

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of )	
Columbia Gas of Ohio, Inc. for Ap- )	Case No. 11-5351-GA-UNC
proval to Implement a Capital Ex- )	
penditure Program. )	

In the Matter of the Application of )	
Columbia Gas of Ohio, Inc. for Ap- )	Case No. 11-5352-GA-AAM
proval to Change Accounting Meth- )	
ods. )	

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**REPLY COMMENTS OF COLUMBIA GAS OF OHIO, INC.**

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**INTRODUCTION**

On October 3, 2011, Columbia Gas of Ohio, Inc. ("Columbia"), filed with the Public Utilities Commission of Ohio ("Commission") an Application for Authority to Implement a Capital Expenditure Program and for Approval to Change Accounting Methods ("Application"). The Office of the Ohio Consumers' Counsel ("OCC") moved to intervene on October 12, 2011, and the Ohio Partners for Affordable Energy ("OPAE") moved to intervene on October 18, 2011. By Entry dated January 27, 2012, the Commission granted the motions to intervene filed by OCC and OPAE, and established a procedural schedule that required interested parties to file for intervention by February 10, 2012, with comments on Columbia's Application due on February 17, 2012, and reply comments due on February 27, 2012.

On February 17, 2012, the Staff of the Commission ("Staff"), the OCC and OPAE filed comments. Pursuant to the Commission's January 27, 2012 Entry, Columbia hereby submits the following Reply Comments in response to the comments filed by Staff, the OCC and OPAE.

## RESPONSE TO STAFF COMMENTS

Columbia appreciates Staff's comprehensive description of its position on the accounting changes Columbia requested in this proceeding. Columbia values the inclusion of proposed formulas and the Staff's willingness to provide further clarification when needed. Columbia also understands Staff's desire to develop all deferrals in a manner consistent with those used in Columbia's IRP proceedings – a goal with which Columbia does not disagree. Columbia takes no exception with some of Staff's comments; however, Columbia does have several concerns about Staff's position, discussed below.

### **The Impact Of Incremental Revenue Must Be Properly Accounted For**

The Staff recommended that the total monthly deferred regulatory asset should be net of any incremental revenue.<sup>1</sup> The Staff has proposed the recognition of incremental revenue that results from investment made by Columbia to acquire new customers in those cases where net growth in customers is determined. The Staff's proposal further provides for the determination of the incremental revenue based on the "cost portion of the rate" plus "other revenues directly attributable to program investment." Incremental revenues would only be recognized when current month customer counts exceed the baseline which is defined as customer counts included in Columbia's 2008 rate case (Case Nos. 08-72-GA-AIR et al.). There will be no recognition of revenue losses in those cases where customer counts decrease.

While Columbia has no fundamental disagreement with Staff's recommendation,<sup>2</sup> Columbia notes that Staff's discussion referenced the fact that Columbia's "rates established in the 2008 Rate Case are a straight fixed variable design."<sup>3</sup> While this is true for Columbia's Small General Service customers, it is not the case for Columbia's larger customers. Staff's formula for the calculation of incremental revenues includes the "cost portion of rate."<sup>4</sup> Columbia suggests that for those customers whose rates are not based upon a straight fixed variable rate design, the appropriate "cost portion of the rate" is the Customer Charge component of the applicable rate, including the equity component.

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<sup>1</sup> Staff Comments at 8.

<sup>2</sup> The OCC raised a similar concern about the impact of incremental revenues. OCC Comments at 6-8.

<sup>3</sup> Staff Comments at 9.

<sup>4</sup> *Id.* at 10.

Columbia further recommends that the determination of the revenue offset be made through a comparison of actual bills rendered each year with those levels upon which rates were established in Case No. 08-0072-GA-AIR, et al. This treatment would result in the true measure of growth because it would match the method and basis upon which rates were established, provide for the removal of any seasonal impacts that could result in the over or under statement of the revenue offset, and result in the use of a method similar to that used for determination of operation and maintenance expense savings in Columbia's IRP cases.

