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Columbia Exhibit No.

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Co-)
lumbia Gas of Ohio, Inc. for Approval) Case No. 11-5515-GA-ALT
of an Alternative Form of Regulation)

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PREPARED DIRECT TESTIMONY OF
EDWARD A. FRANTZ
ON BEHALF OF COLUMBIA GAS OF OHIO, INC.

COLUMBIA GAS OF OHIO, INC.

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May 8, 2012

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PREPARED DIRECT TESTIMONY OF EDWARD A. FRANTZ

1 **Q. Please state your name and business address.**

2 A. My name is Edward A. Frantz and my business address is 200 Civic Cen-
3 ter Drive, Columbus, Ohio 43215.

4
5 **Q. By who are you employed?**

6 A. I am employed by Columbia Gas of Ohio, Inc. ("Columbia"). My current
7 title is Regulatory Compliance Specialist.

8
9 **Q. Have you previously appeared as a witness in any proceeding before
10 this Commission?**

11 A. No, I have not.

12
13 **Q. Will you please state briefly your educational background and experi-
14 ence?**

15 A. I have a Bachelor's Degree in Urban Geography and a Master's of Busi-
16 ness Administration Degree in Operations and Logistics Management,
17 both from The Ohio State University. I was employed by Columbia in
18 June of 1993 as a GTS Billing Coordinator. Since that time I have held var-
19 ious positions in Measurement and Billing, Regulatory Accounting and
20 Support, Budgeting, Financial Analysis, and Regulatory Policy.

21
22 **Q. What are your job responsibilities as Regulatory Compliance Specialist?**

23 A. My primary responsibilities revolve around the Columbia Infrastructure
24 Replacement Program ("IRP") and include, but are not limited to; moni-
25 toring and coordinating IRP related activities within the company, ensur-
26 ing that controls are in place to properly identify and record expenditures
27 related to the IRP, and to act as liaison and consultant to various depart-
28 ments throughout the company on IRP related matters.

29
30 **Q. What is the purpose of your testimony in this proceeding?**

31 A. The purpose of my testimony is to provide background on the O&M sav-
32 ings components of the IRP as contained within the original application
33 and testimony and to describe Columbia's experience with this compo-
34 nent of the IRP to date.

35
36 **Q. What O&M Savings components are included in the IRP?**

37 A. There are two O&M savings components. The first is related to the Auto-
38 mated Meter Reading Devices("AMRD") component of the IRP, and pro-

vides for the pass back of savings in meter reading and related call center and minimum gas service standards costs, as a comparison of current year costs to test year costs via the revenue requirement calculation in Columbia's annual AMRD filings. The second is related to the Accelerated Mains Replacement Program ("AMRP") and provides for a pass back of savings in certain mains and services FERC account activities as a comparison of current year expenses to test-year expenses in Columbia's 2008 rate case¹ (the twelve months ended September 30, 2008) via the revenue requirement calculation in Columbia's annual AMRP filings.

AMRD SAVINGS

Q. How was the O&M savings component of the AMRD addressed in Columbia's original application (Case No. 08-0072-GA-AIR et al.)?

A. The focus of the AMRD was on meter reading efficiency and associated cost savings. In recognition of this fact, Columbia proposed in its original application that any meter reading savings realized should be passed on to customers via the annual AMRD filings. The Joint Stipulation and Recommendation approved by the Commission's Order in Columbia's 2008 Rate Case provided for determination of savings in each annual IRP filing through a comparison of the current year's meter reading expense (FERC 902) against the meter reading expense incurred during the test year. If the current year's meter reading expense is lower than the test year amount, the savings will appear as a reduction to the revenue requirement. The parties further agreed that additional savings (e.g., meter reading plan and call center savings) that may result from the AMRD program should also be passed back to customers, and that the parties would meet within sixty days of the adoption of the order to identify these possible savings and establish a baseline that would be used to identify and flow through to customers other AMRD-related savings not reflected in FERC Account 902.

Q. Did the parties meet to establish a savings methodology for AMRD-related savings?

A. Yes. Staff, OCC and Columbia agreed to three separate AMRD savings baseline calculations. Savings in one baseline calculation are not netted against added costs in another. The first calculation is the FERC 902 savings described above. The second calculation compares the expense incurred on

¹ Case Nos. 82-0072-GA-AIR et al.

