

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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In the Matter of the Application of Columbia :
Gas of Ohio, Inc. for an Adjustment to Rider : Case No. 11-5803-GA-RDR
IRP and Rider DSM Rates. :
:

**COMMENTS
AND
RECOMMENDATIONS**
SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO

March 28, 2012

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INTRODUCTION

In accordance with the Public Utilities Commission of Ohio (Commission) Opinion and Order adopting the Stipulation and Recommendation filed in Case No. 08-72-GA-AIR, the Commission's Staff (Staff) has conducted an investigation in the above-referenced matter and hereby submits its findings in these Comments to the Commission.

These Comments were prepared by the Commission's Utilities Department in conjunction with the Service Monitoring and Enforcement Department. Included are findings and recommendations resulting from financial reviews of additions to plant-in-service and Columbia Gas of Ohio, Inc.'s (Columbia, Applicant, or Company) proposed revenue requirement and other matters related to its Infrastructure Replacement Program (IRP) rider and a review of the Company's Demand Side Management (DSM) program and associated DSM rider.

In accordance the Attorney Examiner's Entry dated March 7, 2012, copies of these Comments have been filed with the Commission's Docketing Division.

These Comments contain the results of the Staff's investigation, and do not purport to reflect the views of the Commission, nor is the Commission bound in any manner by the representations and/or recommendations set forth herein.

BACKGROUND

Columbia Gas of Ohio, Inc. was incorporated October 6, 1961 as a subsidiary of the Columbia Gas System. Subsequently, the Company merged with NiSource Inc. on November 1, 2000 becoming one of NiSource, Inc.'s 10 energy distribution companies. Columbia is the largest local gas distribution company in Ohio and serves approximately 1.4 million customers in 60 of Ohio's 88 counties.

On April 9, 2008, the Commission approved an amended Stipulation in Case Nos. 07-478-GA-UNC and 07-237-GA-AAM (Risers Stipulation) that included, among other things, the establishment of the IRP rider. The purpose of the rider was to recover expenditures associated with the Company's three-year replacement of risers identified as "prone to fail" and customer service lines with potentially hazardous leaks. Under the Risers Stipulation approved and adopted by the Commission, the Company must file annual applications supporting proposed adjustments to its rates and the Staff was directed to review and report on the reasonableness of the proposed rates.

On July 23, 2008, the Commission approved Columbia's application in Case No. 08-833-GA-UNC to implement specific DSM programs for the Small General Service

Class of customers that were developed by the stakeholder group in that case. The approved programs for residential customers included the Home Performance Program, Low Cost Product Rebates, New Homes Program, Warm Choice®, and Furnace Market Research. The Commercial Programs included Small Business Energy Efficiency Incentives, Small Business Energy Saver Audits, Advanced Energy Design Partnership, and the Innovative Technology Program. Additionally, the Financing Program includes an Energy Efficiency Loan Fund.

On March 3, 2008, Columbia filed Case Nos. 08-72-GA-AIR, 08-73-GA-ALT, 08-74-GA-AAM, and 08-75-GA-AAM seeking authority to increase its gas distribution rates, approval of an alternative regulation plan, approval to change accounting methods, and authority to revise its depreciation accrual rates.

On December 3, 2008, the Commission approved a Stipulation in the 08-72-GA-AIR, *et al.* (Rate Case Stipulation) cases that, *inter alia*, expanded the Infrastructure Replacement Program rider (Rider IRP) to include three separate components, established Rider DSM to allow Columbia to recover the costs for implementing the DSM programs approved in Case No. 08-833-GA-UNC, and established procedural schedules for annual applications to modify the IRP and DSM riders. The three components of Rider IRP are designed to allow Columbia recovery of costs incurred during a test year to replace aging or hazardous infrastructure and include:

1. A component, set forth in Case Nos. 07-478-GA-UNC and 07-237-GA-AAM, for recovery of costs associated with the replacement of natural gas risers that are prone to failure along with the costs associated with the future maintenance,

repair and replacement of customer service lines that have been determined by Columbia to present an existing or probable hazard to persons and property. Columbia was to identify and replace approximately 320,000 risers at an approximate cost of \$160 million over a period of approximately three years.

2. A second component for recovery of costs associated with the Company's Accelerated Mains Replacement Program (AMRP). Under the AMRP, Columbia's plans call for it to replace approximately 3,770 miles of bare steel pipe, 280 miles of cast iron/wrought iron pipe and approximately 360,000 steel service lines over a period of 25 years at an estimated annual cost of \$73 million. Columbia maintains that these types of main (priority pipe) typically have a greater probability to leak due to their material type, protection, age and other characteristics.
3. The third component recovers costs associated with the Company's installation of Automatic Meter Reading Devices (AMRD) on all residential and commercial meters served by Columbia over approximately five years, which began in 2009.

