

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of       )  
Columbia Gas of Ohio, Inc. for Approval    ) Case No. 12-1135-GA-AAM  
to Change Accounting Methods               )

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**APPLICATION OF COLUMBIA GAS OF OHIO, INC.  
FOR APPROVAL TO ESTABLISH A REGULATORY ASSET**

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Pursuant to Rev. Code § 4905.13, Columbia Gas of Ohio, Inc. ("Columbia") files this Application with the Public Utilities Commission of Ohio, ("Commission") for authority to modify its accounting procedures. Consistent with Statement of Financial Accounting Standard ("SFAS") 71 (codified in ASC 980) – "Accounting for the Effects of Certain Types of Regulation," Columbia is seeking authority to establish a regulatory asset related to a change in expense recognition for Other Post-Employment Benefits other than Pension ("OPEB") costs included in the management services provided by NiSource Corporate Services Company ("NCSC"). In support of its Application, Columbia states:

1. Columbia is a natural gas company within the meaning of Rev. Code § 4905.03(A)(6), and as such, is a public utility subject to the jurisdiction of the Commission.

2. Rev. Code § 4905.13 authorizes the Commission to establish systems of accounts to be kept by public utilities and to prescribe the manner in which these accounts shall be kept. In Chapter 4901:1-13, Ohio Administrative Code the Commission has adopted the Uniform System of Accounts ("USOA") for gas utilities established by the Federal Energy Regulatory Commission ("FERC") for use in Ohio. For Ohio regulatory purposes, the system of accounts is only applicable to the extent that it has been adopted by the Commission. Therefore the Commission may modify the USOA prescribed by FERC as it applies to utilities within the state of Ohio.

3. NCSC, a Delaware corporation, is a subsidiary of NiSource Inc., ("NiSource") and an affiliate of Columbia within the NiSource corporate organization. NCSC provides a range of services to the individual operating companies within NiSource including corporate, administrative and technical support services. NCSC renders all services performed under a Service Agreement with the affiliates at cost, including overheads and interest charges for financing.

4. Like many other companies, NiSource provides health care and life insurance benefits for certain retired employees, including those of NCSC. OPEB costs are primarily comprised of retiree medical expense and retiree group life insurance.

5. The accounting procedures for OPEB costs have changed over the years. Prior to 1991, NCSC and Columbia recorded retiree medical costs and life insurance costs on a cash basis (also known as pay-as-you-go or "PAYGO"). These costs were expensed as claims were paid and the balance sheet did not carry any liability for future retiree obligations.

6. In January 1991, Columbia and NCSC adopted SFAS 106 (codified in ASC 715), "Accounting for Employee Postretirement Benefits other than Pensions." Both companies recorded a liability reflecting the expected future obligation for OPEB costs and recognized the offset as a regulatory asset.

7. Columbia continued to defer the difference between claims paid and the SFAS 106 accrual expense until Columbia's 1994 rate case in which the rate treatment for Columbia OPEB costs was addressed in a Joint Settlement (Case No. 94-987-GA-AIR) approved by the Commission. As a result, Columbia recognized in its cost of service the accrual-based Columbia OPEB expense level and began amortizing the regulatory asset costs recognized on its books. Additionally, Columbia began funding an OPEB trust to set aside the dollars collected for future retiree costs. Accordingly, Columbia changed its accounting practices to recognize OPEB costs on an accrual basis.

8. Until the 2011 accounting change prompting this application (as explained below), NCSC continued to defer the difference between OPEB claims paid and the SFAS 106 accrual expense. As of December 31, 2010, NCSC had continued to bill affiliates for OPEB claims paid as part of the management service fee. Therefore, the costs included in the Columbia management services charges in the 1994 rate case and all subsequent rate case activity have reflected NCSC OPEB costs on a cash basis.

9. Through a recent review of GAAP and FERC guidance as well as consultation with its auditors, NCSC has determined it can no longer continue to carry the deferral of the difference between OPEB claims paid and SFAS 106 accruals as an asset on its balance sheet. Therefore, NCSC began recording and billing its affiliates retiree medical and life insurance costs on a SFAS 106 accrual basis beginning in 2011. Additionally, the December 31, 2010 NCSC regulatory asset balance of \$9,883,242 was billed by NCSC to the subsidiaries, including Columbia, in 2011.

10. In addition to changing the expense recognition procedure, NCSC implemented a change to fund an OPEB trust for the accrual related costs collected in advance of the need to pay retiree costs in a manner similar to Columbia's procedures. The \$9,883,242 billed to the subsidiaries was funded into an OPEB trust in 2011. The funding of the annual NCSC SFAS 106 accrual

amounts began in January 2012. The earnings from the OPEB trust should reduce future NCSC OPEB expenses.

11. Columbia was billed a total of \$2,315,919 for its allocated share of the NCSC regulatory asset. Columbia capitalized \$142,321 of this billing reflecting the fact that a portion of the NCSC management service charges are allocated to capital projects. The remaining \$2,173,598 was recorded as a regulatory asset pending a Commission ruling on this application.

12. Columbia's current base rates, as well as all other base rates in prior cases, included a representative level of NCSC OPEB expense based on claims paid. The deferral and recovery of Columbia's portion of the deferred NCSC OPEB-related asset balance due to the NCSC accounting change is appropriate because it represents costs that Columbia normally would be entitled to recover in future rate cases.

13. Additionally, these costs have not previously been charged to Columbia through the NCSC management fee. The existence of the NCSC regulatory asset demonstrates that Columbia has not previously been charged these costs and included them in rate activities, and therefore, Columbia should appropriately be able to recover the NCSC OPEB-related asset in future rate proceedings.

14. The aforementioned costs generated by the change in expense recognition at NCSC are reasonable and necessary business costs incurred by Columbia in compliance with GAAP and FERC guidelines that may result in a significant and unavoidable negative impact on Columbia's earnings. As a result, Columbia requests the authority to defer \$2,173,598 for the one-time charge generated by the NCSC accounting procedure change. The ultimate recovery treatment should be determined in Columbia's next base rate proceeding in a manner deemed appropriate by the Commission.

15. The requested change in accounting procedure does not result in any increase in rate or charge, and the Commission can therefore approve this application without a hearing.

**Wherefore**, for the reasons stated herein, Columbia respectively requests the Commission grant the accounting authority requested in this Application.

Respectfully submitted,  
**COLUMBIA GAS OF OHIO, INC.**

By:    /s/ Brooke E. Leslie   

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**This foregoing document was electronically filed with the Public Utilities**

**Commission of Ohio Docketing Information System on**

**3/30/2012 4:34:51 PM**

**in**

**Case No(s). 12-1135-GA-AAM**

Summary: Application APPLICATION OF COLUMBIA GAS OF OHIO, INC.  
FOR APPROVAL TO ESTABLISH A REGULATORY ASSET  
electronically filed by Ms. Amy M Mescher on behalf of Leslie, Brooke Ms. and Seiple,  
Stephen Mr.