

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF COLUMBIA)	
GAS OF KENTUCKY, INC. FOR AN)	CASE NO.
ADJUSTMENT OF RATES; APPROVAL OF)	2024-00092
DEPRECIATION STUDY; APPROVAL OF TARIFF)	
REVISIONS; AND OTHER RELIEF)	

ORDER

On April 6, 2024, Columbia Gas of Kentucky, Inc (Columbia Kentucky) filed a notice of intent to file an application seeking an adjustment of rates using a forecasted test year. On May 23, 2024¹, Columbia Kentucky filed an application pursuant to KRS 278.180, KRS 278.190, KRS 278.192, and 807 KAR 5:001 requesting (1) approval for an adjustment of rates; (2) approval of a depreciation study and associated rates; and (3) approval of tariff revisions.

BACKGROUND

Columbia Kentucky is a subsidiary of NiSource Gas Distribution Group Inc. (NiSource Distribution), which is a subsidiary of NiSource, Inc (NiSource), a Delaware corporation.² Columbia Kentucky is headquartered in Lexington, Kentucky.³ Columbia Kentucky provides natural gas service to approximately 138,000 residential, commercial,

¹ On May 16, 2024, Columbia Kentucky tendered its application. On May 22, 2024, Columbia Kentucky was notified the application was deficient. On May 23, 2024, Columbia Kentucky resolved the deficiencies, and the application was deemed filed.

² Application at 2.

³ Application at 1.

and industrial customers, in 30 Kentucky counties.⁴ Columbia Kentucky owns and operates approximately 2,600 miles of natural gas pipeline. Columbia Kentucky's most recent general rate case was Case No. 2021-00183.⁵

The Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General); Kentucky Industrial Utility Customers, Inc. (KIUC); and two entities acting jointly, Interstate Gas Supply, Inc. (IGS) and Constellation New Energy-Gas Division (CNEG) (collectively, Joint Intervenors) were granted intervention in this proceeding.⁶ Pursuant to a procedural schedule established on June 5, 2024, Columbia Kentucky filed direct and rebuttal testimony, and responded to multiple rounds of discovery.⁷ By the same Order, the Commission suspended the effective date of the proposed rates for six months, up to and including January 1, 2025. On August 14, 2024, all intervenors filed direct testimony.

By Order dated June 25, 2024, a hearing was scheduled in this matter to begin on October 21, 2024.⁸ Prior to the hearing, on October 14, 2024, a Joint Stipulation, Settlement Agreement, and Recommendation (Joint Settlement) from all parties was filed by Columbia Kentucky into the record along with Joint Settlement testimony from Judy Cooper, Columbia Kentucky's Director of Regulatory Affairs. Additionally, on October 14,

⁴ Application at 1-2.

⁵ Case No. 2021-00183, *Electronic Application of Columbia Gas of Kentucky, Inc. for an Adjustment of Rates; Approval of Tariff Revisions; Issuance of a Certificate of Public Convenience and Necessity; and Other Relief* (Ky. PSC Dec. 28, 2021), Order.

⁶ Order (Ky. PSC June 5, 2024); Order (Ky. PSC June 14, 2024); Order (Ky. PSC June 28, 2024).

⁷ Columbia Kentucky filed responses to discovery on May 30, 2024, July 10, 2024, August 7, 2024, September 11, 2024, October 4, 2024, and November 15, 2024. Columbia Kentucky also filed supplemental responses updating its rate case expense throughout the proceeding.

⁸ Order (Ky. PSC June 25, 2024) at 1.

2024, Columbia Kentucky filed a joint motion to excuse witnesses. On October 17, 2024, Columbia Kentucky filed an Errata to the Joint Settlement Testimony of Judy Cooper. By Order dated October 17, 2024, the Commission excused twelve of the parties' witnesses. A formal hearing was held on October 21, 2024. Columbia Kentucky and the Attorney General responded to one round of post-hearing discovery. On November 20, 2024, Columbia Kentucky and KIUC filed post-hearing briefs. This matter now stands submitted for a decision.

LEGAL STANDARD

Pursuant to KRS 278.030(1), the Commission's statutory obligation when reviewing a rate application is to determine whether the proposed rates are "fair, just and reasonable."⁹ Columbia Kentucky bears the burden of proof to show that the proposed rates are just and reasonable under the requirements of KRS 278.190(3).

Pursuant to KRS 278.2207(1)(a), "services and products provided to the utility by an affiliate shall be priced at the affiliate's fully distributed cost but in no event greater than market or in compliance with the utility's existing USDA, SEC, or FERC approved cost allocation methodology." Further, "[i]n any formal commission proceeding in which cost allocation is at issue, a utility shall provide sufficient information to document that its cost allocation procedures and affiliate transaction pricing are consistent with the provisions of this chapter."¹⁰ If a utility has failed to provide sufficient evidence of its compliance, the

⁹ KRS 278.030; *Pub. Serv. Comm'n v. Com. Ex rel. Conway*, 324 S.W.3d 373, 377 (Ky. 2010).

¹⁰ KRS 278.2209.

Commission may “[o]rder that the costs attached to any transaction be disallowed from rates.”¹¹

Even though Columbia Kentucky, KIUC, Joint Intervenors, and the Attorney General have filed a Joint Settlement that purports to resolve all of the issues in the pending application, the Commission cannot forego its responsibility to determine what constitutes fair, just and reasonable rates. The Commission must review the record in its entirety, including the Joint Settlement, and apply its expertise to make an independent decision as to the level of rates, including terms and conditions of service, that should be approved. To satisfy its statutory obligation, in this case, the Commission has performed its traditional ratemaking analysis, which consists of reviewing the reasonableness of each revenue and expense adjustment proposed or justified by the record.

APPLICATION

Columbia Kentucky proposed the following in its application:

1. Columbia Kentucky proposed to adjust its tariffed rates by an increase of \$23,773,019 in order to continue to provide safe and reliable natural gas service at the lowest reasonable rates to its customers. The proposal would result in an approximate 15.81 percent increase in Columbia Kentucky’s revenue. For the average residential customer consuming 5.5 Mcf of natural gas per month, this will equate to an increase of \$7.28 per month in their average bill.¹²

¹¹ KRS 278.2211(1)(b).

¹² Application at 2.

2. Columbia Kentucky proposed a Return on Equity (ROE) in a range of 10.55 to 11.05 percent. Columbia Kentucky stated that a reasonable point estimate of Columbia Kentucky's cost of equity in the current market environment is 10.80 percent.¹³

3. Columbia Kentucky's proposed cost of capital was 8.01 percent.¹⁴

4. Columbia Kentucky estimated its 13-month average capital structure ratios for the fully forecasted test year as of December 31, 2025 at 45.53 percent long-term debt, 1.83 percent short-term debt, and 52.64 percent equity.¹⁵

5. Columbia Kentucky requested approval of the Depreciation Study prepared by John Spanos. Columbia Kentucky requested that the new depreciation rates become effective on and after the effective date of its new rates.¹⁶

6. Columbia Kentucky requested that the Commission approve the allocation among customer classes and certain changes in the design of its tariffed rates as well as adjust the customer charges to better reflect the underlying costs of providing safe and reliable service.¹⁷

7. Columbia Kentucky proposed to modify the customer charge provision of rate schedule Main Line Delivery Service (MLDS¹⁸) to segment the applicable rate into

¹³ Application, Volume 2, Tab 22, Direct Testimony of Vincent Rea (Rea Direct Testimony) at 3-4.

¹⁴ Rea Direct Testimony at 4.

¹⁵ Rea Direct Testimony, Attachment VVR-6.

¹⁶ Application at 3.

¹⁷ Application at 3.

¹⁸ The rate class for Main Line Delivery Service has been abbreviated as "MLDS" or "DS-ML" throughout the proceeding. For the sake of consistency, the Commission will refer to the Main Line Delivery Service class as "MLDS" in this Order.

two blocks by establishing two different customer charges based upon the customers' Annual Transportation Volume.¹⁹

8. Columbia Kentucky proposed to remove the Late Payment Penalty for residential service currently included in the General Terms, Conditions, Rules and Regulations Tariff, Sheet No. 74.²⁰

9. Columbia Kentucky proposed to continue recovery of Safety Modification and Replacement Program (SMRP) investments through the ongoing SMRP Rider. Columbia Kentucky did not propose to roll SMRP investments into base rates. Columbia Kentucky proposed to modify the provisions of rate schedule SMRP Rider to include uncollectible expense, not recovered through base rates, in the calculation of the revenue requirement of future SMRP filings.²¹

10. Columbia Kentucky proposed to recover its rate case expense over a period of one year.²²

11. Columbia Kentucky proposed to reinstate Tariff Sheet 7a as the State Tax Adjustment Factor (TAAF). This amended tariff would be utilized to implement the effects of future changes in state tax law resulting from the action or inaction of the Kentucky General Assembly. The TAAF could be a collection from, or credit to, customers based upon the state tax law. The TAAF would be set at zero until the effective date of any state tax changes.²³

¹⁹ Application at 3, 10.

²⁰ Application at 3, 9.

²¹ Application at 3, 9.

²² Application at 10.

²³ Application at 3.

JOINT SETTLEMENT

The Joint Settlement reflected the proposed agreement of Columbia Kentucky, Attorney General, KIUC, and Joint Intervenors.²⁴ In its post-hearing brief, Columbia Kentucky stated that the Joint Settlement is the result of constructive negotiations among the parties and provides a balanced resolution to this proceeding.²⁵ Columbia Kentucky argued that the Joint Settlement allows Columbia Kentucky to collect fair, just and reasonable rates that are non-exploitative.²⁶ Columbia Kentucky noted that the Joint Settlement provides a resolution to all matters presented in Columbia's application and does not create new precedent.²⁷ Columbia Kentucky explained that, while no individual party would have agreed to each of these adjustments in isolation, the compromises that were reached were of benefit to each party to the Joint Settlement, including the residential ratepayers whose interests were represented by the Attorney General.²⁸ The Joint Intervenors and the Attorney General did not file a brief.²⁹ KIUC filed a post-hearing brief and reiterated its position in support of the rate design, in particular, as well as the settlement as a whole.³⁰

A summary of the provisions contained in the Joint Settlement is as follows:

- Columbia Kentucky's adjusted base rate revenue requirement for the forecasted test year of January 1, 2025, through December 31, 2025, would be

²⁴ Joint Settlement (filed Oct. 14, 2024); an Errata was filed to the Joint Settlement labeled Supplemental Testimony of Judy Cooper (Cooper Errata Supplemental Testimony) (filed Oct. 17, 2024).

²⁵ Columbia Kentucky's Post-Hearing Brief (filed Nov. 20, 2024) at 8.

²⁶ Columbia Kentucky's Post-Hearing Brief at 8.

²⁷ Columbia Kentucky's Post-Hearing Brief at 8.

²⁸ Columbia Kentucky's Post-Hearing Brief at 22.

²⁹ Joint Intervenors did file a notice of non-filing for a brief (filed Nov. 20, 2024).

³⁰ KIUC's Post-Hearing Brief (filed Nov. 20, 2024).

\$164.671 million. This represents an increase of \$14.313 million over the test year revenue that would be collected at current rates, an overall increase in base rates of 9.52 percent.

- The thirteen-month average rate base for the forecasted test period is \$509.471 million.
- Columbia Kentucky's authorized ROE would be 9.75 percent for natural gas base rates.
- Columbia Kentucky's long-term debt rate included in the cost of capital would be 4.8 percent.
- Columbia Kentucky's short-term debt rate included in the cost of capital would be 5.25 percent.
- Columbia Kentucky's capital structure would be 52.64 percent equity, 45.53 percent long-term debt, and 1.83 percent short-term debt.
- Columbia Kentucky's weighted average cost of capital would be 7.41 percent.
- The adjusted revenue requirement reflects a reduction to rate base of Green Path Rider costs of \$58,277, which reduced the originally proposed revenue requirement by \$0.005 million (or approximately \$5,000); and inclusion of cash working capital in rate base which reduced the originally proposed revenue requirement by \$0.851 million (or approximately \$851,000).
- Columbia Kentucky's adjusted revenue requirement reflects a reduction of long-term incentive compensation, a portion of which is tied to the financial performance of the Company, which reduced the originally proposed revenue requirement by \$1.590 million.
- Columbia Kentucky's adjusted revenue requirement reflects a reduction of short-term incentive compensation and profit sharing costs tied to the financial performance of Columbia Kentucky, which reduced the originally proposed revenue requirement by \$1.609 million.
- Columbia Kentucky's adjusted revenue requirement reflects a reduction of 401(k) contributions for employees who are also covered under a defined benefit plan, which reduced the originally proposed revenue requirement by \$0.296 million (or approximately \$296,000).
- Columbia Kentucky's adjusted revenue requirement reflects a reduction of Pension Restoration Plan expenses, which reduced the originally proposed revenue requirement by \$0.006 million (or approximately \$6,000).

- Columbia Kentucky’s adjusted revenue requirement reflects a reduction of Supplemental Executive Retirement Plan (SERP) costs, which reduced the originally proposed revenue requirement by \$0.054 million (or approximately \$54,000).
- Columbia Kentucky’s adjusted revenue requirement reflects a reduction of American Gas Association (AGA) Dues, which reduced the originally proposed revenue requirement by \$0.021 million (or approximately \$21,000).
- Columbia Kentucky’s adjusted revenue requirement reflects a reduction of Green Path Rider amortization expense, which reduced the originally proposed revenue requirement by \$0.020 million (or approximately \$20,000).
- Columbia Kentucky should recover its actual rate case expense, to be determined in its final monthly adjustment to be filed on or before November 30, 2024, over a three-year period, without carrying charges, and may be deferred, amortized, and recovered beginning on the effective date of the revised tariffs.
- Columbia Kentucky agreed to withdraw its proposal for a State Tax Act Adjustment Factor Tariff.
- Columbia Kentucky agreed to withdraw its proposal for an ROE applied to capital recovered by the SMRP Rider to be equal to that of the ROE applied to base rates. Columbia Kentucky agreed to include this request as part of its annual SMRP filing in Case No. 2024-00328.³¹
- Subject to the exclusions set forth below, Columbia Kentucky agreed to not file an application to adjust the base rates where such adjustment would have an effective date at the conclusion of the Commission’s suspension period under KRS 278.190, for service rendered prior to Unit 1 of Columbia Kentucky’s January 2027 billing cycle. The parties agreed that Columbia Kentucky may file an application prior to January 1, 2027, provided the effective date of rates, once suspended by the Commission, in accordance with KRS 278.190, are not effective for service rendered prior to Unit 1 of Columbia Kentucky’s January 2027 billing cycle. Notwithstanding the base rate stay-out commitment described above, Columbia Kentucky retained the right, at any time, to seek approval from the Commission of the following:
 - The deferral of costs, as permissible, under the Commission's standard for deferrals, including:

³¹ Case No. 2024-00328, *Electronic Application of Columbia Gas of Kentucky, Inc. for Its Annual Safety Modification and Replacement Program Filing* (filed Oct. 15, 2024).