1 Minimum Gas Service Standard mailings during the test year to the current
2 year's expense. The third calculation compares the expense incurred for me-
3 ter reading contacts at the customer call center during the test year to the
4 current year's expense. If the current year's expense in any one of these three
5 baseline calculations is lower than the test year expense, the savings are
6 used to reduce the revenue requirement.
7

8 **Q. Is the methodology described above still being used today?**

9 A. Yes, with one minor modification. Subsequent to the Order in Case No. 09-
10 1036-GA-RDR, Columbia and Staff discussed Staff's concern that meter
11 change costs associated with certain AMRD installations included in the
12 revenue requirement calculation would have been included as O&M costs
13 during the test year, and thus already embedded in base rates. Upon further
14 investigation, Columbia was able to determine that Staff was correct with
15 respect to a portion of meter change costs associated with AMRD installa-
16 tions. Consequently, Columbia and Staff agreed that those meter change
17 costs (\$249,543) should be returned to customers in recognition of the fact
18 that Columbia would be capitalizing those costs in its annual IRP filings.
19

20 **Q. As part of the instant case, is Columbia proposing any changes to the**
21 **AMRD savings calculation?**

22 A. No. Columbia is proposing to utilize the methodology for calculating
23 AMRD related savings as agreed to in the 2008 Rate Case for the period of
24 this application (2013-2017). Because Columbia will no longer be capitalizing
25 meter change costs associated with certain AMRD installations in future fil-
26 ings, the practice of crediting the revenue requirement by \$249,543 to offset
27 the capitalization of those costs will be discontinued.
28

29 **Q. Please describe Columbia's experience with AMRD savings in the filings**
30 **that have taken place since the inception of the IRP?**

31 A. Columbia's experience with AMRD related O&M savings has been positive
32 from the start. This is primarily due to the fact that both expectations of sav-
33 ings and the methodology for calculating those savings were clear from the
34 start, and that Columbia has been able to exceed those expectations through
35 a combination of program acceleration and a well-executed deployment
36 strategy. In just three years (2009-2011), Columbia has passed back more
37 than \$3.4 million in savings to customers through the AMRD program.
38

1 **AMRP SAVINGS**

2
3 **Q. Please describe how the O&M savings component of the AMRP was ad-**
4 **ressed in Columbia's original alternative regulation application (Case**
5 **Nos. 08-0072-GA-AIR et. al.).**

6 **A.** The focus of Columbia's application to establish the AMRP was on safety
7 and reliability, although Columbia did recognize the potential for reductions
8 in leakage and associated O&M expense over the 25-year life of the AMRP,
9 and indicated that the revenue requirement calculation would include a
10 provision for the pass back of any savings. The Commission's Order in Co-
11 lumbia's 2008 Rate Case authorized Columbia's Rider IRP and included a
12 provision that the annual filings include actual annual savings of O&M ex-
13 pense as an offset to the costs that are eligible for recovery through Rider
14 IRP. The Joint Stipulation and Recommendation approved by the Commis-
15 sion in the 2008 Rate Case included a specific formula for determination of
16 savings for AMRP and AMRD portions of Rider IRP. For the AMRP portion
17 of Rider IRP, each annual filing was to contain a comparison of that year's
18 FERC Account 874 – Mains & Services Expense; FERC Account 887 – Mains
19 Expense; and FERC Account 892 – Services Expense against those same ex-
20 penses for the test year in Case 08-0072-GA-AIR (twelve months ended Sep-
21 tember 30, 2008). If that year's total expense is lower than the test year
22 amount, the savings thus calculated shall appear as a reduction to the reve-
23 nue requirement.
24

25 **Q. Is the methodology described above still being used today?**

26 **A.** No, this methodology has been changed since Columbia's original alterna-
27 tive regulation application was approved. In response to Columbia's annual
28 filing for recovery of AMRP investments made during 2009 (Case No. 09-
29 1036-GA-RDR) both Staff and OCC referenced Dominion East Ohio Gas's
30 most recent PIR filing (Case No. 09-0458-GA-RDR) in which Staff successful-
31 ly argued that when considering multiple categories of expenses, only those
32 categories showing savings should be considered. In other words, there
33 would be no netting of categories with increases against categories with de-
34 creases. Staff and OCC insisted on applying this methodology to Columbia's
35 application in Case No. 09-1036-GA-RDR, which would have increased Co-
36 lumbia's savings amount from \$0 to over \$2.7 million. During subsequent
37 settlement negotiations in that case, Columbia pointed out to Staff and OCC
38 that the FERC Account approach being used was too broad, and captured
39 savings in activities totally unrelated to the AMRP. Nevertheless, despite

1 Columbia's disagreement with Staff's approach Columbia agreed for pur-
2 poses of settlement to pass back \$1.8 million in O&M savings. In the Joint
3 Stipulation and Recommendation approved by the Commission in that case,
4 the parties agreed to modify this formula to reflect the determination of
5 AMRP savings through the use of activity codes contained within the
6 aforementioned accounts more closely related to AMRP activities. In this
7 agreement, the parties concluded that the savings attributable to Columbia's
8 AMRP program going forward should be calculated using a set of account
9 activities to be identified by the parties by July 1, 2010. In recognition of the
10 Commission's revised interpretation of the AMRP savings calculation, only
11 those activities experiencing savings would be included in the calculation of
12 O&M savings; activities experiencing increased expenditures would not be
13 included.

14
15 Discussions between the parties subsequent to the settlement of Case No.
16 09-1036-GA-RDR resulted in Columbia adopting a methodology under
17 which Columbia examines expense levels in four general activities to be in-
18 cluded in the O&M savings calculation: leak inspection, leak repair, gen-
19 eral/other, and supervision and engineering. Again only those activities
20 showing savings are included in the calculation.

