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-year renewal of its PBR mechanism, in the same form as approved by the Commission's June 6, 2022 Order, through March 31, 2029, 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-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.

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