

Appendix C

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	Docket No. R-2009-2149262
Office of Consumer Advocate	:	Docket No. C-2010-2156929
Office of Small Business Advocate	:	Docket No. C-2010-2157870
Columbia Industrial Intervenors	:	Docket No. C-2010-2168994
The Pennsylvania State University	:	Docket No. C-2010-2167553
Ban Bazzoui	:	Docket No. C-2010-2160920
Betty M. Rogers	:	Docket No. C-2010-2164559
Gloria J. Woodcock	:	Docket No. C-2010-2169782

and

Dominion Retail, Inc.	:	
Shiple Energy Company	:	
Interstate Gas Supply, Inc.	:	
Hess Corporation	:	
York Generation Company, LLC,	:	
	:	
Intervenors	:	

v.

Columbia Gas of Pennsylvania Inc.

Dominion Retail, Inc.	:	Docket No. C-2009-2137066
Shiple Energy Company	:	
Interstate Gas Supply, Inc.	:	
Stand Energy Corporation	:	

v.

Columbia Gas of Pennsylvania Inc.

**STATEMENT OF COLUMBIA GAS OF PENNSYLVANIA, INC.
IN SUPPORT OF THE JOINT PETITION FOR SETTLEMENT**

TO THE HONORABLE ADMINISTRATIVE LAW JUDGE WAYNE L. WEISMANDEL:

Columbia Gas of Pennsylvania, Inc. (“Columbia” or the “Company”) submits this Statement in Support of the Joint Petition for Settlement (“Settlement”) in the above-captioned

proceedings. Columbia believes that the Settlement achieved by all active Parties in this proceeding is in the best interest of Columbia and its customers, and therefore is in the public interest. Columbia will explain the numerous reasons that support this conclusion.

I. THE SETTLEMENT IS CLEARLY IN THE PUBLIC INTEREST

Initially, it is important to emphasize that the Settlement has support from a broad range of parties with diverse interests. This includes Office of Trial Staff (“OTS”), Office of Consumer Advocate (“OCA”), Office of Small Business Advocate (“OSBA”), large customers (both collectively as part of Columbia Industrial Intervenors (“CII”) and individually) and representatives of natural gas suppliers (“NGS”) who are active on Columbia’s system. These parties all have reached agreement on a broad array of issues, clearly demonstrating that the Settlement is in the public interest and should be approved.

The Settlement was achieved after considerable investigation of Columbia’s operations, through both informal and formal discovery, and submission of direct and rebuttal testimony by a number of parties. In addition, the parties undertook numerous discussions and negotiations as to revenue level, revenue allocation and rate design, customer assistance issues, NGS issues and other matters that would be in the public interest. The Settlement, if approved by Administrative Law Judge Wayne L. Weismandel (“ALJ Weismandel”) and the Pennsylvania Public Utility Commission (“Commission”), will reduce the amount of expense and effort that otherwise would be required by the parties and the Commission to bring this matter to a conclusion through litigation of all issues, including preparing for and participating in hearings and preparing detailed briefs on all issues.

A. RATE INCREASE

Columbia asserts that the increase in distribution rates of \$12 million under the Settlement, in lieu of the originally-filed for increase of \$32.3 million, represents a fair

compromise in the case. The amount of the increase falls within the range of outcomes bounded by Columbia's proposed increase and the rate increase levels contained in the direct testimonies of OTS and OCA. Columbia notes that in its rebuttal testimony, it took issue with virtually all of the proposed adjustments advanced by OTS and OCA. The Settlement, with only a few select exceptions further explained below, resolves the revenue and expense issues in a "black box" settlement, that is just and reasonable given parties' positions.

1. Tax Refund Attributed To Change In Method.

One expense item that is specifically resolved through the Settlement concerns the appropriate ratemaking treatment with respect to the \$37.8 million tax refund that Columbia received with respect to a change in tax method.

In 2008, Columbia filed with the Internal Revenue Service ("IRS") for permission to change its definition of unit of property for tax purposes. Depending upon the definition of unit of property, certain expenditures on property may be deducted as a current expense rather than capitalized and depreciated. (Columbia St. 10, p. 3). The IRS gave Columbia permission to change its method of tax accounting, subject to subsequent audit.