21
22 **Q. Have all of the parties agreed with this methodology?**

23 **A.** Not entirely. In its comments related to Columbia's filing for recovery of
24 AMRP investments made during 2010 (Case No. 10-2353-GA-RDR), Staff
25 indicated that they felt Columbia had properly identified the relevant activi-
26 ties that are most likely to experience O&M savings from the AMRP, and
27 did not object to the level of savings included in that case and in the subse-
28 quent annual filing (Case No. 11-5803-GA-RDR). Staff did, however, indi-
29 cate a concern with the fundamental design of O&M savings calculations
30 that rely on comparisons of current year costs to a baseline amount due to
31 the potential impact of things unrelated to the AMRP.

32
33 In both of the filings referenced above, OCC has pointed out that there has
34 never been a formal agreement filed with the Commission resolving this
35 matter. It should also be noted that the OCC has never proposed a different
36 formula, but has instead chosen to focus on questioning the level of O&M
37 savings.

38
39 **Q. What have Staff and OCC proposed with respect to O&M savings?**

1 A. In the Stipulation approved in Case No. 10-2353-GA-RDR, Staff, Columbia
2 and Ohio Partners for Affordable Energy agreed to revisit the design of the
3 AMRP O&M savings calculation as part of the five-year review of the IRP.
4 For its part, OCC reserved the right to revisit the methodology used to de-
5 rive the AMRP O&M Savings calculation in any future IRP proceeding, and
6 in Case No. 11-5803-GA-RDR, OCC requested that the Commission estab-
7 lish a minimum threshold level of O&M cost savings of \$1 million.

8
9 **Q. Please describe Columbia's experience with AMRP savings to date.**

10 A. Despite Columbia's willingness to redefine the savings calculation and
11 methodology, and efforts to drive savings through internal coordination,
12 Columbia has not been able to deliver a level of AMRP savings that meets
13 the apparent expectations of intervenors in the annual IRP cases. That is not
14 to say that Columbia has not delivered any savings. In the first four years of
15 the program (2008-2011), Columbia has delivered more than a half million
16 dollars in savings using the current methodology, and for purposes of set-
17 tlement has agreed to pass back an additional \$3.3 million in total savings
18 over a four year period.

19
20 **Q. Why is it that Columbia has not been able to deliver a level of savings that**
21 **meets the expectations of the intervenors in the annual IRP cases?**

22 A. There are several reasons. First, the savings expectations of the intervenors
23 are misplaced, unfounded and unrealistic. The main goal of Columbia's IRP
24 program has always been the safety and reliability of Columbia's infrastruc-
25 ture. Instead, the intervenors have focused upon a perverted interpretation
26 of the AMRP that emphasizes O&M savings instead of safety and reliability.
27 Columbia never represented that there would be substantial AMPR savings
28 during the initial years of the program.

29
30 Second, Columbia's AMRP project prioritization processes are designed to
31 minimize risk on our system, not to reduce O&M expense (Columbia Wit-
32 ness Belle addresses this issue in more detail in his testimony). Finally, the
33 limitations and inherent shortcomings of the savings calculation methodol-
34 ogy itself are partly to blame for the level of savings not meeting the inte-
35 venors apparent expectations.

36
37 **Q. Please elaborate on the purpose of Columbia's AMRP?**

38 A. Columbia has always maintained that the AMRP is a program designed to
39 improve the safety and reliability of its distribution system by eliminating

1 Priority Pipe, and thus reducing the potential for hazardous leaks due to
2 corrosion. Reduced O&M expense resulting from reductions in leak repair
3 and other O&M activities are a potential benefit to be derived from the elim-
4 ination of such pipe from Columbia's system. In Columbia's 2008 Rate Case,
5 Columbia Witness Roy recognized this fact in his testimony when he testi-
6 fied that, "Columbia anticipates a significant reduction in leakage and asso-
7 ciated operations and maintenance expenses over the [25 year] duration of
8 the proposed AMRP," and "Columbia expects O&M expenses to decline
9 over time by reducing problematic pipe having corrosion leaks."² Note the
10 use of the phrases *over the duration of the proposed AMRP* and *expenses to de-*
11 *cline over time*. No Columbia witness ever testified that savings would be
12 immediately realized as a result of the implementation of the AMRP.
13

14 **Q. Are you familiar with the infrastructure replacement programs of the oth-**
15 **er major Ohio natural gas companies?**

16 A. Yes. In fact, the intervenors in Columbia's annual filings have criticized Co-
17 lumbia's O&M savings by comparing Columbia's savings to those realized
18 by other companies i.e., Duke Energy Ohio ("Duke") and Dominion East
19 Ohio Gas ("DEO"). To date, the intervenors' comparison of these companies
20 programs with Columbia's has been invalid.
21

