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**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Annual Application of)
Columbia Gas of Ohio, Inc. for an) Case No. 09-06-GA-UNC
Adjustment to Rider IRP and Rider DSM)
Rates.)

**COMMENTS ON THE APPLICATION OF COLUMBIA GAS OF OHIO
BY
THE OFFICE OF THE OHIO CONSUMERS' COUNSEL**

**JANINE L. MIGDEN-OSTRANDER
OHIO CONSUMERS' COUNSEL**

Larry S. Sauer, Counsel of Record
Joseph P. Serio
Assistant Consumers' Counsel

Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215
(614) 466-8574 – telephone
sauer@occ.state.oh.us
serio@occ.state.oh.us

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INTRODUCTION

The Office of the Ohio Consumers' Counsel ("OCC"), an intervenor in the above-captioned proceeding, hereby files these Comments on the Application of Columbia Gas of Ohio, Inc. ("COH" or "Company") to increase the rates it charges customers for systematic repair and/or replacement of: 1) customer-owned service lines, certain risers prone to failure if not properly assembled and installed; 2) replacement of cast iron, wrought iron, unprotected coated steel and bare steel pipe in its distribution system; and 3) the installation of Automatic Meter Reading Devices. The increase would be collected via the Infrastructure Replacement Program Rider ("Rider IRP"), per the Application that COH filed on February 27, 2009. Rider IRP is supposed to provide for the recovery of costs incurred for:

- (a) The future maintenance, repair and replacement of customer-owned service lines that have been determined by Columbia to present an existing or probable hazard to persons and property, and the systematic replacement, over a period of approximately three years, of certain risers prone to failure if not properly assembled and installed. The replacement of customer-owned service lines

and prone-to-failure risers was previously approved by the Commission in its opinion and order dated April 9, 2008, in Case No. 07-478-GA-UNC;

(b) The replacement of cast iron, wrought iron, unprotected coated steel, and bare steel pipe in Columbia's distribution system, as well as Columbia's replacement of company-owned and customer-owned metallic service lines identified by Columbia during the replacement of all the above types of pipe (referred to as the Accelerated Mains Replacement Program or AMRP); and

(c) The installation, over approximately a five-year period, of Automatic Meter Reading Devices ("AMRD") on all residential and commercial meters served by Columbia.¹

Pursuant to the Stipulation and Recommendation ("Stipulation") filed on October 24, 2008, in Case No. 08-72-GA-AIR et al., and the Opinion and Order of the Public Utilities Commission of Ohio ("Commission" or "PUCO") dated December 3, 2008, the Rider IRP rates are subject to increases, up to a cap, in each year 2009 through 2013.²

On January 2, 2009, COH submitted a pre-filing notice of its intent to file an application for approval of an increase in the IRP rider rates. OCC filed its Motion to Intervene in these cases on January 26, 2009. The OCC Motion to Intervene was granted by an Attorney Examiner Entry dated April 6, 2009 ("Entry").

II. RESERVATION OF RIGHTS

At this time, OCC's Comments on the Application are preliminary in nature. OCC reserves the right to file additional comments and to file expert testimony on any of

¹ Opinion and Order at 8 (December 3, 2008); See also the Direct Testimony of David Roy at 4 (recovery of AMRD-related costs will first be addressed in February 2010.) (February 27, 2009).

² Id. at 9.

its Comments that are not resolved by May 22, 2009, in the settlement process set forth in the Attorney Examiner's April 6, 2009 Entry.

III. BURDEN OF PROOF

The burden of proof regarding the Application rests upon COH. In a hearing regarding a proposal that involves an increase in rates, R.C. 4909.19 provides that, "[a]t any hearing involving rates or charges sought to be increased, the burden of proof to show that the increased rates or charges are just and reasonable shall be on the public utility." COH in this case bears the burden of proof. Therefore, OCC does not bear any burden of proof.

IV. COMMENTS

A) Comments Relating To IRP Rider Rate Adjustments.

