BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of	)	
Columbia Gas of Ohio, Inc. for Recovery	)	Case No. 13-778-GA-UNC
of Base Chip Transition Costs	)	

REPLY COMMENTS OF
COLUMBIA GAS OF OHIO, INC.

On April 1, 2013, Columbia filed its Application in this docket in which Columbia sought authorization to recover the base chip portion of the transition adjustment from Columbia's purchase gas adjustment ("PGA") mechanism to the gas cost recovery ("GCR") mechanism. Pursuant to an Attorney Examiner Entry dated May 3, 2013, parties were permitted an opportunity to comment on Columbia's Application. Only two parties filed Comments on May 31, 2013. The Staff filed Comments that supported Columbia's Application, and the Office of the Ohio Consumers' Counsel ("OCC") filed Comments that opposed Columbia's Application. For the reasons explained below, the Commission should reject the OCC's Comments and approve Columbia's Application.

BACKGROUND

Prior to December 4, 1979, Columbia recovered its gas costs through the PGA. Effective December 4, 1979, the Commission authorized Columbia to terminate the PGA and to begin recovering gas costs through the GCR. As explained below, this cutover necessitated several gas cost adjustments.

The PGA clause was predicated on the assumption that all volumes purchased during a given month were billed to customers in that month. The PGA calculation priced each month's purchased volumes at the recovery rate in effect and compared the result to the actual gas purchase costs incurred. Any differential resulting in an over or under collection and recorded on the balance sheet resulted directly from the difference in the recovery rate and the average cost of gas purchased during the month.

In contrast, the GCR clause determined under or over recovery by multiplying sales volumes by the expected gas cost rate and comparing that result to the actual cost of gas purchased. Therefore, the under and over collection recorded on the balance sheet represented several factors. The first factor was the difference in the value of the volumes purchased versus the volumes sold. The second factor was the differential between the expected gas cost recovery rate and the average cost of gas purchased during the month. The first factor would equal out over a twelve-month period because it represented unbilled volumes, while the second factor represented a collectible from customers. Under the GCR there was a mismatch that occurred due to cycle billing compared to calendar month purchases.

On January 31, 1980, Columbia filed in Case No. 80-212-GA-GCR a Reconciliation Adjustment ("RA") totaling $41,545,507. Included in this RA was a transitional adjustment of $24,867,888 resulting from the cutover from the PGA to the GCR. This transitional adjustment recognized the fact that the cutover from the PGA to the GCR resulted in a large under-recovery of November 1979 gas costs. The transitional adjustment was comprised of a base chip portion of $8,199,476 and seasonal portion of $16,668,412.

The use of purchase volumes for the determination of recovered gas costs rather than sales volumes resulted in the need for recognition of a transitional adjustment. The problem resulted from the fact the volumes used for determination of recovered gas costs were used in both mechanisms. Columbia utilizes cycle billing for revenue reporting. The billing cycles are such that revenue month stretches over two calendar months. In contrast, Columbia purchased gas on a calendar month basis. As a result, the monthly over or under-recovery determination for December 1979 GCR reflected the use of volumes for determination of gas cost recovery that had been previously used for determination of recovered gas cost under the former PGA mechanism. Failure to provide for recognition of this change would have resulted in Columbia's inclusion of 10,716,000 Mcf in its GCR calculations for which no gas costs could be associated unless a reconciliation adjustment was made.

There is a distinction between the "base" and "seasonal" chips as they relate to total transitional adjustment. The "base chip" represents that portion of the transitional adjustment that is based upon base load consumption. The seasonal chip is that portion of the transitional adjustment that is based upon seasonal consumption – i.e., heating load. Because the cutover from the PGA to

the GCR occurred during a winter month the seasonal portion was higher than it would have been had the cutover occurred during a summer month.

The Commission's Opinion and Order ("Order") in Case No. 80-212-GA-GCR recognized that in November, 1979, Columbia incurred gas costs attributable to both the seasonal and base chip unbilled volumes. The Order noted that because the GCR is designed to provide for recovery of costs from the effective transition date forward it recognized revenues attributable to the volumes delivered, but did not recognize any of the purchased gas costs. The Commission concluded that Columbia should be entitled to collect the seasonal portion of the revenue it would have collected were it not for the implementation of the GCR mechanism. Accordingly, a transition adjustment of $16,668,412 was authorized. However, the Commission found that the base chip portion of the transition adjustment was different from the seasonal portion in that the base chip component is always a constant factor in the normal recovery mechanism of the GCR. Thus the Commission ordered the refund of the base chip transition adjustment of $8,199,476. Nonetheless, the Commission recognized that Columbia would eventually be entitled to recover the base chip portion of the transition adjustment. The Commission stated that should the GCR mechanism continue until Columbia goes out of business, the appropriate time to address recovery of the base chip is when that event occurs. This provision of the Order is basis for Columbia's establishment of a base chip deferral that has been reflected on Columbia's books for over 30 years.

