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NEWS RELEASE

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PSC Alters Settlement in Columbia Gas Rate Case *Utility given seven days to decide whether to accept smaller revenue figure*

FRANKFORT, Ky. (Dec. 22, 2016) – The Kentucky Public Service Commission (PSC) today approved a proposed settlement in Columbia Gas of Kentucky’s rate case, contingent on Columbia accepting the PSC’s changes to the agreement the utility reached with other parties to the case.

In an order issued today, the PSC said that the settlement should be modified to reduce Columbia’s increase in annual revenue by \$322,000, dropping it to \$13.086 million from \$13.408 million. Columbia originally had sought to increase annual revenues by \$25.241 million, or more than 27 percent. The modified settlement increases Columbia’s annual revenues by about 14 percent.

The modified settlement increases the monthly service charge for a Columbia Gas residential customer to \$16 from the current \$15 and raises the delivery charge per 1,000 cubic feet of gas from \$2.27 to \$3.57. In its original application, Columbia proposed increasing the monthly residential service charge to \$19.75 and the delivery charge to \$3.87 per 1,000 cubic feet.

The rate case has no bearing on the cost of the natural gas used by a customer, because it is determined by supply and demand in the market. Natural gas costs are passed through to customers on a dollar-for-dollar basis.

Columbia Gas has until Dec. 29 to accept the PSC’s changes. If it does, the new rates will take effect for service rendered on and after Dec. 27. If Columbia does not accept the changes, the PSC said it will move quickly to issue a decision on the original application.

The PSC’s order made one other modification to the settlement - a reduction in the return on investment Columbia earns on its program to replace aging gas mains and on the financing cost of construction expenses. The settlement called for a rate of return on equity of 9.8 percent. The PSC said it should be reduced to 9.5 percent, a figure that better “reflects current economic conditions and investor expectations.”

Columbia Gas of Kentucky has about 134,000 customers in 30 counties in eastern and central Kentucky, with the majority in and around Lexington.

Other parties to the case – all of which agreed to the settlement – included the Kentucky Office of Attorney General; Lexington-Fayette Urban County Government; Kentucky Industrial Utility Customers, Inc., which represents large industrial consumers; and Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas, Inc., representing low-income ratepayers.

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In addition to modifying the settlement itself, the PSC also noted a number of concerns with Columbia's underlying application. These included proposed staffing levels, an assumption that the company would pay no dividends in the coming year and the size of the management fee paid each year to Columbia's parent company, NiSource, Inc.

In today's order, the PSC further stated that:

- The revenue figure set by the settlement, with the PSC's reduction, supports a staffing level of 144 employees, a reduction of 14 from the number underlying Columbia's original application.
- Columbia should have assumed some level of dividend payout in 2017, in keeping with an average annual payout of \$5.8 million from 2011 through 2015.
- Columbia, despite several rounds of questions from the PSC, had failed to provide a clear basis for its payments to the NiSource Corporate Service Co., which have increased from \$13.449 million in 2013 to a projected \$20.060 million in 2017. The PSC put Columbia on notice that it is expected to "clearly identify the support" for the charges in its next rate case so that the PSC "can determine the reasonableness of those charges."

Provisions of the settlement left unchanged by the PSC include:

- Columbia agrees not to file its next request for a rate increase prior to May 2019.
- Columbia will withdraw its application to construct a new training facility for its employees and will not file another such application before April 2019.
- Columbia will increase shareholder contributions to its energy assistance programs for low-income customers while also reducing the amount it collects from ratepayers to fund the program.

Columbia's last rate adjustment, which increased revenue by \$7.660 million, or about 8 percent, was granted in December 2013.

Columbia Gas filed its application for the current rate increase in May. The company stated that the additional revenue was needed to continue upgrading its distribution system, to make additional safety improvements, and to meet higher operating costs.

A public evidentiary hearing on the proposed settlement was held on Nov. 1. The PSC also conducted a public comment meeting in Lexington on Sept. 14.

Today's order, videos of the hearing and public meeting, and other records in the case are available on the PSC website, psc.ky.gov. The case number is 2016-00162.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in Kentucky and has approximately 75 employees.

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