- An extraordinary, nonrecurring expense which could not have reasonably been anticipated or included in the utility’s planning;
 - An expense resulting from a statutory or administrative directive;
 - An expense in relation to an approved industry initiative; or
 - An extraordinary or nonrecurring expense that over time will result in a savings that fully offsets the costs.
- Emergency rate relief under KRS 278.190(2) to avoid a material impairment or damage to credit or operations;
- Adjustments to the operation of any of Columbia Kentucky’s now existing, or future, cost recovery surcharge mechanisms (e.g., Gas Cost Adjustment, Weather Normalization Adjustment, Energy Efficiency and Conservation Rider, Rider SMRP, Local Franchise Fees and Taxes, etc.); and
- During the effective stay-out period, Columbia Kentucky reserves the right to seek necessary rate relief and/or accounting treatment for costs or programs required due to changes in law or regulations, including but not limited to, changes in tax rates, or changes to existing, or implementation of new, environmental (e.g., federal or state Environmental Protection Agency rules) or safety (e.g., United States Pipeline and Hazardous Materials Safety Administration rules or state administrative pipeline safety rules) compliance costs applicable to natural gas operations that may occur during the stay-out period.
- All other tariff changes proposed in the Columbia Kentucky’s application, including the inclusion of uncollectible expense into the SMRP and the removal of the Late Payment Penalty for residential service, should be approved.
- Columbia Kentucky prepared proof of revenue sheets to demonstrate that the rates set forth in the tariffs will generate the revenue needed to recover the test year revenue requirement to which the parties have agreed.
- The revenue requirement would be allocated among Columbia Kentucky’s rate classes as proposed in the application, with one exception. Any increase resulting from this proceeding in Rate DS would be allocated in equal portions to the first two block usage rates of Rate DS. The proposed allocation by class is as follows:

	Allocation of Revenue Increase by Rate Class			
GSR/GTR	GSO/GTO/GDS	IS/DS	IUS	MLDS
64.660%	27.626%	7.478%	0.012%	0.224%

- The rate schedule for Rate MLDS will include two separate customer charges based on the customer's annual transportation volume. MLDS customers who use up to 400,000 Mcf of gas in a year would be assessed a \$300 per month charge while a MLDS customer who uses over 400,000 Mcf of gas in a year would be assessed \$600 per month.
- The monthly Residential customer charge will be \$21.25 per billing period, which is an increase of \$1.50 from the current customer charge of \$19.75 per billing period and a reduction of \$5.75 from the originally proposed customer charge of \$27.00.
- All other requests in Columbia Kentucky's application should be approved.
- In addition to the \$21,500 committed in calendar year 2024, Columbia Kentucky agreed to contribute an additional \$50,000 to low-income energy assistance in 2024. In calendar year 2025, Columbia Kentucky agreed to contribute \$50,000 to low-income energy assistance. In calendar 2026, Columbia Kentucky agreed to contribute \$50,000 to low-income energy assistance. Columbia explained that these contributions are to be derived from the shareholder profits.
- Columbia Kentucky's Depreciation Study and related accounting treatments should be approved with an effective date of the new deprecation rates to be the same day that Columbia Kentucky's new base rates become effective.
- The Suppliers' discount, as it relates to Columbia Kentucky's Choice Program, on accounts receivable in recognition of Columbia Kentucky's risk shall be reduced from 2.0 percent to 1.75 percent. The Parties agreed that the Commission schedule the next meeting of the working group ordered in Case No. 2021-00386³² during the week of April 13, 2025 or the week of April 20, 2025.

TEST PERIOD

Columbia Kentucky used, as its forecasted test period, the 12-month period ending December 31, 2025, and a base period that was the 12-months ending August 31, 2024, including actual data for the period September 1, 2023, through February 29, 2024, and

³² Case No. 2021-00386, *Electronic Tariff Filing of Columbia Gas of Kentucky, Inc. to Extend Its Small Volume Gas Transportation Service* (Ky. PSC Aug. 7, 2024).

forecasted data for the period March 1, 2024, through August 31, 2024.³³ Columbia Kentucky provided detailed monthly income statements for each forecasted month of the base period as the data became available.

None of the intervenors contested the use of this period as the test period or suggested an alternative test period. The Commission otherwise finds Columbia Kentucky's forecasted test period to be consistent with the provisions of KRS 278.192 and KAR 5:001, Sections 16(6), (7), and (8). Therefore, the Commission accepts the forecasted test period proposed by Columbia Kentucky for use in this proceeding.

VALUATION

Pursuant to KRS 278.290(1), the Commission is empowered to “ascertain and fix the value of the whole or any part of the property of any utility,” and, in doing so, is given guidance by the legislature “in establishing value of utility property in connection with rates,” and the Commission must “give due consideration” to a number of factors, including capital structure, original cost and “other elements of value recognized by law” in order to ascertain the value of any property under KRS 278.290 “for rate-making purposes.” In its application, Columbia Kentucky proposed to use the rate base method to calculate its revenue requirement and required increase.³⁴ As explained below, the Commission has weighed the evidence filed in the case and in support of the Joint Settlement and finds that Columbia Kentucky’s base rates should be based on a 13-month average test period rate base of \$509.471 million.³⁵

³³ Application at 4-5.

³⁴ Application, Volume 8, Tab 79, Schedule A.

³⁵ Joint Settlement at 3.

DISCUSSION AND FINDINGS

Having reviewed the evidence and being sufficiently advised, the Commission accepts the Joint Settlement as discussed below. The Joint Settlement, as a whole, results in fair, just and reasonable rates. However, the Commission's decision to accept the terms of the Joint Settlement does not constitute approval of any individual item and is not intended to create precedent for similar items in future rate cases, whether the applicant be Columbia Kentucky or a different utility.

REVENUE REQUIREMENT

Proposed Adjustments

In its application, Columbia Kentucky presented its adjustments in multiple steps.³⁶ First, the unadjusted base period included actual costs from September 2023 through February 2024 and forecasted costs from March 2024 through August 2024 based on Columbia Kentucky's unadjusted budget. The adjusted base period included adjustments to remove 2024 SMRP revenues and expenses and misclassified Operating and Maintenance (O&M) expenses. Then, Columbia Kentucky made adjustments to bring the adjusted base period to the unadjusted forecasted period of January 2025 to December 2025, based on the 2025 budget. Finally, Columbia Kentucky proposed ratemaking adjustments to the unadjusted forecasted period to find the adjusted forecasted period.

³⁶ Columbia Kentucky's Response to Deficiency Letter (filed May 23, 2024) at unnumbered pages 1-2.

Rate Base Adjustments

Cash Working Capital (CWC). For the forecasted test-year, Columbia Kentucky calculated a CWC reduction to rate base of \$9.746 million using a lead/lag study.³⁷ Columbia Kentucky also calculated a CWC increase to rate base of \$6.608 million using the 1/8th O&M expense formula.³⁸ Rather than applying either adjustment, Columbia Kentucky made none. Columbia Kentucky stated that it would not use the calculated CWC adjustment because the results of the two methods used to calculate the CWC, mentioned above, varied significantly.³⁹ Columbia Kentucky also stated that accumulated deferred income taxes (ADIT) of \$3.491 million were associated with cash working capital but removed to match Columbia Kentucky's request for zero CWC adjustment.⁴⁰

The Attorney General disagreed with Columbia Kentucky's rationale of not making a CWC adjustment.⁴¹ The Attorney General cited to Columbia Kentucky's previous rate case where the Commission ordered Columbia Kentucky to perform a lead/lag study excluding noncash items and balance sheet adjustments.⁴² The Attorney General then cited to previous Commission orders where the Commission stated that the most accurate way to determine the CWC component of rate base is a lead/lag study.⁴³ The Attorney

³⁷ Application, Volume 3, Tab 25, Direct Testimony of Kevin L. Johnson (Johnson Direct Testimony) at 16.

³⁸ Johnson Direct Testimony at 17.

³⁹ Johnson Direct Testimony at 17.

⁴⁰ Application, Volume 8, Tab 80, Schedule B-1.

⁴¹ Attorney General's Direct Testimony of John Defever (Defever Direct Testimony) (filed Aug. 14, 2024) at 7.

⁴² Defever Direct Testimony at 7 *citing* Case No. 2021-00183, Dec. 28, 2021 Order at 14.

⁴³ Defever Direct Testimony at 7 *citing* Case No. 2021-00190, *Electronic Application of Duke Energy Kentucky, Inc. for 1) An Adjustment of the Natural Gas Rates; 2) Approval of New Tariffs, and 3)*

General noted a Commission order where the Commission stated that, for a significant number of years, the Commission has routinely determined a utility's CWC needs, assuming the use of rate base to determine the revenue requirement, using the lead/lag methodology.⁴⁴ The Attorney General recommended using a \$9.402 million working capital reduction to rate base which would have reduced Columbia Kentucky's revenue requirement by \$0.926 million.⁴⁵ The Attorney General's adjustment included interest synchronization but did not include ADIT related to CWC.⁴⁶

In the Joint Settlement, the Parties agreed to apply a \$0.851 million reduction to the revenue requirement to reflect the inclusion of CWC in rate base based on the lead/lag study.⁴⁷ Columbia Kentucky confirmed that the adjustment excluded interest synchronization⁴⁸ and ADIT.⁴⁹

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that this provision of the Joint Settlement is reasonable and should be

All Other Required Approvals, Waivers, and Relief (Ky. PSC Dec. 28, 2021), Order at 15; Case No. 2021-00214, *Electronic Application of Atmos Energy Corporation for An Adjustment of Rates*, (Ky. PSC May 19, 2022), Order at 20; Case No. 2022-00147, *Electronic Application of Water Service Corporation of Kentucky for a General Adjustment in Existing Rates and a Certificate of Public Convenience and Necessity to Deploy Advanced Metering Infrastructure* (Ky. PSC April 12, 2023), Order at 18; Case No. 2023-00191, *Electronic Application of Kentucky-American Water Company for an Adjustment of Rates, A Certificate of Public Convenience and Necessity for Installation of Advanced Metering Infrastructure, Approval of Regulatory and Accounting Treatments, and Tariff Revisions* (Ky. PSC May 3, 2024), Order at 9.

⁴⁴ Defever Direct Testimony at 7.

⁴⁵ Defever Direct Testimony at 8. The Attorney General's proposed CWC amount included changes to O&M expenses to match proposed adjustments in those expenses.

⁴⁶ Cooper Errata Supplemental Testimony at 8 and Columbia Kentucky's Response to Commission Staff's Post-Hearing Request for Information (Staff's Post-Hearing Request) (filed November 15, 2024), Item 16a.

⁴⁷ Cooper Errata Supplemental Testimony at 7.

⁴⁸ Cooper Errata Supplemental Testimony at 8.

⁴⁹ Columbia Kentucky's Response to Staff's Post-Hearing Request, Item 16a.

approved. As noted by the Attorney General, the Commission has consistently held that the most accurate method of estimating CWC is a lead/lag study that excludes non-cash items. The Commission will only set CWC to zero in the absence of a correctly completed lead/lag study.⁵⁰ In this case, Columbia Kentucky filed an acceptably completed lead/lag study, and the results of that study should be used to set the CWC component of rate base. Additionally, because the ADIT related to CWC does not stem from accelerated depreciation,⁵¹ there are no normalization violations from excluding those amounts from the adjustment.

Customer Deposits. Columbia Kentucky proposed no adjustments to its customer deposits. The Attorney General asked Columbia Kentucky about its deposits and the monthly deposit amounts.⁵² Columbia Kentucky confirmed that it did not include the deposits in rate base.⁵³ However, the Attorney General asserted that Columbia Kentucky did include the accompanying interest in base rates. Therefore, the Attorney General recommended that the Commission should either include the deposits in rate base or exclude the accompanying interest expense.⁵⁴

⁵¹ Columbia Kentucky's Response to Staff's Post-Hearing Request, Item 16b.

⁵¹ Columbia Kentucky's Response to Staff's Post-Hearing Request, Item 16b.

⁵² Columbia Kentucky's Response to Attorney General's First Request for Information (Attorney General's First Request), Item 67.

⁵³ Columbia Kentucky's Response to Attorney General's First Request, Item 67(a).

⁵⁴ Defever Direct Testimony at 8-11.

Columbia Kentucky provided rebuttal testimony on the issue, clarifying that both customer deposits and the corresponding interest were excluded from base rates.⁵⁵ The Joint Settlement did not accept the adjustment as proposed by the Attorney General.⁵⁶

However, the Commission will accept the Joint Settlement on this issue considering the evidence supports that Columbia Kentucky did not include customer deposits in rate base or interest expense in the forecasted test year.

Green Path Rider. Columbia Kentucky proposed no adjustments to its Green Path Rider, which was denied in Case No. 2022-00049⁵⁷. Commission Staff asked about the miscellaneous software investment related to the Green Path Rider.⁵⁸ Columbia Kentucky stated that miscellaneous software investment was related to work needed to bill and provide reporting capabilities prior to the Commission's denial of Columbia Kentucky's request for approval of the Rider on October 30, 2023.⁵⁹

In the Joint Settlement, the Parties agreed to a \$0.005 million (or approximately \$5,000) reduction of Columbia Kentucky's originally proposed revenue requirement for the return component, and a \$0.020 million (or approximately \$20,000) revenue requirement reduction to remove the related amortization expense.⁶⁰

⁵⁵ Columbia Kentucky's Rebuttal Testimony of Jeffrey Gore (Gore Rebuttal Testimony) (filed Sept. 20, 2024) at 2-3.

⁵⁶ Joint Settlement, Attachment A.

⁵⁷ Case No. 2022-00049, *Electronic Application of Columbia Gas of Kentucky, Inc for Approval of the Green Path Rider Program* (Ky. PSC Oct. 30, 2023), Order.

⁵⁸ Columbia Kentucky's Response to Commission Staff's Fifth Request for Information (Staff's Fifth Request), Item 5.

⁵⁹ Columbia Kentucky's Response to Staff's Fifth Request, Item 5.

⁶⁰ Cooper Errata Supplemental Testimony at 7.

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that this provision of the Joint Settlement is reasonable and should be approved

O&M Adjustments

Rate Case Expense. Columbia Kentucky proposed to remove the annual amortization rate case expense from Case No. 2021-00183⁶¹ of \$0.197 million and included an estimated rate case expense of \$1.142 million.⁶² Columbia Kentucky proposed to amortize this expense over a one-year period.⁶³

The Attorney General disagreed with the use of a one-year amortization period, stating that, Columbia Kentucky will collect the rate case expense annually until rates are reset.⁶⁴ The Attorney General cited to the fact that Columbia Kentucky does not presently plan to file a rate case in 2025.⁶⁵ The Attorney General used the last six rate cases to determine that, on average, Columbia Kentucky has 3.4 years between filings.⁶⁶ Based on this, the Attorney General proposed amortizing Columbia Kentucky's proposed rate case expense of \$1.142 million over three years or approximately \$381,000 annually.⁶⁷ The Attorney General stated that this would reduce the revenue requirement by

⁶¹ Case No. 2021-00183, Dec. 28, 2021 Order.

⁶² Application, Volume 8, Tab 82, Schedule D at 28 (Schedule D-2.6F).

⁶³ Application, Volume 8, Tab 82, Schedule D-2.6F.

⁶⁴ Defever Direct Testimony at 13.

⁶⁵ Defever Direct Testimony at 13.

⁶⁶ Defever Direct Testimony at 14.

⁶⁷ Defever Direct Testimony at 14.

approximately \$766,000.⁶⁸ No other intervenors provided testimony on rate case expense.

In the Joint Settlement, the Parties agreed that Columbia Kentucky should recover its actual rate case expense as of its filing on or before November 30, 2024, and that the recovery of this amount should be spread over a three year period.⁶⁹ Columbia Kentucky filed its actual final rate case expense on December 2, 2024.⁷⁰ The amount to be recovered is \$688,246.

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that this provision of the Joint Settlement is reasonable and should be approved. The Commission finds that a three-year amortization period is appropriate given the stay out provision in the Joint Settlement and considering three years is the standard amortization period.⁷¹ Furthermore, the Commission agrees with the Attorney General that a one-year amortization period would not have been appropriate based on Columbia Kentucky's previous rate cases. The Commission finds that based on the update provided by Columbia Kentucky on December 2, 2024, and using the proposed three-year amortization period, the final rate case expense that should be included in base rates is \$0.688 million (or approximately \$688,000) or \$0.229 million (or approximately \$299,000) over three years. This reduces Columbia Kentucky's estimated

⁶⁸ Defever Direct Testimony at 14.

⁶⁹ Joint Settlement at 9.

⁷⁰ Columbia Kentucky's Update to Staff's First Request for Information, Item 14.

⁷¹ See i.e. Case No. 2023-00191, May 3, 2024, Order at 23 (Note that a Rehearing Order was entered in this case on Nov. 6, 2024 but was unrelated to amortization of rate case expense.).

rate case expense of \$1.142 million over one year by \$0.918 million (or approximately \$918,000).

Corporate Aircraft Expense. Columbia Kentucky stated that NiSource Corporate Services Company (NCSC) allocated approximately \$251,000 in corporate aircraft expenses to Columbia Kentucky for corporate aircraft use.⁷² Columbia Kentucky stated that the aircraft was used to transport NiSource employees for business purposes⁷³ and argued that corporate aircraft expenses were prudently incurred, reasonable costs of doing business citing reduced down time waiting for flights, a secure environment for sensitive business matters, and a reliable and secure source of internet access to perform job functions when using the corporate aircraft.⁷⁴ The corporate aircraft expenses are allocated to Columbia Kentucky as part of its NCSC corporate service bill and include no direct expenses for Columbia Kentucky.⁷⁵

The Attorney General argued that Columbia Kentucky did not demonstrate that these costs provide any benefits to ratepayers.⁷⁶ The Attorney General pointed to the fact that Columbia Kentucky did not compare costs of commercial flights to the costs of utilizing the corporate jet citing that Columbia Kentucky stated that it would be impractical to attempt to quantify an exact savings created by the use of corporate aircraft compared to flights using commercial airlines.⁷⁷ The Attorney General cited to other jurisdictions

⁷² Columbia Kentucky's Response to Attorney General's First Request, Item 64a.

