BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbia Gas of Ohio, Inc., for Approval to Implement a Capital Expenditure Program.	: : : :	Case No. 11-5351-GA-UNC
In the Matter of the Application of Columbia Gas of Ohio, Inc., for Approval to Change Accounting Methods.	: : : :	Case No. 11-5352-GA-AAM

SUR-REPLY COMMENTS
SUBMITTED ON BEHALF OF THE STAFF OF THE PUBLIC UTILITIES COMMISSION OF OHIO

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Date Submitted: August 15, 2012

TABLE OF CONTENTS

Page

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I. INTRODUCTION

On October 3, 2011, Columbia Gas of Ohio, Inc. (“Columbia” or “Company”) filed an Application for Authority to Implement a Capital Expenditure Program and for Approval to Change Accounting Methods (“Application”) in the dockets listed above. Columbia is seeking the Commission’s approval to create a capital expenditure program (“CEP”) for the period from October 1, 2011, through December 31, 2012, and associated deferral authority retroactive to October 1, 2011.

On January 27, 2012, the Commission granted motions to intervene by Office of the Ohio Consumers’ Counsel (“OCC”) and Ohio Partners for Affordable Energy (“OPAE”). On February 17, 2012, Commission Staff, the OCC, and OPAE filed initial Comments. On February 27, 2012, Staff, the OCC, OPAE, and Columbia filed reply Comments. In its January 27th Entry, the Commission stated that it would later “determine what further process may be necessary following the receipt of the comments and reply comments". On July 26, 2012, Columbia filed Supplemental Reply Comments. The Staff has reviewed Columbia's Supplemental Reply Comments and notes that Columbia has modified several of its positions on various topics such that it now either agrees with the positions advocated by the Staff or it accepts the Staff position on various topics with certain clarifications or provisos in an attempt to resolve differences and move forward on its initial Application. The Staff appreciates Columbia's consideration of the Staff positions on the various topics and willingness to modify its original positions in order to reach agreement. In that spirit, the Staff hereby submits the following Sur Reply Comments that summarize the Staff's understanding of the areas of agreement between Columbia and the Staff and posit clarifications where needed to ensure agreement and avoid future disagreements.

II. STAFF'S SUR-REPLY COMMENTS

A. Columbia and the Staff agree that the total monthly deferred regulatory asset should be net of any incremental revenue and, to avoid ambiguity, the determination of incremental revenue should be clearly defined.

In its Supplemental Reply Comments responding to the Staff's Comments, Columbia "reiterates its agreement with Staff's proposal to calculate incremental revenue through the multiplication of any net increase in customer accounts by the cost portion of the rate for each customer class."[1] The Staff's initial proposal, however, focused only on revenue generated by the net increase in customers served under a straight fixed-variable rate design ("SFV"). The Staff's initial Comments do not address revenue that could be generated by CEP investments to serve non-SFV customers, such as those served via a volumetric rate, or other potential sources of revenue. The Staff believes that the Commission should state as a principle that any revenue directly associated with CEP investments under a CEP should be used to offset the requested CEP deferrals.

In Reply Comments filed in its capital expenditure proceeding, Vectren Energy Delivery of Ohio, Inc. (Vectren) recognized that CEP investments could generate revenue from customers other than those served under a SFV rate.[2] Vectren proposed to calculate incremental revenue received from non-SFV customers that can be directly attributed to program investment by multiplying the consumption of those customers by the cost portion of their tariff rate.[3] The Staff believes that this approach is reasonable and consistent with the approach that the Staff proposed for the SFV customers. Therefore, the Staff recommends that the Commission should adopt this methodology for determining CEP

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1 *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval to Implement a Capital Expenditure Program,* Case Nos. 11-5351-GA-UNC, *et al*. (hereinafter *In re Columbia Gas*), (Supplemental Reply Comments of Columbia Gas of Ohio, Inc. at 2) (July 26, 2012) (Columbia Supplemental Reply).

2 *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval to Implement a Capital Expenditures Program,* Case No. 12-530-GA-UNC (Reply Comments of Vectren Energy Delivery of Ohio, Inc. at 2) (April 27, 2012) (VEDO Reply).

3 *Id.*

revenue from non-SFV customers in addition to the Staff-recommended approach for calculating revenue generated by SVF customers delineated in the Staff's initial Comments. Lastly, the Staff recommends that the Commission also require that any other sources of revenue directly associated with CEP investments be recognized and used to offset CEP deferrals.

