

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Co-)
lumbia Gas of Ohio, Inc. for Approval) Case No. 12-3224-GA-AAM
to Change Accounting Methods)

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

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. Columbia is seeking authority to establish a regulatory asset and defer, for accounting and financial reporting purposes, the related startup expenditures to be incurred by Columbia for the redesign and upgrade of financial processes and information systems across all operating companies of NiSource Inc. ("NiSource") which will be administered by NiSource Corporate Services Company ("NCSC"). In support of its Application, Columbia states:

BACKGROUND

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 4901:1-13-01 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 is a subsidiary of NiSource (the parent company of Columbia). 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 reasonable compensation for the cost of capital necessary to provide those services.

NIFIT PROJECT

4. NiSource has launched a project (hereinafter referred to as the “NiFiT Project”) to adopt a common financial system and processes that will permit the use of a common general ledger and chart of accounts for all NiSource companies.

5. The NiFiT project is a NiSource initiative focused on the replacement of four separate general ledger software packages, three of which are no longer supported by their respective vendors, including the financial software package used by Columbia. This initiative will install new computer software across NiSource and will enable the adoption of common processes and financial systems.

6. The existing financial systems used by the NiSource companies have aged to the point where operating risk exists for continued use of each platform. Three of NiSource’s four general ledger packages can no longer be upgraded and are no longer supported by their respective vendors, forcing complete reliance on internal resources for systems knowledge and maintenance. In addition, efficiencies can be gained by NiSource companies through the elimination of multiple general ledger systems, charts of accounts, and accounting processes.

7. The existing general ledger and accounts payable system Columbia currently uses, GEAC, is a mainframe system. Although GEAC has operated sufficiently for a number of years, its software is now obsolete as it is no longer offered for sale or support by its vendor. Over this period, Columbia has customized GEAC to address Columbia’s specific needs and as a result of the age and customization level of the system, IT resources required to support GEAC are increasingly difficult to obtain. Furthermore, GEAC does not currently support compliance with the International Financial Reporting Standards (“IFRS”).

8. Extensive redesign and replacement of existing computer software programs and processes are required as part of the NiFiT Project. The intention of this program is to invest in a system that will position NiSource companies, including Columbia, to be able to execute with operational efficiencies, the inter-

nal and external financial reporting required to serve the needs of all its stakeholders with the utmost degree of accounting data integrity.

9. The NiFiT Project will allow the NiSource companies to standardize and automate process improvements in financial reporting and analysis, as well as appropriate financial controls. Examples of these process improvements include: enhanced intercompany billing reports; streamlined ability to generate Generally Accepted Accounting Principles (“GAAP”) financial statements; Federal Income Tax financial statements; required regulatory formatted financial statements; automated approval processes with audit trails; and improved account validation which will reduce the amount of manual intervention required.

10. Additional benefits of the NiFiT Project include an increase in Sarbanes-Oxley controls automation; easier access provided for information analysis on project costs for internal managers across all companies; automation of NCSC’s allocation, and billing of charges to the NiSource companies for services provided by NCSC directly, as well as third-party vendors.

NIFIT PROJECT COSTS

11. The NiFiT Project expenditures are expected to range from \$115 million to \$125 million for all systems, infrastructure, and installation costs. All expenditures will be charged across NiSource operating companies with approximately 67% allocated to capital accounts and the remaining 33% related to one-time startup operation and maintenance expenses.

12. NiFiT Project expenditures will be separately identified by accounting charge code and will be billed directly to the NiSource operating company incurring these expenditures. Expenditures related to the design and implementation of the NiFiT Project not directly attributed to any individual company will be allocated to the operating companies using a combination of NCSC allocation billing methods previously approved by the Securities Exchange Commission.

13. The expected allocation to Columbia of one-time startup operation and maintenance expenditures associated with the NiFiT Project are expected to be approximately \$4.5 million. These costs are primarily related to project management, training, and data conversion. These costs were incurred starting in late 2011, and are expected to continue through the end of 2014. These estimates are prepared in accordance with GAAP Accounting Standards and are based on cur-

rent work plans. Actual costs are being tracked and recorded as incurred and may vary from this estimate.

EXPENSE DEFERRAL

14. As a result of the NiFiT Project, Columbia will incur substantial costs that are not reflected in its current rates. Columbia began incurring these costs in 2011 and under normal accounting practice; Columbia must record these costs on its income statement as they are incurred and before they will be recovered in rates.

15. Columbia proposes to defer income statement recognition of these startup operation and maintenance expenditures incurred since January 1, 2011, until the costs can be included in an application to adjust base rates. Columbia proposes to record these costs as a regulatory asset on its balance sheet to be recorded later on its income statement after a rate determination has been made. Commission approval for this deferral accounting treatment is required for Columbia to be able to defer such expenditures under GAAP.

16. Upon Commission approval of this application, Columbia will record the expenses described above on its balance sheet in Account 182. The expenses will remain in this account until a determination is made as to the recoverability, at which time Columbia will reduce the regulatory asset account and charge the applicable expense account pursuant to the recovery method to be determined in Columbia's next general base rate proceeding.

COST RECOVERY

17. The deferral of the Columbia portion of the NiFiT Project-related operation and maintenance expenditures is appropriate because it represents an expense incurred for the development of financial reporting systems that benefit future customers through the ability to provide more accurate and timely information in future rate proceedings to the Commission and all intervenors. These costs, not previously charged to Columbia by NCSC, are expenditures for which recovery is not provided for in Columbia's base rates. The costs generated by the NiFiT Project are reasonable and necessary business costs incurred by Columbia in compliance with GAAP and FERC guidelines that would otherwise have a significant and unavoidable negative impact on Columbia's earnings. As a result, Columbia requests the authority to defer approximately \$4.5 million for the one-time expenditures required by the NiFiT Project. The eventual recovery of these

costs will be determined in Columbia's next base rate proceeding in a manner deemed appropriate by the Commission.

18. 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 respectfully requests the Commission grant the accounting authority requested in this Application.

Respectfully submitted,
COLUMBIA GAS OF OHIO, INC.

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Summary: Application for Approval to Establish a Regulatory Asset electronically filed by Cheryl A MacDonald on behalf of Columbia Gas of Ohio, Inc.