Customer Education Expenses

A review of the supporting documents in COH's Application illuminates the fact that COH has expended and is attempting to recover expenses related to customer education through the IRP Rider in this case. COH has spent \$107,435 for expenses related to customer education with regard to the AMRP.³ In addition, customer education costs were built into the Riser Replacement Program (RRP) in the amount of \$391,817.⁴ The combined cost of both AMRP and RRP customer education campaigns is \$499,252.

The costs associated with customer education should not all be recovered in the year that they were expended, but instead should be amortized over a four-year period to

³ Application at Schedule AMRP-9A.

⁴ Application at Schedule R-9.

spread out the impact to customers. Amortizing these expenses would be consistent with the RRP Stipulation which states:

Columbia shall be authorized to modify its accounting to provide for the deferral of customer notification and education expenses in special sub-accounts of Account 182-Other Regulatory Assets for recovery through the IRP Rider. Columbia will provide the Commission Staff with sufficient accounting and billing record details to enable it to analyze all customer notification and education costs deferred for recovery through annual IRP filings. The parties agree that Staff retains the right to propose that IRP costs to be recovered through the IRP Rider be amortized for recovery over a period longer than one year.⁵

The impact on the IRP revenue requirement of amortizing this cost over four years is to reduce the \$499,252 to be recovered in this case down to \$124,813 for this year. This amortization essentially delays recovery of the remaining **\$374,439** in customer education costs for years 2 through 4.

Miscellaneous Riser Deferrals

According to the response to OCC discovery, there are \$79,414 in Miscellaneous Riser Deferrals recovered through the Riser Revenue Requirement (Schedule R-1) on line 26 – Operations and Maintenance Expense. COH's response to OCC discovery described Miscellaneous Riser Deferrals as charges billed from third-party vendors that performed incremental human resources tasks associated with recruiting, screening and hiring employees dedicated to the riser program. It is OCC's position that the IRP Rider rates should not recover costs for training; therefore, \$79,414 should be excluded from collection through the IRP Rider.

⁵ *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval of Tariffs to Recover Costs Associated with the Establishment of an Infrastructure Replacement Program*; Case No. 07-478-GA-UNC, Stipulation at 13-14 (October 26, 2007).

Property Tax Rate

It has been OCC's experience in rate cases that the PUCO Staff will update a utility company's filing to reflect the most current actual property tax rates in effect to calculate property tax expense. In response to OCC discovery, COH replied that, for all property in service at December 31, 2008 (shown on Schedules AMRP-7 and R-7), the Company uses a 2009 property tax rate of 86.7749 per \$1,000 of valuation, which is based on a linear regression line for the previous years' actual effective tax rates. The current rate is 85.5837 per \$1,000 of valuation.⁶ Assuming all else is equal, applying the current property tax rate, 85.5837, to both AMRP and RRP investment would decrease property tax expense charged through the IRP Rider by \$23,000.

However, OCC is proposing a \$52,242 adjustment (reduction) to property tax expense to also account for OCC's proposed adjustment regarding plastic mains as discussed below that should be made in the determination of the IRP Rider rate in this case.

Costs Related to the Replacement of Plastic Pipe

COH has violated the Stipulation by including in the IRP Rider rate costs associated with the recovery related to the removal and replacement of plastic pipe through the Rider IRP mechanism. The Stipulation states Rider IRP will provide for recovery of costs incurred in: "Columbia's replacement of cast iron, wrought iron, unprotected coated steel and bare steel pipe in its distribution system, as well as Columbia's replacement of company-owned and customer-owned metallic service lines

⁶ COH Response to Staff Data Request 39-1.

identified by Columbia during the replacement of all the above types of pipe.”⁷ There is no expectation of the Parties pursuant to the Stipulation that COH would recover the costs of the replacement of plastic mains through the IRP Rider.

