

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

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

In the Matter of the Application of)
Columbia Gas of Ohio, Inc. for Approval to) Case No. 11-5352-GA-AAM
Change Accounting Methods.)

FINDING AND ORDER

The Commission finds:

- (1) Columbia Gas of Ohio, Inc. (Columbia or the Company) is a public utility as defined in Section 4905.02, Revised Code, and a natural gas company under Section 4905.03, Revised Code, and, as such, is subject to the jurisdiction of this Commission.
- (2) On October 3, 2011, Columbia filed an application for authority to implement a capital expenditure program (CEP) for the period of October 1, 2011, through December 31, 2012, pursuant to Sections 4909.18 and 4929.111, Revised Code. Additionally, Columbia seeks approval to modify its accounting procedures to provide for capitalization of post-in-service carrying costs (PISCC) on those assets of the CEP that are placed into service but not reflected in rates as plant in service, as well as deferral of depreciation expense and property taxes directly attributable to those assets of the CEP that are placed into service but not reflected in rates as plant in service. According to the application, a cumulative investment of \$76 million is projected for Columbia's CEP. Columbia states that it is not requesting cost recovery as part of this application and that recovery of any approved deferrals will be requested in a separate proceeding. Columbia submits that approval of the application will not result in an increase in any rate or charge, and, therefore, the application should be considered as an application not for an increase in rates under Section 4909.18, Revised Code.
- (3) By entry issued on January 27, 2012, the attorney examiner granted motions for intervention filed by the Ohio Consumers' Counsel (OCC) and Ohio Partners for Affordable Energy

(OPAE). Additionally, a comment period was established in order to assist the Commission in its review of Columbia's application. Pursuant to the entry, initial and reply comments were due to be filed by February 17, 2012, and February 27, 2012, respectively.

- (4) In accordance with the procedural schedule established in these cases, timely initial comments were filed by Staff, OCC, and OPAE on February 17, 2012. Timely reply comments were filed by Columbia, Staff, OCC, and OPAE on February 27, 2012. Additionally, Columbia filed supplemental reply comments on July 26, 2012. Staff filed surreply comments on August 15, 2012. Although the January 27, 2012, entry did not contemplate the filing of supplemental reply comments or surreply comments by the parties or Staff, the Commission finds that they are helpful in resolving these matters and, therefore, we consider them below.

Staff Comments

- (5) Staff believes that the Commission should approve Columbia's application, with modifications to incorporate specific recommendations contained in Staff's comments. In its initial comments, Staff notes that, despite recording the PISCC, depreciation expense, and property tax expense associated with the CEP investments in individual subaccounts, Columbia intends to calculate and track a total monthly deferred regulatory asset. As some of Columbia's proposed CEP investments may enable the Company to garner revenue that is incremental to the revenue provided by the rates established in the Company's last base rate case, Case No. 08-72-GA-AIR, *et al.* (08-72),¹ Staff recommends that the total monthly deferred regulatory asset should be net of any incremental revenue. Staff contends that, if Columbia is permitted to defer for future recovery the PISCC, depreciation expense, and property tax expense associated with its CEP investments and to keep any incremental revenue generated by the investments, there will be a mismatch in the treatment of expenses and revenues in violation of the matching principle and to the detriment of

¹ *In the Matter of the Application of Columbia Gas of Ohio, Inc., for Authority to Amend Filed Tariffs to Increase the Rates and Charges for Gas Distribution Service*, Case No. 08-72-GA-AIR, *et al.*, Opinion and Order (December 3, 2008).

customers. Staff notes that there are different ways in which the Commission can address this issue, but recommends that Columbia be directed to net out incremental revenue in the calculation of the total monthly deferral. Specifically, Staff recommends that the revenue generated by any net increase in the customer count over the customer count used in 08-72 be subtracted from the total monthly CEP regulatory asset prior to recording the deferral, in order to prevent double recovery of the PISCC, depreciation expense, and property tax expense. Staff proposes that any net increase in customer count be multiplied by only the cost portion of the rate for a particular class of customers, which will prevent double recovery, while allowing Columbia to keep the equity return earned on the revenues from the increase in customers.

