

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of)	
Columbia Gas of Ohio, Inc. for Approval to)	Case No. 14-1615-GA-AAM
Change Accounting Methods.)	

COMMENTS OF OHIO PARTNERS FOR AFFORDABLE ENERGY

On September 12, 2014, Columbia Gas of Ohio, Inc. ("Columbia") filed this application requesting approval to change accounting methods. Specifically, Columbia is seeking authority to establish a regulatory asset and defer, for accounting and financial reporting purposes, the expenses to be incurred in Columbia's new Pipeline Safety Program ("PSP"). Columbia is also seeking a cost recovery rider and a procedure through which it may recover as much as \$15 million of the deferred expenses annually from its customers for an unstated number of years. The PSP expenses will be incurred for activities Columbia has developed to comply with amendments to Pipeline Safety Regulations, 49 CFR 192, issued by the U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration ("PHMSA"). The amendments provide "guidance" regarding the development of a Distribution Integrity Management Program ("DIMP"), which is a written plan that promotes continuous improvement in practices to ensure the safety of Columbia's distribution system. Application at 2, 4

Columbia requests the Commission to permit it to defer PSP costs incurred after December 31, 2014. The recovery of the deferred amounts will be addressed through a separate proceeding or in Columbia's next base rate case. Columbia also requests authority to recover carrying charges on the deferred balance computed at its actual long-term cost of debt. When Columbia seeks to recover the deferred amounts, it will propose an amortization period that results in a rider not greater than

50 cents per month to customers served under its small general service rate schedule. Commission approval of the deferral accounting treatment is necessary for Columbia to assert probability of recovery of these expenses under generally accepted accounting rules.

The proposed procedure for cost recovery of the regulatory asset from customers is also set out in the application. Columbia will file an annual report June 1 of each year, beginning in 2016 for calendar year 2015, which sets forth PSP expenses on an annual basis. Columbia proposes that the Staff of the Commission annually review all reported expenses with a report to be filed by the Staff no later than 90 days after the filing of Columbia's annual report. Columbia will have 30 days to object to the Staff's findings and if Columbia objects, the Commission will set an evidentiary hearing. Apparently, the objections of no other interested party are contemplated. The Staff and Columbia – and no other parties – will also be granted authority to increase the customer charge beyond 50 cents per month if these two parties find it “appropriate”. Application at 3.

Columbia's application refers to possible cost recovery through a base rate case, but Columbia does not intend that these expenses would receive the same treatment as other expenses in a base rate case. Columbia's application requests creation of a regulatory asset that will allow for recovery of the expenses through a rider outside base rates.

The PHMSA guidance indicates that a DIMP is designed to assist operators in identifying “risks to their pipelines where an incident could cause serious consequences and focus priority attention on those areas.” Application at 2. These regulations are regularly updated.¹

¹ 35 FR 13257, Aug. 19, 1970, as amended by Amdt. 192-27, 41 FR 34605, Aug. 16, 1976; Amdt. 192-67, 56 FR 63771, Dec. 5, 1991; Amdt. 192-78, 61 FR 28782, June 6, 1996; Amdt. 192-81, 62

ARGUMENT

1) Columbia's base distribution rates already compensate Columbia for maintaining and operating a safe distribution pipeline system.

Columbia is a regulated natural gas distribution utility. Its function is to maintain and operate a distribution system that safely serves its customers. Those customers currently pay regulated distribution rates – including high monthly fixed charges – to provide the revenue necessary for Columbia to operate a safe natural gas distribution system as required by statute. Columbia's current base distribution rates were approved on December 3, 2008. See Case No. 08-72-EL-AIR.

The application notes that Columbia developed a group of employees:

[T]o implement a program that addresses: (a) knowledge of its distribution system; (b) threat identification; (c) risk evaluation and ranking; (d) implementation of measures to address risk; (e) measurement of performance, monitoring results, and evaluation effectiveness; (f) periodic evaluation and improvement; and, (g) reporting results. Application at 2.