The Commission, in the Opinion and Order approving the Stipulation, states that “while we are willing to approve the establishment of the rider, our understanding of the projects to be recovered under the rider are projects that would not otherwise be funded by Columbia’s existing capital replacement program (Columbia Ex. 13 at 18). Our intent is that Rider IRP should not be used to recover investment costs that would routinely be included in and funded by the company’s existing capital replacement program.”⁸

COH’s testimony in this case states: 37,960 feet of plastic pipe has been replaced during 2008 in the course of the IRP and those costs will be recovered through the AMRP Rider.⁹ COH witness Roy further states that these typically are short sections of plastic main consisting primarily of Priority Pipe and, in some cases, Columbia abandons the plastic main because it is being moved to a different location.¹⁰ The latter scenario doesn’t even fit into the ARMP as no metallic mains are being removed in the process -- only lengths of plastic main are being moved because of some main relocation project which is probably a street improvement project dictated by a local government.

In its Application, COH does not break out its mains and services by pipe composition (cast iron, bare steel, plastic, etc.). In response to OCC discovery, COH responded that the cost to **replace** the 37,960 feet of plastic mains was not available

⁷ Stipulation at 8 (October 24, 2008).

⁸ Opinion and Order at 14 (December 3, 2008).

⁹ COH Direct Testimony of David Roy at 5 (February 27, 2009).

¹⁰ Id. at 5.

because the cost of the pipe that replaced the plastic mains is contained in the total project cost. COH further responded in discovery that the information was not readily available for the Company to identify the small sections of plastic pipe being bypassed and all new plastic mains installed. Therefore, OCC, using the average costs of the AMRP main projects, proposes reducing the IRP Rider Rate by \$0.01 to exclude the costs of the replacement of existing plastic mains with new plastic mains. The exclusion of the costs of new plastic mains that replace the existing plastic mains from the IRP Rider calculation impacts both total expense and annualized return on rate base numbers that, when added together, determines the revenue requirement to be collected.

It is OCC's position that the AMRP rider should not be the mechanism to collect from customers the costs of replacing old plastic with new plastic mains and services. COH could not provide the detail to determine the original cost of the plastic pipe being replaced and the corresponding cost of the new plastic pipe that replaced it to determine a net amount primarily because COH does not estimate or keep actual accounting records to the level of detail necessary to identify the exact costs of smaller parts of projects. The Commission should require COH to maintain its accounting records in sufficient detail and provide the necessary cost information to enable the exclusion of recovery of costs associated with new plastic pipe to replace existing plastic pipe from the IRP Rider Rates in future IRP proceedings. COH bears the burden of proving that its costs are just and reasonable, to the extent these costs cannot accurately be identified then COH has failed to meet its burden.

Impact of OCC Proposed IRP Rate Adjustments

OCC is recommending above four adjustments that would reduce COH's charges to consumers: 1) adjustment to customer education expenses (\$374,439), 2) adjustment to miscellaneous riser deferrals (\$79,414) 3) adjustment related to property taxes (\$52,242) and 4) adjustment for the reduction of costs associated with the removal of existing plastic mains with new mains (approximately \$216,522). These four adjustments affect the total IRP Rider rate (effective July 1, 2009 through April 30, 2010 or ten months) by reducing the combined monthly amount from \$0.96 to \$0.92 (Total IRP amount from \$9.60 to \$9.20) for residential customers served on the Small General Service Tariff.

B) Comments Regarding Potential IRP Rate Adjustments.

Expenses in General

OCC raises an overall concern that pertains to all the calculations used by COH to develop the IRP Rider Rates. That concern involves the test year in the rate case (Case No. 08-72-GA-AIR, et al.) which overlaps the test year in the IRP case by nine months; therefore, the possibility exists that some of the expenses to be recovered through Rider IRP may already be recovered, by COH, through its base rates. Additional discovery has been served on COH to determine if this issue warrants a reduction in Rider IRP Rates.

Reduction in Mains Maintenance Expense

In response to OCC discovery, COH stated that it had included expenses charged to FERC Account 874, Mains & Services, in the determination of savings on Schedule AMRP-9B. Account 874 is an operations account, not a maintenance account. It is unclear what bearing the IRP will have on savings to COH's operations. However, OCC

has requested, through discovery, detail of the costs billed to Account 874 in order to better understand how the IRP program will generate operations savings that could be passed back to consumers.

