FILE

20

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Annual Application of Columbia Gas of Ohio, Inc. for an Adjustment to Rider IRP and Rider DSM Rates.	: : : :	Case No. 09-0006-GA-UNC

COMMENTS
AND
RECOMMENDATIONS

SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION

May 15, 2009

TABLE OF CONTENTS

Page

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Annual Application of Columbia Gas of Ohio, Inc. for an Adjustment To Rider IRP and Rider DSM Rates.	: : : :	Case No. 09-0006-GA-UNC

COMMENTS AND RECOMMENDATIONS

SUBMITTED ON BEHALF OF THE STAFF OF THE PUBLIC UTILITIES COMMISSION

INTRODUCTION

In accordance with the Stipulation adopted in Case No. 08-72-GA-AIR, *In the Matter of the Application of Columbia Gas of Ohio, Inc. to Increase Rates*, the Commission's Staff has conducted its 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 financial reviews of additions to plant-in-service and the Applicant's proposed revenue requirement and other matters.

In accordance with past practice in other similar cases, 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

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

On April 9, 2008, The Commission approved an amended Stipulation associated with Columbia in Case Nos. 07-478-GA-UNC and 07-237-GA-AAM that included among other things, the establishment of the Infrastructure Replacement Program (IRP) rider. The purpose of the rider is to recover expenditures associated with the Company's three-year replacement of risers identified as prone to failure, as well as service lines with hazardous leaks. Under the stipulation, the Company agreed to file annual applications supporting proposed adjustments to its rates and the Staff is directed to review and report on the reasonableness of the proposed rates.

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 for authority to revise its depreciation accrual rates.

On December 3, 2008, the Commission approved a Stipulation that, inter alia, expanded the Infrastructure Replacement Program rider (Rider IRP) and now consists of three components:

1. The first component, set forth in Case Nos. 07-478-GA-UNC and 07-237-GA-AAM, recovers the 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 will identify and replace approximately 320,000 risers at an approximate cost of $160 million over a period of approximately three years.

2. The second component recovers costs associated with Columbia's Accelerated Mains Replacement Program (AMRP). Under the AMRP, the Applicant plans 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. The Applicant 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 Applicant's installation of Automatic Meter Reading Devices (AMRD) on all residential and commercial meters served by Columbia over approximately five years, beginning in 2009. Since Columbia will not begin this program until 2009, there is no revenue requirement or cost savings relative to AMRD included in this proceeding.

In accordance with the Rider IRP provisions of the Opinion and Order in the Columbia distribution rate case, within 30 days of the Commission's adoption of the stipulation, Columbia would file its initial Rider IRP pre-filing notice containing a combination of actual and projected data for the calendar year to become effective the following May 1. Columbia filed its pre-filing notice on January 2, 2009, along with a request to establish a test period of twelve months ending December 31, 2008, and a date certain of December 31, 2008. The AMRP Schedules filed with that notice of intent were not based on actual and projected data, but on estimated and projected data.

By entry issued February 13, 2009, the attorney examiner found that, since actual data that would comply with the terms of the stipulation in the Columbia distribution rate case had not yet been docketed, the procedure set forth in the stipulation should be modified in order to allow Staff and the stipulating parties reasonable time to analyze and evaluate the data to be supplied by Columbia. Therefore, the examiner found that, at such time as Columbia files actual data, an entry establishing the procedural deadlines in this docket would be issued.

On February 27, 2009, Columbia filed its updated application, along with the actual data in compliance with the stipulation in the Columbia Distribution Rate Case.

On April 6, 2009, the attorney examiner granted the January 26, 2009, motion to intervene from the Office of the Ohio Consumers' Counsel (OCC), and established the following procedural schedule:

(a) May 15, 2009 – Deadline for filing of motions to intervene.

(b) May 15, 2009 – Deadline for Staff and interveners to file comments on the application.

(c) May 22, 2009- Deadline for Columbia to file a statement, informing the Commission whether the issues raised in the comments have been resolved.