- (6) For the most part, OCC agrees with Staff's first recommendation, but suggests that Staff should modify its proposed calculation of incremental revenue to include incremental revenue associated with both new and existing customers due to investment in the Growth and Acquisition of Assets spending categories. OCC also believes that Staff should clarify how the cost portion of the rate would be determined and the significance of its inclusion in the calculation of incremental revenue.
- (7) In its reply comments, Columbia states, as an initial matter, that the Company can generally agree with Staff's recommendations, with a few exceptions. With respect to Staff's first recommendation in particular, Columbia notes that it has no fundamental disagreement. However, Columbia believes that the cost portion of the rate for those customers whose rates are not based on a straight fixed variable (SFV) rate design should be the customer charge component of the applicable rate, including the equity component. Columbia also recommends that the determination of the offset for incremental revenue be made through a comparison of actual bills rendered each year with those levels upon which rates were established in 08-72. Columbia notes that this approach would reflect the true measure of growth by matching the method and basis upon which rates were established, providing for the removal of any seasonal impacts that could affect the revenue offset, and adopting a method that is similar

to the one used to determine operation and maintenance expense savings for the Company's infrastructure replacement program (IRP).

- (8) In its surreply comments regarding its first recommendation, Staff argues that incremental revenue received from non-SFV customers that is directly attributable to CEP investments should be calculated by multiplying the consumption of those customers by the cost portion of their tariff rate. Staff also recommends that the Commission require that any other sources of revenue directly associated with CEP investments be recognized and used to offset the deferrals. Staff offers a specific formula for determining incremental revenue from SFV customers, non-SFV customers, and any other revenue sources, as well as recommended formulas for calculating the PISCC, depreciation expense, property tax expense, and total monthly deferral. Further, Staff recommends that Columbia be directed to maintain sufficient records to enable Staff to verify that all revenue generated from CEP investments is accurately excluded from the total monthly deferral.
- (9) Staff's second recommendation is that the monthly deferred PISCC should be net of accumulated depreciation. Staff argues that this adjustment is necessary in order to ensure that Columbia does not collect carrying costs on an expense, particularly one that is being deferred for future recovery. Staff notes that the Commission has traditionally allowed recovery of PISCC on plant items only and not expense items. OCC agrees with Staff's recommendation.
- (10) In its reply comments to Staff's second recommendation, Columbia argues that Staff's position is inconsistent with Section 4929.111, Revised Code, which provides for PISCC recovery for both plant items and expense items. Columbia also notes that PISCC recovery in its annual IRP filings is not net of accumulated depreciation. Columbia notes that the deferral of depreciation has no impact on recovery of the asset. Additionally, Columbia believes that Staff's proposed means of calculating PISCC, depreciation expense, and property tax expense require certain clarifications. In its supplemental reply comments, Columbia states that, upon further consideration, it agrees with Staff that the determination of PISCC on plant

items should be net of accumulated depreciation. Columbia also agrees that monthly deferred depreciation and property taxes should be calculated in accordance with Staff's initial comments.

- (11) Staff's third recommendation is that the monthly deferred PISCC for CEP investments should be calculated using the one-month lag method. Staff asserts that the one-month lag method is more accurate than the half-month convention proposed by Columbia to determine which plant additions become eligible for PISCC within a given month. Staff notes that, with the one-month lag method, PISCC eligible plant additions are determined based on the previous month's ending balance and no estimate of the current month's additions is included. According to Staff, Columbia currently uses the one-month lag method to calculate PISCC for its IRP. OCC endorses Staff's recommendation to use the one-month lag method.
- (12) Staff's fourth recommendation is that Columbia be required to make annual informational filings, which should include detailed information regarding the monthly CEP investments and the calculations used to determine the deferred amounts to be recorded. Staff adds that Columbia should provide a breakdown of investments, PISCC, depreciation expense, property tax expense, and incremental revenue, which should be based on the calendar year and filed on March 15 of the following year. Staff further recommends that Columbia provide a capital budget for the coming year. Staff believes that the annual informational filings are necessary, as there could be a protracted period of time between when the deferrals are created and when Columbia files an application to recover the deferrals, resulting in the deferrals accumulating to a significant amount.
- (13) OCC agrees with Staff's position, but adds that the annual informational filings should include the calculations of the PISCC, along with a detailed explanation of how the PISCC were determined and why those calculations were performed. OCC also requests that, to the extent possible, the filings should show the deferrals broken down by the budget classes listed in Attachment A to Columbia's application. Further, OCC believes that each annual filing should explain how the

spending for that year was consistent with Columbia's obligation under Section 4905.22, Revised Code, to furnish necessary and adequate services and facilities, as required by Section 4929.111, Revised Code, in order to enable the Commission and parties to determine whether the spending was just and reasonable in all respects.