As a specific recommendation in this case, the Staff recommends that the Commission require Columbia to offset the monthly regulatory asset amount charged to the CEP program by those revenues generated from the assets included in the CEP as recommended in Staff's Reply Comments in these proceedings for SFV customers and as discussed above for non-SFV customers and other revenue sources. The Staff has recommended below a specific formula for determining incremental revenue. Furthermore, the Staff recommends that the Commission direct Columbia to maintain sufficient records to enable the Staff to verify that all revenue generated from CEP investments can be accurately excluded from the total monthly deferral.

B. Columbia and Staff agree that the monthly deferred PISCC should be based on net plant.

In its initial Comments in these cases, the Staff recommended that Post-In-Service Carrying Charges ("PISCC") be calculated net of accumulated depreciation in order to prevent Columbia from collecting carrying costs on an expense item. Columbia, in its Supplemental Reply Comments, agrees. In addition, the OCC recommended in its initial

Comments that PISCC be calculated net of retirements[4], and the Staff agreed with OCC in Reply Comments.[5] In its Supplemental Reply Comments, Columbia agrees with this concept and concurs with Staff and the OCC that, for the CEP, PISCC should be calculated on net plant, which is gross plant less depreciation, retirements, and cost of removal (if applicable)[6]. However, Columbia makes it clear that because only incremental capital investments will included in the CEP, then only those retirements associated with CEP investments should be netted against gross plant. The Staff agrees with Columbia on this point. Retirements for plant not placed in service under the CEP will be accounted for elsewhere. Therefore, it would be unfair to deduct them from the CEP as well.

In light of this agreement between Columbia and the Staff, the Staff recommends that the Commission direct Columbia to calculate PISCC on assets placed in-service under the CEP as recommended by the Staff such that the PISCC is determined by taking the previous month's ending gross plant balance (utilizing the one-month lag method), less associated depreciation and retirements, and multiplying it by Columbia's monthly long-term cost of debt rate. The specific PISCC formula that the Staff is recommending is set forth below in the Staff summary of formulas that should be adopted in this proceeding.

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4 *In re Columbia Gas* (Initial Comments by The Office of the Ohio Consumers' Counsel at 8) (February 17, 2012).

5 *In re Columbia Gas* (Reply Comments submitted on behalf of the Staff of the Public Utilities Commission of Ohio at 3) (February 27, 2012).

6 *In re Columbia Gas* (Supplemental Reply Comments of Columbia Gas of Ohio, Inc. at 3) (July 26, 2012).

C. Columbia and the Staff agree that calculation of monthly deferral of depreciation and property tax expenses should follow the formulas initially recommended by Staff in its Comments docketed February 17, 2012.

In its initial Comments, the Staff set forth formulas for calculating the monthly deferrals for both the depreciation expense and property tax expense associated with CEP investments. Because Columbia agrees with the methodology, Staff recommends that the Commission require Columbia to calculate depreciation and property tax deferrals for the CEP in a manner consistent with Staff's recommendation. The specific formulas for calculating these expenses are detailed below in the summary of Staff –recommended formulas.

D. Columbia and the Staff agree that Columbia should make annual informational filings.

In its initial Comments, Staff proposed that Columbia should be required to make annual informational filings for its CEP program on March 15 for the previous calendar year and that this filing "should detail the monthly capital CEP investments and the calculation used to determine the deferred amounts to be recorded." [7] In its Supplemental Reply Comments, Columbia agrees to make an annual filing as recommended by Staff. However, the Company requests that the annual filing date be moved back to April 30, rather than the March 15 date that the Staff recommended. Columbia maintains that its "accounting staff is tied up with the year-end closing of the Company's books and the

[7] *In re Columbia Gas* (Comments submitted on behalf of the Staff of the Public Utilities Commission of Ohio at 13) (February 27, 2012).

support of Columbia's annual IRP filing."[8] The Staff agrees with Columbia's recommendation to move the filing date to April 30. Like Columbia, the Staff's resources are also stretched thin around March 15 of each year. In addition, there is no harm caused by moving the date to April 30. Therefore, the Staff recommends that the Commission direct Columbia to make an informational filing by April 30 of each year that details the monthly capital CEP investments and the calculations used to determine the associated deferrals as recommended in the Staff's initial Comments. Specifically, the annual filing should include all calculations used to determine the monthly deferred amounts including a breakdown of investments (by budget class), PISCC, depreciation expense, property tax expense, and all incremental revenue, as well as a capital budget for the upcoming year.[9] In addition, for the reasons discussed below, the annual filing should also include an estimation of the effects that the proposed deferrals would have on customer bills if they were to be included in rates.

E. Columbia and the Staff agree that there should be a cap on CEP deferrals.

In its initial comments, the OCC expressed concern over the CEP deferrals being allowed to grow indefinitely. The OCC was concerned over the potential for significantly larger future customer rate increases due to the continued accrual of carrying

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8 *In re Columbia Gas* (Supplemental Reply Comments of Columbia Gas of Ohio, Inc. at 4) (July 26, 2012).

