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October 24, 2011

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort, KY 40602

RE: Case No. 2011_____

Dear Mr. Derouen

Columbia Gas of Kentucky, Inc., ("Columbia") hereby submits an original and ten (10) copies of its Application for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to a Change in Expense Recognition for Other Post-Retirement Benefit Costs Included in the Management Services Provided by NiSource Corporate Services.

Please contact me at sseiple@nisource.com or 614-460-4648 if you have any questions.

Sincerely,



Stephen B. Seiple
Assistant General Counsel

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:)
)
THE APPLICATION OF COLUMBIA GAS)
OF KENTUCKY, INC. FOR AN ORDER)
APPROVING ACCOUNTING PRACTICES) Case No. 2011-_____
TO ESTABLISH A REGULATORY ASSET)
RELATED TO A CHANGE IN EXPENSE)
RECOGNITION FOR OTHER POST-))
RETIREMENT BENEFIT COSTS INCLUD-))
ED IN THE MANAGEMENT SERVICES)
PROVIDED BY NISOURCE CORPORATE)
SERVICES.)

APPLICATION OF COLUMBIA GAS OF KENTUCKY, INC.

Columbia Gas of Kentucky, Inc. ("Columbia") moves the Public Service Commission of Kentucky ("Commission") pursuant to KRS §§ 278.030, 278.040 and 278.220 for an Order authorizing Columbia to establish a regulatory asset related to a change in expense recognition for Other Post-Retirement Benefits ("OPEB") costs included in the management services provided by NiSource Corporate Services Company ("NCSC"). In support thereof, Columbia respectfully states:

(a) That applicant is engaged in the business of furnishing natural gas service to the public in certain counties in the Commonwealth of Kentucky, pursuant to authority granted by the Commission.

(b) That Columbia's full name and post office address are:

Columbia Gas of Kentucky, Inc.
2001 Mercer Road
P.O. Box 14241
Lexington, KY 40512-4241

(c) That Columbia's Articles of Incorporation have previously been filed with the Commission in Case No. 2000-129 and are incorporated herein by reference.

(d) NCSC, a Delaware corporation, is a subsidiary of NiSource Inc. (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 its affiliates at cost, including overheads and reasonable compensation for the cost of capital necessary to provide those services.

(e) Like many other companies, NiSource Inc. ("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.

(f) The accounting procedures for OPEB costs have changed over the years. Prior to 1991, NCSC and Columbia recorded retiree medical and life 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.

(g) In January 1991, NCSC and Columbia 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. Columbia continued to defer the difference between claims paid and the SFAS 106 accrual until Columbia's 1994 rate case, Case No. 1994-00179, in which the rate treatment for Columbia OPEB costs was addressed by the Commission. As a result of the Commission's November 1, 1994 Order, 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.

(h) Until the 2011 accounting change prompting this application (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 deferred \$9,883,242. Additionally, until the accounting change, NCSC had continued to bill to 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 has reflected NCSC OPEB costs on a cash basis.

(i) Through a recent review of GAAP and FERC guidance as well as a 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 is recording and billing to its affiliates retiree medical and life costs on a SFAS 106 accrual basis beginning in 2011. Additionally, the entire NCSC regulatory asset balance as of December 31, 2010 was billed by NCSC to the subsidiaries, including Columbia, in June, 2011.

(j) In addition to changing the expense recognition procedure, NCSC will fund an OPEB trust for accrual related costs collected in advance of the need to pay retiree costs in a manner similar to the Columbia procedures. The \$9,883,242 billed to the subsidiaries in June 2011 was funded in a trust in September 2011. The funding of the annual NCSC SFAS 106 accrual amounts will begin in January 2012. The earnings from the trust funds should reduce future NCSC OPEB expenses.

(k) Columbia was billed a total of \$324,620 for its allocated share of the NCSC regulatory asset. Columbia capitalized \$29,887 of this billing reflecting the fact that had these costs been billed to Columbia over time, a portion would have been allocated to capital projects. The remaining \$294,733 was recorded as a regulatory asset pending a Commission ruling on this application.

(l) 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 the Columbia portion of the deferred NCSC OPEB-related asset balance due to the NCSC accounting change is appropriate because it represents costs that Columbia would normally be entitled to recover in future rate cases.

(m) 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 a future rate proceeding.

(n) 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 guidance that may result in a significant and unavoidable negative impact on Columbia's earnings. As a result, Columbia requests the authority to defer \$294,733 for the one-time charge generated by the NCSC accounting procedure change. The ultimate recovery treatment will be determined in a subsequent Columbia base rate case proceeding in a manner deemed appropriate by the Commission.

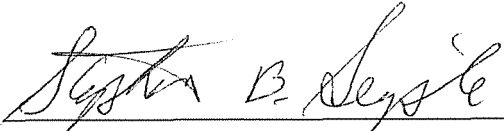
(o) The 2011 NCSC OPEB charge is extraordinary, and could not reasonably have been anticipated by Columbia, nor included in Columbia's planning processes. The OPEB cost represents approximately 1% of Columbia's projected 2011 O&M expense.

(p) By letter dated October 5, 2011, the Commonwealth of Virginia's State Corporation Commission, Division of Public Utility Accounting did not object to the deferral and amortization of Columbia Gas of Virginia Inc.'s allocated share of the NCSC OPEB expense.

(q) Columbia respectfully requests expedited consideration of this Application by December 31, 2011.

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

Respectfully submitted,
COLUMBIA GAS OF KENTUCKY, INC.

By: 
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