⁷³ Columbia Kentucky's Response to Attorney General's First Request, Item 64e.

⁷⁴ Columbia Kentucky's Response to Attorney General's First Request, Item 64g.

⁷⁵ Columbia Kentucky's Response to Staff's Fourth Request, Items 10-11.

⁷⁶ Defever Direct Testimony at 16.

⁷⁷ Defever Direct Testimony at 15.

that exclude these costs.⁷⁸ The Attorney General proposed removing the total expense associated with the corporate jet from the forecasted test year, which would result in a reduction of approximately \$251,000 from the total revenue requirement.⁷⁹ No other intervenors provided testimony on corporate aircraft expense.

In its rebuttal testimony, Columbia Kentucky cited the same reasons as listed above as to why corporate aircraft expense should be recovered in its revenue requirement.⁸⁰ It also argued that citing laws from other jurisdictions ignored the fact that this Commission had previously permitted the recovery of these costs and that the other jurisdictions' laws would not necessarily prohibit Columbia Kentucky's corporate aviation costs as the aircraft's use is not limited to its Board of Directors nor corporate officers.⁸¹

In the proposed Joint Settlement, the full proposed amount of \$0.252 million (or approximately \$252,000) was included in the revenue requirement. Columbia Kentucky argued that the amount included in the settled revenue requirement represents costs that would have otherwise been spent on commercial flights for these purposes, but the funds were used in a more efficient way.⁸² Having reviewed the record and being otherwise sufficiently advised, the Commission finds that this provision of the Joint Settlement should be approved.

⁷⁸ Defever Direct Testimony at 15-16.

⁷⁹ Defever Direct Testimony at 4.

⁸⁰ Columbia Kentucky's Rebuttal Testimony of Nicholas Bly (Bly Rebuttal Testimony) (filed Sept. 20, 2024) at 2.

⁸¹ Bly Rebuttal Testimony at 3.

⁸² Columbia Kentucky's Post-Hearing Brief at 15.

The Commission notes that, while the settlement accepted in this case included corporate aircraft expense as part of Columbia Kentucky's revenue requirement, Columbia Kentucky should be able to provide records related to usage of the aircraft and its benefits to Columbia Kentucky employees and rate payers. In future base rate cases, Columbia Kentucky is on notice that this information will be expected.

Directors & Officers Liability Insurance. Columbia Kentucky did not propose to make adjustments to directors and officers liability insurance expense and proposed to include approximately \$141,000 in the forecasted test year.⁸³ Columbia Kentucky stated that, both its and NiSource's corporate bylaws, require indemnification of employees that are involved in litigation related to their duties with the companies.⁸⁴ Columbia Kentucky argued that this insurance reduces the costs that would be passed on to ratepayers if Columbia Kentucky executives were involved in litigation related to the operation of the business.⁸⁵

The Attorney General argued that the directors and officers liability insurance should not be entirely borne by ratepayers.⁸⁶ The Attorney General reasoned that the expense primarily benefits Columbia Kentucky and its directors, and therefore, the costs should primarily be borne by the shareholders.⁸⁷ The Attorney General cited to a case in Connecticut in which the Public Utilities Regulatory Authority determined these insurance

⁸³ Columbia Kentucky's Response to Attorney General's First Request, Item 72.

⁸⁴ Columbia Kentucky's Post Hearing Brief at 17.

⁸⁵ Columbia Kentucky's Post Hearing Brief at 17.

⁸⁶ Defever Direct Testimony at 16.

⁸⁷ Defever Direct Testimony at 16.

rates were limited to 25 percent rate recovery.⁸⁸ The Attorney General recommended a 75/25 percent sharing of this expense between shareholders and ratepayers, respectively.⁸⁹ The Attorney General stated this would reduce the forecasted test year expense by approximately \$106,000 and would reduce the revenue requirement by approximately \$107,000.⁹⁰

In Columbia Kentucky's rebuttal testimony, it compared the directors and officers liability insurance to workers' compensation insurance.⁹¹ Columbia Kentucky stated that its bylaws contain customary provisions for similarly situated companies that require the indemnity of directors and officers of the company when acting in their official capacity, and this benefits customers by properly insuring the risk associated with the costs to defend directors and officers.⁹² Finally, Columbia Kentucky stated that the absence of this insurance would increase the cost of debt, and therefore, increase borrowing costs passed to Columbia Kentucky's customers.⁹³

In the Joint Settlement, the Parties agreed that Columbia Kentucky should recover its directors and officers' liability Insurance expense.⁹⁴

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that this provision of the Joint Settlement is reasonable and should be

⁸⁸ Defever Direct Testimony at 17.

⁸⁹ Defever Direct Testimony at 17.

⁹⁰ Defever Direct Testimony at 17.

⁹¹ Bly Rebuttal Testimony at 4-5.

⁹² Bly Rebuttal Testimony at 4-5.

⁹³ Bly Rebuttal Testimony at 4-5.

⁹⁴ Joint Settlement, Attachment A.

approved. The Commission agrees with Columbia Kentucky that these expenses are legitimate business expenses that reduce the costs that would be passed on to ratepayers if Columbia Kentucky's executives were involved in litigation related to the operation of the utility. In addition, the Commission agrees with Columbia Kentucky's arguments that this insurance may reduce borrowing costs.

Investor Relations Expense. Columbia Kentucky requested to include approximately \$60,000⁹⁵ for the Investor Relations department.⁹⁶ Columbia Kentucky stated that the allocated charges billed/budgeted were provided to Columbia Kentucky from NCSC which included salaries, office supplies, employee expenses, outside service, employee pensions/benefits, non-service pension/other post-employment benefits (OPEB) and miscellaneous expenses related to investor relations.⁹⁷ Columbia Kentucky stated that the Investor Relations Department acts as a liaison between the company and its investors allowing NiSource and Columbia Kentucky to reduce the premium required by investors which would ultimately be passed along to customers.⁹⁸

The Attorney General argued that the ratepayers are not fully responsible for these costs as these costs primarily benefits shareholders and they should bear most of the costs.⁹⁹ Therefore, the Attorney General proposed a 75 percent disallowance of these expenses which results in a reduction in the forecasted test-year expenses by

⁹⁵ Columbia Kentucky's Response to Attorney General's First Request, Item 104, Attachment A.

⁹⁶ Columbia Kentucky's Response to Attorney General's First Request, Item 104.

⁹⁷ Columbia Kentucky's Response to the Attorney General's First Request, Item 104, Attachment A.

⁹⁸ Columbia Kentucky's Post Hearing Brief at 16.

⁹⁹ Defever Direct Testimony at 17-18.

approximately \$45,000.¹⁰⁰ The Attorney General cited other jurisdictions that prohibited the recovery of this expense.¹⁰¹ No other intervenors provided testimony on investor relations expense.

In Columbia Kentucky's rebuttal testimony, it disagreed with the Attorney General's statements and argued the Attorney General disregarded the benefits provided by the department to the customer, which were:

Investor Relations is one of several functions responsible for ensuring NiSource can access capital markets to issue debt or equity at the best and lowest cost. If NiSource did not have an Investor Relations department, investors would be less comfortable making an investment in NiSource; said differently, investors would have higher level of uncertainty about investments in NiSource and stated that in financial markets, uncertainty equates to risk which requires a higher level of return to compensate the investor for taking on that higher level of risk.¹⁰²

Columbia Kentucky argued that the Attorney General's removal of the entire forecasted test year budget for Columbia Kentucky's allocated Investor Relations Department's O&M expenses from NCSC was double counted by the Attorney General's removal of certain expenses in its Investor Relations Adjustment.¹⁰³ Columbia Kentucky stated that, in its review of calendar year 2023 Investor Relations Department expenses, it determined that approximately 43 percent was adjusted in the Attorney General's other

¹⁰⁰ Defever Direct Testimony at 18.

¹⁰¹ Defever Direct Testimony at 18-19.

¹⁰² Bly Rebuttal Testimony at 6.

¹⁰³ Rebuttal Testimony of Tamaleh Shaeffer (Shaeffer Rebuttal Testimony) (filed Sept. 20, 2024) at 20.

adjustments which resulted in a correction to the recommended revenue requirement reduction of approximately \$26,000.¹⁰⁴

For purposes of the Joint Settlement, the adjustments to the proposed revenue requirement do not reflect the Attorney General's proposed disallowance. Columbia Kentucky explained that the originally proposed investor relations expense was included in the stipulated revenue requirement, which benefits the customers.¹⁰⁵ Columbia Kentucky reiterated that the expense supports Columbia Kentucky's efforts to communicate with debt and equity investors, helping to reduce investor concerns and the risk associated with the investments.¹⁰⁶

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that this provision of the Joint Settlement is reasonable and should be approved. These expenses are legitimate business expenses that lower the cost of debt for Columbia Kentucky and the Commission agrees with Columbia Kentucky's reasoning for its inclusion in the revenue requirement. However, in future rate cases the Commission will continue to review this item to ensure that the amount being recovered from customers appropriately reflects their benefit of the expense.

401(K) Expense. Columbia Kentucky did not propose an adjustment to the forecasted test year expense for either a 401(K) plan or to the forecasted test year expense for pensions (defined benefits plan).¹⁰⁷ Columbia Kentucky stated that it

¹⁰⁴ Shaeffer Rebuttal Testimony at 21.

¹⁰⁵ Cooper Errata Supplemental Testimony at 12.

¹⁰⁶ Cooper Errata Supplemental Testimony at 12.

¹⁰⁷ Columbia's Response to the Attorney General's Second Request for Information (Attorney General's Second Request), Item 33.

provides health and welfare plans (health care coverage, dental coverage, vision care, term life insurance and disability insurance), retirement savings plans, and paid time off (vacation, holiday, and sick pay) to all the qualified employees and stated that NCSC provides the health care coverage for employees and retirees.¹⁰⁸ Columbia Kentucky also stated defined benefit plans are no longer offered to exempt new hires on or after January 1, 2010, and non-exempt hires on or after January 1, 2013.¹⁰⁹

The Attorney General recommended removing 401(k) expenses in the forecasted test year for employees that are also covered under a defined benefit plan.¹¹⁰ The Attorney General cited Commission precedent to support its position.¹¹¹ The Attorney General proposed an adjustment that reduces the forecasted test year expense by approximately \$295,000, which reduces the revenue requirement by approximately \$296,000.¹¹²

In Columbia Kentucky's rebuttal testimony, it disagreed with the Attorney General's proposal and argued these benefits are part of a competitive compensation and benefits program offered to its employees.¹¹³ Columbia Kentucky stated the pension program was discontinued on January 1, 2010, for exempt employees and on January 1, 2013, for

¹⁰⁸ Application, Volume 3, Tab 34, Direct Testimony of Beth Owens (Owens Direct Testimony) at 38.

¹⁰⁹ Columbia Kentucky's Response to the Attorney General's First Request, Item 81.

¹¹⁰ Defever Direct Testimony at 19.

¹¹¹ Defever Direct Testimony at 19 citing Case No. 2016-00169, *Application of Cumberland Valley Electric, Inc. for a General Adjustment to Rates* (Ky. PSC Feb. 6, 2017), Order at 10; Case No. 2017-00349, *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications* (Ky. PSC May 3, 2018), Order at 19–20.

¹¹² Defever Direct Testimony, Exhibit_JD-1.xlsx, tab 401k.

¹¹³ Columbia Kentucky's Rebuttal Testimony of Beth Owens (Owens Rebuttal Testimony) (filed Sept. 20, 2024) at 2.

nonexempt, non-union employees, and at that time, the remaining employees in the pension plan programs were also converted to a less costly account balance program.¹¹⁴ Columbia Kentucky also argued that the company has made no pension cash contributions to the voluntary Employees Beneficiary Association (VEBA) Trust since 2021.¹¹⁵ In addition, Columbia Kentucky stated that there are no pension cash contributions in the forecasted base period or forecasted test year budget.¹¹⁶

Pursuant to the Joint Settlement, the parties agreed to adopt the Attorney General's position related to the expense associated with those employees who receive a total retirement benefit that contains both the pension program and a 401(k) contribution and agreed to reduce the revenue requirement by \$0.296 million (or approximately \$296,000).¹¹⁷

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that this provision of the Joint Settlement is reasonable and should be approved. The Commission agrees with the Attorney General's position and finds that removal of 401(k) expense in the forecasted test year for employees that are also covered under a defined benefit plan is consistent with Commission precedent.¹¹⁸

¹¹⁴ Owens Rebuttal Testimony at 2.

¹¹⁵ Owens Rebuttal Testimony at 2.

¹¹⁶ Owens Rebuttal Testimony at 2.

¹¹⁷ Rebuttal Testimony of Judy Cooper (Cooper Rebuttal Testimony) (filed Sept. 20, 2024) at 10.

¹¹⁸ See i.e. Case No. 2017-00349, May 3, 2018 Order at 20 (Note that a rehearing Order in the case was issued on September 17, 2018, but was not related to this specific issue).

Payroll Expense. Columbia Kentucky proposed \$19.359 million for allocated and direct payroll expense,¹¹⁹ and approximately \$900,000 and \$3.063 million for related payroll tax expense and benefits expense, respectively.¹²⁰ Columbia Kentucky stated that its labor expense is based on projected headcount and wage increase assumptions, with the O&M labor budget based on projected work by activity.¹²¹ Columbia Kentucky projected 204 full-time employees and an overall wage increase guideline of 3 percent for exempt and non-exempt employees for 2025.¹²² Columbia Kentucky stated that labor expense values are compared to the prior year before the budgeting process is finalized.¹²³

The Attorney General argued that it cannot be assumed all of the projected new employees will be hired and retained by Columbia Kentucky, due to Columbia Kentucky consistently having had vacancy issues.¹²⁴ The Attorney General pointed to the fact that Columbia Kentucky underspent 10.8 percent for direct labor for the years 2021 through 2023 and 4.9 percent for allocated labor for the years 2022 and 2023.¹²⁵ Based on this, the Attorney General recommended reducing direct labor expense by 10.8 percent and reducing allocated labor expense by 4.9 percent, which resulted in a reduction of

¹¹⁹ Columbia Kentucky's Response to the Attorney General's First Request, Item 99.

¹²⁰ Application, Volume 9, Tab 85, Schedule G-1.

¹²¹ Application, Volume 3, Tab 29 Direct Testimony of Craig Inscho (Inscho Direct Testimony) (filed March 16, 2024) at 10-11.

¹²² Inscho Direct Testimony at 11.

¹²³ Bly Direct Testimony at 11.

¹²⁴ Defever Direct Testimony at 23.

¹²⁵ Defever Direct Testimony at 25.

\$1.628 million to the forecasted test year expense.¹²⁶ The Attorney General explained the adjustment reduced the revenue requirement by \$1.638 million.¹²⁷ The Attorney General stated that the adjustments for benefits expense and payroll tax expense flow through to reduce the forecasted test year benefits expense by approximately \$337,000 and the payroll tax expense by approximately \$306,000, which would reduce the revenue requirement by approximately \$379,000 and \$307,000, respectively.¹²⁸ No other intervenors provided testimony on payroll expense, payroll tax expense, or benefits.

In Columbia Kentucky's rebuttal testimony, it argued that these disallowances to allocated payroll expense and associated benefits and payroll tax expense by the Attorney General were not warranted.¹²⁹ Columbia Kentucky disagreed with the labor adjustments applied by the Attorney General, stating that its direct payroll expense is lower than what would have resulted from applying its actual employee merit increases to 2021 actual payroll expense.¹³⁰

For settlement purposes, the Parties agreed to include the payroll expense and associated benefits expense Columbia Kentucky proposed in its application.¹³¹

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that this provision of the Joint Settlement is reasonable and should be approved.

¹²⁶ Defever Direct Testimony at 25–26.

¹²⁷ Defever Direct Testimony at 26.

¹²⁸ Defever Direct Testimony at 34.

¹²⁹ Bly Rebuttal Testimony at 7–8.

¹³⁰ Bly Rebuttal Testimony at 9–10.

¹³¹ Joint Settlement, Attachment A.

Long-Term Incentive Compensation. Columbia Kentucky offers two incentive compensation programs: the Short-Term Incentive Plan (STI) and the Long-Term Incentive Plan (LTI). The STI is discussed in a separate section below. Columbia Kentucky stated it identifies the levels of jobs that are eligible for STI and/or LTI, to align employee rewards with the vision and strategies surrounding occupational health and safety, operational excellence, customer satisfaction, workforce, sustainability, and financial metrics.¹³² Participants are eligible to receive incentive awards based on a blend of their personal performance and the performance of NiSource.¹³³

Columbia Kentucky reported \$1.851 million expense in LTI Compensation.¹³⁴ Columbia Kentucky stated that LTI is a form of incentive compensation that is designed to attract and retain executive and director level talent within Columbia Kentucky and NCSC and that, without the compensation, it would be difficult to attract and retain its leaders.¹³⁵ LTI compensation is granted in the form of Performance Share Units (PSUs) and Restricted Stock Units (RSUs) to employees at the level of Director and above.¹³⁶ PSUs are awarded based upon Columbia Kentucky's LTI metrics, which include operational excellence, safety, employee engagement, environmental, and financial

¹³² Owens Direct Testimony at 14.