The Commission's Order in Case No. 80-212-GA-GCR recognized the need to permit recovery of the base chip transition costs at the time that Columbia goes out of business. This finding was based upon the assumption the GCR mechanism would continue for as long as Columbia was in business. However, Columbia's GCR mechanism terminated on April 1, 2010, when Columbia began purchasing and selling gas by means of an auction process. This termination of the GCR mechanism was agreed to by Columbia and a large number of stakeholders in a Joint Stipulation and Recommendation that was filed in Case No. 08-1344-GA-EXM on October 7, 2009, ("2009 Stipulation"). The Commission adopted the 2009 Stipulation by an Opinion and Order dated December 2, 2009. In recognition of the fact that the GCR mechanism would be terminated April 1, 2010, the parties in Case No. 08-1344-GA-EXM agreed that:

> At the end of the initial term of the Stipulation (March 31, 2013), if a pattern of auctions has taken place so that it appears that Columbia will not be returning to the GCR

> mechanism, then Columbia may apply for, and the signatory Parties will support, recovery of the base chip portion of the transition adjustment from the prior purchase gas adjustment ("PGA") mechanism to the GCR mechanism, which recovery the Parties agree would be in accordance with the Commission's Opinion and Order, at pages 5-11, in Case No. 80-212-GA-GCR (April 14, 1981). However, OCC reserves the right to oppose Columbia's base chip application in conjunction with its opposition of an SCO auction.[1]

THE COMMISSION SHOULD NOW AUTHORIZE COLUMBIA TO RECOVER THE BASE CHIP TRANSISTION COSTS

In its Comments the OCC suggests that Columbia's Application is "premature" because the GCR is still a viable gas cost recovery mechanism and because Columbia has not ceased operation or gone out of business.[2] The OCC's Comments cite often to the Commission's Order in Case No. 80-212-GA-GCR. However, for reasons not explained in the OCC Comment's the OCC chooses to largely ignore the 2009 Stipulation, approved by the Commission, which altered the provisions of the 1980 Order. Nonetheless, the 2009 Stipulation demonstrates that the facts cited by the OCC in its argument are irrelevant for the reasons explained below.

As explained above, Columbia's GCR mechanism terminated on April 1, 2010, when Columbia began purchasing and selling gas by means of an auction process. In recognition of this fundamental change in the nature of Columbia's business the 2009 Stipulation, approved by the Commission, removed the condition that Columbia must go out of business before the base chip transition adjustment could be recovered. The OCC seems to have ignored this provision of the 2009 Stipulation, and the OCC's argument fails because the cessation of operations is no longer a condition precedent to Columbia's recovery of the base chip transition adjustment.

The OCC also premises its argument upon the assertion that the GCR is still a viable gas cost recovery mechanism and has not been terminated.[3]

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[1] Case No. 08-1344-GA-UNC, Joint Stipulation and Recommendation (October 7, 2009) at 16.
[2] OCC Comments at 2.
[3] OCC Comments at 2-4.

Assuming for purposes of argument that the OCC is correct in its assertion, this fact simply has no impact upon Columbia's Application. The 2009 Stipulation approved by the Commission contained no requirement of a showing that the GCR is no longer a viable gas cost recovery mechanism before Columbia could recover the base chip transition adjustment. Instead, the 2009 Stipulation required only that a pattern of auctions have taken place so that it appears that Columbia will not be returning to the GCR mechanism. Columbia has concluded three highly successful auctions during the initial term of the 2009 Stipulation. Columbia has also received Commission approval to extend the auction process for an additional five years[4]. Given the success of the auction process, and the five-year extension of the process, Columbia has no plans to return to the GCR mechanism. Under the 2009 Stipulation approved by the Commission, this pattern of successful auctions, is all that is needed to permit recovery of Columbia's base chip transition adjustment.

The conditions necessary for the Commission to approve Columbia's recovery of the base chip transition adjustment, as set forth in the 2009 Stipulation, have been satisfied and the Commission should therefore approve Columbia's Application in this proceeding.

THE OCC IS VIOLATING THE 2009 STIPULATION BY CONTESTING COLUMBIA'S REQUEST TO RECOVER THE BASE CHIP TRANSITION ADJUSTMENT IN THIS CASE

All of the signatory parties to the 2009 Stipulation – with the exception of the OCC – agreed to support Columbia's recovery of the base chip transition obligation. The OCC alone reserved the right to oppose Columbia's recovery of the base chip transition adjustment, with the condition that any OCC opposition was to be "in conjunction with its opposition of an SCO auction."[5]

Any OCC attempt to raise concerns about recovery of the base chip transition adjustment in this proceeding violates the 2009 Stipulation and is improper. Under the terms of the 2009 Stipulation, the only way that the OCC could oppose Columbia's proposed recovery of the base chip transition adjustment was in conjunction with the OCC's opposition of an SCO auction. That window of opportunity has come and gone.

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[4] This extension of the auction process was approved by the Commission in Case No. 12-2637-GA-EXM by Opinion and Order dated January 9, 2013.

[5] Case No. 08-1344-GA-EXM, Joint Stipulation and Recommendation (October 7, 2009) at 16.