- (14) In its supplemental reply comments, Columbia notes that it agrees with Staff's recommendation regarding the annual informational filings, if the filing deadline is changed to April 30.
- (15) Staff agrees, in its surreply comments, that the filing deadline should be changed to April 30. Staff also recommends that the annual informational filings, in addition to providing the information discussed above, should project the impact of the deferrals on customer bills, assuming that the deferrals were to be included in Columbia's rates.
- (16) As a final matter, Staff notes that Columbia's projected capital spending under the CEP is not incremental to what the Company has historically spent on non-IRP capital projects, which is inconsistent with representations made by the Company and other supporters of the legislation that enacted Section 4929.111, Revised Code, regarding the need for the unusual deferral treatment authorized by the statute. In their reply comments, OPAE and OCC argue that, given that Columbia does not intend to spend more in 2012 than it has in prior years for its capital projects, there is no need for the Company's CEP or the special deferral treatment authorized by Section 4929.111, Revised Code, and, accordingly, the Company's application should be rejected. Columbia notes, however, that Section 4929.111, Revised Code, does not require that capital spending be incremental to capital spending levels during any prior period in order to qualify for accounting treatment under the statute.

Intervenor Comments

OCC

- (17) As an initial matter, OCC argues that Columbia's application should be rejected by the Commission because the Company

did not meet its burden to prove that the application is consistent with its obligation to serve customers and is for services and facilities that are necessary and adequate and in all such respects are just and reasonable for serving customers, pursuant to Sections 4929.111(C), 4905.22, and 4909.18, Revised Code. OCC notes that Columbia's application provides minimal explanation for the estimated \$76 million in total spending for the CEP and, thus, it is impossible to determine whether the proposed spending meets the statutory requirements.

- (18) Columbia responds that the six spending categories described in its application are for necessary and adequate services and facilities that comprise its core business. Columbia adds that the information contained in its application and Attachment A was intended to enable the Commission to determine the level and type of capital expenditures for which the Company seeks accounting treatment and that, once the projects are completed, the Commission can then determine in a separate proceeding whether the capital expenditures meet the requirements for cost recovery. Columbia notes that, at that time, detailed information will be available and the parties will have the opportunity to question the reasonableness of recovery of the deferred amounts. Columbia concludes that it has met its burden of proof and complied with the relevant statutes.
- (19) Alternatively, OCC recommends that revenue generated from Columbia's Growth and Acquisition of Assets spending categories be included in any deferral calculation. OCC argues that, because customers will ultimately pay for the deferrals, they should also benefit from the revenues during the time that the costs are being deferred. OCC believes that Columbia should be required to credit the revenues to the regulatory asset accounts that are established for PISCC, deferred depreciation, and deferred property taxes. At a minimum, OCC suggests that Columbia be required to establish a regulatory liability account in order to balance revenues and expenditures.
- (20) In reply, Staff states that it agrees with OCC that the total deferral should be net of any incremental revenue associated with the CEP investments, but notes that OCC does not specify

how it would calculate the incremental revenue. Staff, therefore, offers a step-by-step process in its reply comments for determining the incremental revenue that would be netted in the computation of Columbia's total monthly CEP deferral.

- (21) In its supplemental reply 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.
- (22) Additionally, OCC recommends, and Staff agrees, that PISCC should be calculated net of retirements for plant replaced under the CEP, as well as net of accumulated depreciation, in order to avoid potential over-recovery. OCC further recommends that Columbia be required to remove retired plant from its books in timely fashion. Columbia replies that, because recovery and return on capital expenditures only occurs when the deferrals are collected in rates, PISCC should be calculated on the basis of gross plant additions, which is consistent with the treatment of PISCC in the Company's IRP cases. However, in its supplemental reply comments, Columbia states that, upon further consideration, it agrees with OCC and Staff that PISCC on plant items should be based on net plant additions, meaning gross plant less retirements and depreciation. Columbia emphasizes that only those retirements brought about as a result of the incremental CEP investments would be considered in determining the net plant balance. Staff agrees with Columbia on this point in its surreply comments.
- (23) OCC next notes that Columbia's application contains several categories of plant that overlap with the Company's IRP and automated meter reading device program. OCC contends that the Commission should ensure that accounting mechanisms are in place to separate the plant balances for the different spending programs, which will prevent double recovery of the deferred PISCC, depreciation, and property taxes. OCC adds that some of the items that Columbia proposes to include in the CEP are not appropriate for collection from jurisdictional customers and should, therefore, be excluded, or at least audited by Staff in the Company's next rate case. Columbia responds that OCC has confused accounting authority with

cost recovery and that, in any event, OCC's concern regarding overlap between the CEP and other programs is misplaced. Columbia notes that it already has accounting mechanisms in place to separate expenditures for its programs, which may be reviewed by Staff at any time.