¹³³ Owens Direct Testimony at 15.

¹³⁴ Columbia Kentucky's Response to the Attorney General's First Request, Attachment 99A.

¹³⁵ Owens Direct Testimony at 24.

¹³⁶ Owens Direct Testimony at 24.

goals.¹³⁷ RSUs are made available after a multi-year time period to serve as a retention tool to Director-level and above leaders.¹³⁸

The Attorney General recommended a disallowance of the incentive compensation tied to financial goals, citing the Commission's previous decision to disallow recovery of employee compensation plans that are tied to financial measures because such plans benefit shareholders while ratepayers receive little benefit.¹³⁹ The Attorney General proposed to remove 80 percent of the LTI offerings based upon the 2024 metrics provided by Columbia Kentucky.¹⁴⁰ An 80 percent reduction in LTI would result in an adjustment of \$1.481 million to the revenue requirement.¹⁴¹ No other intervenors provided testimony on LTI Compensation.

In Columbia Kentucky's Rebuttal Testimony, it stated that 100 percent recovery of LTI should be allowed because a removal of any portion would send a message that being efficient and cost-effective in meeting the Company's budget is not important.¹⁴² Columbia Kentucky argued that LTI compensation allows it to attract and retain key management personnel which are critical in order for Columbia Kentucky to maintain high quality of service, efficiency and safety.¹⁴³ It also stated the Attorney General's proposed adjustment overstated the amount of LTI compensation related to financial goals.

¹³⁷ Owens Direct Testimony at 25.

¹³⁸ Owens Direct Testimony at 25.

¹³⁹ Defever Direct Testimony at 20.

¹⁴⁰ Defever Direct Testimony at 21.

¹⁴¹ Defever Direct Testimony at 21. $\$1,850,748 \times 80\% = \$1,480,598$.

¹⁴² Owens Rebuttal Testimony at 4.

¹⁴³ Owens Rebuttal Testimony at 7.

Columbia Kentucky stated that 48 percent of its LTI compensation was related to financial goals, and if such an adjustment was made, it should be for no more than 48 percent.¹⁴⁴

For settlement purposes, the Parties agreed to a reduction of \$1.590 million to the revenue requirement for long-term incentive compensation. Columbia Kentucky argued that this is consistent with Commission precedent and are the Attorney General's recommendations.¹⁴⁵

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that this provision of the Joint Settlement is reasonable and should be approved. However, as noted by the Attorney General in its testimony, the Commission will continue to evaluate LTI compensation plans on a case-by-case basis for reasonableness related to financial incentive.

Short-Term Incentive Compensation and Profit Sharing. Columbia Kentucky included \$1.972 million in STI Compensation expense in the forecasted test year.¹⁴⁶ Columbia Kentucky also included approximately \$181,000 in profit sharing expenses in the forecasted test year.¹⁴⁷ Columbia Kentucky's STI metrics include operational excellence, safety, customer satisfaction, and financial goals.¹⁴⁸ The amount of incentive is determined by an employee's manager based on upon employee's performance.¹⁴⁹ Columbia Kentucky stated its employees must perform safely, must provide a positive

¹⁴⁴ Owens Rebuttal Testimony at 7.

¹⁴⁵ Columbia Kentucky's Post-Hearing Brief at 14.

¹⁴⁶ Columbia Kentucky's Response to Attorney General's First Request, Item 99A.

¹⁴⁷ Columbia Kentucky's Response to Attorney General's First Request, Item 99.

¹⁴⁸ Owens Direct Testimony at 17.

¹⁴⁹ Owens Direct Testimony at 17.

customer experience, and must operate with financial efficiency for these metrics to be achieved and paid.¹⁵⁰ Having STI as part of Columbia Kentucky and NCSC employees' compensation plan incentivizes them to demonstrate the behaviors that support the company's goals of providing safe and reliable service to its customers.¹⁵¹ The profit sharing is paid out based on the STI.¹⁵²

The Attorney General recommended a disallowance of the incentive compensation tied to financial goals, citing the Commission's previous decision to disallow recovery of employee compensation plans tied to financial measures because such plans benefit shareholders while ratepayers receive little benefit.¹⁵³ The Attorney General also expressed concern that the program rewarded over 98.5 percent of eligible employees and reduced the incentive created by the program because the employees expected a reward anyway, but the Attorney General did not make an adjustment for this concern. The Attorney General proposed to remove 70 percent of the STI offerings and profit sharing based upon the 2024 metrics provided by Columbia Kentucky.¹⁵⁴ A 70 percent reduction in STI would result in an expense reduction of \$1.380 million.¹⁵⁵ A 70 percent reduction in the profit sharing would result in an expense reduction of approximately \$127,000.¹⁵⁶ No other intervenors provided testimony on STI Compensation.

¹⁵⁰ Owens Direct Testimony at 18.

¹⁵¹ Owens Direct Testimony at 18.

¹⁵² Columbia Kentucky's Response to Attorney General's Second Request, Item 25.

¹⁵³ Defever Direct Testimony at 20.

¹⁵⁴ Defever Direct Testimony at 21 and 26.

¹⁵⁵ Defever Direct Testimony at 21.

¹⁵⁶ Defever Direct Testimony at 27.

In Columbia Kentucky's rebuttal testimony, it stated that 100 percent recovery of STI should be allowed because a removal of any portion would send a message that being efficient and cost-effective in meeting the company's budget is not important.¹⁵⁷ It also argued that the manager has the discretion to award incentives based on the employee's individual performance, to motivate employees to perform at the highest level, and that there are employees who do not receive any STI award because their performance did not warrant the incentive.¹⁵⁸ Columbia Kentucky further stated that a reduction in STI could lead to a departure of employees resulting in a loss of valuable skills and institutional knowledge, then increased turnover costs, including recruiting costs, relocation costs, and training costs, as well as having an impact on safety and customer service goals.¹⁵⁹

For settlement purposes, the Parties agreed to a reduction of \$1.609 million to the revenue requirement for short-term incentive compensation and profit sharing. Columbia Kentucky argued that this is consistent with Commission precedent and was consistent with the Attorney General's recommendations.¹⁶⁰

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that this provision of the Joint Settlement is reasonable and should be approved.

¹⁵⁷ Owens Rebuttal Testimony at 4.

¹⁵⁸ Owens Rebuttal Testimony at 5.

¹⁵⁹ Owens Rebuttal Testimony at 6.

¹⁶⁰ Columbia Kentucky's Post-Hearing Brief at 14.

Supplemental Executive Retirement Plan (SERP). Columbia Kentucky stated that NCSC allocated costs to Columbia Kentucky for SERP expense provides retirement savings for a small number of retired employees and argued that this allowed Columbia Kentucky to retain talented employees.¹⁶¹ Columbia Kentucky reported approximately \$61,000 in SERP expense allocated from NCSC.¹⁶²

The Attorney General stated that SERP is an extra benefit and is provided only to highly-compensated executive employees.¹⁶³ The Attorney General argued that the costs should be borne by the shareholders, as the SERP expense does not benefit ratepayers.¹⁶⁴ The Attorney General proposed removing the total SERP expense from the forecasted test year resulting in a reduction of approximately \$61,000.¹⁶⁵ The Attorney General stated that this adjustment would reduce the revenue requirement by approximately \$61,000.¹⁶⁶ No other intervenors provided testimony on SERP expense.

In Columbia Kentucky's rebuttal testimony, it disagreed with the Attorney General's proposed SERP adjustment, stating that SERP is part of the compensation and benefits program provided to employees.¹⁶⁷ Columbia Kentucky argued that its compensation and benefits, including SERP, provided the means to competitively compensate

¹⁶¹ Columbia Kentucky's Responses to the Attorney General's Second Request, Item 51.

¹⁶² Columbia Kentucky's Responses to the Attorney General's Second Request, Item 51.

¹⁶³ Defever Direct Testimony at 27.

¹⁶⁴ Defever Direct Testimony at 28.

¹⁶⁵ Defever Direct Testimony at 28.

¹⁶⁶ Defever Direct Testimony at 28.

¹⁶⁷ Owens Rebuttal Testimony at 9.

employees in order to attract and retain quality employees responsible for the safe and reliable service to Columbia Kentucky.¹⁶⁸

In the proposed Joint Settlement, the Parties agreed to remove the SERP and the included pension restoration plan expense proposed by Columbia Kentucky, from the revenue requirement calculation, resulting in a \$0.054 million¹⁶⁹ (or approximately \$54,000) and \$0.006 million¹⁷⁰ (or approximately \$6,000) reduction, respectively, to the revenue requirement.¹⁷¹ This results in a total reduction of \$.061 million¹⁷² (or approximately \$61,000) to the revenue requirement. Columbia Kentucky argued that this is consistent with Commission precedent and are consistent with the Attorney General's recommendations.¹⁷³

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that this provision of the Joint Settlement is reasonable and should be approved. As noted in the arguments, the complete removal of the SERP expense is consistent with Commission precedent.¹⁷⁴

¹⁶⁸ Owens Rebuttal Testimony at 9.

¹⁶⁹ The Commission notes that the final number utilized by the Commission for calculating the adjusted revenue requirement comes from Joint Settlement, Attachment A. The unrounded input in millions utilized was 0.054438883782.

¹⁷⁰ The unrounded input in millions utilized was 0.006446273322.

¹⁷¹ Joint Settlement at 5–6.

¹⁷² The Commission notes that this number is the result of adding the unrounded inputs from the Joint Settlement, Attachment A totaling 0.060885157104 and then rounding to the third decimal place.

¹⁷³ Columbia Kentucky's Post-Hearing Brief at 14.

¹⁷⁴ Case No. 2020-00174, *Electronic Application of Kentucky Power Company for (1) A General Adjustment of its Rates for Electric Service; (2) Approval of Tariffs and Riders; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; (4) Approval of a Certificate of Public Convenience and Necessity; and (5) All Other Required Approvals and Relief* (Ky. PSC Jan. 13, 2021), Order at 16. Case No. 2023-00159, *Electronic Application of Kentucky Power Company for (1) A General Adjustment of its Rates for Electric Service; (2) Approval of Tariffs and Riders; (3) Approval of Accounting Practices to*

American Gas Association (AGA) Dues. Columbia Kentucky proposed to remove \$1,577 in AGA dues from the forecasted test period.¹⁷⁵ The Attorney General requested removal of the total amount of AGA dues included in the forecasted test period, totaling \$22,138.¹⁷⁶ Columbia Kentucky stated that the AGA dues were included in the unadjusted base period but did not budget dues by organization in the forecasted test year.¹⁷⁷ The Attorney General highlighted that the AGA is a political advocacy, lobbying and public relations group, and these costs are typically excluded from utility rates.¹⁷⁸ The Attorney General cited other cases where the Commission has not allowed the recovery of such expenses, and noted Columbia Kentucky had not removed the full amount of AGA dues.¹⁷⁹ The Attorney General recommended removing AGA dues of \$20,561 to capture the total amount.¹⁸⁰

In rebuttal testimony, Columbia Kentucky stated that the amount of AGA dues related to costs other than those that are specifically disallowed by 807 KAR 5:016 would not be recommended for removal, and the appropriate percentage of costs were already removed from Columbia Kentucky's requested revenue requirement.¹⁸¹

Establish Regulatory Assets and Liabilities; (4) A Securitization Financing Order; and (5) All Other Required Approvals and Relief (Ky. PSC Jan. 19, 2024), Order at 26–28.

¹⁷⁵ Defever Direct Testimony at 30.

¹⁷⁶ Columbia Kentucky's Response to Attorney General's First Request, Item 25.

¹⁷⁷ Defever Direct Testimony at 29.

¹⁷⁸ Defever Direct Testimony at 29.

¹⁷⁹ Defever Direct Testimony at 29–31.

¹⁸⁰ Defever Direct Testimony at 32.

¹⁸¹ Cooper Rebuttal Testimony at 2–3.

In the proposed settlement, the Parties agreed to remove the AGA dues expense, resulting in a \$0.021 million (approximately 21,000) reduction to the revenue requirement.¹⁸²

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that this provision of the Joint Settlement is reasonable and should be approved. As noted in the Attorney General's testimony, the Commission has consistently removed these expenses.¹⁸³

Green Path Rider Amortization Expense. As discussed above, Columbia Kentucky included costs for the rejected Green Path Rider in the forecasted test year. The Joint Settlement included a \$0.020 million (approximately \$20,000) revenue requirement reduction to remove the Green Path Rider amortization expense.¹⁸⁴ Having reviewed the record and being otherwise sufficiently advised, the Commission finds that this provision of the Joint Settlement is reasonable and should be approved.

RATE OF RETURN

Return On Equity (ROE)

In its application, Columbia Kentucky used multiple models to develop its ROE recommendation, including: the Discounted Cash Flow (DCF) model, both the Capital Asset Pricing Model (CAPM) CAPM with a size adjustment, and the Empirical Capital

¹⁸² Joint Settlement at 6.

¹⁸³ Defever Direct Testimony at 31-32. Citing Case No. 2021-00214, *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates* (Ky. PSC May 19, 2022), Order at 24–25. Case No. 2021-00183, *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* (Ky. PSC Dec. 28, 2021), Order at 10.

¹⁸⁴ Cooper Errata Supplemental Testimony at 7.

Asset Pricing Model (ECAPM), and a Risk Premium Model (RPM).¹⁸⁵ The models were applied to 26 companies divided into three proxy groups: six regulated natural gas utilities, nine regulated combination utilities, and 11 non-regulated companies.¹⁸⁶ Using both historical and forecast analyses, Columbia Kentucky recommended an ROE of 10.80 percent based upon a range of 10.55 percent to 11.05 percent.¹⁸⁷ Columbia Kentucky maintained that, as a part of an appropriate capital structure, this percentage would allow it to earn the prevailing opportunity cost of capital, preserve its financial integrity and attract capital at reasonable terms.¹⁸⁸

The Attorney General was the only intervenor to provide direct testimony on ROE. The Attorney General provided alternative ROE estimates using both the DCF and the CAPM models applied to seven natural gas utilities, Columbia Kentucky's natural gas utility group plus the addition of Chesapeake Utilities.¹⁸⁹ The Attorney General's application of the CAPM used both historical and forecasted risk premiums and publicly available market risk premium estimates.¹⁹⁰ The Attorney General specifically relied on the DCF analysis results to support his recommended ROE arguing that a considerable amount of judgement must be employed to determine the market return and expected risk premium elements.¹⁹¹ Further, the Attorney General noted a wide variety of data

¹⁸⁵ Rea Direct Testimony at 5.

¹⁸⁶ Rea Direct Testimony at 4.

¹⁸⁷ Rea Direct Testimony at 3-4.

¹⁸⁸ Rea Direct Testimony at 4.

¹⁸⁹ Attorney General's Direct Testimony of Richard A. Baudino (Baudino Direct Testimony) (filed Aug. 14, 2024) at 3 and 16.

¹⁹⁰ Baudino Direct Testimony at 3.

¹⁹¹ Baudino Direct Testimony at 24 and 32.

should be used in estimating investors' required returns.¹⁹² The Attorney General recommended an ROE of 9.60 percent based upon a range of 8.47 percent to 10.51 percent for the DCF model and 8.90 to 10.00 percent for the CAPM percent.¹⁹³

According to Section 3 of the Joint Settlement, the Parties agreed that Columbia Kentucky's authorized ROE will be 9.75 percent for its natural gas base rates.¹⁹⁴ Columbia Kentucky agreed to withdraw its proposal for an ROE applied to capital recovered by its SMRP Rider to be equal to that ROE applied to base rates.¹⁹⁵ Columbia Kentucky will instead include this request as a part of its annual SMRP filing in Case No. 2024-00328.¹⁹⁶ The agreed upon ROEs were premised on the totality of the Joint Settlement, including a 2-year stay out provision.¹⁹⁷

The following table presents the recommended ROEs from the Parties and the methods used to support each parties' recommendations:

<u>Party</u>	<u>Recommendation</u>	<u>Methods</u>
Columbia Kentucky	10.80%	DCF, CAPM, RPM
Attorney General	9.60%	DCF, CAPM
<u>Settlement</u>	9.75%	

¹⁹² Baudino Direct Testimony at 24.