As a result of the change to the definition of unit of property for tax purposes, Columbia claimed a refund of approximately \$49.7 million, representing overpayment of taxes for the twenty year period of 1998 through 2008. Columbia received a refund of \$37,487,634. The final refund amount and the remainder of Columbia's claim for refund will be determined on audit. (Columbia St. 1, p. 4).

Columbia's filing proposed to use the tax benefit, in 10% increments each year over a ten year period, to fund incremental cast iron/bare steel replacements. Other parties proposed alternative methods to flow the refund to customers. OTS and OSBA both proposed to amortize the refund over a ten-year period.

In order to settle this issue, the parties agreed to amortize the \$37,487,634 over ten years as a reduction to income tax expense. The amortization shall be without interest and without a deduction of the unamortized balance from rate base. This rate treatment is consistent with the Commission's prior treatment of tax refunds, and the general procedures for amortizations for ratemaking purposes. (Columbia St. 2, p. 14; Columbia St. 102, p. 4). See, e.g., *Pa. P.U.C. v. Philadelphia Electric Company*, 1974 Pa. PUC LEXIS 41; *Pa. P.U.C. v. The Peoples Natural Gas Company*, 1977 Pa. PUC LEXIS 111. The Settlement further recognizes that the amount of the refund may increase or decrease, following IRS audit, and contains procedures for adjustment of the amortization depending upon the results of the IRS' audit of the refund.

This resolution of the tax refund is reasonable and in the public interest, and should be approved.

2. OPEB Expense.

A second expense item that is specified in the Settlement concerns the ratemaking treatment of Other Post Employment Benefit ("OPEB") expenses and the amortization of excess deferred OPEB amounts to be refunded to customers. The treatment of OPEB expenses on an ongoing basis, and the four-year amortization of prior overrecovered amounts, that is contained in the Settlement is consistent with the Company's unopposed proposal in this case and with the base rate reconciling mechanism for OPEB costs that was established in the Company's 2008 base rate settlement at R-2008-2011621. (Columbia St. 11, p. 2).

3. Continued Amortizations.

The Settlement also specifies the continued amortizations of costs related to Long Wall Mining and Blackhawk Storage. These amortizations were established in Columbia's 2008 rate case settlement and will continue. No party objected to the Company's inclusion of these amortization amounts in its rate filing.

B. REVENUE ALLOCATION/RATE DESIGN

An important aspect of the Settlement is that the parties were able to agree upon an allocation of the revenue increase among the rate classes and upon specific rate designs for each of the rate classes. These issues are often among the most contentious in a base rate proceeding. The ability of the parties, with vastly different interests, to achieve full resolution of these issues demonstrates, in and of itself, the reasonableness and fairness of the result.

The revenue allocation set forth in the Settlement is not based upon a specific agreed to formulaic approach.¹ Moreover, the Settlement rates are not based upon any specific cost of service study results. Instead, the Settlement reflects a compromise of various parties' revenue allocation and rate design proposals.

The resulting class increases, as compared to the Company's as-filed increases, are as follows:

Customer Group	As Filed	Percentage of Proposed Increase	As Settled	Percentage of Settled Increase
Residential	\$24,667,627	76.4%	\$8,773,617	73.1%
Small General Service	\$5,162,278	16.0%	\$2,113,814	17.6%
Small Distribution Service	\$242,549	0.8%	\$134,931	1.1%
Large Sales Service	\$1,087,968	3.4%	\$470,023	3.9%
Large Distribution Service	\$1,106,604	3.4%	\$507,307	4.2%
Mainline Service ²	\$260	0.0%	\$260	0.0%
Total	\$32,267,286	100%	\$11,999,952	100%

¹ The Settlement designs rates based upon the Company's pro forma future test year volumes.

² This increase represents solely the roll-in of negative State Tax Adjustment Surcharge revenues from this class.