### **Monthly Deferred PISCC Should Not Be Net Of Accumulated Depreciation**

Staff recommends that the monthly Post-In-Service Carrying Charges ("PISCC") (carrying costs deferral) on the Plant Additions balance should be calculated net of accumulated depreciation.<sup>5</sup> The Staff's proposal is premised on the position that carrying costs should not be collected (deferred) on an expense (particularly on an expense deferred for future recovery). The Staff states that traditionally the Commission has only allowed PISCC recovery on plant items and does not provide for recovery on expense items.

Columbia respectfully disagrees with Staff. PISCC recovery in Columbia's annual IRP filings is not net of accumulated depreciation, nor should it be because no recovery of the investment has commenced. The deferral of depreciation is intended to mitigate the impact on earnings with recovery to be made over the life of the asset. The Staff's recommendation lacks logic because the deferral of depreciation has no impact on cash (recovery of the asset).

Even if Staff was correct in its assertion that the Commission has only allowed PISCC recovery on plant items, and not on expense items, the enactment of Rev. Code § 4929.111 now explicitly provides for PISCC recovery for both plant items and expense items. The relevant portion of the statute states:

(D) In approving an application under division (C) of this section, the commission *shall* authorize the natural gas company to defer or recover in an application that the natural gas company may file under section 4909.18, 4929.05, or 4929.11 of the Revised Code, both of the following:

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<sup>5</sup> *Id.* at 11.

- (1) A regulatory asset for the post-in-service carrying costs on that portion of the assets of the capital expenditure program that are placed in service but not reflected in rates as plant in service;
- (2) *A regulatory asset for the incremental depreciation directly attributable to the capital expenditure program and the property tax expense directly attributable to the capital expenditure program.*<sup>6</sup>

Staff's recommendation on this point is inconsistent with Rev Code § 4929.111 and with Columbia's IRP cases, and should therefore be rejected.

### **Staff's Property Tax Expense Formula Needs To Be Clarified**

Staff's Property Tax Expense formula provides for the use of the previous year's cumulative gross plant additions less the previous year's cumulative retirements, multiplied by "percent good adjustment" multiplied by the effective property tax rate divided by 12. This formula needs to be clarified to the extent it provides for use of all cumulative plant additions and associated retirements (not just previous year) for determination of current month deferrals, until such time that these investments are included in base rates. Clarification needs to be provided to the term "Cumulative" so that the term includes all approved capital expenditures through the applicable date – e.g., "Year 1 + Year 2 + Year 3" comprise the "Previous Years' Cumulative Gross Plant Additions and Retirements." Similar clarification for Staffs' proposed PISCC and Depreciation Expense formulas should also be provided to the extent that "Previous Month's data" includes "all Previous Months'" data.

### **Ohio Law Does Not Require That Capital Spending Be Incremental In Order To Qualify For Accounting Treatment Under Rev. Code § 4929.111**

In its Comments Staff notes that Columbia's non-IRP capital spending for the period covered by the Application in this case is not incremental to Columbia's non-IRP spending for the period 2006-2010.<sup>7</sup> While Staff makes this gratuitous observation, it has no recommendation associated with the observation.

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<sup>6</sup> Rev. Code § 4929.111(D) (emphasis added).

<sup>7</sup> Staff Comments at 14.

The Application in this docket was filed under Rev. Code § 4929.111. That statute does not require that a utility's capital spending be incremental to capital spending levels during any prior period. Whether or not the capital spending levels in any capital expenditure program are incremental to capital spending levels in any arbitrarily selected prior period is simply not relevant under Rev. Code § 4929.111.