¹⁹³ Baudino Direct Testimony at 32. Note that the recommended ROE is equivalent to the average of the DCF result.

¹⁹⁴ Cooper Errata Supplemental Testimony at 6 and Joint Settlement, Section 3 at 3.

¹⁹⁵ Cooper Errata Supplemental Testimony at 17 and Joint Settlement, Section 9 at 7.

¹⁹⁶ Cooper Errata Supplemental Testimony at 17 and Joint Settlement, Section 9 at 7. Case No 2024-00328, *Electronic Application of Columbia Gas of Kentucky, Inc. for its Annual Safety Modification and Replacement Program Filing* (filed Oct. 15, 2024).

¹⁹⁷ Joint Settlement, Section 10 at 7. See also Cooper Errata Settlement Testimony at 18.

As discussed in Case Nos. 2019-00271,¹⁹⁸ 2020-00174¹⁹⁹ and 2020-00350,²⁰⁰ the Commission continues to believe that it is appropriate for utilities to present, and for the Commission to evaluate, multiple methodologies to estimate ROEs. Each approach has its own merits. As demonstrated in the respective ROE testimonies in this proceeding, there is considerable variation in both data and application within each modeling approach, which can lead to very different results. The Commission's role is to conduct a balanced analysis and weigh how each of the various models, as presented, are employed.

The Commission again cautions all parties against unreasonably removing or ignoring "outlier" data due to a perception of being "too high" or "too low". As demonstrated in testimony, there are a number of actions that can be and were taken to account for "outlier" data.²⁰¹ Result oriented exclusions of data that are not beyond the realm of reasonableness are inappropriate. Results based upon excluded data without adequate support will be given less weight in Commission determinations.

¹⁹⁸ See generally Case No. 2019-00271, *Electronic Application of Duke Energy Kentucky, Inc. for 1) An Adjustment of the Electric Rates; 2) Approval of New Tariffs; 3) Approval of Accounting Assets and Liabilities; and 4) All Other Required Approvals and Relief*, (Ky PSC Apr 27, 2020).

¹⁹⁹ See generally Case No. 2020-00174, *Electronic Application of Kentucky Power Company for (1) A General Adjustment of its Rates for Electric Service; (2) Approval of Tariffs and Riders; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; (4) Approval of a Certificate of Public Convenience and Necessity; and (5) All Other Required Approvals and Relief*, (Ky PSC Jan 13, 2021).

²⁰⁰ See generally Case No. 2020-00350, *Electronic Application of Louisville Gas and Electric Company for an Adjustment of its Electric and Gas Rates, A Certificate of Public Convenience and Necessity to Deploy Advanced Metering Infrastructure, Approval of Certain Regulatory and Accounting Treatments, and Establishment of a One-Year Surcredit*, (Ky PSC Jun 30, 2021).

²⁰¹ See Case No. 2021-00183, *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*, (Ky PSC Dec 28, 2021); Case No. 2023-00159, *Electronic Application of Kentucky Power Company for (1) A General Adjustment of Its Rates for Electric Service; (2) Approval of Tariffs and Riders; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; (4) A Securitization Financing Order; and (5) All Other Required Approvals and Relief* (Ky PSC Jan 19, 2024)

The Commission reiterates further that it continues to reject the use of Predictive Risk Premium Model (PRPM) methodology, flotation cost adjustments, financial risk adjustments and size adjustments in the ROE analyses.²⁰² The Commission will accord the most weight to DCF and CAPM methodology analyses based upon regulated industry and company proxy groups. Both the DCF and CAPM methodologies are long-standing and well-accepted models that model risk and returns implicitly and explicitly.

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that the provision that an ROE of 9.75 percent in the Joint Settlement is reasonable and should be approved. In reaching its determination, the Commission takes note of its recent authorized ROE determinations, as well as the reasonableness of the methods relied upon to achieve this amount, and the Settlement Agreement “stay out” provision.

SMRP Rider

In this proceeding, Columbia Kentucky proposed changes to its SMRP Rider tariff such that the SMRP invested capital, through the future test year, was not being rolled in to base rates.²⁰³ Thus, the SMRP balance was not being reduced to zero as was the case in its previous rate proceedings. Columbia Kentucky argued that, because of this change, there will be historic capital investments that will not be rolled into base rates along with additional future capital investments in the SMRP balance, and the benefits of

²⁰² See Case No. 2021-00214, *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates* (Ky PSC May 19, 2022); Case No. 2022-00372, *Electronic Application of Duke Energy Kentucky, Inc. for (1) An Adjustment of Electric Rates; (2) Approval of New Tariffs; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; And (4) All Other Required Approvals and Relief* (Ky PSC Oct 12, 2023).

²⁰³ Application at 9.

reduced regulatory lag no longer apply.²⁰⁴ Therefore, the ROE rate applied to the SMRP should equal the ROE rate applied to capital investments in rate base.²⁰⁵ Otherwise, the historic capital investments in the SMRP balance will not be treated the same as the capital investments in rate base.²⁰⁶

The Attorney General argued that the Commission should adhere to its past policy of applying a reduced ROE rate to tracking mechanisms regardless of its decision on proposed changes to the SMRP.²⁰⁷ The Attorney General recommended a 10-basis point reduction in the ROE to 9.50 percent.²⁰⁸

In rebuttal testimony, Columbia Kentucky reiterated its argument that there should be no reduction in the ROE rate applied to capital investments in the SMRP.²⁰⁹ In the Joint Settlement, Columbia Kentucky agreed to withdraw its proposal for an ROE rate applied equally to the SMRP and rate base. According to the Settlement, the request for equal treatment would be made in Case No. 2024-00328.²¹⁰

Having reviewed the record and being otherwise sufficiently advised, the Commission agrees that the SMRP invested capital, through the future test year, should not be rolled into to base rates, as proposed in the Application. The Commission will address any further requests related to the SMRP if made by Columbia Kentucky in other

²⁰⁴ Rea Direct Testimony at 52.

²⁰⁵ Rea Direct Testimony at 52.

²⁰⁶ Rea Direct Testimony at 51-52.

²⁰⁷ Baudino Direct Testimony at 35-36.

²⁰⁸ Baudino Direct Testimony at 35-36.

²⁰⁹ Rebuttal Testimony of Vincent V. Rea (Rea Rebuttal Testimony) (filed Sept. 20, 2024) at 86-87.

²¹⁰ Joint Settlement, Section 9 at 7.

cases. The Commission approves Columbia Kentucky's withdrawal of an ROE rate applied equally to the SMRP and rate base pursuant to the Joint Settlement. The Commission will defer a finding on this issue in Case No. 2024-00328, as proposed in that matter.

Capital Structure

Columbia Kentucky estimated its 13-month average capital structure ratios for the fully forecasted test year as of December 31, 2025 at 45.53 percent long-term debt, 1.83 percent short-term debt, and 52.64 percent equity. The long-term debt ratio includes anticipated debt issuances in 2024 and 2025 totaling \$41.0 million.²¹¹ Commensurate with the anticipated debt issuances, the estimated cost of long-term debt also includes forecasted interest rates of 6.25 percent for 2024 issuances and 6.00 percent for issuances in 2025. The resulting estimated 13-month average cost of long-term debt as of December 31, 2025 is 4.88 percent.²¹² The estimated cost of short-term debt is 5.25 percent, which represents the fully forecasted test year.²¹³

The Attorney General argued that, because Columbia Kentucky's most recent long-term debt issuance on June 30, 2024 with a rate of 5.9124 percent was known and less than its proposed forecasted long-term rates of 6.25 percent for 2024 and 6.00 percent for 2025, that rate should be applied to the remaining 2024 and 2025 debt issuances. The Attorney General recommended a long-term debt rate of 4.84 percent.²¹⁴

²¹¹ Rea Direct Testimony at 52-53 and Attachments VVR-5 and VVR-6.

²¹² Rea Direct Testimony at 56-57 and Attachments VVR-5 and VVR-6.

²¹³ Rea Direct Testimony at 56-57 and Attachments VVR-5.

²¹⁴ Baudino Direct Testimony at 34.

In rebuttal testimony, Columbia Kentucky revised its long-term debt cost rate. One of the future debt issuances was issued on June 30, 2024, with a rate of 5.9124 percent.²¹⁵ Also, as proposed by the Attorney General, the other expected 2024 and 2025 debt issuance rates were revised to reflect the actual June 30, 2024 rate.²¹⁶ Columbia Kentucky’s proposed new long-term debt rate is 4.84 percent, four basis points lower than its originally proposed rate of 4.88 percent.²¹⁷ Based upon the revised long term debt rate, Columbia Kentucky’s proposed overall rate of return equals 7.99 percent.²¹⁸

In the Joint Settlement Agreement, the Parties agreed that Columbia Kentucky’s ROE would be 9.75 percent. The long-term and short-term debt rates included in the cost of capital would be 4.80 percent and 5.25 percent, respectively. Columbia Kentucky’s capital structure would reflect 52.64 percent equity, 45.53 percent long-term debt and 1.83 percent short-term debt. The resulting weighted average cost of capital (WACC) would be 7.41 percent.²¹⁹

The Commission finds that capital structure, as proposed in the Joint Settlement Agreement and reflected in the table below, is fair, just and reasonable.

	Percent	Cost	Weighted Cost
Long-Term Debt	45.53%	4.80%	2.19%
Short-Term Debt	1.83%	5.25%	0.10%

²¹⁵ Rea Rebuttal Testimony at 84 and Attachment VVR-6R.

²¹⁶ Rea Rebuttal Testimony at 84 and Rea Rebuttal Testimony, Attachments VVR-2R and VVR-6R.

²¹⁷ Rea Rebuttal Testimony at 85.

²¹⁸ Rea Rebuttal Testimony at 85.

²¹⁹ Joint Settlement, Section 3 at 3-4.

Common Equity	52.64%	9.75%	5.13%
Total	100.00%		7.41%

DEPRECIATION STUDY

Applying Columbia Kentucky’s proposed depreciation rates to utility plant in service balances as of December 31, 2023, resulted in a \$3.5 million increase in depreciation expense.²²⁰ Using the forecasted 13-month average utility plant in service balance, Columbia Kentucky calculated a depreciation expense of \$26.484 million.²²¹ Intervenor’s did not provide testimony on this matter.

In the Joint Settlement, the Parties agreed that the depreciation study and related accounting treatments should be approved with an effective date of the new depreciation rates to be the same day that Columbia Kentucky’s new base rates become effective.

The Commission finds that, for settlement purposes, the application of the proposed depreciation study is appropriate.

DISCOUNT ON ACCOUNTS RECEIVABLE AND CHOICE WORKING GROUP

Columbia Kentucky currently pays CHOICE suppliers 98 percent of the revenue collected from CHOICE customers, representing a 2 percent discount on receivables.²²²

Joint Intervenor’s argued that the uncollectible expense of participating CHOICE customers is much lower than 2 percent.²²³ Joint Intervenor’s argued that the difference

²²⁰ Application, Volume 2, Tab 21, Direct Testimony of John Spanos (Spanos Direct Testimony) (filed May 23, 2024) at 4.

²²¹ Application, Volume 8, Tab 81, Schedule C-1.

²²² Joint Intervenor’s Direct Testimony of Matthew White (White Direct Testimony) (filed August 14, 2024) at 3.

²²³ White Direct Testimony at 3.

between the 2 percent and the actual uncollectible rate is being credited to rate base subsidizing sales customers.²²⁴ Joint Intervenors argued that this creates an inequity, increasing the cost of suppliers doing business, because CHOICE suppliers need to recover the current 2 percent discount through CHOICE products and rates from CHOICE customers.²²⁵ Joint Intervenors noted that the proposed uncollectible rate system wide is 0.4170 percent.²²⁶

Joint Intervenors recommended to reduce the discount rate in the tariff for CHOICE customers to reflect the approximate actual uncollectible rates.²²⁷ Joint Intervenors argued that the CHOICE suppliers should not be subsidizing the sales customers.²²⁸

In rebuttal testimony, Columbia Kentucky argued that the uncollectible expense issue is outside of the scope of the proceeding and the more appropriate venue would be within the context of the working group created from Case No. 2021-00386.²²⁹ Columbia Kentucky argued that since the CHOICE program pilot's inception, Columbia Kentucky has "assumed the risk of collecting payment for gas commodity costs from Customer CHOICE customers" and the current 2 percent is an outgrowth of the program's original 2.5 percent, which was retained by Columbia Kentucky "as compensation for assuming

²²⁴ White Direct Testimony at 3.

²²⁵ White Direct Testimony at 3.

²²⁶ White Direct Testimony at 3.

²²⁷ White Direct Testimony at 3.

²²⁸ White Direct Testimony at 3.

²²⁹ Case No. 2021-00386 June 28, 2024 Order at 11-12. Cooper Rebuttal Testimony at 5.

this risk.”²³⁰ Columbia Kentucky argued that the retention is not, and has never been, a dollar-for-dollar recovery of the cost to collect the Joint Intervenors’ receivables for them.²³¹

As part of the Joint Settlement, the Parties agreed that the amount of the suppliers’ discount on accounts receivable in recognition of Columbia Kentucky’s risk would be reduced from 2 percent to 1.75 percent.²³²

Having considered the record and being otherwise sufficiently advised, the Commission finds that the reduction of CHOICE program suppliers’ discount on accounts receivable from 2 percent to 1.75 percent is reasonable and should be approved. The Commission notes that this issue will be further explored in Case No. 2021-00386.

The Commission also acknowledges that the Parties agreed the Commission schedule the next meeting of the working group ordered in Case No. 2021-00386 during the week of April 13, 2025, or the week of April 20, 2025. An Order will be issued in that matter accordingly.

Total Revenue Requirement

The effect of all adjustments to Columbia Kentucky’s requested increase is a total revenue requirement increase of \$14.293 million, as shown in Appendix A. This reflects a \$9.48 million decrease in Columbia Kentucky’s requested revenue increase of \$23.773 million.

²³⁰ Cooper Rebuttal Testimony at 5 citing Case No. 1999-00165, *In the Matter of the Tariff Filing of Columbia Gas of Kentucky, Inc. to Implement a Small Volume Gas Transportation Service, to Continue its Gas Cost Incentive Mechanisms, and to Continue its Customer Assistance Program* (Ky. PSC Jan. 27, 2000), Order at 5.

²³¹ Cooper Rebuttal Testimony at 5.

²³² Joint Settlement, at 10-11, paragraph 16.

ALLOCATED COSTS FROM NCSC TO COLUMBIA KENTUCKY

Columbia Kentucky stated that NCSC was established to provide centralized services to its affiliates.²³³ Columbia Kentucky explained that the rendering of services on a centralized basis enables the affiliates to realize the benefits of personnel with specialized areas of expertise, as well as the use of assets, without bearing the full cost of each asset, individually, as the costs are shared amongst the affiliates.²³⁴

Columbia Kentucky explained that the billing process that NCSC performs to Columbia Kentucky includes two types of billing to its affiliates.²³⁵ The first type, convenience billing, reflects payments routinely made on behalf of affiliates, including employee benefits, corporate insurance, leasing, and external audit fees.²³⁶ Each affiliate is billed its portion of the payments made in that respective month.²³⁷ The second type, contract billing, reflects payments routinely made on behalf of affiliates, including employee benefits, corporate insurance, leasing, and external audit fees.²³⁸ Each affiliate is billed its portion of the payments made in that respective month.²³⁹

NCSC utilizes a billing pool system to collect costs that are applicable and billable to affiliates, including Columbia Kentucky.²⁴⁰ NCSC currently updates the statistical data

²³³ Application, Volume 3, Tab 32, Direct Testimony of Krista King (King Direct Testimony) (filed May 23, 2024) at 4.

²³⁴ King Direct Testimony at 4.

²³⁵ King Direct Testimony at 4.

²³⁶ King Direct Testimony at 5.

²³⁷ King Direct Testimony at 5.

²³⁸ King Direct Testimony at 5.

²³⁹ King Direct Testimony at 5.