22 **Q. Why are these comparisons invalid?**

23 A. The fact that all three of these companies – Columbia, Duke and DEO – have
24 accelerated mains replacement programs is not enough to conclude that the
25 experiences of each of the companies will be the same with respect to O&M
26 savings. It is important to put comparisons of this type into perspective and
27 consider the context within which those comparisons are made.
28

29 For example, reference has often been made to the fact that Duke was able to
30 achieve \$8.5 million dollars in savings during the first five years of its pro-
31 gram while Columbia has generated significantly less savings. The argu-
32 ment that Columbia should have achieved similar results begins to fall apart
33 when one examines some of the significant differences between the pro-
34 grams such as the duration of the respective programs and the test year
35 baseline amounts to which actual expenses are being compared.
36

² Case No. 08-0072-AIR, et al., Prefiled Direct Testimony of David A. Roy (March 17, 2008) at 20 and 22.

1 **Q. What is it about the duration of the respective programs that makes a**
2 **comparison of Duke AMRP savings to Columbia's AMRP savings inva-**
3 **lid?**

4 **A.** Duke's AMRP program was developed as a 10-year program designed to
5 eliminate 1,192 miles of priority pipe, while Columbia's program is a 25-year
6 program designed to eliminate 4,050 miles of priority pipe. The savings that
7 Duke achieved over the first five years of their program was a result of Duke
8 replacing nearly 50% of targeted pipe (10% per year on average). In the first
9 four years of its program, Columbia replaced just over 11% of targeted pipe.
10 To think that Columbia should achieve similar savings given the different
11 durations of the companies' respective programs just does not make sense.
12

13 **Q. What is it about the test year baseline amounts to which actual expenses**
14 **are being compared that makes a comparison of Duke's AMRP savings to**
15 **Columbia's AMRP savings invalid?**

16 **A.** First, it should be noted that the term "O&M Savings" is a bit of a misnomer.
17 Because the amounts to be passed back to customers through these mecha-
18 nisms are developed by comparing current expenses to test year expenses,
19 what these mechanisms really provide for is a return of amounts collected
20 through base rates for any given FERC Account or O&M activity in excess of
21 current expenditures. This is an important distinction because a close exam-
22 ination of the test year expenditure levels of Duke and Columbia shows that
23 the level of expenditures that Columbia has embedded in base rates is much
24 more closely aligned to what actual expenditures were at the time that the
25 baseline was established. Duke's baseline was based on three month's actu-
26 als and nine months projected expenditures for the twelve months ended
27 December 2001, a period of time when expenditure levels were relatively
28 flat. Nevertheless, the baseline amount that Duke compared current expens-
29 es to was over 17% higher than the three-year average leading up to the im-
30 plementation of its program (2000-2002). Columbia's situation is much dif-
31 ferent. Columbia's baseline was based on actual expenditures for the twelve
32 months ended September 2008, a period of time that overlapped the first
33 year of the program when expenditure levels were definitely trending up-
34 ward. The baseline amount to which Columbia compares current expenses
35 is only 1% higher than the three-year average leading up to the implementa-
36 tion of its program (2006-2008). What this means is that Columbia has not
37 generated savings comparable to those of Duke simply because Columbia's
38 customers were already enjoying the benefit of lower rates resulting from a

1 closer alignment of test year expense levels to actual expense levels at the
2 time the AMRP was implemented.

3
4 **Q. You also mentioned that limitations and inherent shortcomings of the sav-**
5 **ings calculation methodology itself have also contributed to Columbia's**
6 **inability to meet the O&M savings expectations of interveners. Please ex-**
7 **plain.**

8 A. Columbia addressed this issue in its response to Commission Staff Data Re-
9 quest 50 in Case No. 11-5803-GA-RDR (Columbia's annual IRP application
10 for calendar year 2011). I prepared this response which is attached hereto as
11 Attachment EAF-1. In that response, Columbia discussed a variety of issues
12 that have limited Columbia's ability to generate significant savings during
13 the first four years of the program. Some of those are as simple as the fact
14 that Columbia is only four years into a twenty-five year program and simply
15 has not yet eliminated enough Priority Pipe to significantly reduce leakage
16 rates. Other reasons are more complicated, but essentially boil down to the
17 fact that because the test year is a snapshot in time, it cannot accommodate
18 things like changing business needs, regulatory environments, and infla-
19 tionary pressures that impact Columbia's expenses every day.

