

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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

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

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INTRODUCTION AND BACKGROUND

On September 12, 2014, Columbia Gas of Ohio (Columbia or Company) filed an application in the above captioned case seeking authority from the Public Utilities Commission of Ohio (Commission) to modify its accounting procedures to create a regulatory asset and defer for future recovery operating and maintenance (O&M) expenses associated with implementation of its newly created Pipeline Safety Program (PSP). The PSP was developed in response to the U.S. Department of Transportation (U.S. DOT) Pipeline and Hazardous Materials Safety Administration's (PHMSA) rule requiring that all gas

distribution companies develop and implement a Distribution Integrity Management Program (DIMP) that includes a written integrity management plan.¹ PHMSA's DIMP rule requires that the gas distribution companies identify the risks to their pipelines where incidents could have serious safety consequences and focus priority attention on those risks.² Columbia states that it has identified and prioritized the risks to its distribution system and that the PSP contains four specific initiatives to address the greatest threats on an accelerated basis.³

Columbia maintains that the costs of implementing the PSP are necessary and prudent business expenses in response to PHMSA's regulations.⁴ It further maintains that incurrence of the costs could result in a significant negative impact on its earnings and that the costs are not currently recovered in its base distribution rates.⁵ The Company states that capital costs associated with the PSP that are not part of its Application will be addressed via other deferral and recovery mechanisms, such as its Capital Expenditure Program.⁶ It proposes that the O&M expenses under the PSP be recorded in Account 182

¹ *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval to Change Accounting Methods*, Case No. 14-1615-GA-AAM (Application at 1-2) (Sep. 12, 2014) (*Columbia Gas Application*).

² *Columbia Gas Application* at 2.

³ *Id.*

⁴ *Id.*

⁵ *Id.*

⁶ Meeting between Staff and Columbia, October 9, 2014.

and that the expenses continue to accrue with carrying costs⁷ until a new recovery rider is established via a separate proceeding or its next base rate case.⁸ The Company states that, beginning with approval of its Application, annual increases to Account 182 for the PHP will not exceed \$15 million per year.⁹

On October 3, 2014, the Attorney Examiner assigned to this case issued an Entry setting a procedural schedule for comments on Columbia's Application as follows:

- November 17, 2014 – Deadline for filing of motions to intervene;
- November 17, 2014 – Deadline for the filing of comments on the Application by Staff and interveners; and,
- December 2, 2014 – Deadline for all parties to file reply comments.

Pursuant to the Attorney Examiner's Entry, the Staff offers the comments and recommendations set forth below.

COLUMBIA'S APPLICATION AND PROPOSED PSP

Columbia's Application proposes that when the Company seeks to recover the deferred PSP amounts, it will propose an amortization period that will result in a rider amount not greater than \$0.50 per month for customers served under the Small General Service rate schedule, unless the Staff and Columbia determine that a higher customer

⁷ *Columbia Gas Application* at 2-3.

⁸ *Id.* at 3.

⁹ *Id.*

charge is appropriate.¹⁰ It also proposes that the Company will file an annual report on June 1 of each year beginning in 2016 that will specify annual and cumulative PSP expenses and identify the monthly expenditures for each PSP component on an annual basis. In addition, the annual report will include an audit report prepared by the Company's external auditor presenting the auditor's findings regarding the accuracy of Columbia's accounting for PSP expenditures.¹¹ Columbia further proposes that the Staff annually review Columbia's reported PSP expenses and file a report to the Commission that includes a detailed examination and determination that the PSP deferrals are properly recorded on Columbia's books and specifies any PSP expenditures that Staff believes should not be deferred.¹² The Company proposes that it would then have 30 days to object to the Staff's report, and, if it files such an objection, then the Commission would establish a procedural schedule for filing of expert testimony and an evidentiary hearing.¹³

Columbia's PSP consists of four sub-parts or "initiatives" that the Company maintains are designed to accelerate risk reduction across its distribution system. The four initiatives are: 1) the Cross Bore Safety Initiative (CBSI); 2) the Damage Prevention Technology Initiative (DPTI); 3) the Advanced Workforce Training Initiative (AWTI); and 4)

¹⁰ *Columbia Gas Application* at 3.