- (24) OCC further recommends that certain items associated with Columbia's use of blanket work orders not be considered capital expenditures, but should rather be classified as operation and maintenance expenses and, therefore, excluded from the CEP. In its reply comments, Columbia notes that it has used blanket work orders for many years and that there are specific guidelines and procedures in place to ensure that all expenditures are properly capitalized or expensed. Columbia adds that its accounting policies have been reviewed in past rate cases. According to Columbia, OCC's concerns about the treatment of any particular expenditure are premature and should be addressed when the Company seeks recovery of the deferred amounts.
- (25) OCC also suggests that the Commission require Columbia to provide evidence that the plant on which it seeks to recover PISCC, depreciation, and property tax deferrals is in actual use, providing service to customers, as opposed to simply being purchased or built and not yet in use.
- (26) Finally, OCC recommends that the deferrals must have a time limit and that the capitalization of PISCC and deferral of depreciation and property taxes should cease when the costs are reflected in rates. OCC believes that a reasonable time limit would be the date on which new base rates take effect, or December 31, 2014, whichever occurs first. OCC notes that a time limit will ensure that the deferrals do not grow to an unreasonable level due to the continued accrual of carrying charges, which could result in a significantly larger potential future rate increase for customers. In its reply comments, Staff agrees with OCC's recommendation. Columbia asserts, however, that OCC fails to recognize that the deferrals will have minimal impact on rates, as recovery will occur over the life of the asset. Columbia adds that OCC's recommendation would likely result in additional rate cases and that Section 4929.111, Revised Code, does not limit the duration of

deferrals. In its supplemental reply comments, Columbia states that it remains opposed to a specific time limit. As an alternative, Columbia proposes that the deferrals be allowed to accrue until the impact from the deferrals on the rates for the Company's Small General Service (SGS) customers would exceed \$1.50/month. Columbia notes that its proposal would avoid the rate shock that is the cause for OCC's and Staff's concerns. In its surreply comments, Staff agrees with Columbia's recommendation.

OPAE

- (27) OPAE asserts that Columbia's application fails to specify the total cost of the CEP as required by Section 4929.111(B), Revised Code, and should, accordingly, be dismissed. OPAE notes that the application indicates that Columbia has provided only an estimate of the total cost of the CEP; that there will be a timing disparity between cash payments and the date on which plant is placed in service, although no information regarding the financial implications of the timing difference is provided; and that, because the board of directors of Columbia's parent company will ultimately determine the details of the CEP, the cost of the CEP could change depending on the board's determinations. OPAE believes the application reveals that there are too many variables that could affect the total cost of the CEP.
- (28) OPAE also contends that Columbia's application should be dismissed, because it fails to adequately describe the CEP and how it is consistent with the requirements of Sections 4905.22 and 4929.111(C), Revised Code. OPAE maintains that the application provides no details regarding what specific capital expenditures are involved, the need for them, or the reasonableness of the costs involved.
- (29) In its reply comments, OCC agrees with OPAE on both points and urges the Commission to reject Columbia's application.
- (30) Columbia, however, responds that it has provided sufficient information about the types and magnitude of the expenditures included in the CEP. Columbia adds that the spending amounts reflected in its application are necessarily estimates because the CEP expenditures are prospective in nature.

Conclusion

- (31) Section 4929.111(A), Revised Code, provides that a natural gas company may file an application with the Commission under Section 4909.18, 4929.05, or 4929.11, Revised Code, to implement a CEP for any of the following:
- (a) Any infrastructure expansion, infrastructure improvement, or infrastructure replacement program;
 - (b) Any program to install, upgrade, or replace information technology systems;
 - (c) Any program reasonably necessary to comply with any rules, regulations, or orders of the Commission or other governmental entity having jurisdiction.

Section 4929.111(C), Revised Code, requires the Commission to approve the application, if the Commission finds that the CEP is consistent with the natural gas company's obligation under Section 4905.22, Revised Code, to furnish necessary and adequate services and facilities, which the Commission finds to be just and reasonable.