9 *In re Columbia Gas* (Comments submitted on behalf of the Staff of the Public Utilities Commission of Ohio at 13) (February 27, 2012.

charges on the CEP deferrals. As a result, the OCC recommended that the deferrals end when they become effective in Columbia's base rates or on December 31, 2014, whichever comes first. In its Reply Comments in this case, the Staff agreed with the OCC. In response to OCC and Staff's concern, Columbia states in its Supplemental Reply Comments that it recognizes the concern over potential customer rate shock, however it suggests that a better way to address the concern is to place a cap on accrual of the deferrals that is tied to the impact on the rates for the Small General Service ("SGS") class of customers. Specifically, Columbia suggests that approved CEP deferrals be allowed to accrue until such time as the deferrals, if put into rates, would increase the monthly rates for the SGS customers by more than $1.50.

The Staff agrees that Columbia's proposed $1.50/month cap on SGS customers' rates strikes a reasonable balance between allowing the CEP deferrals to accrue over a sufficient time period in order to avoid frequent recovery proceedings and allowing the deferrals to accrue too long and potentially creating rate shock for customers when the deferrals are ultimately recovered in rates. Therefore, the Staff recommends that the Commission direct that Columbia can accrue CEP deferrals up until the point where the accrued deferrals, if included in rates, would cause the rates charged to the SGS class of customers to increase by more than $1.50/month. Accrual of all future CEP-related deferral's would cease once the $1.50/month threshold is surpassed until such time as Columbia files to recover the existing accrued deferrals under one of the recovery mechanisms specified in Revised Code Sections 4909.18, 4905.05, or 4929.11.

F. The Commission should establish the specific formulas that should be used to calculate the total monthly CEP deferrals.

As the discussion above demonstrates, through the cycle of comments, reply comments, supplemental reply comments, and evolving positions on varying topics, there is now a substantial amount of agreement between Columbia and the Staff on Columbia's proposal for creation of a CEP and calculation of associated deferrals. Despite this general agreement, however, the Staff believes that it is prudent for the Commission to specifically adopt the formulas that should be used to calculate the monthly CEP deferrals. Towards this end, the Staff recommends that the formulas for calculating the monthly deferral amounts should be calculated as follows:

Total Monthly Deferral	=	(PISCC) + (Depreciation Expense) + (Property Tax Expense) - (Incremental Revenues)

Where:

PISCC	=	[(Previous Month's Cumulative Gross Plan Additions) - (Previous Month's Accumulated Depreciation) - (Previous Month's Cumulative Retirements)] x [(Long Term Debt Rate) / (12 Months)]

Depreciation Expense	=	[(Previous Month's Cumulative Gross Plan Additions) - (Previous Month's Cumulative Retirements) + (1/2 Current Month's Plant Additions) - (1/2 Current Month's Retirements)] x [(Depreciation Rate) / (12 Months)]

Property Tax Expense	=	[(Previous Month's Cumulative Gross Plan Additions) - (Previous Month's Cumulative Retirements)] x (Percent Good Adjustment) x [(Effective Property Tax Rate) / (12 Months)]

Incremental Revenue	=	[(Current Month's Customers - Baseline Customers) x (Cost Portion of Rate)] + [(Consumption by non-SFV customers directly attributable to program investment) x (Cost Portion of Rate)] + (Other revenues directly attributable to program investment)

Commission adoption of the specific formulas to be used to calculate the total monthly CEP deferrals as well as the other Staff recommendations made herein should go a long way towards avoiding future misunderstandings and arguments over the CEP deferrals. Notwithstanding Commission adopted formulas and apparent agreement on much of the CEP topics, however, the Staff reiterates the statement that it made in its initial Comments that the Staff is taking no position on the level or prudence of the capital spending proposed in the CEP in this proceeding. Moreover, the Staff's lack of comment or objection to the proposed CEP investments should in no way be construed as the Staff's lack of objection or support for future recovery of the investments or related deferred amounts. In fact, the Staff will investigate and make any necessary adjustments to the deferrals when Columbia applies to recover the deferred assets.

III. CONCLUSION

With the adoption of the Staff's unmodified recommendations included in these Sur Reply Comments, the Staff would respectfully recommend that the Commission approve Columbia's Application in these cases.

Respectfully Submitted,

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IV. CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing **Sur-Reply Comments** submitted on behalf of the Staff of the Public Utilities Commission of Ohio was served by electronic mail upon the following parties of record, this August 15, 2012.

/s/ Stephen A. Reilly

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