## RESPONSE TO OCC AND OPAE COMMENTS

### Columbia Has Met Its Burden Of Proof

As noted by the OCC,<sup>8</sup> under Rev. Code § 4929.111 Columbia must demonstrate that its proposed capital expenditure program is consistent with its obligation to furnish necessary and adequate services and facilities. Further, Columbia must provide sufficient information so as to enable the Commission to find the services and facilities to be just and reasonable.<sup>9</sup> The OCC alleges that Columbia has provided "minimal explanation" for its capital expenditure program and that it is impossible to determine whether the spending under the program is to provide necessary and adequate services and facilities.<sup>10</sup> OPAE also argues that because Columbia only provided an "estimate" of its capital expenditure budget, it has failed to meet the requirements of Revised Code § 4929.111(B).<sup>11</sup>

Columbia's Application described six categories of services and facilities included in Columbia's capital expenditure program: (1) Replacement/Public Improvement/Betterment; (2) Acquisitions; (3) Growth; (4) Support Services; (5) Information Technology; and, (6) Distribution Integrity Management Plan Implementation. Each of these categories of services and facilities was fully described in the Application. Together, these services and facilities encompass the services and facilities that a natural gas utility must provide in order to furnish "necessary and adequate services and facilities." The services and facilities included in the capital expenditure program constitute the core business of a natural gas utility, and recovery of the investments and costs associated with such investments and expenses are what every utility routinely recovers through its rates. Despite the OCC's contrived argument to the contrary, there is no doubt that the proposed capital expenditure and program is needed to provide necessary and adequate services and facilities.

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<sup>8</sup> OCC Comments at 3.

<sup>9</sup> Rev. Code § 4929.111(C).

<sup>10</sup> *Id.* at 3-4.

<sup>11</sup> OPAE Comments at 2.

The OCC and OPAE also criticize the amount of information provided with regard to the proposed spending levels.<sup>12</sup> Columbia's Application included an attachment that set forth its capital expenditures budget, by individual categories, approved by NiSource's Board of Directors, consistent with Columbia's obligation to furnish necessary and adequate services and facilities. The purpose of the attachment and description was to provide the Commission with information from which it can determine the level and type of capital expenditure for which Columbia is seeking deferred accounting treatment in this proceeding. It is only upon completion of those projects that the Commission subsequently can determine whether each capital expenditure meets the test for recovery.

OPAE's argument about the uncertainty of Columbia's capital expenditure program is without merit. The amounts projected in the Application are necessarily estimates, because the Application dealt with prospective expenditures. Detailed itemization of the amount spent will become available only after the expenditures are completed. However, such detailed itemization of expenditures – while appropriate for a rate case -- is not necessary for an Application filed under Rev. Code § 4929.111.

As Columbia emphasized in its Application, Columbia is requesting only the accounting authority described above. Columbia is *not* requesting recovery of any amounts deferred pursuant to approval of this Application. Recovery of deferred amounts will be addressed in a separate proceeding, in which Staff and parties will have an opportunity to fully explore the reasonableness of recovery of any and all amounts deferred. The OCC and OPAE apparently would like to scrutinize now the estimated spending levels in the capital expenditure program as if this were a rate case in which recovery of the spending levels is at issue. However, that is not the case. Here, Columbia is merely requesting accounting authority. The detailed data for which the OCC and OPAE yearn will be available at the time Columbia seeks recovery of the amounts deferred as part of the capital expenditure program.

Columbia has provided sufficient information about the types of expenditures included within its capital expenditure program, and about the proposed magnitude of those expenditures. Because this is not a rate case, IRP Rider Adjustment case, or other proceeding in which actual recovery of expenditures is at

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<sup>12</sup> OCC Comments at 4-6; OPAE Comments at 3.

issue, the Commission should find that Columbia has satisfied its burden of proof.

### **PISCC Should Be Applied To Gross Plant Balances**

The OCC argues that PISCC should not be applied to gross plant balances, but should instead be applied to plant balances net of retirements and accumulated depreciation.<sup>13</sup> OCC's rationale for this argument is that deferred property taxes are calculated net of retirements so PISCC on plant balances should be calculated on a net basis as well in order to avoid over-recovery.

