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PUCO

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 : Case No. 07-478-GA-UNC  
Clause Costs Associated with the Establish- :  
ment of an Infrastructure Replacement :  
Program and for Approval of Certain :  
Accounting Treatment. :

In the Matter of the Application of Columbia :  
Gas of Ohio, Inc. for Authority to Modify its : Case No. 07-237-GA-AAM  
Accounting Procedures to Provide for :  
Deferral of Expenses Related to the :  
Commission's Investigation of the :  
Installation, Use, and Performance of Natural :  
Gas Service Riders. :

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

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November 19, 2007

Staff Exhibit \_\_\_\_\_

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document delivered in the regular course of business.  
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1 1. Q. Please state your name and business address?

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

4

5 2. Q. Who are you employed by?

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

7

8 3. 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  
10 the Utilities Department. My duties include establishing policies, practices,  
11 and procedures for the Division's regulatory analysts who conduct audits  
12 and investigations of public utility companies subject to the jurisdiction of  
13 the PUCO. I have overall responsibility for certain aspects of the Staff's  
14 revenue requirement determination during rate setting investigations. The  
15 calculation of depreciation expense, accumulated depreciation reserve, and  
16 cost of capital are under my purview.

17

18 4. Q. Would you briefly state your educational background?

19 A. I received a B.A. Degree in Business Administration from Otterbein  
20 College in June, 1972 and a B.S. Degree in Finance from Franklin  
21 University in May, 2003. I have attended numerous regulatory seminars

1 and training programs sponsored by the PUCO, professional trade  
2 associations, and the financial community  
3

4 5. Q. Please outline your work experience?

5 A. I was employed by Columbia Gas of Ohio as a Budget Analyst in March  
6 1972. I later joined the PUCO in September 1974 as an auditor. I have  
7 held several technical and managerial positions during my service with the  
8 PUCO. These positions include Audit Supervisor, Chief of Accounts and  
9 Audits Division, Deputy Director, Chief of Financial Analysis Division,  
10 and my current position. I have previously testified before this  
11 Commission in rate recovery proceedings.  
12

13 6 Q. What are your responsibilities in this proceeding?

14 A. The purpose of my testimony is to support the cost recovery provisions of  
15 the Stipulation and Recommendation (the Stipulation) signed by the parties  
16 in this proceeding.  
17

18 7. Q. Does the settlement, as a package, benefit ratepayers and the public  
19 interest?

20 A. Yes. The Stipulation provides a practicable and reasonable process for  
21 Columbia to recover costs that are associated with the company's  
22 Infrastructure Replacement Program (IRP). The Stipulation contains

1 appropriate regulatory accounting and economic safeguards to protect the  
2 public interest while providing a mechanism for Columbia to recover its  
3 incremental IRP costs.

4  
5 8. Q. Please describe the accounting and economic safeguards contained within  
6 the Stipulation that you believe are important?

7 A. Paragraph 1, page 10, of the Stipulation states that the company will  
8 identify appropriate, safe and cost effective riser replacement techniques to  
9 implement the IRP in a timely manner. The intent of this provision is to  
10 encourage the most economical method(s) to replace prone to failure risers,  
11 meet all applicable safety requirements, and closely adhere to projected  
12 timelines.

13  
14 Leak survey and atmospheric corrosion testing costs incurred by Columbia  
15 during riser surveying will be excluded from the IRP revenue requirement  
16 calculation (paragraph 7, page 12, of the Stipulation). These costs are  
17 associated with activities that are required under Pipeline Safety  
18 Regulations and the company would have performed these activities for  
19 one-third of its service lines in 2007 absent the riser survey. These  
20 activities are part of Columbia's normal, daily operations and should be  
21 recovered through the company's base rates rather than through a tariff  
22 rider.

1 The Stipulation, in another paragraph, also addresses the Staff's concern  
2 that the same costs could potentially be recovered through the IRP rider and  
3 also through base rates. Paragraph 13, page 14, of the Stipulation states  
4 that any costs recovered through Columbia's IRP rider shall not be  
5 recovered through Columbia's base rates.