²⁴⁰ King Direct Testimony at 6.

used in the approved allocation bases, on a semi-annual basis; and furthermore, prior to publishing the new allocation percentages, NCSC provides Columbia Kentucky's leadership team the opportunity to review, discuss, and provide feedback.²⁴¹ Columbia Kentucky stated there are system controls in place that allow certain departments, or groups of departments, to only use billing pools that allocates to companies benefitting from the services being provided.²⁴² Columbia Kentucky's internal audit group conducts an annual review of cost allocation procedures and makes recommendations related to contract and convenience billing processing.²⁴³

Columbia Kentucky provided the service agreement between it and NCSC as part of its application.²⁴⁴ NCSC provides various services to Columbia Kentucky as part of this agreement. When possible, NCSC will directly bill charges for any services²⁴⁵ rendered to Columbia Kentucky, while any remaining costs are allocated.²⁴⁶

Columbia Kentucky stated that its leadership performs formal reviews of allocated expenses on a monthly basis.²⁴⁷ Columbia Kentucky described that during these reviews, it is afforded the opportunity to, and does, challenge costs and seek additional

²⁴¹ King Direct Testimony at 7.

²⁴² King Direct Testimony at 7.

²⁴³ King Direct Testimony at 7.

²⁴⁴ King Direct Testimony, Attachment KK-1.

²⁴⁵ The following services are ones that are expected to be provided by NSCS to Columbia Kentucky: Accounting and Statistical; Auditing; Budgeting; Business; Corporate; Customer Billing, Collection, and Contact; Depreciation; Economic; Electronic Communication; Employee; Engineering and Research; Facility; Gas Dispatch; Information; Information Technology; Insurance; Land/Surveying; Legal; Officers; Operations Support and Planning; Purchasing, Storage and Disposition; Regulatory; Tax; Transportation; and Treasury. See King Direct Testimony, Attachment KK-2 at 7-11.

²⁴⁶ King Direct Testimony, Attachment KK-1.

²⁴⁷ Columbia's Kentucky's Post Hearing Brief at 17.

information.²⁴⁸ According to Columbia Kentucky, these monthly reviews are part of an ongoing dialogue about the finances of Columbia Kentucky and the appropriateness of costs allocated to it.²⁴⁹ Columbia Kentucky stated that this represents a dramatic change in the process since Columbia Kentucky's last rate case.²⁵⁰

Columbia Kentucky provided information related to allocated expenses from NCSC. Columbia Kentucky forecasted expenses associated with the 240 and 290 W. Nationwide Blvd. (Arena) building and 801 E. 86th Avenue Merrillville, Indiana (Southlake) buildings including \$7,360 for the Arena Fitness Center²⁵¹ and \$1,684 for the Southlake Fitness Center.²⁵² However, Columbia Kentucky stated that it has zero employees with a work address outside of the Commonwealth of Kentucky.²⁵³ Likewise, while Columbia Kentucky stated that it does not forecast expenses by individual vendor, Columbia Kentucky had allocated expenses in the base period that included vending machine services at Arena and cleaning services for both fitness centers.²⁵⁴

Witness Tamaleh Shaeffer testified at the hearing that the fluctuations in rents and leases in relation to the Arena building are partially based on the allocation in costs for the building is based on personnel and employees and employees who are working in a

²⁴⁸ Columbia Kentucky's Post-Hearing Brief at 18.

²⁴⁹ Columbia Kentucky's Post-Hearing Brief at 18.

²⁵⁰ Columbia Kentucky's Post-Hearing Brief at 18.

²⁵¹ Columbia Kentucky's Response to Attorney General's First Request, Item 87.

²⁵² Columbia Kentucky's Response to the Attorney General's First Request, Item 87.

²⁵³ Columbia Kentucky's Response to Staff's Post-Hearing Request, Item 4.

²⁵⁴ Columbia Kentucky's Response to the Attorney General's First Request, Item 87.

particular facility.²⁵⁵ Witness Shaeffer explained that time allocation for employees is the basis upon which lease costs are allocated for that office location.²⁵⁶ Witness Shaeffer further discussed that the building allocation studies get updated annually.²⁵⁷ NCSC building rents and leases costs are allocated to the operating companies as a labor overhead in the following steps: (1) employee headcount is used to determine the amount of rent charged to NCSC for each building in which NCSC employees reside; (2) Once each NCSC department has been assigned its share of the monthly NCSC rents and leases expense, the department's rental obligation is then allocated to each of the operating companies, both direct and allocated, based upon how that department's employees have billed their time (labor) in the respective month.²⁵⁸ This is completed through a mechanized allocation process.²⁵⁹

NCSC also allocated nearly \$68,000 to Columbia Kentucky for services provided by LJ Aviation.²⁶⁰ LJ Aviation is an aircraft management company which manages the NCSC-owned aircraft.²⁶¹ Columbia Kentucky stated that the costs primarily includes operation and maintenance expenses for aircraft managed by L.J. Aviation, for example, fuel costs, in flight Wi-Fi internet access, gate fees, and other travel related expenses,

²⁵⁵ Hearing Video Transcript (HVT) of the October 21, 2024 Hearing at 11:14:58-11:16:28.

²⁵⁶ HVT of the October 21, 2024 Hearing at 11:14:58-11:16:28.

²⁵⁷ HVT of the October 21, 2024 Hearing at 11:14:58-11:16:28.

²⁵⁸ Columbia Kentucky's Response to Staff's Post-Hearing Request, Item 5.

²⁵⁹ Columbia Kentucky's Response to Staff's Post-Hearing Request, Item 5.

²⁶⁰ Columbia Kentucky's Response to Staff's First Request, Item 6, Attachment B.

²⁶¹ Columbia Kentucky's Response to the Staff's Post-hearing Request, Item 13e.

such as meals.²⁶² Columbia Kentucky stated that there have been no specific instances of use of the NCSC-owned airplane used by Columbia Kentucky.²⁶³

The Commission recognizes the efforts Columbia Kentucky has made in improving its review of allocated costs. However, the Commission continues to have concerns regarding the reasonableness of certain allocated costs from NSCS to Columbia Kentucky, and if Columbia Kentucky is fully evaluating the benefit that those costs, including the above discussed costs associated with the Arena building and L.J. Aviation, may have for its ratepayers. In addition, Columbia Kentucky has not demonstrated how allocation by labor is reasonable for vending machine service or cleaning service. The Commission reminds Columbia Kentucky that it has a statutory obligation to determine that costs allocated to it are reasonable.

In the next rate case filing, the Commission recommends that Columbia Kentucky conduct an independent review of the NCSC service agreement and whether the allocations from NCSC to Columbia Kentucky meet the standards laid out in KRS 278.2207 and KRS 278.030. The Commission also strongly encourages Columbia Kentucky to hire a third-party auditor to analyze the reasonableness of the allocations from NCSC to Columbia Kentucky, including but not limited to the allocated labor expense.

²⁶²Columbia Kentucky's Response to the Staff's Post-hearing Request, Item 13e.

²⁶³ Columbia Kentucky's Response to Staff's Fourth Request, Item 11.

RATE DESIGN

Normalized Revenues

Columbia Kentucky's normalized revenues for the test year were based on its approved rates and normalized weather conditions. Columbia Kentucky used historical monthly customer counts and usage data for residential and commercial customer classes and applied econometric models to develop forecasts of residential and commercial use per customer. Columbia Kentucky provided a weather normalization study utilizing heating degree days (HDD) for the 20-year period ended December 31, 2023, to develop the forecasted test year residential and commercial customer usage.²⁶⁴ Revenues for industrial customers were based on customer count and volume information provided by Columbia Kentucky's Large Customer Relations group. Columbia Kentucky reported a 22 percent decrease in industrial transportation volumes from 2023 actual to 2025 forecasted.²⁶⁵ Columbia Kentucky stated that a single large transportation customer accounts for over half of the annual load and that this customer has access to another pipeline for its gas transportation requirements. Columbia Kentucky proposed a volume reduction impacting the industrial transportation class to reflect the single customer's historical throughput of approximately 6 Bcf²⁶⁶ as opposed to the most recent volume of 10 Bcf.²⁶⁷ Columbia Kentucky justified this adjustment by citing the high threat of bypass, and that its proposed forecasted usage falls in line with its average annual total usage for

²⁶⁴ Application, Volume 3, Tab 26, Direct Testimony of Michael Girata (Girata Direct Testimony) (filed May 23, 2024) at 4–5.

²⁶⁵ Girata Direct Testimony at 10, Table 2.

²⁶⁶ Bcf is a Billion cubic feet. 1 Bcf of natural gas is equal to 1,000,000 Mcf.

²⁶⁷ Columbia Kentucky's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed July 10, 2024), Item 48.

the customer.²⁶⁸ No intervening party challenged Columbia Kentucky's methodology in developing customer counts and class usage or its weather normalization methodology.

The Commission finds the forecasted industrial transportation volumes, given the status of the large transportation customer and the justification provided for the threat of bypass, to be acceptable in this instance. The Commission furthermore accepts the 20-year weather normalization study as provided by Columbia Kentucky. However, due to changes in weather patterns over the past few decades, the Commission notes that a weather normalization study using a shorter timeframe may provide a more accurate predictor of natural gas usage. Therefore, the Commission recommends that Columbia Kentucky should perform a 15-year weather normalization study as well as a 20-year weather normalization study to present in its next base rate case. In addition, Columbia Kentucky should also consider providing accompanying testimony explaining the methodology used in the studies, comparing its outcomes of both studies, and providing justification for the length of time chosen for forecasting normal weather.

Cost of Service Study

Columbia Kentucky filed three cost of service studies (COSS), which are identified as the Customer/Demand study, Demand/Commodity study, and the Average study.²⁶⁹ The first, a customer/demand study, allocated distribution main costs using a composite weighting between a minimum system investment that is allocated using the number of customers versus the remainder of the mains costs being allocated based on design day

²⁶⁸ Columbia Kentucky's Response to Commission Staff's Post-Hearing Request, Item 9.

²⁶⁹ Application, Volume 3 , Tab 24, Direct Testimony of Ronald J. Amen (Amen Direct Testimony) (filed May 23, 2024) at 15.

demand requirements.²⁷⁰ For the second, a demand/commodity study, distribution main costs are allocated using a composite factor based on design day demand and annual usage, commonly referred to as the peak and average method.²⁷¹ The third study is an average study where equal weight is given to the other two for the allocation of mains costs.²⁷² The differences among the studies performed is the application of the distribution mains allocation factors and the impact on the calculation of related allocation factors.²⁷³ Pursuant to the Commission's directive in Case No. 2021-00183,²⁷⁴ Columbia Kentucky also used the zero-intercept approach for the allocation of distribution mains for the purpose of determining the customer component. The results of the various COSS's illustrate that there are high levels of subsidization occurring between the different rate classes; specifically, that several of the non-residential classes are subsidizing the residential class.²⁷⁵

Having reviewed Columbia Kentucky's multiple COSSs, the Commission finds the evaluation of the results to be acceptable for use as a guide for the allocation the revenue increase granted herein. The Commission finds that Columbia Kentucky should continue to file multiple COSSs in future base rate filings and should continue to include a COSS based upon the zero-intercept method for the allocation of distribution mains. If such

²⁷⁰ Application, Attachment RJA-2, page 8 of 59.

²⁷¹ Application, Attachment RJA-2, page 8 of 59.

²⁷² Application, Attachment RJA-2, page 8 of 59.

²⁷³ Application, Volume 3 , Tab 24, Amen Direct Testimony (filed May 23, 2024) at 20.

²⁷⁴ Case No. 2021-00183, Order (Ky. PSC Dec. 28, 2021), ordering paragraph 15.

²⁷⁵ Application, Attachment RJA-2, page 21 of 59.

study does not produce reasonable results, a COSS should be filed where distribution mains are allocated as 100 percent demand.

Revenue Allocation and Rate Design

Columbia Kentucky proposed to divide the Rate MLDS class based on the customers' annual transportation volume and to establish two separate customer charges.²⁷⁶ MLDS customers who use up to 400,000 Mcf of gas in a year were proposed to be assessed a \$300 per month charge, while a MLDS customer who uses over 400,000 Mcf of gas in a year were proposed to be assessed \$600 per month. Due to MLDS customers requiring a connection directly through a dual-purpose meter to facilities of an interstate pipeline supplier,²⁷⁷ Columbia Kentucky stated that it does not have facilities in place to serve these customers other than the meters.²⁷⁸ Columbia Kentucky performed a special study to directly assign a portion of the specific distribution plant installed to serve the MLDS customers.²⁷⁹ No intervening party provided testimony on Columbia Kentucky's proposed changes to the Rate MLDS class structure.²⁸⁰

In the Joint Settlement, the Parties agreed to the revenue allocation as proposed by Columbia Kentucky in the Application, with the exception to the allocation of the Rate DS declining block usage rates. Columbia Kentucky had proposed to increase each of the three volumetric Delivery Charge blocks by an equal percentage. KIUC provided testimony related to the allocation of Rate DS block usage rates, arguing that Columbia

²⁷⁶ Amen Direct Testimony at 42.

²⁷⁷ See Columbia Kentucky's tariff eighth revised sheet No. 41, subsection 3 under Availability.

²⁷⁸ Application, Volume 3, Tab 24, Amen Direct Testimony (filed May 23, 2024) at 15.

²⁷⁹ Amen Direct Testimony at 15.

²⁸⁰ Direct Testimony of Kevin Murray (Murray Direct Testimony) (filed Aug. 14, 2024).

Kentucky’s proposal does not align with the filed COSS, which indicates that there are no commodity/volumetric costs associated with Columbia Kentucky’s service to its Rate DS or Rate IS customers. KIUC’s proposal was that the increase to the volumetric portion of Rate DS would be applied in equal percentages to the first two blocks, while the third block would remain unchanged. The Joint Settlement revenue allocation for Rate DS adopted KIUC’s proposal. The Joint Settlement allocation of revenue by rate class is as follows:

Rate Class	Portion of Revenue Increase
GSR/GTR	64.660 %
GSO/GTO/GDS	27.626 %
IS/DS	7.478 %
IUS	0.012 %
MLDS	0.224 %
Total	100.000 %

Based on Columbia Kentucky’s total revenue requirement increase of \$14.293 million due to the filing of the final rate case expense, as shown in Appendix A, the Commission finds that the revenue increase should follow the allocation method as agreed upon in the Joint Settlement. The revenue allocation for the rate classes will be applied to the volumetric rates, where applicable, while the agreed customer charges will remain unchanged from the Joint Settlement. The Commission’s determination of the rates to be fair, just and reasonable based on the revenue requirement increase as agreed to by the Parties and the revenue allocation are shown in the rates and charges as set forth in Appendix C to this Order. The Parties agreed to a residential customer charge of \$21.25 per billing period, which is an increase of \$1.50 from the current customer charge of \$19.75 per billing period. In addition, the Parties tendered tariffs and

agreed to the remaining proposed customer charge increases.²⁸¹ Based on the Joint Settlement revenue allocation the Residential base usage rate would be \$6.0958 per Mcf. A Residential customer with average monthly usage of 5.5 Mcf will experience an average monthly bill of \$54.78 which is an increase of \$6.14 or an increase of 12.62 percent from average monthly bill of \$48.64 based on current rates.

Having reviewed the record and being otherwise sufficiently advised, the Commission approves the proposed revenue allocation, proposed customer charges for all classes, proposed split in the customer charge to the Rate MLDS class, and the proposed change to Rate DS as agreed to in the Joint Settlement.

On October 14, 2024, revised tariff sheets were filed reflecting the rates, charges, and terms of the Joint Settlement agreed upon by the Parties and proposed to the Commission.²⁸² The Gas Cost Adjustment (GCA), Demand and Commodity usage charges used in the Joint Settlement's tendered revised tariff sheets reflected rates approved for billing with the final meter readings beginning on and after February 29, 2024, by the Commission in Case No. 2024-00011,²⁸³ adjusted for the rate case uncollectible factor.²⁸⁴ Upon review of the Joint Settlement and the Joint Settlement's tendered revised tariff sheets, the Parties failed to correct for the current GCA Demand and Commodity usage charges as approved by the Commission for billing with the final

²⁸¹ Joint Settlement, Attachment B.

²⁸² Joint Settlement (filed Oct. 14, 2024), Appendix B.

²⁸³ Case No. 2024-00011, *Electronic Purchased Gas Adjustment Filing Of Columbia Gas Of Kentucky, Inc.* (Ky. PSC Feb. 26, 2024), Order.

²⁸⁴ Columbia Kentucky's prior rate case uncollectable factor of 0.00428 was approved by the Commission in Case No. 2021-00183 (Ky. PSC Dec. 28, 2021), Order, Appendix B, page 1 of 3, footnote 1. The Joint Settlement includes a proposed rate case uncollectable factor of 0.00417.

meter readings beginning on and after November 26, 2024, in Case No. 2024-00341²⁸⁵, adjusted for the rate case uncollectible factor of 0.00417²⁸⁶ as approved in this proceeding.