¹¹ *Id.*

¹² *Id.*

¹³ *Id.* at 3-4.

the Enhanced Public Awareness Initiative (EPAI). With the CBSI, Columbia indicates that it will systematically identify, investigate, and remediate potentially dangerous cross bores on its system. The Company states that cross bores stem from the increased use of trenchless technology (also called “directional boring”) to install underground lines and are most commonly found in storm and/or sanitary sewer infrastructure. Columbia defines cross bores as “the intersection of one underground utility or structure by a second underground utility or structure that compromises the structural integrity of the underground utility and or the underground structure.”¹⁴ The Company states that the CBSI is designed to investigate cross bored utility infrastructure across its distribution system. Investigation costs could include, but are not limited to, dedicated personnel for cross bore investigations, use of camera systems through sewer lines to visually inspect whether cross bores exist in the sewer mains and laterals, internal inspections of Columbia’s distribution mains and service lines and any O&M expenses to remediate cross bores.

For the DPTI, Columbia proposes to implement new technologies and damage prevention activities designed to reduce system risks associated with excavation damage by 1) targeting gaps in and improving the accuracy of its infrastructure records and 2) using a risk assessment tool to increase the effectiveness of its responses to one-call (811-Call Before You Dig) tickets. Columbia states that it has identified three root causes of excavation damage: excavator errors, poor records, and locate error. The Company

¹⁴ *Columbia Gas Application, Attachment A at 7.*

maintains that the DPTI will enable it to provide more precise locations of facilities and effectively execute 811 location requests in a proactive manner to further reduce excavation damage. The Company indicates that investigation costs may include, but are not limited to: using GPS technology to map the location and attributes of gas facilities, utilizing RFID markers, marker tape, and vacuum excavation to expose the facility, implementing a one-call risk assessment model, and additional hiring of internal staff.

Under the AWTI, Columbia intends to build or lease a training facility that replicates a town where modern technologies and training approaches will be utilized to train new employees through the use of simulated gas leaks and various emergency response scenarios under the controlled oversight of experienced trainers. The Company indicates that the training facility may also be used to train outside contractors, first responders, and, perhaps, small gas companies. The Company also plans to utilize experienced trainers to conduct classroom training for new and existing employees that will emphasize advanced emergency response techniques, new technologies, and learning maintenance and construction skills. In addition, the Company plans to utilize new technology to provide field personnel immediate and direct access to manuals and other reference materials at the job site. Columbia maintains that its workforce is aging and that new and more efficient and cost-effective training methods are needed.

Under the EPAI, Columbia proposes to enhance its current public awareness and outreach campaigns. The Company states that its current program consists of a radio campaign focusing on informing customers to “Call Before You Dig” and to call Columbia if they smell gas. The Company plans to engage a third-party marketing firm

to develop new outreach and awareness campaigns to supplement its existing program. This firm will also measure the effectiveness of Columbia's existing campaign and use the measure as a baseline to develop, target, and measure the success of new awareness and outreach efforts. The Company is also considering creating public liaison coordinators to target outreach within its communities. These coordinators would work with Columbia Operations personnel to meet with public officials and first responders to discuss pipeline safety issues, third-party damage, Ohio Utility Protection Service, and emergency response when a gas leak or dig-in has occurred. In addition, the coordinators would also work to educate excavators that are digging close to Columbia's facilities on natural gas safety, one-call laws, and safe digging practices.

STAFF'S REVIEW

The Staff has reviewed Columbia's Application and proposed PSP to determine if, in the Staff's opinion, the Application and PSP comport with sound ratemaking principals regarding utility cost deferrals for potential future recovery. In these Comments, the Staff is taking no position on the future recoverability of deferred amounts associated with the PSP. Furthermore, the Staff's lack of comments or objection to Columbia's Application or PSP should not be construed as the Staff's lack of objection or support for future recovery of the PSP expenditures or related deferred amounts. The Staff will investigate and recommend any necessary adjustments to the PSP deferrals when Columbia applies to recover the deferred amounts.

