COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF COLUMBIA GAS OF KENTUCKY, INC. 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	)))))))	CASE NO 2011-00422

O R D E R

On October 24, 2011, Columbia Gas of Kentucky, Inc. ("Columbia") filed an application seeking authority to establish a regulatory asset based on the difference between its current level of allocated NiSource Corporate Services Company ("NCSC") Other Post-Employment Benefits ("OPEB") expenses and the amount of allocated NCSC OPEB expenses included in its base rates. Columbia proposes to address recovery of the regulatory asset in a subsequent base rate proceeding.

There are no intervenors in this proceeding. The Commission Staff ("Staff") issued one request for information to Columbia. The record consists of the application and Columbia's responses to Staff's information request. On December 12, 2011, in response to a December 8, 2011 Order directing that it submit either a request for hearing or statement that the record is complete, Columbia stated that the record was complete and the case could stand submitted for decision.

BACKGROUND

Privately-owned employers, such as Columbia and NCSC, provide retirement plans for their employees as well as medical and life insurance for retired employees. Medical and life insurance plan costs, the components of OPEB costs, must, for accounting purposes, be calculated pursuant to *SFAS 106, Accounting for Post Employment Benefits other than Pensions* ("SFAS 106").

Historically, Columbia was billed its allocated share of OPEB costs incurred by NCSC based on the amount of claims paid by NCSC.[1] These costs were included in the management service fees NCSC charged Columbia for regulatory, accounting, and other services provided to Columbia by NCSC.[2] However, NCSC recently determined that it was no longer appropriate for it to record its OPEB costs and bill other NiSource entities based on claims paid or carry the difference between the amounts of claims paid and the level of accruals required under SFAS 106 on its books as an asset.[3]

In its application, Columbia indicated that in mid-2011 it was billed $324,620 for its allocated share of the total NCSC regulatory asset in the amount of $9,883,242, which represented the difference between the level of NCSC's accruals under SFAS 106 and the amounts it had expensed based on the level of claims it had paid over a

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[1] Many companies, Columbia and NCSC included, have historically expensed OPEB costs based on claims paid, while carrying the difference between their claims paid and the amounts calculated under SFAS 106 on their books as assets.

[2] This was the standard NCSC practice applicable to all NiSource companies and affiliates for which it provided such services.

[3] NCSC made this determination after a review of Generally Accepted Accounting Principles ("GAAP"), Federal Energy Regulatory Commission ("FERC") guidelines, and consultation with its auditors.

period of many years. Columbia capitalized $29,887 of this billing reflecting the fact that had these costs been billed to it 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. Columbia also indicated that its current base rates, as well as all other base rates approved in prior cases since the 2000 merger of the Columbia and NiSource systems, included a representative level of NCSC's OPEB expense based on claims paid versus NCSC's annual SFAS 106 accrual amounts.

STATEMENT OF ISSUES

Columbia states that it adopted SFAS No. 106 (codified in Accounting Standard Codification Topic No. 715), *Accounting for Employee Postretirement Benefits Other than Pensions*, in 1991. It recorded a liability reflecting expected future obligations for its OPEB costs and recognized the offsetting amount as a regulatory asset. Columbia further states that it continued to defer the difference between claims paid and its SFAS No. 106 accruals until its 1994 general rate case, Case No. 1994-00179,[4] in which the Commission addressed the issue of rate treatment for its OPEB costs. Columbia states that after the Commission's decision in that case, it recognized in its cost of service its accrual-based OPEB expense level and began amortizing the regulatory asset recorded on its books. However, it continued to be billed NCSC's OPEB costs via NCSC's management services fees on a claims paid basis.

Historically, Columbia has sought recovery of its allocated share of NCSC's OPEB costs on the claims paid basis, which was the methodology under which NCSC

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[4] Case No. 1994-00179, Application of Columbia Gas of Kentucky, Inc. for an Adjustment of Rates (Ky. PSC Nov. 1, 1994).

billed such costs. Columbia claims that the costs it has now incurred due to NCSC's change in expense recognition are reasonable and necessary costs incurred in accordance with GAAP and FERC guidance. It states that it has not been charged these costs previously by NCSC and, therefore, has not previously recovered them through rates. In addition, Columbia states that deferral and recovery of its 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 permitted to recover in rates. Columbia further states that the June 2011 OPEB charge by NCSC is extraordinary and could not reasonably have been anticipated or included in its planning processes.

DISCUSSION

NCSC's recent review of GAAP and FERC guidance as well as a consultation with its auditors resulted in a determination that it should change its expense recognition of its OPEB costs and no longer continue to carry the difference between OPEB claims paid and SFAS 106 accruals as an asset on its balance sheet. It recorded and billed its affiliates for its retirees' medical and life insurance costs on a SFAS 106 accrual basis beginning in 2011. Additionally its entire regulatory asset balance as of December 31, 2010 was billed by NCSC to those affiliates, including Columbia, in June 2011.

In Case No. 2009-00168,[5] the Commission restated the categories of expense that it has traditionally allowed to be treated as regulatory assets. Those categories are:

> (1) an extraordinary, nonrecurring expense which could not have reasonably been anticipated or included in the utility's

[5] Case No. 2009-00168, Application of Columbia Gas of Kentucky, Inc. to Establish a Regulatory Asset Related to Pension and Other Post-Retirement Benefit Expenses (Ky. PSC Dec. 23, 2009)

> planning; (2) an expense resulting from a statutory or administrative directive; (3) an expense in relation to an approved industry initiative; or (4) an extraordinary or nonrecurring expense that over time will result in a saving that fully offsets the cost.

The costs for which Columbia seeks regulatory asset treatment clearly fall under the first of the four categories which the Commission has stated warrant such treatment. The amount Columbia seeks to establish as a regulatory asset is nearly five times the $64,118 in OPEB costs included in the NCSC service management fees it was charged in the test year of its last rate case. Based on its equity and income levels, the amount of the proposed regulatory asset is material for a utility the size of Columbia.

SUMMARY

The Commission finds that Columbia should be allowed to create and record a regulatory asset for the $294,733 of NCSC OPEB costs contained in the management service fees it was billed in June 2011.

IT IS HEREBY ORDERED that:

1. Columbia is authorized to establish a regulatory asset in the amount of $294,733.

2. Within 14 days of the date of this Order, Columbia shall file with the Commission the accounting entries made on its books of account to effectuate the creation of the OPEB regulatory asset.

By the Commission

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KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Executive Director

Honorable Stephen B Seiple
Attorney at Law
Columbia Gas of Kentucky, Inc.
200 Civic Center Drive
P.O. Box 117
Columbus, OHIO 43216-0117