~ t~~he BM(TCO-SST contract 80160) and BM(TGP) coincident with the contract expiration of the two discounted contracts for which the Commission adjusted the benchmarks in Case No. 2017-00453. Those benchmarks are now based on the discounted rates rather than the otherwise~~

~~applicable approved maximum rate by the Federal Energy Regulatory Commission ("FERC"), the jurisdictional regulatory authority to determine the fair, just and reasonable rates of the interstate pipelines it regulates. A change in the benchmark is necessary to ensure that the methodology would not artificially calculate a gas cost loss, as opposed to savings, even though Columbia might be paying a transportation rate that is lower than the FERC approved rate.~~

**Q: Please provide an overview of the current interstate pipeline transportation market.**

**A:** Overall demand for natural gas has changed greatly from what it was when the discounted contracts were signed. LNG exports have increased and are expected to increase in the future. Electric generation has become more natural gas dependent as the electric industry transitions from coal to fuel sources such as gas-fired power generation and renewable energy. Supply sources have also changed from traditional Gulf sources to shale rich areas more inland and northernly located. Given the increased supply in the north in conjunction with the increase demand in the south, particularly to satisfy LNG exporters, directional flows have shifted from the traditional south to north with more supplies flowing south. The result of these market and supply changes is an overall increase in demand for transport. Also, to be more reliable and compliant with federal regulations, interstate pipelines are pursuing cost recovery for system upgrades, making discounted contracts for shippers more difficult to justify and ratemaking more cumbersome. Given all these factors, Columbia believes significant future discounts will be unlikely, if any discount at all.

**Q: Does Columbia intend to pursue discounted contracts in the future?**

**A:** Columbia will continue to pursue contracts that are in the best interest of customers, including discounted contracts. However, for the reasons explained above, I believe interstate pipelines are going to be unwilling to continue the past practice of discounted contracts. ~~Because these discounted contracts expire during the term of the proposed PBR extension, Columbia proposes to account for these likely eventualities in this pending case. If Columbia can retain the existing discounted rate in either discounted contract, then the benchmark would not change until expiration of the contract during the term of a PBR extension.~~

~~**Q: What is Columbia proposing?**~~

~~**A:** The TGP contract expires on October 31, 2024, Columbia is proposing to continue~~

~~with the current benchmark methodology of:~~

~~(TGP) = $4.5835 x DQ until expiration.~~

~~Starting on November 1, 2024, going forward (assuming no retention of the existing rate or any other contract extension) Columbia is proposing an updated benchmark of:~~

~~(TPDR x DQ) + (TPCR x AV) + S&DB~~

~~The TCO contract expires March 31, 2025, Columbia is proposing to continue with the current benchmark methodology of:~~

~~(TCO-SST contract 80160) = ((TPRD/$5.939) x $4.1850 x DQ)~~

~~until expiration on March 31, 2025. Starting on April 1, 2025 (assuming no retention of the existing rate or any other contract extension), going forward Columbia is proposing an updated benchmark of:~~

~~(TPDR x DQ) + (TPCR X AV) + S&DB~~

~~To summarize starting on April 1, 2025, the benchmarking methodology would be consistent on all pipelines and potential future pipelines as follows:~~

~~(TPDR x DQ) + (TPCR X AV) + S&DB. Columbia will make the appropriate tariff compliance filings when the respective discounted contracts expire, and in the unlikely event there is any extension (even short term), Columbia will report that to the Commission and wait to make the appropriate tariff compliance filing until the end of the discounted contract.~~

**~~Q: Why should the Commission approve this change to the TCI component?~~**

~~**A:** The changes in the market I described above are not within Columbia's control. As the Commission previously noted, "It is not the commission's intent that Columbia Kentucky be penalized by a methodology that would calculate a gas cost loss as opposed to savings, even though Columbia Kentucky may be paying a transportation rate lower than the FERC rate."[2] In other words, the just and reasonable maximum rate approved by FERC is an appropriate benchmark for the TCI. Further, the proposed change to the TCI component preserves the customer benefit for the duration of the discounted contracts, but also acknowledges the reality of the changing marketplace for interstate pipeline contracts.~~

[2] Case No. 2017-00453, "Application of Columbia Gas of Kentucky, Inc. to Extend its Gas Cost Adjustment Performance Based Rate Mechanism" filed November 30, 2017, Order at 7 dated July 24, 2020.

**Q: Overall, why is Columbia recommending continuing the PBR in its current form with ~~a minor~~no modification?**

**A:** Incentive programs such as CKY's PBR mechanism that reward good stewardship of assets along with standard benchmarking of purchase activity appropriately incentivize Columbia to outperform the established benchmarks. Approval of the proposed PBR extension would continue to provide an appropriate sharing of benefits to customers and Columbia.

**Q: Does this complete your Prepared Direct testimony?**

**A:** Yes, but I reserve the right to file rebuttal or other testimony to support the proposed PBR mechanism.

Attachment A

| Year | GCI Savings | TCI Savings | OSSI Savings | Total Savings | Total Actual Costs | Percentage |
|---|---|---|---|---|---|---|
| 20/21 | $ 545,470 | $ 2,883,987 | $1,369,024 | $ 4,798,481 | $ 40,940,277 | 11.72% |
| 21/22 | $ 617,600 | $ 5,843,431 | $ 638,630 | $ 7,099,661 | $ 69,287,589 | 10.25% |
| 22/23 | $ 1,160,764 | $ 7,763,810 | $2,504,569 | $ 11,429,144 | $ 108,409,320 | 10.54% |
| Apr 23 - O | $ 156,632 | $ 3,651,005 | $1,369,584 | $ 5,177,221 | $ 25,263,955 | 20.49% |

Year = program year Apr - Mar