SCOPE OF STAFF'S INVESTIGATION

The 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 Columbia and used as a basis for the annual adjustment to the Infrastructure Replacement Program (IRP) rider rate. These Comments summarize the Staff's review, identify exceptions to the Applicant's rate filing, and provide explanations and recommendations to address the exceptions.

The Staff reviewed and analyzed all of the documents filed by the Columbia and traced it to supporting work papers and to source data. As part of its review, the Staff issued data requests, conducted investigative interviews, and performed independent analyses when necessary. The Staff also performed an overview of the Applicant's progress towards implementing its IRP and its contractor selection process. When investigating Columbia'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 the 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 deferred depreciation, deferred post-in-service carrying cost (PISCC) depreciation, capitalized PISCC additions, and deferred taxes on liberalized deprecation.

Operating Expenses

Staff reviewed approximately 90% of the total IRP operation and maintenance (O&M) expense vouchers associated with the riser education and riser identification programs. The largest expenditure in this group is associated with the riser field surveys, secondly is temporary help, and third is postage. The Staff also requested and reviewed descriptions of the vendors participating in the program.

Staff reviewed approximately 80% of the total AMRP O&M expense vouchers. Approximately 96% of AMRP operation and maintenance expense is directed toward the Cochran Group and is associated with the education and presentation of the AMRP program as well as the riser program.

Competitive Bidding

The Staff confirmed that the Applicant does have a process for competitively bidding its AMRP and riser replacement work. The Applicant's process involves two kinds of bids, blanket and special. Special bids cover a specific work order while blanket covers various work orders or projects. No contracts awarded in 2008 were negotiated, nor were they awarded to an affiliated company. The Applicant does not keep a detailed breakdown of the various components of contractor labor. Columbia's contract labor includes other components such as materials and supplies billed by contractors. Therefore, percentages related to AMRP mains, service-lines, meter move-outs, or any of the IRP risers or service-lines include components other than labor and are not a reliable indicator of labor costs.

Staff recommends the Applicant account for labor more clearly so that Staff is able to verify the amounts and percentages of blanket and special bid labor. The Staff also recommends the Applicant utilize an Ohio-based labor force to the fullest extent. As a part of the Stipulation in Case No. 08-0072-GA-AIR, the Applicant is required to encourage its AMRP contractors to use Ohio labor. The Applicant is also required, as a part of the annual AMRP application, to provide information on Ohio labor participation in the AMRP program. The Company has failed to provide the information in this application due to the fact the Stipulation in the distribution rate case was signed on December 3, 2008. While the Staff understands nearly all of these projects were completed before the Stipulation was approved, the Applicant is required to encourage its contractors to use Ohio labor and to provide this data to the Commission in all future annual AMRP applications.

Plant in Service

To evaluate Columbia's main replacement program Staff selected a sample of work orders, and from these selected certain cost categories and requested documentation supporting those costs. To evaluate the prone to fail riser replacement program, Staff evaluated accounts based on the amount of costs incurred, then selected the months with the highest dollar costs, and requested documentation supporting those amounts. Staff followed a similar methodology for service lines and meter move-outs except that the initial samples were selected from larger pools containing both AMRP and Non-AMRP costs. For all segments of the audit, after reviewing the supporting documentation Staff requested additional documentation as needed until it was either satisfied that the costs were substantiated or concluded that an adjustment was warranted.

Columbia was unable to isolate the cost of those service line replacements and meter move-outs associated with the AMRP Program, and therefore estimated those costs for its application.[1] For service lines, Columbia used the total cost and number of all 2008 service line replacements (including those not related to the AMRP) to calculate an overall average unit cost, which it multiplied by the number of 2008 AMRP-related service line replacements to calculate an estimated total cost of 2008 AMRP-related service line replacements.