Columbia's sole function is to operate a natural gas distribution system; thus, Columbia should already have knowledge of the system it is operating. In recent years, Columbia has been engaged in an accelerated main replacement program and the replacement of risers, as well as taking responsibility for the distribution lines from the street to the meter. Customers have paid hundreds of millions of dollars under these programs through riders. One would think that the Staff of the Commission has long ensured that Columbia "identify threats", "evaluate" risks, and prioritize the issues to be addressed. Needless to say, once

FR 61695, Nov. 19, 1997; Amdt. 192-92, 68 FR 46112, Aug. 5, 2003; 70 FR 11139, Mar. 8, 2005; Amdt. 192-102, 71 FR 13301, Mar. 15, 2006; Amdt. 192-103, 72 FR 4656, Feb. 1, 2007.

identified, Columbia would already “implement measures to address risk” followed by “monitoring” and “evaluating” the results and writing reports to document the results. The expenses associated with all these functions are already included in Columbia’s base distribution rates.

The new regulations simply require Columbia to prepare a written plan to do what Columbia should already be doing. Nothing in the application alleges that existing base distribution rates fail to compensate Columbia for these activities, which are inherent to managing and operating a natural gas distribution system. There is no dispute that paying for these activities through distribution rates is appropriate, and there is no indication that Columbia has failed to manage its system. Therefore, it is difficult to understand how Columbia might face a “significant and unavoidable negative impact on...earnings”, when it is already being paid to maintain the safe operation of the distribution system.

Should base rates not provide adequate revenue to ensure Columbia can safely operate its distribution system, the remedy is a base rate case. Deferrals may be necessary for utilities to recover expenditures that are large, volatile, and outside their control. But the expenses associated with this application are not those types of expenditures. Expenditures associated with ensuring a system operates safely are not extraordinary; the expenses discussed in the application are regular and recurring expenditures that can be budgeted and thus controlled. If entire sections of Columbia’s system suddenly began leaking, such an event would lead to serious questions about Columbia’s management capability. In the

case of the expenditures in this application, they are simply the normal and recurring expenses of maintaining a distribution system.

2) The issuance of amendments to existing regulations is not a unique event that justifies deferral for future recovery.

Utilities often use the issuance of new regulations to justify recovery of the alleged incremental expenditures that must be made to comply with the new rules. However, PHMSA rules are not akin to rules that are used to justify huge additional one-time expenditures. Rather, these pipeline safety rules have been in existence for a long time and, presumably, Columbia has been complying with the rules for a long time.

A simple review of the first footnote in the amended rules issued by PHMSA makes clear that these rules are neither new nor do they impose extraordinary responsibilities on natural gas utilities:

35 FR 13257, Aug. 19, 1970, as amended by Amdt. 192-27, 41 FR 34605, Aug. 16, 1976; Amdt. 192-67, 56 FR 63771, Dec. 5, 1991; Amdt. 192-78, 61 FR 28782, June 6, 1996; Amdt. 192-81, 62 FR 61695, Nov. 19, 1997; Amdt. 192-92, 68 FR 46112, Aug. 5, 2003; 70 FR 11139, Mar. 8, 2005; Amdt. 192-102, 71 FR 13301, Mar. 15, 2006; Amdt. 192-103, 72 FR 4656, Feb. 1, 2007.

Surely, the cost of complying with amendments to these rules is an expense commonly incurred by Columbia.

The application fails to provide any evidence that the new rules represent extraordinary new expenses other than a bald assertion that engaging in the type of planning activity prescribed by the new rules could require Columbia to make some incremental expenditures to pay for a safe distribution system. However, compliance with safety rules is clearly not an expenditures that is large, volatile, and outside a utility's control, the criteria that should apply to a deferral. Compliance with safety rules is not new or unexpected.

There is no evidence to support the assertion that Columbia cannot incur these expenses and maintain distribution system safety without this special accounting treatment and cost recovery through a rider. Writing a report to document an improved approach to analyzing system infrastructure and develop a response protocol and fixing the pipes identified through the process are not new or unexpected. The adoption of amendments to the PHMSA Pipeline Safety Act regulations is a common practice.