The approved procedural schedule for annual applications to modify the IRP and DSM riders calls for the Company to file a pre-filing notice containing schedules with a combination of actual and estimated data by November 30 each year followed by an application by February 28 of the succeeding year containing updated actual schedules supporting rates to go into effect on May 1 of that year.

Pursuant to that schedule, on November 30, 2011 Columbia filed a pre-filing notice in this case containing schedules with nine months of actual and three months of projected data in support of requested increases to Riders IRP and DSM to go into effect on May 1, 2012. On February 28, 2012, the Company filed its Application in this case with updated schedules containing actual data for calendar year 2011 and requesting that

the test year for its application begin on January 1, 2011 and end on December 31, 2011 and a date certain for property valuation be set at December 31, 2011.

On March 7, 2012, the Attorney Examiner in this case issued an Entry granting a motion to intervene by the Office of the Ohio Consumers Counsel (OCC) and the Ohio Partners for Affordable Energy (OPAE) and establishing a procedural schedule for this case as follows:

- (a) March 28, 2012 – Deadline for filing of motions to intervene.
- (b) March 28, 2012 – Deadline for Staff and interveners to file comments on the application.
- (c) April 2, 2012 – Deadline for Columbia to file a statement, informing the Commission whether the issues raised in the comments have been resolved.
- (d) April 9, 2012 – Deadline for expert testimony by all parties.
- (e) April 10, 2012 – Deadline for some or all parties to the case to file a stipulation resolving some or all issues raised by the parties.
- (f) April 11, 2012 – Hearing date if some or all issues raised in the comments are not resolved.

SCOPE OF THE STAFF'S INVESTIGATION

The Staff divided its review into two parts – one investigating the application and supporting schedules for the IRP rider and one investigating the application and supporting schedules for the DSM rider. The overall scope of the Staff's investigation was designed to determine if Columbia's filed exhibits justify the reasonableness of the revenue requirement proposed by the Company that is used as a basis for the annual adjust-

ments to Riders IRP and DSM. These Comments summarize the Staff's review, identify exceptions to the Company's Application, and provide recommendations to address the exceptions.

IRP INVESTIGATION

1. IRP Investigation Summary

As noted above, the IRP is comprised of three components – the accelerated mains replacement program, or “AMRP”; the risers and hazardous service lines program, collectively termed “Risers”; and the automated meter reading devices, or “AMRD.” The Staff reviewed and analyzed the documents associated with each of these components that Columbia filed and traced them to supporting work papers and source data. As part of its review, the Staff issued data requests, conducted investigative interviews, verified physical plant on site, and performed independent analyses when necessary. The Staff also reviewed Columbia's progress towards implementing its IRP and its contractor selection process. When investigating the Company's operating income, the Staff reviewed expenses associated with depreciation, amortization of post in-service carrying charges, property taxes, AMRP customer education expenses, any AMRP operating and maintenance savings, and charges associated with the riser education and riser identification programs. To investigate the proposed rate base, the Staff reviewed and tested the Applicant's plant accounting system to ascertain if the information on all IRP assets contained in the Applicant's plant ledgers and supporting continuing property records represented a reliable source of original cost data. The Staff selected a sample of transactions

for detailed review. Finally, the Staff reviewed the proposals for deferred depreciation, deferred post-in-service carrying cost (PISCC), depreciation, capitalized PISCC, and deferred taxes on liberalized depreciation.

2. IRP Progress

In 2011, Columbia completed 446 AMRP projects associated with replacement of priority pipe. This represents a total of 1,080,163 feet of steel pipe, 62,667 feet of iron, and 205,955 feet of plastic pipe. The Company reports that it also replaced 23,749 risers and 8,577 hazardous service lines. In addition, the Company installed a total of 440,277 AMRDs, 386,768 of which were installed in the Lorain, Middleburg Heights, Columbus, Springfield, and Mansfield operating areas as part of Columbia's mass geographic deployment. The remaining 53,509 were installed at hard to access meters and when other work was performed across the Company's entire service area.

Columbia reports that it completed replacement of all previously identified prone-to-fail risers in June 2011. However, the Company will continue to include expenses such as depreciation, taxes, etc. in the schedules supporting future applications to increase Rider IRP until the risers are included in the Company's base rates.