20
21 **Q. Are you saying that Columbia may never achieve significant O&M sav-**
22 **ings utilizing the existing methodology?**

23 A. No. Columbia is committed to passing back savings to its customers as sav-
24 ings are realized, and continues to focus attention on this issue. For example,
25 even though Columbia's AMRP projects are prioritized on overall risk (not
26 just leak history), Columbia's construction program eliminates a large num-
27 ber of leaks each year. Columbia's engineers make every attempt to coordi-
28 nate those construction plans with Columbia's Operations Planning De-
29 partment to ensure that no unnecessary leak repairs are done on pipe that is
30 scheduled for replacement. The objective of this process is to help drive
31 down the number of leak repairs that are done each year. Columbia's leak
32 repair costs have been trending downward for the last two years, and every
33 indication is that given the level of AMRP spend planned over the next six
34 years, this trend should continue, which could result in greater O&M sav-
35 ings than Columbia has experienced over the first four years of the program.
36 The additional detail and analysis is contained in Attachment EAF-1

37
38 **Q. What is Columbia proposing with respect to AMRP O&M savings in this**
39 **application?**

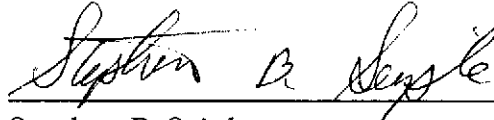
1 A. Because this is an application to extend Columbia's existing IRP, it may be
2 argued that the AMRP savings mechanism contained within the Stipulation
3 approved by the Commission in Columbia's 2008 Rate Case must be used.
4 However, in recognition of the regulatory history associated with the de-
5 termination of AMRP savings, as discussed earlier in my testimony, the bet-
6 ter alternative, and that which Columbia proposes, is to continue the use of
7 the current methodology used by Columbia in Case No. 11-5803-GA-RDR to
8 calculate O&M savings for the period covered by this application (2013-
9 2017). Columbia remains optimistic that despite some of the shortcomings of
10 the current activity based methodology, the basic premise is good, and that
11 given sufficient time and capital investment, the current methodology will
12 eventually yield more significant savings than have been experienced over
13 the first four years of the AMRP.
14

15 Q. Does this complete your Prepared Direct Testimony?

16 A. Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Prepared Direct Testimony of Edward A. Frantz was served upon all parties of record by regular U.S. Mail this 8th day of May, 2012.



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ATTACHMENT EAF-1

**Columbia Gas of Ohio 2012 IRP Case
PUCO Case No. 11-5803-GA-RDR
Staff Data Request No. 50(a)
O&M Savings Explanations**

Summary

In the 2008 Rate Case that led to the implementation of the AMRP, Columbia indicated that they expected O&M expense to decline over time due to the reduction of the amount of pipe prone to corrosion leaks. Columbia has never indicated that savings would be immediate or evenly spread over the life of the AMRP. In fact, Columbia has always maintained that any savings would only be realized after a significant portion of priority pipe had been replaced due to the fact that priority pipe remaining in the ground would continue to be subject to corrosion, potentially at an increasing rate. Nevertheless, Columbia remains committed to passing back O&M savings as they are realized, and has worked closely with Commission Staff and the OCC to devise a methodology for the determination of savings to be captured for inclusion in the AMRP filings.

The methodology agreed to consists of a comparison of current year costs in four general O&M activities to test-year levels (12 months ending September 2008) to determine if the passing back of savings is warranted. If, during the course of the year, the total O&M expense for any of those four activities is less than the test-year level, then the difference is passed back through the AMRP. There is no recognition or netting of costs between activities that are less than test-year levels and those that exceed test-year levels.

In order to provide a response to the question of why Columbia has not experienced significant O&M savings in the first four years of the AMRP under this methodology, a variety of current and historical operational and financial data were examined. The complexities of providing an explanation of this sort should not be understated, nevertheless, Columbia has been able to identify a number of reasons that the company believes provide the best overall explanation. These reasons are as follows:

- 1) The percentage of priority pipe replaced over the first four years of the AMRP program has not been enough with respect to the overall AMRP program to significantly impact leakage rates.
- 2) Leak inspection activity and "Leak Synching" during the 2007/2008 time period resulted in a spike in leak repairs and related costs in 2009.
- 3) There are other factors impacting the O&M savings calculation methodology which limit the ability to capture savings over time.

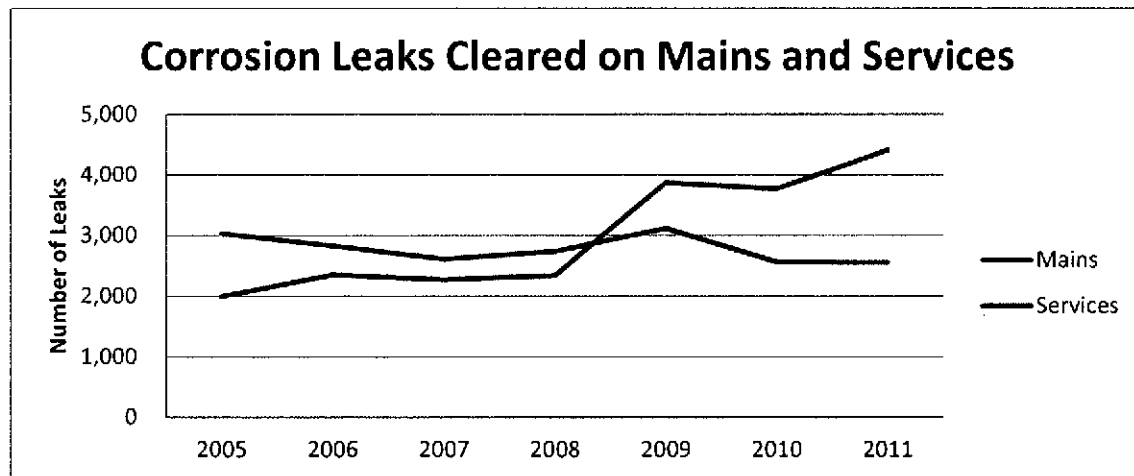
Each of these is discussed in detail below.