The inclusion of the operations account had no adverse impact in the IRP Rider calculation for 2009 because maintenance expenses in 2008 were greater than the test year expenses.¹¹ If the operations expense account was excluded from the savings calculation, the 2008 expenses would only exceed the test year expenses by \$363,816 instead of the \$958,777. COH would have still reflected a zero impact on the revenue requirement in this situation, but the level of maintenance expenses relative to the rate case test year expenses may turn around faster in future years to generate savings for customers if the operations account is excluded from the savings calculation.

Stimulus Funds

OCC inquired as to what efforts the Company is making to seek infrastructure funds resulting from the American Recovery and Reinvestment Act of 2009. COH responded that it is reviewing the Act to identify potential projects which may qualify. The Commission should require COH, within 45 days of the order approving the IRP Rider Rates, to provide an interim report in which COH must document its efforts to obtain stimulus funding for AMRP-related or RRP-related projects which may qualify under the American Recovery and Reinvestment Act of 2009, and an estimate of when any stimulus dollars will be available for the benefit of consumers. In addition, the Commission should require COH, as part of its 2010 IRP Application, to document

¹¹ COH Direct Testimony of Stephanie Noel at 11 (February 27, 2009). (2008 O&M expense was greater than the rate case test year by \$958,777.)

whether stimulus funding was available, if the Company was successful in obtaining any of the available stimulus funding, and when such stimulus funding was/will be available to reduce costs related to the IRP (and thus reduce the rates that customers pay).

Street Improvement Project Reimbursements

In response to OCC discovery, COH was asked if any street improvement projects involved a highway project that would entitle COH to reimbursement pursuant to R.C. 5501.51. COH responded that it was more than likely some projects performed in 2008 and included in the filing were subject to possible reimbursement. COH stated; however, that it would take a few weeks to obtain and verify data. Depending on what the Company's investigation reveals, if there were any reimbursements, then those reimbursements should be offset against the project costs for street and highway improvements.

C) Affect Of Columbia Lawsuit Against The City Of Columbus On IRP.

COH brought suit against the City of Columbus for allegedly wrongfully interfering with COH's implementation of the AMRP by demanding that COH obtain a permit from the City prior to relocating any gas meters to the outside of a customer's premise and by demanding that Columbia allow the City to inspect this work upon completion.¹² To the extent that the suit brought against City of Columbus delays or stops all or any portion of the IRP program, during 2009 or beyond, then the future calculation of the IRP Rate must reflect any degradation in the scope of the IRP caused by the outcome of this litigation.


¹² Columbia Gas of Ohio, Inc. v. City of Columbus, et al., Case No. 2:09-CV-299 U.S District Court, Southern District of Ohio, Eastern Division, Complaint for Declaratory and Injunctive Relief.

V. CONCLUSION

The Office of the Ohio Consumers' Counsel respectfully files these Comments on the COH Application in conformance with the Stipulation and with the Attorney Examiner's Entry. OCC's recommendations are directed toward producing for COH's approximately 1.2 million residential consumers the best result and lowest reasonable rate possible.

Respectfully submitted,

JANINE L. MIGDEN-OSTRANDER
CONSUMERS' COUNSEL

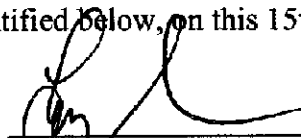


Joseph P. Serio, Counsel of Record
Larry S. Sauer
Assistant Consumers' Counsel

Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485
(614) 466-8574-Telephone
(614) 466-9475-Facsimile
serio@occ.state.oh.us
sauer@occ.state.oh.us

CERTIFICATE OF SERVICE

I hereby certify that a copy of the Office of the Ohio Consumers' Counsel's Comments on the Application was served via electronic mail and by first-class mail, postage prepaid, to the parties of record identified below, on this 15th day of May 2009.



Larry S. Sauer
Assistant Consumers' Counsel

PARTIES

Duane Luckey, Esq.
Attorney General's Office
Public Utilities Section
180 East Broad Street, 9th Floor
Columbus, Ohio 43215

Stephen B. Seiple, Esq.
Daniel A. Creekmur, Esq.
Columbia Gas of Ohio, Inc.
200 Civic Center Drive, P.O. Box 117
Columbus, Ohio 43216-0117