The OCC is correct in noting that property taxes are calculated net of retirements. The determination of deferred property taxes net of retirements is correct because property taxes are calculated net of retirements. However, deferred property taxes are not calculated net of depreciation. Just because deferred property taxes are calculated net of retirements, it does not logically flow that PISCC on plant balances should be calculated net of retirements and accumulated depreciation.

OCC's logic assumes that cash is generated by deferrals. However, the deferral is only an accounting entry that generates no cash. Recovery and return on capital expenditures –i.e., cash – only occurs at the time the deferrals are subsequently collected in rates. Therefore, the proper basis for calculation of PISCC is on gross plant additions. This is consistent with the treatment of PISCC in Columbia's IRP cases.

In support of its argument the OCC also cites Cincinnati Gas & Electric's first AMRP case, specifically page 8 of the stipulation filed and approved in that case.<sup>14</sup> However, the OCC failed to note the parties to that case agreed that the stipulation was not to be cited as a precedent in any other proceeding.<sup>15</sup> Thus, what the parties in that case agreed to for purposes of settlement is not determinative of how issues should be decided in other cases.

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<sup>13</sup> OCC Comments at 8-9.

<sup>14</sup> *Id.*, citing *In the Matter of the Application of the Cincinnati Gas & Electric Company for an Increase in Gas Rates for its Service Area*, Case No. 01-1228-GA-AIR, Stipulation and Recommendation (April 17, 2002) at 8, and Opinion and Order (May 30, 2002).

<sup>15</sup> *In the Matter of the Application of the Cincinnati Gas & Electric Company for an Increase in Gas Rates for its Service Area*, Case No. 01-1228-GA-AIR, Stipulation and Recommendation (April 17, 2002) at 2.

### **There Is No Double Recovery of Expenditures**

The OCC Comments express concern about the potential for double recovery of expenditures.<sup>16</sup> Again, the OCC is confusing accounting authority with cost recovery. The Application in this docket requests only accounting authority, not cost recovery. Obviously, there can be no double recovery in this docket, and to the extent such potential for double recovery did exist, that would be an issue for a subsequent proceeding. Nonetheless, the OCC's concerns about the overlap between the capital expenditure program and other programs are misplaced.

OCC notes that several categories of plant included in Columbia's capital expenditure program might also fall under other programs such as Columbia's IRP program or environmental remediation program, and the expenditures related to such plant might be double recovered. The OCC suggests that the Commission should ensure that there is an accounting mechanism in place to separate the capital expenditure program plant balances from plant balances in other programs.<sup>17</sup>

Columbia already has in place accounting mechanisms to separate IRP expenditures from other expenditures such as those associated with the capital expenditure program. Similarly, Columbia has accounting mechanisms to ensure that environmental remediation expenditures are properly classified. For example, OCC apparently fails to appreciate that the appropriate vehicle for recovery of environmental remediation costs is dependent upon whether the costs are related to plant owned by Columbia and used and useful. The requirements for capitalization of these types of expenditures were determined by Commission in its Entry issued in Case No. 99-195-GA-AAM on August 5, 1999. Environmental costs associated for projects where the plant is not used and useful, or the site is not owned by Columbia, can only be deferred in accordance with the Commission Entry issued on September 26, 2008 in Case No. 08-606-GA-AAM. Thus, there is no opportunity for duplicate recovery of costs since the Commission has established specific requirements that Columbia must follow.

Columbia is willing to make its accounting mechanisms available for Staff review at any time should the Commission have any concern about the appropriateness of any amounts being deferred.

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<sup>16</sup> OCC Comments at 9-10.

<sup>17</sup> *Id.* at 9.



