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.	)	

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

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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 an immediate change to the benchmark calculation but does propose to update the 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 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.

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 - Oc	$ 156,632	$ 3,651,005	$1,369,584	$ 5,177,221	$ 25,263,955	20.49%

Year = program year Apr - Mar

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

VERIFICATION OF PATRICK PLUARD

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 31st day of January, 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