The Commission regularly issues rules where the costs of compliance require utilities to dip into revenues received from customers. Complying with rule changes is a regular cost of providing monopoly distribution service. Rules issued by the federal government are no different from rules issued by the Public Utilities Commission of Ohio. Rule compliance is the lot of regulated utilities. If the costs of compliance exceed the amount recovered in base rates, it may be necessary for the utility to file a base rate case.

3) The expenses for which Columbia seeks deferrals are typical expenditures of a distribution utility.

Columbia describes four programs that were developed using ratepayer funds: 1) Cross Bore Safety Initiative; 2) Damage Prevention Technology Initiative; 3) Advanced Workforce Training Initiative; and 4) Enhanced Public Awareness Initiative. None of these programs represents an extraordinary expenditure if Columbia is properly managing its distribution business. Columbia should be improving its approach to safety on a regular basis. A Staff review and a development of new initiatives to ensure safety of the distribution system is what ratepayers already pay for through base distribution rates.

Utilities have been using trenchless technology to install underground lines for some time. The Cross Bore Safety Initiative is designed to supplement the current 8-1-1 system to identify potential obstacles to trenchless installations. This activity is actually a study process to investigate when the laying of pipe through a trenchless approach has run into an unmapped utility line such as a sewer line. One would think that Columbia is already identifying when cross boring occurs and already trying to prevent it. An actual investigation may be a good idea, but spending ratepayer funds to do what is necessary cannot be an extraordinary expense. The fact that PNHMA has issued new regulations does not make this a new task.

The Damage Prevention Technology Initiative is “designed to reduce system risks associated with excavation damage”. Application at 9. The idea is to get better information on the system so responses to ‘one-call’ tickets can be dispatched using a risk assessment tool, and reduce the damages associated with excavation. Id. If damages are reduced, then costs should be reduced. The reduced costs may well offset the additional expenditures. Again, this is part of the day-to-day business of an efficient utility.

Columbia already provides training for its employees. It has training facilities. Ratepayers already pay the expenses associated with this training. Columbia now wants to improve the methods used to train employees to prevent leaks and to train either new employees or those assigned to new jobs through the Advanced Workforce Training Initiative. Again, this sounds like the day-to-day business of a natural gas utility that has to maintain a distribution system. If

it is an extraordinary expense to train employees, then one would worry about safety across the system. Improving the provision of training is something ratepayers already pay for. If the new training costs more than the amount recovered for training in base rates – where training expenses belong – it is time for Columbia to file a new base rate case.

Columbia wants to expand its current outreach campaign to educate customers on its pipeline safety program. Currently it funds two campaigns – “Call Before You Dig” and a Fall campaign to remind customers to call Columbia if they smell gas. Columbia now wants a new program to promote its pipeline safety initiative. While the current campaigns provide customers with information they can use, telling customers about a pipeline safety initiative does not provide customers with information they can use. Customers are not going to fix their own pipes; Columbia is, and Columbia already knows about it. If a customer sees a truck in his or her neighborhood, the customer can always ask the Columbia personnel what is being done, or call Columbia to find out. What Columbia is asking for is ratepayer funding for corporate image advertising, which is designed to improve a customer's perception of the job the natural gas distribution utility is doing. The press lets customers know when a pipeline was hit by a backhoe operator that failed to call 8-1-1 or when the utility failed to adequately maintain the system. It is unclear why ratepayers should pay for a public relations effort designed to convince those same ratepayers that the utility is doing a good job.

Conclusion

There is nothing extraordinary about PHMSA issuing amendments to its regulations. There is nothing extraordinary about Columbia complying with those regulations. There is nothing extraordinary about the work Columbia does to ensure its system is safe. Given that the Commission has not investigated Columbia recently for safety failures, Columbia is apparently already running a safe operation. Revenues provided by ratepayers are already available to Columbia to pay for all the activities identified by the working group of current employees. Of course these activities can always be improved. If the improvements will cost more than Columbia can withstand under its current base distribution rates, then it is time for Columbia to file a base rate case. The application should be denied.

Respectfully submitted,

/s/Colleen L. Mooney

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Comments was served electronically upon the parties identified below on this 17th day of October 2014.

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Summary: Comments of Ohio Partners for Affordable Energy electronically filed by Colleen L Mooney on behalf of Ohio Partners for Affordable Energy