The OCC initially opposed Columbia's transition to an SCO auction. The issue was tried before the Commission in a hearing held during July 2011, in Case No. 08-1344-GA-EXM. The Commission rejected the OCC's arguments and approved Columbia's transition to an SCO auction process.[6]

On October 4, 2012, Columbia, Commission Staff, the Ohio Gas Marketers Group, the Retail Energy Supply Association and Dominion Retail, Inc. filed a Joint Motion to Modify the Orders in Case No. 08-1344-GA-EXM. This Joint Motion was docketed in Case No. 12-2637-GA-EXM. Attached to the Joint Motion was a Stipulation and Recommendation. As part of the Stipulation, Columbia and the other signatory parties proposed that Columbia be permitted to continue its SCO auctions, and further proposed that Columbia be permitted to exit the merchant function if certain conditions were satisfied.

After the Commission's 2011 Orders in Case No. 08-1344-GA-EXM the OCC ceased opposing the SCO auction process and instead began to support the SCO auction process. The OCC initially opposed the Joint Motion and Stipulation in Case No. 12-2637-GA-EXM, and part of that opposition was based upon the OCC's concerns about any movement away from an SCO process to an exit of the merchant function. The OCC stated:

> [P]reserving the SCO is consistent with state policy. R.C. 4920.02(A)(1) states: "It is the policy of the state to, throughout this state 'promote the availability to consumers of adequate, reliable and **reasonably priced natural gas services and goods.**'" To take away what has generally been the low-cost option from customers … cannot be reconciled with state policy and is not in the public interest.[7]

In Case No. 12-2637-GA-EXM an amended Joint Motion and Amended Stipulation were filed on November 27, 2012. OCC signed the Amended Stipulation after its concerns were addressed.[8] As part of the Amended

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[6] Case No. 08-1344-GA-EXM, Second Opinion and Order (September 7, 2011) and Entry on Rehearing (November 1, 2011).

[7] Case No. 12-2637-GA-EXM, Comments of the Office of the Ohio Consumers' Counsel (November 5, 2012) at 8-9 (emphasis in the original added by the OCC).

[8] Case No. 12-2637-GA-EXM, Amended Joint Motion to Modify Orders Granting Exemption (November 27, 2012). The OCC did not sign the Amended Joint Motion, but did sign the Amended Stipulation and Recommendation attached to the Amended Joint Motion.

Stipulation the signatory parties agreed that Columbia's SCO auction process should continue unless and until Columbia exited the merchant function under the terms and conditions set forth in the Amended Stipulation. After hearing, in an Opinion and Order dated January 9, 2013, the Commission approved the Amended Joint Motion and Amended Stipulation.

It is therefore clear that the OCC now supports the continuation of Columbia's SCO auction process and no longer opposes Columbia's SCO auctions. The OCC is not challenging recovery of Columbia's base chip transition adjustment in conjunction with its opposition to an SCO auction. That being the case, the OCC has failed to satisfy the condition precedent necessary to challenge Columbia's recovery of its base chip transition cost – a condition precedent to which the OCC agreed in the 2009 Stipulation.

THE BASE CHIP TRANSITION ADJUSTMENT SHOULD BE RECOVERED THROUGH COLUMBIA'S CHOICE STANDARD SERVICE RECONCILIATION RIDER

Columbia proposes to recover the base chip transition costs through the Choice Standard Service Reconciliation Rider ("CSRR"). This mechanism, which includes a provision for the collection of unrecovered gas costs, was originally approved by the Commission in Case No. 08-1344-GA-EXM. The CSRR is applicable to all customers that are eligible for Columbia's CHOICE program and is thus applicable to many of those same classes of customers for which the base chip transition costs were originally incurred. Inclusion of this adjustment in the CSRR will result in an increase of approximately 5¢ per Mcf – which equates to $0.35/month per the average residential customer – for a twelve month period.

The OCC contends that if the Commission approves Columbia's Application, the base chip transition adjustment should also be recovered from traditional transportation customers because many of those customers were sales customers in 1980.[9] Columbia's traditional transportation program began in the early to mid-1970's. While some of Columbia's traditional transportation customers may have been sales customers in 1980, many were not. Now, more than thirty years later, it would be difficult, if not impossible, to delineate which transportation customers were sales customers in 1980 and which were not. That being the case, the most efficient means of collecting the base chip transition adjustment is the use of Columbia's CSRR mechanism because it is the successor to Columbia's GCR

[9] OCC Comments at 6.

reconciliation mechanisms and is the mechanism used by Columbia to reconcile gas costs with recoveries.

WHEREFORE, for the reasons stated herein Columbia requests that the Commission reject the OCC's Comments and approve Columbia's Application filed in this proceeding.

Respectfully submitted,
COLUMBIA GAS OF OHIO, INC.

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CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing Reply Comments of Columbia Gas of Ohio, Inc. was sent by electronic mail to the parties listed below on this 13th day of June, 2013.

/s/ Stephen B. Seiple
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Summary: Reply Comments electronically filed by Cheryl A MacDonald on behalf of Columbia Gas of Ohio, Inc.