### **Columbia's Capital Expenditures Are Appropriately Classified**

The OCC notes that Columbia uses blanket work orders for the installation of property, and somehow jumps to the conclusion that the blanket work orders may include items that should be expensed. The OCC, therefore, recommends that all blanket work order expenditures should be excluded from the capital expenditure program.<sup>18</sup>

Columbia, like many utilities, utilizes blanket work orders for capital-related expenditures and has done so for many years. Columbia's accounting policies, which have been reviewed in past rate cases, include specific guidelines for capitalization of expenses. These procedures ensure that all expenditures are properly capitalized or expensed. To the extent that the OCC has concerns about the treatment of any particular expense, the time for review of that concern is the subsequent proceeding in which Columbia seeks recovery of the amounts deferred pursuant to the Application in this case.

The OCC's has long expressed displeasure with accounting deferrals, and the OCC's argument related to blanket work orders is an attempt to arbitrarily reduce the amount of the capital expenditure program deferrals just because the OCC does not endorse accounting deferrals. The Commission should not countenance the OCC's attempt to arbitrarily exclude certain categories of legitimate expenditures from the capital expenditure program deferrals authorized by Rev. Code § 4929.111.

### **Rev. Code § 4929.111 Does Not Limit The Duration Of Deferrals**

The OCC states that it is concerned about deferrals growing to "unreasonable levels," and suggests that the deferrals be limited in duration to the earlier of the date of new Columbia base rates or December 31, 2014.<sup>19</sup>

This statement fails to recognize the fact that these deferrals will have minimal impact on the rates of customers because recovery will be over the life of the asset. Furthermore, the recommendation, if adopted, would likely result in additional rate case filings. Rate cases are extremely time consuming and expensive for utilities (and ratepayers), and place a huge administrative burden upon the Commission. Thus, Columbia has worked hard with its stakeholders to find

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<sup>18</sup> *Id.* at 11.

<sup>19</sup> *Id.* at 12.

ways to minimize the number of rate cases that Columbia must file. One of the tools that Columbia now has available to it to help manage the frequency of rate cases is the deferral authority for capital expenditure programs, which authority was made available to the Commission in Rev. Code § 4929.111.

Rev. Code § 4929.111 does not limit the duration of deferrals, and the Commission should reject the OCC's request for the establishment of such an arbitrary deadline. This is simply another attempt on the OCC's part to emasculate the accounting deferrals that the OCC dislikes, notwithstanding the General Assembly's recent enactment of Rev. Code § 4929.111.

## CONCLUSION

Columbia can generally agree with Staff's recommendations, with the few exceptions addressed herein. Columbia respectfully requests that the Commission approve its Application filed in this docket.

Respectfully submitted,  
**COLUMBIA GAS OF OHIO, INC.**

By: /s/ Stephen B. Seiple  
Stephen B. Seiple (Counsel of Record)

Stephen B. Seiple, Asst. General Counsel  
Brooke E. Leslie, Counsel  
200 Civic Center Drive  
P. O. Box 117  
Columbus, Ohio 43216-0117  
Telephone: (614) 460-4648  
Fax: (614) 460-6986  
Email: sseiple@nisource.com  
bleslie@nisource.com

Attorneys for Applicant  
**COLUMBIA GAS OF OHIO, INC.**

### CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing Reply Comments of Columbia Gas of Ohio, Inc. was sent by electronic mail to the parties listed below on this 27<sup>th</sup> day of February, 2012.

/s/ Stephen B. Seiple

Stephen B. Seiple

Attorney for

COLUMBIA GAS OF OHIO, INC.

### SERVICE LIST

Joseph P. Serio  
Assistant Consumers' Counsel  
10 West Broad Street, Suite 1800  
Columbus, OH 43215-3485  
serio@occ.state.oh.us

Colleen L. Mooney  
Ohio Partners for Affordable Energy  
231 West Lima Street  
P.O. Box 1793  
Findlay, OH 45839-1793  
cmooney2@columbus.rr.com

William Wright  
Chief, Public Utilities Section  
Public Utilities Commission of Ohio  
180 East Broad Street, 6<sup>th</sup> Floor  
Columbus, OH 43215  
william.wright@puc.state.oh.us

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