1) The percentage of priority pipe replaced over the first four years of the AMRP program has not been enough with respect to the overall AMRP program to significantly impact leakage rates.

(Note: All of the data provided in this section reflects the fact that Columbia took responsibility for the customer owned portion of service lines beginning in 2008. Leaks associated with that portion of the service line will generally be cleared through capital activity, but, the purpose of this section is to demonstrate that Columbia's overall leakage rates have not been significantly impacted by IRP related work to date. The aspect of costs associated with leak repair will be addressed in subsequent sections.)

Although Columbia has retired over 10% of priority pipe and associated services on its system since the inception AMRP, the pipe remaining in the ground over that same period of time has continued to experience corrosion at the same or increasing rates. The following table and graph show the number of corrosion leaks cleared on mains and services from 2005 thru 2011:

Corrosion Leaks Cleared	2005	2006	2007	2008	2009	2010	2011
Cleared on Mains	3,020	2,820	2,601	2,730	3,106	2,554	2,552
Cleared on Services	1,993	2,344	2,266	2,336	3,862	3,763	4,400
Total Cleared	5,013	5,164	4,867	5,066	6,968	6,317	6,952



This data does show a slight downward trend in corrosion leaks cleared on mains, but because the number of leaks cleared in any given year is driven, to a large extent, by compliance requirements and resource availability, leakage clearance rates only provide a piece of the total leakage situation at any given time. In order to get a more complete picture, open leak inventory needs to be examined as well. An increasing inventory during years of declining leak clearance would offset any perceived decrease in leakage rates. The following table shows year-ending open leaks by grade for the period 2005-2011:

Open Leaks	2005	2006	2007	2008	2009	2010	2011
Grade 1	6	3	4	22	38	25	33
Grade 2+	41	39	80	119	130	93	62
Grade 2	2,768	2,783	4,118	4,935	6,857	6,521	6,466
Grade 3	1,917	2,035	2,027	2,397	2,730	3,218	4,031
Total	4,732	4,860	6,229	7,473	9,755	9,857	10,592

Open leak data is only available in total for mains and services, and provides no insight as to the cause of the leaks (corrosion or otherwise), but this data does show increasing leak inventories, even in the period prior to Columbia taking responsibility for the customer owned portion of the service line when the number of corrosion leaks cleared was trending downward.

Also, the fact that leak repair costs are impacted by leakage for reasons other than corrosion can impact potential leak repair savings. Although the intent of the agreed upon savings mechanism is to capture savings resulting in from a decrease in the number of corrosion related leaks associated with priority pipe, the fact of the matter is that there is no way to isolate the impact of corrosion leaks from total leak repair costs. The following table summarizes Columbia's non-corrosion related leak history for the same 2005-2011 period:

Leaks – Other Than Corrosion	2005	2006	2007	2008	2009	2010	2011
Mains - Other Than Corrosion	1,409	1,008	1,204	1,283	1,343	1,317	1,241
Services - Other Than Corrosion	2,344	2,266	2,336	3,862	3,763	4,400	6,405
Total - Other Than Corrosion	3,753	3,274	3,540	5,145	5,106	5,717	7,646

Although no data is available on the number or cost of repairing non-corrosion leaks for the test-year period, it is reasonable to assume that the number resides somewhere between the 2007 and 2008 year-end numbers shown above. All else being equal, the implication stemming from these numbers is that post- test-year non corrosion leaks are contributing to higher than test-year leak repair costs that would offset some portion of potential corrosion related leak repair savings.

Columbia believes that, taken together, all of these numbers provide clear evidence that the level of priority pipe replacement over the last four years has not resulted in the kind of reductions in leakage rates that would be required to significantly impact leak repair costs in the short term, particularly when all types of leaks are considered.

It is important to also understand that leak repair activities do not occur in a vacuum, that is to say that there are a myriad of other business decisions and operating conditions that impact the categories of costs included in the O&M savings methodology. The next section of this response is a prime example of this, and explains to some extent on a micro level why Columbia has not experienced more savings over the first four years of the AMRP.

