

STAFF EX. \_\_\_\_\_

**FILE**

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Columbia :  
Gas of Ohio, Inc. for Approval of Tariffs to :  
Recover Through an Automatic Adjustment :  
Clause Costs Associated with the Establish- :  
ment of an Infrastructure Replacement :  
Program and for Approval of Certain :  
Accounting Treatment. :

Case No. 07-478-GA-UNC

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**PREPARED TESTIMONY  
OF  
DAVID R. HODGDEN  
CAPITAL RECOVERY AND FINANCIAL ANALYSIS DIVISION  
UTILITIES DEPARTMENT**

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SUBMITTED: OCTOBER 24, 2007

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1 Q. Please state your name and business address.

2 A. My name is David R. Hodgden. My business address is 180 East Broad Street,  
3 Columbus, Ohio 43215.

4

5 Q. By whom are you employed?

6 A. I am employed by the Public Utilities Commission of Ohio (PUCO)

7

8 Q. What is your current position with the PUCO and what are your duties?

9 A. I am Chief of the Capital Recovery and Financial Analysis Division within the  
10 Utilities Department. My duties include establishing policies, practices, and  
11 procedures for the Division's regulatory analysts who conduct audits and  
12 investigations of public utility companies subject to the jurisdiction of the PUCO.  
13 I have overall responsibility for certain aspects of the Staff's revenue requirement  
14 determination during rate setting investigations. The calculation of depreciation  
15 expense, accumulated depreciation reserve, and cost of capital are under my  
16 purview.

17

18 Q. Would you briefly state your educational background.

1 A. I received a B.A. Degree in Business Administration from Otterbein College in  
2 June, 1972 and a B.S. Degree in Finance from Franklin University in May, 2003.  
3 I have attended numerous regulatory seminars and training programs sponsored by  
4 the PUCO, professional trade associations, and the financial community.

5  
6 Q. Please outline your work experience.

7 A. I was employed by Columbia Gas of Ohio as a Budget Analyst in March 1972. I  
8 later joined the PUCO in September 1974 as an auditor. I have held several  
9 technical and managerial positions during my service with the PUCO. These  
10 positions include Audit Supervisor, Chief of Accounts and Audits Division,  
11 Deputy Director, Chief of Financial Analysis Division, and my current position. I  
12 have previously testified before this Commission in rate recovery proceedings.

13  
14 Q. What are your responsibilities in this proceeding?

15 A. The purpose of my testimony is to address the recovery mechanism proposed by  
16 Columbia Gas of Ohio, Inc. (Columbia) to recover the costs associated with its  
17 Infrastructure Replacement Program (IRP) filed in this proceeding.

1 Q. Please describe Columbia's cost recovery proposal.

2 A. Columbia requests authority to implement a tariff rider that would permit the  
3 company to recover specified costs incurred in connection with its IRP proposed  
4 in this proceeding. The mechanism is designed to account for and track IRP costs  
5 incurred by the company on an annual basis. The company would recover these  
6 costs by applying a fixed monthly charge to customer rates. The company would  
7 annually file an IRP rider application to recover costs incurred during the previous  
8 year.

9  
10 Q. Does Columbia's cost recovery mechanism recover all costs incurred with its IRP?

11 A. Not all IRP related costs would be recovered under the company's proposed rider.  
12 The IRP rider is designed to recover costs which Columbia requested authority to  
13 defer in the company's application filed in Case No. 07-237-GA-AAM. The  
14 Commission by Entry dated July 11, 2007, in Case No. 07-478-GA-UNC, granted  
15 Columbia, inter alia, "accounting authority for the deferral of costs related to  
16 Columbia's inventory of risers and related to the approved changes in  
17 responsibility, as well as the replacement risers prone to failure". The IRP rider is  
18 designed to recover testing and survey costs deferred by Columbia; IRP customer  
19 notification and education costs; deferred post-in-service-carrying-charges

1 (PISCC) on IRP capital investment; deferred depreciation; deferred property taxes;  
2 and related gross receipt taxes.

3 Costs associated with a rate-of-return on capital investment and the return of the  
4 company's capital investment, i.e. annualized depreciation expense, in gas risers  
5 and customer service lines are not included in the IRP rider. The company's  
6 application states that it will seek approval of a revised Rider in its next base rate  
7 case that will provide for a return on and a return of its IRP capital investment.

8  
9 Q. What analysis did you perform on Columbia's cost recovery mechanism?