To accomplish its review, the Staff reviewed the Company's Application and proposed PSP, conducted formal meetings with the Company's regulatory and accounting staff for detailed discussions, and conducted several follow-up conversations with Company personnel when necessary.

STAFF'S COMMENTS AND RECOMMENDATIONS

Based on its review, the Staff makes the following specific comments and recommendations:

A. The Commission should adopt Columbia's recommendation for regular meetings between the Staff and the Company as the PSP progresses.

In the course of the Staff's investigation, Columbia indicated that its intentions were to hold regular meetings with the Staff as it implements its PSP. The Company recognizes that significant portions of the PSP involve future investigations and that the results of those investigations are unknown. Similarly, as Columbia measures the effectiveness of various projects and programs undertaken under the proposed safety initiatives, it may determine that some projects or programs are inefficient or ineffective. As a result, the Company may need to modify its plans and projects or reallocate resources to respond to the results of future investigations or changing conditions. To keep the Staff apprised of new and changing conditions and any changes to the PSP, the Company suggested regular meetings with the Staff. The Staff agrees with this suggestion and recommends that the Commission direct that Staff and Company meet least two

times per year to review and discuss the progress of the PSP, the results of new and ongoing investigations under the program, and any changes to the program.

B. The Commission should adopt Columbia's recommendation that it file an annual report on the PSP and related deferrals. However, the content of the report should not be limited to the items specified in the Company's Application.

As noted above, Columbia's Application recommends that the Company file an annual report on the PSP beginning in June 2016. The Company proposes that this annual report will specify annual and cumulative PSP expenses, identify the monthly expenditures for each PSP component on an annual basis, and include an audit report prepared by the Company's external auditor regarding the accuracy of Columbia's accounting for PSP expenditures. The Staff agrees with Columbia's recommendation, except that the content of the annual report should not be limited only to the expenses, related deferrals, and Columbia's auditor's findings. The report should also include items such as the PSP's progress towards reducing risks to Columbia's system, the results of ongoing and future investigations, any mid-term adjustments to PSP projects or programs, and the Company's efforts towards identifying inefficiencies and implementing cost saving measures. The specific contents of the annual report and how the information should be presented should be determined in the regular meetings between Staff and the Company.

- C. Staff does not object to Columbia's proposal that the Staff file a report to the Commission regarding the Company's proposed PSP deferrals within 90 days of the Company's Annual Report. However, the report on deferrals should not be construed as Staff support for future recovery.**

Columbia proposes that the Staff annually review Columbia's reported PSP expenses and file a report to the Commission. The report would include a determination that the PSP deferrals are properly recorded on Columbia's books and specify any PSP expenditures that Staff believes should not be deferred. The Company proposes that it would then have 30 days to object to the Staff's report, and, if it files such an objection, then the Commission would establish a procedural schedule for filing of expert testimony and an evidentiary hearing. The Staff does not object to this process; however the Staff wishes to emphasize that the filing such a report should not be construed a support for future recovery of the deferrals discussed in the report. Because Staff may agree that a particular deferral is properly recorded on the Company's books should not and does not mean that the Staff agrees that the deferred amount should be recovered from customers. As described in more detail above, the Staff expressly reserves the right to investigate and make determinations and recommendations to the Commission regarding ultimate recovery of amounts deferred pursuant to the PSP in future recovery proceedings.

- D. The Commission should direct that Columbia use its best efforts to identify and implement efficiencies and cost saving measures to reduce PSP deferrals and the ultimate amount recovered from customers.**

Staff recommends that the Commission direct that Columbia use its best efforts to identify and implement efficiencies and cost saving measures to reduce PSP deferrals and

the amount that may be recovered from customers. For example, in discussions with Staff, the Company indicated that it may partner with Columbia operating companies from other states and allow employees from those other Columbia companies to utilize the Company's proposed training and outside gas simulation facilities. The other Columbia companies would pay Columbia Gas of Ohio to use the facilities, which will help to defray the costs. The Company also indicated that it uses public awareness and educational materials developed by other Columbia operating companies and continues to explore opportunities to partner with other companies to develop and refine awareness and education materials to reduce costs. The Staff commends Columbia for these efforts and recommends that the Commission encourage the Company to continually seek and implement cost saving measures.