However, the Commission finds that the incorrect GCA charges used in the Joint Settlement's revised tariff sheets have no impact on the final rates and charges as proposed by the Joint Settlement and accepted by the Commission in this proceeding. A correction to the Joint Settlement's revised tariff sheets, as shown in Appendix C to this Order, to include the corrected GCA usage rates, adjusted for the rate case uncollectible factor.²⁸⁷ Therefore, the Joint Settlement's revised tariff sheets with the updated GCA usage rates, including the updated uncollectible factor, should be accepted by the Commission.

TARIFFS

Late Payment Penalty

Columbia Kentucky proposed to remove the Late Payment Penalty for residential service currently included in the General Terms, Conditions, Rules and Regulations Tariff, Sheet No. 74.²⁸⁸ Columbia Kentucky explained that the proposed shift in residential late payment penalties collection to base rates is based on Columbia Kentucky's understanding of the Commission's Order in its last base rate case, Case No. 2021-

²⁸⁵ Case No. 2024-00341, *Electronic Purchased Gas Adjustment Filing Of Columbia Gas Of Kentucky, Inc.* (Ky. PSC Nov. 25, 2024), Order.

²⁸⁶ Application, Direct Testimony of Tamaleh L. Shaeffer, Attachment TS-1, page 1 of 1.

²⁸⁷ Case No. 2024-00341 (filed. Oct. 25, 2024), "December_2024_GCA_worksheet_(final).xlsx", Tab: "1 EGC", Cell G47. The Uncollectable ratio input was changed from "0.00428" to "0.00417" to reflect the update to the GCA Demand and Commodity usage rates as accepted in this proceeding.

²⁸⁸ Application at 6, paragraph 22.

00183.²⁸⁹ In the previous case, the Commission stated that Columbia Kentucky could be “overstating the costs associated with late payers by including items that don’t necessarily apply to all late payers, such as the cost of the termination notice, outbound and inbound calls and collection premise visits.”²⁹⁰ Columbia Kentucky argued that the costs are not incurred to serve residential customers that pay on time and that the nature of these costs have not changed since Columbia Kentucky’s last base rate case.²⁹¹ Columbia Kentucky stated that based on the Commission’s stated concern regarding residential late payers, the alternative course is to recover the costs as part of base rates instead of a late payment penalty.²⁹²

At the hearing, witness Judy Cooper, on behalf of Columbia Kentucky, testified that the original purpose of the late payment fee was as an incentive for residential customers to pay on time and that she believes that the fee has acted as intended.²⁹³ Witness Cooper stated that the late payment fee goes towards offsetting the revenue requirement, and that there would be no cost savings for Columbia Kentucky or its customers, apart from customers who pay late.²⁹⁴ Columbia Kentucky argued that the removal of the late payment fee for residential customers is beneficial to those customers

²⁸⁹ Columbia Kentucky’ Response to Staff’s Second Request, Item 46a.

²⁹⁰ Columbia Kentucky’s Response to Staff’s Second Request, Item 46a *citing* Case No. 2021-00183, Order dated December 28, 2021, page 44.

²⁹¹ Columbia Kentucky’ Response to Staff’s Second Request, Item 46a.

²⁹² Columbia Kentucky’ response to Staff’s Second, Item 46a.

²⁹³ HVT of the October 21, 2024 Hearing at 9:57:33 to 9:58:24.

²⁹⁴ HVT of the October 21, 2024 Hearing at 10:00:09 to 10:01.

who face hardships paying bills, especially in the winter heating season.²⁹⁵ No intervenors provided testimony on this issue.

For Joint Settlement purposes, the Parties agreed with the removal of the late payment penalty for residential services.²⁹⁶

Having considered the record and being otherwise sufficiently advised, the Commission finds that the removal of the late payment penalty as laid out in the Joint Settlement is reasonable and should be approved.

State TAAF

Columbia Kentucky proposed to reinstate Tariff Sheet 7a as the State TAAF.²⁹⁷ Columbia Kentucky explained that Tariff Sheet No. 7a was originally the TAAF approved by the Commission in Case No. 2018-00041²⁹⁸ for a federal tax change and was cancelled in Case No. 2021-00183²⁹⁹ when the impacts of the federal tax change were incorporated into base rates.³⁰⁰ Columbia Kentucky stated that this amended tariff would be utilized to implement the effects of future changes in state tax law resulting from the action or inaction of the Kentucky General Assembly.³⁰¹ Columbia Kentucky stated that the State TAAF could be a collection from, or credit to, customers based upon the state

²⁹⁵ Columbia Kentucky's Post Hearing Brief at 21.

²⁹⁶ Joint Settlement at 9.

²⁹⁷ Application at 3, paragraph 6.

²⁹⁸ Case No. 2018-00041, *In the Matter of the Electronic Investigation of the Impact of the Tax Cuts and Jobs Act on the Rates of Columbia Gas of Kentucky, Inc.*, Order (Ky PSC April 30, 2018), Order.

²⁹⁹ Case No. 2021-00183 December 28, 2021 Order.

³⁰⁰ Application, Volume 2, Tab 19, Direct Testimony of Judy Cooper (Cooper Direct Testimony) (filed May 23, 2024) at 9.

³⁰¹ Application at 3, paragraph 6.

tax law.³⁰² Columbia Kentucky stated that the TAAF would be set at zero until the effective date of any state tax changes.³⁰³ No intervenors provided testimony on the State TAAF.

As part of the settlement, Columbia Kentucky's agreed to withdraw the proposed State TAAF mechanism.³⁰⁴

Having reviewed the record and being otherwise sufficiently advised, the Commission approves Columbia Kentucky's withdrawal of its proposal for a State TAAF Tariff.

Other Tariff Changes

Columbia Kentucky also proposed to provide for the inclusion of uncollectible expense in future SMRP filing. Additionally, Columbia Kentucky proposed to modify the customer charge provision of rate schedule MLDS to segment the applicable rate into two blocks based upon the customers Annual Transportation Volume. Both proposals are discussed in more detail above. All parties agreed to these provisions in the settlement agreement.³⁰⁵

Therefore, the Commission finds that the proposed tariff changes are reasonable and are approved.

³⁰² Application at 3, paragraph 6.

³⁰³ Application at 3, paragraph 6.

³⁰⁴ Joint Settlement at 7, paragraph 8.

³⁰⁵ Joint Settlement at 8-9, paragraph 11.

DISTRIBUTION INTEGRITY MANAGEMENT PROGRAM (DIMP)

On February 12, 2010, the Pipeline and Hazardous Materials Safety Administration (PHMSA) finalized 49 CFR Subtitle B Chapter 1 Subchapter D Part 192, Subpart P, establishing integrity management (IM) requirements for gas distribution pipeline systems. The regulations require operators such as Columbia Kentucky to develop, write and implement an integrity management program. The regulations go on to identify several elements required for a distribution integrity management program.³⁰⁶ As part of the review of the rate application, the Commission also reviewed several of the policies and procedures of Columbia Kentucky. In doing so, the Commission requested information to confirm that Columbia Kentucky was in compliance this particular federal regulation.

On more than one occasion, Columbia Kentucky was asked to provide its DIMP.³⁰⁷ Instead, Don Ayers, on behalf of Columbia Kentucky, stated NiSource, Inc., its parent company that actually has no employees, had a plan.³⁰⁸ However, § 192.1005 required that a gas distribution operator develop and implement an integrity management program that includes a written integrity management plan as specified in § 192.1007 before August 2, 2011. There are no exceptions for parent and affiliate companies. In addition, operators are required to maintain, for a period of at least 10 years, the following records:

- (1) A written IM plan in accordance with this section, including superseded IM plans;
- (2) Documents supporting threat identification; and

³⁰⁶ § 192.1007

³⁰⁷ Commission Staff's Third Request for Information, Item 1; Commission Staff's Fifth Request for Information, Item 6; Commission Staff's Fifth Request for Information, Item 7.

³⁰⁸ Columbia Kentucky's Response to Staff's Third Request, Item 1, CONFIDENTIAL Attachment A.

(3) Documents showing the location and material of all piping and appurtenances that are installed after the effective date of the operator's IM program and, to the extent known, the location and material of all pipe and appurtenances that were existing on the effective date of the operator's program.³⁰⁹

The Commission will recommend that the Division of Inspections follow-up on this apparent failure to comply with the federal regulations to determine the extent that Columbia Kentucky is out of compliance with the federal regulations. In addition, the Commission will expect Columbia Kentucky to provide a complete response when a DIMP is requested in future cases.

IT IS THEREFORE ORDERED that:

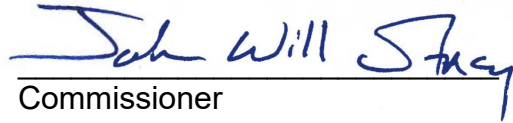
1. The rates and charges proposed by Columbia Kentucky in its application are denied.
2. The Joint Settlement, attached to this Order as Appendix B (without exhibits), is approved.
3. The rates and charges as set forth in Appendix C are approved as fair, just and reasonable rates for Columbia Kentucky, and these rates and charges are approved for service on and after January 1, 2025.
4. Within 20 days of the date of this Order, Columbia Kentucky shall file with the Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates, charges, and modifications approved or as required herein and reflecting their effective date and that they were authorized by this Order.
5. This case is closed and removed from the Commission's docket.

³⁰⁹ §192.1011.

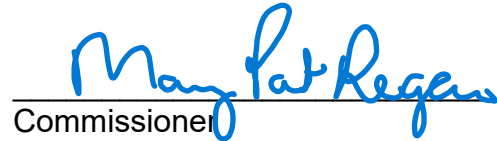
PUBLIC SERVICE COMMISSION



Chairman

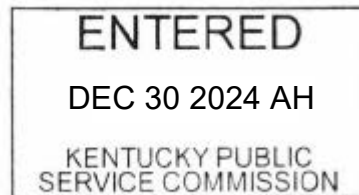


Commissioner



Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00092 DATED DEC 30 2024

All \$ in Millions

Description	Final Revenue Requirement Adjustments
Original Requested Increase	\$ 23.773
Rate Base Adjustments	
Cash Working Capital	(0.851)
Customer Deposits	-
Green Path Rider	(0.005)
Operating Income Adjustments	-
Rate Case Expense	(0.918)
Expense	-
D&O	-
Expense	-
401(k) Expense	(0.296)
Payroll Expense	-
Incentive Compensation	(3.072)
Profit Sharing	(0.127)
Payroll Tax	-
Benefits	-
SERP	(0.061)
AGA Dues	(0.021)
Green Path Rider	(0.020)
Capital Structure and ROE	(4.109)
Adjusted Revenue Requirement	<u>\$ 14.293</u>
<i>Pro Forma Revenues</i>	\$ 150.358
Percent Increase	9.51%

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00092 DATED DEC 30 2024

NINETEEN PAGES TO FOLLOW

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

In the Matter of:)
)
ELECTRONIC APPLICATION OF) Case No. 2024-00092
COLUMBIA GAS OF KENTUCKY, INC.)
FOR AN ADJUSTMENT OF RATES;)
APPROVAL OF DEPRECIATION STUDY;)
APPROVAL OF TARIFF REVISIONS;)
AND OTHER RELIEF)

**JOINT STIPULATION
SETTLEMENT AGREEMENT AND RECOMMENDATION**

On May 16, 2024, Columbia Gas of Kentucky, Inc. (“Columbia”) tendered its Application to the Kentucky Public Service Commission (“Commission”), pursuant to KRS 278.180, KRS 278.190, KRS 278.192, 807 KAR 5:001, and other applicable law, for an adjustment of its rates, approval of tariff revisions, approval of a depreciation study, and necessity and other relief (“Application”). The Application was accepted for filing on May 23, 2024. Motions for intervention by the Attorney General (the “AG”), Kentucky Industrial Utility Customers (“KIUC”), and Interstate Gas Supply, Inc (“IGS”) and Constellation New Energy – Gas Division (“CNGS”) (collectively, the “Suppliers”) were granted on June 5, 2024, June 14, 2024, and June 28, 2024, respectively. Columbia, the AG, KIUC, and the Suppliers are collectively referred to herein as the “Parties.” The Parties have filed testimony supporting their respective positions relating to Columbia’s

Application. The Parties and the Commission Staff have also engaged in substantial discovery of the Parties' respective positions by issuing numerous information requests to which the Parties have responded.

The Parties, representing diverse interests and viewpoints, have reached a complete settlement of all of the issues raised in this proceeding and have executed this Joint Stipulation, Settlement Agreement, and Recommendation ("Stipulation") for purposes of documenting and submitting their agreement to the Commission for consideration and approval. It is the intent and purpose of the Parties to express their agreement on a mutually satisfactory resolution of all issues in this proceeding.

The Parties understand that this Stipulation is not binding upon the Commission, but believe it is entitled to careful consideration by the Commission. The Parties agree that this Stipulation, viewed in its entirety, constitutes a reasonable resolution of all issues in this proceeding. The Parties request that the Commission issue an Order approving this Stipulation in its entirety pursuant to KRS 278.190, including but not limited to the rate increase, approval of tariff revisions and recovery of rate case expense as described herein. The request is based upon the belief that the Parties' participation in settlement negotiations and the materials on file with the Commission adequately support this Stipulation. Adoption of this Stipulation in its entirety will eliminate the need for the Commission and the Parties to expend significant resources in litigation of this

proceeding and will eliminate the possibility of, and any need for, rehearing or appeals of the Commission's final Order herein.

NOW, THEREFORE, for and in consideration of the mutual premises set forth above and the terms and conditions set forth herein, the Parties agree as follows:

1. **Revenue Increase**: The Parties agree that Columbia's adjusted base rate revenue requirement for the forecasted test year of January 1, 2025 through December 31, 2025 is \$164.671 million. This represents an increase of \$14.313 million over the test year revenue that would be collected at current rates. This represents an overall increase in base rates of 9.52%. A residential customer with average monthly usage of 5.5 Mcf will experience a 4.70% increase. A summary of the adjustments agreed to by the Parties to arrive at this revenue increase are set forth in **Attachment A** to this Stipulation and are incorporated herein by reference.

2. **Rate Base**:

The Parties agree that the thirteen-month average rate base for the forecasted test period is \$509.471 million.

3. **Cost of Capital**: The Parties agree that:

- a. Columbia's authorized return on equity ("ROE") will be 9.75% for natural gas base rates, which reduces the originally proposed revenue requirement by \$3.900 million;

- b. Columbia's long-term debt rate included in the cost of capital will be 4.80%, which reduces the originally proposed revenue requirement by \$0.209 million;
 - c. Columbia's short-term debt rate included in the cost of capital will be 5.25%;
 - d. Columbia's capital structure is 52.64% equity, 45.53% long-term debt and 1.83% short-term debt; and
 - e. Columbia's weighted average cost of capital is 7.41%.
4. **Rate Base Adjustments:** The Parties agree that the rate base set forth above in Paragraph 2 is derived from several adjustments to rate base. The adjustments have a corresponding effect upon Columbia's revenue requirement, and the Parties agree that Columbia's adjusted revenue requirement, stated above, reflects that:
- a. A reduction of rate base by \$58,277 of Green Path Rider costs, which reduces the originally proposed revenue requirement by \$0.005 million; and
 - b. Inclusion of cash working capital in rate base, which reduces the originally proposed revenue requirement by \$0.851 million.
5. **Operations & Maintenance ("O&M") Adjustments:** The Parties agree that Columbia's adjusted revenue requirement, stated above, shall reflect the following interrelated items relating to general O&M expense:

- a. **Long-Term Incentive Compensation Tied to Earnings:** For the purposes of settlement only, the Parties agree that Columbia's adjusted revenue requirement, as stated above, reflects a reduction of long-term incentive compensation, a portion of which is tied to the financial performance of the Company, which reduces the originally proposed revenue requirement by \$1.590 million.
- b. **Short-Term Incentive Compensation and Profit Sharing Tied to Earnings:** The Parties agree that Columbia's adjusted revenue requirement, stated above, reflects a reduction of short-term incentive compensation and profit sharing costs tied to the financial performance of the Company, which reduces the originally proposed revenue requirement by \$1.609 million.
- c. **Retirement Benefits:** The Parties agree that Columbia's adjusted revenue requirement, stated above, reflects a reduction of 401(k) contributions for employees who are also covered under a defined benefit plan, which reduces the originally proposed revenue requirement by \$0.296 million.
- d. **Pension Restoration Plan:** The Parties agree that Columbia's adjusted revenue requirement, stated above, reflects a reduction of Pension Restoration Plan expenses, which reduces the originally proposed revenue requirement by \$0.006 million.