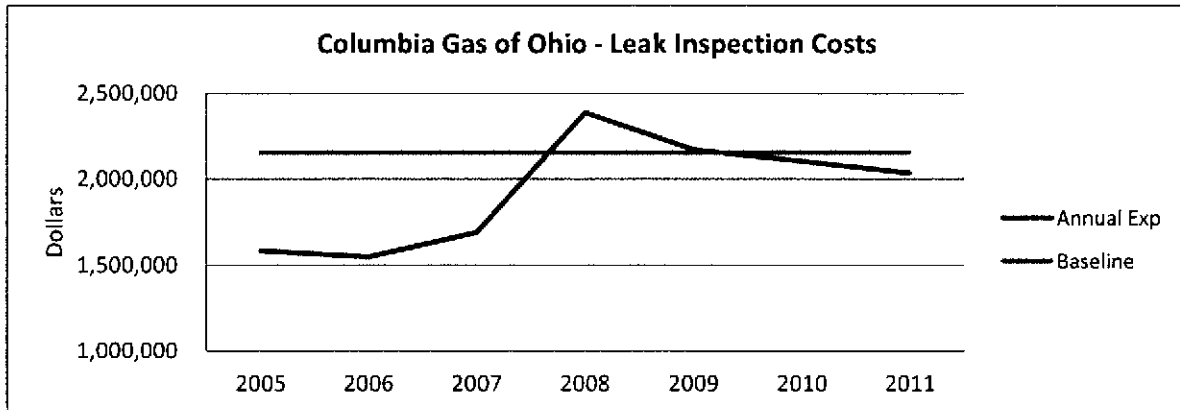
Leak inspection activity and “Leak Synching” during the 2007/2008 time period resulted in a spike in leak repairs and related costs in 2009.

During the 2007/2008 time frame when Columbia was actively engaged in the Riser Survey, the company was also engaged in “Leak Synching”, which is a process designed to synchronize inspection cycles on mains and services. This process typically requires that additional, off cycle inspections be done in order to complete the synching. At the same time, Columbia moved the cost of leak surveys done on the customer owned portion of the service line from FERC Account 879 (Customer Installation Expenses) to FERC Account 874 (Mains and Services Expenses). Almost all of these costs were captured in the test-year baseline amount for the Inspections activity, and as the data and graph below show,

subsequent reductions in leak inspection costs have resulted in savings being passed back for the Leak Inspection category for the last two years.

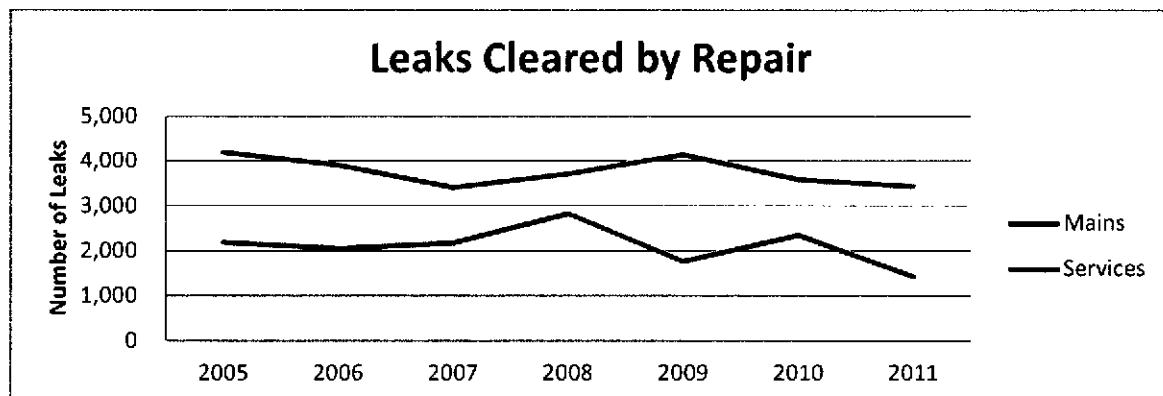
Leak Inspections	2005	2006	2007	2008	2009	2010	2011
Leak Inspection Costs*	1,582,238	1,546,382	1,688,907	2,380,872	2,166,759	2,099,237	2,031,238
Test-Year Baseline	2,149,181	2,149,182	2,149,183	2,149,184	2,149,185	2,149,186	2,149,187
Savings Amount				231,688	17,574	(49,949)	(117,949)

* 2005-2007 numbers do not include costs booked to FERC 879 during this period; many of the 2007 costs from FERC 879 were booked to the Riser Survey