E. The Commission should direct that Columbia use a risk-based approach for determining the potential sewer mains and laterals cross bores that should be investigated via camera.

Columbia's Application and PSP propose that the Company will conduct internal inspections of sewer mains and laterals by sending cameras through the sewer lines to ensure that the Company did not cross bore sewer lines while using trenchless technology to install gas lines prior to 2007. Given that Columbia and other Ohio gas distribution companies have known incidences where they have cross bored sewer lines, the Staff agrees that Columbia should use cameras to ensure that it did not bore through at-risk sewer lines. However, Staff does not believe that all sewer lines associated with Columbia's legacy cross bores should be inspected with cameras. For instance, if the

Company knows that a sewer lateral exits the basement of a home on level ground at a depth of nine feet below the surface, that the lateral proceeds at a downward angle to the sewer main, and that the design depth of the gas line installed via directional boring (*i.e.*, trenchless technology) is three feet, then the risk of cross boring the sewer mains or lateral should be so low that the Company would not need to inspect the sewer lines with a camera. Staff recommends that the Commission direct Columbia to thoroughly research its records and use its experience and the experience of other utilities to develop specific criteria to determine when sewer lines should and should not be inspected by cameras. The Staff believes that such a risk-based approach will reduce the risks from cross bores while avoiding unnecessary costs. During the Staff's investigation, the Company indicated that it has started researching its records to identify common elements with known cross bores and has contacted other utilities to develop a risk-based approach for visually inspecting sewer lines. The Staff recommends that Columbia formalize a risk-based approach and review it at the regular meetings with Staff.

F. The Commission should direct Columbia to develop specific performance measures for each of its proposed safety initiatives and establish baseline performance measurements for each measure so that risk reduction resulting from the PSP can be tracked.

Staff recommends that the Commission direct Columbia to develop specific measures and initial baseline measurements for each of the safety initiatives under the PSP so that Staff and the Commission can track the PSP's progress. Columbia should review and discuss the measures and baseline measurements with Staff in the regular

meetings between the Company and Staff and report progress of the PSP initiatives in the PSP annual report.

G. As the PSP initiatives are completed or continue to progress and risks are reduced and eliminated on Columbia's system, the Staff and Columbia should recommend a threshold for discontinuing the PSP deferrals.

A number of the PSP initiatives involve projects and related tasks that will be completed at some point in the future. For example, the risk to the Company's distribution system from legacy cross bores will eventually be eliminated as the potential cross bores are identified and either remediated or determined to be safe. This should cause PSP expenses for identifying and remediating legacy cross bores to be reduced to zero. Similarly, projects under the DPTI such as deploying the proposed GPS mapping technology, employing a third-party contractor to physically capture the physical location and attributes of its pipelines for the GPS system, and implementing the one-call risk assessment model appear to be projects with identifiable end points. As a result, the Staff recommends that the Commission direct Staff and Columbia to use the regular Staff/Company meetings to jointly develop a recommendation for a threshold spending level for the PSP at which the PSP deferrals would end. The threshold spending level would recognize that, as PSP projects and initiatives are completed, PSP costs should drop to a point where any ongoing PSP costs could be covered by Columbia's existing base distribution rates. If the Company and Staff cannot agree on a threshold spending level, then Staff can make recommendations to the Commission in Staff report that Staff will file in response to Columbia's annual reports on the PSP. Columbia would then have 30 days to

respond to the Staff's recommendations. If the matter is not resolved, then the Commission would establish a procedural schedule for an evidentiary hearing.

CONCLUSION

The Staff respectfully recommends that the Commission consider and adopt the Staff comments and recommendations.

Respectfully Submitted,

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CERTIFICATE OF SERVICE

I certify that a true copy of the foregoing **Comments** submitted by the Staff of the Public Utilities Commission of Ohio was served by electronic mail upon the following parties of record, on November 17, 2014.

/s/ Katie L. Johnson

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Summary: Comments submitted by Assistant Attorney General Katie Johnson on behalf of the Staff of the Public Utilities Commission of Ohio. electronically filed by Kimberly L Keeton on behalf of Public Utilities Commission of Ohio