6  
7 The Stipulation states in paragraph 11, page 14, that the Staff retains the  
8 right to propose that IRP costs to be recovered through the IRP rider be  
9 amortized for recovery over a period longer than one year. This provision  
10 will afford the Staff the opportunity to moderate the impact on customer  
11 rates in the event that actual IRP costs are significantly greater than  
12 projected during any given test year.

13  
14 The Stipulation includes several accounting and reporting provisions that  
15 will ensure the validity of reported costs and enhance the Staff's ability to  
16 evaluate and verify costs included in the rider filings. Attachment B to the  
17 Stipulation includes detailed cost tracking and accounting specifications.  
18 Paragraph 14, page 14, requires that Columbia perform a true-up of  
19 revenues collected and costs incurred during annual IRP filings. This will  
20 confirm the accuracy of the recovery of actually incurred costs. Also, all  
21 costs to be recovered will be subject to independent audit. Paragraph 15,  
22 page 14, provides that all annual IRP filings shall be supported by audited

1 financial accounting and billing records. The audit will be performed by  
2 either Columbia's external auditor or an independent auditor selected by  
3 Staff.

4  
5 The Stipulation (paragraph 12, page 14) prohibits the accrual of carrying  
6 charges on deferred costs that the company had requested authority for in  
7 its accounting modification application in Case No. 07-237-GA-AAM.  
8 This will result in reduced costs that are recoverable through the IRP rider.

9  
10 9. Q. Does the Stipulation contain any other provisions that you believe benefit  
11 ratepayers and are in the public interest?

12 A. Yes. The Stipulation (paragraph 6, page 12) includes a provision to  
13 effectuate the timely resolution of disputes or objections to the annual IRP  
14 filings that may be raised by the Staff, parties granted intervention by the  
15 Commission, or by the Commission itself. This provides added opportunity  
16 for public input and scrutiny of the company's annual IRP recovery filings.

17  
18 Under the Stipulation, Columbia will accrue post-in-service-carrying-  
19 charges (PISCC) on its capital investment using a simple, non-compounded  
20 interest rate, based on Columbia's average cost of debt. No return on  
21 equity component will be reflected in the carrying charge calculation  
22 applicable to incremental capital additions. The determination of rate-of-

1 return on capital investment and the return of capital investment is deferred  
2 to the company's next base rate case. Paragraph 18, page 15 of the  
3 Stipulation states that when Columbia files its next base rate case, it may  
4 seek approval of a revised IRP formula that provides for return on and  
5 return of its investment in customer-owned service lines, investment in  
6 risers, and related expenses. At that time, all relevant factors relating to  
7 allowed rate-of-return, depreciation expense, and all other operating  
8 expenses will be considered by the Commission.  
9

10 10. Q. What is your interpretation of the accounting provisions contained within  
11 the Stipulation?

12 A. The accounting provisions contained within the Stipulation only apply to  
13 Columbia's IRP expenditures, and will expire at the completion of the  
14 program. The IRP is a projected three year program. Thus, the accrual of  
15 PISCC on additional capital investment and the deferral of related costs  
16 will discontinue in approximately 36 months after commencement of the  
17 program. Thereafter, Columbia will follow the accounting procedures that  
18 apply to all gas utilities under the Commission's jurisdiction.  
19

20 11. Q. Does the settlement package violate any important regulatory principle or  
21 practice?

1     A.     No. None of the conditions of the Stipulation violate any cost recovery principles  
2                     or practices of this Commission, nor does it violate any regulatory rate  
3                     setting concepts.

4

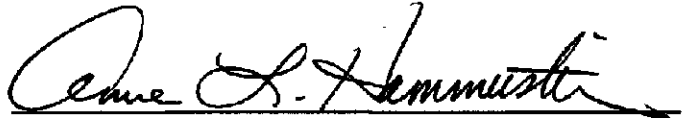
5     12.    Q.     Does this conclude your testimony?

6            A.     Yes.



## Proof of Service

I hereby certify that a true copy of the foregoing **Prepared 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 19<sup>th</sup> day of November, 2007.



**Anne L. Hammerstein**

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