- (32) Upon review of Columbia's application and the comments filed by the parties, the Commission finds that the application should be approved, with the following modifications and clarifications:
- (a) Columbia should calculate the total monthly deferral, PISCC, depreciation expense, property tax expense, and incremental revenue by using the specific formulas set forth in Staff's surreply comments.
 - (b) Columbia should offset the monthly regulatory asset amount charged to the CEP by those revenues generated from the assets included in the CEP for SFV customers, non-SFV customers, and any other revenue sources directly attributable to CEP investments.

- (c) Columbia should maintain sufficient records to enable Staff to verify that all revenue generated from CEP investments is accurately excluded from the total monthly deferral.
- (d) Columbia should calculate the PISCC on assets placed in service under the CEP as recommended by Staff, such that the PISCC are 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 the Company's monthly long-term cost of debt rate.
- (e) Columbia should calculate the depreciation and property tax deferrals for the CEP in a manner consistent with Staff's recommendations.
- (f) Columbia should docket an annual informational filing by April 30 of each year that details the monthly CEP investments and the calculations used to determine the associated deferrals, as recommended by Staff. The annual informational filings 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. The annual informational filings should also include an estimation of the effect that the proposed deferrals would have on customer bills, if they were to be included in rates.
- (g) Columbia may 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 deferrals should cease once the \$1.50/month threshold is surpassed, until such time as Columbia files to recover the existing accrued deferrals and establish a recovery mechanism

under Section 4909.18, 4929.05, or 4929.11,
Revised Code.

The Commission finds no merit in the arguments of OCC and OPAE that Columbia's application fails to provide a sufficient description of the proposed CEP or its total cost. The Commission finds that Columbia's application includes the necessary information required by Section 4929.111, Revised Code, regarding the types and amounts of the expenditures included in the CEP such that the Company has demonstrated that the CEP is consistent with the Company's obligation under Section 4905.22, Revised Code, to furnish necessary and adequate services and facilities, which the Commission finds to be just and reasonable. The Commission emphasizes, however, that Columbia has not requested, nor is the Commission granting, cost recovery for any CEP-related items. The Commission will consider the prudence and reasonableness of the magnitude of Columbia's CEP-related regulatory assets and associated capital spending in any future proceedings seeking cost recovery and the Company will be expected to provide, at that time, detailed information regarding the expenditures for our review. Additionally, the Commission finds that our approval of Columbia's application, as modified herein, will not result in an increase in any rate or charge. Accordingly, the application should be considered as an application not for an increase in rates under Section 4909.18, Revised Code.

With the above modifications and clarifications, the Commission finds Columbia's proposed CEP, as modified herein, to be both reasonable and consistent with Section 4929.111, Revised Code. Accordingly, Columbia is authorized, pursuant to Sections 4909.18 and 4929.111, Revised Code, to implement the CEP and modify its accounting procedures as necessary to carry out the implementation of the CEP for the period of October 1, 2011, through December 31, 2012, consistent with this finding and order.

It is, therefore,

ORDERED, That Columbia's application be approved, as modified herein. It is, further,

ORDERED, That Columbia be granted the necessary and appropriate accounting authority to implement the CEP, as modified by this finding and order. It is, further,

ORDERED, That nothing in this finding and order shall be binding upon this Commission in any future proceeding or investigation involving the justness or reasonableness of any rate, charge, rule, or regulation. It is, further,

ORDERED, That a copy of this finding and order be served upon all parties of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO




Todd A. Snitchler, Chairman



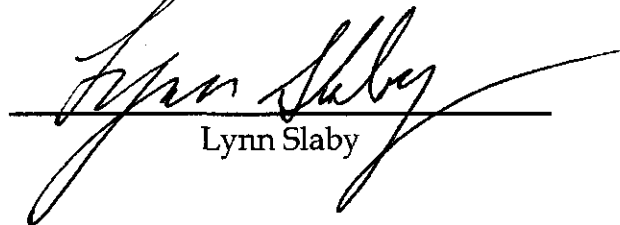
Steven D. Lesser



Andre T. Porter



Cheryl L. Roberto

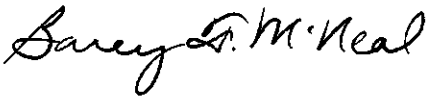


Lynn Slaby

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Entered in the Journal

AUG 29 2012



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Secretary