10 A. I reviewed the company's application filed in Case No. 07-237-GA-AAM, the  
11 application filed in Case No. 07-478-GA-UNC, and the testimony of company  
12 witness Larry W. Martin. I focused my review on Attachment LWM-1,  
13 Attachment LWM-2, and Attachment LWM-3 to Mr. Martin's testimony. These  
14 attachments provide the details of the company's accounting, cost tracking, and  
15 2007 estimated revenue requirement calculation for the IRP Rider. I also  
16 consulted with other staff members to ascertain the appropriate categories of costs  
17 that would be subject to recovery by the IRP rider.

18 I then analyzed the company's cost recovery model (Model) and the calculation of  
19 the 2007 estimated revenue requirement amount used to determine the estimated  
20 customer rate for the tariff rider. I performed this analysis to determine if the

1 revenue requirement computed by the company's Model was mathematically  
2 correct, and if it reflected the categories of costs that would be subject to recovery  
3 under the proposed IRP rider.

4  
5 Q. What did you conclude from your review?

6 A. The cost recovery model reflected the appropriate categories of costs and correctly  
7 calculated the 2007 estimated revenue requirement for the IRP Rider. It should be  
8 pointed out that the IRP Rider that would go into effect May 1, 2008, would be  
9 based on actual costs incurred during the year 2007. The Model used estimated  
10 costs for the year 2007 to illustrate the estimated IRP rider impact on customer  
11 rates.

12  
13 Q. Do you have any recommendations regarding Columbia's proposal and its IRP  
14 Rider in this proceeding?

15 A. Yes. I recommend that certain costs be excluded, that adequate records be  
16 maintained, that costs be independently verified, and that costs could potentially  
17 be amortized over more than one year.

18 Columbia should exclude costs incurred for one-third of the leak surveying and  
19 atmospheric corrosion testing performed during riser surveying and service line

1 testing from the IRP rider revenue requirement calculation. It is my understanding  
2 that these activities are required under Pipeline Safety Regulations and the  
3 company would have performed these activities for one-third of its service lines in  
4 2007 absent the riser survey.

5 Columbia should maintain detailed records of deferred costs and should separately  
6 identify them in a sub-account of Account 182, Other Regulatory Assets. No  
7 carrying charges should be applied to costs deferred in Account 182.

8 Columbia should provide audited financial information to support its annual IRP  
9 Rider filings. Columbia's external auditor or an independent auditor selected by  
10 Staff could perform such audits.

11 Depending on the amount of actual costs and if deemed appropriate, the Staff  
12 reserves the right to propose the amortization of IRP costs over a period longer  
13 than one year to be recovered through the IRP Rider.

14  
15 Q. Does this conclude your testimony?

16 A. Yes.

## PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Testimony of David R. Hodgden** submitted on behalf of the Staff of the Public Utilities Commission of Ohio was served by regular U.S. mail, postage prepaid, hand-delivered, and/or delivered via electronic message to the following parties of record, this 24<sup>th</sup> day of October, 2007.



**Anne L. Hammerstein**

### **Parties of Record:**

Carl A. Aveni II  
Joseph M. Patchen  
Carlile Patchen & Murphy LLP  
366 East Broad Street  
Columbus, OH 43215  
[caa@cpmlaw.com](mailto:caa@cpmlaw.com)  
[jmp@cpmlaw.com](mailto:jmp@cpmlaw.com)

Stephen M. Howard  
Vorys Sater Seymour & Pease LLP  
52 East Gay Street  
P.O. Box 1008  
Columbus, OH 43216-1008  
[smhoward@vssp.com](mailto:smhoward@vssp.com)

John W. Bentine  
Chester Willcox & Saxbe LLP  
65 East State Street, Suite 1000  
Columbus, OH 43215  
[jbentine@cwslaw.com](mailto:jbentine@cwslaw.com)

Stephen M. Seiple  
Columbia Gas of Ohio, Inc.  
200 Civic Center Drive  
P.O. Box 117  
Columbus, Oh 43216-0117  
[sseiple@nisource.com](mailto:sseiple@nisource.com)

David C. Rinebolt  
Ohio Partners for Affordable Energy  
231 West Lima Street  
P.O. Box 1793  
Findlay, OH 45839-1793  
[drinebolt@aol.com](mailto:drinebolt@aol.com)

Joseph M. Serio  
Associate Consumers' Counsel  
Office of the Ohio Consumers' Counsel  
10 West Broad Street, Suite 1800  
Columbus, OH 43215  
[serio@occ.state.oh.us](mailto:serio@occ.state.oh.us)