For meter move-outs, Columbia estimated the additions by first calculating a three-year average (2005-2007) cost for each of three job types: meter installations, house regulators, and plant regulators. The three year average included both AMRP and non-AMRP related costs. Columbia then compared these averages to their respective 2008 costs (both AMRP and non-AMRP) and included in its application the excess of 2008 over the prior three-year average. Staff considered this methodology insufficient because it does not remove the cost of non-AMRP meter move-outs. In response,

---

1 Columbia states that its accounting system is being modified so that it will be able to provide actual cost data for all IRP additions in its next application reflecting 2009 activity.

Columbia suggested an alternative methodology[2] for estimating the meter move-out costs relating to the house-regulator job type, which comprised most of the meter move-out costs. Although staff considers the alternative methodology acceptable, it produced a \$5,608,745 total cost for the house-regulator job type – a cost that is \$278,031 less than the \$5,866,776 that is reflected in Columbia's application. Staff therefore recommends that this \$278,031 excess not be recovered through the IRP rider.

Columbia was unable to provide Staff an alternative methodology for estimating the AMRP-related cost pertaining to the other two job types: meter installations and plant regulators. Staff therefore recommends that these costs not be recovered through the IRP rider. In its application, Columbia included additions of \$204,024 for the meter installations job type and \$168,529 for the plant regulator job type.

IRP Procedure

Rider IRP shall provide for the recovery of the return of and on the plant investment, inclusive of capitalized interest or post-in-service carrying costs charges, and depreciation expense and property taxes. Rider IRP shall also reflect the actual annual

---

[2] Applying the alternative estimation methodology to the house regulator job type involves three steps: (1) calculate the average house-regulator cost per meter move-out for the two-year period 2005-2006, when no meter move-outs were performed in conjunction with main-replacements; (2) multiply that average unit cost by the total number of 2008 *non*-AMRP house-regulator jobs to estimate their total cost for 2008; and (3) subtract that estimated cost of non-AMRP house-regulators from the total 2008 house-regulator costs to arrive at an estimated 2008 total *AMRP*-related house-regulator cost.

savings of operations and maintenance expense as an offset to the costs that are otherwise eligible for recovery through Rider IRP.

Rider IRP shall be calculated using a rate of 10.95 percent (which represents the stipulated rate of return of 8.12 percent plus a tax gross-up factor of 2.84 percent). The IRP shall be in effect for the lesser of five years from the effective date of rates approved in this proceeding or until new rates become effective as a result of Columbia's filing of an application for an increase in rates pursuant to Section 4909.18, Revised Code, or Columbia's filing of a proposal to establish base rates pursuant to an alternative method of regulation pursuant to Section 4929.05, Revised Code.

As noted above, in accordance with the Rider IRP provisions of the Opinion and Order in the Columbia distribution rate case, within 30 days of the Commission's adoption of the stipulation, Columbia would file its initial Rider IRP pre-filing notice containing a combination of actual and projected data for the calendar year to become effective the following May 1. In years 2009 through 2012, Columbia shall docket its Rider IRP pre-filing notice by November 30 of each year, with updated information based on actual data through the end of the prior year to be filed by the following February 28. The Commission directed Columbia to make such filings for Rider IRP in a single new case each year. Staff will conduct an investigation of each annual Columbia filing and parties may file objections to the filings. If the Staff determines that Columbia's application to increase Rider IRP is unjust or unreasonable, or if any other party files an objection that is not resolved by Columbia, an expedited hearing process will be established to allow the parties to present evidence to the Commission for final resolution.

The Rider IRP rate that becomes effective July 1, 2009 (for 2009 only, thereafter, May 1), for the Small General Service Class shall not exceed $1.10 per customer per month. The stipulating parties agreed to caps of $2.20, $3.20, $4.20, and $5.20 per customer per month for the subsequent four years. If during any year of the first four years of the five-year duration of Rider IRP Columbia's IRP costs would result in a Rider IRP rate that exceeds the Rider IRP caps described above, Columbia may defer on its books any costs that it is unable to recover through Rider IRP because the Rider IRP rate would otherwise exceed the specified cap. Such costs shall be deferred with carrying charges at an annual rate of 5.27 percent, representing Columbia's long-term debt rate. Columbia may include such deferred costs in any subsequent Rider IRP application during the five-year duration of Rider IRP as specified herein, and recover the deferred costs as long as the inclusion of the deferred costs does not cause Columbia to exceed the Rider IRP cap in the subsequent year in which the deferred costs are included in the Rider IRP adjustment filing. Any deferrals remaining at the end of the five-year period shall not be recoverable by Columbia.

