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Vice Chairman

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Commissioner

December 15, 2015

PARTIES OF RECORD

Re: Case No. 2015-00342, Columbia Gas of Kentucky, Inc.'s, 2015 Accelerated Main Replacement Program Filing

Attached is a copy of a response to an informal request for information dated December 9, 2015, from Brooke Wancheck, sent via electronic mail to Molly Katen, concerning the accumulated depreciation relating to plant retirement. This document has been filed in the record of the above-referenced case.

Any comments regarding this response should be submitted to the Commission within five days of receipt of this letter. Any questions regarding this letter should be directed to Molly Katen, Staff Attorney, at (502) 782-2591.

Sincerely,

Jeff Derouen

MK/ph

Attachments

Katen, Molly B

From: bleslie@nisource.com
Sent: Wednesday, December 09, 2015 9:40 AM
To: Katen, Molly B
Subject: RE: 2015-00342 IC Follow-up
Attachments: AMRP Informal Response.docx

Molly,
Attached for aide in today's discussion is a written response to the answer you posed below. I look forward to our meeting this afternoon at 2pm. Thanks!

Brooke E. Wancheck | Assistant General Counsel
NiSource Corporate Services Company
290 W. Nationwide Blvd. | Columbus, Ohio 43215

bleslie@nisource.com | 614-460-5558 (Office) | 614-202-5549 (cell)

From: "Katen, Molly B" <Molly.Katen@ky.gov>
To: "bleslie@nisource.com" <bleslie@nisource.com>,
Date: 12/07/2015 03:46 PM
Subject: RE: 2015-00342 IC Follow-up

Brooke,

It is not necessary for Columbia Gas to file a supplemental response containing the information that was previously emailed to me, given that those two documents have now been placed in the record via the IC memo.

However, upon further review, Commission Staff requests a written explanation of why, from a rate-making standpoint, it's appropriate to add back the accumulated depreciation relating to plant retirement. This inquiry specifically relates to the $4,302,629 figure contained in AMRP Form 1.1, line 3. Since we are operating on a short timeframe, an email to me containing this explanation would be appropriate and I will post it to the case file.

If Columbia Gas is able to submit this explanation in time for Commission Staff to review before the 2pm IC on Wednesday, we will be available to discuss it further at the conclusion of the IC in Case No. 2015-00359.

Please let me know if you have further questions. I'll be out of the office tomorrow but will return Wednesday morning.

Thank you,

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO STAFF'S INFORMAL REQUEST FOR INFORMATION
DATED DECEMBER 7, 2015

Why, from a ratemaking standpoint, is it appropriate to add back the accumulated depreciation related to plant retirements?

Columbia's AMRP filing builds the cumulative net Property, Plant and Equipment (PP&E) balance for inclusion in the calculation of AMRP rate base through the end of a projected period which, in the case of the current filing, is December 31, 2016. This is done by taking projections of gross additions, plant retirements, cost of removal, and depreciation expense incremental to the prior rate case and projecting the corresponding accounting entries based on accepted industry practice.

Gross additions to PP&E are projected to be $39,075,044 (Form 2.0, Page 1, Line 7 Additions, Column 8) since Columbia's last rate case. This amount is incremental to what is currently included in base rates. The book cost of retirements over the same period is projected to be $5,120,116 (Form 2.0, Page 1, Line 7 Retirements, Column 8). Under mass asset accounting, the industry standard, the book cost of retirements has no effect on net PP&E (debit Accumulated Reserve for Depreciation; credit Gas Plant in Service). Net PP&E is reduced only by the amount of Depreciation Expense incurred on Gas Plant in Service (debit depreciation expense; credit Accumulated Reserve for Depreciation).

Accordingly, the book cost of retirements could be excluded from the presentation in the AMRP filing and net PP&E would be the same as filed. However, the book cost of retirements would still need to be taken into account to calculate the proper amount of depreciation expense to be included in rate base and operating expenses for determination of the revenue requirement. Form 1.1 Line 1 would be $39,075,044 instead of $33,954,928; Line 3 would be a credit of $817,417 instead of a debit of $4,302,629 reflecting cumulative depreciation expense incurred through December 31, 2016 on the incremental net PP&E in service (gross additions less retirements) subsequent to the prior filing.

1	Total AMRP Plant Investment	39,075,044
2	Cost of Removal	1,812,868
3	Accumulated Reserve for Depreciation	(817,487)
4	Net PP&E	40,070,425

In summary, the AMRP filing is not adding back the accumulated depreciation related to retirements as if this is an increase to rate base. It is presenting the retirements as they would impact the balance sheet accounts that make up rate base.

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