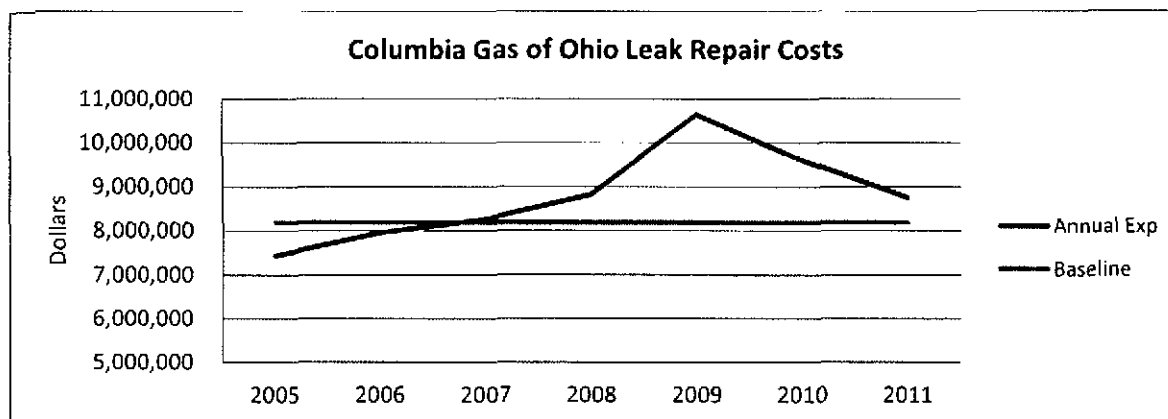
One of the results of doing additional inspections related to the Riser Survey and Leak Synching was an increase in the number of leaks found. This is reflected in the jump in the number of open leaks between the end of 2006 (see "Open Leaks table in the previous section, 4,860 open leaks in 2006 vs 6,229 open leaks in 2007). The majority of that increase occurred in Grade 2 leaks, which, because they can be repaired any time within 14 months of being found, create a lagging increase in leak repair volumes and costs. Consequently, the 2007 increase in open Grade 2 leaks contributed to increases in the number of leaks cleared by repair in both 2008 (services) and 2009 (mains) as shown below.

Leaks Cleared by Repair	2005	2006	2007	2008	2009	2010	2011
Main Leaks	4,200	3,913	3,416	3,718	4,150	3,595	3,444
Service Leaks	2,201	2,062	2,185	2,845	1,777	2,355	1,437
Total	6,401	5,975	5,601	6,563	5,927	5,950	4,881



Faced with an increasing leak inventory and leak repair requirements during the 2007-2009 time frame, at a time when demands placed on internal resources with respect to implementation of the IRP were highest, Columbia engaged additional contractor resources as a leak repair “peak shaving” mechanism, which resulted in increased leak repair costs, and contributed to a spike in leak repair costs during 2009 as shown in the table and graph shown below.

Sub-Activity	2005	2006	2007	2008	2009	2010	2011
Mains Leak Repairs	6,415,595	6,964,119	7,129,538	7,311,655	9,613,511	8,105,626	7,196,976
Services Leak Repairs	1,003,641	977,622	1,119,196	1,498,481	1,001,640	1,478,647	1,536,929
Total Repair Activity	7,419,235	7,941,741	8,248,734	8,810,136	10,615,151	9,584,272	8,733,905



Note the correlation and one year offset between this graph and the leak inspection cost graph. This graph clearly shows the lag between the discovery of Grade 2 leaks and the cost to repair them, which in turn caused the baseline level for leak repairs to be set at a level that did not capture the resulting peak in leak repair costs. Capitalization of service line leak repair costs and a reduction in the number of mainline leak repairs done since 2009 have both contributed to a decline in leak repair costs over the last two years. That reduction, however, has not been significant enough at this point to result in Columbia passing back any savings under the currently agreed upon O&M savings methodology.

There are other factors impacting the O&M savings calculation methodology which limit the ability to capture savings over time.

Because test-year expense levels represent what Columbia has in rates for O&M activities, this baseline represents an appropriate measure on which future savings should be based. However, as a point-in-time measure, it does leave this methodology vulnerable to year-to-year variation in actual costs caused by changing regulation, business requirements, and inflationary pressures. Some contributing factors include, but are not limited to:

- 1) **Test-year coincides with first year actuals** – Because the test-year consisted of costs incurred during 12 months ending September 2008, the comparison of 2008 actual expenses to test-year was really just a comparison of 4th quarter 2008 actuals to 4th quarter 2007 actuals, which left little room for any meaningful savings in 2008.

- 2) **Headcount** – The following table shows average year end head counts in the cost centers that contribute most of the labor to the O&M savings activities:

Columbia Gas of Ohio, Inc. - Regular Full-Time Employees

Cost Center	2007	2008	2009	2010	2011
Field Operations	685	729	692	695	705
Construction Services	66	101	120	117	161
Integration Center	69	116	111	125	124
Total Headcount	820	946	923	937	990

Headcounts utilized for rate making purposes in the 2008 case are not available in this format, but it should be clear from this data that current headcounts, particularly within the support functions are the same or higher than they were during the 2007/2008 test-year period. Most of the growth in the number of employees has been the result of increases in activity related to the IRP.

- 3) **Inflation** – The impact of inflation on overall costs is difficult to quantify, but there can be no doubt that the cost of labor, materials, fuel, etc. have been increasing since the test-year baseline levels of spend were established. Labor increases at Columbia have averaged 2.5% to 3.0% per year since the inception of the IRP, enough to offset a hypothetical 10% decrease in leak repair activity over that same period of time. Columbia has always maintained that the O&M savings benefit of the AMRP would not come until significant levels of priority pipe have been replaced, which means that inflationary pressures will make achieving any savings in the early years of the program that much more difficult.