By no later than November 30, 2012, Columbia shall perform a study to assess the impact of the AMRP program on safety and reliability, the estimated costs and benefits resulting from acceleration of the pipeline replacement activity, and Columbia's ability to manage, oversee and inspect the AMRP program effectively and prudently. The study shall be provided to the stipulating parties and may be considered by the Commission in its review of any Columbia Rider IRP adjustment filing.

IRP Progress

In 2008, Columbia completed 289 AMRP projects associated with priority pipe. This represents a total of 428,073 feet of steel pipe, 54,762 feet of iron, and 37,690 feet of plastic pipe. Also in 2008, the Applicant replaced 76,705 risers and replaced 8,047 hazardous service lines. The Applicant states that these projects will improve the safety and reliability of its natural gas delivery system.

APPLICANT'S PROPOSED RECOVERY

As a result of the Examiner's Entry establishing a new procedural schedule, Columbia proposed an alternative ten-month recovery period for collection beginning with the first billing cycle in July 2009. The Applicant proposes a revenue requirement of $5,896,396 for the AMRP and $9,362,835 for the Risers for a total revenue requirement of $15,259,231. Using the billing determinants for the AMRP and Risers established in the 2008 Stipulation approved by the Commission in Case No. 08-72-GA-AIR, the Applicant proposes that Rider IRP be set at $.96 for small general service customers, $3.83 for General Service customers, and $91.41 for Large General Service customers.

The Applicant presented its test year 2008 revenue requirement for the AMRP on Schedule AMRP-1 of the Application and Schedule R-1 for the Risers. These schedules are supported by more detailed schedules contained in the application. The Applicant's calculation of the proposed revenue requirements for the AMRP and Risers include the following:

For AMRP:

- The original cost and accumulated depreciation reserve for AMRP property based on the cumulative AMRP investment made by Columbia during the calendar year ended December 31, 2008.
- The deferred depreciation based on the cumulative AMRP plant balances as of December 31, 2008.
- The deferred PISCC depreciation.
- Calculation of post in service carrying charges (PISCC) associated with plant additions for each month of 2008.
- Calculation of deferred taxes on liberalized depreciation.
- Gross-up of 10.95% for rate of return (approved in Case No. 08-72-GA-AIR) assigned to the recovery of all AMRP net capital expenditures.
- Calculation of the annualized depreciation expense for 2008 additions and retirements.
- Annualized deferred PISCC amortization and annualized PISCC depreciation expense based on the cumulative balances of deferred PISCC depreciation and capitalized PISCC additions as of December 31, 2008.
- Annualized property tax expense associated with the plant additions and Retirements as of December 31, 2008.
- AMRP customer education expenses.

For the Risers:

- The original cost of 2008 riser additions to plant-in-service as adjusted for depreciation.
- Calculation of the deferred PISCC amortization and PISCC depreciation expense based on the cumulative balances of

deferred PISCC depreciation and PISCC plant additions as of December 31, 2008.

- Capitalized PISCC associated with riser additions.
- Annualized property tax expense associated with the plant additions, PISCC additions and retirements to plant in service through December 31, 2008.
- Calculation of deferred taxes on liberalized depreciation.
- 10.95% rate of return (authorized in Case No. 08-72-GA-AIR) assigned to the recovery of certain riser net capital expenditures.
- Riser customer education and survey expenses.