- e. **SERP Costs**: The Parties agree that Columbia's adjusted revenue requirement, stated above, reflects a reduction of Supplemental Executive Retirement Plan costs, which reduces the originally proposed revenue requirement by \$0.054 million.
 - f. **American Gas Association ("AGA") Dues**: The Parties agree that Columbia's adjusted revenue requirement, stated above, reflects a reduction of AGA Dues, which reduces the originally proposed revenue requirement by \$0.021 million.
 - g. **Rate Case Expense**: The Parties agree that Columbia's adjusted revenue requirement, stated above, reflects a reduction of rate case expense amortization expense, which reduces the originally proposed revenue requirement by \$0.897 million.
6. **Green Path Rider**: The Parties agree that Columbia's adjusted revenue requirement, stated above, reflects a reduction of Green Path Rider amortization expense, which reduces the originally proposed revenue requirement by \$0.020 million.
7. **Customer Charge**: The Parties agree that Columbia's customer charge for residential service shall increase by \$1.50 from \$19.75 per billing period to \$21.25 per billing period, which is a reduction from the original proposed customer charge of \$27.00.

8. **Withdrawal of Request for Approval of Tax Act Adjustment Factor**

("TAAF") Tariff: Columbia agrees to withdraw its proposal for a TAAF Tariff for settlement purposes only.

9. **ROE for SMRP:** Columbia agrees to withdraw its proposal for an ROE applied to

capital recovered by the Safety Modification and Replacement Program ("SMRP")

Rider to be equal to that of the ROE applied to base rates. Columbia will instead

include this request as part of its annual SMRP filing in Case No. 2024-00328.

10. **Stay-Out:** Subject to the exclusions set forth below, Columbia will not file an

application to adjust the base rates where such adjustment would have an effective

date at the conclusion of the Commission's suspension period under KRS 278.190,

for service rendered prior to Unit 1 of Columbia's January 2027 billing cycle. For

avoidance of doubt, the Company may file an application prior to January 1, 2027,

provided the effective date of rates, once suspended by the Commission in

accordance with KRS 278.190, are not effective for service rendered prior to Unit 1

of Columbia's January 2027 billing cycle. Notwithstanding the base rate stay-out

commitment described above, Columbia shall retain the right, at any time, to seek

approval from the Commission of:

a. The deferral of costs as permissible under the Commission's standard for

deferrals, including:

i. An extraordinary, nonrecurring expense which could not have

reasonably been anticipated or included in the utility's planning;

ii. An expense resulting from a statutory or administrative directive;

iii. An expense in relation to an approved industry initiative; or

iv. An extraordinary or nonrecurring expense that over time will result in a savings that fully offsets the cost.

b. Emergency rate relief under KRS 278.190(2) to avoid a material impairment or damage to credit or operations;

c. Adjustments to the operation of any of Columbia's now existing, or future, cost recovery surcharge mechanisms (e.g., Gas Cost Adjustment, Weather Normalization Adjustment, Energy Efficiency and Conservation Rider, Rider SMRP, Local Franchise Fees and Taxes, etc.); and

d. During the effective stay-out period, Columbia reserves the right to seek necessary rate relief and/or accounting treatment for costs or programs required due to changes in law or regulations, including but not limited to, changes in tax rates, or changes to existing, or implementation of new, environmental (e.g., federal or state EPA rules) or safety (e.g., PHMSA rules or state administrative pipeline safety rules) compliance costs applicable to natural gas operations that may occur during the stay-out period.

11. **Tariff Changes**: The Parties agree that all other tariff changes proposed in the Company's application, including the inclusion of uncollectible expense into the

SMRP and the removal of the Late Payment Penalty for residential service should be approved. A complete set of tariff sheets reflecting the terms of this Stipulation are attached hereto and incorporated herein as **Attachment B**.

12. **Rate Case Expense**: The Parties agree that Columbia should recover its actual rate case expense, to be determined in the company's final monthly adjustment to be filed on or before November 30, 2024, over a three-year period, without carrying charges, and may be deferred, amortized and recovered beginning on the effective date of the revised tariffs.

13. **Proof of Revenues**: Columbia has prepared proof of revenue sheets to demonstrate that the rates set forth in the tariffs, included in Attachment B, will generate the revenue needed to recover the test year revenue requirement to which the Parties have agreed in Paragraph 1 above. These proof of revenue sheets are attached hereto and incorporated herein as **Attachment C**.

14. **Revenue Allocation**: The Parties agree that that the revenue requirement set forth in Paragraph 1 above will be allocated among Columbia's rate classes as proposed in the application, with one exception. Any increase resulting from this proceeding in Rate DS will be allocated in equal portions to the first two blocks of Rate DS. The allocation by class is as follows:

Allocation of Revenue Increase by Rate Class				
GSR/GTR	GSO/GTO/GDS	IS/DS	IUS	DS-ML
64.660%	27.626%	7.478%	0.012%	0.224%

This allocation is included in **Attachment D**, which is incorporated herein by reference.

15. **Other Items:** The Parties agree that all other requests in Columbia's Application should be approved. The Parties also agree to the following:

- a. Low-Income Energy Assistance Contribution: In addition to the \$21,500 committed in calendar year 2024, Columbia agrees to contribute an additional \$50,000 to low-income energy assistance in 2024. In calendar year 2025, Columbia agrees to contribute \$50,000 to low-income energy assistance. In calendar 2026, Columbia agrees to contribute \$50,000 to low-income energy assistance.
- b. Depreciation Study: The Parties agree that Columbia's Depreciation Study and related accounting treatments should be approved with an effective date of the new depreciation rates to be the same day that Columbia's new base rates become effective.

16. **Purchase of Supplier Receivables:** The Parties agree that the amount of the Suppliers' discount on accounts receivable in recognition of Columbia's risk shall

be reduced from 2.0% to 1.75%. The Parties further recommend that the Commission schedule the next meeting of the working group ordered in Case No. 2021-00386 during the week of April 13, 2025 or the week of April 20, 2025.

17. **Filing of Stipulation**: Following the execution of this Stipulation, the Parties shall cause the Stipulation to be filed with the Commission with a request to the Commission for consideration and approval of this Stipulation so that Columbia may begin billing under the approved adjusted rates for service rendered on and after January 1, 2025.

18. **Commission Approval**: The Parties to this Stipulation shall act in good faith and use their best efforts to recommend to the Commission that this Stipulation be accepted and approved. Each Party hereto waives all cross-examination of the witnesses of the other Party hereto except in support of the Stipulation or unless the Commission fails to adopt this Stipulation in its entirety. Each Party further stipulates and recommends that the Notice of Intent, Notice, Application, direct testimony, rebuttal testimony, supplemental testimony, pleadings and responses to data requests filed in this proceeding be admitted into the record. The Parties further agree and intend to support the reasonableness of this Stipulation before the Commission, and to cause their counsel to do the same in this proceeding and in any appeal from the Commission's adoption and/or enforcement of this Stipulation. If the Commission issues an order adopting this Stipulation in its

entirety, each of the Parties hereto agrees that it shall file neither an application for rehearing with the Commission, nor an appeal to the Franklin County Circuit Court with respect to such order.

19. **Effect of Non-Approval:** If the Commission does not accept and approve this Stipulation in its entirety or imposes any additional conditions or requirements upon the signatory Parties, then: (a) any Party may elect, in writing docketed in this proceeding, within ten (10) days of such Commission Order, that this Stipulation shall be void and withdrawn by the Parties hereto from further consideration by the Commission and neither Party shall be bound by any of the provisions herein; and (b) each Party shall have the right, within twenty (20) days of the Commission's Order, to file a petition for rehearing, including a notice of termination of and withdrawal from the Stipulation; and, (c) in the event of such termination and withdrawal of the Stipulation, neither the terms of this Stipulation nor any matters raised during the settlement negotiations shall be binding on any of the signatory Parties to this Stipulation or be construed against any of the signatory Parties. Should the Stipulation be voided or vacated for any reason after the Commission has approved the Stipulation and thereafter any implementation of the terms of the Stipulation has been made, then the Parties shall be returned to the *status quo* existing at the time immediately prior to the execution of this Stipulation.

20. **Commission Jurisdiction**: This Stipulation shall in no way be deemed to divest the Commission of its jurisdiction under Chapter 278 of the Kentucky Revised Statutes.
21. **Successors and Assigns**: This Stipulation shall inure to the benefit of and be binding upon the Parties hereto, their successors and assigns.
22. **Complete Agreement**: This Stipulation constitutes the complete agreement and understanding among the Parties hereto, and any and all oral statements, representations or agreements made prior hereto or contained contemporaneously herewith shall be null and void and shall be deemed to have been merged into this Stipulation.
23. **Implementation of Stipulation**: For the purpose of this Stipulation only, the terms are based upon the independent analysis of the Parties to reflect a just and reasonable resolution of the issues herein and are the product of compromise and negotiation. Notwithstanding anything contained in the Stipulation, the Parties recognize and agree that the effects, if any, of any future events upon the operating income of Columbia are unknown and this Stipulation shall be implemented as written.
24. **Admissibility and Non-Precedential Effect**: Neither the Stipulation nor any of the terms set forth herein shall be admissible in any court or administrative agency, including the Commission, except insofar as such court or agency is addressing

litigation arising out of the implementation of the terms herein or the approval of this Stipulation. This Stipulation shall not have any precedential value in this or any other jurisdiction.

25. **No Admissions**: Making and entering into this Stipulation shall not be deemed in any respect to constitute an admission by any Party that any computation, formula, allegation, assertion or contention made by any Party in these proceedings is true or valid. Nothing in this Stipulation shall be used or construed for any purpose to imply, suggest or otherwise indicate that the results produced through the compromise reflected herein represent fully the objectives of a Party. The adjustments set forth herein are the product of compromises made by the Parties for purposes of settlement only and would not reflect the positions of the individual Parties if each, or any, issue was litigated.

26. **Authorizations**: The signatories hereto warrant that they have informed, advised, and consulted with the respective Parties hereto in regard to the contents of this Stipulation, and based upon the foregoing, are authorized to execute this Stipulation on behalf of the Parties hereto.

27. **Commission Approval**: This Stipulation is subject to the acceptance of and approval by the Commission.

28. **Interpretation of Stipulation**: This Stipulation is a product of negotiation among all Parties hereto, and no provision of this Stipulation shall be strictly construed in

favor of or against any Party.

29. **Counterparts**: This Stipulation may be executed in multiple counterparts.

30. **Future Proceedings**: Nothing in this Stipulation shall preclude, prevent or prejudice any Party hereto from raising any argument/issue or challenging any adjustment in any future rate case proceeding of Columbia.

IN WITNESS WHEREOF, this Stipulation has been agreed to and is effective as of this fourteenth day of October, 2024. By affixing their signatures below, the undersigned Parties respectfully request the Commission to issues its Order approving and adopting this Stipulation the Parties hereto have hereunto affixed their signatures.

COLUMBIA GAS OF KENTUCKY, INC.

BY: Kimra H. Cole

Kimra H. Cole

President and Chief Operating Officer

ATTORNEY GENERAL RUSSELL COLEMAN

BY: 

John G. Horne, II

Executive Director, Office of Rate Intervention

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS

BY:  _____

Kurt J. Boehm

Attorney for Kentucky Industrial Utility Customers

INTERSTATE GAS SUPPLY, INC. AND CONSTELLATION NEW ENERGY – GAS
DIVISION

BY: 

Matthew R. Malone

Attorney for Interstate Gas Supply, Inc. and Constellation New Energy – Gas Division

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00092 DATED DEC 30 2024

Sales Service

	<u>Base Rate Charge</u>	<u>Gas Cost Adjustment¹</u>		<u>Total Billing Rate</u>
		<u>Demand</u>	<u>Commodity</u>	
<u>Rate Schedule GSR</u>				
Customer Charge per billing period	\$21.25			\$21.25
Delivery Charge per Mcf	\$ 6.0958	\$ 1.7230	\$ 3.0672	\$ 10.8860
<u>Rate Schedule GSO Commercial or Industrial</u>				
Customer Charge per billing period	\$110.00			\$110.00
Delivery Charge per Mcf				
First 50 Mcf or less	\$ 3.1581	\$ 1.7230	\$ 3.0672	\$ 7.9483
Next 350 Mcf	\$ 2.4376	\$ 1.7230	\$ 3.0672	\$ 7.2278
Next 600 Mcf	\$ 2.3171	\$ 1.7230	\$ 3.0672	\$ 7.1073
Over 1,000 Mcf	\$ 2.1078	\$ 1.7230	\$ 3.0672	\$ 6.8980
<u>Rate Schedule IS</u>				
Customer Charge per billing period	\$5,000.00			\$ 5,000.00
Delivery Charge per Mcf				
First 30,000 Mcf	\$ 0.7509		\$ 3.0672 ²	\$ 3.8181
Next 70,000 Mcf	\$ 0.4635		\$ 3.0672	\$ 3.5307
Over 100,000 Mcf	\$ 0.2423		\$ 3.0672	\$ 3.3095
Firm Service Demand Charge				
Demand Charge times Daily Firm				
Volume (Mcf) in Customer		\$ 10.4374		\$ 10.4374
Service Agreement				
<u>Rate Schedule IUS</u>				
Customer Charge	\$ 1,135.00			\$ 1,135.00
Delivery Charge per Mcf				
For All Volumes Delivered	\$ 0.9198	\$ 1.7230	\$ 3.0672	\$ 5.7106

¹ Rates reflect the most current Gas Cost Adjustment, Case No. 2024-00341, *Electronic Purchases Gas Adjustment Filing of Columbia Gas of Kentucky, Inc.* (Ky. PSC Nov. 25, 2024), adjusted for the rate case uncollectible factor of 0.00417.

² The Gas Cost Adjustment, as show, is an adjustment per Mcf determined in accordance with the "Gas Cost Adjustment Clause" as set forth on Sheets 48-51 of this Tariff. The Gas Cost Adjustment applicable to a customer who is receiving service under Rate Schedule GS or IUS and received service under Rate Schedule SGTS shall be \$5.5171 per Mcf only for those months of the prior twelve months during which they were served under Rate Schedule SVGTS.

Transportation Service

	<u>Base Rate</u> <u>Charge</u>	<u>Gas Cost</u> <u>Demand</u>	<u>Commodity</u>	<u>Total Billing</u> <u>Rate</u>
<u>Rate Schedule SS</u>				
Standby Charge time Daily Firm Volume (Mcf) in Customer Service Agreement		\$ 10.4374		\$ 10.4374
Standby Service Commodity Charge per Mcf			\$ 3.0672	\$ 3.0672
<u>Rate Schedule DS</u>				
Customer Charge	\$ 5,000.00			\$ 5,000.00
Customer Charge (GDS only)	\$ 110.00			\$ 110.00
Customer Charge (IUDS only)	\$ 1,135.00			\$ 1,135.00
Delivery Charge per Mcf				
First 30,000 Mcf	\$ 0.7509			\$ 0.7509
Next 70,000 Mcf	\$ 0.4635			\$ 0.4635
Over 100,000 Mcf	\$ 0.2423			\$ 0.2423
Grandfathered Deliver Service				
First 50 Mcf or less	\$ 3.1581			\$ 3.1581
Next 350 Mcf	\$ 2.4376			\$ 2.4376
Next 600 Mcf	\$ 2.3171			\$ 2.3171
All Over 1,000 Mcf	\$ 2.1078			\$ 2.1078
Intrastate Utility Delivery Service All Volume	\$ 0.9198			\$ 0.9198
Banking and Balancing Service Rate per Mcf		\$ 0.0369		\$ 0.0369
<u>Rate Schedule MLDS</u>				
Customer Charge per billing period Annual Transportation Volume up to 400,000 Mcf	\$ 300.00			\$ 300.00
Customer Charge per billing period Annual Transportation Volume over 400,000 Mcf	\$ 600.00			\$ 600.00
Delivery Charge	\$ 0.0891			\$ 0.0891
Banking and Balancing Service Rate per Mcf		\$ 0.0369		\$ 0.0369

	<u>Base Rate Charge</u>
<u>Rate Schedule SVGTS</u>	
<u>General Service Residential</u>	
Customer Charge	\$ 21.25
Delivery Charge per Mcf	\$ 6.0958
 <u>General Service Other-Commercial or Industrial</u>	
Customer Charge	\$ 110.00
Delivery Charge per Mcf	
First 50 Mcf or less	\$ 3.1581
Next 350 Mcf	\$ 2.4376
Next 600 Mcf	\$ 2.3171
Over 1,000 Mcf	\$ 2.1078
 <u>Intrastate Utility Service</u>	
Customer Charge	\$ 1,135.00
Delivery Charge per Mcf	\$ 0.9198
 <u>Rate Schedule SVAS</u>	
Balancing Charge per Mcf	\$ 1.1130

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