In addition, the Settlement provides for an increase in the residential customer charge from \$11.50 to \$12.25 per month. Although this increase to the residential customer charge is less than the customer charge of \$16.88 that Columbia had originally requested, the increase in the customer charge is necessary in order to move the charge closer to the true fixed cost to serve residential customers. (Columbia St. 102, pp. 29-30).

C. UNIVERSAL SERVICE PROGRAMS

The Settlement includes several provisions related to Columbia's Universal Service Programs and its Rider USP – Universal Service Plan.

The Settlement approves Columbia's proposed changes to its Income-Qualified Energy Efficiency Program ("IQEEP") and its Emergency Repair Program. The IQEEP program is designed to assist lower income residential customers to save energy through energy audits and rebates for energy efficient heating, hot water heating and air sealing measures. (Columbia St. 2, p. 34). The program will continue to have an annual budget of \$750,000, with the cost continuing to be recovered through Rider USP. (Columbia St. 2, p. 35). The Emergency Repair program offers financial assistance to eligible low income residential customers for repair of gas lines and heating equipment. Funding for the program will be increased from \$250,000 annually to \$500,000 annually, with the cost recovered through base rates. (Columbia St. 2, pp. 38-40).

The Settlement includes several provisions in response to the Department of Public Welfare's ("DPW") policy change, which will require Columbia to post LIHEAP cash payment to offset a CAP customer's required customer payment. This is a change from prior procedures that posted the LIHEAP payment as a credit against the customer's current bill shortfall. (Columbia St. 2, p. 36). This policy change by DPW would increase the net shortfall created by CAP credits recovered through Rider USP, unless further adjustments to CAP payments schedules are implemented.

Under the Settlement, Columbia agrees to develop a “CAP-plus” program consistent with that proposed by OCA Witness Colton (OCA St. 4, p. 24), which would increase the required CAP customer payments by an increment above the current required payment amounts to offset the increase in CAP shortfalls or credits created by the DPW policy change. The Company agrees to work with parties to develop a proposal to submit to the Commission, as a request for waiver from its current approved universal service plan, prior to the start of the 2010-2011 LIHEAP season. The Settlement further provides that if the DPW policy change is reversed, then Columbia will reinstate its process of using LIHEAP grants to reduce the CAP current bill shortfall. These changes are being implemented in response to DPW’s change in long-established procedures for crediting LIHEAP credits, and are designed to balance the interests of CAP customers in having affordable payments with the interests of customers who are subject to Rider USP charges.

Finally, the Settlement provides that Columbia will implement a 7.5% offset to CAP shortfall and preprogram arrearage costs, applied to the number of CAP participants over 25,300 on an average annual basis, to reflect potential reductions in base rate bad debt costs from addition of incremental customers to CAP. This offset reflects a compromise with respect to OCA’s proposal for a 10.6% offset. (OCA St. 4, p. 18).

D. HOME ENERGY EFFICIENCY PROGRAM (“HEEP”)

In its filing, Columbia proposed to implement a Home Energy Efficiency Program (“HEEP”) and proposed a budget of \$4 million. The HEEP was designed to help residential customers identify and implement cost effective natural gas efficiency programs in their homes. (Columbia St. 16). Columbia also proposed a separate, related HEEP Performance Incentive (“HEEPP”) to provide Columbia with a performance-based incentive to encourage customers to reduce their gas usage. (Columbia St. 2, pp. 29-32).

OTS opposed Columbia's HEEP in its entirety, and OCA proposed a substantially scaled down version of the program. Both OTS and OCA opposed HEEPPI.

The Settlement provides that the parties will meet to develop a scaled down energy conservation program. Therefore, Columbia has agreed to withdraw its proposed HEEP and HEEPPI, and has agreed to meet with interested parties later this year to discuss the terms of a pilot residential energy efficiency program.

E. RIDER DSIC – DISTRIBUTION SYSTEM IMPROVEMENT CHARGE

Columbia proposed a Rider DSIC in this proceeding for recovery of capital costs associated with replacement of mains, meters and services. Adoption of the DSIC was contingent upon legislative authority for a gas DSIC. (Columbia St. 2, p. 41). Because a gas company DSIC has not yet been authorized, Columbia has agreed under the Settlement to eliminate the DSIC. Columbia retains the right to propose a DSIC in the future if authorized by the General Assembly.