STAFF'S EXCEPTIONS AND RECOMMENDATIONS

The Staff has completed its investigation of Columbia's proposed IRP rider. As a result of its investigation, the Staff has determined that the Company's calculation of the IRP revenue requirements (Riser and AMRP) as reflected in the updated filing is supported by adequate data and information and the revenue requirement is properly allocated to the various customer classes in accordance with the terms and conditions of the Stipulation and Recommendation except for the following recommended adjustments:

<u>AMRP</u>

1. Staff recommends a $650,584 reduction to the amount Columbia requested for meter move-out related AMRP additions. This adjustment is composed of the following elements:

   - $278,031 representing the excess of Columbia's original methodology over the more-precise alternative methodology for estimating the amount of AMRP-related meter move-out cost associated with the House Regulator job type.

- $204,024 due to Columbia's insufficient methodology for estimating the amount of AMRP-related meter move-out cost associated with the Meter Installation job type.
- $168,529 due to Columbia's insufficient methodology for estimating the amount of AMRP-related meter move-out cost associated with the Plant Regulator job type.

These adjustment components, in total, would reduce the amount of meter move-out additions from $6,259,329 to $5,608,745.

2. The Staff recommends a $55,322 increase to depreciation expense associated with the accumulated provision for depreciation to alleviate the double calculation for retirements. The accumulated provision for depreciation in the AMRP calculation for rate base includes amounts for the depreciation expense, cost of removal, and retirements. This calculation represents the corresponding accumulated provision for depreciation associated with the plant that is added (depreciation expense) and the corresponding accumulated provision for depreciation associated with the plant that is being retired (cost of removal and retirements). The Applicant included plant additions less retirements in the calculation of the depreciation expense amount. The Staff recommends that retirements should not be included in the calculation of depreciation expense.

3. The Staff excluded net deferred PISCC depreciation from the AMRP rate base in the amount of $4,543 and excluded the associated $113 annualized amortization from operating expenses. The Staff increased rate base amounting to $11,137 by removing the PISCC depreciation from the calculation of deferred taxes on liberalized depreciation.

4. The Staff reduced rate base by $254,041 to recognize the deferred income taxes on capitalized PISCC.

5. The Company utilized an estimated tax rate to annualize property tax expense. The Staff reduced property tax expense by $23,670 by recalculating property tax expense utilizing the latest known tax rate.

Riser Program

1. The Staff reduced rate base by $210,497 to recognize the deferred income taxes on capitalized PISCC.

2. The Staff re-calculated 2007 O&M expense recoveries to include estimated recoveries for May and June 2009 resulting in an over-recovery of $402,884.

3. The Company utilized an estimated tax rate to annualize property tax expense. The Staff reduced property tax expense by $13,234 by recalculated the property tax expense utilizing the latest known tax rate.

With the adoption of the above recommendations, the Staff recommends the approval of a monthly charge of $0.89 for Small General Service customers, $3.69 for

General Service customers, and $89.19 for Large General Service customers. The Staff recommends that the adjusted IRP rider be implemented in the first billing cycle of the month following the Commission's decision.

Respectfully submitted,

Richard Corday
Ohio Attorney General

Duane W. Luckey
Section Chief

Anne L. Hammerstein
Assistant Attorney General
Public Utilities Section
180 East Broad Street
Columbus, OH 43215-3793
614.466.4397 (telephone)
614.644.8764 (fax)
anne.hammerstein@puc.state.oh.us

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 15th day of May, 2009.

Anne L. Hammerstein
Assistant Attorney General

PARTIES OF RECORD:

Stephen Seiple
Daniel Creekmur
Columbia Gas of Ohio, Inc.
200 Civic Center Drive
P.O. Box 117
Columbus, OH 43216-0117
sseiple@nisource.com
dcreekmur@nisource.com

Larry Sauer
Joe Serio
Assistance Consumers' Counsel
Office of the Ohio Consumers' Counsel
10 West Broad Street
18th Floor
Columbus, OH 43215
sauer@occ.state.oh.us
serio@occ.state.oh.us