3. IRP Competitive Bidding and Ohio Labor

Columbia employs a competitive bidding process for the majority of the capital work associated with AMRP projects using two types of bids. The majority of Columbia's capital work associated with AMRP projects are performed by contractors under competitive bid "blanket" contracts. Blanket contracts were established across

Columbia's operating areas and contractors provided bid prices based on the expected number of contract units (*e.g.*, feet of pipe replaced, number of service lines replaced, etc.) that would be completed during the term of the contract. Columbia extended and expanded the scope of its previously bid "blanket" construction contracts through December 31, 2015. The Company maintains that this approach allows it to maintain a highly skilled reserve of contract resources and encourages the contractors to grow their businesses in Ohio. In some instances, local Columbia employees may perform work on some smaller projects when they are available. Columbia indicates that it evaluates each project on a variety of criteria to determine who will perform the work. Where contractor costs are expected to exceed \$5,000,000, Columbia generally places the project out for a "specific" bid based on the number of contract units that would be completed on a specific project. In addition, Columbia reports that it will generally place larger diameter steel projects with a relative larger scope out for "specific" bid irrespective of the expected contract costs. For the riser replacement work, the Company chose four contractors via a competitive bidding process. The Company reports that the majority of the work to replace the hazardous service lines is performed by Columbia employees and that it sometimes uses Company personnel to perform AMRP and riser replacement work, depending on the availability of the Company employees and the nature of the work to be performed. For the AMRD program, the Company indicates that 87% of all AMRD installations in 2011 were performed by the installation contractor that was selected via a competitive bidding process in December 2008. The installation contractor primarily focuses on the geographic mass deployment of the AMRDs, while Columbia employees

installed the remaining 13% in support of the mass deployment and in response to customer requests and when installing new or changing out meters.

The Staff confirmed that none of the contractors selected by Columbia are affiliated with the Company. Columbia reports that it added language to its bid packages stating a preference that Ohio labor be used whenever possible as long as the price and quality of work is not negatively impacted. It also reports that, in 2011, 83% of the contractor labor force for AMRP projects was from Ohio. In addition, the Company notes that 78 of the 82 employees utilized to complete the AMRD installations in the state were hired from the local job market.

4. Columbia's Proposed IRP Recovery

Columbia proposes a revenue requirement of \$28,164,217 for the AMRP, \$33,358,462 for the Risers, and \$7,720,443 for the AMRD Program. Using the billing determinants for the AMRP, Risers, and AMRD established in the 2008 Stipulation approved by the Commission in Case No. 08-72-GA-AIR, the Company proposes that allocation of the AMRP revenue requirement by customer class would be \$1.23/month for Small General Service (SGS) customers, \$14.59/month for General Service (GS) customers, and \$314.15/month for Large General Service (LGS) customers. For allocation of the Risers revenue requirement, the Company proposes \$1.94/month for the SGS customers and \$2.48/month for the GS customers. For allocation of the AMRD revenue requirement, the Company proposes \$0.45/month for the SGS customers and \$0.57/month for the GS customers. The total IRP revenue requirement from the combi-

nation of the AMRP, Risers, and AMRD revenue requirements is \$69,243,122. When allocated to the applicable rate classes (the Risers and AMRD are not applicable to the LGS class of customers), Columbia proposes that the total IRP rider rates to take effect in May 2012 will be \$3.61/month for the SGS customers, \$17.64/month for the GS customers, and \$314.15/month for the LGS customers. The \$3.61 proposed monthly charge for the SGS customers is below the \$4.20/month cap established in the approved Stipulation and Recommendation in Case No. 08-072-GA-AIR for this class of customers.

5. Staff's Comments on the IRP Application by topic.

The Staff has completed its investigation of Columbia's proposed IRP rider application, and while, based upon its investigation, the Staff believes that the Company has supported its filing with adequate data and information, the Staff makes the following comments and recommendations to ensure that the IRP revenue requirement and resulting rider rates are just and reasonable.

a) Columbia's property tax calculation should use the latest known rate.

In schedules showing the calculation of the 2011 property taxes associated with the AMRP, Risers, and AMRD, the Company used an estimated tax rate to compute the applicable property tax. Consistent with past practice and Commission rulings, the Staff recommends that Columbia should use the latest known property tax rate. Applying the latest known rate causes a slight increase in the Company's total IRP revenue requirement from \$69,243,122 to \$69,285,604. When allocated across the customer classes, the

change results in an increase from \$17.64/month to \$17.65/month for the GS customers. The proposed \$3.61/month rate for the SGS and the \$314.15/month rate for the LGS customers would remain unchanged pursuant to Columbia's note in Attachment A of its Application stating that "Rates within the AMRP component have been adjusted so that the combined annualized revenue requirement is at a level equal to or lower than that estimated in the Notice of Intent."