F. NGS ISSUES AND RESOLUTION OF THE PENDING NGS COMPLAINT AT DOCKET NO. C-2009-2137066

Three NGSs that are active on Columbia's system, Dominion Retail, Inc., Shipley Energy Company and Interstate Gas Supply, Inc., collectively intervened in the base rate proceeding.³ Those three NGSs, along with a fourth, Stand Energy Corporation, also filed a separate Complaint against Columbia in 2009, docketed at C-2009-2137066. That complaint raised issues related to Columbia's provision of sales service under pilot Rider PPS – Price Protection Service and Rate NSS – Negotiated Sales Service. At the time Columbia filed its Answer to the Complaint, Columbia served approximately 2,000 residential and small business customers under pilot Rider PPS and 14 commercial and industrial customers under Rate NSS. (Columbia

³ A fourth NGS, Hess Corporation, also intervened in the base rate case. Hess was not an active party in the proceeding and is listed as not opposed to the Settlement.

St. 11, p. 13; Columbia Answer to Joint Complainants, p. 4). Columbia first began to serve customers under pilot Rider PPS on March 1, 2009. Columbia has offered sales service under Rate NSS since 1994.

The Settlement resolves all of the issues presented by the NGSs in the base rate proceeding and the Complaint proceeding. As a result of this resolution, the NGSs have agreed to withdraw, with prejudice, their Complaint at C-2009-2137066.

Under the Settlement, Columbia agrees, as of the date the Settlement is approved, to cease making further offers under pilot Rider PPS. Columbia further agrees not to seek to extend the pilot Rider. Columbia may continue to serve customers under pilot Rider PPS until the expiration of their contracts.

Columbia further agrees not to engage in further mass advertising of Rate NSS, and agrees not to use direct mail to solicit customers who are served by a competitive supplier for Rate NSS. The NGSs agree not to file a further complaint related to Rate NSS for a period of three years from the effective date of a final order in this case (other than to enforce the terms of the Settlement).

The Settlement contains other provisions responsive to issues raised by the NGSs in the base rate case. These include an agreement to expand eligibility under Columbia's CHOICE program for commercial customers from the current 600 Mcf/year maximum to 4,000 Mcf/year. The Settlement also reduces certain penalties for violation of OFO/OMO Orders and CHOICE delivery requirements. Columbia notes that strong penalty provisions are critical to the safe and cost-effective operation of Columbia's distribution system. Penalties emphasize the importance of compliance with OFO/OMO Orders, which are issued on critical delivery days, and compliance with the "average day" delivery requirements of the CHOICE program. Such

compliance is necessary to the smooth operation of Columbia's system. Compliance is also needed to avoid increased costs to PGC customers that can occur if NGSs do not meet their delivery requirements on peak days, when gas costs are generally at their highest and pipeline penalties can be charged for non-compliance.

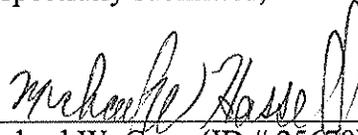
Finally, the parties have agreed to a modified definition of a "Pipeline Scheduling Point." This definition was included to recognize that NGSs schedule delivery of gas at various interstate pipeline delivery points other than just Columbia Gas Transmission LLC. (Columbia St. 115-R, pp. 27-28). The revised language clarifies the intent of Columbia's proposed provision.

II. CONCLUSION

The Settlement is the result of detailed examination of Columbia's proposals, multiple rounds of discovery, direct and rebuttal testimony, and compromise by all parties. Columbia believes that a fair and reasonable compromise has been achieved in this case, as is evident by the fact that all parties, including Columbia, OTS, OCA and OSBA, industrial customers and the NGSs have reached an agreement on all issues in this proceeding. Columbia fully supports this

Settlement and respectfully requests that the ALJ and the Commission expeditiously review and approve the Settlement in its entirety in time for rates to become effective October 1, 2010.

Respectfully submitted,



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