6. Staff's IRP Recommendations.

With adoption the Staff's recommendation to modify the Company's property tax calculation to use the latest known rate, the Staff would respectfully recommend that the Commission find that Columbia's IRP Application in this case just and reasonable and approve it as modified.

DSM INVESTIGATION

1. DSM Background

Columbia filed its DSM application pursuant to O.R.C. 4929.11 and the Commission's Opinion and Order in Case No. 08-0072-GA-AIR. Columbia is requesting authority to adjust its Rider DSM. Rider DSM provides for the recovery of costs related to the implementation of a DSM program that enables customers to reduce bills through various conservation programs as set forth in the Application filed in Case No, 08-0833-GA-UNC on July 1, 2008, and approved by the Commission in its Finding and Order dated July 23, 2008. Rider DSM applies to the following rate schedules: Small General Ser-

vice, Small General Schools Service, Small General Transportation Service, Small General Schools Transportation Service, Full Requirements Small General Transportation Service, and Full Requirements Small General Schools Transportation Service.

2. DSM Investigation Scope and Methodology

The Staff reviewed and analyzed Columbia's Application for an increase in Rider DSM. Rider DSM is determined annually based on the actual costs of the program for the previous calendar year, in this case 2011. In accordance with the Commission's Order approving the Rate Case Stipulation, the new DSM Rider rates approved in this case will take effect May 1, 2012.

The Staff investigated the DSM programs and accounts to determine acceptable levels of expenditures associated with program goals. Staff evaluated the expenses charged to each program by activity code and randomly sampled invoices and payment vouchers with each program account for assurance that dollars were correctly booked to the proper program and activity code. As part of its review, the Staff issued data requests to Columbia for working papers and source data. The Staff also had discussions with Columbia DSM personnel for additional clarification when needed.

The Staff reviewed the following programs associated with Columbia's DSM programs: Home Performance Solutions, Simple Energy Solutions, New Home Solutions, Furnace Market Research, Small Business Energy Solutions, Ohio Small Business Energy Saver Audits, Energy Design Solutions, Energy Efficiency Loan Fund, Program

Administration, and Program Development. In addition, the Staff also reviewed Columbia's DSM 1-5 schedules submitted with its filing.

3. DSM Findings

Based on the Staff's audit of Columbia's expenditures for each DSM program and activity code verifying a random sample of invoices and payment vouchers, the Staff finds that the Company utilized appropriate accounting procedures reflecting proper accounting methods.

The Staff also reviewed Columbia's DSM Schedules 1-5 to determine appropriate calculations for recovery of expenditures. The Staff verified the interest rate applied in carrying costs to determine recovery.

In Case No. 09-1036-GA-RDR, the Stipulation approved and adopted by the Commission provided that such expenses exceeding 20% of the average for the initial three years of these programs would be disallowed after the test period ending December 31, 2011. Staff's audit for the level of administrative expenses in this year's DSM application that covered the three-year test period met the criteria established in Case No. 09-1036-GA-RDR. Therefore, the Staff recommends that no expenses for these programs be disallowed.

The 2011 DSM Collaborative meeting minutes were reviewed to determine approval within the group regarding Columbia's 2012 budget requirement and program goals to meet the desired level of participation and gas savings. Columbia's 2012 budget and program spending levels are within the guidelines set by the Collaborative.

The Staff also evaluated the progress Columbia is making in garnering customer participation in its DSM programs. Participation in Columbia's programs continued to increase during the initial test period and participation levels in 2012 are projected to exceed 2011 levels.


4. DSM Recommendations

Based on its investigation and findings, the Staff recommends Commission approval of Columbia's 2012 DSM application as filed with the Commission on February 28, 2012.

Respectfully submitted,

Michael DeWine
Ohio Attorney General

William L. Wright
Section Chief

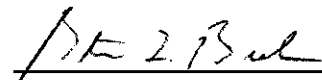


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**On behalf of the Staff of
The Public Utilities Commission of Ohio**

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Comments and Recommendations** submitted on behalf of the Staff of the Public Utilities Commission of Ohio was served by regular U.S. mail, postage prepaid, or hand-delivered, and/or sent via electronic mail to the following parties of record, this 28th day of March, 2012.



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